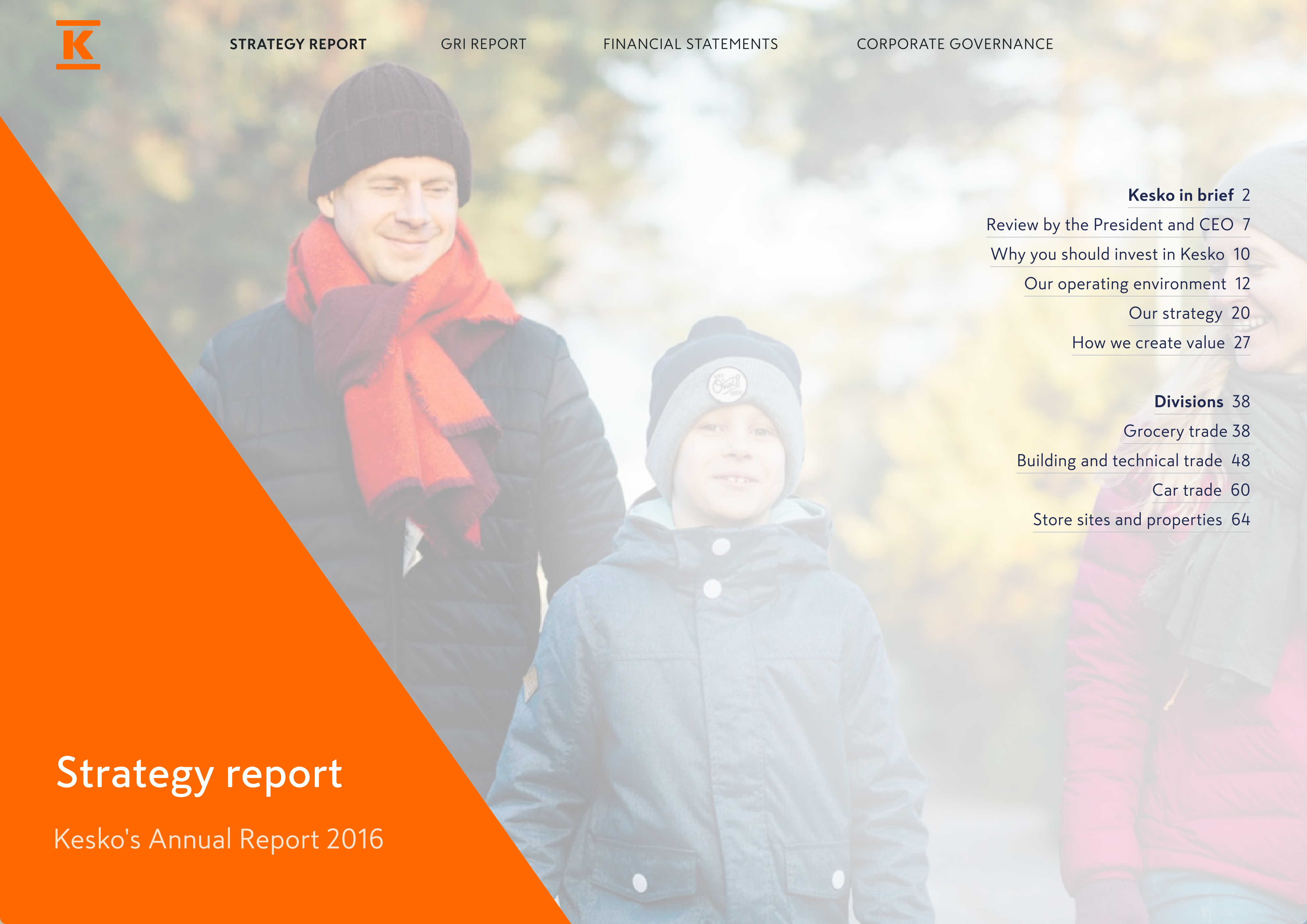
Kesko's Annual Report

EN 2016



Strategy report

Kesko's Annual Report 2016

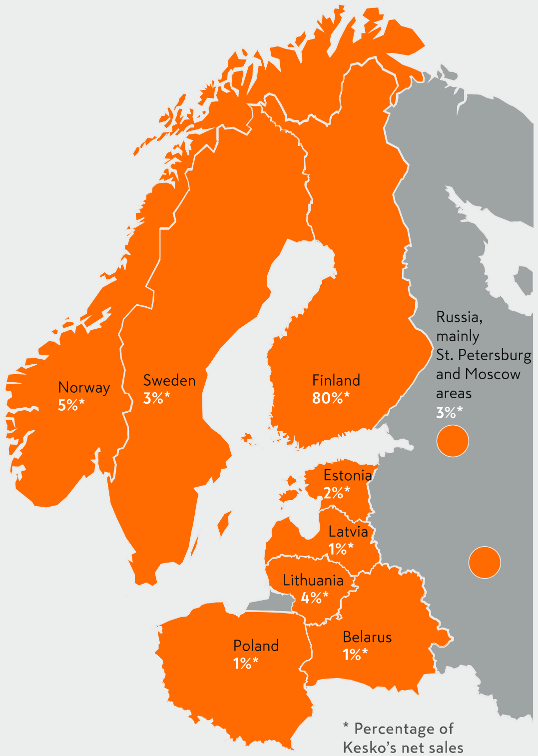
Kesko in brief

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 over 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus and Poland.

- Kesko and K-retailers form K Group, the pro forma retail sales of which were €13.2 billion (VAT 0%) in 2016
- K Group is the third largest retail operator in Northern Europe
- K Group employs around 45,000 people
- Kesko is a listed company and its shares are listed on Nasdaq Helsinki
- 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

	Retail sales, € million	Stores
Finland	10,100	1,963
Sweden	355	37
Norway	828	106
Estonia	169	28
Latvia	91	12
Lithuania	417	25
Poland	114	36
Russia	287	13
Belarus	101	16



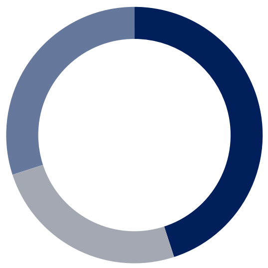
Kesko's business models

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 2016, its net sales were €3.0 billion, accounting for some 30% of Kesko's net sales.

Outside Finland, we mainly engage in own retailing and B2B trade.

Kesko's net sales by business model



Divisions in brief

Grocery trade

In Finland, nearly 1,500 K-food stores offer their customer high-quality and affordable food. K-food stores have around 1.2 million customers every day. K food retailers listen to their customers' wishes and customise their stores' services according to local customer demand. The customer and quality are at the centre of everything that K-food stores do – our aim is to offer the most inspiring food stores in the market, along with supporting digital services.

Building and technical trade

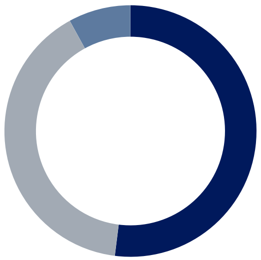
The building and technical trade division offers its B2C and B2B customers comprehensive selections of building and home improvement products, as well as electrical and HEPAC products, the most comprehensive store network in Northern Europe, online stores and digital services. The division also includes the operations of the furniture trade, the agricultural and machinery trade, and the leisure goods trade.

Car trade

VV-Auto is a company specialising in importing, retailing and providing after-sales service for vehicles manufactured by Volkswagen Group. VV-Auto also develops advanced service concepts for the car trade. VV-Auto is the market leader in Finland.

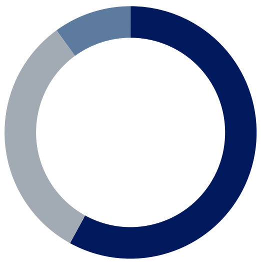
Group key figures

Net sales 2016



- Grocery trade 52 %
- Building and technical trade 40 %
- Car trade 8 %

Comparable operating profit 2016



- Grocery trade 58 %
- Building and technical trade 32 %
- Car trade 10 %

Grocery trade

Net sales 2016
€ 5,236 million

Comparable operating profit
€ 175.9 million

Operating countries
Finland

Number of stores
approx. 1,450

Get acquainted with grocery trade >

Building and technical trade

Net sales 2016
€ 4,100 million

Comparable operating profit
€ 97.9 million

Operating countries
Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus

Number of stores
approx. 770

Get acquainted with building and technical trade >

Car trade

Net sales 2016
€ 849 million

Comparable operating profit
€ 29.5 million

Operating countries
Finland, Estonia and Latvia

Number of stores
18.8%

Get acquainted with car trade >

Kesko's key performance indicators

Finances	2016	2015	2014	2013	2012
Net sales, € million	10,180	8,679	9,071	9,315	9,686
Comparable operating profit, € million	272.9	244.5	232.6	238.8	230.0
Comparable profit before tax, € million	271	238	226	233	228
Comparable earnings per share, basic, €	2.01	1.70	1.65	1.68	1.47
Dividend per share, €	2.00*	2.50	1.50	1.40	1.20
Comparable return on capital employed, %	11.9	11.7	9.9	9.8	9.0
Comparable return on equity, %	9.8	8.2	7.6	7.7	6.9
Cash flow from operating activities, € million	170	276	304	414	382
Capital expenditure, € million	743	219	194	171	378

* Proposal to the General Meeting

Comparable return on capital employed

11.9%

Personnel	2016	2015	2014	2013	2012
Personnel, average	22,476	18,955	19,976	19,489	19,747
Permanent employees, %	90.8	91.4	89.3	89.8	89.0
Full-time employees, %	73.3	77.5	74.2	71.9	71.3
Salaries, fees and social expenses paid, € million	723	545	614	611	608
Supervisory positions held by women, Finland, %	46	51	54	53	51
Training days per employee	0.8	1.1	1.2	1.3	0.9
Sickness absences, days per employee	11.1	10.5	10.5	11.2	11.2

As many as

3,100 **people have already completed the K Code of Conduct eLearning programme offered in nine languages.**

Environment	2016	2015	2014	2013	2012
Scope 1 and 2 emissions, thousand tonnes CO_2e	125	188	202	191	205
Scope 1 and 2 emissions/net sales, tonnes CO_2e/€ million	12.3	21.6	22.2	20.5	21.2
Scope 1 and 2 emissions/avg. number of employees, tonnes CO_2e/person	5.6	9.9	10.1	9.8	10.4
Specific consumption of electricity, Finland, kWh/gross m²	204	207	205	209	213
Specific consumption of heat energy, Finland, kWh/gross m²	79	76	79	83	95
Waste recovery rate, Finland, %	99	99	97	95	93

The reporting boundary for Scope 2 emissions has changed for 2016

By summer 2017, there will be as many as 16 solar power plants on the rooftops of K Group stores. The new investments will make K Group Finland's biggest producer and user of solar power.

Supply chain	2016	2015	2014	2013	2012
Goods, materials and services purchased, € million	9,839	8,593	8,839	9,037	9,454
Purchases from suppliers in Finland, % of all purchases	65.9	67.2	68.3	68.9	67.9
Direct purchases from high-risk countries, Finnish companies, % of all purchases	1	1.2	1.5	1.6	1.3
BSCI audits/year	270	187	162	106	67
Pirkka Organic products, pcs	118	134	116	95	99
Pirkka Fairtrade products, pcs	36	40	44	35	39

K-retailers' total purchases from Finnish regions were €602 million in 2016

Review by the President and CEO

The modernising K Group is stronger than ever

For us at K Group, 2016 was a year of strategy implementation and renewal. The most significant events in terms of our growth strategy were the acquisitions of Suomen Lähikauppa and Onninen. Our strategic objective in all divisions is to strengthen the customer experience for consumers and businesses, both in-store and in digital channels.

- In 2016, net sales returned to significant growth and profitability improved
- Comparable return on capital employed rose to 11.9%
- K Group is one of Finland's biggest employers and taxpayers

Every person is different and every K-food store is different

Our focal area in the grocery trade is modernising and expanding K Group's neighbourhood store network. We aim to improve the availability, quality and price-competitiveness of neighbourhood store services as these qualities are valued by Finnish consumers. Thanks to the acquisition of Suomen Lähikauppa, K Group offers Finland's most comprehensive and service oriented neighbourhood store network.

The integration of Siwas and Valintatalos into the K-Market network will continue in 2017, and all of the stores will be transferred to K-retailers by 2018. At least 400 Siwas and Valintatalos will become K-Markets. Footfall and sales have increased significantly in the stores that have already been converted into K-Markets. In some of the Siwas and Valintatalos, it was necessary for us to investigate whether it is possible for the operations to continue as part of the K-Market network in a profitable way. As a result of cooperation negotiations, the retail operations of 51 Siwas and Valintatalos will be discontinued.

We will modernise all of the K-Citymarkets by the end of 2018. Our aim is to create 81 different K-Citymarkets with product selections and services that reflect their customer bases.

> ”We aim to improve the availability, quality and price-competitiveness of neighbourhood store services as these qualities are valued by Finnish consumers.”

The grocery chains have been modernised in a genuinely customer-oriented way. Our aim is to offer our customers the most inspiring stores in the grocery trade. For us, there is no such thing as an average customer, as each customer, place and encounter is different. That is why every K-food store is different and is tailored to the demands and profiles of local customers.

We will sharpen our focus on the Finnish grocery trade. We sold our grocery trade business in Russia to Lenta, a Russian company, in November 2016. Expanding the business would have required considerable additional capital expenditure.

Business customers are accounting for a growing proportion of the building and technical trade

Kesko operates in the building and technical trade in nine countries and is the fifth largest operator in the European building and home improvement trade market. Our strategic objective is profitable growth and a further reinforcement of our position in Europe.

The acquisition of Onninen, a company specialising in HEPAC and electrical products, was completed in June 2016 and will reinforce B2B sales in particular. Onninen and Kesko represent a unique combination in the building and technical trade, offering business customers in the construction sector the most diverse selection of products and services on the market. Approximately 65% of sales in the building and technical trade come from business customers.

Consumers are becoming less likely to carry out projects related to building and renovation themselves. Building and renovation are becoming more technical and are increasingly the domain of professionals. As the population ages and becomes wealthier, more services are used. Responding to this market shift is one of our key strategic objectives. The K-Rauta Remonttimestari service is a good example of new services in this area: it helps consumer customers to successfully carry out renovations in areas such as kitchens, from planning all the way to completion.

Electric and hybrid vehicles enter the car ranges

VV-Auto is the market leader in Finland. At the end of 2016, we expanded our collaboration with Volkswagen Group by acquiring the right to represent and import Porsche vehicles. Adding Porsche to the selection will increase sales and improve the profitability of the car trade.

Volkswagen Group will launch 30 new fully electric vehicles by 2025, and various hybrid versions are constantly introduced to product ranges. We believe that sales of electric cars may account for 20–25% of all passenger car sales in Finland within 10 years.

We already offer an extensive network of free-to-use charging points for electric cars for customers of K-stores. All of K Group's new construction and renovation projects on store sites either include the construction of a vehicle charging point or are earmarked to include a future charging point.

Competitive advantage through digital services and utilisation of customer data

The internet and globalisation are breaking down barriers in trading methods, between lines of business, in people's mobility and in customers' mindsets. The border-free world introduced by digitalisation and the shift in distribution channels gives rise to entirely new opportunities for trading. The traditional boundaries between customer segments are becoming blurred, leading to a need for increasingly personalised and more diverse solutions.

In all divisions, our objective is to offer K Group's customers the best digital services. The smart functionalities of the K-Ruoka mobile application makes it easier to plan a shopping list and visit a store. We are developing a shared online store solution for the building and home improvement trade's and Onninen's B2B customers. An entirely new online store for used cars – Caara.fi – operates online without traditional showrooms.

> ”The border-free world introduced by digitalisation and the shift in distribution channels gives rise to entirely new opportunities for trading.”

K Group's strategic focal area – a personal approach – will also play an instrumental role in developing our marketing. In 2016, we expanded K Group's targeted marketing using customer data and began carrying out programmatic marketing relying on our own team of experts. By utilising our own customer data and digital technologies, we will develop more customer-oriented marketing and lay the foundations for marketing in the future.

The digital revolution requires new expertise and, in 2016, we recruited dozens of new professionals to develop mobile services, analytics, process automation and modern online store solutions.

We aim to be a frontrunner in corporate responsibility

Responsible business activities are crucial in achieving good and sustainable financial results. All of our operations are built on trust between Kesko, the K Group stores, our customers and partners. Corporate responsibility manifests itself in our everyday activities and our stakeholders require this of us.

We operate in several countries and purchase goods from suppliers all over the world, so our operations are subject to several international conventions and recommendations. In November 2016, we published the website 'UN Sustainable Development Goals and Kesko' to explain how we are promoting the 17 UN Sustainable Development Goals. We carried out a human rights impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights, and we published a human rights commitment in September.

Our long-term inclusion in sustainability indices provides impartial evidence of our responsible operations and facilitates investment decisions. Kesko ranked 25th in the Global 100 Most Sustainable Corporations in the World list published in January 2017. In autumn 2016, Kesko was awarded a grade of A– in CDP's Climate Change Disclosure survey.

It is of the utmost importance to ensure that the principles of corporate responsibility are fulfilled every day in all of our operations and all of the countries where we operate. In 2016, we updated our K Code of Conduct, and we require all Kesko employees and all of our partners to commit to complying with it. Our new SpeakUp channel is intended for reporting suspected crimes and abuses when the information cannot for some reason be passed on directly to the Kesko employee in charge.

> ”It is of the utmost importance to ensure that the principles of corporate responsibility are fulfilled every day in all of our operations and all of the countries where we operate.”

Since the beginning of 2017, all electricity purchased by Kesko in Finland is renewable. By purchasing renewable electricity we promote the production of renewable energy and support the objectives of K Group's climate work. We purchase renewable electricity that has the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, we will take the approach in our electricity purchasing that focuses on Finnish bioenergy.

We have spent a long time investigating the opportunities for utilising forms of renewable energy in our store site projects. Finland's largest property-specific solar power plant was completed in June 2016 on the rooftop of K-Citymarket Tammisto. We will significantly increase our use of solar energy, and 16 solar power plants will be in use on the rooftops of K Group stores by summer 2017. Thanks to the new investments, K Group will become Finland's largest generator and user of solar energy.

I would like to thank the personnel, K-retailers and our stakeholders

2016 was a busy year of modernisation for us. Kesko and the K-stores will work increasingly strongly as a unified K Group. This will enable us to offer our customers even better services and operate efficiently – For shopping to be fun.

I wish to extend my warmest thanks to all Kesko employees, K-retailers and their staff, our shareholders and our business partners for their good cooperation.

Mikko Helander
President and CEO

Why you should invest in Kesko

"In 2016, Kesko's net sales returned to significant growth and profitability improved. The return on capital employed also improved in comparison with the previous year."

Jukka Erlund, EVP, CFO

"Kesko seems to be firmly back on the front foot and our recent meeting with the Company in Helsinki confirmed that the business has strong momentum at the moment with management actions delivering good results. The Company meets our focus on change investment process and scores well on our proprietary quantitative screen which helps us scour the European investment universe for potentially interesting ideas that are going through some kind of change and where there is the potential for a valid non-consensus view."

Andrew Paisley, Investment Director, European Smaller Companies, Standard Life Investments Ltd.

Six reasons for investing in Kesko

Strong market position in Finland and abroad

- Market share of the grocery trade estimated at 37–38% in Finland following the acquisition of Suomen Lähikauppa
- Market share of the building and technical trade around 40% in Finland, strong market position in Norway, the Baltic countries and Belarus
- Kesko operates in the building and technical trade in nine countries and is the fifth largest operator in the European building and home improvement trade market

Growth strategy

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

Strong, stable financial performance and financial position

- Enables investing in growth and long-term business development
- Equity ratio of 48.6% and gearing of 5.8% (2016)
- The acquisitions are expected to generate significant synergies in the near future

High dividend paying 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 €2.0 per share is proposed to be paid for 2016, which would represent an average rate of 99.5% on the comparable earnings per share, and the effective dividend yield of B share would be 4.2%
- Dividends for the last five years were paid at the average rate of 93.6% on the comparable earnings per share, and the average effective dividend yield of B share was 5.5%

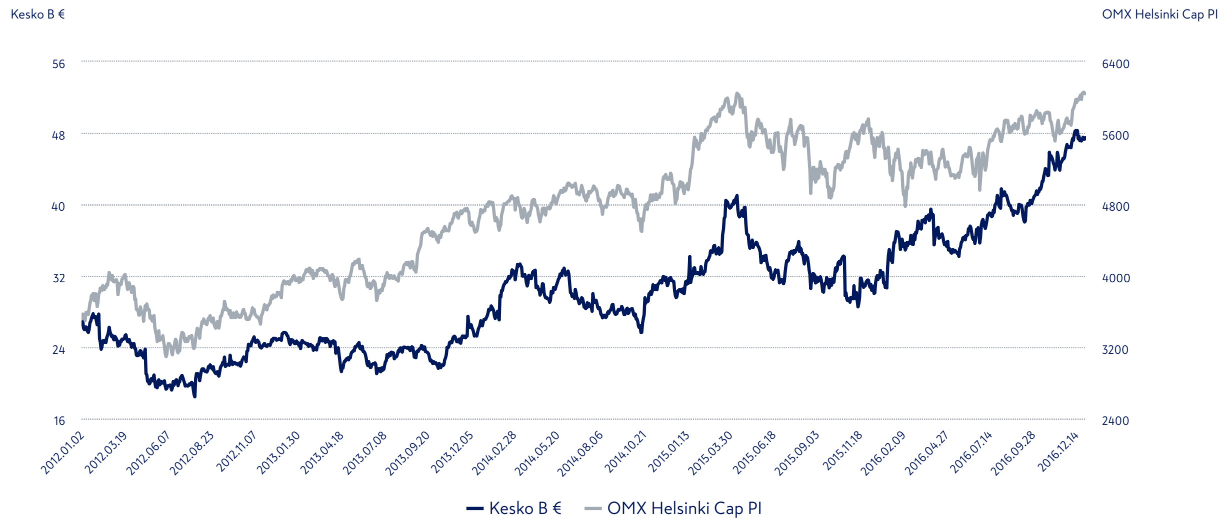
Recognised responsibility work

- Kesko is included in numerous sustainability indices and listings, such as CDP's Climate A- level, FTSE4Good, STOXX Global ESG Leaders indices and the Global 100 Most Sustainable Corporations in the World list
- The corporate responsibility programme applies to all of Kesko's divisions and contains both short- and long-term objectives

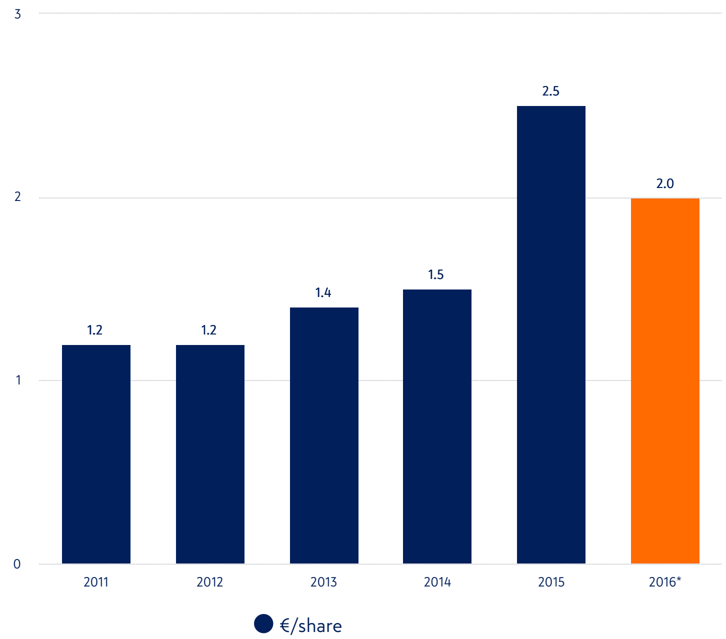
Competitive advantage from retailer entrepreneurship

- 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 while listening to their wishes
- In 2016 Kesko had 1,088 K-retailer entrepreneurs as partners
- In 2016 approximately half of Kesko's net sales were generated by the retailer-entrepreneur business model

Share development



Dividend history 2011–2016



* 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.

Our operating environment

The trading sector operations are affected by several global megatrends ranging from the digital revolution to climate change. By identifying the trends that affect K Group's operations we are able to effectively anticipate future challenges and opportunities and to respond to them ever better.

Trends affecting K Group's operations

International operators challenge local companies

- Intensifying price competition
- Global supply
- Affordable products are preferred for the shopping basket
- Sales of own brands are increasing

What we are doing

- We focus on a more limited number of businesses
- We differentiate ourselves from the competition with quality and selections
- We operate with even greater efficiency and quality
- We continuously expand the selection of affordable and high-quality own brand products

Global megatrends

GLOBAL ECONOMY

DIGITAL REVOLUTION

URBANISATION, SINGLE-PERSON HOUSEHOLDS AND POPULATION AGEING

CLIMATE CHANGE

CORPORATE RESPONSIBILITY

Consumers' knowledge and power has increased

- Transparency of selections, prices and availability
- Importance of social media channels: access to information, exchange of experiences and interaction
- Origin of products and responsibility are important selection criteria
- Quality and healthiness of food

What we are doing

- We make clear customer promises and deliver on them – service, quality, price
- Marketing and offering will become personalised
- We provide comprehensive information about products, prices and availability in all channels

Digital store and services

- Ease of shopping
- 24/7 availability of services irrespective of place
- Mobile access plays an important role
- Targeted marketing based on customer data

What we are doing

- We offer an even better customer experience by making use of the possibilities of mobile services, online services and digital marketing
- We target the offering making it personalised
- The K-Plussa system is digitalised
- We build the best mobile services

Individual customer behaviour

- Ageing population
- Increase in the number of single-person households
- Urbanisation
- Increase in cultural diversity

What we are doing

- We create new concepts and retailer models
- We take local conditions into consideration in stores' operations and service offerings
- We invest especially in the renewal of neighbourhood retail services
- We make more extensive use of customer data

Corporate responsibility as well as strong brands and identity are preconditions for success

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

What we are doing

- We take care that corporate responsibility is realised in all our operations
- We promote the use and production of renewable energy
- We develop innovative circular economy solutions jointly with partners
- We make efforts to ensure responsibility in the supply 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 at all stages 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, plastic and other policy state-ments 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 respon-sibility of production in high-risk countries

Logistics

Efficient logistics

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

Multichannel trade

Easy shopping instore and online

- K Group is a significant employer: 45,000 employees
- We have nearly 25,000 suppliers
- Our comprehensive store network is near 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 personali-sed benefits and services to our customers
- We build sustainable partnerships with our business customers

Circular economy

We promote circular economy

- Waste from our own operations is recovered
- We develop innovative circular economy solutions
- We provide extensive recycling services to K-store customers

Opportunities and risks related to the operating environment

Importance of multi-channel approach

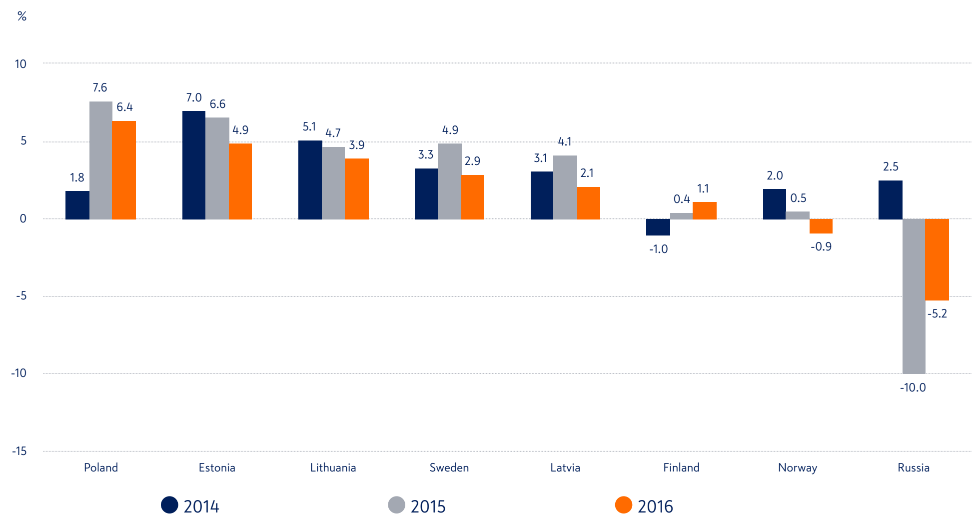
In line with our strategy, we aim to offer customers the best multi-channel shopping experience in the trading sector.

Opportunities	Risks
• E-commerce and digital services coupled with a comprehensive store site network provide a basis for excellent customer service in K Group.	• Challenges to e-commerce profitability include: the cost-efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online sales.
• Our aim is to serve customers as well as possible at different stages of the buying process irrespective of time and place in physical stores, online or using their combination.	• Continuous changes in e-commerce and digital services present special challenges to the rapid development of new services and their integration into existing systems.
• In order 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 unprofitable.

Economic operating environment

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

Development of retail market in Kesko's operating countries in 2014–2016



* Retail trade excluding motor vehicles, change %, deflated figures
(Source: Eurostat, PMR for Russia)

Opportunities	Risks
• Our strategy emphasises customer orientation and quality in all operations in addition to competitive prices.	• Continuing outlook for slow growth in the Finnish economy, the indebtedness of the public sector may have a negative impact on the development of purchasing power. • In the grocery trade, price is increasingly important. • Modest development of the Russian economy.
• In the building and technical trade, the B2B trade grows clearly faster than B2C trade. • The acquisition of Onninen creates a unique entity for Kesko in the B2B 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.

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.
• VWe 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 cooperation 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. Read more about 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, they may lead to unpopularity among customers, owners and investors, and cause financial losses.

K in Action: Management by information provides stores with competitive advantage

K Group is one of the trading sector's pioneers in collecting and utilising customer data. Retailers are using an application that supports store management and offers a tool for targeted marketing. For customers, utilisation of data will lead to personal, interactive and multi-channel service.

It is important for retailers to monitor the wishes of their customers, the development of sales and trends in the trading sector. When the business is busy, it has often been challenging to search and analyse data quickly and, in several cases, some data has remained completely unused.

"We wanted to get all of the data into a form that is easier for retailers to take in and use. We developed an entirely new visual reporting tool to enable retailers to see the information about customers, market areas and competitors that is relevant to their own stores. A clearer reporting entity makes it essentially easier for a store to manage by information," says **Minna Vakkilainen**, VP, Head of Customer Data in the K Digital unit.

Easier to use data has reinforced the understanding that stores, areas, competitive situations and customers are different. That is why every K-store is different – tailored to the demands and profiles of local customers.

Targeted email marketing

Easy, fruitful marketing based on data plays a key role in the everyday work of digitalising stores.

The targeted marketing service, Kampanjatiski, is an application that enables retailers to quickly and cost-efficiently make store-specific email marketing based on K-Plussa customer data.

K-food retailers see the application as a great opportunity to do marketing.

"It is positive that I can do marketing whenever I want. Retailers need to be agile and make decisions quickly. Kampanjatiski enables us to react quickly," says **Jouni Ekholm**, retailer at K-Supermarket Mustapekka.

In addition to the Kampanjatiski application for retailers, K Group's other forms of marketing are increasingly transitioning towards the use of customer data.

"In 2016, we expanded K Group's targeted marketing using customer data and began carrying out programmatic marketing relying on our own team of experts. By utilising our own customer data and digital technologies, we are developing more customer-oriented marketing and laying the foundations for future marketing," Vakkilainen says.

Utilising customer data to provide more personal customer service

Customers expect stores to provide a new form of personalised and interactive service. They want to get a wider range of service in return for the information that they give to companies. However, this does not necessarily mean that customers are only looking for special offers. It is also important to offer service, information and inspiration.

We create marketing based on customer data to offer the best customer experience in the trading sector. We communicate to customers at the right time, using the right media and with exactly the right content for each customer.

"By utilising internet browsing data, we can help customers who are planning renovations to get through the various phases of the renovation by offering them relevant content in different channels, telling them about the renovation services offered by K-Rauta and providing interior decoration tips," says **Mari Huuki**, Marketing Analyst for the building and technical trade.

Read more:
K-Plussa is changing
K-food mobile application (in Finnish)

Our strategy

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. We differentiate ourselves from the competition with quality and customer orientation.

Kesko and K-stores are working increasingly strongly as a unified K Group, so we can offer our customers even better services and operate efficiently. Our strategic objective is to strengthen the customer experience for consumers and companies both in stores and in digital channels. We modernise the chain concepts, build the best digital services in the trading sector and reform the K-Plussa customer loyalty system.

> **Our strategic objective is to strengthen the customer experience for consumers and companies both in stores and in digital channels.**

In the grocery trade, our strategic objective is good profitability and a stronger market share in Finland. We want to offer the most inspiring food stores and digital services in the market. The growth strategy is underpinned by the acquisition of Suomen Lähikauppa completed in early 2016. In consequence of the acquisition, at least 400 Valintatalo and Siwa stores will be renewed into K-Markets by spring 2017. In addition, the current approximately 400 K-Market chain stores and 60 Neste K stations will be modernised by the end of 2017. We will carry out a modernisation of the K-Citymarket chain by the end of 2018 and create 81 different stores with product selections and services that reflect their customer bases. We are refining the K-Supermarket concept and expanding the network with new store sites. In addition, we are strengthening our digital approach and improving the level of quality and service in K-food stores, and renewing the marketing model. We disposed of the Russian grocery trade towards the end of 2016.

Kesko operates in the building and technical trade in nine countries and is the fifth largest operator in the European building and home improvement trade market. The strategic objective is growth and a stronger position in Europe. The acquisition of Onninen, a company specialising in HEPAC and electrical products, in the first half of 2016 will significantly support this. The combination of Onninen and Kesko's building and home improvement trade has enabled us to create a unique B2B trade entity on the market. We are making major developments in digital services and e-commerce. In Finland, K-Rauta and Rautia stores will be combined under the renewed K-Rauta brand. The brand renewal in other operating countries will take place in phases.

> **Kesko operates in the building and technical trade in nine countries and is the fifth largest operator in the European building and home improvement trade market.**

In the car trade, Kesko is the market leader in Finland, and our objective is to increase our market share in the car trade, particularly in Finland. We are actively developing new business models and improving the multi-channel customer experience. Towards the end of the year, we acquired the rights to represent and import Porsche vehicles in Finland.

In addition, we are developing Kesko's other businesses, which include the furniture trade, the sports trade, the agricultural trade, the machinery trade and the shoe trade, with the aim of increasing their value.

To ensure competitiveness and improve profitability, we have realised savings of €50 million in fixed costs. We estimate that the acquisitions will generate over €30 million in synergies at the EBITDA level from 2018 onwards and over €60 million from 2020 onwards.

In 2015 and 2016, we made capital expenditure of €500 million in business operations, excluding acquisitions. As of 2018, we estimate that the annual capital expenditure will be less than €200 million.

Strategy implementation is progressing

Strategic objectives

- Growth in grocery trade
- Growth and expansion of the building and technical trade in Europe
- Growth of the car trade, particularly in Finland
- The best customer experience in the trading sector in all channels
- A single, unified Kesko, seeking synergies and efficient common functions

Our financial objectives

Return on capital employed, target: 14%

We will reach this target by focusing on strategic growth areas, growing cost-efficiently and by improving capital efficiency.

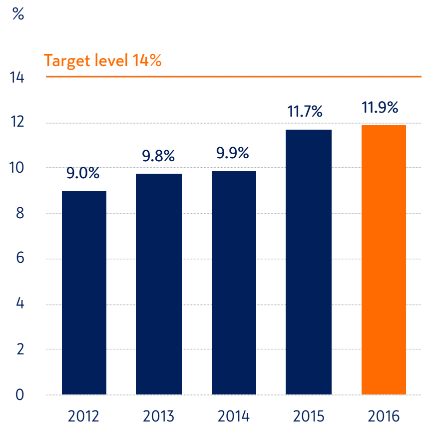
Return on equity, target: 12%

We will allocate capital so as to realise the best possible return and increase shareholder value.

Interest-bearing net debt/EBITDA, target: less than 2.5

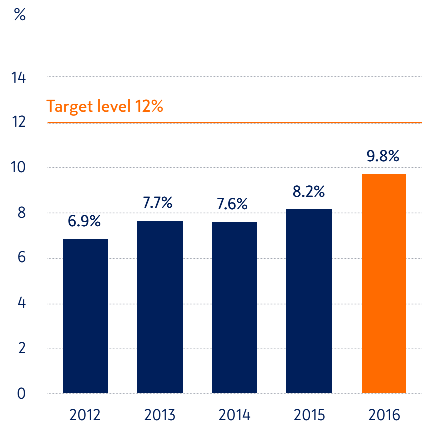
We will maintain a strong financial position as well as safeguard our dividend capacity and the opportunities to implement strategic projects.

Return on capital employed*



* Comparable

Return on equity*



* Comparable

Financial objectives

Objectives	Target level	Realisation in 2016	Realisation in 2015	Realisation in 2014
Return on capital employed*	14%	11.9%	11.7%	9.9%
Return on equity*	12%	9.8%	8.2%	7.6%
Interest-bearing net debt/EBITDA	< 2.5	0.4	-1.4	-0.3

Kesko's 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.

* Comparable

The foundation of our operations

Value

The customer and quality - in everything we do

Vision

We are the customer's choice and the quality leader in the European trading sector

Mission

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

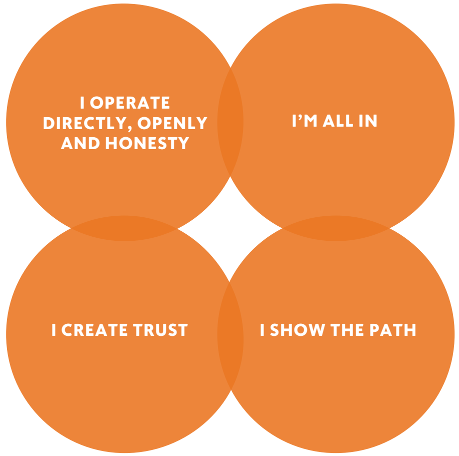
One unified K

1. A strong brand and identity at the consumer interface
2. Efficient common functions
3. Customer relationships across divisional borders

Operating principles

I operate directly, openly and honestly

Honest and open operation is the starting point for everything. Responsibility is a success factor for the K Group, proof of which is customers' confidence in the K Group's operating principles and products.



I'm all in

In the K Group, personnel put themselves into play every day in order to offer their customers a diversified selection, quality products and first class services that enable daily life to go smoothly.

I create trust

Trust in other people is, above all, based on our own operations. In the K Group, people respect each other and listen to customers' needs.

I show the path

Through constant development and renewal, the K Group gains a clear direction in serving customers ever better. In the K Group, everyone knows their role and has the agility to respond to changing conditions.

K in Action: K Code of Conduct unites personnel in nine operating countries

Since October 2016, the K Code of Conduct has established itself as the name of the operating principles shared by all members of the Kesko personnel in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus.

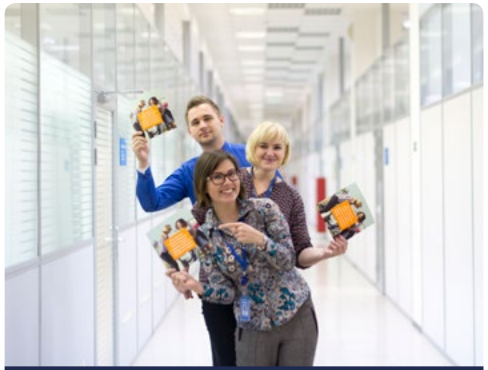
In 2016, we updated the former guide entitled Our Responsible Working Principles. An employee survey had revealed a need to clarify and update the guidelines and to prepare separate guidelines for business partners.

”It was important to bring the guidelines up to date also because during the year thousands of new employees have joined us as a result of the acquisitions of Suomen Lähikauppa and Onninen. With the update, we also wanted to emphasise management’s commitment to the shared K Code of Conduct and to improve the everyday presence of the guidelines. The K Code of Conduct includes a link to the SpeakUp reporting channel, which operates in nine languages and makes it easier to report suspected or actual violations of the shared operating principles confidentially,” says Kesko EVP, Group General Counsel, **Anne Leppälä-Nilsson.**

Ambassadors convey the message

We have prepared an eLearning package for the entire personnel to facilitate the adoption of the K Code of Conduct. By the end of 2016, a total of 3,159 people had already completed the eLearning programme.

Indoor Estonia was the first company in which the entire personnel completed the K Code of Conduct eLearning. To celebrate, coffee and cake was enjoyed at all Indoor Estonia offices.


Mariya Yakusheva, Svetlana Kononova and Vadim Bezovchuk, who work at the K-Rauta HR function in St. Petersburg, have familiarised themselves with the K Code of Conduct in Russian.

We appointed K Code of Conduct ambassadors from among the personnel in all divisions and operating countries to assist in the deployment.

”These roughly 20 ambassadors act as messengers, information channels and contacts both with respect to their own organisations and the K Code of Conduct steering group. It’s been great to see how eagerly they have embarked on their assignment to deliver the message,” says Leppälä-Nilsson.

Continuous monitoring ensures commitment

For the K Code of Conduct to be constantly upheld, we pay special attention to the monitoring in the following ways:

- We monitor the completion rates of the K Code of Conduct eLearning programme and, if necessary, remind related target groups of the completion
- We 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
- As of 2017, we oblige the entire personnel to annually acknowledge their compliance with the K Code of Conduct guidelines
- 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
- We draw up an annual plan with quarterly actions promoting the awareness of the K Code of Conduct
- The K Code of Conduct Steering Group convenes at least every six months and checks whether the guidelines are up to date, plans trainings, and monitors and reports the training completion rate

Watch the video >

The K Code of Conduct contains 12 principles illustrated with clear examples.

Stakeholder address: The K Digital Trainee programme led to interesting career opportunities

Five skilled and keen trainees were selected to join the first K Digital Trainee programme. The six-month programme was a real success and the trainees now have permanent jobs developing digital services in different parts of K Group.

I started working as a digital trainee with Katri, Hilla, Hanna-Reeta and Joonas in May 2016. During the trainee period, we were placed in the K Digital unit and in all Kesko divisions, namely the grocery trade, the building and technical trade, and the car trade. We were not, however, confined by the boundaries of the designated unit and we often crossed them in our work. In our tasks, we got to know Kesko from the store floor to strategic work perspectives. We mostly worked on various development projects and also actively took part in the development of working practices and the company culture.

Besides skills, the characteristics that were valued in the selection of trainees to the K Digital Trainee programme were courage, self-initiative and open-mindedness. We were expected to question the current operating models and encourage everyone around us towards a new approach. We all were included in projects which recent graduates can typically only dream about. It was great to see that we were put in charge without hesitation, and as we met expectations, we were given more and more interesting and challenging tasks. In addition, the trainee programme included group coaching sessions, excursions to partner companies and the “Grande Finale”: a study trip to London.

Kesko HR was in charge of the trainee team and organising the programme. The K Digital Trainee Programme was part of the Finland's Mentors project, through which Kesko makes a contribution by employing recently graduated young people. We gained a good overall idea of K Group and got to create networks within and outside the organisation.

Besides the support from Kesko’s Chief Digital Officer Anni Ronkainen, our daily work was guided by personal tutors and mentors nominated to boost personal development.

The six-month period was a real success and fortunately for all parties, we got permanent jobs in different parts of the organisation. Now our boldness and open-mindedness are combined with the knowledge and skills gained during the trainee period. We have got off to a good start in our common journey towards the best digital services.

Niina Tuikka

Watch the video >

How we create value

Our operations are based on stable finances, professional and committed people throughout our value chain, and a strong and consistent K brand. We are a major local operator, and our activities affect all aspects of society. We create value for all our stakeholders: customers, personnel, shareholders, retailers, suppliers of goods and providers of services, municipalities and nations.

Value creation

OUR MOST IMPORTANT RESOURCES 1

Brands, reputation and customer data
Store sites

Personnel and retailers

Supplier relationships and logistic operating models

Financial resources

Service concepts

Customer relationships

Natural resources

THE CUSTOMER AND QUALITY - IN EVERYTHING WE DO

Grocery trade
Building and technical trade
Car trade

Retailer entrepreneurs' retail trade

Kesko's own retailing and B2B trade

Comprehensive store site network, online stores and delivery services

High-quality products, services and solutions

2

WE ARE THE MOST SUSTAINABLE TRADING SECTOR COMPANY IN THE WORLD

ADDED VALUE TO STAKEHOLDERS 3

Customers
Tailored selections and services

Personnel
Jobs and livelihood
Wellbeing at work

Suppliers
Partnerships
Distribution channels

Owners
Dividends and capital appreciation

SHARED VALUE AND IMPACTS 4

Providing employment
Providing services
Capital expenditure

Taxes
Local sourcing
Retail stores as local operators

Environmental impacts
Human rights impacts

1 Our most important resources

Kesko's operations are based on professional and committed people throughout our value chain, a stable financial position and a strong, unified K-brand. Efficient and responsible use of resources ensure the success of business operations.

- 45,000 people work at the K Group,
- 20,000 of whom at Kesko
- 1,100 retailer entrepreneurs at K-stores
- Around 48% of the personnel are in Finland and 52% are in the other operating countries

2 Value creation in our operating result

The key functions, such as efficient logistics, responsible purchasing and digital services, provide the K-store and Kesko personnel with the best conditions to do their jobs well. We offer our customers high-quality products and the best service at stores and in digital channels alike. The K Group value, *'The customer and quality – in everything we do'*, is visible across our business operations.

- Over 2,000 different stores of different sizes, several online stores and digital services
- 9 operating countries
- 1.6 million customers per day

3 Added value for stakeholders

We create value for everyone who operates with the K Group, from suppliers and personnel to shareholders and people who shop at our stores.

- €248 million in dividends
- €575 million in salaries
- 24,600 suppliers, of which
- 11,900 are in Finland
- €8.6 billion in purchases

4 Shared value and impacts

We are a significant local operator and the impacts from our operations extend throughout society. When we do our work right, we create wellbeing everywhere around us.

- €743 million in capital expenditure
- €49 million in income taxes
- €602 million in retailers' direct purchases
- 66% of Kesko's purchases from Finland
- 19% from the other operating countries
- Services in connection with stores

For our stakeholders, the most important areas where we create value are customer value, owner value and social value.

Customer value

- Our main duty is to offer our customers the products and services they need. Our products are well researched, safe and responsibly manufactured. We create new services to make our customers' everyday lives easier and make them available in multiple channels.
- Our agile retailer business model is our competitive advantage.
- A personal approach and an inspiring customer experience are our strengths. Because every person is different, every K-food store is also different.
- B2B customers are becoming increasingly important in the building and technical trade. Building and renovation are becoming more technical and are increasingly the domain of professionals.

K brand to the next level

Building a new, strong K consumer brand has been an important part of our strategy work. In 2016, we moved to a new level in building the K brand as we launched an extensive chain brand renewal under the K umbrella brand.

First, we launched a new chain brand and chain identity in the K-Market chain. Next, we moved on to K-Rauta and K-Citymarket. During the spring of 2017, we will modernize the fourth chain brand, K-Supermarket.

Responsibility, inspiration and individual attention to every customer are the key aspects of the new K brand. Just as our every customer is different, so is each of our stores, tailored for its customers. For shopping to be fun.

K-retailers are our competitive advantage

In 2016, 45% of Kesko's net sales came from the retailer business model. There are 1,088 K-retailer entrepreneurs operating in Finland, 841 of them as K-food retailers, 147 as retailers in the building and home improvement trade and/or agricultural trade, and 100 as specialist retailers. The number of K-food retailers will grow in the near future as at least 400 Siwas and Valintatalos converted to K-Markets will be placed under the control of retailer entrepreneurs over the next two years.

K-retailer entrepreneurs are responsible for customer satisfaction, product selections, pricing, personnel and business profitability in their stores. K-retailer entrepreneurs tailor the product selections and services around the needs of local customers and listen to their wishes.

Find out more about K-retailers

Own brand products

Own brand products play a key role in K-stores' diverse product selections. Our own brands enable us to offer more affordable shopping baskets and high-quality products that suit various life situations.

The Pirkka product range contains nearly 2,600 products that combine high quality with affordability. When new products are selected for inclusion in the Pirkka range, Finnish products always take precedence, providing that the product meets the quality and price criteria.

Products in the Pirkka range with responsibility labels in 2016:

- Pirkka products with the Swan label: 65
- Pirkka products with the Hyvää Suomesta (Produce of Finland) label: 247
- Pirkka Fairtrade products: 36
- Pirkka Organic products: 118
- Pirkka MSC-certified fish products: 37
- Pirkka products with the UTZ label: 32

The asset of the K-Menu range is affordability. K-Menu products are high-quality, basic everyday foods whose price is the most important criterion for consumers.

The own brands of the building and home improvement trade – Cello, PROF, FXA and Fiorin – provide customers with reliable and affordable products for home and garden, as well as tools for building and renovation. Among Onninen's own brands, Onnline offers electrical, HEPAC and refrigeration products for B2B customers. The electrical and HVAC products under the OPAL brand are primarily designed for B2C customers.

Find out more about products with responsibility labels
Find out more about Pirkka and K-Menu products
Find out more about Cello products

Product development and product research

Product research laboratory

Kesko's product research laboratory controls the quality of the grocery products sold by K-food stores. High-level analyses ensure the safety of foodstuffs.

The Product Research laboratory is a T251 testing laboratory that has been accredited by the FINAS accreditation services. It is the only research laboratory for the trading sector's own brand products that has been approved to comply with the SFSEN ISO/IEC 17025 standard.

The product research laboratory analysed 7,770 product samples and conducted 17,176 analyses in 2016.

All new own brand products – Pirkka and K-Menu range products – are analysed thoroughly several times. Each new product to be included in the range goes through a multi-stage survey which consists of lab analyses and sensory evaluations.

K-maatalous Experimental Farm

The K-maatalous Experimental Farm in Hauho invests in development and research work on plant varieties to promote sustainable cultivation methods and better Finnish food production.

The research conducted on the farm aims to provide K-maatalous retailers and farmers with tested solutions for making productive product choices and optimising their harvests.

The K-maatalous Experimental Farm made a Baltic Sea Commitment to the Baltic Sea Action Group (BSAG) in June 2016. The experimental farm's commitment focuses on developing measurement practices and devices to determine the growth conditions and nutrients in soil.

Read more about Product Research
Read more about the K-maatalous Experimental Farm

Responsible purchasing

Our purchasing activities are guided by the following:

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

We have responsibility to our customers to ensure that the products sold at K-stores are of high quality, well researched and responsibly produced.

Special attention is paid to human rights issues and working conditions in the purchasing chain. When suppliers are monitored, the focus is on the countries where the risks of violations of these rights are the greatest. Special attention is paid to working conditions at factories in high-risk countries, though the quantities imported from these countries are small (1% of all Kesko's purchases in 2016).

International assessment systems, BSCI auditing and SA8000 certification, are used for supplier audits in high-risk countries.

Read more about responsible purchasing

Owner value

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

Our financial position is very strong. As a result of acquisitions, our net sales increased by 17.3%, the comparable operating profit was €273 million and the return on capital employed rose to 11.9% in 2016. At the end of 2016, Kesko had liquid assets of approximately €391 million and a balance sheet total of €4.4 billion. A strong and stable profit and financial position enable investment in growth and long-term business development. We expect acquisitions to generate significant synergies in the near future.

We distribute at least 50% of our comparable earnings per share as dividends while taking into account the Company's financial position and operating strategy. A dividend of €2.0 per share is proposed to be paid for 2016, which would represent an average rate of 99.5% on the comparable earnings per share. We have paid dividends every year but one (1967) since we were listed in 1960. In 2016, the price of a Kesko B share rose to 46.7%, while the closing price was €47.48.

Corporate responsibility plays an increasingly important role in investment decisions

Responsible business is crucial for the achievement of good and sustainable financial results. All of our operations are built on trust between Kesko, the K Group stores, our customers and business partners. Corporate responsibility manifests itself in our everyday work and our stakeholders require this of us.

Besides financial factors, investors are increasingly taking account of aspects related to the environment, social responsibility and corporate governance (ESG) when they make investment decisions.

Our long-term inclusion in sustainability indices provides independent evidence of our responsible operations and facilitates investment decisions. On the 2017 Global 100 Most Sustainable Corporations in the World list, Kesko ranked 25th and at the same time, as the world's most responsible trading sector company.

Find out more about Kesko as an investment
Find out more about corporate responsibility

Social value

- We are a significant employer, taxpayer and service provider, and our operations create welfare for society as a whole.
- We select our business partners with care and we require them to operate responsibly.

We create jobs

At the end of 2016, the number of Kesko personnel was 22,476. K Group – Kesko and the K-retailers – employ approximately 45,000 people in total. Roles range from jobs at a store to retailer entrepreneurship as well as expert positions and supervisory positions in various fields.

We offer a wide range of career and development opportunities in different roles in the trading sector. As the operating environment and customer requirements in the trading sector change, continuous competence development for personnel takes on an increasingly important role.

The core areas of competence development are management culture and supervisory work, sales and service skills, product line specific competitive advantage projects, e-commerce and services.

The ongoing digital revolution requires new skills. In 2016, we recruited dozens of new professionals to develop mobile services, analytics, process automation and modern online store solutions. We also arranged a six-month **K Digital Trainee programme**, and the five trainees who completed it are now permanent employees developing digital services in various parts of K Group.

Find out more about our personnel

Suppliers are important partners

Most of the economic benefits generated by Kesko's operations – approximately 84% of Kesko's net sales – flow to suppliers, from which purchases were valued at €8.6 billion in 2016.

Kesko had approximately 24,600 suppliers and service providers (from which we made purchases of at least €1,000) in 2016. Approximately 11,900 of these were based in Finland, approximately 10,200 were in Kesko's other operating countries, and approximately 2,500 were based elsewhere.

We select our business partners with care and we also require them to have responsible operating practices. **The business partners' version of the K Code of Conduct** is appended to new and renewed agreements.

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

In 2016, the purchases of all Kesko companies from suppliers operating in Finland totalled €5,661 million, accounting for 65.9% of the Group's total purchases. K-retailers' direct purchases from Finnish regions totalled €602 million.

Pirkka products are manufactured by nearly 120 companies across Finland. Their manufacture, or the inclusion of a manufacturer's own product in Kesko's grocery trade selections, provides many regional companies with an opportunity to expand their market to cover the entire country.

The taxes we pay benefit 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 around 45,000 employees have a substantial impact on the municipal sector. Municipal taxes paid by our personnel account for a considerable proportion of municipalities' tax revenue.

In 2016, there were K-food stores in 280 municipalities in Finland. Real estate taxes on the business premises used by Kesko and K Group are paid to the municipalities in which the premises are located. Part of the income taxes from Kesko's and K-retailers' entrepreneurial activities are distributed to those municipalities where the activities take place.

Read more about taxes

K in Action: Putting shopping in new kind of circular economy bags instead of plastic bags

K Group is committed to reducing the consumption of plastic bags. The latest alternative for a plastic bag is the Pirkka ESSI circular economy bag, made from plastic packaging recycled by households.

Plastic bags cause problems when they end up in water bodies and elsewhere in the natural environment. A particular concern in K Group's operating environment is the littering of the Baltic Sea and large lake bodies.

The aim of the EU packaging directive (94/62/EC, 2015/720/EU) is to keep the annual consumption level at a maximum of 40 plastic bags per person by 2025. K Group is committed to promoting the achievement of this target. In 2016, some 55 plastic bags were consumed per person in Finland.

Circular economy bags made of household plastic packaging waste

As from January 2017, we offer K-food store customers new kind of circular economy bags, made from packaging plastics recycled by customers, as alternatives to shopping bags.

There are 396 Rinki eco take-back points in connection with K-stores, 160 of which accept plastic packaging plastics.

The Pirkka ESSI circular economy bag, manufactured by Amerplast Oy, is the first Finnish plastic bag made from recycled plastics from households. It promotes the circular economy, because after use, it can be recycled again through the Rinki eco take-back points for use as a raw material for new circular economy bags.

At least 45% of the recycled plastic used as a raw material for the Pirkka ESSI circular bag economy consists of plastic packaging waste from households. At least 45% of used recycled plastic comes from industry. As such, circular economy bags considerably reduce the use of virgin raw material consumption and greenhouse emissions.

Read more about Pirkka ESSI circular economy bag

Read more about Kesko's plastic policy statement

The Pirkka ESSI circular economy bag, manufactured by Amerplast Oy, is the first Finnish plastic bag made from recycled plastics from households.

Read about the actions aimed to reduce plastics

Plastic bags cause problems when they end up in water bodies and elsewhere in the natural environment. A particular concern in Kesko's operating environment is the littering of the Baltic Sea and large lake bodies. Kesko is committed to the EU's objective to reduce consumption of plastic bags to 40 bags per capita by 2025.

Kesko provides alternatives for plastic bags in its selections: reusable bags, cotton bags and jute bags, as well as paper bags and recycled plastic bags. At the beginning of 2017, Pirkka ESSI recycled bag was added to the choice. Kesko aims to increase alternative carrier bags' and cardboard boxes' share of sales to 10% by 2025.

The chlorine, stabilisers and phthalates contained in PVC are estimated to cause significant environmental and health impacts. Packaging material containing PVC in Kesko's own brands' products will be replaced with an alternative material by the end of 2016.

In order to protect waterways, Kesko will discontinue the use of plastic microbeads in all of its own brands' cosmetic products during 2017.

As from the beginning of 2017 retail plastic bags will be subject to a charge at all K Group food stores, building and home improvement stores, agricultural stores and machinery stores, as well as furniture stores.

Thin small plastic bags will no longer be on display at the checkout line. They will be handed out on request for covering products that may leak.

In its procurement and distribution logistics, Kesko uses reusable plastic containers, which reduces the quantity of cardboard parckaging waste by around 4,000 tons per year.

Nearly all of Kesko's own brand product packages have recycling identification codes. The missing codes will be added to the packages of own brand products within 2017.

The K Group offers its customers the most comprehensive Rinki eco take-back point network in Finland. Plastic is collected at 160 plastic collection points adjoining K-stores. K-food stores receive and recycle nearly 120 million PET plastic bottles per year. Kesko's target is that by 2025, 100% of plastic waste is collected for reuse in all divisions.

The operations of the food and building and home improvement stores are guided by the K-responsibility concept. One of its main themes is taking care of the environment. As for its e-commerce, Kesko recognizes its responsibility as a producer by taking care of the collection of plastic and other packaging materials and by paying the producer responsibility fees for its packaging.

K in Action: Human rights assessment helps improve the company's operations and supply chain transparency

Between 2014–2016, we carried out a human rights impact assessment in accordance with the UN Guiding Principles on Business and Human Rights. The extensive work was worth the effort because it gave us lots of useful information which will help us improve the transparency of our supply chain, the dialogue with our personnel and our customer service even further.

What is it about?

- The UN Guiding Principles on Business and Human Rights, which were launched in 2011, have become the global standard that guides corporate responsibility related to human rights.
- The principles oblige businesses to respect human rights in all their operations. Businesses must assess the human rights impacts and risks of their operations, create systems for avoiding risks, and establish processes for any corrective measures.

Our human rights assessment in a nutshell

- During the extensive assessment, we listened to the views of customers, personnel and factory workers in high-risk countries on how human rights are realised in K Group's operations.
- Dialogue with customers affirmed our view that for customers, the right to health, children's right to special protection, and non-discrimination are the key human rights that we must ensure.
- The results of surveys at factories in high-risk countries (China, India, Bangladesh and the Philippines) were largely congruent with those in the BSCI and SA8000 reports. Employment relationships were found to be fragile and omissions were detected in working hours and overtime pay, among other things.

We respect all internationally recognised human rights

- According to the UN Guiding Principles on Business and Human Rights, the management of responsible businesses must make a public statement of commitment to human rights.
- We published our human rights commitment in September 2016. In it we state that we respect all internationally recognised human rights and expect our business partners to do the same. We listen to our stakeholders' views on human rights and take them into account when developing our operations.
- Respecting human rights is one of the 12 principles of the K Code of Conduct.

What next?

- The human rights assessment gave us lots of useful information which will help us improve the transparency of our supply chain, the dialogue with our personnel and our customer service even further.
- We are obliged to take responsibility for human rights in the supply chain of our products, especially in high-risk countries.

  We have forwarded the information obtained from the high-risk country surveys of our human rights assessment to the BSCI organisation for use in the development of audit procedures.
- We ensure that all our operating models are built to take account of the respect for human rights in all our operations.
- We communicate about human rights matters to our personnel and stakeholders through different channels.
- We review our human rights assessment every three years and update it on our website.

Find out more about our human rights assessment:

Identified salient human rights impacts and assessment of related risks

Survey of stakeholder views

Monitoring and corrective actions

Statement of commitment on human rights

Stakeholder's address: Kesko promotes human rights

Kesko has done concrete work to promote the rights of workers in developing countries in collaboration with the Trade Union Solidarity Centre of Finland (SASK) since 2006. The work conducted with Kesko's subcontractors began with a training project in Vietnam, where the objective was to improve the corporate responsibility of 13 subcontracting companies in matters required for BSCI certification, including labour protection and interaction between the employer and employees.

A follow-up study was conducted in 2016 among the original business partners. The purpose of the study was to find out how permanent the results of the training project were several years after the project had ended. The results were a positive surprise: the majority of the better practices implemented as part of the project were still in use, and almost all of the companies that were studied had continued to improve working conditions after the project ended.

In 2016, Kesko and SASK worked together also to evaluate how well certain suppliers met their targets for corporate responsibility certification in relation to working conditions in four high-risk countries in Asia. Employees were asked to give their perspectives on the practical realisation of matters corresponding to the BSCI certificate. The results showed that the companies have improved their operations in matters required for certification in many regards. However, almost all of the studied companies had major deficiencies in questions related to the position of employees, such as wages and overtime.

By studying the actual effects of the certifications that Kesko requires in developing countries, Kesko has demonstrated a pioneering approach and commitment specifically to human rights – not just to certificates that strive to improve such rights. Kesko has also delivered the results of the study to the BSCI certification organisation to enable it to develop the monitoring of certificates specifically in the areas in which deficiencies were detected. If BSCI succeeds in rectifying its deficiencies as a result of this work, it will make a significant contribution to improving the living conditions of employees working for thousands of suppliers.

Kesko's human rights commitment and the stated level for guaranteeing the human rights of employees in value chains can act as an example to other commercial operators in Finland and particularly to Kesko's own commercial partners. Kesko is undeniably one of Finland's leading companies implementing the UN's Guiding Principles on Business and Human Rights, and an agent for the realisation of principles related to human rights, even though the company's network of subcontractors is very large and extends to several high-risk countries.

The Trade Union Solidarity Centre of Finland (SASK) would like to thank Kesko for its cooperation so far and is keen to continue this work. SASK is an expert organisation established by the Finnish labour movement whose aim is to improve the conditions of workers in developing countries by supporting local labour movements and boosting their competences.

Janne Ronkainen, Executive Director, Trade Union Solidarity Centre of Finland (SASK)

K in Action:
The 'Pink Ribbon' campaign result multiplied

In 2016, Kesko's grocery trade made a significantly bigger contribution to the Pink Ribbon campaign than before. A total of €262,187 of the Pirkka Pink Ribbon products sold at K-food stores and the ribbon brooches sold at K-Citymarkets and K-Supermarkets in October was donated to the Finnish cancer foundation Syöpäsäätiö. The year before, the amount was €21,000.

"We succeeded in exceeding the campaign target with flying colours, for which I wish to thank the K-food store customers", says Vice President for Commerce **Ari Akseli** of Kesko's grocery trade division.

During the Pink Ribbon campaign weeks, from 26 September to 30 October 2016, a total of 61,619 Pink Ribbon brooches were sold at K-Citymarkets and K-Supermarkets. K-food stores, Valintatalos and Siwas sold Pirkka range campaign products, the most popular of which were baby plum tomatoes, Fairtrade roses and raspberries. In addition, the K-Citymarket chain donated ribbon brooches to its entire personnel, a total of 10,000 people.

"We are able to, for example, ensure the counselling service operations of the foundation for a whole year with the sum donated by Kesko. We have several nurses specialising in cancer counselling to provide support and information without charge to people ill with cancer and their families," says **Sakari Karjalainen**, Secretary General of Syöpäsäätiö.

Divisions

Grocery trade

Every person is different. That is why every K-food store is different. K-food retailers listen to their customers' wishes and customise their stores' services according to local customer demand. The customer and quality are at the centre of everything that K-food stores do – our aim is to offer the most inspiring food stores in the market, along with supporting digital services.

"Our strategic objective is to provide the most inspiring stores and digital services of the market. We strengthen the quality image of K-stores and renew our store concepts."

Jorma Rauhala, EVP, President of the grocery trade division

Every day, approximately 1.2 million customers visit K Group's food stores. K-food retailers are responsible for customer satisfaction at K-food stores, and Kesko's grocery trade works with these retailers under the chain business model. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K. K-food stores are the world's most sustainable companies in their sector. Further strengths include superior fresh food departments, professional service, diverse and high-quality selections, Finnish products and the own brand Pirkka.

K Group offers Finland's most comprehensive network of the most service-oriented neighbourhood stores.

The acquisition of Suomen Lähikauppa, completed in April 2016, enables K Group to offer Finland's most comprehensive network of the most service-oriented neighbourhood stores. All Siwas and Valintatalos will become K-Markets by spring 2017, and will gradually be transferred to K-retailers by the end of 2018. The K-Supermarket chain will also expand. In 2016 and 2017, we will establish almost 30 entirely new stores, and more than 20 stores will be completely renewed.

We are updating our entire hypermarket concept and we will revamp all K-Citymarkets by the end of 2018. The aim is to create 81 different K-Citymarkets with product selections and services that reflect their customer bases. By the end of 2016, 23 stores had been updated.

In accordance with its strategy, Kesko is focusing on the Finnish grocery trade. The company sold its grocery trade businesses in Russia to Lenta, a Russian grocery trade operator, in November 2016.

K-food retailers are tasked with tailoring their stores to take local customer needs into consideration to the maximum possible extent.

Kesko had 10,338 personnel working in the grocery trade at the end of 2016. K Group (Kesko and the K-retailers) is the second largest operator in Finland's grocery trade with a market share of approximately 37–38% (Kesko's own estimate after the acquisition of Suomen Lähikauppa).

Collaboration between Kesko's grocery trade and K-food retailers is based on chain operations, which ensures customer orientation, business efficiency and the achievement of competitive advantages. Kesko's key operations are centralised purchasing, selection management, logistics, and developing chain concepts and the store site network. Kesko also agrees upon long-term collaboration models with different partner companies. Centralised operations guarantee efficient competitiveness.

K-food retailers are tasked with tailoring their stores to take local customer needs into consideration to the maximum possible extent. K-retailers look after the selections, customer service, personnel competence, product quality and business profitability of their stores. K-retailers tailor their product selections and services according to the needs of local customers by listening to their wishes and making use of customer data obtained from the Plussa customer loyalty programme. K-food retailers complement the common product selection in their chains by adding products such as those available from local producers.

Digital services provide customers with more personalised benefits from K-food stores and local store-specific offers.

Digital services developed jointly by Kesko and K-food retailers offer customers ideas and inspiration for cooking, as well as easier ways to shop for food. Digital services provide customers with more personalised benefits from K-food stores and local store-specific offers. The K-food mobile app offers a smart shopping list that recommends products that the customer frequently buys. It also includes thousands of recipes.

Almost 100 K-food stores around Finland are offering online food stores that operate locally, as well as click and collect services. Customers have access to the extensive selection of products and inexpensive prices of the familiar store also online. Self-service checkouts have already been installed in dozens of K-food stores around Finland to make the daily lives of time-pressed customers easier.

Competitive advantages of the grocery trade

- The most inspiring stores in the market
- Tailoring every K-food store to meet local customer demand
- Finland's most extensive network of neighbourhood store services and additional services
- The best fresh food departments and widest selections – also in local food
- K-retailer entrepreneurship guarantees quality and customer orientation
- Affordable and high-quality Pirkka and K-Menu products
- Finnish origin and responsibility – approximately 80% of the product selections are Finnish
- A wide range of digital services to make customers' everyday lives easier and a comprehensive network of online food stores
- Effective customer dialogue – feedback from up to a million customers every year

Strategic focus areas

Strategic objective	What we are doing
• K-food stores are modernising	• Emphasis on freshness, Finnish origins, extensive selections and service • Every K-store has a K-retailer who tailors the store to meet the local customer needs • Capital expenditure in the network of neighbourhood stores. As a result of the acquisition of Suomen Lähikauppa, all Siwas and Valintatalos will be converted into K-Markets in spring 2017, and will gradually be transferred to retailers by the end of 2018 • The almost 70 service stations run by Neste and Kesko will be renewed and become Neste K service stations by the end of 2017. The objective is to build up a network of approximately 100 Neste K stations • All of the stores in the K-Citymarket chain will be modernised by the end of 2018 • New services and partners in connection with K-food stores, such as Starbucks, Posti, DHL, self-service checkouts, online food stores
• The customer and quality – in everything we do	• Strengthening customer dialogue • Improving customer satisfaction • Attractive, personalised offers
• Digital customer experience	• More effective utilisation of customer data • Mobile services that are valuable to customers and targeted marketing • Increasing online sales of food and making new solutions available to customers. Click and collect services expanded further to all parts of Finland • Renewed Plussa customer loyalty system: Personalised special offers based on shopping history
• Retailers ensure quality	• Ensuring that retailer entrepreneurship continues to be profitable and interesting. Retailers may run several stores in the future • Every K is different – building the selection according to local customer demand • Highlighting local food and products from small producers in selections
• Increasing Kespro's business	• Strengthening international cooperation and new partnerships • Further strengthening of market position • Close cooperation with K-food stores

Chains

K-Citymarket

K-Citymarket is a modern hypermarket that offers its customers diverse, extensive selections of food, as well as home and speciality goods. K-Citymarket is well known for its best offers, wide selections and food expertise.

K-Supermarket

The mission of K-Supermarket undergoing modernisation is to inspire Finnish people to eat better – K-Supermarket is the number one choice for customers who are passionate about food. The strengths of K-Supermarket lie in quality, providing new food ideas, an extensive and up-to-date selection, local products, and superior customer service.

K-Market

K-Market is a personal, service-oriented, genuinely local neighbourhood store near its customers – a village store for the modern age. K-Market offers customers diverse selections of food and local services to conveniently suit their everyday lives.

Neste K

The Neste K stations will be revamped to become food oriented and welcoming service stations. Customers will be offered high-quality, personalised service station services quickly and conveniently. The aim is to build a network of 100 revamped Neste K stations.

Kespro

Kespro is Finland's leading provider of Foodservice services (formerly known as HoReCa) and a wholesaler. Kespro acts as a partner for its customer companies and municipalities in Finland and offers its customers a diverse range of procurement solutions, as well as delivery and collection services.

Markets

In 2016, the Finnish grocery trade market was worth approximately €16.8 billion (incl. VAT), representing an estimated rise of approximately 1% (Kesko's own estimate). The market as a whole has experienced a cautious growth, influenced by factors such as the liberalisation of opening hours for food stores. In recent years, the Finnish grocery market has been characterised by fierce price competition.

Market shares

Food trade

The market share in Finland is approximately 37–38% (Kesko's own estimate).
Competitors: Prisma, S-market and Alepa/Sale (S Group), Lidl, Stockmann, Tokmanni 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 43% (Kesko's own estimate).
Competitors: Meira Nova, Metro-tukku, Heinon Tukku, Suomen Palvelutukkurit.

Did you know?

- As Siwas and Valintatalos became K Group food stores, the network of K Group's neighbourhood stores became the most comprehensive and service oriented in Finland. The footfall and sales of the new K-Markets have increased significantly. The stores' price levels have fallen by over 20% in some cases.
- The Pirkka product range celebrated its 30th anniversary in September 2016. Own brands account for a fifth of all retail sales in K-food stores. Especialy fruit and vegetables are popular Pirkka products. Customers have made special requests for products related to special dietary requirements to be included in the Pirkka range.
- The K-Food Awards, launched in 2016, awarded prizes for the best innovations in the food world, the most interesting people and the most talked-about phenomena.
- Kesko and the Swedish ICA began working together on procurement via ICA Global Sourcing (IGS) in Kesko's home and speciality goods trade. Customers of K-food stores will notice this collaboration in terms of a wider range of home and speciality goods, new international branded products and more affordable prices.

Own brands in 2016

Pirkka products
2,593
(including Pirkka Parhaat)

Pirkka Parhaat products
203

Pirkka Organic products:
118

New Pirkka products launched
66

K-Menu products: :
313

Grocery trade in figures

	Number		Sales (VAT 0%), € million	
Retail sales and number of stores	**2016**	**2015**	**2016**	**2015**
K-Citymarket, food	80	81	1,503	1,505
K-Citymarket, home and speciality goods	80	81	575	575
K-Supermarket	228	219	1,764	1,716
K-Market**	638	412	1,208	1,071
Neste K	70	64	112	119
Valintatalo and Siwa**	340	-	453	-
K-ruoka, Russia	-	9	104	106
Others*	92	109	59	122
Grocery trade, retail sales			**5,777**	**5,214**
Kespro	-	-	789	779
Grocery trade, total	**1,448**	**893**	**6,566**	**5,993**

* Incl. online sales
** Number of Suomen Lähikauppa's stores was 563

Grocery trade, key figures		**2016**	**2015**
Net sales	€ million	5,236	4,673
Operating profit	€ million	93.0	249.4
Comparable, operating profit	€ million	175.9	177.5
Comparable operating profit as percentage of net sales	%	3.4	3.8
Capital expenditure	€ million	238	129
Capital employed, average	€ million	828	871
Comparable return on capital employed	%	21.3	20.4
Personnel average		8,200	6,420

Properties		**2016**	**2015**
Owned properties, capital	€ million	524	639
Owned properties, area	1,000 m²	377	410
Leased properties, lease liabilities	€ million	2,101	1,906
Leased properties, area	1,000 m²	1,684	1,405

K in Action: The 'Thank the Producer' operating model continues

Speaking on behalf of Finnish food production is of primary importance to us at K Group. The purpose of the operating model introduced in 2015 is to highlight Finnish food production and provoke discussions about the welfare of Finnish agriculture.

The operating model provides customers with an easy way to support Finnish food producers. K-food stores sell 12 Pirkka 'Thank the Producer' products for which K Group pays extra support directly to producers. The extra support, ranging from 3 to 30 cents, i.e. some 5%, depending on the product, is included in the product price. In 2016, the product range expanded from Finnish meat products to also include milks.

"As a responsible operator, our duty is to take care of the welfare of the entire food chain. Finnish customers want to buy Finnish food. The 'Thank the Producer' product initiative is one way to make sure that Finnish production remains vital", says Executive Vice President **Jorma Rauhala**, President of Kesko's grocery trade division.

K in Action:
K-food stores introduced vegetarian display cabinets

The sales of vegetarian foods have seen a strong growth in K-food stores over the last few years. As the demand grows, K Group stores want to have vegetarian food products more easily and visibly on display. To that effect, they have introduced vegetarian cabinets that bring plant-based protein products together in one place.

By the end of 2016, more than 100 K-food stores had been fitted with vegetarian display cabinets and the number is growing. The cabinets have been very well received by customers.

New vegetarian products are examined and actively included in K-food stores' selections. A lot of new plant-based protein products have been introduced to the market. The areas of highest demand for vegetarian products are Helsinki, Turku and Tampere. The growth in the consumption of vegetarian products can be clearly seen also in student cities.

"The publicity raised by Pulled Oats has increased the popularity of other plant-based protein products too. The simultaneous health boom has clearly impacted their demand", says Vice President for Commerce **Ari Akseli** of Kesko's grocery trade division.

K in Action:
Kinkkutemppu put ham fat to good use

In the spirit of the circular economy, K-food store customers had the opportunity to donate the fat arising from their roasted Christmas hams to the Kinkkutemppu campaign.

In our responsibility programme, we are committed to reducing and recovering the waste from our operations. We take active measures aimed at enhancing recycling in order to identify new methods to adopt circular economy.

The fat that was collected was used for making renewable diesel, and the profits were donated to the Hope ry and IceHearts charities. There was a total of 42 collection points in 18 localities, mainly in connection with K-food stores.

Customers took the fat from their Christmas ham to a Kinkkutemppu collection point. An estimated 40,000 households took part in the campaign and some 12,000 kg of fat was collected. A car could drive about 150,000 km, or four times around the glober on the amount of diesel manufactured from it.

In addition to K Group, the Chemical Industry Federation of Finland, Neste, Lassila & Tikanoja, Finnish Packaging Recycling RINKI, the Finnish Water Utilities Association, Honkajoki, the Rural Women's Advisory Organisation and Finnish Environmental Industries (YTP) were involved in the campaign.

K in Action:
We reduced the salt content of Pirkka Little Wolf oatmeal rolls

The panel of experts that selects Pirkka products always takes into account the nutritional characteristics of products. We pay special attention to the fat, sugar and salt content, as our own brand products are our way of pointing customers towards healthier choices. In spring 2017, we will launch Pirkka Little Wolf oatmeal rolls with a reduced salt content, as we did not want to make a high-sodium product for the target group, children and young people.

"Pirkka Little Wolf oatmeal rolls are linked to our cooperation with the Finnish Basketball Association, and the target group is children and young people. That is why we decided to take this product back to the R&D team for an extra round of development, because a lot of salt is hidden in our food anyway. This is something that we can influence when we develop Pirkka products," says Kesko's Product Research Manager, **Heta Rautpalo**.

Products are usually assessed by a panel of product development experts but, in this case, the winners of K-Supermarket's Pirkka bread competition were invited round the table to evaluate the development samples of Pirkka Little Wolf oatmeal rolls.

The panellists evaluated the appearance of the presented candidates on the basis of patterning, the baked surface and colour. They also evaluated the structure in terms of the consistency, crispness and crumbliness, and – most importantly – they assessed the flavour.

However, when the nutritional information on the rolls was being reviewed, it came to light that the salt content of the winning product would surpass the threshold for being categorised as high in sodium. Although one of the biggest contributors to the flavour of bread is the salt content, there was no desire to deliberately make high-sodium products for children and young people. The panel decided to task the product manager with requesting that the manufacturer provide one more sample containing no more than 1.1% of salt.

The new samples of the Pirkka Little Wolf oatmeal rolls, which have a salt content below the threshold for high-sodium products, will undergo a sensory evaluation at the K-test kitchen before approval is granted for launch in the form of a pre-baked frozen product in spring 2017. "The collaboration between the Finnish Basketball Association and K-food stores emphasises nutrition. Our Pirkka brand enables us to tell everyone in the country about the importance of the diet of active youngsters or about good lunches to pack in the training bag – the introduction of this roll is an effort in this direction," says Heta Rautpalo.

Building and technical trade

Kesko's building and technical trade division offers its consumer and business customers comprehensive selections of building and home improvement products, as well as electrical and HEPAC products, the most comprehensive store network in Northern Europe, online stores and digital services. The division also includes business operations of the furniture trade, the agricultural and machinery trade, and the leisure goods trade.

"Our strategic objective is growth and a strengthened market position in Europe. We are strongly developing our digital services and taking advantage of synergies for the benefit of our customers."

Terho Kalliokoski, EVP, President of the building and technical trade division

The building and technical trade has operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus. At the end of 2016, the division had 15,630 personnel.

In the building and technical trade, Kesko is the market leader in Finland and in the building and home improvement trade, the fifth biggest operator in Europe. The acquisition of Onninen, completed in June 2016, makes Kesko a significant operator on the Northern European technical wholesale market. The unique combination of the building and technical trade enables us to offer business customers in the building sector the most diverse entity of products and related services on the market.

> In the building and technical trade, Kesko is the market leader in Finland and in the building and home improvement trade, the fifth biggest operator in Europe.

The chains in the building and home improvement trade are K-Rauta, Byggmakker, K-Senukai and OMA. Rautakesko B2B Service serves major business customers in the building and home improvement trade in Finland. Onninen delivers products and service packages to contractors, industry and infrastructure as well as retail dealer customers. In all, there are around 140 Onninen Express stores and Onninen points of sale.

Approximately 65% of sales in the building and technical trade come from B2B customers. The building and home improvement trade operations in the Baltic countries and Belarus were centralised at Kesko Senukai as the result of an arrangement carried out in April 2016, enabling them to be managed as a single entity. Kesko Senukai is the clear market leader in the region, and major growth potential is foreseeable in its business.

The building of the new K-Rauta chain began in June when the decision was taken to combine the K-Rauta and Rautia chains to form Finland's largest building and home improvement trade chain and also to update the K-Rauta brand. The K-Rauta brand will be revamped in all of the operating countries in phases.

The own brands of the building and home improvement trade – Cello, PROF, FXA and Fiorin – offer customers reliable and inexpensive home and garden products, as well as building and renovation tools. Among Onninen's own brands, Onnline offers electrical, HEPAC and refrigeration products for B2B customers. The electrical and HVAC products under the OPAL brand are primarily designed for B2C customers.

In addition to online stores, the furniture trade chains Asko and Sotka serve their customers with 86 physical stores in Finland and 10 in Estonia.

The agricultural and machinery trade consists of the K-maatalous retailer business function in Finland and the Konekesko machinery sales functions in the Baltic countries in addition to Finland.

The chains in the leisure goods trade are Intersport, Budget Sport, The Athlete's Foot and Kookenkä. Intersport Finland Ltd with its chains is Finland's market leader in the sports trade. The chains are part of the international Intersport chain, which nowadays operates in 66 countries on six continents. The Athlete's Foot, a new chain in Finland, began operating in 2016 with a focus on athletic leisure footwear. Kenkäkesko Ltd is the chain unit for the Kookenkä stores.

In addition to the extensive network of store sites, all of the leisure goods chains have their own websites and online stores, which are constantly increasing in importance in the retail trade.

Strategic focus areas

Strategic objective	What we are doing
• Growing into an increasingly significant operator in Europe, with the Nordic and the Baltic countries as the most natural growth areas. Improving profitability and organic growth are the priority areas	• The acquisition of Onninen creates an excellent platform for the profitable growth of Kesko's building and technical trade in Finland and the rest of Europe. To accelerate the implementation of the strategy, the building and technical trade was organised in four business units: business to business customers B2B, business to consumer customers B2C, international operations and Finland, all of which are supported by the common functions.
• Providing better service to the common customers in the building and technical trade and exploiting potential synergies	• We serve our common customers with an expanded product selection and easier shopping. We exploit synergies especially in sourcing, logistics, store sites and ICT solutions.
• Continuing profitable growth in the Baltic countries and Belarus targeting €1 billion in terms of net sales in the next few years	• The Kesko Senukai entity enables efficient management. The plans include modernising the entire store network and converting it into the K-Senukai concept in the Baltic countries, as well as €100 million of capital expenditure in new stores by 2020. The stores in Riga and Tallinn are ready for the modernisation work to begin.
• In Finland, we will strengthen our market position and profitability	• We combine the K-Rauta and Rautia chains into a single new K-Rauta chain with a new brand image • New K-Rauta.fi • We expand the Onninen Express network • A common online store solution for the B2B customers of the building and home improvement trade and Onninen • We develop services for renovation customers, e.g. the Renovation Master concept
• In Sweden and Norway, we will continue to improve profitability and seek profitable growth	• We build a country-specific business entity for the building and technical trade between Onninen and the building and home improvement store chains
• Increasing the value of the furniture trade, the sports trade, the agricultural trade, the machinery trade and the shoe trade	• We increase the value of business operations, develop the competitiveness of chains and leverage synergies

Competitive advantages of the building and technical trade

- Chain concepts and service entities based on customer needs
- Ability to serve different customer groups from the same store network
- Comprehensive store network and extensive electronic services
- Efficient combination of online stores and traditional store network
- Professional customer service in-store and in electronic channels
- Well known, reliable store chains and product brands
- Efficient procurement and logistics
- Internationally harmonised operating models

Chains of the building and technical trade

K-Rauta

The international K-Rauta offers products and services for building, renovation, yard and garden, interior decoration and home furnishing to consumer customers, project customers and business customers. There are K-Rauta stores in Finland, Sweden, Estonia, Latvia and Russia. In Finland, all K-Rauta stores are run by retailer entrepreneurs.

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 on the retailer business model.

K-Senukai

K-Senukai's stores offer extensive non-food product selections to their customers in Lithuania, with a focus on products related to building and living. The K-Rauta stores in Latvia and Estonia will also be refurbished under the K-Senukai concept by 2020.

OMA

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

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 Express chain's stores serve business customers. Onninen delivers products and service packages to contractors, industry, infrastructure building and retail dealers. The stores' selection includes HVAC, electrical and refrigeration products as well as other technical products. Customers can collect products for their daily needs from the Onninen Express stores' selection. They can also order products from the warehouse selection for collection from the store. In all, there are around 140 Onninen Express stores and Onninen points of sale Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Russia.

The **Elfin chain** operations include around 190 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 150 business members.

Chains of the agricultural and machinery trade

K-maatalous

In Finland, agricultural customers are served by a comprehensive network of K-maatalous stores. K-maatalous retailers' customers include agricultural entrepreneurs, machinery contractors, and equestrian professionals and enthusiasts.

Konekesko

Konekesko is a machinery trade company that focuses on importing, selling and providing after-sales services for construction, materials handling, environmental and agricultural machinery, and recreational machinery. Konekesko operates in Finland, Estonia, Latvia and Lithuania.

Chains of the leisure goods trade

Intersport, Intersport.fi

Intersport is Finland's market leader in the sports trade. Together with retailer entrepreneurs, it employs almost 1,000 people in 57 stores and one 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 in different parts of Finland. The stores aim to provide their customers with sports trade products more quickly, easily and inexpensively than their competitors. 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.

Kookenkä, Kookenka.fi

Kookenkä is Finland's largest shoe store chain for the whole family. The chain's 37 stores and online store cover the entire country.

Chains of the furniture trade

Asko
Asko is the best known and most trusted Finnish furniture and interior decoration brand. Asko provides quality-consciouscustomers with a competitive collection and the most active and reliable service in the sector. Asko has stores and online stores in Finland and Estonia.

Sotka
Sotka is a Finnish provider of furniture and a home decoration company full of pleasant surprises. It offers solutions suited to the changing needs of its customers. Sotka has stores and an online store in Finland and Estonia.

Markets

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

The total market in the entire operating area of the building and home improvement trade is worth around €22 billion*
Finland €3.1 billion (1.5%), (RaSi ry, Finnish Hardware Association, DIY)
Sweden €4.2 billion (4.4%), (HUI)
Norway €4.0 billion (4.8%), (Virke)
Estonia €0.4 billion (8.1%)*
Latvia €0.4 billion (1.9%)*
Lithuania €0.5 billion (2.6%)*
Russia €8.3 billion (1%)*
Belarus €1.1 billion (10%)*

The market of Onninen by country, along with the change from the previous year (retail trade, VAT 0%)

Finland €2.0 billion (4.7%), (STK, LVI-TEK)
Sweden €3.5 billion (6.0%), (SEG, RGF)
Norway €1.3 billion (3.6%), (EFO)
Poland €4.4 billion (-5%)*
Estonia €0.3 billion (6.2%)*
Latvia €0.3 billion (-15.6%)*
Lithuania €0.4 billion (1.2%)*

The agricultural and machinery trade market, along with the change from the previous year (retail trade, VAT 0%)

The agricultural trade market is worth around €1.9 billion and decreased slightly from the previous year. In Finland, the total market for Konekesko's product areas is around €0.9 billion and it decreased slightly from the previous year. In the Baltic countries, the total market for Konekesko's product areas is around €0.6 billion and it increased clearly from the previous year.*

The leisure goods market in Finland, along with the change from the previous year (retail trade, VAT 0%)

The sports trade is worth around €0.9 billion (3.6%), (Statistics Finland)
The shoe trade is worth around €0.3 billion (2.3%), (Textile and Fashion Suppliers and Retailers Finland TMA and Kesko's own estimate)

The furniture trade market in Finland, along wiht the change from the previous year (retail trade, VAT 0%)

The interior decoration items and furniture trade is worth around € 1.5 billion (1.8%) (Statistics Finland)

* Kesko's own estimate

Market shares

Building and home improvement trade

Finland 41% (RaSi ry, Finnish Hardware Association, DIY). Main competitors: STARK, S Group and Bauhaus

Sweden 5% (HUI and Kesko's own estimate). Main competitors: Woody, XL Bygg, Beijer and Bauhaus

Norway 16% (Virke and Kesko's own estimate). Main competitors: Optimera/Monter, Mestergruppen, Coop and Maxbo
Estonia 24%*. Main competitors: Ehitus ABC, Bauhof, Espak and Bauhaus

Latvia 11%*. Main competitors: Depo DIY and Kursi

Lithuania 30%*. Main competitors: Ermitazas, Moki-Vezi and Lytarga

Russia 2%*. Main competitors: Leroy Merlin, OBI, Castorama, Maxidom and Petrovich

Belarus 10%*. Main competitors: Mile, Materik and Praktik

Onninen

Finland 37% (STK, LVI-TEK). Main competitors: LVI Dahl, Ahlsell, SLO and Rexel

Sweden 6% (SEG, RGF). Main competitors: Ahlsell, Dahl, Elektroskandia ja Rexel

Norway 20% (EFO). Main competitors: Elektroskandia, Solar and Ahlsell

Poland 5%*. Main competitors: TIM, Sonepar, Grodno, Bims, Tadmar (Saint-Gobain) and Grudnik

Estonia 13%*. Main competitors: FEB (Ahlsell), SLO and W.E.G (Würth)

Latvia 4%*. Main competitors: Sanistal, EVA-SAT and SLO

Lithuania 4%*. Main competitors: Sanistal, Dahlgera (Dahl) and Elektrobalt (Würth)

Agricultural trade

Finland 27%*. Main competitors: Danish Agro (Hankkija Oy), Turun Konekeskus and Raisioagro

Machinery trade

Finland (source: Trafi)
Outboard motors** 45% (Yamaha)
Boats** 23% (Yamarin, Suvi)
Motorcycles** 23% (Yamaha)
Tractors** 10% (Massey Ferguson)
Light < 750 kg transportation trailers 15% (Muuli)

Baltic countries 19% (Kesko's own estimate)

Sports trade

IIntersport, Budget Sport, The Athlete's Foot and Kesport

Finland 30% (Statistics Finland and Kesko's own estimate). Competitors: Stadium, XXL, Sportia, Top Sport

Shoe trade

Kookenkä and Kenkäexpertti

Finland 10%*. Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores

Furniture trade

Asko and Sotka

Finland 23%*. Competitors: IKEA, JYSK, Masku and Isku

* Kesko's own estimate ** To be registered

Building and technical trade in figures

	Number		Sales (VAT 0%), € million	
Retail sales and number of stores	**2016**	**2015**	**2016**	**2015**
K-Rauta*	46	45	582	567
Rautia*	93	93	430	427
Rautakesko B2B Service	-	-	225	192
Onninen, Finland	50	-	481	-
Asko*	35	34	98	94
Sotka*	53	53	97	94
Intersport*	58	60	192	194
Budget Sport*	11	11	48	46
The Athlete's Foot	3	-	1	-
Kookenkä*	38	38	32	32
K-maatalous**	78	80	424	437
Konekesko, Finland	0	1	144	154
Others***	34	45	18	85
Finland, total	**499**	**460**	**2,770**	**2,322**
K-Rauta, Sweden	20	20	217	209
Onninen, Sweden	17	-	138	-
Byggmakker, Norway	80	88	659	669
Onninen, Norway	26	-	169	-
Other Nordic countries, total	**143**	**108**	**1,183**	**878**

	Number		Sales (VAT 0%), € million	
Retail sales and number of stores	**2016**	**2015**	**2016**	**2015**
K-Senukai, Lithuania	22	20	357	328
Asko and Sotka, Estonia*	12	10	10	9
K-Rauta, Estonia	8	8	92	87
K-Rauta and K-Senukai, Latvia	8	8	48	52
Onninen, Baltic countries	15	-	39	-
Konekesko, Estonia	-	-	46	40
Konekesko, Latvia	-	-	35	38
Konekesko, Lithuania	-	-	50	38
Baltic countries, total	**65**	**46**	**677**	**592**
K-Rauta, Russia	13	13	174	192
Onninen, Russia	-	-	2	-
OMA, Belarus	16	12	101	116
Onninen, Poland	36	-	114	-
Intersport, Russia	-	18	7	12
Russia, Belarus and Poland total	**65**	**43**	**399**	**320**
Building and technical trade, outside Finland, total	**273**	**197**	**2,258**	**1,790**
Building and technical trade, total	**772**	**657**	**5,028**	**4,112**

* Incl. online sales

** In 2016, 39 Rautia stores also operated as K-maatalous stores. In 2015, 45 Rautia stores also operated as K-maatalous stores

*** The figures include 11 (16) Kenkäexpertti stores, 23 (25) Kesport stores and 3 Athlete's foot stores. In 2015 figures included 4 Musta Pörssi stores

Building and technical trade, key figures		2016	2015
Net sales	€ million	4,100	3,250
Operating profit	€ million	60.8	-57.2
Comparable operating profit	€ million	97.9	63.6
Comparable operating profit as percentage of net sales	%	2.4	2.0
Capital expenditure	€ million	452	55
Capital employed, average	€ million	1,000	823
Comparable return on capital employed	%	9.8	7.7
Personnel average		12,744	11,269

Properties		2016	2015
Owned properties, capital	€ million	342	357
Owned properties, area	1,000 m²	421	404
Leased properties, lease liabilities	€ million	791	672
Leased properties, area	1,000 m²	1,251	1,014

K in Action: K-Rauta Renovation Master for successful renovation projects

Consumers today are less often doing building and renovation projects themselves. Instead they outsource the projects to professionals. The reasons are many: building and renovation are getting more and more technical, in addition to increased regulation. And as societies age and become wealthier, services are used more. K-Rauta's surveys reveal that customers may have doubts about renovation – they are unsure about the costs and what it involves in practice. The K-Rauta Renovation Master service concept provides the solution.

The K-Rauta Renovation Master helps the consumer customer succeed in their renovation projects from planning to completion. During autumn 2016, this multichannel service concept was tested in kitchen renovations at two K-Rauta stores and content related to kitchen renovation and inspiring planning programmes were provided online.

The service concept has been designed to help customers with renovation projects. Its current offering includes Cello kitchens on a turnkey basis.

The digital services have been integrated into the customer's journey from web to store.

Customers interested in kitchen renovation can get information online on, for example, what a kitchen renovation project involves and the things to take into account at the planning stage. The web content offers a comprehensive package of information for anyone dreaming of a kitchen renovation.

Find out more here: https://www.k-rauta.fi/inspiraatio-ja-ohjeet/keittioremontti (in Finnish).

In the store, the customer finds an active kitchen salesperson whose main priority is to make the customer's dream of a new kitchen come true according to the customer's needs, wishes and other conditions.

Customer-facing screens displaying the entire kitchen renovation process from start to finish have been tested at the stores. The screens are also a useful tool for the salesperson to illustrate the renovation process to the customer. The customer can also see the new kitchen planned for them virtually through 3D VR glasses.

Customers who have purchased a kitchen renovation will get a renovation project management app on their phones. The application keeps the customers informed of the renovation progress step by step and allows them to send messages to communicate with the salesperson and to read all the renovation related documents.

The kitchen salesperson acts as the Renovation Master in the customer's kitchen renovation project, which means taking care that the project advances according to plan, and communicating with the customer and the contractor.

"The first experiences of the pilots are encouraging. I'm convinced that we will be able to improve the satisfaction of renovation customers and we aim to provide an excellent renovation experience. The K-Rauta Renovation Master concept will be deployed and developed further in 2017, allowing us to offer our customers solutions for the renovation of all room spaces," says **Sari Hujanen**, Development Director of Consumer and project customer sales development, building and technical trade division.

Stakeholder address: Long-established cooperation between Caverion and Onninen is based on high-quality operations and competitiveness

Cooperation between Caverion and Onninen dates back decades and continues today. Caverion’s purchasing needs range from large, extended orders to small, daily purchases. Onninen was chosen as partner on the basis of their competitiveness and high quality operation.

Caverion designs, builds, operates and maintains user-friendly and energy-efficient technical solutions for properties and industry. In my job as a Purchasing Manager I’m responsible for purchases for building sites and maintenance targets in Finland. A fleet of over 800 service vans and 4,600 employees in different parts of the country are indicators of the scope of our operations.

Depending on the project at hand, our purchasing needs vary, ranging from large, extended orders to small, daily purchases from business partners.

We use the services of Onninen's Contractors Unit and Industry Unit and the Onninen Express stores. We have operations all over Finland and the fact that we are able to source products locally is a great advantage; we make hundreds of collections from Onninen Express stores every day. It is important to us that our partner has a comprehensive network with an extensive offering of goods. In addition to local operations, we have another level of collaboration: Onninen’s sales unit for large-scale customers serves Caverion’s centralized decision-making. Our organisations work well together.

Process efficiency is important to us. Caverion receives 400,000 invoices a year, which is why ordering goods from our business partners must be easy, invoice information must be accurate and invoices must be sent in a way that suits us.

Reliability, competitiveness and an extensive operating network are important criteria when we choose our business partners. We chose Onninen on the basis of their competitiveness and high-quality operations and we have been very satisfied.

Onninen was our main business partner in 2016. The roots of both of our companies go back more than 100 years and our cooperation started decades ago. The fact that Onninen is now part of Kesko Group makes Onninen even more attractive to us and strengthens our opportunities for collaboration even further. We are confident that the acquisition has expanded Onninen’s service selection and operating network.

Pekka Björkman, Purchasing Manager, Caverion

K in Action: Onninen Norway offers solutions for welfare technology

As the population ages, technology must be able to respond to the challenges faced by the elderly. How can people live safely and longer in their own homes despite illness and old age? How can this be supported? Onninen Norway wanted to respond to the challenges we face in our society today and to enquiries of its customers and suppliers and see what they could do about this.

“Welfare technology offers solutions that allow people to live safely and longer in their homes,” says **Ann-Katrin Pedersen**, Marketing Manager at Onninen Norway. “We can offer a wide range of solutions which contains both surveillance and alarm systems, sensors and management systems for both heating and lighting. These solutions are meant to make people feel safer at home and free up time for caretakers and employees, by simplifying processes and practical tasks. Welfare technology will give more time to care, conversation and human contact,” she adds.

Onninen Norway offers solutions to companies and municipalities. The end customer base includes the public sector and private consumers, all served by Onninen’s business customers. Solutions for welfare technology are available for all Onninen’s customers via the company’s online shop onnshop.no. Consumer customers are served through elfag.no. Onninen works in cooperation with Elfag, which is one of the largest chains of electrical contractors in Norway.

Solutions within welfare technology are under development and being improved constantly, so that customers can easily find the solutions they need. Onninen Norway's head office in Oslo includes a showroom where welfare technology products and solutions within a smart house are demonstrated. The showroom is open for all Onninen business customers and their customers.

Photo: Gira and Micro Matic

“In fact, we have already offered these products and solutions for a long time. Now, we have added new solutions and combinations to our assortment, so that end customers can easily find what they need. We want to be involved in the development of welfare technology,” Pedersen says.

Did you know?

Onninen is one of the leading suppliers and service providers for technical building contractors, industry, infrastructure building and retail dealer customers in the Baltic Sea area and Scandinavia. The selection covers heating, plumbing and energy solutions, bathroom and kitchen products, ventilation products, cooling and refrigeration products for air-conditioning, electrical installation accessories, lighting, cables and wiring accessories, products for civil engineering, process piping and steel and metal products, power transmission products and lubricants, tools, fasteners, products for personal protection and telecommunications products. The selection consists of over 500,000 products and varies according to country. In all, there are around 140 Onninen Express stores and Onninen points of sale in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Russia.

Read more about Onninen >>

K in Action:

The Liiteri trial was a way of testing consumers' willingness to rent K-Rauta's tools

A tool rental service named "Liiteri" enabled city dwellers to rent selected K-Rauta tools online, and collect them from a 24-hour service point set up in the Teurastamo area in Helsinki or order environmentally friendly PiggyBaggy home delivery. The results of the trial demonstrate that there is a demand for rental services.

K-Rauta was a partner in a trial targeted at urban home-improvers able to rent high-quality battery-powered Ryobi tools and Kärcher cleaning devices and machines online using the Liiteri.net service and collect them from the Liiteri service point, which is open 24 hours a day in Helsinki's Teurastamo area, which has good public transport links.

The circular economy thinking is based on a model where materials and value circulate, and added value is created through services and by utilising technology. In Finland and elsewhere, cleantech and the circular economy have traditionally focused more on optimising industrial processes and less on developing solutions for consumers.

K-Rauta wanted to carry out a trial to learn how it could better offer overall solutions for its customers' everyday lives.

"At K-Rauta, we have traditionally thought that our job is to sell as many new machines and devices as possible. But perhaps not all of our customers want to buy all of the tools they need for their home improvement projects. They may not have space to store tools, and they may not have much need for the tools when the renovation is finished. Being able to rent tools may provide the necessary spark to get a home-improvement project going, and we at K-Rauta can play a role in helping to plan renovations and selling materials. It has been interesting to see that this type of rental service interests people," says **Virpi Viinikainen**, Kesko's Vice President for B2C trade in the building and technical trade.

VTT Technical Research Centre of Finland Ltd conducted an interview survey related to the trial, revealing that saving space and money are considered the most important reasons for using the service. It was considered worthwhile to rent tools that are not used frequently. Product availability was seen as a challenge, while the rental price, collection and return were considered limiting factors.

"The trial was a success and consumers took an open-minded and enthusiastic approach to testing an entirely new circular economy service entity. The result was enabled by the successful social communication of the partners involved in the trial. It was encouraging that good feedback was provided for the usability experience in the very first phase, even though it had still not been fine-tuned," says **Harri Paloheimo**, CEO of CoReorient.

"The results are also interesting from K-Rauta's point of view, and they show that there is a demand for rental services, at least in urban environments. We will evaluate our own service development on the basis of the results we have obtained. The trial was definitely a positive thing," says Viinikainen.

Liiteri conducted a successful crowdfunding campaign to continue the Liiteri point at Teu-

rastamo. K-Rauta will continue to act as the corporate financier of the next phase of the trial at the Teurastamo Liiteri service point. With the help of the successful crowdfunding campaign, CoReorient, the company that provides the Liiteri service, has set itself the target of developing Liiteri's usability, offering and content in 2017. The operations will continue in the Teurastamo and Kalasatama areas of Helsinki. In addition, Liiteri will be expanded and modernised within the scope of the available resources. Negotiations are underway to commence operations also in other cities. Depending on the case at hand, the implementation will be based on Liiteri smart containers or located in existing premises.

The Liiteri point in the Teurastamo area was realised by the IT start-up CoReorient Oy in collaboration with VTT, SYKE and the University of Helsinki's Tekes-financed AARRE research project, as well as the commercial partners involved in the trial.

Car trade

VV-Auto is a company specialising in importing, retailing and providing after-sales service for vehicles manufactured by Volkswagen Group, which also develops advanced service concepts for the automotive sector. VV-Auto is the market leader in Finland.

"We are the market leader in Finland and our objective is to increase our market share. We develop the multi-channel customer experience and expand our service business."

Johan Friman, EVP, President of the car trade division (as of 1 January 2017)

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. VV-Auto also imports MAN lorries 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 Greater Helsinki and Turku. VV-Auto's passenger car, commercial vehicle and lorry 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. Examples of this include online stores, mobile apps and online systems for booking servicing, as well as Caara.fi – an entirely new online store for used cars, which operates solely online.

> In addition to its traditional business, VV-Auto develops various service concepts and multi-channel services for the car trade.

In 2016, the Volkswagen, Audi and SEAT ranges were updated and diversified. New models introduced to the market included the Volkswagen Tiguan, the Audi A4 allroad, A5 Coupé and Sportback, Q2, Q5, Q7 e-tron, SQ7 and TT RS Coupé and Roadster, and the SEAT Ateca. An updated version of the Volkswagen Amarok, a commercial vehicle with a new V6 engine, was introduced to the market. Volkswagen commercial vehicles also introduced a completely redesigned Volkswagen Crafter, which will hit the Finnish market in 2017. Volkswagen had another record-breaking year – in 2016, it was Finland's most popular car brand in terms of sales for the sixth consecutive year. For the 13th consecutive year, more Audis were registered in Finland than any other premium German car brand.

> In 2016, the Volkswagen, Audi and SEAT ranges were updated and diversified.

Volkswagen's recall and repairs of type EA 189 diesel cars progressed in 2016 at the planned rate. By the end of the year, a software update was available for approximately 50,000 cars and 25% of these were repaired in 2016. The required updates to the controller device were available for all 2.0, 1.6 and 1.2 litre diesel engines. Due to the large number of different engine controller devices, updates were not made on all models at the same time. All of the corrective measures were approved by the German authority (KBA) before they were implemented. After the corrective measures, the cars meet all of 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.

> The Porsche acquisition brings one of the world's most highly regarded car brands to K Group.

At the end of 2016, VV-Auto acquired the entire share capital of Oy Autocarrera Ab, a company engaged in importing and retailing Porsche. The price of the acquisition, structured as a share purchase, was approximately €27 million. The transaction will lead to an expansion of VV-Auto's collaboration with Volkswagen AG. Adding Porsche to the selection will increase sales and improve the profitability of the car trade. The Porsche acquisition brings one of the world's most highly regarded car brands to K Group, and the selection expands to encompass new models and new customer groups. Porsche is also making major investments in its hybrid and electric car range.

Strategic focus areas

Strategic objective	What we are doing
• Developing VV-Auto's business in collaboration with Volkswagen Group	• Integrating the MAN business into VV-Auto and developing the market share • Increasing the market share of SEAT • Strengthening the market position of Volkswagen • Acquiring Porsche representation by buying Oy AutoCarrera Ab
• Expanding the service business	• Launching the Caara.fi online store for used cars and increasing sales • Launching innovative service businesses • Expanding the sales of after-sales service
• Developing a multi-channel customer experience	• Developing mobile apps, online services and online sales

Competitive advantages of the car trade

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

Brands

SEAT PORSCHE MAN

Markets

In 2016, there were 118,991 first registrations of passenger cars,13,523 of vans and 3,330 of lorries in Finland. The passenger car market grew by 9.3%, the van market by 18.3% and the lorry market by 23.0% from the previous year.

According to statistics, Volkswagen was the most registered passenger car brand. The total number of registrations of vehicles imported by VV-Auto was 24,685 (excluding motorhomes and Porsches). A total of 131 Porsches and 139 MAN trucks were registered.

Market shares

Car trade, Finland

- VV-Auto's market share 18.8% (Volkswagen, Audi and SEAT passenger cars, total of Volkswagen commercial vehicles, excluding campers and motorhomes)
- Volkswagen passenger cars 11.2%
- Audi 5.2%
- SEAT 2.0%
- Porsche 0.1%
- Volkswagen commercial vehicles 22.8%
- MAN trucks 4.2%

Did you know?

- The world's best Audi servicing is in Finland. The team of Audi Center Airport Finland won the world championship in the area of servicing focusing on customer service. This year, 71 teams from 36 countries made it into the Audi Twin Cup finals.
- Volkswagen Tiguan was rated the safest car in its class in Europe in Euro NCAP's crash safety rating. Special acknowledgement was given to its first class safety features, for example, body structure optimised for safety, a very good combination of safety belts, seats and airbags, coupled with innovative systems to assist the driver.
- The new Volkswagen Crafter was voted international Van of the Year 2017. The panel of judges consisted of journalists representing 24 European countries and specialising in commercial vehicles.
- The new SEAT Ateca won the European AUTOBEST 2017 competition and was voted "the Best Car to buy in Europe in 2017". The Seat Ateca was also a candidate for Car of the Year in Finland 2017 and placed second.

Car trade in figures

	Number		Sales (VAT 0%), € million	
Retail sales and number of stores	**2016**	**2015**	**2016**	**2015**
VV-Auto, retail outlets	10	9	428	373
VV-Auto, imports	-	-	436	397
AutoCarrera	3	-	4	-
Car trade, total	**13**	**9**	**868**	**770**

Car trade, key figures		**2016**	**2015**
Net sales	€ million	849	748
Operating profit	€ million	28.9	26.1
Comparable operating profit	€ million	29.5	26.1
Comparable operating profit as percentage of net sales	%	3.5	3.5
Capital expenditure	€ million	41	16
Capital employed, average	€ million	124	104
Comparable return on capital employed	%	23.8	25.2
Personnel average		780	780

Properties		**2016**	**2015**
Owned properties, capital	€ million	56	60
Owned properties, area	1,000 m²	47	47
Leased properties, lease liabilities	€ million	11	9
Leased properties, area	1,000 m²	23	20

K in Action: Caara – an entirely new online store for used cars

We want to make it as easy as possible to buy a car. Caara.fi is a convenient and reliable way for consumers to buy used cars, and the best thing is that everything can be handled without getting up from the sofa. The service has especially attracted the attention of busy consumers and families who are not always able to visit car dealership showrooms.

In 2016, VV-Auto's retail trade opened Caara, an entirely new online store for used cars. Caara.fi is an online-only car store that has no traditional showrooms.

We aim to make it as easy as possible to buy a car. We also want to be involved in developing digital services for the car sector. Caara will enable us to change the customer experience with a fresh lifestyle approach where the customer's digital purchasing transactions are constantly improved. For consumers, Caara is an easy, hassle-free and reliable way to buy a used car online. Customers value the service's ease of use. The service has especially attracted the attention of busy consumers and families who are not always able to visit car dealership showrooms.

The online store can be visited every day at any time, and customers can purchase cars in the comfort of their own homes. Caara's salespersons can provide help using a chat service if required. Customers can find suitable cars by searching by price, fuel or purpose of use. All of the cars have undergone vehicle inspections so the buyer receives the most detailed, diverse and reliable information available to support a purchase decision. We also offer our customers a Caara warranty (12 months or 20,000 kilometres) and a 14-day right of return, as well as flexible Caara financing solutions. The extent of the service is exemplified by the fact that every brand of car is available on Caara.

Purchased cars are either delivered to the customer's home or to an agreed handover location. In Greater Helsinki, customers can also take a test drive, and the part-exchange value of the customer's existing car can be assessed at the same time. Customers can also send pictures and details of their existing car's history to enable the car to be assessed.

Buying a car has never been so easy! Whatever you need a car for – **www.caara.fi**.

Store sites and properties

The store site network is a strategic competitive factor for K Group. It provides opportunities for business operations to develop and sales and customer satisfaction to increase.

Different stores for different customer needs

1 K-Markets, Siwas and Valintatalos

- Total number of K-Markets: 638 (excluding service stations)
- Average total sales area: 370 m²
- Average number of products on sale: 5,000

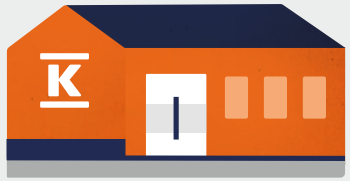
2 K-Supermarkets

- Total number of K-Supermarkets: 228
- Average total sales area: 1,270 m²
- Average number of products on sale: 11,000

3 K-Citymarkets, K-Rautas, Byggmakkers, Onninen Express and K-Senukai stores

- Total number of K-Citymarkets: 80
- Average total sales area: K-Citymarket 6,300 m²
- Average number of products on sale: K-Citymarket groceries 18,000
- Total number of K-Rautas in Finland, Sweden, Estonia, Latvia and Russia: 94
- Total number of Byggmakkers in Norway: 80
- Total number of K-Senukai stores in Lithuania: 22 and in Latvia: 1
- Total number of Onninen Express and Mega Express in Finland, Sweden, Norway, Poland, Estonia, Latvia and Lithuania: approximately 120
- Average total sales area: K-Rauta 5,800–9,100 m², Byggmakker 3,700 m², K-Senukai approximately 8,000 m², Onninen Express 1,245 m²
- Average number of products on sale: K-Rauta as many as 170,000, Byggmakker 14,000, K-Senukai even 60,000, Onninen Express even 22,000

1



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Versatile services at store sites

The customers of K Group stores are served also in online stores. We take e-commerce requirements into account at the construction phase of new store sites. In the click and collect operating model, a separate in-store storage and packing area is reserved for products ordered online. Specific parking spaces in the food store yard are dedicated to collection customers and the shopping is paid in connection with collection at the car.

In 2016, there were 396 Rinki eco take-back points in connection with K-food stores intended for consumer packaging recycling and 160 of them also accepted plastics. Several eco points also accepted wastepaper and discarded clothes. All K-food stores accepted deposit beverage containers.

Key local services available at K-food stores included over 325 Posti service points, over 560 Matkahuolto parcel pick-up points, over 25 DHL service points, over 140 Posti automatic parcel pick-up points and over 1,000 K-food stores provided a cash withdrawal service. We offer an extensive network of electric car charging points free of charge. **The 'Liiteri' trial** tested K-Rauta's tool rental service.

Energy efficient construction and property maintenance

When a new store site or shopping centre is being planned and built, the starting point is sustainable development and energy efficiency. In maintenance and repairs, the starting point is also lowering lifecycle costs.

Store site projects involve major capital expenditure, the implementation of which requires skilled people, a high-quality network of cooperation and common rules. Kesko has long experience and plenty of competence in the implementation of demanding store site projects.

In order to indicate the high level of requirements, an international environmental classification, BREEAM or LEED, to be carried out by an external assessor is applied to the most significant store site projects.

The following store sites have or will have the BREEAM environmental rating:

- Kesko's new shopping centre being built in Itäkeskus, Helsinki
- K-kampus, Kesko's main office building planned to be built in Kalasatama, Helsinki
- The new shopping centres, each to include a K-Supermarket, being built in Suurpelto, Espoo and Laajasalo, Helsinki

It is important to keep an eye on the development in the building and energy sector and anticipate changes. Technology is advancing all the time. The rapid development requires expertise to identify when it is the right time to reject the existing technology and move on.

Kesko participates in the 2017–2025 action plan of the commerce sector's Energy Efficiency Agreement. In accordance with the agreement, we are committed to reducing our energy consumption by 7.5% through various saving measures. All K Group store chains are included in the agreement.

The measures include:

- Solutions that decrease the consumption of materials and energy during the lifecycle of the property
- The lowest lifecycle costs in the trading sector
- Optimum conditions for customers, employees and products

Retail stores achieve significant energy savings with these energy efficient solutions:

- Remote monitoring and building automation
- Lids and doors on refrigeration equipment
- Recovery of condensation heat
- Refrigeration equipment that uses carbon dioxide
- Adjustable and directional lighting
- LED lights in neon signs
- Increased use of LED lighting also inside the store
- Solar power plants on store rooftops

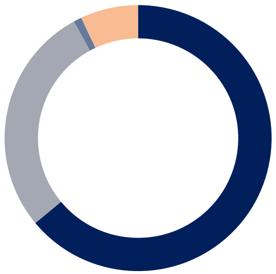
Kesko's around 40 Real Estate Managers help K-stores find ways in which to make their energy consumption more efficient and prepare a 5–6-year renovation programmes.

K in Action: Solar power from K-store rooftops

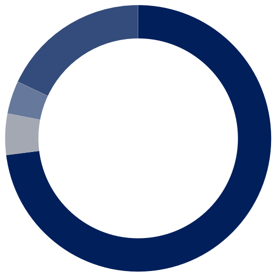
K Group increases the use of solar power Finland's largest property specific solar power plant is located on the rooftop of K-Citymarket Tammisto in Vantaa. By summer 2017, as many as 16 solar power plants will be operating in connection with K-stores. The new investments will make K Group Finland's biggest producer and user of solar power.

Store sites in figures

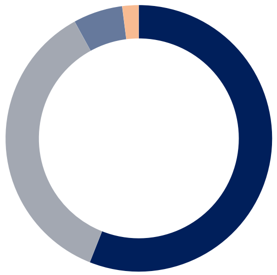
Breakdown of owned properties, €



Owned properties by region, €*



Owned properties by division, €*



* Carrying amount

The store sites are divided into four categories: strategic properties, standard properties, realisation properties and development properties.

Strategic properties:

- Kesko prefers to own them
- In 2016, strategic properties accounted for 64% (64%) of all store sites
- They involve important business interests, such as large retail stores and properties that can be developed into large stores

Standard properties:

- Kesko owns them but they can be sold and leased back
- In 2016, standard properties accounted for 28% (26%) of all store sites

Realisation properties:

- Premises for which Kesko has no further business use

Development properties:

- Sites and properties in need of further development for their intended use

Capital expenditure in store sites

In 2016, Kesko's total capital expenditure in store sites was €216.7 (166.7) million.

In view of our growth, key capital expenditure included:

- In the grocery trade, increasing and modernising the K-Market network, and expanding the K-Supermarket network
- In the building and technical trade, the K-Rauta network is modernised in all operating countries

Kesko makes capital expenditure only in properties needed for its own or supporting business operations.

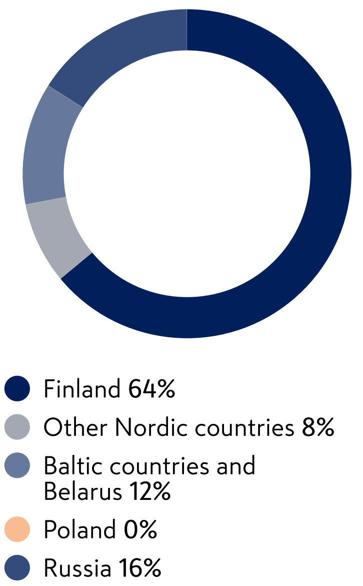
At the end of 2016, the most significant store sites under construction were:

- K-Citymarket and the urban centre Easton in Helsinki, and K-Citymarket in Sastamala
- New K-Supermarkets being built in Tampere and Ilmajoki, and in Niittykumpu, Espoonlahti, as well as Suurpelto in Espoo and Kalasatama and Pasila in Helsinki
- K-Rauta in Savonlinna and in St. Petersburg, Russia

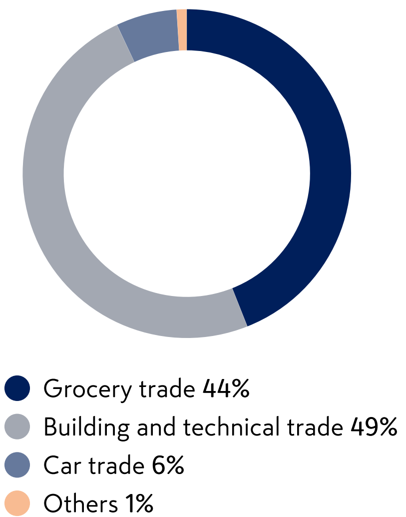
For several upcoming years, Kesko's most significant store site project will be the new shopping centre, Easton Helsinki, being built in Itäkeskus, Helsinki. The capital expenditure of the first phase is valued at €100 million. Its employment impact is about 250 person-years for a period of two years. The first part of Easton Helsinki will open to customers in autumn 2017. The next part is estimated to be completed in 2019. The capital expenditure of the whole complex is valued at over €200 million.

In 2015–2016, our total capital expenditure in business operations, acquisitions excluded, was €500 million. From 2018 onwards, we estimate the annual capital expenditure to remain below €200 million. The strategic objectives are to achieve growth in the Finnish grocery trade, the building and technical trade and the car trade.

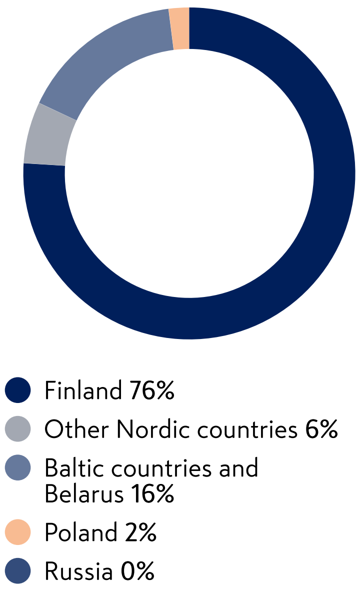
Owned store sites by region, m²



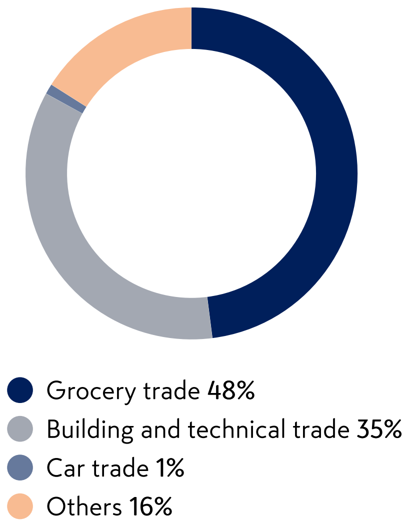
Owned store sites by division, m²



Leased store sites by region, m²



Leased store sites by division, m²



Owned store sites and properties

Book value by region, € million	2016	2015
Finland	688	662
Other Nordic countries	48	51
Baltic countries and Belarus	33	33
Russia	168	361
Total	**937**	**1,107**

Area by region, 1,000 m²	2016	2015
Finland	547	540
Other Nordic countries	65	66
Baltic countries and Belarus	105	109
Russia	137	191
Total	**854**	**906**

Book value by division, € million	2016	2015
Grocery trade	524	639
Building and technical trade	342	357
Car trade	56	60
Others	15	51
Total	**937**	**1,107**

Area by division, 1,000 m²	2016	2015
Grocery trade	377	410
Building and technical trade	421	404
Car trade	47	47
Others	9	45
Total	**854**	**906**

Leased store sites and properties

Area by region, 1,000 m²	2016	2015
Finland	2,682	2,274
Other Nordic countries	222	180
Baltic countries and Belarus	555	470
Poland	60	-
Russia	8	27
Total	**3,527**	**2,951**

Lease liabilities by region, € million	2016	2015
Finland	2,698	2,348
Other Nordic countries	92	48
Baltic countries and Belarus	199	185
Poland	6	-
Russia	0	13
Total	**2,996**	**2,594**

Lease liabilities, € million	2016	2015
No later than one year	400	347
Later than one year and no later than five years	1,326	1,139
Later than five years	1,269	1,108
Total	**2,996**	**2,594**

GRI report

Kesko's Annual Report 2016

Responsibility highlights in 2016

1

On our new web pages, we present the ways in which we promote the UN Sustainable Development Goals, the SDGs, in our operations.

Visit the UN Sustainable Development Goals and Kesko web pages >

2

We completed a human rights assessment and made a human rights commitment.

Read more >

3

We published the K Code of Conduct for all of our personnel and business partners.

Click here to go to the K code of conduct website >

4

We had solar power plants built on the rooftop of two K-Citymarkets and nine K-Supermarkets.

Watch the video >

5

We published a plastics policy and committed to reduce the consumption of plastic bags.

Read more about our actions >

In 2017, we ranked 25th in the Global 100 list and were the best trading sector company.

Click here to go to the list >

Corporate Responsibility in Kesko's Strategy

”More than before, corporate responsibility coupled with a strong identity and attractive brands is a prerequisite for operation in every line of business.”

Matti Kalervo, Vice President of Corporate Responsibility

At Kesko, corporate responsibility work is integrated into day-to-day activities.

Corporate responsibility work is based on Kesko's value, vision and mission. Corporate responsibility work is guided by Kesko’s strategy, general corporate responsibility principles, the K Code of Conduct guidelines and Kesko’s purchasing principles.

Kesko’s responsibility programme contains 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.

General operating principles guiding responsibility

Kesko’s Group Management Board has approved the Group’s principles of corporate responsibility. These principles define the basic economic, social and environmental responsibility promises.

Kesko’s commitments to international declarations and conventions are also included in the principles. The most important principles 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 Business Social Compliance Initiative (BSCI)

Value
The customer and quality – in everything we do

Vision
We are the customer’s choice and the quality leader in the European trading sector

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

"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

Kesko's responsibility path

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 Joins 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 We complete a human rights assessment and publish a human rights commitment

We commit ourselves to promoting the UN's Sustainable Development Goals (SDGs)

The K Code of Conduct guidelines

2017 The electricity we purchase in Finland is 100% renewable

2020 Responsibility combined with strong identity and attractive brands is an increasingly important prerequisite in every business operation

K in Action: Getting to know SDGs from K Group's Christmas calendar

In December 2016, the doors of the advent calendar on Keskonet, the Kesko intranet, revealed surprises never seen before and made the calendar hugely popular. Kesko personnel counted down to Christmas in a community spirit, familiarising themselves with the UN Sustainable Development Goals: every workday a member of Kesko's personnel appeared on a video from behind a calendar door to tell us us how Kesko promotes the UN Sustainable Development Goal of the day in its corporate responsibility work.

"Our wonderful colleagues immediately said a big 'yes' to the idea. We recorded the video greetings with a phone for use on the intranet. Most of them were shot in just one take and were spontaneous and genuine," say Sohvi and Minna.

Towards the end of November, Kesko had published the **UN Sustainable Development Goals and Kesko** web pages. Kesko is committed to supporting the **UN Sustainable Development Goals (SDGs)** in its operations. The web pages explain how Kesko promotes all of the 17 goals in practice.

But how to get time-pressed people to explore the web pages? This was the problem the Group Corporate Responsibility Unit tried to solve in November when the content was nearly ready.

"Then our Corporate Responsibility Specialists **Sohvi Vähämaa** and **Minna Saari** had a brilliant idea: there is one less working day in December before Christmas Eve than there are UN Sustainable Development Goals, i.e. 17. Why not have an advent calendar on the intranet where one door opens to one SDG each day!" says **Matti Kalervo**, Kesko Vice President, Corporate Responsibility.

From idea to action

It didn't take long before Sohvi and Minna started to look around K Group for people willing to tell others about the SDGs in an informal Christmas greeting.

Advent calendar became hugely popular

The first door on the intranet opened on 30 November to a video where Jesse Mether, Sustainability Manager of Kesko's building and technical trade, talked about how Kesko promotes SDG 1, No poverty.

"We in K Group create jobs and welfare, both locally and globally," said Mether in his video. He ended by wishing everyone peace and love this Christmas.

"Day after day, colleagues in the offices stopped me to say how much they liked the advent calendar. This was a magnificent way to make busy people stop and think about the actual meaning of the UN Sustainable Development Goals," says Jesse.

We stopped at one goal after the other leading up to Christmas Eve. But the promotion of the UN's Sustainable Development Goals will continue.

"In the future, we will link our work to these goals. For example, our Annual Report, which is coming out in March, will explain how our responsibility programme is linked to the UN Sustainable Development Goals. It's great that UN has published these global goals to be shared by us all: states, businesses, investors, non-governmental organisations and all citizens, says Matti Kalervo.

We listen to our stakeholders

The assessment of Kesko's operations and corporate responsibility impacts takes account of the key stakeholders:

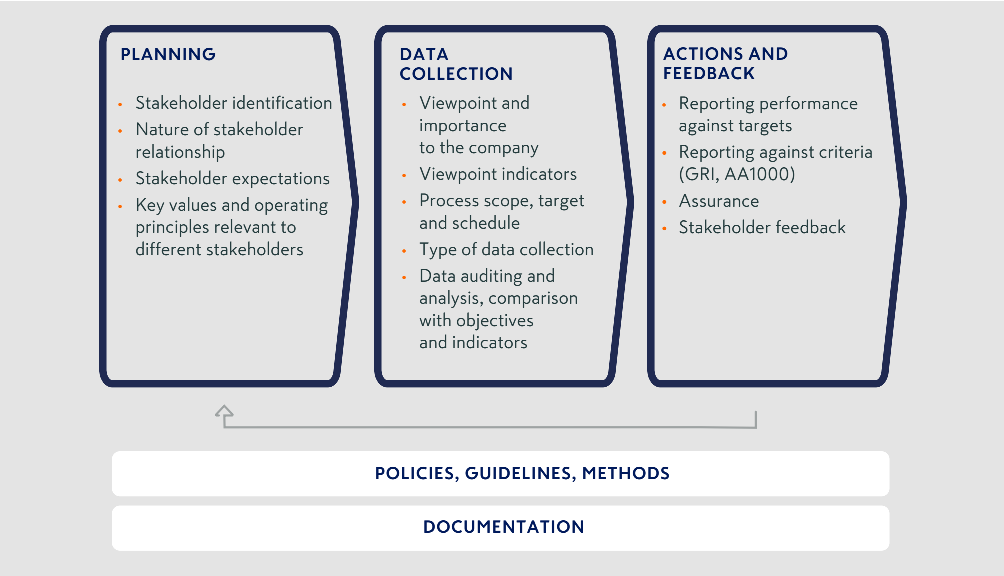
- customers
- investors and Kesko's owners
- Kesko personnel
- retailers and store staff
- suppliers and service providers
- the media
- authorities
- NGOs and other organisations
- trade unions

The materiality assessment of Kesko's corporate responsibility guides Kesko's responsibility and stakeholder work. Operations in all areas of responsibility are developed in accordance with the expectations of the key stakeholder groups.

The stakeholder assessment is included in Kesko's management model and operating plans. Kesko's corporate responsibility vision is based on taking stakeholders' views into account. Various surveys are regularly conducted to identify stakeholder expectations.

The corporate responsibility function is headed by the Executive Vice President for marketing, communications, corporate responsibility and corporate relations, who is a member of Kesko's Group Management Board. He reports to the Group Management Board on communication with stakeholders on economic, social and environmental responsibility.

Kesko's stakeholder interaction



Read our stakeholders' addresses

K Digital Trainee programme offers a path to exciting career opportunities within the K Group

Kesko promotes human rights

Long-established cooperation between Caverion and Onninen is based on high-quality operations and competitiveness

Staying aware of stakeholder expectations requires regular dialogue. The following table describes interaction with the key stakeholder groups:

Key stakeholders	Stakeholder inclusivity and channels of interaction	Response to stakeholder expectations
Customers	• Daily customer encounters • Customer service channels • Customer satisfaction surveys • Post-shopping surveys • Interaction via social media channels (Facebook, Twitter, LinkedIn, Pinterest, Instagram, blogs) • Survey and service functions on mobile and online services	Responsibility is strongly visible to customers in the K Group's consumer brands and stores. Customers have to be able to trust in the quality and safety of products and the fact that their responsible choices start when they enter a K-store.
Investors, owners and analysts	Investors' and shareholders' questions concerning corporate responsibility have increased in recent years. Kesko replies annually to the inquiries of several institutions making sustainability assessments. Examples of events: • General Meeting • Investor meetings • Press conferences • Capital Markets Day	Kesko strives to continue and improve its ratings in significant sustainability indices and lists, as they are important neutral evidence of responsible operations. Transparency of reporting and corporate governance principles, as well as ensuring that laws and responsible operating principles are observed, create a solid basis for Kesko's business operations.
Personnel and retailers	• Personnel survey • Performance and development reviews • National Works Council meetings • Kesko's intranet: country-specific pages: Keskonet Finland, Latvia, Sweden, Russia, Estonia, and Keskonet Global for all • Available on Keskonet: feedback channels Direct Line, Mail to the President and CEO, link to SpeakUp reporting channel, discussion column and several blogs • Annual K-Team event for K-retailers, K-store staff, Kesko personnel and business partners • The K Code of Conduct (in the languages of all our operating countries) • Value discussions on the K Code of Conduct guidelines	Kesko's working community is developing and international. Common values, principles and operating practices provide the basis for our work everywhere. Corporate responsibility is becoming ever more important in creating the employer image. Companies in which job satisfaction is high and that offer versatile jobs and opportunities for career progress are most likely to succeed in attracting and retaining the best employees. K-retailers listen to the wishes of their customers and adapt their selections accordingly. Stores implement responsibility in all operations.
Suppliers and service providers	• Around 24,600 suppliers and service providers, see 204-1 Proportion of spending on local suppliers • Cooperation in accordance with fair trading practices • 'Principles and Practice of Socially Responsible Trading' guide • Business partner meetings, such as Kesko grocery trade's annual partner info event • Audits and training events in high-risk countries	Diverse networking with suppliers and service providers requires that all parties of the supply chain accept the common values, objectives and operating practices. We are together responsible for ensuring that our customers can rely on our expertise, services and the quality and safety of our products.
Society (the media, authorities, NGOs and other organisations, and trade unions)	• Meetings • Media events and enquiries • Activities in organisations • International activities in the BSCI and BEPI initiatives and in the national BSCI group • Enquiries from NGOs	Kesko proactively follows changes in society in close cooperation with its stakeholders. We cooperate and discuss openly with NGOs, authorities and other decision-makers.

Management model and systems

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 marketing, communications, corporate responsibility and corporate 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 advisory board

The Vice President for corporate responsibility (Ch.), division representatives, Group representatives

- develops the principles that guide the Group's corporate responsibility
- steers and coordinates practical measures
- sets the objectives for corporate responsibility work and monitors and, as necessary, supports their achievement

Corporate responsibility steering

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

Steering group for local responsibility in operating countries

The Vice President for corporate responsibility (Ch.), representatives of local subsidiaries in operating countries (other than Finland)

- steers the implementation of the responsibility programme in the other operating countries
- develops local additions to the responsibility programme
- promotes the sharing of best practices within the Group

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

Management board for marketing, communications, corporate responsibility and corporate relations

The Executive Vice President for marketing, communications, corporate responsibility and corporate relations (Ch.), responsible persons of the divisions and the Group functions

- coordinates the processes and objectives of marketing, communications, corporate responsibility and corporate relations

HR Management board

The Senior Vice President for HR (Ch.), divisions' representatives, Group representatives

- prepares the Group's HR strategy and common HR policy definitions
- sets common objectives for the HR function and guides and coordinates the achievement of the objectives and practical implementations of HR operations
- guides the development of HR processes and services and monitors the quality and efficiency of HR processes and services

Certification and audit systems related to production in high-risk countries approved by Kesko

Certification/audit system	Product group	Coverage of criteria	Product label
BSCI (Business Social Compliance Initiative)	All product groups	Social, limited environmental part	No
SA8000	All product groups	Social	No
ETI	All product groups	Social	No
Sedex/SMETA	All product groups	Social, limited environmental part	No
ICS	All product groups	Social	No
Fairtrade	Agricultural products incl. cotton	Social, environmental	Yes
Rainforest Alliance	Agricultural products	Social, environmental	Yes
Pro Terra	Agricultural products	Social, environmental	Yes
MPS-Socially Qualified	Agricultural products	Social	No
Soil Association Ethical Trade	Agricultural products	Social	Yes
Sustainability Initiative of South Africa SIZA	Agricultural products	Social, environmental	No
Sustainably Grown	Agricultural products	Social, environmental	Yes
UTZ Certified	Coffee, cocoa, tea	Social, environmental	Yes
RSPO (Roundtable on Sustainable Palm Oil)	Products containing palm oil	Economic, environmental, social	Yes
RTRS (Round Table on Responsible Soy)	Soy	Economic, environmental, social	Yes
WIETA	Wines	Social	Yes
Vinos de Chile	Wines	Social, environmental	Yes
MSC (Marine Stewardship Council)	Caught fish and shellfish	Environmental (sustainable fishing)	Yes

Certification/audit system	Product group	Coverage of criteria	Product label
ASC (Aquaculture Stewardship Council)	Farmed fish and shellfish	Social, environmental	Yes
Florverde Sustainable Flowers	Flowers	Social, environmental	Yes
FLA (Fair Labor Association)	Consumer goods	Social	No
FWF (Fair Wear Foundation)	Clothing	Social	No
GOTS (Global Organic Textile Standard)	Textiles, hygiene products (organic)	Social, environmental	Yes
WRAP (Worldwide Responsible Accredited Production)	Textiles, shoes	Social	No
IMO Fair for Life	All product groups	Social, economic	Yes
FSC (Forest Stewardship Council)	Wood products and timber	Social, environmental	Yes
PEFC (Programme for the Endorsement of Forest Certification)	Wood products and timber	Social, environmental	Yes
ICA Social Audit *	Consumer goods	Social	No

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

Environmental systems

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, Rautia and K-maatalous stores by an independent external partner. In 2016, a total of 59 stores were inspected.

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).

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, and Environment.

In 2016, we updated the objectives of the responsibility programme by specifying the theme titles, adding objectives that underpin our strategy and our stakeholders' expectations, and removed objectives that have already been achieved or are immaterial. This year, we present the progress of the responsibility programme for the last three years.

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 2014	Progress of objectives 2015	Progress of objectives 2016
K Code of Conduct	All of our personnel act in compliance with the K Code of Conduct.	Our Responsible Working Principles guidelines are a material part of the induction of new employees. According to a personnel survey, 93.3% respondents have explored the 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 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.
	We organise regular training on the K Code of Conduct.	As part of the ongoing responsibility training, four training events on responsible working principles were organised in 2014 for different divisions in Finland, Latvia, Lithuania and Estonia.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Return on capital	Kesko's objective is to achieve a 14% comparable return on capital employed and a 12% return on equity.	The comparable return on capital employed was 9.9% and the comparable return on equity was 7.6%.	The comparable return on capital employed was 11.7%, and the comparable return on equity was 8.2%.	The comparable return on capital employed was 11.9%, and the comparable return on equity was 9.8%.
Human rights	We respect human rights and take them into account in all our operations.	We started to assess human rights related impacts in accordance with the UN Guiding Principles on Business and Human Rights.	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.	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.

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's Legal Affairs and Internal Audit have organised value discussions in Kesko subsidiaries with the focus on anti-bribery work.
- **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 annually assesses 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 Strategy Process Unit
- K-Digital Unit

Grievance mechanisms

Through Kesko's intranet, employees in all operating countries 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 our multi-channel aspect of our store network based on our customers' expecta-tions.
- We encourage our customers to make sustainable choices.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Dialogue with customers	We consult our customers as we develop our corporate responsibility work. • Dialogue with customers in stores and social medial channels • Customer satisfaction and brand surveys	In autumn 2014, we studied stakeholders' views on the focal points of Kesko's value creation through an interview survey.	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.	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.
Consultation services to customers	We offer our customers multi-channel information on our products and services. • K-ruoka.fi • Pirkka magazine and Pirkka.fi • K Consumer Service • Customer feedback channels	The K Consumer service was contacted more than 20,900 times. Kesko Food is going through an extensive project to change the package labelling of its own brand products with the aim of providing consumers with more detailed information on the nutritional content, ingredients and potential allergens.	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.'	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Welfare	We offer healthy products and services that promote wellbeing. • Healthy food selection in K-food stores • Fruit campaigns • Recipes in K-ruoka.fi and Pirkka magazine • Products promoting healthy living and life in K-Rauta and Intersport stores	The 5,400 recipes in K-ruoka.fi service include the nutritional content of the dish, which makes it easier for people to make choices. Intersport stores organised activity days whose aim was to promote a healthy lifestyle and to encourage people to be active.	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.	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 vege 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.
Sustainable consumption	We help our customers make sustainable choices. • Statements and policies • Food waste	The K-responsibility concept theme "Let's do good. Together" was an essential part of the communication and marketing of the grocery trade. K-food stores participated in the Food Waste Week campaign organised by the Consumers Union Of Finland.	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.	The 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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Digital services	We offer the best digital services to the K Group's customers in all divisions. • Accessibility for special groups • Online stores' centralised distribution • Online stores' producer responsibility and product responsibility	Online sales of food through ruoka.citymarket.fi were extended to cover the whole Greater Helsinki. The building and home improvement stores and food stores launched click and collect services.	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.	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. Asko's online store was launched at Asko.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.
Management by information	Each K-store is customised to meet its local customer demand by utilizing customer data.	A new test store, K-Myllypuro, was opened in Myllypuro, Helsinki, for testing new store concepts, easier shopping and solutions for product ranges and their customisation.	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.	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.
	Using marketing based on customer data, we can offer our customers the best customer experience.	We launched a campaign management tool, which we used to produce targeted and unique customer communication. The aim was to launch personalised customer marketing in stages in the wider K Group.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Additional services in connection to stores	We want to offer our customers a convenient shopping experience.	There were 252 consumer packaging recycling eco points at K-food stores. Many eco points also accepted paper and used clothing. All K-food stores have reverse vending machines for returning beverage containers. There were 137 SmartPost self-service parcel lockers at K-stores.	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.	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. Read more about customer recycling services. 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.

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 was first introduced in K-food stores in 2013. The concept was taken into use in K-Rauta stores and its launch in Rautia stores was initiated over the course of 2014. It was introduced in Rautia stores and in the K-maatalous chain in 2015.

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 2014	Progress of objectives 2015	Progress of objectives 2016
Local production	We support local producers	K-food stores, Anttila and Kodin1 participated in the Blue and White Footprint campaign. We organised Local Food Dates with the aim of increasing the local product offering in K-food stores.	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.	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.
Sustainable agriculture	We promote sustainable agriculture	The K-maatalous Experimental Farm searched for new alternatives to continue organic studies on grain crops in mainland Finland.	The K-maatalous Experimental Farm cooperated with Nylands Svenska Lantbrukssällskapet on organic crop species.	The K-maatalous Experimental Farm made a Baltic Sea commitment with the Baltic Sea Action Group (BSAG). The Experimental Farm's commitment focuses on developing the growing conditions of soil and nutrient measuring practices and equipment.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Donations, sponsoring and charity campaigns	We participate in projects, which are connected to improving families' daily life and sustainable development. • Red Nose Day • Good Christmas Spirit • Salvation Army • Pink Ribbon	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.	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.	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.

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 nearly 120 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 the 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

K-food stores, K-Citymarket Oy (home goods), K-Rauta stores and Rautia stores participated in the Blue and White Footprint campaign in 2016. The campaign aimed to promote the sales of Finnish products and an awareness of the positive impacts of buying Finnish.

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 supervisors.
- 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 2014	Progress of objectives 2015	Progress of objectives 2016
Employer image	We are the best employer in the trading sector in terms of job satisfaction.	The employee engagement index was 53%. In the Universum Professionals survey, Kesko's ranking was 29.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Wellbeing at work	We improve work motivation and satisfaction.	The focal point of the wellbeing at work programme was to develop supervision and management and promote occupational health and labour protection cooperation.	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.	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. Read more about benefits to employees.
Skills management	We conduct an annual performance and development review with every employee.	In the personnel survey, 83% of respondents said that they have had a performance and development review during the past 12 months.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Skills management	We will regularly train our supervisors.	Core tools for developing supervisor work were the Let's Talk About Work training, the Performance Management training, the Employee Engagement training, as well as the new comprehensive online training modules in different sectors of supervisory work. The online training modules for supervisors were taken 2,391 times in total.	The emphasis was on the implementation of the K Group's operating principles, challenging situations faced by supervisors, leading a new team, effective supervision 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 supervisors' and was piloted towards the end of the year. Supervisory training for Kesko's personnel was taken a total of nearly 700 times. Online training modules for supervisors were completed approximately 3,700 times.	We continued the • K-Way new supervisors training programmes, • K-Way experienced supervisors training programmes and • Let's Talk About Work training programmes. • In total, 363 supervisors participated in these training programmes. The topic for the new Mindfulness training was understanding and training your own mind as well as efficiency. 17 supervisors 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 supervisory skills in the K Group. The training programme was attended by 12 supervisors. In 2017, we will continue to organise the K-Way supervisor trainings and start a new development programme for top management. We will continue spreading the coaching and mentoring processes that support supervisory work.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Occupational ability	We reduce sick leave, accidents at work and premature retirement due to disability.	Since the beginning of 2011, approximately 950 supervisors in Finland have been trained using the Let's Talk About Work operating model. The Let's Talk About Work model has been used in almost all companies. In Finland, the percentage of sick leave has been reduced by 11% since 2009 and the percentage of premature retirements due to sickness has reduced by 37% since 2010. Sick leave has reduced by 10% in other countries since 2009.	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 supervisors, 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.	We focused on reducing sick leave, accidents at work and premature retirement due to disability. The Let's Talk About Work training for supervisors continued and over the last five years, more than 1,000 supervisors 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.

Management approach

Material aspects

- 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 supervisors. The 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. Read more about minimum notice periods regarding operational changes.

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

The systematic and business-driven development of personnel and management is critical for future success. Major changes in the trading sector and the growth of electronic transactions have created the need for new competencies.

Other core areas of competence development have included:

- sales and service competence
- product line specific competitive advantage projects
- safety and responsibility
- leadership
- management.

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, 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 Kesko Group and its subsidiaries. Remuneration is fair and is based on principles that are commonly known.

Labour practices and grievance mechanisms

See Grievance mechanisms

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 supervisor

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 2015–2018, 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 supervisors' 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 co-operation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent model was created to provide work for those with intellectual disabilities. Most of the intellectually disabled who were employed during the project still work at the K Group.

In Greater Helsinki, Kesko's Occupational Health Service directs employees to AMI rehabilitation, which promotes mental health. The partial daily allowance can help employees return to work after sick leave. The support provided by pension insurance companies for occupational rehabilitation has been used to promote return to work.

Employment of young people

In 2013, Kesko and the K-Retailers' Association launched the 'Youth Guarantee in the K Group' programme, which aimed to provide a job, a work trial or an apprenticeship in the K Group for 1,000 young people threatened by social exclusion The target group also included young immigrants and young people with disabilities. By the end of 2015, more than 2,500 young people had found employment in the form of a work trial, wage support and apprenticeship training. The employment of young people and special groups continues as a permanent model. In 2016, the K-Retailers' Association had a Youth Guarantee coordinator, who gives K-retailers and Kesko's supervisors advice related to the employment and training of special groups and acts as a liaison to the authorities and associations. By the end of 2016, more than 3,200 young people had found employment in the form of a work trial, through wage support and apprenticeship training.

Grievance mechanisms

- Discussion with supervisor
- Suora Linja 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 2014	Progress of objectives 2015	Progress of objectives 2016
Supply chain	The social responsibility of the production of own direct imports from high-risk countries has been assured. • Assessment systems approved by Kesko	Kesko's suppliers in high-risk countries had 284 factories or farms within the scope of the BSCI process. 88 BSCI full audits and 74 BSCI re-audits were conducted in the factories and farms of suppliers in high-risk countries. We started an assessment of human rights impacts.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Supply chain	We assure the responsibility of the ingredients (Tier 2) of private label Pirkka and K-Menu food products.	We listened to our stakeholders when developing a new risk assessment tool for assuring the responsibility of the ingredients of own-brand grocery products.	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 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.
	We will reduce the water risk caused by our operations.	We identified the need to determine the water risks caused by our operations. 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 on water consumption are thus caused by imported products for sale, which originate from areas suffering from water scarcity.	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.	The water risk assessment is in progress and the aim is to use the results to plan actions.
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. The K Group's fish and shellfish policy has been in effect since 2008.	The Pirkka range included 29 MSC-certified fish products.	The Pirkka range included 41 MSC-certified fish 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.
	Palm oil: By 2020, all palm oil in our own brand groceries will be responsibly produced (CSPO).	Approximately 13% of the palm oil in the Pirkka food products was certified sustainable palm oil (CSPO).	Approximately 20% of the palm oil in the Pirkka food products was certified sustainable palm oil (CSPO).	Approximately 34% of the palm oil in our own brand groceries (Pirkka, K-Menu and Kespro's Menu) was certified sustainable palm oil (CSPO).

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
	Soy: By 2020, all the soy used in the production chain of our private label products will be responsibly produced, and be either RTRS or ProTerra certified. This applies to: • the ingredients of soy origin of the private label foods • soy fodder used in the production of private label products of animal origin • soy in the animal feed products sold by the agricultural trade.	The objective was added in 2016.	The objective was added in 2016.	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.
	Timber: We will ensure the origin and traceability of the timber and wood products sold by the building and home improvement trade. The products made of wood of tropical origin must be either FSC or PEFC certified.	Rautakesko has been granted the PEFC certificate, which covers spruce and pine timber and processed timber, MDF boards' wholesale in Finland (percentage-based method).The certificate is issued on 11 November 2013 and is valid until 11 November 2018.	The PEFC certification percentage is announced monthly at Kesko's web pages.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Policies	Plastic: We promote the recycling and reuse of plastic. We create operating models which prevent plastic from ending up in bodies of water and elsewhere in the natural 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 will look for solutions to replace PVC as a material.	The Pirkka reusable bag with the Boulevard design by Vallila was included in K-food stores' selection.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Own brands with responsibility labelling	We offer an extensive selection of own-brand products with responsibility labelling	The Pirkka range included 44 Pirkka Fairtrade products, 116 Pirkka Organic products, 29 Pirkka MSC-certified fish products, and 16 Pirkka UTZ-certified products.	The Pirkka range included 40 Pirkka Fairtrade products, 134 Pirkka Organic products, 41 Pirkka MSC-certified fish products, and 17 Pirkka UTZ-certified products.	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.
Product safety	The product safety of the K Group's selections has been verified. The Product Research Unit's laboratory monitors the product safety and quality of the private labels and own imports in the grocery trade. All of our food product operations have a self-control plan in place. • The stores' Oiva monitoring results	The Product Research laboratory analysed 8,864 product samples and conducted 20,386 analyses. Forty audits were performed.	The Product Research laboratory analysed 8,037 product samples and conducted 20,396 analyses. Seven audits were performed.	The Product Research laboratory analysed 7,770 product samples and conducted 17,176 analyses. The product safety of 539 suppliers was verified by means of a certified auditing procedure. The number of own audits was 13.

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 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 plastic 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 policy, and the stand on the sandblasting of jeans, have been prepared to support purchasing operations.

Monitoring and control systems

Certification and audit systems related to production in high-risk countries approved by Kesko.

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

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 was first adopted in K-food stores in 2013. The concept was taken into use in K-Rauta stores. In 2015, it was adopted by Rautia stores and in the K-maatalous chain.

In 2016, Kesko joined the new BSCI Sustainable Wine Programme pilot programme of the Foreign Trade Association (FTA). 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.

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

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Renewable energy	We will purchase 100% renewable electricity in Finland.	The objective was set in 2016	The objective was set in 2016	All electricity purchased by Kesko in Finland is renewable since the beginning of 2017. We purchase renewable electricity that has the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, electricity purchases will especially focus on Finnish bioenergy.
	We will increase the production of solar power for our own use.	The objective was set in 2016	The objective was set in 2016	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. By the summer of 2017, a total of 16 solar power plants will be in operation on the rooftops of K Group stores. The new investments will make the K Group the largest producer and user of solar power in Finland.
Energy efficiency of stores	During the agreement period 2008–2016: We will improve our annual energy efficiency by 65 GWh by 2016.	Kesko improved its energy consumption by 59 GWh and achieved 90% of its objective.	Kesko improved its energy consumption by 64 GWh and achieved 97% of its objective.	The final results of the agreement will be published by Motiva in summer 2017.
	During the agreement period 2017–2025: We will reduce our energy consumption by 7.5% by 2025.	The objective was set in 2016	The objective was set in 2016	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%.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Logistics emissions	We will reduce the emissions of Kesko Logistics relative to the net sales index by 10% by 2020 from the 2011 level. • We will reduce emissions by the efficient route planning of transport, efficient reverse logistics, two-tier trailers and training in economical driving styles.	We used nine two-tier trailers in long-distance transportation between our main warehouses. They can transport 30 roll containers, more than the regular trailer combination. All of Keslog's more than 500 contracted drivers have been trained in economical driving.	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.	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.
Science Based Targets	We will set Science Based Targets	-	-	We are committed to setting emission targets approved by the Science Based Targets initiative. The calculation began in December 2016.
Food waste	By 2020 we will reduce identified food waste by 10% from the 2013 level. • We reduce food waste in K-food stores with the help of electronic forecasting and order systems, efficient logistics, employee training, reducing the prices of products approaching their best before dates and optimising packaging properties.	Many K-food stores also donated food to charity. K-food stores participated in the Food Waste Week organised by the Consumers' Union of Finland in 2014.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Waste recovery	The goal is to minimise the generation of waste in all operations and to recover all waste.	The waste recovery rate of Keslog's main warehouses and terminals was 98% and that of VV-Auto Group nearly 100%. The recovery rate of the waste generated in stores was 96% and the recycling rate was 67%.	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%.	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%.

Management approach

Material aspects

- Energy
- Water
- Emissions
- Wastewater and waste
- Biodiversity
- Suppliers' environmental assessments

Policies, principles and commitments

The K Group's environmental and energy policy covers the operations of the Group and the stores both in Finland and the other operating countries. The K Group's key business partners are also expected to observe corresponding environmental management principles.

Environmental management is part of the 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.

Monitoring and control systems

Kesko Group's Corporate Responsibility Advisory Board defines the main policies for environmental work and the target levels for the Group companies, taking into account the environmental impacts of operations and their significance throughout their whole lifecycle and supply chain. The division parent companies and subsidiaries 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.

Environmental systems at Kesko

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.

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

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 the K Group's store chains. Kesko has joined the Foreign Trade Association's (FTA) Business Environmental Performance Initiative (BEPI). 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.

In line with Kesko's building and home improvement sourcing statement, products made of tropical wood must be either FSC or PEFC certified.

The 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
Suppliers’ environmental assessments	Suppliers. This aspect has been identified as essential and reporting is under development.

Other operating countries

In January 2015, a Steering Group for Local Responsibility in Operating Countries was set up to promote responsibility work in operating countries outside Finland. The Steering Group drew up objectives for each of our companies in other operating countries to complement our joint responsibility programme and take local circumstances into account. The progress of these companies in achieving these objectives in 2016 are presented below.

K-Rauta Russia

Objective	Progress
Working community: We perform and offer high-quality work Our employees are committed to the Group strategy, sales targets and the development of customer satisfaction.	In 2016, we implemented the personnel development project “Career development and succession planning”. Project participants included 55 members of store and office personnel. The total number of training days was 314.
Society: We build a better society together Society values the responsibility work done by K-Rauta Russia. Our employees are committed to the responsibility objectives of K-Rauta Russia.	In 2016, we continued to support children in children’s homes, the building of a playground in Moscow and the refurbishment of children's cultural centre in Tula. In 2016, we offered a training job to 12 students. In 2016, some members of the personnel took part in voluntary landscaping of parks in St. Petersburg and Tula.
Environment: We jointly mitigate climate change and promote the sustainable use of natural resources We reduce the amount of landfill waste. We develop segregation and recycling.	In 2016, we set up recycling points for customers' used electric batteries in conjunction with the stores in St. Petersburg. Over 800 kg of batteries were collected. In 2016, a campaign for collecting old, plastic flower pots from customers was organised at the stores. Over 20,000 plastic flower pots were collected for recycling.

K-Rauta Sweden

Objective	Progress
Working community: We perform and offer high-quality work Responsibility induction and eLearning.	Responsibility induction discussions will start in spring 2017. Digital EHS (Environment, Health and Safety) manual for stores will be adopted in spring 2017.
Mitigation of climate change: We jointly mitigate climate change and promote the sustainable use of natural resources We increase the recycling of materials in stores. We reduce energy consumption in stores	In 2016, we worked on the ISO 14011 environmental system. The objective is to have the system certified in autumn 2017.

Byggmakker Norway

Objective	Progress
Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices The product in our selections meet the applicable environmental criteria.	The timber in the selections will be PEFC certified by the end of 2017. The building materials in the selections have BREEAM NOR classification. At the end of 2016, around 65,000 product articles were included in the NOBB database.
Working community: We perform and offer high-quality work Our personnel are committed, active and enterprising.	Trainings will continue in 2017.

Konekesko Lithuania

Objective	Progress
Working community: We perform and offer high-quality work We organise corporate responsibility training for all employees. We include our personnel in our corporate responsibility work.	In 2016, 57% of the personnel completed the responsibility eLearning programme and 78% completed the K Code of Conduct eLearning programme. 70% of the personnel participated in the cleaning and excercise days arranged by the company.
Society: We build a better society together We participate in organisational activities. We provide training opportunities for students. We participate in charity projects.	Konekesko Lithuania is a member of the following organisations: • Lietuvos atsakingo verslo asociacija LAVA, a responsibility organisation of Latvian companies. In 2016, Konekesko Lithuania's representative was the Chair of the organisation. • Baltic Institute of Corporate Governance BICG In 2016, training jobs were offered to three students. In 2016, support was given to youth and adult sports and museum activities.

Konekesko Latvia

Objective	Progress
Working community: We perform and offer high-quality work We improve the flow of information between management and employees. We take care of the balance between work and private life.	Representatives of employees participate in the meetings of the management board four times a year. Strategy communications have been enhanced. In autumn 2016, training in conducting performance and development discussions was arranged for middle management. In performance and development discussions, personnel's satisfaction with the flow of information rose to 65% (52% in the previous survey in 2014). Monitoring of overtime and unused holidays has been enhanced. Deviations have been taken up.
Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices We develop maintenance services.We develop online services.	The development of the telephone service system for maintenance was completed in 2016. The objective is to develop a mobile application for maintenance service in 2017.
Environment: We jointly mitigate climate change and promote the sustainable use of natural resources We reduce the electricity consumption of stores.	Store lights will be replaced by LED lamps in 2017–2018.

Konekesko Estonia

Objective	Progress
Working community: We perform and offer high-quality work We focus on performance and development discussions. We organise an eLearning programme in corporate responsibility for supervisors.	In 2016, the focus continued to be placed on personnel's performance and development discussions and performance appraisals. The set objectives were achieved. Personnel's training was increased. In 2016, the total number of training days was 241 (100 in 2015).
Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices We give our customers guidance on the properties and technical solutions of machinery and equipment.	In 2016, the focuscontinued to be placed on customer guidance and customer events. The customer satisfaction index remained at the previous year's good level (4.1).

Indoor Estonia

Objective	Progress
Environment: We jointly mitigate climate change and promote the sustainable use of natural resources We reduce the amount of landfill waste. We improve segregation and recycling.	In 2016, 14,516 kg of cardboard (32%of purchased packaging cardboard) and 1,509 kg of plastic (34% of puchased packaging plastic) were recycled. By 2019, the objective is to raise the recycling rate of both packaging material to 45%. In early 2016, cooperation with a recycling centre was started. Customers' good condition furniture are accepted to be distributed to those in need. In 2017, the operation will be expanded by publishing newspaper advertisementrs about recycling activities.
Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices We harmonise our pricing. We avoid campaigns of excessive length.	The entire personnel (100%) completed the K Code of Conduct eLearning programme. The trainings will be repeated and continued in 2017. The system development project was continued. The objective is to achieve the Payment Card Industry Data Security Standard certificate in 2017. The online store will be developed to make it more user friendly in 2017.

Economic impacts

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 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 March 2015, Kesko sold the department store chain Anttila Oy. Anttila Oy is consolidated into Kesko Group until 16 March 2015. 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. Further information on the structural changes is available in note 3 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 financial statements section.

Economic benefits from Kesko's operations to stakeholder groups

VALUE ADDED GENERATED

- **CUSTOMERS** – Revenues – **€10,879 million**

DISTRIBUTION OF VALUE ADDED

- **SUPPLIERS** – Goods, materials and services purchased – **€-9,839 million**
- **EMPLOYEES** – Salaries, fees and social security expenses – **€-723 million**
- **PAYMENTS TO PROVIDERS OF CAPITAL** – Net finance income / costs **€-2 million**
- **PUBLIC SECTOR** – Taxes – **€-49 million**
- **COMMUNITY INVESTMENTS** – Donations – **€-2 million**
- **OWNERS** – Dividend – **€-199 million**
- **DEVELOPMENT OF BUSINESS ACTIVITIES** – **€67 million**

Economic benefits from Kesko's operations to stakeholder groups

€ million		2016	2015	2014
Customers[1]	Revenues	10,879	9,479	9,800
Value added generated		10,879	9,479	9,800
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-9,839	-8,593	-8,828
Employees	Salaries, fees and social security expenses	-723	-545	-614
Payments to providers of capital	Net finance income/costs	-2	-7	-6
Owners	Dividend	-199[2]	-248	-149
Public sector	Taxes[3]	-49	-92	-54
Community investments	Donations	-2	-1	-1
Development of business operations		67	-7	147

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 at 203-2.

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 2017 that a total dividend of €199 million be paid for the year 2016, which would represent 201.3% of earnings per share and 99.5% of comparable earnings per share. In 2016, Kesko distributed a total of €248 million as dividends for the 2015 profit, which represented 243.8% of earnings per share and 146.7% of comparable earnings per share.

Economic benefits from Kesko's operations by market area in 2016

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes[1]	Total
Finland	5,661	630	428	99	777	7,595
Other Nordic countries	905	3	53	19	51	1,032
Baltic countries and Poland	453	25	70	7	97	653
Russia and Belarus	265	85	35	10	14	409
Other countries	1,305					1,305
Total	**8,588**	**743**	**587**	**136**	**940**	**10,994**

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

Further information on the financial statements' indicators and Kesko shares and shareholders can be found in the financial statements section.

Store network

Kesko operates in the grocery trade, the building and technical trade, and the car trade. Kesko has over 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus.

The K-food store network is comprehensive and there are K-food stores in nearly all Finnish municipalities (see the table below). The K-food stores are visited by around 1.2 million customers every day.

A multi-channel approach is becoming increasingly important in retailing. The growth of e-commerce and electronic services coupled with a comprehensive store site network are a key competitive factor for Kesko. Read more about the importance of a multi-channel approach.

At the end of 2016, Kesko had over 1,080 independent K-retailer entrepreneurs as partners. Kesko's sales to retailer entrepreneurs accounted for 45.4% of total sales in 2016. Kesko and K-retailers form the K Group, whose retail sales totalled around €12.5 billion (VAT 0%) in 2016. The K Group employs around 45,000 people.

K-food stores in Finnish municipalities (as at 31 Dec. 2016)

Number of K-food stores	Municipalities in 2016	% of all municipalities
10 or more	29	9.3
7–9	20	6.4
5–6	25	8.0
3–4	44	14.1
2	67	21.4
1	95	30.4
0	33	10.5
Municipalities total	**313**	**100.0**

Employee benefit expenses

€ million	2016	2015	2014
Salaries and fees	575	440	497
Social security expenses			
pension costs	78	55	64
social security expenses	57	43	47
Share-based payments	12	6	6
Total	**723**	**545**	**614**

In 2016, foreign operations accounted for €159 million of total salaries and for €36 million of total pension costs and other social security expenses. In 2016, the Kesko Group employed an average of 22,476 (18,955) people, of whom 10,714 (8,300) were located in Finland and 11,762 (10,655) outside of Finland. The personnel increase was due to the acquisitions completed during the year. At the end of the year, the number of personnel at Suomen Lähikauppa was 3,129, at Onninen it was 3,068 and at AutoCarrera it was 37.

Kesko's community investments

€ 1,000	2016	2015	2014
Non-governmental, environmental and other organisations	412	555	474
Sports (adults)	891	721	556
Youth sports and other youth work	56	64	244
Science, research and education	67	61	65
Culture	14	32	36
Health	270	12	11
Veteran organisations and national defence	3	5	4
Political parties and organisations	-	8	5
Total	**1,713**	**1457**	**1,395**

In addition, Veikkaus Oy contributed an estimated revenue of €60–65 million to the Ministry of Education and Culture, generated from the sales of games by Veikkaus points of sale located at K-stores. The calculation is based on the average breakdown of each euro spent on games in 2016. The estimate has been calculated by Veikkaus Oy. The Ministry of Education and Culture distributes the total proceeds to Finnish arts, sports, science and youth work.

More detailed information on donation recipients is available in the responsibility programme.

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

One of the key objectives of Kesko's responsibility work is mitigating the progress of climate change. Kesko has committed to set emission targets in line with two degree climate warming and approved by the Science Based Targets initiative. The work to calculate the targets began in December 2016.

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 risk management and control practices >

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

Physical impact

- 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 the 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 limitations 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 climate change. 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 contributes to the development of circular economy by providing recycling services in conjunction with stores, and by taking part in circular economy trials, such as the Kinkkutemppu campaign and the Liiteri trial.
- The K-maatalous Experimental Farm tests the suitability of crop varieties for the Finnish climate. The aim is to help customers choose optimal varieties and cultivation methods for Finnish conditions, also as the climate changes.

Opportunities and risks related to climate change are also described in the report's our 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 2,717.

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 2016, the plan obligation was €300.4 million (€266.1 million in

2015), which is fully covered. Calculated under IFRS, the surplus amount was €164.1 million as at 31 December 2016 (€176.4 million in 2015). Calculated under IFRS (the Pension Fund's insurance premium is based on a defined benefit plan), the Group's total premium represents 13.6% of the amount of salaries (12.5% in 2015). Read more in the financial statements section, note 17.

In the other countries, pensions are arranged in compliance with local legislation, and there are no defined benefit plans, except in Norway. The number of employees eligible to receive supplementary retirement benefits in Norway is immaterial in proportion to the whole Group.

201-4 Financial assistance received from government

In 2016, the Group received financial assistance of €0.9 million from the public sector. This amount mainly consists of assistance received from Finland (€0.6 million) and from Sweden (€0.3 million).

Indirect economic impacts

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

Especially outside growth centres, retail stores can offer community services which may otherwise be scarcely available. In 2016, the following were located in connection with K-food stores:

- cashback service at more than 1,000 stores
- over 325 Posti service points
- over 140 Posti automatic parcel pick-up points
- over 560 Matkahuolto parcel pick-up points
- over 25 DHL's automatic parcel lockers

For several upcoming years, Kesko's most significant store site project will be the new shopping centre, Easton Helsinki, being built in Itäkeskus, Helsinki. The capital expenditure of the first phase is valued at €100 million. Its employment impact is about 250 person-years for a period of two years.

The first part of Easton Helsinki will open to customers in autumn 2017. The next part is estimated to be completed in 2019. The capital expenditure of the whole complex is valued at over €200 million.

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 201-1 Direct economic value generated and distributed.

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, employee benefit expenses and capital expenditure paid by Kesko and retailers have impacts on regional economic wellbeing.

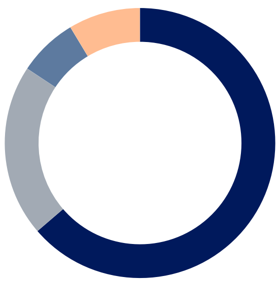
Kesko operates in nine countries in which it is engaged in both retail and wholesale. It is one of Kesko's principles that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations.

Kesko is a significant tax payer. In 2016, the income taxes paid by Kesko to Finland were €31.2 million and to other countries €10.1 million. The Group's effective tax rate was 21.6%. Kesko paid €3.5 million in real estate taxes and net worth taxes to Finland and €4.2 million to its other operating countries in 2016.

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 2016, Kesko remitted value-added taxes in Finland to the amount of €380.3 million, and €110.5 million in other countries. Kesko remits car taxes and excise duties on, for instance, confectionery, alcohol and soft drinks. In 2016, Kesko remitted excise duties in Finland to a total amount of €66.9 million.

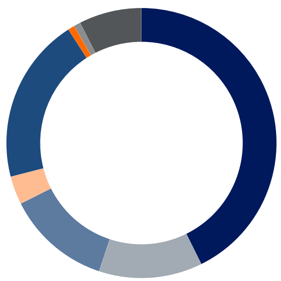
Kesko's measurable indirect impact on society, such as its employment impact, increased municipal tax income, or income in the producer and supply chain, should be evaluated case-by-case, in connection with the establishment of a new store, for example.

Taxes payable 2016



- Income taxes, Finland € 31.2 million 63.7%
- Income taxes, other countries € 10.1 million 20.6%
- Real estate taxes, Finland € 3.5 million 7.1%
- Real estate and net-worth taxes, other countries € 4.2 million 8.6%

Taxes remitted in 2016



- Value-added taxes, Finland € 380.3 million 42.7%
- Value-added taxes, other countries € 110.5 million 12.4%
- Withholding taxes, Finland € 111.2 million 12.5%
- Withholding taxes, other countries € 30.7 million 3.4%
- Car taxes, Finland € 177.6 million 19.9%
- Customs duties, Finland € 6.7 million 0.8%
- Customs duties, other countries € 6.8 million 0.8%
- Excise duties, Finland € 66.9 million 7.5%

Taxes by country 2016

€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Income taxes	31.2		-0.2		0.5	3.6		4.5	1.7
Real estate taxes	3.5	0.3	0.1	0	0.2	0		0.7	0.1
Net-worth taxes								2.6	0.2
Car taxes	177.6								
Customs duties	6.7	0.1	2.6	0.1	0	1.7	0	1.1	1.2
Excise duties	66.9								
Total	**285.9**	**0.4**	**2.5**	**0.1**	**0.7**	**5.3**	**0.0**	**8.9**	**3.2**

Economic benefit generatd by Keko and K-retailers to Finnish regions in 2016

Region € million	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure[1]	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	Total
Åland	32.2	-	0.0	0.1	-	-	32.4
Southern Karelia	6.8	13.7	6.2	6.2	11.0	0.6	44.4
Southern Ostrobothnia	237.7	30.8	4.9	6.3	12.8	0.7	293.1
Southern Savo	41.9	13.7	9.3	5.3	11.4	1.1	82.8
Kainuu	5.8	7.3	1.7	1.8	6.2	0.4	23.2
Kanta-Häme	52.3	25.7	3.3	7.4	11.2	1.3	101.2
Central Ostrobothnia	53.4	13.6	5.3	2.2	5.0	0.5	80.0
Central Finland	61.2	25.5	7.8	11.7	18.1	1.2	125.6
Kymenlaakso	43.5	15.7	3.8	7.8	10.8	1.3	82.9
Lapland	20.6	24.5	14.4	8.7	18.7	2.0	88.9
Pirkanmaa	262.2	33.0	32.7	34.7	33.2	2.7	398.5
Ostrobothnia	161.5	11.2	2.8	6.7	9.5	0.7	192.4
Northern Karelia	29.1	26.0	2.2	5.3	11.6	1.6	75.8
Northern Ostrobothnia	139.4	43.8	10.1	19.4	26.4	2.4	241.5
Northern Savo	180.5	34.5	5.7	12.0	19.8	1.5	254.0
Päijät-Häme	147.3	25.9	7.8	11.7	12.1	0.8	205.7
Satakunta	160.5	27.0	4.3	8.1	15.3	1.0	216.2
Uusimaa	3,296.7	162.4	604.7[2]	287.8	120.9	12.5	4,485.1
Varsinais-Suomi	688.5	67.4	11.1	30.2	35.3	4.1	836.7
Total	**5,621.2**	**601.5**	**738.0**	**473.8**	**389.4**	**36.4**	**7,860.4**

[1] Incl. increase in lease liabilities of K-retailers' equipment
[2] Incl. acquisitions in 2016 (Suomen Lähikauppa, Onninen and AutoCarrera) €445.5 million

The figures are for those K-retailers whose accounts and payroll are managed by Vähittäiskaupan Tilipalvelu VTP Oy, representing around 85% of K-retailers' total business volume.

Procurement practices

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 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 €8.6 billion in 2016.

In 2016, Kesko had around 24,600 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, around 11,900 operated in Finland, around 10,200 in Kesko's other operating countries, and around 2,500 elsewhere.

The ten largest suppliers accounted for 24.3% (24.2% in 2015) of the Group's purchases of goods, and the 100 largest suppliers for 54.4% (53.1% in 2015). Seven out of the ten largest suppliers were Finnish food industry companies, one import company operating in Finland and two German car manufacturers.

The purchases of all Kesko companies from suppliers operating in Finland totalled €5,661 million, accounting for 65.9% (67.2% in 2015) of the Group's total purchases.

The purchases of goods by Kesko Group's Finnish companies totalled €6,928 million. Of these purchases, 81.1% were from suppliers operating in Finland and 18.9% 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 actively increases the amount of local purchases and encourages K-retailers to include products from nearby producers in their selections. In 2016, K-retailers' direct purchases from Finnish regions totalled €602 million.

In 2014–2016, Kesko and Ruokatieto ry, an association that promotes Finnish food culture, organised Local Food Date (Lähiruokatreffit) events that brought together local food producers and K-retailers. The purpose was 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 sell 12 Pirkka 'Thank the Producer' products for which K Group pays an extra support directly to producers.

Kesko's purchases by operating country in 2016

	Suppliers of goods and services in operating country	Purchases from suppliers of goods		Suppliers of goods and services in other operating countries	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	11,609	5,621	81.1%	2,304	1,307	18.9%
Sweden	1,573	207	85.1%	238	36	14.9%
Norway	1,434	529	98.2%	100	10	1.8%
Estonia	1,048	65	52.1%	442	59	47.9%
Latvia	764	23	34.5%	467	44	65.5%
Lithuania	384	94	31.3%	189	206	68.7%
Poland	1,263	99	94.6%	61	6	5.4%
Russia	1,657	194	95.9%	30	8	4.1%
Belarus	734	48	61.0%	305	31	39.0%
Total	**20,466**	**6,880**	**80.1%**	**4,136**	**1,708**	**19.9%**

Kesko's purchases by company's and supplier's country of domicile in 2016

Company's country of domicile					Supplier's country of domicile						
€ million	**Suomi**	**Ruotsi**	**Norja**	**Viro**	**Latvia**	**Liettua**	**Puola**	**Venäjä**	**Valko-Venäjä**	**Muut maat**	**Yhteensä**
Finland	5,621	142	10	51	4	9	12	1	1	1,077	6,928
Sweden	13	207	5	1	0	0	0	-	-	16	243
Norway	0	9	529	-	-	-	-	-	-	0	538
Estonia	15	1	1	65	6	3	6	-	-	28	124
Latvia	4	0	0	7	23	1	2	0	-	29	68
Lithuania	6	1	0	9	24	94	33	1	3	129	300
Poland	0	0	-	-	0	-	99	-	-	5	104
Russia	1	-	-	1	-	-	0	194	-	7	203
Belarus	0	0	-	-	0	1	-	16	48	13	79
Total	**5,661**	**361**	**545**	**134**	**58**	**109**	**152**	**212**	**52**	**1,305**	**8,588**

Capital expenditure

In 2016, Kesko's capital expenditure totalled €743 million (€219 million in 2015), or 7.3% of net sales (2.5% in 2015). Capital expenditure in store sites was €216 million (€167 million in 2015). Capital expenditure in foreign operations accounted for 15.2% (40.2% in 2015) of the total capital expenditure. Duting the financial year, 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 used by the K-Group. These figures included, the total capital expenditure in Finland was around €738 million in 2016.

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.

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 at the Group, division, company and unit levels in all operating countries.

Kesko's anti-corruption principles are included in the K Code of Conduct guidelines updated 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 annual Value Discussions on the K Code of Conduct in its companies. In 2016, a Value Discussion event was organised in Suomen Lähikauppa and two Russian subsidiaries. They mainly focused on issues related to corruption and malpractice.

In 2016, one of the focus areas in Kesko's risk management and corporate security function was the prevention of malpractice. During the year, individual cases of suspected malpractice came to our knowledge. The Risk Management and 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. In 2016, six incidents were reported via the SpeakUp channel.

In 2016, 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 2016, there were no legal actions, fines or other sanctions relating to anti-competitive laws and regulations.

Environmental impacts

Energy

Kesko participates in mitigating climate change by purchasing and producing more of its own renewable energy.

Renewable electricity

Kesko has decided to purchase electricity produced with 100% renewable energy from the beginning of 2017. Kesko will purchase approximately 540 GWh of electricity in Finland in 2017. The electricity is used in K-stores and other Kesko properties.

Kesko purchases renewable electricity with the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, electricity purchases will especially focus on Finnish bioenergy. Bioenergy is based on, for example, by-products from the forest industry and wood based fuels.

Solar power plants at K-stores

In 2016, Kesko made significant investments in the construction of solar power plants. In June 2016, Finland's biggest property specific solar power plant was completed on the rooftop of K-Citymarket Tammisto, Vantaa. Additionally, a total of 11 K-Supermarkets and K-Citymarkets had a solar power plant installed on their rooftops by the end of 2016. A total of 210 MWh of electricity was produced with solar power in 2016.

By summer 2017, Kesko will have two more solar power plants installed. After this, Kesko will have 15 solar power plants producing approximately 3,559 MWh annually. The new investments will make the Kesko Finland's biggest producer and consumer of solar power.

Watch the video on solar power use at K Group >

302-1 Energy consumption within the organisation

Energy consumption of properties

Finland	2016	2015	2014
Electricity[1] (MWh)	458,690	694,544[2]	754,301
District heat (MWh)	308,924	254,214[2]	292,453
Fuel for self-produced heat (MWh)	5,169	3,406	4,233
Total energy consumption (MWh)	772,783	952,164	1,050,987
Total energy consumption (TJ)	2,782	3,428	3,784

Other operating countries	2016	2015	2014
Electricity (MWh)	100,808	103,038	96,231
District heat (MWh)	18,893	17,840[2]	17,607
Fuel for self-produced heat (MWh)	29,874	26,890[2]	29,116
Total energy consumption (MWh)	149,575	147,768	142,954
Total energy consumption (TJ)	538	532	515

All operating countries	2016	2015	2014
Total energy consumption (MWh)	922,358	1,099,932	1,193,941
Total energy consumption (TJ)	3,320	3,960	4,299

[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 2016, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and approximately 1,450 store sites. The total area of the property portfolio increased by 16.5% due to the acquisition of Suomen Lähikauppa and Onninen.

The total consumption of heat increased by 22% due to the increased stock of real estate. The majority of properties used district heat, but in addition 1.6% of the heat energy was self-produced. In 2016, the heat energy produced with natural gas and oil at properties in Finland totalled 18.6 TJ (5.2 GWh).

Beginning in 2016, the electricity consumption of Kesko in Finland includes only electricity purchased by Kesko. In previous years, the electricity purchased by retailer entrepreneurs at properties managed by Kesko has been estimated and reported. Heat consumption is reported for 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

During 2016, Kesko's stock of real estate outside of Finland changed significantly due to the acquisition of Onninen and the divestment of the K-food stores in Russia. Onninen operates in Kesko's previous operating countries and additionally in Poland.

The heating energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (950 MWh) and peat (130 MWh) were also used for heating. In 2016, the fuels used for self-produced heat totalled 107.5 TJ (29.9 GWh).

Subsidiaries outside of Finland report their fuel and purchased energy consumptions to Kesko and statistics per country are compiled from this data. The heating energy data is not reported for some properties (5% excluding Onninen's properties) because it is included in the lease or is not available.

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2016:

- Renewable: 407 TJ (6%)
- Nuclear power: 5 348 TJ (77%)
- Non-renewable: 1 143 TJ (17%)

Fuel consumption of logistics in Finland

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 503.9 TJ in 2016. The fuel used was diesel. In 2016, the total distance driven by Kesko Logistics was 32.3 million km (31.1 million km in 2015).

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 2016, the logistics in Estonia consumed 4.1 TJ of fuel (diesel and gasoline).

Total energy consumption

In 2016, Kesko's energy consumption in all operating countries totalled 3,828 TJ.

A total of 634.1 TJ of fuels from non-renewable sources were used for transportation as well as self-produced heat of properties. In addition, 3.4 TJ of renewable fuels were used.

302-3 Energy intensity

Specific consumptions of energy, properties managed by Kesko

kWh/br-m²	2016	2015	2014
Finland			
Specific consumption of electricity	204	207	205
Specific consumption of district heat	79	76	79
Other operating countries			
Specific consumption of electricity	88	99	94
Specific consumption of heat	42	43[1]	46

[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.

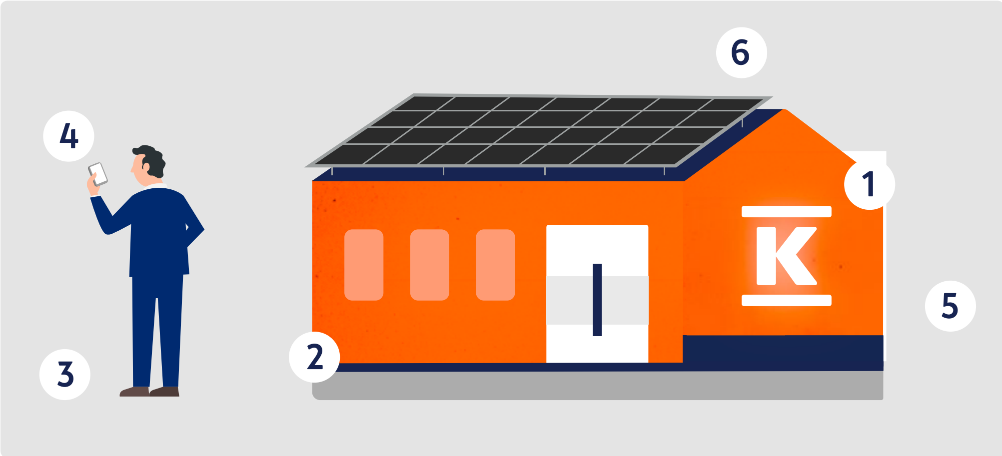
The calculation methods for the properties in Finland are available in the Energy consumption tracking report. The specific consumptions of properties in the other operating countries are calculated based on the total area of properties (1,152,000 m² in 2016).

302-4 Reduction of energy consumption

The K Group participated in the trading sector energy efficiency agreement for 2008-2016. The K Group was committed to improving its annual energy consumption by 65 GWh by the end of 2016. The final results of the agreement will be published by Motiva in summer 2017.

The K Group is participating in the next action plan of the commerce sector Energy Efficiency Agreement for the years 2017–2025. In accordance with the agreement, the K Group commits itself to reducing its energy consumption by 7.5% through various energy saving measures. All K Group store chains are included in the agreement.

Energy solutions in K-stores



1. Lighting

By February 2016, LED lights are used in all lighting solutions of property development projects. Adjustable, correctly directed LED-lighting can help save up to 50% 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 40 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 separate 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 204 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.

The remote monitoring of refrigeration systems in stores helped save approximately 3.63 GWh of energy in 2016. 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.

CO_2 refrigeration plants enable the efficient use of condensation energy together with low temperature heating systems. This combination achieves a considerably higher heat energy recovery efficiency compared to the traditional solutions using condensation heat from HFC-refrigeration units.

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 to be installed on the K-food store roofs will cover around 10–15% of the store's annual electricity consumption.

Information about energy saving efforts by Kesko Logistics can be found in the section 305-5.

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 and 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. The water consumption from these wells accounts for a minor part (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 is mainly used for cleaning purposes in the K Group's own operations. 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 properties in Finland increased significantly in 2016, which was due to the growth in the number of properties resulting from the acquisition of Suomen Lähikauppa and Onninen. Water consumption statistics by property type and changes in the property portfolio in Finland are available in the Energy consumption tracking report.

Water consumption by country

m^3	2016	2015	2014
Finland	933,812	884,081[1]	935,472
Sweden	7,247	6,354[1]	5,504
Norway	1,424	1,445	1,407
Estonia	5,922	4,954	4,876
Latvia	9,480	10,128	11,297
Lithuania	40,268	38,472	38,903
Poland	3,100	-	-
Russia	84,431	79,755	75,056
Belarus	48,797	43,342	39,741
Total	**1,134,481**	**1,068,531**	**1,112,256**

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

The growth in the property portfolio due to the acquisition of Onninen caused changes in water consumption also in the operating countries outside of Finland as well as in the new operating country, Poland. 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 not available for reporting (6% of locations in other operating countries, excluding Onninen's properties). Additionally, data was not available for 1% of properties.

Biodiversity

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

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.

In October 2016, the K Group committed itself to measures aimed at reducing the consumption of plastic bags, and published a plastics policy. The objective is to reduce plastics ending up in water bodies and elsewhere in the environment.

Read more about the plastics policy >

Global food production for a growing population is one of the biggest threats to biodiversity in the world. Food security can be improved through sustainable and efficient agricultural practices and minimising food waste.

Food waste and climate change

Minimising food waste along the entire food supply 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 emissions from its production, transportation, selling and preparation have been useless. Minimising food waste also reduces related emissions.

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.

K-maatalous Experimental Farm

The K-maatalous Experimental Farm in Hauho focuses on the development of crop varieties and research for the benefit of sustainable cultivation methods and better domestic food production. The research conducted on the Experimental Farm aims to provide K-maatalous retailers and farmers with solutions tested in Finnish conditions for making productive product choices and optimising their harvests. In Finland, around 80% of K-food stores' purchases are from domestic suppliers, which is why sustainable and vital Finnish agriculture is important to the K Group.

In June 2016, the K-maatalous Experimental farm made a Baltic Sea Commitment to the Baltic Sea Action Group (BSAG). The Experimental Farm tested measuring devices and methods aimed at providing practical ways to measure and monitor the use of nutrients and to assess the soil condition in rapid succession.

Measuring methods promote sustainable agriculture as investments can be optimised according to crop targets and use, soil potential and the requirements of plant varieties. Good soil condition and appropriate fertilisation, as well as transforming nutrients to good crops are important profitability factors for farmers, but also reduce the nutrient leakages to the Baltic Sea. Properly treated soil also sequesters carbon to soil and thus combats climate change.

304-3 Habitats protected or restored

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 2016, one Kesko property was restored in Porvoo, from which a total of around 93 tons of contaminated soil material was removed from a site of 3,385 m^2. No concentrations of hydrocarbons exceeding the guideline level were left in the restored area. The Uusimaa Centre for Economic Development, Transport and the Environment has checked the restoration report and stated that no further soil restoration is needed in the area.

Kesko does not have protected habitats of its own.

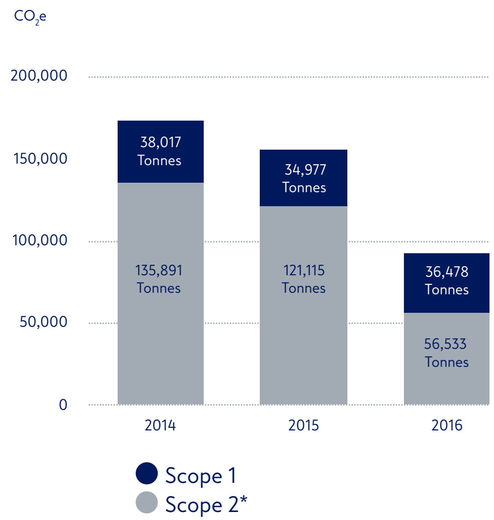
Emissions

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 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

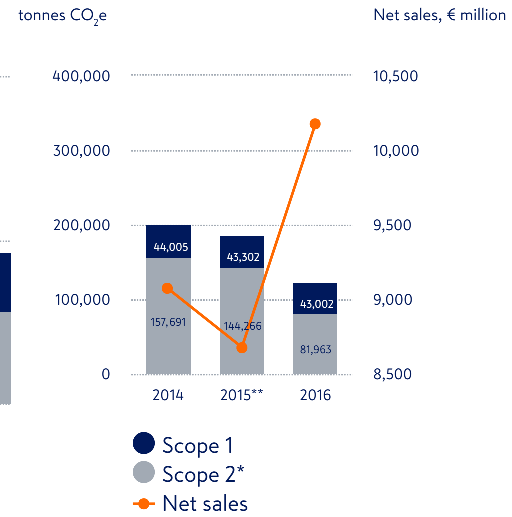
305-1 and 305-2 Direct and energy indirect GHG emissions (Scope 1 and 2)

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 2 figure adjusted for improved accuracy since previous report.

Scope 1 and 2 GHG emissions

Tonnes CO_2e		2015	2014
Direct (Scope 1)	43,002	43,302	44,005
Finland	36,478	34,977	38,017
logistics (Kesko Logistics)	35,079	34,117	36,915
self-produced heat (natural gas and oil)	1,399	860	1,102
Other operating countries	6,524	8,325	5,988
logistics (Belarus and Estonia)	344	1,115	-
self-produced heat (natural gas, oil, peat and timber[1])	6,180	7,210	5,988
Indirect (Scope 2)	81,963	144,266	157,691
Finland	56,533	121,115	135,891
purchased electricity (market-based)	0	73,734	81,495
purchased electricity (location-based)[2]	95,866	153,087	165,946
purchased district heat (location-based)	56,533	47,381	54,396
Other operating countries	25,430	23,151	21,800
purchased electricity (location-based)	20,218	18,475	17,362
purchased district heat (location-based)	5,212	4,676[3]	4,438
Total	**124,965**	**187,568**	**201,696**
Finland, Scope 1 and 2 total	93,011	156,092	173,908
Other operating countries, Scope 1 and 2 total	31,954	31,476	27,788

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

Scope 1

In 2016 the Scope 1 emissions of Kesko in Finland increased due to the acquisition of Suomen Lähikauppa. The new stores caused an increase in logistics and own production of heat.

Emissions from logistics in the other operating countries were reported for Estonia in 2016. The data for Belarus' logistics was not available. Most of the logistics in the other operating countries are outsourced and are partially reported in the Scope 3 emissions.

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 Estonia were calculated based on fuel consumption.

Scope 2

In 2016, the emissions from purchased energy in Finland decreased by 53% because of a change in the reporting boundary. Starting from 2016, the emissions caused by electricity purchased by Kesko are reported in Scope 2. The emissions caused by electricity purchased by retailer entrepreneurs are reported in Scope 3 category 14, franchising (retailer entrepreneurs).

Kesko's electricity was supplied by Helsingin Energia from the beginning of 2016 and by Fortum starting from 1 September 2016. The supplied electricity was carbon-free.

The emissions from purchased energy for the other operating countries increased by 10%, which was affected by the acquisition of Onninen.

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	2016	2015	2014
Upstream			
Purchased goods and services	6,910,000	5,936,000	5,922,000
Capital goods (buildings)	35,200	18,200	9,900
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	49,400	69,300	76,100
Transport and distribution of goods	18,400	18,300	18,600
Waste	11,400	9,000	10,100
Business travel	3,000	2,700	2,800
Employee commuting	21,000	6,700	7,800
Downstream			
Customer commuting (shopping trips)	157,400	154,400	166,100
Use of sold products	1,685,800	852,900	1,093,900
End-of-life treatment of sold products	36,500	16,300	28,000
Franchises (retailer entrepreneurs)	114,700	22,800	27,800

The greatest other indirect emissions of Kesko are caused in the supply chain of the products for sale (76%), in the use phase of the products (19%) 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 (€10,180 million in 2016), the average number of employees (22,476 in 2016) and the area of properties managed by Kesko (4,381,000 m^2 in 2016).

Scope 1 and 2 GHG emissions intensity

	2016	2015	2014
Based on net sales (tonnes CO_2e / € million)	12.3	21.6	22.2
Based on average number of employees (tonnes CO_2e / person)	5.6	9.9	10.1
Based on area of properties managed by Kesko (tonnes CO_2e / 1,000 m^2)	28.5	-	-

The Scope 2 reporting boundary for 2016 has changed

305-5 Reduction of GHG emissions

Science Based Targets

Kesko has committed to set emission targets in line with two degree climate warming and approved by the Science Based Targets initiative. The work to calculate the targets began in December 2016.

Energy efficiency of properties

Kesko has signed the trading sector energy efficiency agreement and committed to actions to improve its annual energy consumption by 65 GWh during the period 2008–2016. Motiva will publish the results of the agreement period in June 2017.

By increasing solar power Kesko decreases the emissions caused by property. Read more in the Energy section.

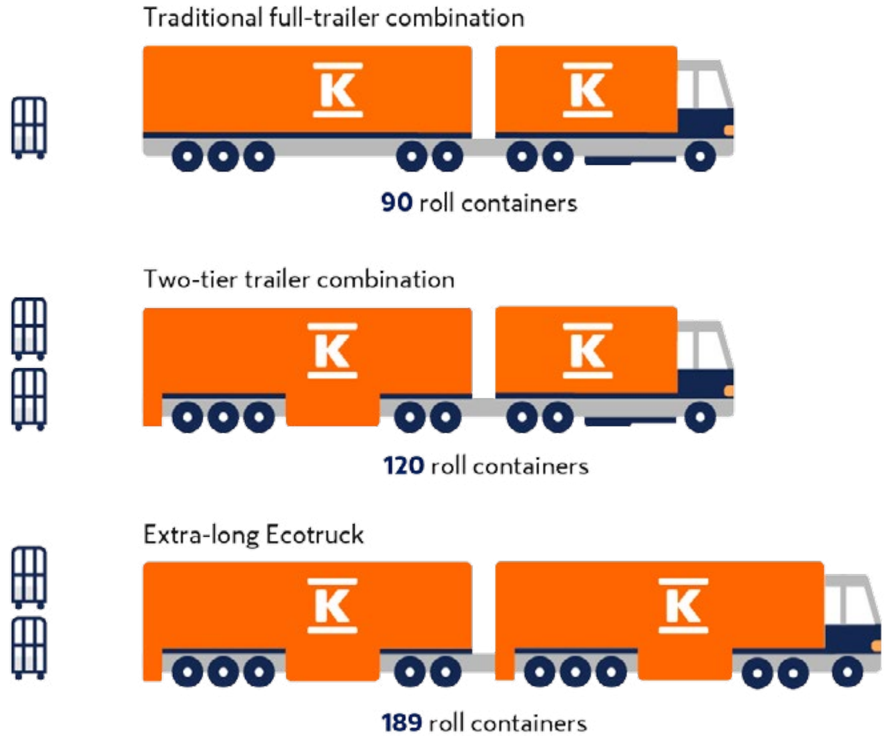
Logistics

The target of Kesko Logistics is to reduce CO_2 emissions relative to the net sales index by 10% during 2012–2020 from the base year of 2011. By the end of 2016, the relative emissions had decreased by 1.9% from the base level. In 2016, the emissions increased by 3.8% in comparison to 2015. The increase in the number of stores resulting from the acquisition of Suomen Lähikauppa affected the increase in emissions. Kesko's own-brand Pirkka products were delivered to the new stores and conversion of the stores to K-Markets required the delivery of refill loads as separate deliveries.

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 Keslog's more than 500 contract drivers have been trained
- New replacements in the vehicle fleet: nine two-tier trailers and one extra-long Ecotruck in use in long-distance transportation between main warehouses

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 becoming 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. The rising popularity of vegetables and plant-based products in Finland was one of the biggest food trends in 2016. Vegetarian display cabinets were introduced in K-food stores in 2016. The 'Vege' cabinets gather plant-based products in one place in order to make choosing environmentally friendly products easier for the customer. By the end of 2016, already 100 K-food stores included a 'Vege' cabinet. Additionally, the K-Ruoka media offers diverse recipes and tips for cooking vegetarian meals.

Read more about the ‘Vege’ cabinets >

Kesko encourages customers to reduce food waste accumulated at home. Kesko and the K-food stores participated in the Food Waste Week organised by the Consumers' Union of Finland in September 2016 by offering information, tips and recipes in customer communications for reducing food waste.

Kesko continued the cooperation started in 2015 with Gasum, Myllyn Paras and Wursti to utilise biogas produced from inedible organic waste collected from K-food stores and the Kesko Logistics central warehouse 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 (calculated with emission factor 198 g CO_2/kWh) and by 740 tonnes compared to fuel oil (calculated with emission factor 267 g CO_2/kWh).

In 2016, K Group participated in the Kinkkutemppu 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. Customers donated 12,000 kg of ham fat, which was used to produce 10,000 liters of renewable diesel.

Read more about ‘Kinkkutemppu‘ >

Read more about our work to reduce food waste and advance the circular economy in Effluents and 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.

The sharing economy enables reduction of emissions because less products need to be manufactured when many consumers can use the same product. In 2016, K-Rauta participated in a tool rental service pilot project called Liiteri in the Teurastamo area of Helsinki.

Read more about Liiteri pilot project >

Car trade

In February 2017, the selection of VV-Auto included four plug-in hybrid car models (PHEV) and two electric cars. In addition, the selection included five car models using natural gas or biogas as fuel. In 2016, the registrations of Volkswagen and Audi plug-in hybrids in Finland increased 204% 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 March 2017, already 13 K Group stores and 3 Neste K service stations offered electric and hybrid charging points for customer use. Dozens of new charging stations will be built at Neste K service stations along main highways during 2017. 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 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 2016, Kesko had 690 company cars in use in Finland (607 in 2015). The number of company cars increased due to the acquisition of Suomen Lähikauppa and Onninen, which resulted in an increase in the number of employees.

- 6 ethanol-fueled cars (12 in 2015)
- 312 petrol-fueled cars (263 in 2015)
- 370 diesel-fueled cars (330 in 2015)
- 2 natural gas cars (2 in 2015)

Kesko's company car policy recommends low-emission car models with an emission level below 150 g CO_2/km. In 2016, the average emission level was 122 g CO_2/km (127 g CO_2/km in 2015) and the emissions from company cars totalled 2,648 CO_2 tonnes (2,367 CO_2 tonnes in 2015). This calculation also includes private use of company cars.

In 2016, the air miles of Kesko employees travelling for business totalled 8.2 million (8.0 million in 2015). 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 43% since the previous year. In 2016, a total of 67,842 hours of Skype meetings were held (47,453 hours in 2015). At the end of 2016, the Kesko Group had 30 Videra video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 1,793 hours (3,812 hours in 2015).

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 2016 caused:

- 133 tonnes of NOx emissions (212 t in 2015)
- 117 tonnes of SO2 emissions (179 t in 2015)
- 1.2 tonnes of radioactive waste (1.4 t in 2015)

The changes in comparison to the 2015 figures are due to a change in the reporting boundary. For 2016 the electricity purchased by retailers is not included in Kesko's electricity consumption. The figures for 2015 have been adjusted for improved accuracy since the last report. The calculation principles and more detailed calculations are available in the **Environmental profile report**.

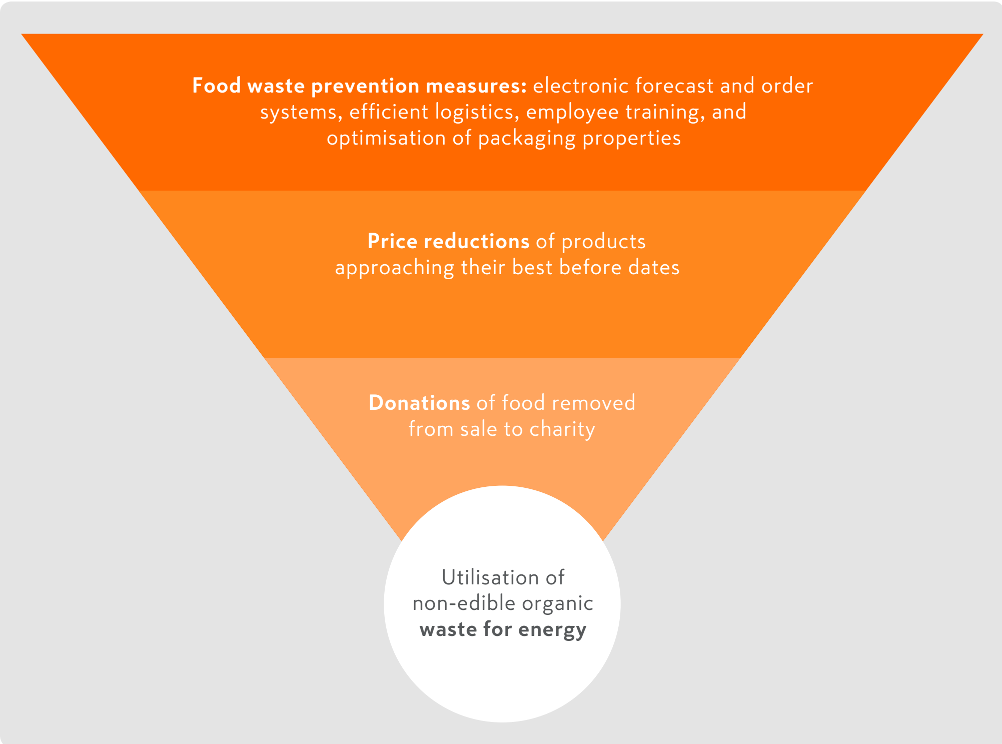
Only CO_2 emissions data is collected for transportation of goods.

Effluents and waste

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

Food waste

The goal of Kesko's grocery trade is to minimise the food waste resulting from its operations and utilize inevitably accumulated organic waste. Read more about the objective in Kesko's responsibility programme.



Circular economy

Kesko promotes the circular economy by taking part in innovative circular economy projects and by providing customers with diversified recycling services.

Energy from biowaste

The cooperation with Gasum, Myllyn Paras and Wursti, started in 2015, continued. Biogas made from food waste unfit for human consumption from K-food stores and Kesko Logistics' central warehouse is used as energy in the manufacture of new Pirkka products. In 2016, around 3,700 tonnes of biowaste was turned into 2,800 MWh of biogas.

In 2016, the K Group took part in the 'Kinkkutemppu' campaign in which customers returned fat arising from roasting their Christmas hams to K-stores' recycling points for conversion into renewable diesel. As much as 10,000 litres of renewable diesel was manufactured from the total of 12,000 kg of fat returned by customers.

Read more about 'Kinkkutemppu' >

Recycling services for customers

The recycling services on K-store premises make customers' daily lives easier and provide an efficient way for households to recycle discarded goods and consumer packages.

In December 2016, there were 396 Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 160 eco take-back points (2015: 38).

In connection with K Group stores, deposit beverage containers returned by customers, batteries and accumulators, WEEE, lead accumulators, impregnated timber and discarded clothing were also accepted.

Packages and items returned by customers to recycling points at K Group stores

	2016	2015	2014
Deposit aluminium cans (million pcs)	378	311	320
Deposit recyclable plastic bottles (million pcs)	116	94	96
Deposit recyclable glass bottles (million pcs)	29	26	27
Batteries and accumulators (tonnes)	289	210	193
WEEE (tonnes)	92	95[1]	170
Lead-acid accumulators, K-Rauta and Rautia (tonnes)	3.5	1.6	4.3
Impregnated timber, K-Rauta ja Rautia (tonnes)	814	914	1,003
Used clothing, UFF recycling points (tonnes)	3,123	2,915	2,507

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

In October 2016, the K Group committed itself to take actions in order to reduce the consumption of plastic bags and published a plastics policy. Since January 2017, Pirkka ESSI circular economy bags have been made from plastic recycled by customers

Read more about ESSI circular economy bag and Kesko's plastics policy >

Kesko Logistics' centralised collection services

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

Kesko Logistics' reverse logistics transport beverage containers and boxes from stores for reuse and recovery.

Packaging collected by Kesko Logistics reverse logistics for reuse and recovery

1,000 pcs	2016	2015	2014
Aluminium cans	82,169	96,479	93,107
PET bottles	54,648	61,403	54,296
Recyclable glass bottles[1]	11,292	9,462	9,667
Reusable crates	17,893	17,294	16,501

306-2 Waste by type and disposal method

Waste in all operating countries

Tonnes	2016	2015	2014
Non-hazardous waste	38,051	27,832	30,699
Recycling/recovery	27,444	18,474	19,675
Landfill	10,607	9,358	11,024
Hazardous waste	774	1,261	164
Recycling/recovery	524	171	-
Hazardous waste treatment	250	1,090	-
Total	**38,825**	**29,093**	**30,863**

The figures for 2015 have been adjusted for improved accuracy

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 99% in 2016 and in the other operating countries it was 48%. The recovery rate includes all waste except waste to landfill.

Kesko offers K-retailers in the southern Finland area the opportunity to participate in a centralised waste management agreement. In 2016, 114 K-food stores, 11 building and home improvement stores and 14 other stores participated in the framework agreement. The recovery rate of the waste generated in these stores was 100% (98% in 2015) and the recycling rate was around 66% (67% in 2015).

Based on good experiences and convincing results, it was decided to expand the centralised waste management agreement nationwide. In November 2016, an agreement enabling all K Group stores to make recycling more efficient and to adopt the modern circular economy was signed.

Waste: Finland, Sweden and Norway

	Finland			Sweden			Norway		
Tonnes	**2016[1]**	**2015**	**2014**	**2016**	**2015[2]**	**2014**	**2016**	**2015**	**2014**
Non-hazardous waste	18,366	10,737	11,890	3,479	2,692	2,788	410	633	1,022
Recycling/recovery	18,204	10,621	11,525	3,220	2,470	2,206	410	593	1,019
Landfill	162	116	365	259	222	582	0	40	3
Hazardous waste	273	1,125	43	81	60	29	215	15	55
Recycling/recovery	183	160	-	3	3	-	200	-	-
Hazardous waste treatment	90	965	-	78	57	-	15	15	-
Total	**18,639**	**11,862**	**11,933**	**3,560**	**2,752**	**2,817**	**625**	**648**	**1,077**
Recovery rate %	99	99	97	93	92	79	100	94	99

[1] A small part of the data is based on estimation (0.3% of total waste in Finland)
[2] The 2015 figures for Sweden have been adjusted for improved accuracy since the previous report

Waste: Estonia, Latvia and Lithuania

	Estonia			Latvia			Lithuania		
Tonnes	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Non-hazardous waste	733	680	631	640	612	545	3,946	2,605	3,545
Recycling/recovery	689	608	392	163	156	127	2,271	1,699	2,430
Landfill	44	72	239	477	456	418	1,675	906	1,115
Hazardous waste	27	20	14	5	3	3	152	36	18
Recycling/recovery	1	-	-	-	-	-	119	8	-
Hazardous waste treatment	26	20	-	5	3	-	33	28	-
Total	**760**	**700**	**645**	**645**	**615**	**548**	**4,098**	**2,641**	**3,563**
Recovery rate %	94	90	63	26	26	24	59	66	69

Waste: Poland, Russia and Belarus

	Poland			Russia			Belarus		
Tonnes	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Non-hazardous waste	218	-	-	8,594	8,303	8,537	1,665	1,570	1,741
Recycling/recovery	51	-	-	2,382	2,279	1,918	55	48	58
Landfill	167	-	-	6,212	6,024	6,619	1,610	1,522	1,683
Hazardous waste	15	-	-	1	1	1	3	1	1
Recycling/recovery	15	-	-	-	-	-	2	0.1	-
Hazardous waste treatment	-	-	-	1	0.8	-	0.6	0.9	-
Total	**233**	**-**	**-**	**8,595**	**8,304**	**8,538**	**1,668**	**1,571**	**1,742**
Recovery rate %	28	-	-	28	27	22	3	3	3

Social impacts

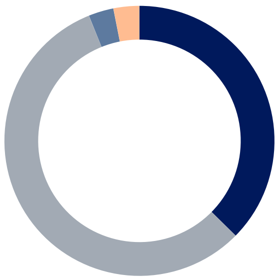
Employment

401-1 New employee hires and employee turnover

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 (excluding Saele og Holleviks Trading AS adn TM Christensen VVS Detajer).

In 2016, Kesko had an average of approximately 22,476 (2015: 18,955) 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% were in the other operating countries.

Distribution of Kesko personnel by division at 31 Dec. 2016, %



- Grocery trade 37.4%
- Building and technical trade 56.5%
- Car trade 3%
- Common operations 3.1%

Changes in the number of Kesko employees

	2016	2015	2014
Finland at 31 Dec.	14,845	10,081	12,180
Other operating countries at 31 Dec.	12,811	11,854	11,614
Total at 31 Dec.	27,656	21,935	23,794
Finland, average	10,714	8,300	9,580
Other operating countries, average	11,762	10,655	10,396
Total, average	**22,476**	**18,955**	**19,976**

Fixed-term and part-time employments at Kesko

	2016	2015	2014
Fixed-term employees of total personnel at 31 Dec., %			
Finland	12.0	11.5	13.9
Companies in other operating countries	6.1	6.1	7.2
Whole Group, total	**9.2**	**8.6**	**10.7**
Part-time employees of total personnel at 31 Dec., %			
Finland	43.9	39.4	43.6
Companies in other operating countries	6.7	8.1	7.1
Whole Group, total	**26.7**	**22.5**	**25.8**

Kesko's personnel statistics for 2016 analysed by operating country

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of personnel at 31 Dec.	14,845	1,165	424	714	627	4,170	846	1,981	2,884
Average number of personnel in 2016	10,714	1,028	299	632	521	3,442	486	2,992	2,362
Number of new employments[1]									
- women	3,055	113	14	96	76	1,038	16	1,006	408
- men	2,052	184	33	133	203	1,448	55	800	622
Number of terminated employments[1]	4,696	269	102	187	191	3,330	26	1,585	701
Terminated by employer, %	5.3	10.4	0.0	2.7	2.6	9.3	69.2	8.5	0.4
Total turnover rate, %[2]	20.2	23.1	23.3	17.1	22.8	78.0	3.1	80.0	24.3

[1] Including summer employees
[2] Excluding summer employees

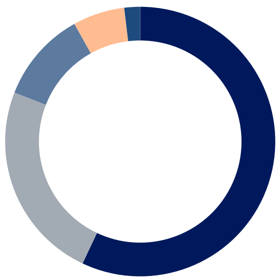
When calculating the number of terminated employments, each employee is included only once, whereas one person may have several new employments included in the total number.

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

The 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

Recruits, age distribution 2016, %



- Under 26 years 57.1%
- 26-35 years 23.9%
- 36-45 years 11%
- 46-55 years 6.2%
- Over 55 years 1.9%

In all of the operating countries, Kesko supports its employees' leisure activities in different ways. The Finnish companies, for example, provide vouchers for physical exercise and cultural benefits. 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 remuneration 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 total profits, the sales and profit of the employee's own unit, and customer satisfaction. The job satisfaction of personnel also affects supervisors' performance bonuses. In spring 2016, around €11.5 million (€12.4 million in 2015) was paid in Finland in bonuses under the 2015 performance bonus schemes, accounting for approximately 3.7% (4.0% in 2015) of the total payroll.

In 2016, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland, €14.5 million (€13.1 million in 2015)
- In the other operating countries, €8.3 million (€5.0 million in 2015)

Kesko Group's management and key personnel (approximately 150 individuals) are participants in a performance-based bonus scheme. The maximum bonus amounts vary depending on the profit impact of the person's role and are equivalent to 3–8 months' salary. Kesko operates the 2014–2016 share remuneration scheme covering approximately 150 members of management personnel and other named key individuals. The share remuneration plan has three vesting periods: the 2014, 2015 and 2016 calendar years. The shares awarded as bonuses have a commitment period of three calendar years following each vesting period. During the commitment period, the shares cannot be transferred. In February 2016, the Board decided to grant a total of 140,365 Company B shares to 142 members of management personnel and other named key individuals based on the fulfilment of the vesting criteria for the 2015 vesting period of the share remuneration plan.

Pensions

New pensions were granted to 271 (168 in 2015) people in the 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 87 (50 in 2015) people who were at a clear risk of losing their working capacity within a few years. The average retirement age of employees in 2016 was 60 (59 in 2015). In the other operating countries, 28 (15 in 2015) employees retired.

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.

Employees can ask questions, give feedback and suggest ways to develop matters related to the operations of Kesko or its subsidiaries anonymously using the Direct Line feedback channel on Keskonet, Kesko's intranet. Responses are published on Keskonet for all to see. The Mail for the President and CEO feedback channel on Keskonet also enables the personnel to send their greetings, comments and suggestions directly to the President and CEO. Confidential feedback can also be given via the SpeakUp reporting channel.

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. 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, 15,000 (10,200 in 2015) employees were covered by Kesko's own occupational health services. Kesko's occupational health service purchases occupational health care from various service providers for employees in Finland outside Greater Helsinki. Centralised purchasing and target-oriented management enable consistent contents 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 € 7.5 million (€3.7 million in 2015) was spent on occupational health care in Finland in 2016. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €3.7 million (€2.0 million in 2015) of this sum. In 2016, Kesko's occupational health service spent €499 (€359 in 2015) per employee on maintaining employees' working capacity and providing medical care.

Kesko's contribution to occupational health care, Finland

	2016	2015	2014
€/person	499	359	412

Injuries and occupational diseases in Finland

	2016	2015	2014
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	227	93	124
Commuting injuries	81	35	32
Injury rate[1] /million working hours	10	6	6
Average degree of injury severity, days	15.8	16.9	17.6
Suspected occupational diseases	1	4	11
Occupational diseases	2	0	0
Sick days due to occupational injuries, commuting injuries and occupational diseases	5,744	2,166	2,751
Per employee	0.5	0.3	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 or the following companies: Vähittäiskaupan Takaus Oy, Vähittäiskaupan Tilipalvelu VTP Oy, the Agricultural Foundation of Trade.

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

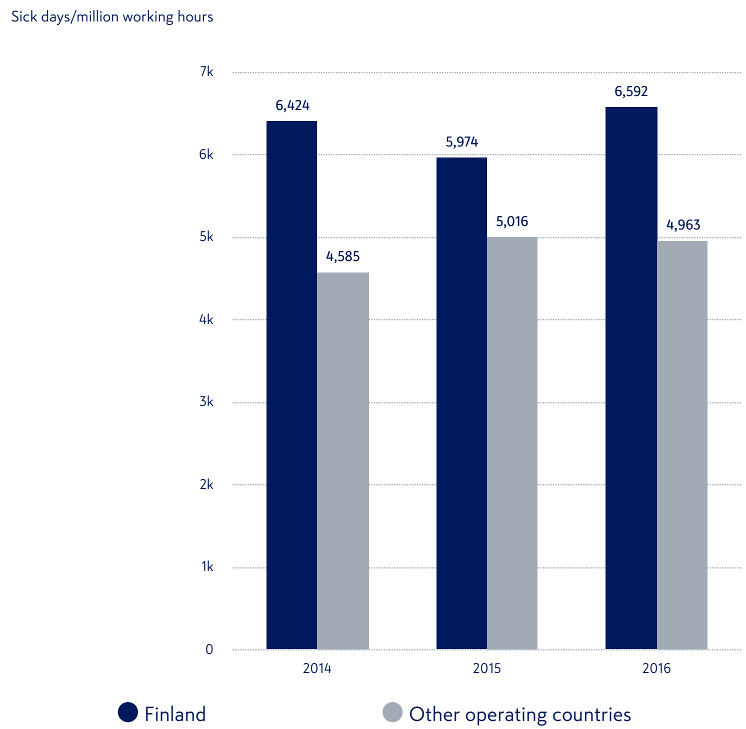
Sickness absences by country in 2016

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of sick days	133,211	6,931	4,412	4,105	5,164	33,494	5,258	28,664	27,890
Per employee	12.4	6.7	14.8	6.5	9.9	9.7	10.8	9.6	11.8
Per million working hours	6,592	3,831	8,384	3,199	4,907	4,817	5,201	4,838	5,811

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

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 71 injuries occurred resulting in sickness absences of more than three days in 2016. The corresponding figure in Finland was 227. In 2016, the sickness absence rate in the Group companies in Finland was 4.4% of hours worked (4.4% in 2015). Approximately 74.6% (77.4% in 2015) of sickness absences were short-term absences (paid sick days). In the other countries, the sickness absence rate was 4.2% (3.7% in 2015).

Trend in number of sick days



Training and education

404-1 Average hours of training per year per employee,

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. The revised supervisor training programmes have already reached a large proportion of supervisors, and a separate training programme for middle managers was launched in the autumn. Further investments were made in digital thinking as the K Digital Academy training programme was executed for the third time and the K Digital Trainee programme offered trainee placements for recent graduates with a digital orientation. In addition, a mindfulness training course was piloted with good results. Numerous regional social media training courses were held for retailers. Updated and uniform electronic tools for induction were adopted.

Other core areas of competence development included:

- Immediate supervisory work
- Leadership
- Digitality
- Project management
- Interaction and negotiation skills
- Safety and responsibility
- Customer experience; sales and service competences

Training days and costs in 2016

	2016	2015	2014
Training days[1]			
Finland	7,421	6,891	9,083
Other countries[2]	11,033	14,614	14,285
Training days per employee[1]			
Finland	0.7	0.8	0.9
Other countries[2]	0.9	1.4	1.4
Training costs, € million			
Finland	2.9	2.5	2.9
Other countries	0.9	0.9	0.8
Training costs per employee, €			
Finland	268	299	298
Other countries	79	87	80

[1] 2015: Excluding Konsoma JLLC, Belarus and OOO Kesko Real Estate, Russia
[2] 2014: Excluding Konsoma JLLC, Belarus. 2015: Excluding Konsoma, Belarus and OOO Kesko Real Estate, Russia

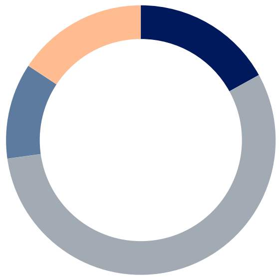
The updated gamified Master Sales Assistant training course offers store personnel a colourful and interesting way of developing their sales skills. Store personnel were also offered vocational training and the opportunity to obtain vocational qualifications. In addition, we trained 91 new workplace instructors for K-stores.

In-house job rotation provides an extensive selection of alternative careers. In Finland, approximately 4,837 (1,800 in 2015) internal transfers took place, while the total figure for the other operating countries was 2,923 (2015 in 2,900).

In Finland, the K Group's recruitment is supported by the K Trainee and retailer coaching programmes. The sixth K Trainee programme ended in October 2016, and five K-trainees graduated from the digitally-oriented programme to take on permanent employments in the K Group. In 2017, a dozen or so talented young people will be sought for inclusion in the K Trainee programme.

Future K-retailers are trained in the retailer coaching programmes. The coaching involves online studies and on-the-job training under a mentor retailer, as well as regional and national on-site training periods. Those completing the programme are qualified to start a career as independent K-retailers. Investments were made in the continuous development of existing retailers' competences by updating the supplementary training for retailers, which includes several targeted training sessions and the more extensive Success Factors training entity, which forms part of the MBA degree.

Distribution by education at 31 Dec. 2016, %



Byggmakker, Norway and K-rauta, 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, supervisory work and the working community. Every member of personnel has a performance and career development review, and in 2015, they were carried out twice: in the spring and the autumn. The implementation of performance and career development reviews was surveyed in conjunction with the personnel survey conducted at the beginning of 2016. The response rate to the personnel survey was 85%. 79% of the women who responded to the survey and 82% of the men who responded had had a performance and career development review in 2015. In 2016, they were conducted at least once: in the spring and/or the autumn.

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 supervisory work. The personnel survey is conducted in Kesko Group and some K-stores in Finland at the same time as in other countries. 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 supervisors 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.

Diversity and equal opportunity

405-1 Diversity of governance bodies and employees

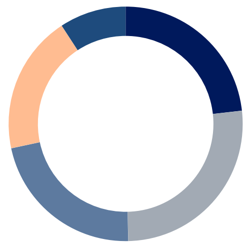
Equal opportunities, justice, non-discrimination and equality are important principles that are observed at Kesko. Kesko Corporation and its division parent companies and subsidiaries in Finland draw up statutory company-specific HR, training, equality and non-discrimination plans and define objectives 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, 60% were women and 40% were men. In the other operating countries, the figures were 48% and 52% respectively.
- In Finland, the average age of employees was 41.8 years in 2016. In the other countries, the average age of employees varied from 36 to 46 years.
- Lengths of employee careers: under 10 years: 67% and over 10 years: 33% in Finland and 87% and 13% respectively in the other countries. Long careers are not rare: 1,438 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 engaging in retailing in Finland, the proportion of women in supervisory duties was significant: 87% of the department managers at K-Citymarket hypermarkets were women.
- At the end of 2016, 46% of all supervisors in Finland (51% in 2015) were women and 54% (49% in 2015) were men.

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

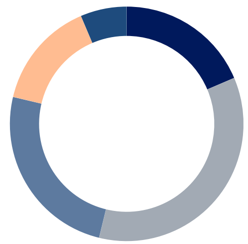
- In 2012, the K-Retailers' Association started a project named 'Many kinds of performers' in collaboration with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent operating model was created for employing people with developmental disabilities. Many of the people with developmental disabilities who were employed as part of the project are still working at the 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 the 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. By the end of 2015, when the Youth Guarantee in K Group programme ended, more than 2,500 young people had found a position with the help of a work trial, pay subsidy or apprenticeship training.
- The employment of young people and special groups continues as a permanent operating model. In 2016, the K-Retailers' Association had a youth guarantee coordinator who provided K-retailers and Kesko's supervisors with advice on employing and training young people and special groups and acted as a liaison to the authorities and associations. By the end of 2016, more than 3,200 young people from the target group had received a position in the K Group with the help of a work trial, pay subsidy or apprenticeship training.

Age distribution of Kesko personnel in Finland in 2016, %



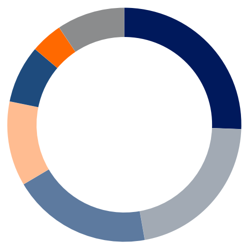
- under 26 years 23.2%
- 26–35 years 26.4%
- 36–45 years 22%
- 46–55 years 19.1%
- over 55 years 9.2%

Age distribution of Kesko personnel in the other operating countries in 2016, %



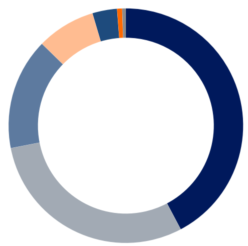
- under 26 years 18.6%
- 26–35 years 35.2%
- 36–45 years 24.9%
- 46–55 years 14.9%
- over 55 years 6.4%

Years of service in Finland in 2016, %



- under 2 years 25.6%
- 2–5 years 21.6%
- 6–10 years 19.3%
- 11–15 years 11.7%
- 16–20 years 8%
- 21–25 years 4.4%
- over 25 years 9.4%

Years of service in the other operating countries in 2016, %



- under 2 years 42.3%
- 2–5 years 29.7%
- 6–10 years 15.4%
- 11–15 years 8.1%
- 16–20 years 3.4%
- 21–25 years 0.7%
- over 25 years 0.5%

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 €38,794 in Finland, €40,313 in the other Nordic countries, and €10,113 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

	2016	2015	2014
Top management	24.1	20	15.6
Middle management	20.0	21.1	18.6
Supervisors and specialists	41.9	46.4	48.2
Workers and white-collar employees	64.4	57.8	61.5
Total	**60.1**	**55.4**	**58.8**

The figures also include those called to work on demand

Percentage of women by employee category, other countries

	2016	2015	2014
Top management	0.0	0	0.0
Middle management	49.1	47.7	46.8
Supervisors and specialists	48.4	54.4	54.7
Workers and white-collar employees	47.2	47.8	46.2
Total	**47.8**	**50.5**	**51.5**

2014 and 2015: Excluding Senukai, Lithuania

Non-discrimination

406-1 Incidents of discrimination and corrective actions taken

In 2016, there was one case in the Finnish courts of law in which a Kesko Group company was ordered to pay compensation under the Non-Discrimination Act.

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

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

Out of the total personnel, 50% are covered by collective agreements.

So far, no binding industry-wide collective agreements have been drawn up in Russia.

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 on assessment >

Find out more about Kesko's collaboration with SASK >

412-2 Employee training on human rights policies or procedures

The K Code of Conduct operating guidelines include a section on human rights. The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 3,159 people by the end of 2016. A plan for the year 2017 was drawn up with actions promoting awareness of the K Code of Conduct, such as communications and training events scheduled for each quarter of the year.

The training events in 2016 focused on human rights and their implementation in international purchasing chains. Nine events were arranged for people working in purchasing and sales in different divisions, as well as for the Product Research Unit. The training sessions discussed the assurance process in purchasing from high-risk countries, the BSCI Code of Conduct principles and the social responsibility assessment systems approved by Kesko. Trainings in responsible purchasing will continue in 2017.

Supplier social assessment

414-1 New 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 2016, direct purchases by Kesko's Finnish companies from suppliers in high-risk areas totalled €85 million (€90 million in 2015) and accounted for 1% (1.2%) of Kesko's total purchases. Direct imports from high-risk countries accounted for 11.9% (14.8%) of Kesko's total imports into Finland. The most significant high-risk countries of import of Kesko's Finnish companies are presented in the table below. No statistics are available on direct imports from high-risk countries by Kesko's subsidiaries in other countries.

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

Since 2015, Kesko has published 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 21 June 2016.

Social responsibility audits of our suppliers in high-risk countries

Kesko recommends the use of BSCI audits and SA8000 certification in the assessment of social responsibility of suppliers in high-risk countries. Kesko also accepts other social responsibility assessment systems, if their criteria correspond to those of BSCI auditing and 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 BSCI auditing after a maximum of two ICA audits. The social responsibility auditing systems accepted by Kesko are listed under 'Management models and systems'. Some of Kesko's suppliers are themselves members of BSCI and thus promote audits in their own supply chains.

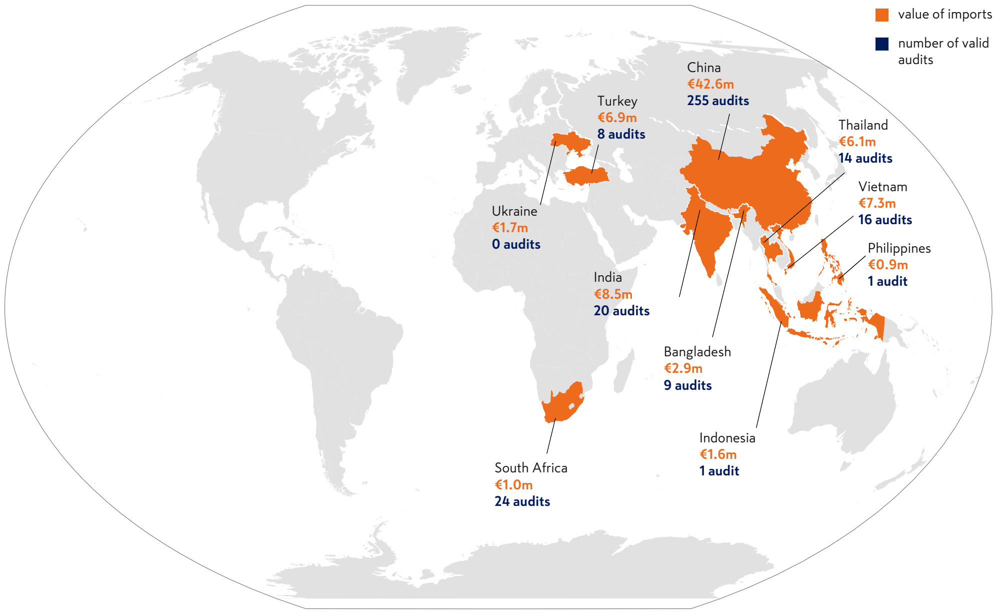
Kesko's own direct imports from high-risk countries, 10 largest countries in 2016[1]

Country	Value of imports, € million
China	42.6
India	8.5
Vietnam	7.3
Turkey	6.9
Thailand	6.1
Bangladesh	2.9
Ukraine	1.7
Indonesia	1.6
South Africa	1.0
The Philippines	0.9

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

Suppliers' social responsibility audits in Kesko's 10 largest high-risk countries of import

Direct purchases from suppliers in high-risk countries account for 1% of Kesko's total purchases



At the beginning of 2017, Kesko's suppliers in high-risk countries had:

- 274 (start of 2016: 200) valid BSCI audits
- 13 (start of 2016: 16) valid SA8000 certifications
- 24 valid SMETA audits
- 11 valid ICTI CARE certifications
- 22 valid SIZA audits
- 11 valid Fairtrade certifications
- 5 valid ICS audits
- 2 valid WRAP certifications
- 24 valid ICA Social Audits

As regards Onninen, the figures only include the BSCI audits of suppliers to the Kesko Onninen Purchasing Office (KOPO) in Shanghai.

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. Since the beginning of 2016, 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.

The map presented here shows the number of suppliers' valid social responsibility audits and certifications in Kesko's 10 largest high-risk countries of import.

BSCI audit results

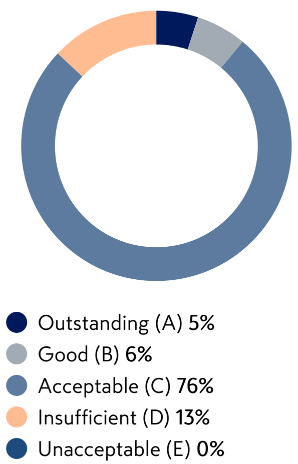
In 2016, suppliers' factories or plantations underwent

- 210 (2015: 107) full BSCI audits
- 60 (2015: 80) BSCI follow-up audits

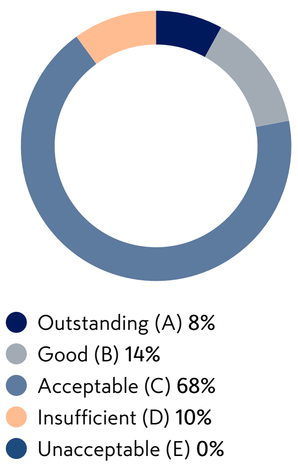
The results of the BSCI audits of Kesko's suppliers' factories in 2016 are shown below. The majority of the deficiencies occurred in management practices, observance of working time regulations, and matters related to occupational health and safety. Corrective actions and monitoring are included in the audit process. In accordance with BSCI's 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 2016, it was decided to terminate cooperation with one supplier due to ambiguities related to social responsibility. It was not possible to reach a consensus with the supplier regarding the necessary corrective actions.

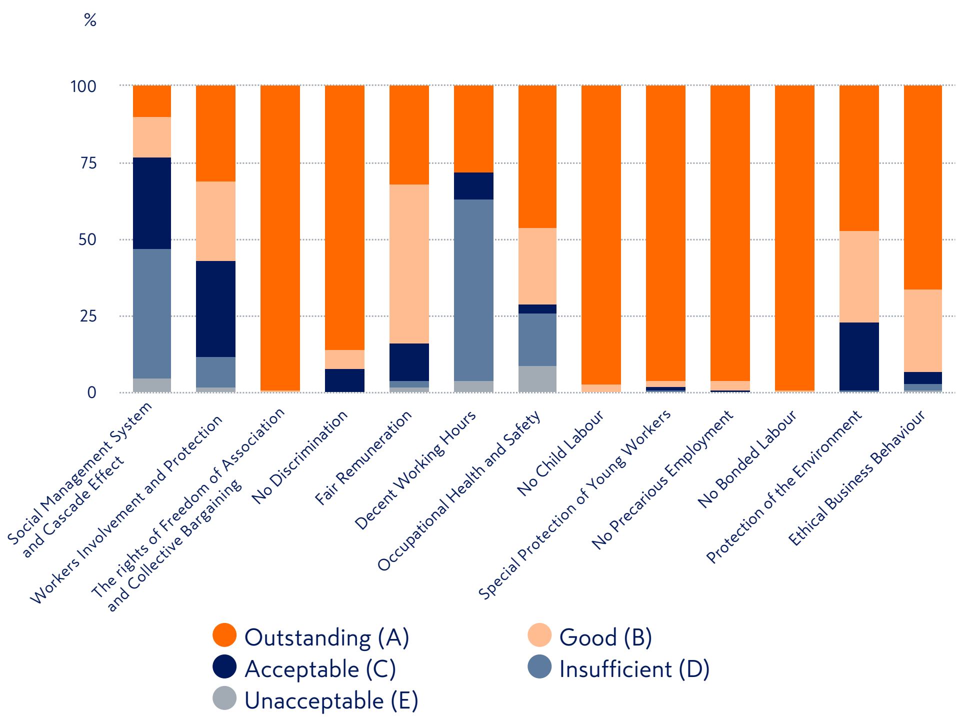
Kesko's BSCI audit results in 2016, full audits



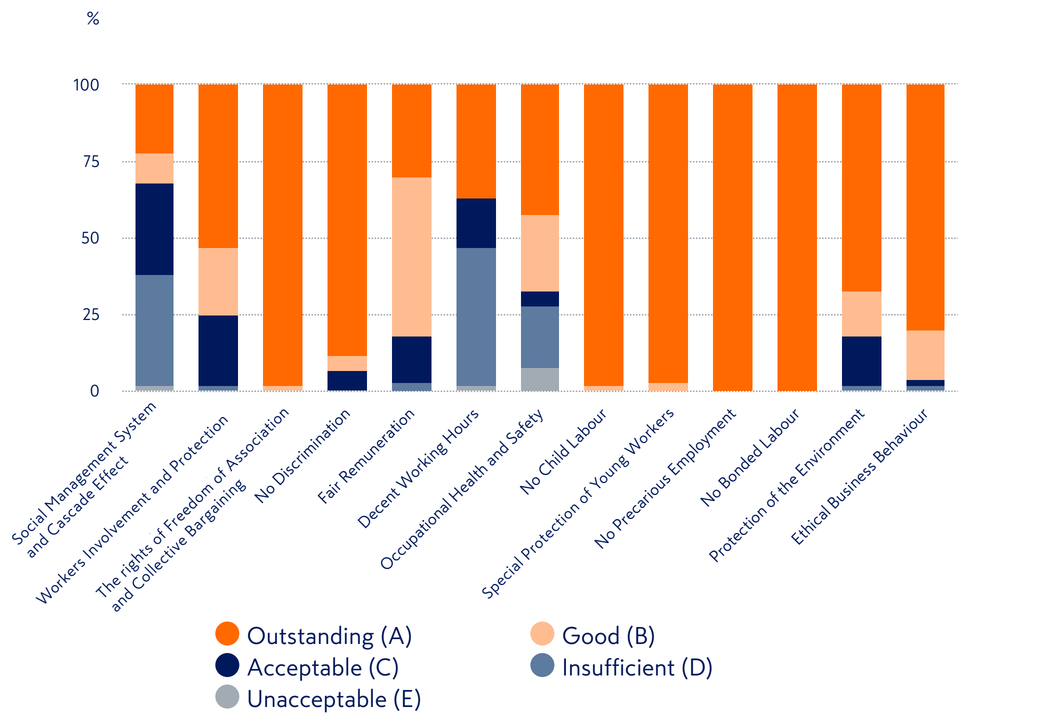
Kesko's BSCI audit results in 2016, follow up audits



Kesko's BSCI audit results, distribution in different areas in 2016, full audits



Kesko's BSCI audit results, distribution in different areas in 2016, 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 the store level.

- In 2016, Kesko's grocery trade selections included 367 (2015: 212, excluding Kespro) Fairtrade products, of which 36 (2015: 40) were Pirkka products and 7 were Kespro's Menu products.
- In 2016, the products sold by Kesko's grocery trade and Kespro generated Fairtrade premiums for social development projects amounting to €649,459 (2015: €481,405).

In 2016, the products generating the largest Fairtrade premiums were flowers (€268,358), fruit (€135,764) and coffee (€169,635). According to Fairtrade Finland's statistics, the sales of own brand – Pirkka and Menu – Fairtrade coffee alone employed 184 small-scale coffee farmers in 2016 on Fairtrade's terms.

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

Kesko aims to identify the entire supply chain of the products and also verify the sustainability of products' ingredients. Work began in 2015 to analyse the origins of the ingredients in own-brand grocery products, and the sustainability of 1,923 ingredients in Pirkka and K-Menu food products was assessed. The project continued in 2016, when risk analyses were conducted for the ingredients in 160 new own brand food products. In 2016, 29 of the studied products contained ingredients for which additional sustainability investigation will be required. The suppliers will be requested to investigate the social responsibility of the suppliers of these ingredients.

Studies of the ingredients in own-brand food products will continue in 2017. Based on the results, Kesko intends to decide upon ingredient-specific follow-up measures to promote the sustainability of the supply chains of Pirkka and K-Menu products.

Follow-up study on the impact of a training project for Vietnamese supplier

Kesko was involved in a training project conducted by Union Aid Abroad APHEDA and the Trade Union Solidarity Centre of Finland SASK from 2006 to 2008, with the aim of improving the working conditions in the factories of selected Vietnamese suppliers shipping to Finland and supporting the factories in implementing the BSCI operating principles. The project involved 13 Vietnamese suppliers and 18 factories.

A follow-up study was conducted in autumn 2016 to gauge the long-term impacts at ten of the factories involved in the project. The aim of the impact assessment was to evaluate the effects of the project on factory working conditions eight years later in terms of occupational health and safety, relations between managers and workers, and environmental management systems.

The results of the impact assessment show that the project had long-term benefits. Almost all of the factories being assessed had continued to improve working conditions after the project finished. In eight years, the factories had made tangible improvements to their working environments, the situation of workers and their environmental systems.

Find out more about Kesko's collaboration with SASK >

Collaboration with Plan

Kesko and Plan International Finland, an organisation promoting children's rights, continue their cooperation to improve the responsibility of the Thai fishing industry and the situation of migrant workers. A collaboration agreement has been made for the period from 2015 to 2018. The joint project aims to improve the working conditions of Cambodian migrant workers, as well as education and protection for their children in Thailand. A further goal is to increase transparency in the supply chain.

As part of the project, two learning centres were established for children of migrant workers in the Rayong and Trat provinces in spring 2015. The learning centres provide children from migrant workers' families with the skills they need to attend public schools in Thailand and support them in continuing their studies. In 2016, 159 children aged between 4 and 17 were registered at the learning centres, and 99 children were admitted to school with the help of the project. BSCI training for suppliers began in November 2016. 16 suppliers from the Thai fishing industry took part in the first training event, which was held in Bangkok. The training will continue in spring 2017. Find out more about our collaboration with Plan.

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 2016, Kesko did not participate in political parties' seminars subject to a charge and did not publish commercial advertisements in party newspapers.

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. It requires manufacturers of its own-brands to have certification that assures international product safety. The standards approved by Kesko's grocery trade include BRC, IFS, FSSC 22000 and GlobalGAP. In 2016, the total number of certified suppliers was 538 (532 in 2015). This number also includes old audits conducted according to Kesko's grocery trade's own audit guidelines.

A total of 7,770 (8,037 in 2015) product samples were analysed. Most of them related to the product development of own brands. A total of 2,387 (2,158 in 2015) own control samples were analysed.

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. Kesko follows the discussion about reformulation restarted by the launch of the **Roadmap for Action on Food Product Improvement** in spring 2016. As the national Finnish targets are likely to be established in 2017, Kesko's grocery trade will revise its reformulation policy statement.

In 2016 and early 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.

Product Research is also responsible for product recalls, which numbered 101 in 2016 (124 in 2015). Of these, 26 (27 in 2015) were Kesko's grocery trade's own-brands; in the other cases, Product Research assisted the manufacturers in recalls. There were two public recalls involving a potential health hazard resulting from product flaws or defects in Kesko's grocery trade's own-brand products in 2016 (3 in 2015).

In 2016, K-Rauta made one product recall in Finland.

Onninen made four recalls in 2016: two in Finland, one in Sweden and one in Poland.

In 2016, 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

As for its own-brand products and own imports, Kesko's grocery trade complies with Regulation (EC) No 1169/2011 on the provision of food information to consumers and the supplementary Regulation (EC) No 1337/2013 laying down rules for the indication of origin of certain meats. These regulations lay down the rules for providing information on product ingredients, among other things.

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. The country of origin of meat is also indicated in the list of ingredients of Pirkka products that contain meat as one of the main ingredients, although related national legislation is only planned. The country of origin is indicated on all own-brand products of K-Citymarket and Kesko's building and technical trade.

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 packages of Kesko's own-brand chemical products — such as detergents and paints — bear warning labelling in accordance with CLP regulation EC 1272/2008 on the classification, labelling and packaging of chemicals.

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 diesel engines. This software is fitted in EA 189 series 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 is around 53,000. The case applies to all of the brands imported by VV-Auto (Volkswagen, Audi, SEAT and Volkswagen commercial vehicles).

In 2016, the German authority (KBA) approved all technical corrective measures for type EA 189 diesel engines. The 1.2 litre and 2.0 litre diesel engines will get a software update. The 1.6 litre diesel engines will also get a software update and have a "flow rectifier" fitted directly in front of the air mass sensor.

Earlier in the spring of 2016, the German authority confirmed that the technical measures will not impair fuel consumption, engine power, CO_2 emissions, handling or acoustics. The corrective measures will not have an impact on the cars' taxation in Finland, because nitrogen oxide emissions (NO_x) are not car tax or vehicle tax bases in Finland. After the technical measures have been implemented, the cars will fulfil the applicable type approval emission standards.

In Finland, the importer has sent informative letters to the customers concerned. After receiving the letter, the customer can book an authorised repairer. The corrective measure will take from 30 minutes to one hour, most conveniently in connection with a maintenance visit or tyre change. The corrective measure can only be made at an authorised repairer and it is free of charge to the customer. The customer will be given a certificate to confirm that the corrective measure has been implemented.

If the customer has not received a recall letter before the next vehicle inspection, they can have the car inspected as usual and the corrective measure will be implemented after the inspection.

Due to the great number of different air mass sensors, the recalls will take place on a schedule agreed with KBA. For that reason, all models and engine/gearbox versions are not recalled at the same time.

By the end of 2016, the corrective solution has been available for a total of around 50,000 cars and 25% of them have been corrected.

Product recalls resulting from defective product labelling

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

In 2016, there were 24 product recalls resulting from defective product labelling (46 in 2015), of which 7(9 in 2015) were Kesko's grocery trade's own-brands.

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 2016, there were no advertisements by Kesko or its subsidiaries submitted for consideration by the Council of Ethics in Advertising nor were there any incidents of non-compliance with legislation or voluntary principles.

In December 2016, the Consumer Ombudsman imposed a prohibition reinforced with a penalty payment in the case concerning Indoor Group Ltd's discount sale marketing in 2014–2015.

Customer privacy

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

In 2016, K-Plus Oy did not detect any leaks of information or other personal data breaches.

The company received one complaint from a customer regarding the deletion of personal data from K-Plus Oy's customer register. The case resulted in the Data Protection Ombudsman contacting the company. The Ombudsman stated that there was no need for an order as referred to in the Personal Data Act because K-Plus Oy had deleted the customer's personal data from its systems.

Socioeconomic compliance

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

In 2016, there were no cases of non-compliance with laws and regulations in the social and economic area.

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 GRI report integrated in Kesko's Annual Report is prepared in accordance with the GRI standards and covers the key areas of economic, social and environmental responsibility. For each reported standard, the GRI content index refers to the year of the version used. This report has been prepared in accordance with the 2016 standards.

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.

We have divided the report into four sections: responsibility management, responsibility programme, disclosures, and GRI and UNGC. The report is available in Finnish and in English, and it is published online only.

This report has been prepared in accordance with the GRI Standards: Core option. Topic-specific Standards 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 and UNGC 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 GRI 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 and UNGC index** shows which disclosures and Topic-specific Standards have been used for evaluating performance in fulfilling human rights, labour rights, environment principles and anti-corruption principles.

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 of the report include investors, owners, analysts and rating agencies, as well as society (the media, authorities, NGOs and other organisations, and trade unions). In the report, we also want to take into account Kesko's other important stakeholders: retailers, personnel, potential employees, suppliers and service providers, and customers.

Reporting period and contact information

This report describes the progress and results of responsibility work in 2016. It includes some information from January to March 2017.

The report for 2015 was published in March 2016.

The report for 2017 will be published in the spring of 2018.

Further information on the topics covered in the report can be obtained from **Kesko's contact persons**.

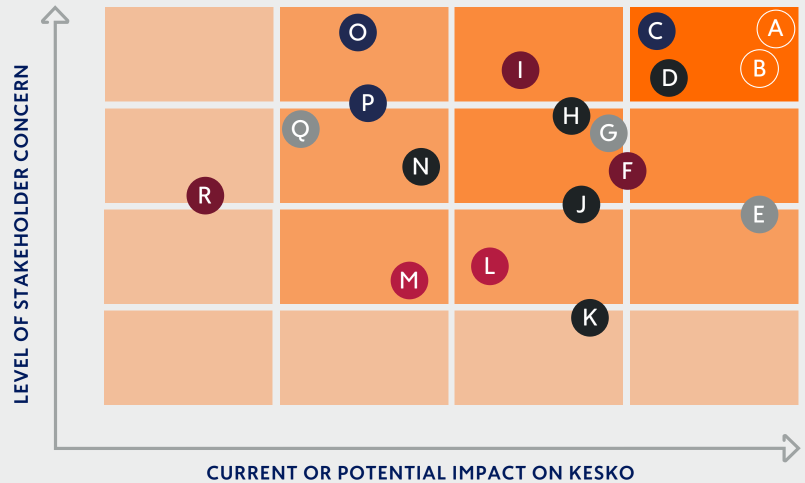
Materiality assessment

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 impact on Kesko. 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

GRI and UNGC index

Code*	GRI content	Location	Omissions	Further information	Global Compact
General Standard Disclosures					
102-1	Name of the organisation	Kesko in brief			
102-2	Activities, brands, products, and services	Kesko in brief, Divisions		Finnish Alcohol Act 1143/1994, Section 14: "Retail trade of alcoholic beverages containing a maximum of 4.7 percentage by volume ethyl alcohol, which are prepared through fermentation, may be carried on, besides by the State Alcohol Monopoly, by whoever the licensing authority has granted a retail licence." The origin and production conditions of products, food products in particular, and their health outcomes are relatively often topics of public discussion in the media and/or on social media.	
102-3	Location of headquarters	Kesko in brief			
102-4	Location of operations	Kesko in brief			
102-5	Ownership and legal form	Kesko in brief			
102-6	Markets served	Kesko in brief			
102-7	Scale of the organisation	Kesko in brief			

Code*	GRI content	Location	Omissions	Further information	Global Compact
102-8	Information on employees and other workers	Social impacts - Employment	No distribution by gender. Information not available. The aim is to report the information in 2017–2018.	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.	X
102-9	Supply chain	Our operating environment, 204-1 Proportion of spending on local suppliers, Responsibility programme/Responsible purchases and sustainable selections			
102-10	Significant changes to the organisation and its supply chain	Review by the President and CEO, Kesko in brief, Divisions, Stock exchange releases on 12 April 2016, 1 June 2016, 30 November 2016, 1 December 2016			
102-11	Precautionary Principle or approach	Our operating environment			
102-12	External initiatives	Corporate responsibility in Kesko's strategy			
102-13	Membership of associations	Activities in organisations			
102-14	Statement from senior decision-maker	Review by the President and CEO			
102-15	Key impacts, risks, and opportunities	Our operating environment, How we create value, 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 2016			
102-19	Delegating authority	Management model and systems			
102-20	Executive-level responsibility for economic, environmental and social topics	EVP, CFO; EVP for marketing, communications, corporate responsibility and corporate relations		Both are members of the Group Management Board. Reporting model	
102-21	Consulting stakeholders on economic, environmental, and social topics	Stakeholders, Corporate Governance Statement 2016			

Code*	GRI content	Location	Omissions	Further information	Global Compact
102-22	Composition of the highest governance body and its committees	Board of Directors, Corporate Governance Statement 2016			
102-23	Chair of the highest governance body	Board of Directors, Corporate Governance Statement 2016			
102-24	Nominating and selecting the highest governance body	Corporate Governance Statement 2016			
102-25	Conflicts of interest	Corporate Governance Statement 2016, 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 2016, Management model and systems			
102-28	Evaluating the highest governance body's performance	Corporate Governance Statement 2016	Only the Board's self-assessment has been reported.		
102-29	Identifying and managing economic, environmental, and social impacts	Corporate Governance Statement 2016			
102-30	Effectiveness of risk management processes	Corporate Governance Statement 2016			
102-31	Review of economic, environmental, and social topics	Corporate Governance Statement 2016			
102-32	Highest governance body's role in sustainability reporting	Corporate governance principles			
102-33	Communicating critical concerns	Stakeholders, Corporate Governance Statement 2016			
102-35	Remuneration policies	Corporate Governance Statement 2016, Remuneration Statement 2016, Management model and systems			
102-40	List of stakeholder groups	Stakeholders			
102-41	Collective bargaining agreements	Social impacts/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			

Code*	GRI content	Location	Omissions	Further information	Global Compact
102-45	Entities included in the consolidated financial statements	Note 37 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 and UNGC table			
102-56	External assurance	Reporting principles			
Management approach					
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	Responsibility programme			
Topic specific content					
Topic specific content is reported regarding aspects identified as material.					
Economic impacts					
201	**Economic performance**				
201-1	Direct economic value generated and distributed	Economic impacts/Economic performance			
201-2	Financial implications and other risks and opportunities due to climate change	Economic impacts/Economic performance	Monetary evaluations or realisations have not been reported.		X
201-3	Defined benefit plan obligations and other retirement plans	Economic impacts/Economic performance			
201-4	Financial assistance received from government	Economic impacts/Economic performance			

Code*	GRI content	Location	Omissions	Further information	Global Compact
203	**Indirect economic impacts**				
203-1	Infrastructure investments and services supported	Economic impacts/Indirect economic impacts			
203-2	Significant indirect economic impacts	Economic impacts/Indirect economic impacts			
204	**Procurement practices**				
204-1	Proportion of spending on local suppliers	Economic impacts/Procurement practices			
205	**Anti-corruption**				
205-1	Operations assessed for risks related to corruption	Economic impacts/Anti-corruption	The number and percentage of assessments have not been reported. Risks related to corruption have not been specified in detail.	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	Economic impacts/Anti-corruption	Percentages have not been reported. Information not available.		X
205-3	Confirmed incidents of corruption and actions taken	Economic impacts/Anti-corruption			X
206	**Anti-competitive behaviour**				
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Economic impacts/Anti-competitive behaviour			
Environmental impacts					
301	**Materials**				
301-3	Materials used by weight or volume	Environmental impacts/Effluents and waste	Percentage calculation model in accordance with the GRI standard is no applicable to Kesko's operations.		
302	**Energy**				
302-1	Energy consumption within the organisation	Environmental impacts/Energy			X
302-2	Energy consumption outside the organisation	Environmental impacts/Emissions	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		X
302-3	Energy intensity	Environmental impacts/Energy			X
302-4	Reduction of energy consumption	Environmental impacts/Energy			X

Code*	GRI content	Location	Omissions	Further information	Global Compact
303	**Water**				
303-1	Water withdrawal by source	Environmental impacts/Water			X
304	**Biodiversity**				
304-2	Significant impacts of activities, products, and services on biodiversity	Environmental impacts/Biodiversity			X
304-3	Habitats protected or restored	Environmental impacts/Biodiversity			X
305	**Emissions**				
305-1	Direct (Scope 1) GHG emissions	Environmental impacts/Emissions			
305-2	Energy indirect (Scope 2) GHG emissions	Environmental impacts/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 collected.		X
305-3	Other indirect (Scope 3) GHG emissions	Environmental impacts/Emissions			X
305-4	GHG emissions intensity	Environmental impacts/Emissions			X
305-5	Reduction of GHG emissions	Environmental impacts/Emissions	Review has not been made in CO_2e tonnes.		X
305-7	Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions	Environmental impacts/Emissions			X
306	**Effluents and waste**				
306-2	Waste by type and disposal method	Environmental impacts/Effluents and waste			X
Social impacts					
401	**Employment**				
401-1	New employee hires and employee turnover	Social impacts/Employment	New employee hires have not been reported by age group. Turnover rate has not been reported by age group and gender. Information is not available. The aim is to report the information in 2017–2018.		X
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Social impacts/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
402	**Labour/Management relations**				
402-1	Minimum notice periods regarding operational changes	Social impacts/Labour/Management relations			X
403	**Occupational health and safety**				
403-1	Workers' representation in in formal joint management – worker health and safety committees	Social impacts/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	Social impacts/Occupational health and safety	Not reported by gender. Information not available. The aim is to report the information in 2017–2018. Reporting does not cover suppliers and service providers.		
404	**Training and education**				
404-1	Average hours of training per year per employee	Social impacts/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	Social impacts/Training and education			
404-3	Percentage of employees receiving regular performance and career developmetn reviews	Social impacts/Training and education	Not reported by gender and employee category. Information not available.		X
405	**Social impacts/Training and education**				
405-1	Diversity of governance bodies and employees	Social impacts/Diversity and equal opportunities	Not reported by gender and employee category. Information not available. The aim is to report age group information in 2017–2018.		X
405-2	Ratio of basic salary and remuneration of women to men	Social impacts/Diversity and equal opportunities	The ratio of basic salary of men and women has not been reported. Information not available. The aim is to report the information in 2017–2018.		X
406	**Non-discrimination**				
406-1	Incidents of discrimination and corrective actions taken	Social impacts/Non-discrimination			X

Code*	GRI content	Location	Omissions	Further information	Global Compact
407	**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	Social impacts/Freedom of association and collective bargaining			X
412	**Human rights assessment**				
412-1	Operations that have been subject to human rights reviews or impact assessments	Social impacts/Human rights assessment			X
412-2	Negative social impacts in the supply chain and actions taken	Social impacts/Supplier social assessment			X
414	**Supplier social assessment**				
414-1	New suppliers that were screened using social criteria	Social impacts/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	Social impacts/Supplier social assessment			
415	**Public policy**				
415-1	Political contributions	Social impacts/Public policy			X
416	**Customer health and safety**				
416-1	Assessment of the health and safety impacts of product and service categories	Social impacts/Customer health and safety	Percentage calculation model in accordance with the GRI standard is no applicable to Kesko's operations.		
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Social impacts/Customer health and safety			
417	**Marketing and labelling**				
417-1	Requirements for product and service information and labelling	Social impacts/Marketing and labelling			
417-2	Incidents of non-compliance concerning product and service information and labelling	Social impacts/Marketing and labelling			
417-3	Incidents of non-compliance concerning marketing communications	Social impacts/Marketing and labelling			

Code*	GRI content	Location	Omissions	Further information	Global Compact
418	**Customer privacy**				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Social impacts/Customer privacy			
419	**Socioeconomic compliance**				
419-1	Non-compliance with laws and regulations in the social and economic area	Social impacts/Socioeconomic compliance			

* All standards: version 2016.

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 2016 to 31 December 2016 disclosed on Kesko Corporation's website in the "GRI report" section of "Kesko's Annual report 2016" (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 Russia.
- 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 2016 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 in various channels and systemized the analysis of feedback received. We recommend that the Company continues to develop its activities related to stakeholder inclusivity.
- **Materiality:** The Company has a process in place to evaluate and determine the materiality of corporate responsibility aspects. During 2016 the Company carried out corporate acquisitions that widened the operations both geographically and division wise. We recommend that the Company assesses the need to update its materiality assessment taking into consideration the possible new aspects and needs for changes deriving from the acquisitions.
- **Responsiveness:** The Company takes its stakeholders' expectations into account in its operations and responds to them through the continuous development of its activities. During 2016, the Company has increasingly identified the further growing expectations regarding corporate responsibility matters from the investor community. We recommend that the Company further develops and widens the utilisation as well as offering of corporate responsibility information to investors.

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, 6 March 2017

PricewaterhouseCoopers Oy

Enel Sintonen
Partner, Authorised Public Accountant
Assurance Services

Sirpa Juutinen
Partner
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 Financial Communications	Kesko Corporation, Group Identity and Communications
Lena Leeve	Financial Communications Specialist	Kesko Corporation, Group Identity and Communications
Matti Kalervo	Vice President, Corporate Responsibility	Kesko Corporation, Group Identity and Communications
Pirjo Nieminen	Corporate Responsibility Communications Specialist	Kesko Corporation, Group Identity and Communications
Financial responsibility:		
Jukka Erlund	Senior Vice President, CFO	Kesko Corporation, Accounting, Finance and IT
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Controlling
Tiina Nyrhi	Corporate Financial Controller	Kesko Corporation, Group Controlling
Erika Välkkynen	Financial Controller	Kesko Corporation, Group Controlling

Name	Role	Business unit
Riikka Toivonen	Head of Financial Communications	Kesko Corporation, Group Identity and Communications
Lena Leeve	Financial Communications Specialist	Kesko Corporation, Group Identity and Communications
Esko Mansikka	Managing Director	Vähittäiskaupan Tilipalvelu VTP Oy
Human resources responsibility:		
Matti Mettälä	Executive Vice President, Human resources	Kesko Corporation, Kesko HR
Kati Matela	Specialist, HRIS	Kesko Corporation, Kesko HR / Common Services
Katriina Ahtee	Director, OHS & Wellbeing	Kesko Corporation, Kesko HR / Common Services
Mikko Myyryläinen	Director, HR Services	Kesko Corporation, Kesko HR / Common Services
Responsible purchasing:		
Sohvi Vähämaa	Corporate Responsibility Specialist	Kesko Corporation, Group Identity and Communications
Tuuli Luoma	Product Group Manager	Kesko's grocery trade, commerce
Mia Haavisto	Quality Manager	Kespro Ltd
Johanna Teinilä-Kurvinen	Project Manager	Kesko's grocery trade, commerce
Leena Takaveräjä	Purchasing Manager	Kesko's building and technical trade, commerce

Name	Role	Business unit
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
Harri Jyränkö	Development Manager	VV-Autotalot Oy
Hannu Pekuri (hannu.pekuri@onninen.com)	Group Development and Quality Manager	Onninen Oy
Corporate governance, risk management and corporate security:		
Anne Leppälä-Nilsson	Executive Vice President, Group Counsel	Kesko Corporation, Legal Affairs
Pasi Mäkinen	Chief Audit Executive	Kesko Corporation, Internal Audit
Ismo Riitala	Vice President, Risk Management and Strategy Process	Kesko Corporation, Accounting, Finance and IT
Privacy protection/customer loyalty system:		
Tapio Näveri	Director, Plussa concept and customer service	Kesko Corporation, K Digital
Kaija Kuusimaa	Corporate Counsel, Privacy Officer	Kesko Corporation, Legal Affairs

Financial statements

Kesko's Annual Report 2016

Report by the Board of Directors

Financial performance

Net sales and profit for 2016

The Group's net sales were €10,180 million, which is 17.3% up on the corresponding period of the previous year (€8,679 million). Acquisitions and disposals excluded, net sales in local currencies grew by 1.6%. Suomen Lähikauppa 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. The Russian business of the grocery trade is included in the figures until 30 November 2016 and Anttila was included in the figures for the comparative period until 16 March 2015.

In the grocery trade, the 12.0% net sales growth was significantly attributable to the acquisition of Suomen Lähikauppa. Net sales in local currencies, excluding Suomen Lähikauppa and the Russian business, were down 0.2%. In the building and technical trade, net sales increased by 26.2% and in local currencies, excluding Onninen and Anttila, by 2.1%. In the car trade, net sales were up markedly, by 13.5%, and excluding the acquisition of AutoCarrera, by 13.0%. The Group's net sales in Finland increased by 15.3%, and acquisitions and disposals excluded, by 1.1%. In the other countries, net sales increased by 26.0% and in local currencies, acquisitions and disposals excluded, by 3.9%. International operations accounted for 20.3% (18.9%) of net sales.

1-12/2016	Net sales € million	Change %	Change in local currency excl. acquisitions and disposals,%	Operating profit* € million	Change € million
Grocery trade	5,236	+12.0	-0.2	175.9	-1.5
Building and technical trade	4,100	+26.2	+2.1	97.9	+34.4
Car trade	849	+13.5	+13.0	29.5	+3.4
Common functions and eliminations	-5	(..)	(..)	-30.5	-7.7
Total	**10,180**	**+17.3**	**+1.6**	**272.9**	**+28.5**

* Comparable (..) Change over 100%

The Group's comparable operating profit was €272.9 million (€244.5 million). In the grocery trade, profitability was good. Comparable operating profit remained at the previous year's level while an intensive reform of business operations was carried out, the acquisition of Suomen Lähikauppa was implemented and its integration into Kesko's business operations was started. The real estate arrangement completed in June 2015 had a €6.5 million negative impact on the comparable operating profit of the grocery trade. In the building and technical trade, profitability was improved by the acquisition of Onninen during the financial period, the disposal of Intersport's business in Russia, the good profit performance in the building and home improvement trade in Lithuania and Sweden, in the agricultural and machinery trade and in the furniture trade, as well as the divestment of Anttila completed in the previous year. In the car trade, profitability continued to improve thanks to good sales performance. The total impact of the real estate arrangement completed in June 2015 on the Group's comparable operating profit in the grocery trade and the building and technical trade was €-8.4 million.

The operating profit was €146.8 million (€194.6 million). The items affecting comparability totalled €-126.2 million (€-49.9 million). The most significant 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. In the previous year, the items affecting the comparability of the operating profit included a €130 million loss on the divestment of Anttila and €101 million in gains on the disposal of real estate.

Items affecting comparability, € million	1-12/2016	1-12/2015
Comparable operating profit	**272.9**	**244.5**
Items affecting comparability		
+gains on disposal	+4.2	+101.2
-losses on disposal	-71.0	-131.8
-impairment charges	-30.0	-
+/-structural arrangements	-23.1	-19.3
+/-others	-6.3	+0.0
Total items affecting comparability	-126.2	-49.9
Operating profit	**146.8**	**194.6**

The Group's profit before tax was €145.2 million (€188.0 million). The Group's earnings per share were €0.99 (€1.03). The Group's equity per share was €20.44 (€21.82).

K Group's (i.e. Kesko's and the chain stores') retail and B2B sales (VAT 0%) were €12,463 million, up 14.6% compared to the previous year. The K-Plussa customer loyalty programme gained 73,218 new households in 2016. At the end of December, there were 2.3 million K-Plussa households and 3.6 million K-Plussa cardholders.

Finance
The cash flow from operating activities was €170.2 million (€276.4 million). The cash flow from investing activities was €-501.1 million (€217.1 million). The cash flow impact of the disposal of the Russian grocery trade business on the cash flows from investing activities was €167.0 million.

At the end of December, liquid assets totalled €391 million (€887 million). Interest-bearing liabilities were €515 million (€439 million) and interest-bearing net debt was €123 million (€-448 million) at the end of December. The equity ratio was 48.6% (54.7%).

The Group's net finance costs were €1.0 million (€7.1 million).

Taxes
The Group's taxes were €31.4 million (€70.7 million). The effective tax rate was 21.6% (37.6%).

Capital expenditure
The Group's capital expenditure totalled €743.1 million (€218.5 million), or 7.3% (2.5%) of net sales. Capital expenditure in store sites was €216.7 million (€166.7 million), in acquisitions €461.6 million, in IT €29.3 million (€20.4 million) and other capital expenditure was €35.5 million (€31.4 million).

Personnel
The average number of personnel in Kesko Group was 22,476 (18,956) converted into full-time employees. The increase was due to the acquisitions of Suomen Lähikauppa and Onninen.

At the end of December 2016, the number of personnel was 27,656 (21,935), of whom 14,845 (10,081) worked in Finland and 12,811 (11,854) outside Finland. The number of Suomen Lähikauppa's personnel was 3,129, that of Onninen 3,068 and that of AutoCarrera 37.

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 strongest, whereas the impact of the first quarter on the full year profit is smallest. The acquisitions of Suomen Lähikauppa and Onninen increase the seasonal fluctuations between quarters. The operating profit levels of Onninen and Suomen Lähikauppa are lowest for the first quarter.

Grocery trade

	1-12/2016	1-12/2015
Net sales, € million	5,236	4,673
Operating profit, comparable, € million	175.9	177.5
Operating margin, comparable, %	3.4	3.8
Capital expenditure, € million	238.1	128.9

Net sales, € million	1-12/2016	Change, %
Sales to K-food stores	3,161	-0.0
K-Citymarket, home and speciality goods	588	+0.0
Suomen Lähikauppa	575	-
Kespro	804	+1.5
K-ruoka, Russia	105	-1.9
Others	4	-85.9
Total	**5,236**	**+12.0**

The net sales of the grocery trade were €5,236 million (€4,673 million), representing a growth of 12.0%. Suomen Lähikauppa and the Russian business excluded, net sales performance was -0.2%. The grocery sales of K-food stores in Finland increased by 0.5% (VAT 0%) (excluding Suomen Lähikauppa) and Suomen Lähikauppa included, by 12.1%. In the grocery market in Finland, retail prices are estimated to have changed by approximately -0.6% compared to the previous year (VAT 0%; Kesko's own estimate based on the Consumer Price Index of Statistics Finland) and the total market (VAT 0%) is estimated to have increased by approximately 1% (Kesko's own estimate).

The acquisition of Suomen Lähikauppa was completed on 12 April 2016 and the conversion of the Siwa and Valintatalo stores into K-Market stores was begun in May. By the end of the year, 223 Siwas and Valintatalos had been converted into K-Markets. At the same time, the renewal of the entire K-Market chain started. As a result of the acquisition, Kesko's neighbourhood retail services improve significantly and the acquisition provides significant economies of scale and synergies for Kesko. In November, the Russian grocery trade was disposed of, the growth of which would have required significant capital expenditures.

The comparable operating profit of the grocery trade was €175.9 million (€177.5 million). Comparable operating profit remained at the previous year's level while an intensive reform of business operations was carried out, the acquisition of Suomen Lähikauppa was implemented and its integration into Kesko's business operations was started. Profitability was improved by cost savings and the synergies achieved from the acquisition of Suomen Lähikauppa. The real estate arrangement completed in June 2015 had a €6.5 million negative impact on comparable operating profit. The operating profit of the grocery trade was €93.0 million (€249.4 million). The items affecting comparability were €-82.9 million (€71.9 million) the most important of which are the €69.2 million loss on the disposal of the Russian grocery trade and the €11.4 million expenses related to the conversion of Siwas and Valintatalos into K-Markets. Suomen Lähikauppa contributed €-7.4 million, and taking synergies into account, €-3.2 million to the comparable operating profit.

The capital expenditure of the grocery trade was €238.1 million (€128.9 million), of which €159.6 million (€117.7 million) was in store sites and €54.3 million in acquisitions.

Building and technical trade

	1-12/2016	1-12/2015
Net sales, € million	4,100	3,250
Comparable operating profit, € million	97.9	63.6
Comparable operating margin,%	2.4	2.0
Capital expenditure, € million	451.7	55.3

Net sales, € million	1-12/2016	Change,%
Building and home improvement trade, Finland	826	+4.1
K-rauta, Sweden	217	+3.6
Byggmakker, Norway	402	-3.8
K-rauta, Russia	174	-9.5
Kesko Senukai, Baltics	486	+5.7
OMA, Belarus	101	-12.7
Onninen	908	-
Agricultural and machinery trade	608	-1.1
Intersport, Finland	178	+2.1
Indoor	187	+4.3
Others	30	-70.9
Total	**4,100**	**+26.2**

The net sales of the building and technical were €4,100 million (€3,250 million), up 26.2%. Net sales in local currencies, excluding acquisitions, increased by 2.1%.

The net sales of the building and technical trade in Finland were €2,142 million (€1,719 million), up 24.6%. Acquisitions and disposals excluded, net sales in Finland grew by 0.5%. The net sales from foreign operations were €1,959 million (€1,530 million), up 28.0%. In local currencies, excluding acquisitions and disposals, the net sales from foreign operations increased by 3.9%. Foreign operations contributed 47.8% (47.1%) to the net sales of the building and technical trade.

The acquisition of Onninen was completed on 1 June 2016. Onninen's net sales were €908 million. The acquisition accelerates the implementation of the international growth strategy of Kesko's building and technical trade and provides significant synergy potential.

The net sales of the building and home improvement trade were €2,196 million (€2,181 million), an increase of 0.7%. In local currencies, net sales were up by 3.7%. In respective local currencies, net sales grew in Sweden by 4.7%, in Norway by 0.6% and in Russia by 0.3%. In the building and home improvement trade, growth strengthened especially in B2B trade. In the building and technical trade, the market share of K Group's building and home improvement trade is estimated to have strengthened especially in Finland, Sweden, the Baltics and Belarus. K Group's sales of building and home improvement products in Finland increased by a total of 4.3% and the total market (VAT 0%) is estimated to have grown by approximately 1.9% (Kesko's own estimate).

The net sales of the agricultural and machinery trade were €608 million (€615 million), down 1.1% compared to the previous year. Net sales in Finland were €479 million, down 4.2%. The net sales from foreign operations were €129 million, up 12.3%. The retail sales of the K-maatalous chain in Finland were €424 million, down 3.1%.

The net sales of the leisure trade in Finland were €197 million (€193 million), an increase of 2.0%.

The net sales of the furniture trade were €187 million (€179 million), which was up 4.3%.

The comparable operating profit of the building and technical trade was €97.9 million (€63.6 million), up €34.4 million compared to the previous year. Profitability was improved by the acquisition of Onninen during the financial period, the disposal of Intersport's Russian business, as well as the good profit performance of the building and home improvement trade in Lithuania and Sweden, in the agricultural and machinery trade and in the furniture trade. The profit for the comparative period includes a €12.7 million operating loss from Anttila divested in March 2015. Onninen's contribution to the comparable operating profit was €18.2 million, adversely impacted by the fair value allocations of inventories written off in the amount of €5.1 million.

The operating profit of the building and technical trade was €60.8 million (€-57.2 million). The most significant items affecting comparability are the €15 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. In the previous year, the most significant items affecting comparability included a €130 million loss on the divestment of Anttila and €28 million recognized in gains on the disposal of real estate.

The capital expenditure of the building and technical trade totalled €451.7 million (€55.3 million), of which €380.1 million was in acquisitions and €55.8 million (€40.8 million) in store sites. The acquisitions include €364.1 million for the acquisition of Onninen and €10.0 million for increasing the ownership interest in the Belarusian OMA.

Car trade

	1-12/2016	1-12/2015
Net sales, € million	849	748
Comparable operating profit, € million	29.5	26.1
Comparable operating margin,%	3.5	3.5
Capital expenditure, € million	41.4	16.0

Net sales, € million	1-12/2016	Change,%
VV-Auto	845	+13.0
AutoCarrera	4	-
Total	**849**	**+13.5**

The net sales of the car trade were €849 million (€748 million), up 13.5%. The combined market performance of first registrations of passenger cars and vans was 10.2% (2.8%). The combined market share of passenger cars and vans imported by VV-Auto was 18.8% (19.1%) and Volkswagen was the most registered passenger car brand in 2016.

On 1 December 2016, VV-Auto acquired the share capital of Oy Autocarrera Ab and as a result, the import and retailing of Porsche transferred to VV-Auto. In December, AutoCarrera's net sales were €4.4 million. The net sales growth of the car trade, excluding AutoCarrera's impact, was 13.0%.

The profitability of the car trade continued to improve thanks to good sales performance. The comparable operating profit was €29.5 million (€26.1 million). The operating profit was €28.9 million (€26.1 million). Comparability was affected by the €0.6 million expenses related to the acquisition of Oy AutoCarrera Ab. AutoCarrera's impact on comparable operating profit was €0.0 million, and the profit was adversely impacted by the fair value allocations of inventories written off in the amount of €0.1 million.

The capital expenditure of the car trade was €41.4 million (€16.0 million).

Changes in the Group composition

Kesko implemented the arrangement it had agreed in the autumn of 2015 to centralise its Baltic building and home improvement trade in UAB Senuku Prekybos centras (Senukai). The company's name has been 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, in which Kesko has a majority interest. (Stock exchange release on 1 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. (Stock exchange release on 12 April 2016). Suomen Lähikauppa Oy was renamed to K-Market Oy in August.

Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy. The acquisition does not include Onninen's steel business or Russian subsidiary. (Stock exchange release on 1 June 2016).

In June, the Group's ownership interest in the Group's Belarusian subsidiary OMA increased to 25% (previously 9%).

In July, Kesko Corporation disposed of the Intersport business in Russia.

In September, Kesko acquired the Russian project business from Onvest Oy.

Kesko Corporation's wholly owned subsidiaries Rautakesko Ltd, Keslog Ltd and Musta Pörssi Ltd merged into Kesko Corporation on 31 October 2016.

In November, Kesko Food Russia Holding Oy, part of Kesko Group, sold its grocery trade business in Russia and the real estate companies related to the operations to Lenta Ltd. (Stock exchange release on 30 November 2016).

In December, Kesko Corporation's subsidiary VV-Auto Group Oy acquired the whole share capital of Oy AutoCarrera Ab. As a result of the transaction, the import and retailing of Porsche have transferred to VV-Auto (Stock exchange release on 14 November 2016, 24 November 2016 and on 1 December 2016).

Shares, securities market and Board authorisations

At the end of December 2016, 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 2016, Kesko Corporation held 746,109 own B shares as treasury shares. These treasury shares accounted for 1.09% of the number of B shares, 0.75% of the total number of shares, and 0.19% 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 2016, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €31.12 at the end of 2015, and €43.85 at the end of December 2016, representing an increase of 40.9%. Correspondingly, the price of a B share was €32.37 at the end of 2015, and €47.48 at the end of December 2016, representing an increase of 46.7%. The highest A share price was €44.54 and the lowest was €28.98. The highest B share price was €48.48 and the lowest was €29.56. The Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 3.6% and the weighted OMX Helsinki Cap index by 8.2%. The Retail Sector Index was up by 40.6%.

At the end of December 2016, the market capitalisation of A shares was €1,392 million, while that of B shares was €3,207 million, excluding the shares held by the parent company as treasury shares. The combined market capitalisation of A and B shares was €4,598 million, an increase of €1,429 million from the end of 2015.

In 2016, a total of 1.7 million (2.4 million) A shares were traded on Nasdaq Helsinki, a decrease of 26.7%. The exchange value of A shares was €65 million. The number of B shares traded was 51.6 million (59.4 million), a decrease of 13.2%. The exchange value of B shares was €2,015 million. Nasdaq Helsinki accounted for 55% of the Kesko A and B share trading in 2016. Kesko shares were also traded on multilateral trading facilities, the most significant of which were BATS Chi-X with 27% and Turquoise with 16% of the trading (source: Fidessa).

During the financial year, the Board had the authority to decide on the transfer of a maximum of 1,000,000 own B shares held by the Company as treasury shares. On 3 February 2016, the Board decided to grant own B shares held by the Company as treasury shares to persons included in the target group of the 2015 vesting period, based on this share issue authorisation and the fulfilment of the vesting criteria of the 2015 vesting period of Kesko's three-year share-based compensation plan. This transfer of a total of 137,054 own B shares was announced in a stock exchange release on 17 March 2016, and the transfer of 2,670 own B shares was announced in a stock exchange release on 27 April 2016. 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 can be granted within a period of three years based on the fulfilment of the vesting criteria. The Board decides on the vesting criteria and the target group separately for each vesting period. The share-based compensation plan was announced in a stock exchange release on 4 February 2014. During the year, a total of 8,256 shares granted based on the fulfilment of the vesting criteria of the share-based compensation plans (the 2011-2013 and the 2014-2016 share-based compensation plans) was returned to the Company in accordance with the terms and conditions of the share-based compensation plans. The returns during the reporting period were notified in a stock exchange release on 17 March 2016, 31 March 2016, 27 April 2016, 30 May 2016 and 15 November 2016.

Kesko's Annual General Meeting held on 4 April 2016 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 2016 share issue authorisation). The authorisation cancelled the earlier share issue authorisation corresponding in 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 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 held on 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 (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 are acquired and paid 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 is valid until 30 September 2017.

In addition, the Board has a share issue authorisation according to which the Board is authorised to issue a maximum of 20,000,000 new B shares (the 2015 share issue authorisation). The authorisation is valid until 30 June 2018. 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.

At the end of December 2016, the number of shareholders was 39,404, which is 125 less than at the end of 2015. At the end of December, foreign ownership of all shares was 32%. Foreign ownership of B shares was 46% at the end of December.

Flagging notifications

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

Key events during the reporting period

Tomi Korpisaari, a member of Kesko Corporation's Board of Directors, announced that he would resign from the Company's Board of Directors for reasons of health as of 1 March 2016. Kaarina Ståhlberg was appointed General Counsel and member of the Management Board of Posti Group Corporation as of 1 March 2016, as a result of which Ståhlberg announced that she would resign from Kesko Corporation's Board of Directors as of 1 March 2016. (Stock exchange release on 5 February 2016 and 15 February 2016)

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. The company's name has been 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, in which Kesko has a majority interest. (Stock exchange release on 1 April 2016)

The transaction agreed between Kesko Corporation's subsidiary Kesko Food and the private equity investment firm Triton to acquire Suomen Lähikauppa was completed. The debt-free price of the acquisition, structured as a share purchase, was €54 million. In 2015, Suomen Lähikauppa's net sales were €935.7 million, it had around 600 Siwa and Valintatalo stores and around 3,800 employees. The Finnish Competition and Consumer Authority (FCCA) announced their approval of the acquisition on 11 April 2016. The permission contains conditions imposed by the FCCA. The FCCA made the acquisition conditional on the sale of 60 stores of Suomen Lähikauppa Oy to competitors. In case the sale of some store or some stores is not possible, the selling obligation imposed on Kesko Food Ltd will cease. (Stock exchange release on 11 April 2016 and 12 April 2016)

The transaction agreed between Kesko Corporation and Onvest Oy to acquire the whole share capital of Onninen Oy was completed. The acquisition does not include Onninen's steel business or Russian subsidiary. In 2015, the pro forma net sales of the acquired business were €1,465 million and the EBITDA was €39 million. The price of the debt-free acquisition, structured as a share purchase, was €364 million. (Stock exchange release on 12 January 2016, 20 April 2016 and 1 June 2016)

Johan Friman, 51, Master of Science (Economics), was appointed Executive Vice President responsible for Kesko's car trade and President of VV-Auto Group Oy. He also became a member of Kesko's Group Management Board. Johan Friman took over his new position on 1 January 2017 and Pekka Lahti, the current Executive Vice President for the car trade, will retire on a pension in accordance with his service contract on 1 April 2017. (Stock exchange release on 21 September 2016)

Kesko Food Russia Holding Oy, part of Kesko Group, sold its grocery trade business in Russia to Lenta Ltd. The aggregate consideration for the disposal including sales price adjustment was approximately RUB 11.4 billion (approximately EUR 163 million). (Stock exchange release on 30 November 2016)

Kesko Corporation's subsidiary VV-Auto Group Oy acquired the whole share capital of Oy AutoCarrera Ab. As a result of the transaction, the import and retailing of Porsche transferred to VV-Auto. The price of the acquisition, structured as a share purchase, was approximately €27 million (Stock exchange release on 14 November 2016, 24 November 2016 and 1 December 2016)

Events after the reporting period

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)

Resolutions of the 2016 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting, held on 4 April 2016, adopted the financial statements and the consolidated financial statements for 2015 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute a dividend of €2.50 per share as proposed by the Board, or a total amount of €248,195,187.50. The dividend pay date was 13 April 2016.

The General Meeting resolved to leave the number of Board members unchanged at seven. The term of office of each of the seven (7) Board members elected by the Annual General Meeting on 13 April 2015, i.e. retailer, Business College Graduate Esa Kiiskinen, retailer, 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, will expire at the close of the 2018 Annual General Meeting in accordance with Kesko's Articles of Association. Korpisaari and Ståhlberg had resigned from the membership of the Company's Board of Directors as of 1 March 2016. The General Meeting resolved to replace them 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. In addition, the General Meeting resolved to leave the Board members' fees and the basis for reimbursement of expenses unchanged.

The General Meeting elected the firm of auditors PricewaterhouseCoopers Oy, Authorised Public Accountants, as the Company's auditor with APA Mikko Nieminen as the auditor with principal responsibility.

The General Meeting approved the Board's proposal for share issue authorisation according to which the Board may decide on the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (the 2016 share issue authorisation). The General Meeting also approved the Board's proposal for the authorisation to acquire own shares, according to which the Board may decide on the acquisition of a maximum of 1,000,000 own B shares of the Company (the 2016 authorisation to acquire own shares).

In addition, the General Meeting approved the Board's proposal for its authorisation to decide on the donations in a total maximum of €300,000 for charitable or similar purposes until the Annual General Meeting to be held in 2017 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, re-elected eMBA Mikael Aro as its Deputy Chair and M.Sc. (Econ.) Matti Kyytsönen as its member. Business College Graduate Esa Kiiskinen (Ch.), Mikael Aro (Dep. Ch.) and M.Sc. (Econ.) Anu Nissinen were re-elected to the Board's Remuneration Committee.

The resolutions of Annual General Meeting and the decisions of the Board's organisational meeting were announced in more detail in stock exchange releases on 4 April 2016.

Corporate responsibility

Kesko was the best trading sector company (Food & Staples Retailing) on 'The Global 100 Most Sustainable Corporations' list of 2016. Kesko placed 15th on the list.

In February, Kesko, Arla Finland, HKScan Finland and Unilever Finland initiated a Finnish soy commitment in cooperation with WWF Finland. The members of the commitment pledge to ensure that by 2020, all the soy used in the production chain of their private label products will be responsibly produced, either Round Table on Responsible Soy (RTRS) or ProTerra certified soy.

At the beginning of April, the Pirkka Thank the Producer product range expanded from meat products to milks. A certain proportion of the price of the products in the range is paid directly to Finnish producers. The objective of K Group is to support Finnish producers with hundreds of thousands of euros through the Thank the Producer operating model in 2016.

Kespro was granted the MSC and ASC Chain of Custody - the traceability certificate - in April. All phases of Kespro's fish and shellfish supply chain have been audited, and Kespro and its certified customer restaurants can use MSC and ASC ecolabelling in their marketing.

Kesko and the child rights organization Plan International Finland continue cooperating to improve the responsibility of the fishing industry and the situation of migrant workers in Thailand. As a part of the project, already 60 children from migrant families have been able to start school.

Kesko's grocery trade and the Finnish cancer foundation Syöpäsäätiö signed an agreement on main sponsorship in the Pink ribbon campaign in May. The objective is to generate tenfold donations to the fundraising from K-food stores compared to what they were before.

Pirkka Street Basket events were arranged in 16 localities in Finland in May. Pirkka Street Basket 2016 is part of the Little Wolves project by the Finnish Basketball Association and Kesko's grocery trade that aims to promote physical activity for children.

Kesko had Finland's largest property-specific solar utility built on the roof of K-citymarket Tammisto in Vantaa in May-June. The peak power of the solar utility is 503 kWp and it generates electricity for the property.

The K-maatalous Experimental farm made a Baltic Sea Commitment to Baltic Sea Action Group, BSAG, in June. The Experimental farm's commitment concentrates on developing soil condition and nutrient usage measurement practices and technology.

Kesko has completed a human rights impact assessment in compliance with UN's Guiding Principles on Business and Human Rights and published a human rights commitment on its web pages in September.

In January-September, Pirkka 'Thank the Producer' products sold at K-food stores generated a support amount of approximately €170,000 to be remitted to Finnish producers. The aim is to add more products to the product group, provided that their good sales performance continues.

In September, K-food stores and Kesko joined the Consumer Association's Food Waste Week Campaign to promote the reduction of food wastage and increase the appreciation of food.

In September-October, K-food stores took part in the Pink Ribbon campaign raising funds for Finnish breast cancer research and cancer counselling. The aim is to increase tenfold the amounts donated by K-food stores to the Pink Ribbon campaign.

K-rauta is a partner in the Liiteri tool rental service trial targeted at urban home renovators, which was launched in September at Teurastamo, Helsinki.

Kesko received the A– score in CDP's Climate Change Disclosure inquiry.

Kesko participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement. In accordance with the agreement, Kesko commits itself to reducing its energy consumption by 7.5% through various saving measures. All K Group store chains are included in the agreement.

K Group is committed to the EU's aim to keep the annual consumption of plastic bags below 40 bags per inhabitant. Actions to achieve this target include charging a price for plastic bags and providing alternative shopping bags.

Kesko's updated operating principles, the K Code of Conduct, outline the shared guidelines for the work of all Kesko personnel and business partners.

Kesko is committed to support the UN Sustainable Development Goals, the SDGs, in its operations. The website 'UN Sustainable Development Goals and Kesko', published in November, explains about the actions taken to contribute to the 17 Sustainable Development Goals.

In December, K Group started the building of seven new solar power plants on the rooftops of K-food stores. By summer 2017, there will be as many as 15 solar power plants operating in connection with K-food stores. The new investments will make K Group the biggest producer and user of solar power in Finland.

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in note 6. Related party transactions are disclosed in note 33.

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. The management of financial risks is based on the Group's finance policy confirmed by Kesko's Board of Directors. The managements of the business 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

Trends in purchasing power and trading sector demand especially in Finland

The uncertain outlook for the Finnish economy, increases in taxes and public payments resulting from the indebtedness of the public sector as well as high unemployment weaken purchasing power and consumer confidence and can cause a long-term decline in the level of demand. This would have negative repercussions especially on Kesko's building and technical trade and car trade in Finland.

Decline in price levels and intensification of price competition in Finnish grocery trade

The level of food prices in Finland declined further in 2016. As consumers' purchasing power has fallen in recent years, competition has become more intense and stores have lowered their prices in order to increase market shares. The decline in price levels and the intensified price competition can weaken the profitability of Kesko's grocery trade and retailers.

Neighbourhood market strategy of grocery trade

In 2016, Kesko acquired Suomen Lähikauppa as part of the neighbourhood market strategy implementation. The integration of Suomen Lähikauppa's business operations into those of Kesko, the conversion of Siwa and Valintatalo stores into K-Markets as well as the replacement of the stores' business model by the retailer business model are significant change projects and the achievement of their objectives involves operational and financial risks.

Business arrangement of building and technical trade

The integration of the Onninen acquisition into Kesko's business operations and the combination of Kesko Senukai's business in the Baltics are demanding and extended projects. The integration of business operations and the creation of uniform operating models involve risks that can make the achievement of the operational and financial objectives and targets set for the arrangement more difficult.

Strong change in the trading sector caused by digitalisation

In the midst of the retail transition, 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. There is a risk that some of the traditional brick and mortar stores become unprofitable and that the progress of e-commerce and digital service development projects is outpaced by competitors. Competition can also be intensified by companies entering the value chain of trade by introducing new business models.

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 in progress 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.

Suppliers and distribution channels

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

Product safety and supply chain quality

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.

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.

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. Failures 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.

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 and environmental protection, are increasingly important to customers. Any failures of corporate responsibility would result in negative publicity for Kesko and can cause operational and financial damages.

Compliance with laws and agreements

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.

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 can 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 to 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.

Crime and malpractice

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.

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 (1/2017-12/2017) in comparison with the 12 months preceding the end of the reporting period (1/2016-12/2016).

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 slightly. In the Finnish grocery trade, intense competition is expected to continue. The market for the Finnish building and technical trade is expected to improve slightly. In Sweden and Norway, the market is expected to grow but at a somewhat slower rate. The trend in the Russian market is expected to remain modest. In the Baltic countries, the market is expected to grow.

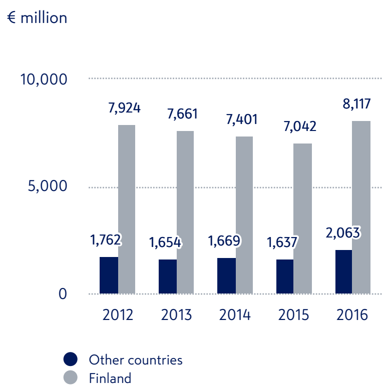
Kesko Group's net sales for 2017 are expected to exceed the level of the previous year. The comparable operating profit for 2017 is expected to exceed the level of 2016.

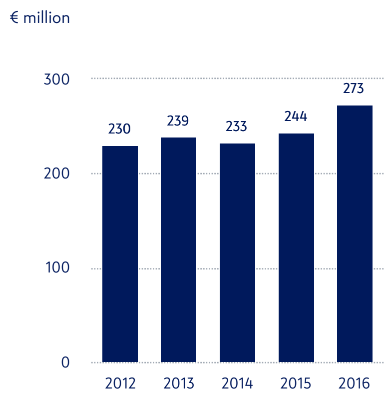
Proposal for profit distribution
The parent's distributable profits are €1,006,169,969.92, of which the profit for the financial year is €147,927,559.98.

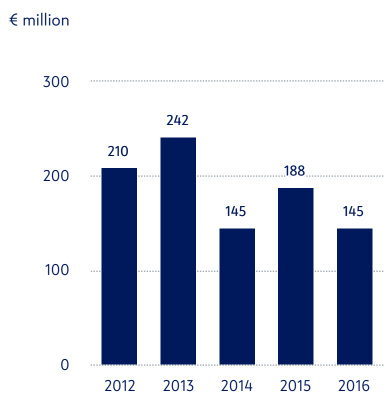
The Board of Directors proposes to the Annual General Meeting to be held on 3 April 2017 that a dividend of €2.00 per share be paid on shares held outside the Company at the date of dividend distribution. No dividend is paid on own shares held by the Company as treasury shares at the record date of dividend distribution.

At the date of the proposal for distributions of profits, 1 February 2017, a total of 99,273,643 shares were held outside the Company, amounting to a total dividend of €198,547,286.00.

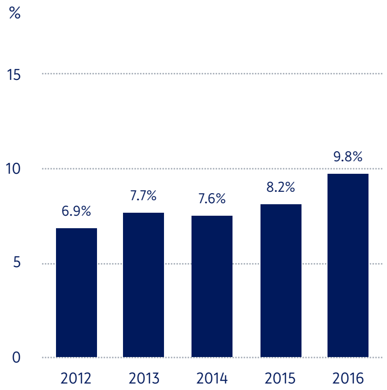
Annual General Meeting
The Board of Directors decided to convene the Annual General Meeting at Messukeskus Helsinki, on 3 April 2017 at 13.00. Kesko Corporation will publish a notice of the General Meeting at a later date.

Net sales


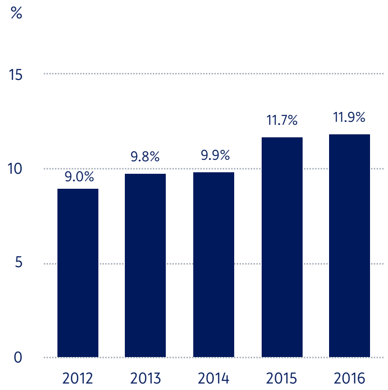
Comparable operating profit


Profit before tax


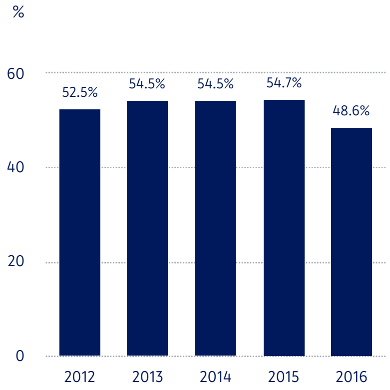
Comparable return on equity



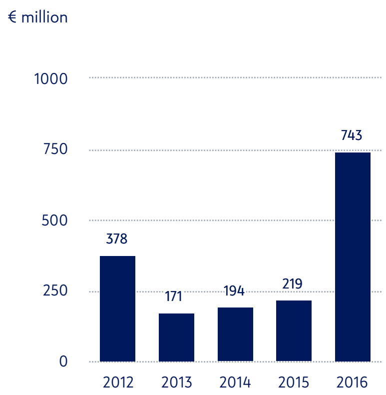
Comparable return on capital employed



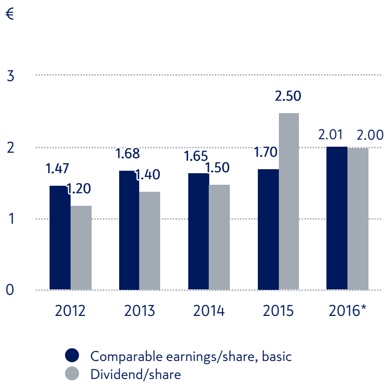
Equity ratio



Capital expenditure

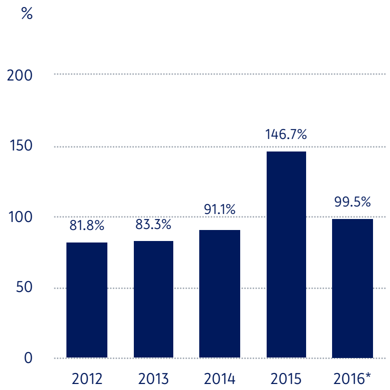


Comparable earnings/share and dividend/share



* Proposal to the General Meeting

Payout ratio



* Proposal to the General Meeting

Group's key performance indicators

		2012	2013	2014	2015	2016
Income statement						
Net sales	€ million	9,686	9,315	9,071	8,679	10,180
Change in net sales	%	2.4	-3.8	-2.6	-4.3	17.3
Comparable operating profit	€ million	230.0	238.8	232.6	244.5	272.9
Comparable operating profit as percentage of net sales	%	2.4	2.6	2.6	2.8	2.7
Profit for the year (incl. non-controlling interests)	€ million	136	185	108	117	114
Profit for the year as percentage of net sales	%	1.4	2.0	1.2	1.4	1.1
Profitability						
Return on equity	%	6.0	8.0	4.7	5.2	5.2
Comparable return on equity	%	6.9	7.7	7.6	8.2	9.8
Return on capital employed	%	8.3	10.2	6.4	9.3	6.4
Comparable return on capital employed	%	9.0	9.8	9.9	11.7	11.9
Funding and financial position						
Interest-bearing net liabilities	€ million	135.3	-126.4	-99.2	-448.1	123.3
Gearing	%	6.0	-5.4	-4.4	-20.0	5.8
Equity ratio	%	52.5	54.5	54.5	54.7	48.6
Interest-bearing net debt/EBITDA		0.4	-0.3	-0.3	-1.4	0.4
Other performance indicators						
Capital expenditure	€ million	378	171	194	219	743
Capital expenditure as percentage of net sales	%	3.9	1.8	2.1	2.5	7.3
Cash flow from operating activities	€ million	382	414	304	276	170
Cash flow from investing activities	€ million	-391	-152	-182	217	-501
Personnel, average for the period		19,747	19,489	19,976	18,955	22,476
Personnel, as at 31 Dec.		24,080	23,863	23,794	21,935	27,656

		2012	2013	2014	2015	2016
Share performance indicators						
Earnings/share, diluted	€	1.26	1.75	0.97	1.03	0.99
Earnings/share, basic	€	1.27	1.75	0.97	1.03	0.99
Comparable earnings/share, basic	€	1.47	1.68	1.65	1.70	2.01
Equity/share	€	22.48	22.96	22.05	21.82	20.44
Dividend/share	€	1.20	1.40	1.50	2.50	2.00*
Payout ratio	%	94.5	79.9	154.7	243.8	201.3*
Comparable payout ratio	%	81.8	83.3	91.1	146.7	99.5*
Cash flow from operating activities/share, adjusted	€	3.88	4.17	3.07	2.79	1.71
Price/earnings ratio (P/E), A share, adjusted		19.30	15.35	29.49	30.35	44.14
Price/earnings ratio (P/E), B share, adjusted		19.60	15.35	31.16	31.57	47.80
Effective dividend yield, A share	%	4.9	5.2	5.3	8.0	4.6*
Effective dividend yield, B share	%	4.8	5.2	5.0	7.7	4.2*
Share price as at 31 Dec.						
A share	€	24.39	26.80	28.56	31.12	43.85
B share	€	24.77	26.80	30.18	32.37	47.48
Average share price						
A share	€	23.71	24.85	29.06	31.85	37.30
B share	€	22.75	24.11	29.82	33.52	39.03
Market capitalisation as at 31 Dec., A share	€ million	774	851	906	988	1,392
Market capitalisation as at 31 Dec., B share	€ million	1,644	1,810	2,031	2,182	3,207
Turnover						
A share	Million pcs	2	1	2	2	2
B share	Million pcs	68	51	47	59	52
Relative turnover rate						
A share	%	7.6	3.6	6.3	7.5	5.4
B share	%	102.0	77.0	69.5	87.0	74.3
Diluted average number of shares	Thousand pcs	98,472	99,136	99,161	99,114	99,249
Yield of A share for the last five financial years	%	-4.5	8.5	8.3	2.3	9.1
Yield of B share						
For the last five financial years	%	-3.7	13.7	10.1	3	18.6
For the last ten financial years	%	14.6	13.4	10.2	7.7	6.6

* Proposal to the General Meeting

Net sales by segment

€ million	1-12/2016	1-12/2015	Change,%
Grocery trade, Finland	5,131	4,566	12.4
Grocery trade, other countries*	105	107	-1.9
Grocery trade, total	**5,236**	**4,673**	**12.0**
- of which intersegment trade	10	15	-34.3
Building and technical trade, Finland	2,142	1,719	24.6
Building and technical trade, other countries*	1,959	1,530	28.0
Building and technical trade, total	**4,100**	**3,250**	**26.2**
- of which intersegment trade	11	1	(..)
Car trade, Finland	849	748	13.5
Car trade, total	**849**	**748**	**13.5**
- of which intersegment trade	0	0	-57.7
Common functions and eliminations	-5	8	(..)
Finland, total	**8,117**	**7,042**	**15.3**
Other countries, total*	**2,063**	**1,637**	**26.0**
Group total	**10,180**	**8,679**	**17.3**

* Net sales in countries other than Finland (..) Change over 100%

Operating profit by segment

€ million	1-12/2016	1-12/2015	Change,%
Grocery trade	93.0	249.4	-156.4
Building and technical trade	60.8	-57.2	118.0
Car trade	28.9	26.1	2.8
Common functions and eliminations	-36.0	-23.7	-12.2
Group total	**146.8**	**194.6**	**-47.8**

Comparable operating profit by segment

€ million	1-12/2016	1-12/2015	Change,%
Grocery trade	175.9	177.5	-1.5
Building and technical trade	97.9	63.6	34.4
Car trade	29.5	26.1	3.4
Common functions and eliminations	-30.5	-22.7	-7.7
Group total	**272.9**	**244.5**	**28.5**

Group's performance indicators by quarter

	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-3/2016	4-6/2016	7-9/2016	10-12/2016
Net sales, € million	2,082	2,227	2,203	2,166	2,013	2,610	2,792	2,765
Change in net sales,%	-2.2	-6.0	-4.4	-4.4	-3.3	17.2	26.7	27.6
Operating profit, € million	-103.6	175.8	83.1	39.3	33.5	68.0	85.5	-40.3
Operating margin,%	-5.0	7.9	3.8	1.8	1.7	2.6	3.1	-1.5
Comparable operating profit, € million	26.5	76.4	82.5	59.1	32.3	79.1	98.2	63.3
Comparable operating profit,%	1.3	3.4	3.7	2.7	1.6	3.0	3.5	2.3
Finance income/costs, € million	-0.3	-4.2	-3.5	0.9	2.7	1.7	-1.1	-4.3
Profit before tax, € million	-103.7	172.1	78.8	40.7	35.7	68.1	84.8	-43.5
Profit before tax,%	-5.0	7.7	3.6	1.9	1.8	2.6	3.0	-1.6
Return on capital employed,%	-18.1	31.9	17.6	8.2	6.7	12.3	13.6	-6.4
Comparable return on capital employed,%	4.6	13.9	17.5	12.4	6.5	14.3	15.6	10.1
Return on equity,%	-19.9	28.0	8.9	4.8	5.1	9.8	12.8	-6.9
Comparable return on equity,%	3.1	10.6	10.6	9.2	4.8	11.7	14.7	8.4
Equity ratio,%	51.5	52.2	54.2	54.7	54.8	44.8	47.9	48.6
Capital expenditure, € million	51.5	58.6	41.5	66.9	51.4	512.7	73.6	105.4
Earnings/share, diluted, €	-1.11	1.48	0.43	0.22	0.28	0.49	0.63	-0.40
Equity/share, €	21.30	21.21	21.41	21.82	22.13	20.31	20.84	20.44

Items affecting comparability

€ million	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-3/2016	4-6/2016	7-9/2016	10-12/2016
Items affecting comparability								
Gains on disposal	0.3	99.6	1.2	0.1	1.3	2.9	0.8	-0.8
Losses on disposal	-130.6	-1.0	-0.2	-	-	-0.3	-0.1	-70.6
Impairment charges	-	-	-	-	-	-7.9	-3.1	-18.9
Structural arrangements	-	-	-	-19.3	0.0	-9.1	-4.6	-9.4
Others	0.2	0.9	-0.4	-0.7	-	3.3	-5.7	-3.9
Items in operating profit affecting comparability	**-130.1**	**99.4**	**0.7**	**-19.9**	**1.3**	**-11.1**	**-12.7**	**-103.6**
Items in income taxes affecting comparability	2.1	-4.5	-10.4	-4.6	0.1	0.8	2.7	21.6
Total items affecting comparability	**-128.0**	**95.0**	**-9.7**	**-24.5**	**1.4**	**-10.3**	**-10.0**	**-82.0**
Comparable operating profit								
Operating profit	-103.6	175.8	83.1	39.3	33.5	68.0	85.5	-40.3
Net of								
Items in operating profit affecting comparability	-130.1	99.4	0.7	-19.9	1.3	-11.1	-12.7	-103.6
Comparable operating profit	**26.5**	**76.4**	**82.5**	**59.1**	**32.3**	**79.1**	**98.2**	**63.3**
Comparable operating margin,%	**1.3**	**3.4**	**3.7**	**2.7**	**1.6**	**3.0**	**3.5**	**2.3**
Capital employed, average	2,295	2,204	1,889	1,907	1,990	2,207	2,523	2,497
Comparable return on capital employed,%	**4.6**	**13.9**	**17.5**	**12.4**	**6.5**	**14.3**	**15.6**	**10.1**
Comparable profit before tax								
Profit before tax	-103.7	172.1	78.8	40.7	35.7	68.1	84.8	-43.5
Net of								
Items in operating profit affecting comparability	-130.1	99.4	0.7	-19.9	1.3	-11.1	-12.7	-103.6
Comparable profit before tax	**26.4**	**72.7**	**78.2**	**60.6**	**34.5**	**79.2**	**97.5**	**60.2**

Items affecting comparability

€ million	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-3/2016	4-6/2016	7-9/2016	10-12/2016
Comparable profit								
Comparable profit before tax	26.4	72.7	78.2	60.6	34.5	79.2	97.5	60.2
Net of								
Income tax	-7.0	-19.4	-30.4	-14.0	-7.0	-14.3	-16.4	6.4
Items in income tax affecting comparability	-2.1	4.5	10.4	4.6	-0.1	-0.8	-2.7	-21.6
Comparable profit	**17.4**	**57.8**	**58.2**	**51.3**	**27.3**	**64.0**	**78.4**	**44.9**
Equity, average	2,227	2,184	2,189	2,220	2,265	2,195	2,131	2,143
Comparable return on equity,%	**3.1**	**10.6**	**10.6**	**9.2**	**4.8**	**11.7**	**14.7**	**8.4**
Comparable profit attributable to owners of the parent								
Comparable profit	17.4	57.8	58.2	51.3	27.3	64.0	78.4	44.9
Profit attributable to non-controlling interests	-1.1	5.9	5.8	5.1	1.3	5.5	5.7	2.8
Comparable profit attributable to owners of the parent	**18.5**	**51.9**	**52.5**	**46.1**	**26.0**	**58.6**	**72.7**	**42.1**
Average number of shaers, basic, 1,000 pcs	99,024	99,084	99,104	99,114	99,163	99,221	99,240	99,249
Comparable earnings/share, €	**0.19**	**0.52**	**0.53**	**0.47**	**0.26**	**0.59**	**0.73**	**0.42**

Net sales by segment

€ million	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-3/2016	4-6/2016	7-9/2016	10-12/2016
Grocery trade	1,103	1,149	1,171	1,249	1,094	1,353	1,367	1,422
Building and technical trade	773	883	857	736	695	1,046	1,238	1,121
Car trade	210	190	170	177	225	214	190	221
Common functions and eliminations	-3	4	4	4	-1	-2	-3	1
Group total	**2,082**	**2,227**	**2,203**	**2,166**	**2,013**	**2,610**	**2,792**	**2,765**

Operating profit by segment

€ million	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-3/2016	4-6/2016	7-9/2016	10-12/2016
Grocery trade	35.2	115.8	45.0	53.4	30.2	44.1	44.8	-26.1
Building and technical trade	-144.7	61.5	36.8	-10.9	1.8	32.8	37.9	-11.7
Car trade	9.8	6.5	6.0	3.8	9.4	5.8	6.8	7.0
Common functions and eliminations	-3.9	-8.0	-4.6	-7.1	-7.8	-14.7	-4.0	-9.5
Group total	**-103.6**	**175.8**	**83.1**	**39.3**	**33.5**	**68.0**	**85.5**	**-40.3**

Items affecting comparability

€ million	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-3/2016	4-6/2016	7-9/2016	10-12/2016
Grocery trade	0.3	72.4	0.2	-1.0	-1.1	0.5	-4.4	-78.0
Building and technical trade	-130.4	27.0	1.0	-18.4	1.5	-5.1	-7.4	-26.1
Car trade	-	-	-	-	-	-	-	-0.6
Common functions and eliminations	-	0.0	-0.6	-0.5	0.9	-6.5	-0.9	1.1
Group total	**-130.1**	**99.4**	**0.7**	**-19.9**	**1.3**	**-11.1**	**-12.7**	**-103.6**

Comparable operating profit by segment

€ million	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-3/2016	4-6/2016	7-9/2016	10-12/2016
Grocery trade	34.9	43.3	44.8	54.5	31.3	43.6	49.2	51.9
Building and technical trade	-14.2	34.5	35.8	7.5	0.3	37.9	45.3	14.4
Car trade	9.8	6.5	6.0	3.8	9.4	5.8	6.8	7.5
Common functions and eliminations	-3.9	-8.0	-4.1	-6.7	-8.7	-8.2	-3.1	-10.5
Group total	**26.5**	**76.4**	**82.5**	**59.1**	**32.3**	**79.1**	**98.2**	**63.3**

Calculation of performance indicators

Profitability

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 the reporting period
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 and financial position

Equity ratio, %	Shareholders' equity x 100 / (Balance sheet total − Prepayments received)
Gearing, %	Interest-bearing net liabilities x 100 / Shareholders' equity
Interest-bearing net debt	Interest-bearing liabilities −Money market investments − Cash and cash equivalents
Interest-bearing net debt/EBITDA	Interest-bearing liabilities / EBITDA

Share performance indicators

Earnings/share, diluted	Profit/loss – Non-controlling interests / Average number of shares adjusted for the dilutive effect
Earnings/share, basic	Profit/loss − Non-controlling interests / Average number of shares
Earnings/share, basic, comparable	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

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2016

All shares

	Number of shares, pcs	Percentage of all shares,%
Non-financial corporations and housing corporations	24,496,401	24.49
Financial and insurance corporations	7,100,230	7.10
General government*	6,017,157	6.02
Households	25,140,166	25.14
Non-profit institutions**	5,290,423	5.29
Rest of the world	349,744	0.35
Nominee registered	31,625,631	31.62
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	18,441,913	58.11	18.44
Financial and insurance corporations	4,097,314	12.91	4.10
General government*	401,002	1.26	0.40
Households	6,130,446	19.32	6.13
Non-profit institutions**	1,889,840	5.95	1.89
Rest of the world	21,179	0.07	0.02
Nominee registered	755,313	2.38	0.76
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	6,054,488	8.87	6.05
Financial and insurance corporations	3,002,916	4.40	3.00
General government*	5,616,155	8.22	5.62
Households	19,009,720	27.84	19.01
Non-profit institutions**	3,400,583	4.98	3.40
Rest of the world	328,565	0.48	0.33
Nominee registered	30,870,318	45.21	30.86
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. 2016

All shares

Number of shares	Number of share-holders, pcs	Percentage of shareholders,%	Share total, pcs	Percentage of shares,%
1–100	13,834	35.11	735,255	0.74
101–500	14,102	35.79	3,771,603	3.77
501–1,000	4,900	12.44	3,856,491	3.86
1,001–5,000	5,105	12.96	11,192,661	11.19
5,001–10,000	788	2.00	5,591,464	5.59
10,001–50,000	555	1.41	11,244,776	11.24
50,001–100,000	65	0.16	4,648,968	4.65
100,001–500,000	39	0.10	7,805,124	7.80
500,001–999,999,999,999	16	0.04	51,173,410	51.16
Total	**39,404**	**100.00**	**100,019,752**	**100.00**

A shares

Number of shares	Number of share-holders, pcs	Percentage of A shareholders,%	A share total, pcs	Percentage of shares,%
1–100	2,864	36.03	124,616	0.39
101–500	1,916	24.10	495,374	1.56
501–1,000	1,038	13.06	894,864	2.82
1,001–5,000	1,449	18.23	3,526,671	11.11
5,001–10,000	351	4.42	2,478,311	7.81
10,001–50,000	279	3.51	5,961,278	18.78
50,001–100,000	32	0.40	2,253,856	7.10
100,001–500,000	15	0.19	3,525,577	11.11
500,001–999,999,999,999	5	0.06	12,476,460	39.31
Total	**7,949**	**100.00**	**31,737,007**	**100.00**

B shares

Number of shares	Number of share-holders, pcs	Percentage of B shareholders,%	B share total, pcs	Percentage of shares,%
1–100	11,957	35.33	661,383	0.97
101–500	13,036	38.51	3,492,651	5.11
501–1,000	4,093	12.09	3,151,020	4.61
1,001–5,000	3,985	11.77	8,396,440	12.30
5,001–10,000	426	1.26	3,032,853	4.44
10,001–50,000	283	0.84	5,479,867	8.03
50,001–100,000	33	0.10	2,403,071	3.52
100,001–500,000	23	0.07	4,656,401	6.82
500,001–999,999,999,999	11	0.03	37,009,059	54.20
Total	**33,847**	**100.00**	**68,282,745**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2016

		Number of shares, pcs	Percentage of shares,%	Number of votes	Percentage of votes,%
1.	K-Retailers' Association	4,017,154	4.02	40,171,540	10.42
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	1,990,632	1.99	5,596,320	1.45
5.	Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
6.	Foundation for Vocational Training in the Retail Trade	1,147,164	1.15	10,610,205	2.75
7.	Varma Mutual Pension Insurance Company	1,130,986	1.13	1,130,986	0.29
8.	Oy The English Tearoom Ab	1,000,000	1.00	1,000,000	0.26
9.	The State Pension Fund	950,000	0.95	950,000	0.25
10.	Elo Mutual Pension Insurance Company	896,968	0.90	896,968	0.23

10 largest shareholders by number of votes as at 31 Dec. 2016

		Number of shares, pcs	Percentage of shares,%	Number of votes	Percentage of votes,%
1.	K-Retailers' Association	4,017,154	4.02	40,171,540	10.42
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	1,147,164	1.15	10,610,205	2.75
6.	Ilmarinen Mutual Pension Insurance Company	1,990,632	1.99	5,596,320	1.45
7.	K-Food Retailers' Club	484,336	0.48	4,843,360	1.26
8.	Heimo Välinen Oy	470,000	0.47	4,700,000	1.22
9.	Food Paradise Oy	469,541	0.47	4,695,410	1.22
10.	T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50

Management's shareholdings

At the end of December 2016, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 306,814 Kesko Corporation A shares and 22,000 Kesko Corporation B shares, i.e. a total of 328,814 shares, which represents 0.33% of the total number of shares and 0.80% of votes carried by all shares of the Company.

At 31 December 2016, the President and CEO held 20,005 Kesko Corporation B shares, which represented 0.02% of the total number of shares and 0.01% of votes carried by all shares of the Company. At 31 December 2016, the Group Management Board including the President and CEO held 104,678 Kesko Corporation B shares, which represented 0.1% of the total number of shares and 0.03% of votes attached to all shares of the Company.

Consolidated financial statements (IFRS)

Consolidated income statement

€ million	Note	1 Jan–31 Dec 2016	%	1 Jan–31 Dec 2015	%
Net sales	2	**10,180.4**	**100.0**	**8,678.9**	**100.0**
Cost of goods sold		-8,718.7	-85.6	-7,540.4	-86.9
Gross profit		**1,461.7**	**14.4**	**1,138.5**	**13.1**
Other operating income	4 5	699.0	6.9	800.4	9.2
Employee benefit expense	6 30	-722.8	-7.1	-544.8	-6.3
Lease expenditure		-458.1	-4.5	-407.7	-4.7
Marketing costs		-219.2	-2.2	-221.6	-2.6
Property and store site maintenance		-129.0	-1.3	-105.4	-1.2
Information system expenses		-91.8	-0.9	-78.5	-0.9
Other operating expenses	4	-231.4	-2.3	-249.6	-2.9
Depreciation, amortisation and impairment	11 12	-161.6	-1.6	-136.8	-1.6
Operating profit		**146.8**	**1.4**	**194.6**	**2.2**
Interest income and other finance income	7	15.0	0.1	10.4	0.1
Interest expense and other finance costs	7	-11.6	-0.1	-14.2	-0.2
Foreign exchange differences	7	-4.4	0.0	-3.3	0.0
Total finance income and costs	7	**-1.0**	**0.0**	**-7.1**	**-0.1**
Investments accounted for using the equity method		-0.6	0.0	0.6	0.0
Profit before tax		**145.2**	**1.4**	**188.0**	**2.2**
Income tax	8	-31.4	-0.3	-70.7	-0.8
Profit for the year		**113.8**	**1.1**	**117.4**	**1.4**

€ million	Note	1 Jan–31 Dec 2016	%	1 Jan–31 Dec 2015	%
Profit for the year attributable to					
Owners of the parent		98.6		101.6	
Non-controlling interests		15.3		15.7	
Earnings per share for profit attributable to owners of the parent					
Basic, €	10	0.99		1.03	
Diluted, €	10	0.99		1.03	

Consolidated statement of comprehensive income

€ million	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Profit for the year		113.8	117.4
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	9 17	-11.1	23.0
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	9	10.4	-17.4
Cash flow hedge revaluation	9	2.4	0.0
Revaluation of available-for-sale financial assets	9	0.5	1.1
Others	9	-0.3	-0.3
Total comprehensive income for the year, net of tax		**2.0**	**6.4**
Total comprehensive income for the year		**115.8**	**123.8**
Comprehensive income for the year attributable to			
Owners of the parent		100.8	118.9
Non-controlling interests		15.0	4.9

Consolidated statement of financial position

€ million	Note	31 Dec 2016	%	31 Dec 2015	%
ASSETS					
Non-current assets					
Property, plant and equipment	11	1,150.4		1,282.1	
Intangible assets	12	430.5		168.4	
Equity accounted investments	13 37	107.9		99.2	
Available-for-sale financial assets	23 32	15.1		15.3	
Non-current receivables	14 15 23	62.6		62.9	
Deferred tax assets	16	5.8		3.9	
Pension assets	17	164.7		176.4	
Total non-current assets		**1,937.1**	**43.9**	**1,808.3**	**43.7**
Current assets					
Inventories	18	978.9		735.0	
Interest-bearing receivables	19 23	3.7		10.0	
Trade receivables	19 23 32	831.2		581.7	
Income tax assets	19 23	21.2		2.0	
Other non-interest-bearing receivables	19 23	198.6		114.6	
Financial assets at fair value through profit or loss	23 32	93.3		374.2	
Available-for-sale financial assets	20 23 32	156.8		371.7	
Cash and cash equivalents		141.3		141.2	
Total current assets		**2,424.9**	**55.0**	**2,330.5**	**56.3**
Non-current assets held for sale	21	45.7	1.0	0.5	0.0
Total assets		**4,407.7**	**100.0**	**4,139.3**	**100.0**

€ million	Note	31 Dec 2016	%	31 Dec 2015	%
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	22	197.3		197.3	
Share premium	22	197.8		197.8	
Other reserves	22	265.6		265.5	
Currency translation differences	22	-23.7		-44.6	
Revaluation reserve	22	3.2		0.2	
Retained earnings		1,389.0		1,547.1	
		2,029.1	46.0	2,163.4	52.3
Non-controlling interests		**97.3**	**2.2**	**78.6**	**1.9**
Total equity		**2,126.3**	**48.2**	**2,241.9**	**54.2**
Non-current liabilities					
Interest-bearing non-current liabilities	23 24 32	358.7		258.3	
Non-interest-bearing non-current liabilities	23 32	40.2		42.2	
Deferred tax liabilities	16	48.1		71.4	
Pension obligations	17	0.8		0.9	
Provisions	25	14.9		15.6	
Total non-current liabilities		**462.5**	10.5	**388.4**	9.4
Current liabilities					
Current interest-bearing liabilities	23 32	156.0		180.8	
Trade payables	23 26 32	1,069.2		795.1	
Other non-interest-bearing liabilities	23 26 32	226.9		212.6	
Income tax liabilities	23 26 32	8.7		31.4	
Accrued liabilities	23 26 32	316.2		251.3	
Provisions	25	41.0		37.8	
Total current liabilities		**1,818.0**	**41.2**	**1,509.0**	**36.5**
Liabilities related to available-for-sale non-current assets		0.8	0.0	-	-
Total liabilities		**2,281.3**	**51.8**	**1,897.3**	**45.8**
Total equity and liabilities		**4,407.7**	**100.0**	**4,139.3**	**100.0**

Consolidated statement of cash flows

€ million	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flows from operating activities			
Profit before tax		145.2	188.0
Adjustments			
Depreciation according to plan		137.6	127.6
Finance income and costs		1.0	7.1
Other adjustments	31	90.6	40.1
		229.2	**174.8**
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-43.8	-1.8
Inventories increase (-)/decrease (+)		5.1	-43.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-78.5	7.0
		-117.2	**-38.8**
Interest paid and other finance costs		-17.0	-17.6
Interest received		14.1	8.9
Dividends received		0.0	0.1
Income taxes paid		-84.1	-38.9
Net cash flows from operating activities		**170.2**	**276.4**
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3	-427.5	-
Payments to acquire equity accounted investments	31	-	-11.0
Payments for tangible and intangible assets	31	-277.4	-203.8
Proceeds from sale of subsidiaries, net of cash disposed of	31	160.9	-47.3
Equity repaid by associates and joint ventures		-	9.5
Proceeds from sale of tangible and intangible assets		44.0	470.4
Proceeds from sale of available-for-sale financial assets		0.4	-
Non-current loan and receivables, increase (-)/decrease (+)		-1.5	-0.6
Net cash flows from investing activities		**-501.1**	**217.1**

€ million	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)		63.0	-58.6
Repayments of finance lease liabilities		-3.6	-2.8
Interest-bearing receivables, increase (-)/decrease (+)		2.0	1.8
Dividends paid		-249.5	-156.1
Proceeds from issue of shares		12.6	-
Acquisition of treasury shares		**-0.3**	-
Short-term money market investments, increase (-)/decrease (+)		364.5	-269.2
Other items		6.9	19.3
Net cash flows from financing activities		**195.6**	**-465.7**
Change in cash and cash equivalents and current available-for-sale financial assets		**-135.3**	**27.8**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January	31	334.1	313.3
Currency translation difference adjustment and change in value		2.1	-7.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December	31	**200.8**	**334.1**

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
Acquisition of non-controlling interest		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									
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**

	Attributable to owners of the parent								
€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2015	**197.3**	**463.3**	**-37.9**	**-0.9**	**-31.5**	**1,593.5**	**2,183.9**	**81.6**	**2,265.5**
Share-based payment					**4.0**		**4.0**		**4.0**
Treasury shares					-0.1		-0.1		-0.1
Dividends						-148.7	-148.7	-7.3	-156.1
Acquisition of non-controlling interest					0.0	0.1	0.1	-0.6	-0.5
Other changes		0.0	0.0			5.3	5.3	0.0	5.3
Transactions with owners, total		**0.0**	**0.0**		**4.0**	**-143.3**	**-139.3**	**-8.0**	**-147.3**
Comprehensive income									
Profit for the year						101.6	101.6	15.7	117.4
Actuarial gains/losses						28.8	28.8		28.8
Currency translation differences related to a foreign operation		0.0	-6.6				-6.6	-10.8	-17.4
Cash flow hedge revaluation				0.0			0.0		0.0
Revaluation of available-for-sale financial assets				**1.4**			**1.4**		**1.4**
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				-0.3		-5.8	-6.1		-6.1
Total comprehensive income for the period		0.0	-6.6	1.1		124.3	118.9	4.9	123.8
Balance as at 31 December 2015	**197.3**	**463.4**	**-44.6**	**0.2**	**-27.5**	**1,574.6**	**2,163.4**	**78.6**	**2,241.9**

Further information on share capital and reserves is disclosed in note 22, on components of other comprehensive income in note 9 and on share-based compensation plans in note 30.

Notes to the consolidated financial statements

Note 1. Accounting policies for the consolidated financial statements

Basic information about the company

Kesko is a Finnish listed trading sector company. Kesko has over 2,000 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 1 February 2017.

General information

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2015. 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 2016.

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.

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 12)

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 17):

- 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.

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.

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 37.

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 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 operations 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 37.

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 have not been realised 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 is rouble denominated. Earlier leases were mainly denominated in the euro. As of 1 January 2017, the functional currency of Russian real estate companies is the rouble as a result of the change in the Russian rental market.

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

The income statements of the Group companies operating outside the euro zone, and whose functional currency is not that of a hyperinflationary economy, have been translated into euros at the average rate of the financial year, and the balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, and the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, and the hedging result of net investments in them 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.

The assets and liabilities of entities operating in countries that have been identified as hyperinflationary economies have been restated to correspond to the change in purchasing power prior to foreign currency translation. The income statements and balance sheets of these entities have been translated into euros at the rate of the balance sheet date. In 2016, the Group did not have entities operating in hyperinflationary economies.

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 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 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.

Property, plant and equipment

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.

Intangible assets

Goodwill and trademarks

Goodwill is not amortised but is instead tested for impairment annually and whenever there is an indication of impairment. For testing purposes, goodwill is allocated to the cash generating units. Goodwill is measured at 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

The salary costs of the Group employees working on projects for developing new software and other directly attributable costs 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.

Leases

The Group acts as both lessor and lessee of real estate and machines. Leases in which risks and rewards incidental to ownership are not transferred to the lessee are classified as operating leases. Lease payments related to them are recognised in the income statement on a straight-line basis over the lease term.

Leases that substantially transfer all risks and rewards incidental to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower 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 recognized 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.

Similarly, leases in which assets are leased out by the Group and substantially all the risks and rewards incidental to ownership are transferred to the lessee, are classified as finance leases. Assets leased under such contracts are recognised as a receivable in the balance sheet and the receivable is stated at present value. The financial income from finance leases is determined so as to achieve a constant periodic rate of return on the remaining net investment for the lease term.

In sale and leaseback transactions, the selling price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any proceeds exceeding the carrying amount are not immediately recognised as income. Instead, the amount is recognised as a liability in the balance sheet and amortised over the period of the lease. If a sale and leaseback transaction results in an operating lease and the transaction 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.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less 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.

Trade receivables

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 recognized, 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.

Non-current assets held for sale and discontinued operations

Non-current assets (or a disposal group) are classified as held for sale, if their carrying amount will be recovered principally through 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 2016 and 2015, the Group had no discontinued operations.

Equity

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.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as the result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. Provision amounts are reviewed on each balance sheet date and adjusted to reflect the current best estimate. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised. The most significant part of the Group's provisions relates to warranties given to products sold by the Group and to onerous 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.

Employee benefits

Pension plans

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.

Share-based payment

Share awards

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 recognized 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.

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 scheme, 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 and 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.

Other operating income and expenses

Other operating income includes income other than that associated with the sale of goods or services, such as lease income, store site and chain fees and various other service fees and commissions. Other operating income and expenses also include gains and losses on the disposal of property, plant and equipment as well as realised and unrealised gains and losses on derivatives used for hedging foreign currency risks associated with commercial transactions.

Borrowing costs

The Group has not capitalised interest costs incurred as part of the acquisition of assets, because the Group does not have qualifying assets.

Directly attributable transaction costs clearly associated with a certain borrowing are included in the original amortised cost of the borrowing and amortised as an interest expense using the effective interest method.

Income tax

The taxes recognized 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.

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.

Dividend distribution

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.

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

In addition to the standards and interpretations presented in the 2016 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2017 or subsequent financial statements.

IFRS 9 Financial instruments

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 allows financial assets to be 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 contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income, unless this creates an accounting mismatch. The Group's management estimates that the new standard will have a minor impact on the accounting treatment of financial assets.

The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

IFRS 15 Revenue from Contracts with Customer

The standard replaces IAS 11, 'Construction contracts' and IAS 18, 'Revenue' and related interpretations'. 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.

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.

The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

IFRS 16 Leases

On 13 January 2016, IASB issued a new IFRS standard, IFRS 16 Leases. The standard addresses the definition, recording, measurement of lease contracts and notes related to lease arrangements. According to the standard, all leases of over 12 months are recognized as assets and liabilities (right-of-use assets).

The store site network is a strategic competitive factor for K Group. Kesko Group leases store sites for use in its business operations in all of its operating countries. At the end of 2016, Kesko Group had over 1,500 leased properties the rental liability for which was €2,957 million.

Management estimates that the new leasing standard will have a significant impact on the Company's income statement, balance sheet and performance indicators.

The effective date of the standard is 1 January 2019. The standard has not yet been endorsed for adoption by the EU.

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.

Note 2. Segment information

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.

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

The Group Management Board assesses the segments' performances based on operating profit, comparable operating profit, and return on capital employed. Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and allocated to the segments. The Group identifies gains and losses on the disposal of real estate, shares and operating activities, impairments and significant costs of discontinuing operations and restructurings as non-recurring items. 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 segments, as the Group's cash and cash equivalents are managed by the Group Treasury. Changes in the fair values of intra-Group foreign exchange forward contracts entered into are reported as part of other operating income and expenses to the extent that they hedge the segments' foreign exchange risk.

The assets and liabilities of a segment's capital employed consist of operating items that can be justifiably allocated to the segments. The assets of capital employed comprise property, plant and equipment and intangible assets, investments accounted for using the equity method 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 segments.

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

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries in Finland. In Finland, Kesko Food operates under the K-retailer business model. The Russian grocery trade business was disposed of on 30 November 2016. Following the acquisition of Suomen Lähikauppa Oy, Kesko Food itself acts as a retailer in Finland. The conversion of Siwas and Valintatalos into K-Markets was begun in May 2016 and by the end of the year, 223 stores had been converted. Suomen Lähikauppa Oy was renamed K-Market Oy in autumn 2016. There are around 900 K-food stores operating under the K-retailer business model. These stores form the K-Citymarket, K-Supermarket and K-Market grocery retail chains. Kesko Food 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. Kesko Food's subsidiary Kespro Ltd engages in grocery wholesaling in the Finnish hotel, restaurant and catering (HoReCa) business. K-citymarket, home and speciality goods, is a retailer of home and speciality goods in Finland.

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. The Group itself acts as a retail operator in Sweden, the Baltic countries, Russia and Belarus. The retail store chains are K-Rauta, Rautia, Byggmakker (Norway), K-Senukai (the Baltic countries) and OMA (Belarus). The building and home improvement stores serve both consumer and professional customers. On 1 June 2016, Kesko Corporation acquired Onninen Oy which specialises in the B2B trade. Onninen is one of the leading suppliers of HEPAC and electrical products and related service providers. The group specialises in the B2B trade and has around 150 places of business in Finland, Sweden, Norway, Poland, the Baltic countries and Russia. Kesko's business operations in the HEPAC and electrical product groups will expand and it will be able to provide better service to contractor customers in particular.

This reportable segment also includes the agricultural and machinery trade in Finland, the machinery trade in the Baltic countries, the leisure trade in Finland and the furniture trade. The furniture trade chains in Finland and the Baltic countries are Asko and Sotka. Intersport, Budget Sport and Kookenkä are the leisure chains. Intersport engages in the sports equipment trade in Finland. The agricultural and machinery trade comprises the operations of K-maatalous and Konekesko. The machinery trade is a service company specialising in the import and trade of construction, environmental, agricultural and recreational machinery.

Car trade

The car trade comprises the business operations of VV-Auto. VV-Auto imports and markets Volkswagen, Audi and Seat 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 VV-Auto.

Common functions

Common functions comprise Group support functions.

Segment information for 2016

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Segment 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**
Other segment 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**

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Tangible and intangible assets	791.5	661.6	95.9	28.9	2.9	1,580.9
Equity accounted investments 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
Assets 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**
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**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
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
Return on capital employed, comparable, %	21.3	9.8	23.8	-9.0		11.9
Capital expenditure	238.1	451.7	41.4	14.9	-3.0	743.1
Number of personnel as at 31 December	10,338	15,630	817	871		27,656
Average number of personnel	8,200	12,744	780	752		22,476

Segment information for 2015

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Total
Segment net sales	4,672.9	3,249.8	747.9	129.4	8,799.9
of which intersegment sales	-15.4	-0.6	-0.4	-104.6	-121.0
Net sales from external customers	**4,657.5**	**3,249.1**	**747.5**	**24.8**	**8,678.9**
Other segment income	607.9	187.6	4.3	14.7	814.5
of which intersegment income	-6.1	-10.0	0.0	2.0	-14.1
Other operating income from external customers	**601.9**	**177.6**	**4.3**	**16.7**	**800.4**
Depreciation and amortisation	-69.1	-44.6	-8.0	-5.8	-127.6
Impairment	0.0	-9.2			-9.2
Operating profit	**249.4**	**-57.2**	**26.1**	**-23.7**	**194.6**
Items affecting comparability	71.9	-120.8		-1.0	-49.9
Comparable operating profit	**177.5**	**63.6**	**26.1**	**-22.7**	**244.5**
Finance income and costs					-7.1
Investments accounted for using the equity method					0.6
Profit before tax					**188.0**

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Tangible and intangible assets	788.3	523.7	75.7	60.0	2.9	1,450.5
Equity accounted investments and other investments	4.7	0.2	0.0	110.2	-0.6	114.5
Pension assets	40.6	16.3		119.5		176.4
Inventories	211.9	382.3	140.9		0.0	735.0
Trade receivables	284.5	256.6	43.4	11.3	-14.1	581.7
Other non-interest-bearing receivables	50.5	60.7	4.1	24.2	-21.0	118.5
Interest-bearing receivables	3.8	3.8	0.3	63.1		71.0
Assets held for sale				0.5		0.5
Assets included in capital employed	**1,384.3**	**1,243.5**	**264.4**	**388.8**	**-32.8**	**3,248.1**
Unallocated items						
Deferred tax assets						3.9
Financial assets at fair value through profit or loss						374.2
Available-for-sale financial assets						371.7
Cash and cash equivalents						141.2
Total assets	**1,384.3**	**1,243.5**	**264.4**	**388.8**	**-32.8**	**4,139.3**
Trade payables	424.4	355.3	17.4	7.7	-9.8	795.1
Other non-interest-bearing liabilities	233.5	131.3	69.2	88.8	-15.7	507.2
Provisions	4.0	16.6	31.9	0.9		53.4
Liabilities included in capital employed	**661.9**	**503.3**	**118.6**	**97.5**	**-25.4**	**1,355.7**
Unallocated items						
Interest-bearing liabilities						439.1
Other non-interest-bearing liabilities						31.2
Deferred tax liabilities						71.4
Total liabilities	**661.9**	**503.3**	**118.6**	**97.5**	**-25.4**	**1,897.3**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Total capital employed as at 31 December	722.4	740.3	145.8	291.3	-7.4	1,892.4
Average capital employed	871.4	823.0	103.7	292.2	-7.1	2,083.2
Return on capital employed, comparable, %	20.4	7.7	25.2			11.7
Capital expenditure	128.9	55.3	16.0	18.5	-0.2	218.5
Number of personnel as at 31 December	8,364	12,270	783	518		21,935
Average number of personnel	6,420	11,269	780	487		18,955

Group-wide 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.

2016 **€ million**	**Finland**	**Other Nordic countries**	**Baltic countries**	**Others**	**Eliminations**	**Total**
Net sales	8,133.6	899.6	661.8	502.7	-17.4	10,180.4
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	10,714	1,327	4,597	5,838		22,476

2015 **€ million**	**Finland**	**Other Nordic countries**	**Baltic countries**	**Others**	**Eliminations**	**Total**
Net sales	7,056.8	627.2	584.1	426.8	-16.0	8,678.9
Assets	2,357.1	182.3	216.3	492.5		3,248.1
Capital expenditure	130.6	4.2	4.1	79.6		218.5
Average number of personnel	8,300	988	4,508	5,160		18,955

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.

Note 3. Business acquisitions and disposals of assets

Acquisitions

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. Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy on 1 June 2016. VV-Auto Group acquired the whole share capital of Oy AutoCarrera Ab and as a result, the import and retailing of Porsche transferred to VV-Auto.

€ million	Suomen Lähikauppa	Onninen Group	Oy Auto-carrera 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
Tangible assets 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**

€ million	Suomen Lähikauppa	Onninen Group	Oy Auto-carrera Ab
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. Kesko estimates that it will gain annual synergy benefits of over 30 million at EBITDA level from the acquisition as of 2018. The achievement of synergies will require conversion costs for the renewal of the stores acquired from Suomen Lähikauppa. The costs of store and network conversion, to be treated as restructuring costs affecting the comparability of the operating profit, will total approximately €30 million in 2016-2018. The goodwill derived from the acquisition is not tax deductible.

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. The impact on the comparable operating profit for the April-December period 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 recognized 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 the B2B trade and has around 140 places of business in Finland, Sweden, Norway, Poland, the Baltic countries and Russia. Kesko's business operations will expand in the HEPAC and electrical product groups and it will be able to better serve contractor customers in particular. In addition, Kesko will gain new customer relationships in the infrastructure and industry customer groups.

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. Kesko estimates that it will gain annual synergy benefits of approximately €30 million at EBITDA level from the acquisition as of 2020. The achievement of synergies will require both capital expenditures and non-recurring costs. The combined net cash flow impact of synergy benefits is estimated at around €25 million positive in 2016-2019. The goodwill derived from the acquisition is not tax deductible.

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. The impact on the comparable operating profit for the June-December period 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 recognized 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 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 acquisition will also create synergies in the car trade processes, suc as purchases, store site network, logistics, ICT and administration. The goodwill derived from the acquisition is not tax deductible.

The Group's profit for December 2016 include costs incurred from an 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. The impact on the comparable operating profit for the December 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.

In 2015 Kesko Group did not have acquisitions to be accounted for as business combinations.

Disposals of assets

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.

In 2015, Kesko sold the department store chain Anttila Oy to the German investment fund 4K INVEST at a price of €1 million. The date of the transaction was 16 March 2015. A €-130 million loss on the disposal affecting comparability was recorded on the transaction.

In 2015, Kesko, AMF Pensionsförsäkring and Ilmarinen established a joint real estate investment company. Kesko sold some of its store sites in both Finland and Sweden to the established joint venture. A €75.6 million selling profit affecting comparability was recorded.

In 2015, Kesko also sold four properties to Kesko Pension Fund. A €22.9 million selling profit affecting comparability was recorded.

Note 4. Other operating income and other operating expenses

Other operating income

€ million	2016	2015
Income from services	535.3	544.3
Lease income	41.9	44.5
Gains on disposal of tangible and intangible assets	3.3	102.7
Realised gains on derivative contracts and changes in fair value	5.2	6.6
Others	113.3	102.3
Total	**699.0**	**800.4**

Income from services mainly comprises chain and store site fees paid by chain companies.

Other operating income includes €1.8 million (€101.0 million) of items affecting comparability. More information on items affecting comparability is presented in note 5.

Other operating expenses

€ million	2016	2015
Other operating expenses	-161.9	-112.2
Losses on disposal of tangible assets and shares	-65.8	-130.6
Realised losses on derivative contracts and changes in fair value*	-3.7	-6.8
Total	**-231.4**	**-249.6**

* Includes changes in fair values of embedded derivatives.

Auditors' fees

€ million	2016	2015
PricewaterhouseCoopers, firm of auditors		
Audit	0.9	0.8
Tax consultation	0.1	0.1
Other services	0.3	0.6
Total	**1.4**	**1.5**
Other audit firms	2.0	1.2

Note 5. Items affecting comparability

€ million	2016	2015
Gains on disposal of properties and shares	4.2	101.2
Losses on disposal of properties and shares	-71.0	-131.8
Impairment losses	-30.0	-
Structural arrangements	-23.1	-19.3
Other items	-6.3	0.0
Total	**-126.2**	**-49.9**

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and they have been allocated to segments. The Group identifies gains and losses on disposal of real estate, shares and business operations, impairment charges and significant costs of discontinuing business operations and restructurings 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.

In 2016, the items affecting comparability include €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. In 2015, the items affecting comparability include a €130 million loss on the divestment of Anttila, gains on disposal of properties in the amount of €101.0 million, and relating to the restructuring of Intersport Russia's operations, a total of €17.2 million of impairment charges and provisions.

Note 6. Employee benefit expense, management compensation and number of personnel

€ million	2016	2015
Salaries and fees	-574.7	-440.2
Social security costs	-57.5	-43.2
Pension costs	-78.3	-55.0
Defined benefit plans	2.2	0.5
Defined contribution plans	-80.5	-55.5
Share-based payment	-12.3	-6.4
Total	**-722.8**	**-544.8**

Information on the employee benefits of the Group's management personnel and other related party transactions are presented in note 33, and on share-based payment in note 30.

Remuneration of the Group companies' managing directors and board members

€ million	2016	2015
Salaries of managing directors (incl. fringe benefits)	8.0	6.0
Remuneration of Board members	0.4	0.4
Total	**8.3**	**6.4**

Average number of the Group personnel

	2016	2015
Grocery trade	8,200	6,420
Building and technical trade	12,744	11,269
Car trade	780	780
Common functions	752	487
Total	**22,476**	**18,956**

Note 7. Finance income and costs

€ million	2016	2015
Interest income and other finance income		
Interest income on loans and receivables	11.3	7.8
Interest income on financial assets at fair value through profit or loss	0.7	0.8
Interest income on available-for-sale financial assets	1.6	1.6
Gains on disposal of available-for-sale financial assets	1.0	0.1
Other finance income	0.4	0.1
Total interest income and other finance income	**15.0**	**10.4**

€ million	2016	2015
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-10.8	-11.6
Losses on disposal of available-for-sale financial assets	0.0	-1.1
Other finance costs	-0.8	-1.6
Total interest expense and other finance costs	**-11.6**	**-14.2**
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	-4.4	-3.3
Total exchange differences	**-4.4**	**-3.3**
Total finance income and costs	**-1.0**	**-7.1**

The interest expense includes €0.1 million (€0.2 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.

Exchange differences recognised in the income statement

€ million	2016	2015
Sales	-0.1	-0.1
Other income	2.7	6.6
Purchases	0.2	0.2
Other expenses	-3.7	-5.4
Finance income and costs	-4.4	-3.3
Total	**-5.3**	**-2.1**

Note 8. Income tax

€ million	2016	2015
Current tax	-41.3	-83.4
Tax for prior years	-0.8	0.0
Deferred tax	10.7	12.8
Total	**-31.4**	**-70.7**

Reconciliation between tax expense shown in the income statement and tax calculated at parent's rate

€ million	2016	2015
Profit before tax	145.2	188.0
Tax at parent's rate 20.0%	-29.0	-37.6
Effect of foreign subsidiaries' different tax rates	3.3	3.0
Effect of tax-free income	0.6	2.8
Effect of expenses not deductible for tax purposes	-7.1	-32.8
Effect of tax losses	-4.9	-5.7
Effect of consolidation	6.4	-0.3
Tax for prior years	-0.8	0.0
Effect of change in tax rate	0.3	0.3
Others	-0.2	-0.4
Tax charge	**-31.4**	**-70.7**

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. The impact of the corporation tax rate change, effective from 1 January 2016 in Norway, on the deferred tax for the financial year 2015 was €0.3 million.

Note 9. Components of other comprehensive income

Components of other comprehensive income and related tax

€ million	2016 Before tax	Tax charge/ credit	After tax	2015 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-14.0	2.8	-11.1	28.8	-5.8	23.0
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	10.4		10.4	-17.4		-17.4
Cash flow hedge revaluation	3.1	-0.6	2.4	0.0	0.0	0.0
Revaluation of available-for-sale financial assets	0.7	-0.1	0.5	1.4	-0.3	1.1
Others	-0.3		-0.3	-0.3		-0.3
Total	**-0.1**	**2.1**	**2.0**	**12.5**	**-6.1**	**6.4**

Note 10. Earnings per share

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.

	2016	2015
Profit for the period attributable to equity holders of the parent, € million	98.6	101.6
Number of shares		
Weighted average number of shares outstanding	99,248,794	99,113,741
Diluted weighted average number of shares outstanding	99,248,794	99,113,741
Earnings per share from profit attributable to equity holders of the parent		
Basic, €	0.99	1.03
Diluted, €	0.99	1.03

Note 11. Property, plant and equipment

2016 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments 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
Currency translation 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, amortisation and impairment						
Accumulated depreciation, amortisation and impairment as at 1 January	-11.7	-486.1	-391.3	-33.1		-922.3
Currency translation differences		-1.4	-2.9	-0.5		-4.8
Accumulated depreciation, amortisation and impairment on disposals	9.6	40.8	15.8	4.3		70.4
Accumulated depreciation and amortisation on deductions		11.4	44.9	-0.2		56.1
Accumulated depreciation and amortisation on transfers		25.9	3.6	5.2		34.8
Depreciation charge for the year and impairments	-4.0	-76.1	-48.8	-6.9		-135.8
Accumulated depreciation, amortisation and impairment as at 31 December	**-6.1**	**-485.6**	**-378.7**	**-31.2**		**-901.6**
Carrying amount as at 1 January	**345.5**	**698.1**	**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**

2015 € million	**Land and waters**	**Buildings**	**Machinery and equipment**	**Other tangible assets**	**Prepayments and construction in progress**	**Total 2015**
Cost						
Cost as at 1 January	426.0	1,513.0	547.0	97.1	48.0	2,631.1
Currency translation differences	-0.5	-7.8	-6.4	-1.1	0.0	-15.6
Additions	6.3	61.9	41.0	6.3	65.5	180.9
Deductions	-74.8	-419.5	-76.5	-20.5	-0.2	-591.6
Transfers between items	0.2	36.6	3.4	1.5	-42.2	-0.4
Cost as at 31 December	**357.2**	**1,184.2**	**508.5**	**83.3**	**71.1**	**2,204.4**
Accumulated depreciation, amortisation and impairment						
Accumulated depreciation, amortisation and impairment charges as at 1 January	-11.7	-550.1	-408.7	-36.5		-1,007.0
Currency translation differences		1.2	3.0	0.3		4.5
Accumulated depreciation of deductions and transfers		125.9	55.6	10.1		191.7
Depreciation charge for the year and impairments		-63.2	-41.2	-7.1		-111.5
Accumulated depreciation, amortisation and impairment charges as at 31 December	**-11.7**	**-486.1**	**-391.3**	**-33.1**		**-922.3**
Carrying amount as at 1 January	**414.3**	**962.9**	**138.3**	**60.7**	**48.0**	**1,624.1**
Carrying amount as at 31 December	**345.5**	**698.1**	**117.2**	**50.2**	**71.1**	**1,282.1**

Property, plant and equipment include the following amounts of machinery and equipment leased under finance leases:

€ million	**2016**	**2015**
Cost	23.4	26.8
Accumulated depreciation	-15.3	-21.5
Carrying amount	**8.1**	**5.3**

Note 12. Intangible assets

2016 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2016
Cost					
Cost as at 1 January	101.6	70.9	229.5	8.4	410.3
Currency translation 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					
Accumulated amortisation and impairment charges as at 1 January	-60.6	-7.4	-174.0	0.0	-241.8
Currency translation differences	0.1	-0.4	-1.8		-2.1
Accumulated depreciation, amortisation and impairment on disposals	0.1		3.8		3.9
Accumulated depreciation and amortisation on deductions	0.6		10.5		11.1
Amortisation charge for the year and impairments			-23.4		-23.4
Accumulated amortisation and impairment charges as at 31 December	**-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**	**430.6**

2015 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2015
Cost					
Cost as at 1 January	145.2	72.9	213.2	11.5	442.7
Currency translation differences	0.1	-2.0	-2.8	0.0	-4.6
Additions			19.1	6.5	25.6
Deductions	-43.8		-4.4	-5.4	-53.6
Transfers between items			4.3	-4.2	0.1
Cost as at 31 December	**101.6**	**70.9**	**229.5**	**8.4**	**410.3**
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges as at 1 January	-104.2	-7.8	-152.9		-264.8
Currency translation differences	-0.1	0.5	2.4		2.8
Accumulated amortisation of deductions and transfers	43.8		1.8		45.6
Amortisation charge for the year and impairments			-25.3		-25.3
Accumulated amortisation and impairment charges as at 31 December	**-60.6**	**-7.4**	**-174.0**	**0.0**	**-241.8**
Carrying amount as at 1 January	**41.0**	**65.1**	**60.4**	**11.5**	**177.9**
Carrying amount as at 31 December	**41.0**	**63.5**	**55.5**	**8.4**	**168.4**

Other intangible assets include other non-current expenditure, of which €55.4 million (€33.4 million) are software and licence costs.

Goodwill and intangible rights by segment

€ million	Trademarks* 2016	Goodwill 2016	Discount rate (WACC)** 2016	Trademarks* 2015	Goodwill 2015	Discount rate (WACC)** 2015
Grocery trade		76.1	6.0	-	-	-
Building and technical trade						
Byggmakker, Norway	25.9		7.0	24.5		6.0
Onninen	58.3	55.1	7.1	-	-	-
Kesko Senukai, Baltics		20.5	7.0		18.3	7.0
K-rauta Rus, Russia		14.5	11.0		14.6	11.4
Indoor, Finland	39.1	4.1	7.0	39.1	4.1	6.0
Car trade		19.7	7.0		0.2	
Total	**123.3**	**189.9**		**63.5**	**37.2**	

* Intangible assets with indefinite useful lives
** After tax, rate used in impairment testing

The car trade excluded, the cash generating units have been identified at a lower level than the reportable segments. The units have been identified at the chain level. The €3.8 million goodwill related to Konekesko's Yamarin business is presented within available-for-sale non-current assets.

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.

Intangible assets with indefinite useful lives are tested annually for possible impairment and whenever there is an indication of impairment.

Impairment test for goodwill and intangible assets

In impairment testing, the recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by management, covering a period of three years. The key assumptions used for the plans are total market growth and profitability trends, changes in store site network, product and service selection, pricing and movements in operating costs. Cash flows beyond this period have been extrapolated mainly based on 1.0–4.0% (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 segment 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. As a result of the update of calculation parameters, discount rates fell in Russia and rose in Norway and Finland compared to the previous year.

Impairment losses

There were no impairment charges recognised on goodwill or intangible rights in the financial years 2016 and 2015.

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 and the goodwill related to the Russian business. If their residual EBITDA decreased by more than 0.3-0.5 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.

Note 13. Equity accounted investments

€ million	2016	2015
Carrying amount as at 1 January	99.2	92.2
Share of the profit for the financial year	-1.3	0.2
Additions	9.9	16.3
Repaid equity	0.0	-9.4
Carrying amount as at 31 December	**107.9**	**99.2**

The shares in associates and joint ventures are not quoted publicly.

Disclosures on equity accounted investments and the Group's ownership interest in their aggregated assets, liabilities, net sales and profits/losses:

€ million	Assets	Liabilities	Net sales	Profit/loss	Ownership interest, %
2016					
Mercada Oy, Helsinki	668.9	624.0	48.3	3.8	33.3
Kruunuvuoren Satama Oy, Helsinki	257.3	131.9	12.9	8.5	49.0
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	43.8	35.7	0.1	-0.1	
Total	**1,094.1**	**793.9**	**71.8**	**22.3**	
2015					
Mercada Oy, Helsinki	670.7	627.3	26.9	10.2	33.3
Kruunuvuoren Satama Oy, Helsinki	261.7	148.5	13.1	7.2	49.0
Valluga-sijoitus Oy, Helsinki	27.3	0.0	-	1.6	46.2
Vähittäiskaupan Takaus Oy, Helsinki	79.3	0.2	1.4	4.5	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.4	1.9	9.3	0.2	30.0
Others	4.4	3.1	0.2	0.0	
Total	**1,050.8**	**781.0**	**51.0**	**23.6**	

Note 14. Non-current receivables

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**

The carrying amount of non-interest-bearing non-current receivables and finance lease receivables equal their fair value.

Maturity analysis of non-current receivables as at 31 Dec 2015

€ million	2017	2018	2019	2020	2021–	Total
Non-interest-bearing non-current receivables	1.4	0.0		0.0	0.4	1.9
Finance lease receivables	0.3					0.3
Loans and receivables from associates and joint ventures		1.5			56.0	57.5
Other non-current receivables	0.4	0.4	2.3	0.1	0.1	3.3
Total	**2.1**	**1.9**	**2.3**	**0.1**	**56.5**	**62.9**

Note 15. Finance lease receivables

	2016			2015		
€ million	Minimum lease receivables	Unearned finance income	Present value of minimum lease receivables	Minimum lease receivables	Unearned finance income	Present value of minimum lease receivables
Finance lease receivables are due as follows:						
No later than 1 year	0.3	0.0	0.3	2.7	0.0	2.7
Later than 1 year and no later than 5 years	-	-	-	0.3	0.0	0.3
Later than 5 years	-	-	-	-	-	-
Total finance lease receivables	**0.3**	**0.0**	**0.3**	**3.0**	**0.0**	**3.0**

Note 16. Deferred tax

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	2016	2015
Deferred tax assets	5.8	3.9
Deferred tax liabilities	48.1	71.4
Total	**42.3**	**67.5**

Other temporary differences within deferred tax assets include €3.6 million of deferred tax assets arising from compliance with the Group's accounting principles and €4.2 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Movements in deferred tax in 2015

€ million	1 Jan 2015	Income statement charge	Tax charged/credited to equity	Exchange differences	Other changes	31 Dec 2015
Deferred tax assets						
Provisions	13.2	-0.7			-2.9	9.6
Defined benefit pension plans	0.3	-0.2				0.1
Tax loss carry-forwards	10.1	0.8		-2.6		8.3
Other temporary differences	18.0	9.9	0.0	-1.2	-6.9	19.8
Total	**41.5**	**9.8**	**0.0**	**-3.8**	**-9.8**	**37.8**
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	54.1	-4.5				49.6
Fair value allocation	11.3	-1.6		-0.4		9.3
Defined benefit pension plans	29.5	0.0	5.8			35.3
Other temporary differences	9.8	1.4	0.3	-0.5		11.0
Total	**104.7**	**-4.7**	**6.1**	**-0.9**	**0.0**	**105.2**
Net deferred tax liability	63.2					67.5

Tax loss carry-forwards

As at 31 December 2016, the Group's unused tax losses carried forward were €169.0 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	2017	2018	2019	2020	2021	2022–	Total
	0.8	9.0	8.6	7.6	1.6	141.3	169.0

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.

Note 17. Pension assets

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 foreign subsidiaries, the pension plan operated in Norway is classified as a defined benefit plan. As at 31 December 2016, the net liability in respect of the defined benefit plan in Norway was €0.2 million (€0.3 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 2016, the Pension Fund had 2,717 beneficiaries, of whom 641 were active employees and 2,076 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.7% (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 2017.

The defined benefit asset recognised in the balance sheet in respect of Kesko Pension Fund is determined as follows:

€ million	2016	2015
Present value of defined benefit obligation	-300.4	-266.1
Fair value of plan assets	464.5	442.4
Net assets recognised in the balance sheet	**164.1**	**176.4**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	**176.4**	**147.2**
Income/cost recognised in the income statement	2.2	0.5
Remeasurement	-14.1	28.8
Contributions to plan and plan costs	-0.4	-0.4
As at 31 December	**164.1**	**176.4**

€ 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	-1.8		-1.8
Interest cost/income	-6.0	10.0	4.1
	-7.8	**10.0**	**2.2**
Remeasurement			
Return on plan assets		26.6	26.6
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	**26.6**	**-14.1**
Contributions to plan and plan costs		-0.4	-0.4
Benefit payments	14.7	-14.7	0.0
As at 31 December 2016	**-300.4**	**464.5**	**164.1**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2015	-289.3	436.5	147.2
Current service cost	-2.8		-2.8
Interest cost/income	-6.5	9.8	3.3
	-9.3	**9.8**	**0.5**
Remeasurement			
Return on plan assets		11.5	11.5
Gain/loss from changes in demographic assumptions	0.6		0.6
Gain/loss from changes in financial assumptions	9.0		9.0
Experience gains/losses	7.7		7.7
	17.4	**11.5**	**28.8**
Contributions to plan and plan costs		-0.4	-0.4
Benefit payments	14.5	-14.5	0.0
As at 31 December 2015	**-266.4**	**442.8**	**176.4**

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	35.0	17.2	52.2
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	**222.0**	**258.1**	**480.1**

Plan assets were comprised as follows in 2015

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	89.7	43.0	132.7
Debt instruments	26.5	31.6	58.1
Investment funds	30.3	18.4	48.7
Properties	-	159.3	159.3
United States			
Equity instruments	6.0	-	6.0
Investment funds	27.8	-	27.8
Other countries			
Investment funds	26.5	-	26.5
Total	**206.8**	**252.3**	**459.1**

€ million	2016	2015
Kesko Corporation shares included in fair value	23.0	15.7
Properties leased by Kesko Group included in fair value	179.5	186.1

Principal actuarial assumptions:

	2016	2015
Discount rate	1.50%	2.30%
Salary growth rate	2.30%	2.20%
Inflation	1.80%	1.70%
Pension growth rate	2.10%	1.90%
Average service expectancy, years	10	10

Weighted average duration of pension obligations and expected maturity analysis of undiscounted pension obligations

	2016	2015
Weighted average duration of pension obligations, years	16	15
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	15.0	15.2
Between 1–10 years	118.6	118.6
Between 10–20 years	112.4	111.5
Between 20–30 years	78.0	77.5
Over 30 years	70.7	71.5
Total	**394.6**	**394.3**

Finnish pension reform

It has been decided to reform the statutory pension provision in Finland and the amendments will come into force at the beginning of 2017. The objective of the amendments is to extend working life in order that the financing of the statutory earnings-related pension scheme and sufficient pension provision can be ensured.

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 investing 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 2016, the realised return on investing activity was 8.3%.

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 €164.1 million as at 31 December 2016. 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
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%
2015			
Discount rate	0.50%	-6.80%	7.60%
Salary growth rate	0.50%	1.40%	-1.40%
Pension growth rate	0.50%	6.00%	-5.40%

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.

Note 18. Inventories

€ million	2016	2015
Goods	969.3	729.7
Prepayments	9.5	5.3
Total	**978.9**	**735.0**
Write-down of inventories to net realisable value	48.0	39.2

Note 19. Trade and other current receivables

€ million	2016	2015
Interest-bearing receivables		
Finance lease receivables	0.3	2.7
Interest-bearing loans and receivables	3.4	7.3
Total interest-bearing receivables	**3.7**	**10.0**
Trade receivables	831.2	581.7
Income tax assets	21.2	2.0
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	24.5	19.6
Prepaid expenses	174.1	95.0
Total other non-interest-bearing receivables	**198.6**	**114.6**
Total	**1,054.6**	**708.3**

A total amount of €6.7 million (€3.7 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 32.

Prepaid expenses mainly comprise allocations of purchases and employee benefit expenses.

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.

Note 20. Current available-for-sale financial assets

€ million	2016	2015
Carrying amount as at 1 January	371.7	271.7
Changes	-215.7	99.8
Changes in fair value	0.7	0.2
Carrying amount as at 31 December	**156.8**	**371.7**

The available-for-sale financial assets include current investments in commercial papers, certificates of deposits and other interest rate instruments. An analysis of the assets is given in note 32.

Note 21. Non-current assets classified as held for sale and related liabilities

€ million	2016	2015
Intangible assets	3.9	-
Land	10.4	0.3
Buildings and real estate shares	6.7	0.2
Machinery and equipment	1.1	-
Inventories	23.5	-
Total	**45.7**	**0.5**

In December 2016, Kesko signed an agreement concerning the sale of properties in use by the building and technical trade in Estonia and Latvia. According to the agreement, the Kesko Group companies will sell three properties in Estonia and four in Latvia, including the real estate companies that own them, to a Lithuanian real estate investment company. After completion of the transaction, the Group companies will lease the properties back for use in their business operations, and the Kesko subsidiary SIA Kesko Real Estate Latvia will become a minority shareholder in the real estate investment company with a 10% ownership interest. The carrying amount of the properties and the real estate companies is around €17 million. The transaction is expected to be completed in the first half of 2017.

In addition, Konekesko Ltd, part of Kesko Group, has signed an agreement to sell its Yamaha representation, Yamarin boat business and certain other representations of it to Inhan Tehtaat Oy Ab, owned by Yamaha Motor Europe N.V. The carrying amount of assets related to the business to be sold is around €28 million. The transaction is expected to be completed in the first half of 2017.

The total liabilities related to the non-current assets classified as held for sale are €0.8 million.

Note 22. Shareholders' equity

At the end of December 2016, 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 2016, 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 2015	31,737,007	67,287,430*	99,024,437*	197.3	22.8	197.8	417.8
Transfer of treasury shares		117,738	117,738				
31 December 2015	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**
Number of votes	**317,370,070**	**67,536,636**	**384,906,706**				

* Excluding treasury shares which totalled 746,109 (877,577) at the end of the financial year.

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 700,000 own B shares (purchase price €23.7 million) in the financial year 2011 and a total of 500,000 own B shares (purchase price €16.1 million) in the financial year 2014. The total prices paid for the shares have been deducted from retained earnings in equity. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. Based on the authorisations to issue own shares and the fulfilment of the vesting criteria of the 2014 vesting period of Kesko's share-based compensation plans, the Board granted a total of 120,022 own shares held by the Company as treasury shares, and based on the fulfilment of the 2015 vesting period, a total of 139,724 own shares held by the Company as treasury shares to the persons included in the target groups of the vesting periods. The transfers of treasury shares were announced in a stock exchange release on 1 April 2015, 7 April 2015, 17 March 2016 and 27 April 2016. During the financial year, a total of 8,256 shares already granted were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. At the end of the financial year, the Company held 746,109 (877,577) own B shares as treasury shares. The €23.5 million (€27.5 million) acquisition cost of these shares has been deducted from retained earnings in equity. Details of the share-based payments are disclosed in note 30.

Dividends
After the balance sheet date, the Board of Directors has proposed that €2.00 per share be distributed as dividends. A dividend of €2.50 per share was distributed on the profit for 2015.

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 €242.8 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.

Result of cash flow hedging
Hedge accounting is applied to hedging electricity price risk. As a result, an amount of €1.8 million (€2.6 million) was removed from equity and included in the income statement as purchase cost adjustment, and €1.4 million (€-3.2 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €3.2 million (€-0.5 million) before accounting for deferred tax assets.

A fair value change of €-0.1 million (€0.5 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.3 million (€0.5 million) interest expense adjustment for interest rate derivatives was recognised in the income statement.

Note 23. Carrying amounts of financial assets and liabilities by category

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
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**

* Excluding €21.2 million (€2.0 million) in income tax receivables and €9.0 million (€31.4 million) in income tax liabilities.
** Excluding €35.3 million (€38.2 million) in prepayments received.

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
Total 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
Total current interest-bearing liabilities				**156.0**		**156.0**	**156.1**
Trade payables				1,053.7		1,069.2	1,069.2
Other non-interest-bearing liabilities**				205.7		190.2	190.2
Derivatives					1.3	1.3	1.3
Total other non-interest-bearing liabilities**				**205.7**	**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 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**

* Excluding €21.2 million (€2.0 million) in income tax receivables and €9.0 million (€31.4 million) in income tax liabilities.
** Excluding €35.3 million (€38.2 million) in prepayments received.

As at 31 December 2015

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			15.3			15.3	15.3
Non-current non-interest-bearing receivables		1.9				1.9	1.9
Non-current interest-bearing receivables		59.1				59.1	59.1
Derivatives					2.0	2.0	2.0
Total non-current interest-bearing receivables		**59.1**			**2.0**	**61.1**	**61.1**
Total non-current financial assets		**61.0**	**15.3**		**2.0**	**78.2**	**78.2**
Current financial assets							
Trade and other non-interest-bearing receivables*		687.9				687.9	687.9
Derivatives	8.4					8.4	8.4
Total trade and other non-interest-bearing receivables*	**8.4**	**687.9**				**696.3**	**696.3**
Interest-bearing receivables		7.0				7.0	7.0
Derivatives					2.9	2.9	2.9
Total interest-bearing receivables		**7.0**			**2.9**	**10.0**	**10.0**
Financial assets at fair value through profit or loss	374.2					374.2	374.2
Available-for-sale financial assets			371.7			371.7	371.7
Total current financial assets	**382.6**	**694.9**	**371.7**		**2.9**	**1,452.2**	**1,452.2**
Carrying amount by category	**382.6**	**755.9**	**387.0**		**4.9**	**1,530.4**	**1,530.4**

* Excluding €21.2 million (€2.0 million) in income tax receivables and €9.0 million (€31.4 million) in income tax liabilities.
** Excluding €35.3 million (€38.2 million) in prepayments received.

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				258.3		258.3	269.5
Total non-current interest-bearing liabilities				**258.3**		**258.3**	**269.5**
Non-current non-interest-bearing liabilities				38.7		38.7	38.7
Derivatives					3.5	3.5	3.5
Total non-current non-interest-bearing liabilities				**38.7**	**3.5**	**42.2**	**42.2**
Total non-current financial liabilities				**297.0**	**3.5**	**300.5**	**311.7**
Current financial liabilities							
Current interest-bearing liabilities				180.8		180.8	181.7
Derivatives					0.0	0.0	0.0
Total current interest-bearing liabilities				**180.8**	**0.0**	**180.8**	**181.7**
Trade payables				795.1		795.1	795.1
Other non-interest-bearing liabilities**				170.6		170.6	170.6
Derivatives					3.7	3.7	3.7
Total other non-interest-bearing liabilities**				**170.6**	**3.7**	**174.3**	**174.3**
Accrued expenses*				242.7		242.7	242.7
Derivatives	8.6					8.6	8.6
Total accrued expenses*	**8.6**			**242.7**		**251.3**	**251.3**
Total current financial liabilities	**8.6**			**1,389.2**	**3.7**	**1,401.5**	**1,402.4**
Carrying amount by category	**8.6**			**1,686.1**	**7.2**	**1,702.0**	**1,714.1**

* Excluding €21.2 million (€2.0 million) in income tax receivables and €9.0 million (€31.4 million) in income tax liabilities.
** Excluding €35.3 million (€38.2 million) in prepayments received.

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 analysis of non-current receivables is presented in note 14, and that of non-current borrowings in note 32.

Note 24. Finance lease liabilities

€ million	2016 Minimum lease payments	2016 Future finance charges	2016 Present value of minimum lease payments	2015 Minimum lease payments	2015 Future finance charges	2015 Present value of minimum lease payments
Minimum lease payments						
Within 1 year	3.1	0.2	2.9	4.7	0.2	4.5
Later than 1 year and no later than 5 years	6.0	0.6	5.4	4.4	0.6	3.7
Later than 5 years	0.1	0.0	0.0	0.2	0.0	0.1
Total lease payments	**9.1**	**0.7**	**8.4**	**9.2**	**0.9**	**8.3**
Expected sublease payments			0.3			3.0

Financial lease liabilities mainly comprise warehouse technology leased by the Group from finance companies and store equipment leased by the Group and subleased to chain companies.

Note 25. Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan 2016	12.4	21.3	19.7	53.4
Foreign exchange effects		0.0		0.0
Additional provisions	16.8	14.8	7.6	39.2
Unused amounts reversed	-0.6	-10.7	-4.9	-16.2
Amounts charged against provision	-11.2	-0.6	-9.9	-21.7
Changes in the Group structure	-5.1	0.1	6.2	1.1
Provisions as at 31 Dec 2016	**12.3**	**24.9**	**18.6**	**55.8**
Analysis of total provisions				
Non-current	0.2	13.1	1.5	14.9
Current	12.1	11.8	17.1	41.0

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.

Note 26. Trade payables and other current non-interest-bearing liabilities

€ million	2016	2015
Trade payables	1,069.2	795.1
Other non-interest-bearing liabilities	226.9	212.6
Income tax liabilities	8.7	31.4
Accrued expenses	316.2	251.3
Total current non-interest-bearing liabilities	**1,621.1**	**1,290.3**

Accrued expenses are mainly due to the timing of purchases and employee benefit expenses.

Note 27. Joint operations

The figures in the following table represent the Group's interests in the joint operations' assets and liabilities and profit included in the consolidated statement of financial position and the consolidated income statement. The joint operations are mutual real estate companies.

€ million	2016	2015
Non-current assets	36.5	38.0
Current assets	0.7	0.7
Total	**37.2**	**38.7**
Non-current liabilities	2.5	2.8
Current liabilities	5.2	5.2
Total	**7.7**	**8.1**
Net assets	**29.5**	**30.6**
Income	2.7	3.5
Costs	3.9	3.9
Profit	**-1.2**	**-0.3**

Note 28. Commitments

€ million	2016	2015
Collateral given for own commitments		
Pledges	124.2	76.2
Mortgages	23.3	23.3
Guarantees	5.1	17.7
Other commitments and contingent liabilities	32.9	34.4
Collateral given for others		
Guarantees	0.3	0.3
Other commitments and contingent liabilities	19.6	14.2

The guarantees given do not include guarantees related to the item presented within liabilities in the consolidated statement of financial position or as a lease liability in note 29.

Note 29. Operating leases

Group as lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2016	2015
Within 1 year	414.8	357.8
Later than 1 year and no later than 5 years	1,344.0	1,154.7
Later than 5 years	1,269.9	1,108.4
Total	**3,028.7**	**2,620.9**
Expected future minimum lease payments under non-cancellable sublease agreements	52.9	69.9
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	423.0	372.0
Sublease income	21.8	34.3

The 2016 income statement includes capital lease payments and maintenance rentals on real estate under operating leases, and other rentals to a total amount of €458.1 million (€407.7 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	2016	2015
Within 1 year	10.3	7.8
Later than 1 year and no later than 5 years	18.7	13.0
Later than 5 years	28.5	24.6
Total	**57.4**	**45.4**
Aggregate contingent rents charged to the income statement	2.2	1.8

Kesko leases premises to entrepreneurs other than K-retailers in order that the total service offer of a store site supports its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.

Note 30. Share-based payment

Share-based compensation plan

Kesko operates two share-based compensation plans, the 2011–2013 plan and the 2014–2016 plan, decided by the Company's Board of Directors and intended for members of the Group's management and selected other key persons. Under both plans, a total maximum of 600,000 own B shares held by the Company as treasury shares can be granted within a period of three years.

Both of the share-based compensation plans have three vesting periods, namely the calendar years 2011, 2012 and 2013, and 2014, 2015 and 2016 respectively. Kesko's Board of Directors decides 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. At the beginning of the year following the vesting period, Kesko's Board of Directors determines the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The criteria for the vesting periods 2011, 2012, 2013, 2014, 2015 and 2016 were, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, Kesko's comparable basic earnings per share (EPS), and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI index.

The award possibly paid for a vesting period is paid in Kesko B shares. In addition, a cash component equalling at maximum the value of the shares, is paid to cover the taxes and tax-like charges incurred under the award.

A commitment period of three calendar years following each vesting period is attached to the shares granted, during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. 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 in the commitment period, he/she is entitled to keep the shares and other securities already received.

Based on the 2015 vesting period, 139,724 shares were assigned during the financial year ended 31 December 2016. Based on the 2014 vesting period, 120,022 shares were assigned during the financial year ended 31 December 2015. Based on the 2013 vesting period, 50,520 shares were assigned during the financial year ended 31 December 2014. Based on the 2012 vesting period, 66,331 shares were assigned during the financial year ended 31 December 2013. Based on the 2011 vesting period, 92,751 shares were assigned during the financial year ended 31 December 2012.

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 2012			
Grant dates	2 Feb. 2012	20 Feb. 2012	22 Mar. 2012
Grant date fair value of share award, €	23.76	25.04	23.44
Share price at grant date, €	24.96	26.24	24.64
Share-based compensation plan duration			
Vesting period start date			1 Jan 2012
Vesting period end date			31 Dec 2012
Commitment period end date			31 Dec 2015

Share award grant dates and fair values, vesting period 2013	
Grant dates	5 Feb. 2013
Grant date fair value of share award, €	23.30
Share price at grant date, €	24.50
Share-based compensation plan duration	
Vesting period start date	1 Jan 2013
Vesting period end date	31 Dec 2013
Commitment period end date	31 Dec 2016

Share award grant dates and fair values, vesting period 2014	
Grant dates	3 Feb. 2014
Grant date fair value of share award, €	25.66
Share price at grant date, €	27.06
Share-based compensation plan duration	
Vesting period start date	1 Jan 2014
Vesting period end date	31 Dec 2014
Commitment period end date	31 Dec 2017

Share award grant dates and fair values, vesting period 2015	
Grant dates	9 Feb. 2015
Grant date fair value of share award, €	30.74
Share price at grant date, €	32.24
Share-based compensation plan duration	
Vesting period start date	1 Jan 2015
Vesting period end date	31 Dec 2015
Commitment period end date	31 Dec 2018

Share award grant dates and fair values, vesting period 2016	
Grant dates	3.2.2016
Grant date fair value of share award, €	32.45
Share price at grant date, €	34.95
Share-based compensation plan duration	
Vesting period start date	1.1.2016
Vesting period end date	31.12.2016
Commitment period end date	31.12.2019

Assumptions applied in determining the fair value of share award	Vesting period 2016	Vesting period 2015	Vesting period 2014	Vesting period 2013	Vesting period 2012
Number of share awards granted, maximum, pcs	263,000	262,800	278,400	263,600	257,400
Changes in the number of shares granted, pcs	-9,800	-3,600	-2,000	-9,500	-6,575
Actual amount of share award, pcs		139,724	120,022	50,520	66,331
Number of plan participants at end of financial year	131	142	143	134	125
Share price at balance sheet date, €	47.48	32.37	30.18	26.80	24.77
Assumed fulfilment of vesting criteria, %	56.7	53.4	43.4	20.0	30.0
Estimated number of share awards returned prior to the end of commitment period, %	5.0	5.0	5.0	5.0	5.0

The impact of the above share-based compensation plans on the Group's profit for 2016 was €-12.3 million (€-6.3 million).

As at 31 December 2016, the amount to be recognised as expense for the financial years 2016–2018 is estimated at a total of €-5.9 million. The actual amount may differ from the estimate.

Note 31. Notes related to the statement of cash flows

Capital expenditure and non-cash financing activities

€ million	2016	2015
Total purchases of fixed assets	280.8	218.5
Total acquisitions of subsidiaries	434.5	-
of which cash payments	567.6	214.8
Loans relating to acquired companies	139.7	-
Payments arising from prior period investing activities	-4.9	-4.9
Capital expenditure financed with finance lease or other liability	12.9	8.6

Adjustments to cash flows from operating activities

€ million	2016	2015
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	4.9	-0.6
Investments accounted for using the equity method	0.6	-0.6
Impairments	24.0	9.2
Credit losses	6.7	3.7
Non-recurring gains on disposal of fixed assets	-3.7	-102.9
Non-recurring losses on disposal of fixed assets	65.8	132.7
Share-based compensation	-1.2	-0.8
Defined benefit pensions	-0.8	-1.3
Others	-5.7	0.6
Total	**90.6**	**40.1**

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.

Net assets of subsidiaries sold

€ million	2016	2015
Tangible and intangible assets	266.9	16.5
Inventories	7.3	71.7
Receivables	9.6	29.4
Cash and cash equivalents	6.1	21.5
Deferred taxes	-3.2	-
Liabilities	-180.4	-34.4
Provisions	-	-15.8
Net assets total	**106.3**	**89.0**

Cash and cash equivalents within the statement of cash flows

€ million	2016	2015
Available-for-sale financial assets (maturing in less than 3 months)	59.6	192.8
Cash and cash equivalents	141.3	141.2
Total	**200.8**	**334.1**

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.

Note 32. Financial risk management

Financial risk management

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.

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 have not been realised 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 is rouble denominated. Earlier leases were mainly denominated in strong currencies, such as the euro. As of 1 January 2017, the functional currency of Russian real estate companies is the rouble.

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

Group's translation exposure as at 31 Dec 2015 € million	NOK	SEK	RUB	PLN	BYN
Net investment	29.6	94.4	70.3	-	3.5

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 2016 € million	NOK	SEK	RUB	PLN	BYN
Change +/-10%	8.0	9.6	6.8	2.4	0.7

Sensitivity analysis, impact on equity as at 31 Dec 2015 € million	NOK	SEK	RUB	PLN	BYN
Change +/-10%	3.0	9.4	7.0	-	0.4

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 differences from the table below are in the USD and RUB exposures. As at 31 December 2016, the exposure with respect to USD was €-54.8 million, and with respect to RUB, it was €37.3 million.

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**

Group's transaction exposure as at 31 Dec 2015 € million	**USD**	**SEK**	**NOK**	**PLN**	**RUB**	**BYN**
Group's transaction risk	-1.1	-13.2	23.9	-	7.0	-0.2
Hedging derivatives	29.4	7.1	-18.7	-	-13.6	
Open exposure	**28.3**	**-6.1**	**5.1**	**-**	**-6.6**	**-0.2**

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 2016 € million	**USD**	**SEK**	**NOK**	**PLN**	**RUB**	**BYN**
Change +/-10%	2.7	0.5	0.4	0.7	1.3	0.2

Sensitivity analysis, impact on pre-tax profit as at 31 Dec 2015 € million	**USD**	**SEK**	**NOK**	**PLN**	**RUB**	**BYN**
Change +/-10%	2.8	-0.6	0.5	-	-0.7	0.0

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 2016. As at 31 December 2016, liquid assets totalled €391 million (€887 million). Interest-bearing liabilities were €515 million (€439 million) and interest-bearing net debt €123 million (€-448 million) as at 31 December 2016.

Maturities of financial liabilities and related finance costs as at 31 Dec 2016 € million	2017	2018	2019	2020	2021–	Total	Balance
Borrowings from financial institutions	**5.0**	**0.3**	**0.1**	**0.1**	**1.7**	**7.3**	**7.3**
finance costs	0.0	0.0	0.0	0.0	0.0	0.1	
Private Placement notes (USD)*			**22.0**			**22.0**	**22.0**
finance costs	1.4	1.4	0.7			3.6	
Bonds		**225.0**				**225.0**	**225.0**
finance costs	6.2	6.2				12.4	
Pension loans	**2.4**	**10.5**	**17.4**	**16.3**	**59.4**	**105.9**	**105.9**
finance costs	1.1	1.0	0.8	0.7	1.6	5.3	
Finance lease liabilities	**2.9**	**2.8**	**1.2**	**1.1**	**0.5**	**8.6**	**8.6**
finance costs	0.3	0.2	0.1	0.1	0.1	0.7	
Payables to K-retailers	**116.0**					**116.0**	**116.0**
finance costs						0.0	
Other interest-bearing liabilities	**29.6**					**29.6**	**29.6**
finance costs						0.0	
Non-current non-interest-bearing liabilities	**0.7**	**10.1**	**0.8**	**0.7**	**27.9**	**40.2**	**40.2**
Current non-interest-bearing liabilities							
Trade payables	**1,069.2**					**1,069.2**	**1,069.2**
Accrued expenses	**316.2**					**316.2**	**316.2**
Other non-interest-bearing liabilities	**226.9**					**226.9**	**226.9**

* 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 balance sheet. The amount of interest-bearing liability in the balance sheet arising from this credit facility totals €20.1 million (€50.2 million).

Guarantee maturities are €3.5 million in 2017 and €2.0 million in 2018–2021.

Maturities of financial liabilities and related finance costs as at 31 Dec 2015 € million	**2016**	**2017**	**2018**	**2019**	**2020–**	**Total**	**Balance**
Borrowings from financial institutions	**0.3**	**0.3**	**0.1**	**0.1**	**1.8**	**2.7**	**2.7**
finance costs						0.0	
Private Placement notes (USD)*	**33.1**			**22.0**		**55.1**	**55.1**
finance costs	2.5	1.4	1.4	0.7		6.0	
Bonds			**224.1**			**224.1**	**224.1**
finance costs	6.2	6.2	6.2			18.6	
Pension loans	**2.4**	**2.4**	**2.4**	**1.2**		**8.3**	**8.3**
finance costs	0.5	0.5	0.5	0.3		1.8	
Finance lease liabilities	**4.5**	**1.6**	**1.0**	**0.6**	**0.7**	**8.3**	**8.3**
finance costs	0.1	0.1	0.0	0.0	0.0	0.3	
Payables to K-retailers	**114.5**					**114.5**	**114.5**
finance costs						0.0	
Other interest-bearing liabilities	**26.1**					**26.1**	**26.1**
finance costs						0.0	
Non-current non-interest-bearing liabilities	**0.7**	**10.6**	**1.7**	**0.8**	**28.5**	**42.2**	**42.2**
Current non-interest-bearing liabilities							
Trade payables	**795.1**					**795.1**	**795.1**
Accrued expenses	**251.3**					**251.3**	**251.3**
Other non-interest-bearing liabilities	**212.6**					**212.6**	**212.6**

* 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 balance sheet. The amount of interest-bearing liability in the balance sheet arising from this credit facility totals €20.1 million (€50.2 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 €150.0 million (€100.0 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 (€359 million). In addition, in January 2017, the Group companies held a total of €364.6 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 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 1.9 (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 a maturity of six years from issuance.

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 2016, the effect of variable rate borrowings on the pre-tax profit would have been €-/+2.0 million (€-/+1.2 million), if the interest rate level had risen or fallen by 1 percentage point.

The bond, Private Placement notes and pension loans, €353.1 million in aggregate, have fixed rates, and their effective interest cost was 2.7%. At the end of the financial year, the average rate of variable-interest-rate borrowings from financial institutions, payables to retailers and other interest-bearing liabilities was 0.2%. 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 2016 was 1.7% (0.3%) 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 € 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
Bonds				
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**

Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Money market funds	209.6			209.6
Commercial papers		65.5		65.5
Bank certificates of deposit and deposits		93.7		93.7
Bonds	5.5			5.5
Total	**215.1**	**159.2**		**374.2**
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		13.3		13.3
Derivative financial liabilities		8.6		8.6
Available-for-sale financial assets				
Private equity funds and other shares and interests			15.3	15.3
Commercial papers (maturing in less than 3 months)		84.0		84.0
Bank certificates of deposit and deposits (maturing in less than 3 months)		108.8		108.8
Bonds and corporate bond funds	178.9			178.9
Total	**178.9**	**192.8**	**15.3**	**387.0**

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	2016	2015
Private equity funds and other shares and interests as at 1 January	15.3	13.1
Purchases	0.6	3.3
Refunds received	-1.3	-2.2
Gains and losses through profit or loss	0.6	-
Changes in fair values	-0.1	1.2
Private equity funds and other shares and interests as at 31 December	**15.1**	**15.3**

Tasolle 3 sisältyy pääomarahastoja sekä muita osakkeita ja osuuksia. Nämä sijoitukset on luokiteltu pitkäaikaisiin myytävissä oleviin rahoitusvaroihin. Tason 3 rahoitusvarat arvostetaan yhtiöiltä saatujen laskelmien perusteella. Näistä sijoituksista on kirjattu tulosvaikutteisia voittoja 0,6 milj. euroa tilikaudella 2016.

Interest-bearing receivables and sensitivity analysis

The objective is to invest liquidity consisting of financial assets in the money market 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.

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 €+/-2.0 million (€+/-3.5 million) and €+/-1.7 million (€+/-2.7 million) on equity at the balance sheet date.

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	2016	2015
Trade receivables fully performing	731.1	540.7
1–7 days past due trade receivables	49.6	9.9
8–30 days past due trade receivables	18.6	11.4
31–60 days past due trade receivables	5.9	5.2
over 60 days past due trade receivables	26.0	14.4
Total	**831.2**	**581.7**

Within trade receivables, €355.7 million (€331.9 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 €224.1 million (€171.1 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 €24.6 million (€17.2 million) monitored on a separate allowance account. The original balance sheet value of these trade receivables was €35.2 million (€21.9 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €6.7 million (€3.7 million).

The amount of receivables with renegotiated terms totalled €3.1 million (€3.2 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.

At the end of the year, the ineffective portion of derivatives hedging the price risk of electricity was €0.6 million (€-2.9 million).

As at the balance sheet date, a total quantity of 463,460 MWH (464,832 MWH) of electricity had been purchased with electricity derivatives and 236,520 MWH under fixed price purchase agreements. The 1–12 month hedging level was 71% (66%), the 13–24 month level was 43% (60%), the 25–36 month level was 16% (38%), and the 37–48 month level was 3% (4%).

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 2016, it would contribute €-/+1.5 million (€-/+0.7 million) to the 2017 income statement and €-/+0.7 million (€-/+1.1 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts € million	31 Dec 2016 Positive fair value (balance sheet value)	31 Dec 2016 Negative fair value (balance sheet value)	31 Dec 2015 Positive fair value (balance sheet value)	31 Dec 2015 Negative fair value (balance sheet value)
Interest rate derivatives	2.7	-2.8		
Foreign currency derivatives	4.2	-4.6*	13.3	-1.4
Electricity derivatives	0.2	-2.0		-7.2

Notional principal amounts of derivative contracts € million	31 Dec 2016 Notional principal amount	31.12.2015 Notional principal amount
Interest rate derivatives	40.2*	100.4
Foreign currency derivatives	197.8*	287.6
Electricity derivatives	11.2	9.4

* 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 €-0.1million (€0.0 million), and currency swaps with a notional principal amount of €20.1 million and a fair value of €2.7 million (€4.9 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 €3.9 million.

The maximum credit risk from derivatives is the fair value of the balance sheet at the reporting date.

Cash flows from derivative contracts as at 31 Dec 2016 € million	**2017**	**2018**	**2019**	**2020**	**2021**	**2022–**	**Total**
Payables							
Foreign exchange forward contracts outside hedge accounting	175.4						175.4
Net settlement of payables							
Interest rate derivatives							
Electricity derivatives	1.2	0.7	0.1				2.0
Derivatives relating to Private Placement notes*							
Foreign currency derivatives	1.5	0.0	2.1				
Receivables							
Foreign exchange forward contracts outside hedge accounting	172.4						172.4
Net settlement of receivables							
Electricity derivatives	0.2	0.1	0.0				0.3
Derivatives relating to Private Placement notes*							
Foreign currency derivatives							0.0
Interest rate derivatives		0.8	0.7				1.5

* The cash flows from Private Placement notes and related foreign currency derivatives and interest rate derivatives are settled on a net basis. The debt on interest rate derivatives relating to the facility is presented in the balance sheet within 'other interest-bearing liabilities'. The balance sheet shows a total interest-bearing liability of €20.1 million (€50.2 million) relating to this credit facility.

Cash flows from derivative contracts as at 31 Dec 2015 € million	**2016**	**2017**	**2018**	**2019**	**2020**	**2021–**	**Total**
Payables							
Foreign exchange forward contracts outside hedge accounting	236.1						236.1
Net settlement of payables							
Interest rate derivatives							
Electricity derivatives	3.4	2.7	1.1	0.1			7.2
Derivatives relating to Private Placement notes*							
Foreign currency derivatives							
Receivables							
Foreign exchange forward contracts outside hedge accounting	243.0						243.0
Net settlement of receivables							
Derivatives relating to Private Placement notes*							
Foreign currency derivatives	3.2	0.1	0.1	2.0			5.4
Interest rate derivatives	0.3	0.2	0.2	0.1			0.8

* The cash flows from Private Placement notes and related foreign currency derivatives and interest rate derivatives are settled on a net basis. The debt on interest rate derivatives relating to the facility is presented in the balance sheet within 'other interest-bearing liabilities'. The balance sheet shows a total interest-bearing liability of €20.1 million (€50.2 million) relating to this credit facility.

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 optimised at the Group level. The objectives for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market situations, enabling the implementation of capital expenditure programmes in line with the Group's strategy, and maintaining shareholder value. A target rate has 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: 'return on capital employed excluding non-recurring items', 'return on equity excluding non-recurring items' and 'interest-bearing net debt/EBITDA'.

	Target level	Level achieved in 2016	Level achieved in 2015
Comparable return on capital employed	14%	11.9	11.7
Comparable return on equity	12%	9.8	8.2
Interest-bearing net debt/EBITDA	< 2,5	0.4	-1.4

€ million	2016	2015
Interest-bearing liabilities	514.6	439.1
Liquid assets	391.4	887.2
Interest-bearing net debt	**123.3**	**-448.1**
EBITDA	308.4	331.4
Interest-bearing net debt/EBITDA	**0.4**	**-1.4**

Note 33. 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 37).

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 transaction until 10 October 2016. 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 €23.0 million (€15.7 million). Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2016 and 2015, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement	Associates and joint ventures		Board and management		Pension Fund	
€ million	2016	2015	2016	2015	2016	2015
Sales of goods	0.0		73.6	59.8		
Sales of services	3.6	3.6	0.3	0.2	0.3	0.3
Purchases of goods	-128.8		-6.9	-13.8		
Purchases of services	-7.7	-0.2	-0.1	0.0		
Operating income	1.5	0.6	11.3	10.6		0.0
Operating costs	-53.2	-37.0	-1.6	-0.1	-11.3	-12.2
Finance income	5.7	3.1				

Balance sheet	Associates and joint ventures		Board and management		Pension Fund	
€ million	2016	2015	2016	2015	2016	2015
Current receivables	0.2	1.1	7.6	4.3	0.0	
Non-current receivables	57.6	57.6				
Current liabilities	37.5	19.2	1.6	2.0	5.5	2.1

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €7.6 million (€4.3 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 (€5.0 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.

In 2015, Kesko, AMF Pensionsförsäkring and Ilmarinen established a joint venture, Mercada Oy. The joint venture owns, governs and develops store sites mainly used by Kesko Group. Kesko sold some of its store sites in Finland and Sweden to the joint venture. The fair value of the stores sites sold totalled €485 million and a €75.6 million selling profit affecting comparability was recorded on the transaction. The cash inflow from the arrangement was €403 million. Kesko Group companies lease the sold stores sites for their use with 15-year long-term leases and in Sweden, with 10-year long-term leases. At shopping centres, the Group companies lease premises for their use with 5–15-year leases. Kesko's equity investment in the joint venture is around €67 million, comprising an investment in the company's equity and an equity shareholder loan.

In addition, Kesko sold four properties to Kesko Pension Fund in 2015. A €22.9 million gain on the sale affecting comprability was recorded on the transaction.

In addition, Kesko had non-current receivables from a real estate associate to the amount of €1.5 million in 2015.

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 and fringe benefits € 1,000		2016	2015
Mikko Helander	President and CEO (since 1 Jan 2015)	1,316.8	1,018.5
Group Management Board	other members	2,534.2	2,275.9
Esa Kiiskinen	Board Chair	87.5	88.0
Mikael Aro	Board Deputy Chair (since 13 Apr. 2015)	60.5	43.5
Toni Pokela	Board member	42.5	43.5
Matti Kyytsönen	Board member (since 13 Apr. 2015)	45.5	33.7
Anu Nissinen	Board member (since 13 Apr. 2015)	44.5	32.2
Matti Naumanen	Board member (since 4 Apr. 2016)	31.1	-
Jannica Fagerholm	Board member (since 4 Apr. 2016)	34.1	-
Tomi Korpisaari	Board member (until 29 Feb. 2016)	7.2	43.5
Kaarina Ståhlberg	Board member (since 13 Apr. 2015)(until 29 Feb. 2016)	10.7	35.2
Seppo Paatelainen	Board Deputy Chair (until 13 Apr. 2015)	-	17.0
Ilpo Kokkila	Board member (until 13 Apr. 2015)	-	12.3
Maarit Näkyvä	Board member (until 13 Apr. 2015)	-	13.2
Virpi Tuunainen	Board member (until 13 Apr. 2015)	-	12.3
Total		**4,214.6**	**3,669.1**

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. Four Group Management Board members are members of Kesko Pension Fund's department A which was closed in 1998, and their supplementary pensions are determined based on its rules and their personal service contracts.

Their retirement benefits are based on a defined benefit plan. 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). The pensionable salary is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last ten (10) years. The supplementary pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €1.0 million and the pension asset was €0.6 million. The pension cost of the President and CEO's statutory pension provision was €0.2 million.

Share awards

The following share awards were granted to the Group Management Board members: under the 2012 plan 15,113 shares (maximum was 56,600 shares), under the 2013 plan 13,500 shares (maximum was 67,500), under the 2014 plan 18,354 shares (maximum was 69,000) and under the 2015 plan 39,516 shares (maximum was 74,000). The maximum under the 2016 plan is 74,000 shares. In addition, the taxes and tax-like charges incurred from the award were paid in cash.

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

As at 31 December 2016, the President and CEO held 20,005 Kesko Corporation B shares, which represent 0.02% of all shares of the Company and 0.01% of votes attached to all shares. As at 31 December 2016, the Group Management Board, including the President and CEO, held 104,678 Kesko Corporation B shares, which represent 0.1% of all shares of the Company and 0.03% of votes carried by all shares.

Note 34. 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.

Note 35. Other notes

Events after the balance sheet date

In January, the court of arbitration dismissed Voimaosakeyhtiö SF's action against Kesko subsidiary Kestra Kiinteistöpalvelut Oy.

On 10 January 2017, the court of arbitration made an arbitration award in the case in which Voimaosakeyhtiö SF demanded the court of arbitration to confirm that Kestra Kiinteistöpalvelut Oy's notification to Voimaosakeyhtiö SF about participation in the further financing of the Fennovoima project is binding on Kestra Kiinteistöpalvelut Oy. In its arbitration award, the court of arbitration dismissed Voimaosakeyhtiö SF's action requirements. (Stock exchange release on 10 January 2017)

Note 36. Group composition

Group composition

Kesko Group has 102 (101) subsidiaries. The Group has the majority of voting rights in all companies. Kesko Group's sub-group, 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 incorporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2016	Number of wholly-owned subsidiaries 2015	Number of partly-owned subsidiaries 2016	Number of partly-owned subsidiaries 2015
Grocery trade	Finland	Kesko Food Ltd, K-citymarket Oy, K-Market Oy, Kespro Ltd	23	26	4	-
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia, Belarus	Onninen Group, Kesko Senukai	52	49	12	7
Car trade	Finland	VV-Auto Group Oy	6	5	-	-
Others	Finland, Estonia		5	10	-	-

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 37.

Material non-controlling interest

Senukai Group, which is part of Kesko Group, has a material non-controlling interest. The sub-group'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 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 Chair. The Board controls the company's operational activities and makes decisions on the use of resources. The share of non-controlling interests of the profit of Senukai Group was €15.3 million (€15.7 million) and in equity, the share was €97.3 million (€78.6 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. 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	Senukai Group 2016	Senukai Group 2015
Current assets	289.8	167.3
Non-current assets	98.1	29.6
Current liabilities	110.8	75.1
Non-current liabilities	18.2	0.3
Net sales	557.3	437.0
Profit/loss	31.3	23.1
Parent company owners' share of profit/loss	16.0	7.3
Non-controlling interests' share of profit/loss	15.3	15.7
Comprehensive income for the period	31.4	9.0
Parent company owners' share of comprehensive income for the period	16.3	4.0
Non-controlling interests' share of comprehensive income for the period	15.0	4.9
Dividends paid to non-controlling interests	1.1	5.9
Net cash generated from operating activities	28.4	27.1
Net cash used in investing activities	-26.0	-5.1
Net cash used in financing activities	38.5	-12.7

The amounts above are before intra-Group eliminations.

Note 37. Subsidiaries, equity accounted investments and proportionately consolidated mutual real estate companies as at 31 Dec. 2016

Subsidiaries

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
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Indoor Group Ltd	Helsinki	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Johaston Oy	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Keru Kiinteistöt Oy	Helsinki	100.00	100.00
Kesko Food Ltd	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 Mesta Oy	Helsinki	100.00	100.00
Kiinteistö Oy Keravan Alikeravantie 77	Helsinki	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Klintcenter Ab	Maarianhamina	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
K-rauta AB	Stockholm, Sweden	100.00	100.00
KR Fastigheter AB	Sollentuna, Sweden	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
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	
App-Hallinta Oy	Helsinki	100.00	
Oy AutoCarrera Ab	Helsinki	100.00	
Barker-Littoinen Oy	Espoo	100.00	
Daugavkrasts M SIA	Riga, Latvia	100.00	
Ecomtrade Sp z o.o	Warsaw, Poland	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
Indoor Group AS	Tallinn, Estonia	100.00	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Insofa Oy	Lahti	100.00	
Jyrängön Palvelukeskus Oy	Heinola	50.45	
K-citymarket Oy	Helsinki	100.00	
Kesko Food Russia Holding Oy	Helsinki	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kesko Senukai Digital UAB	Vilnius, Lithuania	25.50	

Owned by other Group companies	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	
Kespro Ltd	Helsinki	100.00	
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	
Kiinteistö Oy Furupuro	Vantaa	100.00	
Kiinteistö Oy Helsingin Itäkeskus	Helsinki	100.00	
Kiinteistö Oy Hyvinkään Tuomaankulma	Hyvinkää	100.00	
Kiinteistö Oy Hyvinkään Tuuliankulma	Hyvinkää	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2-4	Kokkola	64.78	
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	
Kiinteistö Oy Kuvernöörintie 8	Helsinki	100.00	
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta	100.00	
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Kiinteistö Oy Vantaan Simonsampo	Vantaa	100.00	
Kiinteistö Oy Visuveden Liiketalo	Ruovesi	100.00	
K-Market Oy	Helsinki	100.00	
Knuto AS	Oppegård, Norway	100.00	
Konekesko Eesti AS	Tallinn, Estonia	100.00	
Konekesko Latvija SIA	Riga, Latvia	100.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	100.00	
K Prof SIA	Riga, Latvia	100.00	

Owned by other Group companies	Domicile	Group's ownership interest,%	Parent's ownership interest,%
K rauta SIA	Riga, Latvia	100.00	
K-rauta Rus OOO	St. Petersburg, Russia	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
LLC LR Rustaveli StP	St. Petersburg, Russia	100.00	
Lämpö-Tukku Oy	Helsinki	100.00	
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	
Parnas 11 OOO	St. Petersburg, Russia	100.00	
Peltosaaren Liikekeskus Oy	Riihimäki	59.67	
Penktoji Projekto Bendrové UAB	Vilnius, Lithuania	25.50	
Polo LS SIA	Riga, Latvia	100.00	
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	50.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
Tampereen Länsikeskus Oy	Tampere	100.00	
TD-Kiinteistöt Oy	Turku	100.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
VV-Autotalot Oy	Helsinki	100.00	

Equity accounted investments

Owned by the parent	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Graanin Liikekeskus Oy	Mikkeli	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
Kiinteistö Oy Mellunmäen Liike- ja toimintakeskus	Helsinki	23.42	23.42
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 Punkalaitumen Pankkitalo	Punkalaidun	33.82	
Asunto Oy Soukan Itäinentorni	Espoo	46.60	19.31
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	
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	
Lapin Tehdastalo Oy	Tampere	21.24	
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	
Voisalmen Ostoskeskus Oy	Lappeenranta	50.00	

Parent company's financial statements (FAS)

Parent company's income statement

€	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Net sales	**307,057,226.84**	**43,091,016.90**
Other operating income	145,872,845.35	157,968,731.51
Materials and services	-182,055,341.10	-1,753.06
Employee benefit expense	-78,391,983.08	-21,213,756.01
Depreciation, amortisation and impairment	-25,123,873.93	-21,156,816.18
Other operating expenses	-153,377,504.75	-206,748,452.39
Operating profit	**13,981,369.33**	**-48,061,029.23**
Finance income and cost	10,150,624.85	-20,534,327.74
Profit before appropriations and taxes	**24,131,994.18**	**-68,595,356.97**
Appropriations		
Change in depreciation reserve	7,253,944.92	15,486,295.81
Group contribution	137,567,419.37	289,585,913.15
Profit before taxes	**168,953,358.47**	**236,476,851.99**
Income taxes	-21,025,798.49	-74,658,981.88
Profit for the financial year	**147,927,559.98**	**161,817,870.11**

Parent company's balance sheet

€	31 Dec 2016	31 Dec 2015
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	7,693,643.06	6,257,340.41
Other intangible rights	15,684,207.80	6,786,292.90
Prepayments	8,303,933.25	1,271,305.11
	31,681,784.11	**14,314,938.42**
TANGIBLE ASSETS		
Land and waters	85,978,000.42	77,868,955.35
Buildings	161,741,464.59	121,044,023.13
Machinery and equipment	11,989,536.91	1,481,275.98
Other tangible assets	5,206,436.83	712,088.96
Prepayments and construction in progress	9,260,388.69	3,900,399.35
	274,175,827.44	**205,006,742.77**
INVESTMENTS		
Investments in subsidiaries	805,822,696.65	190,391,107.79
Investments in associates	78,255,203.86	78,255,203.86
Other investments	7,623,896.27	10,373,702.57
	891,701,796.78	**279,020,014.22**
CURRENT ASSETS		
STOCKS		
Finished products/goods	46,416,088.41	-
	46,416,088.41	**-**
RECEIVABLES		
Long-term		
Receivables from subsidiaries	214,140,932.90	227,099,825.48
Receivables from associates	57,629,471.31	57,641,471.31
Other receivables	5,184,785.91	2,328,804.39
	276,955,190.12	**287,070,101.18**

€	31 Dec 2016	31 Dec 2015
Short-term		
Trade receivables	144,796,523.71	712,242.35
Receivables from subsidiaries	625,191,943.42	839,381,775.07
Receivables from associates	991,449.83	910,936.05
Loan receivables	2,019,258.12	-
Other receivables	1,638,531.21	3,925.16
Prepayments and accrued income	69,232,300.91	11,149,444.76
	843,870,007.20	**852,158,323.39**
INVESTMENTS		
Other investments	246,965,095.16	740,652,092.53
CASH AND CASH EQUIVALENTS	**48,104,149.95**	**45,391,996.15**
TOTAL ASSETS	**2,659,869,939.17**	**2,423,614,208.66**

Parent company's balance sheet

€	31 Dec 2016	31 Dec 2015
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
Other reserves		
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	592,073,306.99	673,737,292.41
Profit for the financial year	147,927,559.98	161,817,870.11
	1,400,950,564.82	1,496,504,860.37
APPROPRIATIONS		
Depreciation reserve	59,756,479.17	56,903,041.19
PROVISIONS		
Other provisions	9,168,725.12	913,455.00
LIABILITIES		
Non-current		
Bonds	225,005,000.00	225,005,000.00
Private Placement notes	20,083,682.01	20,083,682.01
Pension loans	100,000,000.00	
Other creditors	8,238,366.94	7,258,654.09
	353,327,048.95	252,347,336.10

€	31 Dec 2016	31 Dec 2015
Current		
Private placement notes	-	30,125,523.01
Advances received	39,667.98	52,373.52
Trade payables	135,005,784.67	6,937,288.22
Payables to subsidiaries	527,926,338.03	510,084,729.57
Payables to associates	21,949,611.28	19,126,189.41
Other payables	85,096,642.64	5,157,547.10
Accruals and deferred income	66,649,076.51	45,461,865.17
	836,667,121.11	616,945,516.00
TOTAL LIABILITIES	**2,659,869,939.17**	**2,423,614,208.66**

Parent company's cash flow statement

€	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flows from operating activities		
Profit before extraordinary items	24,131,994.18	-68,595,356.97
Adjustments		
Depreciation according to plan	17,936,645.13	16,361,194.76
Finance income and costs	-10,150,624.85	20,534,327.74
Other adjustments	-31,774,213.98	55,440,430.67
	143,800.48	**23,740,596.20**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	49,585,713.94	-840,197.26
Inventories increase (-)/decrease (+)	5,152,816.06	-
Current non-interest-bearing liabilities, increase (+)/decrease (-)	12,543,253.34	-4,046,119.66
	67,281,783.34	**-4,886,316.92**
Interests paid and other finance costs	-17,959,831.97	-18,027,879.99
Interests received	26,198,246.35	19,415,447.46
Dividends received	1,975,275.20	3,767,022.20
Income tax paid	-71,583,714.69	-23,473,972.12
	-61,370,025.11	**-18,319,382.45**
Net cash generated from operating activities	**6,055,558.71**	**534,896.83**

€	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flows from investing activities		
Purchases of tangible and intangible assets	-25,073,151.29	-9,458,291.76
Receivables, increase (-)/decrease (+)	-2,000,758.55	197,031.14
Acquisitions of subsidiaries	-280,846,572.73	-6,986,047.00
Acquisitions of associates	-	-10,997,500.00
Proceeds from sale of subsidiaries, net of cash disposed of	-5,000,000.00	-57,860,016.59
Equity repaid by associates and joint ventures	-	9,446,399.83
Proceeds from disposal of other investments	166,095.44	-
Proceeds from disposal of tangible and intangible assets	29,537,990.00	79,137,019.78
Net cash used in investing activities	**-283,216,397.13**	**3,478,595.40**
Cash flows from financing actitivites		
Interest-bearing liabilities, increase (+)/decrease (-)	127,193,797.33	114,337,761.43
Short-term interest-bearing receivables, increase (-)/decrease (+)	-237,114,236.83	-9,107,188.00
Short-term money market investments	364,532,233.40	-269,234,272.08
Dividends paid	-248,194,233.30	-148,715,547.00
Group contributions received and paid	137,567,419.37	289,585,913.15
Acquisition of treasury shares	-313,793.94	-
Other items	5,737,941.24	21,212,728.94
Net cash used in financing activities	**149,409,127.27**	**-1,920,603.56**
Change in liquid assets	**-127,751,711.15**	**2,092,888.67**
Liquid assets as at 1 January	**234,321,700.54**	**232,228,811.87**
Liquid assets as at 31 December	**106,569,989.39**	**234,321,700.54**

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).

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.

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

Tangible assets

Tangible assets 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 tangible assets 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
Other tangible assets	5–14 years

Land has not been depreciated. The total of depreciation according to plan and the change in depreciation reserve comply with the Finnish Business Tax Act. The change in depreciation reserve has been treated as appropriations.

Valuation of 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 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. 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 counterparty 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 recognised 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 operations, 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	2016	2015
Building and technical trade	165.9	-
Others	141.1	43.1
Total	307.1	43.1

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.

Note 3. Other operating income

€ million	2016	2015
Gains on sales of real estate and shares	2.2	57.7
Rent income	84.5	99.5
Fees for services	9.0	-
Profits from mergers	46.2	-
Others	3.8	0.7
Total	**145.9**	**158.0**

Note 4. Average number of personnel

	2016	2015
Kesko Corporation	716	180
Total	**716**	**180**

Note 5. Employee benefit expense

€ million	2016	2015
Salaries and fees	-64.6	-17.8
Social security costs		
Pension costs	-10.6	-2.6
Other social security costs	-3.2	-0.8
Total	**-78.4**	**-21.2**

Salaries and fees to the management

€ million	2016	2015
Managing Director	1.3	1.0
Members of the Board of Directors	0.3	0.4
Total	**1.6**	**1.4**

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

Note 6. Depreciation, amortisation and impairment

€ million	2016	2015
Depreciation according to plan	-17.9	-16.4
Impairment, non-current assets	-7.2	-4.8
Total	**-25.1**	**-21.2**

Note 7. Other operating expenses

€ million	2016	2015
Rent expenses	-57.9	-51.4
Marketing expenses	-44.5	-3.7
Maintenance of real estate and store sites	-8.2	-5.6
Telecommunication expenses	-25.9	-24.4
Losses from mergers	-0.2	-
Other operating expenses	-16.8	-121.6
Total	**-153.4**	**-206.7**

The other operating expenses include a €107.6 million loss on the divestment of Anttila.

Auditors' fees

€ million	2016	2015
PricewaterhouseCoopers, firm of auditors		
Audit	0.2	0.3
Tax consultation	0.0	0.1
Other services	0.2	0.4
Total	**0.4**	**0.8**

Note 8. Finance income and costs

€ million	2016	2015
Income from long-term investments		
Dividend income from subsidiaries	1.4	3.8
Gains on disposal of shares	0.2	-
Gains on sales of investments	0.6	-
Income from long-term investments, total	**2.1**	**3.8**
Other interest and finance income		
From subsidiaries	17.1	15.0
From others	11.8	18.6
Interest and finance income, total	**29.0**	**33.6**
Impairment of investments held as non-current assets		
Impairment of shares	-2.8	-26.5
Impairment of other investments	0.0	-1.1
Impairment of investments held as non-current assets, total	**-2.8**	**-27.6**
Interest and other finance costs		
To subsidiaries	-2.2	-2.7
To others	-15.9	-27.6
Interest and finance costs, total	**-18.1**	**-30.3**
Total	**10.2**	**-20.5**

Note 9. Appropriations

€ million	2016	2015
Difference between depreciation according to plan and depreciation in taxation	7.3	15.5
Group contributions received	216.2	306.0
Group contributions paid	-78.7	-16.4
Total	**144.8**	**305.1**

Note 10. Changes in provisions

€ million	2016	2015
Transferred on mergers	5.3	-
Other changes	3.0	0.7
Total	**8.3**	**0.7**

Note 11. Income taxes

Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €12.0 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2016	2015
Intangible rights		
Acquisition cost as at 1 January	9.5	9.0
Increases	5.7	0.6
Decreases	-0.0	-0.1
Transfers between items	0.1	0.1
Acquisition cost as at 31 December	**15.3**	**9.5**
Accumulated depreciation as at 1 January	-3.2	-1.4
Accumulated depreciation on decreases and transfers	-2.0	0.0
Depreciation and amortisations for the financial year	-2.4	-1.9
Accumulated depreciation as at 31 December	**-7.6**	**-3.2**
Book value as at 31 December	**7.7**	**6.3**
Other intangible assets		
Acquisition cost as at 1 January	20.2	15.6
Increases	68.1	2.1
Decreases	-5.4	-
Transfers between items	0.6	2.5
Acquisition cost as at 31 December	**83.5**	**20.2**
Accumulated depreciation as at 1 January	-13.4	-6.4
Accumulated depreciation on decreases and transfers	-51.7	-
Depreciation and amortisations for the financial year	-2.7	-7.1
Accumulated depreciation as at 31 December	**-67.8**	**-13.4**
Book value as at 31 December	**15.7**	**6.8**

€ million	2016	2015
Prepayments		
Acquisition cost as at 1 January	1.3	3.6
Increases	7.8	0.7
Decreases	-0.1	-0.4
Transfers between items	-0.7	-2.6
Acquisition cost as at 31 December	**8.3**	**1.3**
Book value as at 31 December	**8.3**	**1.3**

Note 13. Tangible assets

€ million	2016	2015
Land and waters		
Acquisition cost as at 1 January	77.9	93.4
Increases	14.0	1.5
Decreases	-5.9	-17.0
Acquisition cost as at 31 December	**86.0**	**77.9**
Book value as at 31 December	**86.0**	**77.9**
Buildings		
Acquisition cost as at 1 January	262.1	365.8
Increases	61.6	0.9
Decreases	-8.6	-104.7
Transfers between items	1.3	0.1
Acquisition cost as at 31 December	**316.4**	**262.1**

€ million	2016	2015
Accumulated depreciation as at 1 January	-141.1	-178.2
Accumulated depreciation on decreases and transfers	-3.0	48.4
Depreciation for the financial year	-10.6	-11.2
Accumulated depreciation as at 31 December	**-154.7**	**-141.1**
Book value as at 31 December	**161.7**	**121.0**
Machinery and equipment		
Acquisition cost as at 1 January	11.8	15.6
Increases	47.4	0.2
Decreases	-10.4	-4.1
Transfers between items	2.2	-
Acquisition cost as at 31 December	**51.0**	**11.8**
Accumulated depreciation as at 1 January	-10.3	-13.0
Accumulated depreciation on decreases and transfers	-26.9	3.2
Depreciation for the financial year	-1.8	-0.5
Accumulated depreciation as at 31 December	**-39.0**	**-10.3**
Book value as at 31 December	**12.0**	**1.5**
Other tangible assets		
Acquisition cost as at 1 January	3.0	8.1
Increases	6.7	0.0
Decreases	-0.2	-5.2
Transfers between items	-	0.0
Acquisition cost as at 31 December	**9.5**	**3.0**

€ million	2016	2015
Accumulated depreciation as at 1 January	-2.3	-4.4
Accumulated depreciation on decreases and transfers	-1.6	2.7
Depreciation for the financial year	-0.4	-0.5
Accumulated depreciation as at 31 December	**-4.3**	**-2.3**
Book value as at 31 December	**5.2**	**0.7**
Prepayments and construction in progress		
Acquisition cost as at 1 January	3.9	0.5
Increases	9.2	3.5
Decreases	-0.3	0.0
Transfers between items	-3.5	-0.1
Acquisition cost as at 31 December	**9.3**	**3.9**
Book value as at 31 December	**9.3**	**3.9**

Note 14. Investments

€ million	2016	2015
Investments in subsidiaries		
Acquisition cost as at 1 January	244.7	309.9
Increases	724.8	7.6
Decreases	-134.4	-72.9
Acquisition cost as at 31 December	**835.1**	**244.7**
Impairment as at 1 January	-54.3	-55.9
Accumulated impairments on decreases	27.8	28.1
Impairment for the period	-2.8	-26.5
Impairment as at 31 December	**-29.3**	**-54.3**
Book value as at 31 December	**805.8**	**190.4**
Investments in associates		
Acquisition cost as at 1 January	78.3	76.7
Increases	-	11.0
Returned equity	-	-9.4
Book value as at 31 December	**78.3**	**78.3**
Other investments		
Acquisition cost as at 1 January	10.4	9.5
Increases	1.2	2.7
Decreases	-1.3	-1.8
Acquisition cost as at 31 December	**10.2**	**10.4**
Impairment for the period	-2.6	-
Impairment as at 31 December	**-2.6**	**-**
Book value as at 31 December	**7.6**	**10.4**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2016 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

€ million	2016	2015
Receivables from subsidiaries		
Long-term		
Loan receivables	214.1	217.1
Subordinated loans	-	10.0
Long-term, total	**214.1**	**227.1**
Short-term		
Trade receivables	44.0	5.6
Loan receivables	570.1	832.7
Prepayments and accrued income	11.1	1.1
Short-term, total	**625.2**	**839.4**
Total	**839.3**	**1,066.5**

€ million	2016	2015
Receivables from associates and joint ventures		
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	**57.6**	**57.6**
Short-term receivables	**1.0**	**0.9**
Total	**58.6**	**58.5**

Kesko Corporation has advanced a long-term loan to its joint venture, Mercada Oy, in the amount of €56.0 million.

€ million	2016	2015
Prepayments and accrued income		
Taxes	20.7	0.0
Employee benefit expense	6.2	0.5
Others	42.4	10.6
Total	**69.2**	**11.1**

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 2015	197.3	197.5	243.4	22.8	818.0	1,478.9
Dividends					-148.7	-148.7
Treasury shares					4.7	4.7
Transfer to donations					-0.3	-0.3
Profit for the year					161.8	161.8
Balance as at 31 December 2015	**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**

Calculation of distributable profits	2016	2015
Other reserves	266.2	266.2
Retained earnings	592.1	673.7
Profit for the year	147.9	161.8
Total	**1,006.2**	**1,101.7**

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 is 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 700,000 own B shares (purchase price €23.7 million) in the financial year 2011 and a total of 500,000 own B shares (purchase price €16.1 million) in the financial year 2014. The total prices paid for the shares have been deducted from retained earnings in equity. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. Based on the authorisations to issue own shares and the fulfilment of the vesting criteria of the 2014 vesting period of Kesko's share-based compensation plans, the Board granted a total of 120,022 own shares held by the Company as treasury shares, and based on the fulfilment of the 2015 vesting period, a total of 139,724 own shares held by the Company as treasury shares to the persons included in the target groups of the vesting periods. The transfers of treasury shares were announced in a stock exchange release on 1 April 2015, 7 April 2015, 17 March 2016 and 27 April 2016. During the financial year, a total of 8,256 shares already granted were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. At the end of the financial year, the Company held 746,109 (877,577) own B shares as treasury shares. The €23.5 million (€27.5 million) acquisition cost of these shares has been deducted from retained earnings in equity.

Note 17. Provisions

€ million	2016	2015
Provisions for leases	8.0	-
Other provisions	1.2	0.9
Total	**9.2**	**0.9**

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 €+2.7 million and the fair value of the interest rate derivatives was €-0.1 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	2016	2015
Liabilities to subsidiaries		
Trade payables	1.8	0.2
Other payables	520.9	507.3
Accruals and deferred income	5.2	2.6
Total	**527.9**	**510.1**
Liabilities to associates		
Accrued expenses	0.0	0.1
Other payables	21.9	19.0
Total	**21.9**	**19.1**
Accruals and deferred income		
Staff costs	34.0	3.8
Others	32.6	41.7
Total	**66.6**	**45.5**

Note 20. Interest-free liabilities

€ million	2016	2015
Current liabilities	258.1	57.1
Non-current liabilities	8.2	7.3
Total	**266.3**	**64.4**

Note 21. Guarantees, liability engagements and other liabilities

€ million	2016	2015
Real estate mortgages		
For subsidiaries	4	4
Pledged shares	58	28
Guarantees		
For subsidiaries	72	81
Other liabilities and liability engagements		
For own debt	15	4
Rent liabilities on machinery and fixtures		
Falling due within a year	4	1
Falling due later	7	1
Rent liabilities on real estate		
Falling due within a year	104	40
Falling due later	400	156

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 of 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 into 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 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Transaction risk	-20.2	19.6	22.4	16.5	14.4	0.0
Hedging derivatives	31.3	-12.0	-18.2	-9.1	-17.6	0.0
Exposure	11.1	7.6	4.2	7.4	-3.1	0.0

Company's transaction exposure as at 31 Dec 2015 € million	USD	SEK	NOK	PLN	RUB	BYN
Transaction risk	-19.7	-11.2	23.9	0.0	13.4	0.0
Hedging derivatives	29.4	3.8	-18.7	0.0	-16.7	0.0
Exposure	9.7	-7.4	5.1	0.0	-3.3	0.0

The sensitivity analysis of transaction exposure shows the profit impact of a +/-10% exchange rate change on the Goup's foreign currency denominated acquisitions and hedging foreign currency derivatives.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +/-10%	1.1	0.8	0.4	0.7	-0.3	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec 2015 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +/-10%	1.0	-0.7	0.5	0.0	-0.3	0.0

Derivatives

Fair values of derivative contracts € million	31.12.2016 Positive fair value (balance sheet value)	31.12.2016 Negative fair value (balance sheet value)	31.12.2015 Positive fair value (balance sheet value)	31.12.2015 Negative fair value (balance sheet value)
Currency derivatives	4.4	-5.4	12.2	-2.3

Notional amounts of derivative contracts € million	31.12.2016 Notional amount	31.12.2015 Notional amount
Currency derivatives	213.7	302.8

All currency derivatives mature in 2017.

€ million	2016	Fair Value	2015	Fair Value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 December				
Interest rate derivatives				
Interest rate swaps	40	-0.1	100	0.0
Foreign currency derivatives				
Forward and future contracts	193	-3.6	252	5.1
Outside the Group	174	-2.9	225	5.8
Inside the Group	19	-0.7	26	-0.6
Option agreements				
Bought, inside the Group	0	-0.0	0	-0.0
Written, inside the Group	0	-0.0	1	-0.0
Currency swaps	20	2.7	50	4.9
Commodity derivatives				
Electricity derivatives	22	0.0	19	-0.0
Outside the Group	11	-1.7	9	-7.2
Inside the Group	11	1.7	9	7.2

Note 22. Cash and cash equivalents within the statement of cash flows

€ million	2016	2015
Available-for-sale financial assets	58.5	188.9
Cash and cash equivalents	48.1	45.4
Total	**106.6**	**234.3**

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

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 37).

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.

Signatures

Helsinki, 1 February 2017

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, 1 February 2017

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 financial position, financial performance, and cash flows of the group 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.

What we have audited

We have audited the financial statements of Kesko Oyj (Business ID: 0109862-8) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the parent company’s balance sheet, income statement, cash flow statement and notes to the financial statements

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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Finland, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 2016 financial year it is € 13 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

- Business combination of Suomen Lähikauppa, Onninen and AutoCarrera
- 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. 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 € 13 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
Business combination of Suomen Lähikauppa, Onninen and AutoCarrera	
Refer to note 1 (Accounting policies for the consolidated financial statements), note 12 (Intangible assets) and note 3 (Business acquisitions and disposals) During the financial year, Kesko has acquired the whole share capital of Suomen Lähikauppa Oy, Onninen Oy and Oy AutoCarrera Ab. These acquisitions have been treated as business combinations based on IFRS 3 in Kesko consolidated financial statements. Regarding these acquisitions we focused on meeting the criteria of business combination based on IFRS 3, intangible assets identification and determination of the fair value of net assets. These matters involve management judgment and the result is dependent on valuation methods, assumptions and inputs used in the model.	In our audit we reviewed management's assessment about, whether acquisitions of Suomen Lähikauppa, Onninen and AutoCarrera meet the definition of business combination as set out in IFRS 3. We assessed the appropriateness of the identifiable assets acquired and the liabilities assumed at the acquisition date by comparing these to the clauses laid out in the Asset Purchase Agreements. We reviewed management's procedure for determining the fair value of the net identifiable assets acquired. We tested appropriateness of valuation models and mathematical accuracy by sample as well as by comparing input data used to clauses laid out in the Asset Purchase Agreements. We tested the amount of goodwill arising from the acquisition by reviewing purchase price allocation accounting principles and formulas of calculations. We assessed whether goodwill arising from the acquisitions is allocated to cash generating units based on applied accounting standards.

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 1 (Accounting policies for the consolidated financial statements) and note 12 (Intangible assets) Kesko Group balance sheet includes goodwill in amount of € 189.9 million and trademarks € 123.3 million. No impairment loss of goodwill and trademarks has been identified nor recognised during the financial year. Kesko Group management carries out impairment test of goodwill and trademarks annually. Impairment test result is based on management estimates, eg. 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.

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
Inventories	
Refer to note 1 (Accounting policies for the consolidated financial statements) and note 18 (Inventories) Kesko Group balance sheet includes inventory amount of € 978.9 million. 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 impair-ment 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 assump-	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.

tions. In addition, we focused on assessment of fulfilment of vendor agreement clauses at the financial statements period end date.

We have no key audit matters to report with respect to our audit of 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, as well as for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of the 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have 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 good auditing practice, we exercise professional judgment and maintain professional scepticism 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 in a manner that achieves fair presentation.
- 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

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the annual report, but does not include the financial statements and our auditor’s report thereon. We 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 the date of this auditor's report.

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 Board of Directors has been prepared in accordance with the applicable legal requirements.

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 legal requirements.

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 Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 1 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
APA

Corporate Governance

Kesko's Annual Report 2016

Introduction

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 31 January 2017.

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 http://kesko.fi/en/investor/corporate-governance/.

Regulations and Corporate Governance Code observed by Kesko

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.

Kesko applies the Finnish Corporate Governance Code for Listed Companies in force at any given time. This statement has been prepared in compliance with the Finnish Corporate Governance Code effective on 1 January 2016 ("Corporate Governance Code"). The Corporate Governance Code can be read in full at http://cgfinland.fi/files/2015/10/hallinnointikoodi2015finweb1.pdf. As provided by the 'Comply or Explain' principle of the Corporate Governance Code, the Company departs from the Corporate Governance Code's recommendation concerning a Board member's term of office. The reasons for the departure are described below.

Departure from Recommendation 6 of the Corporate Governance Code (Term of Office of the Board of Directors) and explanation for departure

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

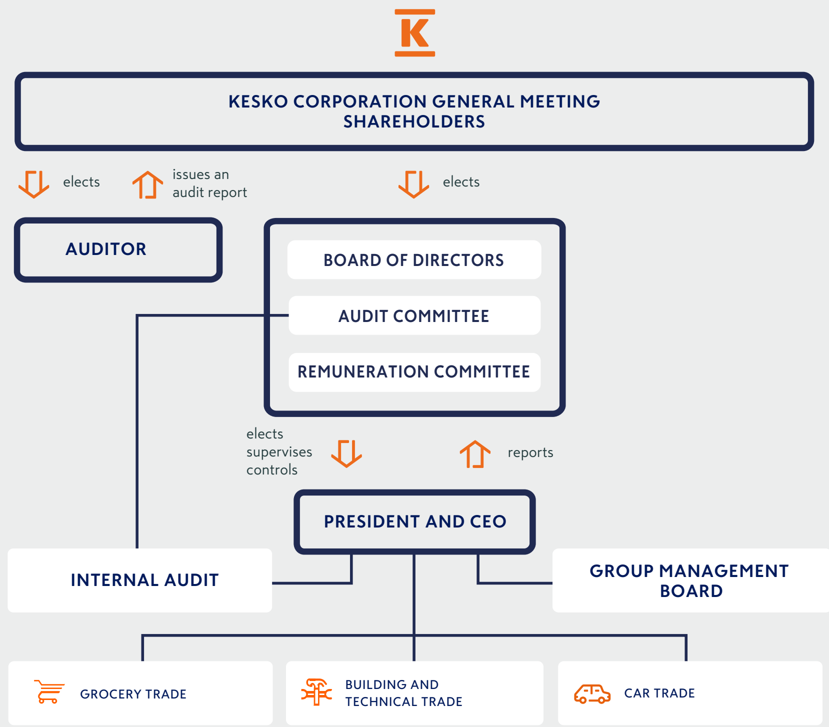
The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting.

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 distributions 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.

Kesko Group's governance model



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' 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 http://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 http://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 Chair and the Deputy Chair from among its members for the whole term of office of the Board.

The Board members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chair and the Deputy Chair from among its members for the whole term of office of the Board. In the preparation of a proposal for the Board composition, Kesko applies the practice in which significant shareholders prepare the proposals concerning the Board of Directors, including the proposal for the number of Board members, their remuneration and, as necessary, for the Board members to the General Meeting.

Board's composition and shareholdings

The Annual General Meetings of 13 April 2015 and 4 April 2016 resolved that the Board of Directors is composed of seven (7) members.

The General Meeting of 13 April 2015 elected **Esa Kiiskinen**, **Mikael Aro**, **Matti Kyytsönen**, **Tomi Korpisaari**, **Anu Nissinen**, **Toni Pokela** and **Kaarina Ståhlberg** as Board 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.

Tomi Korpisaari (b. 1968, retailer) and **Kaarina Ståhlberg** (b. 1966, Master of Laws) resigned from the Board as of 1 March 2016. The General Meeting of 4 April 2016 resolved to replace them 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.

In accordance with the Articles of Association, the term of office of each member 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 2016 are presented in the table below.

Board of Directors' composition and shareholdings as at 31 Dec 2016

Name	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held as at 31 Dec 2016
Esa Kiiskinen (Ch.)	1963	Business College Graduate	Food Retailer	2009	Remuneration Committee (Ch.)	1,350 A shares held by him and 106,000 A shares held by companies controlled by him
Mikael Aro (Dep. Ch.)	1965	eMBA	Senior Industry Advisor, Triton Partners	2015	Audit Committee (Dep. Ch.) Remuneration Committee (Dep. Ch.)	1,000 B shares held by him
Jannica Fagerholm*	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Ch.)	None
Matti Kyytsönen	1949	Master of Science (Economics)	Chair 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 (Economics)	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

* As of 4 April 2016

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 2016, the Board of Directors carried out an independence evaluation in its organisational meeting held after the General Meeting of 4 April 2016, as well as on 26 April 2016. Based on that independence evaluation, the Board of Directors considered Toni Pokela not to be independent of the Company's significant shareholder, the K-Retailers' Association, of which Pokela is the Chair 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 presented in the table below.

Board members' independence in 2016

	Independent of the Company	Independent of a significant shareholder
Esa Kiiskinen (Ch.)	No***	Yes
Mikael Aro (Dep. Ch.)	Yes	Yes
Jannica Fagerholm*	Yes	Yes
Matti Kyytsönen	Yes	Yes
Matti Naumanen*	No***	Yes
Anu Nissinen	Yes	Yes
Toni Pokela	No***	No****
Tomi Korpisaari**	No	No****
Kaarina Ståhlberg**	Yes	Yes

* As of 4 April 2016
** Until 29 February 2016
*** Each of the companies controlled by Kiiskinen, Naumanen and Pokela has a chain agreement with a Kesko Group company.
**** Pokela is the Chair of the Board of Kesko's significant shareholder, the K-Retailers' Association. In its meeting on 11 January 2016, the Board of Directors considered Tomi Korpisaari not to be independent of a significant shareholder, because he was the Chair of the Board of Kesko's significant shareholder, the K-Retailers' Association. The total voting interest of the K-Retailers' Association in the Company exceeded 10% on 23 December 2015.

Description of the operations of the Board of Directors and the main contents of the charter of the Board of Directors

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 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
- adopting the Group's financial 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 expenditures, 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 remuneration schemes and monitoring the implementation of the remuneration schemes

- 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 for Listed Companies.

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 Director's operations in 2016

In 2016, the Board held 13 meetings. The Board members' attendance rate at the Board meetings was 98.9%. In 2016, the Board has, among other things, monitored the implementation of the new strategy approved for Kesko Group in spring 2015, further clarified and concretised the chosen strategic policy definitions and made decisions on the mergers that realise the simplification of the Group's legal structure. In order to improve profitability and ensure competitiveness, the Board has made sure that the approved cost saving targets are achieved. The Board has also made decisions on significant business arrangement in accordance with the Group's confirmed strategy, such as the acquisitions of Onninen Oy and Ab AutoCarrera Oy and the disposal of the grocery trade in Russia and the boat business. The Board has also approved the Board's diversity policy and made a decision on the approval of the K Code of Conduct guidelines observed by the Group. As in previous years, the Board has reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditures, monitored the progress of Group-level projects and approved the interim reports, the half year financial report and the financial statements before they are published.

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

Attendance at meetings by members of the Board and its Committees in 2016

			Attendance		
	Board member since	Committee membership	Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Ch.)	2009	Remuneration Committee (Ch.)	13/13		4/4
Mikael Aro (Dep. Ch.)	2015	Audit Committee (Dep. Ch.)	13/13	6/6	
		Remuneration Committee (Dep. Ch.)			4/4
Jannica Fagerholm*	2016	Audit Committee	11/11	4/4	
Matti Kyytsönen	2015	Audit Committee	13/13	6/6	
Matti Naumanen*	2016		11/11		
Anu Nissinen	2015	Remuneration Committee	13/13		4/4
Toni Pokela	2012		13/13		
Tomi Korpisaari**	2012		1/2		
Kaarina Ståhlberg**	2015	Audit Committee (Ch.)	2/2	2/2	

* As of 4 April 2016
** Until 29 February 2016

Principles concerning diversity

The diversity policy approved by Kesko's Board of Directors is available at http://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 election of its members

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. 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 Board composition, as the areas of expertise and competence 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 Chair and the Deputy Chair from among its members for the whole term of office of the Board. In the preparation of a proposal for the Board composition, Kesko applies the practice in which significant shareholders prepare the proposals concerning the Board of Directors, including the proposal for the number of Board members, their fees and, as necessary, for the Board members to the General Meeting.

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 competences and age and gender distribution support Kesko's business objectives and enable efficient Board work from Kesko's point of view. 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 statement."

Monitoring the implementation of diversity policy objectives in 2016

In 2016, 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 Hallituksen jäsenten henkilötietojen kuvaus in section "Board's 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's Committees

Kesko has the 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 the Chairs, the Deputy Chairs and the members of the Committees from among its members for one year at a time.

All members of the Audit Committee are independent of the Company and 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 Chair 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 4 April 2016, elected the following Board members as Audit Committee members:

- Jannica Fagerholm (Ch.)
- Mikael Aro (Deputy Ch.)
- Matti Kyytsönen

During the period 1 January 2016 to 29 February 2016, the Chair of the Audit Committee Chair was Kaarina Ståhlberg.

According to its charter, the duties of the Audit Committee include:

- monitoring of Kesko Group's financial situation and funding situation and the process of financial statements reporting
- supervision of the Company's financial reporting process
- evaluation of the efficiency of the Company's internal control, internal audit and risk management systems
- revision of the Company's Corporate Governance Statement
- approval of the operating instructions, annual audit plan, budget and resources for the Company's Internal Audit and reviewing the reports submitted to the Committee
- monitoring of the statutory audit of the financial statements and the consolidated financial statements
- evaluation of the independence of the Company's audit firm
- evaluation of related (non-audit) services to Kesko by the audit firm and its network firms
- preparation of 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 2016, the Audit Committee held six (6) 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 his 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 made a recommendation to the Board on the review of the reports and the financial statements release. In addition, the Committee reviewed the reports of the Group's external and internal audits, risk management and legal affairs and the reporting on non-financial information, the adoption of new IFRS standards and their impacts on the Group's reporting, the allocation of the prices of strategic business arrangements, their impacts and risks as well as treatment in the half year financial report and the interim reports. The Committee also discussed the external quality assurance of internal audit and its results, the situation of the Group's real estate associates, the cyber security development plan and the policy of purchasing ancillary services from audit firms. 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 2016 for the election of the Auditor based on the competitive bidding process for Auditors conducted towards the end of 2014.

Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 4 April 2016, elected the following Board members as Remuneration Committee members:

- Esa Kiiskinen (Ch.)
- Mikael Aro (Deputy Ch.)
- Anu Nissinen

According to its charter, the duties of the Remuneration Committee include:

- preparation of 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
- preparation of 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 Chair of the Remuneration Committee
- preparation of matters pertaining to the appointment of the President and CEO and the Group Management Board members responsible for lines of business, and the identification of their potential successors
- development of remuneration schemes and preparing them to the Company's Board of Directors, including:
  - evaluation of the remuneration of the President and CEO and the other executives, and ensuring the appropriateness of the remunerations schemes
  - preparation of possible share or share-based commitment and incentive schemes
  - preparation of the distribution of shares or share options under the share or share-based commitment and incentive schemes, and the preparation of their terms and conditions
- revision of 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 Chair
- preparation of the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impacts on Kesko's long-term financial success.

In 2016, the Remuneration Committee held four (4) meetings. Its members' attendance rate at the meetings was 100%. The Committee prepared, among other things, the proposals to the Board for the vesting criteria and the target group of share awards, for the principles of management's performance bonuses for 2016, as well as for the Group's new performance bonus principles for 2017. The Committee made preparations for the appointments of the Executive Vice President for the car trade and the Company's Executive Vice Presidents, examined management's remuneration practices more generally as well as made preparations for a reform of management's total remuneration. In addition, the Committee discussed, among other things, Kesko's Remuneration Statement.

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 Chair 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 about the 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 and the subsidiary Boards essential with regard to business operations.

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 2016, Helander owned a total of 20,005 Kesko B shares. Helander's shareholdings as at 31 December 2016 is also presented in the table under "Group Management Board".

Group Management Board

Kesko Group has a Group Management Board, the Chair 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 performances and matters dealt with by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 10–15 times a year.

Group Management Board members, areas of responsibility and shareholdings as at 31 Dec 2016

	Group Management Board member since	Area of responsibility	Shares held as at 31 Dec 2016
Mikko Helander, Chair	1 Oct 2014	Kesko's President and CEO	20,005 B shares held by him
Jorma Rauhala, Executive Vice President, grocery trade division	5 Feb 2013	Grocery trade	13,670 B shares held by him
Terho Kalliokoski, Executive Vice President, building and technical trade division	17 Nov 2005	Building and technical trade	24,009 B shares held by him
Pekka Lahti, Senior Vice President, car trade division*	1 Mar 2005	Car trade	15,401 B shares held by him
Jukka Erlund, Executive Vice President, Chief Financial Officer	1 Nov 2011	Finance and accounting	11,478 B shares held by him
Matti Mettälä, Executive Vice President	1 Oct 2012	Human resources	6,952 B shares held by him
Anne Leppälä-Nilsson, Executive Vice President, Group General Counsel	1 Jan 2015	Legal affairs	8,183 B shares held by her
Lauri Peltola, Executive Vice President	2 Mar 2015	Corporate responsibility, communications and stakeholder relations	2,670 B shares held by him
Anni Ronkainen, Executive Vice President	20 Apr 2015	Chief Digital Officer	2,670 B shares held by her

* Johan Friman (b. 1965, Master of Science in Economics) has been appointed Executive Vice President for the car trade division as of 1 Jan. 2017. Pekka Lahti will retire on a pension in accordance with his service contract on 1 April 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 Kesko Group's management model. The Group units' financial results are reported and analysed internally within the Group on a monthly basis and disclosed in quarterly 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

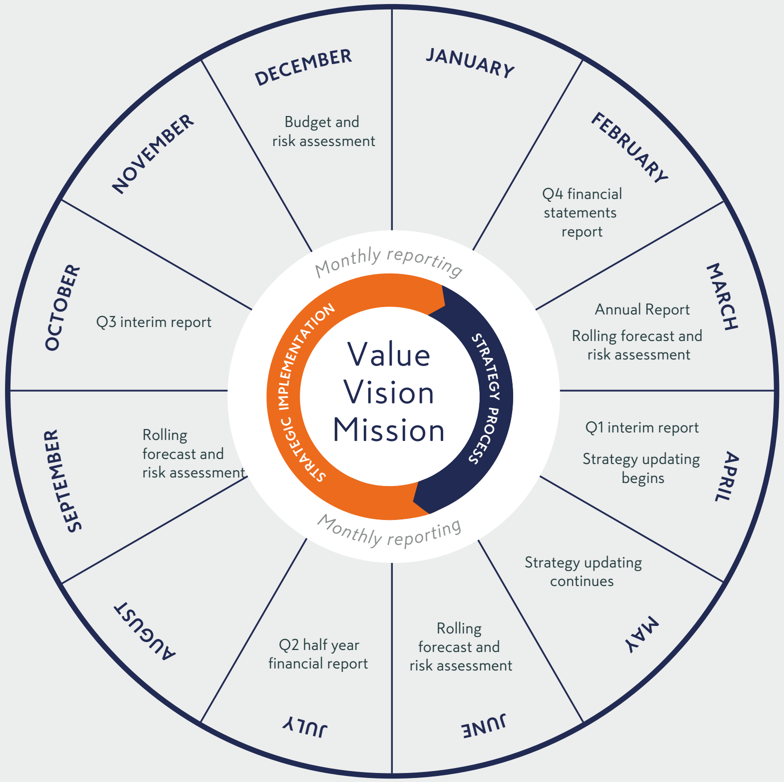
Kesko Group's financial reporting and its supervision is organised in three levels. Businesses analyse and report their figures to the divisions, which then report the division-specific figures to Group Accounting. Analyses and controls for ensuring the accuracy of reporting are used at each reporting level.

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 the company, business, division and Group level.

Planning and performance reporting

The Group's financial performance and the achievement of financial targets are monitored through Group-wide financial reporting. 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 indicator for growth is sales performance, while those for profita-

Kesko's management model



bility are comparable operating profit and comparable return on capital employed, 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 each month.

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' profits and capital employed, as well as the Group's balance sheet information. Each business is primarily responsible for the 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 the 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 2016

In 2016, the simplification of the Group's legal structure continued and the focus was on the integration of the businesses of the acquired Onninen Oy, Suomen Lähikauppa and Ab AutoCarrera Oy. By the end of the year, 223 Siwa and Valintalo stores of Suomen Lähikauppa had been converted into K-Markets. In connection with the conversion, the stores adopted Kesko Group's information systems and were connected to the Group's centralised financial management.

During the year, Rautakesko Ltd and five other Finnish limited liability companies engaging in business operations were merged into Kesko Corporation and six real estate companies into their parent companies. The centralisation of the Group companies' financial management routines to the Shared Service Centre continued in Finland, as VV-Auto Group Oy's basic financial management processes were transferred to the Shared Service Centre.

Key actions in 2017

In 2017, the simplification of the Group's legal structure in Finland will continue, as the pending mergers are completed. In addition, improving the efficiency of the Group companies' financial management and conversion to electronic format will be continued in Finland.

Accounting policies and financial management IT systems

Kesko Group complies with the International Financial Reporting Standards (IFRSs) endorsed by the European Union. The accounting policies applied by the Group have been compiled in the 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. The tools of internal control include policies and principles, work instructions, manual controls and automatic controls built into information systems, follow-up reports, inspections and audits, among other things.

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.

The planning of control measures begins with the definition of business objectives and the identification and assessment of the 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 taking care 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 the 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 management and day-to-day activities. The goal of risk management is to ensure the implementation of Kesko's strategy.

Roles and responsibilities in Kesko Group's internal control

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 finance policy, confirmed by Kesko's Board of Directors, is observed.

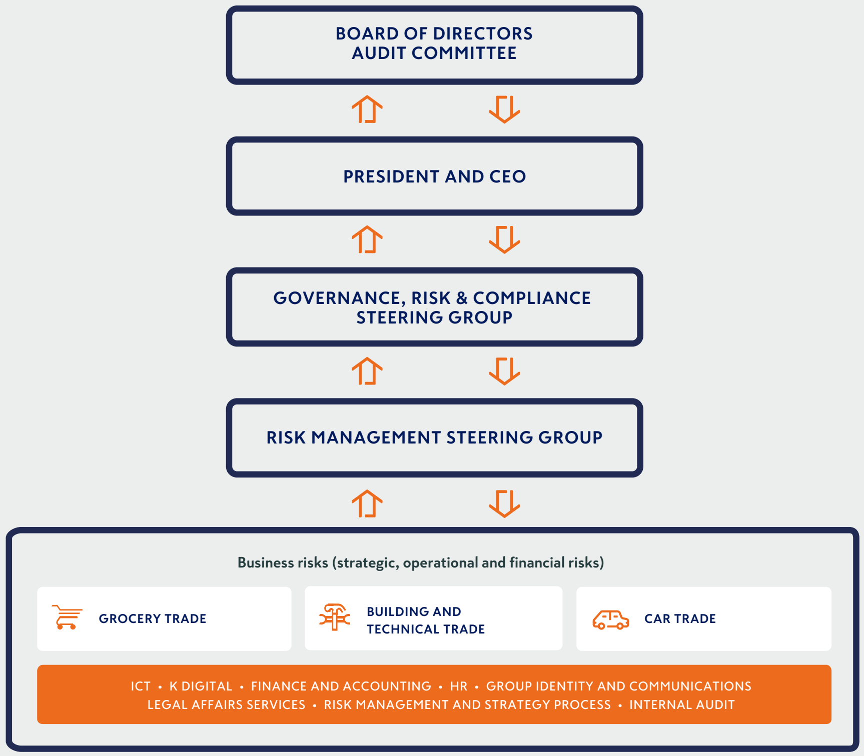
The managements of the business operations and the common functions are responsible for the execution of risk management. The finance director is responsible for the execution of risk management in each division. The risk management unit coordinates the risk management process and is responsible for risk reporting and executes risk identification, the determination of risk management responses and their implementation jointly with the businesses and the common functions. Kesko's Internal Audit annually evaluates the efficiency of Kesko's risk management system.

Kesko Group applies a business-oriented and comprehensive approach to risk assessment and risk management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and common function level in all operating countries.

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. 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.

In connection with the strategy process, the divisions assess the risks and opportunities concerning each strategy period. Near-future risks are identified and assessed on a quarterly basis. Risk assessment also covers the risks concerning the divisions' subsidiaries and those related to significant projects.

Risk management steering model



The risk assessments of the divisions and the common functions, which 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 on a quarterly basis. 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 Audit Committee Chair reports on risk management to the Board 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 2016

In spring 2016, Kesko's risk management was centralised and reorganised with the aim to better integrate it into the strategy process and to enhance the execution of risk management throughout the organisation. The most significant development targets in risk management in 2016 were the harmonisation of the divisions' and the common functions' risk management processes, especially the definition of actions related to risk reduction and determination, as well as the enhancement of monitoring. In addition, the preparatory work for a cyber risk management model was begun and preparations for a bidding process for insurance cover based on Kesko's risk tolerance were started. Using centralised purchasing power in the acquisition of security services and technology was continued. The risk management function actively participated in the risk management process of the completed acquisitions, as well as in the takeover and integration of the acquired companies' risk management, corporate security and insurance solutions at the Group level. A positive trend continued in terms of damages and there were no major single damages.

Focus areas of risk management in 2017

The most important focus area in risk management is to support Kesko's strategy by implementing strategy based risk management. The development and assurance of the effectiveness of actions related to risk reduction and determination will be continued. Other focus areas in risk management include the implementation of the cyber risk management model, the renewal and deployment of insurance cover on the basis of risk tolerance and risk appetite, as well as the development of the management model for Kesko's crisis and exceptional situations and its updating to correspond to Kesko's new organisation. In addition, the development of the Group's common functions' risk management process will continue and the implementation of the risk management process in the new country organisations of the building and technical trade is ensured. The improvement of cost efficiency will continue in terms of centralised purchasing.

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 Kesko's internal audit function's operating instructions.

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' managements. 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 2016

The key focus areas of internal audit operations in 2016 were the progress of the implementation of Kesko's strategies, the completed acquisitions, quality programmes, the business operations in Russia with related risks, the efficiency of data security and data protection issues.

Focus areas of internal audit in 2017

The key focus areas of internal audit operations in 2017 will be the implementation of Kesko's strategies, the significant projects in progress as well as data security and data protection matters.

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 decision-making process of the Company. The Company shall keep a list of parties that are related to the Company.

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 33 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

The Market Abuse Regulation ((EU) N:o 596/2014, "MAR") entered into force on 3 July 2016. In consequence of the MAR regulation, the main procedures relating to insider administration changed in 2016. The main procedures relating to insider administration followed since 3 July 2016 are described below. Prior procedures relating to insider administration are described in the 2015 CG Statement available at http://kesko.fi/en/investor/corporate-governance/statements/.

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.

Insiders at Kesko

As a result of the MAR regulation, the Company no longer has public insiders. The information on the Shareholdings of public insider register pages has not been updated since 3 July 2016. In the future, Kesko will not maintain a permanent company specific insider register either and will only maintain project specific and event specific insider lists.

Closed period

As the MAR regulation entered into force, the closed period of 30 calendar days before the publication of the interim reports, half year financial report and the financial statements, provided by the MAR regulation, will be applied to managers defined by Kesko. During the closed period, the managers are prohibited from dealing 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, half year financial report and financial statements. Information on the closed periods is provided annually in a stock exchange release.

Managers' transactions

As the public insider register was discontinued, the Company's obligation to disclose the transactions of the Company's managers 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.

Control and training

Kesko's Legal Affairs Services Department 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 Department in the area of insider management include the following among others

- internal information on inside matters;
- training in inside 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 the managers and persons closely associated with them obligated to notify their transactions;
- notifying managers of their obligations under Article 19(5) of the Market Abuse Regulation;
- controlling inside matters; and
- keeping abreast of any changes in the regulation of inside matters.

Auditing

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland's 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 2016 elected PricewaterhouseCoopers Oy, the firm of auditors, as the Company's Auditor, with APA Mikko Nieminen as the Auditor with principal responsibility. He is currently the Managing Director of PricewaterhouseCoopers Oy and the auditor responsible for three Finnish listed companies:

- Kesko
- Finnair
- CapMan

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 2015–2016 (€1,000)

	2016			2015		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	215	705	920	220	564	784
Tax consultation	7	86	93	84	14	98
IFRS consultation	24	-	24	9	-	9
Other services	183	137	320	450	135	585
Total	**429**	**928**	**1,357**	**763**	**713**	**1,476**

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:
As at 31 December 2015: a total of 107,350 A shares held by him and entities controlled by him.
As at 31 December 2016: 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–, 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:
As at 31 December 2015: a total of 1,000 Kesko B shares held by him.
As at 31 December 2016: 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.

Kesko shares held:
As at 31 December 2016: 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–, Lindström Invest Oy: member of the Board 2009–, 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:
As at 31 December 2015: a total of 185 Kesko B shares held by him.
As at 31 December 2016: 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.

Kesko shares held:
As at 31 December 2016: 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.

Board member since: 13 April 2015.

Kesko shares held:
As at 31 December 2015: No shares.
As at 31 December 2016: No shares.

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:
As at 31 December 2015: a total of 179,400 A shares held by the entities controlled by him.
As at 31 December 2016: a total of 179,400 A shares held by the entities controlled by him.

Group management board

Mikko Helander

President and CEO
b. 1960, 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–, Metsä Fibre Oy: member of the Board 2008–2014, German Pulp and Paper Association (VDP): member of the Board 2013–2014, Myllykoski Paper Oy: Vice Chair of the Board 2007–2012, Finnish Forest Industries Federation: member of the Board 2007–2011.

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, Valmet Corporation: Head of Converting Machinery Division (UK) and member of the Management Board 1999–2003 of Valmet Corporation, Vice President for Calender Business Unit 1997–1999, Head of Operations of Valmet Rotomec S.p.a., Italy 1994–1997, Head of Project Department, Valmet Järvenpää 1993–1994, Managing Director of Kasten Hövik 1990–1993, Valmet Paper Machinery Inc.: Production Manager of Valmet Järvenpää 1987–1990, Valmet Corporation: Project Engineer 1984–1987.

Member of the Group Management Board since: 1 October 2014.

Kesko shares held:
As at 31 December 2015: 8,791 B shares.
As at 31 December 2016: 20,005 B shares.

Jorma Rauhala

Executive Vice President, President of the grocery trade division
b. 1965, Master of Science (Economics).

Domicile: Espoo, Finland

Other major duties: The Finnish Grocery Trade Association: Chair of the Board 2017– and 2013–2014, member of the Board 2013–2016, the Association of Finnish Advertisers: member of the Board 2014–.

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:
As at 31 December 2015: 8,864 B shares.
As at 31 December 2016: 13,670 B shares.

Terho Kalliokoski

Executive Vice President, President of the building and technical trade division
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, the 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, Groce ry 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:
As at 31 December 2015: 19,203 B shares.
As at 31 December 2016: 24,009 B shares.

Johan Friman

Executive Vice President, President of the car trade division
b. 1965, Master of Science (Economics).

Domicile: Espoo, Finland.

Other major duties: -

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:
As at 1 January 2017: No shares.

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:
As at 31 December 2015: 7,740 B shares.
As at 31 December 2016: 11,478 B shares.

Matti Mettälä

Executive Vice President, Human Resources
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:
As at 31 December 2015: 4,282 B shares.
As at 31 December 2016: 6,952 B shares.

Anne Leppälä-Nilsson

Executive Vice President, Group General Counsel
b. 1953, Master of Laws, Master of Science (Economics and Business Administration).

Domicile: Espoo, Finland.

Other major duties: Nasdaq OMX 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 from 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:
As at 31 December 2015: 5,513 B shares.
As at 31 December 2016: 8,183 B shares.

Lauri Peltola

Executive Vice President, Marketing, Communications, Corporate Responsibility and Corporate Relations
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 from 2 March 2015 and marketing and brand steering and development as from 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:
As at 31 December 2015: No shares.
As at 31 December 2016: 2,670 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, 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:
As at 31 December 2015: No shares.
As at 31 December 2016: 2,670 B shares.

Pekka Lahti

Executive Vice President, President of the car trade division
Member of the Group Management Board until 31 December 2016
b. 1955, Master of Science (Agriculture).

Domicile: Vantaa, Finland.

Other major duties: The Association of Automobile Importers in Finland: member of the Board 2007–2012 and 2014–2016, Chair of the Board 2010–2012, Finnish Car Recycling Ltd: member of the Board 2007–2012, The Finnish Information Centre of Automobile Sector (AUT): member of the Board 2009–2012, Chair of the Board 2010–2012, Finnish Commerce Federation: member of the Board 2010–2012.

Employment history: employed by Kesko Ltd since 1981. Senior Vice President, car trade division since 1 July 2015. President of VV-Auto Group Oy since 2006. Managing Director of Konekesko Ltd 2001–2005 and President of Kesko Agro Ltd 2005. Vice President, Kesko Machinery 2000.

Member of the Group Management Board since: 1 March 2005.

Kesko shares held:
As at 31 December 2015: 10,769 B shares.
As at 31 December 2016: 15,041 B shares.

Remuneration statement 2016

Introduction

This Remuneration Statement has been reviewed at the meeting of the Remuneration Committee of Kesko Corporation's Board of Directors on 1 February 2017.

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 http://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' members 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.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions on the personal remuneration, other financial benefits, the performance bonus system criteria and the performance bonuses paid 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 other financial benefits of the Group Management Board members other than those responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

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 compensation scheme), a share compensation plan (long-term compensation scheme) and management's retirement benefits.

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

Commitment and incentive schemes

Performance bonus scheme (short-term compensation scheme) in 2016

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 criteria have been the Group's operating profit excluding non-recurring items and the Group's sales performance. The indicators applied to executives responsible for lines of business are the operating profit of the executive's area of responsibility excluding non-recurring items, as well as indicators of sales and market shares. In addition, a performance bonus criterion applied to all Group Management Board members is the achievement of personal targets. The performance bonus criteria and their weights vary depending on the 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 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 he/she is guilty of such acts.

Share-based compensation plan 2014–2016 (long-term compensation scheme)

In addition to the performance bonus scheme, Kesko operates the 2014–2016 share-based compensation plan decided by the Company's Board and intended for the Group's management and certain other key persons.

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 the grantees to Kesko Group and give them the opportunity to receive Company shares upon fulfilling the objectives set in the share-based compensation plan.

The share-based compensation plan has three vesting periods: the calendar years 2014, 2015 and 2016. Kesko's Board decides 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 are decided by the Board at the beginning of the year following the vesting period. The criteria for the 2016 vesting period were, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, Kesko's basic earnings per share (EPS) excluding non-recurring items and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index. Under the share-based compensation plan, a total maximum of 600,000 own B shares held by the Company as treasury shares can be granted.

The award possibly paid for a vesting period is paid in Kesko B shares. In addition, 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. A commitment period of three calendar years following each vesting period is attached to the shares granted, during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. The commitment period of the 2016 vesting period will end on 31 December 2019. 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 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.

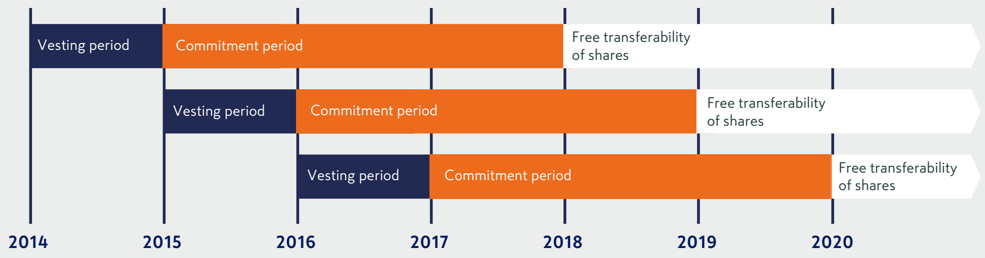
The fulfilment of the performance and profit criteria and their impact on long-term financial success are monitored and evaluated by Kesko's Board and Remuneration Committee.

Even if the criteria are met, the Board always has discretion over whether to pay a share award to any given recipient in full, in part or not at all.

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 he/she is guilty of such acts.

The plan does not contain terms or conditions that would limit the grantees' income from the shares.

Share-based compensation plan 2014–2016



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' members 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. Significant shareholders prepare the proposals concerning the Board of Directors, including the proposal for the number of Board members, their remuneration and, as necessary, for the Board members to the General Meeting.

The Annual General Meeting of 4 April 2016 resolved to leave the Kesko Board members' remuneration unchanged and in 2016, it was as follows:

Annual remuneration:

- Chair of the Board €80,000
- Deputy Chair of the Board €50,000
- member of the Board €37,000.

In addition, a meeting fee of €500 per meeting is paid for a Board meeting and its Committee's meeting, with the exception that the Chair of a Committee who is not the Chair or the Deputy Chair of the Board is paid €1,000 per Committee meeting.

Daily allowances are paid 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 2016 (€)*

		Meeting fees			
	Annual remuneration	**Board**	**Audit Committee**	**Remuneration Committee**	**Total**
Annual remuneration	80,000	5,500		2,000	87,500
Mikael Aro (Dep. Ch.)	50,000	5,500	3,000	2,000	60,500
Jannica Fagerholm**	27,603	3,500	3,000		34,103
Matti Kyytsönen	37,000	5,500	3,000		45,500
Matti Naumanen**	27,603	3,500			31,103
Anu Nissinen	37,000	5,500		2,000	44,500
Toni Pokela	37,000	5,500			42,500
Tomi Korpisaari***	6,167	1,000			7,167
Kaarina Ståhlberg***	6,167	1,500	3,000		10,667
Total	**308,540**	**37,000**	**12,000**	**6,000**	**363,540**

* Reported on a cash basis.
** Board member since 4 April 2016.
*** Board member until 29 February 2016.

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 own B shares held by the Company in treasury (share issue authorisation 2016). The authorisation cancelled an earlier share issue authorisation with similar content.

Based on the authorisation, the own B shares held by the Company in treasury 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. The shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, if the Company has a weighty financial reason for it, 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 in treasury 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 authorisation to make decisions concerning any other matters related to 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). 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 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 of Directors makes decisions concerning any other issues related to the acquisition of own B shares. The authorisation is valid until 30 September 2017.

In addition to the above authorisations, the Board of Directors has the share issue authorisation decided by the General Meeting of 13 April 2015, which cannot, however, be used for remuneration purposes.

On 3 February 2016, the Board of Directors decided to grant own B shares held by the company as treasury shares, to the persons included in the target group of the 2015 vesting period based on the fulfilment of the vesting criteria of the 2015 vesting period of the Kesko's three-year share-based compensation plan. This granting of a total of 137,054 own B shares was announced in a stock exchange release on 17 March 2016 and the transfer of 2,670 own B shares was announced in a stock exchange release on 27 April 2016. Under 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 can be granted within a period of three years based on the fulfilment of the vesting criteria. The vesting criteria and the target group are decided by the Board separately for each vesting period. The share-based compensation plan was announced in a stock exchange release on 4 February 2014. A total of 8,256 shares granted based on the fulfilment of the vesting criteria of share-based compensation plans (share-based compensation plans for years 2011–2013 and 2014–2016) had been returned to the Company during the period January-December an accordance with the terms and conditions of the share-based compensation plans. The share returns in 2016 were announced in a stock exchange release on 17 March 2016, 31 March 2016, 27 April 2016, 30 May 2016 and 15 November 2016.

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 Chair of the Group Management Board since 1 January 2015.

Salaries, fringe benefits, performance bonus

The salaries, fringe benefits and performance bonuses paid to Helander and his other financial benefits in 2015–2016 are presented in the following tables.

Salaries, performance bonuses and fringe benefits in 2015–2016 (€)

	2016	2015
Fixed monetary salary	873,600	856,800
Performance bonuses*	420,000	140,000**
Fringe benefits	23,160	21,725
Total	**1,316,760**	**1,018,525**

* Performance bonus paid based on the profit for the previous year.
** Service contract since 1 October 2014.

Share-based compensation plan 2015–2016

Share award (pcs)	2016	2015
Maximum	21,000	21,000
Granted	16,086*	11,214
Commitment period (expiry date)	31 Dec 2019	31 Dec 2018

* The Board's decision in February 2017. Shares for the vesting period 2016 will be granted in March - April 2017 in accordance with the terms and conditions of the plan.

Retirement benefits

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). The pensionable salary is determined based on his fixed monetary salary, performance bonuses and fringe benefits for the last ten (10) years. The supplementary pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €1.0 million and the related pension asset was €0.6 million as at 31 December 2016. The pension cost of the President and CEO's statutory pension provision was €0.2 million.

Health and life insurance

A health insurance and a life insurance have been taken out for Helander.

Period of notice and termination benefit

Helander's period of notice 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.

Group Management Board

Group Management Board members' salaries, performance bonuses and fringe benefits in 2015–2016 (€)*

	Fixed monetary salary		Performance bonuses		Fringe benefits		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Mikko Helander, Ch.	873,600	856,800	420,000	140,000	23,160	21,725	1,316,760	1,018,525
Group Management Board**	2,012,999	1,777,640	369,250	371,750	151,977	126,478	2,534,226	2,275,868
Total	**2,886,599**	**2,634,440**	**789,250**	**511,750**	**175,137**	**148,203**	**3,850,986**	**3,294,393**

* Salaries, performance bonuses and fringe benefits are reported on a cash basis. The 2015 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2015 to the salaries and fringe benefits for 2016.
** Excluding President and CEO Helander.

Share-based payments to Group Management Board members in 2014–2016 (pcs)

	2016		2015		2014	
	Maximum	To be granted**	Maximum	Granted	Maximum	Granted
Mikko Helander, Ch.	21,000	16,086	21,000	11,214	-***	-***
Group Management Board*	53,000	40,598	53,000	28,302	48,000	16,812
Total	**74,000**	**56,684**	**74,000**	**39,516**	**48,000**	**16,812**

* Excluding President and CEO Helander.
** The Board's decision in February 2017. The shares for the 2016 vesting period will be granted in March–April 2017 in accordance with the terms and conditions of the plan.
*** Service contract since 1 October 2014.

Vesting period	2016	2015	2014
End of commitment period	31 Dec 2019	31 Dec 2018	31 Dec 2017

On 16 December 2014, Kesko Corporation's Board of Directors decided to transfer 8,791 own B shares held by the Company as treasury shares to Mikko Helander, the Company's President and CEO as of 1 January 2015. The share transfer was based on the managing director's service contract signed with Mikko Helander and the transferred shares are part of the agreed total compensation. The shares transferred to Helander carried a restriction period until 1 October 2016, during which the shares were not allowed to be assigned.

Retirement benefits in 2016

The statutory pension provision of the members of the Group Management Board is provided through a pension insurance company. 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 retirement benefits of President and CEO Helander are reported in more detail in the section on him. Kesko has not paid pension insurance contributions incurred on executives' memberships of Kesko Pension Fund for several years, nor in 2016, as the Fund's investment earnings covered the payable supplementary pensions and changes in the pension liability.

Group Management Board members' retirement benefits, periods of notice and termination benefits in 2016*

	Old-age pension age (years)	Pension as percentage of pensionable salary (%)	Period of notice	Termination benefit**
Mikko Helander	63	60	6/12 mo***	12-mo salary
Jorma Rauhala	62	66	6 mo	6-mo salary
Terho Kalliokoski	62	66	6 mo	12-mo salary
Pekka Lahti	62	66	6 mo	18-mo salary
Jukka Erlund	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary
Matti Mettälä	62	66	6 mo	12-mo salary
Anne Leppälä-Nilsson	in accordance with TyEL****	in accordance with TyEL****	6 mo	18-mo salary
Lauri Peltola	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary
Anni Ronkainen	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary

* As at 31 December 2016.
** If given notice by the employer. Termination benefit includes monetary salary and fringe benefits.
*** The period of notice is twelve (12) months if the managing director's service contract is terminated by the Company and six (6) months if the President and CEO resigns.
**** TyEL = the Employees' Pensions Act.