Q4/2016

Kesko Corporation
Financial Statements Release
January-December 2016

Kesko's financial statements release for the period 1 Jan. 2016 to 31 Dec. 2016: Kesko's comparable operating profit increased

FINANCIAL PERFORMANCE IN BRIEF:

- The Group's net sales for January-December were €10,180 million (€8,679 million). Net sales grew by 17.3% and in local currencies, acquisitions and disposals excluded, by 1.6%.
- Comparable operating profit was €272.9 million (€244.5 million)
- Operating profit was €146.8 million (€194.6 million)
- Comparable return on capital employed was 11.9% (11.7%)
- Comparable profit before tax was €271.4 million (€237.9 million)
- Comparable earnings per share were €2.01 (€1.70)
- The Board's proposal for dividend is €2.00 per share
- 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.

KEY PERFORMANCE INDICATORS

	1-12/2016	1-12/2015	10-12/2016	10-12/2015
Net sales, € million	10,180	8,679	2,765	2,166
Operating profit, comparable, € million	272.9	244.5	63.3	59.1
Operating profit, € million	146.8	194.6	-40.3	39.3
Profit before tax, comparable, € million	271.4	237.9	60.2	60.6
Profit before tax, € million	145.2	188.0	-43.5	40.7
Capital expenditure, € million	743.1	218.5	105.4	66.9
Earnings per share, €, diluted	0.99	1.03	-0.40	0.22
Earnings per share, comparable, €, basic	2.01	1.70	0.42	0.47
	31.12.2016	31.12.2015		
Equity ratio, %	48.6	54.7		
Equity per share, €	20.44	21.82		

PRESIDENT AND CEO MIKKO HELANDER:
”For Kesko, 2016 was a year of renewal. Net sales turned to significant growth and comparable operating profit improved markedly. We continued to make Kesko's business more focused and strengthened the strategic growth areas with the acquisitions of Suomen Lähikauppa, Onninen and AutoCarrera. In 2016, we also started the grocery trade chain reforms in the K-Market and K-Citymarket chains, and arranged the building and technical trade operations in the Baltics and Belarus into Kesko Senukai. We made significant progress also in our digital services, such as food ecommerce, K-ruoka app, K-rauta.fi, Caara.fi and digitalised Plussa.

Due to the acquisitions we made, Kesko's business grew strongly also in the last quarter. The integration of Suomen Lähikauppa has progressed as planned and at the end of the year, 223 Siwa and Valintatalo stores had been converted into K-Market stores and 18 of them had been transferred to retailers. The acquisition of Onninen was reflected in a significant growth in the B2B trade of the building and technical trade. The acquisition of the Porsche business in Finland, for its part, strengthens our long-standing cooperation with Volkswagen AG and improves the profitability of the car trade.

Due to the acquisitions, Kesko's last quarter net sales increased by 27.6% and in local currencies by 1.2%, excluding the impact of the acquisitions. Comparable operating profit was €63.3 million, up €4.2 million. The 12-month return on capital employed improved in comparison with the corresponding period of the previous year.

The K-Group's grocery sales increased by 1.3% in the last quarter, excluding the impact of Suomen Lähikauppa. In the grocery trade, comparable operating profit remained at a good level due to retail sales growth, enhancement actions and synergies. In the building and technical trade, market share continued to strengthen especially in Finland. Onninen's contribution to the net sales and the operating profit of the building and technical trade was significant. In the car trade, net sales and operating profit showed strong growth.

Responsible business is key for the achievement of a good and sustainable financial result. The World Economic Forum in Davos annually selects the Global 100 Most Sustainable Corporations in the World. Kesko has been included in the Global 100 list every year since it was established in 2005. In the list announced in January 2017, Kesko ranked 25th and again as the most sustainable trading sector company in the world. For the list, companies were assessed on 14 sustainability indicators in the areas of economic, social and environmental responsibility."

FINANCIAL PERFORMANCE

NET SALES AND PROFIT FOR JANUARY-DECEMBER 2016

The Group's net sales for January-December 2016 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, comparable, € 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**

(..) Change over 100%

The Group's comparable operating profit for January-December 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
Operating profit, comparable	**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 for January-December 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).

In January-December, the 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 January-December 2016. At the end of December, there were 2.3 million K-Plussa households and 3.6 million K-Plussa cardholders.

NET SALES AND PROFIT FOR OCTOBER-DECEMBER 2016

The Group's net sales for October-December 2016 were €2,765 million, which is 27.6% up on the corresponding period of the previous year (€2,166 million). Acquisitions and disposals excluded, net sales in local currencies grew by 1.2%.

In the grocery trade, the 13.8% net sales growth was contributed by the acquisition of Suomen Lähikauppa. Net sales performance in local currencies, excluding Suomen Lähikauppa and the Russian grocery trade business, was -0.5%. In the building and technical trade, net sales increased by 52.3% and in local currencies, excluding Onninen, the decrease was 0.7%. In the car trade, net sales increased by 25.0%, and AutoCarrera excluded, by 22.5%. The Group's net sales in Finland increased by 24.0% and acquisitions excluded, by 1.8%. In the other countries, net sales increased by 44.2% and in local currencies, acquisitions and disposals excluded, the decrease was 1.8%. International operations accounted for 20.4% (18.1%) of net sales.

10-12/2016	Net sales, € million	Change, %	Change in local currency excl. acquisitions, %	Operating profit, comparable, € million	Change, € million
Grocery trade	1,422	+13.8	-0.5	51.9	-2.5
Building and technical trade	1,121	+52.3	-0.7	14.4	+6.9
Car trade	221	+25.0	+22.5	7.5	+3.7
Common functions and eliminations	1	-81.6	-50.4	-10.5	-3.8
Total	**2,765**	**+27.6**	**+1.2**	**63.3**	**+4.2**

(..) Change over 100%

The comparable operating profit for October-December was €63.3 million (€59.1 million). The comparable operating profit of the grocery trade remained at a good level due to retail sales growth, enhancement actions and synergies. In the building and technical trade, comparable operating profit was increased by the acquisition of Onninen, the disposal of Intersport's business in Russia and the good profit performance of the furniture trade and the agricultural and machinery trade. In the car trade, comparable operating profit was increased to €7.5 million (€3.8 million) by strong sales growth.

The operating profit was €-40.3 million (€39.3 million). The operating profit includes items affecting comparability in the amount of €-103.6 million (€19.9 million). The most significant items included a €69.2 million loss on the disposal of the Russian grocery trade, €6.1 million in costs related to the conversion of Suomen Lähikauppa's chains, and €18.9 million in impairment charges. 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 comparability of the operating profit was affected by the impairment charges and provisions in the amount of €17.2 million related to the restructuring of Intersport's Russian business.

Items affecting comparability, € million	10-12/2016	10-12/2015
Operating profit, comparable	**63.3**	**59.1**
Items affecting comparability		
+gains on disposal	-0.8	+0.1
-losses on disposal	-70.6	-
-impairment charges	-18.9	-
+/-structural arrangements	-9.4	-19.3
+/-others	-3.9	-0.7
Total items affecting comparability	-103.6	-19.9
Operating profit	**-40.3**	**39.3**

The Group's profit before tax for October-December was €-43.5 million (€40.7 million). The Group's earnings per share were €-0.40 (€0.22).

In October-December, the K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales (VAT 0%) were €3,355 million, up 22.5% compared to the previous year.

FINANCE

In January-December, 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).

At the end of the period, 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%) at the end of the period.

The Group's net finance costs were €1.0 million (€7.1 million) in January-December.

In October-December, the cash flow from operating activities was €107.8 million (€123.3 million). The cash flow from investing activities was €75.5 million (€-70.9 million) and it was positive as a result of the disposal of the grocery trade business in Russia.

The Group's net finance costs were €4.3 million (net finance income €0.9 million) in October-December.

TAXES

In January-December, the Group's taxes were €31.4 million (€70.7 million). The effective tax rate was 21.6% (37.6%).

In October-December, the Group's taxes were €6.4 million positive (tax expense €14.0 million) due to tax deductible losses on disposal.

CAPITAL EXPENDITURE

In January-December, 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).

In October-December, the Group's capital expenditure totalled €105.4 million (€66.9 million), or 3.8% (3.1%) of net sales. Capital expenditure in store sites was €58.1 million (€54.8 million), in acquisitions €30.6 million, in IT €9.5 million (€7.7 million) and other capital expenditure was €7.3 million (€4.5 million)

PERSONNEL

In January-December, 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	10-12/2016	10-12/2015
Net sales, € million	5,236	4,673	1,422	1,249
Operating profit, comparable, € million	175.9	177.5	51.9	54.5
Operating margin, comparable, %	3.4	3.8	3.7	4.4
Capital expenditure, € million	238.1	128.9	49.7	29.9

Net sales, € million	1-12/2016	Change, %	10-12/2016	Change, %
Sales to K-food stores	3,161	-0.0	826	-0.2
K-Citymarket, non-food	588	+0.0	184	+1.1
Suomen Lähikauppa	575	-	187	-
Kespro	804	+1.5	202	-0.6
K-ruoka, Russia	105	-1.9	22	-29.9
Others and eliminations	4	-85.9	0	(..)
Total	**5,236**	**+12.0**	**1,422**	**+13.8**

(..) Change over 100%

January-December 2016

The net sales of the grocery trade for January-December 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%. In January-December, 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% in January-December (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.

In January-December, 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 for January-December.

The capital expenditure of the grocery trade in January-December 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.

October-December 2016

The net sales of the grocery trade for October-December were €1,422 million (€1,249 million), representing a growth of 13.8%. Suomen Lähikauppa and the Russian business excluded, net sales decreased by 0.5%. In

October-December, the grocery sales of K-food stores in Finland increased by 1.3% (VAT 0%) (excluding Suomen Lähikauppa) and Suomen Lähikauppa included, sales increased by 16.0%. In the grocery market in Finland, retail prices are estimated to have changed by approximately -0.2% compared to the previous year.

In October-December, the comparable operating profit of the grocery trade was €51.9 million (€54.5 million). Comparable operating profit remained at a good level due to K-food stores' retail sales growth, enhancement actions and synergies, and K-Citymarket's good profit performance. Suomen Lähikauppa's profitability was adversely impacted by the seasonal fluctuations of profit performance coupled with costs incurred from the business transformation programme. The comparable operating profit of the Russian grocery trade was lower than in the previous year. The operating profit was €-26.1 million (€53.4 million). The items affecting comparability were €78.0 million (€1.0 million). The most significant items affecting comparability are the €69.2 million loss on the disposal of the Russian business and the €6.1 million expenses related to the conversion of Suomen Lähikauppa's stores.

The capital expenditure of the grocery trade in October-December was €49.7 million (€29.9 million), of which €44.0 million (€27.4 million) was in store sites.

In October-December, one new K-Supermarket and five K-Markets were opened. Renewals and extensions were made in a total of 154 stores, of which 105 were conversions of Siwas and Valintatalos into K-Markets.

The most significant store sites being built are a K-Citymarket in Sastamala and a K-Citymarket (a replacement new building) and the Easton shopping centre in Helsinki. A new K-Supermarket is being built in Tampere, in Niittykumpu, Espoonlahti and Suurpelto in Espoo, in Ilmajoki and in Kalasatama and Pasila, Helsinki.

Store numbers at 31.12.	2016	2015
K-Citymarket	80	81
K-Supermarket	228	219
K-Market**	638	412
Neste K	70	64
Valintatalo and Siwa**	340	-
K-ruoka, Russia	-	9
Others*	92	108

* Including online stores
** The total number of Suomen Lähikauppa's stores was 563
In addition, several K-food stores offer e-commerce services to their customers.

BUILDING AND TECHNICAL TRADE

	1-12/2016	1-12/2015	10-12/2016	10-12/2015
Net sales, € million	4,100	3,250	1,121	736
Operating profit, comparable, € million	97.9	63.6	14.4	7.5
Operating margin, %, comparable	2.4	2.0	1.3	1.0
Capital expenditure, € million	451.7	55.3	23.7	28.8

Net sales, € million	1-12/2016	Change, %	10-12/2016	Change, %
Building and home improvement trade, Finland	826	+4.1	176	+3.8
K-Rauta, Sweden	217	+3.6	44	-8.6
Byggmakker, Norway	402	-3.8	89	-3.7
K-Rauta, Russia	174	-9.5	45	-1.5
Kesko Senukai, the Baltics	486	+5.7	127	+6.8
OMA, Belarus	101	-12.7	26	-9.5
Onninen	908	-	396	-
Agricultural and machinery trade	608	-1.1	123	-7.4
Intersport, Finland	178	+2.1	47	+3.3
Indoor	187	+4.3	49	+6.0
Others	30	-70.9	4	-61.1
Total	**4,100**	**+26.2**	**1,121**	**+52.3**

<u>January-December 2016</u>

The net sales of the building and technical trade for January-December were €4,100 million (€3,250 million), up 26.2%. Net sales in local currencies, excluding acquisitions, increased by 2.1%.

In January-December, 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%. In January-December, 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 in June-December 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.

In January-December, 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 the K-Group's building and home improvement trade is estimated to have strengthened especially in Finland, Sweden, the Baltics and Belarus. The 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 for January-December 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%.

In January-December, 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 for January-December 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.

In January-December, 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.

October-December 2016

The net sales of the building and technical trade for October-December were €1,121 million (€736 million), up 52.3%. Net sales in local currencies, excluding acquisitions, decreased by 0.7%.

In October-December, the net sales of the building and technical trade in Finland were €579 million (€376 million), up 53.8%. Acquisitions excluded, net sales in Finland grew by 0.4%. In October-December, the net sales from foreign operations were €542 million (€360 million), up 50.7%. In local currencies, excluding acquisitions and disposals, the net sales from foreign operations decreased by 1.8%. Foreign operations contributed 48.3% (48.9%) to net sales. In the building and technical trade, market share continued to strengthen especially in Finland.

In October-December, the net sales of the building and home improvement trade were €506 million (€502 million), up 0.7%. In local currencies, net sales grew by 1.4%. In respective local currencies, net sales decreased in Sweden by 3.7%, in Russia by 2.7% and in Norway by 5.6%. The K-Group's sales of building and home improvement products in Finland increased by a total of 1.2% and the total market (VAT 0%) is estimated to have decreased by approximately 0.6% (Kesko's own estimate). Onninen's net sales in October-December were €396 million.

The net sales of the agricultural and machinery trade for October-December were €123 million (€133 million), down 7.4% compared to the previous year. Net sales in Finland were €107 million, down 5.6%. The net sales from foreign operations were €16 million, down 17.3%. The retail sales of the K-maatalous chain were down by 8.3%.

The net sales of the leisure trade in Finland were €51 million (€49 million), an increase of 4.8%.

The net sales of the furniture trade were €49 million (€46 million), which was up 6.0%.

In October-December, the comparable operating profit of the building and technical trade was €14.4 million (€7.5 million), up €6.9 million compared to the previous year. Comparable operating profit was increased by the acquisition of Onninen, the disposal of Intersport's Russian business, as well as the good profit performances of the furniture trade and the agricultural and machinery trade. Onninen's comparable operating profit for October-December 2016 was €7.2 million, adversely impacted by the fair value allocations of inventories written off in the amount of €1.7 million.

The operating profit of the building and technical trade was €-11.7 million (€-10.9 million). Items affecting comparability were €-26.1 million (€-18.4 million). The most significant item affecting comparability are the €15.0 million in impairment charges related to the change of the functional currency of the Russian properties.

In October-December, the capital expenditure of the building and technical trade totalled €23.7 million (€28.8 million), of which €13.8 million (€24.1 million) were in store sites.

In October-December 2016, three building and home improvement stores were opened in Belarus, one Onninen Express store in Finland and one The Athlete's Foot store in Finland. In addition, the first pilot store of the K-Rauta chain being reformed was opened in Keuruu and the first K-Senukai store in Latvia.

The most significant store sites being built are a K-Rauta in Savonlinna, a K-Rauta in St. Petersburg and a building and home improvement store in Belarus.

Store numbers at 31.12.	2016	2015
K-Rauta	46	45
Rautia*	93	93
K-maatalous*	78	80
K-Rauta, Sweden	20	20
Byggmakker, Norway	80	88
K-Rauta, Estonia	8	8
K-Rauta and K-Senukai, Latvia	8	8
K-Senukai, Lithuania	22	20
K-Rauta, Russia	13	13
OMA, Belarus	16	12
Onninen	144	-
Intersport, Finland**	58	60
Budget Sport**	11	11
The Athlete's Foot	3	-
Asko and Sotka**	88	87
Kookenkä**	38	38
Intersport, Russia	-	18
Asko and Sotka, the Baltics**	12	10
Konekesko	-	1

* In 2016, 39 (45) Rautia stores also operated as K-maatalous stores
** Including online stores
In addition, the building and home improvement stores offer e-commerce services to their customers.

CAR TRADE

	1-12/2016	1-12/2015	10-12/2016	10-12/2015
Net sales, € million	849	748	221	177
Operating profit, comparable, € million	29.5	26.1	7.5	3.8
Operating margin, comparable, %	3.5	3.5	3.4	2.1
Capital expenditure, € million	41.4	16.0	30.2	4.7

Net sales, € million	1-12/2016	Change, %	10-12/2016	Change, %
VV-Auto	845	+13.0	217	+22.5
AutoCarrera	4	-	4	-
Total	**849**	**+13.5**	**221**	**+25.0**

January-December 2016
The net sales of the car trade for January-December were €849 million (€748 million), up 13.5%. In January-December, 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 in January-December 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 for January-December was €29.5 million (€26.1 million). The operating profit for January-December 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 in January-December was €41.4 million (€16.0 million).

October-December 2016
The net sales of the car trade for October-December were €221 million (€177 million), up 25.0%. The acquisition of AutoCarrera excluded, net sales grew by 22.5%. The combined market share of passenger cars and vans imported by VV-Auto in October-December was 20.8% (18.5%).

The comparable operating profit of the car trade for October-December increased to €7.5 million representing an increase of €3.7 million on the previous year. The operating profit for October-December was €7.0 million (€3.8 million). VV-Auto's order books strengthened from the previous year.

The capital expenditure of the car trade in October-December was €30.2 million (€4.7 million). Acquisitions were €27.1 million.

Store numbers at 31.12.	2016	2015
VV-Auto, retail trade	10	9
AutoCarrera	3	-

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%. In January-December, 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. In January-December, 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 January-December 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 January-December 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 reporting period, 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. In January-December, 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 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.

The 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, the 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 the K-Group the biggest producer and user of solar power in Finland.

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 the 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.

ANNUAL REPORT 2016 AND CORPORATE GOVERNANCE STATEMENT
Kesko will publish the Annual Report for 2016 on week 10 on its website at www.kesko.fi. The report contains a strategic review, the Report by the Board of Directors and the financial statements for 2016, the responsibility reporting indicators (GRI), Kesko's Corporate Governance Statement and Remuneration Statement.

Helsinki, 01 February 2017
Kesko Corporation
Board of Directors

The information in the financial statements release is unaudited.

Further information is available from Jukka Erlund, Executive Vice President, Chief Financial Officer, telephone +358 105 322 113, and Eva Kaukinen, Vice President, Group Controller, telephone +358 105 322 338. A Finnish-language webcast of the results briefing to the media and analysts can be accessed at www.kesko.fi, at 11.00. An English-language audio conference on the results will be held today at 14.30 (Finnish time). The audio conference login is available on Kesko's website at www.kesko.fi.

Kesko Corporation's interim report for January-March 2017 will be published on 27 April 2017. In addition, Kesko Group's sales figures are published each month. News releases and other company information are available on Kesko's website at www.kesko.fi.

KESKO CORPORATION

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Accounting policies

This financial statements release has been prepared in accordance with the IAS 34 standard. The financial statements release has been prepared in accordance with the same principles as the annual financial statements for 2015.

Consolidated income statement (€ million), condensed

	1-12/ 2016	1-12/ 2015	Change, %	10-12/ 2016	10-12/ 2015	Change, %
Net sales	10,180	8,679	17.3	2,765	2,166	27.6
Cost of goods sold	-8,719	-7,540	15.6	-2,347	-1,875	25.1
Gross profit	**1,462**	**1,139**	**28.4**	**418**	**291**	**43.8**
Other operating income	699	800	-12.7	174	178	-2.3
Employee benefit expense	-723	-545	32.7	-215	-138	56.3
Depreciation and impairment charges	-162	-137	18.1	-57	-40	41.2
Other operating expenses	-1,128	-1,063	6.2	-360	-252	42.9
Operating profit	**147**	**195**	**-24.6**	**-40**	**39**	**(..)**
Interest income and other finance income	15	10	43.5	5	3	51.9
Interest expense and other finance costs	-12	-14	-18.7	-4	-2	80.6
Exchange differences	-4	-3	31.6	-5	0	(..)
Share of results of equity accounted investments	-1	1	(..)	1	1	70.5
Profit before tax	**145**	**188**	**-22.8**	**-43**	**41**	**(..)**
Income tax	-31	-71	-55.6	6	-14	(..)
Net profit for the period	**114**	**117**	**-3.0**	**-37**	**27**	**(..)**
Attributable to						
Owners of the parent	99	102	-3.0	-40	22	(..)
Non-controlling interests	15	16	-3.1	3	5	-45.5
Earnings per share (€) for profit attributable to equity holders of the parent						
Basic and diluted	0.99	1.03	-3.1	-0.40	0.22	(..)

Consolidated statement of comprehensive income (€ million)

	1-12/ 2016	1-12/ 2015	Change,%	10-12/ 2016	10-12/ 2015	Change,%
Net profit for the period	114	117	-3.0	-37	27	(..)
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains/losses	-11	23	(..)	-5	22	(..)
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translation of foreign operations	10	-17	(..)	6	-4	(..)
Cash flow hedge revaluation	2	0	(..)	1	1	-15.5
Revaluation of available-for-sale financial assets	1	1	-53.3	0	0	(..)
Other items	0	0	-1.0	0	0	-
Total other comprehensive income for the period, net of tax	2	6	-69.3	1	18	-92.3
Total comprehensive income for the period	**116**	**124**	**-6.4**	**-36**	**45**	**(..)**
Attributable to						
Owners of the parent	101	119	-15.2	-39	41	(..)
Non-controlling interests	15	5	(..)	4	4	-18.6

(..) Change over 100%

Consolidated statement of financial position (€ million), condensed

	31.12.2016	31.12.2015	Change, %
ASSETS			
Non-current assets			
Tangible assets	1,150	1,282	-10.3
Intangible assets	431	168	(..)
Equity accounted investments and other financial assets	123	115	7.4
Loans and receivables	68	67	2.4
Pension assets	165	176	-6.6
Total	1,937	1,808	7.1
Current assets			
Inventories	979	735	33.2
Trade receivables	831	582	42.9
Other receivables	223	127	76.5
Financial assets at fair value through profit or loss	93	374	-75.1
Available-for-sale financial assets	157	372	-57.8
Cash and cash equivalents	141	141	0,0
Total	2,425	2,331	4,0
Non-current assets held for sale	46	0	(..)
Total assets	**4,408**	**4,139**	**6.5**

	31.12.2016	31.12.2015	Change, %
EQUITY AND LIABILITIES			
Equity	2,029	2,163	-6.2
Non-controlling interests	97	79	23.8
Total equity	2,126	2,242	-5.2
Non-current liabilities			
Interest-bearing liabilities	359	258	38.9
Non-interest-bearing liabilities	40	42	-4.7
Deferred tax liabilities	48	71	-32.6
Pension obligations	1	1	-18.8
Provisions	15	16	-4.7
Total	463	388	19.1
Current liabilities			
Interest-bearing liabilities	156	181	-13.7
Trade payables	1,069	795	34.5
Other non-interest-bearing liabilities	552	495	11.4
Provisions	41	38	8.3
Total	1,818	1,509	20.5
Liabilities related to available-for-sale assets	1	-	-
Total equity and liabilities	**4,408**	**4,139**	**6.5**

(..) Change over 100%

Consolidated statement of changes in equity (€ million)

	Share capital	Reserves	Currency trans-lation differ-ences	Revalu-ation reserve	Treasury shares	Retained earnings	Non-cont-rolling interests	Total
Balance at 1.1.2015	**197**	**463**	**-38**	**-1**	**-31**	**1,594**	**82**	**2,265**
Treasury shares					0			0
Share-based payments					4			4
Dividends						-149	-7	-156
Acquisition of non-controlling interest					0	0	-1	-1
Other changes		0	0			5	0	5
Transactions with owners, total		0	0		4	-143	-8	-147
Comprehensive income								
Profit for the year						102	16	117
Items that will not be reclassified subsequently to profit or loss								
Actuarial gains/losses						29		29
Items that may be reclassified subsequently to profit or loss								
Exchange differences on translating foreign operations		0	-7				-11	-17

Cash flow hedge revaluation				0				0
Revaluation of available-for-sale financial assets				1				1
Others						0		0
Tax related to comprehensive income				0		-6		-6
Total comprehensive income for the period		0	-7	1		124	5	124
Balance at 31.12.2015	**197**	**463**	**-45**	**0**	**-27**	**1,575**	**79**	**2,242**
Balance at 1.1.2016	**197**	**463**	**-45**	**0**	**-27**	**1,575**	**79**	**2,242**
Treasury shares					0			0
Share-based payments					4			4
Increase in share capital							13	13
Dividends						-248	-1	-249
Disposal of subsidiary			10			-10		
Acquisition of subsidiary and non-controlling interest		0				0	-8	-7
Other changes		0				9		9
Transactions with owners, total		0	10		4	-249	4	-231
Comprehensive income								
Profit for the year						99	15	114
Items that will not be reclassified subsequently to profit or loss								
Actuarial gains/losses						-14		-14
Items that may be reclassified subsequently to profit or loss								
Exchange differences on translation of foreign operations		0	11				0	10
Cash flow hedge revaluation				3				3
Revaluation of available-for-sale financial assets				1				1
Others						0		0
Tax related to comprehensive income				-1		3		2
Total comprehensive income for the period		0	11	3		87	15	116
Balance at 31.12.2016	**197**	**463**	**-24**	**3**	**-23**	**1,412**	**97**	**2,126**

Consolidated statement of cash flows (€ million), condensed

	1-12/ 2016	1-12/ 2015	Change,%	10-12/ 2016	10-12/ 2015	Change,%
Cash flows from operating activities						
Profit before tax	145	188	-22.8	-43	41	(..)
Depreciations according to plan	138	128	7.9	41	31	33.7
Finance income and costs	1	7	-86.1	4	-1	(..)
Other adjustments	91	40	(..)	83	18	(..)
Change in working capital						
Current non-interest-bearing receivables, increase (-)/ decrease (+)	-44	-2	(..)	84	47	80.1
Inventories, increase (-)/decrease (+)	5	-44	(..)	17	-31	(..)
Current non-interest-bearing liabilities, increase (+)/ decrease(-)	-79	7	(..)	-64	31	(..)
Financial items and tax	-87	-48	82.7	-14	-13	12.2
Net cash from operating activities	**170**	**276**	**-38.4**	**108**	**123**	**-12.6**
Cash flows from investing activities						
Investing activities	-705	-215	(..)	-98	-65	51.1
Sales of fixed assets	205	432	-52.5	172	-6	(..)
Increase in non-current receivables	-1	-1	(..)	1	0	(..)
Net cash used in investing activities	**-501**	**217**	**(..)**	**76**	**-71**	**(..)**
Cash flows from financing activities						
Interest-bearing liabilities, increase (+) /decrease (-)	59	-61	(..)	-40	-25	60.5
Current interest-bearing receivables, increase (-)/decrease (+)	2	2	15.1	1	2	-75.6
Dividends paid	-250	-156	59.9	0	-1	(..)
Equity increase	13	-	-	-	-	-
Short-term money market investments, increase (-)/ decrease (+)	365	-269	(..)	-92	52	(..)
Other items	7	19	-64.4	2	5	-65.0
Net cash used in financing activities	**196**	**-466**	**(..)**	**-131**	**33**	**(..)**
Change in cash and cash equivalents	**-135**	**28**	**(..)**	**53**	**85**	**-38.0**
Cash and cash equivalents and current portion of available-for-sale financial assets at 1 Jan.	334	313	6.6	147	254	-42.0
Currency translation difference adjustment and revaluation	2	-7	(..)	1	-5	(..)
Cash and cash equivalents and current portion of available-for-sale financial assets at 31 Dec.	201	334	-39.9	201	334	-39.9

(..) Change over 100%

Group’s performance indicators

	1-12/ 2016	1-12/ 2015	Change, pp
Return on capital employed, %	6.4	9.3	-2.9
Return on capital employed, comparable, %	11.9	11.7	0.2
Return on equity, %	5.2	5.2	0.0
Return on equity, comparable, %	9.8	8.2	1.6
Equity ratio, %	48.6	54.7	-6.0
Gearing, %	5.8	-20.0	25.8
Interest-bearing net debt/EBITDA	0.4	-1.4	1.8
			Change, %
Capital expenditure, € million	743.1	218.5	(..)
Capital expenditure, % of net sales	7.3	2.5	(..)
Earnings per share, basic, €	0.99	1.03	-3.1
Earnings per share, diluted, €	0.99	1.03	-3.1
Earnings per share, comparable, basic, €	2.01	1.70	17.9
Cash flows from operating activities, € million	170	276	-38.4
Cash flows from investing activities, € million	-501	217	(..)
Equity per share, €	20.44	21.82	-6.3
Interest-bearing net debt, € million	123	-448	(..)
Diluted number of shares, average for the reporting period, 1,000 pcs	99,249	99,114	0.1
Personnel, average	22,476	18,956	18.6

(..) Change over 100%

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
Operating profit, comparable, € million	26.5	76.4	82.5	59.1	32.3	79.1	98.2	63.3
Operating margin, comparable, %	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
Return on capital employed, comparable, %	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
Return on equity, comparable, %	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 per share, diluted, €	-1.11	1.48	0.43	0.22	0.28	0.49	0.63	-0.40
Equity per share, €	21.30	21.21	21.41	21.82	22.13	20.31	20.84	20.44

Segment information

Net sales by segment (€ million)	**1-12/ 2016**	**1-12/ 2015**	**Change,%**	**10-12/ 2016**	**10-12/ 2015**	**Change,%**
Grocery trade, Finland	5,131	4,566	12.4	1,399	1,218	14.9
Grocery trade, other countries*	105	107	-1.9	22	32	-29.9
Grocery trade, total	**5,236**	**4,673**	**12.0**	**1,422**	**1,249**	**13.8**
- of which intersegment trade	10	15	-34.3	2	3	-30.4
Building and technical trade, Finland	2,142	1,719	24.6	579	376	53.8
Building and technical trade, other countries*	1,959	1,530	28.0	542	360	50.7
Building and technical trade total	**4,100**	**3,250**	**26.2**	**1,121**	**736**	**52.3**
- of which intersegment trade	11	1	(..)	1	0	(..)
Car trade, Finland	849	748	13.5	221	177	25.0
Car trade total	**849**	**748**	**13.5**	**221**	**177**	**25.0**
- of which intersegment trade	0	0	-57.7	0	0	-19.4
Common functions and eliminations	-5	8	(..)	1	4	-81.6
Finland total	**8,117**	**7,042**	**15.3**	**2,201**	**1,775**	**24.0**
Other countries total*	**2,063**	**1,637**	**26.0**	**564**	**391**	**44.2**
Group total	**10,180**	**8,679**	**17.3**	**2,765**	**2,166**	**27.6**

(..) Change over 100%

* Net sales in countries other than Finland

Operating profit by segment (€ million)	**1-12/ 2016**	**1-12/ 2015**	**Change**	**10-12/ 2016**	**10-12/ 2015**	**Change**
Grocery trade	93.0	249.4	-156.4	-26.1	53.4	-79.5
Building and technical trade	60.8	-57.2	118.0	-11.7	-10.9	-0.8
Car trade	28.9	26.1	2.8	7.0	3.8	3.1
Common functions and eliminations	-36.0	-23.7	-12.2	-9.5	-7.1	-2.3
Group total	**146.8**	**194.6**	**-47.8**	**-40.3**	**39.3**	**-79.5**

Operating profit by segment, comparable (€ million)	**1-12/ 2016**	**1-12/ 2015**	**Change**	**10-12/ 2016**	**10-12/ 2015**	**Change**
Grocery trade	175.9	177.5	-1.5	51.9	54.5	-2.5
Building and technical trade	97.9	63.6	34.4	14.4	7.5	6.9
Car trade	29.5	26.1	3.4	7.5	3.8	3.7
Common functions and eliminations	-30.5	-22.7	-7.7	-10.5	-6.7	-3.8
Group total	**272.9**	**244.5**	**28.5**	**63.3**	**59.1**	**4.2**

Operating margin by segment, comparable (%)	**1-12/ 2016**	**1-12/ 2015**	**Change, pp**	**10-12/ 2016**	**10-12/ 2015**	**Change, pp**
Grocery trade	3.4	3.8	-0.4	3.7	4.4	-0.7
Building and technical trade	2.4	2.0	0.4	1.3	1.0	0.3
Car trade	3.5	3.5	0.0	3.4	2.1	1.2
Group total	**2.7**	**2.8**	**-0.1**	**2.3**	**2.7**	**-0.4**

Capital employed by segment, cumulative average (€ million)	**1-12/ 2016**	**1-12/ 2015**	**Change**	**10-12/ 2016**	**10-12/ 2015**	**Change**
Grocery trade	828	871	-44	812	733	79
Building and technical trade	1,000	823	177	1,177	757	421
Car trade	124	104	20	136	120	16
Group total	**2,288**	**2,083**	**204**	**2,497**	**1,907**	**590**

Return on capital employed by segment, comparable (%)	**1-12/ 2016**	**1-12/ 2015**	**Change, pp**	**10-12/ 2016**	**10-12/ 2015**	**Change, pp**
Grocery trade	21.3	20.4	0.9	25.6	29.7	-4.1
Building and technical trade	9.8	7.7	2.1	4.9	4.0	0.9
Car trade	23.8	25.2	-1.4	22.0	12.6	9.4
Group total	**11.9**	**11.7**	**0.2**	**10.1**	**12.4**	**-2.3**

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**
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**
Operating profit, comparable								
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
Operating profit, comparable	**26.5**	**76.4**	**82.5**	**59.1**	**32.3**	**79.1**	**98.2**	**63.3**
Operating margin, %, comparable	**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
Return on capital employed, comparable, %	**4.6**	**13.9**	**17.5**	**12.4**	**6.5**	**14.3**	**15.6**	**10.1**

Profit before tax, comparable								
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
Profit before tax, comparable	**26.4**	**72.7**	**78.2**	**60.6**	**34.5**	**79.2**	**97.5**	**60.2**
Profit, comparable								
Profit before tax, comparable	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
Profit, comparable	**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
Return on equity, comparable, %	**3.1**	**10.6**	**10.6**	**9.2**	**4.8**	**11.7**	**14.7**	**8.4**
Profit attributable to owners of the parent, comparable								
Profit, comparable	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
Profit attributable to owners of the parent, comparable	**18.5**	**51.9**	**52.5**	**46.1**	**26.0**	**58.6**	**72.7**	**42.1**
Average number of shares, basic, 1,000 pcs	99,024	99,084	99,104	99,114	99,163	99,221	99,240	99,249
Earnings per share, comparable, €	**0.19**	**0.52**	**0.53**	**0.47**	**0.26**	**0.59**	**0.73**	**0.42**

Capital expenditure by segment, € million	**1-12/ 2016**	**1-12/ 2015**	**Change**	**10-12/ 2016**	**10-12/ 2015**	**Change**
Grocery trade	238	129	109	50	30	20
Building and technical trade	452	55	396	24	29	-5
Car trade	41	16	25	30	5	25
Common functions and eliminations	12	18	-7	2	3	-2
Group total	**743**	**219**	**525**	**105**	**67**	**38**

Segment information by quarter

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**

Operating profit by segment, comparable, € 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**

Operating margin by segment, %, comparable	**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	3.2	3.8	3.8	4.4	2.9	3.2	3.6	3.7
Building and technical trade	-1.8	3.9	4.2	1.0	0.0	3.6	3.7	1.3
Car trade	4.7	3.4	3.5	2.1	4.2	2.7	3.6	3.4
Group total	**1.3**	**3.4**	**3.7**	**2.7**	**1.6**	**3.0**	**3.5**	**2.3**

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. In addition, Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy on 1 June 2016, and Oy Autocarrera Ab on 1 December 2016, as a result of which the import and retail business of Porsche transferred to Kesko.

	Suomen Lähikauppa € million	Onninen Group € million	Oy Auto-carrera Ab € million
Consideration paid	**54**	**364**	**27**
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**
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 arising 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 achieve annual synergies 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 arising from the acquisition is not tax deductible.

The Group's profit for January-December 2016 includes costs incurred from the 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. If the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €795 million according to management's estimates. The impact on 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

On 1 June 2016, Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy. 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 specializes in the B2B trade and has around 150 units in Finland, Sweden, Norway, Poland, the Baltic countries and Russia. Kesko's business operations expand in the HEPAC and electrical product groups and it is able to better serve contractor customers in particular. In addition, Kesko gains 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 arising 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 achieve annual synergies 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 synergies is estimated at around €25 million positive in 2016-2019. The goodwill arising from the acquisition is not tax deductible.

The Group's profit for January-December 2016 includes costs incurred from the 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. 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 according to management's estimates. The impact on 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, Kesko Corporation's subsidiary VV-Auto Group Oy has 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. In 2015, the net sales of the acquired Oy Autocarrera Ab were €49 million and the operating profit was €3.3 million. The price of the acquisition, structured as a share purchase, was €27 million.

The tables above are a condensed presentation of the consideration paid to the sellers, 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 arising 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 bring synergies to the car trade processes like purchases, store site network, logistics, ICT and administration. The goodwill arising from the acquisition is not tax deductible.

The December profit includes costs incurred from the acquisition in the amount of €0.6 million, the most significant of which is the €0.4 million asset transfer tax.

AutoCarrera contributed €4.4 million to the net sales of December. The impact on the comparable operating profit for December was €-0.0 million, adversely impacted by the fair value allocations of inventories written off in the amount of €0.1 million. If the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €45 million according to management's estimates. The impact on 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.

Change in tangible and intangible assets (€ million)

	31.12.2016	31.12.2015
Opening net carrying amount	**1,451**	**1,802**
Acquisitions	315	-
Depreciation, amortisation and impairment charges	-159	-137
Investments in tangible and intangible assets	272	206
Deductions	-22	-213
Disposals	-232	-195
Transfers to available-for-sale	-54	-
Currency translation differences	11	-13
Closing net carrying amount	**1,581**	**1,451**

Related party transactions (€ million)

The Group's related parties include its management (the Board of Directors, the Managing Director and the Group Management Board) and companies controlled by them, the Group's subsidiaries, associates and joint ventures as well as Kesko Pension Fund.

The following transactions were carried out with related parties:

	1-12/2016	1-12/2015
Sales of goods and services	78	64
Purchases of goods and services	143	14
Other operating income	13	11
Other operating expenses	66	49
Finance income and costs	6	3

	31.12.2016	31.12.2015
Receivables	66	63
Liabilities	45	23

Fair value hierarchy of financial assets and liabilities (€ million)

	Level 1	Level 2	Level 3	31.12.2016
Financial assets at fair value through profit or loss	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	97.3	59.6	15.1	171.9

Fair value hierarchy of financial assets and liabilities (€ million)

	Level 1	Level 2	Level 3	31.12.2015
Financial assets at fair value through profit or loss	215.1	159.1		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	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 values of level 3 instruments are not based on observable market data.

Personnel, average and as at 31.12.

Personnel average by segment	**1-12/2016**	**1-12/2015**	**Change**
Grocery trade	8,200	6,420	1,780
Building and technical trade	12,744	11,269	1,476
Car trade	780	780	-1
Common functions	752	487	265
Group total	**22,476**	**18,956**	**3,520**

Personnel as at 31.12.* by segment	**2016**	**2015**	**Change**
Grocery trade	10,338	8,364	1,974
Building and technical trade	15,630	12,270	3,360
Car trade	817	783	34
Common functions	871	518	353
Group total	**27,656**	**21,935**	**5,721**

* Total number including part-time employees

Group's commitments (€ million)

	31.12.2016	**31.12.2015**	**Change, %**
Own commitments	186	152	22.8
For others	20	15	35.3
Lease liabilities for machinery and equipment	33	27	23.5
Lease liabilities for real estate	2,996	2,594	15.5

Liabilities arising from derivative instruments (€ million)

Values of underlying instruments at 31.12.	31.12.2016	31.12.2015	Fair value 31.12.2016
Interest rate derivatives			
Interest rate swaps	40	100	-0,13
Currency derivatives			
Forward and future contracts	178	237	-2,69
Currency swaps	20	50	2,68
Commodity derivatives			
Electricity derivatives	11	9	-1,71

Calculation of performance indicators

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
Return on capital employed*, %, comparable	Comparable operating profit x 100 / (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for the reporting period
Return on equity*, %	(Profit/loss before tax - Income tax) x 100 / Shareholders' equity, average of the beginning and end of the reporting period
Return on equity*, %, comparable	(Profit/loss adjusted for items affecting comparability before tax - Income tax adjusted for the tax effect of items affecting comparability) x 100 / Shareholders' equity, average of the beginning and end of the reporting period
Equity ratio, %	Shareholders' equity x 100 / (Total assets - Prepayments received)
Earnings/share, diluted	(Profit/loss - Non-controlling interests) / Average diluted number of shares
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
Gearing, %	Interest-bearing net liabilities x 100 / Shareholders' equity
Interest-bearing net debt	Interest-bearing liabilities – Financial assets at fair value through profit or loss – Available-for-sale financial assets - Cash and cash equivalents

EBITDA	Operating profit + Depreciation, amortisation and impairment
Interest-bearing net debt/ EBITDA	Interest-bearing net debt/ EBITDA

* Indicators for return on capital have been annualized.

K-Group's retail and B2B sales*, VAT 0% (preliminary data):

	1.1.-31.12.2016		1.10.-31.12.2016	
K-Group's retail and B2B sales	**€ million**	**Change, %**	**€ million**	**Change, %**
K-Group's grocery trade				
K-food stores, Finland	4,636	2.4	1,242	6.7
K-Citymarket, non-food	575	-0.1	180	1.2
Suomen Lähikauppa	453	-	109	-
Kespro	797	1.5	201	-0.4
K-ruoka, Russia	104	-1.9	22	-29.9
Grocery trade, total	**6,566**	**9.6**	**1,755**	**11.4**
K-Group’s building and technical trade				
K-Rauta and Rautia	1,012	1.8	225	-1.1
Rautakesko B2B Service	225	17.3	55	11.7
Onninen	481	-	208	-
K-maatalous	424	-3.1	103	-8.3
Machinery trade, Finland	144	-6.6	24	-16.4
Speciality goods trade, Finland	484	1.2	130	5.0
Finland, total	**2,770**	**19.3**	**745**	**36.9**
Building and technical trade, other Nordic countries	1,183	34.8	340	60.0
Building and technical trade, the Baltic countries	677	14.3	168	17.0
Building and technical trade, other countries	399	24.4	123	57.4
Building and technical trade, total	**5,028**	**22.3**	**1,377**	**40.6**
K-Group's car trade				
VV-Autotalot	429	14.9	111	20.7
VV-Auto, import	436	9.7	108	18.1
AutoCarrera	4	-	4	-
Car trade, total	**869**	**12.8**	**224**	**21.8**
Finland, total	**10,100**	**12.5**	**2,702**	**18.9**
Other countries, total	**2,362**	**24.6**	**653**	**40.2**
Retail and B2B sales, total	**12,463**	**14.6**	**3,355**	**22.5**