KESKO ANNUAL REPORT

FINANCIAL REVIEW

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Kesko's Annual Report 2019 has four sections. This section comprises the Report by the Board of Directors, the Group's key performance indicators, and the financial statements and Auditor's Report for 2019.

The following symbols indicate that additional information can be found either in this report or on our website:

Read more in the Annual Report

Read more on our website

THE REPORT BY THE BOARD OF DIRECTORS

Kesko is a Finnish listed company that operates in the grocery trade, the building and technical trade, and the car trade. Kesko has around 1,800 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Belarus and Poland.

Kesko's principal business model on the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 45% of the Group's net sales in 2019. B2B trade is a significant and growing part of Kesko's business operations and it accounted for 37% of the Group's net sales in 2019. Kesko's own retailing accounted for 18% of Group net sales.

Kesko's operations are founded on professional and committed personnel across the value chain, a strong K brand, high-quality store site network and electronic services, efficient purchasing and logistics operations and information systems, and stable finances. Kesko creates value to all its stakeholders: customers, personnel, shareholders, retailers, product and service suppliers, municipalities and states. To customers, Kesko offers the products and services they need. The products are well researched, safe and responsibly manufactured. To shareholders, Kesko is a financially sound listed company and a responsible investment with a good dividend capacity. Kesko is a significant employer, tax payer and service provider. Kesko also requires its partners commit to responsible operations.

Operating environment

Identified megatrends affecting K Group's operations are global economy, digital revolution, demographic changes (urbanisation, growth in single-person households, population ageing), increased consumer knowledge and power, sustainability and climate change. Key operating opportunities and risks are related to the increased importance of a digital and multi-channel approach to trade, the economic operating environment, the supply chain, and the impacts of climate change. Risks have been described in more detail in the Significant risks and uncertainties section of this Board of Directors' Report.

Financial performance for continuing operations

Net sales and profit for 2019

The net sales for the Group's continuing operations in 2019 totalled €10,720.3 million, which is 3.3% up on the corresponding period of the previous year (€10,382.8 million). In comparable terms, net sales increased by 1.4% in local currencies, excluding the impact of acquisitions and divestments. Net sales grew in the grocery trade and building and technical trade, but decreased in the car trade and – following divestments in the machinery trade – in the speciality goods trade. The Group's net sales increased by 1.6% in Finland, or by 1.1% in comparable terms. In other countries, net sales increased by 9.8%, or by 2.6% in comparable terms. International operations accounted for 21.8% (20.5%) of the Group's net sales.

Net sales for the grocery trade grew by 2.7%, or by 3.2% in comparable terms. Net sales grew in all food store chains and Kespro. The comparable change has been calculated by including in the net sales those stores acquired from Suomen Lähikauppa which have been in the store network during both this reporting year as well as the comparison year, and by including in the net sales the comparable months of Reinin Liha and Kalatukku E. Eriksson, both acquired in 2018.

In the building and technical trade, net sales grew by 5.6%. In comparable terms, net sales grew by 2.1%. The net sales for the building and technical trade excluding the speciality goods trade increased by 6.9%, or by 2.7% in comparable terms. Net sales grew in comparable terms in Finland, the Baltics and Belarus. In Norway and Sweden, net sales increased due to the acquisitions completed. The comparable change % has been calculated in local currencies and by including in the net sales the comparable months of Skattum Handel AS, Gipling AS and 1A Group, all acquired in 2018, and by excluding the impact of the acquisitions of the DIY business of Sørbø on 31 January 2019 and Fresks Group on 17 May 2019, as well as the impact of the divestment of Onninen AB's HEPAC contractor business on 15 May 2019. Net sales for the speciality goods trade decreased by 7.5%, or by 3.7% in comparable terms. The comparable change % has been calculated by excluding the impact of the Finnish agricultural machinery trade, divested on 1 August 2019.

In the car trade, net sales decreased by 3.3%, or by 11.6% in comparable terms. Demand in the consumer market in 2019 was affected by uncertainties regarding car taxation and debate over motive power choices as well as changes related to WLTP emissions testing. The comparable change % has been calculated by excluding the impact of the car trade businesses acquired from Huittisten Laatuauto and LänsiAuto on 1 March 2019, and the Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group on 1 July 2019.

Reinin Liha and Kalatukku E. Eriksson became part of Kesko Group's foodservice wholesale company Kespro following acquisitions completed on 1 June 2018 and 2 July 2018, respectively. Kesko Corporation's subsidiary Byggmakker Handel AS took over the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS, which previously operated Byggmakker stores under the retailer business model, on 2 July 2018 and 23 July 2018, respectively. Kesko Senukai assumed ownership of 1A Group, an online retail company operating in the Baltic States, on 1 October 2018. On 31 January 2019, Kesko Corporation subsidiaries Skattum Handel AS and Rake Eiendom AS assumed ownership of the DIY retail business and properties of the Sørbø retailer group in Norway, which had been operating Byggmakker stores under the retailer business model. K-Caara assumed ownership of car trade businesses acquired from Huittisten Laatuauto and LänsiAuto on 1 March 2019. Kesko Corporation's subsidiary K-rauta AB assumed ownership of the Swedish building and home improvement group Fresks on 17 May 2019. Fresks strengthens Kesko's position in Sweden, especially in the professional builders customer segment. The divestment of Onninen AB's HEPAC contractor business was completed on 15 May 2019. K-Caara assumed ownership of the Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group on 1 July 2019. The Finnish agricultural machinery trade operations were divested on 1 August 2019.

The Group's comparable operating profit for continuing operations totalled €461.6 million (€428.5 million). Profitability improved in the grocery trade due to good sales performance and improved operational efficiency. The comparable operating profit for the building and technical trade grew in Finland, Sweden, Norway and Belarus. Profitability in Norway and Sweden improved due to acquisitions and divestments carried out. In the Baltic States, the comparable operating profit fell short of the level of the comparison period. The acquisitions carried out in 2018 and the first half of 2019 accounted for €13.4 million (€2.1 million) of the comparable operating profit for the building and technical trade. The comparable operating profit for the car trade was down by €8.5 million due to a decline in net sales.

1–12/2019	Net sales, € million	Change %	Change, comparable, %	Operating profit, comparable € million	Change, € million
Grocery trade	5,531.2	+2.7	+3.2	327.9	+33.4
Building and technical trade excl. speciality goods trade	3,984.5	+6.9	+2.7	133.3	+15.7
Speciality goods trade	346.7	-7.5	-3.7	9.5	+0.2
Building and technical trade total	4,331.1	+5.6	+2.1	142.8	+16.0
Car trade	863.9	-3.3	-11.6	26.8	-8.5
Common functions and eliminations	-5.9	(..)	(..)	-35.9	-7.8
Total	**10,720.3**	**+3.3**	**+1.4**	**461.6**	**+33.1**

(..) change over 100%

Operating profit totalled €447.8 million (€404.3 million). Items affecting comparability totalled €-13.8 million (€-24.2 million). The most significant items affecting comparability were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in the building and technical trade in Sweden, the €4.3 million costs related to acquisitions, and the net €+4.8 million items related to the subsidiary consolidation of Kruunuvuoren Satama Oy. The most significant items affecting comparability in the comparison period were the €7.6 million costs related to conversions of Suomen Lähikauppa's chains and changes in the store site network, the €8.1 million costs in building and technical trade related to acquisitions and divestments and structural changes in the Swedish operations, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million.

Items affecting comparability, € million	1–12/2019	1–12/2018
Comparable operating profit	**461.6**	**428.5**
Items affecting comparability		
+gains on disposal	4.6	6.7
-losses on disposal	-0.9	-0.1
-impairment charges	-	-5.6
+/-structural arrangements	-17.5	-25.3
Total items affecting comparability	-13.8	-24.2
Operating profit	**447.8**	**404.3**

The comparable profit before tax for the Group's continuing operations totalled €370.7 million (€325.2 million). The profit before tax for the Group's continuing operations totalled €403.3 million (€294.5 million). The earnings per share for the Group's continuing operations were €3.31 (€2.16), and the comparable earnings per share €2.97 (€2.45). The Group's equity per share was €20.44 (€19.33).

K Group's (Kesko and chain stores) retail and B2B sales (VAT 0%) totalled €13,340.8 million, which is a growth of 1.8% compared to the previous year (pro forma). The K-Plussa customer loyalty programme added 98,902 new households between January and December 2019. The number of K-Plussa households stood at 2.4 million at the end of December and there were 3.5 million K-Plussa cardholders in total.

Finance

The Group's cash flow from operating activities for continuing operations totalled €893.1 million (€748.4 million). The cash flow from operating activities excluding the impact of IFRS 16 was €564.8 million (€437.1 million). Cash flow was strengthened by improved capital efficiency, the €48.3 million (€57.8 million) return of surplus assets paid by Kesko Pension Fund in March 2019, the dividend payment and repayment of capital by Kruunuvuoren Satama Oy in May 2019 totalling €44.1 million, and the dividend of €39.3 million paid by the associate Valluga-sijoitus Oy in H2/2019. The cash flow from operating activities for discontinued operations totalled €3.5 million (€-23.3 million). The Group's cash flow from operating activities totalled €896.6 million (€725.2 million).

The Group's cash flow from investing activities totalled €-616.8 million (€-209.0 million). Kruunuvuoren Satama Oy's ownership arrangement had a €-84.6 million impact on the cash flow from investing activities. Cash flow from investing activities for the comparison year includes the €161.3 million transaction price obtained from the divestment of properties in Russia.

The Group had liquid assets of €169.0 million at the end of the 2019 (€249.6 million). Interest-bearing liabilities at the end of December totalled €3,037.3 million (€2,700.3 million), and interest-bearing net debt €2,868.4 million (€2,450.7 million), of which lease liabilities accounted for €2,422.2 million (€2,289.0 million). Interest-bearing net debt excluding lease liabilities totalled €446.1 million (€161.6 million). The equity ratio was 31.2% (31.9%) at the end of the financial year.

The net finance costs for the Group's continuing operations totalled €91.4 million (€99.7 million), including interests on lease liabilities of €95.4 million (€98.6 million). The share of result of associates and joint ventures was €46.8 million (€-10.1 million). Kruunuvuoren Satama Oy had a €17.8 million impact on the result of associates and joint ventures and a €0.3 million impact on the comparable share of result, taking into account the sales gains and impairment charges related to Kruunuvuoren Satama Oy's ownership arrangement, net €17.4 million. Kruunuvuoren Satama Oy was consolidated in Kesko Group as an associate until 14 June 2019, after which it has been consolidated as a subsidiary in the consolidated financial statements. Other associates had a combined impact of €29.1 million on the result of associates and joint ventures and the impact on the comparable share of result was €0.3 million excluding the sales gains amounting to €28.7 million included in the results of associates and reported as items affecting comparability. Kesko and Oriola's joint venture, the Hehku wellbeing chain, had an impact of €-11.2 million of the share of result of the previous year.

Taxes

The taxes for the Group's continuing operations totalled €69.6 million (€62.1 million). The effective tax rate was 17.3% (21.1%), impacted by the share of result of associates and joint ventures.

Capital expenditure

The capital expenditure for the Group's continuing operations totalled €686.1 million (€417.6 million), or 6.4% (4.0%) of net sales. Capital expenditure in store sites totalled €227.7 million (€111.8 million), in acquisitions €290.5 million (€172.0 million), and in IT €33.9 million (€48.8 million) and other capital expenditure totalled €134.0 million (€85.1 million). Kruunuvuoren Satama Oy's ownership arrangement had an €85.3 million impact on capital expenditure in store sites.

Discontinued operations

The Russian building and home improvement trade operations, discontinued in 2018, are reported as discontinued operations in the consolidated financial statements, and are not included in the figures for the Group's continuing operations or the figures for the building and technical trade for the financial year or the comparison period in this financial statements release. The dissolution of the Russian subsidiaries was completed during the financial year.

Segments

Seasonal nature of operations

The Group's operating activities are affected by seasonal fluctuations. The net sales and the operating profits of the reportable segments are not earned evenly throughout the year. Instead, they vary by quarter depending on the characteristics of each segment. In terms of the level of operating profit, the second and third quarter are the strongest, whereas the impact of the first quarter on the full year profit is the smallest. The acquisitions of Suomen Lähikauppa, Onninen and the Norwegian Skattum Handel AS, Gipling AS and the DIY retail business of Sørbø and the Swedish Fresks Group have increased seasonal fluctuations between quarters. The operating profit levels of these companies are at their lowest in the first quarter.

Grocery trade

	1–12/2019	1–12/2018
Net sales, € million	5,531.2	5,385.7
Operating profit, comparable, € million	327.9	294.5
Operating margin, comparable, %	5.9	5.5
Return on capital employed, comparable, %	14.5	13.1
Capital expenditure, € million	180.8	124.1
Personnel, average	6,063	6,094

Net sales, € million	1–12/2019	1–12/2018	Change, %
Sales to K-food stores			
K-Citymarket, food	1,150.4	1,108.1	+3.8
K-Supermarket	1,417.0	1,377.4	+2.9
K-Market*	1,336.3	1,250.6	+6.9
K-Citymarket, non-food	584.6	581.2	+0.6
Kespro	944.9	871.5	+8.4
Others and eliminations	98.0	196.9	-50.2
Total	**5,531.2**	**5,385.7**	**+2.7**

* The comparable change in net sales attributable to K-Market was +5.3%.

The net sales for the grocery trade amounted to €5,531.2 million (€5,385.7 million), an increase of 2.7%. Net sales grew in all food store chains and Kespro. Net sales development in the K-Market chain was affected by changes in Suomen Lähikauppa's store site network and the transfer of stores to retailers in the first half of 2018. In comparable terms, net sales grew by 3.2%. The comparable change has been calculated by including in the net sales those stores acquired from Suomen Lähikauppa which have been in the store network during both this reporting year as well as the comparison year and by including in the net sales the comparable months of Reinin Liha and Kalatukku E. Eriksson, both acquired in 2018.

The total grocery market in Finland (incl. VAT) is estimated to have grown by approximately 2.6% (Kesko's own estimate) and retail prices are estimated to have risen by some 1.4% (incl. VAT, Kesko's own estimate based on the price development estimate of the Finnish Grocery Trade Association). K Group's grocery sales grew by 3.7% (incl. VAT), thus clearly exceeding the market growth. K Group's sales grew in all food store chains.

The comparable operating profit for the grocery trade amounted to €327.9 million (€294.5 million), an increase of €33.4 million. Profitability improved in the grocery trade following good sales performance due to the redesign of the store site network and store-specific business ideas, and improved operational efficiency.

Operating profit for the grocery trade totalled €334.6 million (€285.9 million). Items affecting comparability totalled €6.7 million (€-8.7 million). Profits affecting comparability of €5.9 million are related to the consolidation of Kruunuvuoren Satama Oy. Items affecting comparability in the comparison year were mainly related to the restructuring of Suomen Lähikauppa, €-7.6 million.

Capital expenditure for the grocery trade totalled €180.8 million (€124.1 million), of which €157.0 million (€89.5 million) was in store sites. Kruunuvuoren Satama Oy's share of capital expenditure in store sites was €62.8 million. Store redesigns and expansions accounted for 73% of other capital expenditure in store sites.

Building and technical trade

	1–12/2019	1–12/2018
Net sales, € million	**4,331.1**	**4,102.6**
Building and technical trade excl. speciality goods trade	3,984.5	3,728.0
Speciality goods trade	346.7	374.6
Operating profit, comparable, € million	**142.8**	**126.8**
Building and technical trade excl. speciality goods trade	133.3	117.5
Speciality goods trade	9.5	9.3
Operating margin, comparable, %	**3.3**	**3.1**
Building and technical trade excl. speciality goods trade	3.3	3.2
Speciality goods trade	2.7	2.5
Return on capital employed, comparable, %	7.4	7.9
Capital expenditure, € million	332.7	200.7
Personnel, average	12,630	11,668

Net sales, € million	1–12/2019	1–12/2018	Change, %
Building and home improvement trade, Finland	908.4	892.1	+1.8
K-Rauta, Sweden	163.7	174.6	-6.3
K-Bygg, Sweden	132.8	-	-
Byggmakker, Norway	386.9	370.4	+4.4
Kesko Senukai, Baltics	715.5	602.1	+18.8
OMA, Belarus	146.6	128.2	+14.4
Onninen, Finland	909.6	881.4	+3.2
Onninen, Sweden	121.2	150.9	-19.7
Onninen, Norway	237.8	251.9	-5.6
Onninen, Baltics	85.2	77.2	+10.4
Onninen, Poland	237.2	239.0	-0.7
Building and technical trade excl. speciality goods trade total	**3,984.5**	**3,728.0**	**+6.9**
Leisure trade, Finland	203.7	201.6	+1.1
Machinery trade	143.0	173.0	-17.4
Speciality goods trade total	**346.7**	**374.6**	**-7.5**
Total	**4,331.1**	**4,102.6**	**+5.6**

Net sales for the building and technical trade totalled €4,331.1 million (€4,102.6 million), up by 5.6%. In comparable terms, net sales grew by 2.1%. Net sales grew in comparable terms in Finland, the Baltics and Belarus. In Norway and Sweden, net sales increased due to the acquisitions and divestments completed.

The comparable change % has been calculated in local currencies and by including in the net sales the comparable months of Skattum Handel AS, Gipling AS and 1A Group, all acquired in 2018, and excluding the impact of the acquisitions of the DIY business of Sørbø on 31 January 2019 and Fresks Group on 17 May 2019, as well as the impact of the divestments of Onninen AB's HEPAC contractor business on 15 May 2019 and the Finnish agricultural machinery trade on 1 August 2019.

On 31 January 2019, Kesko Corporation subsidiaries Skattum Handel AS and Rake Eiendom AS assumed ownership of the DIY retail business and properties of the Sørbø retailer group in Norway, which had been operating Byggmakker stores under the retailer business model. Kesko Corporation's subsidiary K-rauta AB assumed ownership of Fresks Group on 17 May 2019. A new K-Bygg brand, aimed at professional builders, was launched in Sweden, and Fresks stores serve customers under the new brand. The Finnish agricultural machinery trade operations were divested on 1 August 2019.

In Finland, net sales for the building and technical trade totalled €1,991.6 million (€1,972.0 million), up by 1.0%. In comparable terms, net sales increased by 1.5% in Finland. Net sales from foreign operations amounted to €2,339.6 million (€2,130.6 million) in January-December, an increase of 9.8%. In comparable terms, net sales from foreign operations were up by 2.6%. Foreign operations contributed 54.0% (51.9%) of the net sales for the building and technical trade.

Net sales for the building and technical trade excluding the speciality goods trade totalled €3,984.5 million (€3,728.0 million) in January-December, an increase of 6.9%. In comparable terms, net sales grew by 2.7%.

Net sales for the building and home improvement trade totalled €2,447.8 million (€2,161.8 million), an increase of 13.2%. In comparable terms, net sales grew by 3.3%. Net sales in Finland grew by 1.8% and in the Baltics by 18.8% Net sales increased in local currencies in Belarus by 11.4%, in Norway by 7.2% and in Sweden by 75.1%. In comparable terms, net sales increased by 1.3% in Finland and by 13.3% in the Baltics, and decreased by 3.3% in Sweden and by 7.8% in Norway.

Onninen's net sales amounted to €1,587.7 million (€1,597.3 million), a decrease of 0.6%. In comparable terms, net sales increased by 3.0%. Net sales in Finland grew by 3.2% and in the Baltics by 10.4%. In Poland, net sales in local currency were at the same level as the year before. Net sales decreased in local currencies in Norway by 3.1% and in Sweden by 17.1%. In comparable terms, net sales in Sweden grew by 20.8%, taking into account the divestment of the HEPAC contractor business during the financial year.

Net sales for the speciality goods trade amounted to €346.7 million (€374.6 million) in January-December, a decrease of 7.5%. In comparable terms, net sales decreased by 3.7%. The comparable change % has been calculated by excluding the impact of the Finnish agricultural machinery trade, divested on 1 August 2019. Net sales for the leisure trade totalled €203.7 million (€201.6 million), an increase of 1.1%. Net sales for the machinery trade totalled €143.0 million (€173.0 million) in January-December, down by 17.4%. Net sales for the machinery trade in Finland totalled €13.4 million (€28.2 million), down by 52.5%. The net sales from foreign operations totalled €129.6 million (€144.8 million), down by 10.5%.

The comparable operating profit for the building and technical trade totalled €142.8 million (€126.8 million), up by €16.0 million compared to the previous year. The comparable operating profit for the building and technical trade, excluding the speciality goods trade, totalled €133.3 million (€117.5 million), an increase of €15.7 million. The comparable operating profit for the building and home improvement trade totalled €83.3 million (€72.5 million), up by €10.8 million. Comparable operating profit grew in the building and home improvement trade in Finland, Norway, Sweden and Belarus. Profitability in Norway and Sweden improved due to acquisitions and divestments carried out. In the Baltic States, the comparable operating profit fell short of the level of the comparison period. The acquisitions carried out in 2018 and the first half of 2019 accounted for €13.4 million (€2.1 million) of the comparable operating profit. Onninen's comparable operating profit totalled €50.0 million (€45.0 million). Onninen's comparable operating profit grew in Finland, Sweden and Poland.

In the Baltics, Onninen's comparable operating profit remained at level of the previous year. The comparable operating profit for the speciality goods trade totalled €9.5 million (€9.3 million).

Operating profit of the building and technical trade totalled €127.6 million (€113.3 million). Items affecting comparability totalled €-15.3 million (€-13.5 million). The most significant items affecting comparability were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in Sweden. The most significant items affecting comparability in the comparison period were the €8.1 million costs related to acquisitions and the restructuring of operations in Sweden, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million.

Capital expenditure for the building and technical trade totalled €332.7 million (€200.7 million), of which €60.2 million (€21.8 million) was in store sites and €233.2 million (€159.0 million) in acquisitions. Kruunuvuoren Satama Oy's share of capital expenditure in store sites was €22.4 million. During the reporting year, the acquisitions of Sørbø's DIY retail business in Norway and Fresks Group in Sweden were completed.

Car trade

	1–12/2019	1–12/2018
Net sales, € million	863.9	893.1
Operating profit, comparable, € million	26.8	35.2
Operating margin, comparable, %	3.1	3.9
Return on capital employed, comparable, %	9.5	20.8
Capital expenditure, € million	131.3	49.0
Personnel, average	1,179	835

Net sales, € million	1–12/2019	1–12/2018	Change, %
K-Auto	816.1	830.9	-1.8
AutoCarrera	49.5	63.1	-21.5
Total	**863.9**	**893.1**	**-3.3**

Net sales for the car trade totalled €863.9 million (€893.1 million), a decrease of 3.3%. In comparable terms net sales decreased by 11.6%. Demand in the consumer market in 2019 was affected by uncertainties regarding car taxation and debate over motive power choices as well as changes related to WLTP emissions testing. The comparable change % has been calculated by excluding the impact of the car trade businesses acquired from Huittisten Laatuauto and LänsiAuto on 1 March 2019, and the Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group on 1 July 2019.

The combined market performance of first registrations of passenger cars and vans was -5.4% (1.3%). The combined market share of the Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen and MAN vans imported by the car trade division was 16.9% (18.5%).

The comparable operating profit for the car trade totalled €26.8 million (€35.2 million), down by €8.5 million due to the decline in net sales. The comparable operating profit for AutoCarrera totalled €1.1 million (€4.5 million).

Operating profit for the car trade totalled €25.5 million (€35.1 million). Items affecting comparability totalled €-1.2 million (€-0.1 million), related to the efficiency improvement measures and structural arrangements carried out.

Capital expenditure for the car trade totalled €131.3 million (€49.0 million). The acquisitions of car trade businesses from Huittisten Laatuauto and LänsiAuto and the Volkswagen, Audi and SEAT businesses of Laakkonen Group totalled €57.4 million. Capital expenditure includes cars obtained for the leasing fleet and rental cars sold with repurchase commitments.

Changes in Group composition

Kesko Corporation's subsidiary Byggmakker completed the acquisition of the DIY retail business of Sørbø Trelast AS and Tau & Jørpeland Bygg AS. The transaction included two Byggmakker stores and a B2B logistics centre in Norway.

Kesko Group company K Caara Oy completed the acquisition of Volkswagen and SEAT businesses from Huittisten Laatuauto Oy in Forssa and Huittinen, and Volkswagen, Audi and SEAT businesses from LänsiAuto Oy in Kotka, Kouvola and Lappeenranta.

Kesko Group company K-rauta AB completed the acquisition of Fresks Group from Litorina, Oscarson Invest and the group's management. Fresks Group is a significant operator in the Swedish builders' merchant business. The acquisition significantly strengthens Kesko's market position in Sweden, especially in the growing professional builders customer segment.

Kruunuvuoren Satama Oy became a wholly-owned subsidiary of Kesko Corporation on 14 June 2019 when Kesko Corporation, Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company carried out their agreement to dissolve their joint ownership of Kruunuvuoren Satama Oy.

Kesko Group company K Caara Oy completed the acquisition of the Volkswagen, Audi and SEAT businesses of Laakkonen Group.

Kesko Group company Konekesko Oy sold its Finnish agricultural machinery trade operations to Danish Agro Machinery's Finnish subsidiary Finnish Agro Machinery.

Main objectives and results achieved in sustainability

Key commitments, policies and principles

Corporate responsibility is a strategic choice for us and it is integrated into our day-to-day activities. Kesko's operations are based on its value, vision and mission. Our corporate responsibility work is guided by Kesko's sustainability strategy, responsibility programme, general corporate responsibility principles, the K Code of Conduct, and our ethical purchasing principles.

Key group-level policies guiding Kesko's operations include Kesko's risk management policy, treasury policy, data protection policy, information security policy, security policy, environmental and energy policy, HR policy and ethical principles for utilising artificial intelligence.

Kesko pays special attention to data protection. We make sure all personal data are secure and used confidentially. Kesko has established processes for handling requests for action and mechanisms for identifying and reporting information leaks.

Kesko is committed to promoting the UN's Sustainable Development Goals (SDG) in its operations. For Kesko and its stakeholders, the three key goals are Responsible consumption, Decent work and economic growth, and Climate action. In accordance with its human rights commitment, Kesko respects all internationally recognised human rights.

Kesko's responsibility programme contains both short-term and long-term objectives. The programme has six themes: Good corporate governance and finance, Customers, Society, Working community, Responsible purchasing and sustainable selections, and Environment.

Since 2000, Kesko has reported on its actions annually in accordance with the Global Reporting Initiative (GRI) guidelines for sustainability reporting. The Sustainability section of Kesko's Annual Report is prepared in accordance with the GRI Standards: Core option, and covers the key areas of economic, social and environmental responsibility. Kesko's sustainability principles, management, objectives, processes and results are described in more detail in Kesko's Annual Report.

Kesko in sustainability indices

As a result of its long-term commitment to corporate responsibility work, Kesko is listed on several major sustainability indices, such as the Dow Jones Sustainability Indices the DJSI World and the DJSI Europe, the FTSE4Good Index and the STOXX Global ESG Leaders Index.

Kesko ranked 99th on the Global 100 list of the Most Sustainable Corporations in the World in 2020 (88th in 2019). Kesko is the only company from the Food and Beverage Retail sector to have made it onto the list in 2020.

In September 2019, Kesko was included in the Dow Jones Sustainability Indices, the DJSI World and the DJSI Europe. Kesko received the industry best overall score in the Environmental Dimension, and the industry best score in Privacy Protection in the Economic Dimension. Kesko has previously been included in the DJSI in 2003–2014 and 2017–2018.

Human rights and purchasing

In September 2016, Kesko published its human rights commitment and impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights. The human rights assessment is reviewed every three years by the Group's Corporate Responsibility Management Team – the most recent review took place in autumn 2019.

In accordance with its human rights commitment, Kesko respects all internationally recognised human rights. Kesko's purchasing is guided by Kesko's ethical principles for purchasing, which are based on the fundamental rights at work accepted by the International Labour Organisation (ILO), the UN Declaration of Human Rights, and the UN Convention on the Rights of the Child.

According to Group guidelines, a K Code of Conduct contract clause is to be added to all agreements under which the Kesko Group companies purchase products or services from external parties.

In terms of purchasing chains, Kesko pays special attention to human rights issues and working conditions in high-risk countries. Kesko utilises international social responsibility assessment systems in the assessment of suppliers in high-risk countries, primarily amfori BSCI auditing. Kesko is a member of amfori and part of the amfori Business Social Compliance Initiative (BSCI). Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included within the scope of social responsibility audits or that start the process when the cooperation begins.

Kesko employs sustainability policies to guide the sourcing of products containing raw materials identified as critical from a social and environmental responsibility perspective. At the end 2019, Kesko had nine sustainability policies, the most recent of which was the cocoa policy published in spring 2019.

Kesko has joined the 2018 Accord on Fire and Building Safety in Bangladesh to improve the safety of factories in the country. Kesko is a member of the Centre for Child Rights and Corporate Social Responsibility (CCR CSR) based in China. In 2019, Kesko together with CCR CSR opened a summer day care facility for the children of migrant workers at a LED site lighting factory in China.

Product safety

Kesko and K Group stores together with suppliers are responsible to the products' end-users for ensuring that the products comply with all the requirements of Finnish and EU legislation, are safe for users and meet quality promises. Product labelling complies with legislative requirements and the recommendations of authorities. All food product operations have a self-control plan in place, as required by law.

The assessment of the health and safety impacts of products is part of the operations of the Product Research Unit of Kesko's grocery trade. The manufacturers of Kesko's own brand food products are required to have international certifications that assure product safety. The standards approved by Kesko's grocery trade include BRC, IFS, FSSC 22000 and GlobalGAP. The Product Research Unit's laboratory monitors the product safety and quality of the own brand products and own imports in the grocery trade. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

Climate and environment

K Group's environmental and energy policy guides the operations of Kesko Group and K Group stores in all operating countries. Kesko's key business partners are expected to observe corresponding environmental management principles.

Kesko's most significant direct environmental impacts are related to emissions from the generation of electrical and heat energy on properties, emissions from transport, and waste produced in storage functions and at the stores. The biggest indirect impacts are related to the manufacture, use and disposal of the products sold. Kesko's grocery trade plays a significant role in reducing food waste through cooperation with the whole food chain, from primary production to the end user.

Kesko is committed to international climate summit goals regarding the mitigation of global warming, and has set Science Based Targets for emissions from its operations and supply chain. Kesko has committed to reducing its direct and indirect (Scope 1 and 2) emissions by 18% by 2025, using a 2015 base year. Kesko has also committed to reducing other indirect emissions in its supply chain so that 90% of its key suppliers will set emissions reduction targets by 2025.

Kesko participates in efforts to mitigate climate change by increasing the purchase of renewable energy and its own energy production and by promoting energy efficiency. Kesko participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement, according to which Kesko commits to reducing its energy consumption through various savings measures by 7.5%.

All electricity purchased by Kesko for K-stores and other Kesko properties in Finland is produced with renewable energy. As part of its energy strategy, Kesko is building solar power plants at its stores and properties. At the end of 2019, K Group stores and properties hosted 34 solar power plants, with a combined power of some 12 MWp.

During 2019, we began extensive work to identify sustainable products from a climate perspective in each division. Sustainable products by our classification are those with a markedly smaller climate impact than that of comparable products and products that are significant in adjusting to climate change. Our objective is to monitor and report the sales of sustainable products.

Climate related risks and opportunities

Kesko regularly assesses risks related to climate change as part of its responsibility risk assessment. The most significant risks are reported to Kesko's Board of Directors and the market as part of the Group's risk management steering and management model.

Climate change related transition risks for Kesko are increasing regulation, which necessitates changes in business operations and leads to additional costs, and in the longer term, changes in consumer behaviour that require changes to business models. Increase in extreme weather phenomena is a physical risk that impacts product availability and causes disturbances in logistics and the store site network.

Identified opportunities related to climate change are products that are sustainable from a climate perspective, new business models related to mobility, products and services that improve energy-efficiency, and promoting circular economy.

Financing linked to sustainability targets

In October 2019, Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million, and has the possibility to draw down more later on.

Personnel

The average number of personnel for the Group's continuing operations was 20,846 (19,579), converted into full-time employees. The growth in personnel numbers is attributable to the acquisitions carried out in Finland, Sweden and Norway. At the end of December 2019, the number of personnel for the Group's continuing operations totalled 25,168 (23,401), of whom 12,657 (11,878) worked in Finland and 12,511 (11,523) outside Finland.

Professional and committed personnel forms the foundation for operations. Kesko's HR management is guided by Kesko's HR policy, the K Code of Conduct and common operating principles. Kesko's HR principles provide guidelines for the practical implementation of HR policy. Each immediate manager is the employer's representative in HR matters.

To ensure the implementation of Kesko's strategy, the company's methods for target setting, performance management, personnel development and remuneration are based on management by information. Personnel recruitments are based on need, an approved resourcing plan, and identified upcoming changes. The most suitable person is selected for each job, and external evaluations are used to support recruitment for specific positions.

Personnel satisfaction and wellbeing are measured, and development measures are planned at various organisational levels based on the results. Proactive management of personnel wellbeing and working capacity is used to reduce the number of absences due to sickness and to prevent occupational injuries and premature retirement due to disability.

In accordance with the non-discrimination plan, Kesko has established a working group comprising representatives of the employer, personnel and the labour protection function, to handle matters related to non-discrimination and equality within the Group. Combatting discrimination is at the core of the group's activities. The working group reviews e.g. recruitment, career development and training, remuneration and the reconciliation of work and family life.

Compliance programmes

Risks related to compliance with laws and Kesko's operating principles are surveyed and prioritised regularly between the Group's legal affairs, risk management and business operations. Based on a prioritisation of risks, Kesko's Governance, Risk and Compliance (GRC) steering group determines the necessary Group or division-specific compliance programmes, which are confirmed by the Group's management and reported to the Audit Committee of Kesko's Board of Directors. The GRC steering group monitors changes in risks related to compliance with laws and operating principles, and guides and controls the implementation of the Group's compliance programmes.

Prevention of corruption and bribery

The K Code of Conduct is a means to ensure that everyone at Kesko has the same understanding of the values and principles that guide their daily work. K Code of Conduct has been published in nine languages and the principles are the same for all Kesko employees in all our operating countries, and it lays out what is expected of Kesko employees and business partners, for example, in the areas of human rights, environmental care and fair competition.

Kesko's attitude to bribery is absolutely uncompromising. ”We do not offer or accept bribes” and ”We comply with the Kesko policies on hospitality and gifts” are key statements of the K Code of Conduct.

All Kesko Group personnel are obliged to confirm annually their commitment to comply with the K Code of Conduct. Kesko's Legal Affairs, Risk Management and Internal Audit organise training on the K Code of Conduct. Kesko Group's Internal Audit monitors and ensures the functioning and efficiency of management, supervision, risk management and corporate governance in Kesko Group. Kesko's Internal Audit pays special attention to the efficiency of controls that prevent malpractice and financial losses.

Employees can present questions and ideas for development through their manager as well as anonymously using an electronic discussion channel.

SpeakUp is a confidential reporting channel for both Kesko's partners and personnel, meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to Kesko's persons in charge. The SpeakUp channel can also be used to report suspected breach of securities market regulation.

Main objectives and results achieved

	Target	Method	Results 2019
Human rights and purchasing	The social responsibility of the production of own direct imports from high-risk countries has been assured	Full amfori BSCI audits conducted at the factories and farms of suppliers in high-risk countries.	180 (190) factories or farms underwent full amfori BSCI audits
		Amfori BSCI follow-up audits conducted at the factories and farms of suppliers in high-risk countries.	172 (135) factories or farms underwent amfori BSCI follow-up audits
		Suppliers in high-risk countries have valid social responsibility audits and certifications.	733 (585) suppliers in high-risk countries had valid social responsibility audits and certifications
Product safety	Products are safe for users and meet quality promises	The manufacturers of own brand food products have international certifications that assure product safety.	605 (521) suppliers had an audit certificate
		The Product Research Unit monitors the safety and quality of own brand products and own imports in the grocery trade.	7,405 (7,678) product samples analysed by the Product Research laboratory and test kitchen
		If a fault is detected in the quality of a product on the market, a recall is made.	164 (182) product recalls, of which 46 (48) K Group's own brand products; 2 (2) public recalls of own brand products (cases where a fault in the product could endanger consumer health)
Climate and environment	Reducing the climate and environmental impacts of Kesko's operations	Kesko has committed to the Energy Efficiency Agreement for the commerce sector in Finland and to reducing its energy consumption by 7.5% between 2017 and 2025.	Energy consumption in properties managed by Kesko in all operating countries (Q4/2018–Q3/2019) 924 (931) GWh
		All electricity purchased by Kesko for K-stores and other Kesko properties in Finland is produced with renewable energy. In recent years, Kesko has been building solar power plants at K Group stores and properties.	Renewable electricity purchases 560 (580) GWh, number of own solar power plants 34 (27) and electricity production 6.8 (4.1) GWh in Finland
		Kesko has set Science Based Targets for reducing emissions from its facilities, transportation, and supply chains. Kesko has committed to reducing its direct and indirect (Scope 1 and 2) emissions by 18% by 2025, using a 2015 base year.	Scope 1 and 2 emissions in all operating countries (Q4/2018–Q3/2019) 118,879 (124,756) tCO_2e
Personnel	Kesko has the professional and committed personnel required to implement its strategy	Employees agree upon their personal objectives together with their managers in accordance with the performance management process.	Objectives set for approximately 85% (80%) of the target group
		Personnel satisfaction and commitment are measured in personnel surveys conducted every other year (last conducted in 2019), with complementary pulse surveys (last conducted in 2018).	Personnel commitment in 2019 was 76% (78%). 76% (76%) of personnel would recommend K Group as an employer (in 2019).
		Active early identification and intervention with regard to sickness absences is used to promote personnel wellbeing and working capacity.	Sickness absences 4.7% (4.7%), premature retirement due to disability 21 (17)
Prevention of corruption and bribery (Governance)	100% commitment to compliance with the K Code of Conduct	"We do not offer or accept bribes" and "We comply with the Kesko policies on hospitality and gifts" are key statements of the K Code of Conduct.	82% (79%) of personnel signed the annual revision of the K Code of Conduct
		SpeakUp is a confidential reporting channel for both personnel and Kesko's partners, meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to Kesko's persons in charge. The SpeakUp channel can also be used to report suspected breach of securities market regulation.	28 (11) notifications received via the SpeakUp channel

Shares, securities market and Board authorisations

At the end of December 2019, 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. On 31 December 2019, Kesko Corporation held 931,363 of its own B shares as treasury shares. These treasury shares accounted for 1.36% of the total number of B shares, 0.93% of the total number of shares, and 0.24% of votes attached to all shares in 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 2019, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €43.60 at the end of 2018, and €58.80 at the end of December 2019, representing an increase of 34.9%. Correspondingly, the price of a B share was €47.10 at the end of 2018, and €63.08 at the end of December 2019, representing an increase of 33.9%. In 2019, the highest price for an A share was €59.20 and the lowest €42.10. The highest price for a B share was €64.12 and the lowest €45.19. In 2019, the Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 12.2% and the weighted OMX Helsinki Cap index by 13.7%. The Retail Sector Index was up by 34.4%.

At the end of December 2019, the market capitalisation of the A shares was €1,866.1 million. The market capitalisation of the B shares was €4,248.5 million, excluding the shares held by the parent company. The combined market capitalisation of the A and B shares was €6,114.7 million, an increase of €1,562.0 million from the end of 2018.

In 2019, a total of 6.7 million A shares were traded on Nasdaq Helsinki. The exchange value of the A shares was €329.7 million. Meanwhile, 45.5 million B shares were traded, with an exchange value of €2,459.8 million. Nasdaq Helsinki accounted for approximately 66.0% of the trading on Kesko's A and B shares in 2019. Kesko shares were also traded on multilateral trading facilities, the most significant of which was Cboe (source: Euroland).

The Board holds a valid authorisation to decide on the transfer of a maximum of 1,000,000 own B shares held by the Company as treasury shares (2016 Share issue authorisation). On 5 February 2019, the Board decided, based on this authorisation and the fulfilment of the performance criteria for the 2017–2018 performance period of Kesko's share-based commitment and incentive plan (PSP), to transfer own B shares held by the Company as treasury shares to persons included in the target group for the plan. This transfer of a total of 71,432 own B shares was communicated in stock exchange releases on 6 February 2019 and 20 March 2019.

Kesko Corporation's Annual General Meeting of 8 April 2019 resolved that approximately 30% of the annual fees to the members of Kesko's Board of Directors be paid in B series shares in the Company (Stock exchange release 8 April 2019). According to the resolution by the Annual General Meeting, the shares will be acquired or transferred to the Board members on the first working day to follow the publication of the interim report for the first quarter of 2019. Kesko's Board of Directors decided to implement the resolution of the General Meeting regarding the payment of the share portion of the annual remuneration by transferring B shares held by the Company as treasury shares to the Board members based on the 2016 Share issue authorisation (Stock exchange release 25.4.2019). These shares, totalling 2,378, were transferred to the Company's Board members on 26 April 2019 (Stock exchange release 26.4.2019). A Board member cannot transfer shares obtained in this manner until either three years have passed from the day the member has received the shares or their membership on the Board has ended, whichever comes first.

On 1 February 2017, Kesko Corporation's Board of Directors made a decision to establish a new share-based long-term incentive scheme for Kesko's top management and key persons selected separately. The scheme consists of a performance share plan (PSP) as the main structure, and of a restricted share pool (RSP), which is a complementary share plan for special situations. Besides the PSP, the Board made a decision to establish a share-based bridge plan to cover the transitional phase during which Kesko transfers from a one-year performance period to a longer performance period in its long-term incentive scheme structure. The new share-based compensation scheme was communicated in a stock exchange release on 2 February 2017, and the realisation of the Bridge Plan in a stock exchange release on 1 February 2018.

The Board of Directors of Kesko Corporation decided on 20 March 2018 to initiate a performance share plan (PSP) for 2018–2021. The Board of Directors also decided that the target group for the plan will comprise some 130 members of Kesko's management and other specified key persons. The Board of Directors decided to set the development of Kesko Group's comparable tax-free sales (%), Kesko Group's comparable return on capital employed (ROCE, %) and the absolute total shareholder return (TSR, %) of a Kesko B share as the performance criteria for the 2018 calendar year. A maximum total of 340,000 Kesko B shares may be granted in relation to the PSP 2018–2021. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Corporation's Board of Directors also decided on initiating an RSP (Restricted Share Pool) plan for 2018–2020. The plan includes a three-year commitment period, after which the potentially granted share awards for an individual plan will be paid to the participants in Kesko B shares, provided that their employment or service relationships with Kesko Group continue until the payment of the awards. The purpose of the RSP plan is to serve as a complementary long-term share plan to be used as a commitment instrument for selected key persons in special situations. In addition to the above employment precondition, Kesko may set participant-specific or company-specific criteria, the fulfilment of which is a precondition for the payment of restricted share awards. The total maximum amount of share awards payable under the RSP 2018–2020 is 20,000 Kesko B shares. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Any potential share awards from the RSP initiated in 2018 will be paid out in the spring of 2021. The PSP 2018–2021 and RSP 2018–2020 share plans were communicated in a stock exchange release on 21 March 2018.

The Board of Directors of Kesko Corporation decided on 19 March 2019 to initiate a performance share plan (PSP) for 2019–2022. The Board of Directors also decided that the target group for the plan will comprise some 130 members of Kesko's management and other specified key persons. The Board decided to set the development of Kesko Group's comparable tax free sales (%), Kesko Group's comparable return on capital employed (ROCE, %) and the absolute total shareholder return (TSR, %) of a Kesko B share as the performance criteria for the 2019 calendar year, matching the 2018 criteria. The performance criteria concern the performance year 2019 of the PSP 2018–2021 and PSP 2019–2022.

A maximum total of 310,000 Kesko B shares may be granted in relation to the PSP 2019–2022. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Corporation's Board of Directors also decided on initiating an RSP (Restricted Share Pool) plan for 2019–2021. The plan includes a three-year commitment period, after which the potentially granted share awards for an individual plan will be paid to the participants in Kesko B shares, provided that their employment or service relationships with Kesko Group continue until the payment of the awards. The purpose of the RSP plan is to serve as a complementary long-term share plan to be used as a commitment instrument for selected key persons in special situations. In addition to the above employment precondition, Kesko may set participant-specific or company-specific criteria, the fulfilment of which is a precondition for the payment of restricted share awards. The total maximum amount of share awards payable under the RSP 2019–2021 is 20,000 Kesko B shares. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Any potential share awards from the RSP beginning in 2019 will be paid out in the spring of 2022. The new PSP 2019–2022 and RSP 2019–2021 share plans were communicated in a stock exchange release on 20 March 2019.

In 2019, a total of 3,774 shares were returned to the Company in accordance with the terms and conditions of the share-based compensation plan 2014–2016, the Bridge Plan 2017–2020, and the performance share plan PSP 2017. The returns during the reporting year were communicated in stock exchange releases on 8 March 2019, and 14 June 2019 and 24 September 2019. The share-based compensation plan 2014–2016 was announced in a stock exchange release on 4 February 2014, and the Bridge Plan and the PSP 2017 were announced in a stock exchange release on 2 February 2017.

Kesko's Board of Directors holds a valid authorisation granted by the Annual General Meeting held on 4 April 2016 to transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (2016 Share issue authorisation). Based on the authorisation, own B shares held by the Company as treasury shares can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the Company's 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 for 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 issued either against or without payment. A share issue can only be without payment if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to the share issues. The amount possibly paid for the Company's own shares is recorded in the reserve for invested non-restricted equity. The authorisation is valid until 30 June 2020.

The Annual General Meeting of 11 April 2018 approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 of the Company's own B shares (2018 Authorisation to acquire own shares). The B shares would be 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 time of acquisition. The shares would be acquired and paid for in accordance with the rules of the exchange. The acquisition of own shares would reduce the amount of the Company's distributable unrestricted equity. The B shares would be 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 for management and other personnel. The Board would make decisions concerning any other issues related to the acquisition of B shares. The authorisation was valid until 30 September 2019.

The Board of Directors of Kesko Corporation decided in its meeting on 24 April 2018 to use the authorisation granted by the General Meeting of 11 April 2018 to acquire B shares in the Company, and established a temporary share buy-back programme for the purpose. The shares were acquired to fulfil obligations related to the Company's share-based commitment and incentive plans. The acquisitions of the shares began on 26 April 2018 and ended on 18 May 2018. During that time, Kesko acquired 500,000 of its own B series shares for an average price per share of €48.83. Following the acquisitions, Kesko held a total of 996,325 of its own B shares, which represents approximately 1.00 per cent of all shares in Kesko Corporation and 1.46 per cent of Kesko Corporation's B series shares. (Stock exchange releases 25.4.2018 and 21.5.2018)

Kesko's Annual General Meeting of 11 April 2018 also approved the Board's proposal for its authorisation to decide on the issuance of a maximum of 10,000,000 new B shares (2018 Share issue authorisation). The new shares can only be issued against payment. The new shares can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the Company's 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 Board of Directors will decide on the subscription price for the issued shares. The Board will also have the right to issue shares for a non-cash consideration. The subscription price is recognised in the reserve for invested non-restricted equity. The Board will make decisions regarding any other matters related to the share issues. The authorisation will be valid until 30 June 2021, and it cancelled out the authorisation granted to the Board by the General Meeting of 13 April 2015 to issue a total maximum of 20,000,000 new B shares, which the Board did not use.

At the end of December 2019, the number of shareholders was 41,175, which is 430 more than at the end of 2018. At the end of December, foreign ownership of all shares was 36.35%, and foreign ownership of B shares 52.11%.

Flagging notifications

According to a notification received by Kesko Corporation, on 28 May 2019, Ilmarinen Mutual Pension Insurance Company's holding exceeded the threshold of five (5) per cent for shares and ten (10) per cent for voting rights in Kesko. (Stock exchange release 28.5.2019)

According to a notification received by Kesko Corporation, Kruunuvuoren Satama Oy's holding of shares and voting rights in Kesko decreased to zero due to a share transaction carried out on 28 May 2019. (Stock exchange release 28.5.2019)

According to a notification received by Kesko Corporation, on 30 August 2019, K-Retailers' Association's holding exceeded the threshold of five (5) per cent for shares in Kesko. (Stock exchange release 30.8.2019)

According to a notification received by Kesko Corporation, on 28 October 2019, Ilmarinen Mutual Pension Insurance Company's holding in Kesko fell below the threshold of five (5) per cent for shares. (Stock exchange release 29.10.2019)

Key events during the financial year

Kesko Corporation's subsidiary Byggmakker completed the acquisition of the DIY retail business of Sørbø Trelast AS and Tau & Jørpeland Bygg AS. The transaction included two Byggmakker stores and a B2B logistics centre in Norway. (Press release 31.1.2019)

Kesko Group company K Caara Oy completed the acquisitions of the Volkswagen and SEAT businesses of Huittisten Laatuauto Oy in Forssa and Huittinen, and the Volkswagen, Audi and SEAT businesses of LänsiAuto Oy in Kotka, Kouvola and Lappeenranta. (Press release 1.3.2019)

Kesko Corporation agreed to sell Onninen AB's HEPAC contractor business in Sweden to Solar A/S. The transaction was completed on 15 May 2019. (Press releases 12.3.2019 and 15.5.2019)

Kesko Group company K-rauta AB agreed to acquire Fresks Group, a significant building material retailer in Sweden. The transaction was completed on 17 May 2019. (Press releases 29.3.2019 and 17.5.2019)

The new medium-term financial targets for profitability, as approved by the Board of Directors of Kesko Corporation, are a comparable operating margin of 5.0% and a comparable return on capital employed of 11.0%. The profitability targets take into account the impacts of IFRS 16 Leases. In terms of financial position, as before, the Group uses interest-bearing net debt/EBITDA and targets a maximum level of 2.5, excluding the impact of IFRS 16. (Stock exchange release 25.4.2019)

Kesko Group company K Caara Oy agreed to acquire the Volkswagen, Audi and SEAT businesses of Laakkonen Group. The combined pro forma net sales of the businesses totalled some €259 million in 2018 and operating profit €5.4 million. The 470 employees of the businesses transferred to Kesko. The transaction was completed on 1 July 2019. (Press releases 25.4.2019 and 1.7.2019)

Kesko agreed to acquire the wholesaler Heinon Tukku Oy from the family-owned company Tukkuheino Oy and private individuals to implement Kesko's growth strategy and increase its offering in the growing foodservice market. The Finnish Competition and Consumer Authority (KKV) announced on 13 September 2019 that it would extend the investigation of the matter until 31 October 2019. On 18 November 2019, KKV proposed to the Market Court that the transaction be prohibited. Proceedings concerning the acquisition continue in the Market Court, which is expected to issue a decision on the matter within three months. (Press releases 17.5.2019 and 18.11.2019)

Kesko Corporation, Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company agreed on 28 May 2019 to dissolve their joint ownership of Kruunuvuoren Satama Oy. Ilmarinen furthermore acquired the 3,438,885 Kesko A shares held by Kruunuvuoren Satama Oy. Kruunuvuoren Satama Oy became a wholly-owned subsidiary of Kesko Corporation on 14 June 2019. (Stock exchange release 28.5.2019)

Konekesko Oy and Danish Agro Machinery A/S, a Danish Agro Group company, agreed that Konekesko's Finnish agricultural machinery trade operations were to be transferred to Danish Agro Machinery's Finnish subsidiary Finnish Agro Machinery on 1 August 2019. (Press release 3.7.2019)

The codetermination negotiations of the car importer K-Auto and the car retailer K-Caara, initiated in August, were concluded. As a result of the negotiations, the personnel numbers of both companies were adjusted and changes were made to the organisational structures. The employment of some 100 people in total was terminated. (Press release 4.10.2019)

Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million, and has the possibility to draw down more later on. (Press release 7.10.2019)

Kesko Corporation reorganised its Legal Affairs function. Lasse Luukkainen, Master of Laws, 41, was appointed Kesko's Group General Counsel as of 1 January 2020. He will also act as Company Secretary for Kesko's Board of Directors and its Committees and the Group Management Board. Luukkainen reports to President and CEO Mikko Helander. Kesko's previous Group General Counsel and member of Group Management Board Mika Majoinen left the company. (Stock exchange release 13.12.2019)

Resolutions of the 2019 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting was held on 8 April 2019. The meeting adopted the financial statements and consolidated financial statements for 2018 and discharged the Board members and the Managing Director from liability. The Annual General Meeting resolved to distribute a dividend of €2.34 per share on shares held outside the Company, to be paid in two instalments of €1.17. The first dividend instalment record date was 10 April 2019 and pay date 17 April 2019. The second dividend instalment record date was 10 October 2019 and pay date 17 October 2019.

The Annual General Meeting resolved that the number of Board members be seven (7). Retailer Esa Kiiskinen (Chairman), Peter Fagernäs, Master of Laws (Deputy Chairman), Jannica Fagerholm, Master of Science (Economics), Piia Karhu, Doctor of Science (Economics and Business Administration), Matti Kyytsönen, Master of Science (Economics), retailer Matti Naumanen, and retailer Toni Pokela, eMBA continue as Board members. The Board members were elected by the 2018 Annual General Meeting to serve the three-year terms provided in the Company's Articles of Association, ending at the close of the 2021 Annual General Meeting. The Annual General Meeting resolved to keep the Board members' fees unchanged.

The Annual General Meeting elected Authorised Public Accountants PricewaterhouseCoopers Oy as the Company's Auditor, with Mikko Nieminen, APA, as the Auditor with principal responsibility.

The Annual General Meeting resolved to amend section 6 "Auditor", section 9 "Notice of the General Meeting", and section 10 "Annual General Meeting" of the Company's Articles of Association in accordance with the Board's proposal.

The Annual General Meeting also approved the Board's proposal to authorise the Board to decide on the donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2020, and to decide on the donation recipients, purposes of use and other terms of the donations.

The Board of Kesko Corporation elects its Chairman and Deputy Chairman for the Board's whole three-year term of office, and the Chairmen, Deputy Chairmen and members of the Committees for one year at a time. In the organisational meeting held by the Board after the Annual General Meeting of 11 April 2018, the Board elected Esa Kiiskinen as Chairman and Peter Fagernäs as Deputy Chairman. The Board of did not make changes to the compositions of its Audit Committee or Remuneration Committee in its organisational meeting held after the Annual General Meeting on 8 April 2019. Jannica Fagerholm was elected as Chairman of the Board's Audit Committee, Matti Kyytsönen as Deputy Chairman, and Piia Karhu as a Committee member. Esa Kiiskinen was elected as Chairman of the Board's Remuneration Committee, Peter Fagernäs as Deputy Chairman, and Matti Kyytsönen as a Committee member.

The resolutions of the Annual General Meeting and the decisions of the Board's organisational meeting were communicated in more detail in stock exchange releases on 8 April 2019.

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in note 2.4.

Related party transactions are disclosed in note 5.3.

Risk management

Risk management in Kesko Group is guided by the risk management policy approved by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. In the management of financial risks, the Group's treasury policy, confirmed by Kesko's Board of Directors, is observed. The management of business and common operations are responsible for the implementation 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 Group, division, company and function levels throughout the Group.

The Group's risk map, the most significant risks and uncertainties, as well as material changes in and responses to them are reported to the Kesko Board's Audit Committee quarterly in connection with the review of interim reports, the half year financial report and 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

Economic slowdown

There are uncertainties related to the outlook for economic growth in Kesko's operating countries. A significant weakening in the economy would impact especially the car trade, and the construction market. In the grocery trade, an economic slowdown would shift emphasis in consumer behaviour more towards price.

Critical information falling into the wrong hands

Crimes are increasingly committed through data networks and crime has become more international and professional. A failure in the security of payment transactions and personal data in particular, can cause losses, claims for damages and reputational harm.

Integration of acquisitions in the building and technical trade

There are operational risks related to the ongoing integration of acquisitions carried out in Sweden and Norway.

Market for the car trade

Uncertainty among consumers regarding the motive power choices and resale value of cars, and potential changes in car taxation can weaken the market for the car trade.

Business interruptions and information system failures

The trading sector is characterised by increasingly complicated and long supply chains and a higher dependency on information systems, data communications and external service providers. Disruptions can be caused by hardware failures, software errors or constantly increasing 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.

Staff availability

The implementation of strategies and the achievement of objectives require competent and motivated personnel. There is a risk that the trading sector does not attract the most competent people. The acquisitions carried out as well as other significant business and development projects, coupled with an increased need for special competencies, increase the key-person risk and the dependency on individual expertise. In the greater Helsinki region, there are difficulties in obtaining skilled workers for logistics and stores.

Product safety

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

Compliance with laws and agreements

Changes in legislation and authority regulations could necessitate significant changes and result in additional costs. Compliance with laws and agreements is an important part of Kesko's corporate responsibility. Non-compliance can result in fines, claims for damages and other financial losses, and loss of trust and reputation. The EU General Data Protection Regulation has placed more importance on the need to protect personal data.

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. As a result of urbanisation, changes in the market situation, growing significance of e-commerce, or a chain concept proving inefficient, there is a risk that a store site or a property becomes unprofitable and operations are discontinued while long-term liabilities remain.

Responsible operating practices and reputation management

Various aspects of corporate responsibility, such as ensuring responsibility in the purchasing chain of products, fair and equal treatment of employees, the prevention of corruption, and environmental protection, are increasingly important to customers. Any failures in corporate responsibility would result in negative publicity for Kesko and could cause operational and financial damage. Challenges in Kesko's corporate responsibility work include communicating responsibility principles to suppliers, retailers and customers, and ensuring responsibility in the product supply chain.

Climate change

The risks related to climate change are twofold. Risks for Kesko are related to increasing regulation and extreme weather phenomena. Increasing regulation necessitates changes in business operations and leads to additional costs. Increase in extreme weather phenomena can impact product availability and cause disturbances in logistics and the store site network. The impacts of Kesko's operations on the climate, in turn, are related to Kesko's energy solutions and emissions and the lifecycle impact of products and services sold.

Reporting to market

Kesko's objective is to produce and publish reliable and timely information. If any information published by Kesko proved to be incorrect, or communications failed to meet regulations in other respects, it could result in losing investor and other stakeholder trust and in possible sanctions. Significant business arrangements, tight disclosure schedules and dependency on information systems create challenges for the accuracy of financial information.

Risks of damage

Accidents, natural phenomena and epidemics can cause significant damage to people, property or business. In addition, risks of damage may cause business interruptions that cannot be prevented.

Outlook

Estimates for the outlook for the net sales and comparable operating profit for Kesko Group's continuing operations are given for the 12-month period following the reporting period (1/2020–12/2020) in comparison with the 12 months preceding the end of the reporting period (1/2019–12/2019). The outlook estimate includes the impact of IFRS 16 Leases on the Group's comparable operating profit for both the 12-month period following the reporting period as well as the 12-month period preceding the reporting period.

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. Uncertainty related to general economic development has grown in Kesko's operating countries and the pace of economic growth is expected to slow down. In the Finnish grocery trade, intense competition is expected to continue, but the market is expected to grow. In the Northern European construction market, volumes in new housing construction have returned to normal from the high levels of top years, and the focus is expected to shift to renovation building and business premises construction. In the Finnish car trade, the market is expected to be slightly lower than the long-term average.

Kesko continues the determined customer-oriented transformation of its business and execution of its strategy. In comparable terms, the net sales for continuing operations for the next 12 months are expected to exceed the level of the previous 12 months. The comparable operating profit for continuing operations for the next 12-month period is expected to exceed the level of the preceding 12 months.

Proposal for profit distribution

The Board of Directors of Kesko Corporation proposes to the Annual General Meeting to be held on 30 March 2020 that based on the adopted balance sheet, a dividend of €2.52 per share be paid for the year 2019 on shares held outside the Company at the date of dividend distribution. The remaining distributable assets will remain in equity. The Board proposes that the dividend be paid in two instalments.

The first instalment, €1.28 per share, is to be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the first dividend instalment payment record date 1 April 2020. The Board proposes that the first dividend instalment pay date be 8 April 2020.

The second instalment is to be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the second dividend instalment payment record date, 1 October 2020. The Board also proposes to the Annual General Meeting a resolution on a share issue without payment. If the Board proposal concerning a share issue without payment is approved, the second instalment will be divided between one current and three new shares, so that a dividend of €0.31 per share is paid on each share. If the Annual General Meeting does not approve the Board proposal concerning a share issue without payment, the second dividend instalment will be paid as the first, i.e. €1.24 per share. The Board proposes 8 October 2020 as the second dividend instalment pay date. The Board proposes that it be authorised to decide, if necessary, on a new dividend payment record date and pay date for the second instalment if the rules and statutes of the Finnish book-entry system change or otherwise so require.

As at the date of the proposal for the distribution of profit, 4 February 2020, a total of 99,088,389 shares were held outside the Company, and the corresponding total amount of dividends is €249,702,740.28.

The distributable assets of Kesko Corporation total €1,447,026,389.20, of which profit for the financial year is €393,877,216.77.

Annual General Meeting

The Board of Directors has decided to convene the Annual General Meeting of shareholders at Messukeskus in Helsinki on 30 March 2020 at 13.00 (EET). Kesko Corporation will publish a notice of the General Meeting at a later date.

Group's key performance indicators

		Group		Continuing operations		
					IFRS 16 applied	
		2015	2016	2017	2018	2019
Income statement						
Net sales	€ million	8,678.9	10,180.4	10,491.8	10,382.8	10,720.3
Change in net sales	%	-4.3	17.3	3.1	-1.0	3.3
Operating profit, comparable	€ million	244.5	272.9	296.2	428.5	461.6
Operating profit as percentage of net sales, comparable	%	2.8	2.7	2.8	4.1	4.3
Operating profit	€ million	194.6	146.8	338.6	404.3	447.8
Operating profit as percentage of net sales	%	2.2	1.4	3.2	3.9	4.2
Profit for the year (incl. non-controlling interests)	€ million	117.4	113.8	284.5	232.4	333.6
Profit for the year as percentage of net sales	%	1.4	1.1	2.7	2.2	3.1
Profitability						
Return on equity, group	%	5.2	5.2	12.3	8.7	16.6
Return on equity, comparable, group	%	8.2	9.8	10.9	12.5	15.1
Return on capital employed	%	9.3	6.4	15.2	9.2	9.3
Return on capital employed, comparable	%	11.7	11.9	13.3	9.8	9.6
Funding and financial position						
Interest-bearing net debt, group	€ million	-448.1	123.3	135.9	2,450.7	2,868.4
Interest-bearing net debt excluding lease liabilities	€ million	-448.1	123.3	135.9	161.6	446.1
Gearing, group	%	-20.0	5.8	6.1	121.3	134.0
Equity ratio, group	%	54.7	48.6	50.4	31.9	31.2
Interest-bearing net debt/EBITDA excluding the impact of IFRS 16, group		-1.4	0.4	0.3	0.4	0.9

		Group		Continuing operations		
					IFRS 16 applied	
		2015	2016	2017	2018	2019
Other performance indicators						
Capital expenditure	€ million	219.0	743.1	333.5	417.6	686.1
Capital expenditure as percentage of net sales	%	2.5	7.3	3.2	4.0	6.4
Cash flow from operating activities	€ million	276.4	170.2	291.8	748.4	893.1
Cash flow from investing activities	€ million	217.1	-501.1	-71.5	-373.3	-620.3
Cash flow from operating activities, discontinued operations	€ million	-	-	9.9	-23.3	3.5
Cash flow from investing activities, discontinued operations	€ million	-	-	-16.8	164.3	3.5
Personnel, average for the period, group total		18,956	22,475	22,077	19,995	20,852
Personnel, as at 31 Dec., group total		21,935	27,656	24,984	23,458	25,168

		2015	2016	2017	2018 (IFRS 16 applied)	2019 (IFRS 16 applied)
Share performance indicators						
Earnings/share, basic and diluted						
Continuing operations	€	-	-	2.75	2.16	3.31
Discontinued operations	€	-	-	-0.16	-0.56	0.12
Group total	€	1.03	0.99	2.59	1.59	3.42
Earnings/share, comparable, basic						
Continuing operations	€	-	-	2.29	2.45	2.97
Group total	€	1.70	2.01	-	-	-
Equity/share	€	21.82	20.44	21.45	19.33	20.44
Dividend/share	€	2.50	2.00	2.20	2.34	2.52*
Payout ratio	%	243.8	201.3	84.9	145.2	74.8*
Payout ratio, comparable	%	146.7	99.5	96.6	95.8	80.3*
Cash flow from operating activities/share, adjusted, group total	€	2.79	1.72	3.03	7.31	9.05
Cash flow from operating activities/share, adjusted, continuing operations	€	-	-	-	7.55	9.01
Price/earnings ratio (P/E), A share, adjusted		30.35	44.14	17.01	27.05	17.44
Price/earnings ratio (P/E), B share, adjusted		31.57	47.80	17.45	29.22	18.71
Effective dividend yield, A share	%	8.0	4.6	5.0	5.4	4.3*
Effective dividend yield, B share	%	7.7	4.2	4.9	5.0	4.0*

		2015	2016	2017	2018	2019
Share price as at 31 Dec.						
A share	€	31.12	43.85	44.10	43.60	58.80
B share	€	32.37	47.48	45.25	47.10	63.08
Average share price						
A share	€	31.85	37.30	43.62	47.21	49.23
B share	€	33.52	39.03	44.52	48.68	54.28
Market capitalisation as at 31 Dec., A share	€ million	987.7	1,391.7	1,399.6	1,383.7	1,866.1
Market capitalisation as at 31 Dec., B share	€ million	2,181.9	3,206.6	3,064.3	3,169.0	4,248.5
Turnover						
A share	Million pcs	2	2	1	1	7
B share	Million pcs	59	52	49	52	46
Relative turnover rate						
A share	%	7.5	5.4	4.0	4.6	21.1
B share	%	87.0	74.3	70.9	75.9	67.5
Diluted average number of shares	Thousand pcs	99,114	99,249	99,426	99,182	99,074
Yield of A share for the past five financial years	%	2.3	17.8	18.4	16.0	21.6
Yield of B share						
For the past five financial years	%	3.0	18.6	18.5	17.6	21.7
For the past ten financial years	%	7.7	6.6	6.8	15.6	15.7

* Proposal to the General Meeting

Net sales by segment

€ million	1–12/2019	1–12/2018	Change, %
Grocery trade, Finland	5,531.2	5,385.7	2.7
Grocery trade, total	**5,531.2**	**5,385.7**	**2.7**
- of which intersegment trade	10.2	5.8	75.7
Building and technical trade, Finland	1,991.6	1,972.0	1.0
Building and technical trade, other countries*	2,339.6	2,130.6	9.8
Building and technical trade, total	**4,331.1**	**4,102.6**	**5.6**
- of which intersegment trade	-0.6	0.1	(..)
Car trade, Finland	863.9	893.1	-3.3
Car trade, total	**863.9**	**893.1**	**-3.3**
- of which intersegment trade	3.4	1.6	(..)
Common functions and eliminations	-5.9	1.4	(..)
Finland, total	**8,380.7**	**8,252.2**	**1.6**
Other countries, total*	**2,339.6**	**2,130.6**	**9.8**
Continuing operations, total	**10,720.3**	**10,382.8**	**3.3**

*Net sales in countries other than Finland
(..) Change over 100%

Operating profit by segment

€ million	1–12/2019	1–12/2018	Change
Grocery trade	334.6	285.9	48.7
Building and technical trade	127.6	113.3	14.2
Car trade	25.5	35.1	-9.5
Common functions and eliminations	-39.9	-30.0	-9.9
Continuing operations, total	**447.8**	**404.3**	**43.5**

Comparable operating profit by segment

€ million	1–12/2019	1–12/2018	Change
Grocery trade	327.9	294.5	33.4
Building and technical trade	142.8	126.8	16.0
Car trade	26.8	35.2	-8.5
Common functions and eliminations	-35.9	-28.1	-7.8
Continuing operations, total	**461.6**	**428.5**	**33.1**

Group's performance indicators by quarter

	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Net sales, continuing operations, € million	2,413.2	2,672.7	2,641.8	2,655.1	2,400.8	2,781.4	2,803.9	2,734.2
Change in net sales, continuing operations, %	-5.7	-3.3	1.8	3.1	-0.5	4.1	6.1	3.0
EBITDA, comparable, € million	170.7	221.9	251.0	232.1	173.4	242.2	275.4	258.0
Operating profit, continuing operations, € million	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Operating margin, continuing operations, %	2.5	4.0	5.1	3.9	2.1	4.3	5.3	4.7
Operating profit, comparable, continuing operations, € million	63.8	113.2	137.0	114.5	57.5	122.5	152.0	129.7
Operating margin, comparable, continuing operations, %	2.6	4.2	5.2	4.3	2.4	4.4	5.4	4.7
Finance income/costs, continuing operations, € million	-25.3	-26.1	-25.3	-23.1	-23.7	-23.1	-23.3	-21.3
Interest expense for lease liabilities, € million	-25.4	-25.2	-25.0	-23.1	-24.6	-24.2	-23.1	-23.5
Profit before tax, continuing operations, € million	34.9	77.5	108.5	73.6	28.8	114.1	154.8	105.7
Profit before tax, continuing operations, %	1.4	2.9	4.1	2.8	1.2	4.1	5.5	3.9
Return on capital employed, continuing operations, %	5.6	9.9	12.2	9.2	4.5	10.3	12.0	10.1
Return on capital employed, comparable, continuing operations, %	5.9	10.6	12.5	10.2	5.1	10.5	12.3	10.2
Return on equity, %	0.9	6.8	17.0	11.2	4.3	20.3	25.7	17.7
Return on equity, comparable, %	5.7	13.5	17.9	14.5	5.4	17.7	20.7	17.8
Cash flow from operating activities/share, continuing operations, €	1.17	2.17	2.10	2.11	1.59	2.74	1.93	2.76
Equity ratio, %	31.4	29.3	30.8	31.9	31.8	27.9	29.6	31.2
Capital expenditure, continuing operations, € million	54.5	74.2	221.2	67.7	97.3	373.4	132.2	83.3
Earnings/share, basic and diluted, €								
Continuing operations	0.31	0.51	0.79	0.55	0.28	0.86	1.27	0.90
Discontinued operations	-0.24	-0.28	-0.03	-0.02	0.00	0.11	-0.01	0.02
Group total	0.07	0.23	0.76	0.53	0.27	0.97	1.26	0.92
Earnings/share, basic and diluted, comparable €								
Continuing operations	0.34	0.60	0.81	0.70	0.33	0.73	1.01	0.90
Equity/share, €	19.81	18.14	19.04	19.33	19.79	18.44	19.69	20.44

Net sales by segment

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Grocery trade	1,276.2	1,327.3	1,352.4	1,429.8	1,263.9	1,408.6	1,402.7	1,456.0
Building and technical trade	877.3	1,101.7	1,089.0	1,034.6	937.6	1,161.8	1,180.1	1,051.6
Car trade	258.9	243.6	200.3	190.2	200.5	211.9	222.9	228.5
Common functions and eliminations	0.8	0.1	0.1	0.5	-1.2	-1.0	-1.8	-1.9
Continuing operations, total	**2,413.2**	**2,672.7**	**2,641.8**	**2,655.1**	**2,400.8**	**2,781.4**	**2,803.9**	**2,734.2**

Operating profit by segment

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Grocery trade	54.1	65.0	80.2	86.7	56.8	85.6	93.7	98.5
Building and technical trade	2.7	38.2	52.0	20.4	-2.1	43.7	57.7	28.4
Car trade	11.1	8.9	8.0	7.0	7.6	4.9	4.9	8.0
Common functions and eliminations	-7.5	-6.3	-5.9	-10.3	-10.7	-14.3	-7.8	-7.1
Continuing operations, total	**60.4**	**105.8**	**134.3**	**103.8**	**51.6**	**119.9**	**148.6**	**127.8**

Items in operating profit affecting comparability

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Grocery trade	-1.2	-4.5	-1.1	-1.9	0.0	6.6	0.3	-0.2
Building and technical trade	-2.0	-2.4	-1.3	-7.8	-5.4	-4.7	-2.6	-2.6
Car trade	-	-	-	-0.1	-0.1	-0.1	-0.1	-1.0
Common functions and eliminations	-0.3	-0.5	-0.3	-0.8	-0.4	-4.3	-1.0	1.8
Continuing operations, total	**-3.4**	**-7.5**	**-2.7**	**-10.7**	**-5.8**	**-2.6**	**-3.5**	**-1.9**

Comparable operating profit by segment

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Grocery trade	55.2	69.5	81.3	88.6	56.8	79.0	93.5	98.6
Building and technical trade	4.7	40.6	53.3	28.3	3.2	48.4	60.3	30.9
Car trade	11.1	8.9	8.0	7.2	7.7	5.0	5.0	9.0
Common functions and eliminations	-7.2	-5.7	-5.6	-9.5	-10.3	-10.0	-6.7	-8.9
Continuing operations, total	**63.8**	**113.2**	**137.0**	**114.5**	**57.5**	**122.5**	**152.0**	**129.7**

Calculation of performance indicators

Kesko uses alternative performance measures to reflect business performance and profitability. These indicators should be examined together with the IFRS-compliant performance indicators.

Change in comparable net sales is used to reflect changes in the Group's business volume between periods. The indicator reflects the change in net sales excluding the impact of acquisitions and divestments, in local currencies. The comparable net sales have been calculated by including in the net sales the business operations that have been part of Kesko Group in both the financial year as well as the comparison year. Other structural arrangements related to acquisitions and divestments have been adjusted in the same manner as acquisitions.

Performance indicators reflecting comparable profit and profitability are used to improve the comparability of operational performance between periods. Gains and losses on disposal of real estate, shares and business operations, impairment charges and significant restructuring costs are identified as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement.

In addition, the financial performance indicators required by the Decree of the Ministry of Finance on obligation of securities issuers to disclose periodic information have been presented as alternative performance measures. The management uses these indicators to monitor and analyse business performance, profitability and financial position.

Profitability

Operating profit, comparable	Operating profit +/– items affecting comparability
Items affecting comparability	– gains on disposal + losses on disposal + impairment charges +/- structural arrangements
Return on equity, %	(Profit/loss before tax – Income tax) x 100 / Shareholders' equity, average of the beginning and end of the financial year
Return on equity, comparable, %	(Profit/loss adjusted for items affecting comparability before tax – Income tax adjusted for the tax effect of the items affecting comparability) x 100 / Shareholders' equity, average of the beginning and end of the financial year
Return on capital employed, %	Operating profit x 100 / (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months
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 12 months
EBITDA	Operating profit + Depreciation and amortisation + Impairment charges
Interest-bearing net debt / EBITDA excluding the impact of IFRS 16	Interest-bearing net debt excluding lease liabilities / EBITDA excluding the impact of IFRS 16

Funding, capital expenditure and financial position

Equity ratio, %	Shareholders' equity x 100 / (Balance sheet total − Advances received)
Gearing, %	Interest-bearing net debt x 100 / Shareholders' equity
Interest-bearing net debt	Interest-bearing liabilities + Lease liabilities – Financial assets at fair value through profit or loss – Available-for-sale financial assets - Cash and cash equivalents
Interest-bearing net debt excluding lease liabilities	Interest-bearing net debt – Lease liabilities
Capital expenditure	Investments in property, plant and equipment, intangible assets, subsidiary shares, shares in associates and joint ventures and other shares

Share performance indicators

Earnings/share, diluted	Net profit/loss - Share of non-controlling interests of net profit/loss / Average number of shares adjusted for the dilutive effect
Earnings/share, basic	Net profit/loss − Share of non-controlling interests of net profit/loss / Average number of shares
Earnings/share, basic, comparable	Net profit/loss adjusted for items affecting comparability − Share of non-controlling interests of net profit/loss adjusted for items affecting comparability / Average number of shares
Equity/share	Equity attributable to equity holders of the parent / Basic number of shares at the balance sheet date
Payout ratio, %	(Dividend/share) x 100 / (Earnings/share)
Price/earnings ratio (P/E)	Share price at balance sheet date / (Earnings/share)
Effective dividend yield, %	(Dividend/share) x 100 / Share price at balance sheet date
Market capitalisation	Share price at balance sheet date x Number of shares
Cash flow from operating activities/share	Cash flow from operating activities / Average number of shares
Yield of A share and B share	Change in share price + Annual dividend yield

Reconciliation of performance indicators to IFRS financial statements

€ million	1–12/2019	1–12/2018
Continuing operations		
Items affecting comparability		
Gains on disposal	4.6	6.7
Losses on disposal	-0.9	-0.1
Impairment charges	-	-5.6
Structural arrangements	-17.5	-25.3
Items in operating profit affecting comparability	**-13.8**	**-24.2**
Items in financial items affecting comparability	46.3	-6.5
Items in income taxes affecting comparability	0.4	4.5
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.2
Total items affecting comparability	**32.9**	**-29.4**
Items in EBITDA affecting comparability	**-14.5**	**-9.2**
Operating profit, comparable		
Operating profit	447.8	404.3
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Operating profit, comparable	**461.6**	**428.5**
EBITDA		
Operating profit	447.8	404.3
Plus		
Depreciation and impairment charges	-161.5	142.1
Depreciation and impairment charges for right-of-use assets	-325.0	320.3
EBITDA	**934.4**	**866.6**

€ million	1–12/2019	1–12/2018
EBITDA, comparable		
EBITDA	934.4	866.6
Net of		
Items in EBITDA affecting comparability	-14.5	-9.2
EBITDA, comparable	**948.9**	**875.8**
Profit before tax, comparable		
Profit before tax	403.3	294.5
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Items in financial items affecting comparability	46.3	-6.5
Profit before tax, comparable	**370.7**	**325.2**
Net profit, comparable		
Comparable profit before tax	370.7	325.2
Net of		
Income tax	69.6	62.1
Items in income taxes affecting comparability	0.4	4.5
Net profit, comparable	**300.7**	**258.7**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	300.7	258.7
Net profit attributable to non-controlling interests	6.0	18.5
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.2
Net profit attributable to owners of the parent, comparable	**294.7**	**243.4**

€ million	1–12/2019	1–12/2018
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	294.7	243.4
Average number of shares, basic, 1,000 pcs	99,074	99,182
Earnings/share, comparable, €	**2.97**	**2.45**
Return on capital employed, %		
Operating profit	447.8	404.3
Capital employed, average	4,803.3	4,383.8
Return on capital employed, %	**9.3**	**9.2**
Return on capital employed, comparable, %		
Operating profit, comparable	461.6	428.5
Capital employed, average	4,803.3	4,383.8
Return on capital employed, comparable, %	**9.6**	**9.8**
Group		
Return on equity, %		
Net profit	345.2	176.5
Equity, average	2,080.9	2,039.0
Return on equity, %	**16.6**	**8.7**
Return on equity, comparable, %		
Net profit, comparable	313.2	255.8
Equity, average	2,080.9	2,039.0
Return on equity, comparable, %	**15.1**	**12.5**
Equity ratio, %		
Shareholders' equity	2,140.8	2,021.1
Total assets	6,899.3	6,366.8
Advances received	34.6	26.0
Equity ratio, %	**31.2**	**31.9**

Reconciliation of performance indicators to IFRS financial statements by quarter

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Continuing operations								
Items affecting comparability								
Gains on disposal	2.5	4.3	0.0	0.0	0.0	1.0	0.4	3.3
Losses on disposal	0.0	-	0.0	-	-0.0	-	-	-0.9
Impairment charges	-	-3.4	-	-2.2	-	-	0.0	-
Structural arrangements	-5.8	-8.4	-2.6	-8.5	-5.8	-3.5	-3.8	-4.3
Items in operating profit affecting comparability	**-3.4**	**-7.5**	**-2.7**	**-10.7**	**-5.8**	**-2.6**	**-3.5**	**-1.9**
Items in financial items affecting comparability	-	-	-	-6.5	-	17.4	29.0	-0.1
Items in income taxes affecting comparability	0.4	2.0	0.3	1.8	0.1	-1.5	0.5	1.3
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.7	0.5	-	-	-	-	-
Total items affecting comparability	**-3.0**	**-9.2**	**-1.8**	**-15.4**	**-5.8**	**13.4**	**26.0**	**-0.7**
Items in EBITDA affecting comparability	**-1.5**	**-1.2**	**-2.5**	**-4.0**	**-5.6**	**-5.4**	**-2.0**	**-1.5**
Operating profit, comparable								
Operating profit	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Net of								
Items in operating profit affecting comparability	-3.4	-7.5	-2.7	-10.7	-5.8	-2.6	-3.5	-1.9
Operating profit, comparable	**63.8**	**113.2**	**137.0**	**114.5**	**57.5**	**122.5**	**152.0**	**129.7**
EBITDA								
Operating profit	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Plus								
Depreciation and impairment charges	31.0	36.3	34.5	40.2	35.3	41.1	41.7	43.4
Depreciation and impairment charges for right-of-use assets	77.9	78.7	79.7	84.0	80.8	75.8	83.1	85.4
EBITDA	**169.2**	**220.7**	**248.6**	**228.1**	**167.8**	**236.8**	**273.3**	**256.5**
EBITDA, comparable								
EBITDA	169.2	220.7	248.6	228.1	167.8	236.8	273.3	256.5
Net of								
Items in EBITDA affecting comparability	-1.5	-1.2	-2.5	-4.0	-5.6	-5.4	-2.0	-1.5
EBITDA, comparable	**170.7**	**221.9**	**251.0**	**232.1**	**173.4**	**242.2**	**275.4**	**258.0**

€ million	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
Profit before tax, comparable								
Profit before tax	34.9	77.5	108.5	73.6	28.8	114.1	154.8	105.7
Net of								
Items in operating profit affecting comparability	-3.4	-7.5	-2.7	-10.7	-5.8	-2.6	-3.5	-1.9
Items in financial items affecting comparability	-	-	-	-6.5	-	17.4	29.0	-0.1
Profit before tax, comparable	**38.3**	**85.0**	**111.2**	**90.8**	**34.6**	**99.2**	**129.3**	**107.7**
Net profit, comparable								
Profit before tax, comparable	38.3	85.0	111.2	90.8	34.6	99.2	129.3	107.7
Net of								
Income tax	7.0	16.1	23.4	15.5	6.1	23.3	25.3	14.9
Items in income taxes affecting comparability	0.4	2.0	0.3	1.8	0.1	-1.5	0.5	1.3
Net profit, comparable	**30.9**	**66.9**	**87.5**	**73.4**	**28.4**	**77.3**	**103.5**	**91.4**
Net profit attributable to owners of the parent, comparable								
Net profit, comparable	30.9	66.9	87.5	73.4	28.4	77.3	103.5	91.4
Net of								
Net profit attributable to non-controlling interests	-2.9	10.7	6.7	3.9	-4.7	5.2	3.7	1.8
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.7	0.5	-	-	-	-	-
Net profit attributable to owners of the parent, comparable	**33.8**	**59.9**	**80.2**	**69.5**	**33.2**	**72.1**	**99.8**	**89.7**
Earnings/share, comparable, €								
Net profit attributable to owners of the parent, comparable	33.8	59.9	80.2	69.5	33.2	72.1	99.8	89.7
Average number of shares, basic, 1,000 pcs	99,468	99,347	99,237	99,182	99,027	99,059	99,069	99,074
Earnings/share, comparable, €	**0.34**	**0.60**	**0.81**	**0.70**	**0.33**	**0.73**	**1.01**	**0.90**
Return on capital employed, %								
Operating profit	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Capital employed, average	4,323.5	4,291.1	4,396.5	4,490.3	4,537.4	4,673.8	4,956.6	5,064.1
Return on capital employed, %	**5.6**	**9.9**	**12.2**	**9.2**	**4.6**	**10.3**	**12.0**	**10.1**

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Return on capital employed, comparable, %								
Operating profit, comparable	63.8	113.2	137.0	114.5	57.5	122.5	152.0	129.7
Capital employed, average	4,323.5	4,291.1	4,396.5	4,490.3	4,537.4	4,673.8	4,956.6	5,064.1
Return on capital employed, comparable, %	**5.9**	**10.6**	**12.5**	**10.2**	**5.1**	**10.5**	**12.3**	**10.2**
Group								
Return on equity, %								
Net profit	4.5	33.5	82.4	56.2	22.2	101.7	128.6	92.8
Equity, average	2,059.2	1,977.1	1,940.9	2,005.0	2,042.7	2,000.3	1,997.6	2,099.8
Return on equity, %	**0.9**	**6.8**	**17.0**	**11.2**	**4.3**	**20.3**	**25.7**	**17.7**
Return on equity, comparable, %								
Net profit, comparable	29.1	66.9	87.0	72.7	27.6	88.6	103.5	93.5
Equity, average	2,059.2	1,977.1	1,940.9	2,005.0	2,042.7	2,000.3	1,997.6	2,099.8
Return on equity, comparable, %	**5.7**	**13.5**	**17.9**	**14.5**	**5.4**	**17.7**	**20.7**	**17.8**
Equity ratio, %								
Shareholders' equity	2,061.3	1,892.9	1,989.0	2,021.1	2,064.4	1,936.3	2,058.8	2,140.8
Total assets	6,798.7	6,486.7	6,494.0	6,366.8	6,523.8	6,985.0	6,987.9	6,899.3
Advances received	239.7	28.0	29.7	26.0	35.4	37.0	24.4	34.6
Equity ratio, %	**31.4**	**29.3**	**30.8**	**31.9**	**31.8**	**27.9**	**29.6**	**31.2**

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2019

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	23,852,197	23.85
Financial and insurance corporations	3,166,064	3.17
General government*	8,005,478	8.00
Households	23,429,475	23.42
Non-profit institutions**	5,212,460	5.21
Foreign and nominee-registered	36,354,078	36.35
Total	**100,019,752**	**100.00**

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	18,814,636	59.28	18.81
Financial and insurance corporations	262,544	0.83	0.26
General government*	3,981,641	12.55	3.98
Households	5,741,545	18.09	5.74
Non-profit institutions**	2,163,812	6.82	2.16
Foreign and nominee-registered	772,829	2.44	0.77
Total	**31,737,007**	**100.00**	**31.73**

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	5,037,561	7.38	5.04
Financial and insurance corporations	2,903,520	4.25	2.90
General government*	4,023,837	5.89	4.02
Households	17,687,930	25.90	17.68
Non-profit institutions**	3,048,648	4.46	3.05
Foreign and nominee-registered	35,581,249	52.11	35.57
Total	**68,282,745**	**100.00**	**68.27**

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

Analysis of shareholding by number of shares held as at 31 Dec. 2019

All shares Number of shares	Number of shareholders, pcs	Percentage of shareholders, %	Share total, pcs	Percentage of shares, %
1–100	16,295	39.57	780,977	0.78
101–500	13,983	33.96	3,683,991	3.68
501–1,000	4,765	11.57	3,743,418	3.74
1,001–5,000	4,783	11.62	10,384,907	10.38
5,001–10,000	741	1.80	5,227,702	5.23
10,001–50,000	498	1.21	9,841,697	9.84
50,001–100,000	59	0.14	4,152,915	4.15
100,001–500,000	35	0.09	6,313,994	6.31
500,001–	16	0.04	55,890,151	55.88
Total	**41,175**	**100.00**	**100,019,752**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A shareholders, %	A share total, pcs	Percentage of A shares, %
1–100	3,906	42.97	149,178	0.47
101–500	2,034	22.37	512,480	1.61
501–1,000	1,135	12.48	986,746	3.11
1,001–5,000	1,394	15.33	3,325,302	10.48
5,001–10,000	320	3.52	2,260,111	7.12
10,001–50,000	254	2.79	5,398,510	17.01
50,001–100,000	32	0.35	2,311,994	7.28
100,001–500,000	9	0.10	1,616,421	5.09
500,001–	7	0.08	15,176,265	47.82
Total	**9,091**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of shareholders, pcs	Percentage of B shareholders, %	B share total, pcs	Percentage of B shares, %
1–100	13,554	39.11	686,063	1.00
101–500	12,834	37.03	3,394,400	4.97
501–1,000	3,884	11.21	2,962,078	4.34
1,001–5,000	3,678	10.61	7,720,576	11.31
5,001–10,000	395	1.14	2,793,447	4.09
10,001–50,000	255	0.74	4,893,190	7.17
50,001–100,000	26	0.08	1,836,932	2.69
100,001–500,000	21	0.06	4,044,719	5.92
500,001–	10	0.03	39,951,340	58.51
Total	**34,657**	**100.00**	**68,282,745**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2019

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	5,029,728	5.03	50,297,280	13.04
2.	Ilmarinen Mutual Pension Insurance Company	4,665,303	4.66	40,496,742	10.50
3.	Vähittäiskaupan Takaus Oy	3,298,752	3.30	32,987,520	8.55
4.	Varma Mutual Pension Insurance Company	1,630,986	1.63	1,630,986	0.42
5.	Foundation for Vocational Training in the Retail Trade	1,241,147	1.24	12,411,470	3.22
6.	OP-Finland mutual fund	755,635	0.76	2,190,190	0.57
7.	Elo Mutual Pension Insurance	641,957	0.64	641,957	0.17
8.	The State Pension Fund	640,000	0.64	640,000	0.17
9.	Heimo Välinen Oy	570,000	0.57	5,700,000	1.48
10.	K-Food Retailers' Club	539,326	0.54	5,393,260	1.40

Does not contain shares held by Kesko Corporation, amounting to 931,363 on 31 Dec. 2019.

10 largest shareholders by number of votes as at 31 Dec. 2019

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	5,029,728	5.03	50,297,280	13.04
2.	Ilmarinen Mutual Pension Insurance Company	4,665,303	4.66	40,496,742	10.50
3.	Vähittäiskaupan Takaus Oy	3,298,752	3.30	32,987,520	8.55
4.	Foundation for Vocational Training in the Retail Trade	1,241,147	1.24	12,411,470	3.22
5.	Heimo Välinen Oy	570,000	0.57	5,700,000	1.48
6.	K-Food Retailers' Club	539,326	0.54	5,393,260	1.40
7.	Food Paradise Oy	516,041	0.52	5,160,410	1.34
8.	OP-Finland mutual fund	755,635	0.76	2,190,190	0.57
9.	T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50
10.	Pokela Oy Iso Omena	179,400	0.18	1,794,000	0.47

Management's shareholdings

At the end of December 2019, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 307,814 Kesko Corporation A shares and 62,556 Kesko Corporation B shares, i.e. a total of 370,370 shares, which represents 0.37% of the total number of shares and 0.81% of votes carried by all shares of the Company.

On 31 December 2019, the President and CEO held 55,424 Kesko Corporation B shares, which represented 0.06% of the total number of shares and 0.01% of votes carried by all shares of the Company. On 31 December 2019, the Group Management Board including the President and CEO held 81 Kesko Corporation A shares and 164,594 Kesko Corporation B shares, which represented 0.16% of the total number of shares and 0.04% of votes carried by all shares of the Company.

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2019	%	1 Jan.–31 Dec. 2018, restated	%
Continuing operations					
Net sales	2.1	**10,720.3**	100.0	**10,382.8**	100.0
Cost of goods sold		-9,190.6	-85.7	-8,989.5	-86.6
Gross profit		**1,529.7**	14.3	**1,393.2**	13.4
Other operating income	2.3	823.1	7.7	789.8	7.6
Employee benefit expenses	2.4	-775.4	-7.2	-694.1	-6.7
Depreciation, amortisation and impairment charges	3.3 3.4	-161.5	-1.5	-146.9	-1.4
Depreciation, amortisation and impairment charges for right-of-use assets	3.5	-325.0	-3.0	-315.5	-3.0
Other operating expenses	2.4	-643.0	-6.0	-622.3	-6.0
Operating profit		**447.8**	4.2	**404.3**	3.9
Interest income and other finance income	4.4	14.0	0.1	14.1	0.1
Interest expense and other finance costs	4.4	-9.1	-0.1	-12.4	-0.1
Interest expense for lease liabilities	4.4	-95.4	-0.9	-98.6	-0.9
Foreign exchange differences	4.4	-0.8	0.0	-2.8	0.0
Total finance income and costs	4.4	-91.4	-0.9	-99.7	-1.0
Share of result of associates and joint ventures		46.8	0.4	-10.1	-0.1
Profit before tax		**403.3**	3.8	**294.5**	2.8
Income tax	2.6	-69.6	-0.6	-62.1	-0.6
Net profit for the year, continuing operations		**333.6**	**3.1**	**232.4**	**2.2**
Discontinued operations					
Net profit for the year from discontinued operations	3.8	11.6	0.1	-55.9	-0.5
Net profit for the year		**345.2**	**3.2**	**176.5**	**1.7**
Net profit for the year attributable to					
Owners of the parent		339.2		158.0	
Non-controlling interests		6.0		18.5	
Earnings per share for net profit attributable to owners of the parent					
Basic and diluted, continuing operations, €	2.7	3.31		2.16	
Basic and diluted, discontinued operations, €	2.7	0.12		-0.56	
Basic and diluted, Group total, €	2.7	3.42		1.59	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018, restated
Net profit for the year		**345.2**	**176.5**
Continuing operations			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	3.9 5.6	-3.6	-1.9
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	5.6	3.8	-10.1
Cash flow hedge revaluation	5.6	-1.0	2.1
Others	5.6	-0.3	-0.1
Total comprehensive income for the year, net of tax, continuing operations		**-1.2**	**-10.1**
Total comprehensive income for the year, net of tax, discontinued operations		-	35.1
Total comprehensive income for the year		**344.1**	**201.5**
Comprehensive income for the year attributable to			
Owners of the parent		336.7	184.5
Non-controlling interests		7.4	17.0

Consolidated statement of financial position

€ million	Note	31 Dec. 2019	%	31 Dec. 2018, restated	%	1.1.2018, restated	%
ASSETS							
Non-current assets							
Property, plant and equipment	3.3	1,487.9		1,196.4		1,293.1	
Intangible assets	3.4	684.6		492.1		376.2	
Right-of-use assets	3.5	2,191.3		2,057.0		1,996.0	
Shares in associates and joint ventures	3.10 5.2	57.8		123.5		117.4	
Financial assets at fair value through profit or loss	4.3 4.5	20.6		20.8		23.0	
Non-current receivables	4.3 4.5	59.9		65.7		65.4	
Deferred tax assets	5.5	7.6		8.1		8.5	
Pension assets	3.8	93.2		148.0		207.5	
Total non-current assets		**4,602.9**	**66.7**	**4,111.5**	**64.6**	**4,087.2**	**63.2**
Current assets							
Inventories	3.6	1,037.7		913.0		938.6	
Interest-bearing receivables	3.7 4.5	2.2		2.7		1.5	
Trade receivables	3.7 4.3 4.5	804.7		820.3		834.0	
Income tax assets	3.7	14.4		0.1		11.1	
Other non-interest-bearing receivables	3.7 4.5	206.6		194.4		196.4	
Financial assets at fair value through profit or loss	4.3 4.5	10.1		50.9		181.3	
Financial assets at amortised cost	4.3 4.5	34.5		59.1		46.4	
Cash and cash equivalents		124.4		139.2		170.2	
Total current assets		**2,234.5**	**32.4**	**2,179.7**	**34.2**	**2,379.5**	**36.8**
Non-current assets classified as held for sale	3.8	61.9	0.9	75.6	1.2	1.8	0.0
Total assets		**6,899.3**	**100.0**	**6,366.8**	**100.0**	**6,468.5**	**100.0**

€ million	Note	31 Dec. 2019	%	31 Dec. 2018, restated	%	1.1.2018, restated	%
EQUITY AND LIABILITIES							
Equity attributable to owners of the parent							
Share capital	4.2	197.3		197.3		197.3	
Share premium	4.2	197.8		197.8		197.8	
Other reserves	4.2	267.0		266.9		266.9	
Currency translation differences	4.2	-21.3		-23.7		-50.1	
Revaluation reserve	4.2	0.6		1.7		-0.4	
Retained earnings		1,384.4		1,274.1		1,354.8	
		2,025.8	**29.4**	**1,914.1**	**30.1**	**1,966.4**	**30.4**
Non-controlling interests	5.1	**115.0**	**1.7**	**107.0**	**1.7**	**93.0**	**1.4**
Total equity		**2,140.8**	**31.0**	**2,021.1**	**31.7**	**2,059.4**	**31.8**
Non-current liabilities							
Interest-bearing non-current liabilities	4.3 4.5 4.6	477.3		177.8		129.3	
Lease liabilities	4.6	2,039.0		1,979.6		1,922.5	
Non-interest-bearing non-current liabilities	4.3 4.5	29.8		29.4		31.4	
Deferred tax liabilities	5.5	6.8		5.4		11.9	
Pension obligations		0.4		0.4		0.4	
Provisions	3.11	19.7		23.6		25.1	
Total non-current liabilities		**2,573.0**	**37.3**	**2,216.2**	**34.8**	**2,120.6**	**32.8**
Current liabilities							
Current interest-bearing liabilities	4.3 4.5 4.6	137.8		233.4		404.6	
Lease liabilities	4.6	383.2		309.5		291.2	
Trade payables	4.3 4.5	1,029.9		982.7		1,023.7	
Other non-interest-bearing liabilities	4.3 4.5	207.9		197.8		224.2	
Income tax liabilities	4.5	11.8		16.5		5.6	
Accrued liabilities	4.3 4.5	387.6		355.0		315.1	
Provisions	3.11	16.4		19.2		24.0	
Total current liabilities		**2,174.7**	**31.5**	**2,114.2**	**33.2**	**2,288.4**	**35.4**
Liabilities related to available-for-sale non-current assets	3.8	10.9	0.2	15.4	0.2	0.1	0.0
Total liabilities		**4,758.5**	**69.0**	**4,345.8**	**68.3**	**4,409.1**	**68.2**
Total equity and liabilities		**6,899.3**	**100.0**	**6,366.8**	**100.0**	**6,468.5**	**100.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018, restated
Cash flows from operating activities			
Profit before tax		403.3	294.5
Adjustments			
Depreciation according to plan		161.5	138.7
Depreciation and impairment for right-of-use assets		325.0	320.3
Finance income and costs		-4.0	1.1
Interest expense for lease liabilities		95.4	98.6
Other adjustments	2.8	0.3	54.0
		578.2	612.7
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		26.3	46.7
Inventories, increase (-)/decrease (+)		-47.8	-33.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		33.1	-24.5
		11.6	-11.7
Interest paid and other finance costs		-8.2	-14.1
Interest paid on lease liabilities		-95.5	-98.6
Interest received		14.1	15.6
Dividends received		0.8	0.7
Dividends received from associated companies		83.4	-
Income taxes paid		-94.7	-50.5
Net cash flows from operating activities, continuing operations		**893.1**	**748.4**
Net cash flows from operating activities, discontinued operations	3.8	3.5	-23.3
Net cash flows from operating activities, total		**896.6**	**725.2**
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.2	-280.7	-164.7
Payments to acquire equity accounted investments	2.8	-	-9.2
Payments for property, plant, equipment and intangible assets	2.8	-377.6	-224.1
Proceeds from equity accounted investments		4.6	7.5
Proceeds from sale of property, plant, equipment and intangible assets		29.7	18.7
Proceeds from sale of financial assets measured at fair value		-	0.0
Non-current loan and receivables, increase (-)/decrease (+)		3.6	-1.5
Net cash flows from investing activities, continuing operations		**-620.3**	**-373.3**
Net cash flows from investing activities, discontinued operations	3.8	3.5	164.3
Net cash flows from investing activities, total		**-616.8**	**-209.0**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	209.1	-97.6
Lease liabilities, increase (+)/decrease (-)	2.8	-330.9	-315.6
Interest-bearing receivables, increase (-)/decrease (+)	2.8	-0.4	0.1
Dividends paid		-238.2	-225.4
Acquisition of treasury shares	4.2	-	-24.4
Equity increase		6.4	-
Short-term money market investments, increase (-)/decrease (+)		64.6	116.5
Other items		-6.2	0.8
Net cash flows from financing activities, continuing operations		**-295.4**	**-545.7**
Net cash flows from financing activities, discontinued operations		-	-
Net cash flows from financing activities, total		**-295.4**	**-545.7**
Change in cash and cash equivalents and current available-for-sale financial assets		**-15.6**	**-29.5**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, continuing operations	2.8	139.2	163.7
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, discontinued operations	2.8	0.4	6.5
Currency translation difference adjustment and change in value		0.4	-1.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, continuing operations	2.8	**124.4**	**139.2**
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, discontinued operations	2.8	**-**	**0.4**

Consolidated statement of changes in equity

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of the parent								
Balance as at 1 January 2019	**197.3**	**464.7**	**-23.7**	**1.7**	**-36.9**	**1,311.0**	**1,914.0**	**107.0**	**2,021.1**
Share-based payments					1.5		1.5		1.5
Dividends						-231.9	-231.9	-6.2	-238.2
Increase in share capital								6.4	6.4
Other changes		0.1				5.4	5.5	0.4	5.9
Transactions with owners, total		0.1	0.0		1.5	-226.5	-224.9	0.6	-224.3
Comprehensive income									
Net profit for the year, continuing operations						327.6	327.6	6.0	333.6
Net profit for the year, discontinued operations						11.6	11.6		11.6
Actuarial gains/losses						-4.5	-4.5		-4.5
Currency translation differences related to a foreign operation			2.4			0.0	2.4	1.4	3.8
Cash flow hedge revaluation				-1.3			-1.3		-1.3
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				0.3		0.9	1.2		1.2
Comprehensive income, discontinued operations									-
Total comprehensive income for the period			2.4	-1.0		335.3	336.7	7.4	344.1
Balance as at 31 December 2019	**197.3**	**464.8**	**-21.3**	**0.6**	**-35.4**	**1,419.8**	**2,025.8**	**115.0**	**2,140.8**

	Attributable to owners of the parent								
€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2018	**197.3**	**464.7**	**-50.1**	**-0.4**	**-14.2**	**1,538.6**	**2,135.9**	**98.7**	**2,234.6**
Impact of IFRS 16 adoption						-169.5	-169.5	-5.7	-175.2
Adjusted opening balance 1 January 2018	**197.3**	**464.7**	**-50.1**	**-0.4**	**-14.2**	**1,369.1**	**1,966.4**	**93.0**	**2,059.4**
Share-based payments					1.8		1.8		1.8
Acquisition of treasury shares					-24.4		-24.4		-24.4
Dividends						-221.8	-221.8	-3.9	-225.7
Increase in share capital							0.0	0.7	0.7
Other changes		0.0	0.0			7.7	7.6	0.2	7.8
Transactions with owners, total		0.0	0.0		-22.6	-214.2	-236.8	-3.0	-239.9
Comprehensive income									
Net profit for the year, continuing operations						214.0	214.0	18.5	232.4
Net profit for the year, discontinued operations						-55.9	-55.9		-55.9
Actuarial gains/losses						-2.3	-2.3		-2.3
Currency translation differences related to a foreign operation			-8.7			0.1	-8.6	-1.4	-10.1
Cash flow hedge revaluation				2.6			2.6		2.6
Others						-0.1	-0.1		-0.1
Tax related to other comprehensive income				-0.5		0.4	-0.1		-0.1
Comprehensive income, discontinued operations			35.1				35.1		35.1
Total comprehensive income for the period			26.4	2.1		156.1	184.5	17.0	201.5
Balance as at 31 December 2018	**197.3**	**464.7**	**-23.7**	**1.7**	**-36.9**	**1,311.0**	**1,914.0**	**107.0**	**2,021.1**

Further information on share capital and reserves is disclosed in note 4.2, on components of other comprehensive income in note 5.6 and on share-based compensation plans in note 5.4.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

IN THIS SECTION

Accounting policies are stated in each note in sections 2–5.

The notes to the consolidated financial statements have been grouped into sections based on their nature. The basis of preparation is described as part of this note (Accounting policies for the consolidated financial statements), while the accounting policies directly related to a specific note are presented as part of the note in question. The notes contain the relevant financial information as well as a description of the accounting policies and key estimates and judgements applied for the topics of the individual note.

1.1 Basic information about the Company

Kesko is a Finnish listed trading sector company. Kesko has approximately 1,800 stores engaged in chain operations in the Nordic and Baltic countries, Poland and Belarus.

Kesko Group's reportable segments consist of its business divisions, namely the grocery trade, the building and technical trade, and the car trade.

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The Company's business ID is 0109862-8, it is domiciled in Helsinki, and its registered address is PO Box 1, FI-00016 KESKO. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, PO Box 1, Helsinki, FI-00016 KESKO, visiting address Työpajankatu 12, Helsinki, and from the internet at www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 4 February 2020.

1.2 Basis of preparation

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2019. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Act and regulations based on it. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

The Group has adopted the new standard IFRS 16 Leases, which became effective on 1 January 2019. The Group adopted the standard using a full retrospective method, and the impact on the date of transition (1 January 2018) has been calculated as if the standard had always been in effect. Following the adoption of IFRS 16, the Group's opening balance of 1 January 2018 and the income statement, balance sheet, cash flow, consolidated statement of changes in equity, and notes for the 2018 comparison period have been restated. The impacts of the adoption of the standard are presented in note 1.6. In the financial year 2018, the Group adopted the new standards IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers and the changes to the standard IFRS 2 Share-based Payments, effective as of 1 January 2018.

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

1.3 Critical accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with international accounting standards requires the use of certain estimates and assumptions about the future that affect the reported amounts of assets and liabilities, contingent liabilities, and income and expense. The actual results may differ from these estimates and assumptions. The most significant circumstances for which estimates have been required are described below.

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

Measurement of assets acquired and liabilities assumed

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

Impairment test

The recoverable amounts of cash generating units have been determined using calculations based on value in use. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of three years. (Note 3.4)

Employee benefits

The Group operates both defined contribution pension plans and defined benefit pension plans. Items relating to employee benefits are calculated using several factors that require the application of judgement. Pension calculations under defined benefit plans in compliance with IAS 19 are based on, among others, the following factors that rely on management estimates (note 3.9):

- discount rate used in calculating pension expenses and obligations and net finance cost for the period
- future salary level trend
- employee service life.

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

Measurement of inventories

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

Trade receivables

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

Provisions

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

Leases

When recognising leases in the balance sheet, assessments must be made concerning the lease term, use of extension options and the discount rate used. The assessments may differ from the actualised future lease terms and conditions.

1.4 Critical judgements in applying accounting policies

The Group's management uses its judgement in the adoption and application of accounting policies in the financial statements. The management has exercised its judgement in the application of accounting policies when, for example, measuring receivables, determining provisions for restructuring, and measuring assets and liabilities recognised in the balance sheet based on leases.

1.5 Consolidation principles

Subsidiaries

The consolidated financial statements combine the financial statements of Kesko Corporation and subsidiaries controlled by the Group. Control exists when the Group has more than half of the voting rights of a subsidiary or otherwise exerts control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. The existence of potential voting rights has been considered when assessing the existence of control in the case that the instruments entitling to potential control are currently exercisable. Subsidiaries are listed in note 5.2.

Mutual shareholding is eliminated by using the acquisition cost method. The cost of assets acquired is determined on the basis of the fair value of the acquired assets as at the acquisition date, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction. The identifiable assets, liabilities and contingent liabilities acquired are measured at the fair value at the acquisition date, gross of non-controlling interest.

Intragroup transactions, receivables and payables, unrealised profits and internal distributions of profits are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss is due to the impairment of an asset. Non-controlling interest in the profit for the period is disclosed in the income statement and the amount of equity attributable to the non-controlling interests is disclosed separately in equity.

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

Associates

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

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

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

Joint arrangements

Joint arrangements are arrangements in which the sharing of joint control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method, and on initial recognition, they are recognised at cost.

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

Unrealised gains on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from joint ventures are deducted from the Group's result and the cost of the shares. An investment in a joint venture includes the goodwill generated by the acquisition. Goodwill is not amortised.

Mutual real estate companies

Mutual real estate companies are consolidated as common functions on a line-by-line basis in proportion to ownership. The Group's share of mutual real estate companies' loans and reserves is accounted for separately in the consolidation.

Subsidiaries, associates and joint ventures and proportionately consolidated mutual real estate companies are listed in note 5.2.

Foreign currency items

The consolidated financial statements are presented in euros, which is both the functional currency of the environment in which the Group's parent operates and the presentation currency. On initial recognition, the amounts with respect to the result and financial position of the Group companies located outside the euro zone are recorded in the functional currency of each of their operating environments.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currency are translated into euros using the closing rate. Exchange rate gains and losses on foreign currency transactions as well as receivables and liabilities denominated in foreign currency are recognised in the income statement, with the exception of monetary items that form a part of a net investment in a foreign operation and loans designated as hedges for foreign net investments and regarded as effective. These exchange differences are recognised in equity and their changes are presented in other comprehensive income. The exchange differences are presented in the income statement on disposal of the foreign operation or settlement of the hedges. The Group has currently no loans designated as hedges for foreign net investments. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign exchange forward contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in finance income and costs.

The income statements of the Group companies operating outside the euro zone have been translated into euros at the average rate of the financial year, and their balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, exchange differences arising from monetary items that form a part of a net investment in a foreign operation and the hedging results of net investments are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, translation differences are recognised in the income statement as part of the gains or losses on the disposal.

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

1.6 New IFRS standards and IFRIC interpretations and the impact of new and updated standards

IFRS 16 Leases

The Group has adopted the new standard IFRS 16 Leases, which became effective on 1 January 2019. The Group adopted IFRS 16 using a full retrospective method, and the impact on the date of transition 1 January 2018 has been calculated as if the standard had always been in effect. Following the adoption of IFRS 16, the Group's opening balance sheet of 1 January 2018 and the income statement, balance sheet, cash flow, consolidated statement of changes in equity, and notes for the 2018 comparison period have been restated.

Kesko Group leases properties, machinery and equipment for use in its business operations in all of its operating countries. For most of these leases, assets and liabilities corresponding to the present value of future lease payments are recognised in the balance sheet at the commencement of the lease in accordance with IFRS 16 Leases. With the retrospective method, the interest rate used in calculating the present value of future lease payments was determined for the commencement date for the lease, and lease payments were discounted as of the commencement date of each lease. IFRS 16 Leases includes exemptions for leases with a term of less than 12 months and for low-value assets, which the Group adopted. Kesko also leases properties. In the new IFRS 16 Leases, reporting for the lessor remains unchanged.

The adoption of the new IFRS 16 Leases had a significant impact on the Group's income statement and consolidated statement of financial position. Assets in the opening consolidated statement of financial position on 1 January 2018 were increased by €1,996.0 million of right-of-use assets from leases. Interest-bearing liabilities in the consolidated statement of financial position increased in the opening balance sheet of 1 January 2018 by the amount of lease liabilities corresponding to the present value of future lease payments, €2,213.7 million. There was a €-175.2 million impact on equity at the date of transition on 1 January 2018, as the values of assets and liabilities recognised in the balance sheet differed at the date of transition due to the use of the retrospective method. The adoption of IFRS 16 Leases increased operating profit in the consolidated income statement for the 2018 financial year, as lease expenditure previously recognised in the income statement was replaced with depreciation of right-of-use assets. Interest expenses for lease liabilities recognised in financial items in the consolidated income statement increased finance costs. In addition, change in deferred tax was recognised in income taxes. The adoption of the new standard affected the cash flow from operating activities and cash flow from financing activities in the consolidated statement of cash flows, as realised rent payments were allocated to cash flow from operating activities for the portion corresponding to finance costs and to cash flow from financing activities for the portion corresponding to part payment of debt. The Group's cash flow as a whole has not changed, the standard has only changed the way different items in the statement of cash flows are presented.

The impacts of the adoption of IFRS 16 Leases on the opening balance sheet of 1 January 2018 and the income statement and balance sheet of the comparison period 2018 are presented below.

Consolidated statement of financial position 1 Jan. 2018

€ million	Note	Opening balance sheet 1 Jan. 2018	Impact of IFRS 16	Opening balance sheet 1 Jan. 2018, restated
ASSETS				
Non-current assets				
Property, plant and equipment		1,293.1		1,293.1
Intangible assets		376.2		376.2
Right-of-use assets	3.5	-	1,996.0	1,996.0
Shares in associates and joint ventures		117.4		117.4
Financial assets at fair value through profit or loss		23.1		23.1
Non-current receivables		65.4		65.4
Deferred tax assets	5.5	5.6	2.9	8.5
Pension assets		207.5		207.5
Total non-current assets		**2,088.3**	**1,998.9**	**4,087.2**
Current assets				
Inventories		938.6		938.6
Interest-bearing receivables		1.5		1.5
Trade receivables		834.0		834.0
Income tax assets		11.1		11.1
Other non-interest-bearing receivables		196.4		196.4
Financial assets at fair value through profit or loss		181.3		181.3
Financial assets at amortised cost		46.4		46.4
Cash and cash equivalents		170.2		170.2
Total current assets		**2,379.5**		**2,379.5**
Non-current assets classified as held for sale		1.8		1.8
Total assets		**4,469.6**	**1,998.9**	**6,468.5**

€ million	Note	Opening balance sheet 1 Jan. 2018	Impact of IFRS 16	Opening balance sheet 1 Jan. 2018, restated
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		197.3		197.3
Share premium		197.8		197.8
Other reserves		266.9		266.9
Currency translation differences		-50.1		-50.1
Revaluation reserve		-0.4		-0.4
Retained earnings		1,524.4	-169.5	1,354.8
		2,135.9	-169.5	1,966.4
Non-controlling interests	5.1	98.7	-5.7	93.0
Total equity		**2,234.6**	**-175.2**	**2,059.4**
Non-current liabilities				
Interest-bearing non-current liabilities		129.3		129.3
Lease liabilities	4.6	-	1,922.5	1,922.5
Non-interest-bearing non-current liabilities		31.4		31.4
Deferred tax liabilities	5.5	51.6	-39.7	11.9
Pension obligations		0.4		0.4
Provisions		25.1		25.1
Total non-current liabilities		**237.8**	**1,882.8**	**2,120.6**
Current liabilities				
Current interest-bearing liabilities		404.6		404.6
Lease liabilities	4.6	-	291.2	291.2
Trade payables		1,023.7		1,023.7
Other non-interest-bearing liabilities		224.2		224.2
Income tax liabilities		5.6		5.6
Accrued liabilities	4.3 4.5	307.4	7.7	315.1
Provisions	3.11	31.6	-7.6	24.0
Total current liabilities		**1,997.1**	**291.3**	**2,288.4**
Liabilities related to available-for-sale non-current assets		0.1		0.1
Total equity and liabilities		**4,469.6**	**1,998.9**	**6,468.5**

Consolidated income statement 1 Jan.–31 Dec. 2018

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Continuing operations				
Net sales		**10,382.8**		**10,382.8**
Cost of goods sold		-8,989.5		-8,989.5
Gross profit		**1,393.2**		**1,393.2**
Other operating income		789.8		789.8
Employee benefit expenses		-694.1		-694.1
Depreciation, amortisation and impairment charges	3.5	-146.9	-315.5	-462.3
Other operating expenses	2.4	-1,034.2	411.8	-622.3
Operating profit		**307.9**	**96.3**	**404.3**
Interest income and other finance income		14.1		14.1
Interest expense and other finance costs	4.4	-12.4	-98.6	-111.0
Foreign exchange differences		-2.8		-2.8
Total finance income and costs	4.4	-1.1	-98.6	-99.7
Share of result of associates and joint ventures		-10.1		-10.1
Profit before tax		**296.8**	**-2.3**	**294.5**
Income tax	2.6	-61.9	-0.1	-62.1
Net profit for the year, continuing operations		**234.8**	**-2.4**	**232.4**
Discontinued operations				
Net profit for the year from discontinued operations		-55.9		-55.9
Net profit for the year		**178.9**	**-2.4**	**176.5**
Net profit for the year attributable to				
Owners of the parent		159.9	-1.8	158.0
Non-controlling interests		19.0	-0.5	18.5
Earnings per share for net profit attributable to owners of the parent				
Basic and diluted, continuing operations, €	2.7	2.18	-0.02	2.16
Basic and diluted, discontinued operations, €	2.7	-0.56		-0.56
Basic and diluted, Group total, €	2.7	1.61	-0.02	1.59

Consolidated statement of comprehensive income 1 Jan.–31 Dec. 2018

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Net profit for the year		**178.9**	**-2.4**	**176.5**
Continuing operations				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains and losses		-1.9		-1.9
Items that may be reclassified subsequently to profit or loss				
Currency translation differences related to a foreign operation	5.6	-10.4	0.3	-10.1
Cash flow hedge revaluation		2.1		2.1
Revaluation of available-for-sale financial assets		-		-
Others		-0.1		-0.1
Total comprehensive income for the year, net of tax, continuing operations		**168.5**	**-2.1**	**166.5**
Total comprehensive income for the year, net of tax, discontinued operations		35.1		35.1
Total comprehensive income for the year		**203.6**	**-2.1**	**201.5**
Comprehensive income for the year attributable to				
Owners of the parent		186.1	-1.5	184.5
Non-controlling interests		17.6	-0.5	17.0

Consolidated statement of financial position 31 Dec. 2018

€ million	Note	Balance sheet 31 Dec. 2018, published	Impact of IFRS 16	Balance sheet 31 Dec. 2018, restated
ASSETS				
Non-current assets				
Property, plant and equipment		1,191.1		1,191.1
Intangible assets		492.1		492.1
Right-of-use assets	3.5	5.3	2,057.0	2,062.2
Shares in associates and joint ventures		123.5		123.5
Financial assets at fair value through profit or loss	4.3 4.5	20.8	2.8	23.6
Non-current receivables		65.7		65.7
Deferred tax assets		5.3		5.3
Pension assets		148.0		148.0
Total non-current assets		**2,051.7**	**2,059.8**	**4,111.5**
Current assets				
Inventories		913.0		913.0
Interest-bearing receivables		2.7		2.7
Trade receivables		820.3		820.3
Income tax assets		0.1		0.1
Other non-interest-bearing receivables		194.4		194.4
Financial assets at fair value through profit or loss		50.9		50.9
Financial assets at amortised cost		59.1		59.1
Cash and cash equivalents		139.2		139.2
Total current assets		**2,179.7**		**2,179.7**
Non-current assets classified as held for sale	3.8	71.5	4.1	75.6
Total assets		**4,302.9**	**2,063.9**	**6,366.8**

€ million	Note	Balance sheet 31 Dec. 2018, published	Impact of IFRS 16	Balance sheet 31 Dec. 2018, restated
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		197.3		197.3
Share premium		197.8		197.8
Other reserves		266.9		266.9
Currency translation differences	4.2	-24.0	0.3	-23.7
Revaluation reserve		1.7		1.7
Retained earnings		1,445.4	-171.3	1,274.1
		2,085.1	-171.0	1,914.1
Non-controlling interests	5.1	113.2	-6.2	107.0
Total equity		**2,198.3**	**-177.3**	**2,021.1**
Non-current liabilities				
Interest-bearing non-current liabilities		177.8		177.8
Lease liabilities	4.6	-	1,979.6	1,979.6
Non-interest-bearing non-current liabilities		29.4		29.4
Deferred tax liabilities	4.3 4.5	44.9	-39.6	5.4
Pension obligations		0.4		0.4
Provisions	3.11	27.1	-3.5	23.6
Total non-current liabilities		**279.6**	**1,936.6**	**2,216.2**
Current liabilities				
Current interest-bearing liabilities		233.4		233.4
Lease liabilities	4.6	-	309.5	309.5
Trade payables		982.7		982.7
Other non-interest-bearing liabilities		197.8		197.8
Income tax liabilities		16.5		16.5
Accrued liabilities	4.3 4.5	353.9	1.2	355.0
Provisions	3.11	25.2	-6.0	19.2
Total current liabilities		**1,809.6**	**304.6**	**2,114.2**
Liabilities related to available-for-sale non-current assets	3.8	15.4		15.4
Total equity and liabilities		**4,302.9**	**2,063.9**	**6,366.8**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Cash flows from operating activities				
Profit before tax		296.8	-2.3	294.5
Adjustments				
Depreciation according to plan		138.7		138.7
Depreciation and impairment for right-of-use assets		4.8	315.5	320.3
Finance income and costs		1.1		1.1
Interest expense for lease liabilities			98.6	98.6
Other adjustments	2.8	55.9	-1.8	54.0
		200.5	412.2	612.7
Change in working capital				
Current non-interest-bearing receivables, increase (-)/decrease (+)		46.7		46.7
Inventories, increase (-)/decrease (+)		-33.9		-33.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-24.5		-24.5
		-11.7		-11.7
Interest paid and other finance costs		-14.1		-14.1
Interest paid on lease liabilities			-98.6	-98.6
Interest received		15.6		15.6
Dividends received		0.7		0.7
Income taxes paid		-50.5		-50.5
Net cash flows from operating activities, continuing operations		**437.1**	**311.3**	**748.4**
Net cash flows from operating activities, discontinued operations	2.8	-23.2		-23.2
Net cash flows from operating activities, total		**413.8**	**311.3**	**725.2**
Cash flows from investing activities				
Payments for acquisition of subsidiary shares, net of cash acquired		-164.7		-164.7
Payments to acquire equity accounted investments		-9.2		-9.2
Payments for property, plant, equipment and intangible assets		-224.1		-224.1
Proceeds from sale of business operations, net of cash disposed of		-		-

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Proceeds from equity accounted investments		7.5		7.5
Proceeds from sale of property, plant, equipment and intangible assets		18.7		18.7
Proceeds from sale of available-for-sale financial assets		0.0		0.0
Non-current loan and receivables, increase (-)/decrease (+)		-1.5		-1.5
Net cash flows from investing activities, continuing operations		**-373.3**		**-373.3**
Net cash flows from investing activities, discontinued operations	3.8	164.3		164.3
Net cash flows from investing activities, total		**-209.0**		**-209.0**
Cash flows from financing activities				
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	-97.6		-97.6
Lease liabilities, increase (+)/decrease (-)	2.8	-4.3	-311.4	-315.6
Interest-bearing receivables, increase (-)/decrease (+)	2.8	0.1		0.1
Dividends paid		-225.4		-225.4
Acquisition of treasury shares	4.2	-24.4		-24.4
Short-term money market investments, increase (-)/decrease (+)		116.5		116.5
Other items		0.8		0.8
Net cash flows from financing activities, continuing operations		**-234.3**	**-311.4**	**-545.7**
Net cash flows from financing activities, discontinued operations		-		-
Net cash flows from financing activities, total		**-234.3**	**-311.4**	**-545.7**
Change in cash and cash equivalents and current available-for-sale financial assets		**-29.5**		**-29.5**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, continuing operations	2.8	163.7		163.7
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, discontinued operations	2.8	6.5		6.5
Currency translation difference adjustment and change in value	2.8	-1.1		-1.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, continuing operations	**2.8**	**139.2**		**139.2**
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, discontinued operations	**2.8**	**0.4**		**0.4**

IFRIC interpretations and new and updated standards

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation, which became effective on 1 January 2019, explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and provides detailed instructions on the correct handling in financial statements.

Annual Improvements to IFRS Standards

The following improvements to IFRS standards became effective on 1 January 2019

- IFRS 3 Business Combinations – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages
- IFRS 11 Joint Arrangements – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation
- IAS 12 Income Taxes – clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised
- IAS 23 Borrowing Costs – clarified that, if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

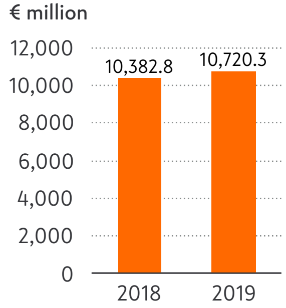
The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. The amendments contain specifications for the calculation of current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement.

The aforementioned interpretations and annual improvements or the amendments to IAS 19 Employee Benefits do not have a significant impact on the consolidated financial statements.

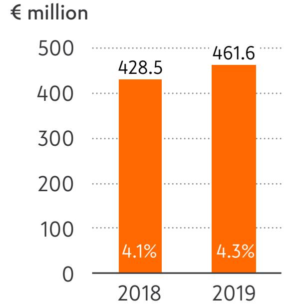
New standards that become effective on 1 January 2020 or later are not estimated to have an impact on the consolidated financial statements.

2. FINANCIAL RESULTS

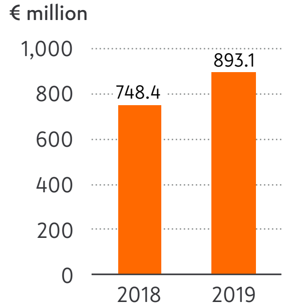
Net sales, continuing operations



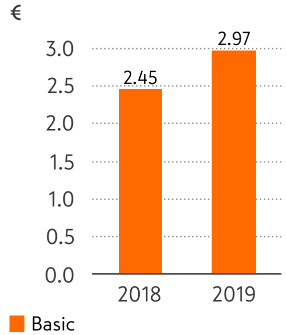
Comparable operating profit, continuing operations



Cash flow from operating activities, continuing operations



Comparable earnings/share, continuing operations



IN THIS SECTION

2.1 Kesko's divisions

Accounting policies

The Group's reportable segments are composed of the Group's divisions, namely the grocery trade, the building and technical trade, and the car trade.

Division information is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources to the divisions, has been identified as the Group Management Board. The reportable operating segments derive their net sales from the grocery trade, the building and technical trade, and the car trade. Sales between divisions are charged at prevailing market rates.

The Group Management Board assesses the divisions' performances based on operating profit, comparable operating profit, and comparable return on capital employed. Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and are allocated to the divisions. The Group identifies gains and losses on the disposal of real estate, shares and business operations, impairments and significant restructurings as items affecting comparability. Gains on disposals are presented in the income statement within other operating income, and losses on disposals within other operating expenses. Impairment charges and significant profit and loss items related to changes in leases are presented in the income statement under depreciation, amortisation and impairment charges. In other respects, the Management Board's performance monitoring is in full compliance with IFRS reporting. Finance income and costs are not allocated to the divisions as the Group's cash and cash equivalents and financial liabilities are managed by the Group Treasury. Changes in the fair values of intra-Group foreign exchange forward contracts entered into and realised gains and losses are reported as part of other operating income and expenses to the extent that they hedge the divisions' foreign exchange risk.

The assets and liabilities of a division's capital employed consist of operating items that can be justifiably allocated to the divisions. The assets of capital employed comprise property, plant and equipment and intangible assets, right-of-use assets related to leases, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables, and assets held for sale. The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions.

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

Revenue recognition policies

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

For net sales, sales revenue is adjusted for indirect taxes, sales adjustment items and the exchange differences of foreign-currency-denominated sales. Sales adjustment items include loyalty award credits relating to the K-Plussa customer loyalty scheme, recognised as part of sales transactions. Income from corresponding sales is recognised when the award credits are redeemed or expire. Contract liability is recognised in the balance sheet. Loyalty award credits affect the net sales of those divisions which grant K-Plussa customer loyalty award credits in Finland and are engaged in retailing.

The Group sells products to retailers and other retail dealers and engages in own retailing. Income from sales of goods and services is recognised when the customer obtains control of the goods or services. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the goods or services. As a rule, income from sales of goods can be recognised at the time of transfer. Income from services is recognised after the service has been performed. Sales to retailers and other retail dealers are based on invoicing. Retail sales are mainly in cash or by credit card.

Interest income is recognised on a time apportionment basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Kesko's business models

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Kesko manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 45% (46%) of the Group's net sales in 2019. B2B trade is a significant, growing part of business operations. B2B trade accounted for 37% (36%) of the Group's net sales in 2019. Kesko's own retailing accounted for 18% (18%) of the Group's net sales.

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries and the retailing of home and speciality goods in Finland. Kesko's grocery trade operates under the K-retailer business model. There are approximately 1,200 K-food stores operated by K-retailers in Finland. These stores form the K-Citymarket, K-Supermarket, K-Market and Neste K grocery retail chains. Kespro is the leading foodservice provider and wholesaler in Finland. K-Citymarket's home and speciality goods trade operates in home and speciality goods retailing in Finland.

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries, Poland and Belarus. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland where the retailer business model is employed. Kesko itself acts as a retail operator in Sweden, Norway, the Baltic countries and Belarus. The retail store chains are K-Rauta (Finland, Sweden and Estonia), K-Bygg (Sweden), Byggmakker (Norway), K-Senukai (Latvia and Lithuania) and OMA (Belarus). The building and home improvement stores serve both consumers and business customers. The Group assumed ownership of the Swedish building and home improvement group Fresks on 17 May 2019. Former Fresks stores have been serving customers under the K-Bygg brand since June 2019. The acquisition strengthens Kesko's position in Sweden, especially in the professional builders customer segment. Onninen is one of the leading suppliers of HEPAC and electrical products and related service providers in the Baltic Sea region and Scandinavia. The group specialises in the B2B trade and has around 130 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

The specialty trade included in the building and technical trade division comprises machinery trade in the Baltic countries and leisure trade in Finland. The chains in the leisure goods trade are Intersport, Budget Sport, The Athlete's Foot and Kookenkä. Konekesko Oy's agricultural machinery trade operations in Finland were sold to Danish Agro Group on 1 August 2019. Kesko has stated it will also divest its remaining stake in the Baltic machinery trade subsidiaries to Danish Agro Group.

The Russian building and home improvement trade operations, discontinued in 2018, are reported as discontinued operations in the consolidated financial statements, and are not included in the financial statements in the figures for the Group's continuing operations or the figures for the building and technical trade for the financial year or for the comparison period. The dissolution of the Russian subsidiaries was completed during the financial year.

Car trade

The car trade comprises the business operations of K-Auto, K-Caara and AutoCarrera. The car trade imports and markets Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen and MAN commercial vehicles in Finland. K-Auto also engages in car retailing and provides after-sales services at its own retail outlets. On 1 March 2019, K Caara Oy completed the acquisition of Volkswagen and SEAT businesses from Huittisten Laatuauto Oy in Forssa and Huittinen, and the acquisition of Volkswagen, Audi and SEAT businesses from LänsiAuto Oy in Kotka, Kouvola and Lappeenranta. On 1 July 2019, K Caara Oy completed the acquisition of Volkswagen, Audi and SEAT businesses from Laakkonen Group.

Common functions

Common functions comprise Group support functions.

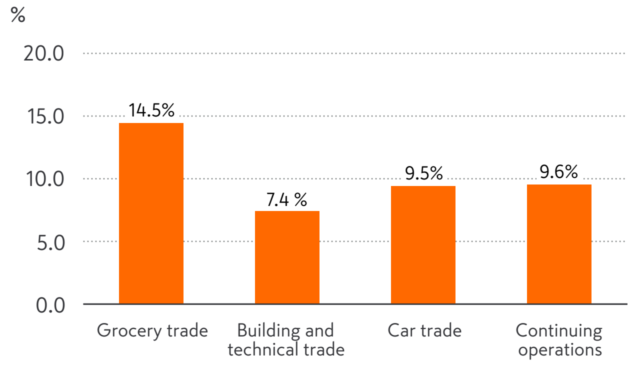
Kesko's divisions 2019

Profit, continuing operations

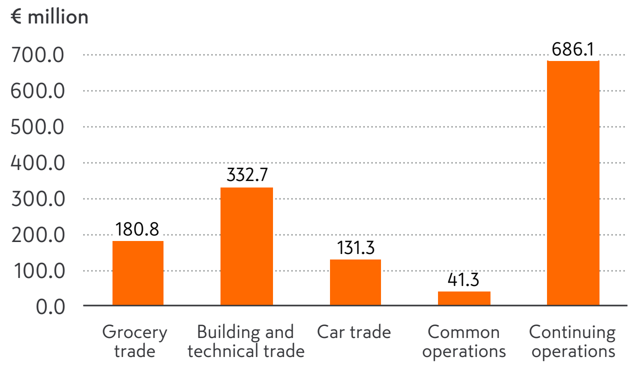
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,531.2	4,331.1	863.9	25.3	10,751.5
of which intersegment sales	-10.2	0.6	-3.4	-18.3	-31.2
Net sales from external customers	**5,521.0**	**4,331.8**	**860.4**	**7.1**	**10,720.3**
Change in net sales in local currency excluding acquisitions and disposals, %	3.2	2.1	-11.6	(..)	1.4
Change in net sales, %	2.7	5.6	-3.3	(..)	3.3
Other division income	654.9	146.5	8.0	15.9	825.3
of which intersegment income	-0.9	-0.6	0.0	-0.7	-2.2
Other operating income from external customers	**654.0**	**145.8**	**8.0**	**15.2**	**823.1**
Depreciation and amortisation	-73.3	-36.3	-18.9	-33.0	-161.5
Impairment	0.0	0.0	-	-	0.0
Depreciation and impairment for right-of-use assets	-197.2	-116.0	-7.0	-4.9	-325.0
Operating profit	**334.6**	**127.6**	**25.5**	**-39.9**	**447.8**
Items affecting comparability	6.7	-15.3	-1.2	-4.0	-13.8
Comparable operating profit	**327.9**	**142.8**	**26.8**	**-35.9**	**461.6**
Finance income and costs					-91.4
Investments accounted for using the equity method					46.8
Profit before tax					**403.3**

(..) Change over 100%

Comparable return on capital employed by segment, continuing operations 2019



Capital expenditure by segment, continuing operations 2019



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	1,079.8	800.4	193.9	100.0	-1.6	2,172.6
Right-of-use assets	1,334.5	711.5	71.7	73.6		2,191.3
Interests in associates and joint ventures and other investments	7.6	9.1	0.0	62.3	-0.6	78.4
Pension assets	20.2	7.6		65.4		93.2
Inventories	216.9	597.5	223.3			1,037.7
Trade receivables	329.2	432.6	43.9	6.2	-7.2	804.7
Other non-interest-bearing receivables	53.8	132.6	15.1	34.0	-13.2	222.3
Interest-bearing receivables	1.0	1.7		58.1	0.0	60.8
Non-current assets classified as held for sale		61.5		0.5	-0.1	61.9
Assets included in capital employed	**3,043.0**	**2,754.5**	**547.9**	**400.1**	**-22.8**	**6,722.7**
Unallocated items						
Deferred tax assets						7.6
Financial assets at fair value through profit or loss						10.1
Financial assets at amortised cost						36.5
Cash and cash equivalents						122.4
Total assets	**3,043.0**	**2,754.5**	**547.9**	**400.1**	**-22.8**	**6,899.3**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	502.4	486.3	25.6	19.1	-3.5	1,029.9
Other non-interest-bearing liabilities	244.0	227.9	98.6	55.3	-16.9	608.9
Provisions	3.1	1.3	30.6	1.2		36.1
Liabilities related to assets held for sale		10.9				10.9
Liabilities included in capital employed	**749.5**	**726.3**	**154.8**	**75.6**	**-20.4**	**1,685.8**
Unallocated items						
Interest-bearing liabilities						614.1
Lease liabilities						2,423.2
Other non-interest-bearing liabilities						28.5
Deferred tax liabilities						6.8
Total liabilities	**749.5**	**726.3**	**154.8**	**75.6**	**-20.4**	**4,758.5**
Total capital employed as at 31 December, continuing operations	**2,293.5**	**2,028.2**	**393.1**	**324.5**	**-2.3**	**5,036.9**
Average capital employed, continuing operations	**2,261.8**	**1,923.8**	**280.5**	**340.6**	**-3.4**	**4,803.3**
Number of personnel as at 31 December, continuing operations	**8,086**	**14,743**	**1,337**	**1,002**		**25,168**
Average number of personnel, continuing operations	**6,063**	**12,630**	**1,179**	**975**		**20,846**

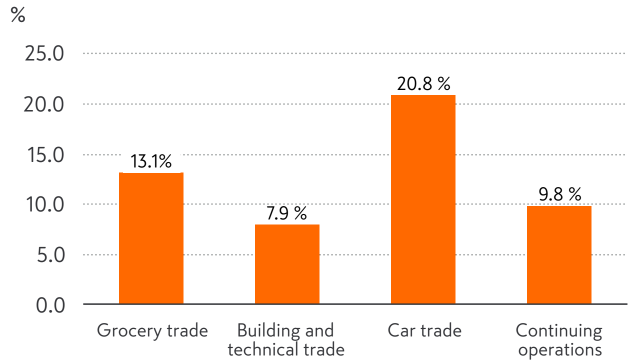
Kesko's divisions 2018

Profit, continuing operations

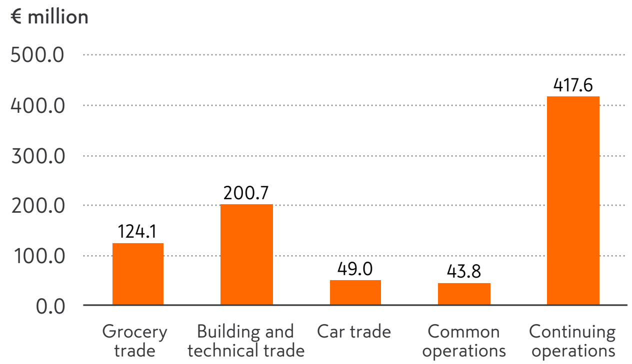
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,385.7	4,102.6	893.1	27.9	10,409.3
of which intersegment sales	-5.8	-0.1	-1.6	-19.0	-26.5
Net sales from external customers	**5,379.9**	**4,102.5**	**891.4**	**8.9**	**10,382.8**
Change in net sales in local currency excluding acquisitions and disposals, %	5.1	2.7	-1.8	(..)	3.5
Change in net sales, %	2.0	-4.6	-1.8	(..)	-1.0
Other division income	609.5	154.7	9.4	17.8	791.4
of which intersegment income	-0.8	-0.6		-0.2	-1.6
Other operating income from external customers	**608.7**	**154.1**	**9.4**	**17.5**	**789.8**
Depreciation and amortisation	-67.0	-38.0	-12.2	-26.3	-143.5
Impairment	0.0	-3.4	-	-	-3.4
Depreciation and impairment for right-of-use assets	-200.7	-109.7	-3.2	-2.0	-315.5
Operating profit	**285.9**	**113.3**	**35.1**	**-30.0**	**404.3**
Items affecting comparability	-8.7	-13.5	-0.1	-1.9	-24.2
Comparable operating profit	**294.5**	**126.8**	**35.2**	**-28.1**	**428.5**
Finance income and costs					-99.7
Investments accounted for using the equity method					-10.1
Profit before tax					**294.5**

(..) Change over 100%

Comparable return on capital employed by segment, continuing operations 2018



Capital expenditure by segment, continuing operations 2018



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	942.7	532.1	122.5	87.6	-1.6	1,683.2
Right-of-use assets	1,350.5	703.2	5.2	3.3		2,062.2
Interests in associates and joint ventures and other investments	7.5	9.1	0.0	128.3	-0.6	144.3
Pension assets	29.5	10.8		107.7		148.0
Inventories	219.4	542.0	151.5	0.0		913.0
Trade receivables	341.8	435.3	43.7	5.3	-5.8	820.3
Other non-interest-bearing receivables	58.3	116.2	11.3	22.8	-11.3	197.3
Interest-bearing receivables	0.3	0.1		65.2		65.6
Non-current assets classified as held for sale		64.8		0.5	-0.1	65.1
Assets included in capital employed	**2,950.0**	**2,413.7**	**334.2**	**420.6**	**-19.4**	**6,099.1**
Unallocated items						
Deferred tax assets						8.1
Financial assets at fair value through profit or loss						50.9
Financial assets at amortised cost						90.8
Cash and cash equivalents						107.5
Non-current assets classified as held for sale, discontinued operations						10.4
Total assets	**2,950.0**	**2,413.7**	**334.2**	**420.6**	**-19.4**	**6,366.8**

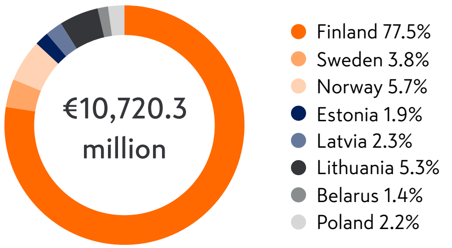
€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	482.9	466.2	24.3	14.2	-4.8	982.7
Other non-interest-bearing liabilities	235.5	205.2	78.8	62.5	-12.0	570.0
Provisions	4.1	2.1	35.8	0.9		42.8
Liabilities related to assets held for sale		14.9				14.9
Liabilities included in capital employed	**722.4**	**688.3**	**138.9**	**77.6**	**-16.7**	**1,610.4**
Unallocated items						
Interest-bearing liabilities						406.0
Lease liabilities						2,294.3
Other non-interest-bearing liabilities						29.2
Deferred tax liabilities						5.4
Liabilities related to assets held for sale, discontinued operations						0.5
Total liabilities	**722.4**	**688.3**	**138.9**	**77.6**	**-16.7**	**4,345.8**
Total capital employed as at 31 December	**2,227.6**	**1,725.4**	**195.3**	**343.1**	**-2.7**	**4,488.7**
Average capital employed	**2,243.5**	**1,611.2**	**169.6**	**360.1**	**-0.6**	**4,383.8**
Number of personnel as at 31 December	**7,971**	**13,559**	**824**	**1,047**		**23,401**
Average number of personnel	**6,094**	**11,663**	**835**	**987**		**19,579**

Geographical information, continuing operations

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. The grocery trade operates in Finland. The building and technical trade operates in Finland, Sweden, Norway, the Baltic countries, Poland and Belarus, and the car trade operates in Finland. The Russian operations of the building and technical trade division have been presented under discontinued operations also for the comparison data.

Net sales, assets, capital expenditure and personnel are presented by location. Other countries include Belarus and Poland.

Net sales by country, continuing operations



2019 € million	Finland	Other Nordic countries	Baltic countries	Others	Elimina-tions	Total, continuing operations
Net sales	8,389.6	1,028.3	930.0	383.8	-11.4	10,720.3
Assets included in capital employed	4,962.4	839.7	706.0	214.6		6,722.7
Capital expenditure	386.5	243.7	35.6	20.4		686.1
Average number of personnel	10,194	2,192	5,094	3,365		20,845

2018 € million	Finland	Other Nordic countries	Baltic countries	Others	Elimina-tions	Total, continuing operations
Net sales	8,260.7	940.6	824.3	367.2	-10.1	10,382.8
Assets included in capital employed	4,665.3	570.4	677.0	186.5		6,099.1
Capital expenditure	225.6	161.4	28.1	2.5		417.6
Average number of personnel	9,822	1,598	4,740	3,419		19,579

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

Kesko Group does not have income derived from a single customer amounting to more than 10% of Kesko Group's total income.

2.2 Items affecting comparability

Accounting policies

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and are allocated to the divisions. Gains and losses on disposal of real estate, shares and business operations, impairment charges, significant profit and loss items related to changes in leases, and significant restructuring costs are identified as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement. Impairment charges and significant profit and loss items related to changes in leases are presented in the income statement under depreciation, amortisation and impairment charges.

€ million, continuing operations	2019	2018
Items affecting comparability		
Gains on disposal	4.6	6.7
Losses on disposal	-0.9	-0.1
Impairment charges	-	-5.6
Structural arrangements	-17.5	-25.3
Items in operating profit affecting comparability, total	**-13.8**	**-24.2**
Items in financial items affecting comparability	46.3	-6.5
Items in income taxes affecting comparability	0.4	4.5
Items in net profit attributable to non-controlling interests affecting comparability	0.0	-3.2
Items affecting comparability, total	**32.9**	**-29.4**

In 2019, the most significant items affecting comparability were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in the building and technical trade in Sweden, the €4.3 million costs related to acquisitions, and the net €+4.8 million items related to the subsidiary consolidation of Kruunuvuoren Satama Oy.

In 2018, the most significant items affecting comparability were the €7.6 million costs related to conversions of Suomen Lähikauppa's chains and changes in the store site network, the €8.1 million costs in building and technical trade related to acquisitions and divestments and structural changes in the Swedish operations, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million.

Reconciliation of performance indicators to IFRS financial statements € million, continuing operations	2019	2018
Operating profit, comparable		
Operating profit	447.8	404.3
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Operating profit, comparable	**461.6**	**428.5**
Profit before tax, comparable		
Profit before tax	403.3	294.5
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Items in financial items affecting comparability	46.3	-6.5
Profit before tax, comparable	**370.7**	**325.2**
Net profit, comparable		
Profit before tax, comparable	370.7	325.2
Net of		
Income tax	69.6	62.1
Items in income tax affecting comparability	0.4	4.5
Net profit, comparable	**300.7**	**258.7**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	300.7	258.7
Net of		
Net profit attributable to non-controlling interests	6.0	18.5
Items in net profit attributable to non-controlling interests affecting comparability	0.0	-3.2
Net profit attributable to owners of the parent, comparable	**294.7**	**243.4**

Reconciliation of performance indicators to IFRS financial statements € million, continuing operations	2019	2018
Earnings per share, comparable, €		
Net profit attributable to the owners of the parent, comparable	294.7	243.4
Average number of shares, basic, 1,000 pcs	99,074	99,182
Earnings per share, comparable, €	**2.97**	**2.45**
Return on capital employed, comparable, %		
Operating profit, comparable	461.6	428.5
Capital employed, average	4,803.3	4,383.8
Return on capital employed, comparable, %	**9.6**	**9.8**

Reconciliation of performance indicators to IFRS financial statements € million, Group	2019	2018
Net profit, comparable, Group		
Net profit, comparable, continuing operations	300.7	258.7
Net of		
Net profit, comparable, discontinued operations	12.5	-3.0
Return on equity, %, Group	**313.2**	**255.8**
Return on equity, comparable, %		
Net profit, comparable	313.2	255.8
Equity, average	2,080.9	2,039.0
Return on equity, comparable, %	**15.1**	**12.5**

Calculation of performance indicators

Operating profit, comparable

Operating profit +/– items affecting comparability

Profit before tax, comparable

Profit before tax +/- Items in operating profit affecting comparability +/- Items in financial items affecting comparability

Net profit, comparable

Comparable profit before tax - Income tax +/- Items in income taxes affecting comparability

Net profit attributable to owners of the parent, comparable

Net profit, comparable - Net profit attributable to non-controlling interests +/- Items in net profit attributable to non-controlling interests affecting comparability

Earnings per share, comparable, €

$$\frac{\text{Net profit/loss adjusted for items affecting comparability - Share of non-controlling interests of net profit/loss adjusted for items affecting comparability}}{\text{Average number of shares}}$$

Return on capital employed, comparable, %

$$\frac{\text{Comparable operating profit x 100}}{\text{(Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for the reporting period}}$$

Return on equity, comparable, %

$$\frac{\text{(Profit/loss adjusted for items affecting comparability before tax - Income tax adjusted for the tax effect of items affecting comparability) x 100}}{\text{Shareholders' equity, average of the beginning and end of the reporting period}}$$

2.3 Other operating income

Accounting policies

Other operating income includes income other than that associated with the sale of goods or services, such as lease income, store site and chain fees and various other service fees and commissions. Other operating income also includes gains on the disposal of property, plant and equipment and intangible assets as well as gains on disposal of businesses and realised and unrealised gains on derivatives used for hedging foreign currency risks associated with commercial transactions.

€ million	2019	2018
Income from services	641.2	611.3
Lease income	43.8	44.3
Gains on disposal of property, plant, equipment and intangible assets	2.5	5.0
Gains on disposal of businesses	3.1	4.3
Realised gains on derivative contracts and changes in fair value	4.1	4.8
Others	128.4	120.2
Total, continuing operations	**823.1**	**789.8**

Income from services mainly comprises chain and store site fees paid by chain companies.

Other operating income includes €5.5 million (€8.0 million) of items affecting comparability. More information on items affecting comparability is presented in note 2.2.

More information on lease income is provided in note 4.6.

2.4 Operating expenses

Accounting policies

Other operating expenses include expenses other than the cost of goods sold, such as employee benefit expenses, marketing costs, property and store site maintenance costs, information system expenses, and lease payments recognised in the income statement on leases classified as short-term leases or leased assets classified as of low value. Other operating expenses also include losses on the disposal of property, plant and equipment and intangible assets, losses on disposal of business operations as well as realised and unrealised losses on derivatives used for hedging foreign currency risks associated with commercial transactions.

Employee benefit expenses

€ million	2019	2018
Salaries and fees	-633.8	-567.1
Social security costs	-52.6	-47.5
Pension costs		
Defined benefit plans	-2.9	0.0
Defined contribution plans	-79.2	-73.0
Share-based payment	-7.0	-6.5
Total, continuing operations	**-775.4**	**-694.1**

Information on the employee benefits of the Group's management personnel and other related party transactions are presented in note 5.3, and information on share-based compensation in note 5.4.

Average number of the Group personnel

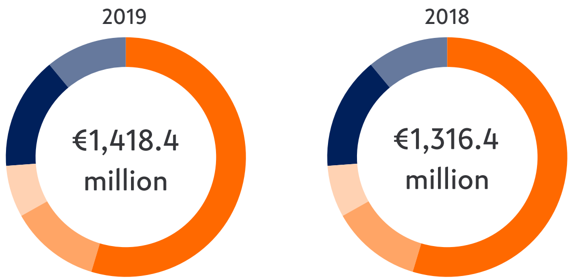
€ million	2019	2018
Grocery trade	6,063	6,094
Building and technical trade	12,630	11,663
Car trade	1,179	835
Common functions	975	987
Total, continuing operations	**20,846**	**19,579**
Discontinued operations	6	416
Total, Group	**20,852**	**19,995**

Other operating expenses

€ million	2019	2018
Marketing costs	-215.3	-210.4
Property and store site maintenance expenses	-159.9	-157.6
ICT expenses	-98.7	-96.1
Lease expenditure	-12.9	-8.9
Losses on disposal of property, plant, equipment and intangible assets	-1.9	-1.7
Realised losses on derivative contracts and changes in fair value	-3.4	-3.8
Other operating expenses	-150.7	-143.7
Total, continuing operations	**-643.0**	**-622.3**

Lease expenditure for short-term leases and low-value leased assets as well as variable lease payments are presented under Lease expenditure. Property and store site maintenance expenses also include maintenance expenses for leased properties. More information on lease expenditure is provided in note 4.6.

Expenses by type, continuing operations



- Personnel costs 54.7% (52.7%)
- Rents and store site costs 12.2% (12.7%)
- ICT costs 7.0% (7.3%)
- Marketing and loyalty costs 15.2% (16.0%)
- Other costs 11.0% (11.3%)

Auditors' fees

€ million	2019	2018
Fees to PwC chain companies		
Audit	0.9	0.9
Tax consultation	0.1	0.2
Other services	0.6	0.6
Total	**1.6**	**1.7**
Fees to non-PwC chain companies, audit	0.1	0.0
Fees to non-PwC chain companies, other services	0.0	0.0

Fees paid to PricewaterhouseCoopers Oy for services other than audit to Kesko Group companies totalled €0.7 million.

2.5 Foreign exchange differences recognised in operating profit

€ million	2019	2018
Sales	-0.2	-0.1
Other income	4.1	4.8
Purchases	0.2	-0.3
Other expenses	-3.4	-3.8
Total, continuing operations	**0.7**	**0.5**

2.6 Income tax

Accounting policies

The taxes recognised in the consolidated income statement include the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes have been calculated from the taxable income of each company determined by local jurisdiction. The tax impact of items recognised in other comprehensive income has been recognised correspondingly in other comprehensive income.

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

Deferred tax has been determined using the tax rates enacted at the balance sheet date, and as the rates changed, at the known new rate. A deferred income tax asset is recognised to the extent that it is probable that it can be utilised against future taxable income. The Group's deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

The most significant temporary differences arise from leases, defined benefit pension plans, property, plant and equipment (depreciation difference), provisions and measurements at fair value of asset items in connection with acquisitions.

€ million	2019	2018
Current tax	-77.4	-71.8
Tax for prior years	-0.4	-0.2
Deferred tax	8.1	10.0
Total, continuing operations	**-69.6**	**-62.1**

Reconciliation between tax expense shown in the income statement and tax calculated at parent's rate

€ million	2019	2018
Profit before tax	403.3	294.5
Tax at parent's rate 20.0%	-80.7	-58.9
Effect of foreign subsidiaries' different tax rates	-1.2	3.2
Effect of tax-free income	0.8	1.9
Effect of expenses not deductible for tax purposes	-1.5	-6.7
Effect of tax losses	2.9	-0.6
Impact of consolidation of share of result of associates and joint ventures	9.4	0.2
Tax for prior years	-0.4	-0.2
Effect of change in tax rate	-	0.1
Others	1.1	-1.0
Tax charge, continuing operations	**-69.6**	**-62.1**

The impact of the corporation tax rate change effective from 1 January 2019 in Norway on taxes for the financial year 2018 was €0.1 million.

2.7 Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing the net profit for the period attributable to the parent's equity holders by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares.

	2019	2018
Net profit for the period attributable to equity holders of the parent, € million	339.2	158.0
Number of shares		
Weighted average number of shares outstanding	99,074,035	99,181,927
Diluted weighted average number of shares outstanding	99,074,035	99,181,927
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, continuing operations, €	3.31	2.16
Basic and diluted, discontinued operations, €	0.12	-0.56
Basic and diluted, Group total, €	3.42	1.59
Comparable earnings/share, basic, continuing operations, €	2.97	2.45

Reconciliation for comparable earnings is presented in note 2.2.

2.8 Notes related to the statement of cash flows

Capital expenditure and non-cash financing activities

€ million	2019	2018
Total acquisitions of property, plant, equipment and intangible assets	399.7	236.2
Total acquisitions of subsidiaries and investments in associates and other investments	286.4	181.3
Total capital expenditure	**686.1**	**417.5**
of which cash payments	599.8	375.9
Loans relating to acquired companies and cash and cash equivalents	83.5	29.5
Payments arising from prior period investing activities	-12.4	-16.3
Capital expenditure financed with liabilities	15.3	28.4
Total, continuing operations	**686.1**	**417.5**

Adjustments to cash flows from operating activities

€ million	2019	2018
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-6.8	-4.9
Share of results of associates and joint ventures	-46.8	10.1
Impairments	0.0	3.4
Credit losses	3.6	5.2
Gains on disposal of property, plant, equipment and intangible assets and business operations	-0.7	-9.3
Losses on disposal of property, plant, equipment and intangible assets and business operations	1.9	1.7
Share-based compensation	-2.9	-2.8
Defined benefit pensions	50.1	57.1
Others	2.0	-6.5
Total, continuing operations	**0.3**	**54.0**

The group 'Others' within the adjustments to cash flows from operating activities includes the adjustment of unrealised foreign exchange gains and losses on purchases and sales, and the adjustment of other transactions of a non-cash nature.

Cash flow from leases

Cash flow from leases totalled €-423.7 million (€-410.0 million).

Cash and cash equivalents

€ million	2019	2018
Financial assets at amortised cost (maturing in less than 3 months), continuing operations	2.0	31.7
Financial assets at amortised cost (maturing in less than 3 months), discontinued operations	-	-
Cash and cash equivalents, continuing operations	122.4	107.5
Cash and cash equivalents, discontinued operations	-	0.4
Total	**124.4**	**139.6**

Cash and cash equivalents include cash on hand and deposits with banks as well as liquid funds measured at amortised cost which are invested in instruments with maturities of less than three months from acquisition.

Reconciliation of cash and debt

€ million	2019	2018
Financial assets at amortised cost (maturing in less than 3 months)	2.0	31.7
Cash and cash equivalents	122.4	107.9
Borrowings - repayable within one year (including overdraft)	-137.8	-231.4
Lease liabilities - repayable within one year	-383.2	-311.5
Borrowings - repayable after one year	-477.3	-174.6
Lease liabilities - repayable after one year	-2,039.0	-1,982.8
Cash and debt, net	**-2,913.0**	**-2,560.7**

€ million	2019	2018
Cash and cash equivalents and financial assets at amortised cost (maturing in less than 3 months)	124.4	139.6
Gross debt - fixed interest rates	-162.5	-236.5
Gross debt - variable interest rates	-452.6	-169.5
Lease liabilities	-2,422.2	-2,294.3
Cash and debt, net	**-2,913.0**	**-2,560.7**

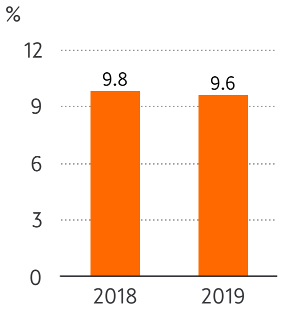
	Other assets		Finance-related debt				
€ million	**Cash and overdraft**	**Financial assets at amortised cost**	**Lease liabilities due within 1 year**	**Lease liabilities due after 1 year**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
Cash and debt, net as at 1 Jan. 2019	107.9	31.7	-311.5	-1,982.8	-231.4	-174.6	-2,560.7
Cash flows	1.1	-29.7	324.1		94.0	-302.2	87.3
Acquisitions of subsidiaries	13.0		-5.3	-37.7	-0.1	-0.2	-30.3
Net changes of lease liabilities			-390.4	-18.0			-408.4
Foreign exchange adjustments	0.4		-0.1	-0.6	-0.3	-0.3	-0.8
Cash and debt, net as at 31 Dec. 2019	**122.4**	**2.0**	**-383.2**	**-2,039.0**	**-137.8**	**-477.3**	**-2,913.0**

	Other assets		Finance-related debt				
€ million	**Cash and overdraft**	**Financial assets at amortised cost**	**Lease liabilities due within 1 year**	**Lease liabilities due after 1 year**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
Cash and debt, net as at 1 Jan. 2018	132.7	37.5	-294.7	-1,929.5	-401.1	-122.3	-2,577.4
Cash flows	-30.1	-5.3	314.5	3.7	169.8	-53.1	399.5
Acquisitions of subsidiaries	7.0		-8.6	-53.5	-0.4		-55.6
Net changes of lease liabilities			-323.4	-5.5			-328.8
Foreign exchange adjustments	-1.7	-0.4	0.6	2.0	0.3	0.8	1.5
Cash and debt, net as at 31 Dec. 2018	**107.9**	**31.7**	**-311.5**	**-1,982.8**	**-231.4**	**-174.6**	**-2,560.7**

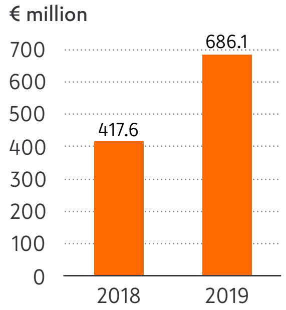
3. CAPITAL EMPLOYED

IN THIS SECTION

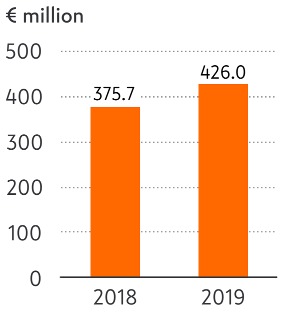
Comparable return on capital employed, continuing operations



Capital expenditure, continuing operations



Working capital, continuing operations



3.1 Capital employed and working capital

Capital employed

€ million	Note	31 Dec. 2019	31 Dec. 2018
Property, plant and equipment	3.3	1,487.9	1,196.4
Intangible assets	3.4	684.6	492.1
Right-of-use assets	3.5	2,191.3	2,057.0
Interests in associates and joint ventures	3.10	57.8	123.5
Financial assets at fair value through profit or loss	4.3	20.6	20.8
Non-current receivables	4.3	59.9	65.7
Pension assets	3.9	93.2	148.0
Current interest-bearing receivables	4.5	2.2	2.7
Non-current assets classified as held for sale	3.8	61.9	65.1
Non-interest-bearing non-current liabilities	4.5	-1.2	-0.2
Pension obligations		-0.4	-0.4
Provisions	3.11	-36.1	-42.8
Liabilities related to non-current assets classified as held for sale	3.8	-10.9	-14.9
Working capital		426.0	375.7
Total, continuing operations		**5,036.9**	**4,488.7**

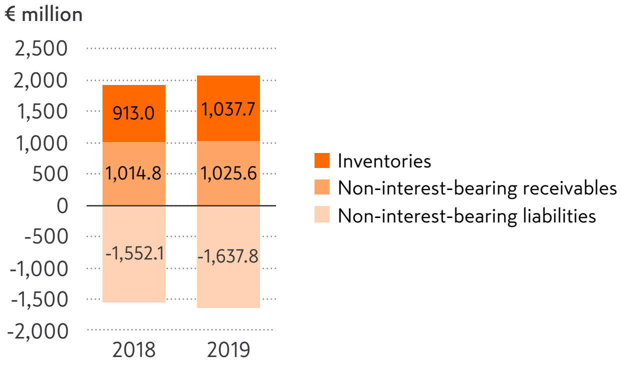
Accrued liabilities are mainly due to the timing of purchases and employee benefit expenses.

Non-current non-interest-bearing liabilities also include an item of €28.5 million (€29.2 million) not allocated to divisions, related to the accrual of a gain on a real estate sale to a joint venture. The item is not included in capital employed.

Working capital

€ million	Note	31 Dec. 2019	31 Dec. 2018
Inventories	3.6	1,037.7	913.0
Trade receivables	3.7	804.7	820.3
Income tax assets	3.7	14.4	0.1
Other non-interest-bearing receivables	3.7	206.6	194.4
Trade payables	4.3 4.5	-1,029.9	-982.7
Other non-interest-bearing liabilities	4.3 4.5	-207.9	-197.8
Income tax liabilities	4.5	-11.8	-16.5
Accrued liabilities	4.3 4.5	-387.6	-355.0
Total, continuing operations		**426.0**	**375.7**

Working capital, continuing operations



3.2 Business acquisitions and disposals of assets

Acquisitions in 2019

In January, Kesko Corporation subsidiaries Skattum Handel AS and Rake Eiendom AS acquired the DIY retail business and related properties of the Norwegian Sørbø retailer group as well as a B2B logistics centre. The acquired stores previously operated Byggmakker stores under the retailer business model. The debt-free price of the transaction, structured as a share purchase and business acquisition, totalled NOK 238.2 million (€24.2 million).

Kesko Group company K-rauta AB completed the acquisition of Fresks Group from Litorina, Oscarson Invest and the group's management. The debt-free price of the transaction, structured as a share purchase, was SEK 2,192.0 million (€209.8 million).

In March, Kesko Group company K Caara Oy completed the acquisitions of the Volkswagen and SEAT businesses of Huittisten Laatuauto Oy in Forssa and Huittinen, and the Volkswagen, Audi and SEAT businesses of LänsiAuto Oy in Kotka, Kouvola and Lappeenranta. In July, K Caara Oy completed the acquisition of the Volkswagen, Audi and SEAT businesses of Laakkonen Group. The combined debt-free transaction price of the acquisitions, structured as business acquisitions, was €57.4 million.

The DIY business of the Sørbø retailer group

The table provides a summary of the consideration paid, the values of assets acquired and liabilities assumed by Kesko Group at the date of acquisition, and the cash flow impact of the acquisitions.

The acquisitions resulted in goodwill totalling €4.6 million. The Group profit includes minor acquisition-related costs, which are presented as items affecting comparability. The impact of the acquired businesses on the Group's net sales and operating profit in February-December was minor.

2019 € million	DIY business of Sørbø retailer group	Fresks Group (K-Bygg)	Car trade acquisitions
Consideration paid	24.2	209.8	57.4
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition			
Intangible assets	-	4.8	0.5
Property, plant, equipment, right-of-use assets and investments	18.8	48.5	57.6
Inventories	4.9	36.4	31.9
Receivables	1.4	24.2	0.7
Deferred tax asset	0.1	0.0	-
Cash and cash equivalents	0.3	10.5	-
Total assets	**25.4**	**124.4**	**90.8**
Trade payables, other payables, provisions, lease liabilities	2.2	81.3	56.4
Deferred tax liability	3.7	3.7	0.1
Total liabilities	**5.9**	**85.0**	**56.5**
Net assets acquired, total	**19.6**	**39.4**	**34.3**
Goodwill	**4.6**	**170.5**	**23.1**
Cash flow impact of acquisition			
Consideration paid	-24.2	-207.0	-57.4
Cash and cash equivalents acquired	0.3	10.3	-
Unpaid share	-	-	1.0
Cash flow impact of acquisition	**-23.9**	**-196.7**	**-56.4**

Fresks Group (K-Bygg)

The acquisition of Fresks Group significantly strengthens Kesko's market position in Sweden, especially in the growing professional builders customer segment. With the acquisition, Kesko assumed ownership of 33 stores and some 500 employees, who mainly serve small and medium-sized renovation companies. Since June, Fresks Group has served customers under the K-Bygg brand.

The table provides a summary of the consideration paid, the values of assets acquired and liabilities assumed by Kesko Group at the date of acquisition, and the cash flow impact of the acquisitions.

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €4.8 million. The €170.5 million goodwill arising from the acquisition reflects the synergies expected to be achieved in sales, purchasing, selections, logistics and operational efficiency. The Group profit includes acquisition-related costs of €1.4 million, which are presented as items affecting comparability.

Fresks Group's impact on net sales in May-December was €132.8 million. The impact on the comparable operating profit in May-December was €+9.6 million. If the acquisitions had taken place on 1 January 2019, according to management estimates, the impact on Group net sales would have been approximately €199.1 million, and the impact on the comparable operating profit would have been €+12.1 million. In determining the net sales and comparable operating profit, the management estimates that recorded fair values would have been the same on the date of acquisition had the acquisition taken place on 1 January 2019.

Car trade acquisitions from Huittisten Laatuauto, LänsiAuto and Laakkonen Group

The table provides a summary of the consideration paid, the values of assets acquired and liabilities assumed by Kesko Group at the date of acquisition, and the cash flow impact of the acquisitions.

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €0.5 million. The €23.1 million goodwill arising from the acquisitions reflects the synergies expected to be achieved in efficiency in retail and other operations.

The Group profit includes minor acquisition-related costs, which are presented as items affecting comparability. The impact of the acquired businesses on the Group's net sales and operating profit in March-December was minor.

Acquisitions in 2018

In June, Kesko Corporation agreed to acquire Reinin Liha and Kalatukku E. Eriksson as part of its foodservice wholesale business Kespro. Reinin Liha Oy's acquisition was completed on 1 June 2018 and Kalatukku E. Eriksson Oy's on 2 July 2018. The combined debt-free transaction price of the acquisitions, structured as share purchases, was €14.8 million.

In June, Kesko Corporation's subsidiary Byggmakker Handel AS agreed to acquire the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS. The acquisition of Skattum Handel AS was completed on 2 July 2018 and the acquisition of Gipling AS on 23 July 2018. The combined debt-free transaction price of the acquisitions, structured as share purchases, was NOK 1,466.7 million (€147.4 million).

In October, Kesko Group company Kesko Senukai acquired the Latvian 1A Group, one of the leading online retail companies in the Baltic region. 1A Group's 2017 net sales totalled some €41 million, and the company has operations in Latvia, Estonia and Lithuania.

2018 € million	Skattum Handel AS and Gipling AS	Kalatukku E. Eriksson Oy and Reinin Liha Oy
Consideration paid	147.4	14.8
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition		
Intangible assets	7.6	7.6
Property, plant, equipment, right-of-use assets and investments	26.4	6.1
Inventories	31.0	1.9
Receivables	35.8	4.1
Deferred tax asset	0.6	-
Cash and cash equivalents	5.5	1.2
Total assets	**107.0**	**20.8**
Trade payables, other payables, provisions, lease liabilities	51.6	6.1
Deferred tax liability	1.3	2.0
Total liabilities	**52.9**	**8.0**
Net assets acquired, total	**54.1**	**12.8**
Goodwill	**93.4**	**2.0**
Cash flow impact of acquisition		
Consideration paid	-152.8	-14.8
Cash and cash equivalents acquired	5.7	1.2
Unpaid share	-	1.8
Cash flow impact of acquisition	**-147.1**	**-11.9**

Skattum Handel AS and Gipling AS

Skattum Handel AS and Gipling AS have been operating Byggmakker stores under the retailer business model. After the completion of the acquisitions, the Byggmakker chain controls a total of 30 Byggmakker stores, providing even greater potential for growth and increased profitability in Norway. In addition, 35 Byggmakker stores operate under the retailer business model.

The table provides a summary of the consideration paid, the values of assets acquired and liabilities assumed by Kesko Group at the date of acquisition, and the cash flow impact of the acquisitions.

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €7.6 million. The balance sheet value of current trade receivables equals their fair value. The €93.4 million goodwill arising from the acquisition reflects market share and business knowledge as well as the synergies expected to be achieved in purchasing, selections, logistics, ICT systems and operational efficiency. The Group profit for 2018 includes acquisition-related costs of €1.8 million. The costs are presented as items affecting comparability.

The impact of Skattum Handel AS and Gipling AS on net sales for July-December was €39.7 million. The impact on the comparable operating profit for July-December was €2.4 million. If the acquisitions had taken place on 1 January 2018, according to management estimates, the impact on Group net sales would have been approximately €70.9 million, and the impact on comparable operating profit would have been €5.9 million, excluding the impact of IFRS 16. In determining the net sales and comparable operating profit, the management estimates that recorded fair values would have been the same on the date of acquisition had the acquisition taken place on 1 January 2018.

Kalatukku E. Eriksson Oy and Reinin Liha Oy

Kalatukku E. Eriksson is a strong operator in fish products. Reinin Liha specialises in fresh, unpacked meat and service. With the acquisitions of Reinin Liha and Kalatukku E. Eriksson, Kespro will be able to offer, alongside its traditional wholesale selection, specialist fresh food products and expertise on a considerably wider scale.

The table provides a summary of the consideration paid, the values of assets acquired and liabilities assumed by Kesko Group at the date of acquisition, and the cash flow impact of the acquisitions.

The fair value of the intangible assets acquired (including customer relationships and trademarks) at the date of acquisition totals €7.6 million. The balance sheet value of current trade receivables equals their fair value. The €2.0 million goodwill arising from the acquisition reflects the synergies expected to be achieved from joint customer relationships, logistics, ICT and administration. The Group profit for 2018 includes acquisition-related costs of €0.9 million. The costs are presented as items affecting comparability.

The impact of Reinin Liha and Kalatukku E. Eriksson on the net sales and operating profit for June-December was minor.

Disposals of assets in 2019

Kesko Corporation completed the divestment of Onninen AB's HEPAC contractor business in Sweden to Solar A/S on 15 May 2019.

Kesko Group company Konekesko Oy sold its Finnish agricultural machinery trade operations to Danish Agro Machinery's Finnish subsidiary Finnish Agro Machinery on 1 August 2019.

Disposals of assets in 2018

In February 2018, Kesko Corporation agreed to sell 12 K-Rauta properties in the St. Petersburg and Moscow regions to the Russian division of the French Leroy Merlin. The Russian building and home improvement trade operations are reported as discontinued operations – more detailed information is provided in note 3.7.

3.3 Property, plant and equipment

Accounting policies

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

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

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

The most common estimated useful lives are:

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

The residual values and useful lives of property, plant and equipment are reviewed at least at the end of each financial year. If the estimates of useful life and the expected pattern of economic benefits are different from previous estimates, the change in the estimate is accounted for.

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

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

The Group has not capitalised interest costs incurred as part of the acquisition of assets, because the Group does not have qualifying assets.

2019 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construc-tion in progress	Total 2019
Cost						
Cost as at 1 January	260.8	1,206.4	559.5	29.6	34.0	2,090.2
Exchange differences	-0.2	0.5	0.2	0.0	0.2	0.6
Additions	14.7	106.1	131.6	3.5	48.0	303.8
Acquisitions	29.1	107.1	3.8	1.4	0.0	141.4
Deductions	-3.7	-68.9	-61.2	-2.1	-0.2	-136.0
Transfers between items*	1.2	33.0	-23.1	5.2	-45.8	-29.4
Cost as at 31 December	301.9	1,384.1	610.8	37.5	36.3	2,370.6
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-6.0	-499.3	-369.4	-19.2		-893.8
Exchange differences		0.1	0.0	0.0		0.2
Accumulated depreciation on deductions	1.0	58.7	47.2	0.9		107.7
Accumulated depreciation on transfers*		0.2	23.6	-0.1		23.7
Depreciation and impairment charges for the year		-58.8	-59.7	-2.1		-120.6
Accumulated depreciation and impairment charges as at 31 December	-5.0	-499.0	-358.3	-20.5		-882.8
Carrying amount as at 1 January	254.8	707.1	190.1	10.4	34.0	1,196.4
Carrying amount as at 31 December	**296.9**	**885.0**	**252.5**	**17.0**	**36.3**	**1,487.9**

*Transfers between items include transfers to non-current assets classified as held for sale and transfers of assets reported as finance lease assets before the implementation of IFRS 16 to right-of-use assets.

2018 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construc-tion in progress	Total 2018
Cost						
Cost as at 1 January	313.7	1,279.2	520.8	60.4	50.0	2,224.0
Exchange differences	-0.6	-2.3	-2.0	-0.3	-0.1	-5.3
Additions	12.9	56.1	108.3	0.7	25.1	203.1
Acquisitions	0.1	5.0	6.2	0.0		11.4
Deductions	-4.7	-14.6	-61.1	-0.3	-4.1	-84.7
Transfers to non-current assets classified as held for sale	-60.7	-117.1	-12.7	-30.9	-36.9	-258.2
Cost as at 31 December	260.8	1,206.4	559.5	29.6	34.0	2,090.2
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-7.0	-517.8	-371.9	-34.3		-931.0
Exchange differences		0.7	1.5	0.2		2.4
Accumulated depreciation on deductions	0.1	6.2	38.2	0.2		44.7
Accumulated depreciation on transfers to non-current assets classified as held for sale	0.9	66.9	15.8	16.6		100.2
Depreciation and impairment charges for the year	0.0	-55.3	-52.9	-2.0		-110.3
Accumulated depreciation and impairment charges as at 31 December	-6.0	-499.3	-369.4	-19.2		-893.8
Carrying amount as at 1 January	306.8	761.4	148.9	26.0	50.0	1,293.1
Carrying amount as at 31 December	**254.8**	**707.1**	**190.1**	**10.4**	**34.0**	**1,196.4**

3.4 Intangible assets

Accounting policies

Goodwill and trademarks

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

Intangible assets with indefinite useful lives are not amortised. They are tested for impairment annually and whenever there is an indication of impairment. These intangible assets include trademarks capitalised upon acquisition, recorded at their fair values at the acquisition date.

Other intangible assets

The cost of intangible assets with definite useful lives are recorded in the balance sheet and recognised as expenses during their useful lives. Such intangible assets include software licences, customer relationships and licences measured at the fair value at the date of acquisition, and leasehold interests that are amortised during their probable lease terms.

The estimated useful lives are:

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

Research and development expenses

The costs of research and development activities have been expensed as incurred, because the Group does not have development costs eligible for capitalisation.

Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Software

Costs directly attributable to the development of new software are capitalised as part of the software cost. On the balance sheet, software is included in intangible assets and its cost is amortised over the useful life of the software. Costs associated with maintaining the software are recognised as an expense as incurred.

Impairment of non-financial assets

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

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Often, it is not possible to estimate the recoverable amount for an individual asset. Then, as in the case of goodwill, the recoverable amount is determined for the cash generating unit to which the goodwill or asset belongs.

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

2019 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2019
Cost					
Cost as at 1 January	330.4	94.3	244.0	17.9	686.6
Exchange differences	3.1	0.3	0.3	-0.1	3.6
Additions	198.1		23.8	9.1	231.1
Acquisitions			4.8		4.8
Deductions	-0.8		-34.4	-4.7	-39.9
Transfers between items			8.1	-8.6	-0.5
Cost as at 31 December	530.8	94.6	246.6	13.7	885.7
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-51.7	-7.1	-135.7		-194.5
Exchange differences	0.0	-0.1	-0.2		-0.3
Accumulated amortisation on deductions	0.0		34.6		34.6
Accumulated amortisation on transfers	0.0		0.0		0.0
Amortisation and impairment charges for the year	0.0		-40.9		-40.9
Accumulated amortisation and impairment charges as at 31 December	-51.7	-7.2	-142.2		-201.1
Carrying amount as at 1 January	278.7	87.2	108.3	17.9	492.1
Carrying amount as at 31 December	**479.0**	**87.4**	**104.5**	**13.7**	**684.6**

2018 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2018
Cost					
Cost as at 1 January	237.5	89.3	222.6	17.0	566.5
Exchange differences	-3.5	-0.3	-0.6		-4.5
Additions	110.9		30.4	12.6	153.9
Acquisitions		5.3	14.0		19.3
Deductions			-19.9	-2.1	-21.9
Transfers to non-current assets classified as held for sale	-14.5		-2.5	-9.7	-26.7
Cost as at 31 December	330.4	94.3	244.0	17.9	686.6
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-65.2	-7.2	-117.8		-190.2
Exchange differences	0.0	0.1	0.6		0.7
Accumulated amortisation on transfers to non-current assets classified as held for sale	14.5		1.9		16.4
Accumulated amortisation and impairment charges on disposals	-1.0		16.6		15.6
Amortisation and impairment charges for the year	0.0		-36.9		-36.9
Accumulated amortisation and impairment charges as at 31 December	-51.7	-7.1	-135.7		-194.5
Carrying amount as at 1 January	172.4	82.2	104.7	17.0	376.2
Carrying amount as at 31 December	**278.7**	**87.2**	**108.3**	**17.9**	**492.1**

Other intangible assets include other non-current expenditure, of which €66.0 million (€70.3 million) are software and licence costs.

Goodwill and intangible rights by division

€ million	Trade-marks 2019	Goodwill 2019	Discount rate (WACC) 2019	Trade-marks 2018	Goodwill 2018	Discount rate (WACC) 2018
Grocery trade, chain operations		76.1	4.7		76.1	6.0
Grocery trade, Kespro	5.3	2.0	4.7	5.3	2.0	6.0
Building and technical trade						
Byggmakker, Norway	23.8	98.9	5.7	23.6	93.4	7.0
Onninen	58.3	55.1	6.2	58.3	55.1	7.3
Kesko Senukai, Baltics		33.0	6.7		32.0	7.0
K-Bygg, Sweden		171.0	5.7			
Car trade		43.1	5.7		20.0	7.0
Total	**87.4**	**479.0**		**87.2**	**278.7**	

Intangible assets with indefinite useful lives are tested annually for possible impairment and whenever there is an indication of impairment.

The useful lives of trademarks (brands) included in intangible assets have been classified as indefinite, because it has been estimated that the period over which they generate cash inflows is indefinite. This is because no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group can be seen. Trademarks are part of assets acquired in connection with acquisitions.

Cash generating units have been identified at maximum at the level of reported divisions.

Impairment test for goodwill and intangible assets

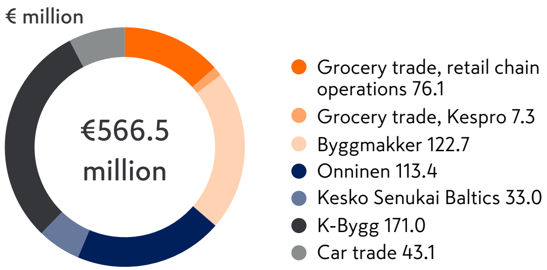
In impairment testing, the recoverable amount of a cash-generating unit's business operations is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by management, covering a period of three years. The key assumptions used for the plans are total market growth and profitability trends, changes in store site network, product and service selection, pricing and movements in operating costs. Cash flows beyond this period have been extrapolated mainly based on 1.0–2.0% (1.5–2.0%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each division and country and adjusted for tax effect in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. Goodwill impairment testing for 2019 has been made using estimates based on accounting policies that include IFRS 16. Goodwill impairment testing for the comparison year was made with estimates based on accounting policies in force in 2018. In goodwill impairment testing, the adoption of IFRS 16 Leases increases recoverable amounts and assets tested. Discount rates for 2019 have been determined using formula inputs based on IFRS 16. Discount rates for the comparison year have been determined excluding the impact of IFRS 16.

Impairment losses

There were no impairment charges recognised on goodwill or intangible rights in the financial years 2019 and 2018.

Goodwill and trademarks



Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate. The most sensitive to movements in assumptions are the goodwill related to the car trade, where a more than 0.9 percentage point decrease in the residual EBITDA would mean an impairment would be recognised, and the Byggmakker-related goodwill, where a more than 1.1 percentage point decrease in the residual EBITDA would mean an impairment would be recognised. Regarding the other cash generating units, according to management's estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount.

3.5 Right-of-use assets

Accounting policies

The Group leases properties, machinery and equipment for use in its business operations. A right-of-use asset and lease liability corresponding to the present value of future lease payments are recognised in the balance sheet at the initiation of a lease. The right-of-use asset is remeasured with corresponding remeasurement of lease liability. The lease liability is remeasured at the effective date of lease modification, and the consequent change is recognised as an adjustment to the right-of-use asset. If the reduction in lease liability exceeds the right-of-use asset, the difference is recognised in profit or loss. Lease liabilities must be remeasured using a revised discount rate when there is a change in the lease term, the assessment of whether an option to extend or terminate the lease is exercised, or the lease payment amount, and when there is a change in the assessment of whether an option to purchase the underlying asset is exercised.

The lessee depreciates the right-of-use asset from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects the exercise of the purchase option, the depreciation is made from the commencement date of the lease to the end of the useful life of the underlying asset.

If the use of a leased asset is discontinued or if a leased asset is re-leased at a lower rate, the lease becomes loss-making and an impairment is recognised for the corresponding right-of-use asset.

2019 € million	**Land and buildings**	**Machinery and equipment**	**Total**
Carrying amount as at 1 January	2,039.5	17.5	2,057.0
Additions	655.0	6.6	661.6
Acquisitions	33.7	2.1	35.8
Transfers between items	-	5.3	5.3
Depreciation	-314.5	-10.7	-325.1
Impairment charges	-9.6	-	-9.6
Carrying amount as at 31 December	2,170.2	21.1	2,191.3

2018 € million	**Land and buildings**	**Machinery and equipment**	**Total**
Carrying amount as at 1 January	1,977.7	18.3	1,996.0
Additions	361.0	8.8	369.8
Acquisitions	20.7	0.1	20.8
Depreciation	-296.6	-7.5	-304.0
Impairment charges	-11.8	-	-11.8
Carrying amount as at 31 December	2,039.5	17.5	2,057.0

3.6 Inventories

Accounting policies

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less direct costs necessary to make the sale. The cost is determined using weighted average costs. The cost of certain categories of inventory is determined using the FIFO method. The cost of finished goods comprises all costs of purchase including freight. The cost of self-constructed goods comprises all costs of conversion including direct costs and allocations of variable and fixed production overheads. The cost excludes borrowing costs.

€ million	2019	2018
Goods	1,027.0	904.9
Prepayments	10.6	8.1
Total	1,037.7	913.0
Write-down of inventories to net realisable value	46.6	39.3

3.7 Trade and other current receivables

Accounting policies

Trade receivables are recognised in the amounts of initial sale. According to the new IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, Group companies have been classified into risk categories on the basis of their business model and realised historical credit losses. In addition, impairment is recognised, if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Impairment is recognised as an expense in other operating expenses. If an amount previously written off is subsequently settled, it is recognised as a reduction of other operating expenses.

€ million	2019	2018
Interest-bearing receivables		
Interest-bearing loans and receivables	2.2	2.7
Total interest-bearing receivables	2.2	2.7
Trade receivables	804.7	820.3
Income tax assets	14.4	0.1
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	25.6	22.1
Prepaid expenses	181.0	172.3
Total other non-interest-bearing receivables	206.6	194.4
Total	**1,027.8**	**1,017.5**

A total amount of €3.6 million (€5.2 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 4.3.

Prepaid expenses mainly comprise allocations of purchases.

The fair values of current trade and loan receivables, and those of current interest-bearing receivables are estimated to equal the carrying amounts due to their short maturities.

3.8 Discontinued operations and non-current assets classified as held for sale and related liabilities

Accounting policies

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

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives.

Discontinued operations

The Russian building and home improvement trade operations, discontinued in 2018, are reported as discontinued operations in the consolidated financial statements, and are not included in the financial statements in the figures for the Group's continuing operations or the segment figures for the building and technical trade for the financial year or the comparison period. In February 2018, Kesko Corporation agreed to sell 12 K-Rauta properties in the St. Petersburg and Moscow regions to the Russian division of the French Leroy Merlin. The business operations conducted in the properties were discontinued during the first half of 2018 and the ownership of the properties was transferred to the buyer during the second quarter of 2018. The two building and home improvement store properties in the Moscow region excluded from the transaction were sold in December 2018. The dissolution of the Russian subsidiaries was completed during the financial year 2019.

A cost of €1.5 million related to the discontinuation of operations and a €13.2 million positive tax impact were recorded in discontinued operations for the financial year 2019. The divestment of the properties resulted in a net €16.2 million sales gain for discontinued operations for the financial year 2018. The operative result after taxes for the operations was €-1.7 million. In addition, a cost of €23.3 million related to the discontinuation of operations was recorded as were translation differences of €-39.5 million related to the equity financing of Russian subsidiaries. The divestment of the properties also resulted in a €7.9 million tax cost. The divestment of the properties resulted in a positive cash flow of €161.3 million for Kesko Corporation for the financial year 2018.

Result for the Russian building and home improvement trade

€ million	2019	2018
Income	-	46.2
Expense	-	-47.6
Profit/loss before tax	-	-1.4
Income tax	-	-0.3
Net profit/loss after tax	-	-1.7
Loss on discontinued Russian building and home improvement trade before tax	-1.5	-46.2
Income tax	13.2	-7.9
Loss on discontinued Russian building and home improvement trade after tax	11.6	-54.1
Net loss for the period from discontinued operations	**11.6**	**-55.9**
Comprehensive income for the period, net of tax	-	-35.1
Comprehensive income from discontinued operations	**11.6**	**-20.8**

Assets and liabilities of the Russian building and home improvement trade

€ million	2019	2018
ASSETS		
Tangible assets	-	0.4
Total	-	0.4
Current assets		
Trade receivables	-	0.0
Other receivables, non-interest-bearing	-	9.7
Cash and cash equivalents	-	0.4
Total	-	10.1
Total assets	**-**	**10.5**

€ million	2019	2018
LIABILITIES		
Current liabilities		
Trade payables	-	0.1
Other non-interest-bearing liabilities	-	0.3
Provisions	-	0.2
Total	-	0.5
Total liabilities	**-**	**0.5**

Cash flows for the Russian building and home improvement trade

€ million	2019	2018
Net cash flows from operating activities	3.5	-23.3
Net cash flows from investing activities	3.5	164.3
Net cash flows from financing activities	-	-
Increase in liquid assets	**7.1**	**141.0**

Assets held for sale

The assets and liabilities of the Baltic machinery trade and Finnish agricultural machinery trade operations have been classified as “held for sale” as of June 2018. Konekesko Oy’s agricultural machinery trade operations in Finland were sold to Danish Agro Group on 1 August 2019. Kesko has stated it will also divest its remaining stake in the Baltic machinery trade subsidiaries to Danish Agro Group.

During the financial year 2018, Kesko Group company Konekesko Oy divested its Still forklift business.

€ million	2019	2018
Intangible assets	0.0	0.0
Land	0.7	0.9
Buildings and real estate shares	1.4	1.6
Machinery and equipment	1.3	1.0
Other tangible assets	0.1	0.0
Right-of-use assets	3.6	4.1
Inventories	48.3	53.7
Trade receivables	5.9	3.6
Other receivables	0.6	10.1
Cash and cash equivalents	-	0.4
Non-current assets held for sale	**61.9**	**75.6**
Trade payables	-6.1	-9.9
Other liabilities	-3.6	-4.1
Provisions	-1.2	-1.5
Liabilities related to non-current assets held for sale	**-10.9**	**-15.4**

3.9 Pension assets

Accounting policies

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

In defined benefit plans, the Group may incur obligations or assets after the payment of the contribution. The pension obligation represents the present value of future cash flows from the benefits payable. The present value of pension obligations has been calculated using the projected unit credit method. Pension costs are expensed during employees' service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligation is the market yield of high-quality corporate bonds. Their maturity substantially corresponds to the maturity of the pension liability. The assets corresponding to the pension obligation of the retirement benefit plan are carried at fair values at the balance sheet date. Actuarial gains and losses are recognised in comprehensive income in the income statement.

The Group operates several pension plans in different operating countries. In Finland, the statutory pension provision of personnel is provided through pension insurance companies and the voluntary supplementary pension provision is mainly provided through Kesko Pension Fund. The statutory pension provision provided through pension insurance companies is a defined contribution plan. The supplementary pension provision provided through Kesko Pension Fund is a defined benefit plan.

Pension plans in foreign subsidiaries are managed in accordance with local regulations and practices, and they are defined contribution plans.

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund's department A. Department A was closed on 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. At the end of 2019, the Pension Fund had 2,330 beneficiaries, of whom 360 were active employees and 1,970 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.6% (96.9%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

In addition to its rules, the Pension Fund's operations are regulated by the Employee Benefit Funds Act, the decrees under the Act and official instructions, and the Fund's operations are controlled by the Financial Supervisory Authority. The regulations include stipulations on the calculation of pension obligation and its coverage, for example. The pension obligation shall be fully covered by the plan assets, any temporary deficit is only allowed exceptionally. In addition, the regulations include detailed stipulations on the acceptability of the covering assets and the diversification of investment risks.

During the financial year, Kesko Pension Fund paid in total €48 million (€58 million) in return of surplus assets to Finnish Group companies. Kesko Group does not expect to pay contributions to the Pension Fund in 2020.

The defined benefit asset recognised in the balance sheet is determined as follows:

€ million	2019	2018
Present value of defined benefit obligation	-284.7	-254.2
Fair value of plan assets	377.8	402.2
Net assets recognised in the balance sheet	**93.2**	**148.0**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	**148.0**	**207.5**
Income/cost recognised in the income statement	-2.9	0.0
Remeasurement	-4.5	-2.3
Return of surplus assets	-48.3	-58.1
Contributions to plan and plan costs	0.9	1.0
As at 31 December	**93.2**	**148.0**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2019	-254.2	402.2	148.0
Current service cost	-3.8		-3.8
Past service cost			0.0
Gains or losses on settlement	-1.8		-1.8
Interest cost/income	-5.2	7.8	2.6
	-10.7	**7.8**	**-2.9**
Remeasurement			
Return on plan assets		28.6	28.6
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	-37.7		-37.7
Experience gains/losses	4.6		4.6
	-33.1	**28.6**	**-4.5**
Contributions to plan and plan costs		0.9	0.9
Return of surplus assets		-48.3	-48.3
Benefit payments	13.4	-13.4	0.0
As at 31 December 2019	**-284.7**	**377.8**	**93.2**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2018	-266.6	474.1	207.5
Current service cost	-4.0		-4.0
Past service cost	-0.3		-0.3
Gains or losses on settlement	0.0		0.0
Interest cost/income	-5.4	9.8	4.4
	-9.7	**9.8**	**0.0**
Remeasurement			
Return on plan assets		-10.7	-10.7
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	3.9		3.9
Experience gains/losses	4.4		4.4
	8.3	**-10.7**	**-2.3**
Contributions to plan and plan costs		1.0	1.0
Return of surplus assets		-58.1	-58.1
Benefit payments	13.8	-13.8	0.0
As at 31 December 2018	**-254.2**	**402.2**	**148.0**

Plan assets were comprised as follows in 2019

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	72.4	17.2	89.6
Debt instruments	45.0	7.5	52.5
Investment funds	79.5	13.2	92.7
Properties		88.6	88.6
United States			
Equity instruments	3.4		3.4
Investment funds	38.0		38.0
Other countries			
Investment funds	26.0		26.0
Total	**264.2**	**126.5**	**390.7**

Plan assets were comprised as follows in 2018

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	63.9	61.5	125.4
Debt instruments	60.5	10.1	70.6
Investment funds	61.3	13.4	74.7
Properties		88.6	88.6
United States			
Equity instruments	2.6		2.6
Investment funds	34.3		34.3
Other countries			
Investment funds	18.6		18.6
Total	**241.3**	**173.6**	**414.9**

€ million	2019	2018
Kesko Corporation shares included in fair value	0.0	0.0
Properties leased by Kesko Group included in fair value	88.6	124.5

Principal actuarial assumptions:

	2019	2018
Discount rate	0.79%	2.09%
Salary growth rate	1.80%	2.18%
Inflation	1.30%	1.59%
Pension growth rate	1.60%	1.86%
Average service expectancy, years	7	8

Weighted average duration of pension obligations and expected maturity analysis of undiscounted pension obligations

	2019	2018
Weighted average duration of pension obligations, years	15	14
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	14.1	13.8
Between 1–10 years	110.3	114.2
Between 10–20 years	93.8	103.1
Between 20–30 years	59.6	68.8
Over 30 years	45.6	56.1
Total	**323.5**	**356.0**

Risks related to pension plan

Asset related risks

The Pension Fund's investment assets comprise properties, shares and equity funds, private equity funds and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually confirmed by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target return on investment activity is 5.0%. The risks involved in investment activity are managed by continuously monitoring market developments and analysing the adequacy of the return and risk potential of the investments. The returns compared to chosen reference indices and the breakdown of investments are reported on a monthly basis. In 2019, the realised return on investing activity was 9.9%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined pension obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €92.1 million as at 31 December 2019. Local rules concerning the Pension Fund may also create a contribution obligation in situations in which the IAS 19 obligation is fully covered. In such a case, the amount of contributions charged increases the amount of pension assets according to IAS 19.

Obligation related risks

In addition to the general level of interest rates, the defined benefit obligation is impacted by changes in the statutory pension provision, future salary increases, index-based pension increases and changes in life expectancy. The pension promise made to the Fund's beneficiaries is tied to the amount of pensionable salary and it is a lifelong benefit. The total pension amount consists of the statutory pension and the supplementary pension provided by the Fund. Salary increases will increase the future pension amount. Changes in statutory pension provision, such as an increase in the retirement age or a reduction of pension provision, which are compensated to pensioners by the supplementary pension and, consequently, the changes would increase the defined benefit obligation. The amount of future pensions is adjusted annually with an index-based increase in accordance with the terms and conditions of the plan. The extension of life expectancy will result in an increase in plan obligation.

Changes in the general level of interest rates and the market yield of high-quality bonds have an impact on the present value of the defined benefit obligation. When the level of interest rates falls, the present value of the defined benefit obligation rises. Because the Pension Fund's investment assets are invested and their return targets are set for long terms, changes in the annual return on investments do not necessarily correlate in the short term with changes in the discount rate applied to the defined benefit obligation.

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented in the following table.

Actuarial assumption	Change in assumption	Impact on defined benefit obligation, increase	Impact on defined benefit obligation, decrease
2019			
Discount rate	0.50%	-7.04%	7.96%
Salary growth rate	0.50%	1.15%	-1.10%
Pension growth rate	0.50%	6.40%	-5.80%
2018			
Discount rate	0.50%	-6.56%	7.37%
Salary growth rate	0.50%	1.19%	-1.14%
Pension growth rate	0.50%	5.90%	-5.30%

The impacts of sensitivity analysis have been calculated so that the impact of a change in the assumption is calculated while assuming that all other assumptions are constant. In practice, this is unlikely to occur, and changes in some of the assumptions may correlate with each other. The sensitivity of the defined benefit obligation has been calculated using the same method as when calculating the pension obligation recognised within the statement of financial position.

3.10 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are handled as equity accounted investments.

€ million	2019	2018
Carrying amount as at 1 January	123.5	117.4
Share of the net profit for the financial year	46.1	-4.3
Additions	5.3	17.6
Deductions	-1.6	-3.6
Impairment charges	-	-10.8
Dividends received from associated companies	-83.4	-
Transfer to shares of subsidiaries	-32.1	-
Carrying amount as at 31 December	**57.8**	**123.5**

The shares in associates and joint ventures are not quoted publicly.

Kruunuvuoren Satama Oy became a wholly-owned subsidiary of Kesko Corporation in May 2019, when Kesko Corporation, Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company agreed on an arrangement to dissolve their joint ownership of Kruunuvuoren Satama Oy. Prior to the arrangement becoming effective, Kesko held 49% of the shares and votes in the company, first established in 2010. In November 2019, Hehku Kauppa Oy became a wholly-owned subsidiary of Kesko Corporation, when Kesko Corporation acquired Oriola Corporation's 50% stake in the company. Kruunuvuoren Satama Oy and Hehku Kauppa Oy have been consolidated as associates and joint ventures in the consolidated financial statements until the point they became Group subsidiaries.

Disclosures on associates and joint ventures and the Group's ownership interest in their aggregated assets, liabilities, net sales and net profits/losses

The joint venture consolidated using the equity method, Mercada Oy, owns properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

2019 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	682.1	586.8	50.1	11.5	33.3
Valluga-sijoitus Oy, Helsinki	1.1	-	-	51.9	46.2
Vähittäiskaupan Takaus Oy, Helsinki	154.3	0.3	1.8	53.3	32.6
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	9.8	2.6	11.2	0.6	30.0
Others	13.3	10.2	4.1	-0.1	
Total	**860.7**	**599.9**	**67.2**	**117.2**	

2018 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	693.6	609.5	49.9	11.9	33.3
Kruunuvuoren Satama Oy, Helsinki	249.9	113.8	12.4	7.6	49.0
Hehku Kauppa Oy, Espoo	6.4	2.3	7.7	-18.9	50.0
Valluga-sijoitus Oy, Helsinki	34.4	0.0	-	2.4	46.2
Vähittäiskaupan Takaus Oy, Helsinki	101.2	0.2	1.7	7.4	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	8.6	1.9	10.6	0.8	30.0
Others	13.3	10.2	4.2	-0.1	
Total	**1,107.4**	**738.0**	**88.3**	**11.4**	

Mutual real estate companies

The figures in the table below are the Group's share of real estate companies' assets and liabilities and net profit, included in the consolidated statement of financial position and income statement. Mutual real estate companies have been handled as common functions.

€ million	2019	2018
Non-current assets	29.3	34.8
Current assets	0.6	0.8
Total	29.9	35.7
Non-current liabilities	1.6	1.9
Current liabilities	5.9	5.2
Total	7.5	7.1
Net assets	22.4	28.6
Income	2.9	2.7
Costs	3.6	3.8
Net profit	**-0.7**	**-1.1**

3.11 Provisions

Accounting policies

A provision is recognised when the Group has a present legal or constructive obligation as the result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. Provision amounts are reviewed on each balance sheet date and adjusted to reflect the current best estimate. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised. The most significant part of the Group's provisions relates to warranties given to products sold by the Group.

A warranty provision is recognised when a product covered by warranty provisions is sold. The provision amount is based on historical experience about the level of warranty expenses.

€ million	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2019	22.8	19.9	42.8
Foreign exchange effects	0.0	0.0	0.0
Additional provisions	11.8	10.0	21.8
Unused amounts reversed	-2.2	-0.9	-3.1
Amounts charged against provision	-13.5	-11.7	-25.2
Changes in the Group structure	0.1	-0.2	-0.1
Provisions as at 31 Dec. 2019	19.0	17.0	36.1
Analysis of total provisions			
Non-current	8.9	10.7	19.7
Current	10.1	6.3	16.4

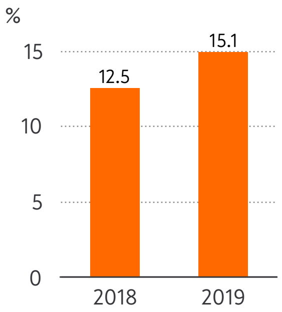
A provision has been recognised for warranties and care plans of vehicles and machines sold by the Group companies.

Changes in Group structure include transfers to liabilities related to non-current assets classified as held for sale, and the impacts of acquisitions and divestments.

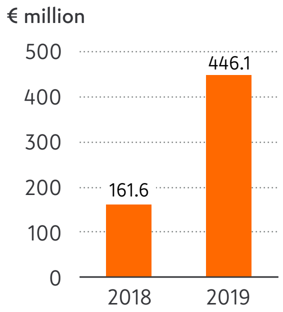
4. CAPITAL STRUCTURE AND FINANCIAL RISKS

IN THIS SECTION

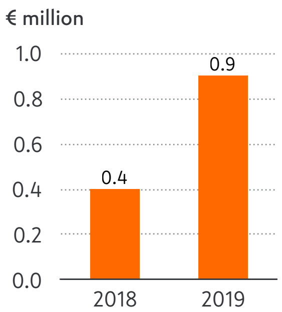
Comparable return on equity



Interest-bearing net liabilities excluding lease liabilities



Interest-bearing net debt/EBITDA excluding the impact of IFRS 16



4.1 Capital structure management

Kesko Group's objectives in capital management include target rates set for the Group's solvency and liquidity. The Group's capital structure (equity-to-debt ratio) is managed at Group level. The targets for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market situations, enabling the implementation of Group strategy, and increasing shareholder value. The targets have been set for the performance indicator 'interest-bearing net debt/EBITDA'. Some of the Group's interest-bearing liabilities include covenants, whose terms and conditions have been taken into account in the above target rate. The Group does not have a credit rating from any external credit rating institution.

The target levels for Kesko Group's performance indicators are approved by the Board of Directors. On 25 April 2019, the Board of Directors approved the target levels presented below for comparable operating margin, comparable return on capital employed, and interest-bearing net debt/EBITDA, as part of the Group's medium-term financial targets. The profitability targets take into account the impacts of IFRS 16 Leases. In terms of financial position, as before, the Group uses interest-bearing net debt/EBITDA excluding the impact of IFRS 16.

	Target level	Level achieved in 2019	Level achieved in 2018
Comparable operating margin	5.0%	4.3	4.1
Comparable return on capital employed, continuing operations	11.0%	9.6	9.8
Interest-bearing net debt/EBITDA excluding the impact of IFRS 16	<2.5	0.9	0.4

€ million	2019	2018
Interest-bearing liabilities and lease liabilities in the consolidated statement of financial position	3,037.3	2,700.3
- Lease liabilities	2,422.2	2,289.0
- Current financial assets at fair value through profit or loss	10.1	50.9
- Current financial assets at amortised cost	34.5	59.1
- Cash and cash equivalents	124.4	139.6
Interest-bearing net debt excluding lease liabilities	**446.1**	**161.6**
Operating profit	446.3	359.0
+ depreciation, amortisation and impairment	160.9	146.5
+ depreciation and impairment charges for right-of-use-assets	325.0	320.3
- lease payments for right-of-use assets	424.6	411.8
EBITDA excluding the impact of IFRS 16	**507.7**	**413.9**
Interest bearing net debt/EBITDA excluding the impact of IFRS 16	**0.9**	**0.4**

4.2 Shareholders' equity

Accounting policies

The Group classifies the instruments it has issued either in equity or in financial liabilities based on their nature. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Expenses related to the issuance or acquisition of equity instruments are presented as an allowance for equity. If Kesko Corporation acquires equity instruments of its own, their cost is deducted from equity.

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

At the end of December 2019, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were

B shares. All issued shares have been fully paid. The maximum number of A shares is 250 million and the maximum number of B shares is also 250 million, so that the total number of shares is 400 million at maximum. Each A share carries ten (10) votes and each B share one (1) vote. The total number of votes attached to all shares was 385,652,815. At the end of December 2019, Kesko Corporation's share capital was €197,282,584.

Changes in share capital

Share capital	Number of shares A	Number of shares B	Number of shares Total	Share capital € million	Reserve of invested non-restricted equity € million	Share premium € million	Total € million
1 January 2018	31,737,007	67,719,608*	99,456,615*	197.3	22.8	197.8	417.8
Transfer of treasury shares		61,738	61,738				
Acquisition of treasury shares		-500,000	-500,000				
31 December 2018	31,737,007	67,281,346*	99,018,353*	197.3	22.8	197.8	417.8
Transfer of treasury shares		70,036	70,036				
Acquisition of treasury shares							
31 December 2019	**31,737,007**	**67,351,382***	**99,088,389***	**197.3**	**22.8**	**197.8**	**417.8**
Number of votes	**317,370,070**	**67,351,382**	**384,721,452**				

* Excluding treasury shares which totalled 931,363 (1,001,399) at the end of the financial year.

Treasury shares

Authorised by the General Meeting, the Board acquired a total of 500,000 of the Company's own B shares during the 2018 financial year. The Board also acquired a total of 1,200,000 of the Company's own B shares during the financial years 2011 and 2014. The shares are held by the Company as treasury shares and the Company's Board is entitled to transfer them. The acquisition cost of the B shares held by the Company and acquired during the 2018 financial year was €24.4 million, and the acquisition cost of the shares acquired during the 2011 and 2014 financial years was €23.5 million. These costs have been deducted from retained earnings in equity. Information on share-based payments has been given in note 5.4.

€ million	pcs
B shares held by the Company as at 31 Dec. 2018	**1,001,399**
Transfer, share-based compensation plan	-73,810
Returned during the period	3,774
B shares held by the Company as at 31 Dec. 2019	**931,363**

Dividends

After the balance sheet date, the Board of Directors has proposed that €2.52 per share be distributed as dividends. A dividend of €2.34 per share was distributed on the profit for 2018.

Equity and reserves

Equity consists of share capital, share premium, reserve of invested non-restricted equity, other reserves, revaluation reserve, currency translation differences and retained earnings net of treasury shares. In addition, the portion of accumulated depreciation difference and optional provisions net of deferred tax liabilities are included in equity.

Share premium

The amount exceeding the par value of share received by the Company in connection with share subscriptions was recorded in the share premium in cases where options had been granted under the old Limited Liability Companies Act (29 Sept. 1978/734). As at the end of the financial year, the share premium was €197.8 million.

Reserve of invested non-restricted equity

The reserve of invested non-restricted equity, €22.8 million, includes the other equity-related investments and share subscription prices to the extent not designated to be included in share capital.

Other reserves

Other reserves, a total of €244.2 million, have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves to a total amount of €242.3 million at the end of the financial year.

Currency translation differences

Currency translation differences arise from the translation of foreign operations' financial statements. Exchange differences arising from monetary items that form a part of a net investment in a foreign operation or exchange differences from loans designated as hedges for foreign net investments and regarded as effective, are also included in currency translation differences. The change in currency translation differences is stated within comprehensive income.

Revaluation reserve

The revaluation reserve includes the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied. Cash flow hedges include electricity derivatives. The change in the reserve is stated within comprehensive income. The result of cash flow hedging has been presented in note 4.3 Financial risks.

4.3 Financial risks

With respect to financial risk management, the Group observes a uniform treasury policy that has been approved by the Company's Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Board's Audit Committee. The Group Treasury is centrally responsible for obtaining financial resources for the Group, for liquidity management, relations with providers of finance, and the management of financial risks. In the main, the Group's financial resources have been obtained through the parent company, and the Group Treasury arranges financial resources for subsidiaries in their functional currencies. For subsidiaries with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

Foreign exchange risks

Kesko Group conducts business operations in eight countries, in addition to which it makes purchases from numerous countries. In consequence, the Group is exposed to various foreign exchange risks arising from net investments in foreign operations (translation risks) and from assets, liabilities and forecast transactions (transaction risks) denominated in foreign currencies.

The Group companies' financial resources are arranged in their functional currencies. The parent company bears the ensuing foreign exchange risk and hedges the risk exposure using derivatives or borrowings denominated in the relevant foreign currencies. The Belarusian currency BYN is not a freely convertible currency and hedging the associated exposure to foreign exchange risk is not possible.

Translation risks

The Group is exposed to foreign currency translation risks relating to net investments in subsidiaries outside the euro zone held on the balance sheet. This balance sheet exposure has not been hedged. The hedge can be designated if equity is repatriated, or if a currency is expected to be exposed to a significant devaluation risk. The most significant translation exposures are the Norwegian krone and the Swedish krona. The exposure does not include the non-controlling interest in equity. Relative to the Group's volume of operations and the balance sheet total, the foreign currency translation risk is low.

Group's translation exposure as at 31 Dec. 2019 € million	**NOK**	**SEK**	**PLN**	**BYN**	**RUB**
Net investment	80.4	194.4	44.2	10.4	-

Group's translation exposure as at 31 Dec. 2018 € million	**NOK**	**SEK**	**PLN**	**BYN**	**RUB**
Net investment	100.3	69.7	22.8	9.1	10.4

The following table shows how a 10% change in the Group companies' functional currencies would affect the Group's equity.

Sensitivity analysis, impact on equity as at 31 Dec. 2019 € million	NOK	SEK	PLN	BYN	RUB
Change +10%	-7.3	-17.7	-4.0	-0.9	-
Change -10%	8.9	21.6	4.9	1.2	-

Sensitivity analysis, impact on equity as at 31 Dec. 2018 € million	NOK	SEK	PLN	BYN	RUB
Change +10%	-9.1	-6.3	-2.1	-0.8	-0.9
Change -10%	11.1	7.7	2.5	1.0	1.2

Transaction risks

International purchasing activities and foreign currency denominated financial resources arranged by the parent to subsidiaries expose the Group to transaction risks relating to several currencies. The currency-specific transaction risk exposure comprises foreign currency denominated receivables and liabilities in the balance sheet, forecast foreign currency cash flows, and foreign subsidiaries' liabilities and receivables with respect to the parent. The risk is commercially managed by, for example, transferring exchange rate changes to selling prices, or by replacing suppliers. The remaining exposures are hedged using foreign currency derivatives. The subsidiaries report their foreign exchange exposures to the Group Treasury on a monthly basis.

In the main, the subsidiaries hedge their risk exposures with the Group Treasury, which in turn hedges risk exposures using market transactions within the limits confirmed for each currency. Intra-Group derivative contracts are allocated to the segments in segment reporting.

The Group does not apply hedge accounting in accordance with IFRS 9 to the hedging of transaction risks relating to purchases and sales. In initial measurement, derivative instruments are recognised at fair value and subsequently in the financial statements, they are remeasured at fair value. The change in fair value of foreign currency derivatives used for hedging purchases and sales is recognised in other operating income or expenses.

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The following table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual foreign exchange risk after hedgings. When forecast amounts are included in the transaction exposure, the most significant difference from the table below is in the USD exposures. As at 31 December 2019, the exposure with respect to USD was €-37.7 million.

Group's transaction exposure as at 31 Dec. 2019 € million	USD	SEK	NOK	PLN	BYN
Group's transaction risk	-7.8	66.3	64.1	22.0	23.1
Hedging derivatives	28.9	-50.3	-55.8	-12.9	-
Open exposure	21.1	16.0	8.3	9.1	23.1

Group's transaction exposure as at 31 Dec. 2018 € million	USD	SEK	NOK	PLN	BYN
Group's transaction risk	-17.0	14.3	41.7	24.1	19.2
Hedging derivatives	21.0	-13.7	-40.7	-16.3	-
Open exposure	4.0	0.6	1.0	7.8	19.2

A sensitivity analysis of the transaction exposure shows the impact on profit or loss of a +/-10% exchange rate change in intra-Group receivables and liabilities denominated in foreign currencies and foreign currency derivatives and borrowings used for hedging.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2019 € million	USD	SEK	NOK	PLN	BYN
Change +10%	-1.9	-1.5	-0.8	-0.8	-2.1
Change -10%	2.4	1.8	0.9	1.0	2.6

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2018 € million	USD	SEK	NOK	PLN	BYN
Change +10 %	-0.4	-0.1	-0.1	-0.7	-1.7
Change -10 %	0.4	0.1	0.1	0.9	2.1

Liquidity risk

Liquidity risk management aims to maintain sufficient liquid assets and credit facilities in order to ensure the ongoing availability of sufficient financial resources for the Group's operating activities.

On 31 December 2019, the Group had liquid assets of €169.0 million (€249.6 million). Interest-bearing liabilities on 31 December 2019 totalled €3,037.3 million (€2,700.3 million), and interest-bearing net debt €2,868.4 million (€2,450.7 million), of which lease liabilities accounted for €2,422.2 million (€2,289.0 million). Interest-bearing net debt excluding lease liabilities totalled €446.1 million (€161.6 million).

	31 Dec. 2019				31 Dec. 2018			
€ million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**<1 year**	**1–5 years**	**>5 years**	**Total**
Maturities of financial liabilities and related finance costs								
Borrowings from financial institutions	**8.3**	**327.4**	**0.2**	**335.8**	**5.7**	**7.7**	**0.2**	**13.7**
finance costs	3.3	6.3	0.0	9.6	0.4	0.6	0.0	1.0
Private Placement notes (USD)					**20.1**			**20.1**
finance costs					0.6			0.6
Pension loans	**22.7**	**98.7**	**38.8**	**160.1**	**23.9**	**103.0**	**57.2**	**184.0**
finance costs	2.0	4.8	0.9	7.8	2.3	6.2	1.7	10.1
Lease liabilities	**383.3**	**1,097.3**	**941.6**	**2,422.2**	**309.5**	**1,055.7**	**923.8**	**2,289.0**
finance costs	84.7	215.9	100.8	401.3	84.3	240.6	111.9	436.7
Payables to K-retailers	**98.0**			**98.0**	**119.3**			**119.3**
finance costs								
Other interest-bearing liabilities	**12.8**	**9.0**	**0.0**	**21.8**	**63.8**	**3.4**	**6.5**	**73.8**
finance costs	0.4	0.7		1.1	0.5	1.1	0.1	1.7
Non-current non-interest-bearing liabilities	**1.0**	**3.6**	**25.2**	**29.8**	**0.9**	**2.7**	**25.8**	**29.4**
Current non-interest-bearing liabilities								
Trade payables	**1,029.9**			**1,029.9**	**982.7**			**982.7**
Accrued expenses	**387.6**			**387.6**	**355.0**			**355.0**
Other non-interest-bearing liabilities	**173.3**			**173.3**	**171.7**			**171.7**

Financial liabilities in the balance sheet include €6.8 million (€2.7m) in items related to derivatives.
Lease liabilities are presented in note 4.6.

	31 Dec. 2019				31 Dec. 2018			
€ million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**<1 year**	**1–5 years**	**>5 years**	**Total**
Cash flows of derivatives								
Payables								
Foreign exchange forward contracts	153.8			153.8	128.9			128.9
Interest rate derivatives	1.2	3.7	0.9	5.7	0.8	3.1	1.3	5.3
Electricity derivatives	0.0	0.1	0.0	0.1	0.0	0.0		0.0
Receivables								
Foreign exchange forward contracts	151.1			151.1	130.5			130.5
Interest rate derivatives	0.1	0.3		0.4				
Electricity derivatives	0.6	0.2		0.9	1.2	1.1	0.0	2.3
Derivatives relating to Private Placement notes								
Foreign currency derivatives					0.9			0.9
Interest rate derivatives					0.1			0.1

Payables to K-retailers consist of two types of interest-bearing liabilities by Kesko to K-retailers: retailers' prepayments to Kesko and Kesko's chain rebate liabilities to retailers.

During the 2019 financial year, Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million during the financial year, and has the possibility to draw down more later on with a separate credit decision by the banks. Kesko also agreed on a Revolving Credit Facility of €100 million linked to the same sustainability targets, which was not in use on 31 December 2019.

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €300 million (€200 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €506 million (€449 million). In addition, in January 2020, the Group companies held a total of €414 million available for re-borrowing in a pension insurance company. Part of the pension insurance premiums paid annually by the Group companies are funded and the accumulated funds can be re-borrowed with a term of 1–10 years in accordance with regulations confirmed by the Ministry of Social Affairs and Health. Any amount of borrowing requires the posting of adequate collateral.

Interest rate risk on borrowings and sensitivity analysis

Changes in the interest rate level have an impact on the Group's interest expense. The policy for hedging interest rate risk is aimed at balancing the effects of changes in the interest rate level on profit or loss for different financial periods.

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate derivative contracts. The target duration is three years, which is allowed to vary between one and a half and four years. The actual duration during the financial year was 2.1 (1.8) years on average.

On 10 June 2004, Kesko Corporation issued a USD Private Placement in a total amount of USD 120 million in the United States. The facility had three tranches with bullet repayments, of which USD 60 million was paid on 10 June 2014, USD 36 million was paid on 10 June 2016 and USD 24 million was paid on 10 June 2019.

Kesko Corporation's USD Private Placement credit facility qualified for hedge accounting against both foreign exchange and interest rate risk and it was hedged by currency swaps and interest rate swaps with the same amounts and maturities as the borrowing. As a result, the borrowing were fully hedged against foreign exchange and interest rate risk. During the financial year, there was no ineffectiveness to be recorded in the income statement from this credit facility.

The sensitivity analysis for changes in interest rate level in respect of commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2019, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.1 million (€-/+1.7 million), if the interest rate level had risen or fallen by 1 percentage point.

Pension loans, €160.1 million in aggregate, have fixed rates, and their effective interest cost was 1.3%. Other borrowings from financial institutions have variable interest rates. At the end of the financial year, the average rate of these borrowings, payables to retailers, and other interest-bearing liabilities was 0.8%.

Financial assets and liabilities recognised at fair value

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and deposits with banks operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on these investments for 2019 was 2.5% (1.0%) and the duration was 0.5 years at the end of the financial year. The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date. The following table analyses financial instruments carried at fair value by valuation method.

Fair value hierarchy of financial assets and liabilities	Fair value as at 31 Dec. 2019			
€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Money market funds		10.1		10.1
Private equity funds and other shares and interests			20.6	20.6
Total		**10.1**	**20.6**	**30.6**
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		1.3		1.3
Derivative financial liabilities		6.8		6.8

Fair value hierarchy of financial assets and liabilities	Fair value as at 31 Dec. 2018			
€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Money market funds		50.9		50.9
Private equity funds and other shares and interests			20.8	20.8
Total		**50.9**	**20.8**	**71.7**
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		5.6		5.6
Derivative financial liabilities		2.7		2.7

Level 1 instruments are traded in active markets and their fair values are directly based on quoted market prices. The fair values of level 2 instruments are derived from market data. The fair value of level 3 instruments is not based on observable market data (inputs not observable).

Changes in level 3 instruments € million	2019	2018
Private equity funds and other shares and interests as at 1 January	20.8	23.0
Purchases	0.3	0.5
Refunds received	-0.6	-0.9
Gains and losses through profit or loss	-1.0	-4.8
Changes in fair values	1.1	2.9
Private equity funds and other shares and interests as at 31 December	**20.6**	**20.8**

Level 3 includes private equity funds and other shares and interests. These investments have been classified as financial assets through profit or loss. Level 3 financial assets are measured based on computations received from the companies. An income of €1.1 million has been recorded on these investments for the financial year 2019.

Current interest-bearing receivables and sensitivity analysis

The objective is to invest liquidity consisting of financial assets in the money markets using efficient combinations of return and risk. At regular intervals, the Group's management approves the investment instruments and limits for each counterparty among those analysed by the Group Treasury. The risks and actual returns on investments are monitored regularly.

Financial assets at amortised cost € million	2019	2018
Carrying amount as at 1 January	59.1	56.8
Changes	-24.6	2.3
Carrying amount as at 31 December	**34.5**	**59.1**

The financial assets at amortised cost include investments in commercial papers, certificates of deposits and other interest rate instruments.

In the sensitivity analysis of floating rate receivables, average annual balances of invested assets have been used. The receivables include customer financing receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/- 1.1 million (€+/-1.7 million).

Maturity of non-current receivables

Maturity analysis of non-current receivables as at 31 Dec. 2019 € million	2021	2022	2023	2024	2025–	Total
Non-interest-bearing non-current receivables	0.5	0.2	0.1	0.1	0.5	1.3
Loans and receivables from associates and joint ventures					57.5	57.5
Other non-current receivables	0.2	0.0	0.0	0.0	0.2	0.4
Total	**0.7**	**0.2**	**0.1**	**0.1**	**58.1**	**59.3**

The carrying amount of non-interest-bearing non-current receivables equals their fair value.

Maturity analysis of non-current receivables as at 31 Dec. 2018 € million	2020	2021	2022	2023	2024–	Total
Non-interest-bearing non-current receivables	2.3	0.3	0.1	0.0	0.2	2.8
Loans and receivables from associates and joint ventures	0.0				57.5	57.5
Other non-current receivables	0.2	0.0	5.0	0.0	0.0	5.3
Total	**2.5**	**0.3**	**5.1**	**0.0**	**57.8**	**65.7**

Credit and counterparty risk

The divisions' business entities are responsible for the management of the credit risk associated with amounts due from customers. The Group has a credit policy and its implementation is controlled. The aim is to ensure the collection of receivables by carefully assessing customers' creditworthiness, by specifying customer credit terms and collateral requirements, by effective credit control and credit insurances, as applicable. In Finland, the main part of the Group's business activities is carried out in cooperation with retailers.

According to retailer agreements, retailers shall arrange overdraft facilities to be held as collateral for their trade payables by the relevant Kesko subsidiary.

According to the IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, the Group has classified Group companies into risk categories on the basis of their business model and realised historical credit losses. In addition, impairment is recognised, if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. As for other financial assets, the change in impairment model has not had a material impact on the consolidated financial statements.

The ageing analysis of trade receivables as at 31 December was as follows:

Ageing analysis of trade receivables € million	2019	2018
Trade receivables fully performing	712.1	732.0
1–7 days past due trade receivables	31.4	30.9
8–30 days past due trade receivables	30.4	23.4
31–60 days past due trade receivables	8.9	9.3
over 60 days past due trade receivables	21.8	24.7
Total	**804.7**	**820.3**

Within trade receivables, €317.2 million (€348.0 million) were from chain retailers. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the countersecurity from the K-retailer's company and its entrepreneur to Vähittäiskaupan Takaus Oy. At the end of the financial year, the aggregate value of countersecurities was €247.4 million (€197.1 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €23.7 million (€24.3 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €3.6 million (€5.2 million).

The amount of receivables with renegotiated terms totalled €1.2 million (€5.1 million).

Financial credit risk

Financial instruments involve the risk of non-performance by counterparties. Kesko enters into foreign currency and other derivative contracts only with creditworthy banks. Liquid funds are invested, in accordance with limits set annually for each counterparty, in instruments with good creditworthiness. Company and bank-specific euro and time limits are set for money market investments. These limits are reviewed during the year depending on the market situation.

Commodity risks and their sensitivity analysis

The Group uses electricity derivatives for the purpose of balancing out energy costs. The electricity price risk is assessed for five-year periods. The changes in the fair values of derivatives hedging the price of electricity supplied during the financial year are recognised within adjustments to purchases. Hedge accounting is applied to contracts hedging future purchases. The Group hedges the electricity system price in compliance with IFRS 9. The effective portion of the change in the value of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under Revaluation of cash flow hedge.

Result of cash flow hedging

As a result of hedge accounting applied to electricity, an amount of €0.7 million (€2.2 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-0.8 million (€4.6 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €-1.5 million (€2.3 million) before accounting for deferred tax.

As at the balance sheet date, a total quantity of 495,424 MWH (265,075 MWH) of electricity had been purchased with electricity derivatives and 559,027 MWH under fixed price purchase agreements. The 1–12 month hedging level was 76% (68%), the 13–24 month level was 62% (53%), the 25–36 month level was 43% (43%), and the 37–48 month level was 18% (27%).

The sensitivity analysis of electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by -/+20% from the balance sheet date 31 December 2019, it would contribute €-/+1.1 million (€-/+0.8 million) to the 2020 income statement and €-/+2.2 million (€-/+1.2 million) to equity. The impact has been calculated before taxes.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2019 Positive fair value (balance sheet value)	31 Dec. 2019 Negative fair value (balance sheet value)	31 Dec. 2018 Positive fair value (balance sheet value)	31 Dec. 2018 Negative fair value (balance sheet value)
Interest rate derivatives	0.2	-3.8	0.4	-2.4
Foreign currency derivatives	0.2	-2.9	3.2	-0.8
Electricity derivatives	0.9	-0.1	2.3	-0.0

Notional principal amounts of derivative contracts € million	31 Dec. 2019 Notional principal amount	31 Dec. 2018 Notional principal amount
Interest rate derivatives	340.0	350.2
Foreign currency derivatives	154.4	149.2
Electricity derivatives	15.7	11.0

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €0.2 million.

The maximum credit risk from derivatives is the fair value of the balance sheet at the reporting date.

4.4 Finance income and costs

€ million, continuing operations	2019	2018
Interest income and other finance income		
Interest income on financial assets at amortised cost	0.8	0.9
Interest income on loans and receivables	10.2	10.2
Interest income on financial assets at fair value through profit or loss	-1.0	-0.7
Gains on disposal of financial assets at amortised cost	0.6	0.1
Gains on disposal of financial assets at fair value through profit or loss	2.7	2.9
Other finance income	0.8	0.7
Total interest income and other finance income	14.0	14.1
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-5.9	-9.2
Losses on disposal of financial assets at amortised cost	0.0	-
Losses on disposal of financial assets at fair value through profit or loss	-	0.0
Other finance costs	-3.2	-3.2
Total interest expense and other finance costs	-9.1	-12.4
Interest expense for lease liabilities	-95.4	-98.6
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-0.8	-2.8
Total exchange differences	-0.8	-2.8
Total finance income and costs	**-91.4**	**-99.7**

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

The Group classifies financial assets into three groups in accordance with IFRS 9. Financial assets are classified either as instruments measured at amortised cost, or as instruments measured at fair value through profit or loss or in other comprehensive income, depending on the business model targets and cash flows based on agreements.

Regular way purchases or sales of financial assets are recognised on trade date. Financial assets are classified as non-current, if they have a maturity of more than 12 months after the balance sheet date. If financial assets are expected to be settled within 12 months, they are classified as current.

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

Financial assets at amortised cost and financial assets at fair value are only invested in creditworthy counterparties. The impairment model for expected credit losses in line with the standard requires credit losses to be recognised with a forward-looking approach. As for other financial assets, lacking historical credit losses, counterparty risk is monitored actively and credit losses are recognised if risk is observed.

Financial assets at amortised cost

Financial assets at amortised cost consist of assets that are to be held to maturity and whose cash flows consist solely of payments of principal and interest. Financial assets at amortised cost also include trade receivables and other receivables.

Financial assets at fair value

Financial assets at fair value in other comprehensive income comprise derivatives that meet the hedge accounting criteria. Financial assets that do not meet the criteria of the other groups are classified as financial assets measured at fair value through profit or loss

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with banks as well as liquid funds measured at amortised cost which are invested in instruments with maturities of less than three months from acquisition. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of the group companies, used as cash floats in stores, or amounts being transferred to the respective companies.

Financial liabilities

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

Derivative financial instruments and hedge accounting

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, or when the contract is terminated or exercised. Any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction has occurred.

Measurement principles

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

Hedging a net investment in foreign operations

During the financial year, the Group has not hedged net investments in foreign operations. If a hedge is initiated, the Group applies hedge accounting in accordance with IFRS 9 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the hedging instruments are recognised in profit or loss.

Embedded derivatives

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

As at 31 December 2019

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial assets					
Financial assets at fair value through profit or loss	**20.6**			**20.6**	**20.6**
Non-current non-interest-bearing receivables		1.1		1.1	1.1
Derivatives			0.2	0.2	0.2
Total non-current non-interest-bearing receivables		**1.1**	**0.2**	**1.3**	**1.3**
Total non-current interest-bearing receivables		**57.5**		**57.5**	**57.5**
Total non-current financial assets	**20.6**	**58.7**	**0.2**	**79.4**	**79.4**
Current financial assets					
Trade and other non-interest-bearing receivables		1,010.1		1,010.1	1,010.1
Derivatives	0.4		0.7	1.1	1.1
Total trade and other non-interest-bearing receivables	**0.4**	**1,010.1**	**0.7**	**1,011.2**	**1,011.2**
Current interest-bearing receivables		2.2		2.2	2.2
Total current interest-bearing receivables		**2.2**	**0.0**	**2.2**	**2.2**
Financial assets at fair value through profit or loss	**10.1**			**10.1**	**10.1**
Financial assets at amortised cost		**34.5**		**34.5**	**34.5**
Total current financial assets	**10.5**	**1,046.8**	**0.7**	**1,058.0**	**1,058.0**
Carrying amount by category	**31.1**	**1,105.5**	**0.9**	**1,137.5**	**1,137.4**

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial liabilities					
Non-current interest-bearing liabilities		477.3		477.3	480.0
Non-current lease liabilities		2,039.0		2,039.0	2,039.0
Non-current non-interest-bearing liabilities		29.8		29.8	29.8
Total non-current financial liabilities		**2,546.1**		**2,546.1**	**2,548.8**
Current financial liabilities					
Current interest-bearing liabilities		137.8		137.8	137.8
Current lease liabilities		383.2		383.2	383.2
Total current interest-bearing liabilities		**521.0**		**521.0**	**521.0**
Trade payables		**1,029.9**		**1,029.9**	**1,029.9**
Other non-interest-bearing liabilities		207.8		207.8	207.8
Derivatives			0.1	0.1	0.1
Total other non-interest-bearing liabilities		**207.8**	**0.1**	**207.9**	**207.9**
Accrued expenses		380.9		380.9	380.9
Derivatives	6.7			6.7	6.7
Total accrued expenses	**6.7**	**380.9**		**387.6**	**387.6**
Total current non-interest-bearing liabilities	**6.7**	**588.7**	**0.1**	**595.5**	**595.5**
Total current financial liabilities	**6.7**	**2,139.6**	**0.1**	**2,146.4**	**2,146.4**
Carrying amount by category	**6.7**	**4,685.7**	**0.1**	**4,692.5**	**4,695.1**

As at 31 December 2018

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial assets					
Financial assets at fair value through profit or loss	**20.8**			**20.8**	**20.8**
Non-current non-interest-bearing receivables		1.8		1.8	1.8
Derivatives			1.0	1.0	1.0
Total non-current non-interest-bearing receivables		**1.8**	**1.0**	**2.8**	**2.8**
Total non-current interest-bearing receivables		**62.8**		**62.8**	**62.8**
Total non-current financial assets	**20.8**	**64.8**	**1.0**	**86.5**	**86.5**
Current financial assets					
Trade and other non-interest-bearing receivables		1,014.9		1,014.9	1,014.9
Derivatives	2.4		1.3	3.6	3.6
Total trade and other non-interest-bearing receivables	**2.4**	**1,014.9**	**1.3**	**1,018.5**	**1,018.5**
Current interest-bearing receivables		1.8		1.8	1.8
Derivatives			0.9	0.9	0.9
Total current interest-bearing receivables		**1.8**	**0.9**	**2.7**	**2.7**
Financial assets at fair value through profit or loss	**50.9**			**50.9**	**50.9**
Financial assets at amortised cost		**59.1**		**59.1**	**59.1**
Total current financial assets	**53.3**	**1,075.8**	**2.1**	**1,131.2**	**1,131.2**
Carrying amount by category	**74.1**	**1,140.4**	**3.2**	**1,217.7**	**1,217.7**

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial liabilities					
Non-current interest-bearing liabilities		177.8		177.8	179.7
Non-current lease liabilities		1,979.6		1,979.6	1,979.6
Non-current non-interest-bearing liabilities		29.4		29.4	29.4
Total non-current financial liabilities		**2,186.8**		**2,186.8**	**2,188.7**
Current financial liabilities					
Current interest-bearing liabilities		233.4		233.4	233.4
Current lease liabilities		309.5		309.5	309.5
Total current interest-bearing liabilities		**542.9**		**542.9**	**542.9**
Trade payables		**982.7**		**982.7**	**982.7**
Other non-interest-bearing liabilities		197.6		197.6	197.6
Derivatives			0.2	0.2	0.2
Total other non-interest-bearing liabilities		**197.6**	**0.2**	**197.8**	**197.8**
Accrued expenses		352.2		352.2	352.5
Derivatives	2.5			2.5	2.5
Total accrued expenses	**2.5**	**352.5**		**355.0**	**355.0**
Total current non-interest-bearing liabilities	**2.5**	**550.1**	**0.2**	**552.8**	**552.8**
Total current financial liabilities	**2.5**	**2,075.7**	**0.2**	**2,078.4**	**2,078.4**
Carrying amount by category	**2.5**	**4,262.5**	**0.2**	**4,265.2**	**4,267.1**

Prepaid expenses and accrued expenses do not include income tax assets of €14.4 million (€0.1 million) or income tax liabilities of €11.8 million (€16.5 million). Prepayments received of €34.6 million (€25.9 million) are not categorised as financial liabilities and are not included in the table above.

The fair values of borrowings have been calculated based on the present value of future cash flows using the 0.0%–1.7% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity structure of non-current borrowings has been presented in note 4.3.

4.6 Leases

Accounting policies

Kesko Group leases properties, machinery and equipment for use in its business operations in all of its operating countries. For most of these leases, assets and liabilities corresponding to the present value of future lease payments are recognised in the balance sheet at the commencement of the lease. The Group adopted IFRS 16 using a full retrospective method, and the impact on the date of transition 1 January 2018 has been calculated as if the standard had always been in effect.

The Group determines at inception of a contract whether the contract is, or contains, a lease. A contract is deemed a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and lease liability corresponding to the present value of the lease's future lease payments are recognised in the consolidated statement of financial position at the commencement date of the lease.

The lease term is the period during which the lease is non-cancellable. The lease term shall include periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised, and periods covered by an option to terminate the lease, if it is reasonably certain that the option will not be exercised.

When calculating the present value of future lease payments, the interest rate implicit in the lease is primarily used, if available. An interest rate implicit in the lease is not available for all leases. In such cases, the incremental borrowing rate is used, which comprises the reference rate, credit spread for the incremental borrowing, and a potential country and currency risk premium. The interest expenses for lease liabilities are recognised in financial items in the income statement. The Group applies the exemptions for leases with a term of less than 12 months and assets of low value included in IFRS 16, according to which such leases are not included in the balance sheet. Lease payments for short-term leases and low-value assets are recognised as expenses on a straight-line basis over the lease term.

At the commencement date of the lease, the measurement of the lease liability includes fixed lease payments, variable lease payments that depend on an index or a rate, potential residual value guarantees, and the price of a purchase option if it is reasonably certain the option will be exercised. Payments of penalties for terminating the lease are also included in the measurement of the lease liability if the lease term reflects the option to terminate the lease.

The lease liability is remeasured at the effective date of lease modification, and the consequent change is recognised as an adjustment to the right-of-use asset. If the reduction in lease liability exceeds the right-of-use asset, the difference is recognised in profit or loss. Lease liabilities must be remeasured using a revised discount rate when there is a change in the lease term, the assessment of whether an option to extend or terminate the lease is exercised, or the lease payment amount, and when there is a change in the assessment of whether an option to purchase the underlying asset is exercised.

The right-of-use asset is remeasured with corresponding remeasurement of lease liability. The lessee depreciates the right-of-use asset from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. More information on right-of-use assets is provided in note 3.5.

In reporting for the lessor, leases are divided into operating leases and finance lease agreements. Leases where the risks and rewards incidental to ownership are transferred to the lessee are classified as finance lease agreements. At the commencement date of the lease, the lessor records in the balance sheet a finance lease receivable that corresponds to the net investment in the lease. Lease income for operating leases is recognised in the income statement on a straight-line basis over the lease term.

In sale and leaseback transactions, the parties assess whether the transfer of the asset satisfies the requirements of IFRS 15 for a sale. If the transfer is accounted for as a sale, the right-of-use asset recognised in the balance sheet will be measured by the portion of the carrying amount of the original asset that corresponds to the value of the right to use that remains with the seller. Only the portion of the sales proceeds of the asset corresponding to the rights transferred to the buyer is presented as sales gain or loss. If the consideration for the sale of the asset or payments for the lease do not equal the fair value, the difference is recognised as an adjustment to the asset's sales proceeds. Any below-market terms are accounted for as a prepayment of lease payments, and any above-market terms are accounted for as financial liability. If the requirements for a sale are not satisfied, the Group will continue to recognise the transferred asset in its balance sheet, and will present the transfer proceeds as financial liability.

Group as a lessee

The Group leases for business purposes facilities required for retail and for logistics operations serving retail. The leases are mostly fixed term and in line with local market practices. Some of the leases for the properties contain extension options. The Group also leases for business purposes machinery and equipment such as vehicles, logistics machinery and equipment, and equipment for recycling waste at stores and logistics operations. The Group has classified office machinery and equipment as low-value assets, and lease payments for them are recognised as annual expenses in the income statement.

Lease expenditure

€ million	2019	2018
Lease expenditure for short-term leases	-8.5	-6.3
Lease expenditure for low-value assets	-4.4	-2.6
Variable lease expenditure	-0.0	-0.0
Total, continuing operations	**-12.9**	**-8.9**

Right-of-use assets related to leases are presented in note 3.5.

Cash flows from lease liabilities are detailed in note 2.8, and the maturity of lease liabilities and related finance costs is detailed in note 4.3.

Lease liabilities

€ million	2019	2018
Lease liabilities for leases not recognised in the balance sheet	101.6	230.3

Lease liabilities for leases not recognised in the balance sheet include the nominal amount of liability for leases that will enter into force in the future.

Group as a lessor

Kesko leases premises to entrepreneurs other than K-retailers to ensure that the combination of services at a store site supports Kesko's overall profit generation. Such premises typically include so-called store entrance shops at large retail outlets.

Lease income

€ million	2019	2018
Lease income for operating leases	17.0	16.0
Lease income for subleases	26.8	28.3
Total, continuing operations	**43.8**	**44.3**

4.7 Contingent liabilities

€ million	2019	2018
Collateral given for own commitments		
Pledges	152.3	138.0
Mortgages	212.1	206.1
Guarantees	16.2	10.1
Other commitments and contingent liabilities	57.5	55.8
Collateral given for others		
Guarantees	3.2	3.5
Other commitments and contingent liabilities	23.5	19.6

The guarantees given do not include guarantees related to the items presented within liabilities in the consolidated statement of financial position or as a lease liability in note 4.6.

Guarantee maturities are €11 million in 2020 and €8 million in 2021–2024.

Lease liabilities for leases not recognised in the balance sheet are presented in note 4.6.

5. OTHER

IN THIS SECTION

5.1 Group composition

Group composition

Kesko Group has 118 (99) subsidiaries. The Group has the majority of voting rights in all companies. Kesko Group's subgroup, Kesko Senukai, has a material non-controlling interest (see section Material non-controlling interest).

Information about the Group composition as at the balance sheet date:

Division	Country of incorporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2019	Number of wholly-owned subsidiaries 2018	Number of partly-owned subsidiaries 2019	Number of partly-owned subsidiaries 2018
Grocery trade	Finland	K-Market Oy	28	23	7	5
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Belarus	Onninen Group, Byggmakker Group, K-Bygg Group, Kesko Senukai Group	47	37	26	26
Car trade	Finland	K-Auto Oy	8	7	-	-
Others	Finland		2	1	-	-

In addition, the Group has partly owned mutual real estate companies. The Group's subsidiaries, equity-accounted investments and mutual real estate companies consolidated using the proportionate method are listed in note 5.2.

Material non-controlling interest

Kesko Senukai Group, which is part of Kesko Group, has a material non-controlling interest. The subgroup's parent, UAB Kesko Senukai Lithuania, is a subsidiary of Kesko Corporation and it is domiciled in Vilnius, Lithuania. Kesko Senukai Group operates in Lithuania, Estonia, Latvia and Belarus. Kesko Group's holding in Kesko Senukai Group is 50.0%, and Kesko controls the majority of the shares and voting rights. Kesko Group has the right to nominate the majority of Board members and the Board Chairman. The Board controls the company's operational activities and makes decisions on the use of resources. The share of non-controlling interests of the net profit of Kesko Senukai Group was €8.5 million (€14.9 million) and in equity, the share was €105,7 million (€101.6 million).

Summarised financial information on subsidiary with material non-controlling interest

€ million	Kesko Senukai Group 2019	Kesko Senukai Group 2018
Current assets	285.0	273.3
Non-current assets	390.7	382.3
Current liabilities	184.0	173.3
Non-current liabilities	309.3	307.5
Net sales	860.1	729.1
Net profit/loss	17.3	26.5
Parent company owners' share of net profit/loss	16.8	23.2
Non-controlling interests' share of net profit/loss	0.5	3.3
Comprehensive income for the period	19.3	24.6
Parent company owners' share of comprehensive income for the period	17.8	22.6
Non-controlling interests' share of comprehensive income for the period	1.6	2.0
Dividends paid to non-controlling interests	-0.4	-0.6
Net cash generated from operating activities	41.9	46.0
Net cash used in investing activities	-12.2	-8.7
Net cash used in financing activities	-39.7	-38.8

The amounts above are before intra-Group eliminations.

5.2 Subsidiaries, associates, joint ventures and proportionately consolidated mutual real estate companies

Subsidiaries

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Barker-Littoinen Oy	Espoo	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Hehku Kauppa Oy	Espoo	100.00	100.00
Intersport Finland Oy	Helsinki	100.00	100.00
Kalatukku E. Eriksson Oy	Helsinki	100.00	100.00
K Auto Oy	Helsinki	100.00	100.00
Kenkäkesko Oy	Helsinki	100.00	100.00
Keskinäinen Kiinteistö Oy Malmin Kankirauta	Helsinki	100.00	100.00
Keskinäinen Kiinteistö Oy Voisalmentie 9 Lappeenranta	Helsinki	100.00	100.00
Kesko Export Oy	Helsinki	100.00	100.00
Kesko Food Russia Holding Oy	Helsinki	100.00	100.00
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	100.00
Kesko Senukai Lithuania UAB	Vilnius, Lithuania	50.00	50.00
Kiinteistö Oy Helsingin Itäkeskus	Helsinki	100.00	100.00
Kiinteistö Oy Hiukkavaaran Kauppa	Oulu	100.00	100.00
Kiinteistö Oy Hämeenlinnan Visamäentie 16	Helsinki	100.00	100.00
Kiinteistö Oy Kalkkipellontie 2	Espoo	100.00	100.00
Kiinteistö Oy Kiimingin Liiketalo 1	Oulu	100.00	100.00
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	100.00
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta	56.50	56.50
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	67.88
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	100.00	100.00
Kiinteistö Oy Riistaveden Keskustie 15	Helsinki	79.50	79.50

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Klintcenter Ab	Mariehamn	100.00	100.00
K-Market Oy	Helsinki	100.00	100.00
Konekesko Oy	Helsinki	100.00	100.00
Koskelan Ostokeskus Oy	Oulu	58.64	29.32
KR Fastigheter AB	Sollentuna, Sweden	100.00	100.00
K-rauta AB	Stockholm, Sweden	100.00	100.00
K-Rauta Holding Finland Kaukajärvi Oy	Helsinki	100.00	100.00
Kruunuvuoren Satama Oy	Helsinki	100.00	100.00
Liiketalo Oy Kaijonkeskus	Oulu	100.00	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00	100.00
Onninen Oy	Helsinki	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
Reinin Liha Oy	Helsinki	100.00	100.00
Tampereen Länsikeskus Oy	Tampere	100.00	100.00
Vaajakosken Liikekeskus Oy	Jyväskylä	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
1A Grupa SIA	Riga, Latvia	25.50	
1A.EE Oü	Tallinn, Estonia	25.50	
1A.LT	Vilnius, Lithuania	25.50	
Antigravity Payment System UAB	Vilnius, Lithuania	25.50	
Oy Autocarrera Ab	Helsinki	100.00	
Autocarrera Autotalot Oy	Helsinki	100.00	
Byggmakker Nord AS	Steinkjer, Norway	100.00	
Byggmakker Sør AS	Gjøvik, Norway	100.00	
Byggmakker Sørbø AS	Stavanger, Norway	100.00	
Byggvaruhuset Färingsö Trä AB	Skå, Sweden	100.00	
Daugavpils project 1 SIA	Daugavpils, Latvia	50.01	
Delta turtas UAB	Vilnius, Lithuania	50.01	
Fresks Försäljning AB	Östersund, Sweden	100.00	
Fresks Group AB	Östersund, Sweden	100.00	
Fresks Holding AB	Östersund, Sweden	100.00	
Gärdin & Persson AB	Östersund, Sweden	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Jyrängön Palvelukeskus Oy	Heinola	50.45	
K Auto Leasing Oy	Helsinki	100.00	
K Bygg Östergyllen AB	Linköping, Sweden	100.00	
K Caara Oy	Helsinki	100.00	
K rauta SIA	Riga, Latvia	100.00	
Kesko Senukai Digital UAB	Vilnius, Lithuania	25.50	
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2–4	Kokkola	64.78	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Kiinteistö Oy Vantaan Simonsampo	Vantaa	100.00	
Kiinteistö Oy Visuveden Liiketalo	Ruovesi	100.00	
Konekesko Eesti AS	Tallinn, Estonia	55.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Konekesko Latvija SIA	Riga, Latvia	55.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	55.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
K-Rauta Holding Finland Oy	Helsinki	100.00	
KS Holding UAB	Vilnius, Lithuania	50.01	
Ksenukai Digital Oü	Tallinn, Estonia	25.50	
MD Galerija Azur SIA	Riga, Latvia	50.01	
Mobilukss SIA	Riga, Latvia	25.50	
Nomine UAB	Vilnius, Lithuania	50.01	
Olarin Autokiinteistö Oy	Espoo	100.00	
OMA OOO	Minsk, Belarus	25.00	
Onninen AB	Solna, Sweden	100.00	
Onninen AS	Skedsmo, Norway	100.00	
Onninen AS	Tallinn, Estonia	100.00	
Onninen LLP	Aktau, Kazakhstan	100.00	
Onninen Russia Holding Oy	Helsinki	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Varsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	
Oskar Harju AB	Örnsködsvik, Sweden	100.00	
Peltosaaren Liikekeskus Oy	Riihimäki	59.67	
Penktoji Projekto Bendrové UAB	Vilnius, Lithuania	25.50	
Profelco Oy	Vantaa	100.00	
Punane Project Oü	Tallinn, Estonia	50.01	
Rake Bergen AS	Oppegård, Norway	100.00	
Romos Holdingas UAB	Kaunas, Lithuania	25.00	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	25.50	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Sørbø AS	Skedsmokorset, Norway	100.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
Tau & Jørpeland Bygg	Jørpeland, Norway	100.00	
Tau & Jørpeland Eiendom	Jørpeland, Norway	100.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
Urban Strålin Byggvaror AB	Ulricehamn, Sweden	100.00	
Övik Låsteknik AB	Örnsköldsvik, Sweden	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Mercada Oy	Helsinki	33.33	33.33
Valluga-sijoitus Oy	Helsinki	46.15	46.15
Vähittäiskaupan Takaus Oy	Helsinki	32.60	32.60
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Fintorus Oy	Lappeenranta	21.40	
Proffsenteret AS	Ringerike, Norway	34.11	
Rakentamisen MALL Oy	Helsinki	25.00	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo	46.22	46.22
Asunto Oy Kajaanin Louhikatu 2	Kajaani	42.96	42.96
Asunto Oy Soukan Itäinentorni	Espoo	46.60	46.60
Asunto-Oy Punkalaitumen Pankkitalo	Punkalaidun	33.82	
Itäkeskuksen Pysäköintitalo Oy	Helsinki	36.16	36.16
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere	34.54	
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Lapin Tehdastalo Oy	Tampere	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	47.60
Voisalmen Ostoskeskus Oy	Lappeenranta	50.00	

5.3 Related party transactions

The Group's related parties include its management (the Board of Directors, President and CEO and the Group Management Board) and the companies controlled by them, their family members and companies controlled by the family members, the Group's subsidiaries, associates and joint ventures, and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 5.2).

The related party transactions disclosed consist of such transactions carried out with related parties that are not eliminated in the consolidated financial statements.

Some members of the Kesko Board are K-retailers. The Group companies sell goods and services to companies controlled by them. Goods and services have been sold to related parties on normal market terms and conditions and at market prices.

The joint venture consolidated using the equity method, Mercada Oy, owns properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests. During the financial year 2019, Kruunuvuoren Satama Oy and Hehku Kauppa Oy became wholly-owned subsidiaries of the Group. Before, they were joint ventures. Transactions between these companies and the Group are presented in the table up until the point the companies became wholly-owned subsidiaries of the Group.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. At the end of 2019 or 2018, the pension assets did not include Kesko Corporation shares. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2019 and 2018, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement	Associates and joint ventures		Board and management		Pension Fund	
€ million	2019	2018	2019	2018	2019	2018
Sales of goods	6.2	8.9	85.0	81.6		
Sales of services	4.9	5.1	0.7	0.4	0.2	0.2
Purchases of goods	-1.3		-6.7	-7.6		
Purchases of services	0.0	-0.1	0.0	0.0	0.0	
Operating income	1.4	1.1	14.8	14.5		0.0
Operating costs	-3.2	-4.2	-0.8	-0.9	-0.1	-0.2
Finance income	5.6	5.7				

Balance sheet	Associates and joint ventures		Board and management		Pension Fund	
€ million	2019	2018	2019	2018	2019	2018
Current receivables	1.9	2.4	7.4	6.2	0.0	
Non-current receivables	57.7	57.7				
Current liabilities	4.3	26.9	2.5	1.3	7.0	4.1

Items related to leases	Associates and joint ventures		Board and management		Pension Fund	
€ million	2019	2018	2019	2018	2019	2018
Cash flow from leases	-43.0	-48.2	-3.7	-1.6	-6.3	-6.2
Lease liabilities	298.5	385.8	27.6	11.3	43.6	36.9

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €7,4 million (€6.2 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the countersecurity from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the countersecurity was valued at €6,5 million (€4.8 million).

Other current liabilities include, for example, chain rebate payables to companies controlled by the Kesko Board members. Chain rebates are paid retrospectively based on criteria related to the amount of actual annual purchases and the quality of operations.

During the reporting period, Kesko Pension Fund paid in total €48 million (€58 million) in return of surplus assets to Finnish Group companies.

During the financial year 2019, Kruunuvuoren Satama Oy's dividend payments and repayments of capital to Kesko Corporation totalled €44 million before the company became a subsidiary of Kesko Corporation. The associate Valluga-Sijoitus Oy paid €39 million in dividends to Kesko Corporation. Dividends paid by the joint venture and associate are eliminated in the Group's income statement and are not included in the table above. Dividends received have been reported in the Group's cash flow from operating activities.

Management's employee benefits

The top management comprises the Board of Directors and the Group Management Board. The compensation paid to them for their employee services consists of the following items:

Monetary salaries, fees, fringe benefits and share-based compensation € million		2019	2018
Mikko Helander	President and CEO	2,633.1	2,299.7
Group Management Board	other members	4,885.1	4,188.6
Esa Kiiskinen	Board Chairman	109.0	126.5
Toni Pokela	Board member	49.5	59.3
Matti Kyytsönen	Board member	55.5	61.8
Matti Naumanen	Board member	50.0	59.3
Jannica Fagerholm	Board member	72.0	79.3
Peter Fagernäs	Board Deputy Chairman (since 11 April 2018)	67.0	63.0
Piia Karhu	Board member (since 11 April 2018)	53.5	49.5
Mikael Aro	Board Deputy Chairman (until 11 Apr. 2018)	-	17.0
Anu Nissinen	Board member (until 11 Apr. 2018)	-	12.8
Total		**7,974.7**	**7,016.8**

Approximately 30% of the annual fees for Board members was paid in shares in the Company and the remaining fee amount was paid in cash. 2,378 Kesko Corporation B shares were granted to members of Board of Directors.

Retirement benefits

The statutory pension provision for the President and CEO and other members of the Group Management Board is provided through a pension insurance company. Four Group Management Board members are provided with a supplementary pension based on a defined benefit plan in line with the rules of Kesko Pension Fund and personal service contracts. Three Group Management Board members are provided with a defined contribution supplementary pension. President and CEO Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings for the final 10 years in accordance with the Employees' Pensions Act (TyEL). The pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €1.1 million (€1.1 million) and the related pension asset in the balance sheet was €1.0 million (€0.4 million). The pension cost of the President and CEO's statutory pension provision was €0.3 million (€0.2 million).

Share awards

During the 2019 reporting period, members of the Group Management Board were granted 61,219 shares based on the 2019 PSP 2017–2021 plan, while the maximum number of shares to be granted was 111,200. The number of shares represents gross earnings, from which withholding tax is deducted. During the 2018 reporting period, 51,931 shares were granted based on the 2017 Bridge Plan. The number of shares represents gross earnings, from which withholding tax is deducted.

Termination benefits

If the service contract of the President and CEO or some other Group Management Board member is terminated by the Company, he/she is entitled to a monetary salary and fringe benefits for the period of notice and a separate non-recurring termination compensation determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination compensation is not part of the executive's salary and it is not included in the determination of the salary for the period of notice, termination compensation or, in case of retirement, pensionable salary. If an executive resigns, he/she is only entitled to a salary for the period of notice and fringe benefits. When a service relationship terminates due to retirement, the executive is paid a pension based on his/her service contract without other compensations.

Shareholdings

On 31 December 2019, the President and CEO held 55,424 Kesko Corporation B shares, which represented 0.06% of the total number of shares and 0.01% of votes carried by all shares of the Company. As at 31 December 2019, the Group Management Board, including the President and CEO, held 81 Kesko Corporation A shares and 164,594 Kesko Corporation B shares, which represented 0.16% of the total number of shares and 0.04% of votes carried by all shares of the Company.

5.4 Share-based compensation

Accounting policies

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

The Company's Board of Directors has granted a share-based compensation plan to management under which an award consisting of B series shares and an amount in cash is paid upon fulfilling the plan's terms. The fair value of the award paid in shares is the value of the share at the grant date and it is recognised as an expense on a straight-line basis over the vesting and commitment period of the plan. The expensed amount is based on the Group's estimate of the amount of award payable in shares at the end of the vesting period. The effects of non-market conditions are not included in the fair value of the awards. Instead, they are accounted for in the assumptions of the number of shares expected to vest at the end of the vesting period. A cash component is paid to cover the taxes and tax-like charges incurred under the award. The cash component is recognised as an expense during the vesting period. Changes in estimates are recorded in the income statement.

Following the change in IFRS 2 Share-based Payment, effective as of 1 January 2018, the Group has reclassified the cash-settled portions of its share-based compensation schemes as equity-settled share-based payments. As a result of the change, such cash-settled share-based payments for which the employer shall deduct, on behalf of the employee, from the share award such number of shares which covers taxes and tax-like charges paid in cash, shall be classified in their entirety as equity-settled share-based payments. The change concerns the following share plans: the 2017 PSP, the 2017 Bridge Plan, and the 2017 RSP, as well as share plans initiated after 1 January 2018.

Share-based commitment and incentive scheme

Kesko's long-term share-based commitment and incentive scheme consists of three share-based compensation plans, under which the Board can annually decide on the initiation of new share plans. The primary plan, the Performance Share Plan (PSP), consists of annually commencing individual share plans, each with a two-year performance period and a two-year commitment period following the potential payment of a share award, during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. Kesko Group's tax free sales (%), Kesko Group's comparable return on capital employed (ROCE,%) and the absolute total shareholder return (TSR, %) of a Kesko B share are the performance criteria for the PSPs initiated in 2017, 2018 and 2019. The recipient of the shares is free to use them once the commitment period of the share plan ends, provided that the person is still employed by Kesko Group. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Corporation's Board decides annually whether to initiate a new plan.

The one-off transitional Bridge Plan for 2017 had a one-year performance period (1 Jan. 2017–31 Dec. 2017) followed by a three-year commitment period (1 Jan. 2018–10 Feb. 2021). Apart from that, the rules of the plan are the same as for the PSP. The Bridge Plan aimed at covering the transitional phase from Kesko's previous long-term commitment and incentive scheme, which was based on one-year performance periods, to the new commitment and incentive scheme adopted in 2017 with two-year performance periods. RSP (Restricted Share Pool) is a secondary share plan for special situations, to be decided upon separately. The plan consists of annually commencing individual share plans that each have a three-year commitment period, after which the potentially promised share awards for an individual plan will be paid to the participants, provided that their employment or service relationship with Kesko Group continues until the payment of the awards.

The 2014–2016 share-based compensation scheme had three one-year performance periods: calendar years 2014, 2015 and 2016. A commitment period of three calendar years following each performance period was attached to the shares granted, during which the shares could not be pledged or transferred, but the other rights attached to the shares remained in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In the 2014–2016 plans, in addition to the shares granted, a cash component at maximum equal to the value of the shares was paid to cover the taxes and tax-like charges incurred under the award.

The purpose of the share-based compensation schemes is to promote Kesko's business and increase the Company's value by aligning the objectives of the shareholders and executives. The schemes also aim to commit the grantees to Kesko Group and give them the opportunity to receive Company shares upon fulfilling the objectives set in the share-based compensation plan.

The assumptions used in accounting for the share-based compensation plan are presented in the following tables.

Share award grant dates and fair values: PSP, RSP and Bridge plan	2019 PSP	2019 RSP	2018 PSP	2018 RSP	2017 PSP	2017 RSP	2017 Bridge plan
Grant dates	20 Mar. 2019	20 Mar. 2019	20 Mar. 2018	20 Mar. 2018	1 Feb. 2017	1 Feb. 2017	1 Feb. 2017
Grant date fair value of share award, €	52.44	52.44	46.48	46.48	44.67	44.67	44.67
Share price at grant date, €	54.78	54.78	48.68	48.68	46.67	46.67	46.67
Share-based compensation plan duration							
Performance period start date	1 Jan. 2019	-	1 Jan. 2018	-	1 Jan. 2017	-	1 Jan. 2017
Performance period end date	31 Dec. 2020	-	31 Dec. 2019	-	31 Dec. 2018	-	31 Dec. 2017
Commitment period start date	1 Jan. 2021	1 Jan. 2019	1 Jan. 2020	1 Jan. 2018	1 Jan. 2019	1 Jan. 2017	1 Jan. 2018
Commitment period end date	10 Feb. 2023	15 Mar. 2022	10 Feb. 2022	15 Mar. 2021	10 Feb. 2021	15 Mar. 2020	10 Feb. 2021

Assumptions applied in determining the fair value of share award: PSP, RSP, Bridge plan	Performance period 2019–2020 PSP and RSP	Performance period 2018–2019 PSP and RSP	Performance period 2017-2018 PSP	Performance period 2017 Bridge plan
Number of share awards granted, maximum, pcs	309,150*	332,900*	325,300*	325,300*
Changes in the number of shares granted, pcs	-3,950	-17,100	-62,200	-26,600
Actual amount of share award, pcs			71,432	65,652
Number of plan participants at end of financial year	138	141	111	125
Share price at balance sheet date, €	63.08	47.10	45.25	45.25
Assumed fulfilment of performance criteria, %	33.3	40.0	43.4	46.7
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5	2.5

*Gross number of shares from which the applicable withholding tax is deducted and the remaining net amount is paid in shares.

Share award grant dates and fair values: 2015–2016 share-based payments plans	Vesting period 2016	Vesting period 2015
Grant dates	3 Feb. 2016	9 Feb. 2015
Grant date fair value of share award, €	32.45	30.74
Share price at grant date, €	34.95	32.24
Share-based compensation plan duration		
Vesting period start date	1 Jan. 2016	1 Jan. 2015
Vesting period end date	31 Dec. 2016	31 Dec. 2015
Commitment period end date	31 Dec. 2019	31 Dec. 2018

Assumptions applied in determining the fair value of share award: 2015–2016 share-based payments plans	Vesting period 2016	Vesting period 2015
Number of share awards granted, maximum, pcs	263,000	262,800
Changes in the number of shares granted, pcs	-9,800	-3,600
Actual amount of share award, pcs	192,822	139,724
Number of plan participants at end of financial year	131	142
Share price at balance sheet date, €	47.48	32.37
Assumed fulfilment of vesting criteria, %	56.7	53.4
Estimated number of share awards returned prior to the end of commitment period, %	5.0	5.0

The impact of the above share-based compensation plans on the Group's profit for 2019 was €-7.0 million (€-6.5 million).

As at 31 December 2019, the amount to be recognised as expense for the financial years 2020–2022 is estimated at a total of €-6.8 million. The actual amount may differ from the estimate.

5.5 Deferred tax

Movements in deferred tax in 2019

€ million	1 Jan. 2019	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2019
Deferred tax assets						
Leases	43.6	-0.5		0.0	0.0	43.0
Provisions	8.3	-1.2				7.1
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	22.8	-6.7		0.3	0.0	16.4
Other temporary differences	12.7	10.2	0.0	0.3	0.2	23.4
Total	87.4	1.8	0.0	0.6	0.2	90.0
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	29.6	3.3			7.2	40.1
Fair value allocation	20.1	-0.8		0.1	4.6	24.0
Defined benefit pension plans	29.7	-10.1	-0.9			18.6
Other temporary differences	5.3	1.4	-0.3	0.0	0.1	6.4
Total	84.7	-6.3	-1.2	0.1	11.9	89.1
Net deferred tax asset	2.7					0.8

Balance sheet division of net deferred tax asset

€ million	2019	2018
Deferred tax assets	7.6	8.1
Deferred tax liabilities	6.8	5.4
Total	**0.8**	**2.7**

Other temporary differences within deferred tax assets include €2.2 million of deferred tax assets arising from compliance with the Group's accounting principles and €14.8 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Movements in deferred tax in 2018

€ million	1 Jan. 2018	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2018
Deferred tax assets						
Leases	43.5	0.2		-0.1		43.6
Provisions	8.9	-0.6				8.3
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	23.1	1.9		-0.3	-1.9	22.8
Other temporary differences	16.8	-0.2	0.3	-0.7	-3.5	12.7
Total	92.4	1.3	0.3	-1.1	-5.4	87.4
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	31.5	2.5		-0.6	-3.8	29.6
Fair value allocation	18.8	0.1		-0.1	1.3	20.1
Defined benefit pension plans	40.7	-10.7	-0.4			29.7
Other temporary differences	5.2	-0.6	0.2	-0.2	0.7	5.3
Total	96.2	-8.7	-0.2	-0.8	-1.9	84.7
Net deferred tax asset	-3.8					2.7

Tax loss carry-forwards

As at 31 December 2019, the Group's unused tax losses carried forward were €219.7 million, for which deferred tax assets have not been recognised, because at the balance sheet date, the realisation of the related tax benefit through future taxable profits is not probable.

Tax losses carried forward for which tax assets have not been recognised expire as follows:

€ million	2020	2021	2022	2023	2024	2025–	Total
	-	0.5	0.0	0.0	0.0	219.2	219.7

Deferred tax on subsidiaries' undistributed earnings is only recognised if a decision on the distribution of earnings is probable in the near future.

5.6 Components of other comprehensive income

€ million	2019 Before tax	Tax charge/ credit	After tax	2018 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-4.5	0.9	-3.6	-2.3	0.4	-1.9
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	3.8		3.8	-10.1		-10.1
Cash flow hedge revaluation	-1.3	0.3	-1.0	2.6	-0.5	2.1
Others	-0.3		-0.3	-0.1		-0.1
Total, continuing operations	**-2.3**	**1.2**	**-1.2**	**-9.9**	**-0.1**	**-10.1**
Discontinued operations	0.0		0.0	35.1		35.1
Group total	**-2.3**	**1.2**	**-1.2**	**25.2**	**-0.1**	**25.0**

5.7 Legal disputes and possible legal proceedings

Group companies are parties to certain trials or legal disputes related to the Group's business operations. According to management's estimate, their outcome will probably not have any material impact on the Group's financial position. The Group is also party to possible legal proceedings, either as plaintiff or defendant, the outcome of which is difficult to forecast.

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
Net sales	**5,775,844,550.19**	**4,978,145,962.28**
Other operating income	726,873,282.24	647,958,938.08
Materials and services	-5,130,428,671.96	-4,354,234,332.77
Employee benefit expenses	-298,785,601.32	-276,407,553.63
Depreciation, amortisation and impairment	-91,263,907.43	-81,515,728.01
Other operating expenses	-688,829,297.79	-689,375,528.78
Operating profit	**293,410,353.93**	**224,571,757.17**
Finance income and costs	119,779,773.09	-21,802,538.58
Profit before appropriations and taxes	**413,190,127.02**	**202,769,218.59**
Appropriations		
Change in depreciation difference	-4,117,086.35	-5,999,575.17
Group contribution	31,342,249.81	78,635,864.70
Profit before taxes	**440,415,290.48**	**275,405,508.12**
Income taxes	-46,538,073.71	-63,446,219.12
Profit for the financial year	**393,877,216.77**	**211,959,289.00**

Parent company's balance sheet

€	31 Dec. 2019	31 Dec. 2018
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	5,955,939.06	8,128,559.02
Other intangible assets	157,959,763.45	138,491,710.44
Prepayments	13,717,562.03	12,993,020.11
	177,633,264.54	159,613,289.57
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	174,933,985.21	172,241,827.54
Leasehold interests and connection fees	2,202,637.74	1,948,263.42
Buildings		
Owned	354,398,749.73	344,641,067.56
Machinery and equipment	91,300,872.26	77,275,608.72
Other tangible assets	6,376,255.89	7,342,344.76
Prepayments and construction in progress	20,844,597.14	24,843,274.21
	650,057,097.97	628,292,386.21
INVESTMENTS		
Investments in subsidiaries	1,028,450,981.49	888,538,761.72
Investments in associates	36,383,054.61	82,209,122.85
Other investments	18,508,819.82	13,826,612.84
	1,083,342,855.92	984,574,497.41
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	244,545,904.24	240,478,801.40
	244,545,904.24	240,478,801.40

€	31 Dec. 2019	31 Dec. 2018
RECEIVABLES		
Long-term		
Receivables from subsidiaries	310,453,860.52	178,774,050.29
Receivables from associates	57,594,199.58	57,605,471.31
Loan receivables	-	5,158,542.00
Other receivables	6,892,666.62	6,207,944.39
	374,940,726.72	247,746,007.99
Short-term		
Trade receivables	355,726,614.66	371,547,340.31
Receivables from subsidiaries	560,544,582.68	642,884,942.51
Receivables from associates	1,539,823.31	1,445,407.99
Loan receivables	-	1,334,500.22
Other receivables	5,940,967.57	7,021,688.77
Prepayments and accrued income	84,046,309.95	76,972,059.17
	1,007,798,298.17	1,101,205,938.97
INVESTMENTS		
Other investments	16,777,819.41	139,678,745.75
CASH AND CASH EQUIVALENTS	58,133,140.52	55,329,096.57
TOTAL ASSETS	**3,613,229,107.49**	**3,556,918,763.87**

€	31 Dec. 2019	31 Dec. 2018
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium	197,498,010.90	197,498,010.90
Reserve of invested non-restricted equity	22,753,307.40	22,753,307.40
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	786,980,069.48	803,322,671.03
Profit for the financial year	393,877,216.77	211,959,289.00
	1,841,806,984.10	1,676,231,657.88
APPROPRIATIONS		
Depreciation difference	117,206,574.66	113,089,488.31
PROVISIONS		
Other provisions	5,050,441.54	5,218,250.05
LIABILITIES		
Non-current		
Loans from financial institutes	300,000,000.00	0.00
Pension loans	137,465,000.00	160,145,000.00
Other creditors	6,405,992.00	4,822,996.00
	443,870,992.00	164,967,996.00
Current		
Bonds	0.00	20,083,682.01
Pension loans	22,680,000.00	22,941,875.00
Advances received	16,871,347.76	13,485,074.15
Trade payables	552,318,045.53	573,034,271.45
Payables to subsidiaries	224,164,957.75	501,797,147.84
Payables to associates	4,310,376.72	26,938,671.50
Other payables	169,031,420.71	224,194,396.53
Accruals and deferred income	215,917,966.72	214,936,253.15
	1,205,294,115.19	1,597,411,371.63
TOTAL LIABILITIES	**3,613,229,107.49**	**3,556,918,763.87**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
Cash flows from operating activities		
Profit before appropriations	413,190,127.02	202,769,218.59
Adjustments		
Depreciation according to plan	91,263,907.43	81,515,728.01
Finance income and costs	-119,779,773.09	21,802,538.58
Other adjustments	-19,695,899.51	31,906,258.66
	364,978,361.85	**337,993,743.84**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	240,375,874.77	-9,020,672.35
Inventories increase (-)/decrease (+)	-4,067,102.84	-5,733,875.76
Current non-interest-bearing liabilities, increase (+)/decrease (-)	-190,853,266.60	25,642,307.85
	45,455,505.33	10,887,759.74
Interests paid and other finance costs	-24,330,213.74	-46,517,834.41
Interests received	21,624,990.73	20,602,046.52
Dividends received	134,819,314.46	61,535,360.40
Income tax paid	-69,602,708.60	-48,029,655.86
	62,511,382.85	-12,410,083.35
Net cash generated from operating activities	**472,945,250.03**	**336,471,420.23**
Cash flows from investing activities		
Purchases of other investments	-	-10,668.96
Purchases of property, plant, equipment and intangible assets	-234,019,028.95	-121,023,284.92
Acquisitions of subsidiaries	-145,117,483.68	-120,671,597.18
Acquisitions of associates	-	-9,200,000.00
Proceeds from equity accounted investments	4,641,237.84	-
Proceeds from disposal of other investments	-	24,700.00
Proceeds from disposal of property, plant, equipment and intangible assets	6,379,050.36	4,953,757.95
Long-term receivables, increase (-)/decrease (+)	-61,194,718.73	-11,697,025.57
Net cash used in investing activities	**-429,310,943.16**	**-257,624,118.68**

€	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	94,574,493.04	-54,237,730.95
Short-term interest-bearing receivables, increase (-)/decrease (+)	-138,626,259.43	368,581.36
Short-term money market investments, increase (-)/decrease (+)	94,336,148.04	116,459,434.77
Dividends paid	-231,868,024.83	-218,945,469.60
Group contributions received and paid	31,342,249.81	78,635,864.70
Acquisition of treasury shares	-	-24,412,806.00
Other items	-6,709,600.98	402,045.12
Net cash used in financing activities	**-156,950,994.35**	**-101,730,080.60**
Change in cash and cash equivalents	**-113,316,687.48**	**-22,882,779.05**
Cash and cash equivalents as at 1 Jan.	**86,300,962.53**	**109,183,741.58**
Cash and cash equivalents transferred in connection with dissolution	**87,146,756.58**	**-**
Cash and cash equivalents as at 31 Dec.	**60,131,031.63**	**86,300,962.53**

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

Non-current assets

Intangible assets

Intangible assets are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Other capitalised expenditure	5–20 years
IT software and licences	3–5 years

Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of property, plant and equipment over their estimated useful lives.

The most common estimated useful lives are:

Buildings	10–33 years
Components of buildings	8 years
Machinery and equipment	25% reducing balance method
Cars and transport equipment	5 years
IT equipment	3–8 years
Other tangible assets	5–14 years

Land and connection fees have not been depreciated. The total of depreciation according to plan and the change in depreciation difference comply with the Finnish Business Tax Act. The change in depreciation difference has been treated as appropriations.

Valuation of inventories

Inventories are stated, using the moving-average cost method, at lower of direct purchase cost, replacement cost and probable selling price.

Valuation of financial assets

Marketable securities have been valued at the lower of cost and net realisable value.

Foreign currency items

Foreign currency transactions have been recorded in euros using the rate of exchange at the date of transaction. Foreign currency receivables and payables have been translated into euros using the rate of exchange at the balance sheet date. If a receivable or a payable is tied to a fixed rate of exchange, it has been used for translation. Exchange rate differences have been recognised in profit or loss.

Derivative contracts

Interest rate derivatives

Interest rate derivatives are used to modify the durations of borrowings. The target duration is three years and it is allowed to vary between one and a half and four years. Cash flows arising from interest rate derivatives are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, outstanding interest rate forward contracts, interest rate future contracts, interest rate option contracts and interest rate swap contracts are stated at fair value, but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign currency derivatives

Foreign currency derivatives are used for hedging against translation and transaction risks. Foreign currency derivatives are used for hedging against commercial foreign exchange risk. Foreign exchange forward contracts are valued using the forward exchange rate of the balance sheet date. The exchange differences arising from outstanding derivative contracts are reported in financial items and adjustment items of sales and purchases. If a derivative has been used for hedging a foreign-currency-denominated asset, the change in value has been recognised against that of the asset item. The premiums of option contracts are included in the balance sheet accruals until they expire, or if a value change at the balance sheet date so requires, recognition in profit or loss.

Commodity derivatives

Ankkuri-Energia Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko Corporation is an external counterparty in electricity derivatives with a bank, and enters into corresponding internal hedge with Ankkuri-Energia Oy. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 5-year time span. With respect to derivatives hedging the price of electricity supplied during the financial year, change in fair value is recognised at Kesko under finance income and cost. Unrealised gains and losses on contracts hedging future purchases are not recognised in profit or loss.

Pension plans

Personnel's statutory pension provision is organised through pension insurance companies and the voluntary supplementary pension provision is mainly organised through Kesko Pension Fund. Pension costs are recognised as expense in the income statement.

Provisions

Provisions stated in the balance sheet include items committed to under agreements or otherwise but not yet realised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group's business operations, as well as losses resulting from renting the premises to third parties, are included in provisions.

Income tax

Income tax includes the income tax payments for the period calculated based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

Notes to the income statement

Note 2. Net sales by division

€ million	2019	2018
Grocery trade	4,847.5	4,058.0
Building and home improvement trade	903.0	892.2
Others	25.3	27.9
Total	**5,775.8**	**4,978.1**

Note 3. Other operating income

€ million	2019	2018
Gains on sales of real estate and shares	7.0	4.9
Rent income	84.6	59.2
Fees for services	469.8	444.1
Profits from mergers	13.6	0.1
Others	151.9	139.7
Total	**726.9**	**648.0**

Note 4. Employee benefit expenses

€ million	2019	2018
Salaries and fees	-284.7	-273.1
Social security costs		
Pension costs	-4.7	6.9
Other social security costs	-9.4	-10.2
Total	**-298.8**	**-276.4**

Pension costs include a €45.3 million return of surplus assets by Kesko Pension Fund

The average number of personnel at Kesko Corporation was 7,138 (7,174) people.

Salaries and fees to the management

€ million	2019	2018
Managing Director	2.6	2.3
Members of the Board of Directors	0.5	0.5
Total	**3.1**	**2.8**

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

Note 5. Depreciation, amortisation and impairment

€ million	2019	2018
Depreciation according to plan	-88.7	-79.2
Impairment, non-current assets	-2.6	-2.3
Total	**-91.3**	**-81.5**

Note 6. Other operating expenses

€ million	2019	2018
Rent expenses	-338.3	-302.0
Marketing expenses	-138.4	-140.7
Maintenance of real estate and store sites	-81.0	-78.9
Losses on disposals of non-current assets	-1.0	-3.2
Telecommunication expenses	-71.6	-73.6
Losses from mergers	0.0	-33.2
Other operating expenses	-58.6	-57.8
Total	**-688.8**	**-689.4**

Auditors' fees

€ million	2019	2018
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.3	0.3
Tax consultation	0.0	0.1
Other services	0.5	0.3
Total	**0.8**	**0.7**

Note 7. Finance income and costs

€ million	2019	2018
Income from long-term investments		
Dividend income from subsidiaries	51.4	67.3
Dividend income from associates	83.4	0.0
Dividend income from others	0.0	0.0
Gains on disposal of shares	0.2	-
Gains on sales of investments	0.9	4.7
Income from long-term investments, total	**135.9**	**72.0**
Other interest and finance income		
From subsidiaries	10.7	8.2
From others	14.2	30.5
Interest and finance income, total	**25.0**	**38.6**
Impairment of investments held as non-current assets		
Impairment of shares	-0.1	-80.1
Changes in fair value	0.4	0.0
Impairment and changes in fair value of investments held as non-current assets, total	**0.3**	**-80.1**
Interest and other finance costs		
To subsidiaries	-18.3	-25.9
To others	-23.1	-26.4
Interest and finance costs, total	**-41.4**	**-52.3**
Total	**119.8**	**-21.8**

Note 8. Appropriations

€ million	2019	2018
Difference between depreciation according to plan and depreciation in taxation	-4.1	-6.0
Group contributions received	46.8	84.9
Group contributions paid	-15.4	-6.3
Total	**27.2**	**72.6**

Note 9. Changes in provisions

€ million	2019	2018
Other changes	-0.2	-4.7
Total	**-0.2**	**-4.7**

Note 10. Income taxes

€ million	2019	2018
Income taxes on group contributions	-6.3	-15.7
Income taxes on ordinary activities	-40.2	-47.6
Taxes for prior years	-0.1	-0.1
Total	**-46.5**	**-63.4**

Note 11. Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €23.4 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2019	2018
Intangible rights		
Acquisition cost as at 1 Jan.	25.8	26.2
Increases	1.3	1.3
Decreases	-11.7	-1.8
Transfers between items	0.0	0.0
Acquisition cost as at 31 Dec.	15.3	25.8
Accumulated depreciation as at 1 Jan.	-17.6	-13.2
Accumulated depreciation on decreases and transfers	11.7	1.4
Depreciation and amortisations for the financial year	-3.4	-5.9
Accumulated depreciation as at 31 Dec.	-9.3	-17.6
Book value as at 31 Dec.	**6.0**	**8.1**
Other intangible assets		
Acquisition cost as at 1 Jan.	296.6	250.8
Increases	48.5	45.2
Transferred in mergers	-	0.4
Decreases	-60.1	-11.5
Transfers between items	10.3	11.7
Acquisition cost as at 31 Dec.	295.3	296.6
Accumulated depreciation as at 1 Jan.	-158.1	-139.0
Transferred in mergers	0.0	0.0
Accumulated depreciation on decreases and transfers	60.1	11.8
Depreciation and amortisations for the financial year	-39.4	-30.9
Accumulated depreciation as at 31 Dec.	-137.3	-158.1
Book value as at 31 Dec.	**158.0**	**138.5**

€ million	2019	2018
Prepayments		
Acquisition cost as at 1 Jan.	13.0	16.0
Increases	9.1	7.7
Decreases	-1.6	-2.1
Transfers between items	-6.8	-8.6
Acquisition cost as at 31 Dec.	13.7	13.0
Book value as at 31 Dec.	**13.7**	**13.0**

Note 13. Property, plant and equipment

€ million	2019	2018
Land and waters, owned		
Acquisition cost as at 1 Jan.	172.2	168.8
Increases	3.6	2.1
Transferred in mergers	0.0	0.2
Decreases	-1.3	0.0
Transfers between items	0.4	1.1
Acquisition cost as at 31 Dec.	174.9	172.2
Book value as at 31 Dec.	**174.9**	**172.2**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	1.9	1.5
Increases	0.2	0.4
Transferred in mergers	0.0	0.0
Transfers between items	0.1	0.0
Decreases	0.0	0.0
Acquisition cost as at 31 Dec.	2.2	1.9
Book value as at 31 Dec.	**2.2**	**1.9**
Buildings		
Acquisition cost as at 1 Jan.	584.0	563.2
Increases	18.9	10.4
Transferred in mergers	0.0	8.3
Decreases	0.0	-0.1
Transfers between items	10.8	2.2
Acquisition cost as at 31 Dec.	613.7	584.0
Accumulated depreciation as at 1 Jan.	-239.4	-219.1
Transferred in mergers	0.0	-1.3
Accumulated depreciation on decreases and transfers	0.0	0.1
Depreciation for the financial year	-19.9	-19.0
Accumulated depreciation as at 31 Dec.	-259.3	-239.4
Book value as at 31 Dec.	**354.4**	**344.6**

€ million	2019	2018
Machinery and equipment		
Acquisition cost as at 1 Jan.	279.4	265.4
Increases	39.6	33.5
Transferred in mergers	0.0	0.4
Decreases	-32.8	-22.0
Transfers between items	1.7	2.0
Acquisition cost as at 31 Dec.	287.9	279.4
Accumulated depreciation as at 1 Jan.	-202.1	-199.8
Transferred in mergers	0.0	-0.1
Accumulated depreciation on decreases and transfers	32.7	21.8
Depreciation for the financial year	-27.2	-23.9
Accumulated depreciation as at 31 Dec.	-196.5	-202.1
Book value as at 31 Dec.	**91.3**	**77.3**
Other tangible assets		
Acquisition cost as at 1 Jan.	19.0	18.0
Increases	0.3	0.6
Transferred in mergers	0.0	0.4
Decreases	0.0	0.0
Transfers between items	0.1	0.1
Acquisition cost as at 31 Dec.	19.4	19.0
Accumulated depreciation as at 1 Jan.	-11.7	-10.0
Transferred in mergers	0.0	-0.2
Accumulated depreciation on decreases and transfers	0.1	0.0
Depreciation for the financial year	-1.4	-1.5
Accumulated depreciation as at 31 Dec.	-13.0	-11.7
Book value as at 31 Dec.	**6.4**	**7.3**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	24.8	21.3
Increases	12.8	15.8
Decreases	0.0	-4.0
Transfers between items	-16.7	-8.3
Acquisition cost as at 31 Dec.	20.8	24.8
Book value as at 31 Dec.	**20.8**	**24.8**

Note 14. Investments

€ million	2019	2018
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	1,069.0	966.8
Increases	171.0	123.1
Transferred in mergers	0.0	177.4
Decreases	-180.7	-198.2
Transfers between items	56.6	0.0
Acquisition cost as at 31 Dec.	1,116.0	1,069.0
Impairment as at 1 Jan.	-180.5	-160.8
Transferred in mergers	0.0	-34.6
Accumulated impairments on decreases	103.9	84.2
Accumulated impairments on transfers	-10.8	-
Impairment for the period	-0.1	-69.3
Impairment as at 31 Dec.	-87.5	-180.5
Book value as at 31 Dec.	**1,028.5**	**888.5**
Investments in associates		
Acquisition cost as at 1 Jan.	82.2	84.0
Increases	0.0	9.3
Decreases	-0.1	-11.0
Transfers between items	-45.7	-
Book value as at 31 Dec.	**36.4**	**82.2**
Other investments		
Acquisition cost as at 1 Jan.	13.8	14.8
Increases	5.6	0.0
Transferred in mergers	-1.0	-1.0
Decreases	0.1	0.0
Acquisition cost as at 31 Dec.	18.5	13.8
Book value as at 31 Dec.	**18.5**	**13.8**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2019 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

Receivables from subsidiaries

€ million	2019	2018
Long-term		
Loan receivables	310.5	178.8
Long-term, total	**310.5**	**178.8**
Short-term		
Trade receivables	42.7	137.9
Loan receivables	496.5	356.6
Prepayments and accrued income	21.3	148.4
Short-term, total	**560.5**	**642.9**
Total	**871.0**	**821.7**

Receivables from associates and joint ventures

€ million	2019	2018
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	**57.6**	**57.6**
Short-term receivables	1.5	1.4
Total	**59.1**	**59.1**

Kesko Corporation has advanced a long-term loan to its joint venture, Mercada Oy, in the amount of €56.0 million.

Prepayments and accrued income

€ million	2019	2018
Taxes	11.6	0.0
Fees for services	5.9	3.2
Employee benefit expenses	6.7	7.2
Purchases	30.6	28.1
Others	29.2	38.5
Total	**84.0**	**77.0**

Note 16. Shareholders' equity

€ million	Share capital	Share premium	Contingency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2018	197.3	197.5	243.4	22.8	1,043.8	1,704.7
Dividends					-218.9	-218.9
Treasury shares					-21.4	-21.4
Transfer to donations					-0.1	-0.1
Profit for the year					212.0	212.0
Balance as at 31 December 2018	197.3	197.5	243.4	22.8	1,015.3	1,676.2
Dividends					-231.9	-231.9
Treasury shares					3.9	3.9
Transfer to donations					-0.3	-0.3
Profit for the year					393.9	393.9
Balance as at 31 December 2019	**197.3**	**197.5**	**243.4**	**22.8**	**1,180.9**	**1,841.8**

Restricted equity	2019	2018
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2019	2018
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,180.9	1,015.3
Total	**1,447.0**	**1,281.5**

Calculation of distributable profits	2019	2018
Other reserves	266.2	266.2
Retained earnings	787.0	803.3
Profit for the year	393.9	212.0
Total	**1,447.0**	**1,281.5**

Breakdown of parent company shares	Pcs
A shares	31,737,007
B shares	68,282,745
Total	**100,019,752**

Votes attached to shares	Number of votes
A share	10
B share	1

Board's authorisations to acquire and issue own shares

The Annual General Meeting of 11 April 2018 approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 of the Company's own B shares. The authorisation was valid until 30 September 2019. The Board also has an authorisation, granted by the Annual General Meeting of 11 April 2018 and valid until 30 June 2021, to issue a maximum of 10,000,000 new B shares. Furthermore, Kesko's Annual General Meeting of 4 April 2016 authorised the Company's Board to decide on the transfer of a total maximum of 1,000,000 of own B shares held by the Company as treasury shares. The authorisation is valid until 30 June 2020.

Treasury shares

On 26 April 2019, Kesko Corporation transferred a total of 2,378 of its own B shares (KESKOB) held by the Company as treasury shares to the members of Kesko's Board of Directors. The transfer was based on the resolution made by the Annual General Meeting on 8 April 2019 to pay a portion of the Board members' annual fees in Kesko B shares.

	Shares
Own B shares held by the Company as at 31 Dec. 2018	1,001,399
Transferred, share-based compensation scheme	-71,432
Acquired during the financial year	-2,378
Returned during the financial year	3,774
Own B shares held by the Company as at 31 Dec. 2019	**931,363**

Note 17. Provisions

€ million	2019	2018
Provisions for leases	2.4	2.3
Other provisions	2.6	2.9
Total	**5.1**	**5.2**

Note 18. Non-current liabilities

During the 2019 financial year, Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million during the financial year, and has the possibility to draw down more later on with a separate credit decision by the banks. Kesko also agreed on a Revolving Credit Facility of €100 million linked to the same sustainability targets, which was not in use on 31 December 2019.

Note 19. Current liabilities

€ million	2019	2018
Liabilities to subsidiaries		
Trade payables	10.3	140.2
Accruals and deferred income	5.6	67.8
Other payables	208.3	293.8
Total	**224.2**	**501.8**
Liabilities to associates		
Trade payables	0.0	0.0
Accruals and deferred income	0.0	0.0
Other payables	4.3	26.9
Total	**4.3**	**26.9**
Accruals and deferred income		
Employee benefit expenses	91.7	87.8
Accruals and deferred income from purchases	32.1	35.2
Taxes	0.0	11.4
Transaction prices	0.8	2.2
Fees for services	3.2	2.1
Others	88.1	76.3
Total	**215.9**	**214.9**

Note 20. Interest-free liabilities

€ million	2019	2018
Current liabilities	888.8	1,096.6
Total	**888.8**	**1,096.6**

Note 21. Guarantees, liability engagements and other liabilities

€ million	2019	2018
Real estate mortgages		
For own debt	192	176
For subsidiaries	1	11
Pledged shares	9	9
Guarantees		
For own debt	1	-
For subsidiaries	8	49
Other liabilities and liability engagements		
For own debt	32	27
Rent liabilities on machinery and fixtures		
Falling due within a year	8	9
Falling due later	10	12
Rent liabilities on real estate		
Falling due within a year	293	290
Falling due later	1,743	1,868

Foreign currency risks

The result of the Company's operating activities is affected by the amount of working capital financing granted by the Company to its foreign subsidiaries and in part also, in its capacity as the Group's parent company, the subsidiaries' hedgings against their parent.

The foreign currency exposure is hedged using foreign currency derivatives in accordance with the confirmed foreign currency risk policy. The fair value of foreign currency derivatives is calculated by measuring them based on quoted market prices at the balance sheet date.

The measurement of derivatives is based on direct market data, in other words, they are classified at level 2. The maximum credit risk of these derivatives corresponds to their fair value at the balance sheet date.

The results of derivatives are recognised in financial items.

Company's transaction exposure as at 31 Dec. 2019 € million	USD	SEK	NOK	PLN	RUB
Transaction risk	-22.6	66.4	65.8	22.9	0.0
Hedging derivatives	25.8	-50.3	-55.8	-12.9	-
Exposure	**3.2**	**16.1**	**10.0**	**10.0**	**0.0**

Company's transaction exposure as at 31 Dec. 2018 € million	USD	SEK	NOK	PLN	RUB
Transaction risk	-21.9	13.4	42.5	23.2	2.7
Hedging derivatives	21.0	-13.7	-40.7	-16.3	-2.3
Exposure	**-0.9**	**-0.3**	**1.8**	**6.9**	**0.4**

The sensitivity analysis of transaction exposure shows the profit impact of a +/-10% exchange rate change on the Company's foreign currency denominated acquisitions and hedging foreign currency derivatives.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2019 € million	USD	SEK	NOK	PLN	RUB
Change +10%	-0.3	-1.5	-0.9	-0.9	0.0
Change -10%	0.3	1.8	1.1	1.1	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2018 € million	USD	SEK	NOK	PLN	RUB
Change +10%	0.1	0.0	-0.2	-0.6	0.0
Change -10%	-0.2	0.0	0.4	1.4	0.1

Derivatives

Fair values of derivative contracts € million	31 Dec. 2019 Positive fair value (balance sheet value)	31 Dec. 2019 Negative fair value (balance sheet value)	31 Dec. 2018 Positive fair value (balance sheet value)	31 Dec. 2018 Negative fair value (balance sheet value)
Currency derivatives	0.3	-2.9	3.3	0.8

Notional amounts of derivative contracts € million	31 Dec. 2019 Notional amount	31 Dec. 2018 Notional amount
Currency derivatives	157.3	155.9

All currency derivatives mature in 2020.

€ million	2019	Fair value	2018	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives	-	-	70	0.1
Interest rate swaps	340	-3.6	280	-2.0
Foreign currency derivatives				
Forward and future contracts	157	-2.6	136	1.5
Outside the Group	151	-2.7	129	1.6
Inside the Group	7	0.1	7	-0.1
Currency swaps			20	0.9
Commodity derivatives				
Electricity derivatives	31	0.0	22	0.0
Outside the Group	16	0.8	11	2.3
Inside the Group	16	-0.8	11	-2.3

Note 22. Cash and cash equivalents within the statement of cash flows

€ million	2019	2018
Available-for-sale financial assets	2.0	31.0
Cash and cash equivalents	58.1	55.3
Total	**60.1**	**86.3**

In the statement of cash flows, cash and cash equivalents includes those recognised in the balance sheet and portions of available-for-sale financial assets with maturities of less than three months from acquisition.

Note 23. Related parties

Kesko Corporation's related parties include the company's management (the Board of Directors, President and CEO and the Group Management Board) and the companies controlled by them, their family members and companies controlled by the family members, the Group's subsidiaries, associates and joint ventures, and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 5.3).

Some members of the Kesko Board are K-retailers. Kesko Corporation sells goods and services to companies controlled by them. Goods and services have been sold to related parties on normal market terms and conditions and at market prices.

SIGNATURES

Signatures for financial statements and report by the Board of Directors

Helsinki, 4 February 2020

Esa Kiiskinen

Peter Fagernäs

Jannica Fagerholm

Piia Karhu

Matti Kyytsönen

Matti Naumanen

Toni Pokela

Mikko Helander
President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 4 February 2020

PricewaterhouseCoopers Oy
Authorised public accountants

Mikko Nieminen
Authorised Public Accountant

Auditor's Report *(Translation from the Finnish Original)*

To the Annual General Meeting of Kesko Oyj

Report on the audit of the financial statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Kesko Oyj (Business ID: 0109862-8) for the year ended 31 December, 2019. The financial statements comprise:

- the consolidated income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and notes, including a summary of significant accounting policies
- the parent company's income statement, balance sheet, statement of cash flows and notes.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

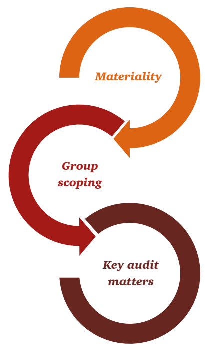
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2.4 to the consolidated financial statements.

Our audit approach

Overview



Overall materiality

- We determined that overall group materiality € 16 million. We have assessed that in Kesko Group audit material are misstatements whose impact individually or in aggregate is at the level of 4% of profit before tax.

Group audit scope

- We performed an audit in Kesko Group companies that are most significant based on the financial position and result.

Key audit matters

- First-time implementation of IFRS 16 Leasing Standard
- Goodwill and trademarks – management impairment testing
- Inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality for the consolidated financial statements. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

We determined that overall group materiality € 16 million. We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 4% level, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Group audit scope

Kesko operates in grocery trade, building and technical trade and car trade. In 2019, Kesko operated in eight countries. We tailored the scope of our audit, taking into account the structure of the Kesko Group, the industry and the accounting processes and controls.

We performed an audit in Kesko Group companies that are most significant based on the financial position and result. In other group companies we have performed analytical audit procedures. We have performed audit procedures in eight of Kesko's operating countries: in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus.

By performing those procedures, we have obtained sufficient and appropriate evidence regarding the financial information of Kesko Group's legal companies and operations which provides a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
First-time implementation of IFRS16 Leases Standard *Refer to note 1 (Accounting policies for the consolidated financial statements), note 3.5 (Right-of-use assets) and note 4.6 (Lease agreements)* IFRS 16 that was implemented in 2019 changed the accounting of leases. The implementation of the standard had a significant impact on Kesko's financial statements. According to the new standard lessee recognises in its balance sheet right-of-use assets and lease liabilities corresponding to the present value of future lease payments. Lease expenditure recognised previously in the income statement is now replaced by depreciation of right-of-use-assets and interest expenses for liability recognised in finance costs. Previously, future lease payments for operating leases were presented in the notes as operating lease commitments. Kesko implemented the standard using a full retrospective method, as a result, right-of-use assets at amount of €1,996.0 million and leasing liability at amount of €2,213.7 million was recognised in the opening balance sheet of 1 January 2018. A significant amount of the balance is related to the leased store sites and other properties. As of the reporting date 31 December 2019 right-of-use assets amounted to €2,191.3 million and leasing liabilities to amounted €2,422.2 million at the Group's balance sheet. Due to the magnitude of the balance we consider this as a key audit matter in the audit of the Group.	We focused on management approach over implementation of the standard and application of accounting standards. We gained understanding of the design of controls over lease accounting. We performed various types of testing of lease contracts accounting. Among others, we verified the accuracy of the underlying lease data by agreeing a sample of leases to original contract or other supporting information, and checked accuracy of relevant calculations. We assessed the appropriateness of the assumptions used in determination of discount rate and challenged the management on those. In addition, we assessed the adequacy of the disclosures.
Goodwill and trademarks – management impairment testing *Refer to note 3.4 Intangible assets.* Kesko Group balance sheet includes goodwill in amount of €479.0 million (2018: 278.7) and trademarks €87.4 million (2018: 87.2). Kesko Group management carries out impairment test of goodwill and trademarks annually. Impairment test result is based on management estimates, e.g. market growth and profitability trends estimates, changes in store site network, product and service selection, pricing and movements in operating costs. In our audit we focused on the methodologies and assumptions used in management impairment testing. We specially focused on those cash generating units, whose value-in-use and carrying value difference have been smallest in previous years and therefore sensitive to changes in estimations.	We reviewed financial plans prepared by the management and compared to the financial plans approved by the Board of Directors. We evaluated appropriateness of value-in-use valuation method used and traced input information to the source. We challenged the management on assumptions used in value-in-use calculations. In evaluating one of the key assumption, Weighted Average Cost of Capital, we utilized PwC valuation experts. We performed back testing comparing forecasts used in previous years testing to actual results as it would give an indication of the quality of the forecasting process. In addition, we assessed the adequacy of the disclosures, particularly on sensitivities.
Inventories *Refer to note 3.6 Inventories.* Kesko Group balance sheet includes inventory amount of €1,037.7 million (2018: 913.0). Inventories are measured at the lower of cost and net realisable value. The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records an impairment as necessary. Such reviews require assessments of future demand for products. The cost of finished goods comprises all costs of purchase including freight. Inventory cost is adjusted by vendor allowances. The Group uses judgment to what extent allowances clauses laid out in purchase agreements are fulfilled at the financial statements period end date. In our audit we focused on the assessment of net realisable value and underlying assumptions. In addition, we focused on assessment of fulfilment of vendor agreement clauses at the financial statements period end date.	In our evaluation of the Group reviews on inventory net realisable value, we walked through monitoring processes over inventory obsolescence and turnover and processes of net realisation calculation. We identified key controls and tested efficiency of those. We reviewed on a sample basis inventory write-off calculations and reconciled source data to inventory accounting. We tested by sample basis formulas of valuation reports to ensure that formulas lead to the correct result. In our evaluation over the vendor allowances we walked through the Group monitoring processes, identified key controls and tested efficiency of those. We tested on a sample basis vendor allowances calculations and reconciled input information to clauses laid out in purchase agreements and financial year purchases information. In addition, we reconciled comparable reporting date vendor allowance accruals to materialized allowances to evaluate the quality of the process and accuracy of the accruals.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the financial statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting requirements

Appointment

PricewaterhouseCoopers Oy was first appointed as auditor of Kesko Oyj by the annual general meeting on 26 April 1976 and our appointment represents a total period of uninterrupted engagement of 44 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed. Kesko Oyj became publicly listed company on 15 May 1960.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 4 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant