



Organic

HARDON LIGHTS
NAUKKAAT JA JIBIRI SÖY
AVRINKON MAUT APPELLEIN
ALOMIKKAAT NEKELINEN ON
VASTA TÄÄ
KÄYDOSTÄ KILOSTIA V
VASTAPUUSTETTUJA HAN
SIVONAMI
ON KANONAT APPELLEINIT TUOVAT MEILLE ETELÄN
TUOMI ON PÄÄS PAKKAUS SÄÄLÖMÄN VITAMIINIT JA
PHEMIT, SIISI HARDON LIGHTS -MEHU PUUSTETAAN
AJAVANPÄÄSSÄ, SINUN EDESSÄSI
LINDOTILIA APPELLEINIA SINTTY LITTA AITOA
R LIGHTS -TUONEMEHEA, KONE PUUSTAA MEHUN
ELOON JA KOTIIN MAUTETTAVAKSI.

KESKO'S ANNUAL REPORT 2018



Kesko's Annual Report 2018

Kesko's 2018 annual report describes the progress made in Kesko's strategy, financial results and sustainability work, with comprehensive performance indicators. It depicts K Group's impact on the society and our value creation, with perspectives from our stakeholders.



Kesko's direction

This section describes Kesko and its divisions and the progress made in their strategy execution, as well as our financial targets, operating environment and value creation.



Sustainability

This section describes highlights in sustainability and the objectives and results of our responsibility programme, and provides key corporate responsibility indicators in accordance with GRI standards.



Financials

This section contains the Report by the Board of Directors and the Group's key performance indicators, the Financial Statements and the Auditor's Report for 2018.



Corporate governance

This section contains Kesko's Corporate Governance Statement and Remuneration Statement.



KESKO'S
ANNUAL REPORT 2018

KESKO'S DIRECTION



KESKO'S DIRECTION

This section describes Kesko and its divisions and the progress made in their strategy execution, as well as our financial targets, operating environment and value creation.

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Kesko in brief

Kesko is a Finnish trading sector forerunner. We operate in the grocery trade, building and technical trade, and car trade. Our divisions and chains act in close cooperation with retailer entrepreneurs and other partners.

Our chain operations comprise some 1,800 stores in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Belarus and Poland. Combining online sales and digital services with our extensive store site network, we enable a seamless customer experience in all channels.

Together, Kesko and K-retailers form K Group, whose sales (pro forma) totalled approximately €13 billion in 2018. K Group is the biggest trading sector operator in Finland and one of the biggest Northern Europe. We employ some 41,000 people.

Kesko's strategic business areas are grocery trade, building and technical trade, and car trade. They are areas where

Kesko has strong expertise and market positions and they offer good potential for profitable growth in the long term.

Corporate responsibility is a strategic choice for K Group and integrated into our daily activities. Responsible purchasing, product safety, the environment and good corporate governance are key focus areas for our corporate responsibility work.

Kesko's shares are listed on Nasdaq Helsinki. Its domicile and main premises are in Helsinki.



Kesko's business model

Kesko's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Sales to retail entrepreneurs accounted for approximately 46% of Kesko's net sales in 2018.

Kesko's own retailing accounted for some 18% of net sales.

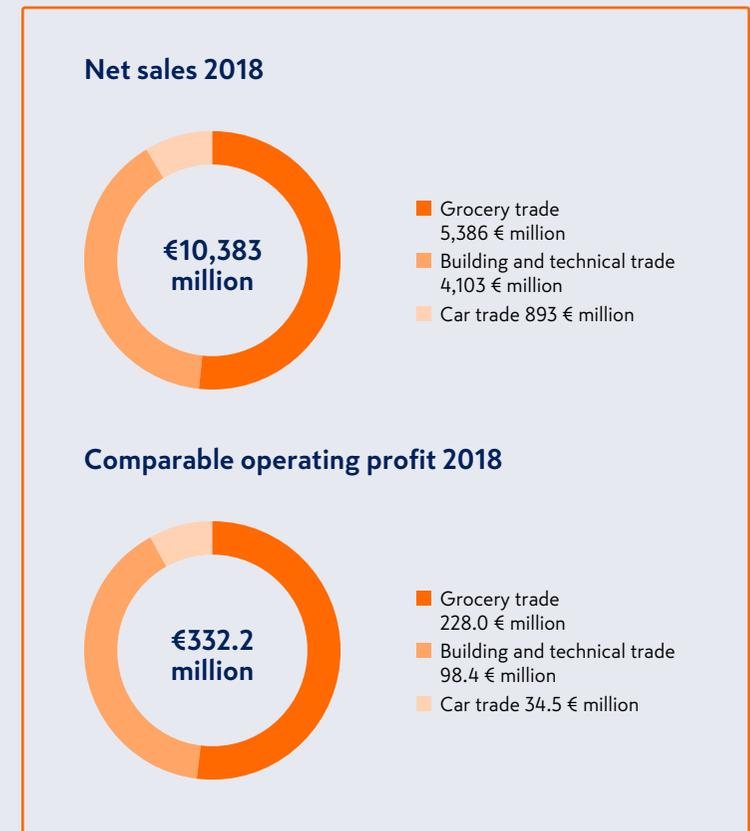
B2B trade is a significant, growing part of Kesko's business operations. In 2018, net sales from B2B trade totalled some €3.8 billion, accounting for 36% of Kesko's net sales.

Outside Finland, we mainly engage in own retailing and B2B trade. Net sales from international operations totalled some €2.1 billion in 2018, representing 20.5% of our net sales.



Key indicators

Successful strategy execution enabled us to achieve our all-time best result in 2018. Our net sales grew by 3.5% in comparable terms and we made a record operating profit. We were also able to meet the 14% target level for return on capital employed set in 2015.



[Read more in the Report by the Board of Directors >](#)

Divisions in brief



Grocery trade

Net sales, € million

5,386

Comparable operating profit, € million

228.0

K Group is the second biggest operator in grocery trade in Finland, with a market share of 36.0% (2017: 35.8%). Our K-food store business is heavily based on retailer entrepreneurship. Independent K-food retailers are responsible for customer satisfaction, and we operate together with them under the chain business model. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations. There are some 1,200 K-food stores in Finland, with 1.2 million daily customer visits.

Our strengths include our versatile, high-quality selections, a high proportion of Finnish products, and professional service. The division includes the operations of Kespro, Finland's leading foodservice provider.



Building and technical trade

Net sales, € million

4,103

Comparable operating profit, € million

98.4

The building and technical trade division has operations in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. We serve customers in 420 stores and extensively in digital channels. Our customers include technical professionals, professional builders and consumers. Some 70% of our retail sales come from B2B trade, as construction is increasingly delegated to professionals.

Our strong chains are Onninen, which serves technical professionals, and K-Rauta, Byggmakker, K-Senukai and OMA, which serve both professional builders and consumers. The leisure goods trade chains Intersport, Budget Sport, The Athlete's Foot and Kookenkä are also part of the division.



Car trade

Net sales, € million

893

Comparable operating profit, € million

34.5

K-Auto imports and markets Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen Commercial Vehicles and MAN trucks in Finland, and SEAT cars in Estonia and Latvia. K-Auto also develops car-related multichannel services. K-Auto's market share in Finland was 18.5% (including passenger cars and vans).

K-Auto's retail company K-Caara is a major retailer of new and used vehicles and it offers servicing and after-sales services at its own outlets in the greater Helsinki area, Turku and Tampere (Porsche). K-Caara's services also include the online sales of used cars, a store for lower price range used cars, and leasing services for private and corporate customers.

REVIEW BY THE PRESIDENT AND CEO

A year of strong growth and transformation

In 2018, Kesko and K Group continued to transform intensely. All our businesses – the grocery trade, building and technical trade, and car trade – increased their sales and improved their profitability. Our strategy of profitable growth, sharper focus, and “One unified K” has paid off.

- Net sales grew in comparable terms by 3.5% and comparable operating profit rose to an all-time high of €332 million.
- Comparable net sales grew in the grocery trade and in the building and technical trade. In all divisions, profitability improved in comparison to the previous year.
- Return on capital employed achieved our target level of 14%, thanks to successful strategy execution.

A strong year of transformation in the grocery trade

In 2018, net sales for the grocery trade grew by 5.1% in comparable terms. Comparable operating profit rose to €228 million, i.e. to 4.2%, which is a good level also by international standards. Our strong transformation efforts boosted growth in sales and market share.

The Suomen Lähikauppa acquisition has been a success, and has lifted K Group to clear leadership in the neighbourhood market. The integration was completed and synergies were obtained sooner than anticipated.

We have determinedly transformed our store network and continued the implementation of store-specific business ideas. Increasingly customer-oriented services and the recovery in consumer purchasing power have resulted in significant growth in sales and customer numbers in all K-food store chains. Customer satisfaction is also markedly higher. We now have the widest and most comprehensive store network in Finland. For the most part, these stores' selections and brand have been renewed. Robust growth also continued online, and more than 150 K-food stores offered online sales of groceries by the end of the year.

Kespro is the market leader in foodservice wholesale in Finland. In 2018, we strengthened Kespro's competitiveness by acquiring the leading Finnish fresh fish and meat providers, Kalatukku E. Eriksson and Reinin Liha. Kespro's strong performance is underpinned by the trend of eating out, which is vigorously growing in Finland too.

For many Finnish farmers, 2018 was a difficult year. K Group quickly took concrete action to support the



position of Finnish food, first doubling the sum paid in support of producers of the 'Thank the Producer' products, and then expanding the product range. The operating model has so far resulted in additional support of €1.5 million for food producers. We have expanded the model also in 2019.

Implementation of country-specific strategies improved profitability in the building and technical trade

Our building and technical trade division operates in eight countries, and our objective is to become an increasingly significant operator in Northern Europe. We made significant changes to the division's management model at the start of the year, and our increased country-specific focus resulted in improved competitiveness and profitability. We also enhanced profitability through acquisitions and the streamlining of operations. Net sales for the division grew by 2.7% in comparable terms, and over half of it came from outside Finland. Comparable operating profit grew

to €98 million despite the impact of divestments carried out in 2017.

The acquisition of Onninen in 2016 has strengthened our market position and B2B sales in building and technical trade. Onninen's net sales grew by 1.7% and its comparable operating profit rose to €40 million. Sales and profit grew especially in Finland, the Baltics and Poland.

In the first half of the year, we further focused our operations by completing the divestment of our building and home improvement trade operations in Russia. In the summer, we carried out two acquisitions in Norway, and consequently 29 retailer-owned Bygghuset stores became part of Kesko. We completed a third acquisition of Bygghuset stores in January 2019. These strategically important acquisitions create a good basis for further growth in upcoming years. In October, Kesko Senukai acquired the online player 1A Group, making Kesko Senukai one of the leading e-commerce operators in Estonia, Latvia and Lithuania.

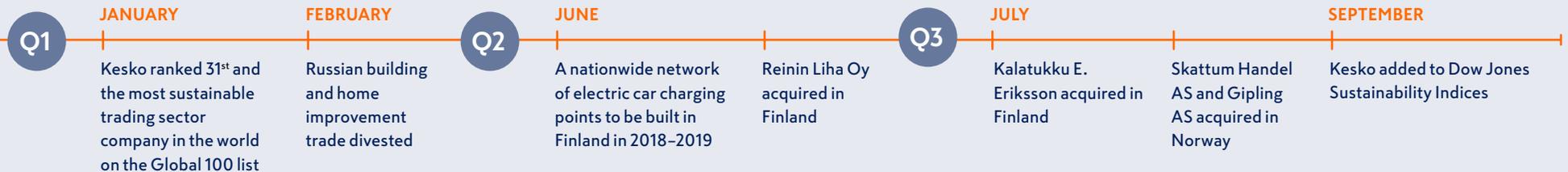
Car trade brings new mobility services to the market

Overall, the year was good for the car trade division, although new WLTP emissions testing caused significant disturbances in European car trade in the latter half of the year. We had an 18.5% market share in passenger cars and vans, and with our extensive brand portfolio, we are the market leader in Finland. Porsche's performance was especially strong, while market shares also grew for SEAT and Volkswagen. Sales in the car trade division decreased by 1.8%, but the comparable operating profit grew to a total of €34 million.

The entire car sector and the concept of mobility are rapidly changing, and we need to constantly develop our operating models, services and technologies. In 2018, we introduced new consumer and corporate leasing products and car sharing services.

The Volkswagen Group intends to focus strongly on electric cars going forward. We want to take part in

2018



the shift towards electric cars, and are building a nationwide electric car charging network at K-store locations in Finland during 2018 and 2019.

Sustainability is the foundation of our operations

Our sustainability work is based on long-term, concrete actions in various areas. Key issues for us are transparency in sourcing and environmental care as well as extensive value creation throughout society. We want to enable a sustainable lifestyle for our current and future generations of customers, in the areas of food, mobility and living. Investors are also increasingly taking account of environmental, social and governance (ESG) factors alongside financials when making investment decisions.

Kesko is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. In January 2019, Kesko ranked 88th on the Global 100 Most Sustainable Corporations in the World list, and was once again the most sustainable trading sector company in the world. In CDP's Climate questionnaire, Kesko received an A- score.

We are committed to international climate summit goals regarding the mitigation of global warming, and have set ambitious emission targets for our operations and supply chains. K Group is reducing its emissions through the use of renewable energy, energy efficiency at the stores, and efficient logistics. Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy based on hydropower or bioenergy. We have also installed solar power plants on the rooftops of over 30 stores, and are the biggest producer and user of solar power in Finland.

Promoting the sustainable use of natural resources and circular economy is a central aspect of our responsibility programme. In our updated plastics policy, we set tighter objectives for plastics recycling and for reducing and avoiding the use of plastics.

In autumn 2018, we took part in Plan's Girls Takeover event, and made the promotion of gender equality part of our responsibility programme.

Thanks to our personnel, K-retailers and stakeholders

K-Kampus, our new headquarters in Helsinki's Kalasatama, will be completed in spring 2019. It will bring together some 1,800 K Group employees in the greater Helsinki region and offer us entirely new types of operating premises, along with new possibilities in terms of ways to work. Our personnel have actively taken part in the planning and implementation of the changes, and we are eager to test our great new environment and new ways of working in practice.

I'm very happy with our cooperation at K Group. I wish to extend my warmest thanks to all our Kesko employees, K-retailers and their staff, our shareholders and our business partners for the valuable work you have done towards our success.

Mikko Helander
President and CEO



Six reasons to invest in Kesko

Kesko is a growing and profitable Northern European retail company that uses a long-term approach in strengthening its cash flow and dividend capacity.



“Our growth strategy has yielded increasingly good results. Strong transformation continued in all our divisions, with improved competitiveness. We also carried out various acquisitions and divestments. Our strong financial position enables both investments in growth and good dividend capacity.”

Jukka Erlund,
Chief Financial Officer

[Kesko in sustainability indices >](#)

1 Growth strategy

Kesko's growth strategy is based on customer-oriented operations and using quality for differentiation in both our stores and digital channels. We seek growth organically and through acquisitions. In business, we focus on growth in three divisions where we have strong competencies and competitiveness: the grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland. These divisions and markets offer good growth and value creation potential long into the future.

2 Strong market positions

Kesko is one of the leading retail companies in Northern Europe and the largest retail operator in Finland. We strive to be among the top two operators in all our businesses in order to ensure economies of scale. Finland accounts for nearly 80% of Kesko's net sales. Kesko is the second biggest operator in the Finnish grocery trade, and the biggest operator in the Finnish building and technical trade as well as in the car trade. Outside Finland, we have strong market shares in the Baltics, Belarus and Norway.

3 Long-term profitability improvement

Kesko's strategic objective is to achieve profitable growth in all its businesses. Our comparable operating profit in 2018 was €332 million. In 2014, before we adopted our new strategy, it was €233 million. This improvement in profitability is a result of customer-oriented growth strategies in our business divisions, measures taken to improve gross profit, and the effective management of capital employed. We operate under “One unified K” and maximise the use of synergies between our businesses.

4 Attractive dividend yield

Kesko's good dividend capacity is based on the solid and consistent ability of its operations to generate cash flow. Kesko has paid uninterrupted dividends every year since 1968, and our aim is to sustain an attractive and steadily growing dividend yield.

5 Ability to increase shareholder value

The total shareholder return of a Kesko B share since 2015 is 17.5% p.a. This growth in shareholder value is the outcome of successful strategic decision making and execution and the efficient allocation of capital – these have seen Kesko's return on capital employed rise from 11.7% in 2015 to 14.0% in 2018.

6 Responsibility

Thanks to Kesko's long-term and comprehensive sustainability work, it is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. Furthermore, we have been counted among the Global 100 Most Sustainable Corporations in the World list.

Financial targets

We are moving strongly towards our financial targets and better returns on capital employed and equity through growth, increased profitability, synergies and working capital efficiency. Alongside growth, we continue to focus on higher cost-efficiency in all our operations to ensure competitiveness.

Our strong balance sheet enables both investments in strategic growth endeavours as well as good dividend payments. Between 2015 and 2018, we invested more than €1.7 billion in our business operations, financing the investments with €1.0 billion divestments of non-strategic business operations and real estate.

Organic investments were at their highest in 2017, and are planned to come down to an annual level of €200-250 million. Investments in store sites will decrease, while investments in digitalisation will increase. In future acquisitions, we will aim for economies of scale and improved competitiveness, especially in the building and technical trade division.

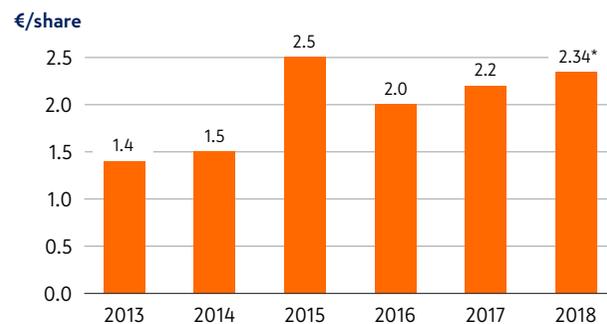
Key financial targets

	2017	2018	Target level
Return on capital employed, %*	13.3	14.0	14%
Return on equity, %	10.9	11.7	12%
Interest-bearing net debt/EBITDA	0.3	0.4	<2.5

Updated dividend policy

In the long-term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko plans to pay its dividends in two instalments, starting with the dividend paid for the year 2018.

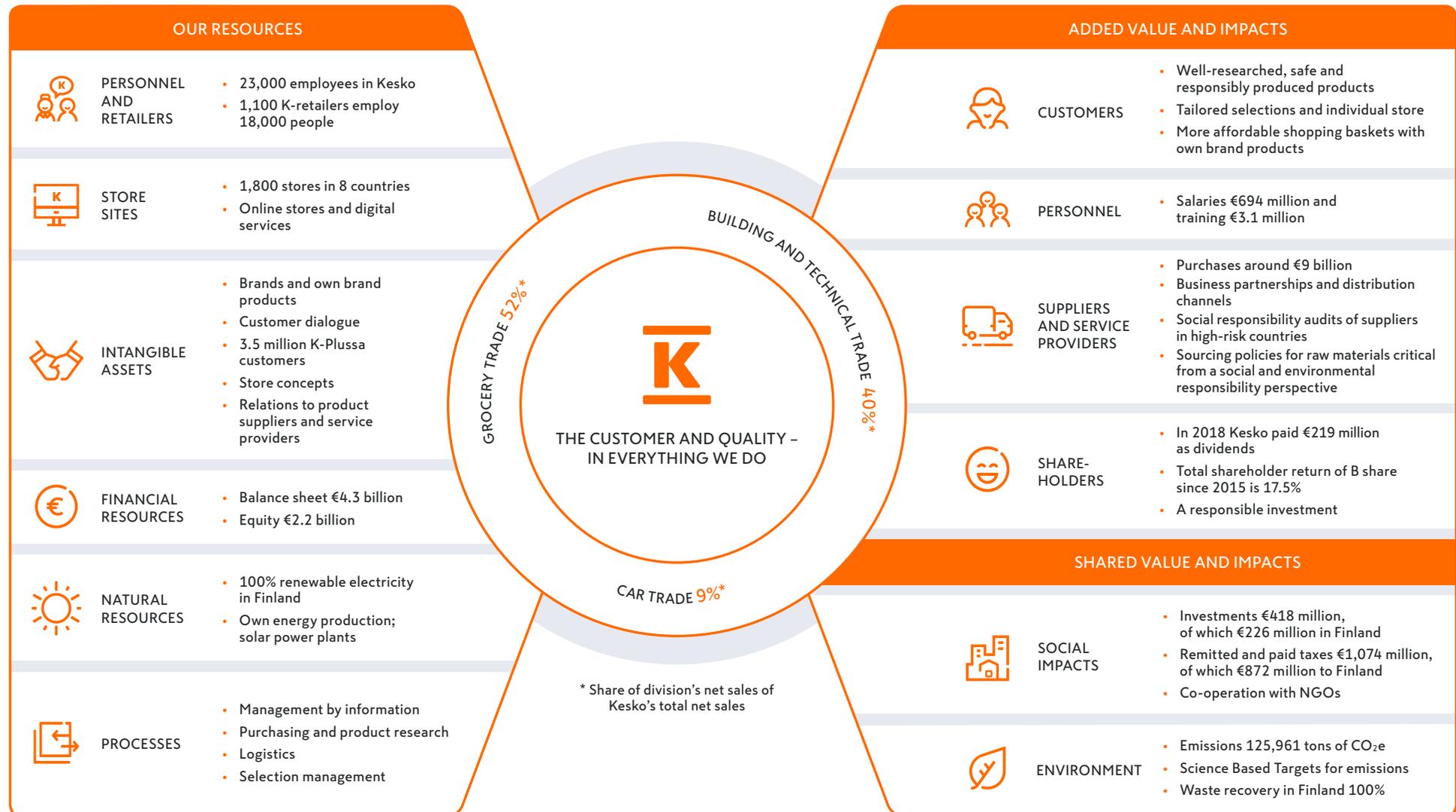
Dividend history 2013–2018



* Proposal to the Annual General Meeting



Responsible value creation for the whole society



Operating environment

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

MEGATRENDS

Globalisation

- Intensifying price competition
- Global supply

Digital trade and services

- Growth in international and Finnish online trade
- Seamless online and mobile customer experience
- Impactful marketing that addresses individual needs

Increasingly individual customer behaviour

- Customers value convenience and quality
- Urbanisation
- Changes in purchase habits, individualisation
- Customers looking to optimise their lives

Customers hold the power

- Conscientious consumers seek information as the basis for their choices
- Peer experiences have a big impact on choices
- Customers want to affect selections
- Transparency in pricing, availability and the supply chain
- Responsibility and smart consumption significant criteria

Sustainability and strong brands as preconditions for success

- Good corporate governance
- Responsible operating principles
- Transparency of purchasing chains
- Open dialogue with stakeholders
- Responsible investment

Climate change

- Sustainable lifestyle: food, living and mobility
- Renewable energy
- Circular economy solutions
- Minimising food waste

[Read more about opportunities and risks >](#)

Strategy and objectives

In line with its strategy, Kesko is an increasingly focused company that concentrates on growth and improving its profitability in three strategic areas: the grocery trade, the building and technical trade, and the car trade. Quality and customer orientation are increasingly important as the focal points of our strategy.

Our strategy established in 2015 aims for profitable growth through stronger focus and transformation. Concentration enables the efficient allocation of capital to increase shareholder value. The rapid transformation of the trading sector presents us with great opportunities.

Our businesses are the grocery trade, building and technical trade and car trade. These are areas where we have strong market positions and the best capabilities, and they offer the best potential for long-term development. We use quality and customer orientation to differentiate ourselves from the competition, from service in stores to digital services.

Consistent progress in the execution of our growth strategy

In the **grocery trade**, we aim for continued profitable growth in Finland. We want to offer the most inspiring and customer-oriented food stores and the best digital solutions on the market. K-retail entrepreneurs ensure customer focus and quality in our store network, which is the most extensive in Finland. In recent years, we have successfully remodelled K-food stores and Neste K service stations, and all store redesigns are to be completed in 2019.

We continue the execution of our growth strategy



We completed the acquisition of Suomen Lähikauppa, and our share of the neighbourhood market is now nearly 60%. Megatrends such as urbanisation, population ageing and increasingly individual customer behaviour support strengthening neighbourhood services. The acquisition doubled our store network with almost 400 new stores. After the conversion and transfer of the stores to retailers, our sales are up and continue to grow. We obtained the targeted synergies of €30 million sooner than anticipated.

In 2018, we began to forcefully grow K Group's network of stores offering online grocery sales, and the service is now available to three million Finns. The growth in online grocery sales is accelerating fast, and we aim for 100% growth with net sales of over €40 million in 2019. Online grocery sales do not erode the sales of our traditional stores, but rather the two support each other.

Growing Kespro's foodservice business is another strategic focus area, supported by the trend of eating out. To support the business, we acquired two top companies in the field, Kalatukku E. Eriksson and Reinin Liha, in summer 2018.

In the **building and technical trade**, we aim for an even stronger position in Northern Europe. We updated the division's organisation and strategy in spring 2018, and redefined its customer segments. We now aim to offer added value to technical professionals, professional builders and consumers. We serve each customer segment according to its specific needs. The strategy also has a stronger country-specific focus that enables us to better take into account local customer needs. We seek synergies both within and between the operating countries. Growth is sought organically and through selected acquisitions.

B2B trade already accounts for some 70% of the division's sales, but we see further growth potential. Building and renovation are becoming more technical and increasingly outsourced to professionals. The need for renovation building is also growing in Northern Europe. The acquisition of Onninen strengthened our position in the growing B2B segment and extended our offering.

We use quality and customer orientation to differentiate ourselves from the competition, from service in stores to digital services.

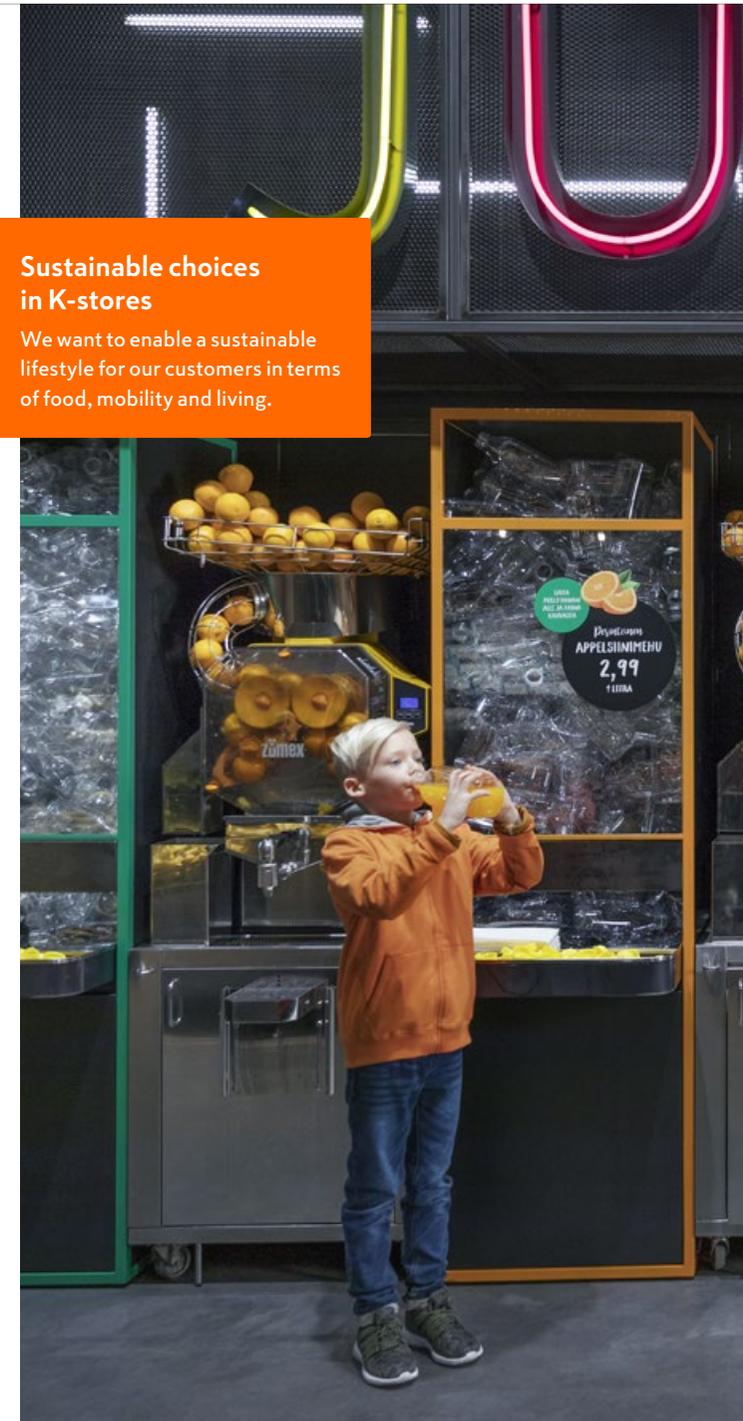
New digital services and online sales are a significant part of the customer journey and more efficient operations. Consumers increasingly seek information and compare products online, although still often come to the store to get them. In B2B trade, online sales and digital services have gained a strong foothold.

In spring 2018, Kesko discontinued its building and technical trade operations in Russia by selling most of its building and home improvement store properties to the French Leroy Merlin. All building and home improvement trade operations in Russia were discontinued during the first half of 2018. The divestment clearly improves the division's return on capital employed.

In the **car trade**, our objective is to grow our market-leading position in Finland through tight cooperation with the Volkswagen Group. We expect the sales of electric cars to grow in upcoming years, and support the trend

Sustainable choices in K-stores

We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living.



by expanding our K Charge network. Our objective is to improve profitability in imports, retail and after-sales. K-Caara develops service concepts and alternatives to owning a car, for example, car sharing paid by use.

One unified K is an important part of our strategy. We want to establish a strong reliable K Brand and provide even better service to our customers. In addition to a common strategy, One unified K means seamless cooperation with retailers and across divisions. In recent years, we have successfully executed our strategy and focused operations via various acquisitions and divestments, while also making investments to accelerate growth and improve profitability.

Increased focus on customers in our corporate responsibility work

Kesko has been ranked the most sustainable trading sector company in the world multiple times. This obliges us to ensure even more thoroughly the sustainability and responsibility of the products we sell and their purchasing, and care for the environment. We want to become an even more active member of society and engage in public discussion.

Our sustainability strategy, established in spring 2018, focuses our responsibility efforts increasingly on our customers. We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living. Customers must be able to trust that K-stores enable them to make responsible choices. For example, in our updated plastics policy, we set even tighter objectives for plastics recycling and for reducing and avoiding the use of plastics.

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

As a sign of our long-term commitment to corporate responsibility, Kesko has been included in the prestigious Dow Jones Sustainability Indices of the world's most responsible companies, the DJSI World and the DJSI Europe. Kesko ranked 88th on the Global 100 Most Sustainable Corporations in the World list published in January 2019.

Strategy execution

To execute our growth strategy we have done several significant acquisitions and divestments.



Profitable growth continued in the grocery trade in 2018

The strategy for the grocery trade division is profitable growth in all channels. Strategy execution saw good progress, with positive development in our customer numbers, sales and market share. Online grocery sales also grew forcefully, and Kespro continued on a strong growth track.

K Group is the second biggest grocery trade operator in Finland, with a market share of 36.0% (2017: 35.8%). In 2018, we opened 10 K-Supermarkets, 13 K-Markets and one Neste K service station. We will continue to expand our store network in 2019. We also extended opening hours, and now all K-food stores are open every day of the year.

The remodelling of K-food stores proceeded well in 2018, and over 90% of our food stores and Neste K service stations have now been rebranded. The reshaping of our store network will continue in 2019. We will open new stores primarily in growth centres.

The online sales of groceries grew forcefully in 2018, with annual rate of over 70%. Around 160 K-food stores now offer online sales of groceries. Customer numbers have doubled and customer satisfaction is high. We target online sales of over €40 million in 2019 and a market leading position in Finland within the next few years.

Our digital services are also growing strongly. K-Ruoka is the biggest food media in Finland: the K-Ruoka.fi website and the K-Ruoka app have 1.5 million weekly visitors. The app has over 600,000 registered users, and the number grew by 100,000 in 2018.

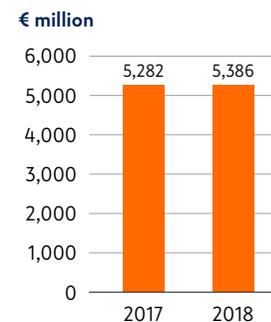
In the autumn, we celebrated the one-year anniversary of our collaboration with China's biggest online store operator Alibaba. We export Finnish food brands and our own Pirkka products to the growing Chinese market, and also learn from a global e-commerce pioneer and use the knowledge to develop our own online store.

Our K-food store business is heavily based on retailer entrepreneurship. K-food retailers handle selections, customer service, staff competencies, product quality and business profitability in their stores, based on their own store-specific business ideas. Over 550 K-food stores are now operated under the multi-store model, in which one K-retailer has multiple stores.

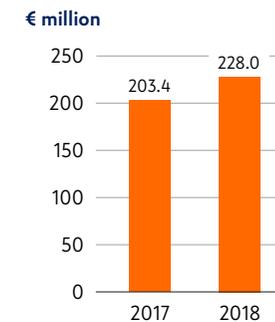


Kespro is the leading foodservice provider in Finland. In 2018, Kespro grew through two complementary acquisitions, namely Reinin Liha and Kalatukku E. Eriksson. Kespro's strong development is underpinned by the robustly growing trend of eating out in Finland.

Net sales



Operating profit*



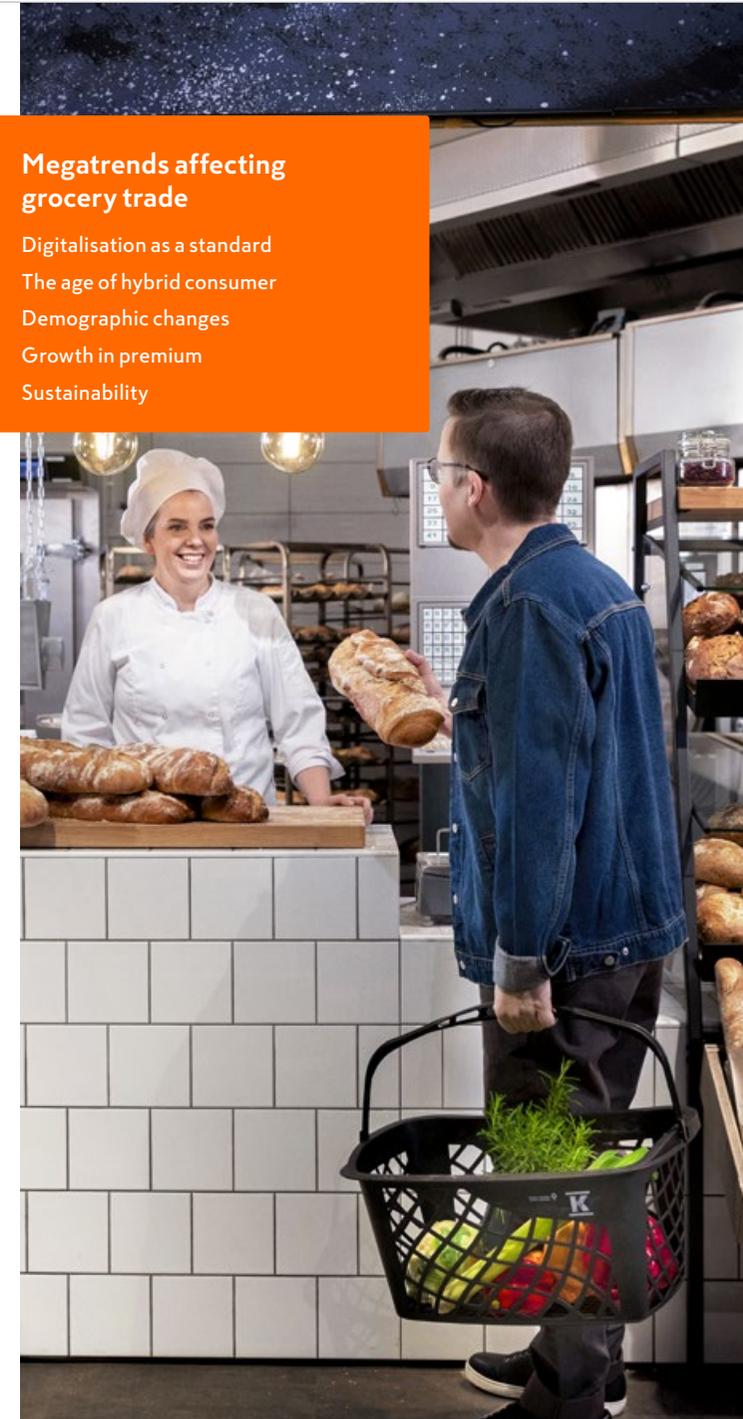
* Comparable

Megatrends and strategic focus areas

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
The most customer-oriented and inspiring food stores	<ul style="list-style-type: none"> • Wide implementation of store-specific business ideas • Using data to enable more personal customer experiences • Continuous store concept development • We take actions to ensure our price competitiveness
Developing and modernising our store network	<ul style="list-style-type: none"> • Profitably maintaining and expanding our network • Maintaining our focus on growth centres
Seamless omnichannel customer experience	<ul style="list-style-type: none"> • Expanding online grocery to cover 75% and K Transport deliveries 50% of Finnish households
Developing retailer entrepreneurship as a competitive advantage	<ul style="list-style-type: none"> • Focusing on store-specific business ideas • Utilising the multi-store model
Expanding the foodservice business	<ul style="list-style-type: none"> • Developing our own brands • Growing the sales of fresh foods

Megatrends affecting grocery trade

- Digitalisation as a standard
- The age of hybrid consumer
- Demographic changes
- Growth in premium
- Sustainability



[Read more about grocery trade chains, key figures and market information on Kesko.fi >](#)

Profitability improved in the building and technical trade

The building and technical trade division's strategic objective is to become an even stronger operator in Northern Europe. To ensure a solid foundation for the execution of our international growth strategy, in 2018 we concentrated on improving our profitability through acquisitions and streamlining of operations.

K Group's building and technical trade division is a leading operator in building and technical trade in Northern Europe. During 2018, we strengthened the country focus of both our management model and business operations, and made good progress in the execution of country-specific strategies. In Finland, Onninen's good sales growth continued and K-Rauta's profit development was strong. In the leisure trade, Intersport and Kookenkä maintained their positions as Finland's leading sports and shoe store chain, respectively. Sales grew for the Budget Sport and The Athlete's Foot chains.

In the division's other operating countries, our market position varies significantly. In Norway, we actively sought to increase our profitability during the year 2018, and carried out two targeted acquisitions for the Byggmakker chain, agreeing on a third. The acquisitions enabled us to significantly increase our operating profit. In Sweden, we actively continued measures to improve profitability. In Poland, we managed to turn the operations into profit. Kesko Senukai's strong sales performance continued and profitability improved in the Baltics.

Our goal is to offer an efficient combination of online sales, electronic services, professional sales staff and a comprehensive store network to best suit the needs of each of our customer segments. We are constantly developing our digital services. Particularly good development has been seen in the OnnShop online store for Onninen's technical professional customers.

To further strengthen our digital foothold, we acquired 1A Group, a leading online retail company in the Baltic region, thus becoming the largest omnichannel retail player in the Baltics and obtaining a comprehensive e-commerce platform to serve our customers in Estonia, Latvia and Lithuania.

During the year 2018, we focused our operations by divesting our building and home improvement trade operations in Russia, and by agreeing to sell our remaining stake in the Baltic machinery trade subsidiaries and Konekesko Finland's agricultural machinery trade operations.



Acquisitions enable the division to better seek new opportunities for growth and improved profitability on the stable Northern European markets.

Net sales*



- Building and technical trade excl. speciality goods trade
- Speciality goods trade

* Continuing operations

Operating profit*



- Building and technical trade excl. speciality goods trade
- Speciality goods trade

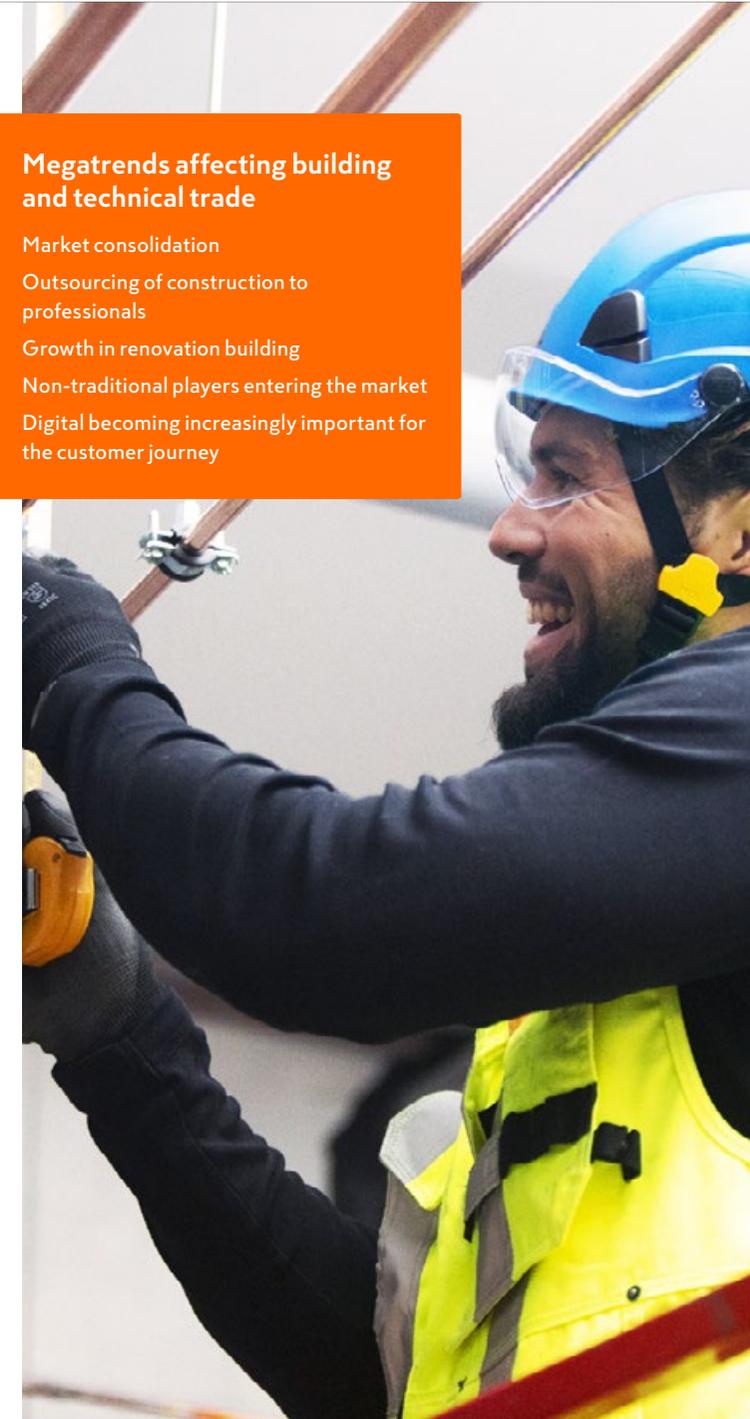
* Comparable, continuing operations

Our strategic objective is to gain an even stronger position in building and technical trade in Northern Europe

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
Country focus, with country-specific strategic actions	<ul style="list-style-type: none"> • Finland: We focus on fully utilising the potential provided by our market-leading position and on constantly improving the customer experience: expanding Onninen's store network and developing store-specific business ideas for K-Rauta. • Norway: We seek growth in sales and profitability by strengthening Byggnakker's business and management model • Sweden: We continue measures to improve profitability • The Baltics and Belarus: We focus on growing and redesigning our store network • Poland: We systematically develop our business operations
Serving three different customer segments according to their specific customer needs	<ul style="list-style-type: none"> • Continuing the development of digital channels for each customer segment • Striving for the best customer experience in all channels
Seeking synergies	<ul style="list-style-type: none"> • We are actively seeking synergies within the operating countries, for example, in support functions, as well as between the operating countries, for example, in sourcing, digital services and concept development
Organic growth and profitability improvement	<ul style="list-style-type: none"> • We continue systematic measures to support growth and profitability • Increasing the role of our own brand products
Targeted acquisitions	<ul style="list-style-type: none"> • We continue acquisitions in selected markets and segments

Megatrends affecting building and technical trade

- Market consolidation
- Outsourcing of construction to professionals
- Growth in renovation building
- Non-traditional players entering the market
- Digital becoming increasingly important for the customer journey



[Read more about building and technical trade chains, key figures and market information on Kesko.fi >](#)

Car trade division's profitability strengthened in 2018

The car trade division's strategic objective is to grow its business in collaboration with the Volkswagen Group and strengthen its market position in retail by expanding its operating area in Finland.

In 2018, K-Auto's market share in Finland was 18.5% (passenger cars and vans) and in trucks 4.1% (over 6 t). Volkswagen and SEAT both increased their market share and Porsche made a new sales record. Volkswagen Commercial Vehicles were the most registered brand of vans in Finland. In addition to traditional car sales and servicing operations, we strengthened our own service business and multichannel customer service. Growth in the user numbers of online service booking and chat supports the strong development of our digital services.

Of the brands represented by K-Auto, new models introduced to the market in 2018 included the

- Volkswagen Tiguan Allspace and Touareg
- Audi A7 Sportback, A6 Sedan and Avant, Q8 and A1
- SEAT Tarraco and CUPRA Ateca
- Porsche Cayenne E-Hybrid, Macan and 911 GT3 RS, and Panamera 4 E-Hybrid and Sport Turismo Advantage Package Finnish editions
- MAN TGE van.

K-Auto launched a new online service leasing service for corporate customers, K-CaaraLeasing, which offers extensive service leasing services to companies of all sizes. K-Caara's service selection grew with the K-CaaraVaihtoautot service, which combines the used car selections of Volkswagen, Audi and SEAT Centers. Customers can buy the cars online or at the stores.

K Group launched K Charge, a nationwide network of electric car charging stations, to be built in 2018 and 2019. It enables people to charge their car during a shopping trip. The K Charge network will increase the number of public fast charging points in Finland by over 50%, making K Group one of the most significant electric car charging network operators in Finland. By the end of 2019, the network will comprise over 70 charging stations with nearly 400 charging points.

We also piloted new cross-divisional mobility services. In spring 2018, K-food stores and K-Rauta stores in Finland began piloting rental car sharing for passenger cars and

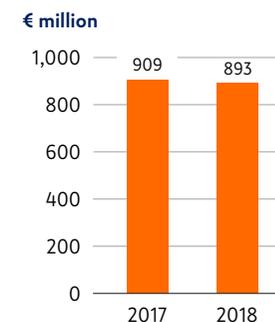


"Thanks to our extensive selection of brands, we are the market leader in Finnish car trade. Our objective is to grow faster than the market. In addition to traditional car sales, we continue to expand our own service business and develop the multichannel customer experience."

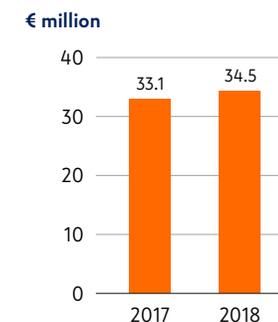
Johan Friman, President of the car trade division

vans, thus utilising K Group's store network and customer flows and helping to establish how attractive local stores would be as pick-up points for car sharing.

Net sales



Operating profit*



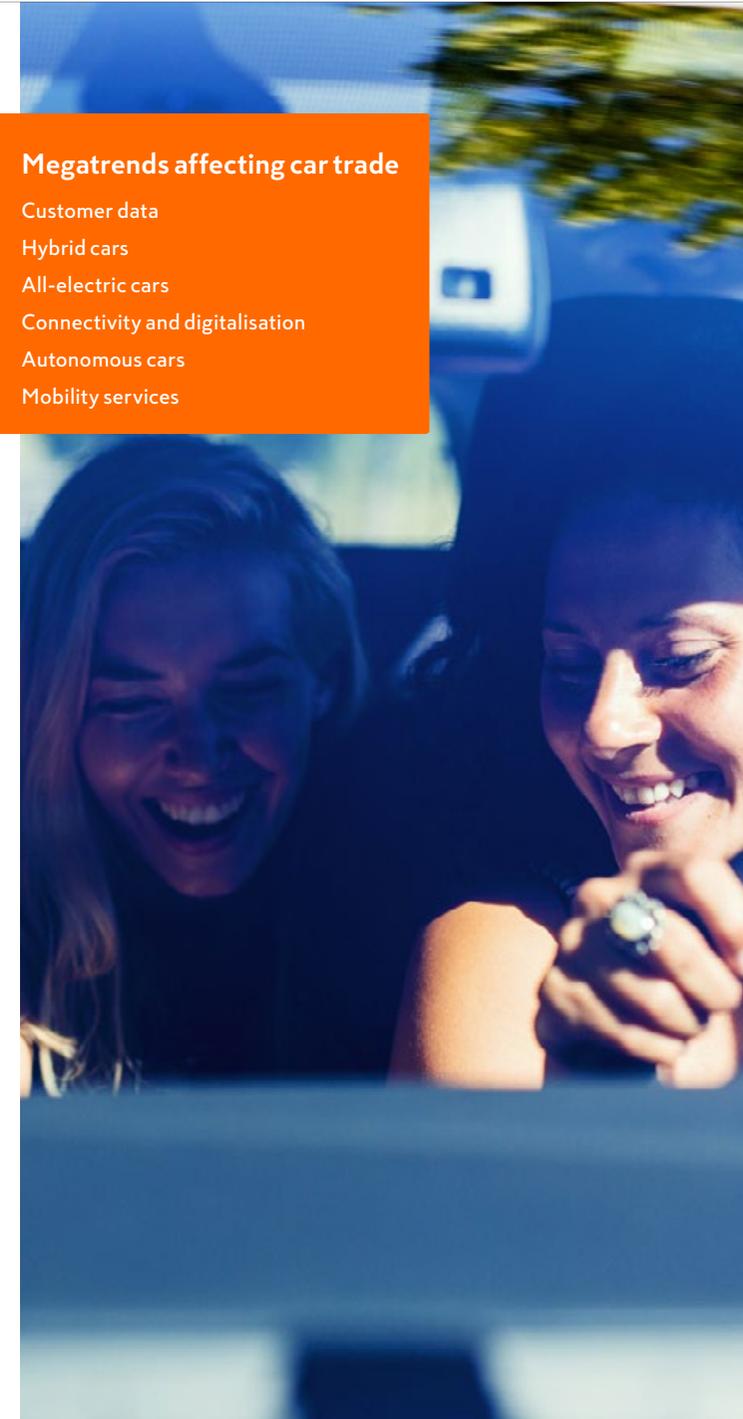
* Comparable

Megatrends and strategic focus areas

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
Growing our business in collaboration with the Volkswagen Group	<ul style="list-style-type: none"> • Strengthening the position of Volkswagen passenger and commercial vehicles, Audi, SEAT, MAN and Porsche in Finland • Successfully integrating the Porsche business into K-Auto • Further developing the MAN network • Growing the range of all-electric cars and rechargeable hybrids
Expanding our own service business	<ul style="list-style-type: none"> • Launching the K Charge network • Developing new mobility services under the K-Caara brand • Offering leasing services to private and corporate customers
The best customer experience in all channels	<ul style="list-style-type: none"> • Utilising K Group's customer data • Continuous improvement of digital services

Megatrends affecting car trade

- Customer data
- Hybrid cars
- All-electric cars
- Connectivity and digitalisation
- Autonomous cars
- Mobility services



[Read more about car trade key figures and market information on Kesko.fi >](#)



KESKO'S
ANNUAL REPORT 2018

SUSTAINABILITY



SUSTAINABILITY

This section describes highlights in sustainability and the objectives and progress of our responsibility programme, and provides key sustainability indicators in accordance with GRI standards.

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Society	41		

Highlights 2018

Where we have been successful



Electric car charging network paves the way for the new age of mobility

By bringing electric car charging points to our stores across Finland, we make new mobility solutions easily accessible to our customers. We opened 13 new fast charging stations in 2018, and the K Charge network now comprises 49 charging stations. By the end of 2019, the K Charge network will comprise over 70 charging stations with nearly 400 charging points.



Support for Finnish farmers with 'Thank the Producer' products

We continue to work to improve appreciation for Finnish food and the livelihood of Finnish farmers. To help farmers struggling with the exceptionally dry weather in summer 2018, we focused on our 'Thank the Producer' operating model in the autumn. Branded products by five Finnish food companies joined the model at the end of the year. We will pay an additional sum of €650,000 directly to the food producers for 2018.



More solar power plants on K-store rooftops

Solar power is an excellent source of electricity for food stores, which tend to consume the most electricity for refrigeration equipment in the summer when the plants' production is at its highest. During 2018, 10 new solar power plants were added to the rooftops of K-stores. Investments will continue in 2019. With more than 30 solar power plants, K Group is the biggest producer and user of solar power in Finland.



Tighter targets for recycling and reducing plastics

The reduction of plastic and recycling of plastic waste were hot topics among our customers throughout 2018. We want to encourage our customers to choose alternative shopping bags, and therefore plastic, paper and biodegradable bags are now priced the same in all K-food stores. In our updated plastics policy, we set even tighter targets for recycling and for reducing and avoiding the use of plastics.

What we continue to work on

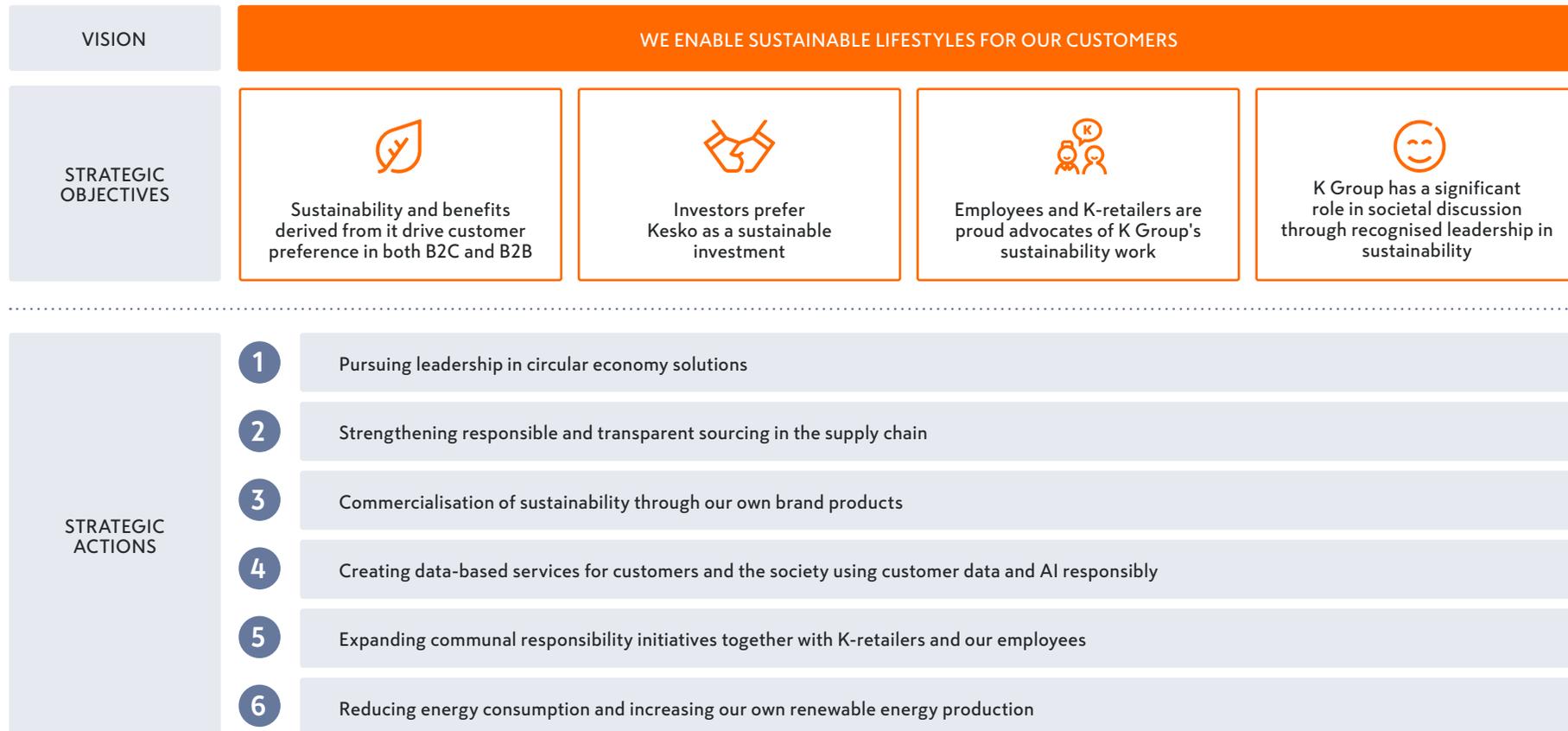


Making sustainability part of the everyday lives of our customers

One of the challenges in our sustainability work has been drawing customer attention to sustainability issues and making related efforts part of their everyday lives. In our strategy update in spring 2018, we made customers the focal point of our sustainability work. We will increasingly focus our actions on promoting good, sustainable lives for our customers, engaging our customers more in the process.

Sustainability strategy 2018–2022

Our sustainability strategy, established in spring 2018, focuses our sustainability efforts increasingly on our customers.



Stakeholder engagement

K Group is a major international and local operator, and our activities have an impact on the whole society. We work in close co-operation with our various stakeholders, and encounter 1.5 million customers every day at our stores. We examine the views and expectations of our stakeholders regularly and develop our operations accordingly.



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

Matti Kalervo,
Vice President of Corporate Responsibility

KEY STAKEHOLDERS	ENGAGEMENT AND CHANNELS FOR INTERACTION	KEY AREAS OF INTEREST AND CONCERN FOR STAKEHOLDERS IN 2018	RESPONDING TO STAKEHOLDER EXPECTATIONS
Customers	<ul style="list-style-type: none"> Daily customer encounters Customer service channels and applications Customer surveys Social media 	<p>Our customers are concerned about plastic ending up in seas and elsewhere in nature. Customers have asked us to reduce the use of plastic in stores. Building and technical trade customers are interested in improved energy efficiency and renewable energy solutions such as solar and wind power and heat pump solutions.</p>	<p>In our updated plastics policy, we set even tighter objectives for recycling and for reducing and avoiding the use of plastics.</p> <p>Read more about our plastics-related actions and energy advice.</p>
Investors, shareholders, analysts and other representatives of capital markets	<ul style="list-style-type: none"> General Meeting Results announcements Press conferences Investor web pages and other digital channels Investor meetings Surveys and assessments 	<p>In investor meetings, we were asked what we are doing to mitigate climate change. Investors were also interested in our range of electric cars and our electric car charging network.</p> <p>In terms of ESG, there was increased interest towards issues related to good corporate governance among our bigger shareholders.</p>	<p>In 2017, we set science based targets for reducing emissions from our facilities, transportation, and supply chains.</p> <p>Read more about our climate work.</p>
Personnel	<ul style="list-style-type: none"> Performance and competence: personnel surveys, performance reviews and daily interaction Co-operation with personnel Organisational communication and feedback and discussion channels for personnel SpeakUp reporting channel K Code of Conduct 	<p>In personnel meetings and communication channels there was a lot of interest towards the new K Group headquarters K-Kampus, which will be completed in spring 2019. Personnel members were curious about the work spaces and tools, changes in our ways of working, parking arrangements and exercise possibilities.</p>	<p>Personnel members have been actively involved in designing K-Kampus and new ways of working. Information on K-Kampus is regularly provided in personnel briefings, the K-Kampus Yammer group, and the intranets. Managers received training on new ways of working in autumn 2018, and training for the entire personnel is arranged in early 2019.</p>

KEY STAKEHOLDERS	ENGAGEMENT AND CHANNELS FOR INTERACTION	KEY AREAS OF INTEREST AND CONCERN FOR STAKEHOLDERS IN 2018	RESPONDING TO STAKEHOLDER EXPECTATIONS
Retailers and store staff	<ul style="list-style-type: none"> • Retailer events and meetings • Digital communication channels and common trade magazine • Responsible operating principles for K-retailers and K-stores (K Code of Conduct) • K Group's joint trade event K-Team Päivät 	<p>Challenges related to the availability of skilled staff in the trading sector and the importance of developing staff competencies were topics discussed by K-Retailers' Association and the retailers.</p> <p>The use of plastics in products raises questions in stores. In discussions with Kesko, retailers stressed the need for more easily understandable and informative packaging labelling and packaging recyclability.</p>	<p>We improved on-the-job guidance and organised new training for those conducting it. All training offered to our trading sector professionals can now be found under one portal at www.k-academy.fi.</p> <p>In our plastics policy, we set targets for improving packaging labelling and the recyclability of packaging.</p>
Suppliers and service providers	<ul style="list-style-type: none"> • Meetings with suppliers and partner events • K Code of Conduct and Principles and Practice of Socially Responsible Trading • Co-operation in accordance with fair trading practices • Audits and training 	<p>The future of Finnish food production and the plight of Finnish food producers following an exceptionally hot and dry summer were discussed in 2018.</p>	<p>We continued our work to increase appreciation for Finnish food and improve the livelihood of Finnish farmers. Read more about our 'Thank the Producer' operating model.</p>
Society (media, authorities, non-governmental and other organisations, trade unions)	<ul style="list-style-type: none"> • Meetings • Media events and enquiries • Activities in organisations • Enquiries from NGOs 	<p>The rights of girls and women were discussed especially in connection with Plan International's Girls Takeover event.</p> <p>The campaign calling for a Finnish law on mandatory human rights due diligence, initiated by Finnwatch, increased interest towards human rights and supply chains.</p> <p>The media paid close attention to the impact changes in Finnish alcohol legislation had on the sales of alcoholic beverages, and public discussion on a possible ban on selling energy drinks to minors.</p>	<p>We took part in Girls Takeover, and made the promotion of gender equality part of our responsibility programme.</p> <p>We took part in the campaign calling for a Finnish law on mandatory human rights due diligence and shared news on our work to promote human rights.</p> <p>The changes in alcohol legislation resulted in an expansion of products by microbreweries in our stores, and an increase in the sales of non-alcoholic beverages. K Group is in favour of setting a legal age limit on sales of energy drinks to prevent adverse effects.</p>



Opportunities and risks

Key opportunities and risks related to Kesko's operating environment are described in this section.

[Read more about operating environment >](#)

	OPPORTUNITIES	RISKS
<p>Economic operating environment</p> <p>Our three strategic growth areas are the grocery trade, the building and technical trade, and the car trade. In terms of growth, we want to increase our market share in the Finnish grocery trade, grow our building and technical trade in Northern Europe, strengthen our market leadership in the Finnish car trade, and develop our digital services.</p>	<ul style="list-style-type: none"> • Customer orientation, quality and competitive prices lend us a competitive advantage. • Our strong financial position provides excellent opportunities for growth and for developing our operations. • In the building and technical trade, the market is changing, and consequently B2B trade is growing in relation to B2C trade. 	<ul style="list-style-type: none"> • Intense price competition and cyclical fluctuations could weaken business profitability. Failure to deliver on quality and service would reduce customer satisfaction. • Misjudgements in acquisitions and divestments and unexpected changes in the market could result in financial losses. • Operating models for the building and technical trade might not adapt to changes in customer segments.
<p>Purchasing and human rights</p> <p>Customers must be provided with increasingly detailed information on the origins and manufacturing methods of products. We ensure responsibility and product safety in the supply chain.</p>	<ul style="list-style-type: none"> • By co-operating with product and service providers who share our values, goals and operating practices, we improve transparency and promote sustainability in the whole supply chain. Our efforts to improve sustainability in the supply chain increase stakeholder trust in us. 	<ul style="list-style-type: none"> • Irregularities in the management of social or environmental responsibility in the supply chain could cause human rights violations, environmental damage, financial losses, and loss of stakeholder trust and negatively affect our sustainability work and its credibility. • A failure in product safety control or in the quality assurance of the supply chain could result in financial losses, the loss of customer trust or, in the worst case, a health hazard to customers.
<p>Digital services and management by information</p> <p>As our strategy states, we aim to offer our customers the best digital services in the trading sector.</p>	<ul style="list-style-type: none"> • By combining online sales and digital services with our comprehensive store network, we enable excellent customer service in K Group. • We offer a seamless customer experience in all channels by utilising data analytics and service design. • We use customer data and research to develop a more personal customer experience and store-specific business ideas. 	<ul style="list-style-type: none"> • Challenges related to the profitability of online trade include the efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online trade. • Cyber threats directed at digital services and information systems increase risks related to business continuity and customer data. • Constant evolution of online trade and digital services presents special challenges to the rapid development of new services and their integration into existing operating models and systems. • Growth in online trade or changes in the market situation mean there is a risk that the profitability of a chain relying on physical stores or a store site will weaken.

	OPPORTUNITIES	RISKS
 <p>Impacts of climate change</p> <p>Stakeholders, especially customers and investors, expect companies to take actions to mitigate the impacts of climate change. All Kesko divisions can offer customers solutions that help them reduce their climate impact, as living, food and mobility are the biggest sources of greenhouse gases in private consumption.</p>	<p>Sustainable lifestyles</p> <ul style="list-style-type: none"> By offering environmentally friendly products and services and using packaging and shelf labelling and customer communications, we can help customers make purchase decisions that help mitigate climate change. Key actions include increasing the use of plant-based foods, reducing food waste at home, energy-efficient appliances, use of home renovation to improve energy usage, low-emission cars, and charging points for electric cars. Our extensive neighbourhood store network and the additional services available at the stores reduce transport emissions as customers can get to the store by foot, bike or using public transport. <hr/> <p>Energy sources</p> <ul style="list-style-type: none"> In line with our energy strategy, the electrical power sold by Kesko to K-retailers and the electrical power used by Kesko are 100% renewable. The energy efficiency of Kesko's store sites and offices is industry best. The most significant means of improving energy efficiency in stores are remote control and maintenance, LED lighting, solar power and refrigeration equipment solutions such as condensation heat recovery and the use of carbon dioxide as the refrigerant. <hr/> <p>Extreme weather phenomena</p> <ul style="list-style-type: none"> The building and technical trade division can act as an expert in construction that takes account of extreme weather phenomena, and supply related materials. <hr/> <p>Regulation</p> <ul style="list-style-type: none"> By committing to voluntary actions before regulation requires them, we can act as a forerunner in sustainability and offer our customers sustainable solutions (e.g. the Green Deal for plastic bags, circular economy solutions, K Charge network). 	<ul style="list-style-type: none"> We do not sufficiently stand out as the most sustainable trading sector company and cannot offer our customers products and services that support a sustainable lifestyle. Failures to implement environmental responsibility could weaken our profitability and reputation. <hr/> <ul style="list-style-type: none"> If our choice of energy sources and investments prove inefficient, it can have a negative impact on our profitability and reputation. <hr/> <ul style="list-style-type: none"> Climate change will increase the risk of extreme weather phenomena and affect food production in Finland and elsewhere. The impacts of climate change may result in unexpected damage or business interruptions. <hr/> <ul style="list-style-type: none"> Climate change may result in regulation-related risks, such as permit procedures or costs arising from emission pricing and taxation. The implementation of the EU and Finnish Government climate and energy policy will affect energy solutions and may raise energy prices.

Good corporate governance and finance

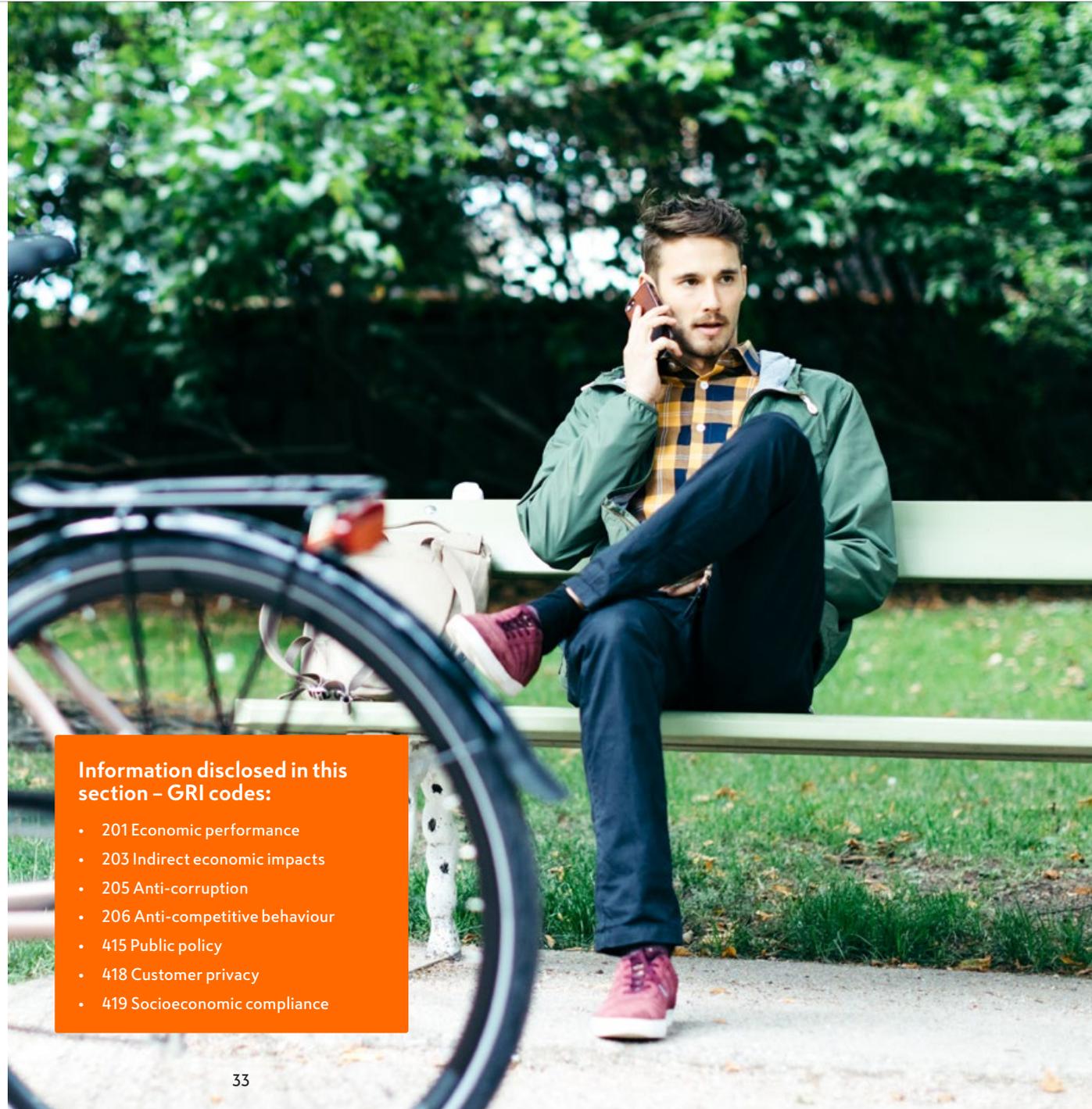
Responsible business and good corporate governance are crucial for achieving good and sustainable financial results.

Kesko and K-retailers are significant employers, tax payers and product and service providers. Through our supply chain, we indirectly create jobs globally in product development, factories, farms and logistics, for example.

Our common K Code of Conduct is used to ensure that everyone in K Group has the same understanding of the values and principles that guide our daily work. We select our business partners with care and require that they also operate responsibly.

We follow proper personal data processing practices and comply with legislation in all our operations everywhere.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 201 Economic performance
- 203 Indirect economic impacts
- 205 Anti-corruption
- 206 Anti-competitive behaviour
- 415 Public policy
- 418 Customer privacy
- 419 Socioeconomic compliance

Our operations create added value for various stakeholders

201-1

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

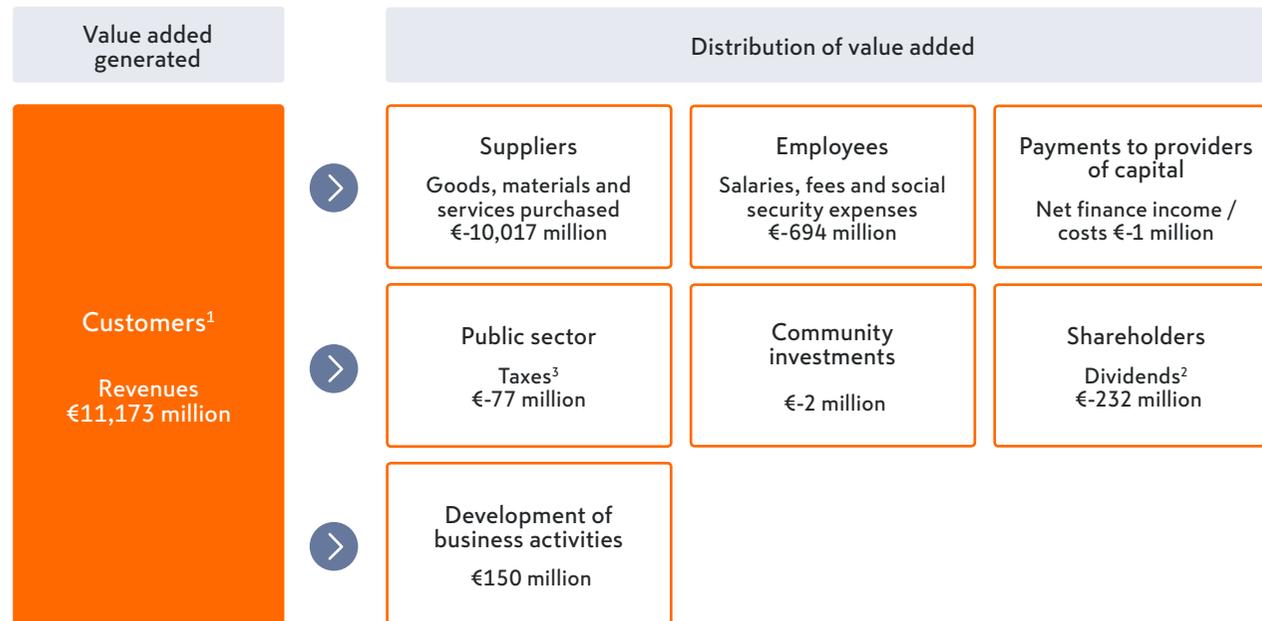
This section depicts cash flows between Kesko and its stakeholders, as well as the distribution of economic value added between stakeholder groups. The most important cash flows comprise revenue from customer purchases and retailer operations, purchases from suppliers of goods and providers of services, dividends to shareholders, salaries and wages paid to personnel, taxes and capital expenditure.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Return on capital

OBJECTIVE	PROGRESS IN 2018
Kesko's objective is to achieve a 14% comparable return on capital employed and a 12% comparable return on equity.	We were able to meet the 14.0% target level for comparable return on capital employed set in 2015. Our comparable return on equity was 11.7%.

Economic benefits from Kesko's operations to stakeholders



¹ Incl. net sales and other operating income

² Proposal to the General Meeting

³ Incl. income taxes, real estate taxes and net worth taxes

We pay steady dividends

Kesko has approximately 41,000 shareholders. In the long term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko's Board of Directors proposes to the Annual General Meeting to be held in April 2019 that a total dividend of €232 million be paid for the year 2018, which would represent 145.2% of earnings per share and 95.8% of comparable earnings per share. In 2018, Kesko distributed a total of €219 million as dividends, which represented 84.9% of earnings per share and 96.6% of comparable earnings per share.

Financial assistance received from government

201-4

In 2018, Kesko Group received financial assistance of €1.0 million from the public sector. This amount mainly consists of assistance received in Finland (€0.6 million) and Sweden (€0.4 million). Most of the public sector assistance in Finland is related to investments in solar power.

Read more about
[Kesko's purchases](#)

Most of the economic benefits from Kesko's operations to suppliers of goods

€ million		Continuing operations		Group
		2018	2017	2016
Customers ¹	Revenues	11,173	11,278	10,879
Value added generated		11,173	11,278	10,879
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-10,017	-10,065	-9,839
Employees	Salaries, fees and social security expenses	-694	-738	-723
Payments to providers of capital	Net finance income/costs	-1	2	-1
Owners	Dividend	-232 ²	-219	-199
Public sector	Taxes ³	-77	-60	-50
Community investments	Donations	-2	-2	-2
Development of business operations		150	197	67

The data is based on audited figures. The presentation method for 2017 has been changed from the previous year.

¹ Incl. net sales and other operating income

² Proposal to the General Meeting

³ Incl. income taxes, real estate taxes and net worth taxes

Economic benefits from Kesko's operations by market area in 2018

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes ¹	Total
Finland	5,860	226	394	83	872	7,434
Other Nordic countries	915	161	73	23	75	1,248
Baltic countries, Poland and Belarus	743	31	107	14	127	1,021
Other countries	1,400					1,400
Total, continuing operations	8,918	418	574	120	1,074	11,104

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

We are a significant tax-payer

203-2

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

Kesko and K-retailers together form K Group. Purchases by K Group have economic impacts on suppliers of goods and service providers, including an increase in the number of jobs. Purchases from local producers affect regional business activities. The salaries, taxes, employee benefit expenses and capital expenditure paid by K Group have impacts on regional economic welfare.

Kesko operates in eight countries, and engages in both retail and wholesale operations. Our principle is that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations.

In 2018, the income taxes paid by Kesko to Finland totalled €63.7 million and to other countries €8.3 million.

Taxes by country in 2018

€ million, continuing operations	Income taxes	Real estate and property taxes	Car taxes	Customs duties	Excise duties
Finland	63.7	4.2	159.0	6.8	67.3
Sweden	0.0	0.3	-	0.1	-
Norway	2.5	0.0	-	0.0	-
Estonia	1.0	0.0	-	0.2	-
Latvia	0.0	0.1	-	0.0	-
Lithuania	3.4	0.0	-	2.4	-
Poland	0.0	-	-	0.1	-
Belarus	1.4	0.5	-	1.3	-
Total	72.0	5.2	159.0	10.7	67.3

The Group's effective tax rate was 20.5%. Kesko paid €4.2 million in real estate taxes and net-worth taxes to Finland and €1.0 million to its other operating countries in 2018.

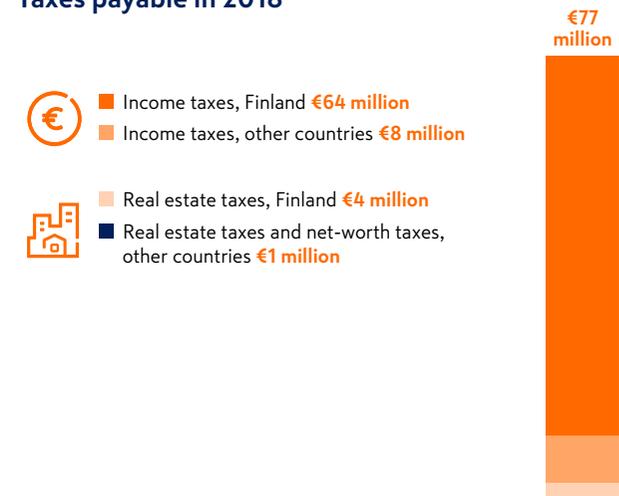
Kesko collects, reports and remits also indirect taxes, such as value-added taxes and excise duties. Kesko remits value-added taxes to tax recipients in its capacity as a company selling goods and services. In 2018, Kesko remitted value-added taxes in Finland to the amount of €474.4 million, and €150.2 million in other countries. Kesko remits car taxes, and excise duties on confectionery, alcohol and soft drinks, for example. In 2018, Kesko remitted excise duties in Finland to a total amount of €67.3 million.

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

Taxes remitted in 2018



Taxes payable in 2018



Both personnel and business partners must comply with the K Code of Conduct

205-1 205-2 205-3

Risks related to corruption are discussed as part of Kesko Group's risk management. Key risks are identified, assessed, managed, monitored and reported regularly as part of business operations in all operating countries. This includes risks related to corruption. In 2018, we also conducted a separate group-level compliance risk assessment, in which we assessed risks related to corruption from the perspective of legislation and regulation. The most significant risks related to corruption were related to construction projects and the purchasing of goods and services.

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

Code of Conduct. All Kesko Group personnel are obliged to annually confirm their compliance with the K Code of Conduct. We have prepared a mandatory eLearning package for employees to internalise the K Code of Conduct.

Kesko's contracting parties are also required to comply with the K Code of Conduct. According to Group guidelines, a K Code of Conduct contract clause is to be added to all agreements under which the Group companies purchase products or services from outside the Group.

In 2018, the prevention of malpractice was one of the focus areas for Kesko's corporate security function. During the year, individual cases of suspected malpractice came to our knowledge and the corporate security unit investigated them.

Kesko has a Group-wide SpeakUp channel through which employees and business partners can report any violations of the K Code of Conduct. During 2018, 11 notices were submitted through the SpeakUp channel (2017: 38), related

to, e.g. managerial work, customer service at the stores, phishing messages, and Kesko's partnerships with its suppliers.

In 2018, no corruption related lawsuits against any Kesko Group company came to our knowledge. A litigation for claiming damages from a former employee on the basis of suspected criminal offence was commenced in 2018.

We comply with anti-competitive laws and regulations

206

No authority rulings or legal actions regarding anti-competitive behaviour, anti-trust, and monopoly practices were reported in 2018.

Political contributions

415

We do not make monetary donations to political parties.

In election years, political parties and candidates are given equal opportunities to arrange campaign events in the yards and entrance halls of our stores.

Customer privacy is of utmost importance to us

418

In 2018, there were no cases concerning breaches of customer privacy or loss of customer data.

We always comply with the law

419

There were no breaches of laws or regulations in the social and economic area in 2018.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: K Code of Conduct

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
All of our personnel act in compliance with the K Code of Conduct.	The entire personnel is obligated to annually commit to compliance with the K Code of Conduct. In 2018, 79% of personnel signed the annual confirmation.	We will continue to make the annual confirmation process more systematic and promote commitment to the K Code of Conduct through managerial work, training and continuous visibility.
We organise regular training on the K Code of Conduct.	In 2018, we arranged K Code of Conduct sessions in subsidiaries in Estonia, Latvia and Lithuania, focusing especially on corruption and fraud-related issues. The K Code of Conduct eLearning programme has been completed by 7,800 people (10/2016-12/2018).	The K Code of Conduct eLearning will be updated in autumn 2019.

Customers

Our value, *The customer and quality – in everything we do*, places customers at the centre of our operations.

Over 1,100 K-retailers provide a significant competitive advantage for us. We develop our store network and services based on customer expectations.

Our customers can be confident that whenever they shop in a K Group store, they are making a responsible choice.

We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living.

We offer products and services that promote health and wellbeing. We enable convenient shopping for our customers.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 203 Indirect economic impacts



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Customers

	OBJECTIVE	PROGRESS IN 2018
Dialogue with customers	We constantly engage in a dialogue with customers in stores and social medial channels. We conduct surveys on customer satisfaction and brand and utilise customer views in the development of our responsibility work.	To map out customer expectations for K Group's sustainability and the most important areas of sustainability for our customers, we conducted a survey in the Kylä customer community.
Consultation services to customers	We offer our customers multichannel information on our products and services.	K-Rauta's free-of-charge renovation service Remonttineuvonta expanded and now also answers questions related to yards and gardens. K Consumer Service responds to consumer feedback concerning the own brand products (Pirkka, K-Menu, Euro Shopper) and own imports of the grocery trade division. In 2018, K Consumer Service responded to 24,337 contacts made.
Wellbeing	We offer products and services that promote health and wellbeing.	In line with our vegetable commitment, we encourage our customers to eat more vegetables. In 2018, some 400 K-food stores had dedicated veggie shelves. We organised 270 vegetable campaigns, which covered more than 1,200 vegetable products. We introduced 42 fruit and vegetable products into our selections during 2018. Intersport offered training on different sports and activated customers in stores by offering tips from experts and product testing as well as training programmes for different skill levels.
Sustainable consumption	We help our customers make sustainable choices.	To help our customers reduce their consumption of plastics and recycle plastics, we actively communicated on plastic-related issues in our channels and stores. We are building a nationwide network of electric car charging points in Finland.
Digital services	We offer the best digital services to K Group's customers in all divisions.	Our online sales of groceries grew significantly, and 66 additional stores (in a network of 156 stores) now offer online sales. We continued to develop the K-Ruoka online service and mobile app based on customer needs, utilising the latest technological innovations such as AI-based solutions. The new version of the OnnShop online store application has caused sales and customer satisfaction to grow in technical wholesale in Finland, Sweden and Estonia. The OnniApp mobile app makes shopping easier in Onninen Express stores.
Management by information	Each K-store is tailored to meet local customer demand based on customer data. Using marketing based on customer data, we can offer our customers the best customer experience in the trading sector.	We improved support for management by information in K-food stores by offering more versatile, real-time, better quality data. With the tools provided, K-food stores can better manage store operations and store-specific business ideas. The number of stores utilising data grew by more than 50% in 2018. Our objective is to further develop tools for store management and utilise customer insight and artificial intelligence (K AI) more extensively in , e.g. selection management and marketing. We continued the automation of marketing processes and promoted the use of data and artificial intelligence in marketing targeting and personalisation.



An extensive store network and additional services to customers

203-1

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 46% of Kesko's net sales in 2018. At the end of 2018, Kesko had over 1,100 independent K-retailer entrepreneurs as partners. Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled €12.9 billion (VAT 0%) in 2018. K Group employs around 41,000 people.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. The share of B2B trade has grown and it accounted for 36% of net sales in 2018. Own retailing accounted for 18% of net sales.

K Group has an extensive network of K-food stores in Finland. Most municipalities in the country have a K-food store. Some 1.2 million customers visit K-food stores every day.

Especially outside growth centres, retail stores can offer community services which may otherwise be scarcely available. In 2018, the following services were available at K-food stores:

- Cashback services at all K-food stores
- Parcel and postal services at nearly 900 stores
- Nearly 200 K Charge charging points for electric cars
- Over 400 Rinki eco take-back points.

Our investments have an impact on the whole society

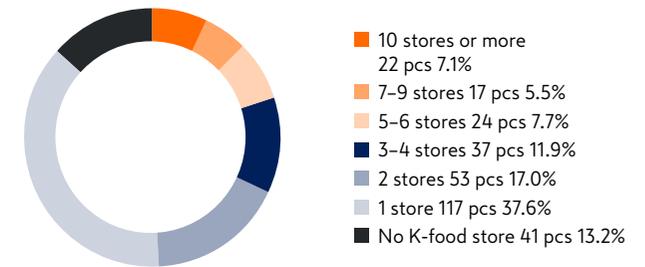
Kesko's capital expenditure has a positive financial impact on the operations of building firms, building sector service companies, and suppliers of fixtures, equipment and information systems, for example.

The capital expenditure for Kesko's continuing operations in 2018 totalled €418 million (2017: €334 million), or 4.0% (2017: 3.2%) of net sales. The store site network

is a strategic competitive factor for K Group. In 2018, capital expenditure on store sites was €112 million (2017: €240) million. Capital expenditure in foreign operations accounted for 46.0% (2017: 10.3%) of total capital expenditure.

In addition to Kesko, K-retailers invest in e.g. store fixtures. These figures included, K Group's total capital expenditure in Finland in 2018 was around €408 million.

K-food stores in Finnish municipalities at 31 Dec. 2018



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Additional services at our store locations

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We want to enable more convenient services for our customers.	We brought parcel pick-up points close to the homes of customers of over 130 additional K-stores. In total, pick-up points (Matkahuolto and Schenker) were opened in nearly 400 K-stores during the year.	We will launch new added value services that make everyday life easier for our customers. The MobilePay payment app will be available for use in 1,200 K Group stores during 2019.
	We launched a new service for online shoppers that enables parcels from all online stores globally to be directed to a specific automatic pick-up point in a K-store of the customer's own choosing.	We will expand the parcel service for online shoppers across Finland.

Society

Our mission is to create welfare responsibly for all our stakeholders and for all society.

Most of the economic benefit generated by Kesko's operations flows to suppliers of goods. Purchasing local products and services creates economic benefits for Kesko's home country and promotes local work.

We want to actively take part in public discussion and develop new solutions. In our communications, we are increasingly emphasising sustainability actions by our stores that are meaningful to our customers.

We sponsor nationwide projects in Finland that are connected to the everyday lives of children and young people, promote the quality of living and sustainability, and bring joy to as many people as possible.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 201 Economic performance
- 204 Procurement practices

By providing support we increase wellbeing in society

201-1

We sponsor nationwide projects in Finland that are connected to the everyday lives of children and young people, promote the quality of living and sustainability, and bring joy to as many people as possible.

Kesko's community investments

€ 1,000	2018	2017	2016
Non-governmental, environmental and other organisations	299	231	412
Sports (adults)	603	1,145	891
Youth sports and other youth work	203	144	56
Science, research and education	69	50	67
Culture	45	32	14
Health	596	459	270
Veteran organisations and national defence	22	113	3
Total	1,836	2,174	1,713

In addition, Veikkaus Oy contributed an estimated combined revenue of €110-115 million to the Ministry of Education and Culture, the Ministry of Social Affairs and Health, and the Ministry of Agriculture and Forestry, generated from the sales of games by Veikkaus points of sale located at K-stores. The estimate is based on the average breakdown of each euro spent on games in 2018. The estimate has been calculated by Veikkaus Oy. The Ministry of Agriculture and Forestry, the Ministry of Education and Culture, and the Ministry of Social Affairs and Health distribute the revenue in its entirety to beneficiaries in Finland.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Donations, sponsoring and charity

OBJECTIVE	PROGRESS IN 2018
We focus primarily on sponsoring nationwide projects in Finland that are connected to the everyday lives of children and young people, promote the quality of living and sustainability, and bring joy to as many people as possible.	<p>K-food stores collected a record €586,000 in the Finnish Cancer Foundation's 2018 Pink Ribbon (Roosa nauha) campaign.</p> <p>Some 280 volunteers and 18 K-retailers took part in the events of the second year of WWF Finland and K Group's K Fishpaths collaboration.</p> <p>Plan International Finland and K Group's project in Thailand came to an end: 1,143 children of migrant workers were educated in learning centres and 34 suppliers trained in social responsibility issues.</p>



Majority of purchases are from Finnish suppliers

204-1

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

Most of the economic benefit generated by Kesko's operations – approximately 86% of Kesko's net sales – flows to suppliers of goods, from which purchases were valued at €8.9 billion in 2018. The purchases of all Kesko companies from suppliers operating in Finland totalled €5.9 billion, accounting for 65.7% (2017: 65.0%) of the Group's total purchases.

In 2018, Kesko had around 23,700 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, around 10,600 operated in Finland, around 10,200 in Kesko's other operating countries, and around 2,900 elsewhere.

The 10 largest suppliers accounted for 26.3% (2017: 26.4%) of the Group's purchases of goods, and the 100 largest suppliers for 59.3% (2017: 59.8%). Of the 10 largest suppliers, 6 were Finnish food industry companies, 2 import companies operating in Finland, and 2 German car manufacturers.

The purchases of goods by Kesko Group's Finnish companies totalled €7.2 billion. Of these purchases, 81.1% were from suppliers operating in Finland and 18.9% from other countries. Some of the suppliers operating in Finland are import companies, and reliable statistics cannot be compiled on the origin of goods supplied by them.

Kesko's purchases by operating country in 2018

	Suppliers of goods and services in operating country	Purchases from suppliers of goods		Suppliers of goods and services in other operating countries	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	10,259	5,806	81.1	2,301	1,352	18.9
Sweden	1,723	211	86.4	203	33	13.6
Norway	2,724	513	97.8	189	12	2.2
Estonia	1,233	71	51.0	479	69	49.0
Latvia	1,233	54	39.9	502	82	60.1
Lithuania	419	127	31.6	213	274	68.4
Poland	1,056	212	95.9	71	9	4.1
Belarus	678	57	60.6	386	37	39.4
Total	19,325	7,050	79.1	4,344	1,867	20.9

Kesko's purchases by company's and supplier's country of domicile in 2018

Company's country of domicile	Supplier's country of domicile									Total
	€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus	
Finland	5,806	165	11	33	6	6	25	7	1,099	7,158
Sweden	10	211	5	1	-	0	3	-	14	244
Norway	1	7	513	-	-	-	-	-	4	524
Estonia	18	2	1	71	4	3	7	-	34	140
Latvia	12	0	-	7	54	6	6	0	50	137
Lithuania	11	2	-	14	35	127	45	4	162	400
Poland	1	0	-	0	-	-	212	-	8	221
Belarus	0	0	-	-	0	2	5	57	30	93
Total	5,860	386	529	127	100	143	304	68	1,400	8,918


PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Local production

OBJECTIVE	PROGRESS IN 2018
We support local producers.	<p>To help farmers struggling with the exceptionally dry weather in summer 2018, we focused heavily on our 'Thank the Producer' operating model. Branded products by five Finnish food companies joined the model at the end of the year. We will pay an additional sum of €650,000 directly to the food producers for 2018.</p> <p>We organised 7 Local Food Dates around Finland, giving over 400 K-retailers and 170 local food producers a chance to meet and establish a collaboration.</p>

Kesko is actively increasing the amount of local purchases and encourages K-retailers to include products from local producers in their selections. In 2018, K-retailers' direct purchases from Finnish regions totalled €777.6 million. Finnish food producers play a crucial role in K Group's grocery trade and the share of local food in store selections is growing.

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2018

Region	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure ¹	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	Total
€ million							
Åland	44.6	-	0.3	0.5	-	-	45.3
Southern Karelia	9.5	10.6	6.8	6.0	14.0	0.5	47.2
Southern Ostrobothnia	243.6	54.4	5.2	5.5	14.1	1.1	323.8
Southern Savo	49.6	19.1	6.3	4.9	11.8	1.4	93.2
Kainuu	12.7	10.2	2.0	1.6	7.1	0.7	34.2
Kanta-Häme	58.0	44.2	6.3	6.5	13.6	1.1	129.7
Central Ostrobothnia	53.4	20.7	3.2	2.4	4.5	0.5	84.7
Central Finland	50.2	26.3	11.3	8.9	20.4	1.8	118.9
Kymenlaakso	41.9	6.8	16.4	6.3	13.0	1.0	85.5
Lapland	17.7	25.8	8.7	6.4	22.9	2.5	84.0
Pirkanmaa	268.1	39.8	31.1	34.6	45.0	3.5	422.1
Ostrobothnia	140.1	11.4	5.3	6.6	11.5	0.9	175.8
Northern Karelia	31.8	25.5	6.8	5.4	11.6	1.6	82.7
Northern Ostrobothnia	147.3	66.6	18.7	22.2	30.1	2.8	287.6
Northern Savo	235.5	56.3	6.3	12.1	23.2	1.9	335.3
Päijät-Häme	146.5	27.8	7.6	10.4	14.5	1.1	207.9
Satakunta	214.4	43.4	10.8	7.5	18.4	1.1	295.5
Uusimaa	3,341.4	189.2	225.7	323.6	147.7	17.5	4,245.0
Varsinais-Suomi	699.8	99.7	29.7	30.3	44.0	5.2	908.8
Total	5,806.2	777.6	408.4	501.6	467.3	46.2	8,007.4

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

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

Working community

The foundation of our operations is our professional and committed personnel. We provide them with diverse career and development opportunities in various positions.

We aim to be the most attractive workplace in the trading sector. Equal opportunities, justice and non-discrimination are important principles that we are determined to observe.

As the operating environment changes, continuous development of the personnel's skills will play an increasingly important role. The prerequisite for wellbeing and success at work is that each employee knows the targets set for their work, receives feedback on their performance and experiences success at work.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 201 Economic performance
- 401 Employment
- 402 Labour/Management relations
- 403 Occupational health and safety
- 404 Training and education
- 405 Diversity and equal opportunity
- 406 Non-discrimination
- 407 Freedom of association and collective bargaining



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Employer image

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We are the best employer in the trading sector in terms of job satisfaction.	Ranking 18 th , K Group improved its position in the Universum Ideal Employer Ranking survey (up by 7 positions). More than 6,000 people responded to the Pulse survey for personnel; development was seen in the primary development areas: provision of feedback, development opportunities at K Group and employer image.	We will continue to promote the agreed measures and monitor the progress of the results with a more extensive personnel survey at the end of 2019.

Half of our employees work in Finland

401-1

In 2018, Kesko had an average of approximately 19,579 (2017: 22,077) full-time equivalent employees in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. 50.2% of the personnel were based in Finland and 49.8% in the other operating countries.

Changes in the number of Kesko employees

	2018	2017	2016
Finland at 31 Dec.	11,878	12,327	14,845
Other operating countries at 31 Dec.	11,523	12,656	12,811
Total at 31 Dec.	23,401	24,983	27,656
Finland, average	9,822	10,691	10,714
Other operating countries, average	9,757	11,386	11,762
Total, average	19,579	22,077	22,476

Fixed-term and part-time employments at Kesko

	2018	2017	2016
Fixed-term employees of total personnel at 31 Dec., %			
Finland	14.1	14.2	12
Other operating countries	6.7	4.8	6.1
Whole Group, total	10.5	9.4	9.2
Part-time employees of total personnel at 31 Dec., %			
Finland	33.6	40.8	43.9
Other operating countries	11.8	7.8	6.7
Whole Group, total	22.9	24.1	26.7

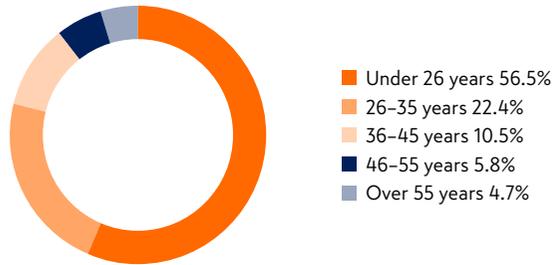
Kesko's personnel statistics for 2018 analysed by operating country

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of personnel at 31 Dec.	11,878	1,016	1,273	735	850	4,016	775	2,858
Average number of personnel in 2018	9,822	918	681	679	700	3,361	772	2,647
Number of new employments ¹	4,240	389	139	395	469	2,479	134	1,154
- women	2,217	122	31	157	146	1,103	20	439
- men	2,023	267	108	238	323	1,376	114	715
Number of terminated employments ¹	4,801	373	270	349	436	2,395	139	1,266
- women	2,954	126	64	142	107	943	14	454
- men	1,847	247	206	207	329	1,452	125	812
Terminated by employer, %	4.0	2.0	29.0	6.0	24.0	2.0	22.0	0.0
Total turnover rate, %²	30.0	37.0	19.0	34.0	46.0	60.0	17.0	44.0

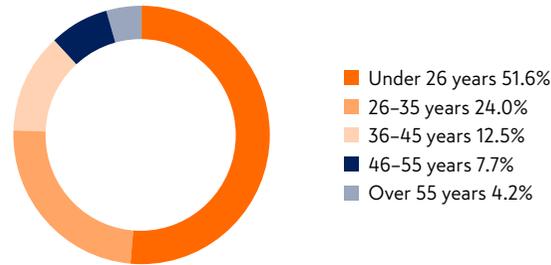
¹Including summer employees ²Excluding summer employees

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

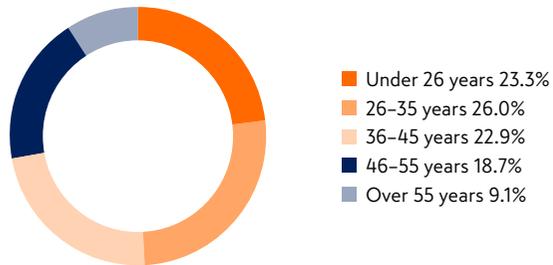
Recruits, age distribution 2018, %



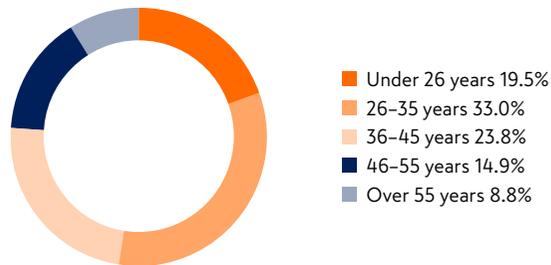
Terminated employments, age distribution 2018, %



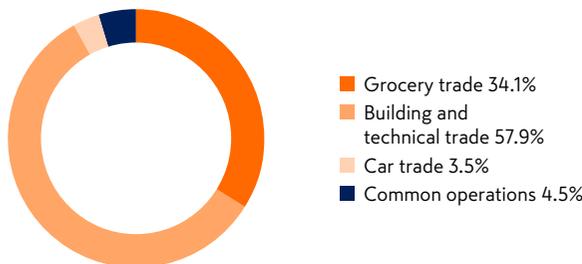
Age distribution of Kesko personnel in Finland in 2018, %



Age distribution of Kesko personnel in the other operating countries in 2018, %



Distribution of Kesko personnel by division at 31 Dec. 2018, %



Towards a new career

Internal job rotation opens up possibilities for various career options. In Finland, approximately 1,569 (2017: 1,992) internal transfers took place, while the combined figure for the other operating countries was 2,361 (2017: 2,637) (figures excluding internal transfers within K-Market Oy).

In 2018, the New Job operating model was established for situations where an employee's working capacity is permanently reduced compared to the requirements of the current job, and the employee is no longer capable of returning to do the job.

In Finland, K Group's recruitment is supported by the [K Trainee](#) and [retailer coaching programmes](#).

We offer comprehensive personnel benefits

401-2

In Finland, all personnel are subject to statutory pension security and benefits concerning parental leaves. In Finland, both the permanent and temporary personnel have statutory insurance against occupational injuries and occupational diseases.

In addition, we offer our personnel occupational health care services, retirement benefits, versatile shopping benefits in K Group stores and the staff store as well as an opportunity to lease a car.

In all operating countries, we support our employees' leisure activities in different ways. The Finnish companies, for example, provide benefits for physical exercise, cultural activities and the commuting, which in 2019 expands to cover wellbeing services.

Some of the companies operating in Estonia, Latvia and Lithuania also give financial support to their employees through different situations in life, such as when a child is born, during a child's first year at school, in the event of the death of a close relative and in other special situations.

Performance bonuses and share compensation plan

The performance bonus schemes cover all personnel, with the exception of sales assistant jobs and jobs covered by other types of bonus or commission systems. The indicators of the performance bonus scheme include, for example, the Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on the role, personal performance bonus targets may also be set. In spring 2018, around €15.1 million (2017: €11.4 million) was paid in Finland in bonuses under the 2018 performance bonus schemes, accounting for approximately 3.5% (2017: 3.0%) of the total payroll.

In 2018, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland, €16.1 million (2017: €18.1 million)
- In the other operating countries, €4.5 million (2017: €5.2 million)

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

Kesko operates a share-based compensation scheme for some 130 members of management and other specified key personnel. Read more about the [share compensation plan](#).

Pensions

201-3

New pensions were granted to 193 people (2017: 291) in Kesko Group in Finland. Of these, 32 were disability pensions (2017: 25), of which 15 (2017: 15) were partial disability pensions. Rehabilitation benefit is a form of fixed-term disability pension granted with the aim that the employee is rehabilitated and returns to working life. Rehabilitation benefits were granted for the purpose of retraining or work trials to 93 people (2017: 111), who were at a clear risk of losing their working capacity within a few years. The average retirement age of employees in 2018 was 61.9 (2017: 61.7). The average retirement age for old-age was 63.7 (2017: 63.3) and the age for disability pension was 47 (2017: 46.5). In the other operating countries 21 (2017: 29) employees retired.

The Group has several pension arrangements in different operating countries. In Finland, statutory pension provision for personnel is organised through pension insurance companies and voluntary supplementary pension provision is mainly organised through Kesko Pension Fund. At the end of 2018, the Pension Fund had 2,581 members, 579 of whom were active members and 2,002 were pensioners.

The statutory pension provision organised through a pension insurance company is a defined contribution plan. The supplementary pension provision organised by Kesko Pension Fund is a defined benefit plan. On 31 December 2018, the defined benefit plan obligation was €254.2 million (2017: €266.6 million), which is fully covered. Calculated under IFRS, the surplus amount was €148.0 million on 31 December 2018 (2017: €207.5). Calculated under IFRS, the Group's total pension expenses represent 12.9% (2017: 14.3%) of the total payroll. Read more in the financial statements section, [note 3.8](#).



In the subsidiaries in other countries, pensions are arranged in compliance with local provisions and practices, and are defined contribution plans.

We take care of the safety of our employees

403-1

Labour protection activities are arranged separately for each company, region or place of business in compliance with local legislation. Labour protection activity in Finland has been made more effective by establishing regional committees and by combining worker health and safety committees in the Greater

Helsinki region in preparation for the move to common operating premises.

In 2018, we launched a Group-level labour protection group in Finland to strengthen the role of labour protection and to develop occupational health cooperation and to share best practices in the field of occupational safety.

Outside the Nordic countries, labour protection matters are handled by OHS (Occupational Health and Safety) committees. In 2018, we investigated the practices and indicators and needs for cooperation related to

occupational wellbeing, health and safety and together shared the best practices in Norway and Poland.

Kesko's HR functions arrange occupational safety training for Kesko employees and K-retailers. Group companies also arrange training sessions tailored to their specific needs.

Occupational health service helps maintain working capacity

403-2

Within Kesko Group, the occupational health service's normal operations include providing advice and counselling related to employees' health and wellbeing at work, analysing health risks related to work and preventing illnesses, and providing treatment – even in the event of serious illnesses – in collaboration with primary health care practitioners and specialist health care providers.

In Finland, 12,260 (2017: 12,600) Kesko Group employees were covered by Kesko's own occupational health services. Kesko's occupational health service provides occupational health services for employees in the Greater Helsinki area and purchases occupational healthcare from one provider for employees elsewhere in Finland. Centralised and target-oriented management enables consistent content, operating methods and results in occupational health service. In other countries, occupational health care is arranged in compliance with local legislation and practice.

A total of €5.5 million (2017: €6.2 million) was spent on occupational health care in Finland in 2018. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €2.8 million (2017: €3.5 million) of this sum. In 2018, Kesko's occupational health service spent €447 (2017: €494) per employee on maintaining the personnel's working capacity and providing medical care.



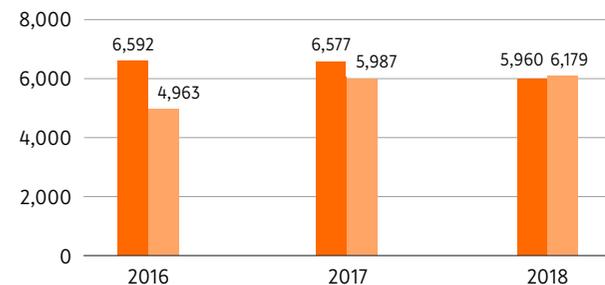
**PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Occupational wellbeing and working capacity**

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We will improve work motivation and job satisfaction.	Kesko initiated an extensive K Work programme, which means a new, unified way to work within K Group. In the first stage of the programme, the new ways to work will be communicated to approximately 2,500 K Group employees in specialist positions.	In 2019, principles which concern those doing specialist work in K Group, will be taken into use step by step irrespective of the location. These practices concern, for example, work done in multiple locations, working time monitoring and knowledge work tools.
We will reduce the number of sick leave absences, accidents at work and numbers for premature retirement due to disability.	We developed processes to serve as a basis for the forthcoming technical OHS solution, the purpose of which is to anticipate risks related to working capacity and to develop working capacity management. In Finland, we initiated the evaluation of systematic, psycho-social load Kesko's occupational health care offered the employees interested in their health and wellbeing new coaching related to nourishment, mental health and physical condition in which artificial intelligence is utilised to some extent. A total of 224 persons participated in this coaching.	K Group will introduce an OHS solution and new processes compliant with it. We will continue with the services that worked best in the trials in 2018 and pilot as new solutions those which prove functional in our new K-Kampus main office building.

Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables on the right. In the other countries, a total of 92 injuries occurred resulting in sickness absences of more than three days in 2018. The corresponding figure in Finland was 248. In 2018, the sickness absence rate in the Group companies in Finland was 4.3% of hours worked (2017: 4.6%). Approximately 76.2% (2017: 75.1%) of sickness absences were short-term absences, i.e. paid sick days. In the other countries, the sickness absence rate was 5.1% (2017: 4.7%).

Trend in number of sick days

Sick days/million working hours



■ Finland
■ Other operating countries

Kesko's contribution to occupational health care, Finland

	2018	2017	2016
€/person	447	494	499

Injuries and occupational diseases in Finland

	2018	2017	2016
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	181	226	227
Commuting injuries	67	79	81
Injury rate ¹ /million working hours	13	11	10
Average degree of injury severity, days	31.6	20.9	15.8
Suspected occupational diseases	3	2	1
Occupational diseases	2	1	2
Sick days due to occupational injuries, commuting injuries and occupational diseases	8,040	6,473	5,744
Per employee	0.8	0.6	0.5

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

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

Sickness absences by country in 2018

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of sick days	110,408	10,845	6,014	8,020	8,233	52,260	8,721	25,662
Per employee	11.2	11.8	8.8	11.8	11.8	15.5	11.3	9.7
Per million working hours	5,960	6,712	5,018	5,819	5,822	7,697	5,431	4,771

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

An operating environment in transition calls for continuous competence development

404-1 404-2

Systematic, business-driven development of personnel is a critical factor for future success. The transformation of the trading sector and digitalisation have created needs for new competences.

Key areas of competence building in K Group are:

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

Manager training programmes

In 2018, we renewed our manager training programmes: we started a training programme for new managers and the middle management of the international programme. A tailored management training was initiated for the K-Citymarket chain, with the objective of more than 300 store managers obtaining specialist vocational qualifications in management.

Training for the Let's Talk About Work operating model is part of the occupational ability management training for managers, which also was renewed.

Digital competences

In 2018, we arranged info sessions targeted at the whole personnel on service design and artificial intelligence, and agile development trainings for management groups and specialists.

Training hours and costs in 2018

	2018	2017
Training hours¹		
Finland	58,191	56,055
Other countries	64,331	71,991
Training hours per employee¹		
Finland	5.9	5.2
Other countries	6.6	6.3
Training costs, € million		
Finland	2.7	3.3
Other countries	0.4	0.5
Training costs per employee, €		
Finland	277	310
Other countries	45	45

¹ 2017 excludes Bygghandeln AS and Onninen AS Norway, Onninen AB and K-Rauta AB Sweden, and OOO Onninen Russia.

Distribution by education at 31 Dec. 2018, %



- Comprehensive school 16.8%
- Upper secondary vocational education 47.6%
- Lower university degree 14.3%
- Higher university degree 21.3%

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



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Competence development

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We conduct an annual performance and development review with every employee.	Discussing the objectives and development were continued as a systematic part of the performance management model. Approximately 80% of our employees have discussed their objectives and development with their manager.	We will systematically continue to implement these discussions and guidance.
We will regularly train our managers.	A total of approximately 830 managers took part in manager training.	All managers in the K Group go through a common half-day manager training. The training discusses the principles of K Way.

We organise social media training sessions to deepen the expertise of those K Group employees with social media as an essential part of their job description.

Training for store personnel

We provide store personnel with professional training in the form of coaching and e-learning, as well as an opportunity to complete vocational degrees. All training information has been compiled into a single portal at www.k-academy.fi/.

In 2018, we launched a new Workplace coach training for store personnel and trained more than 300 workplace coaches for various chains.

Performance and career development reviews and performance assessment as tools for job satisfaction

404-3

Our personnel is given feedback on their performance and development opportunities in annual performance and development reviews. Target setting, performance and development reviews and performance evaluations are carried out at all Kesko Group companies and operating countries.

Performance reviews evaluate the person's performance during the past period and set targets for the next one. In development discussions we discuss the employee's competencies and motivation, career wishes, quality and development of manager work and the entire working community. Finally, a personal development plan is created for the employee.

We monitored the actualisation of performance reviews in a personnel survey carried out at the end of 2017. The response rate to the personnel survey was 71%. 80% of the respondents state that they had discussed their targets and development with their manager during the past year.

The purpose of development discussion is to give feedback on the person's performance during the previous year, support their development and encourage them to improve their performance. Uniform criteria ensure a fair performance and skills review for all employees. A systematic and effective performance review gives important information and forms a basis for other HR processes.

The personnel survey is among the key tools for improving the quality of internal operations and manager work. The entire personnel is given the chance to take part in the survey – it is conducted simultaneously in Kesko Group and in some K-stores in Finland and other operating countries.

The revised personnel survey was carried out most recently in the latter half of 2017. Action plans were created in early 2018, and the progress of selected development initiatives was monitored later with the Pulse survey that had over 6,000 respondents. Positive development was seen in the primary development areas: provision of feedback, development opportunities at K Group and employer image.



**PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Performance management**

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We know the targets set for our work and receive feedback on our performance.	According to the latest personnel survey, 74% of our personnel receive feedback on their performance in attaining their own targets. Target-based bonus schemes cover practically the entire personnel.	We will continue the systematic deployment of performance management and will revise the bonus schemes.

We promote equal opportunities and diversity

405-1 406-1

Zero-tolerance of discrimination

Equal opportunities, justice, non-discrimination and equality are important principles that are observed at Kesko. Kesko Corporation and its subsidiaries in Finland draw up statutory company-specific HR, training, equality and non-discrimination plans and define objectives for improvement.

Kesko has established the TASY gender equality working group in accordance with the non-discrimination plan, which handles matters related to non-discrimination and equality within the Group. The working group includes representatives of the employer, personnel and labour protection functions as well as employees interested in the matter. The working group analyses recruitment, career development and training, remuneration and the reconciliation of work and family life. Combating discrimination is at the core of the group's activities. To better identify and prevent discrimination, we will train 'TASY activists' for Kesko.

In 2018, we participated in a large campaign against discrimination (#eisyryji) which sought to change attitudes and reduce discrimination in Finnish working life. Companies participating in the campaign commit to promoting a non-discriminatory work culture that is open for all. We also participated in the Day as a Director campaign arranged by the Junior Chamber International Finland, where 40 students were given the opportunity to find out about the work of K Group's managers.

No cases of discrimination were reported to us in 2018.

Diverse working community

In autumn 2018, we participated in [Plan International's Girls Takeover](#) event and added promotion of gender equality as a new objective in our responsibility programme. Gender equality involves strengthening the rights and opportunities of women and girls throughout our supply chain and improving women's opportunities to advance to management posts. Our aim is to increase the proportion of women in management, and in K-Citymarkets, for example, 81% of department managers are women.

According to [the diversity policy of Kesko's Board of Directors](#), Kesko seeks to have a balanced representation

of genders on the Board. In 2018, women accounted for two out of the seven members of the Board of Directors and one out of the eight members of the Group Management Board.

We have started several programmes in recent years to employ young people and people from special groups, and employing them has become a permanent operating model. So far, more than 4,700 young people in this target group have been hired to K Group through work trials, salary support and apprenticeship training.

In the future, immigrants will be an increasingly important target group for recruitment into service duties in the retail



sector. At present, the highest number of people with immigrant background are employed in the stores and warehouses of K Group.

Employing people with immigrant background will require new operating methods – for example, the needs of people whose first language is not Finnish, must be taken into account in guidelines and management.

People of various ages are an asset

In Finland, the average age of employees was 37 in 2018. In the other countries, the average age of employees varied from 26 to 46 years.

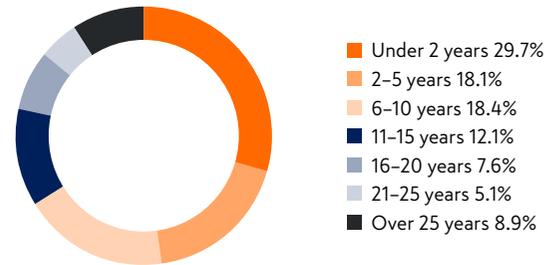
Long careers are not rare: 1,062 employees in Finland have worked at Kesko for over 25 years. In Finland, 33.8% of the employees have worked at Kesko over 10 years and 66.2% under 10 years, and in the other countries the figures were 22.5% and 77.5%, respectively.

We promote the realisation of pay equality

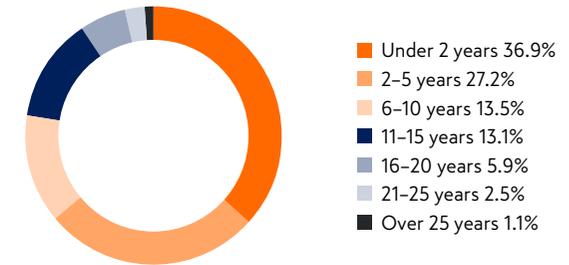
405-2

The average annual salary of Kesko employees was €39,523 in Finland, €45,299 in the other Nordic countries, and €10,781 in the Baltic countries, Poland and Belarus. As Kesko Group operates in many lines of business, the average salary is not a good indicator of salary level or structure. The wage groups and tables specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality.

Years of service in Finland in 2018, %



Years of service in the other operating countries in 2018, %



Percentage of women and men of personnel

	Women	Men
Kesko's personnel		
Finland	51.8	48.2
Other operating countries	43.6	56.4
Managers		
Finland	46.1	53.9
Other operating countries	37.2	62.8

Percentage of women by employee category, Finland

	2018	2017	2016
Top management	28.6	28.3	24.1
Middle management	23.3	22.6	20.0
Managers and specialists	46.8	45.2	41.9
Workers and white-collar employees	53.5	58.4	64.4
Total	51.8	55.5	60.1

Percentage of women by employee category, other countries

	2018	2017	2016
Top management	12.5	0.0	0.0
Middle management	42.3	56.2	49.1
Managers and specialists	51.8	49.1	48.4
Workers and white-collar employees	39.3	41.6	47.2
Total	43.6	46.7	47.8

The figures also include those called to work on demand

Besides the role and its requirements, the salary of a specialist is determined by competence, experience, performance and results. Kesko uses the HAY job grade classification system. In jobs classified based on job grades, in higher and middle management jobs the women's salary is 99% of men's salary in comparable jobs, and 96% with manager and specialist positions, respectively. As a whole, women's salary is 97% of men's salary in comparable jobs.

Equality in remuneration is considered as part of annual company-specific equality plans. Gender is not a factor which influences remuneration, and no significant differences between comparable jobs have been detected. Equality plans strive to promote salary equality in jobs where comparisons can be made.

Freedom of association as an important value

407-1

Employees' freedom of association is a central characteristic of a welfare society. Kesko respects its personnel's freedom of association.

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

Out of the total personnel, 47% are covered by collective agreements.

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

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

Periods of notice and restructuring situations

402-1

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

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

In Estonia and Latvia, the minimum notice period in restructuring situations is four weeks. The corresponding notice period in Belarus is eight weeks. There are no collective agreements in these operating countries.

In Poland, the notice period with permanent and temporary employments varies from two weeks to three

months depending on the duration of employment. The same periods of notice are valid in restructuring situations as well.

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

Responsible purchasing and sustainable selections

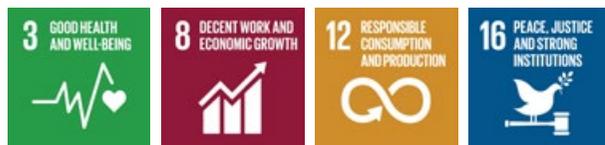
Our products are verified, safe and responsibly produced. We offer an extensive selection of own brand products with responsibility labelling.

The Product Research Unit's laboratory monitors the product safety and quality of the own brand products and own imports in the grocery trade.

We monitor and develop responsibility in supply chains with suppliers' factory audits and responsibility trainings.

We guide the sourcing of products containing raw materials identified as critical, such as palm oil and soy, with our sustainability policies.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 412 Human rights assessments
- 414 Supplier social assessment
- 416 Customer health and safety
- 417 Marketing and labelling





**PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Sustainability policies guiding our sourcing**

OBJECTIVE	PROGRESS IN 2018
<p>Fish and shellfish policy</p> <p>Our selections do not include species on the red list of the WWF Finland's Seafood Guide. When making decisions concerning selections, we favour sustainable stocks of fish and MSC- and ASC-certified suppliers.</p>	<p>Our fish and shellfish policy based on the WWF Finland's Seafood Guide has been in effect for 10 years. The retail selection of Kesko's grocery trade included 200 MSC-certified fish products and 9 ASC-certified products. Kespro's HoReCa selection had a total of 168 MSC-certified products and 9 ASC-certified products.</p>
<p>Palm oil policy</p> <p>By 2020, the palm oil in our own brand groceries will be 100% sustainably produced (CSPO).</p>	<p>Some 99.2% of the palm oil in Kespro's Menu food products sold in 2018 was sustainably produced (CSPO), of which 0.2% was Identity Preserved, 82.0% Segregated, 13.7% Mass Balance, and 4.1% RSPO credits. Some 67% of the palm oil in Pirkka and K-Menu food products sold in 2018 was sustainably produced (CSPO), of which 44% was Segregated, 45% Mass Balance, and 2% RSPO credits.</p>
<p>Soy policy</p> <p>By 2020, the ingredients of soy origin in grocery trade's own brand food products and the soy fodder used in the production of products of animal origin will be 100% responsibly produced, and be either RTRS or ProTerra certified.</p>	<p>The soy used as an ingredient in Kespro's Menu food products sold in 2018 was 74.2 % responsibly produced. The soy used as an ingredient in Pirkka and K-Menu food products sold in 2018 was 2.2% responsibly produced.</p>
<p>Timber and paper policy</p> <p>By 2025, there will be only sustainable origin timber and paper products in Kesko's product range. Timber and paper products will be FSC or PEFC certified or made of recycled materials. In the grocery trade, the policy applies to our own brand products.</p>	<p>Kesko's building and technical trade has been awarded the PEFC certificate, which covers sawn pine and spruce timber and processed timber as well as the wholesale distribution of MDF boards in Finland (percentage-based method). The average PEFC certification percentage in 2018 was 88.5% for pine and 85.6% for spruce.</p> <p>Of the timber and paper products in the grocery trade's Pirkka and K-Menu ranges, 51% contained sustainable raw material. In Kespro's Menu range, 17% of timber and paper products contained sustainable raw material.</p>
<p>Plastics policy</p> <p>In the plastics policy updated in 2018, we placed more stringent targets for the recycling, reduction and avoidance of plastic.</p>	<p>We accelerated the reduction of plastic by setting the same price for plastic, paper and biodegradable bags in all K-food stores. We removed microplastics from our own brand detergent products. Read more</p>
<p>Animal welfare policy</p> <p>When making decisions concerning selections, we take the well-being of farm animals into account. From the start of 2026, we will no longer accept eggs from furnished cages into Kesko's selections.</p>	<p>In spring 2018, we compiled our principles concerning products of animal origin into an animal welfare policy.</p>



Efforts to promote human rights

412-1 412-2

In 2016, we published our [statement of commitment on human rights and impact assessment](#) in compliance with the UN's Guiding Principles on Business and Human Rights. We review the human rights assessment every three years, for the next time in 2019.

The K Code of Conduct guidelines include a section on [human rights](#). The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 7,800 people by the end of 2018. Awareness of the K Code of Conduct is regularly promoted through communications and K Code of Conduct training sessions.

The training sessions in responsible purchasing discuss the implementation of human rights in global supply chains. In 2018, we organised the training for those engaged in purchasing in Kespro. The training sessions discussed the amfori BSCI Code of Conduct principles, the assurance process in purchasing from high-risk countries, and the social responsibility assessment systems approved by Kesko and sustainability policies guiding sourcing.

In 2018, we participated in Plan's Girls Takeover event, highlighting the status of girls and women in our supply chains. We promoted work on gender equality as part of our responsibility programme and made a commitment to strengthen the rights and opportunities of women and girls in all of our operations and supply chains.

In 2018–2019, we participate in the corporate responsibility law campaign initiated by Finnwatch, calling

for a Finnish law on mandatory human rights due diligence, obliging companies to avoid and to reduce the negative human rights impacts in their operations.

Suppliers' social responsibility audits

414-1 414-2

Special focus on high-risk countries

In the risk assessment of supply countries, we utilise the [amfori's countries' risk classification](#) based on Worldwide Governance indicators published by the World Bank. In 2018, direct purchases from suppliers in high-risk countries totalled €105 million (2017: €106 million) and accounted for approximately 1.2% (2017: 1.2%) of Kesko's total purchases. Direct imports from high-risk countries accounted for approximately 14.5% (2017: 13.9%) of Kesko's total imports into Finland. The figures concern direct purchases in Finland; no statistics are available on direct imports from high-risk countries in Kesko's other operating countries.

The largest high-risk countries of import are shown on the map [on page 36](#). We publish the list of manufacturers of clothes, accessories, shoes and bags of our own brands and own imports located in high-risk countries annually [on our website](#). In 2018, to improve the transparency of the supply chain, we added the addresses of the factories to the list.

Social responsibility assessment of suppliers in high-risk countries

Kesko is a member of amfori, an association dedicated to promoting sustainable trade, and takes part in [amfori BSCI](#). Kesko utilises global social responsibility audit and certification systems, primarily amfori BSCI audits, in the assessment of suppliers in high-risk countries.

Kesko also accepts [other assessment systems of social responsibility](#), if their criteria correspond to those of amfori BSCI auditing and if the audit is conducted by an independent party. As part of the sourcing cooperation between Kesko's grocery trade and ICA Global Sourcing, Kesko also accepts the ICA Social Audit. In this case, however, suppliers are required to adopt third-party audit approved by Kesko after a maximum of two ICA Social Audits.

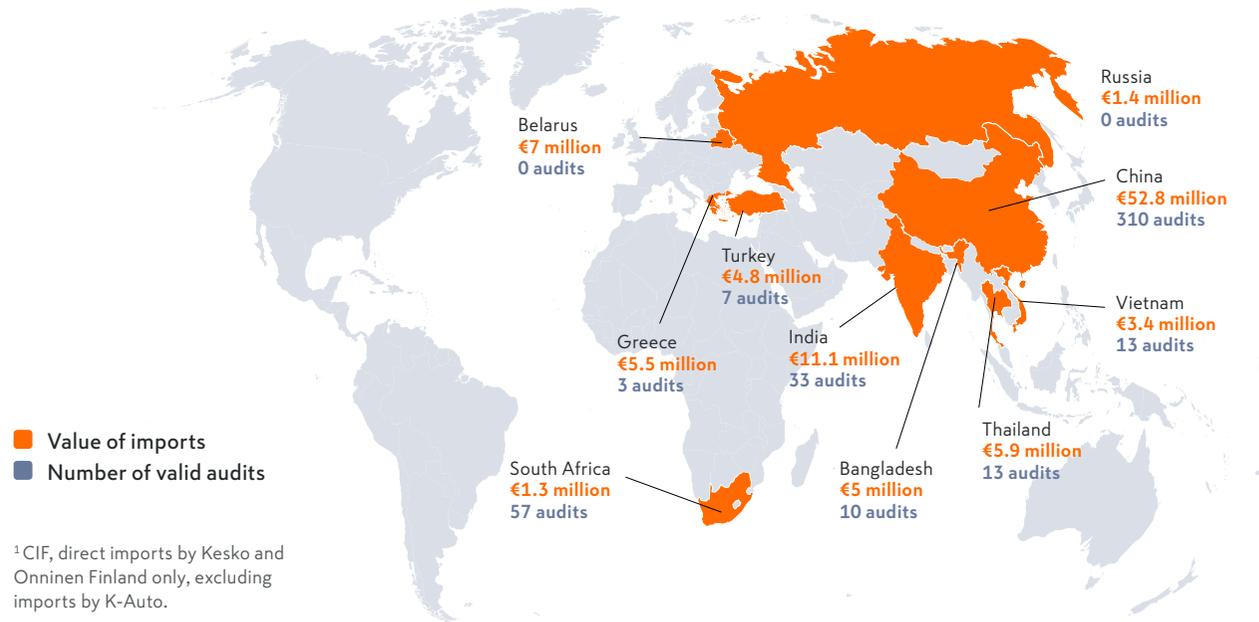
Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when the cooperation begins. Kesko's grocery trade requires all of its suppliers in high-risk countries to have an approved audit when the cooperation begins.

Some of Kesko's suppliers are amfori members themselves also and thus promote amfori BSCI audits in their own supply chains. In 2018, we purchased work clothing from two Nordic suppliers for K-Rauta, Neste K, K-Supermarket, K-Market and K-Citymarket chains. Part of the work clothes were manufactured in high-risk countries in factories with three valid amfori BSCI audits and one SA8000 certification.

Social responsibility audits and certifications of suppliers in high-risk countries

Social responsibility assessment system	Jan 1 2019, total	Jan 1 2018, total
amfori BSCI	300	291
SA8000	12	15
SMETA	136	30
SIZA	54	22
Fairtrade	21	11
Rainforest Alliance	14	0
ICTI Ethical Toy Program	8	5
For Life	12	0
Fair for Life	1	0
WIETA	1	1
ICA Social Audit	26	45

Suppliers' social responsibility audits in Kesko's 10 largest high-risk countries of import¹



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Supply chain

OBJECTIVE	PROGRESS IN 2018
The social responsibility of the production of own direct imports from high-risk countries has been assured.	A total of 190 of Kesko's suppliers' factories or plantations in high-risk countries underwent full amfori BSCI audits. In addition, 135 suppliers' factories or plantations underwent amfori BSCI follow-up audits. At the beginning of 2019, Kesko's suppliers in high-risk countries had a total of 585 valid social responsibility audits.
We assure the responsibility of the ingredients (Tier 2) of own brand Pirkka and K-Menu food products.	In 2015, we began the investigation of the ingredients and risk analysis of Pirkka and K-Menu food products. In 2015–2018, a risk analysis has been carried out on a total of 2,240 food products under Kesko's own brands.
We identify and take account of water risks in our supply chain.	We conducted an extensive survey on the water risks related to our own avocado purchases. On the basis of the investigation covering 280 primary producers, we will be able to focus our purchases more in areas with the lowest water risk. Purchases from the most problematic area, Petorca, Chile, were terminated.

Results of amfori BSCI audits

In 2018, a total of 190 (2017: 157) of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 135 (2017: 146) suppliers' factories or plantations underwent amfori BSCI follow-up audits.

The results of the 2018 amfori BSCI audits of Kesko's suppliers' factories and farms are shown on page 38. The majority of the deficiencies occurred in observance of working time regulations, management practices, and matters related to salaries. Corrective actions and monitoring are included in the audit process.

In accordance with the amfori BSCI operating model, a full audit is conducted at factories every two years to assess every field of the auditing protocol. If a factory receives an audit result of C, D or E, a follow-up audit within 12 months must be arranged to assess the deficiencies identified in the full audit and the corrective measures implemented.

Kesko does not terminate co-operation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2018, we were obligated to terminate cooperation with 14 factories because a consensus could not be reached with the factories regarding necessary corrective measures.

Suppliers' responsibility training sessions

In 2018, as part of ICA Global Sourcing (IGS) purchase collaboration, Kesko and IGS organised responsibility training targeted to shoe suppliers in Shanghai, China. The training session discussed Kesko's social responsibility requirements to suppliers, the factory auditing process and the product quality and safety requirements. A total of 16 shoe suppliers took part in the training.

In 2018, 16 suppliers of Kesko took part in responsibility trainings targeted to suppliers organised by amfori BSCI. The topics in the amfori BSCI trainings included the auditing process, responsible recruitment, occupational health and safety, working hours and remuneration as well as participation and protection of employees.

Bangladesh Accord

[Kesko joined the Bangladesh Accord](#) agreement in 2018. The purpose of the Accord – Accord on Fire and Building Safety in Bangladesh – agreement is to improve electric, fire and building safety in ready-made garment factories in Bangladesh through inspection, training and corrective measures. In 2018, all 7 ready-made garment factories in Bangladesh producing for K-Citymarket's mywear brand were included in the Accord process.

Fairtrade premiums to develop local communities

Kesko's grocery trade has had an extensive collaboration agreement with Fairtrade Finland for 20 years. In 2018,

Kesko's grocery business selections included 322 (2017: 300) Fairtrade products, 23 of which were Pirkka products (2017: 37) and 4 were Kespro's Menu products (2017: 4).

In 2018, a total Fairtrade premium of €915,909 for social development projects was generated by products sold by Kesko's grocery trade (2017: €719,225). The products generating the largest Fairtrade premiums were Fairtrade flowers, coffee and bananas.

The most popular Fairtrade products in K-food stores are flowers, and the most popular Fairtrade product in Finland is the Pirkka Fairtrade rose. In 2008–2018, a total of more than €2 million was generated as Fairtrade premiums for social development projects in local communities from Fairtrade flowers sold by K-food stores. The Fairtrade premiums have been used for the renovation and extension of a school and a day care centre and for purchasing kitchen accessories such as kitchen stoves in the local communities.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Own brand products with responsibility labelling

OBJECTIVE	PROGRESS IN 2018		
We offer an extensive selection of own brand products with responsibility labelling.	Grocery trade's Pirkka range: <ul style="list-style-type: none"> • 286 Hyvää Suomesta - Produce of Finland products • 153 Key Flag symbol products • 123 Organic products • 111 Seed leaf label products • 86 Nordic Swan label products • 23 Fairtrade products • 48 UTZ-certified products • 40 MSC-certified fish products • 4 ASC-certified fish products • 5 Finnish Allergy label products • 3 EU Ecolabel products 	Kespro's Menu range: <ul style="list-style-type: none"> • 12 Hyvää Suomesta - Produce of Finland products • 27 Key Flag symbol products • 8 Organic products • 21 Seed leaf label products • 20 Nordic Swan label products • 4 Fairtrade products • 10 UTZ-certified products • 25 MSC-certified fish products • 3 ASC-certified fish products • 1 Finnish Allergy Label products 	Building and technical trade's Cello range: <ul style="list-style-type: none"> • 1,006 Key Flag symbol products • 30 Nordic Swan label products • 262 Finnish Allergy Label products • 63 M1 label products

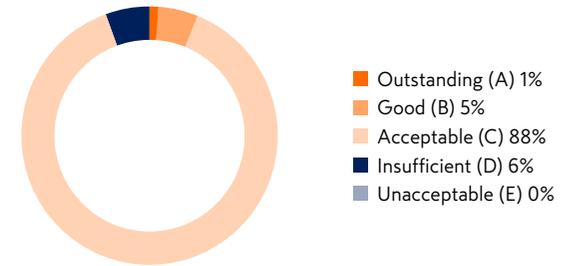
amfori BSCI audit results by area in 2018

Full audits	Outstanding	Good	Acceptable	Insufficient	Unacceptable
Social Management System and Cascade Effect	● 3%	● 4%	● 17%	● 74%	● 2%
Workers' Involvement and Protection	● 39%	● 36%	● 23%	● 2%	● 0%
The Rights of Freedom of Association and Collective Bargaining	● 98%	● 2%	● 0%	● 0%	● 0%
No Discrimination	● 87%	● 9%	● 4%	● 0%	● 0%
Fair Remuneration	● 26%	● 59%	● 14%	● 1%	● 0%
Decent Working Hours	● 12%	● 0%	● 9%	● 77%	● 2%
Occupational Health and Safety	● 61%	● 27%	● 2%	● 8%	● 2%
No Child Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Special Protection of Young Workers	● 97%	● 1%	● 1%	● 0%	● 1%
No Precarious Employment	● 92%	● 7%	● 1%	● 0%	● 0%
No Bonded Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Protection of the Environment	● 64%	● 22%	● 12%	● 2%	● 0%
Ethical Business Behaviour	● 79%	● 18%	● 1%	● 1%	● 1%

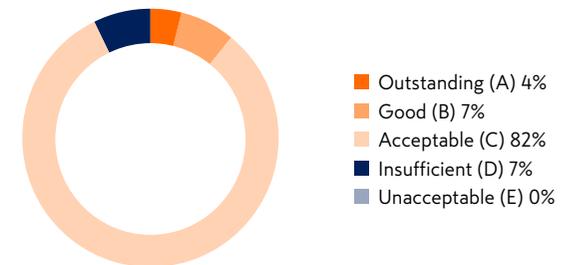
Follow-up audits	Outstanding	Good	Acceptable	Insufficient	Unacceptable
Social Management System and Cascade Effect	● 1%	● 8%	● 11%	● 78%	● 2%
Workers' Involvement and Protection	● 57%	● 28%	● 13%	● 1%	● 1%
The Rights of Freedom of Association and Collective Bargaining	● 100%	● 0%	● 0%	● 0%	● 0%
No Discrimination	● 87%	● 9%	● 3%	● 1%	● 0%
Fair Remuneration	● 28%	● 47%	● 23%	● 1%	● 1%
Decent Working Hours	● 14%	● 6%	● 0%	● 76%	● 4%
Occupational Health and Safety	● 66%	● 26%	● 1%	● 5%	● 2%
No Child Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Special Protection of Young Workers	● 99%	● 0%	● 1%	● 0%	● 0%
No Precarious Employment	● 97%	● 3%	● 0%	● 0%	● 0%
No Bonded Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Protection of the Environment	● 73%	● 15%	● 11%	● 1%	● 0%
Ethical Business Behaviour	● 87%	● 8%	● 3%	● 1%	● 1%

A Outstanding B Good C Acceptable D Insufficient E Unacceptable

amfori BSCI audit results in 2018, full audits



amfori BSCI audit results in 2018, follow-up audits



If the supplier underwent more than one amfori BSCI audit during 2018, the results of the latest audit only are presented.

Plan and K Group's collaboration in Thailand ended with excellent results

The four-year collaboration enabled the children of migrant workers to enter local schools and developed working conditions at Thai fishing factories.

The 2015-2018 collaboration between Plan and K Group aimed at improving the working conditions of Cambodian migrant workers in Thailand's fishing industry and enabling their children to go to school.

The collaboration was part of a larger project, SEAS of Change, funded by the Swedish International Development Cooperation Agency (SIDA) in Thailand and Cambodia.

More than 1,100 migrant workers' children educated in learning centres

An important part of the work was providing advice to Cambodian families before they decided to move to Thailand. Between 2015 and 2018, Plan and K Group and their partners provided support to some 6,000 members of migrant families in Thailand and some 3,500 in Cambodia.

Special learning centres established at the beginning of the project have provided education to 1,143 children (593 girls and 550 boys) between the ages of 4 and 17. The children have been taught the local language and other skills that enable them to move on to study at public schools in Thailand. As a result, 283 children (113 girls and 170 boys) have transitioned to public schools.

K Group entered the collaboration because it wanted to promote the responsibility of its Pirkka fish and shellfish products and know the whole supply chain all the way to the fishing communities.

amfori BSCI training for suppliers as part of the collaboration

As part of the collaboration, K Group and Plan also organised social responsibility training for suppliers, to help the suppliers understand what social responsibility audits like amfori BSCI are about, and how the audits can help improve operations in the suppliers' factories and working conditions for their staff.

The general training covered the amfori BSCI Code of Conduct, UN and ILO human rights and labour conventions, and the Thailand national labour protection legislation. The in-depth training gave the suppliers tools for their own promotion and supervision of social issues. Over the course of 4 years, 34 suppliers were given training.

1,143
children attended the learning centres

283
children transitioned to Thai schools

52%
of the children in the learning centres are girls

34
suppliers were trained on social responsibility

2
training events on human rights and labour conventions

1
advanced training on how to promote social responsibility



We care for the health and safety of our customers

416

The activities of our Product Research include assessing the impacts of products on health and safety. Manufacturers of our own brand food products must have international certifications that assure product safety. The standards we approve include: BRC, IFS, FSSC 22000 and GlobalGAP. In 2018, the total number of certified suppliers was 553 (2017: 581). This number also includes old audits conducted according to our own audit guidelines.

A total of 7,678 product samples were analysed (7,350 in 2017). Most of them were related to the product development of own brands. A total of 2,300 own control samples were analysed (2017: 2,395).

As proposed in [The EC White Paper](#) on Nutrition, Overweight and Obesity-related Health Issues, sugar, saturated fat and salt were reduced in more than 150 Pirkka products during the period 2007–2013. The health

aspects of new Pirkka products are taken into account at the product development stage. The National Nutrition Council of Finland published its nutrition commitment operating model in June 2017. The nutrition commitment is the Finnish contribution to the EU [Roadmap for Action on Food Product Improvement](#) framework's reformulation programme.

In August 2017, we joined the [nutrition commitment](#) by making a vegetable commitment, which encourages our customers to increase their use of vegetables through the following actions, which extend to the year 2020:

- We set a target that by 2020, at least 400 K-food stores will have dedicated 'veggie shelves' for vegetable protein products. In August 2017, some 200 K-food stores had a veggie shelf. At the end of 2018, a veggie shelf was already in approximately 400 K-food stores.
- We will organise at least 250 vegetable-related campaigns at K-food stores each year (2018–2020). In 2018, we organised 270 vegetable campaigns with more than 1,200 vegetable products.
- We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2018, we added 42 new fruit and vegetable products to our selections.

We take measures against food frauds in accordance with the VACCP plan (Vulnerability Assessment and Critical Control Points). The VACCP plan contains an assessment of the probability of encountering food frauds and a monitoring plan to protect us against such frauds. Product groups identified as critical control points are subjected to normal product and supplier controls but also regular analytic monitoring to detect any frauds.

In 2018, we made 178 (2017: 140) product recalls in the grocery trade. Forty-six of these recalls concerned our own brand products (2017: 33). In other cases, our Product Research Unit assisted the product manufacturers in the recall. If a defect or error in a product might have health impacts, a public recall is carried out. In 2018, this happened twice for our own brand products (2017: 4).

In the building and technical trade, we made two recalls in K-Rauta in 2018 (2017: 2) and two in Onninen (2017: 3).

A vehicle manufacturer must launch a recall campaign if a serious error or deviation that needs repairing is detected in one of their models or a part thereof. A serious error or deviation is one that poses a hazard to road safety or significant harm to the environment or health. As a rule, this kind of a fault or defect would result in a rejection in a vehicle inspection.

In 2018, a total of 48 recall campaigns were launched for brands represented by K-Auto (Volkswagen passenger cars and utility vehicles, Audi, SEAT, Porsche and MAN).

In 2018, there were no legal proceedings or fines associated with product safety or health in Kesko.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Product safety

OBJECTIVE

The product safety of K Group's selections is verified.

PROGRESS IN 2018

The Product Research laboratory and test kitchen analysed a total of 7,678 product samples. 522 suppliers of Kesko's own brands of food products have international audit certifications that assure product safety.

Marketing communication and product information

Package labelling helps consumers in making responsible choices

417-1

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

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

We indicate the name and location of the manufacturer on all Finnish Pirkka products and on all K-Menu products. On foreign Pirkka products, we indicate the name of the country of manufacture. On all own brand products of K-Citymarket and Kesko's building and technical trade, we indicate the country of origin.

We disclose the country of origin of meat in accordance with regulation [EU No 1337/2013](#). We label meat and dairy as ingredients in accordance with the national decree [MMM 218/2017](#).

In addition to statutory package labelling, we add voluntary labelling to inform the consumer of matters related to product responsibility. Such labelling may include organic labels and ecolabelling, as well as labelling indicating social responsibility.

We add material symbols on the packaging of own brand products of Kesko's grocery trade. These symbols help and guide consumers to recycle packaging materials.

We add warning labelling of chemicals that are hazardous to the environment in accordance with the CLP regulation.

If a product has faulty labelling, we will withdraw it from sales

417-2

In 2018, there were 8 product recalls of Kesko's own brand products resulting from defective product labelling (2017: 9).

In 2018, Kesko Senukai Latvia was given a fine of €280 for shortcomings in the chemical information in product labelling.

We observe good marketing manners

417-3

In 2018, no advertisements of Kesko or its subsidiaries were subject to processing by The Council of Ethics in Advertising, and there were no breaches of legislation or voluntary principles to be reported.



Responsible sales of alcohol and tobacco

The Finnish law allows us to sell alcohol drinks with a maximum of 5.5% alcohol by volume and tobacco products. The sales require a store-specific licence. The law prohibits selling these products to people under 18 years of age.

We verify the age of all customers who purchase alcohol or tobacco and appear younger than 30. This way, we can ensure that we do not sell alcohol or tobacco to minors. In 2018, our cashiers verified the customer's age in 2,008,876 cases of alcohol purchase and in 1,152,770 cases of tobacco purchase. Based on these verifications, we had to decline 14,760 alcohol purchases and 10,808 tobacco purchases.

Our cashiers must participate in training on age limits and take a test on the topic. The age limit training consists of basic information on age limits for sales and descriptions and rehearsals of various situations. After passing the final test, the cashier earns a certificate called an 'age limit passport'.

Environment

We are committed to international climate summit goals regarding the mitigation of global warming. We promote the sustainable use of natural resources throughout our supply chains.

We have set ambitious emission targets for our operations and supply chain. We will reduce emissions through the use of renewable energy, energy-efficiency at the stores, and efficient logistics.

We will reduce the use of plastics and promote plastics recycling. We create operating models that prevent plastics from ending up in water bodies and elsewhere in nature.

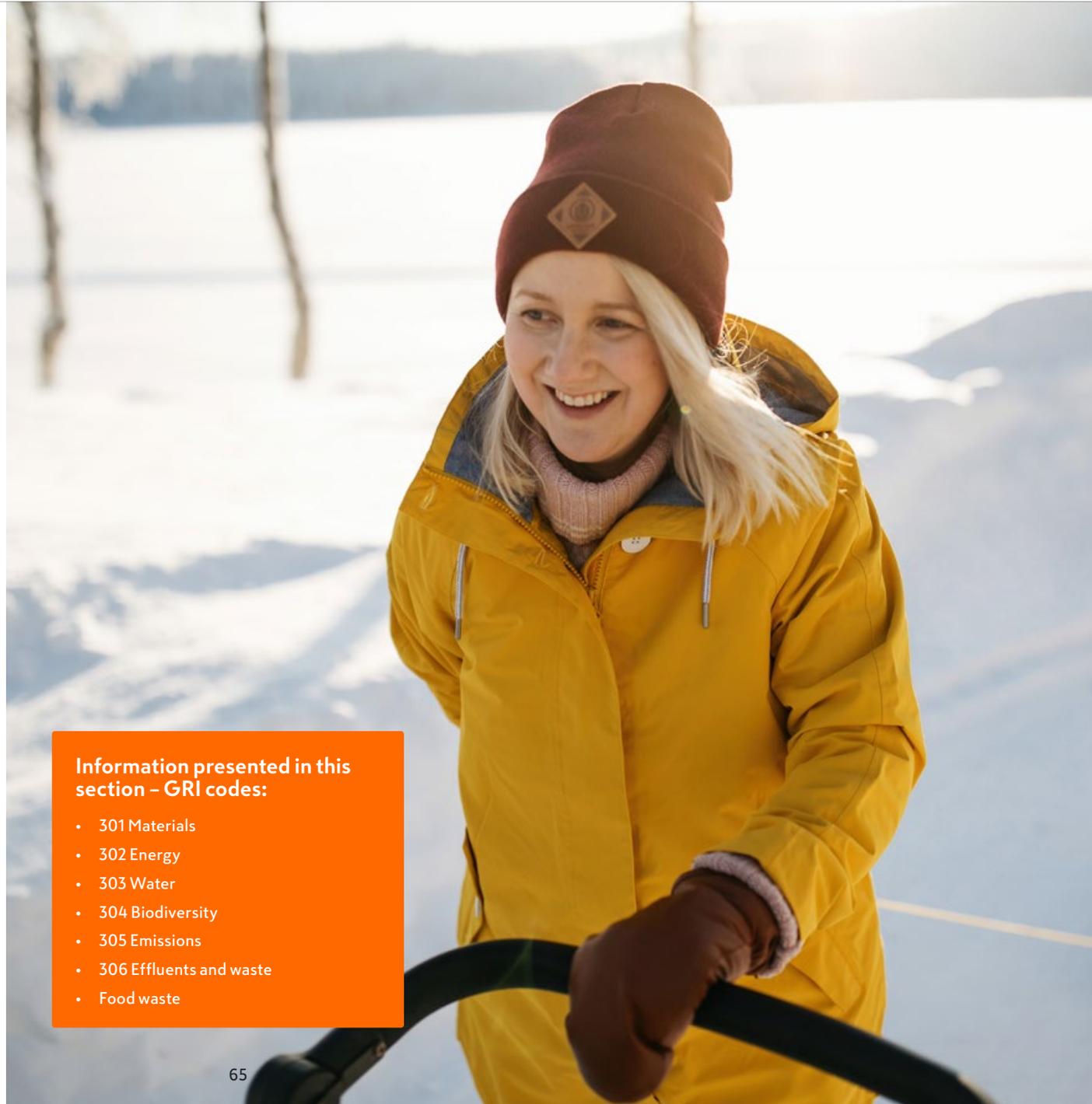
We reduce food waste in our stores and utilise inevitable organic waste. We help our customers reduce their environmental impact.

We promote the following UN Sustainable Development Goals:



Information presented in this section – GRI codes:

- 301 Materials
- 302 Energy
- 303 Water
- 304 Biodiversity
- 305 Emissions
- 306 Effluents and waste
- Food waste



We mitigate climate change

We participate in mitigating climate change by increasing renewable energy purchases and own production and increasing energy efficiency. We aim to achieve a 10% increase in energy efficiency by 2023.

Read [more about the impacts of climate change on Kesko's operations](#).

Renewable electricity

302-1

All electricity purchased by Kesko for use in K-stores and other Kesko properties has been produced with renewable energy since the beginning of 2017.

In 2018, we purchased 580 GWh of renewable electricity based on hydropower (58%) and bioenergy (42%) with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries. About 493 GWh of the renewable energy was delivered by Kesko. The rest of the renewable energy was purchased elsewhere by K-retailers but it was used by Kesko.

Total energy consumption

In 2018, our energy consumption in all operating countries totalled 4,051 TJ (including properties and logistics).

Energy consumption of properties in Finland

At the end of 2018, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and 1,233 store sites. In terms of energy consumption, the most significant properties include K-Citymarkets, K-Supermarkets and large wholesale and storage buildings.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Renewable energy

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We will purchase 100% renewable electricity in Finland.	In 2018, we purchased 580 GWh of renewable electricity based on hydropower and bioenergy with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries.	
We will increase the production of solar power for our own use.	At the end of 2018, 27 solar power plants had been installed on the rooftops of commercial properties managed by Kesko. A total of 4.1 GWh of electricity was produced with solar power for own use in K-food stores. At the end of 2018, the annual electricity production capacity of our solar power plants was approximately 8 GWh.	In spring 2019, four new solar power plants will be taken into use.

The majority of properties used district heat, but in addition 2.5% of the heat energy was produced by fuels. In 2018, the heat energy self-produced with natural gas and oil at properties in Finland totalled 30.5 TJ (8,483 MWh).

Calculation methods and electricity and heating consumption statistics by property type as well as changes in properties in Finland are available in the [Energy consumption tracking](#) and [Environmental profile](#) reports.

Energy consumption in properties in other operating countries

The heat energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (671 MWh) and peat (136 MWh) were also used for heating. In 2018, the fuels used for self-produced heat and electricity totalled 70 TJ (19,481 MWh).

Subsidiaries outside of Finland report their fuel and purchased energy consumptions to Kesko and statistics per country are compiled from this data. The heat energy data is not reported for some properties (10 properties in Sweden and Latvia), because it is included in the lease or data is not available.

Energy consumption of properties

Finland	2018	2017
Electricity ¹ (MWh)	493,347	504,459
District heat (MWh)	328,842	323,461
Fuel for self-produced heat (MWh)	8,483	10,978
Total energy consumption (MWh)	830,672	838,898
Total energy consumption (TJ)	2,990	3,020

Other operating countries ²	2018	2017
Electricity (MWh)	71,392	80,186
District heat (MWh)	16,862	17,719
Fuel for self-produced electricity (MWh)	0	4,055
Fuel for self-produced heat (MWh)	19,481	32,247
Total energy consumption (MWh)	107,735	134,207
Total energy consumption (TJ)	388	483

All operating countries	2018	2017
Total energy consumption (MWh)	938,407	973,105
Total energy consumption (TJ)	3,378	3,503

¹ Includes only electricity, which is delivered by Kesko, and which is used in Kesko properties and also in K-stores where K-retailers buy the electricity from Kesko

² The 2018 data excludes Russia

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2018:

- Renewable: 2,374 TJ (68%)
- Nuclear power: 46 TJ (1%)
- Non-renewable: 1,052 TJ (31%)

Fuel consumption

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 667 TJ in 2018 (2017: 645 TJ). The fuel used was diesel. In 2018, the total distance driven by Kesko Logistics was 42.7 million km (2017: 41.6 million km).

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

Other countries have mostly outsourced logistics operations. In 2018, the logistics in Sweden, Poland and Estonia consumed 5.7 TJ of fuel (diesel and gas).

A total of 771 TJ of fuels from non-renewable sources were used for transportation as well as self-produced heat and electricity of properties. In addition, 2.4 TJ of renewable fuels were consumed.

Energy intensity

302-3

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

The calculation methods for the properties in Finland are available in the [Energy consumption tracking report](#).

Specific consumptions of energy, properties managed by Kesko

kWh/br-m ²	2018	2017
Specific consumption of electricity	210	214
Specific consumption of district heat	88	86

More efficient use of energy

302-4

We participate in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement. In accordance with the agreement, we commit ourselves to making energy saving measures with the amount equivalent to 7.5% of 2015 energy consumption amount. All K Group store chains in Finland are included in the agreement.

The target of our energy strategy is to achieve a 10% increase in energy efficiency by 2023, for example, by renewing refrigeration systems and lighting.

Joint use and reuse of pallets

Reusable pallets are used in our stores for the transportation of fresh products. IFCO RPCs enable us to actively protect the environment and promote a more sustainable supply chain of fresh products. In 2018, a total of 721,306 reusable IFCO containers were transported through us. In 2018, our energy saving compared to single-use packages amounted to 16,050 GJ.

Energy savings through work clothing service

In 2018, the work clothing service of Kesko Logistics, Onninen and Kesko car trade saved, compared to washing in households (calculated based on 15,000 pieces of clothing), approximately 24,240 kWh of energy and approximately 765,000 l of water.

With Lindström's industrial towel service, in the course of the year approximately 4,000 kg of hazardous waste was extracted from wiper cloths and absorption mats that came from Kesko's car trade units. The hazardous waste extracted from the cloths is shipped through Ekokem to be reused as energy.

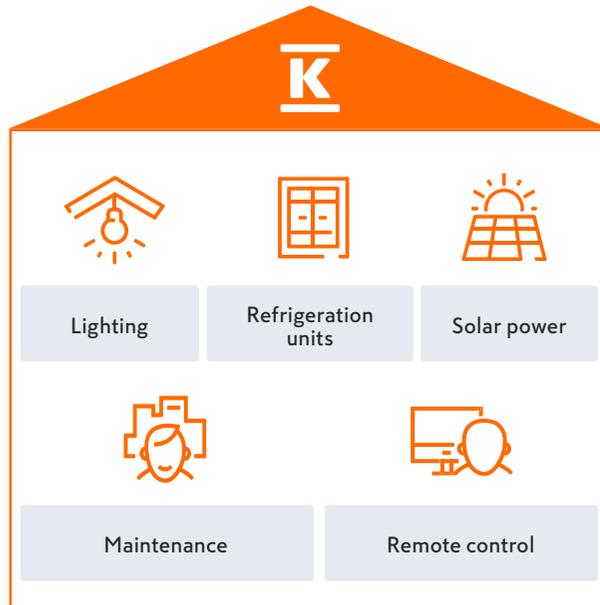


PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Energy efficiency in stores

OBJECTIVE	PROGRESS IN 2018
During the agreement period 2017–2025: We commit ourselves to making energy saving measures with the amount equivalent to 7.5% of 2015 energy consumption amount.	Up to this point, installed solar energy and the reported actions will allow annual energy savings of 28.7 GWh, which is 36% of the target for 2025. Calculation includes electricity, heating, fuels and district cooling.

Energy solutions in K-stores



1. Lighting

LED lights are used in all lighting solutions of property development projects. Adjustable, correctly directed LED-lighting can help save up to 60% of electricity consumed compared to traditional fluorescent tube and metal halide lighting solutions. Switching to LED lighting will reduce the electricity consumption of lighting by approximately 40 KWh/m², resulting in annual savings of approximately €5,000 to €50,000 a year, depending on the size of the store.

2. Renewing the refrigeration system

In food stores, the consumption of refrigeration systems can account for more than half of the total electricity

consumption at small store sites. Condensation heat from refrigeration units is recovered at nearly all K-food stores, which means that additional heat energy is needed only during very low sub-zero temperatures. Heat pumps are, whenever possible, utilised with condensation energy.

In nearly 200 K-food stores, carbon dioxide recovered from industrial processes is used as the refrigerant in their refrigeration units. Carbon dioxide is an environmentally friendly refrigerant.

Old systems, which use R404A as refrigerant, will be converted into energy efficient, environmentally friendly carbon dioxide based systems by 2030.

3. Solar power

Solar power is an excellent energy source to provide electricity for stores, since the electricity consumption of food stores is greatest during the summer, when the stores and their refrigeration equipment require a lot of electricity for cooling.

The solar panels installed on rooftops of K-food stores cover around 10-15% of the stores' annual electricity consumption. On a sunny summer day, solar power can cover as much as 60% of the food store's current consumption. The life cycle of a solar power plant is as long as 35 years.

At the end of 2018, 27 solar power plants had been installed on the rooftops of commercial properties managed by Kesko. A total of 4.1 GWh of electricity was produced with solar power for own use in K-food stores. At the end of 2018, the annual electricity production capacity of our solar power plants was approximately 8 GWh.

We will continue to invest in solar power in 2019: four new solar power plants are under construction and will be taken into use during spring 2019. After the introduction of these solar power plants, the total power of our solar power plants will amount to approximately 11.3 MWp, and the estimated annual production will be approximately 9.6 GWh.

4. Maintenance process

Real Estate Managers help K-stores in making energy consumption more efficient and with long-term planning. Renovation programmes contain estimates of the refurbishment that should be made within 5 to 10 years.

The task of Energy Managers who support Real Estate Managers is to carry out consumption comparison surveys and to investigate the reasons for deviations in consumption, and to make energy efficiency investment proposals and project plans. Energy Managers report the impact of the energy saving measures taken.

5. Remote monitoring

The set points of properties can be changed from the remote management centre as required, which also enables rapid response to disturbances. Setting the correct running times and set points is the easiest and most effective way to improve energy efficiency.

At the end of 2018, 276 sites with significant energy consumption were connected to the remote monitoring centre. An expert at the monitoring centre supports maintenance personnel in technical matters around the clock.

Water

We monitor water consumption and its impact

303-1

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

Our objective is to identify the water basins most affected by water scarcity or contamination issues in our supply chain. The results will be used to plan actions. In 2018, [we conducted an extensive survey on the water risks related to our own avocado purchases](#). Read more at 304-2.

Properties managed by Kesko use water from municipal water supplies in all operating countries. In addition, a few wells are in use on properties in Estonia, Lithuania and Belarus. However, water from these wells accounts for only a minor portion (2.6%) of total water consumption and is thus reported with the municipal water consumption. Waste water from Kesko's operations goes to municipal sewer systems.

Water consumption by country

m ³	2018	2017
Finland	1,055,406	977,989
Sweden	8,369	6,777
Norway	5,888	144
Estonia	9,001	7,421
Latvia	10,714	9,210
Lithuania	44,839	39,780
Poland	4,476	4,754
Belarus	54,570	51,047
Total	1,193,263	1,127,137

In 2018, water consumption increased in Finland especially in the following property groups: K-Citymarkets, K-Supermarkets, Neste K service stations and office and warehouse buildings. Water consumption statistics by property type and changes in the property portfolio in Finland are available in the [Energy consumption tracking report](#).

The water consumption data from other countries is compiled from figures reported by the companies, which are based on water billing or consumption data. At some properties located in leased premises, water consumption is included in the lease and data is not available for reporting (36 properties in Sweden, Norway and Latvia).



We promote sustainable use of natural resources

304-2

We identify biodiversity impacts and opportunities in our operations. The objective is to reduce adverse biodiversity impacts in the supply chain and to take part in projects that promote biodiversity in co-operation with other operators.

Supply chain

Our greatest impacts on biodiversity occur throughout the life cycle of the products on sale. Raw materials critical to biodiversity in Kesko's supply chain include fish and shellfish, timber, palm oil, and soy. Their sustainable sourcing is guided by sustainability policies.

In 2018, we conducted an extensive survey on the water risks related to our own avocado purchases. The aim of the survey was to identify the areas in the supply chain which have problems related to scarcity or contamination of water.

It takes as much as 400 to 2,000 litres of water to grow one kilo of avocados. Therefore, the water footprint of avocado farming is significant. As part of the risk assessment, we used WWF's water risk tool to individually examine all the 280 primary producers around the world from which Kesko purchases avocados for K-food stores. Among other things, the assessment showed us that water risks may vary considerably within a country or a region.

On the basis of the survey, we will increasingly put emphasis on purchases from areas with the least water risks. Purchases from the most problematic area, Petorca, Chile, were terminated in 2018.

All avocados purchased by Kesko are GlobalGAP certified. The environmental requirements of GlobalGAP certification include a requirement on good water use.

Evaluation of suppliers' environmental responsibility

We are a member of amfori, an organisation that promotes sustainable business, and therefore recommend an amfori BEPI evaluation for evaluating the environmental responsibility of suppliers from high-risk countries. At the end of 2018, 21 of our suppliers in high-risk countries participated in the BEPI process. Our goal is to have 30 suppliers in high-risk countries in the BEPI process by the end of 2019.

K-Kampus goes Green Office

In autumn 2018, we joined the WWF Green Office network and will build a Green Office compliant environmental system in our new headquarters at K-Kampus. K Group's Green Office payments support WWF Finland in its efforts to protect the Baltic Sea.

We restore habitats

304-3

K Fishpaths

In 2017, we began a multi-year collaboration extending to 2021 with the environmental organisation WWF Finland to save endangered migratory fish populations. With the **K Fishpaths** collaboration we aim to remove barriers and create spawning grounds in a spirit of co-operation with local operators, landowners, local K-retailers and volunteers.

Store sites

We build store sites only in areas planned by municipalities for business properties. Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2018, Kesko did not have any sites for restoration in Finland.

Kesko does not have any protected habitats of its own.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Biodiversity

OBJECTIVE

K Fishpaths collaboration with WWF Finland: We will remove at least 50 barriers preventing endangered migratory fish from swimming upstream and create at least 100 spawning grounds in Finland between 2017 and 2021. We will increase awareness of the endangered nature of migratory fish and arrange volunteer events.

PROGRESS IN 2018

During the second season of K Fishpaths collaboration, we concentrated especially on improving the spawning grounds and habitat for trout. We built more than 100 gravel grounds for spawning and opened 3 barriers, freeing as much as an additional 30 km of new spawning grounds and habitat formerly inaccessible to fish. A total of approximately 280 volunteers and 18 local K-retailers participated in the work organised at 8 locations. The trout were observed to have returned to the areas restored during the first season.

Emissions

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

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

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

305-1 305-2

Scope 1

In 2018, the Scope 1 emissions of Kesko in Finland increased due to the increased total kilometres driven for transportation of goods by Kesko Logistics.

Emissions from logistics in the other operating countries were reported for Sweden, Poland and Estonia. Most of the logistics in the other operating countries are outsourced.

The transportation of goods for Kesko's grocery trade in Finland is managed by Kesko Logistics. The logistics' emissions from its own transportation and from those under its direct control were calculated based on data including kilometres driven, volumetric efficiencies and the transportation fleet. The calculation was made according to [the Lipasto calculation system of the VTT Technical Research Centre of Finland](#). The emissions for logistics

Scope 1 and 2 GHG emissions

Tonnes CO ₂ -eq	2018	2017
Direct (Scope 1)	45,139	48,219
Finland	40,679	38,506
logistics (Kesko Logistics)	38,634	35,801
self-produced heat (natural gas and oil)	2,045	2,705
Other operating countries	4,460	9,713
logistics (Sweden, Poland and Estonia)	386	1,870
self-produced heat and electricity (natural gas, oil, peat and timber ¹)	4,074	7,843
Indirect (Scope 2)	80,822	82,421
Finland	60,232	55,004
purchased electricity (market-based)	0	0
purchased electricity (location-based) ²	80,909	91,224
purchased district heat (location-based)	60,232	55,004
Other operating countries	20,590	27,417
purchased electricity (location-based)	17,084	22,803
purchased district heat (location-based)	3,506	4,614
Total	125,961	130,640
Finland, Scope 1 and 2 total	100,911	93,510
Other operating countries, Scope 1 and 2 total	25,050	37,130

¹ The biogenous CO₂ emission figure of the timber used for heating one facility in Belarus is reported in Scope 1, because its proportion of the total fuel quantity is insignificant (671 MWh).

² Following the GHG Protocol standard, the location-based emission figure for electricity consumption in Finland has been reported. The market-based figure is used for the emissions totals.

operations in other countries were calculated based on fuel consumption.

Scope 2

In 2018, Kesko purchased for use in all K-stores and other Kesko properties in Finland, 580 GWh of renewable electricity based on hydropower (58%) and bioenergy

(42%) with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries. Read more [at Energy](#).

The calculation principles and more detailed calculations for Scope 1 and 2 emissions attributed to properties managed by Kesko can be found in the [Environmental profile for Finland](#) and the [Other operating countries](#) reports.

Other indirect (Scope 3) GHG emissions

305-3

Tonnes CO ₂ -eq	2018	2017
Upstream		
Purchased goods and services	7,300,300	7,698,000
Capital goods (buildings)	29,600	33,500
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	30,200	30,900
Transport and distribution of goods	6,500	14,400
Waste	11,600	10,300
Business travel	3,500	3,100
Employee commuting	18,100	20,800
Downstream		
Customer commuting (shopping trips)	149,100	164,900
Use of sold products	1,993,400	1,771,000
End-of-life treatment of sold products	45,400	38,600
Franchises (retailer entrepreneurs)	92,900	102,700

The greatest other indirect emissions of Kesko are caused in the supply chain of the products for sale (75%), in the use phase of the products (21%) and by the shopping commutes of customers (2%).

The Scope 3 calculation principles can be found in the [Kesko Scope 3 Report](#).

GHG emissions intensity

305-4

The Scope 1 and 2 greenhouse gas emissions intensity is calculated based on net sales (€10,383 million in 2018), and the average number of employees (19,995 in 2018).

	2018	2017
Based on net sales (tonnes CO ₂ e / € million)	12.1	12.2
Based on average number of employees (tonnes CO ₂ e / person)	6.3	5.9

Aim to reduce GHG emissions

305-5

Science Based Targets

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

Kesko aims to achieve the ambitious emission goals by increasing the use of renewable energy and by improving energy efficiency.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

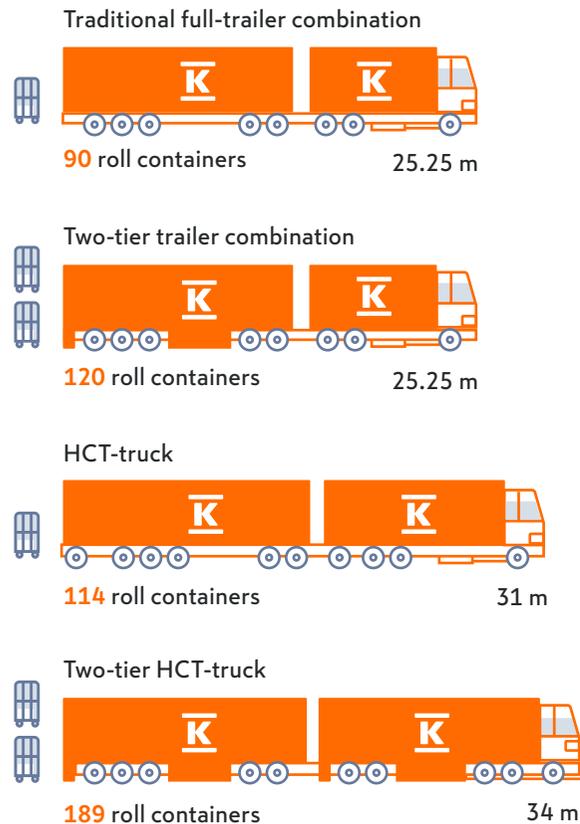
Science Based Targets

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We commit to reduce our direct and indirect (Scope 1 and 2) emissions 18% by 2025 from base year 2015.	Scope 1 and 2 emissions increased by 12% from base year 2015, due to the acquisitions of Suomen Lähikauppa and Onninen in 2016.	We aim to systematically reduce Scope 1 and 2 emissions.
In addition, we are committed to reduce our supply chain emissions (Scope 3) so that 90% of Kesko's key suppliers will set their own GHG emissions reduction targets by 2025.	Out of Kesko's key suppliers of 2018, 30% had set their own emission reduction targets.	

Logistics

The target of Kesko Logistics is to reduce emissions relative to the net sales index by 10% during 2012–2020 from the 2011 base year. By the end of 2018, the relative emissions had decreased by 16.8% from the base level. In 2018, the relative emissions decreased by 0.7% in comparison to 2017. However, the absolute emissions increased slightly due to the increase in kilometres driven by logistics.

Efficient logistics fleet



The 2018 emissions were calculated using the emission rates of EURO 5 engines.

We reduce the emissions of Kesko Logistics through long-term work:

- Efficiency of logistics: centralised distribution, optimisation of delivery routes and high volumetric efficiency
- Efficient reverse logistics: collection of purchase loads, carrier trays, pallets, roll containers, cardboard and recycled bottles and cans on the return route
- Economical driving courses: all of Kesko Logistics' more than 500 contract drivers have been trained
- New replacements in the vehicle fleet

Scope 3 emission reductions

Products for sale

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

Environmental impacts of food choices

By reducing the amount of animal-based products and household food waste consumers can reduce the environmental impact of their food consumption.

The number of plant-based Pirkka products increased by 41 new products in 2018 and the selection now numbers over 170.

Our selection includes three products which reduce the environmental burden on the Baltic Sea, two kinds of Pirkka archipelago fish patties made from Baltic Sea bream and Pirkka Parhaat Benella rainbow trout farmed in Finland whose fodder is based on Baltic herring and sprat caught from the Baltic Sea as raw material.

Housing solutions

The building and technical trade offers consumers and business customers diverse product selections and expertise for improving the energy efficiency of building and renovation projects. K-Rauta stores provide a free renovation support channel for customers with advice for energy saving, and renovation and repair work.

Electric cars are gaining ground

Kesko's selection includes 11 plug-in hybrid car models (PHEV) and 3 electric cars. In addition, the selection includes 11 car models using natural gas or biogas as fuel. In 2018, the registrations of Volkswagen, Audi and Porsche plug-in hybrids in Finland increased 20.1% compared to 2017.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Logistics emissions

OBJECTIVE	PROGRESS IN 2018
We will reduce emissions of Kesko Logistics' transportations relative to the net sales index by 10% from the 2011 base year by 2020.	The relative emissions decreased by 16.8% from the level of 2011 base year. In 2018, the relative emissions decreased by 0.7% compared to 2017.

Customer shopping commutes

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

Kesko is building an extensive network of electric vehicle charging points adjacent to K Group stores in order to progress the electrification of cars. At the end of 2018, Kesko provided nearly 200 electric and hybrid K charging points adjacent to our stores.

In 2018, we launched a carsharing pilot in which passenger cars and vans were brought for lease to the yards of K-Supermarkets and K-Rauta stores.

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

Employee commuting

We want to support our employees to discover healthy, environmentally friendly ways of commuting. We encourage our personnel to try out alternative means of commuting (such as public transport, cycling, walking and running).

In 2018, we designed solutions for responsible commuting especially in view of the employees who will move to our

new office at K-Kampus. We paid attention to public transport connections, financial support for commuting and the availability of carsharing and bikesharing. K-Kampus will have a bicycle parking area, 10 shared bicycles for on-the-job errands as well as a drying room, showers and dressing rooms for employees to support mobility.

Business travel

At the end of 2018, Kesko had 508 company cars in use in Finland (2017: 668).

- 1 ethanol-fueled car (2017: 2)
- 281 petrol-fueled cars (2017: 329)
- 225 diesel-fueled cars (2017: 336)
- 1 natural gas car (2017: 1)

According to Kesko's company car policy, Kesko's company cars have an emission level below 150 g CO₂/km. The employees' pay share will be discounted by 10% of the tax value if the emission level of the company car is below 105 g CO₂/km. In 2018, the average emission level was 121 g CO₂/km (2017: 122 g CO₂/km). The emissions caused by company cars in Finland totalled 2,297 tonnes CO₂ (2017: 2,477 tonnes CO₂). This calculation also includes private use of company cars.

In 2018, the air miles of Kesko employees travelling for business totalled 9.8 million (2017: 9.8 million). Encouraging the use of virtual meetings is one of the ways Kesko endeavours to decrease the amount of air travel. The amount of virtual meetings increased by approximately 11% compared to 2017. In 2018, a total of 77,312 hours of virtual meetings were held (2017: 69,858 hours). At the

end of 2018, K Group had 18 video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 338 hours (2017: 1,494).

Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions

305-7

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2018 caused:

- NO_x emissions: 138 tonnes (2017: 134 tonnes)
- SO₂ emissions: 122 tonnes (2017: 119 tonnes)
- Tonnes of radioactive waste produced by nuclear power: 0 tonnes (2017: 0 tonnes)

The calculation principles and more detailed calculations are available in the [Environmental profile](#) report.

The particulate emissions in 2018 for Kesko's logistics in Finland were:

- NO_x emissions: 166 tonnes
- SO₂ emissions: 0.2 tonnes

We want to be a forerunner in circular economy solutions

Shifting to a circular economy requires increasingly efficient circulation of materials. We provide customers with diversified recycling services for waste and discarded items and develop innovative circular economy solutions in co-operation with other operators.

Stringent targets for the recycling, reduction and avoidance of plastic

In the plastics policy updated in October 2018, we implemented more stringent targets for the recycling, reduction and avoidance of plastic. By the end of 2025, we will reduce the amount of plastic in all packages of, and the packages will become recyclable. We will increase the amount of products and packages made of recyclable plastic in our own brands.

In 2018, we accelerated the reduction of plastic by setting the same price for plastic, paper and biodegradable bags in all K-food stores. We removed microbeads from our own brand detergent products.

To bear our responsibility as a retailer, we joined [The New Plastics Economy Global Commitment](#) in autumn 2018.

Read more [about our activities to reduce plastic](#).

Recycling points for customers in Finland

301-3

In December 2018, there were 405 (2017: 399) Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 193 (2017: 173) eco take-back points. Our aim is to introduce collection of plastic at

all Rinki eco take-back points adjacent to all other K-food stores by the end of 2022.

Since 2017, Pirkka ESSI circular economy bags have been made from plastic recycled by customers.

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

Kesko Logistics' centralised collection services

In 2018, cardboard and plastic bales were centrally directed by Kesko's grocery trade for industry reuse. Around 3,355 tonnes of cardboard (2017: 2,912) and 48 tonnes of plastic (2017: 54) were collected.

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

Packaging collected by Kesko Logistics in Finland for recovery and reuse

1,000 pcs	2018	2017
Aluminium cans	89,913	87,676
PET bottles	67,157	60,606
Recyclable glass bottles	12,267	12,305
Reusable crates	21,059	20,241

Circular economy agreement for stores in Finland

Since 2016, all our food as well as building and home improvement stores in Finland have had the opportunity to participate in the national centralised Circular Economy Agreement. The target is to increase the efficiency of recycling at our stores and advance the circular economy.

At the end of 2018, a total of 585 stores (2017: 426) participated in the Circular Economy Agreement. The recovery rate of the waste generated in these stores was 100% (2017: 100%) and the recycling rate was around 69% (2017: 67%).

From ham fat to biodiesel

In 2018, we took part for the third time in the Ham Trick campaign in which customers could take fat from roasting their Christmas hams to collection points at K-food stores for the production of renewable diesel. The collection was extended from K-Citymarkets to K-Supermarkets and K-Markets. A total of 185,000 households participated in the campaign.

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

	2018	2017
Deposit aluminium cans (million pcs)	387	374
Deposit recyclable plastic bottles (million pcs)	138	120
Deposit recyclable glass bottles (million pcs)	32	30
Batteries and accumulators (tonnes)	293	303
WEEE (tonnes)	152	68
Lead-acid accumulators, K-Rauta (tonnes)	0	0,8
Impregnated timber, K-Rauta (tonnes)	915	859
Used clothing, UFF recycling points (tonnes)	3,553	3,460

Waste for recovery

306-2

Our objective is to minimise and recover all waste from our operations.

Tonnes	2018	2017
Non-hazardous waste	29,812	36,401
Recycling/recovery	24,395	26,917
Landfill	5,417	9,484
Hazardous waste	1,563	1,404
Recycling/recovery	996	983
Hazardous waste treatment	567	421
Total	31,375	37,805

Waste recovery rates

The recovery rate includes all waste except waste to landfill. The type of waste treatment was determined by the waste management company.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Waste recovery

OBJECTIVE	PROGRESS IN 2018
Our objective is to minimise and recover all waste from our operations.	According to statistics, the recovery rate for waste management in Finland was nearly 100% and in the other operating countries it was 65% (includes hazardous waste treatment). The waste recovery rate for stores included in the circular economy agreement in Finland was 100%.

Waste: Finland, Sweden and Norway

Tonnes	Finland		Sweden		Norway	
	2018	2017	2018	2017	2018	2017
Non-hazardous waste	15,831	17,469	2,822	3,533	919	723
Recycling/recovery	15,820	17,467	2,598	3,182	895	723
Landfill	11	2	224	351	24	0
Hazardous waste	289	354	160	227	733	511
Recycling/recovery	177	258	3	7	517	494
Hazardous waste treatment	112	96	157	220	216	17
Total	16,119	17,823	2,982	3,760	1,652	1,234
Recovery rate %	99.93	99.99	92	91	99	100

The 2018 data excludes Konekesko Finland.

Waste: Estonia, Latvia and Lithuania

Tonnes	Estonia		Latvia		Lithuania	
	2018	2017	2018	2017	2018	2017
Non-hazardous waste	859	924	1,545	911	5,895	5,973
Recycling/recovery	793	834	193	171	2,966	2,657
Landfill	66	90	1,352	740	2,929	3,316
Hazardous waste	55	37	13	9	170	166
Recycling/recovery	4	1	0	0	155	125
Hazardous waste treatment	51	36	13	9	15	41
Total	914	961	1,558	920	6,065	6,139
Recovery rate %	93	91	13	20	52	46

Waste: Poland and Belarus

Tonnes	Poland		Belarus	
	2018	2017	2018	2017
Non-hazardous waste	413	404	1,528	1,494
Recycling/recovery	137	127	992	293
Landfill	276	277	536	1,201
Hazardous waste	18	17	125	82
Recycling/recovery	18	17	123	81
Hazardous waste treatment	0	0	2	1
Total	432	421	1,653	1,576
Recovery rate %	36	34	68	24

We reduce food waste

We reduce food waste through co-operation throughout the whole food chain, from primary production to the end user. Our objective is to reduce K Group's identified food waste by 13% from the 2016 level by 2021.

Food waste prevention

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

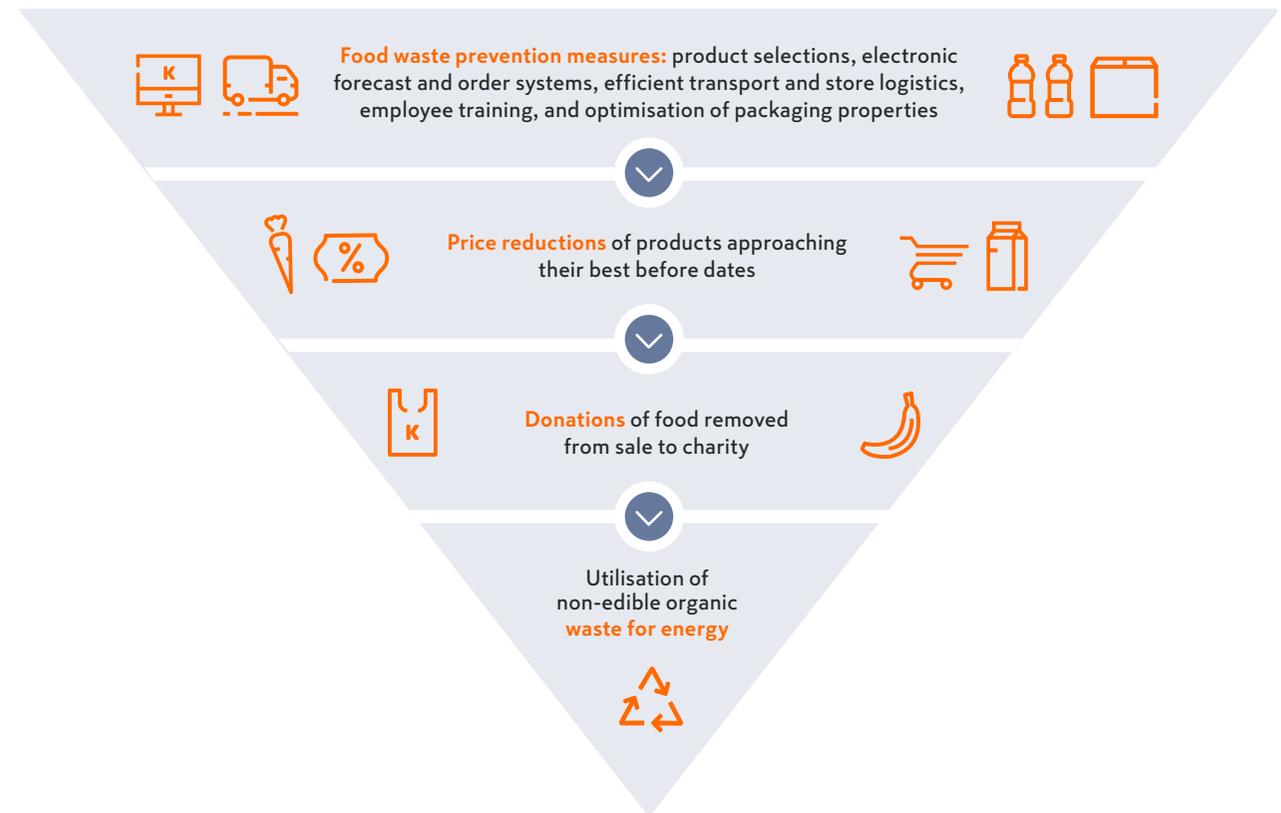
At the store

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

ResQ Club app to reduce food waste

With the ResQ Club waste food app, K-food stores can sell food products nearing their expiry dates to consumers. ResQ Club started cooperation with the first K-food stores in May 2018, and in December 2018 the ResQ Club waste food application was already in use at 71 K-food stores across Finland. This operating model reduces waste, and at the same time customers have the opportunity to buy food at reduced prices. In some of the K-food stores, which have

K Group food waste hierarchy



taken the application into use, they have managed to cut down food waste to about one sixth of what it used to be.

Food donations

Some 90% of K-food stores donate edible food products they no longer can sell to local charities, which then distribute the products as food aid to those in need. In

2018, the amount of food products donated to charities by K-food stores was 5% higher than the year before. Some food waste is also given to farms for animal feed.

Biogas from food waste

We co-operate with Gasum in producing biogas from inedible food waste collected from K-food stores. The biogas produced is transmitted to Gasum's gas network, and then utilised as energy in the production of new Pirkka products. Three manufacturers of Pirkka products are included in the operating model.

Biogas produced from inedible organic waste, which is collected from about 200 K-food stores and the Kesko Logistics central warehouse, is utilised as energy in the production of new Pirkka products. In 2018, some 4,000 tonnes of organic waste (2017: 4,000) was turned into some 3,000 MWh of biogas (2017: 3,000). CO₂ emissions were reduced by 600 tonnes compared to natural gas (emission factor 198 g CO₂/kWh) and by 800 tonnes compared to fuel oil (emission factor 267 g CO₂/kWh).

Household food waste

K-ruoka.fi's food waste pages inform our customers on how to reduce food waste. The K-ruoka mobile app helps our customers plan their grocery shopping by offering personalised benefits, store-specific offers, a smart

shopping list and about 8,000 K-ruoka.fi recipes. At the end of 2018, the app had approximately 600,000 users.

We surveyed the consumers' attitude towards food waste in an online survey performed in the Kylä customer community in late 2018. Of the 738 respondents, the majority try to avoid discarding food and 84% actively try to avoid the generation of food waste. One out of 10 (11%) households does not throw food into the rubbish bin at all.

Food waste from K-food stores

	2018	2017
Identified food waste (tonnes)	18,931	19,511
Identified food waste in proportion to sales	1.65%	1.72%
Development of food waste in proportion to sales (from base year 2013)	-7.3%	-7.1%



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Food waste

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
Our objective is to reduce K Group's identified food waste by 13% from the 2016 level by 2021.	Food waste decreased by 7.3% from the previous 2013 base level. Compared to 2017, food waste at K-stores decreased by 3%. K-food stores donated 5% more food to charity compared to 2017.	We signed in a commitment for materials efficiency in the food industry in February 2019. The objective of the companies participating in this commitment is to reduce the amount of food waste by 13% and to increase the recycling rate of waste to 78%.



Management approach

GOOD CORPORATE GOVERNANCE AND FINANCE		CUSTOMERS
Material aspects	<ul style="list-style-type: none"> Economic performance Indirect economic impacts Anti-corruption Anti-competitive behaviour Compliance Grievance mechanisms for impacts on society Customer privacy 	<ul style="list-style-type: none"> Customer health Product safety
Policies and commitments	<p>Accounting policies Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the EU.</p> <p>Corporate Governance principles Risk management principles Good trading principles in the food chain K Code of Conduct Data protection policy</p>	<p>K-food stores and K-Rauta stores employ the K-responsibility concept.</p>
Monitoring and control systems	<p>Financial reporting and planning</p> <p>Compliance: compliance programmes</p> <p>Prevention of malpractice: internal audit, K Code of Conduct Risk management Customer privacy</p>	<p>The Product Research Unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade.</p>
Programmes, projects and initiatives		<p>In the building and home improvement store operations, the assessment of a store's operational responsibility comprises the store's annual self-assessment, the criteria defined in the responsible store concept, and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko. Food store operations utilise the Hymy quality review system.</p> <p>The service level, recognition and image of Kesko's chains are regularly monitored in brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plussa customer loyalty programme and the grocery trade's own brand products. Store-level customer satisfaction is measured by customer satisfaction surveys and the mystery shopping method in food stores and building and home improvement stores.</p>
Grievance mechanisms	<p>Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel.</p> <p>SpeakUp reporting channel.</p>	<p>Plussa.com K Consumer Service Chains' customer feedback systems</p>
Boundaries	<p>Corporate governance: Kesko Finance: Kesko</p>	<p>Customer health and safety: Kesko's own brand products and own imports Product and service information: Kesko's own brand products and own imports Marketing communications: Kesko Compliance: Kesko</p>

SOCIETY		RESPONSIBLE PURCHASING AND SUSTAINABLE SELECTIONS
Material aspects	Procurement practices	Information and compliance of products and services Customer health and safety Assessment of suppliers' working conditions Human rights Marketing communications
Policies and commitments	Kesko requires that its business partners act in compliance with the K Code of Conduct . We add a K Code of Conduct contract clause to agreements signed by Kesko Group companies under which the Group companies purchase products or services from parties outside the group. Good trading principles in the food chain.	Kesko's purchasing principles Sustainability policies Kesko's policy on chemicals for home textiles, clothing, leather goods, shoes and upholstered furniture
Monitoring and control systems	Changes in the operating environment and in K Group are taken into account by adjusting objectives, operating principles, monitoring systems and/or resources.	Certification and audit systems related to production in high-risk countries approved by Kesko Supplier agreements require that suppliers and service providers comply with the principles of the K Code of Conduct and the amfori BSCI Code of Conduct . Kesko's grocery trade requires that the manufacturers and producers of its own brand products have an international food safety certification. Kesko's grocery trade approves the following audit procedures: BRC, IFS, ISO/FSSC 22000, SQF1000/2000 and GlobalGAP or Laatutarha. The Product Research Unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade. All of our food product operations have a self-control plan in place. The testing laboratory is T251 and has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard. The assessment of a store's responsible operations comprises the store's annual self-assessment, the criteria defined in the store's quality system and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko.
Programmes, projects and initiatives	Thank the Producer	amfori BSCI Accord - Accord on Fire and Building Safety in Bangladesh amfori BSCI Sustainable Wine Programme The Center for Child Rights and Corporate Social Responsibility Plan International and K Group's collaboration to support Thai fishing industry migrant workers
Grievance mechanisms	SpeakUp reporting channel	K Consumer Service Chains' customer feedback systems SpeakUp reporting channel
Boundaries	Economic performance: Kesko Indirect economic impacts: K Group Purchase practices: K Group	Compliance: Kesko Product safety: Kesko's own brand products and own imports Social responsibility of procurement (1st tier): Kesko

WORKING COMMUNITY		ENVIRONMENT
Material aspects	<p>Employment</p> <p>Labour/management relations</p> <p>Occupational health and safety</p> <p>Training</p> <p>Diversity and equal opportunity</p> <p>Equal remuneration</p> <p>Labour practices grievance mechanisms</p>	<p>Energy</p> <p>Water</p> <p>Biodiversity</p> <p>Emissions</p> <p>Waste</p> <p>Food waste</p>
Policies and commitments	<p>K Code of Conduct</p> <p>HR policy</p> <p>Diversity policy</p>	<p>K Group's environmental and energy policy</p> <p>UN Global Compact initiative</p> <p>UN Sustainable Development Goals</p> <p>The New Plastics Economy Global Commitment</p> <p>Sustainability policies</p>
Monitoring and control systems	<p>Occupational health and safety and HR</p>	<p>EnerKey.com system</p> <p>All of Onninen's operations in all operating countries are ISO 14001 certified.</p> <p>The operations of Kesko Logistics are ISO 14001 certified.</p> <p>In the food stores and building and home improvement stores, environmental management is based on the K-responsibility concept.</p>
Programmes, projects and initiatives	<p>Well-being at work programme</p> <p>Youth work at K Group</p>	<p>Science Based Targets</p> <p>Retail sector energy efficiency agreement for 2017-2025</p> <p>amfori Business Environmental Performance Initiative (BEPI)</p> <p>RSPO</p> <p>RTRS</p> <p>Green Office</p> <p>K Fishpaths</p>
Grievance mechanisms	<p>Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel.</p> <p>SpeakUp reporting channel</p>	<p>SpeakUp reporting channel</p>
Boundaries	<p>Working community Kesko</p>	<p>Energy and water: Kesko</p> <p>Biodiversity: Kesko</p> <p>Emissions: Scope 1 and 2: Kesko; Scope 3: K-stores and supply chain</p> <p>Waste: Finland: Kesko's warehousing operations, office operations and stores; other operating countries: warehousing operations and stores</p> <p>Food waste: Kesko's grocery trade division and K-food stores</p>

Reporting principles

Reporting principles in accordance with the GRI standards

Since 2000, Kesko has annually reported on its corporate responsibility actions in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The Sustainability section in Kesko's Annual Report is prepared in accordance with the GRI standards and it covers the key areas of economic, social and environmental responsibility. For each reported standard, the [GRI index](#) refers to the year of the version used.

Kesko applies in its operations the AA1000 AccountAbility Principles: stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders.

Kesko has taken account of the ISO 26000 standard as a source document providing guidelines for corporate responsibility.

This report has been prepared in accordance with the GRI Standards: Core option. Topic-specific Disclosures are reported with respect to the material topics for Kesko. A comparison of the contents of the report and the GRI standards is given in the [GRI index](#).

The report is published in Finnish and in English. The report is published online in PDF format.

Assurance of reporting

An independent third party, PricewaterhouseCoopers Oy, has provided assurance for the numerical data on economic, social and environmental responsibility in the Finnish-language Sustainability section of the Annual Report. The congruence between responsibility information presented in the Finnish and English versions has been checked.

The conclusions, observations and recommendations by PricewaterhouseCoopers Oy are detailed in the [assurance report](#). The assurance is commissioned by the operative management of Kesko Corporation.

Global Compact reporting

The report describes Kesko's progress on the 10 principles of the Global Compact initiative. The [GRI index](#) shows which General Disclosures and Topic-specific Disclosures have been used for evaluating performance in fulfilling human rights, labour rights, environment principles and anti-corruption principles.

Integrated annual report

Kesko takes account of the IIRC (International Integrated Reporting Council) <IR> Framework in its annual reporting.

Report stakeholders

Various stakeholders use the report as their source of information when assessing Kesko's results in the different areas of responsibility. The most important target groups for the report include investors, shareholders, analysts and rating agencies, as well as society (the media, authorities, educational establishments and NGOs).

Reporting period and contact information

This report describes the progress and results of responsibility work in 2018. It includes some information from January and February 2019.

The report for 2017 was published in March 2018.

The report for 2019 will be published in the spring of 2020.

Further information on the topics covered in the report can be obtained from [Kesko's contact persons](#).

GRI-index

KD = Kesko's direction
SU = Sustainability

CG = Corporate Governance
FS = Financial Statements

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
GRI 102 GENERAL STANDARD DISCLOSURES							2016
102-1	Name of the organisation	KD 3					
102-2	Activities, brands, products and services	KD 5					
102-3	Location of headquarters	KD 3					
102-4	Location of operations	KD 3					
102-5	Ownership and legal form	KD 3					
102-6	Markets served	KD 3					
102-7	Scale of the organisation	KD 3					
102-8	Information on employees and other workers	SU 23-24		There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work. There are no significant seasonal fluctuations in the number of employees.	x		
102-9	Supply chain	SU 20					
102-10	Significant changes to the organisation and its supply chain	KD 6-8					
102-11	Precautionary Principle or approach	SU 8-9					
102-12	External initiatives	kesko.fi Principles of corporate responsibility					
102-13	Membership of associations	kesko.fi Activities in organisations					
102-14	Statement from senior decisionmaker	KD 6-8					
102-15	Key impacts, risks and opportunities	KD 11, SU 8-9					
102-16	Values, principles, standards, and norms of behaviour	kesko.fi K Code of Conduct			x		
102-17	Mechanisms for advice and concerns about ethics	kesko.fi Reporting concerns and instances of non-compliance			x		
102-18	Governance structure	CG 5					
102-19	Delegating authority	CG 14-15, kesko.fi Sustainability governance					
102-20	Executive-level responsibility for economic, environmental and social topics	EVP, CFO; EVP, Human Resources, Corporate Responsibility and Regional Relations		Both are members of the Group Management Board.			

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
102-21	Consulting stakeholders on economic, environmental, and social topics	SU 6-7					
102-22	Composition of the highest governance body and its committees	CG 5-11					
102-23	Chair of the highest governance body	CG 5-11					
102-24	Nominating and selecting the highest governance body	CG 5-11					
102-25	Conflicts of interest	CG 5-11		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.			
102-26	Role of highest governance body in setting purpose, values, and strategy	CG 5-11					
102-28	Evaluating the highest governance body's performance	CG 5-11	Only the Board's self-assessment has been reported.				
102-29	Identifying and managing economic, environmental, and social impacts	CG 5-11					
102-30	Effectiveness of risk management processes	CG 16-17					
102-31	Review of economic, environmental, and social topics	CG 16-17					
102-32	Highest governance body's role in sustainability reporting	CG 7					
102-33	Communicating critical concerns	CG 10, CG 15					
102-35	Remuneration policies	CG 20-28					
102-40	List of stakeholder groups	SU 6-7					
102-41	Collective bargaining agreements	SU 32			x		
102-42	Identifying and selecting stakeholders	SU 6-7					
102-43	Approach to stakeholder engagement	SU 6-7					
102-44	Key topics and concerns raised	SU 6-7					
102-45	Entities included in the consolidated financial statements	FS 43-44, FS 107-109					
102-46	Defining report content and topic Boundaries	SU 59					
102-47	List of material topics	kesko.fi Materiality assessment of corporate responsibility					

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
102-48	Restatements of information	No significant changes.		Changes reported in connection with topic-specific information. The divested Russian building and home improvement trade operations are reported as discontinued operations and are not included in the figures for the Group's continuing operations in the financial statement. The comparison data for the 2017 income statement, statement of cash flows and certain performance indicators have been adjusted.			
102-49	Changes in reporting	No significant changes.					
102-50	Reporting period	SU 59					
102-51	Date of most recent report	SU 59					
102-52	Reporting cycle	SU 59					
102-53	Contact point for questions regarding the report	kesko.fi Contacts, responsibility					
102-54	Claims of reporting in accordance with the GRI Standards	SU 59					
102-55	GRI content index	SU 60-66					
102-56	External assurance	SU 67-68					
GRI 103 MANAGEMENT APPROACH							2016
103-1	Explanation of the material topic and its Boundary	SU 56-58					
103-2	The management approach and its components	SU 56-58					
103-3	Evaluation of the management approach	SU 56-58					
TOPIC-SPECIFIC CONTENT							
Topic-specific content is reported regarding aspects identified as material.							
ECONOMIC IMPACTS							
201	Economic performance					8	2016
201-1	Direct economic value generated and distributed	SU 11-12, SU 19					
201-2	Financial implications and other risks and opportunities due to climate change	SU 9		Monetary evaluations or realisations have not been reported for risks and opportunities. Information is not available, as climate change is difficult to estimate.		x	
201-3	Defined benefit plan obligations and other retirement plans	SU 25-26					
201-4	Financial assistance received from government	SU 12					

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
203	Indirect economic impacts					9	2016
203-1	Infrastructure investments and services supported	SU 17					
203-2	Significant indirect economic impacts	SU 13					
204	Procurement practices					16	2016
204-1	Proportion of spending on local suppliers	SU 20-21					
205	Anti-corruption					16	2016
205-1	Operations assessed for risks related to corruption	SU 14	The number and percentage of business units have not been reported. Information is not available as the risks related to corruption are part of a wider assessment of business risks.	Risks related to corruption are discussed as part of Kesko's risk management. Key risks are identified and assessed regularly throughout the year.	x		
205-2	Communication and training about anti-corruption policies and procedures	SU 14	Percentages have not been reported by personnel group or geographical region. Information is not available.		x		
205-3	Confirmed incidents of corruption and actions taken	SU 14			x		
206	Anti-competitive behaviour					16	2016
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	SU 14					
ENVIRONMENTAL IMPACTS							
301	Materials					13	2016
301-3	Reclaimed products and their packaging materials	SU 52	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
302	Energy					13	2016
302-1	Energy consumption within the organisation	SU 43-44			x		
302-2	Energy consumption outside the organisation	SU 49-51	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		x		
302-3	Energy intensity	SU 44			x		
302-4	Reduction of energy consumption	SU 44-45			x		
303	Water					6	2018
303-1	Water withdrawal by source	SU 46			x		

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
304	Biodiversity					15	2016
304-2	Significant impacts of activities, products, and services on biodiversity	SU 47			x		
304-3	Habitats protected or restored	SU 47			x		
305	Emissions					13	2016
305-1	Direct (Scope 1) GHG emissions	SU 48			x		
305-2	Energy indirect (Scope 2) GHG emissions	SU 48			x		
305-3	Other indirect (Scope 3) GHG emissions	SU 49			x		
305-4	GHG emissions intensity	SU 49			x		
305-5	Reduction of GHG emissions	SU 49-51		The emissions change is calculated considering also other factors than emission reduction actions.	x		
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	SU 51			x		
306	Effluents and waste					13	2016
306-2	Waste by type and disposal method	SU 53			x		
	Food waste					12	
-	Food waste	SU 54-55		Material topic without applicable standard.	x		
SOCIAL IMPACTS							
401	Employment					8	2016
401-1	New employee hires and employee turnover	SU 23-24		In new employees, total number by age group, rate by gender and rate by region is not reported. In employee turnover, total number by age group and rate by gender is not reported.	x		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	SU 24-25 , kesko.fi Benefits and rewards	Benefits exceeding the statutory level have not been reported in detail. Practices vary in different operating countries.				
402	Labour/Management relations					8	2016
402-1	Minimum notice periods regarding operational changes	SU 32	Arrangements compliant to legislation. Legislation does not define minimum notice periods at the precision required by GRI.		x		

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
403	Occupational health and safety					3	2016
403-1	Workers' representation in formal joint management-worker health and safety committees	SU 26	Not reported by percentages.				
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	SU 26-27	Not reported by gender or by country.				
404	Training and education					4	2016
404-1	Average hours of training per year per employee	SU 28-29	Not reported by gender and employee category. Information not available.		x		
404-2	Programmes for upgrading employee skills and transition assistance programmes	SU 28-29					
404-3	Percentage of employees receiving regular performance and career development reviews	SU 29	Not reported by gender and employee category. Information not available.		x		
405	Diversity and equal opportunity					10	2016
405-1	Diversity of governance bodies and employees	SU 31-32	Not reported by age category. Information not available.		x		
405-2	Ratio of basic salary and remuneration of women to men	SU 30-31			x		
406	Non-discrimination					10	2016
406-1	Incidents of discrimination and corrective actions taken	SU 30-31			x		
407	Freedom of association and collective bargaining					8	2016
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	SU 32			x		
412	Human rights assessments					16	2016
412-1	Operations that have been subject to human rights reviews or impact	SU 35		The human rights assessment and commitment apply to all of Kesko's divisions and operating countries.	x		
412-2	Employee training on human rights	SU 35	Total number of employees trained has been reported. Information about number of hours and percentage of employees trained is not available.		x		

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
414	Supplier social assessment					8	2016
414-1	New suppliers that were screened using social criteria	SU 35-38	The percentage of suppliers screened has not been separately reported out of new suppliers but out of all suppliers in high-risk countries.				
414-2	Negative social impacts in the supply chain and actions taken	SU 35-38					
415	Public policy					16	2016
415-1	Political contributions	SU 14			x		
416	Customer health and safety					3	2016
416-1	Assessment of the health and safety impacts of product and service categories	SU 40	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	SU 40					
417	Marketing and labelling					12	2016
417-1	Requirements for product and service information and labelling	SU 41	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
417-2	Incidents of non-compliance information and labelling	SU 41					
417-3	Incidents of non-compliance concerning marketing communications	SU 41					
418	Customer privacy					16	2016
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	SU 41					
419	Socioeconomic compliance					16	2016
419-1	Non-compliance with laws and regulations in the social and economic area	SU 41					



Independent Practitioner's Assurance Report

(Translation from the Finnish original)

To the Management of Kesko Corporation

We have been engaged by the Management of Kesko Corporation (hereinafter also the Company) to perform a limited assurance engagement on the economic, social and environmental performance indicators for the reporting period 1 January 2018 to 31 December 2018 disclosed in the "Sustainability" section of "Kesko's Annual Report 2018". In terms of the Company's GRI Standards reporting and GRI Standards Content Index, the scope of the assurance has covered economic, social and environmental disclosures listed within the Topic-specific Standards as well as General Disclosures 102-8, 102-41 and 102-54 (hereinafter CR Information).

Furthermore, the assurance engagement has covered Kesko Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

Management's responsibility

The Management of Kesko Corporation is responsible for preparing the CR Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Sustainability Reporting Standards of the Global Reporting Initiative. The Management of Kesko Corporation is also responsible for

such internal control as the management determines is necessary to enable the preparation of the CR Information that is free from material misstatement, whether due to fraud or error.

The Management of Kesko Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in AccountAbility's AA1000 AccountAbility Principles Standard 2008.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the CR Information and on the Company's adherence to the AA1000 AccountAbility Principles based on the procedures we have performed and the evidence we have obtained. We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the CR Information is free from material misstatement.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with the Company, this Standard requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles and that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the CR Information, and about the Company's adherence to the AA1000 AccountAbility Principles. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the CR Information and an assessment of the risks of the Company's material nonadherence to the AA1000 AccountAbility Principles.

Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material corporate responsibility topics as well as assessing the CR Information based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as one site in Sweden.

- Interviewing employees responsible for collecting and reporting the CR Information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Kesko Corporation's CR Information for the reporting period ended 31 December 2018 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

Furthermore nothing has come to our attention that causes us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

When reading our assurance report, the inherent limitations to the accuracy and completeness of corporate responsibility information should be taken into consideration.

Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Kesko Corporation for our work, for this report, or for the conclusions that we have reached.

Observations and recommendations

Based on the procedures we have performed and the evidence we have obtained, we provide the following observations and recommendations in relation to Kesko Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Inclusivity:** The Company has processes in place for stakeholder inclusivity, collection of feedback and stakeholder engagement. During the past reporting period, the Company has involved various stakeholders in its sustainability work. We recommend that the Company continues to involve its stakeholders in its sustainability work and make extensive use of its sustainability reporting also in other communication.
- **Materiality:** The Company has a process in place to evaluate and determine the materiality of corporate responsibility aspects. The materiality assessment was last renewed in 2012. The Company then defined 6 themes and 18 corporate responsibility topics. During the reporting period the Company continued to focus its corporate responsibility work and reporting on those themes. We recommend that the Company continues developing the materiality assessment work and focusing on the material themes in its reporting.
- **Responsiveness:** The Company takes its stakeholders' expectations into account in its operations and responds to them through the continuous development of its activities. We recommend that the Company would raise centrally and consistently its key sustainability projects and achieved results to its stakeholders.

Practitioner's independence, qualifications and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility strategy and management, social and environmental issues, as well as the relevant industry knowledge, to undertake this assurance engagement.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Helsinki 1 March 2019

PricewaterhouseCoopers Oy

Enel Sintonen
Partner, Authorised Public
Accountant
Assurance Services

Sirpa Juutinen
Partner
Sustainability &
Climate Change





KESKO'S
ANNUAL REPORT 2018

REPORT BY THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

REPORT BY THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

This section contains the Report by the Board of Directors, the Group's key performance indicators, and the financial statements for 2018.

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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 46% of Kesko's net sales in 2018. B2B trade is a significant and growing part of Kesko's business operations. B2B trade accounted for 36% of Kesko's net sales in 2018. Kesko's own retailing accounted for 18% of the Group's net sales.

Kesko's operations are founded on professional and committed personnel throughout 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 that is a responsible investment with a good dividend capacity. Kesko is a significant employer, tax payer and service provider. Kesko requires its business partners commit to responsible operations.

Operating environment

Identified megatrends affecting K Group's operations are global economy, digital revolution, demographic changes (urbanisation, 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 multichannel 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 Report by Board of Directors.

Financial performance of continuing operations

Net sales and profit for 2018

The net sales for the Group's continuing operations in 2018 totalled €10,383 million, which is 1.0% down on the corresponding period of the previous year (€10,492 million). The net sales were impacted by the divestments carried out in the first half of 2017. In comparable terms, net sales grew by 3.5% in local currencies excluding the impact of acquisitions and divestments. The Group's net sales decreased by 1.5% in Finland, but grew by 4.0% in comparable terms. In other countries, net sales increased by 0.9%, or 1.5% in comparable terms. International operations accounted for 20.5% (20.1%) of the Group's net sales.

Net sales growth in the grocery trade totalled 2.0%, weakened by the transfer of stores acquired with Suomen Lähikauppa to retailers. In comparable terms, net sales increased by 5.1%. The comparable change has been calculated by including in the net sales those stores acquired from Suomen Lähikauppa which have been in the store network during both this reporting year as well as the comparison year, and by deducting the impact of Reinin Liha, acquired on 1 June 2018, and Kalatukku E. Eriksson, acquired on 2 July 2018.

In the building and technical trade, net sales decreased by 4.6%, impacted by the divestments carried out in the first half of 2017. In comparable terms, net sales increased by 2.7%. The comparable change % has been calculated in local currencies and by excluding the impact of divestments made during 2017 and the acquisitions of Skattum Handel AS on 2 July 2018, Gipling AS on 23 July 2018 and 1A Group on 1 October 2018. The net sales for the building and technical trade excluding the speciality goods trade increased by 2.4%, or 2.6% in comparable terms. In the speciality goods trade, net sales decreased by 43.5% on account of divestments, while in comparable terms net sales increased by 3.5%.

In the car trade, net sales decreased by 1.8%. Net sales development was impacted by the implementation of the new WLTP emissions testing in Europe at the beginning of September and the resulting delays in car deliveries.

Reinin Liha became part of Kesko Group's foodservice wholesale company Kespro following an acquisition completed on 1 June 2018, and Kalatukku E. Eriksson on 2 July 2018. Kesko Corporation's subsidiary Byggnakker Handel AS took over the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS, which have been operating Byggnakker 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. During the financial year 2017, Kesko Group divested the K-maatalous agricultural business on 1 June 2017, and on 30 June 2017, the Asko and Sotka furniture trade, the Yamarin boat business and the Yamaha representation.

On 16 February 2018, Kesko announced it would be discontinuing its building and home improvement trade operations in Russia. The divested Russian operations are reported as discontinued operations and are not included in the figures for the Group's continuing operations or the figures for the building and technical trade in the financial statements. The figures for the comparison year have been adjusted accordingly.

1-12/2018	Net sales, € million	Change, %	Change in local currency excl. acquisitions and disposals, %	Operating profit, comparable, € million	Change, € million
Grocery trade	5,386	+2.0	+5.1	228.0	+24.6
Building and technical trade excl. speciality goods trade	3,728	+2.4	+2.6	92.4	+13.4
Speciality goods trade	375	-43.5	+3.5	6.0	-10.2
Building and technical trade total	4,103	-4.6	+2.7	98.4	+3.2
Car trade	893	-1.8	-1.8	34.5	+1.4
Common functions and eliminations	1	(..)	(..)	-28.7	+6.8
Total	10,383	-1.0	+3.5	332.2	+36.0

(..) Change over 100%

The Group's comparable operating profit for continuing operations was €332.2 million (€296.2 million). Profitability improved significantly in the grocery trade due to increased sales, successful chain redesigns and realised synergies. The comparable operating profit for the building and technical trade excluding the speciality goods trade grew thanks to the

building and home improvement trade in Finland, Norway and the Baltics and Onninen in Finland and Poland. Positive profit development in Norway was impacted by the acquisitions carried out. The decrease in the speciality goods trade operating profit was affected by the divestments carried out in 2017. Profitability in the car trade remained good.

Operating profit was €307.9 million (€338.6 million). Items affecting comparability totalled €-24.2 million (€42.5 million). 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. The transfer of former Suomen Lähikauppa stores to retailers was completed on 30 June 2018. The most significant items affecting comparability the year before were the €49.7 million gain on the divestment of real estate in the Baltics, the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains, the €12.3 million gain on the divestment of the K-maatalous agricultural business, as well as the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million.

Items affecting comparability, € million	1-12/2018	1-12/2017
Comparable operating profit	332.2	296.2
Items affecting comparability		
+gains on disposal	+6.7	+83.4
-losses on disposal	-0.1	-1.8
-impairment charges	-5.6	-0.5
+/-structural arrangements	-25.3	-38.6
Total items affecting comparability	-24.2	+42.5
Operating profit	307.9	338.6

The comparable profit before tax for the Group's continuing operations was €327.5 million (€300.3 million). The profit before tax for the Group's continuing operations was €296.8 million (€342.4 million). The earnings per share for the Group's continuing operations were €2.18 (€2.75), and the comparable earnings per share €2.47 (€2.29). Kesko has agreed to sell its remaining stake in its Baltic machinery trade subsidiaries and Konekesko Finland's agricultural machinery trade operations to Danish Agro Group. The minority holding in the machinery trade companies had a €-0.04 impact on earnings per share. The Group's equity per share was €21.06 (€21.45).

K Group's (Kesko and chain stores) retail and B2B sales (VAT 0%) totalled €12,852 million, representing a growth of 2.5% compared to the previous year (pro forma). The K-Plussa customer loyalty programme added 86,886 new households in 2018. 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 in continuing operations was €437.1 million (€291.9 million). Cash flow was strengthened by improved profitability and the €58 million return of surplus assets paid by Kesko Pension Fund in March. The cash flow from operating activities in discontinued operations was €-23.3 million (€9.9 million). The Group's cash flow from operating activities was €413.8 million (€301.7 million).

The Group's cash flow from investing activities totalled €-209.0 million (€-88.3 million). Cash flow from investing activities includes the €161 million transaction price obtained from the divestment of properties in Russia. Cash flow from investing activities also includes the combined €164.7 million transaction prices for the acquisitions carried out in June-October. Cash flow from investing activities for the comparison year includes the divestment of a 45% stake of Konekesko's Baltic subsidiaries to Danish Agro Group, and the divestments of Baltic real estate, the K-maatalous agricultural business, Asko and Sotka furniture trade, and Yamaha representation and Yamarin boat business, in total €199.6 million.

The Group had liquid assets of €250 million at the end of the year (€398 million). Interest-bearing liabilities at the end of the year totalled €411 million (€534 million) and interest-bearing net debt €162 million (€136 million). In September, Kesko Corporation repaid the outstanding €225 million principal of the bond issued in 2012. The repayment was refinanced by taking on €150 million in short-term commercial paper liability and €91 million in long-term interest-bearing loan. Equity ratio was 51.4% (50.4%) at the end of the financial year.

The net finance costs for the Group's continuing operations totalled €1.1 million (net finance income €2.2 million). The financial items for the comparison year include dividend income and interest income on cooperative capital of €4.5 million, of which €2.3 million was interest income on cooperative capital from Suomen Luotto-osuuskunta. The share of result of associates and joint ventures was €-10.1 million. Kesko and Oriola's joint venture, the Hehku wellbeing chain, had an impact of €-11.2 million, which includes discontinuation

costs for the joint venture. The comparable share of result of associates and joint ventures was €-3.6 million.

Taxes

The taxes for the Group's continuing operations were €61.9 million (€57.9 million). The effective tax rate was 20.9% (16.9%). The effective tax rate for the comparison year was lowered by the tax-exempt gains on the sale of properties and subsidiaries.

Capital expenditure

The capital expenditure for the Group's continuing operations totalled €417.6 million (€333.5 million), or 4.0% (3.2%) of net sales. Capital expenditure in store sites totalled €111.8 million (€239.8 million), in acquisitions €172.0 million, and in IT €48.8 million (€32.8 million) and other capital expenditure totalled €85.1 million (€60.6 million).

Discontinued operations

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 and stocks were not included within the scope of the transaction; instead, the operations were discontinued during the first year-half. 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 divestment of the properties resulted in a positive cash flow of €171 million for Kesko Corporation in February. The divestment of the properties resulted in a net €16 million sales gain for discontinued operations. The operative result after taxes for the operations was €-1.7 million. In addition, a cost of €23 million related to the discontinuation of operations was recorded as were translation differences of €-39 million related to the equity financing of Russian subsidiaries. The divestment of the properties also resulted in a €8 million tax cost.

The Russian operations are reported as discontinued operations and are not included in the figures for the Group's continuing operations or the figures for the building and technical trade in the financial statements. The comparison data for the 2017 income statement, statement of cash flows and certain performance indicators have been adjusted. In 2017, Kesko's building and home improvement trade operations in Russia recorded net sales of €184 million and a comparable operating profit of €0.6 million.

Segments

Seasonal nature of operations

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

Grocery trade

	1-12/2018	1-12/2017
Net sales, € million	5,386	5,282
Operating profit, comparable, € million	228.0	203.4
Operating margin, comparable, %	4.2	3.9
Return on capital employed, comparable, %	25.1	25.7
Capital expenditure, € million	124.1	224.4
Personnel, average	6,094	6,733

Net sales, € million	1-12/2018	1-12/2017	Change, %
Sales to K-food stores			
K-Citymarket, food	1,108	1,061	+4.4
K-Supermarket	1,377	1,277	+7.9
K-Market*	1,306	1,416	-7.8
K-Citymarket, non-food	581	585	-0.7
Kespro	872	815	+7.0
Others and eliminations	142	127	+11.0
Total	5,386	5,282	+2.0

* The comparable change in net sales attributable to K-Market in was +4.6%.

Net sales for the grocery trade amounted to €5,386 million (€5,282 million), an increase of 2.0%. In comparable terms, net sales increased by 5.1%. 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. 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 the financial year as well as the comparison year, and by deducting the impact of Reinin Liha and Kalatukku E. Eriksson. Reinin Liha became part of Kesko Group's foodservice wholesale company Kespro following an acquisition completed on 1 June 2018, and Kalatukku E. Eriksson on 2 July 2018.

The transfer of Suomen Lähikauppa stores acquired in 2016 to retailers was completed by the end of June 2018. 380 stores in total were transferred to retailers between August 2016 and June 2018, after the stores had first been converted into K-food stores. The synergies sought with the acquisition have been achieved.

The total grocery market in Finland (incl. VAT) is estimated to have grown by approximately 4.0% (Kesko's own estimate) and retail prices are estimated to have risen by some 2.4%, impacted by the increases in tobacco and alcohol taxes at the start of 2018 (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 4.8% (incl. VAT), and excluding the impact of the acquisition of Suomen Lähikauppa, by 5.7% (incl. VAT).

The comparable operating profit for the grocery trade was €228.0 million (€203.4 million), up by €24.6 million. Profitability in the grocery trade improved significantly due to sales growth, successful chain redesigns, and realised synergies. Kespro's sales also grew and profitability improved. The profitability of the stores acquired from Suomen Lähikauppa in 2016 improved significantly following their conversion into K-Markets and transfer to retailers and the adjustments made to the store site network.

Operating profit for the grocery trade was €219.3 million (€181.3 million). Items affecting comparability amounted to €-8.7 million (€-22.1 million), and they were mainly related to the restructuring of Suomen Lähikauppa, €-7.6 million (€-21.4 million).

Capital expenditure for the grocery trade was €124.1 million (€224.4 million), of which €89.5 million (€213.1 million) was in store sites and €13.1 million in acquisitions.

Building and technical trade

	1-12/2018	1-12/2017
Net sales, € million	4,103	4,302
Building and technical trade excl. speciality goods trade	3,728	3,639
Speciality goods trade	375	663
Operating profit, comparable, € million	98.4	95.2
Building and technical trade excl. speciality goods trade	92.4	78.9
Speciality goods trade	6.0	16.2
Operating margin, comparable, %	2.4	2.2
Building and technical trade excl. speciality goods trade	2.5	2.2
Speciality goods trade	1.6	2.4
Return on capital employed, comparable, %	10.3	10.3
Capital expenditure, € million	200.7	63.7
Personnel, average	11,663	11,967

Net sales, € million	1-12/2018	1-12/2017	Change, %
Building and home improvement trade, Finland	892	870	+2.5
K-Rauta, Sweden	175	200	-12.6
Bygghjælp, Norway	370	397	-6.8
Kesko Senukai, the Baltics	602	510	+18.1
OMA, Belarus	128	120	+7.2
Onninen, Finland	881	819	+7.6
Onninen, Sweden	151	191	-20.9
Onninen, Norway	252	268	-6.0
Onninen, Baltics	77	69	+11.1
Onninen, Poland	239	217	+10.4
Building and technical trade excl. speciality goods trade total	3,728	3,639	+2.4
Leisure trade, Finland	202	196	+2.6
Machinery trade	173	188	-8.1
K-maatalous, Indoor Group Oy and Yamaha and Yamarin	-	279	-
Speciality goods trade total	375	663	-43.5
Total	4,103	4,302	-4.6

Net sales for the building and technical trade totalled €4,103 million (€4,302 million), down by 4.6%. The net sales were impacted by the divestments carried out in the first half of 2017. In comparable terms, net sales increased by 2.7%. The comparable change % has been calculated in local currencies and by excluding the impact of divestments made during 2017 and the completed acquisitions of Skattum Handel AS, Gipling AS and 1A Group in 2018.

Kesko Corporation's subsidiary Bygghjælp Handel AS took over the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS, which have been operating Bygghjælp 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 16 February 2018, Kesko announced it would be discontinuing its building and home improvement trade operations in Russia. The divested Russian operations are reported as discontinued operations and are not included in the figures for the Group's continuing operations or the figures for the building and technical trade in the financial statements. The figures for the comparison year have been adjusted accordingly.

In Finland, net sales for the building and technical trade totalled €1,972 million (€2,190 million), down by 10.0% due to divestments carried out in 2017. In comparable terms, net sales in Finland increased by 4.0%. Net sales from foreign operations totalled €2,131 million (€2,111 million), up by 0.9%. In comparable terms, net sales from foreign operations grew by 1.5%. Foreign operations accounted for 51.9% (49.1%) of the net sales for the building and technical trade.

Net sales for the building and technical trade excluding the speciality goods trade operations totalled €3,728 million (€3,639 million), an increase of 2.4%. In comparable terms, net sales increased by 2.6%.

Net sales for the building and home improvement trade were €2,162 million (€2,092 million), an increase of 3.3%. In local currencies, net sales increased by 2.3%. Net sales in Finland grew by 2.5% and in the Baltics by 18.1%. In Belarus, net sales grew in local currency by 18.1%. Net sales decreased in local currency in Norway by 4.1% and in Sweden by 7.0%. In Sweden, the decrease in net sales was impacted by closures of K-Rauta stores due to the ending of lease agreements, while in Norway, the decline was impacted by the expiry of one retailer agreement at the start of 2018.

Onninen's net sales amounted to €1,597 million (€1,571 million), an increase of 1.7%. Net sales in Finland grew by 7.6% and in the Baltics by 11.1%. In Poland, net sales grew in local currency by 10.5%. Net sales decreased in local currency in Sweden by 15.8% and in Norway by 3.3%. The decrease in net sales in Sweden was impacted by the closure of five store sites during the first half of the year.

The market share of K Group's building and technical trade is estimated to have strengthened in Finland. K Group's building and technical trade sales in Finland increased by 3.9% and the total market (VAT 0%) is estimated to have grown by some 2.9% (Kesko's own estimate).

Net sales for the speciality goods trade totalled €375 million (€663 million), down by 43.5%. The decrease was affected by the divestments carried out in 2017. In comparable terms, net sales grew by 3.5%. Net sales for the machinery trade amounted to €173 million (€188 million), up by 4.5% in comparable terms from the previous year. Net sales for the machinery trade in Finland totalled €28 million, down by 13.4% in comparable terms. Net sales from foreign operations totalled €145 million, up 8.9%. Net sales for the leisure trade were €202 million (€196 million), up by 2.6%. The net sales for the Asko and Sotka furniture trade, K-maatalous agricultural business, Yamarin boat business and Yamaha representation, all divested in June 2017, totalled €279 million in the comparison year.

The comparable operating profit for the building and technical trade was €98.4 million (€95.2 million), up by €3.2 million compared to the previous year. The comparable operating profit for the building and technical trade excluding the speciality goods trade operations totalled €92.4 million (€78.9 million), up by €13.4 million. Comparable operating profit for the building and home improvement trade was €51.9 million (€46.3 million), up by €5.6 million. Comparable operating profit grew in the building and home improvement trade in Finland, Norway and the Baltics. Positive profit development in Norway was affected by the acquisitions carried out. The impact of the properties in the Baltics, divested in May 2017, on Kesko Senukai's comparable operating profit was €-1.7 million. Onninen's comparable operating profit was €40.5 million (€32.7 million), up by €7.7 million. Onninen's operating profit grew in Finland, Poland and the Baltics. The comparable operating profit for the speciality goods trade was €6.0 million (€16.2 million), down by €10.2 million. The comparable operating profit for the Asko and Sotka furniture trade, K-maatalous agricultural business and Yamarin boat business and Yamaha representation, all divested in June 2017, totalled €8.7 million in the comparison year.

Operating profit for the building and technical trade totalled €84.9 million (€168.7 million). Items affecting comparability totalled €-13.5 million (€73.5 million). The most significant

items affecting comparability 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. The most significant items affecting comparability the year before were the €49.7 million gain on the divestment of real estate in the Baltics, the €12.3 million gain on the divestment of the K-maatalous agricultural business, as well as the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million.

Capital expenditure for the building and technical trade totalled €200.7 million (€63.7 million), of which €21.8 million (€25.5 million) was in store sites and €159.0 million in acquisitions.

Car trade

	1-12/2018	1-12/2017
Net sales, € million	893	909
Operating profit, comparable, € million	34.5	33.1
Operating margin, comparable, %	3.9	3.6
Return on capital employed, comparable, %	21.2	21.5
Capital expenditure, € million	49.0	17.4
Personnel, average	835	809

Net sales, € million	1-12/2018	1-12/2017	Change, %
K-Auto	831	855	-2.8
AutoCarrera	63	55	+14.1
Total	893	909	-1.8

Net sales for the car trade totalled €893 million (€909 million), a decrease of 1.8%. Net sales development was impacted by the implementation of the new WLTP emissions testing in Europe at the beginning of September and the resulting delays in car deliveries. The combined market performance of first registrations of passenger cars and vans was +1.3% (+1.0%). The combined market share of the Volkswagen, Audi, SEAT and Porsche passenger cars and vans imported by the car trade was 18.5% (18.6%).

Profitability in the car trade remained good. The comparable operating profit was €34.5 million (€33.1 million), up by €1.4 million. The comparable operating profit for AutoCarrera was €4.4 million (€3.0 million). Operating profit for the car trade was €34.4 million (€33.1 million).

Capital expenditure for the car trade totalled €49.0 million (€17.4 million). Gross capital expenditure comprises primarily cars obtained for the leasing fleet and rental cars sold with repurchase commitments.

Changes in Group composition

In June, Kesko Corporation agreed to make Reinin Liha and Kalatukku E. Eriksson 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.

In June, Kesko Corporation's subsidiary Byggmakker Handel AS agreed to acquire 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.

Kesko assumed ownership of 1A Group, an online retail company operating in the Baltic States, on 1 October 2018.

€ million	Impact on Group net sales in 2018	Impact on Group comparable operating profit in 2018	Transaction price 2018	Impact on Group net sales in 2017	Impact on Group comparable operating profit in 2017	Transaction price 2017
Acquired businesses						
Skattum Handel AS 7/2018 and Gipling AS 8/2018	40	2	147	-	-	-
Kalatukku E. Eriksson Oy 7/2018 and Reinin Liha Oy 6/2018	15	0	15	-	-	-
Total	55	2	162	-	-	-
Divested businesses						
K-maatalous 6/2017	-	-	-	149	4	39
Indoor Group 6/2017	-	-	-	89	3	67
Yamaha and Yamarin 6/2017	-	-	-	41	-	-
Total	-	-	-	279	7	106

During the reporting year, six fully-owned real estate companies and one holding company in Finland were merged with Kesko Corporation. One holding company in Finland was furthermore wound up and its operations discontinued.

Main objectives and results achieved in sustainability

Key commitments, policies and principles

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

In 2018, special focus in corporate responsibility work was on data protection issues, as we were obliged to comply with the EU General Data Protection Regulation from 25 May 2018 onwards. Consequently, we made sure all personal data was 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 (SDGs) in its operations. For Kesko and its stakeholders, the three key goals are Responsible consumption, Decent work and economic growth, and Climate action. In accordance with its human rights commitment, Kesko respects all internationally recognised human rights.

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

Kesko has been reporting on its actions in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development since the year 2000. 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 DJSI Europe, the FTSE4Good Index, the CDP Climate A- List and the STOXX Global ESG Leaders Index.

Kesko ranks 88th on the Global 100 list of the Most Sustainable Corporations in the World in 2019 (31st in 2018), being the world's most sustainable trading sector company.

In September 2018, Kesko was included in the Dow Jones Sustainability Indices the DJSI World and DJSI Europe. We received the industry best overall score in the Environmental Dimension. Kesko has previously been included in the indices between 2003 and 2014 and in 2017.

Purchasing and human rights

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, with the next review taking place in 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 Organization (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 Kesko Group companies purchase products or services from external parties.

In purchasing chains, Kesko pays special attention to human rights issues and working conditions in high-risk countries. Kesko utilises international social responsibility assessment systems for supplier audits in high-risk countries. Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when the cooperation begins.

Kesko is a member of amfori and participates in the amfori Business Social Compliance Initiative (amfori BSCI). Primarily, Kesko requires amfori BSCI audits from suppliers in high-

risk countries. In 2018, Kesko joined the Accord on Fire and Building Safety in Bangladesh that aims to improve the safety of clothing factories in the country.

Product safety

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

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

Environmental issues

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

Kesko's most significant direct environmental impacts are emissions from the production of the electricity and heat consumed on properties, emissions from transports, and waste produced in warehousing operations and at the stores. The biggest indirect impacts are related to the manufacture, use and disposal of the products sold.

Kesko participates in mitigating climate change by increasing purchases and production of renewable energy and by improving energy efficiency. Kesko 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%.

Kesko is the first Finnish company to have set science based targets for reducing emissions from its facilities, transportation, and supply chains. Kesko has committed to reducing its

Direct and indirect 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 greenhouse gas (GHG) emission targets by 2025.

Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy. Solar power plants built at K-store sites are an essential part of Kesko's energy strategy. The annual electricity production of the solar power plants used by Kesko at end of 2018 is some 8,000 MWh, making K Group the biggest producer and user of solar power in Finland.

Personnel

The average number of personnel in Kesko Group was 19,995 (22,077) converted into full-time employees. At the end of December 2018, the number of personnel was 23,458 (24,983), of whom 11,878 (12,327) worked in Finland and 11,580 (12,656) elsewhere.

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

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

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

Compliance programmes

Risks related to compliance with laws and operating principles in Kesko are surveyed and prioritised regularly between the Group's legal affairs, risk management and business oper-

ations. Based on a prioritisation of risks, Kesko's Governance, Risk and Compliance (GRC) steering group determines the necessary group or division-level 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 our daily work. The K Code of Conduct has been published in nine languages and the principles are the same for all Kesko employees in all operating countries. Clear examples lay out what is expected of Kesko employees and business partners in the areas of human rights, environmental care and fair competition, for example. To communicate and implement the principles, some 20 K Code of Conduct ambassadors in different operating countries have been appointed to act as messengers and contact persons.

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

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

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

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

Main objectives and results achieved

PURCHASING AND HUMAN RIGHTS		
Objective	Method	Results 2018
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	190 (157) factories or farms underwent full amfori BSCI audits
	Amfori BSCI follow-up audits conducted at the factories or farms of suppliers in high-risk countries	135 (146) factories or farms underwent amfori BSCI follow-up audits

PRODUCT SAFETY		
Objective	Method	Results 2018
Products are safe for users and meet quality promises	The manufacturers of Kesko's own brand food products have international certifications assuring product safety	521 (522) suppliers have an audit certificate
	The Product Research Unit monitors the safety and quality of own brand products and own imports in the grocery trade	Product samples analysed by the Product Research laboratory and test kitchen: 7,678 (7,350)
	If a fault is detected in the quality of a product on the market, a recall is made	Product recalls: 178 (146), of which 46 (33) K Group's own brand products; public recalls of own brand products (cases where a fault in the product could endanger consumer health): 2 (4)

ENVIRONMENT		
Objective	Method	Results 2018
Reducing the environmental impact of Kesko's operations	Kesko has committed to the Energy Efficiency Agreement for the commerce sector in Finland and to reducing its annual energy consumption by 7.5% between 2017 and 2025	Energy consumption in properties managed by Kesko in all operating countries (Q4/2017-Q3/2018): 931 (1,012) GWh
	Since the beginning of 2017, Kesko has purchased electricity produced with 100% renewable energy in Finland. In recent years, Kesko has invested in solar power plants on store roofs.	Renewable electricity purchases: 580 (504) GWh; number of own solar power plants 27 (19) and electricity production 4.1 (3.0) 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 (Q4/2017-Q3/2018): 124,756 (138,653) tCO ₂ e (reporting boundary changed)

PERSONNEL		
Objective	Method	Results 2018
Kesko has the professional and committed personnel required to implement its strategy	The K SuccessFactors system is used for managing employees' personal objectives agreed upon with their managers	Objectives set for approximately 80 (90) % of the target group
	Personnel satisfaction and commitment are measured in personnel surveys conducted every other year (last conducted in 2017). Complementary pulse surveys are conducted annually (last conducted in 2018).	Personnel commitment in 2017 was 78%; in 2018 76 (79) % of personnel would recommend K Group as an employer
	Active early identification and intervention are applied to sickness absences to promote personnel wellbeing and working capacity	Sickness absences: 4.7 (4.7) %; premature retirement due to disability: 17 (24)

PREVENTION OF CORRUPTION AND BRIBERY (GOVERNANCE)

Objective	Method	Results 2018
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	79 (65) % of personnel signed the annual revision of the K Code of Conduct
	SpeakUp is a confidential reporting channel for employees and business partners	Notifications received via the SpeakUp channel: 11 (38)

Shares, securities market and Board authorisations

At the end of 2018, 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 2018, Kesko Corporation held 1,001,399 of its own B shares as treasury shares. These treasury shares accounted for 1.47% of the total number of B shares, 1.00% of the total number of shares, and 0.26% 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 2018, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €44.10 at the end of 2017, and €43.60 at the end of 2018, representing a decrease of 1.1%. Correspondingly, the price of a B share was €45.25 at the end of 2017, and €47.10 at the end of 2018, representing an increase of 4.1%. In 2018, the highest A share price was €53.40 and the lowest €41.00. The highest B share price was €56.62 and the lowest €42.92. The Nasdaq Helsinki All-Share index (OMX Helsinki) was down by 8.0% and the weighted OMX Helsinki Cap index by 7.7% in 2018. The Retail Sector Index was down by 2.5%.

At the end of 2018, the market capitalisation of the A shares was €1,383.7 million. The market capitalisation of the B shares was €3,169.0 million, excluding the shares held by the parent company. The combined market capitalisation of the A and B shares was €4,552.7 million, an increase of €88.8 million from the end of 2017.

In 2018, a total of 1.4 million A shares were traded on Nasdaq Helsinki. The exchange value of the A shares was €68.4 million. Meanwhile, 52.0 million B shares were traded, with an exchange value of €2,532.5 million. Nasdaq Helsinki accounted for approximately 41% of the trading of Kesko's A and B shares in 2018. Kesko shares were also traded on multilateral trading facilities, the most significant of which was the Cboe APA (source: Fidessa).

The Board holds a valid authorisation to decide on the transfer of a maximum of 1,000,000 own B shares held by the Company as treasury shares (2016 Share issue authorisation). On 1 February 2018, the Board decided to grant own B shares held by the Company as treasury shares to persons included in the target group for Kesko's transitional share-based incentive plan (Bridge Plan) based on this share issue authorisation and the fulfilment of the Bridge Plan performance criteria. This transfer of a total of 66,190 own B shares was communicated in stock exchange releases on 15 March 2018, 5 April 2018 and 1 June 2018.

On 1 February 2017, Kesko Corporation's Board of Directors made a decision to establish a new share-based long-term incentive scheme for Kesko's top management and key persons selected separately. The scheme consists of a performance share plan (PSP) as the main structure, and of a restricted share pool (RSP), which is a complementary share plan for special situations. Besides the PSP, the Board made a decision to establish a share-based Bridge Plan to cover the transitional phase during which Kesko transfers from a one-year performance period to a longer performance period in its long-term incentive scheme structure. If the performance criteria set for the 2017-2020 PSP are achieved in full, the maximum number of series B shares to be paid based on this plan is 340,000 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. 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 130 members of Kesko's management and other specified key persons. The Board decided to set the development of 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 as the performance criteria for the 2018 calendar year, matching the 2017 criteria. The performance criteria concern the performance year 2018 of the 2017-2020 PSP and 2018-2021 PSP. A maximum total

of 340,000 Kesko B shares may be granted in relation to the 2018-2021 PSP. 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 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 2018-2020 RSP 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 new 2018-2021 PSP and 2018-2020 RSP were communicated in a stock exchange release on 21 March 2018.

In 2018, a total of 7,211 shares granted based on the fulfilment of the performance criteria of the share-based compensation plan in force in 2014-2016 and on the Bridge Plan were returned to the Company in accordance with the terms and conditions of the share-based compensation scheme. The returns during the reporting year were communicated in stock exchange releases on 28 February 2018, 30 July 2018, and 7 September 2018. The share-based compensation plan in force in 2014-2016 was announced in a stock exchange release on 4 February 2014, and the Bridge Plan was 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 of invested non-restricted equity. The authorisation is valid until 30 June 2020. Kesko Corporation's Annual General Meeting on 11 April 2018 resolved that approximately 30% of the annual fees to the members of Kesko's Board of Directors will be paid in B series shares in the Company (Stock exchange release 11 April 2018). Kesko's Board of Directors decided on 24 April 2018 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 April 2018). These shares, totalling 2,759, were transferred to the Board members on 27 April 2018. 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.

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 will 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 will be acquired and paid for in accordance with the rules of the exchange. The acquisition of own shares reduces the amount of the Company's distributable unrestricted equity. The B shares will 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 will make decisions concerning any other issues related to the acquisition of B shares. The authorisation is 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 schemes. The Board also decided to implement the resolution made by the General Meeting on 11 April 2018 to pay approximately 30% of the annual fees to

members of the Board in B series shares in the Company, by using B series shares held by the Company as treasury shares in the payment of the share portion of the remuneration. 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 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 of 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 the authorisation given 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 2018, the number of shareholders was 40,745, which is 1,577 less than at the end of 2017. At the end of December, foreign ownership of all shares was 35.2%, and foreign ownership of B shares 50.3%.

Flagging notifications

There were no flagging notifications during the financial year.

Key events during the financial year

Kesko announced it will discontinue its building and home improvement trade operations in Russia and sell 12 building and home improvement store properties in Russia to Leroy

Merlin Vostok LLC, a Russian division of the French Leroy Merlin. Leroy Merlin is the biggest building and home improvement store chain in Russia. The transaction price paid for the properties in cash was approximately RUB 12 billion (some €169 million). The ownership of the properties was transferred to the buyer in H1/2018. (Stock exchange release 16.2.2018)

Kesko Corporation's Board of Directors decided that the target group for the 2018–2019 performance period of Kesko's performance and share based commitment and incentive plan will comprise approximately 130 members of Kesko's management and other specified key persons. The Board also confirmed the criteria for 2018 for both the 2017–2020 plan initiated in 2017 and the 2018–2021 plan. The Board also decided to initiate a restricted share-based commitment and incentive plan for 2018–2020. (Stock exchange release 21.3.2018)

In the first interim report for 2018, the discontinuation of the building and home improvement trade operations in Russia was presented as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The standard requires comparison data to be adjusted, thus prompting changes in the presentation of data for 2017. The stock exchange release depicted comparison figures for 2017 for key continuing operations segment data. (Stock exchange release 23.3.2018)

On 1 June 2018, an acquisition was completed to make Reinin Liha part of Kesko Group's foodservice wholesale company Kespro. An agreement was also made at the time to acquire Kalatukku E. Eriksson, and the transaction was completed on 2 July 2018. Both will continue operating as independent companies, and their full staff and operational management will carry on with their duties. (Press releases 1.6.2018 and 2.7.2018)

Kesko Corporation's subsidiary Bygghandelen AS agreed to acquire the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS. In 2017, Skattum Handel AS recorded net sales of approximately €94 million and Gipling AS net sales of some €151 million. Both companies operated Bygghandelen stores under the retailer business model, and the Bygghandelen chain will control the stores following the acquisitions. After the completion of the acquisitions, the Bygghandelen chain controlled a total of 30 Bygghandelen stores, providing even greater potential for growth and increased profitability in Norway. The acquisition of Skattum Handel AS was completed on 2 July 2018 and the acquisition of Gipling AS on 23 July 2018. (Press releases 7.6.2018 and 19.6.2018)

Kesko Senukai agreed to acquire 1A Group, one of the leading online retail market players in the Baltic States, with net sales of approximately €41 million in 2017. The acquisition makes Kesko Senukai one of the leading e-commerce operators in Estonia, Latvia and Lithuania. The completion of the acquisition was subject to the approval of the local competition authorities and the fulfilment of the other terms and conditions of the transaction. The transaction was completed on 1 October 2018. (Press release 21.6.2018)

Kesko will sell its remaining stake in its Baltic machinery trade subsidiaries and Konekesko Finland's agricultural machinery trade operations to Danish Agro Group. Danish Agro Group has used its call options announced in February 2017 to buy the remaining shares in Konekesko's Baltic subsidiaries and its agricultural machinery trade operations in Finland. As a result, Danish Agro Group will become the full owner of Konekesko's Baltic companies and Konekesko's agricultural machinery operations in Finland. The completion of the transactions is subject to the approval of competition authorities and the fulfilment of the other terms and conditions of the transactions. (Press release 6.7.2018). The transactions were expected to be completed in October 2018 at the latest. The European Commission has partly taken over the competition review, and as a result the completion of the transactions has been postponed.

Kesko Corporation's subsidiary Bygghakker agreed to acquire the DIY retail business of Sørbø Trelast AS and Tau & Jørpeland Bygg AS. The transaction includes two Bygghakker stores and a B2B logistics centre. The businesses included in the transaction had total pro forma sales of approximately €24 million in 2017. The completion of the transaction was subject to the approval of Norwegian competition authorities and the fulfilment of the other terms and conditions of the transaction. (Press release 29 October 2018)

Kesko published restated comparison figures for January-September 2018 in accordance with IFRS 16 Leases, which took effect on 1 January 2019. The standard addresses the definition, recognition and measurement of lease agreements and other information given in relation to lease agreements in financial statements. According to the standard, the lessee recognises in its balance sheet right-of-use assets and financial liabilities. (Stock exchange release 19.12.2018)

Key events after the financial year

Kesko Group company K Caara Oy has agreed to acquire LänsiAuto Oy's Volkswagen, Audi and SEAT businesses in Kotka, Kouvola and Lappeenranta. (Press release 2.1.2019)

Kesko Group company K Caara Oy has agreed to acquire Huittisten Laatuauto Oy's Volkswagen and SEAT business operations in Forssa and Huittinen. The transaction includes new and used car sales, servicing and after-sales services. (Press release 3.1.2019)

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

Resolutions of the 2018 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting held on 11 April 2018 adopted the financial statements and consolidated financial statements for 2017 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute, in accordance with the Board's proposal, €2.20 per share as dividends, or a total of €218,945,469.60. The dividend pay date was 20 April 2018.

The General Meeting resolved that the number of Board members is seven (7). The General Meeting resolved to elect Jannica Fagerholm, Master of Science (Economics), Peter Fagnäs, Master of Laws (new member), Piia Karhu, Doctor of Science (Economics and Business Administration) (new member), retailer Esa Kiiskinen, Business College Graduate, Matti Kyytsönen, Master of Science (Economics), retailer Matti Naumanen, and retailer Toni Pokela, eMBA, as Board members for a term of three years ending at the close of the 2021 Annual General Meeting, as provided in the Articles of Association. The General Meeting resolved to change the remuneration structure of Board members so that a portion of the remuneration is paid as shares in the Company. The purpose of the change is to commit the Board members to the long-term development of the Company.

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

The General Meeting approved the Board's proposals for its authorisation to decide on the acquisition of a maximum of 1,000,000 of the Company's own B shares and for its authorisation to decide on the issuance of a maximum of 10,000,000 new B shares.

The 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 2019, and to decide on the donation recipients, purposes of use and other terms of the donations.

After the Annual General Meeting, Kesko Corporation's Board of Directors held an organisational meeting, in which it elected retailer Esa Kiiskinen (Business College Graduate) as Chairman of the Board and Peter Fagerlös (Master of Laws) as Deputy Chairman. Jannica Fagerholm (M.Sc. Econ.) was elected as Chairman of the Board's Audit Committee, Matti Kyytsönen (M.Sc. Econ.) as Deputy Chairman, and Piia Karhu (Doctor of Science, Economics and Business Administration) as a Committee member. Esa Kiiskinen was elected as Chairman of the Board's Remuneration Committee, Peter Fagerlös 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 11 April 2018.

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 operations and common functions are responsible for the execution of risk management. Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at 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, 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

Intensification of price competition in Finnish grocery trade

Price competition in Finnish food trade has continued tight as operators strive to increase their market share. Intensifying price competition could weaken profitability for Kesko's grocery trade and retailers.

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 could cause significant losses in sales and weaken customer satisfaction.

Data breach or critical information falling into the wrong hands

Crimes are increasingly committed through data networks and crime has become more international and professional. A failure, especially if it affects the security of payment transactions and personal data, could cause losses, claims for damages and reputational harm.

Implementation of country-specific strategies in the building and technical trade

There are risks related to the implementation of the division's country-specific strategies and the creation of business models which may impede the attainment of operational and financial objectives, especially in Sweden.

Cost structure in the building and technical trade division

In the building and technical trade, the market is changing and consequently B2B trade is growing over B2C trade. There is a risk that operating models and cost-efficiency cannot be adapted sufficiently to changes in different customer segments.

Impact of changes in emissions testing norms on the car trade

The implementation of the new EU-level emissions testing norm for passenger cars (WLTP) has had an impact on the demand and availability of cars. There is a risk that upcoming decided changes to emissions testing norms will have a negative impact on new car sales.

Compliance with laws and agreements

Changes in legislation and authority regulations could necessitate significant changes and result in additional costs. Compliance with laws and agreements is an important part of Kesko's corporate responsibility. Non-compliance can result in fines, claims for damages and other financial losses, and a loss of confidence and reputation.

Product safety

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

Change in the trading sector caused by digitalisation

As retail undergoes a major transformation, the achievement of business objectives requires an active approach and strong expertise in the development of digital services and online stores that are attractive to customers, and the use of a multichannel approach with supporting customer communications. Challenges in developing online sales include the cost efficiency of logistical operating models and the suitability of existing store sites for online sales.

Employee competencies and working capacity

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

Store sites and properties

With a view to business growth and profitability, good store sites are a key competitive factor. The acquisition of store sites can be delayed by town planning and permit procedures and the availability and pricing of sites. Considerable amounts of capital or lease liabilities are tied up in properties for years. 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 purchasing chain of products.

Climate change

Climate change presents physical and regulatory risks and risks affecting reputational factors. Climate change increases the risk of extreme weather phenomena, which may cause damage or business interruptions that cannot be prevented or covered with insurances. Droughts, desertification and rising sea levels may impact agricultural production and the availability of raw materials and products. Possible emission limitations and taxes may affect the energy markets.

Reporting to market

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

Risks of damage

Accidents, natural phenomena and epidemics could 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 (1/2019-12/2019) in comparison with the 12 months preceding the end of the reporting period (1/2018-12/2018). The outlook is based on IFRS in force on 31 December 2018, and does not take account of the impacts of IFRS 16 Leases, which took effect on 1 January 2019.

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, the trading sector is expected to grow. In the Finnish grocery trade, intense competition is expected to continue, although, as purchasing power increases, the importance of quality will be emphasised more than previously. In the building and technical trade, the growth in B2B sales is expected to continue stronger than the growth in the retail market. The market is expected to grow in the Nordic and Baltic countries, but at a somewhat slower rate.

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. However, investments in information systems and digital services will burden profitability during the period. In the car trade, profitability is burdened by the shift to WLTP emissions testing, which postpones car delivery times. In the building and technical trade, the share of own retailing has risen following the acquisitions carried out, which increases profit-related seasonal fluctuations.

Updated dividend policy

In the long-term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko plans to pay its dividends in two instalments, starting with the dividend paid for the year 2018.

According to its previous dividend policy, Kesko distributed at least 50% of its comparable earnings per share as dividends, taking into account, however, the company's financial position and operating strategy.

Proposal for profit distribution

The Board of Directors of Kesko Corporation proposes to the Annual General Meeting to be held on 8 April 2019 that a dividend of €2.34 per share be paid for the year 2018 based on the adopted balance sheet 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, €1.17 per share, will 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 10 April 2019. The Board proposes that the first dividend instalment pay date be 17 April 2019.

The second instalment, €1.17 per share, will 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 10 October 2019. The Board proposes that the second dividend instalment pay date be 17 October 2019. The Board proposes 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, 5 February 2019, 99,018,353 shares were held outside the Company, and the corresponding total amount of dividends is €231,702,946.02.

The distributable assets of Kesko Group's parent company Kesko Corporation total €1,281,451,062.98 of which the profit for the financial year is €211,959,289.00.

Annual General Meeting

The Board of Directors has decided to convene the Annual General Meeting at Messukeskus in Helsinki on 8 April 2019 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	
		2014	2015	2016	2017	2018
Income statement						
Net sales	€ million	9,071	8,679	10,180	10,492	10,383
Change in net sales	%	-2.6	-4.3	17.3	3.1	-1.0
Operating profit, comparable	€ million	232.6	244.5	272.9	296.2	332.2
Operating profit as percentage of net sales, comparable	%	2.6	2.8	2.7	2.8	3.2
Operating profit	€ million	151.4	194.6	146.8	338.6	307.9
Operating profit as percentage of net sales	%	1.7	2.2	1.4	3.2	3.0
Profit for the year (incl. non-controlling interests)	€ million	108	117	114	284	235
Profit for the year as percentage of net sales	%	1.2	1.4	1.1	2.7	2.3
Profitability						
Return on equity, group	%	4.7	5.2	5.2	12.3	8.1
Return on equity, comparable, group	%	7.6	8.2	9.8	10.9	11.7
Return on capital employed	%	6.4	9.3	6.4	15.2	12.9
Return on capital employed, comparable	%	9.9	11.7	11.9	13.3	14.0
Funding and financial position						
Interest-bearing net debt, group	€ million	-99.2	-448.1	123.3	135.9	161.6
Gearing, group	%	-4.4	-20.0	5.8	6.1	7.4
Equity ratio, group	%	54.5	54.7	48.6	50.4	51.4
Interest-bearing net debt/EBITDA, group		-0.3	-1.4	0.4	0.3	0.4

		Group			Continuing operations	
		2014	2015	2016	2017	2018
Other performance indicators						
Capital expenditure	€ million	194	219	743	334	418
Capital expenditure as percentage of net sales	%	2.1	2.5	7.3	3.2	4.0
Cash flow from operating activities	€ million	304	276	170	292	437
Cash flow from investing activities	€ million	-182	217	-501	-72	-373
Cash flow from operating activities, discontinued operations	€ million	-	-	-	10	-23
Cash flow from investing activities, discontinued operations	€ million	-	-	-	-17	164
Personnel, average for the year, group		19,976	18,956	22,475	22,077	19,995
Personnel, as at 31 Dec., group		23,794	21,935	27,657	24,983	23,458

	2014	2015	2016	2017	2018
Share performance indicators					
Earnings/share, basic and diluted					
Continuing operations	€	-	-	2.75	2.18
Discontinued operations	€	-	-	-0.16	-0.56
Group total	€	0.97	1.03	2.59	1.61
Earnings/share, comparable, basic					
Continuing operations	€	-	-	2.29	2.47
Group total	€	1.65	1.70	-	-
Equity/share	€	22.05	21.82	21.45	21.06
Dividend/share	€	1.50	2.50	2.20	2.34*
Payout ratio	%	154.7	243.8	84.9	145.2*
Payout ratio, comparable	%	91.1	146.7	96.6	95.8*
Cash flow from operating activities/share, adjusted, group total	€	3.07	2.79	3.03	4.17
Cash flow from operating activities/share, adjusted, continuing operations	€	-	-	2.94	4.41
Price/earnings ratio (P/E), A share, adjusted		29.49	30.35	17.01	27.05
Price/earnings ratio (P/E), B share, adjusted		31.16	31.57	17.45	29.22
Effective dividend yield, A share	%	5.3	8.0	5.0	5.4*
Effective dividend yield, B share	%	5.0	7.7	4.9	5.0*
Share price as at 31 Dec.					
A share	€	28.56	31.12	44.10	43.60
B share	€	30.18	32.37	45.25	47.10
Average share price					
A share	€	29.06	31.85	43.62	47.21
B share	€	29.82	33.52	44.52	48.68
Market capitalisation as at 31 Dec., A share	€ million	906	988	1,400	1,384
Market capitalisation as at 31 Dec., B share	€ million	2,031	2,182	3,064	3,169

	2014	2015	2016	2017	2018
Turnover					
A share	Million pcs	2	2	1	1
B share	Million pcs	47	59	49	52
Relative turnover rate					
A share	%	6.3	7.5	4.0	4.6
B share	%	69.5	87.0	70.9	75.9
Diluted average number of shares	Thousand pcs	99,161	99,114	99,249	99,426
Yield of A share for the past five financial years	%	8.3	2.3	18.4	16.0
Yield of B share					
For the past five financial years	%	10.1	3.0	18.5	17.6
For the past ten financial years	%	10.2	7.7	6.8	15.6

* Proposal to the General Meeting

Net sales by segment

€ million	1-12/2018	1-12/2017	Change, %
Grocery trade, Finland	5,386	5,282	2.0
Grocery trade, total	5,386	5,282	2.0
- of which intersegment trade	6	7	-14.0
Building and technical trade, Finland	1,972	2,190	-10.0
Building and technical trade, other countries*	2,131	2,111	0.9
Building and technical trade, total	4,103	4,302	-4.6
- of which intersegment trade	0	3	-96.3
Car trade, Finland	893	909	-1.8
Car trade, total	893	909	-1.8
- of which intersegment trade	2	1	(..)
Common functions and eliminations	1	-1	(..)
Finland, total	8,252	8,380	-1.5
Other countries, total*	2,131	2,111	0.9
Continuing operations, total	10,383	10,492	-1.0

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

Operating profit by segment

€ million	1-12/2018	1-12/2017	Change
Grocery trade	219.3	181.3	38.0
Building and technical trade	84.9	168.7	-83.8
Car trade	34.4	33.1	1.2
Common functions and eliminations	-30.6	-44.5	13.9
Continuing operations, total	307.9	338.6	-30.7

Comparable operating profit by segment

€ million	1-12/2018	1-12/2017	Change
Grocery trade	228.0	203.4	24.6
Building and technical trade	98.4	95.2	3.2
Car trade	34.5	33.1	1.4
Common functions and eliminations	-28.7	-35.6	6.8
Continuing operations, total	332.2	296.2	36.0

Group's performance indicators by quarter

	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1-3/ 2018	4-6/ 2018	7-9/ 2018	10-12/ 2018
Net sales, continuing operations, € million	2,558	2,763	2,596	2,575	2,413	2,673	2,642	2,655
Change in net sales, continuing operations, %	29.1	7.7	-5.3	-5.3	-5.7	-3.3	1.8	3.1
Operating profit, continuing operations, € million	19.4	151.8	96.7	70.8	36.6	81.6	110.0	79.8
Operating margin, continuing operations, %	0.8	5.5	3.7	2.8	1.5	3.1	4.2	3.0
Operating profit, comparable, continuing operations, € million	31.5	83.8	100.5	80.4	40.0	89.0	112.6	90.5
Operating margin, comparable, continuing operations, %	1.2	3.0	3.9	3.1	1.7	3.3	4.3	3.4
Finance income/costs, continuing operations, € million	4.2	-1.1	-0.2	-0.7	0.0	-0.9	-0.3	0.0
Profit before tax, continuing operations, € million	24.3	150.0	96.5	71.7	36.5	78.5	109.1	72.6
Profit before tax, continuing operations, %	0.9	5.4	3.7	2.8	1.5	2.9	4.1	2.7
Return on capital employed, continuing operations, %	3.5	27.1	17.8	12.6	6.3	14.2	18.2	13.0
Return on capital employed, comparable, continuing operations, %	5.7	15.0	18.5	14.3	6.9	15.5	18.7	14.7
Return on equity, %	3.2	24.8	13.9	8.1	1.0	6.4	15.7	10.2
Return on equity, comparable, %	5.1	12.2	14.6	12.2	5.4	12.6	16.5	13.3
Cash flow from operating activities/share, continuing operations, €	-0.48	1.32	0.98	1.11	0.40	1.41	1.32	1.29
Equity ratio, %	47.4	47.0	49.1	50.4	49.3	46.2	48.5	51.4
Capital expenditure, continuing operations, € million	75.8	77.7	62.9	117.1	54.5	74.2	221.2	67.7
Earnings/share, basic and diluted, €								
Continuing operations	0.21	1.29	0.67	0.57	0.32	0.52	0.79	0.54
Discontinued operations	-0.03	0.00	0.01	-0.14	-0.24	-0.28	-0.03	-0.02
Group total	0.18	1.29	0.69	0.43	0.08	0.24	0.77	0.52
Earnings/share, basic and diluted, comparable €								
Continuing operations	0.31	0.61	0.71	0.65	0.35	0.61	0.81	0.70
Equity/share, €	20.98	20.18	20.89	21.45	21.52	19.87	20.78	21.06

Net sales by segment

€ million	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1-3/ 2018	4-6/ 2018	7-9/ 2018	10-12/ 2018
Grocery trade	1,243	1,327	1,313	1,399	1,276	1,327	1,352	1,430
Building and technical trade	1,073	1,202	1,070	957	877	1,102	1,089	1,035
Car trade	245	234	212	218	259	244	200	190
Common functions and eliminations	-2	0	0	1	1	0	0	1
Continuing operations, total	2,558	2,763	2,596	2,575	2,413	2,673	2,642	2,655

Operating profit by segment

€ million	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1-3/ 2018	4-6/ 2018	7-9/ 2018	10-12/ 2018
Grocery trade	16.7	39.9	59.3	65.4	37.6	48.3	63.5	69.9
Building and technical trade	4.0	114.6	38.0	12.1	-4.2	31.0	44.7	13.5
Car trade	10.0	7.6	8.8	6.7	11.0	8.7	7.8	6.8
Common functions and eliminations	-11.4	-10.3	-9.4	-13.4	-7.7	-6.4	-6.1	-10.5
Continuing operations, total	19.4	151.8	96.7	70.8	36.6	81.6	110.0	79.8

Items in operating profit affecting comparability

€ million	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1-3/ 2018	4-6/ 2018	7-9/ 2018	10-12/ 2018
Grocery trade	-9.7	-10.6	-0.2	-1.7	-1.2	-4.5	-1.1	-1.9
Building and technical trade	-1.8	79.8	-2.7	-1.8	-2.0	-2.4	-1.3	-7.8
Car trade	-	-	-	-	-	-	-	-0.1
Common functions and eliminations	-0.6	-1.3	-1.0	-6.0	-0.3	-0.5	-0.3	-0.8
Continuing operations, total	-12.1	67.9	-3.8	-9.5	-3.4	-7.5	-2.7	-10.7

Comparable operating profit by segment

€ million	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1-3/ 2018	4-6/ 2018	7-9/ 2018	10-12/ 2018
Grocery trade	26.4	50.5	59.4	67.0	38.7	52.8	64.7	71.8
Building and technical trade	5.8	34.8	40.7	14.0	-2.2	33.4	45.9	21.3
Car trade	10.0	7.6	8.8	6.7	11.0	8.7	7.8	7.0
Common functions and eliminations	-10.8	-9.0	-8.5	-7.4	-7.4	-5.9	-5.8	-9.6
Continuing operations, total	31.5	83.8	100.5	80.4	40.0	89.0	112.6	90.5

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. The changes in Suomen Lähikauppa Oy's store site network in 2017 and 2018 have been handled in this manner.

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

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

Profitability

Operating profit, comparable	Operating profit +/- items affecting comparability
Items affecting comparability	- gains on disposal + losses on disposal + impairment charges +/- structural arrangements
Return on equity, %	$\frac{(\text{Profit/loss before tax} - \text{Income tax}) \times 100}{\text{Shareholders' equity, average of the beginning and end of the financial year}}$
Return on equity, comparable, %	$\frac{(\text{Profit/loss adjusted for items affecting comparability before tax} - \text{Income tax adjusted for the tax effect of the items affecting comparability}) \times 100}{\text{Shareholders' equity, average of the beginning and end of the financial year}}$
Return on capital employed, %	$\frac{\text{Operating profit} \times 100}{(\text{Non-current assets} + \text{Inventories} + \text{Receivables} + \text{Other current assets} - \text{Non-interest-bearing liabilities}) \text{ on average for 12 months}}$
Return on capital employed, comparable, %	$\frac{\text{Comparable operating profit} \times 100}{(\text{Non-current assets} + \text{Inventories} + \text{Receivables} + \text{Other current assets} - \text{Non-interest-bearing liabilities}) \text{ on average for 12 months}}$
EBITDA	Operating profit + Depreciation and amortisation + Impairment charges

Funding, capital expenditure and financial position

Equity ratio, %	$\frac{\text{Shareholders' equity} \times 100}{\text{(Balance sheet total - Advances received)}}$
Gearing, %	$\frac{\text{Interest-bearing net debt} \times 100}{\text{Shareholders' equity}}$
Interest-bearing net debt	Interest-bearing liabilities – Financial assets at fair value through profit or loss – Available-for-sale financial assets - Cash and cash equivalents
Interest-bearing net debt/EBITDA	$\frac{\text{Interest-bearing net debt}}{\text{EBITDA}}$
Capital expenditure	Investments in property, plant and equipment, intangible assets, subsidiary shares, shares in associates and joint ventures and other shares

Share performance indicators

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

Reconciliation of performance indicators to IFRS financial statements

€ million	1-12/2018	1-12/2017
Continuing operations		
Items affecting comparability		
Gains on disposal	6.7	83.4
Losses on disposal	-0.1	-1.8
Impairment charges	-5.6	-0.5
Structural arrangements	-25.3	-38.6
Items in operating profit affecting comparability	-24.2	42.5
Items in financial items affecting comparability	-6.5	-0.4
Items in income taxes affecting comparability	4.5	3.8
Items in net profit attributable to non-controlling interests affecting comparability	-3.2	-
Total items affecting comparability	-29.4	45.9
Operating profit, comparable		
Operating profit	307.9	338.6
Net of		
Items in operating profit affecting comparability	-24.2	42.5
Operating profit, comparable	332.2	296.2
Profit before tax, comparable		
Profit before tax	296.8	342.4
Net of		
Items in operating profit affecting comparability	-24.2	42.5
Items in financial items affecting comparability	-6.5	-0.4
Profit before tax, comparable	327.5	300.3
Net profit, comparable		
Comparable profit before tax	327.5	300.3
Net of		
Income tax	61.9	57.9
Items in income taxes affecting comparability	4.5	3.8
Net profit, comparable	261.1	238.5

€ million	1-12/2018	1-12/2017
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	261.1	238.5
Net profit attributable to non-controlling interests	19.0	11.0
Items in net profit attributable to non-controlling interests affecting comparability	-3.2	-
Net profit attributable to owners of the parent, comparable	245.3	227.5
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	245.3	227.5
Average number of shares, basic, 1,000 pcs	99,182	99,426
Earnings/share, comparable, €	2.47	2.29
Return on capital employed, %		
Operating profit	307.9	338.6
Capital employed, average	2,378	2,224
Return on capital employed, %	12.9	15.2
Return on capital employed, comparable, %		
Operating profit, comparable	332.2	296.2
Capital employed, average	2,378	2,224
Return on capital employed, comparable, %	14.0	13.3
Group		
Return on equity, %		
Net profit	178.9	268.8
Equity, average	2,215	2,179
Return on equity, %	8.1	12.3
Return on equity, comparable, %		
Net profit, comparable	258.1	237.5
Equity, average	2,215	2,179
Return on equity, comparable, %	11.7	10.9
Equity ratio, %		
Shareholders' equity	2,198	2,232
Total assets	4,303	4,472
Advances received	26	39
Equity ratio, %	51.4	50.4

Reconciliation of performance indicators to IFRS financial statements by quarter

€ million	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1-3/ 2018	4-6/ 2018	7-9/ 2018	10-12/ 2018
Continuing operations								
Items affecting comparability								
Gains on disposal	0.3	81.8	0.6	0.6	2.5	4.3	0.0	0.0
Losses on disposal	-0.4	-1.2	-0.1	-0.1	0.0	-	0.0	-
Impairment charges	-	-	-0.5	-	-	-3.4	-	-2.2
Structural arrangements	-12.1	-12.6	-4.0	-10.1	-5.8	-8.4	-2.6	-8.5
Items in operating profit affecting comparability	-12.1	67.9	-3.8	-9.5	-3.4	-7.5	-2.7	-10.7
Items in financial items affecting comparability	-	-	-	-0.4	-	-	-	-6.5
Items in income taxes affecting comparability	2.0	-0.4	0.1	2.1	0.4	2.0	0.3	1.8
Items in net profit attributable to non-controlling interests affecting comparability	-	-	-	-	-	-3.7	0.5	-
Total items affecting comparability	-10.1	67.5	-3.7	-7.8	-3.0	-9.2	-1.8	-15.4
Operating profit, comparable								
Operating profit	19.4	151.8	96.7	70.8	36.6	81.6	110.0	79.8
Net of								
Items in operating profit affecting comparability	-12.1	67.9	-3.8	-9.5	-3.4	-7.5	-2.7	-10.7
Operating profit, comparable	31.5	83.8	100.5	80.4	40.0	89.0	112.6	90.5
Profit before tax, comparable								
Profit before tax	24.3	150.0	96.5	71.7	36.5	78.5	109.1	72.6
Net of								
Items in operating profit affecting comparability	-12.1	67.9	-3.8	-9.5	-3.4	-7.5	-2.7	-10.7
Items in financial items affecting comparability	-	-	-	-0.4	-	-	-	-6.5
Profit before tax, comparable	36.3	82.1	100.3	81.6	39.9	86.0	111.8	89.8
Net profit, comparable								
Profit before tax, comparable	36.3	82.1	100.3	81.6	39.9	86.0	111.8	89.8
Net of								
Income tax	4.2	17.4	23.6	12.7	7.3	16.3	23.5	14.9
Items in income taxes affecting comparability	2.0	-0.4	0.1	2.1	0.4	2.0	0.3	1.8
Net profit, comparable	30.2	65.1	76.6	66.7	32.2	67.8	88.0	73.1
Net profit attributable to owners of the parent, comparable								
Net profit, comparable	30.2	65.1	76.6	66.7	32.2	67.8	88.0	73.1

€ million	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017	1-3/ 2018	4-6/ 2018	7-9/ 2018	10-12/ 2018
Net of								
Net profit attributable to non-controlling interests	-1.0	4.2	6.0	1.8	-2.7	10.9	6.9	3.9
Items in net profit attributable to non-controlling interests affecting comparability	-	-	-	-	-	-3.7	0.5	-
Net profit attributable to owners of the parent, comparable	31.2	60.8	70.6	64.9	34.9	60.6	80.6	69.2
Earnings/share, comparable, €								
Net profit attributable to owners of the parent, comparable	31.2	60.8	70.6	64.9	34.9	60.6	80.6	69.2
Average number of shares, basic, 1,000 pcs	99,308	99,387	99,414	99,426	99,468	99,347	99,237	99,182
Earnings/share, comparable, €	0.31	0.61	0.71	0.65	0.35	0.61	0.81	0.70
Return on capital employed, %								
Operating profit	19.4	151.8	96.7	70.8	36.6	81.6	110.0	79.8
Capital employed, average	2,224	2,239	2,175	2,248	2,317	2,294	2,413	2,462
Return on capital employed, %	3.5	27.1	17.8	12.6	6.3	14.2	18.2	13.0
Return on capital employed, comparable, %								
Operating profit, comparable	31.5	83.8	100.5	80.4	40.0	89.0	112.6	90.5
Capital employed, average	2,224	2,239	2,175	2,248	2,317	2,294	2,413	2,462
Return on capital employed, comparable, %	5.7	15.0	18.5	14.3	6.9	15.5	18.7	14.7
Group								
Return on equity, %								
Net profit	17.2	132.8	74.1	44.7	5.8	34.3	82.9	55.9
Equity, average	2,155	2,142	2,138	2,204	2,235	2,154	2,118	2,182
Return on equity, %	3.2	24.8	13.9	8.1	1.0	6.4	15.7	10.2
Return on equity, comparable, %								
Net profit, comparable	27.4	65.2	77.9	67.0	30.4	67.8	87.5	72.4
Equity, average	2,155	2,142	2,138	2,204	2,235	2,154	2,118	2,182
Return on equity, comparable, %	5.1	12.2	14.6	12.2	5.4	12.6	16.5	13.3
Equity ratio, %								
Shareholders' equity	2,183	2,100	2,176	2,232	2,238	2,070	2,167	2,198
Total assets	4,638	4,496	4,464	4,472	4,774	4,504	4,498	4,303
Advances received	32	27	32	39	240	28	30	26
Equity ratio, %	47.4	47.0	49.1	50.4	49.3	46.2	48.5	51.4

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2018

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	27,668,787	27.66
Financial and insurance corporations	3,109,934	3.11
General government*	4,718,143	4.72
Households	24,192,608	24.19
Non-profit institutions**	5,152,908	5.15
Foreign and nominee-registered	35,177,372	35.17
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	21,026,307	66.25	21.02
Financial and insurance corporations	1,416,882	4.46	1.42
General government*	542,756	1.71	0.54
Households	5,854,848	18.45	5.85
Non-profit institutions**	2,091,706	6.59	2.09
Foreign and nominee-registered	804,508	2.53	0.80
Total	31,737,007	100.00	31.73

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	6,642,480	9.73	6.64
Financial and insurance corporations	1,693,052	2.48	1.69
General government*	4,175,387	6.11	4.17
Households	18,337,760	26.86	18.33
Non-profit institutions**	3,061,202	4.48	3.06
Foreign and nominee-registered	34,372,864	50.34	34.37
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. 2018

All shares	Number of shareholders, pcs	Percentage of shareholders, %	Share total, pcs	Percentage of shares, %
1-100	15,578	38.23	776,694	0.78
101-500	14,039	34.46	3,711,720	3.71
501-1,000	4,853	11.91	3,817,317	3.82
1,001-5,000	4,889	12.00	10,716,957	10.71
5,001-10,000	761	1.87	5,395,567	5.39
10,001-50,000	517	1.27	10,467,726	10.47
50,001-100,000	57	0.14	4,124,990	4.12
100,001-500,000	34	0.08	6,009,867	6.01
500,001-	17	0.04	54,998,914	54.99
Total	40,745	100.00	100,019,752	100.00

A shares	Number of shareholders, pcs	Percentage of A shareholders, %	A share total, pcs	Percentage of A shares, %
1-100	3,381	39.70	135,156	0.43
101-500	1,978	23.23	501,660	1.58
501-1,000	1,114	13.08	973,836	3.07
1,001-5,000	1,399	16.43	3,339,357	10.52
5,001-10,000	334	3.92	2,345,606	7.39
10,001-50,000	260	3.05	5,581,837	17.59
50,001-100,000	31	0.36	2,179,934	6.87
100,001-500,000	10	0.12	1,696,087	5.34
500,001-	9	0.11	14,983,534	47.21
Total	8,516	100.00	31,737,007	100.00

B shares Number of shares	Number of shareholders, pcs	Percentage of B share- holders, %	B share total, pcs	Percentage of B shares, %
1-100	13,288	38.27	694,405	1.02
101-500	12,931	37.25	3,433,778	5.03
501-1,000	3,978	11.46	3,041,239	4.45
1,001-5,000	3,794	10.93	8,047,412	11.79
5,001-10,000	405	1.17	2,901,572	4.25
10,001-50,000	268	0.77	5,224,460	7.65
50,001-100,000	24	0.07	1,821,854	2.67
100,001-500,000	20	0.06	3,654,574	5.35
500,001-	10	0.03	39,463,451	57.79
Total	34,718	100.00	68,282,745	100.00

10 largest shareholders by number of shares held as at 31 Dec. 2018

	Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1. K-Retailers' Association	4,255,456	4.25	42,554,560	11.03
2. Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
3. Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
4. Ilmarinen Mutual Pension Insurance Company	2,076,418	2.08	6,957,892	1.80
5. Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
6. Foundation for Vocational Training in the Retail Trade	1,209,942	1.21	12,099,420	3.14
7. Varma Mutual Pension Insurance Company	1,130,986	1.13	1,130,986	0.29
8. Oy The English Tearoom Ab	1,000,000	1.00	1,000,000	0.26
9. The State Pension Fund	750,000	0.75	750,000	0.19
10. Heimo Välinen Oy	550,000	0.55	5,500,000	1.43

Does not contain shares held by Kesko Corporation, amounting to 1,001,399 on 31 Dec. 2018.

10 largest shareholders by number of votes as at 31 Dec. 2018

	Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1. K-Retailers' Association	4,255,456	4.25	42,554,560	11.03
2. Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
3. Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
4. Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
5. Foundation for Vocational Training in the Retail Trade	1,209,942	1.21	12,099,420	3.14
6. Ilmarinen Mutual Pension Insurance Company	2,076,418	2.08	6,957,892	1.80
7. Heimo Välinen Oy	550,000	0.55	5,500,000	1.43
8. K-Food Retailers' Club	516,852	0.52	5,168,520	1.34
9. Food Paradise Oy	501,041	0.50	5,010,410	1.30
10. T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50

Management's shareholdings

At the end of December 2018, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 307,814 Kesko Corporation A shares and 49,718 Kesko Corporation B shares, i.e. a total of 357,532 shares, which represents 0.36% of the total number of shares and 0.81% of votes carried by all shares of the Company.

At 31 December 2018, the President and CEO held 44,964 Kesko Corporation B shares, which represented 0.04% of the total number of shares and 0.01% of votes carried by all shares of the Company. At 31 December 2018, the Group Management Board including the President and CEO held 81 Kesko Corporation A shares and 133,982 Kesko Corporation B shares, which represented 0.13% of the total number of shares and 0.03% of votes carried by all shares of the Company.



FINANCIAL STATEMENTS

Consolidated financial statements (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2018	%	1 Jan.–31 Dec. 2017	%
Continuing operations					
Net sales	2.1	10,382.8	100.0	10,491.8	100.0
Cost of goods sold		-8,989.5	-86.6	-9,025.7	-86.0
Gross profit		1,393.2	13.4	1,466.1	14.0
Other operating income	2.3	789.8	7.6	786.6	7.5
Employee benefit expenses	2.4	-694.1	-6.7	-738.1	-7.0
Depreciation, amortisation and impairment charges	3.3 3.4	-146.9	-1.4	-130.2	-1.2
Other operating expenses	2.4	-1,034.2	-10.0	-1,045.8	-10.0
Operating profit		307.9	3.0	338.6	3.2
Interest income and other finance income	4.4	14.1	0.1	18.5	0.2
Interest expense and other finance costs	4.4	-12.4	-0.1	-13.8	-0.1
Foreign exchange differences	4.4	-2.8	0.0	-2.4	0.0
Total finance income and costs	4.4	-1.1	0.0	2.2	0.0
Share of result of associates and joint ventures		-10.1	-0.1	1.6	0.0
Profit before tax		296.8	2.9	342.4	3.3
Income tax	2.6	-61.9	-0.6	-57.9	-0.6
Net profit for the year, continuing operations		234.8	2.3	284.5	2.7
Discontinued operations					
Net profit for the year from discontinued operations	3.7	-55.9	-0.5	-15.6	-0.1
Net profit for the year		178.9	1.7	268.8	2.6
Net profit for the year attributable to					
Owners of the parent		159.9		257.8	
Non-controlling interests		19.0		11.0	
Earnings per share for net profit attributable to owners of the parent					
Basic and diluted, continuing operations, €	2.7	2.18		2.75	
Basic and diluted, discontinued operations, €	2.7	-0.56		-0.16	
Basic and diluted, Group total, €	2.7	1.61		2.59	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Net profit for the year		178.9	268.8
Continuing operations			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	3.8 5.6	-1.9	36.0
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	5.6	-10.4	-15.1
Cash flow hedge revaluation	5.6	2.1	0.6
Revaluation of available-for-sale financial assets	5.6	-	-0.3
Others	5.6	-0.1	-0.3
Total comprehensive income for the year, net of tax, continuing operations		-10.4	20.9
Total comprehensive income for the year, net of tax, discontinued operations		35.1	-14.2
Total comprehensive income for the year		203.6	275.6
Comprehensive income for the year attributable to			
Owners of the parent		186.1	268.8
Non-controlling interests		17.6	6.8

Consolidated statement of financial position

€ million	Note	31 Dec. 2018	%	31 Dec. 2017	%
ASSETS					
Non-current assets					
Property, plant and equipment	3.3	1,196.4		1,293.1	
Intangible assets	3.4	492.1		376.2	
Shares in associates and joint ventures	3.9 5.2	123.5		117.4	
Financial assets at fair value through profit or loss	4.3 4.5	20.8		-	
Available-for-sale financial assets	4.3 4.5	-		23.0	
Non-current receivables	4.3 4.5	65.7		65.4	
Deferred tax assets	5.5	5.3		5.6	
Pension assets	3.8	148.0		207.5	
Total non-current assets		2,051.7	47.7	2,088.3	46.7
Current assets					
Inventories	3.5	913.0		938.6	
Interest-bearing receivables	3.6 4.5	2.7		1.5	
Trade receivables	3.6 4.3 4.5	820.3		836.0	
Income tax assets	3.6	0.1		11.1	
Other non-interest-bearing receivables	3.6 4.5	194.4		196.4	
Financial assets at fair value through profit or loss	4.3 4.5	50.9		171.0	
Financial assets at amortised cost	4.3 4.5	90.8		-	
Available-for-sale financial assets	4.3 4.5	-		94.2	
Cash and cash equivalents		107.5		132.7	
Total current assets		2,179.7	50.7	2,381.5	53.3
Non-current assets classified as held for sale	3.7	71.5	1.7	1.8	0.0
Total assets		4,302.9	100.0	4,471.6	100.0

€ million	Note	31 Dec. 2018	%	31 Dec. 2017	%
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	4.2	197.3		197.3	
Share premium	4.2	197.8		197.8	
Other reserves	4.2	266.9		266.9	
Currency translation differences	4.2	-24.0		-50.1	
Revaluation reserve	4.2	1.7		3.5	
Retained earnings		1,445.4		1,518.0	
		2,085.1	48.5	2,133.4	47.7
Non-controlling interests	5.1	113.2	2.6	98.7	2.2
Total equity		2,198.3	51.1	2,232.1	49.9
Non-current liabilities					
Interest-bearing non-current liabilities	4.3 4.5 4.6	177.8		129.3	
Non-interest-bearing non-current liabilities	4.3 4.5	29.4		31.4	
Deferred tax liabilities	5.5	44.9		52.0	
Pension obligations		0.4		0.4	
Provisions	3.10	27.1		25.1	
Total non-current liabilities		279.6	6.5	238.2	5.3
Current liabilities					
Current interest-bearing liabilities	4.3 4.5 4.6	233.4		404.6	
Trade payables	4.3 4.5	982.7		1,023.7	
Other non-interest-bearing liabilities	4.3 4.5	197.8		227.1	
Income tax liabilities	4.5	16.5		5.6	
Accrued liabilities	4.3 4.5	353.9		308.5	
Provisions	3.10	25.2		31.6	
Total current liabilities		1,809.5	42.1	2,001.1	44.8
Liabilities related to available-for-sale non-current assets	3.7	15.4	0.4	0.1	0.0
Total liabilities		2,104.6	48.9	2,239.5	50.1
Total equity and liabilities		4,302.9	100.0	4,471.6	100.0

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Cash flows from operating activities			
Profit before tax		296.8	343.0
Adjustments			
Depreciation according to plan		143.5	130.2
Finance income and costs		1.1	-2.2
Other adjustments	2.8	55.9	-78.0
		200.5	50.0
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		46.7	-78.1
Inventories, increase (-)/decrease (+)		-33.9	-12.5
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-24.5	32.2
		-11.7	-58.4
Interest paid and other finance costs		-14.1	-15.5
Interest received		15.6	16.1
Dividends received		0.7	2.2
Income taxes paid		-50.5	-45.4
Net cash flows from operating activities, continuing operations		437.1	291.9
Net cash flows from operating activities, discontinued operations	3.7	-23.2	9.9
Net cash flows from operating activities, total		413.8	301.7
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.2	-164.7	-0.4
Payments to acquire equity accounted investments	2.8	-9.2	-1.6
Payments for property, plant, equipment and intangible assets	2.8	-224.1	-303.1
Proceeds from sale of business operations, net of cash disposed of	3.2	-	143.9
Proceeds from equity accounted investments		7.5	-
Proceeds from sale of property, plant, equipment and intangible assets		18.7	96.6
Proceeds from sale of available-for-sale financial assets		0.0	0.1
Non-current loan and receivables, increase (-)/decrease (+)		-1.5	-7.0
Net cash flows from investing activities, continuing operations		-373.3	-71.5
Net cash flows from investing activities, discontinued operations	3.7	164.3	-16.8

€ million	Note	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Net cash flows from investing activities, total			
		-209.0	-88.3
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	-97.6	5.2
Repayments of finance lease liabilities	2.8	-4.3	-5.4
Interest-bearing receivables, increase (-)/decrease (+)	2.8	0.1	0.3
Dividends paid		-225.4	-203.8
Equity increase	4.2	-24.4	-
Short-term money market investments, increase (-)/decrease (+)		116.5	-36.4
Other items		0.8	-2.9
Net cash flows from financing activities, continuing operations		-234.3	-242.9
Net cash flows from financing activities, discontinued operations		-	-
Net cash flows from financing activities, total		-234.3	-242.9
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	198.6
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, discontinued operations	2.8	6.5	2.3
Currency translation difference adjustment and change in value		-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	163.7
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, discontinued operations	2.8	0.4	6.5

Consolidated statement of changes in equity

€ million	Attributable to owners of the parent						Total	Non-controlling interest	Total equity
	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings			
Balance as at 1 January 2018	197.3	464.7	-50.1	3.5	-18.0	1,536.0	2,133.4	98.7	2,232.1
Impact of new IFRS adoption				-3.9	3.7	2.6	2.4	0.0	2.4
Adjusted opening balance 1 January 2018	197.3	464.7	-50.1	-0.4	-14.2	1,538.6	2,135.9	98.7	2,234.6
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						215.8	215.8	19.0	234.8
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			-9.0			0.1	-8.9	-1.4	-10.4
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			26.1	2.1		157.9	186.1	17.6	203.6
Balance as at 31 December 2018	197.3	464.7	-24.0	1.7	-36.9	1,482.3	2,085.1	113.2	2,198.3

€ million	Attributable to owners of the parent						Total	Non-controlling interest	Total equity
	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings			
Balance as at 1 January 2017	197.3	463.4	-23.7	3.2	-23.5	1,412.4	2,029.1	97.3	2,126.3
Share-based payments					5.5		5.5		5.5
Dividends						-198.9	-198.9	-4.8	-203.8
Disposal of subsidiary		0.0	-1.4			1.4	0.0		0.0
Disposals of non-controlling interests						21.2	21.2		21.2
Purchases of non-controlling interests							0.0	-0.5	-0.5
Other changes		1.4	0.0			6.4	7.8	0.1	7.9
Transactions with owners, total		1.4	-1.4		5.5	-170.0	-164.4	-5.3	-169.7
Comprehensive income									
Net profit for the year, continuing operations						273.4	273.4	11.0	284.5
Net profit for the year, discontinued operations						-15.6	-15.6		-15.6
Actuarial gains/losses						45.0	45.0		45.0
Currency translation differences related to a foreign operation			-10.8				-10.8	-4.3	-15.1
Cash flow hedge revaluation				0.8			0.8		0.8
Revaluation of available-for-sale financial assets				-0.4			-0.4		-0.4
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				-0.1		-9.0	-9.1		-9.1
Comprehensive income, discontinued operations				-14.2			-14.2		-14.2
Total comprehensive income for the period				-25.0	0.3	293.5	268.8	6.8	275.6
Balance as at 31 December 2017	197.3	464.7	-50.1	3.5	-18.0	1,536.0	2,133.4	98.7	2,232.1

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

- 1.1 Basic information about the Company
- 1.2 Basis of preparation
- 1.3 Critical accounting estimates and assumptions
- 1.4 Critical judgements in applying accounting policies
- 1.5 Consolidation principles
- 1.6 New IFRS standards

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

1. Accounting policies for the consolidated financial statements

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

1.1 Basic information about the Company

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

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

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The Company's business ID is 0109862-8, it is domiciled in Helsinki, and its registered address is PO Box 1, FI-00016 KESKO. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, PO Box 1, Helsinki, FI-00016 KESKO, visiting address Sörnäistenkatu 2, Helsinki, and from the internet at www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 5 February 2019.

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 2018. 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.

As of the start of the financial year, the Group has adopted the new standards IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers and the amendments to the standard IFRS 2 Share-based Payment, effective as of 1 January 2018. Due to changes in IFRS 9 and IFRS 2, the Group's opening balance sheet of 1 January 2018 has been adjusted. IFRS 15 did not have a material impact on the consolidated financial statements, and it had no effect on the opening balance sheet 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 avail-

able. If market values are not available, the measurement is based on the estimated earnings-generating capacity of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

Impairment test

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

Employee benefits

The Group operates both defined contribution pension plans and defined benefit pension plans. Items relating to employee benefits are calculated using several factors that require the application of judgement. Pension calculations under defined benefit plans in compliance with IAS 19 are based on, among others, the following factors that rely on management estimates (note 3.8):

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

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

Measurement of inventories

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

Trade receivables

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

Provisions

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

1.4 Critical judgements in applying accounting policies

The Group's management uses its judgement in the adoption and application of accounting policies in the financial statements. Management has exercised its judgement in the application of accounting policies when, for example, measuring receivables, determining provisions for restructuring and classifying leases.

1.5 Consolidation principles

Subsidiaries

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

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

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

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

Associates

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

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

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

Joint arrangements

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

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

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

Mutual real estate companies

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

Subsidiaries, 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

As of the start of the financial year, the Group has adopted the new standards IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers and the amendments to the standard IFRS 2 Share-based Payment, effective as of 1 January 2018. Due to changes in IFRS 9 and IFRS 2, the Group's opening balance sheet of 1 January 2018 has been adjusted. IFRS 15 did not have a material impact on the consolidated financial statements, and it had no effect on the opening balance sheet of 1 January 2018.

The impact of the changes in standards on the Group's opening balance sheet and shareholders' equity, and the changes to accounting policies are presented below. The tables only include the balance sheet items affected by the changes in standards, and thus subtotals are not presented.

Impact of new and amended standards on the opening balance sheet

€ million	31/12/2017	Adjustments	01/01/2018
ASSETS			
Current assets			
Trade receivables	836	-2	834
Financial assets at fair value through profit or loss	171	10	181
Financial assets at amortised cost		57	57
Available-for-sale financial assets	68	-68	0
Total current assets		-2	
EQUITY AND LIABILITIES			
Equity	2,133	2	2,135
Non-controlling interests	99	0	99
Total equity	2,232	2	2,235
Non-current liabilities			
Deferred tax liabilities	52	0	52
Total non-current liabilities		0	
Current liabilities			
Other non-interest-bearing liabilities	541	-4	537
Total current liabilities		-4	

Impact of new and amended standards on shareholders' equity in the opening balance sheet

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
Closing balance at 31 December 2017	197	465	-50	3	-18	1,536	99	2,232
Reclassification of financial instruments				-4		3		-1
Changes in hedge accounting				0		0		0
Change in provisions for trade receivables						-1	0	-1
IFRS 9 adjustments, total				-4		3	0	-1
IFRS 2 adjustments					4			4
Adjustments total				-4	4	3	0	2
Opening balance at 1 January 2018	197	465	-50	0	-14	1,539	99	2,235

IFRS 9 Financial instruments

The Group has adopted the standard IFRS 9 Financial instruments as of 1 January 2018. The standard concerns the classification, measurement and hedge accounting of financial assets and liabilities. The opening balance sheet of 1 January 2018 has been adjusted for the accounting policy changes.

Following the adoption of IFRS 9, the Group's financial assets have been reclassified into three groups: financial assets measured at amortised cost, financial assets measured at fair value in other comprehensive income, and financial assets measured at fair value through profit or loss. Financial assets measured 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 measured at fair value in other comprehensive income comprise derivatives used for hedging. 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. Following the adoption of IFRS 9, investments of available-for-sale financial assets in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds as measured at fair value through profit or loss. Investments of financial assets measured at fair value through profit or loss in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds are still measured at fair value through profit or loss.

In hedge accounting, the Group will switch to the requirements of IFRS 9. In the hedging of electricity price risk, hedge accounting is applied only to system price.

According to the new IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses, while previously, impairment was only recognised when there was objective evidence of impairment. 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. As for other financial assets, the change in impairment model has not had a material impact on the consolidated financial statements.

Reclassification of financial assets

€ million	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Derivatives used for hedging	Financial assets at amortised cost	Total
Closing balance 31 December 2017	171	1,099	117	0		1,388
Reclassification of investments in funds from available-for-sale to fair value through profit or loss	44		-44			0
Reclassification of investments in interest-bearing instruments from available-for-sale to amortised cost			-73		72	-1
Reclassification of investments in interest-bearing instruments from fair value through profit or loss to amortised cost	-11				11	0
Loans and receivables classified as financial assets measured at amortised cost		-1,099			1,099	0
Opening balance 1 January 2018	204	0	0	0	1,182	1,387

IFRS 15 Revenue from Contracts with Customers

The Group has adopted the standard IFRS 15 Revenue from Contracts with Customers as of 1 January 2018. The standard replaced IAS 11 Construction Contracts and IAS 18 Revenue, and related interpretations. The standard did not have a material impact on the consolidated financial statements or the accounting policies. Under the standard, revenue is recognised when the control of goods or services transfers to a customer. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the goods or services.

Kesko Group's income mainly consists of sales of goods and services to business and consumer customers under ordinary trading sector terms and conditions. The adoption of the new standard has not had a material impact on the consolidated financial statements, and the accounting policies for income recognition have not been changed. The adoption of the standard has also not impacted customer agreements or business operations, and it has had only a minor impact on business support processes and information systems.

IFRS 2 Share-based Payment

The Group has adopted changes to the standard IFRS 2 Share-based Payment as of 1 January 2018. The opening balance sheet of 1 January 2018 has been adjusted for the accounting policy changes.

Due to the change, the Group has reclassified the cash-settled portions of its share-based compensation plans 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-based compensation plans: the 2017 Performance Share Plan (PSP), the 2017 share-based incentive plan (Bridge Plan), and the Restricted Share Pool (RSP) plan, as well as share-based compensation plans granted after 1 January 2018.

IFRS 16 Leases

IFRS 16 Leases took effect on 1 January 2019. The standard addresses the definition, recognition and measurement of lease agreements and other information given in relation to lease agreements in financial statements. According to the standard, the lessee recognises in its balance sheet right-of-use assets and financial liabilities.

Kesko Group leases store sites and other properties for use in its business operations in all of its operating countries. Kesko has a significant number of lease agreements that before the implementation of IFRS 16 Leases were categorised as operating leases and recognised

as lease expenditure in the income statement on a time apportionment basis. According to the new standard that took effect on 1 January 2019, assets and liabilities corresponding to the present value of minimum lease payments will be recognised in the balance sheet at the commencement of most of these leases, meaning assets and liabilities recognised in the balance sheet will increase significantly. At the end of 2018 the lease liability for Kesko Group's properties was €2,934 million, in addition to which the Group had other lease liabilities of €24 million. The content of lease agreements recognised in the balance sheet under IFRS 16 Leases differs from the reporting of lease liabilities in the notes to balance sheet for the 2018 reporting period with regard to, for example, exemptions concerning short-term leases and asset items of low value. There are also timing-related differences, as lease liabilities reported under notes to the consolidated financial statements include also the nominal amount of liability for lease agreements that will enter into force in the future, while under IFRS 16 Leases, lease agreements are recognised in the balance sheet at the commencement date of the agreement.

According to IFRS 16 Leases, the measurement of the right-of-use assets and the lease liabilities is determined by discounting the minimum future lease payments. The Group will adopt the standard using a 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 discount rate should primarily be the interest rate implicit in the lease, if available. An interest rate implicit in the lease is not available for all lease agreements. In such cases, the Group will use the incremental borrowing rate, which comprises the reference rate, credit spread for the incremental borrowing, and a potential country and currency risk premium. With the retrospective method, the incremental borrowing rate is determined and the minimum lease payments discounted at the commencement date of each lease agreement. IFRS 16 Leases includes exemptions for lease agreements with a term of less than 12 months and for asset items of low value, which the Group will adopt. The lessor's reporting remains unchanged, meaning lease agreements are still divided into finance lease agreements and operating leases.

The new standard has a significant impact on the Group's income statement and balance sheet and on some performance indicators. The implementation of IFRS 16 increases significantly the Group's EBITDA and comparable EBITDA and operating profit and comparable operating profit when the lease expenditure recognised in the income statement is replaced by depreciation of right-of-use-assets and interest expenses for liability recognised in finance costs. In addition, change in deferred tax is recognised in income taxes.

Assets in the consolidated statement of financial position increase by the right-of-use-asset calculated for the commencement date of each lease agreement, to be depreciated over their lease term. The amount of interest-bearing liabilities in the consolidated statement of financial position increases by the discounted amount of lease liabilities. In addition, the implementation of the new standard affects the cash flow from operating activities and cash flow from financing activities in the consolidated statement of cash flows, as realised rent payments are 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 new standard does not have a practical impact on Kesko Group's cash flows, and the Group's cash flow as a whole will not change. The standard only changes the way different items in the statement of cash flows are presented. The retroactive implementation of the new accounting standard will result in an equity recording at the date of transition on 1 January 2018 as the values of assets and liabilities recognised in the balance sheet differ at the date of transition.

In the opening balance of 1 January 2018 drawn in conjunction with the implementation of IFRS 16 and calculated in accordance with the standard, the Group's right-of-use-assets total €1,996 million, and the corresponding interest-bearing liabilities €2,214 million. The implementation of the standard results in a €72 million increase in the comparable operating profit for continuing operations in January-September, as the operating profit is burdened by depreciation instead of rents. The positive impact on operating profit for the whole year 2018 is estimated to amount to some €95-98 million. The interest costs on interest-bearing liabilities calculated in accordance with the standard are recognised in the income statement, and these interest expenses are estimated to amount to some €99-101 million for 2018. Consequently, the net impact of the implementation of the standard on the Group's profit before taxes is estimated to amount to some €-3--5 million for 2018. The estimates given will become more specific once IFRS 16-compliant comparison figures for the whole 2018 reporting period are ready. Unaudited information on Kesko Group's restated comparison figures and the impact on the Group's key performance indicators for January-September 2018 with regard to the implementation of IFRS 16 Leases were published in a stock exchange release on 19 December 2018. IFRS 16-compliant comparison figures for the whole 2018 reporting period will be published before the publication of the Q1/2019 interim report, in April 2019 at the latest.

Consolidated statement of financial position, condensed

€ million	Opening balance sheet 1 Jan. 2018*	Impact of IFRS 16	Opening balance 1 Jan. 2018 restated
ASSETS			
Non-current assets			
Property, plant and equipment	1,293		1,293
Intangible assets	376		376
Right-of use assets	-	1,996	1,996
Shares in associates and joint ventures and other financial assets	140		140
Loans and receivables	71	3	74
Pension assets	207		207
Total	2,088	1,999	4,087
Current assets			
Inventories	939		939
Trade receivables	834		834
Other receivables	209		209
Financial assets at fair value through profit or loss	181		181
Financial assets at amortised cost	46		46
Cash and cash equivalents	170		170
Total	2,380		2,380
Non-current assets classified as held for sale	2		2
Total assets	4,470	1,999	6,469
EQUITY AND LIABILITIES			
Equity	2,135	-169	1,966
Non-controlling interests	99	-6	93
Total equity	2,235	-175	2,059

€ million	Opening balance sheet 1 Jan. 2018*	Impact of IFRS 16	Opening balance 1 Jan. 2018 restated
Non-current liabilities			
Interest-bearing liabilities	129		129
IFRS financial liabilities	-	1,922	1922
Non-interest-bearing liabilities	31		31
Deferred tax liabilities	52	-40	12
Pension obligations	0		0
Provisions	25		25
Total	238	1,883	2,121
Current liabilities			
Interest-bearing liabilities	405		405
IFRS financial liabilities	-	291	291
Trade payables	1,024		1,024
Other non-interest-bearing liabilities	537	8	545
Provisions	32	-8	24
Total	1,998	291	2,289
Liabilities related to available-for-sale non-current assets	0		0
Total equity and liabilities	4,470	1,999	6,469

* The impacts of the new and amended IFRS 9 and IFRS 2 on the Group's opening balance sheet are included in the opening balance sheet of 1 Jan. 2018.

2. FINANCIAL RESULTS

- 2.1. Kesko's divisions

- 2.2. Items affecting comparability

- 2.3. Other operating income

- 2.4. Operating expenses

- 2.5. Foreign exchange differences recognised in operating profit

- 2.6. Income tax

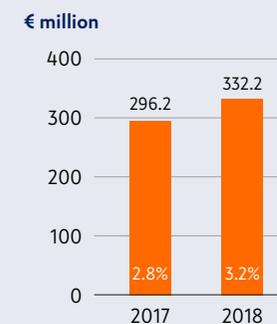
- 2.7. Earnings per share

- 2.8. Notes related to the statement of cash flows

Net sales, continuing operations



Comparable operating profit, continuing operations



Cash flow from operating activities, continuing operations



Comparable earnings/share, continuing operations



2.1 Kesko's divisions

Accounting policies

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

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

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

The assets and liabilities of a division's capital employed consist of operating items that can be justifiably allocated to the divisions. The assets of capital employed comprise property, plant and equipment and intangible assets, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables and assets held for sale.

The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions.

Capital employed does not include deferred tax assets and liabilities, financial assets at fair value through profit or loss 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 46% of the Group's net sales in 2018 (44%). B2B trade is a significant, growing part of business operations. B2B trade accounted for 36% (35%) of the Group's net sales in 2018. Kesko's own retailing accounted for 18% (21%) 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. The transfer of the Suomen Lähikauppa stores acquired in 2016 to retailers was completed by the end of June 2018. Kespro is the foodservice (formerly HoReCa) provider and wholesaler in Finland. Kespro's foodservice offering was expanded with the acquisitions of Reinin Liha and Kalatukku E. Eriksson, completed on 1 June 2018 and 2 July 2018, respectively. 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 and Sweden), Bygghälsan (Norway), K-Senukai (the Baltic countries) and OMA (Belarus). The building and home improvement stores serve both consumers and business customers. 29 stores in the Bygghälsan chain became part of Kesko Group following the completion of the acquisitions of Skattum Handel AS and Gipling AS on 2 July and 23 July 2018, respectively. Kesko Senukai strengthened its online retailing by

acquiring 1A Group, one of the leading online retail market players in the Baltic States. Onninen is one of the leading suppliers of HEPAC and electrical products and related service providers in the Baltic Sea region and Scandinavia. The group specialises in the B2B trade and has around 150 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

The specialty trade included in the building and technical trade division comprises machinery trade in Finland and 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. Kesko has stated it will sell its remaining shares in the Baltic machinery trade companies and Konekesko Finland's agricultural machinery trade operations to Danish Agro Group. Of the leisure trade businesses, the K-maatalous business was divested on 1 June 2017, and the Asko and Sotka furniture business and the Yamaha representation were divested on 30 June 2017.

On 16 February 2018, Kesko announced it would be discontinuing its building and home improvement trade operations in Russia. The divested Russian operations are reported as discontinued operations and are not included in the figures for the Group's continuing operations or the figures for the building and technical trade. The figures for the comparison period have been adjusted accordingly.

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.

Common functions

Common functions comprise Group support functions.

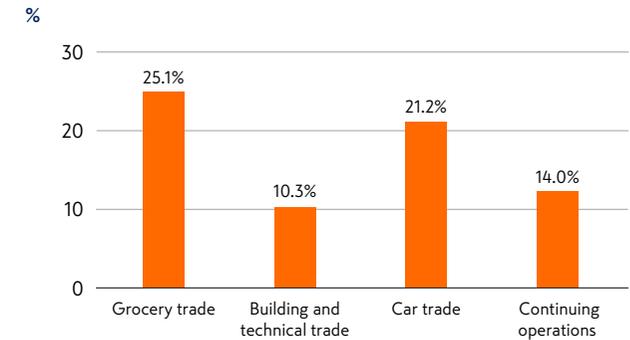
Kesko's divisions 2018

Profit, continuing operations

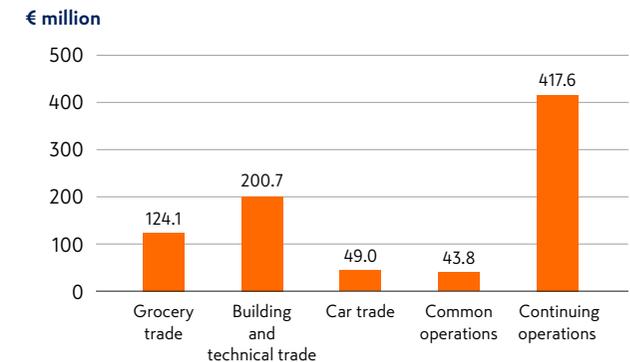
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,385.7	4,102.6	893.1	27.9	10,409.3
of which intersegment sales	-5.8	-0.1	-1.6	-19.0	-26.5
Net sales from external customers	5,379.9	4,102.5	891.4	8.9	10,382.8
Change in net sales in local currency 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
Operating profit	219.3	84.9	34.4	-30.6	307.9
Items affecting comparability	-8.7	-13.5	-0.1	-1.9	-24.2
Comparable operating profit	228.0	98.4	34.5	-28.7	332.2
Finance income and costs					-1.1
Investments accounted for using the equity method					-10.1
Profit before tax					296.8

(..) 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	944.1	535.5	122.5	88.0	-1.6	1,688.5
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			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	0.0	60.6		0.5	-0.1	61.0
Assets included in capital employed	1,600.9	1,709.8	329.0	417.7	-19.4	4,038.0
Unallocated items						
Deferred tax assets						5.3
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	1,600.9	1,709.8	329.0	417.7	-19.4	4,302.9

€ 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	233.4	206.1	78.8	62.5	-12.0	568.8
Provisions	8.9	6.7	35.8	0.9		52.2
Liabilities related to assets held for sale		14.9				14.9
Liabilities included in capital employed	725.1	693.9	138.9	77.6	-16.7	1,618.7
Unallocated items						
Interest-bearing liabilities						411.2
Other non-interest-bearing liabilities						29.2
Deferred tax liabilities						44.9
Liabilities related to assets held for sale, discontinued operations						0.5
Total liabilities	725.1	693.9	138.9	77.6	-16.7	2,104.6
Total capital employed as at 31 December, continuing operations	875.8	1,015.9	190.0	340.2	-2.7	2,419.3
Average capital employed, continuing operations	908.2	951.2	162.7	356.4	-0.6	2,377.9
Number of personnel as at 31 December, continuing operations	7,971	13,559	824	1,047		23,401
Average number of personnel, continuing operations	6,094	11,663	835	987		19,579

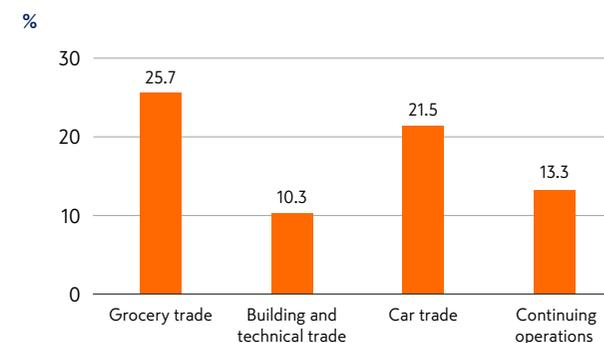
Kesko's divisions 2017

Profit, continuing operations

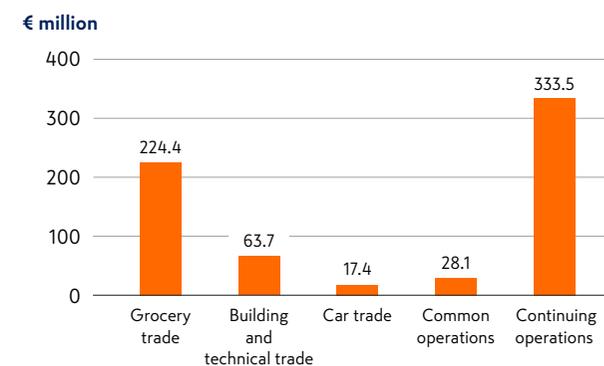
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,282.0	4,301.9	909.4	32.9	10,526.2
of which intersegment sales	-6.7	-2.6	-0.6	-24.5	-34.4
Net sales from external customers	5,275.3	4,299.3	908.8	8.5	10,491.8
Change in net sales in local currency excluding acquisitions and disposals, %	2.4	1.4	1.0	-3.4	1.9
Change in net sales, %	0.9	9.6	7.1	(..)	4.8
Other division income	546.0	231.4	4.2	10.5	792.1
of which intersegment income	-4.2	-1.9		0.5	-5.6
Other operating income from external customers	541.6	229.5	4.2	11.1	786.6
Depreciation and amortisation	-62.7	-40.3	-9.4	-17.7	-130.2
Impairment	0.0	-	-	-	0.0
Operating profit	181.3	168.7	33.1	-44.5	338.6
Items affecting comparability	-22.1	73.5		-8.9	42.5
Comparable operating profit	203.4	95.2	33.1	-35.6	296.2
Finance income and costs					2.2
Investments accounted for using the equity method					1.6
Profit before tax					342.4

(..) change over 100%

Comparable return on capital employed by segment, continuing operations 2017



Capital expenditure by segment, continuing operations 2017



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	903.8	435.8	93.4	71.5	0.6	1,505.0
Interests in associates and joint ventures and other investments	7.7	10.4	0.0	123.0	-0.6	140.5
Pension assets	40.6	16.2		150.6		207.5
Inventories	219.6	517.5	166.4	0.0		903.4
Trade receivables	344.3	439.0	44.7	7.7	-7.5	828.1
Other non-interest-bearing receivables	79.4	103.1	8.7	26.4	-7.0	210.6
Interest-bearing receivables	0.6	0.6		63.0		64.2
Non-current assets classified as held for sale		1.3		0.5		1.8
Assets included in capital employed	1,595.9	1,523.9	313.1	442.8	-14.5	3,861.1
Discontinued operations, assets of capital employed (note 3.7)						210.3
Eliminations between continuing and discontinued operations of assets of capital employed						-3.3
Unallocated items						
Deferred tax assets						5.6
Financial assets at fair value through profit or loss						171.0
Available-for-sale financial assets						94.2
Cash and cash equivalents						132.7
Total assets	1,595.9	1,523.9	313.1	442.8	-14.5	4,471.6

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	509.5	458.8	22.0	13.8	-4.9	999.4
Other non-interest-bearing liabilities	242.0	183.2	70.2	54.1	-9.4	540.0
Provisions	11.6	4.7	39.4	1.1		56.7
Liabilities related to assets held for sale		0.1				0.1
Liabilities included in capital employed	763.1	646.8	131.6	69.0	-14.3	1,596.2
Discontinued operations, liabilities of capital employed (note 3.7)						30.1
Eliminations between continuing and discontinued operations of liabilities of capital employed						-2.6
Unallocated items						
Interest-bearing liabilities						533.9
Other non-interest-bearing liabilities						29.9
Deferred tax liabilities						52.0
Total liabilities	763.1	646.8	131.6	69.0	-14.3	2,239.5
Total capital employed as at 31 December	832.8	877.1	181.5	373.8	-0.2	2,265.0
Average capital employed	791.3	923.5	154.1	353.7	1.6	2,224.2
Number of personnel as at 31 December	8,584	12,779	818	864		23,045
Average number of personnel	6,733	11,967	809	872		20,382

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.

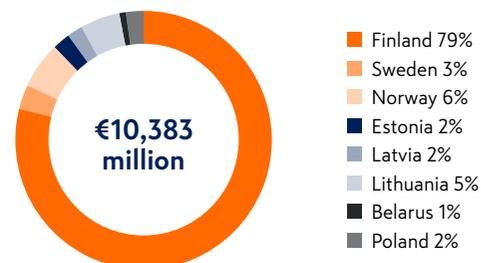
2018 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total, continuing operations
Net sales	8,260.7	940.6	824.3	367.2	-10.1	10,382.8
Assets included in capital employed	3,053.1	435.1	384.0	165.8		4,038.0
Capital expenditure	225.6	161.4	28.1	2.5		417.6
Average number of personnel	9,822	1,598	4,740	3,419		19,579

2017 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total, continuing operations
Net sales	8,391.3	1,046.8	717.0	348.4	-11.8	10,491.8
Assets included in capital employed	3,088.9	297.2	312.9	162.1		3,861.1
Capital expenditure	299.2	3.3	21.5	9.5		333.5
Average number of personnel	10,691	1,460	4,793	3,438		20,382

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.

Net sales by country, continuing operations



2.2 Items affecting comparability

Accounting policies

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and they have been allocated to divisions. The Group identifies gains and losses on disposal of real estate, shares and business operations, impairment charges and significant restructuring costs as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement. Impairment charges have been presented within depreciation, amortisation and impairment in the income statement.

€ million, continuing operations	2018	2017
Items affecting comparability		
Gains on disposal	6.7	83.4
Losses on disposal	-0.1	-1.8
Impairment charges	-5.6	-0.5
Structural arrangements	-25.3	-38.6
Items in operating profit affecting comparability, total	-24.2	42.5
Items in financial items affecting comparability	-6.5	-0.4
Items in income taxes affecting comparability	4.5	3.8
Items in net profit attributable to non-controlling interests affecting comparability	-3.2	-
Items affecting comparability, total	-29.4	45.9

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.

In 2017, the most significant items affecting comparability were the €49.7 million gain on the divestment of real estate in the Baltics, the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains, the €12.3 million gain on the divestment of the K-maatalous agricultural business, as well as the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million.

Reconciliation of performance indicators to IFRS financial statements, € million, continuing operations	2018	2017
Operating profit, comparable		
Operating profit	307.9	338.6
Net of		
Items in operating profit affecting comparability	-24.2	42.5
Operating profit, comparable	332.2	296.2
Profit before tax, comparable		
Profit before tax	296.8	342.4
Net of		
Items in operating profit affecting comparability	-24.2	42.5
Items in financial items affecting comparability	-6.5	-0.4
Profit before tax, comparable	327.5	300.3
Net profit, comparable		
Profit before tax, comparable	327.5	300.3
Net of		
Income tax	61.9	57.9
Items in income tax affecting comparability	4.5	3.8
Net profit, comparable	261.1	238.5
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	261.1	238.5
Net of		
Net profit attributable to non-controlling interests	19.0	11.0
Items in net profit attributable to non-controlling interests affecting comparability	-3.2	-
Net profit attributable to owners of the parent, comparable	245.3	227.5

Reconciliation of performance indicators to IFRS financial statements, € million, continuing operations	2018	2017
Earnings per share, comparable, €		
Net profit attributable to the owners of the parent, comparable	245.3	227.5
Average number of shares, basic, 1,000 pcs	99,182	99,426
Earnings per share, comparable, €	2.47	2.29
Return on capital employed, comparable, %		
Operating profit, comparable	332.2	296.2
Capital employed, average	2,378	2,224
Return on capital employed, comparable, %	14.0	13.3

Reconciliation of performance indicators to IFRS financial statements , € million, Group	2018	2017
Return on equity, %		
Net profit	178.9	268.8
Equity, average	2,215	2,179
Return on equity, %	8.1	12.3
Return on equity, comparable, %		
Net profit, comparable	258.1	237.5
Equity, average	2,215	2,179
Return on equity, comparable, %	11.7	10.9
Equity ratio, %		
Shareholders' equity	2,198	2,232
Total assets	4,303	4,472
Advances received	26	39
Equity ratio, %	51.4	50.4

Calculation of performance indicators

Operating profit, comparable

Operating profit +/- items affecting comparability

Earnings per share, 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

Return on capital employed, comparable, %

Comparable operating profit x 100

(Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for the reporting period

Return on equity, %

(Profit/loss before tax - Income tax) x 100

Shareholders' equity, average of the beginning and end of the reporting period

Return on equity, %, comparable

(Profit/loss adjusted for items affecting comparability before tax - Income tax adjusted for the tax effect of items affecting comparability) x 100

Shareholders' equity, average of the beginning and end of the reporting period

Equity ratio, %

Shareholders' equity x 100

(Total assets - Advances received)

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	2018	2017
Income from services	611.3	550.3
Lease income	44.3	39.9
Gains on disposal of property, plant, equipment and intangible assets	5.0	54.2
Gains on disposal of businesses	4.3	31.4
Realised gains on derivative contracts and changes in fair value	4.8	2.2
Others	120.2	108.5
Total, continuing operations	789.8	786.6

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

Other operating income includes €8.0 million (€86.6 million) of items affecting comparability. More information on items affecting comparability is presented in note 2.2.

2.4 Operating expenses

Accounting policies

Other operating expenses include expenses other than the cost of goods sold, such as employee benefit expenses, lease expenditure, marketing costs, property and store site maintenance costs and information system expenses. Other operating expenses also include losses on the disposal of property, plant and equipment and intangible assets, losses on disposal of business operations as well as realised and unrealised losses on derivatives used for hedging foreign currency risks associated with commercial transactions.

Employee benefit expenses

€ million	2018	2017
Salaries and fees	-567.1	-594.9
Social security costs	-47.5	-48.4
Pension costs		
Defined benefit plans	0.0	-3.2
Defined contribution plans	-73.0	-81.8
Share-based payment	-6.5	-9.8
Total, continuing operations	-694.1	-738.1

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

	2018	2017
Grocery trade	6,094	6,733
Building and technical trade	11,663	11,967
Car trade	835	809
Common functions	987	872
Total, continuing operations	19,579	20,382
Discontinued operations	416	1,695
Total, Group	19,995	22,077

Other operating expenses

€ million	2018	2017
Lease expenditure	-466.6	-463.2
Marketing costs	-210.4	-206.3
Property and store site maintenance expenses	-119.0	-124.6
ICT expenses	-96.1	-92.2
Losses on disposal of property, plant, equipment and intangible assets	-1.7	-2.4
Losses on disposal of business operations	-	-1.4
Realised losses on derivative contracts and changes in fair value	-3.8	-3.7
Other operating expenses	-136.5	-152.1
Total, continuing operations	-1,034.2	-1,045.8

Expenses by type, continuing operations



- Personnel costs 40% (41%)
- Rents and store site costs 34% (33%)
- ICT costs 6% (5%)
- Marketing and loyalty costs 12% (12%)
- Other costs 8% (9%)

Auditors' fees

€ million	2018	2017
Fees to PwC chain companies		
Audit	0.9	1.0
Tax consultation	0.2	0.1
Other services	0.6	1.2
Total	1.7	2.2
Other audit firms	1.2	1.2

Fees paid to PricewaterhouseCoopers Oy for services other than audit to Kesko Group companies totalled €0.8 million.

2.5 Foreign exchange differences recognised in operating profit

€ million	2018	2017
Sales	-0.1	0.0
Other income	4.8	1.9
Purchases	-0.3	-0.8
Other expenses	-3.8	-3.7
Total, continuing operations	0.5	-2.6

2.6 Income tax

Accounting policies

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

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

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

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

€ million	2018	2017
Current tax	-71.8	-54.8
Tax for prior years	-0.2	-0.4
Deferred tax	10.1	-2.7
Total, continuing operations	-61.9	-57.9

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

€ million	2018	2017
Profit before tax	296.8	342.4
Tax at parent's rate 20.0%	-59.4	-68.5
Effect of foreign subsidiaries' different tax rates	4.2	2.2
Effect of tax-free income	1.9	15.4
Effect of expenses not deductible for tax purposes	-6.7	-0.6
Effect of tax losses	-0.6	-5.9
Effect of consolidation	0.2	0.3
Tax for prior years	-1.2	-0.4
Effect of change in tax rate	0.2	-0.3
Others	-0.6	-0.1
Tax charge, continuing operations	-61.9	-57.9

The impact of the corporation tax rate change, effective from 1 January 2019 in Norway, on taxes for the financial year 2018 was €0.2 million. The impact of the corporation tax rate changes, effective from 1 January 2018 in Norway and Latvia, on taxes for the financial year 2017 was €-0.3 million.

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.

	2018	2017
Net profit for the period attributable to equity holders of the parent, € million	159.9	257.8
Number of shares		
Weighted average number of shares outstanding	99,181,927	99,426,302
Diluted weighted average number of shares outstanding	99,181,927	99,426,302
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, continuing operations, €	2.18	2.75
Basic and diluted, discontinued operations, €	-0.56	-0.16
Basic and diluted, Group total, €	1.61	2.59
Comparable earnings/share, basic, continuing operations, €	2.47	2.29

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	2018	2017
Total acquisitions of property, plant, equipment and intangible assets	236.2	326.0
Total acquisitions of subsidiaries and investments in associates and other investments	181.3	2.0
Total capital expenditure	417.5	328.0
of which cash payments	375.9	305.1
Loans relating to acquired companies and cash and cash equivalents	29.5	1.0
Payments arising from prior period investing activities	-16.3	-9.6
Capital expenditure financed with finance lease or other liability	28.4	31.5
Total, continuing operations	417.5	328.0

Adjustments to cash flows from operating activities

€ million	2018	2017
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-3.1	1.5
Share of results of associates and joint ventures	10.1	-1.6
Impairments	3.4	0.0
Credit losses	5.2	4.9
Gains on disposal of property, plant, equipment and intangible assets and business operations	-9.3	-91.2
Losses on disposal of property, plant, equipment and intangible assets and business operations	1.7	4.0
Share-based compensation	-2.8	-2.6
Defined benefit pensions	57.1	1.7
Others	-6.5	5.4
Total, continuing operations	55.9	-78.0

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 and cash equivalents within the statement of cash flows

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

€ million	2017
Available-for-sale financial assets (maturing in less than 3 months), continuing operations	34.0
Available-for-sale financial assets (maturing in less than 3 months), discontinued operations	3.5
Cash and cash equivalents, continuing operations	129.7
Cash and cash equivalents, discontinued operations	3.0
Total	170.2

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

Reconciliation of cash and debt

€ million	2018
Financial assets at amortised cost (maturing in less than 3 months)	31.7
Cash and cash equivalents	107.9
Borrowings - repayable within one year (including overdraft)	-233.4
Borrowings - repayable after one year	-177.8
Cash and debt, net	-271.7

€ million	2017
Available-for-sale financial assets (maturing in less than 3 months)	37.5
Cash and cash equivalents	132.7
Borrowings - repayable within one year (including overdraft)	-404.6
Borrowings - repayable after one year	-129.3
Cash and debt, net	-363.7

€ million	2018
Cash and cash equivalents and financial assets at amortised cost (maturing in less than 3 months)	139,6
Gross debt - fixed interest rates	-241,7
Gross debt - variable interest rates	-169,5
Cash and debt, net	-271,7

€ million	2017
Cash and cash equivalents and available-for-sale financial assets (maturing in less than 3 months)	170,2
Gross debt - fixed interest rates	-363,6
Gross debt - variable interest rates	-170,3
Cash and debt, net	-363,7

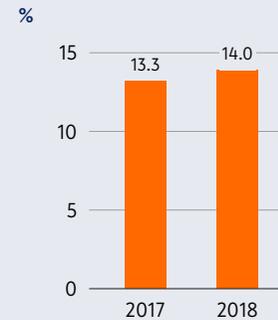
€ million	Other assets		Finance-related debt				Total
	Cash and overdraft	Financial assets at amortised cost	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	
Cash and debt, net as at 1 Jan. 2018	132.7	37.5	-3.5	-7.0	-401.1	-122.3	-363.7
Cash flows	-30.1	-5.3	1.3	3.7	169.8	-53.1	86.3
Acquisitions of subsidiaries	7.0		0.0	0.0	-0.4		6.6
Disposals of subsidiaries							0.0
Acquisitions - finance leases and lease incentives			0.0	0.1			0.2
Foreign exchange adjustments	-1.7	-0.4	0.0	0.0	0.3	0.8	-1.1
Cash and debt, net as at 31 Dec. 2018	107.9	31.7	-2.1	-3.2	-231.4	-174.6	-271.7

€ million	Other assets		Finance-related debt				Total
	Cash and overdraft	Available-for-sale financial assets	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	
Cash and debt, net as at 1 Jan. 2017	141.3	59.6	-2.9	-5.7	-153.1	-352.9	-313.8
Cash flows	-8.4	-22.1	1.7	5.4	-235.5	230.6	-28.3
Acquisitions of subsidiaries	1.0				-13.1		-12.1
Disposals of subsidiaries	-1.2		0.0	0.0	0.0	0.0	-1.2
Acquisitions - finance leases and lease incentives			-2.3	-6.8			-9.1
Foreign exchange adjustments	0.1		0.0	0.1	0.6	0.0	0.7
Cash and debt, net as at 31 Dec. 2017	132.7	37.5	-3.5	-7.0	-401.1	-122.3	-363.7

3. CAPITAL EMPLOYED

- 3.1 Capital employed and working capital
- 3.2 Business acquisitions and disposals of assets
- 3.3 Property, plant and equipment
- 3.4 Intangible assets
- 3.5 Inventories
- 3.6 Trade and other current receivables
- 3.7 Discontinued operations and non-current assets classified as held for sale and related liabilities
- 3.8 Pension assets
- 3.9 Shares in associates and joint ventures
- 3.10 Provisions

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. 2018	31 Dec. 2017
Property, plant and equipment	3.3	1,196.4	1,140.7
Intangible assets	3.4	492.1	364.3
Interests in associates and joint ventures	3.9	123.5	117.4
Financial assets at fair value through profit or loss	4.3	20.8	-
Non-current available-for-sale financial assets	4.3	-	23.0
Non-current receivables	4.3	65.7	65.4
Pension assets	3.8	148.0	207.5
Current interest-bearing receivables	4.5	2.7	1.5
Non-current assets classified as held for sale	3.7	61.0	1.8
Non-interest-bearing non-current liabilities	4.5	-0.2	-1.5
Pension obligations		-0.4	-0.4
Provisions	3.10	-52.2	-56.7
Liabilities related to available-for-sale non-current assets	3.7	-14.9	-0.1
Working capital		376.8	402.0
Total, continuing operations		2,419.3	2,265.0
Discontinued operations, assets of capital employed	3.7	-	210.3
Eliminations between continuing and discontinued operations of assets of capital employed	3.7	-	-3.3
Discontinued operations, liabilities of capital employed	3.7	-	-30.1
Eliminations between continuing and discontinued operations of liabilities of capital employed	3.7	-	2.6
Group total		2,419.3	2,444.4

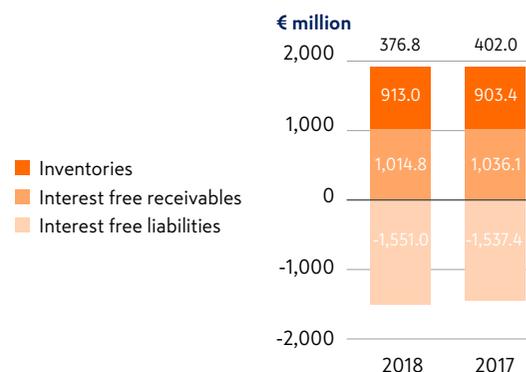
Accrued liabilities are mainly due to the timing of purchases and employee benefit expenses.

Non-current non-interest-bearing liabilities also include an item of €29.2 million (€29.9 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. 2018	31 Dec. 2017
Inventories	3.5	913.0	903.4
Trade receivables	3.6	820.3	827.9
Income tax assets	3.6	0.1	11.1
Other non-interest-bearing receivables	3.6	194.4	197.1
Trade payables	4.3 4.5	-982.7	-999.4
Other non-interest-bearing liabilities	4.3 4.5	-197.8	-225.5
Income tax liabilities	4.5	-16.5	-5.6
Accrued liabilities	4.3 4.5	-353.9	-307.0
Total, continuing operations		376.8	402.0
Discontinued operations, working capital assets	3.7	-	46.0
Eliminations between continuing and discontinued operations of working capital assets	3.7	-	-3.3
Discontinued operations, working capital liabilities	3.7	-	-30.1
Eliminations between continuing and discontinued operations of working capital liabilities	3.7	-	2.6
Group total		376.8	417.1

Working capital, continuing operations



3.2 Business acquisitions and disposals of assets

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 €15 million.

In June, Kesko Corporation's subsidiary Bygghakker 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 1,467 million (€147 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.

Skattum Handel AS and Gipling AS

Skattum Handel AS and Gipling AS have been operating Bygghakker stores under the retailer business model. After the completion of the acquisitions, the Bygghakker chain controls a total of 30 Bygghakker stores, providing even greater potential for growth and increased profitability in Norway. In addition, 35 Bygghakker 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 preliminary fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €8 million. The balance sheet value of current trade receivables equals their fair value. The €93 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.

2018 € million	Skattum Handel AS and Gipling AS	Kalatukku E. Eriksson Oy and Reinin Liha Oy
Consideration paid	147	15
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition		
Intangible assets	8	8
Property, plant, equipment and investments	6	6
Inventories	31	2
Receivables	36	4
Deferred tax asset	1	-
Cash and cash equivalents	5	1
Total assets	86	21
Trade payables, other payables, provisions	31	6
Deferred tax liability	1	2
Total liabilities	32	8
Net assets acquired, total	54	13
Goodwill	93	2
Cash flow impact of acquisition		
Consideration paid	-153	-15
Cash and cash equivalents acquired	6	1
Unpaid share	-	2
Cash flow impact of acquisition	-147	-12

The impact of Skattum Handel AS and Gipling AS on net sales for July-December was €40 million. The impact on the comparable operating profit for July-December was €2.2 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 €71 million, and the impact on comparable operating profit would have been €5.9 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 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 preliminary fair value of the intangible assets acquired (including customer relationships and trademarks) at the date of acquisition totals €8 million. The balance sheet value of current trade receivables equals their fair value. The €2 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.

Acquisitions in 2017

In 2017, Kesko Group did not have acquisitions to be accounted for as business combinations.

Disposals of assets 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.

Disposals of assets 2017

In May 2017, Kesko sold seven store sites used by Kesko Senukai in Estonia and Latvia to the property investment company UAB Baltic Retail Properties. At the same time, Kesko acquired a 10% shareholding in the property investment company.

In June 2017, Konekesko Ltd, a Kesko Corporation subsidiary, sold its Yamarin boat business to Inhan Tehtaat Oy Ab, a subsidiary owned by Yamaha Motor Europe N.V. At the same time, the transfer of the representation of Yamaha's recreational machinery in Finland from Konekesko Ltd to Yamaha Motor Europe N.V. was also completed.

In June 2017, Kesko Corporation sold Indoor Group, which is responsible for the Asko and Sotka furniture trade, to a company owned by Sievi Capital Oyj, three franchising entrepreneurs from the Sotka chain and Etera Mutual Pension Insurance Company. The debt free price of the sale, structured as a share transaction, was €67 million.

In June 2017, Kesko Corporation sold its K-maatalous business to Swedish Lantmännen ek för. The debt free price of the sale, structured as a share transaction, was €38.5 million.

Net assets of subsidiaries sold

€ million	2018	2017
Property, plant, equipment and intangible assets	-	66.1
Inventories	-	61.3
Receivables	-	69.4
Cash and cash equivalents	-	1.2
Deferred taxes	-	-7.8
Liabilities	-	-117.7
Provisions	-	-0.4
Net assets total	-	72.2

In addition, the real estate divestment in the Baltics completed on 24 May 2017 had a €14.0 million impact on the Group's net assets.

3.3 Property, plant and equipment

Accounting policies

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

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

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

The most common estimated useful lives are:

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

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

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

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

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

2018 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Pre- payments and construction 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 between items	-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	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

2017 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Pre- payments and construction in progress	Total 2017
Cost						
Cost as at 1 January	302.8	1,058.9	530.7	58.4	101.1	2,052.0
Exchange differences	-5.4	-15.2	-4.1	-2.8	-0.4	-27.9
Additions	13.0	185.6	75.1	4.3	29.3	307.4
Acquisitions	2.8	8.6	0.0	0.0		11.4
Deductions	-0.8	-6.1	-75.4	-0.3	-6.4	-89.0
Disposals	-1.2	-12.9	-12.5	-0.1	-0.1	-26.8
Transfers between items	2.5	60.2	7.0	0.9	-73.6	-3.0
Cost as at 31 December	313.7	1,279.2	520.8	60.4	50.0	2,224.0
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-6.1	-485.6	-378.7	-31.2		-901.6
Exchange differences	0.0	5.9	2.9	1.4		10.2
Accumulated depreciation on deductions	0.3	4.8	50.3	0.2		55.6
Accumulated depreciation and impairment charges on disposals	-1.1	7.5	9.0	0.1		15.6
Accumulated depreciation on transfers		0.0	0.1	0.0		0.1
Depreciation and impairment charges for the year	0.0	-50.4	-55.5	-4.9		-110.7
Accumulated depreciation and impairment charges as at 31 December	-7.0	-517.8	-371.9	-34.3		-931.0
Carrying amount as at 1 January	296.6	573.3	152.0	27.2	101.1	1,150.4
Carrying amount as at 31 December	306.8	761.4	148.9	26.0	50.0	1,293.1

Property, plant and equipment include the following amounts of machinery and equipment leased under finance leases:

€ million	2018	2017
Cost	42.6	28.5
Accumulated depreciation	-24.0	-18.3
Carrying amount	18.6	10.2

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.

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 between items	-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	0.0	-190.2
Exchange differences	0.0	0.1	0.6		0.7
Accumulated amortisation and impairment charges on disposals	-1.0		16.6		15.6
Accumulated amortisation on deductions and transfers	14.5		1.9		16.4
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	0.0	-194.5
Carrying amount as at 1 January	172.3	82.2	104.7	17.0	376.2
Carrying amount as at 31 December	278.7	87.2	108.3	17.9	492.1

2017 € million	Goodwill	Trademarks	Other intangible assets	Prepay- ments	Total 2017
Cost					
Cost as at 1 January	249.6	131.0	284.0	18.3	682.9
Exchange differences	-0.2	-2.6	-4.0	0.0	-6.9
Additions	1.0		17.7	14.2	32.9
Acquisitions			0.0		0.0
Deductions			-80.6	-0.5	-81.1
Disposals	-12.9	-39.1	-12.4	0.0	-64.3
Transfers between items			18.0	-14.9	3.0
Cost as at 31 December	237.5	89.3	222.6	17.0	566.5
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-59.7	-7.8	-184.9	0.0	-252.3
Exchange differences	0.2	0.6	2.9		3.7
Accumulated amortisation on deductions and transfers			80.6		80.6
Accumulated amortisation and impairment charges on disposals	8.8		12.0		20.8
Amortisation and impairment charges for the year	-14.5		-28.5		-43.0
Accumulated amortisation and impairment charges as at 31 December	-65.2	-7.2	-117.8	0.0	-190.2
Carrying amount as at 1 January	189.9	123.3	99.1	18.3	430.5
Carrying amount as at 31 December	172.3	82.2	104.7	17.0	376.2

Other intangible assets include other non-current expenditure, of which €70.3 million (€62.5 million) are software and licence costs.

Goodwill and intangible rights by division

€ million	Trade- marks 2018	Goodwill 2018	Discount rate (WACC) 2018	Trade- marks 2017	Goodwill 2017	Discount rate (WACC) 2017
Grocery trade, chain operations		76.1	6.0		76.1	6.0
Grocery trade, Kespro	5.3	2.0	6.0			
Building and technical trade						
Byggnakker, Norway	23.6	93.4	7.0	23.9		7.0
Onninen	58.3	55.1	7.3	58.3	55.1	7.2
Kesko Senukai, Baltics		32.0	7.0		21.1	7.0
Car trade		20.0	7.0		20.0	7.0
Total	87.2	278.7		82.2	172.3	

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

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

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

WACC is determined after tax. The rate is used in impairment testing.

Impairment test for goodwill and intangible assets

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

Impairment losses

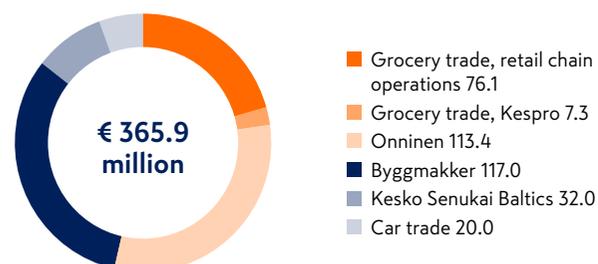
There were no impairment charges recognised on goodwill or intangible rights in the financial year 2018. During the 2017 financial year, a €14.5 million goodwill impairment was recorded for K-rauta Rus (building and technical trade).

Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate. The most sensitive to movements in assumptions is the car trade related goodwill: if the residual EBITDA decreased by more than 1.2 percentage points, an impairment would be recognised. Regarding the other cash generating units, according to management's estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount.

Goodwill and trademarks

€ million



3.5 Inventories

Accounting policies

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

€ million	2018	2017
Goods	904.9	931.7
Prepayments	8.1	6.9
Total	913.0	938.6
Write-down of inventories to net realisable value	39.3	44.3

3.6 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	2018	2017
Interest-bearing receivables		
Finance lease receivables	0.0	0.0
Interest-bearing loans and receivables	2.7	1.5
Total interest-bearing receivables	2.7	1.5
Trade receivables	820.3	836.0
Income tax assets	0.1	11.1
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	22.1	21.8
Prepaid expenses	172.3	174.5
Total other non-interest-bearing receivables	194.4	196.4
Total	1 017.5	1 045.0

A total amount of €5.2 million (€4.9 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 4.3.

Prepaid expenses mainly comprise allocations of purchases.

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

3.7 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. In the financial year 2017 the Group had no discontinued operations.

Discontinued operations

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 and stocks were not included within the scope of the transaction; instead, the operations were discontinued during the first year-half. 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 divestment of the properties resulted in a positive cash flow of €171 million for Kesko Corporation in February. The divestment of the properties resulted in a net €16 million sales gain for discontinued operations. The operative result after taxes for the operations was €-1.7 million. In addition, a cost of €23 million related to the discontinuation of operations was recorded as were translation differences of €-39 million related to the equity financing of Russian subsidiaries. The divestment of properties and discontinuation of operations also resulted in a €8 million tax cost.

The divested Russian building and home improvement trade operations are reported as discontinued operations and are not included in the figures for the Group's continuing

operations in this financial statement. The comparison data for the 2017 income statement, statement of cash flows and certain performance indicators have been adjusted. The net sales for the Russian building and home improvement trade was €184 million in 2017 and the comparable operating profit €0.6 million.

Result for the Russian building and home improvement trade

€ million	2018	2017
Income	46	203
Expense	-48	-217
Profit/loss before tax	-1	-15
Income tax	0	-1
Net profit/loss after tax	-2	-16
Loss on discontinued Russian building and home improvement trade before tax	-46	
Income tax	-8	
Loss on discontinued Russian building and home improvement trade after tax	-54	
Net loss for the period from discontinued operations	-56	
Comprehensive income for the period, net of tax	35	
Comprehensive income from discontinued operations	-21	

Assets and liabilities of the Russian building and home improvement trade

€ million	2018	2017
ASSETS		
Intangible assets	-	12
Tangible assets	0	152
Deferred tax assets	-	7
Total	0	171
Current assets		
Inventories	-	35
Trade receivables	0	8
Other receivables, non-interest-bearing	10	3
Loan receivables, interest-bearing	-	5
Cash and cash equivalents	0	7
Total	10	57
Total assets	10	229

€ million	2018	2017
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	-	6
Total	-	6
Current liabilities		
Trade payables	0	25
Other non-interest-bearing liabilities	0	5
Other liabilities, interest-bearing	-	96
Provisions	0	-
Total	1	127
Total liabilities	1	133

Cash flows for the Russian building and home improvement trade

€ million	2018	2017
Net cash flows from operating activities	-23	10
Net cash flows from investing activities	164	-17
Net cash flows from financing activities	-	-
Increase in liquid assets	141	-7

Assets held for sale

Kesko has stated it will sell its remaining shares in the Baltic machinery trade companies and Konekesko Finland's agricultural machinery trade operations to Danish Agro Group. 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.

During the reporting period, Kesko Group company Konekesko Oy divested its Still forklift business. The carrying amount of approximately €1 million of the assets of the divested business is included in the data for the comparison year.

€ million	2018	2017
Intangible assets	0.0	-
Land	0.9	0.3
Buildings and real estate shares	1.6	0.2
Machinery and equipment	1.0	0.0
Other tangible assets	0.0	-
Inventories	53.7	1.3
Trade receivables	3.6	-
Other receivables	10.1	-
Cash and cash equivalents	0.4	-
Non-current assets held for sale	71.5	1.8
Trade payables	-9.9	-
Other liabilities	-4.1	-0.1
Provisions	-1.5	-
Liabilities related to non-current assets held for sale	-15.4	-0.1

3.8 Pension assets

Accounting policies

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

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

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

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 2018, the Pension Fund had 2,581 beneficiaries, of whom 579 were active employees and 2,002 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.9% (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 reporting period, Kesko Pension Fund paid in total €58.1 million in return of surplus assets to Finnish Group companies. Kesko Group does not expect to pay contributions to the Pension Fund in 2019.

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

€ million	2018	2017
Present value of defined benefit obligation	-254.2	-266.6
Fair value of plan assets	402.2	474.1
Net assets recognised in the balance sheet	148.0	207.5
Movement in the net assets recognised in the balance sheet:		
As at 1 January	207.5	164.7
Income/cost recognised in the income statement	0.0	-3.2
Remeasurement	-2.3	45.0
Return of surplus assets	-58.1	-
Contributions to plan and plan costs	1.0	1.1
As at 31 December	148.0	207.5

€ 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

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2017	-302.3	467.1	164.7
Current service cost	-4.8		-4.8
Past service cost	-1.3		-1.3
Gains or losses on settlement	0.4		0.4
Interest cost/income	-4.4	6.9	2.5
	-10.0	6.9	-3.2
Remeasurement			
Return on plan assets		13.2	13.2
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	29.0		29.0
Experience gains/losses	2.8		2.8
	31.8	13.2	45.0
Contributions to plan and plan costs		1.1	1.1
Benefit payments	14.1	-14.1	0.0
As at 31 December 2017	-266.6	474.1	207.5

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

Plan assets were comprised as follows in 2017

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	97.3	60.0	157.3
Debt instruments	25.0	31.3	56.3
Investment funds	117.5	15.9	133.4
Properties		87.6	87.6
United States			
Equity instruments	5.3		5.3
Investment funds	35.1		35.1
Other countries			
Investment funds	14.0		14.0
Total	294.2	194.8	489.0

€ million	2018	2017
Kesko Corporation shares included in fair value	0.0	21.9
Properties leased by Kesko Group included in fair value	124.5	122.2

Principal actuarial assumptions:

	2018	2017
Discount rate	2.09%	2.08%
Salary growth rate	2.18%	2.23%
Inflation	1.59%	1.69%
Pension growth rate	1.86%	1.97%
Average service expectancy, years	8	9

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

	2018	2017
Weighted average duration of pension obligations, years	14	14
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	13.8	14.9
Between 1–10 years	114.2	117.8
Between 10–20 years	103.1	107.7
Between 20–30 years	68.8	73.3
Over 30 years	56.1	63.8
Total	356.0	377.5

Finnish pension reform

The statutory pension provision in Finland has been amended, effective from 1 January 2017. The objective of the amendments is to extend working life so that the financing of the statutory earnings-related pension scheme and sufficient pension provision can be ensured also going forward. The rules of the Pension Fund were changed before the amendments came into effect, so that the Pension Fund's supplementary retirement benefit does not compensate for the lowering of the statutory pension provision resulting from the rise of the statutory pension age.

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 2018, the realised return on investing activity was -0.3%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined pension obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €147.6 million as at 31 December 2018. 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
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%
2017			
Discount rate	0.50%	-6.80%	7.60%
Salary growth rate	0.50%	1.30%	-1.20%
Pension growth rate	0.50%	6.00%	-5.50%

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

3.9 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are handled as equity accounted investments.

€ million	2018	2017
Carrying amount as at 1 January	117.4	107.9
Share of the net profit for the financial year	-4.3	0.9
Additions	17.6	8.6
Deductions	3.6	-
Impairment charges	-10.8	-
Carrying amount as at 31 December	123.5	117.4

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

Kesko and Oriola's joint venture, the Hehku wellbeing chain, had an impact of €-11.2 million, which includes discontinuation costs for the joint venture.

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

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Mercada Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. Hehku Kauppa Oy is a Kesko and Oriola joint venture. A decision has been made to discontinue its operations. 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. UAB Mokilizingas was divested in May 2018.

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
UAB Mokilizingas, Vilnius, Lithuania	-	-	1.8	0.2	12.8
Hehku Shop Ltd, 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	

2017 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	686.5	613.7	50.1	26.2	33.3
Kruunuvuoren Satama Oy, Helsinki	252.6	124.1	12.3	6.8	49.0
UAB Mokilizingas, Vilnius, Lithuania	54.2	45.4	5.9	1.6	12.8
Hehku Shop Ltd, Espoo	1.8	0.8	-	-2.3	50.0
Valluga-sijoitus Oy, Helsinki	32.2	0.1	-	2.1	46.2
Vähittäiskaupan Takaus Oy, Helsinki	94.1	0.6	1.5	6.8	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.6	1.8	9.6	0.3	30.0
Others	4.6	3.3	0.2	0.0	
Total	1,133.5	789.8	79.6	41.5	

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	2018	2017
Non-current assets	34.8	36.3
Current assets	0.8	0.9
Total	35.7	37.2
Non-current liabilities	1.9	2.2
Current liabilities	5.2	5.3
Total	7.1	7.6
Net assets	28.6	29.6
Income	2.7	2.3
Costs	3.8	3.5
Net profit	-1.1	-1.2

3.10 Provisions

Accounting policies

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

A warranty provision is recognised when a product covered by warranty provisions is sold. The provision amount is based on historical experience about the level of warranty expenses. Leases become onerous and a provision is recognised for them, if the leased premises remain vacant, or if they are subleased at a rate lower than the original. A provision is recognised for the estimated loss from vacant leased premises over the remaining lease term and for losses from subleased premises.

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2018	7.6	25.6	23.4	56.7
Foreign exchange effects		0.0	0.0	0.0
Additional provisions	10.4	9.0	10.2	29.7
Unused amounts reversed		-10.4	-7.2	-17.6
Amounts charged against provision	-8.6	-0.7	-6.4	-15.7
Changes in the Group structure		-0.7	-0.1	-0.8
Provisions as at 31 Dec. 2018	9.5	22.8	19.9	52.2
Analysis of total provisions				
Non-current	3.5	13.3	10.3	27.1
Current	6.0	9.5	9.6	25.2

The provisions for onerous leases relate to lease liabilities for premises vacated from the Group's operating activities, and to net rental losses on subleased premises. A provision has been recognised for warranties and care plans of vehicles and machines sold by the Group companies.

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 RISK

4.1 Capital structure management

4.2 Shareholders' equity

4.3 Financial risks

4.4 Finance income and costs

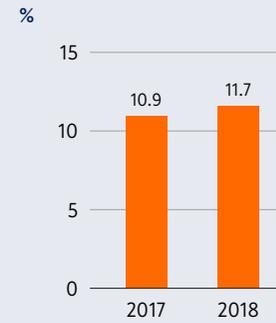
4.5 Financial assets and liabilities by category

4.6 Finance lease liabilities

4.7 Lease liabilities

4.8 Other contingent liabilities

Comparable return on equity



Interest-bearing net liabilities



Interest-bearing net debt/EBITDA



Gearing



4.1 Capital structure management

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

The target levels for Kesko Group's performance indicators are approved by the Board of Directors. On 26 May 2015, the Board approved, as a part of the Group's medium term financial objectives, the following values for the performance indicators: 'comparable return on capital employed', 'comparable return on equity' and 'interest-bearing net debt/EBITDA'.

	Target level	Level achieved in 2018	Level achieved in 2017
Comparable return on capital employed, continuing operations	14%	14.0	13.3
Comparable return on equity	12%	11.7	10.9
Interest-bearing net debt/EBITDA	< 2.5	0.4	0.3

€ million	2018	2017
Interest-bearing liabilities	411.2	533.9
- Financial assets at fair value through profit or loss	50.9	171.0
- Financial assets at amortised cost	59.1	-
- Available-for-sale financial assets	-	56.8
- Cash and cash equivalents	139.6	170.2
Interest-bearing net debt	161.6	135.9
Operating profit	262.6	324.6
+ depreciation, amortisation and impairment	151.3	153.7
EBITDA	413.9	478.3
Interest-bearing net debt/EBITDA	0.4	0.3

Gearing, %

$\frac{\text{Interest-bearing net debt} \times 100}{\text{Equity}}$

Following the adoption of IFRS 9, investments of available-for-sale financial assets in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds as measured at fair value through profit or loss. Investments of financial assets measured at fair value through profit or loss in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds are still measured at fair value through profit or loss.

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 2018, 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 2018, Kesko Corporation's share capital was €197,282,584.

Changes in share capital

Share capital	Number of shares			Share capital € million	Reserve of invested non- restricted equity € million	Share premium € million	Total € million
	A	B	Total				
1 January 2017	31,737,007	67,536,636*	99,273,643*	197.3	22.8	197.8	417.8
Transfer of treasury shares		182,972	182,972				
31 December 2017	31,737,007	67,719,608*	99,456,615*	197.3	22.8	197.8	417.8
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
Number of votes	317,370,070	67,281,346	384,651,416				

*Excluding treasury shares which totalled 1,001,399 (563,137) 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.

	kpl
B shares held by the Company as at 31 Dec. 2017	563,137
Transfer, share-based compensation plan	-68,949
Acquired during the period	500,000
Returned during the period	7,211
B shares held by the Company as at 31 Dec. 2018	1,001,399

Dividends

After the balance sheet date, the Board of Directors has proposed that €2.34 per share be distributed as dividends. A dividend of €2.20 per share was distributed on the profit for 2017.

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 and interest rate derivatives hedging the Private Placement note interest. The change in the reserve is stated within comprehensive income. The result of cash flow hedging has been presented in note 4.3 Financial risks. In 2017, before the implementation of IFRS 9, the revaluation reserve also included the change in the fair value of available-for-sale financial instruments.

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 sub-

sidaries 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. 2018 € million	NOK	SEK	RUB	PLN	BYN
Net investment	100.3	69.7	10.4	22.8	9.1

Group's translation exposure as at 31 Dec. 2017 € million	NOK	SEK	RUB	PLN	BYN
Net investment	82.1	85.0	140.9	22.6	8.7

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. 2018 € million					
	NOK	SEK	RUB	PLN	BYN
Change +10%	-9.1	-6.3	-0.9	-2.1	-0.8
Change -10%	11.1	7.7	1.2	2.5	1.0

Sensitivity analysis, impact on equity as at 31 Dec. 2017 € million					
	NOK	SEK	RUB	PLN	BYN
Change +10%	-7.5	-7.7	-12.8	-2.1	-0.8
Change -10%	9.1	9.4	15.7	2.5	1.0

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 2018, the exposure with respect to USD was €-48.3 million.

Group's transaction exposure as at 31 Dec. 2018 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-17.0	14.3	41.7	24.1	-0.2	19.2
Hedging derivatives	21.0	-13.7	-40.7	-16.3		
Open exposure	4.0	0.6	1.0	7.8	-0.2	19.2

Group's transaction exposure as at 31 Dec. 2017 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-6.2	7.6	2.8	27.8	11.3	14.5
Hedging derivatives	21.7	-9.1	-4.6	-14.4	-8.6	
Open exposure	15.5	-1.5	-1.8	13.5	2.7	14.5

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. 2018 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Change +10%	-0.4	-0.1	-0.1	-0.7	0.0	-1.7
Change -10%	0.4	0.1	0.1	0.9	0.0	2.1

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2017 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Change +10%	-1.4	0.1	-0.5	-1.2	-0.2	-1.3
Change -10%	1.7	-0.2	0.6	1.5	0.3	1.6

Liquidity risk

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

The Group's solvency was excellent throughout the financial year 2018. As at 31 December 2018, liquid assets totalled €250 million (€398 million). Interest-bearing liabilities were €411 million (€534 million) and interest-bearing net debt €162 million (€136 million) as at 31 December 2018.

€ million	31 Dec. 2018				31 Dec. 2017			
	< 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	5.7	7.7	0.2	13.7	6.4	8.9	0.1	15.5
finance costs	0.4	0.6	0.0	1.0	0.8	1.1	0.0	1.9
Private Placement notes (USD)	20.1			20.1		20.0		20.0
finance costs	0.6			0.6	1.3	0.6		1.9
Bonds					224.8			224.8
finance costs					6.2			6.2
Pension loans	23.9	103.0	57.2	184.0	10.5	66.2	26.9	103.5
finance costs	2.3	6.2	1.7	10.1	1.0	2.5	0.6	4.1
Finance lease liabilities	2.4	3.4	0.0	5.9	3.5	7.5	0.1	11.0
finance costs	0.1	0.1	0.0	0.2	0.1	0.2	0.0	0.3
Payables to K-retailers	119.3			119.3	113.3			113.3
finance costs								
Other interest-bearing liabilities	61.4		6.5	67.9	37.8	1.7	6.5	46.0
finance costs	0.4	1.0	0.1	1.5	0.3	1.1	0.1	1.6
Non-current non-interest-bearing liabilities	0.9	2.7	25.8	29.4	0.8	4.0	26.5	31.2
Current non-interest-bearing liabilities								
Trade payables	982.8			982.8	1 023.7			1 023.7
Accrued expenses	353.9			353.9	308.5			308.5
Other non-interest-bearing liabilities	171.7			171.7	188.6			188.6

Financial liabilities in the balance sheet include €2.7 million (€3.4m) in items related to derivatives.

€ million	31 Dec. 2018				31 Dec. 2017			
	< 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 outside hedge accounting	128.9			128.9	78.1			78.1
Net settlement of payables								
Interest rate derivatives	0.8	3.1	1.3	5.3	0.2	1.3		1.5
Electricity derivatives	0.0	0.0		0.0	0.6			0.6
Foreign currency derivatives						0.1		0.1
Receivables								
Foreign exchange forward contracts outside hedge accounting	130.5			130.5	76.2			76.2
Net settlement of receivables								
Electricity derivatives	1.2	1.1	0.0	2.3	0.2	0.2		0.4
Derivatives relating to Private Placement notes								
Foreign currency derivatives	0.9			0.9				
Interest rate derivatives	0.1			0.1	0.2	0.1		0.3

The cash flows of Private Placement notes and related currency and interest rate derivatives are settled on a net basis. The interest rate derivative liability related to the arrangement is presented within other interest-bearing liabilities in the statement of financial position. The amount of interest-bearing liability in the balance sheet arising from this credit facility totals €20.1 million (€20.1 million).

The terms and conditions of the Private Placement credit facility and the committed facilities include ordinary financial covenants. The requirements of these covenants have been met. The borrowing terms include a financial covenant defining the ratio between net debt and EBITDA, which remained far from the maximum throughout the financial year. At change of control, Kesko is obligated to offer a repayment of the whole loan capital to the note holders. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control.

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

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €200 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 €449 million (€449 million). In addition, in January 2019, the Group companies held a total of €324 million available for re-borrowing in a pension insurance company. Part of the pension insurance premiums paid annually by the Group companies are funded and the accumulated funds can be re-borrowed with a term of 1–10 years in accordance with regulations confirmed by the Ministry of Social Affairs and Health. Any amount of borrowing requires the posting of adequate collateral.

Interest rate risk on borrowings and sensitivity analysis

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

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

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon interest at 2.75% and it was due for payment on 11 September 2018.

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

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

The sensitivity analysis for changes in interest rate level in respect of commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2018, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.7 million (€-/+1.7 million), if the interest rate level had risen or fallen by 1 percentage point.

Private Placement notes and pension loans, €204.9 million in aggregate, have fixed rates, and their effective interest cost was 1.7%. At the end of the financial year, the average rate of variable-interest-rate borrowings from financial institutions, payables to retailers and other interest-bearing liabilities was 0.2%. Most of the borrowings are euro-denominated and the Private Placement notes are USD-denominated.

Financial assets and liabilities recognised at fair value

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and deposits with banks operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on

these investments for 2018 was 0.1% (1.0%) and the duration was 1.3 years at the end of the financial year. The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date. The table below analyses financial instruments carried at fair value by valuation method. The implementation of IFRS 9 changed the classification of financial assets and financial liabilities (note 4.5).

Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec. 2018			
	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

Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec. 2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Money market funds	159.9			159.9
Commercial papers		6.0		6.0
Bank certificates of deposit and deposits		5.0		5.0
Total	159.9	11.0		171.0
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		0.7		0.7
Derivative financial liabilities		3.4		3.4
Available-for-sale financial assets				
Private equity funds and other shares and interests			23.0	23.0
Commercial papers (maturing in less than 3 months)		37.5		37.5
Bonds and corporate bond funds	56.8			56.8
Total	56.8	37.5	23.0	117.3

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	2018	2017
Private equity funds and other shares and interests as at 1 January	23.0	15.1
Purchases	0.5	9.3
Refunds received	-0.9	-0.5
Gains and losses through profit or loss	-4.8	-0.4
Changes in fair values	2.9	-0.6
Private equity funds and other shares and interests as at 31 December	20.8	23.0

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 €2.9 million has been recorded on these investments for the financial year 2018.

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	2018
Carrying amount as at 1 January	83.0
Changes	7.8
Carrying amount as at 31 December	90.8

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

Current available-for-sale financial assets € million	2017
Carrying amount as at 1 January	156.8
Changes	-62.9
Changes in fair value	0.3
Carrying amount as at 31 December	94.2

The current available-for-sale financial assets 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, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/- 1.7 million (€+/-2.3 million). In the comparison year, the effect on equity would have been +/- €1.3 million.

Maturity of non-current receivables

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

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

Maturity analysis of non-current receivables as at 31 Dec. 2017

€ million	2019	2020	2021	2022	2023–	Total
Non-interest-bearing non-current receivables	2.2	0.1	0.0		0.4	2.7
Loans and receivables from associates and joint ventures	0.0				57.5	57.5
Other non-current receivables	0.0	0.0	0.0	0.0	5.0	5.1
Total	2.3	0.1	0.0	0.0	62.9	65.4

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 new IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses, while previously, impairment was only recognised when there was objective evidence of impairment. 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. 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	2018	2017
Trade receivables fully performing	732.0	742.2
1–7 days past due trade receivables	30.9	32.3
8–30 days past due trade receivables	23.4	22.5
31–60 days past due trade receivables	9.3	12.0
over 60 days past due trade receivables	24.7	27.1
Total	820.3	836.0

Within trade receivables, €348.0 million (€346.9 million) were from chain retailers. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the countersecurity from the K-retailer's company and its entrepreneur to Vähittäiskaupan Takaus Oy. At the end of the financial year, the aggregate value of countersecurities was €197.1 million (€211.5 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €24.3 million (€23.2 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €5.2 million (€4.9 million).

The amount of receivables with renegotiated terms totalled €5.1 million (€5.9 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. In hedge accounting, the Group switched to hedging 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 €2.2 million (€-1.1 million) was removed from equity and included in the income statement as purchase cost adjustment, and €4.6 million (€-0.1 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €2.3 million (€1.0 million) before accounting for deferred tax assets.

A fair value change of €0.2 million (€-0.3 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.2 million (€0.2 million) interest expense adjustment for interest rate derivatives was recognised in the income statement.

As at the balance sheet date, a total quantity of 265,075 MWH (268,656 MWH) of electricity had been purchased with electricity derivatives and 718,428 MWH under fixed price purchase agreements. The 1-12 month hedging level was 68% (77%), the 13-24 month level was 53% (50%), the 25-36 month level was 43% (39%), and the 37-48 month level was 27% (25%).

The sensitivity analysis of electricity derivatives assumed that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by +/-20% from the balance sheet date 31 December 2018, it would contribute €-/+0.8 million (€-/+1.0 million) to the 2019 income statement and €-/+1.2 million (€-/+0.3 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2018 Positive fair value (balance sheet value)	31 Dec. 2018 Negative fair value (balance sheet value)	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)
Interest rate derivatives	0.4	-2.4	1.7	-1.9
Foreign currency derivatives	3.2	-0.8	0.4	-2.3
Electricity derivatives	2.3	-0.0	0.3	-0.6

Notional principal amounts of derivative contracts € million	31 Dec. 2018 Notional principal amount	31 Dec. 2017 Notional principal amount
Interest rate derivatives	350.2	250.2
Foreign currency derivatives	149.2	96.8
Electricity derivatives	11.0	6.2

The derivative contracts include interest rate swaps relating to a foreign currency borrowing facility with a gross notional principal amount of €40.2 million and a fair value of €-0.2 million (€-0.4 million), and currency swaps with a notional principal amount of €20.1 million and a fair value of €0.9 million (€-0.1 million).

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €1.7 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	2018	2017
Interest income and other finance income		
Interest income on financial assets at amortised cost	0.9	-
Interest income on loans and receivables	10.2	9.9
Interest income on financial assets at fair value through profit or loss	-0.7	0.3
Interest income on available-for-sale financial assets	-	1.2
Gains on disposal of financial assets at amortised cost	0.1	-
Gains on disposal of financial assets at fair value through profit or loss	2.9	-
Gains on disposal of available-for-sale financial assets	-	2.6
Other finance income	0.7	4.5
Total interest income and other finance income	14.1	18.5
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-9.2	-11.3
Losses on disposal of financial assets at fair value through profit or loss	0.0	-
Losses on disposal of available-for-sale financial assets	-	0.0
Other finance costs	-3.2	-2.5
Total interest expense and other finance costs	-12.4	-13.8
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	-2.8	-2.4
Total exchange differences	-2.8	-2.4
Total finance income and costs	-1.1	2.2

The interest expense includes €0.1 million (€0.3 million) of interests on finance leases recognised as expenses for the period.

The realised result of interest rate derivatives used for hedging a USD-denominated Private Placement credit facility is recognised in net terms in interest expense with the loan interest.

Following the adoption of IFRS 9, investments of available-for-sale financial assets in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds as measured at fair value through profit or loss. Investments of financial assets measured at fair value through profit or loss in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds are still measured at fair value through profit or loss under IFRS 9.

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

Following the adoption of the new IFRS 9, the Group will reclassify financial assets into three groups. Financial assets are classified either as financial assets measured at amortised cost, at fair value through profit or loss or at fair value in other comprehensive income, depending on the business model objectives and contractual cash flows.

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. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of the division 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 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		2.8	2.8
Total non-current interest-bearing receivables		62.8		62.8	62.8
Total non-current financial assets	20.8	66.4	1.0	88.3	88.3
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		90.8		90.8	90.8
Total current financial assets	53.3	1,107.5	2.1	1,162.9	1,162.9
Carrying amount by category	74.1	1,173.9	3.2	1,251.2	1,251.2

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 non-interest-bearing liabilities		29.4		29.4	29.4
Total non-current financial liabilities		207.2		207.2	209.1
Current financial liabilities					
Current interest-bearing liabilities		233.4		233.4	234.0
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		351.4		351.4	351.4
Derivatives	2.5			2.5	2.5
Total accrued expenses	2.5	351.4		353.9	353.9
Total current non-interest-bearing liabilities	2.5		0.2	551.7	551.7
Total current financial liabilities	2.5	1,765.1	0.2	1,767.8	1,768.4
Carrying amount by category	2.5	1,972.4	0.2	1,975.1	1,977.5

Accounting policies for financial assets as at 31 December 2017

Financial assets

The Group classifies its financial assets into the following categories:

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

The classification at initial recognition depends on the purpose for which the financial asset was acquired.

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include instruments initially classified as financial assets at fair value through profit or loss (the fair value option). These instruments are managed based on fair value and they include investments in money

market funds, as well as investments in other interest-bearing instruments with maturities of over three months, as defined by the Group's treasury policy. The interest income from these financial assets and changes in their fair values, as well as any commissions returned by the funds are presented on a net basis in the interest income of the relevant class in the income statement.

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

Available-for-sale financial assets

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

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

Loans and receivables

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

As at 31 December 2017

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/ liabilities as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			23.0			23.0	23.0
Non-current non-interest-bearing receivables		2.6				2.6	2.6
Derivatives					0.1	0.1	0.1
Total non-current non-interest-bearing receivables		2.6			0.1	2.7	2.7
Non-current interest-bearing receivables		62.7				62.7	62.7
Total non-current financial assets		65.3	23.0		0.1	88.4	88.4
Current financial assets							
Trade and other non-interest-bearing receivables		1,031.8				1,031.8	1,031.8
Derivatives	0.4				0.2	0.6	0.6
Total trade and other non-interest-bearing receivables	0.4	1,031.8			0.2	1,032.4	1,032.4
Interest-bearing receivables		1.5				1.5	1.5
Financial assets at fair value through profit or loss	171.0					171.0	171.0
Available-for-sale financial assets			94.2			94.2	94.2
Total current financial assets	171.3	1,033.3	94.2		0.2	1,299.1	1,299.1
Carrying amount by category	171.3	1,098.6	117.3		0.3	1,387.5	1,387.5

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/ liabilities as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				129.2		129.2	132.8
Derivatives					0.1	0.1	0.1
Total non-current interest-bearing liabilities				129.2	0.1	129.3	132.9
Non-current non-interest-bearing liabilities				31.0		31.0	31.0
Derivatives					0.4	0.4	0.4
Total non-current non-interest-bearing liabilities				31.0	0.4	31.4	31.4
Total non-current financial liabilities				160.2	0.5	160.7	164.3
Current financial liabilities							
Current interest-bearing liabilities							
Trade payables				404.6		404.6	403.6
Other non-interest-bearing liabilities				188.0		188.0	188.0
Derivatives					0.6	0.6	0.6
Total other non-interest-bearing liabilities				188.0	0.6	188.6	188.6
Accrued expenses				306.3		306.3	306.3
Derivatives	2.3					2.3	2.3
Total accrued expenses	2.3			306.3		308.5	308.5
Total current non-interest-bearing liabilities	2.3			1,517.9	0.6	1,520.8	1,520.8
Total current financial liabilities	2.3			1,922.5	0.6	1,925.4	1,924.4
Carrying amount by category	2.3			2,082.7	1.1	2,086.1	2,088.7

Prepaid expenses and accrued expenses do not include income tax assets of €6.0 million (€11.1 million) or income tax liabilities of €16.8 million (€5.6 million). Prepayments received of €26.0 million (€38.5 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%–1.5% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity structure of non-current borrowings has been presented in note 4.3.

4.6 Finance lease liabilities

Accounting policies

The Group acts as both lessor and lessee of real estate and machines. Leases in which risks and rewards incidental to ownership are not transferred to the lessee are classified as operating leases. Lease payments related to them are recognised in the income statement on a straight-line basis over the lease term.

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

In sale and leaseback transactions, the selling price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any

proceeds exceeding the carrying amount are not immediately recognised as income. Instead, the amount is recognised as a liability in the balance sheet and amortised over the period of the lease. If a sale and leaseback transaction results in an operating lease and the transaction was executed at fair value, any profit or loss is recognised immediately.

If the selling price is less than fair value, any profit or loss is recognised immediately, unless the loss is compensated by future lease payments at below market price, in which case the loss is deferred and amortised over the period for which the asset is expected to be used. If the selling price exceeds fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognised immediately.

€ million	2018			2017		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Lease payments to be paid						
Within 1 year	2.4	0.1	2.3	3.5	0.0	3.5
Later than 1 year and no later than 5 years	3.6	0.1	3.5	7.7	0.3	7.4
Later than 5 years	0.0	0.0	0.0	0.1	0.0	0.1
Total lease payments	6.1	0.2	5.9	11.3	0.3	11.0

Financial lease liabilities mainly comprise cars and warehouse technology leased by the Group from finance companies.

4.7 Lease liabilities

Group as lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2018	2017
Within 1 year	409.3	390.9
Later than 1 year and no later than 5 years	1,367.8	1,283.9
Later than 5 years	1,203.8	1,238.0
Total	2,980.9	2,912.9
Expected future minimum lease payments under non-cancellable sublease agreements	61.0	60.9
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	414.3	406.8
Sublease income	24.9	21.8

The 2018 income statement includes capital lease payments and maintenance rentals on real estate under operating leases, and other rentals to a total amount of €466,6 million (€463.2 million). Maintenance rentals are not included in minimum lease payments.

Kesko leases retail and logistics premises for its operating activities. Most of the leases are index-linked and in conformity with local market practice. Some of the property leases contain extension options.

Group as lessor

Minimum lease payments received under non-cancellable operating lease agreements:

€ million	2018	2017
Within 1 year	15.6	11.4
Later than 1 year and no later than 5 years	32.1	26.5
Later than 5 years	19.8	19.0
Total	67.6	56.8
Aggregate contingent rents charged to the income statement	0.2	1.4

Kesko leases premises to entrepreneurs other than K-retailers in order that the total service offer of a store site supports its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.

4.8 Other contingent liabilities

€ million	2018	2017
Collateral given for own commitments		
Pledges	138.0	92.6
Mortgages	206.1	84.5
Guarantees	10.1	6.0
Other commitments and contingent liabilities	55.8	59.8
Collateral given for others		
Guarantees	3.5	0.3
Other commitments and contingent liabilities	19.6	20.5

The guarantees given do not include guarantees related to the items presented within liabilities in the consolidated statement of financial position or as a lease liability in note 4.7.

Guarantee maturities are €4 million in 2019 and €10 million in 2020–2023.

5. OTHER

5.1 Group composition

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

5.3 Related party transactions

5.4 Share-based compensation

5.5 Deferred tax

5.6 Components of other comprehensive income

5.7 Legal disputes and possible legal proceedings

5.8 Events after the balance sheet date

5.1 Group composition

Group composition

Kesko Group has 99 (97) 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 in-corporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2018	Number of wholly-owned subsidiaries 2017	Number of partly-owned subsidiaries 2018	Number of partly-owned subsidiaries 2017
Grocery trade	Finland	K-Market Oy	23	26	5	5
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Belarus	Onninen Group, Byggmakker Group, Kesko Senukai Group	37	39	26	19
Car trade	Finland	K-Auto Oy	7	6	-	-
Others	Finland		1	2	-	-

Kesko has simplified its group structure in 2016-2017. In the financial year 2017, Kesko Food Ltd, K-citymarket Oy and Kespro Ltd merged into the Kesko Group parent company Kesko Corporation. In the financial year 2016, K-talousoalvelukeskus Oy, K-Plus Oy, K-instituutti Oy, Rautakesko Ltd, Musta Pörssi Ltd and Keslog Ltd merged into Kesko Corporation.

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

Material non-controlling interest

Kesko Senukai Group, which is part of Kesko Group, has a material non-controlling interest. The subgroup's parent, UAB Kesko Senukai Lithuania, is a subsidiary of Kesko Corporation and it is domiciled in Vilnius, Lithuania. Kesko Group's ownership interest in Kesko Senukai Group is 50.0% increased by one share (50.0% increased by one share). Kesko Group has the right to nominate the majority of Board members and the Board Chairman. The Board controls the company's operational activities and makes decisions on the use of resources. The share of non-controlling interests of the net profit of Kesko Senukai Group was €15.4 million (€8.5 million) and in equity, the share was €107.6 million (€97.0 million).

Summarised financial information on subsidiary with material non-controlling interest

€ million	Kesko Senukai Group 2018	Kesko Senukai Group 2017
Current assets	276.8	238.8
Non-current assets	92.2	52.7
Current liabilities	146.9	114.1
Non-current liabilities	30.1	31.7
Net sales	729.1	628.9
Net profit/loss	27.6	17.1
Parent company owners' share of net profit/loss	24.3	16.1
Non-controlling interests' share of net profit/loss	3.3	1.0
Comprehensive income for the period	25.6	10.7
Parent company owners' share of comprehensive income for the period	23.6	13.8
Non-controlling interests' share of comprehensive income for the period	2.0	-3.1
Dividends paid to non-controlling interests	-0.6	-1.7
Net cash generated from operating activities	19.7	13.4
Net cash used in investing activities	-8.7	-16.8
Net cash used in financing activities	-12.6	17.5

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	Oppesgård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Kalaturku E. Eriksson Oy	Helsinki	100.00	100.00
K Auto Oy	Helsinki	100.00	100.00
Kenkäkesko Ltd	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 Real Estate OOO	St. Petersburg, Russia	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 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 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

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Klintcenter Ab	Mariehamn	100.00	100.00
K-Market Oy	Helsinki	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
KR Fastigheter AB	Sollentuna, Sweden	100.00	100.00
K-rauta AB	Stockholm, Sweden	100.00	100.00
K-rauta Rus OOO	St. Petersburg, Russia	100.00	100.00
KS Holding UAB	Vilnius, Lithuania	100.00	100.00
Liiketalo Oy Kaijonkeskus	Oulu	50.01	50.01
LLC LR Rustaveli StP	St. Petersburg, Russia	100.00	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00	100.00
Onninen Oy	Helsinki	100.00	100.00
Rake Eiendom AS	Oppesgård, 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	
Daugavpils project 1 SIA	Daugavpils, Latvia	50.01	
Delta turtas UAB	Vilnius, Lithuania	50.01	
Gipling AS	Steinkjer, Norway	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 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	
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	
Ksenukai Digital Oü	Tallinn, Estonia	25.50	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
MD Galerija Azur SIA	Riga, Latvia	50.01	
Mobilukss SIA	Riga, Latvia	25.50	
Nomine UAB	Vilnius, Lithuania	50.01	
Norgros AS	Oppegård, Norway	100.00	
Olarin Autokiinteistö Oy	Espoo	100.00	
OMA OOO	Minsk, Belarus	25.00	
Onninen AB	Solna, Sweden	100.00	
Onninen AS	Skedsmo, Norway	100.00	
Onninen AS	Tallinn, Estonia	100.00	
Onninen LLP	Aktau, Kazakhstan	100.00	
Onninen OOO	St. Petersburg, Russia	100.00	
Onninen Russia Holding Oy	Helsinki	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Warsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	
Peltosaaren Liikekeskus Oy	Riihimäki	59.67	
Penktoji Projekto Bendrovė 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	
Skattum Handel AS	Gjøvik, Norway	100.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Hehku Shop Ltd	Espoo	50.00	50.00
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Kruunuvuoren Satama Oy	Helsinki	49.00	49.00
Mercada Oy	Helsinki	33.33	33.33
Valluga-sijoitus Oy	Helsinki	46.15	46.15
Vähittäiskaupan Takaus Oy	Helsinki	34.35	34.35
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Fintorus Oy	Lappeenranta	21.40	
Proffsenteret AS	Ringerike, Norway	34.11	
Rakentamisen MALL Oy	Helsinki	25.00	
Suomen LVIS-Tietoverkko Oy	Vantaa	20.00	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo	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 Pälkäneen Liikekeskus	Pälkäne	84.14	84.14
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Koskelan Ostokeskus Oy	Oulu	29.32	
Laajasalon Liikekeskus Oy	Helsinki	50.35	50.35
Lapin Tehdastalo Oy	Tampere	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	47.60
Voisalmen Ostoskeskus Oy	Lappeenranta	50.00	

5.3 Related party transactions

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

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

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

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Mercada Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. Hehku Kauppa Oy is a Kesko and Oriola joint venture. A decision has been made to discontinue its operations. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. At the end of 2018, the pension assets did not include Kesko Corporation shares. At the end of 2017, the pension assets included Kesko Corporation shares with a value of €21.9 million. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2018 and 2017, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement € million	Associates and joint ventures		Board and management		Pension Fund	
	2018	2017	2018	2017	2018	2017
Sales of goods	8.9	0.1	81.6	79.6		
Sales of services	5.1	3.9	0.4	0.4	0.2	0.3
Purchases of goods	-0.5		-7.6	-7.8		
Purchases of services	-0.1	-0.1	0.0	-0.1	0.0	
Operating income	1.1	1.5	14.5	13.1		0.0
Operating costs	-52.3	-53.0	-2.6	-2.9	-6.3	-11.1
Finance income	5.7	5.6				

Balance sheet € million	Associates and joint ventures		Board and management		Pension Fund	
	2018	2017	2018	2017	2018	2017
Current receivables	2.4	0.5	6.2	5.9	0.0	
Non-current receivables	57.7	57.7				
Current liabilities	26.9	24.1	1.3	0.9	4.1	9.7

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €6.2 million (€5.9 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 €4.8 million (€5.5 million).

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

During the reporting period, Kesko Pension Fund paid in total €58.1 million in return of surplus assets to Finnish Group companies. In 2017 Kesko bought two properties from Kesko Pension Fund for a transaction price of €46.5 million, including asset transfer tax.

Management's employee benefits

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

Monetary salaries, fees, fringe benefits and share-based compensation €1,000		2018	2017
Mikko Helander	President and CEO	2,299.7	2,849.4
Group Management Board	other members	4,188.6	6,185.1
Esa Kiiskinen	Board Chairman	126.5	87.5
Toni Pokela	Board member	59.3	43.0
Matti Kyytsönen	Board member	61.8	45.5
Matti Naumanen	Board member	59.3	43.0
Jannica Fagerholm	Board member	79.3	48.0
Peter Fagerlös	Board Deputy Chairman (since 11 April 2018)	63.0	-
Piia Karhu	Board member (since 11 April 2018)	49.5	-
Mikael Aro	Board Deputy Chairman (until 11 Apr. 2018)	17.0	60.0
Anu Nissinen	Board member (until 11 Apr. 2018)	12.8	44.5
Total		7,016.8	9,406.1

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.

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 (€0.9 million) and the related pension asset in the balance sheet was €0.4 million (€0.6 million). The pension cost of the President and CEO's statutory pension provision was €0.2 million (€0.3 million).

Share awards

During the 2018 reporting period, members of the Group Management Board were granted 51,931 shares based on the 2017 Bridge Plan, while the maximum number of shares to be granted was 114,200. The number of shares represents gross earnings, from which withholding tax is deducted. During the 2017 reporting period, 56,684 shares were granted based on the 2016 plan, in addition to which 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.

Termination benefits

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

Shareholdings

At 31 December 2018, the President and CEO held 44,964 Kesko Corporation B shares, which represented 0.04% of the total number of shares and 0.01% of votes carried by all shares of the Company. As at 31 December 2018, the Group Management Board, including the President and CEO, held 81 Kesko Corporation A shares and 133,982 Kesko Corporation B shares, which represented 0.13% of the total number of shares and 0.03% of votes carried by all shares of the Company.

5.4 Share-based compensation

Accounting policies

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

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

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 and 2018. 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, performance period 2018: PSP, RSP and Bridge plan	2018 PSP		2018 RSP		2017 PSP		2017 Bridge Plan
Grant dates	20 Mar. 2018	20 Mar. 2018	1 Feb. 2017				
Grant date fair value of share award, €	46.48	48.00	44.67	44.80	44.67	44.80	44.67
Share price at grant date, €	48.68	50.20	46.67	47.00	46.67	47.00	46.67
Share-based compensation plan duration							
Performance period start date	1 Jan. 2018	-	1 Jan. 2017	-	1 Jan. 2017	-	1 Jan. 2017
Performance period end date	31 Dec. 2019	-	31 Dec. 2018	-	31 Dec. 2017	-	31 Dec. 2017
Commitment period start date	1 Jan. 2020	1 Jan. 2018	1 Jan. 2019	1 Jan. 2017	1 Jan. 2017	1 Jan. 2017	1 Jan. 2018
Commitment period end date	10 Feb. 2022	15 Mar. 2021	10 Feb. 2021	15 Mar. 2020	15 Mar. 2020	15 Mar. 2020	10 Feb. 2021

Assumptions applied in determining the fair value of share award: PSP, RSP, Bridge plan	Performance period 2018-2019 PSP and RSP	Performance period 2017-2018 PSP	Performance period 2017 Bridge plan
Number of share awards granted, maximum, pcs	331,300*	325,300*	325,300*
Changes in the number of shares granted, pcs	-4,000	-57,100	-26,600
Actual amount of share award, pcs			65,652
Number of plan participants at end of financial year	137	111	125
Share price at balance sheet date, €	47.10	45.25	45.25
Assumed fulfilment of performance criteria, %	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

*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: 2014-2016 share-based payments plans	Vesting period 2016	Vesting period 2015	Vesting period 2014
Grant dates	3 Feb. 2016	9 Feb. 2015	3 Feb. 2014
Grant date fair value of share award, €	32.45	30.74	25.66
Share price at grant date, €	34.95	32.24	27.06
Share-based compensation plan duration			
Vesting period start date	1 Jan. 2016	1 Jan. 2015	1 Jan. 2014
Vesting period end date	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
Commitment period end date	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017

Assumptions applied in determining the fair value of share award: 2014-2016 share-based payments plans	Vesting period 2016	Vesting period 2015	Vesting period 2014
Number of share awards granted, maximum, pcs	263,000	262,800	278,400
Changes in the number of shares granted, pcs	-9,800	-3,600	-2,000
Actual amount of share award, pcs	192,822	139,724	120,022
Number of plan participants at end of financial year	131	142	143
Share price at balance sheet date, €	47.48	32.37	30.18
Assumed fulfilment of vesting criteria, %	56.7	53.4	43.4
Estimated number of share awards returned prior to the end of commitment period, %	5.0	5.0	5.0

The impact of the above share-based compensation plans on the Group's profit for 2018 was €-6.5 million (€-9.8 million).

As at 31 December 2018, the amount to be recognised as expense for the financial years 2019–2021 is estimated at a total of €-7.3 million. The actual amount may differ from the estimate.

5.5 Deferred tax

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						
Provisions	9.8	-0.3				9.5
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	49.8	1.4	0.3	-1.1	-5.4	45.0
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 liability	46.4					39.6

Balance sheet division of net deferred tax liability

€ million	2018	2017
Deferred tax assets	5.3	5.6
Deferred tax liabilities	44.9	52.0
Total	39.6	46.4

Other temporary differences within deferred tax assets include €2.0 million of deferred tax assets arising from compliance with the Group's accounting principles and €4.0 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Movements in deferred tax in 2017

€ million	1 Jan. 2017	Income statement charge	Tax charged/credited to equity	Exchange differences	Other changes	31 Dec. 2017
Deferred tax assets						
Provisions	10.0	-0.2				9.8
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	25.6	-2.4		-0.1	0.0	23.1
Other temporary differences	19.4	-1.5	-0.1	-0.7	-0.2	16.8
Total	55.1	-4.2	-0.1	-0.8	-0.2	49.8
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	30.9	1.0		-0.4		31.5
Fair value allocation	23.5	-0.4		-0.5	-3.9	18.8
Defined benefit pension plans	33.1	-1.3	9.0			40.7
Other temporary differences	9.9	-0.7	0.0	-0.1	-3.9	5.2
Total	97.4	-1.4	9.0	-0.9	-7.8	96.2
Net deferred tax liability	42.3					46.4

Tax loss carry-forwards

As at 31 December 2018, the Group's unused tax losses carried forward were €174.8 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	2019	2020	2021	2022	2023	2024–	Total
	-	0.1	0.1	1.0	1.6	172.0	174.8

Deferred tax liabilities have not been recognised for taxes that would be payable on subsidiaries' undistributed earnings, because the subsidiaries' distributions are at the discretion of the Group, and a distribution of profits with tax effect is not probable in the near future.

5.6 Components of other comprehensive income

€ million	2018 Before tax	Tax charge/credit	After tax	2017 Before tax	Tax charge/credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-2.3	0.4	-1.9	45.0	-9.0	36.0
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-10.4		-10.4	-15.1		-15.1
Cash flow hedge revaluation	2.6	-0.5	2.1	0.8	-0.2	0.6
Revaluation of available-for-sale financial assets	-	-	-	-0.4	0.1	-0.3
Others	-0.1		-0.1	-0.3		-0.3
Total, continuing operations	-10.2	-0.1	-10.4	30.0	-9.1	20.9
Discontinued operations	35.1		35.1	-14.2		-14.2
Group total	24.9	-0.1	24.7	15.8	-9.1	6.7

5.7 Legal disputes and possible legal proceedings

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

5.8 Events after the balance sheet date

Kesko Group company K Caara Oy has agreed to acquire LänsiAuto Oy's Volkswagen, Audi and SEAT businesses in Kotka, Kouvola and Lappeenranta. (Press release 2 January 2019)

Kesko Group company K Caara Oy has agreed to acquire Huittisten Laatuauto Oy's Volkswagen and SEAT business operations in Forssa and Huittinen. The transaction includes new and used car sales, servicing and after-sales services. (Press release 3 January 2019)

Kesko Corporation's subsidiary Byggnakker completed the acquisition of the DIY retail business of Sørbo Trelast AS and Tau & Jørpeland Bygg AS. The acquisition comprises two Byggnakker stores and a B2B logistics centre in Norway. (Press release 31 January 2019)

Parent company's financial statements (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Net sales	4,978,145,962.28	4,546,014,549.58
Other operating income	647,958,938.08	957,239,419.90
Materials and services	-4,354,234,332.77	-3,999,992,238.07
Employee benefit expenses	-276,407,553.63	-292,237,926.43
Depreciation, amortisation and impairment	-81,515,728.01	-64,691,857.88
Other operating expenses	-689,375,528.78	-581,088,865.22
Operating profit	224,571,757.17	565,243,081.88
Finance income and costs	-21,802,538.58	-71,760,675.11
Profit before appropriations and taxes	202,769,218.59	493,482,406.77
Appropriations		
Change in depreciation reserve	-5,999,575.17	-4,820,340.90
Group contribution	78,635,864.70	47,337,019.21
Profit before taxes	275,405,508.12	535,999,085.08
Income taxes	-63,446,219.12	-40,943,927.77
Profit for the financial year	211,959,289.00	495,055,157.31

Parent company's balance sheet

€	31 Dec. 2018	31 Dec. 2017
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	8,128,559.02	13,028,438.27
Other intangible assets	138,491,710.44	111,897,224.51
Prepayments	12,993,020.11	16,015,144.73
	159,613,289.57	140,940,807.51
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	172,241,827.54	168,837,197.54
Leasehold interests and connection fees	1,948,263.42	1,524,238.07
Buildings		
Owned	344,641,067.56	344,012,526.20
Machinery and equipment	77,275,608.72	65,603,590.38
Other tangible assets	7,342,344.76	7,981,818.89
Prepayments and construction in progress	24,843,274.21	21,303,057.62
	628,292,386.21	609,262,428.70
INVESTMENTS		
Investments in subsidiaries	888,538,761.72	805,999,408.32
Investments in associates	82,209,122.85	83,982,695.77
Other investments	13,826,612.84	14,785,256.50
	984,574,497.41	904,767,360.59
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	240,478,801.40	234,744,925.64
	240,478,801.40	234,744,925.64

€	31 Dec. 2018	31 Dec. 2017
RECEIVABLES		
Long-term		
Receivables from subsidiaries	178,774,050.29	168,035,008.16
Receivables from associates	57,605,471.31	57,617,471.31
Loan receivables	5,158,542.00	5,000,000.00
Other receivables	6,207,944.39	5,237,960.95
	247,746,007.99	235,890,440.42
Short-term		
Trade receivables	371,547,340.31	373,594,000.87
Receivables from subsidiaries	642,884,942.51	675,384,765.34
Receivables from associates	1,445,407.99	3,044,550.12
Loan receivables	1,334,500.22	743,587.07
Other receivables	7,021,688.77	7,326,678.80
Prepayments and accrued income	76,972,059.17	103,271,251.54
	1,101,205,938.97	1,163,364,833.74
INVESTMENTS		
Other investments	139,678,745.75	259,111,541.02
CASH AND CASH EQUIVALENTS	55,329,096.57	75,212,606.84
TOTAL ASSETS	3,556,918,763.87	3,623,294,944.46

€	31 Dec. 2018	31 Dec. 2017
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	803,322,671.03	548,730,492.69
Profit for the financial year	211,959,289.00	495,055,157.31
	1,676,231,657.88	1,704,735,347.85
APPROPRIATIONS		
Depreciation reserve	113,089,488.31	106,651,164.74
PROVISIONS		
Other provisions	5,218,250.05	9,894,444.82
LIABILITIES		
Non-current		
Private Placement notes	-	20,083,682.01
Pension loans	160,145,000.00	92,136,875.00
Other creditors	4,822,996.00	3,511,411.00
	164,967,996.00	115,731,968.01
Current		
Bonds	20,083,682.01	225,005,000.00
Pension loans	22,941,875.00	8,648,750.00
Advances received	13,485,074.15	24,169,912.84
Trade payables	573,034,271.45	588,622,363.88
Payables to subsidiaries	501,797,147.84	428,755,044.00
Payables to associates	26,938,671.50	24,100,220.87
Other payables	224,194,396.53	195,351,522.98
Accruals and deferred income	214,936,253.15	191,629,204.47
	1,597,411,371.63	1,686,282,019.04
TOTAL LIABILITIES	3,556,918,763.87	3,623,294,944.46

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Cash flows from operating activities		
Profit before appropriations	202,769,218.59	493,482,406.77
Adjustments		
Depreciation according to plan	81,515,728.01	64,691,857.88
Finance income and costs	21,802,538.58	71,760,675.11
Other adjustments	31,906,258.66	-406,115,335.96
	337,993,743.84	223,819,603.80
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	-9,020,672.35	-161,680,563.29
Inventories increase (-)/decrease (+)	-5,733,875.76	-6,091,469.70
Current non-interest-bearing liabilities, increase (+)/decrease (-)	25,642,307.85	293,051,955.47
	10,887,759.74	125,279,922.48
Interests paid and other finance costs	-46,517,834.41	-17,045,129.76
Interests received	20,602,046.52	23,874,783.91
Dividends received	61,535,360.40	30,309,924.47
Income tax paid	-48,029,655.86	-29,272,453.12
	-12,410,083.35	7,867,125.50
Net cash generated from operating activities	336,471,420.23	356,966,651.78
Cash flows from investing activities		
Purchases of other investments	-10,668.96	-2,500.00
Purchases of property, plant, equipment and intangible assets	-121,023,284.92	-145,763,474.03
Acquisitions of subsidiaries	-120,671,597.18	-37,274,243.48
Acquisitions of associates	-9,200,000.00	-1,641,250.00
Sales of subsidiaries, net of cash	-	103,066,291.87
Proceeds from disposal of other investments	24,700.00	112,984.89
Proceeds from disposal of property, plant, equipment and intangible assets	4,953,757.95	10,181,110.33
Long-term receivables, increase (-)/decrease (+)	-11,697,025.57	39,290,538.07
Net cash used in investing activities	-257,624,118.68	-32,030,542.35

€	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	-54,237,730.95	-268,123,604.86
Short-term interest-bearing receivables, increase (-)/decrease (+)	368,581.36	125,198,252.65
Short-term money market investments, increase (-)/decrease (+)	116,459,434.77	-36,407,333.34
Dividends paid	-218,945,469.60	-198,932,108.72
Group contributions received and paid	78,635,864.70	47,337,019.21
Acquisition of treasury shares	-24,412,806.00	-
Other items	402,045.12	-3,244,788.93
Net cash used in financing activities	-101,730,080.60	-334,172,563.99
Change in cash and cash equivalents	-22,882,779.05	-9,236,454.56
Cash and cash equivalents and current available-for-sale financial assets as at 1 Jan.	109,183,741.58	106,569,989.39
Cash and cash equivalents transferred in merger	-	11,850,206.75
Cash and cash equivalents and current available-for-sale financial assets as at 31 Dec.	86,300,962.53	109,183,741.58

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

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

During the financial year 2017, K-citymarket Oy, Kespro Ltd and Kesko Food Ltd merged into Kesko Group's parent company Kesko Corporation.

Due to the mergers, data from the previous financial year are not comparable with the data from financial year 2018.

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
Fixtures and fittings	8 years
Machinery and equipment	25% reducing balance method
Transportation fleet	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 reserve comply with the Finnish Business Tax Act. The change in depreciation reserve has been treated as appropriations.

Valuation of inventories

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

Valuation of financial assets

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

Foreign currency items

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

Derivative contracts

Interest rate derivatives

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

Foreign currency derivatives

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

Commodity derivatives

Ankkuri-Energia Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko Corporation is an external 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	2018	2017
Grocery trade	4,058.0	3,493.7
Building and home improvement trade	892.2	1,019.3
Others	27.9	32.9
Total	4,978.1	4,546.0

Note 3. Other operating income

€ million	2018	2017
Gains on sales of real estate and shares	4.9	61.6
Rent income	59.2	62.0
Fees for services	444.1	367.6
Profits from mergers	0.1	350.0
Others	139.7	116.1
Total	648.0	957.2

Note 4. Employee benefit expenses

€ million	2018	2017
Salaries and fees	-273.1	-240.9
Social security costs		
Pension costs	6.9	-41.0
Other social security costs	-10.2	-10.3
Total	-276.4	-292.2

Kesko's pension costs include a €53.3 million return of surplus assets by Kesko Pension Fund. The average number of personnel at Kesko Corporation was 7,174 (6,576) people.

Salaries and fees to the management

€ million	2018	2017
Managing Director	2.3	2.8
Members of the Board of Directors	0.5	0.4
Total	2.8	3.2

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	2018	2017
Depreciation according to plan	-79.2	-62.2
Impairment, non-current assets	-2.3	-2.5
Total	-81.5	-64.7

Note 6. Other operating expenses

€ million	2018	2017
Rent expenses	-302.0	-267.9
Marketing expenses	-140.7	-130.8
Maintenance of real estate and store sites	-78.9	-62.1
Losses on disposals of non-current assets	-3.2	-1.2
Telecommunication expenses	-73.6	-63.0
Losses from mergers	-33.2	0.0
Other operating expenses	-57.8	-56.1
Total	-689.4	-581.1

Auditors' fees

€ million	2018	2017
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.3	0.3
Tax consultation	0.1	0.1
Other services	0.3	1.1
Total	0.7	1.5

Note 7. Finance income and costs

€ million	2018	2017
Income from long-term investments		
Dividend income from subsidiaries	67.3	30.3
Dividend income from others	0.0	2.4
Gains on disposal of shares	-	0.1
Gains on sales of investments	4.7	2.0
Income from long-term investments, total	72.0	34.7
Other interest and finance income		
From subsidiaries	8.2	10.8
From others	30.5	18.7
Interest and finance income, total	38.6	29.5
Impairment of investments held as non-current assets		
Impairment of shares	-80.1	-96.9
Changes in fair value	0.0	0.2
Impairment and changes in fair value of investments held as non-current assets, total	-80.1	-96.7
Interest and other finance costs		
To subsidiaries	-25.9	-12.9
To others	-26.4	-26.3
Interest and finance costs, total	-52.3	-39.2
Total	-21.8	-71.8

Note 8. Appropriations

€ million	2018	2017
Difference between depreciation according to plan and depreciation in taxation	-6.0	-4.8
Group contributions received	84.9	77.7
Group contributions paid	-6.3	-30.3
Total	72.6	42.5

Note 9. Changes in provisions

€ million	2018	2017
Transferred in mergers	-	1.7
Other changes	-4.7	-0.9
Total	-4.7	0.7

Note 10. Income taxes

€ million	2018	2017
Income taxes on group contributions	-15.7	-9.5
Income taxes on ordinary activities	-47.6	-30.8
Taxes for prior years	-0.1	-0.7
Total	-63.4	-40.9

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 €22.6 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2018	2017
Intangible rights		
Acquisition cost as at 1 Jan.	26.2	15.3
Increases	1.3	0.7
Transferred in mergers	-	15.5
Decreases	-1.8	-11.5
Transfers between items	0.0	6.1
Acquisition cost as at 31 Dec.	25.8	26.2
Accumulated depreciation as at 1 Jan.	-13.2	-7.6
Transferred in mergers	-	-11.8
Accumulated depreciation on decreases and transfers	1.4	11.4
Depreciation and amortisations for the financial year	-5.9	-5.1
Accumulated depreciation as at 31 Dec.	-17.6	-13.2
Book value as at 31 Dec.	8.1	13.0
Other intangible assets		
Acquisition cost as at 1 Jan.	250.8	83.5
Increases	45.2	35.9
Transferred in mergers	0.4	188.3
Decreases	-11.5	-64.2
Transfers between items	11.7	7.3
Acquisition cost as at 31 Dec.	296.6	250.8

€ million	2018	2017
Accumulated depreciation as at 1 Jan.	-139.0	-67.8
Transferred in mergers	0.0	-114.3
Accumulated depreciation on decreases and transfers	11.8	63.2
Depreciation and amortisations for the financial year	-30.9	-20.1
Accumulated depreciation as at 31 Dec.	-158.1	-139.0
Book value as at 31 Dec.	138.5	111.9
Prepayments		
Acquisition cost as at 1 Jan.	16.0	8.3
Increases	7.7	13.0
Transferred in mergers	0.0	5.9
Decreases	-2.1	-0.1
Transfers between items	-8.6	-11.1
Acquisition cost as at 31 Dec.	13.0	16.0
Book value as at 31 Dec.	13.0	16.0

Note 13. Property, plant and equipment

€ million	2018	2017
Land and waters, owned		
Acquisition cost as at 1 Jan.	168.8	85.9
Increases	2.1	4.4
Transferred in mergers	0.3	79.5
Decreases	-	-2.9
Transfers between items	1.1	2.1
Acquisition cost as at 31 Dec.	172.2	168.8
Book value as at 31 Dec.	172.2	168.8
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	1.5	0.1
Increases	0.4	0.4
Transferred in mergers	-	1.1
Decreases	-	0.0
Acquisition cost as at 31 Dec.	1.9	1.5
Book value as at 31 Dec.	1.9	1.5
Buildings		
Acquisition cost as at 1 Jan.	563.2	316.4
Increases	10.4	67.5
Transferred in mergers	8.3	165.4
Decreases	-0.1	-2.1
Transfers between items	2.2	15.9
Acquisition cost as at 31 Dec.	584.0	563.2
Accumulated depreciation as at 1 Jan.	-219.1	-154.7
Transferred in mergers	-1.3	-49.1
Accumulated depreciation on decreases and transfers	0.1	0.9
Depreciation for the financial year	-19.0	-16.3
Accumulated depreciation as at 31 Dec.	-239.4	-219.1
Book value as at 31 Dec.	344.6	344.0

€ million	2018	2017
Machinery and equipment		
Acquisition cost as at 1 Jan.	265.4	51.0
Increases	33.5	25.9
Transferred in mergers	0.4	220.8
Decreases	-22.0	-34.4
Transfers between items	2.0	2.2
Acquisition cost as at 31 Dec.	279.4	265.4
Accumulated depreciation as at 1 Jan.	-199.8	-39.0
Transferred in mergers	-0.1	-174.8
Accumulated depreciation on decreases and transfers	21.8	33.3
Depreciation for the financial year	-23.9	-19.3
Accumulated depreciation as at 31 Dec.	-202.1	-199.8
Book value as at 31 Dec.	77.3	65.6
Other tangible assets		
Acquisition cost as at 1 Jan.	18.0	9.5
Increases	0.6	0.5
Transferred in mergers	0.4	7.1
Decreases	0.0	0.0
Transfers between items	0.1	0.8
Acquisition cost as at 31 Dec.	19.0	18.0
Accumulated depreciation as at 1 Jan.	-10.0	-4.3
Transferred in mergers	-0.2	-4.2
Accumulated depreciation on decreases and transfers	0.0	0.0
Depreciation for the financial year	-1.5	-1.5
Accumulated depreciation as at 31 Dec.	-11.7	-10.0
Book value as at 31 Dec.	7.3	8.0

€ million	2018	2017
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	21.3	9.3
Increases	15.8	6.2
Transferred in mergers	-	35.9
Decreases	-4.0	-6.8
Transfers between items	-8.3	-23.2
Acquisition cost as at 31 Dec.	24.8	21.3
Book value as at 31 Dec.	24.8	21.3

Note 14. Investments

€ million	2018	2017
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	966.8	835.1
Increases	123.1	38.0
Transferred in mergers	177.4	146.9
Decreases	-198.2	-53.3
Acquisition cost as at 31 Dec.	1,069.0	966.8
Impairment as at 1 Jan.	-160.8	-29.3
Transferred in mergers	-34.6	-63.0
Accumulated impairments on decreases	84.2	28.1
Impairment for the period	-69.3	-96.6
Impairment as at 31 Dec.	-180.5	-160.8
Book value as at 31 Dec.	888.5	806.0

€ million	2018	2017
Investments in associates		
Acquisition cost as at 1 Jan.	84.0	78.3
Increases	9.3	1.7
Transferred in mergers	-	4.5
Decreases	-11.0	-0.5
Book value as at 31 Dec.	82.2	84.0
Other investments		
Acquisition cost as at 1 Jan.	14.8	10.2
Increases	0.0	0.1
Transferred in mergers	-	7.4
Decreases	-1.0	-2.6
Acquisition cost as at 31 Dec.	13.8	15.2
Impairment for the period	-	-0.3
Impairment as at 31 Dec.	0.0	-0.3
Book value as at 31 Dec.	13.8	14.8

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2018 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

Receivables from subsidiaries

€ million	2018	2017
Long-term		
Loan receivables	178.8	168.0
Long-term, total	178.8	168.0
Short-term		
Trade receivables	137.9	126.1
Loan receivables	356.6	430.0
Prepayments and accrued income	148.4	119.3
Short-term, total	642.9	675.4
Total	821.7	843.4

Receivables from associates and joints ventures

€ million	2018	2017
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	57.6	57.6
Short-term receivables	1.4	3.0
Total	59.1	60.7

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	2018	2017
Taxes	0.0	4.1
Fees for services	3.2	3.7
Employee benefit expenses	7.2	10.8
Purchases	28.1	29.4
Others	38.5	55.3
Total	77.0	103.3

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 2017	197.3	197.5	243.4	22.8	740.0	1,400.9
Dividends					-198.9	-198.9
Treasury shares					7.9	7.9
Transfer to donations					-0.3	-0.3
Profit for the year					495.1	495.1
Balance as at 31 December 2017	197.3	197.5	243.4	22.8	1,043.8	1,704.7
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

Restricted equity	2018	2017
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	394.8	394.8

Non-restricted equity	2018	2017
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,015.3	1,043.8
Total	1,281.5	1,310.0

Calculation of distributable profits	2018	2017
Other reserves	266.2	266.2
Retained earnings	803.3	548.7
Profit for the year	212.0	495.1
Total	1,281.5	1,310.0

Breakdown of parent company shares	Kpl
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 is 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. This authorisation cancelled the authorisation granted by the Annual General Meeting of 13 April 2015 to issue a total maximum of 20,000,000 new B shares, which would have been in force until 30 June 2018. 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

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 B shares held by the Company and acquired during the 2018 financial year was €24.4 million, and the acquisition cost of shares acquired during the 2011 and 2014 financial years was €23.5 million. These costs have been deducted from retained earnings in equity.

	Shares
Own B shares held by the Company as at 31 Dec. 2017	563,137
Transferred, share-based compensation scheme	-68,949
Acquired during the financial year	500,000
Returned during the financial year	7,211
Own B shares held by the Company as at 31 Dec. 2018	1,001,399

Note 17. Provisions

€ million	2018	2017
Provisions for leases	2.3	4.5
Other provisions	2.9	5.4
Total	5.2	9.9

Note 18. Non-current liabilities

On 10 June 2004, Kesko Corporation issued a Private Placement of USD 120 million in the US. The facility has three tranches with bullet repayments, of which the first tranche (USD 60 million) was due in 2014 and the second (USD 36 million) in 2016. The third tranche will be due in 2019 (USD 24 million). Kesko has hedged the loan with currency and interest rate swaps and will apply hedge accounting to the facility. At the balance sheet date, the fair value of the foreign currency derivatives hedging the private placement was €0.9 million and the fair value of the interest rate derivatives was €-0.2 million. The loan capital is €20.1 million and the fixed interest rate is 6.2%.

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon rate of 2.75%. The bond was due on 11 September 2018.

Note 19. Current liabilities

€ million	2018	2017
Liabilities to subsidiaries		
Trade payables	140.2	128.5
Other payables	293.8	235.7
Accruals and deferred income	67.8	64.5
Total	501.8	428.8
Liabilities to associates		
Trade payables	0.0	0.0
Accruals and deferred income	0.0	0.2
Other payables	26.9	23.9
Total	26.9	24.1
Accruals and deferred income		
Employee benefit expenses	87.8	71.3
Accruals and deferred income from purchases	35.2	41.6
Taxes	11.4	-
Transaction prices	2.2	1.8
Fees for services	2.1	1.2
Others	76.3	75.8
Total	214.9	191.6

Note 20. Interest-free liabilities

€ million	2018	2017
Current liabilities	1,096.6	1,076.9
Non-current liabilities	0.0	0.0
Total	1,096.6	1,076.9

Note 21. Guarantees, liability engagements and other liabilities

€ million	2018	2017
Real estate mortgages		
For own debt	176	54
For subsidiaries	11	11
Pledged shares	9	9
Guarantees		
For subsidiaries	49	78
Other liabilities and liability engagements		
For own debt	27	35
Rent liabilities on machinery and fixtures		
Falling due within a year	9	9
Falling due later	12	12
Rent liabilities on real estate		
Falling due within a year	290	283
Falling due later	1,868	1,936

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. 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

Company's transaction exposure as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB
Transaction risk	-18.5	5.3	1.9	25.0	11.9
Hedging derivatives	21.7	-9.1	-4.6	-14.4	-8.6
Exposure	3.2	-3.9	-2.6	10.6	3.2

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. 2018 € million	USD	SEK	NOK	PLN	RUB
Change +10%	0.1	0.0	-0.2	-0.6	0.0
Change -10%	-0.1	0.0	0.2	0.8	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB
Change +10%	-0.3	0.4	0.2	-1.0	-0.3
Change -10%	0.4	-0.4	-0.3	1.2	0.4

Derivatives

Fair values of derivative contracts € million	31 Dec. 2018 Positive fair value (balance sheet value)	31 Dec. 2018 Negative fair value (balance sheet value)	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)
Currency derivatives	3.3	0.8	0.4	-2.4

Notional amounts of derivative contracts € million	31 Dec. 2018 Notional amount	31 Dec. 2017 Notional amount
Currency derivatives	155.9	103.6

All currency derivatives mature in 2019.

€ million	2018	Fair value	2017	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives	70	0.1	70	0.3
Interest rate swaps	280	-2.0	180	-0.5
Foreign currency derivatives				
Forward and future contracts	136	1.5	84	-1.9
Outside the Group	129	1.6	77	-1.9
Inside the Group	7	-0.1	7	0.0
Currency swaps	20	0.9	20	-0.1
Commodity derivatives				
Electricity derivatives	22	0.0	12	0.0
Outside the Group	11	2.3	6	-0.3
Inside the Group	11	-2.3	6	0.3

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

€ million	2018	2017
Available-for-sale financial assets	31.0	34.0
Cash and cash equivalents	55.3	75.2
Total	86.3	109.2

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

Note 23. Related parties

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

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

Signatures

Signatures for financial statements and report by the Board of Directors

Helsinki, 5 February 2019

Esa Kiiskinen

Peter Fagerlös

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, 5 February 2019

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 2018. 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 € 15 million. We have assessed that in Kesko Group audit material are misstatements whose impact individually or in aggregate is at the level of 5% of comparable 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

- Goodwill and trademarks – management impairment testing
- Inventories

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

Materiality

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

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

We determined that overall group materiality is € 15 million. We chose comparable profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose a level of 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Group audit scope

Kesko operates in the grocery trade, the building and technical trade and the car trade. In 2018, Kesko operated in nine countries. During the year it withdrew from the Russian market. We tailored the scope of our audit, taking into account the structure of the Kesko Group, the industry and the accounting processes and controls.

We performed an audit in Kesko Group companies that are most significant based on the financial position and result. We have performed audit procedures in 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
<p>Goodwill and trademarks – management impairment testing</p> <p><i>Refer to note 3.4 Intangible assets.</i></p> <p>Kesko Group balance sheet includes goodwill in amount of € 278.7 million (2017: 172.3) and trademarks € 87.2 million (2016: 82.2).</p> <p>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.</p> <p>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.</p>	<p>We reviewed financial plans prepared by the management and compared to the financial plans approved by the Board of Directors.</p> <p>We evaluated appropriateness of value-in-use valuation method used and traced input information to the source.</p> <p>We challenged the management on assumptions used in value-in-use calculations. In evaluating one of the key assumptions, Weighted Average Cost of Capital, we utilised 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.</p> <p>In addition, we assessed the adequacy of the disclosures, particularly on sensitivities.</p>
<p>Inventories</p> <p><i>Refer to note 3.5 Inventories.</i></p> <p>Kesko Group balance sheet includes inventory in amount of € 913.0 million (2016: 938.6).</p> <p>Inventories are measured at the lower of cost and net realisable value.</p>	<p>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.</p>

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.

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 materialised 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 43 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 5 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant



KESKO'S
ANNUAL REPORT 2018

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

This section contains Kesko's Corporate Governance Statement and Remuneration Statement.

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KESKO'S
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CORPORATE GOVERNANCE STATEMENT 2018

Introduction

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 5 February 2019.

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association effective from 1 January 2016. Kesko Corporation issues the statement separately from the Report by the Board of Directors. This statement and the other information to be disclosed in accordance with the Corporate Governance Code, and the Company's financial statements, the Report by the Board of Directors, and the Auditor's Report are available on Kesko's website at kesko.fi/en/investor/corporate-governance.

Kesko Corporation ("Kesko" or "the Company") is a Finnish limited liability company in which the duties and responsibilities of management bodies are defined according to the regulations observed in Finland. The parent company Kesko and its subsidiaries form Kesko Group. The Company is domiciled in Helsinki.

In Kesko, decision-making and corporate governance are in compliance with the Finnish Limited Liability Companies Act, regulations concerning publicly listed companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors and its Committees, and the rules and guidelines of Nasdaq Helsinki Ltd.

CORPORATE GOVERNANCE CODES KESKO COMPLIES WITH AND DEPARTS FROM

Corporate Governance Code Kesko commits to comply with	The Corporate Governance Code effective from 1 January 2016 ("Corporate Governance Code")
Website where the Corporate Governance Code is publicly available	cgfinland.fi/en/corporate-governance-code/
Corporate Governance Code recommendations from which the company departs	Recommendation 6 (Term of Office of the Board of Directors)
<p>Explanation of and grounds for the departure</p> <ul style="list-style-type: none"> • grounds for the departure • decision-making concerning the departure • when the company plans to adopt the recommendation (in case of temporary departure) • when necessary, the company must describe the procedure implemented in place of the recommendation and explain how such a procedure establishes the objective of the recommendation or the code or how the procedure promotes the implementation of appropriate corporate governance in the company 	<p>The term of office of Kesko's Board of Directors departs from the one-year term pursuant to Recommendation 6 (Term of Office of the Board of Directors) of the Corporate Governance Code. The term of office of the Company's Board of Directors is determined in accordance with the Company's Articles of Association. The General Meeting decides on amendments to the Articles of Association. According to the Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.</p> <p>A shareholder who, together with related entities, represents over 10% of votes attached to all Kesko shares, has informed the Company's Board of Directors that it considers the term of office of three (3) years good for the Company's long-term development and has not seen any need to shorten the term stated in the Articles of Association.</p>

Descriptions concerning corporate governance

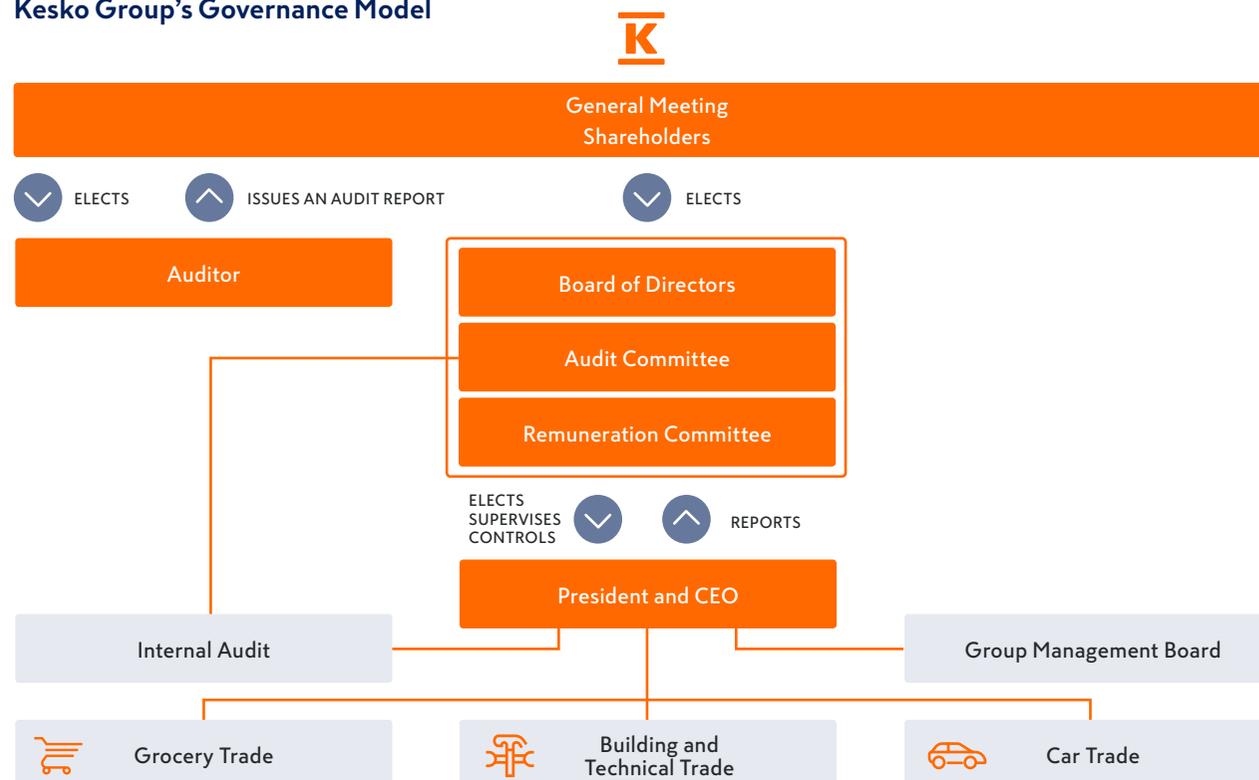
Kesko Group's corporate governance system

The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting. At the Annual General Meeting, the Company's shareholders elect the Company's Board of Directors and the Auditor. Kesko Group is managed by the Board of Directors and the Managing Director, who is the President and CEO. The President and CEO is appointed by the Board of Directors. The Company uses a so-called one-tier governance model.

The Annual General Meeting is held annually by the end of June, on a date designated by the Company's Board of Directors. The most significant matters falling within the decision-making power of the General Meeting include the election of the Board members and the Auditor, the adoption of the financial statements, the resolution on discharging the Board members and the Managing Director from liability, and the resolution on the distribution of the Company's assets, such as distribution of profit.

The Company has share series A and B, which differ with respect to the number of votes attached to the shares. An A share carries ten (10) votes and a B share carries one (1) vote at the General Meeting. When votes are taken, the proposal for which more than half of the votes were given will primarily be the resolution of the General Meeting, as prescribed by the Limited Liability Companies Act. However, pursuant to

Kesko Group's Governance Model



the Act, certain decisions – such as decisions to amend the articles of association and decisions on directed share issues – require a qualified majority of two-thirds of the votes cast and represented at the meeting. The Limited Liability Companies Act provides that specific shareholders or all shareholders must consent to a decision limiting the rights arising from shares or increasing the obligations of shareholders.

Shareholders are invited to attend the General Meeting by a Notice of the General Meeting published on the Company's website. The notice of the meeting and other

General Meeting documents, including the Board of Directors' proposals to the General Meeting, are made available to shareholders no later than three weeks prior to the General Meeting on its website at www.kesko.fi. The notice of the meeting is also published in a stock exchange release.

The Company aims for all members of Kesko's Board of Directors, the President and CEO, and the Auditor to be present at the Annual General Meeting. The minutes of the General Meeting are made available to shareholders at Kesko's website at www.kesko.fi within two weeks of the

General Meeting. The resolutions of the General Meeting are also published in a stock exchange release without delay after the meeting.

Board of Directors

Formation and term of office of the Board of Directors

According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. All Board members are elected by the General Meeting. There is no special committee or board engaged in the nomination of Board member candidates or their election at the General Meeting, as the number of Board members is resolved and the members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office of the Board.

According to the Articles of Association, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare for the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members. The proposal by significant shareholders is based on the Board's self-assessment, in which the performance and contribution of each Board member is also assessed, in addition to the competencies and experience needed in the Board composition. Conclusions based on the self-assessment are communicated to the significant

shareholders, and external advisors are used as necessary in surveying potential members who meet the set criteria. The Chairman of the Board interviews potential members and provides an opinion to the significant shareholders.

Board composition and shareholdings

The Annual General Meeting of 11 April 2018 resolved that the Board of Directors is composed of seven (7) members.

As of the Annual General Meeting of 11 April 2018, the Board members have been Esa Kiiskinen (Chair), Peter Fagernäs (Deputy Chair), Jannica Fagerholm, Piia Karhu,

Matti Kyytsönen, Matti Naumanen and Toni Pokela. Between 1 January and 11 April 2018, the Board members were Esa Kiiskinen (Chair), Mikael Aro (Deputy Chair), Jannica Fagerholm, Matti Kyytsönen, Matti Naumanen, Anu Nissinen and Toni Pokela.

In accordance with the Articles of Association, the term of office of the current members of the Board of Directors will expire at the close of the 2021 Annual General Meeting.

The Board's composition and shareholdings on 31 December 2018 are depicted in the table below.

Board composition and shareholdings on 31 Dec. 2018

Nimi	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held on 31 Dec. 2018
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	1,350 A shares held by him 106,000 A shares held by entities controlled by him 673 B shares held by him
Peter Fagernäs (Deputy Chair)	1952	Master of Laws	Chairman of the Board, Hermitage & Co Oy	2018	Remuneration Committee (Deputy Chair)	1,000 A shares held by him 417 B shares held by him
Jannica Fagerholm	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	1,417 B shares held by her
Piia Karhu	1976	Doctor of Science, Economics and Business Administration	Senior Vice President, Finnair Plc	2018	Audit Committee	313 B shares held by her
Matti Kyytsönen	1949	Master of Science (Economics)	Chairman of the Board, Silverback Consulting Oy	2015	Audit Committee (Deputy Chair) Remuneration Committee	1,308 B shares held by him
Matti Naumanen	1957	Trade Technician	Retailer	2016		2,400 A shares held by him 17,664 A shares held by entities controlled by him 313 B shares held by him
Toni Pokela	1973	eMBA	Food retailer	2012		179,400 A shares held by entities controlled by him 313 B shares held by him

Independence

All members of Kesko's Board of Directors are non-executive directors. The Board evaluates the independence of its members on a regular basis in accordance with Recommendation 10 of the Corporate Governance Code.

The Board carried out an independence evaluation in its organisational meeting held after the Annual General Meeting of 11 April 2018. Based on that independence evaluation, the Board considered Toni Pokela not to be independent of the Company's significant shareholder, the K-Retailers' Association, of which Pokela is the Chairman of the Board. In its independence evaluation, the Board considered the majority of the Board members to be independent of the Company. A Board member is obliged to provide the Board with necessary information for the evaluation of independence.

The Board members' independence is depicted in the table below.

Board members' independence in 2018

	Independent of the Company	Independent of a significant shareholder
Esa Kiiskinen (Chair)	No***	Yes
Peter Fagerlös (Deputy Chair)*	Yes	Yes
Jannica Fagerholm	Yes	Yes
Piia Karhu*	Yes	Yes
Matti Kyytsönen	Yes	Yes
Matti Naumanen	No***	Yes
Toni Pokela	No***	No****
Mikael Aro (Deputy Chair)**	Yes	Yes
Anu Nissinen**	Yes	Yes

* Board member since 11 April 2018, ** Board member until 11 April 2018, *** Each of the companies controlled by Kiiskinen, Naumanen and Pokela has a chain agreement with Kesko Corporation., **** Pokela is the Chairman of the Board of Kesko's significant shareholder K-Retailers' Association.

Description of the operations of the Board of Directors and the main contents of its charter

Kesko's Board of Directors is responsible for the Company's corporate governance and for the proper organisation of its operations. The Board is responsible for the proper organisation of the Company's accounting and financial management controls. The Board of Directors has confirmed a written charter of the Board of Directors' duties, the matters it deals with, its meeting practice and its decision-making procedure.

In accordance with the charter, the Board deals with and makes decisions on matters that are financially, operationally or fundamentally significant to the Group. According to the charter, the Board of Directors' duties include:

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and rolling forecast, including a capital expenditure plan
- approving the Group's treasury and investment policy
- confirming the Group's risk management policy and reviewing the Group's most significant risks and uncertainties
- confirming the Group's insurance principles
- reviewing and adopting the consolidated financial statements, half year financial reports and interim reports and related stock exchange releases and the Report by the Board of Directors
- deciding on strategically or financially significant individual capital expenditure, acquisitions, divestments or other arrangements, and commitments

- deciding on management authorisation rules
- deciding on the essential structure and organisation of the Group
- appointing and dismissing the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her remuneration and other financial benefits
- deciding on the appointments of the Group Management Board members responsible for lines of business, on their remuneration and financial benefits
- deciding on the principles of Kesko's commitment and incentive schemes and monitoring their implementation
- making possible proposals to the General Meeting for share issue and acquisition authorisations, and making decisions on granting shares or share options under share-based commitment and incentive schemes, and on the terms and conditions for granting them
- establishing a dividend policy and being responsible for shareholder value performance
- confirming the Company's values
- reviewing Kesko's Annual Report
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies Act or some other, and for duties prescribed by the Finnish Corporate Governance Code.

The duty of Kesko's Board of Directors is to promote the interests of Kesko and all of its shareholders. In the company, the Board members do not represent the parties that have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him/her (including entities

over which he/she exercises control) and the Company. When a vote is taken, the Board's decision will be the opinion of the majority and if a vote results in a tie, the decision will be the opinion supported by the Chair. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

Board of Directors' operations in 2018

In 2018, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 100%. Board meetings regularly discuss the review by the President and CEO on key topical issues, as well as the reports by the Chairmen of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meetings. The Auditor presents its findings to the Board once a year in connection with the review of the financial statements.

As in previous years, in 2018, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditure and divestments and new financing arrangements, monitored the progress of Group-level projects and approved the interim reports, the half year financial report and the financial statements before they were published.

In 2018 the Board, among other things, clarified and specified the Kesko Group strategy approved in spring 2015 and monitored its execution, and decided on acquisitions and divestments in line with the confirmed strategy, including the acquisitions of Kalatukku E. Eriksson Oy, Gipling AS, Skattum Handel AS, and the DIY retail business of Sørbo Trelast AS and Tau & Jørpeland Bygg AS. The Board monitored the financial performance

of previously acquired companies and their integration into Kesko Group, the implementation of divestments decided, and progress in the Group's data protection project. The Board reviewed, for example, Kesko's Annual Report and goodwill impairment testing, and decided on mergers to simplify the Group structure, the establishment of a new share-based compensation plan, on using the authorisation granted by the General Meeting to acquire a maximum of 500,000 B shares in the Company, on new financing arrangements, and on the use of donation funds approved by the General Meeting.

The Board carried out a self-assessment. It was conducted via discussions between the Board's Chairman and each

Board member based on a predetermined discussion agenda. Topics covered in the assessment included Group strategy, reporting, risk management, efficiency of Board and Committee work, Group management and contingency planning for Group management, and individual Board member assessments. The Board reviewed a summary of the discussion results in its meeting. Focus areas included strategy-driven corporate leadership, the temporal aspect of strategy review, the scope of market and competitor information, the increased importance of cyber security in risk management, and an open and appreciative working atmosphere for the Board and its Committees. In addition to the summary, each Board member received personal feedback.

Attendance at meetings by members of the Board and its Committees in 2018

	Board member since	Committee membership	Attendance		
			Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Chair)	2009	Remuneration Committee (Chair)	10/10		3/3
Peter Fageräs (Deputy Chair)*	2018	Remuneration Committee (Deputy Chair)	7/7		1/1
Jannica Fagerholm	2016	Audit Committee (Chair)	10/10	5/5	
Piia Karhu*	2018	Audit Committee	7/7	4/4	
Matti Kyytsönen	2015	Audit Committee (Deputy Chair) Remuneration Committee	10/10	5/5	1/1
Matti Naumanen	2016		10/10		
Toni Pokela	2012		10/10		
Mikael Aro (Deputy Chair)**	2015	Audit Committee (Deputy Chair) Remuneration Committee (Deputy Chair)	3/3	1/1	2/2
Anu Nissinen**	2015	Remuneration Committee	3/3		2/2

* Board member since 11 April 2018

** Board member until 11 April 2018

Principles concerning diversity

Kesko's Board of Directors approved on 25 October 2016 the diversity policy, which has been published on the website at kesko.fi/en/investor/corporate-governance/board-and-its-committees/diversity-policy, in the following form:

” Diversity is an essential component of Kesko's success, the achievement of Kesko's strategic objectives and good governance at Kesko. This diversity policy describes the objectives in the achievement of diversity in the operations and composition of Kesko Corporation's Board of Directors.

Board size and the election of its members

According to the Articles of Association, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. A sufficient number of Board members promotes the diversity of the Board composition, as the areas of expertise and competencies of the Board members are mutually complementary and the Board's independence requirements are satisfied.

The Board members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office of the Board. In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare to the

General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Planning the Board composition

The composition of Kesko's Board of Directors shall support Kesko's current and future business operations. The Board members are appointed on their merits. One of the essential features in the Board composition is that the Board members' educational backgrounds, experience, professional competencies and age and gender distribution support Kesko's business objectives and enable efficient Board work for Kesko. The Board members shall also be able to devote a sufficient amount of time to Board work.

Kesko aims to achieve a balanced gender distribution in the composition of its Board of Directors. The composition of the Board shall reflect experience in both national and international business operations. The educational background of the Board members shall represent multiple disciplines and diversity. In addition, Kesko's Board shall include members with strong experience in the trading sector and in-depth knowledge of the retailer business. The achievement of objectives is monitored annually and reported in the corporate governance statement.”

Monitoring the implementation of diversity policy objectives in 2018

In 2018, two of the seven Board members were women, in other words, the proportion of the gender with the smaller representation on the Board was approximately 29%. The educational backgrounds and experience of the Board

members represent multiple disciplines and diversity, and several members also have experience in international business operations (for the personal details of the Board members, see the table "Board composition and shareholdings"). Several Board members have experience in the trading sector and the principal occupation of three of the seven Board members is acting as a K-retailer.

Board Committees

Kesko has a Board's Audit Committee and Remuneration Committee, both of which are composed of three (3) Board members. At the close of the Annual General Meeting, the Board elects from among its members the Committee Chairmen, Deputy Chairmen and members for one year at a time.

All members of the Audit Committee are independent of the Company and of the Company's significant shareholders. In the election of the Audit Committee members, the competence requirements for Audit Committee members have been taken into account.

All members of the Remuneration Committee are independent of the Company's significant shareholder and its majority is also independent of the Company. In the election of the Remuneration Committee members, the competence requirements for Remuneration Committee members have been taken into account.

The Committees regularly assess their operations and working methods and carry out a related self-assessment once a year. The Board has confirmed written charters for the Committees, which contain the main duties and operating principles of the Committees.

The Committees have no independent decision-making power. Instead, the Board makes decisions on matters based on the Committees' preparatory work. The Committee Chairman reports on the Committee's work at the Board meeting following the Committee's meeting. Minutes of the Committee meetings are submitted for information to the Board members.

Kesko's Board of Directors has not established any other committees in addition to the Audit and Remuneration Committees, nor or has the General Meeting appointed any committees or boards.

Audit Committee

The Board's organisational meeting, held after the Annual General Meeting of 11 April 2018, elected the following Board members as the Audit Committee members:

- Jannica Fagerholm (Chair)
- Matti Kyytsönen (Deputy Chair)
- Piia Karhu

During the period before the 2018 Annual General Meeting (1 January - 11 April 2018) the Audit Committee members were Jannica Fagerholm (Chair), Mikael Aro (Deputy Chair) and Matti Kyytsönen.

According to its charter, the duties of the Audit Committee include:

- monitoring Kesko Group's financial and funding situation
- monitoring and evaluating the Company's process for financial statements reporting

- monitoring and evaluating the Company's process for financial reporting
- monitoring and evaluating the efficiency of the Company's internal control, internal audit and risk management systems
- reviewing the Company's Corporate Governance Statement
- approving the operating instructions, annual audit plan, budget and resources for the Company's internal audit function and reviewing the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- monitoring and evaluating the independence of the Company's audit firm
- monitoring and evaluating related (non-audit) services to Kesko by the audit firm and its network audit companies
- preparing a proposal for a resolution on the election of the Company's Auditor and communicating with the Company's Auditor.

In 2018, the Audit Committee held five meetings. Its members' attendance rate at the Committee meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller and the director in charge of internal audit regularly reported on their areas of responsibility to the Committee. The Committee also receives reports on Kesko Group's funding situation, taxation, information management, risk management and insurances. The Auditor is present at the Committee meetings and presents its audit plan and report to the Audit Committee.

During the year, the Committee reviewed the reports on the Group's financial situation, including the financial statements release, the half year financial report and the interim reports and updated forecasts, and made a recommendation to the Board on the review of the reports and the financial statements release. The Committee reviewed the reports of the Group's external and internal audits and risk management and the Corporate Governance Statement. The Audit Committee also reviewed goodwill impairment testing and the Group's risk reporting in the financial statements.

The Audit Committee monitored the implementation of the audit plan for internal audit, the Group's preparation for the implementation of new IFRS standards and their impact on the Group's reporting, the Group's preparations for the implementation of the new EU general data protection regulation, the development of associated companies, and additional services purchased from firms of auditors. The Committee also monitored and evaluated the Auditor's independence and the non-auditing consultation services provided by the Auditor to the Group. The Audit Committee prepared and submitted a proposal to Kesko's Annual General Meeting 2018 for the election of Auditor. The Committee also approved the 2019 audit plan, personnel resources and budget for the Group's internal audit.

The Audit Committee assessed its operations as part of the Board's self-assessment. Topics that emerged in the assessment included the Committee's significant role in monitoring the effectiveness of the Group's risk management, and successful reporting on low-profitability units.

Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 11 April 2018, elected the following Board members as the Remuneration Committee members:

- Esa Kiiskinen (Chair)
- Peter Fagernäs (Deputy Chair)
- Matti Kyytsönen

During the period before the 2018 Annual General Meeting (1 January - 11 April 2018) the Remuneration Committee members were Esa Kiiskinen (Chair), Mikael Aro (Deputy Chair) and Anu Nissinen.

According to its charter, the duties of the Remuneration Committee include:

- preparing for the Board matters pertaining to the remuneration and other financial benefits of the President and CEO and his/her managing director's service contract
- preparing matters pertaining to the remuneration and other financial benefits of the Group Management Board members responsible for lines of business; decisions on the remuneration and financial benefits of the Group Management Board members other than those responsible for lines of business are made by the President and CEO within the limits set by the Chairman of the Remuneration Committee
- preparing matters pertaining to the appointment of a President and CEO and the Group Management Board members responsible for lines of business, and identifying their potential successors,

- development of remuneration schemes and their preparation to the Board of Directors, including:
 - evaluating the remuneration of the President and CEO and other management, and ensuring the appropriateness of the remuneration schemes
 - preparing possible share or share-based commitment and incentive schemes
 - preparing the distribution of shares or share options under the share or share-based commitment and incentive schemes, and preparing their terms and conditions
- reviewing the Remuneration Statement in connection with the financial statements
- answering questions related to the Remuneration Statement at the General Meeting; questions are primarily answered by the Committee Chair
- preparing the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success.

In 2018, the Remuneration Committee held three meetings. Its members' attendance rate at the Committee meetings was 100%. The Committee prepared, among other things, proposals to the Board for Kesko's 2018-2021 share-based compensation plan, for the performance criteria and target values and the target group for share awards, for the principles of Group performance bonuses for 2018 and 2019, as well as for the performance bonuses to be paid for 2017 to the President and CEO and Group Management Board members responsible for lines of business.

The Committee monitored and evaluated the implementation of the reform of management's total remuneration. In addition, the Committee reviewed, among other things, Kesko's Remuneration Statement. The Remuneration Committee assessed its operations as part of the Board's self-assessment. The Committee did not hold any meetings under the new composition established after the 2018 Annual General Meeting before conducting the self-assessment. The new Committee members considered the induction they had been given successful, and based on that, assessed that the Group's remuneration scheme was good.

Managing director (President and CEO) and his duties

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Mikko Helander, Master of Science in Technology (b. 1960). He became Kesko's President and CEO on 1 January 2015. Helander was also a member of the Group Management Board and Kesko's Executive Vice President during the period between 1 October 2014 and 31 December 2014, and he has been the Chairman of the Group Management Board since 1 January 2015.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors and to report to the Board developments in the Company's business operations and financial situation. He is also responsible for organising the Company's day-to-day governance and for the company's accounting complying with legislation and financial matters being organised in a reliable manner. The President and CEO also chairs the Group Management Board.

The President and CEO is elected by the Board of Directors. The Board has decided the terms and conditions of the President and CEO's service contract. A written managing director's service contract, approved by the Board, has been made between the Company and the President and CEO.

As at 31 December 2018, Helander held a total of 44,964 Kesko B shares. Helander's shareholdings as at 31 December 2018 are also presented in the table under "Group Management Board".

Group Management Board

Kesko Group has a Group Management Board, the Chairman of which is Kesko's President and CEO. The Group Management Board does not have any powers under law or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level policies and procedures. In addition, the Group Management Board discusses, among other things, the Group's and the division parent companies' business plans, profit

performance and matters reviewed by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 14–18 times a year.

Group Management Board members, areas of responsibility and shareholdings on 31 Dec. 2018

	Group Management Board member since	Area of responsibility	Kesko shares held on 31 Dec. 2018
Mikko Helander, President and CEO	01/10/2014	Kesko's President and CEO	44,964 B shares held by him
Jorma Rauhala, President, building and technical trade division, Deputy CEO	05/02/2013	Building and technical trade	24,300 B shares held by him
Ari Akseli, President, grocery trade division	15/11/2017	Grocery trade	8,596 B shares and 81 A shares held by him
Johan Friman, President of K Auto Oy	01/01/2017	Car trade	3,363 B shares held by him
Jukka Erlund, EVP, Chief Financial Officer	01/11/2011	Finance and accounting, IT, Risk Management, M&A	20,203 B shares held by him
Mika Majoinen, EVP, Group General Counsel	01/01/2018	Legal affairs	11,070 B shares held by him
Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations	01/10/2012	Human resources, Corporate Responsibility and Regional Relations	12,884 B shares held by him
Anni Ronkainen, EVP, Chief Digital Officer	20/04/2015	Chief Digital Officer	8,602 B shares held by her

Description of internal control procedures and the main features of risk management systems

Group's financial reporting

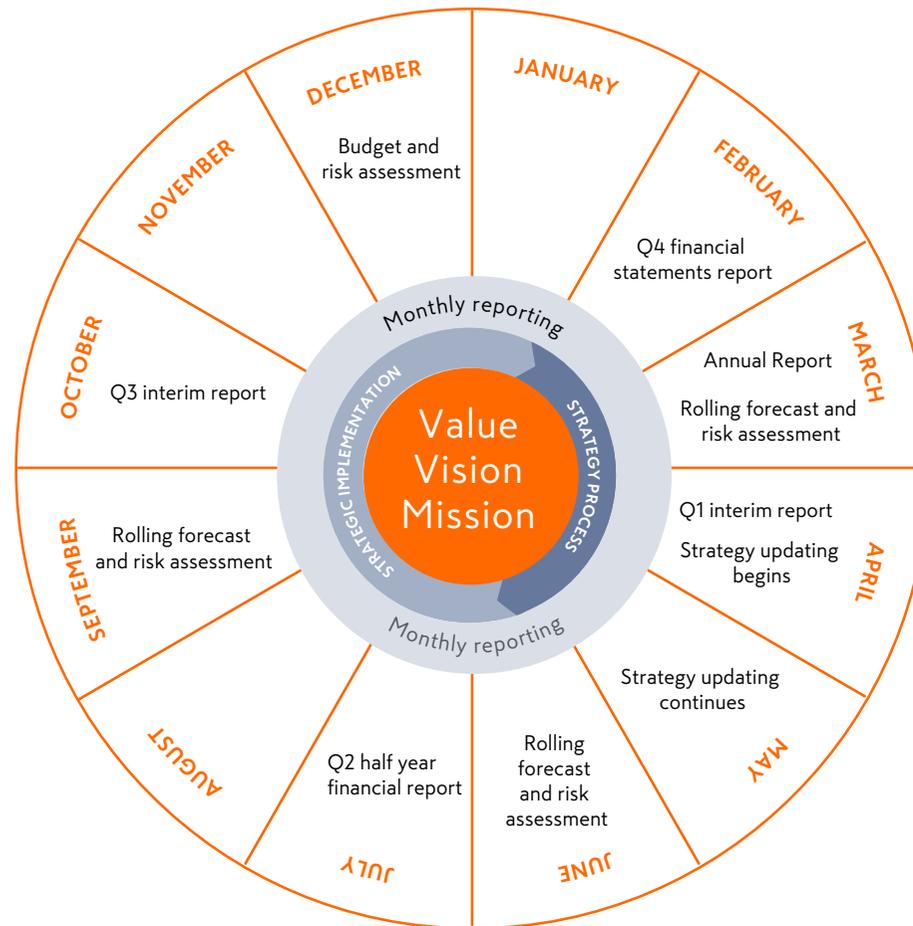
Kesko's management model

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

Roles and responsibilities

Kesko Group's financial reporting and its supervision are organised on three levels. Businesses analyse and report their figures to the divisions, which then report the division-specific figures to Group Accounting. Analyses and controls for ensuring the accuracy of reporting are used on each of the three reporting levels. The accuracy of reporting is ensured with automated and manual controls at every reporting level. The implementation of the analyses and controls is supervised on a monthly basis at company, business, division and Group levels.

Kesko Group's management model



Planning and performance reporting

The Group's financial development and achievement of financial objectives are monitored by financial reporting covering the entire Group. Monthly performance reporting includes actual Group, division and business specific results, changes compared to the previous year, comparison with forecasts, and forecasts for the next 12 months. The Group's short-term financial planning is based on annual budgeting and quarterly updated forecasts extending over the following 12 to 15 months. The key financial indicators are sales performance for growth and comparable operating profit and comparable return on capital employed for profitability, monitored by monthly internal reporting. Information on the Group's financial situation is provided in interim reports, a half year financial report and the financial statements release. The Group's sales figures are published monthly.

Performance reporting to the Group's top management

Performance reporting to the Group's top management comprises monthly reports on the Group's, divisions', businesses' and subsidiaries' sales, profits and capital employed, as well as the Group's financial items, cash flows and balance sheet position. The businesses are primarily responsible for financial reporting and the accuracy of figures. The controlling function of each division analyses the whole division's figures for which the division's financial management is responsible. The Group is responsible for the whole Group's figures. Key items in the income statement, capital employed and balance sheet are analysed monthly at business, division and Group level, based on a documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available and enables real-time responses to possible flaws. Performance reporting to

management also includes Group-level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting

Public performance reporting comprises interim reports, a half year financial report, the financial statements release, the annual financial statements, and monthly sales reports. The same principles and control methods are applied to public performance reporting as to monthly performance reporting. The Audit Committee reviews the interim report, the half year financial report and the financial statements and gives a recommendation on their review to the Board of Directors. The Board approves the interim report, the half year financial report and the financial statements before they are published.

Key actions in 2018

The harmonisation of the financial management processes of Group companies in Finland continued in 2018. Car trade division companies K Auto Oy and K Caara Oy adopted the Group's shared financial management system. The five companies acquired during the year were integrated into Kesko Group's financial reporting. The remaining stores acquired with Suomen Lähikauppa with continuing operations were transferred from Kesko to retailers during the first half of 2018. As a result, Kesko discontinued its own retailing operations in the K-Market chain in its grocery trade division, and the stores are now operated under the retailer business model.

The Group prepared for the implementation of IFRS 16 (Leases), which will come into effect on 1 January 2019, by creating a common lease agreement management and lease accounting system for the Group's leases as part of the financial management systems. The Group's accounting manual was updated in accordance with

accounting policies in compliance with the new standard, and financial management personnel was trained in reporting in line with the new standard. On 19 December 2018, Kesko issued a stock exchange release with comparison figures for consolidated financial statements for 2018 in relation to the adoption of IFRS 16.

Key actions in 2019

IFRS 16 (Leases) will be implemented in the Group's financial reporting as of the beginning of 2019. The implementation of the new IFRS 16 constitutes the biggest individual change in Kesko's financial reporting since the transition to IFRS reporting. The harmonisation and automation of core financial management processes will continue via separate projects in 2019.

Accounting policies and financial management IT systems

Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union. The accounting policies applied by the Group have been compiled into an accounting manual, updated as the standards are amended. The manual contains guidelines for separate companies and the parent company, as well as guidelines for the preparation of the consolidated financial statements. Kesko Group's financial management information is generated from division-specific enterprise resource planning systems via a centralised and controlled shared interface into the Group's centralised consolidation system to produce the Group's key financial reports. The key systems used in the generation of financial information have been certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

Internal control

Internal control is an integral part of management and of ensuring the achievement of business objectives. Through efficient internal control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken. Internal control tools include, for example, policies and principles, work instructions, approval authorisations, manual and automatic controls integrated in information systems, monitoring reports and inspections and audits. The objective of internal control in Kesko Group is to ensure the profitability, efficiency, continuity and freedom from disruptions of operations, the reliability of financial and operational reporting both externally and internally, compliance with laws and agreements and Kesko's values and operating principles, as well as safeguarding assets, expertise and information.

The planning of control measures begins with the definition of business objectives and the identification and assessment of risks that threaten the objectives. The definition of objectives and the assessment of risks should take account of not only operational objectives, but also the requirements for compliance of operations with the law and for the accuracy of the information used in decision-making and reporting. Control measures are targeted based on risks selected as appropriate so as to keep risks under control.

The Board of Directors and the President and CEO are responsible for organising internal control. The management of each division, company and unit is responsible for ensuring that efficient and effective control procedures are in place. The next year's focus areas for risk management and control are discussed in annual risk

management and control discussions with the Group and division managements. Every Kesko employee is obliged to comply with the K Code of Conduct and inform their supervisors of any grievances.

Kesko's common functions guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective areas of responsibility. Kesko Group's internal audit function assesses and verifies

the effectiveness and efficiency of Kesko's internal control, reports on it to the President and CEO and the Audit Committee of Kesko Corporations' Board of Directors, and assists management and Kesko companies in the development of the internal control system. The Audit Committee of Kesko's Board of Directors has confirmed the principles of Kesko's internal control, which are based on good control principles widely accepted internationally (COSO 2013).

Roles and responsibilities in Kesko Group's internal control



Risk management

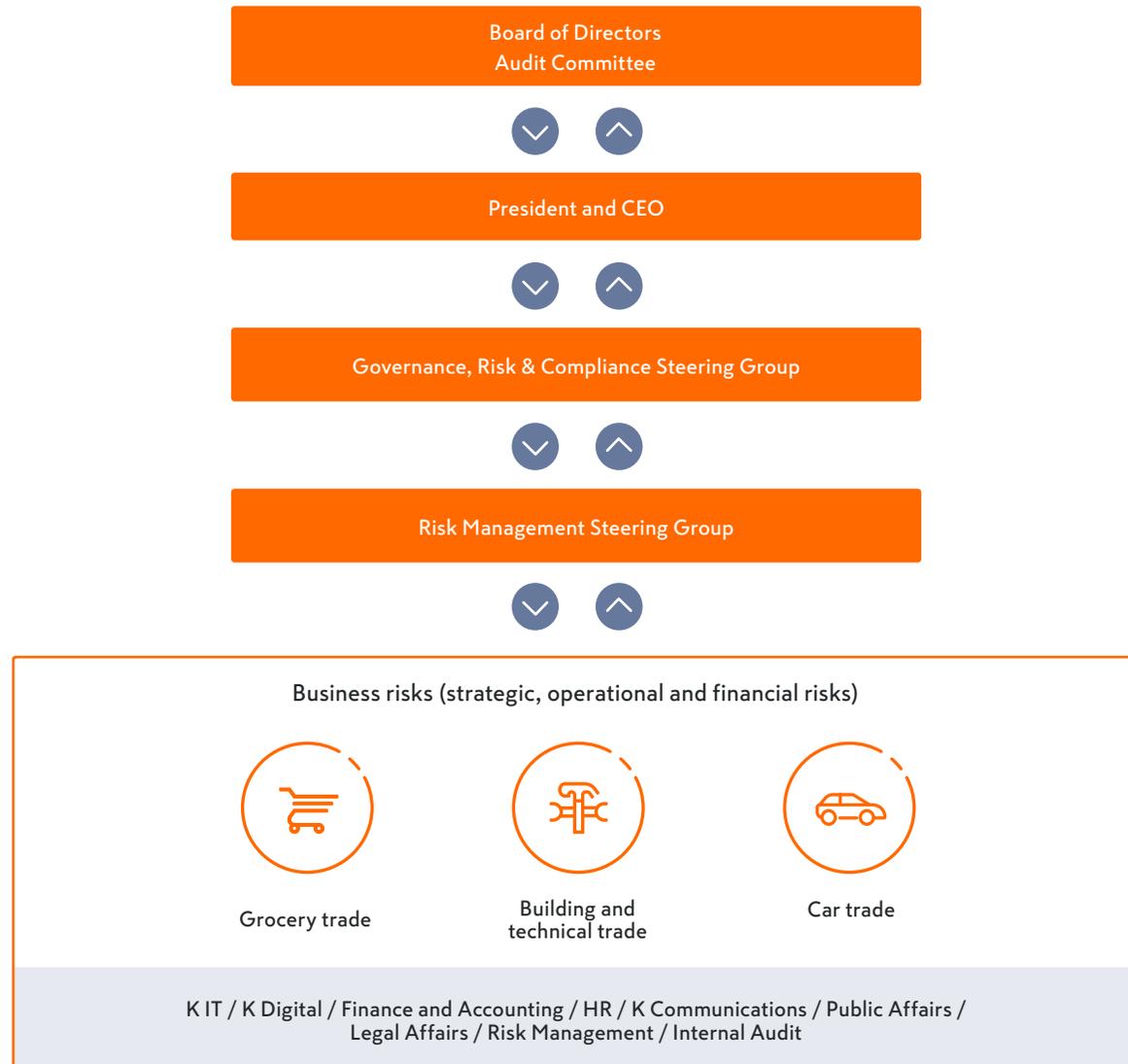
Kesko's risk management is proactive and an integral part of day-to-day management. The objective of risk management is to support the implementation of Kesko's strategy.

Risk management in Kesko Group is guided by the risk management policy confirmed by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. In the management of financial risks, the Group's treasury policy, confirmed by Kesko's Board of Directors, is observed.

The management of business operations and common functions are responsible for the execution of risk management. In each division, the finance director is responsible for the execution of risk management. The risk management unit coordinates the risk management process and is responsible for risk reporting and executes risk identification, the determination of risk management responses and their implementation jointly with the businesses and common functions. Every member of Kesko personnel must know and manage the risks in his/her area of responsibility.

Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are identified, assessed, managed, monitored and reported as part of business operations at Group, division, company and function levels throughout the Group.

Risk management steering model



Kesko has a uniform risk assessment and reporting model. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised on the basis of their significance by assessing their impacts in euros and the probability of their realisation. When assessing the impact of realisation, the impacts on reputation, the wellbeing of people and the environment are assessed in addition to the impacts in euros.

Risk identification and assessment play a key role in Kesko's strategy work and operations planning. In addition, risk assessments are made of significant projects related to capital expenditure, business arrangements or changes in operations. The risk assessments of divisions and common functions that include a risk map, risk management responses, responsible persons and schedules are reviewed regularly by the respective division's or common function's management.

Risks and risk management responses are reported in accordance with Kesko's reporting responsibilities. The divisions and the common functions report on risks and changes in risks to the Group's risk management function. Risks are reviewed by the risk management steering group, which includes representatives of the divisions and the common functions. On that basis, the Group's risk management function prepares the Group's risk report, which is reviewed by the Governance, Risk and Compliance (GRC) steering group, after which Kesko's President and CEO approves the risk report.

The Group's risk map, the most significant risks and uncertainties, as well as material changes in and

responses to them are reported to the Kesko Board's Audit Committee in connection with reviewing the interim reports, the half year financial report and the financial statements. The Audit Committee also evaluates the efficiency of Kesko's risk management system. The Chairman of the Audit Committee reports on risk management to the Board of Directors as part of the Audit Committee Report.

Kesko's Board reviews Kesko Group's most significant risks and uncertainties. The Board reports on the most significant risks and uncertainties to the market in the Report by the Board of Directors and on material changes in them in the half year financial report and the interim reports.

Risk management responses in 2018

In 2018, key focus areas for risk management were the development of a cyber risk management and the implementation of related projects, as well as changes to insurance coverage based on Kesko's analysed risk tolerance. Kesko's business continuity planning was developed and updated continuity plans were tested in business continuity and crisis management exercises. In corporate security, improvement of the cost-efficiency of security technology and services continued through the concentration of purchases. Corporate security also strived to improve awareness of cyber security threats among personnel members through spam and malware attacks simulated by service partners. Information security training was organised for the whole personnel. A positive trend continued in terms of damage and there were no major individual instances of damage.

Focus areas for risk management in 2019

Focus areas for risk management include the systematisation of cyber risk management and its integration into the Group risk management steering model, enforcing risk management in operations outside Finland, and improving the efficiency of processes related to updates and changes to the Group's insurance coverage. The management of regulatory risks will be improved by developing Kesko's compliance operations with Group Legal Affairs. The development and assurance of the effectiveness of actions related to risk reduction and determination will continue. Measures to improve the cost-efficiency of security technology and services will continue through concentration of purchases. In addition, the corporate security unit actively takes part in the implementation of security arrangements on the new K-Kampus.

Other information to be provided in the CG statement

Internal audit

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

The internal audit function is organised under Kesko's President and CEO and the Audit Committee, and it reports on its findings and recommendations to the Audit Committee, the President and CEO, the management of the audited operation, and the Auditor. The function covers all Kesko's divisions, companies and functions. Auditing is based on risk analyses, as well as risk management and control discussions conducted with the Group's and divisions' management. Meetings with the Auditor are arranged on a regular basis in order to ensure sufficient audit coverage and to eliminate overlapping operations.

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The audit plan is modified on a risk basis, if necessary. The internal audit function purchases external services

as necessary for added resources or for the purpose of conducting audit operations which require special expertise. Audits can also make use of the expertise and work contribution of Kesko Group's other specialists.

Internal audit operations in 2018

Key focus areas for internal audit in 2018 were the progress made in the implementation of Kesko's strategies, and projects and changes related to business operations, financial management, information security and data protection.

Focus areas for internal audit in 2019

In 2019, key focus areas for internal audit will be the progress made in the implementation of Kesko's strategies, acquisitions and divestments made, projects related to IT and digitalisation, and the execution of data protection and information security and projects and changes related to those.

Related party transactions

According to the Corporate Governance Code, the Company shall evaluate and monitor transactions concluded between the Company and its related parties and ensure that any conflicts of interest are taken into account appropriately in the Company's decision-making process. The Company shall keep a list of related parties.

The Company shall report the decision-making procedure applied in connection with related party transactions that are material to the Company and that either deviate from the Company's normal business operations or are not made on market or market equivalent terms.

Kesko Group's related party transactions are reported in note 5.3 to the consolidated financial statements. The

related party transactions are not material to the Company and do not deviate from the Company's normal business operations and they have been made on market or market equivalent terms.

Main procedures relating to insider administration

Kesko's insider guidelines

Kesko complies with Nasdaq Helsinki Ltd's guidelines for insiders in force at any given time. In addition, Kesko Corporation's Board of Directors has confirmed specific insider guidelines for the Company, complementing Nasdaq Helsinki Ltd's guidelines for insiders.

Closed period

The closed period of 30 calendar days before the publication of interim reports, the half year financial report and the financial statements release, as provided by the Market Abuse Regulation ("MAR"), is applied to specific members of management at Kesko. During the closed period, the management is prohibited from trading in Kesko's financial instruments. The Company has imposed a 30-day closed period preceding the quarterly financial performance disclosures also on persons involved in the preparation of Kesko's interim reports, the half year financial report and financial statements. Information on closed periods is provided annually on Kesko's website and in a calendar release.

Management transactions

As the public insider register was discontinued, the Company's obligation to disclose the transactions of the Company's management and persons closely associated with them changed as of 3 July 2016. At Kesko, Kesko Corporation's Board of Directors, the President and CEO

and other Group Management Board members have been defined to be subject to the requirement to announce their transactions. Transactions by Kesko's management and persons closely associated with them are disclosed in accordance with MAR.

Control and training

Kesko's Legal Affairs Services controls compliance with insider guidelines and maintains the Company's insider lists and a list of managers and persons closely associated with them. The duties of Kesko's Legal Affairs Services in the area of insider administration include the following:

- internal communication on insider matters
- training on insider matters
- drawing up and maintaining insider lists and submitting them on request to the Financial Supervisory Authority
- ensuring that any person on the insider list acknowledges the duties entailed according to Article 18(2) of the Market Abuse Regulation
- maintaining a list of management and persons closely associated with them obligated to notify their transactions
- notifying management of their obligations under Article 19(5) of the Market Abuse Regulation
- controlling insider matters
- keeping abreast of any changes to the regulation concerning insider matters.

Auditing

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland Chamber of Commerce. The Audit Committee submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also monitors and evaluates the Auditor's operations and services annually. The term of office of the Auditor is the Company's financial year and the Auditor's duties end at the close of the Annual General Meeting following the Auditor's election. As a rule, an audit company belonging to the same network of audit companies as the audit firm elected by Kesko's General Meeting as Auditor, will be elected as the Auditor of each of the Group's foreign subsidiaries.

The Auditor provides Kesko's shareholders with the statutory Auditor's Report in connection with the

Company's financial statements and regularly reports on its findings to the Audit Committee of Kesko's Board of Directors. The Annual General Meeting of 2018 elected Authorised Public Accountants PricewaterhouseCoopers Oy as the Company's Auditor. The Auditor with principal responsibility for the Company is APA Mikko Nieminen.

During 2018, APA Mikko Nieminen acted as the Managing Director of PricewaterhouseCoopers Oy as well as the Auditor with principal responsibility for two listed Finnish companies, Kesko Corporation and Finnair Plc.

APA Mikko Nieminen has been the Auditor with principal responsibility for the Company since 13 April 2015.

The Annual General Meeting resolved that the Auditor's fee is paid and expenses are reimbursed according to invoices approved by the Company.

Auditors' fees in 2017–2018 (€1,000)

	2018			2017		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	273	619	892	309	671	980
Tax consultation	80	90	170	50	26	76
IFRS consultatiton	45	0	45	42	0	42
Other services	253	290	543	1,066	67	1,133
Total	651	999	1,650	1,476	764	2,231



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KESKO'S
ANNUAL REPORT 2018

REMUNERATION STATEMENT

Introduction

This Remuneration Statement has been reviewed at the meeting of the Remuneration Committee of Kesko Corporation's Board of Directors on 5 February 2019.

This is the Remuneration Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association effective from 1 January 2016. This statement and the other information to be disclosed in accordance with the Corporate Governance Code are available on Kesko's website at www.kesko.fi/en/investor/corporate-governance.

Decision-making procedure concerning remuneration

The Annual General Meeting decides on the remuneration and other financial benefits of the members of Kesko Corporation's ("Kesko") Board of Directors and its Committees annually. Significant shareholders prepare for the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions

regarding the remuneration of the President and CEO and the Group Management Board members responsible for lines of business. As for the other Group Management Board members, Kesko's Board of Directors makes decisions on the performance bonus principles and share awards. Other decisions regarding remuneration are made by the President and CEO, based on preparatory work by the head of HR, within the limits set by the Chairman of the Board's Remuneration Committee.

The Board of Directors decides on the principles of Kesko's remuneration schemes and monitors the realisation of the remuneration schemes of the President and CEO and the other Group Management Board members. The Board also decides, within the limits of the authorisation granted by the General Meeting, on the distribution of shares and terms and conditions thereof, under the share compensation or share-based compensation schemes. Valid authorisations for the Board of Directors concerning remuneration and their use are described in the Remuneration Report.

Main principles of remuneration

Board of Directors

The remuneration of the members of the Board of Directors and its Committees comprises annual and meeting fees decided by the General Meeting. Previously, fees to members of Kesko's Board were paid in cash. However, Kesko's Annual General Meeting of 11 April

2018 resolved to change the remuneration structure of Board members so that approximately 30% of the annual fees are paid in shares in the Company and the remainder in cash. A Board member cannot transfer shares obtained as remuneration for Board work until either three years have passed from the day the member has received the shares or until their membership on the Board has ended, whichever comes first. The purpose of the change is to commit the Board members to the long-term development of the Company. Meeting fees are paid in cash. Daily allowances and the reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko. Members of the Board do not participate in the other remuneration schemes or pension plans of the Company.

President and CEO and other Group Management Board

General

The remuneration scheme for the President and CEO and the other Group Management Board members consists of a fixed monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria decided annually (short-term incentive and commitment scheme), a share compensation scheme (long-term commitment and incentive scheme) and retirement benefits for management. In addition, a health insurance, life insurance and leisure travel insurance have been taken out for President and CEO Helander. Termination benefits have been agreed upon with the President and CEO and the other Group Management Board members.

The total remuneration for Kesko's President and CEO and the other Group Management Board members

is compared to that of similar positions in other large companies in Finland. Remuneration elements are compared to those of peer companies to ensure the competitiveness and appropriateness of total remuneration for each position.

Performance bonus scheme (Short-term commitment and incentive scheme)

Kesko employs annually determined performance bonuses for short-term remuneration. Kesko's Board of Directors makes decisions on performance bonus scheme criteria for management annually. One performance bonus criteria for all Group Management Board members is the Group's comparable operating profit. The targets for Group Management Board members responsible for divisions stress the division's comparable operating profit, return on capital employed (ROCE %) and business-specific sales or market share indicator. For the other Group Management Board, members profit targets include the Group's return on capital employed (ROCE %) and the Group's sales target, in addition to the Group's operating profit target. Each member of the Group Management Board furthermore has individual targets. The performance bonus criteria and their weights vary depending on duties. At least 70% of the performance bonus is tied to the fulfilment of financial targets.

Kesko's Board and Remuneration Committee monitor and evaluate the fulfilment of the performance and profit criteria and their impact on the Company's long-term financial success.

The maximum performance bonus for Kesko's President and CEO corresponds to 67% of his monetary salary for the calendar year, excluding fringe benefits. For the other Group Management Board members, depending

on the profit impact of their position, the maximum performance bonus corresponds to 33-50% of their monetary salary for the calendar year, excluding fringe benefits. When determining the performance bonus for a Group Management Board member, monetary salary for the calendar year is determined based on the fixed monetary salary of the last month of the calendar year the performance of which is the basis for the bonus. Performance bonuses are paid by the end of April, after the completion of the annual financial statements following the year of determination.

If exceptional events with significant impact on operations take place during the financial year, or if the market situation or the Company's productivity trend so requires, the application, target setting and payment rules of the performance bonus scheme can be changed by a decision by Kesko's Board also in individual cases.

At its discretion, the Board may decide not to pay a performance bonus, or decide to recover a bonus that has already been paid, if the bonus recipient has been found guilty of malpractice or an action in breach of Kesko's ethical or responsibility principles or guidance that, as a whole, cannot be considered insignificant, or if there are weighty grounds for assuming that the recipient is guilty of such acts.

Share-based commitment and incentive scheme (Long-term commitment and incentive scheme)

In February 2017, Kesko's Board of Directors decided on a new long-term share-based commitment and incentive scheme for top management and selected key persons. The scheme consists of three share-based compensation plans, under which the Board can annually decide on the initiation of new share plans. The primary share-based compensation plan is the Performance Share Plan (PSP).

There is also a transitional Bridge Plan for 2017 and an RSP (Restricted Share Pool) plan for special situations. Share awards based on the plans are paid in Kesko B shares. 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 purpose of the share-based compensation scheme is to promote Kesko's business and increase the Company's value by aligning the objectives of the shareholders and executives. The plan also aims to commit people to Kesko Group and give them the opportunity to receive Company shares upon fulfilling the objectives set in the share-based compensation scheme.

The maximum gross amount of share award paid for each performance period is 400% of the monetary salary of the last calendar year of the performance period for which the award is paid.

The primary share plan (PSP) consists of individual annually commencing share plans, each with a two-year performance period and a two-year commitment period following the payment of the potential share award. Kesko's Board decides annually whether to initiate a new plan. The PSP initiated at the start of 2018 consists of a two-year performance period (1 Jan. 2018–31 Dec. 2019) followed by a two-year commitment period (1 Jan. 2020–10 Feb. 2022). During the commitment period, the shares cannot 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. In individual cases, the Board may decide that the person can keep the

shares under return obligation, or some of them. If the grantee retires during the commitment period, he/she is entitled to keep the shares and other securities already received. 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 and 2018.

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.

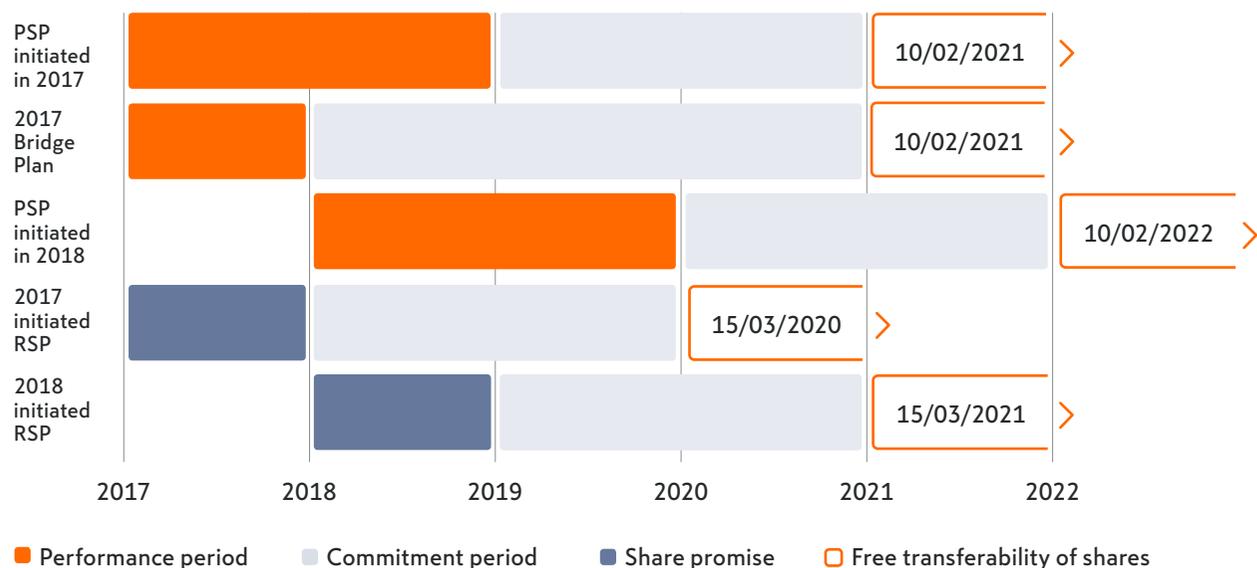
RSP (Restricted Share Pool) is a secondary share plan for special situations, to be decided upon separately. The plan consists of annually commencing individual share plans that each have a three-year commitment period, after which the potentially promised share awards for an individual plan will be paid to the participants, provided that their employment or service relationship with Kesko Group continues until the payment of the awards.

In RSP plans, share promises have not been given to the President and CEO or the other Group Management Board members. The maximum number of shares to be granted is 20,000 shares in plans 2017 and 2018. The commitment period for the 2017 RSP will end on 15 March 2020, and the commitment period for the 2018 RSP on 15 March 2021.

Share plan	Bridge Plan 2017	PSP 2017-2020	PSP 2018-2021
Number of participants in the beginning of the plan	140	140	130
Maximum number of gross B shares granted			
Total	340,000	340,000	340,000
Allocated in the beginning of the plan			
President and CEO	38,000	38,000	38,000
Other Group Management Board members	96,800	96,800	94,000
Actual earnings	46,7%*	55,05%*	-
Performance period ends	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019
Shares transferred	2018	2019	2020
Commitment period ends	10 Feb. 2021	10 Feb. 2021	10 Feb. 2022

* For the Bridge Plan, the actual gross earning of B shares (amount of shares): total 133,751, the President and CEO 17,746, and other Group Management Board 34,185. For PSP 2017-2020, the actual gross earning of B shares (amount of shares): total 142,850 the President and CEO 20,919, and other Group Management Board 40,300. Gross earning means that the applicable withholding tax is deducted from the earnings, and the remaining net amount is paid to the participants in shares.

Kesko's share-based compensation plans 2018



Kesko applies a share ownership recommendation policy to the members of Kesko's Group Management Board. According to the recommendation, each Group Management Board member shall maintain a holding of at least 50% of the net shares they have received under the Company's share-based compensation schemes until their holding of Kesko shares corresponds to at least their fixed gross annual salary.

At its discretion, the Board may decide not to pay a performance bonus, or decide to recover a bonus that has already been paid, if the bonus recipient has been found guilty of malpractice or an action in breach of Kesko's ethical or responsibility principles or guidance that, as a whole, cannot be considered insignificant, or if there are weighty grounds for assuming that he/she is guilty of such acts.

Retirement benefits

Retirement benefits for President and CEO

Old-age pension for the President and CEO begins at 63 and the amount has been agreed to be 60% of the President and CEO's pensionable earnings in accordance with the Finnish Employees' Pensions Act (TyEL) for the ten (10) calendar years preceding the retirement. The pension is based on a defined benefit plan.

Retirement benefits for Group Management Board members other than the President and CEO

The old-age pension age for Group Management Board members is 63 years.

In 2018, four Group Management Board members were members of Kesko Pension Fund (three in 2017). Their

amount of old-age pension is 66% of pensionable earnings for the ten (10) years preceding the retirement. Their supplementary pensions are determined based on the rules of Kesko Pension Fund and their personal service contracts. Their supplementary pensions are based on a defined benefit plan. The old-age pensions of the other Group Management Board members are determined based on the general provisions applicable to employees' pensions in Finland (the Finnish Employees' Pensions Act, TyEL). In addition, they have a defined contribution supplementary pension.

Termination benefits

Termination benefit for President and CEO

The period of notice for President and CEO Helander is twelve (12) months if the managing director's service contract is terminated by the Company and six (6) months if Helander resigns. If the Company terminates the contract for a reason other than a material breach of contract by the President and CEO, and the President and CEO does not retire on an old-age pension or some other pension, the President and CEO is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 12 months' monetary salary and fringe benefits.

Termination benefit for Group Management Board members other than the President and CEO

The period of notice for the other Group Management Board members is six (6) months if the service contract is terminated by the Company, and six (6) months if the executive resigns. If the Company terminates the contract for a reason other than a material breach of contract by the executive, and the executive does not retire on an

old-age pension or some other pension, the executive is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 6-12 months' monetary salary and fringe benefits.

Remuneration report

This remuneration report provides information on the remuneration and other financial benefits paid to members of the Board of Directors, the President and CEO and the other members of Group Management Board during the financial year 2018. Fees paid during the 2017 financial year are presented as comparison data.

Board of Directors and its Committees

The 2018 Annual General Meeting resolved to change the remuneration structure of Board members so that approximately 30% of the annual fees will be paid in B series shares in the Company. After the transfer of shares, the remaining remuneration amount is paid in cash. 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. The purpose of the change is to commit the Board members to the long-term development of the Company. Meeting fees are paid in cash. Previously, fees to Board members were paid in cash in their entirety. Members of the Board do not have share compensation schemes nor do they participate in the Company's other remuneration schemes or pension plans.

The Annual General Meeting also decided to raise the Board's annual fees, which had been unchanged since 2009.

Daily allowances and the reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko.

Annual remuneration to Board members (€)

	2018	2017
Chair	97,000	80,000
Deputy Chair	60,000	50,000
Member	45,000	37,000
Board member who is the Audit Committee Chair	60,000	-

Meeting fees / meeting (€)

	2018	2017
Board meeting		
Chair	1,000	500
Member	500	500
Committee meeting		
Committee Chair who is not the Chair or Deputy Chair of the Board	1,000	1,000
Member	500	500

Annual remuneration and meeting fees paid to Board members for Board and Committee work in 2018*

	Annual remuneration, €		Meeting fees, €			Total, €	Number of B shares transferred based on the annual remuneration 2018-2019****	Kesko shares held on 31 Dec. 2018
	Board term 2017-2018	Board term 2018-2019	Board	Audit Committee	Remuneration Committee			
Esa Kiiskinen (chairman)	20,000	97,000	8,000		1,500	126,500	673	1,350 A shares held by him 106 000 A shares held by entities controlled by him 673 B shares held by him
Peter Fagernäs (dep. ch.)**		60,000	3000			63,000	417	1, 000 A shares held by him 417 B shares held by him
Jannica Fagerholm	9,250	60,000	5,000	5,000		79,250	417	1,417 B shares held by her
Piia Karhu**		45,000	3,000	1,500		49,500	313	313 B shares held by her
Matti Kyytsönen	9,250	45,000	5,000	2,500		61,750	313	1,308 B shares held by him
Matti Naumanen	9,250	45,000	5,000			59,250	313	2,400 A shares held by him 17,664 A shares held by entities controlled by him 313 B shares held by him
Toni Pokela	9,250	45,000	5,000			59,250	313	179,400 A shares held by entities controlled by him 313 B shares held by him
Mikael Aro (dep. ch.)***	12,500		2,000	1,000	1,500	17,000		
Anu Nissinen***	9,250		2,000		1,500	12,750		
Total	78,750	397,000	38,000	10,000	4,500	528,250	2,759	

* Reported on a cash basis

** Board member since 11 April 2018

*** Board member until 11 April 2018

**** Kesko treasury shares' transfer date 27 April 2018

President and CEO

Mikko Helander has been the Company's President and CEO and the Chairman of the Group Management Board since 1 January 2015. Remuneration for the President and CEO is based on the managing director's service contract approved by the Company's Board, in line with the Board decisions prepared by the Remuneration Committee.

Other Group Management Board members

In addition to President and CEO Helander, the Group Management Board members in 2018 were:

- Jorma Rauhala, President, building and technical trade division, Deputy to the President and CEO
- Ari Akseli, President, grocery trade division
- Johan Friman, President of K Auto Oy
- Jukka Erlund, EVP, Chief Financial Officer
- Mika Majoinen, EVP, Group General Counsel
- Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations
- Anni Ronkainen, EVP, Chief Digital Officer

Salaries, bonuses and fringe and retirement benefits for the President and CEO

Description	2018	2017
Fixed monetary salary	€952,500	€934,500
Performance bonus	€450,000	€490,000
Share awards*	€868,998	€1,398,030
Car and mobile phone benefits	€28,158	€26,907
Total:	€2,299,656	€2,849,437
Paid in supplementary pension plan	€1,350,000	€1,350,000

*The euro value of the share awards has been calculated using the trade-weighted average share price of the dates of assignment, 15 March 2018 and 15 March 2017. The euro values of the share awards are gross amounts, from which the applicable withholding tax has been deducted and the remaining net amount has been paid in shares. Net amount of transferred Kesko B shares was 8,873 shares in 2018 and 16,086 shares in 2017.

Salaries, bonuses and fringe benefits for Group Management Board members other than President and CEO

Description	2018	2017
Fixed monetary salary	€1,963,590	€2,153,076
Performance bonus	€417,400	€353,375
Share awards*	€1,673,996	€3,528,362
Car and mobile phone benefits	€133,582	€150,334
Total:	€4,188,568	€6,185,147

*The euro value of the share awards has been calculated using the trade-weighted average share price of the dates of assignment, 15 March 2018 and 15 March 2017. The euro values of the share awards are gross amounts, from which the applicable withholding tax has been deducted and the remaining net amount has been paid in shares. Net amount of transferred Kesko B shares was 17,095 shares in 2018 and 34,470 shares in 2017.

Shareholdings of President and CEO and other Group Management Board members

	Kesko shares held on 31 Dec. 2018	Kesko shares held on 31 Dec. 2017
Mikko Helander, President and CEO	44,964 B shares held by him	36,091 B shares held by him
Jorma Rauhala, President, building and technical trade division, Deputy CEO	24,300 B shares held by him	20,564 B shares held by him
Ari Akseli, President, grocery trade division	8,596 B shares and 81 A shares held by him	7,568 B shares and 81 A shares held by him
Johan Friman, President of K Auto Oy	3,363 B shares held by him	None
Jukka Erlund, EVP, Chief Financial Officer	20,203 B shares held by him	16,840 B shares held by him
Mika Majoinen, EVP, Group General Counsel	11,070 B shares held by him	*
Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations	12,884 B shares held by him	10,782 B shares held by him
Anni Ronkainen, Executive Vice President, Chief Digital Officer	8,602 B shares held by her	6,500 B shares held by her

* Group Management Board member since 1 Jan. 2018

Valid authorisations for the Board of Directors concerning remuneration and their use

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 own B shares held by the Company as treasury shares (2016 Share issue authorisation). Based on the authorisation, 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 implementing the Company's commitment and incentive scheme. 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 authorisation is valid until 30 June 2020.

Based on the 2016 Share issue authorisation, the Board decided to transfer own B shares held by the Company as treasury shares. Consequently, 65,652 shares were transferred on 15 March 2018, 351 shares on 5 April 2018, and 187 shares on 1 June 2018 to members of management and key personnel included in the target group for the 2017 performance period of the transitional share-based commitment and incentive plan (Bridge Plan) (stock exchange releases 1 February 2018, 15 March 2018, 5 April 2018 and 1 June 2018). Based on the 2016 Share issue authorisation, in 2017 the Board granted a total of 192,822 Kesko B shares held by the Company as treasury shares to persons included in the target group for the 2016 performance period of Kesko's share-based compensation scheme 2014-2016 (stock exchange release 15 March 2017). Of the shares granted, 9,850 shares

were returned to the Company during 2017 and 7,211 in 2018 in accordance with the terms and conditions of the share-based compensation scheme. The returns during 2018 were communicated in stock exchange releases on 28 February 2018, 30 July 2018, and 7 September 2018.

The Board decided to implement the resolution made by the Annual General Meeting of 11 April 2018 to pay approximately 30% portion of the annual fees of Board members in B shares in the Company, by using the 2016 share issue authorisation to transfer 2,759 Kesko B shares held by the Company as treasury shares to the members of the Board. In line with the resolution of the Annual General Meeting, the number of shares corresponded to approximately 30% of the annual fees for each Board member, calculated on the closing price of the share on the date of the Board's meeting 24 April 2018. The decision was communicated in a stock exchange release issued on 25 April 2018, and the transfer of shares in a stock exchange release issued on 27 April 2018.

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 will 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 will be acquired and paid for in accordance with the rules of the exchange. The acquisition of own shares reduces the amount of the Company's distributable unrestricted equity. The B shares will 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 will make decisions concerning any other issues related to the acquisition of B shares. The authorisation is valid until 30 September 2019.

On 24 April 2018, Kesko's Board decided, based on the 2018 Authorisation to acquire own shares, to acquire B series shares in Kesko Corporation, and established a share buy-back programme for the purpose (stock exchange release 25 April 2018). Under the share buy-back programme, Kesko acquired 500,000 of its own B series shares to implement the commitment and incentive scheme for management and personnel (stock exchange release 21 May 2018).

Board of Directors



**Esa
Kiiskinen**

Chair
(Chair of the
Remuneration
Committee)

b. 1963, Business
College Graduate.

Independence: He is considered by the Board not to be independent of the Company (chain agreement) but to be independent of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1990.

Main positions of trust: Taaleri Plc: member of the Board 2014–; Confederation of Finnish Industries EK: Chair of the Delegation for Entrepreneurs 2012–2014; Confederation of Finnish Industries EK: Vice-Chair of the Board 2012–2014; Finnish Family Firms Association: member of the Board 2011–2012; The Foundation for Vocational Training in the

Retail Trade: Chair of the Board 2008–2012; Saija ja Esa Kiiskinen Oy: Chair of the Board 1995–; Finnish Commerce Federation: member of the Board 2008–2012; K-Retailers' Association: Chair of the Board 2008–2012; Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board 2008–2012.

Board member since: 30 March 2009.

Kesko shares held:

- 31 December 2017: a total of 107,350 A shares held by him and entities controlled by him.
- 31 December 2018: a total of 673 B shares held by him and a total of 107,350 A shares held by him and entities controlled by him.



**Peter
Fagernäs**

Deputy Chair
(Deputy Chair of
the Remuneration
Committee)

b. 1952,
Master of Laws.

Independence: He is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Chairman of the Board

Main employment history: Hermitage & Co Oy: Chairman of the Board 2003–, Pohjola Group Plc: Chairman of the Board 2001–2003, Conventum Ltd: CEO 1996–1999 and Chairman of the Board 1999–2002, Merita Bank Ltd: member of management board 1995–1996, Prospectus Ltd: CEO 1993–1995, Kansallis-Osake-Pankki: 1977–1993.

Main positions of trust: Oy Hermitage Ab: Chairman of the Board 2003–, Taaleri Plc: Chairman of the Board 2007–, Amanda Capital Plc: member of the Board 2007–2011, Winpak Ltd: member of the Board 2006–2011, Fortum Corporation: Chairman of the Board 2004–2009.

Board member since: 11 April 2018.

Kesko shares held:

- 8 January 2018: None.
- 31 December 2018: 417 B shares and 1,000 A shares held by him.



Jannica Fagerholm

(Chair of the Audit Committee)

b. 1961, Master of Science (Economics).

Independence: She is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Managing Director.

Main employment history: Signe and Ane Gyllenberg Foundation: Managing Director 2010-; SEB Gyllenberg Private Bank: Managing Director 1999-2010; Handelsbanken Liv Finland: Country Director 1998-1999.

Main positions of trust: Sampo plc: member of the Board 2013-; Teleste Corporation: member of the Board 2013-; Kelonia Ab, member of the Board 2010-; Veritas Pension Insurance, member of the

Supervisory Board 2010-; The Society of Swedish Literature in Finland, member of the Board 2015-, member of the Financial Board 2001-2015; Eira Hospital Ltd: member of the Board 2010-; Hanken School of Economics: member of the Board 2008-; Aktia Abp: member of the Board 2012-2013; Partiosäätiö foundation: member of the Board 1997-2013.

Board member since: 4 April 2016.

Kesko shares held:

- 31 December 2017: None.
- 31 December 2018: 1,417 B shares held by her.



Piia Karhu

(member of the Audit Committee)

b. 1976, Doctor of Science, Economics and Business Administration.

Independence: She is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Kauniainen, Finland.

Principal occupation: Senior Vice President

Main employment history: Finnair Plc: Senior Vice President, Customer Experience and member of the Executive of Executive Board since 2016. Various leadership positions at Finnair Plc since 2013. Previously worked as a management consultant for 12 years at Ernst & Young and Capgemini.

Main positions of trust: Finnair Kitchen Ltd: Chairman of the Board 2017-, Finnair Travel Retail Oy: Chairman of the Board 2016-, SMT Oy: member of the Board 2015-2016, Finnair Aircraft Finance Ltd: member of the Board 2015-2016.

Board member since: 11 April 2018.

Kesko shares held:

- 4 January 2018: None
- 31 December 2018: 313 B shares held by her.



Matti Kyytsönen

(Deputy Chair of the Audit Committee, member of the Remuneration Committee)

b. 1949, Master of Science (Economics).

Independence: He is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Silverback Consulting Oy: Chair of the Board.

Main employment history: ISS Palvelut Oy: Managing Director 1992–2006; Esselte Oy: Managing Director 1984–1992; Oy Perkkio: Managing Director 1983–1984; Tietoura-Yhtiöt Oy: Marketing Director 1981–1983; Oy Foto-Nyblin Ab: Finance and Marketing Manager 1977–1981; Insinööritoimisto Oy Vesto: Accounting Manager 1974–1976; Oy Mobil Oil Ab: Financial Analyst 1973–1974.

Main positions of trust: Eltel AB: member of the Board 2007–2017; Lindström Invest Oy: member of the Board 2009– and Chair of the Board 2017–;

KP Tekno Oy: member of the Board 2006–; Port of Helsinki Ltd: member of the Board 2015–; Esperio Care Oy: member of the Board 2008–2016; Oy Center-Inn Ab: member of the Board 2007–2012; Kiinteistöpalvelut ry: Chair of the Board 1996–2001 and 2005–2006; Palvelutyöntäjät ry: member of the Board 1996–2001; Confederation of Finnish Industries (EK): member of the Board 2005–2006; The Unemployment Insurance Fund: member and Chair of the Supervisory Board 1999–2006; Varma Mutual Pension Insurance Company: member of the Supervisory Board 1998–2006.

Board member since: 13 April 2015.

Kesko shares held:

- 31 December 2017: 995 Kesko B shares held by him.
- 31 December 2018: 1,308 Kesko B shares held by him.



Matti Naumanen

b. 1957, trade technician.

Independence: He is considered by the Board not to be independent of the Company (entity controlled by him has a chain agreement with a Kesko Group company) but to be independent of its significant shareholders.

Domicile: Joensuu, Finland.

Principal occupation: Retailer.

Main employment history: K-retailer since 1982.

Main positions of trust: The K-Retailers' Association's Agricultural and Building and Home Improvement Retailers' Club: Chair of the Board 2009–2016. Former positions of trust: The K-Retailers' Association: member of the Board 2009–2016; registered association Nurmeksien Yrittäjät: Chair of the Board; registered association Joensuun Yrittäjät: Chair of the Board.

Board member since: 4 April 2016.

Kesko shares held:

- 31 December 2017: a total of 20,064 A shares held by him and entities controlled by him.
- 31 December 2018: a total of 313 B shares held by him and a total of 20,064 A shares held by him and entities controlled by him.



**Toni
Pokela**

b. 1973, Retailer,
EMBA.

Independence: He is considered by the Board not to be independent of the Company (chain agreement) and of significant shareholders (Chair of the Board of a significant Company shareholder, the K-Retailers' Association).

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1997.

Main positions of trust: Pokela Oy Iso Omena: member of the Board and Managing Director 1998–; Iso Omenan Yrittäjähdistys ry: Chair of the Board 2003–; Foundation for Vocational Training in the Retail Trade: Chair of the Board 2016–; Finnish Commerce Federation: member of the Board 2017–; Confederation of Finnish Industries EK: member of the Skilled Workforce Committee 2014–2016, member of the Delegation for Entrepreneurs

2017–; K-Retailers' Association: Chair of the Board 2016–, member of the Board 2008–2012; Chairman of the Finnish Tennis Federation 2017–, board member of the Finnish Tennis Federation 2014–2016; K-instituutti Oy: Deputy Chair of the Board 2010–2012; Vähittäiskaupan Takaus Oy: member of the Board 2010–2012; K-Food Retailers' Club: Chair of the Board 2010–2012; Deputy Chair 2008–2010; Finnish Grocery Trade Association: member of the Board 2010–2011.

Board member since: 16 April 2012.

Kesko shares held:

- 31 December 2017: a total of 179,400 A shares held by entities controlled by him.
- 31 December 2018: a total of 313 B shares held by him and a total of 179,400 A shares held by entities controlled by him.

Group Management Board



Mikko Helander

President and CEO

b. 1960, Vuorineuvos (an honorary title granted by the President of the Republic of Finland), Master of Science (Technology).

Domicile: Helsinki, Finland.

Other major duties: Ilmarinen Mutual Pension Insurance Company: Chair of the Board 2016– and member of the Board 2015–; Confederation of Finnish Industries EK: member of the Board 2016– and Deputy Chair of the Board 2016 and 2019–; Finnish Commerce Federation: Chair of the Board 2018–, member of the Board 2015–2017 and Deputy Chair of the Board 2015; Finland Chamber of Commerce: member of the Board 2016–; Finnish Business and Policy Forum EVA: member 2015–; Finnish Fair Corporation: Board member 2015–; East Office of Finnish Industries Oy: member of the Board 2015–2018.

Employment history: employed by Kesko Corporation since 2014. Kesko Corporation's Managing Director and Kesko Group's President and CEO since 1 January 2015. Kesko Corporation's Executive Vice President 2014. Metsä Board Corporation: Chief Executive Officer 2006–2014; Metsä Tissue Corporation: Chief Executive Officer 2003–2006; Various management positions at Valmet Corporation between 1993 and 2003; Managing Director of Kasten Hövik 1990–1993.

Member of the Group Management Board since: 1 October 2014.

Kesko shares held:

- 31 December 2017: 36,091 B shares.
- 31 December 2018: 44,964 B shares.



Jorma Rauhala

President, building and technical trade, Deputy to Kesko's President and CEO.

b. 1965, Master of Science (Economics).

Domicile: Espoo, Finland.

Other major duties: The Finnish Grocery Trade Association: Chair of the Board 2017 (until 20.11.2017) and 2013–2014; member of the Board 2013–2016; the Association of Finnish Advertisers: member of the Board 2014–2017 (until 24.11.2017).

Employment history: employed by Kesko Corporation since 1992. President of Kesko's building and technical trade since 15 November 2017. Senior Vice President, grocery trade division 2015–2017. President of Kesko Food Ltd 2013–2017. Vice President for the K-citymarket chain's food trade 2012–2013; Managing Director of Kespro Ltd 2007–2012; Purchasing Director of Kespro Ltd 2003–2007.

Member of the Group Management Board since: 5 February 2013.

Kesko shares held:

- 31 December 2017: 20,564 B shares.
- 31 December 2018: 24,300 B shares.



**Ari
Akseli**

President,
grocery trade.

b. 1972, Master of
Science (Economics).

Domicile: Helsinki, Finland.

Other major duties: The Finnish Grocery Trade Association: Member of the Board 2019–, Chair of the Board 20.11.2017–31.12.2018, AMS Advisor Board: member 2013–; IGS Advisor Board: member 2016–; Ruokatieto: Vice Chairman of the Board 2016–, member of the Board 2013–2015; Association for Finnish Work: member of the Executive Committee 2014–.

Employment history: Employed by Kesko Corporation since 1995. President of Kesko's grocery trade division since 15 November 2017. Vice President for Commerce, Kesko's grocery trade 2013–2017; President, Anttila Oy 2010–2013; President, K-citymarket Oy 2008–2013.

Member of the Group Management Board since: 15 November 2017.

Kesko shares held:

- 31 December 2017: 81 A shares, 7,568 B shares.
- 31 December 2018: 81 A shares, 8,596 B shares.



**Johan
Friman**

President, car trade.

b. 1965, Master of
Science (Economics).

Domicile: Espoo, Finland.

Other major duties: Association of Automobile Importers in Finland: member of the Board 2017–; LeasePlan Belgium: member of the Board 2010–2016; LeasePlan Denmark: member of the Board 2011–2016; VMF Verband markenunabhängiger Fuhrparkmanagementgesellschaften, Deutschland: member of the Board 2006–2016.

Employment history: employed by Kesko Corporation since 2017. Senior Vice President, car trade division since 1 January 2017. LeasePlan Deutschland GmbH: Managing Director 2006–2016; LeasePlan Finland Oy: Managing Director 1997–2006; Inchcape Motors Finland Oy: Managing Director of the Retail business

1995–1997 and Marketing Director of the importer 1995; Bilia Oy: Sales Manager, Dealer Manager and Fleet sales 1991–1994.

Member of the Group Management Board since: 1 January 2017.

Kesko shares held:

- 31 December 2017: No shares.
- 31 December 2018: 3,363 B shares.



Jukka Erlund

Executive Vice President, CFO.

b. 1974, Master of Science (Economics), eMBA.

Domicile: Helsinki, Finland.

Other major duties: Finnish Commerce Federation: Chair of the Tax and Economic Policy Committee 2011-; Confederation of Finnish Industries EK: member of the Economy and Tax Committee 2012-; Suomen Luotto-osuuskunta: member of the Board 2012-; Varma Mutual Pension Insurance Company: member of the Supervisory Board 2018-.

Employment history: employed by Kesko Corporation since 2004. Senior Vice President, CFO since 1 November 2011. Kesko Food Ltd's Vice President for Finance 2010-2011; Kesko Corporation's Vice President, Corporate Controller 2007-2010; Kesko Corporation's Corporate Business Controller 2004-2007.

Member of the Group Management Board since: 1 November 2011.

Kesko shares held:

- 31 December 2017: 16,840 B shares.
- 31 December 2018: 20,203 B shares.



Matti Mettälä

Executive Vice President, Human Resources, Corporate Responsibility and Regional Relations.

b. 1963, Master of Laws.

Domicile: Helsinki, Finland.

Other major duties: Unemployment Insurance Fund (TVR): member of the Supervisory Board 2018-; Huoltouseeriyhdistys ry: member of delegation 2013-; Foundation for Vocational Training in the Retail Trade: member of the Board 2005-.

Employment history: employed by Kesko Corporation 1990-2005 and since 2012. Executive Vice President, Human Resources, Corporate Responsibility and Regional Relations as of 1 January 2018. Senior Vice President, Human Resources 2015-2017. Senior Vice President, Human Resources and Stakeholder Relations 2012-2014. K-retailers' Association: Managing Director 2005-2012; Kesko Hardware and Builders' Supplies: Vice President for Finance 2002-2005; Rautakesko Ltd: Development

Director 2001-2002; Builders' and Agricultural Supplies Division: Project Manager 1999-2000; Kesko Hardware and Builders' Supplies: Vice President for the Rautia chain 1998-1999; Builders' and Agricultural Supplies Division: Retail Services Manager 1996-1998; Vähittäiskaupan Takaus Oy: Retail Services Manager 1994-1996; Kesko Ltd's Credit Department: Credit Manager 1991-1992; Kesko Ltd's Credit Department: Legal Counsel 1990-1991.

Member of the Group Management Board since: 1 October 2012.

Kesko shares held:

- 31 December 2017: 10,782 B shares.
- 31 December 2018: 12,884 B shares.



**Mika
Majoinen**

Executive Vice
President, Group
General Counsel.

b. 1963,
Master of Laws.



**Anni
Ronkainen**

Executive Vice
President, Chief
Digital Officer.

b. 1966, Master of
Science (Economics).

Domicile: Helsinki, Finland.

Other major duties: ICC: member of the Advisory Board 2019–, Finnish Commerce Federation: member of the Legal Affairs Committee 2018–, Confederation of Finnish Industries EK: member of the Legal Affairs Committee 2018–.

Employment history: Employed by Kesko Corporation since 1990. Group General Counsel as of 1 January 2018. Executive Vice President, Group General Counsel, Company Secretary for Kesko's Board of Directors and Group Management Board 2005–2017, division lawyer for Rautakesko Ltd 2001–2005, lawyer for the Builders' and Agricultural Supplies Division 1998–2001, development manager at Kesko Corporation's Legal Affairs Department 1996–1998, lawyer at Kesko Corporation's Legal Affairs Department 1990–1996.

Member of the Group Management Board since: 1 January 2018.

Kesko shares held:

- 1 January 2018: 9,669 B shares.
- 31 December 2018: 11,070 B shares.

Domicile: Helsinki, Finland.

Other major duties: Fennia Mutual Insurance Company: member of the Board 2019–; Invesdor Oy: member of the Board 2018–; Finnish Chamber of Commerce: Chairman of the start-up committee 2018–, The Association of Finnish Advertisers: member of the Board 2018; Business Finland: member of the Digital Advisory Board 2017–; Asiakastieto Group Plc: member of the Board 2015–; Nordic Morning Plc: member of the Board 2015–; Robit Plc: member of the Board 2015–2017; Sunduka Ltd: member of the Board 2015–2017; Institute of Marketing: member of the Board 2010–2015; the American Chamber of Commerce in Finland (AmCham Finland): member of the Board 2011–2015; Marketing Executives Group: member of the Board 2009–2011.

Employment history: employed by Kesko Corporation since 2015. Chief Digital Officer as from 20 April 2015. Google Finland Ltd: Country Manager Finland 2009–2015; Industry Head, Multi-sector 2008–2009; McCann Worldgroup Helsinki Oy: CEO 2006–2008; Satama Finland Oy: Business Group Director 2001–2006.

Member of the Group Management Board since: 20 April 2015.

Kesko shares held:

- 31 December 2017: 6,500 B shares.
- 31 December 2018: 8,602 B shares.