KESKO ANNUAL REPORT

FINANCIAL REVIEW

2020

FINANCIAL REVIEW

Kesko's Annual Report 2020 has four sections. This section comprises the Report by the Board of Directors, the Group's key performance indicators, and the financial statements and Auditor's Report for 2020.

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

Read more in the Annual Report

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THE REPORT BY THE BOARD OF DIRECTORS

2020

THE REPORT BY THE BOARD OF DIRECTORS

Kesko has operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland with over 1,800 stores engaged in chain operations.

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 approximately 49% of Kesko's net sales in 2020. At the end of 2020, Kesko had over 1,100 independent K-retailer entrepreneurs as partners. Kesko also engages in own retailing, which accounted for some 18% of net sales in 2020. B2B trade is a significant and growing part of Kesko's business operations. In 2020, net sales from B2B trade totalled some €3.6 billion, accounting for some 33% of Kesko's net sales.

Kesko's international operations mainly concern own retailing and B2B trade. Net sales from international operations totalled some €1,964 million, representing 18.4% of Kesko's net sale.

Together, Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled some €14 billion in 2020 (0% VAT). K Group employs around 39,000 people.

Operating environment

Identified megatrends affecting K Group's operations are the global economy, climate change and biodiversity, digitalisation, increased customer knowledge and power, sustainability and conscientious consumption, and increasingly individual customer behaviour. Key opportunities and risks in the operating environment are related to the economic operating environment, risks related to climate change, maintaining biodiversity, responsibility in purchasing chains, and the increased importance of digitalisation and a multichannel approach in the trading sector. Risks have been described in more detail in the Significant risks and uncertainties section of this Board of Directors' Report.

Main impacts of the Covid-19 pandemic on Kesko's business in 2020

The Covid-19 pandemic began affecting Kesko's business operations from mid-March onwards. Impacts of the exceptional situation varied between the divisions. In the grocery trade, net sales grew in all grocery store chains and K-Citymarket's home and speciality goods. Demand also increased for online sales of groceries. Restrictions imposed on restaurants and events due to the pandemic impacted Kespro's foodservice business negatively. The growth in grocery sales to K-food stores exceeded the decrease in foodservice net sales. In the building and technical trade, Covid-19 related circumstances and restrictions varied between businesses and operating countries. Nonetheless, the market remained good for both B2C and B2B trade. In the car trade, the pandemic weakened customer demand for both new and used cars in the first half of the year. Net sales saw a turnaround and began to grow in the latter half of the year as demand strengthened.

Key measures in managing the exceptional situation included ensuring the safety of customers and personnel, and securing operational purchasing and supply chains under all circumstances. We also quickly increased our online sales services. Development projects were postponed, as we focused on managing the situation. We secured cash flow by e.g. ensuring the availability and sufficiency of financing, managing the credit risks associated with amounts due from customers, cutting investments and adjusting fixed costs.

Outlook and guidance for 2021

Kesko Group's outlook is given for the year 2021, in comparison with the year 2020.

Kesko estimates that its comparable operating profit in 2021 will be in the range of €520-620 million. The illustrative comparable operating profit in 2020 was €553.6 million.

The range for Kesko Group's 2021 profit guidance is wide due to the uncertainties related to the Covid-19 pandemic. The pandemic situation and progress with vaccinations have a significant impact on the overall economy, consumer behaviour and trading sector demand in Kesko's operating countries. During the pandemic, household consumption has focused on domestic purchases, which is expected to have a positive impact on some of Kesko's businesses also in 2021.

Overall, the outlook for Kesko's business in 2021 is positive. We anticipate moderate growth in Finnish grocery trade. Recovery in the foodservice business largely depends on the pandemic situation. Renovation building is expected to grow in the Northern European construction market. In housing construction, new construction volumes are expected to decrease overall, but to remain stable in the construction of small housing and vacation homes. The Finnish car trade market is expected to grow in 2021.

Important events

Kesko's new financial targets, 1 december 2020

Thanks to the successful execution of its growth strategy, Kesko achieved its previous financial targets at the end of September 2020, sooner than anticipated. The Covid-19 pandemic and related changes in consumer behaviour also had a positive impact on the company's profit in 2020. Kesko estimates that less than half of its profit growth in 2020 was related to the Covid-19 pandemic. The new targets take into account economic development in Kesko's operating countries in upcoming years, which is generally expected to be moderate.

The new medium-term financial targets for profitability, as approved by the Board of Directors of Kesko Corporation on 1 December 2020, are a comparable operating margin of 5.5% and a comparable return on capital employed of 12.5%. In terms of financial position, as before, the Group targets a maximum interest-bearing net debt/EBITDA ratio of 2.5, excluding the impact of IFRS 16. Kesko Group's previous financial targets were a comparable operating margin of 5.0%, a comparable return on capital employed of 11.0%, and interest-bearing net debt/EBITDA of less than 2.5 excluding the impact of IFRS 16.

Positive profit warning, 17 September 2020

Kesko raised its guidance for the comparable operating profit for its continuing operations in 2020. Kesko estimated that the comparable operating profit for its continuing operations would be in the range of €510-570 million in 2020. The guidance upgrade was based on better than anticipated sales development in all divisions, improved cost efficiency, and a more positive outlook for the remainder of the year.

On 17 September 2020, Kesko issued a release concerning a change in the consolidation method of Kesko Senukai and impacts of the change. In the new operating profit guidance, Kesko Senukai is treated as a joint venture from July 2020 onwards. The change in classification has an approximately €20 million negative impact on the guidance on operating profit. The change in classification does not affect Kesko's comparable earnings per share or Kesko's dividend distribution.

Before, the company estimated that the comparable operating profit for continuing operations would be in the range of €430-510 million. In the previous guidance, Kesko Senukai was treated as a subsidiary for the full year 2020. (Stock exchange releases 17.9.2020)

Positive profit warning, 10 July 2020

Kesko raised its guidance for the comparable operating profit for its continuing operations, issued in connection with the company's interim report on 28 April 2020. Kesko estimated at the time that the comparable operating profit for its continuing operations would be in the range of €430-510 million in 2020. (Stock exchange release 10.7.2020)

Share issue without payment (share split)

Kesko's Annual General Meeting on 28 April 2020 resolved that new shares would be issued to the shareholders without payment in proportion to their existing holdings so that three (3) new A shares would be issued for each existing A share, and three (3) new B shares for each existing B share. The new shares were registered in the Finnish Trade Register on 30 April 2020. The registration of the new shares on the shareholders' book-entry accounts and the initiation of public trading on them on the Helsinki Stock Exchange took place on 4 May 2020. (Stock exchange releases 28.4.2020 and 30.4.2020)

Profit warning, 18 March 2020

Kesko issued a profit warning due to the Covid-19 pandemic and related global economic uncertainty. Kesko estimated at the time that the comparable operating profit for its continuing operations would be in the range of €400-450 million in 2020. (Stock exchange release 18.3.2020)

Strategic review of operations in the Baltics and Belarus and consolidation of Kesko Senukai in Kesko's Group reporting

Kesko is reporting Kesko Senukai Group, which is part of Kesko's building and technical trade segment and operates in the Baltic countries and Belarus, as a joint venture as of 1 July 2020. Kesko Senukai Group was reported as a subsidiary until 30 June 2020.

In its half year financial report on 23 July 2020, Kesko stated that it would continue the strategic review of operations in the Baltics and Belarus, initiated in April. The review process continues. Kesko also stated at the time that it was examining conditions for subsidiary consolidation of Kesko Senukai in Kesko's consolidated financial statements due to significant disagreements concerning the management of and exercise of control in Kesko Senukai.

After re-examining the conditions for consolidation, Kesko has deemed that it no longer exercises the type of control referred to in IFRS 10 over Kesko Senukai. Consequently, Kesko has decided to classify Kesko Senukai as a joint venture. Due to the change in classification, from 1 July 2020 onwards Kesko Senukai is consolidated as a joint venture on one line "Share of result of joint ventures" before operating profit in Kesko's consolidated income statement, instead of the previous line-by-line subsidiary consolidation. In the consolidated statement of financial position, the change means that the share of Kesko Senukai's net assets is presented on one line "Shares in associates and joint ventures" instead of the previous line-by-line consolidation of assets and liabilities. The change in classification affects the key performance indicators of Kesko Group and its building and technical trade division. The change in classification does not affect the comparable profit for the financial year attributable to equity holders of the parent or the comparable earnings per share presented in Kesko's consolidated financial statements, nor Kesko's dividend distribution. The change in classification also does not have a material impact on the Group's comparable operating profit or equity attributable to owners of the parent.

Kesko is reporting Kesko Senukai Group, which is part of Kesko's building and technical trade segment and operates in the Baltic countries and Belarus, as a joint venture as of 1 July 2020. Kesko Senukai Group was reported as a subsidiary until 30 June 2020. In order to enable the comparison of financial performance indicators between reporting periods, Kesko reports illustrative Group performance indicators to be used alongside indicators based on IFRS consolidated financial statements. In segment data, Kesko Senukai is reported consolidated as a joint venture also for the comparison periods, as this method is used in management reporting.

Illustrative Group performance indicators	1–12/2020	1–12/2019
Continuing operations		
Net sales, € million	10,242.6	9,862.0
Operating profit, comparable, € million	553.6	434.7
Operating margin, comparable, %	5.4	4.4
Operating profit, € million	540.0	421.0

Financial performance for continuing operations

In the table of key performance indicators of this "Financial performance for continuing operations" section, illustrative Group performance indicators are used alongside the reported performance indicators that are based on the consolidated financial statements, to depict the change in comparable operating profit as if Kesko Senukai had been consolidated in the consolidated financial statements as a joint venture also in the comparison period. The change based on the illustrative comparison figures is reported in the column "Change, illustrative comparison figures, € million."

The comparable change % has been calculated in local currencies and excluding the impact of Kesko Senukai and acquisitions and divestments completed in 2019 and 2020. The comparable operating profit has been calculated by deducting items affecting comparability from the reported operating profit. Illustrative performance indicators have been calculated for the 2020 financial year and the comparison period as if Kesko Senukai had been consolidated as a joint venture.

Net sales and profit for 2020

1–12/2020	Net sales, € million	Change %	Change, comparable, %	Operating profit, comparable, € million	Change, € million	Change, illustrative comparison figures, € million*
Grocery trade	5,732.0	+3.6	+3.6	375.2	+47.3	+47.3
Building and technical trade excl. speciality goods trade	3,424.3	+9.5	+6.5	169.4	+70.8	+70.8
Speciality goods trade	215.2	-37.9	-5.5	7.4	-2.1	-2.1
Kesko Senukai	427.3	-50.3	-	25.1	-9.6	+3.2
Building and technical trade total	4,066.2	-6.1	+5.7	201.9	+59.1	+71.9
Car trade	892.6	+3.3	-3.3	23.4	-3.3	-3.3
Common functions and eliminations	-21.4	(..)	(..)	-32.7	+3.2	+3.2
Total	**10,669.2**	**-0.5**	**+3.6**	**567.8**	**+106.2**	**+118.9**

(..) change over 100%
* Kesko Senukai treated as a joint venture in the illustrative comparison figures

In comparable terms, net sales for the Group's continuing operations grew by 3.6%. The change in the Group's reported net sales was -0.5%, impacted by the consolidation of Kesko Senukai as a joint venture in the consolidated financial statements from 1 July 2020 onwards. Kesko's businesses and operating countries have been affected by the exceptional circumstances brought on by the Covid-19 pandemic in different ways. Net sales grew in the grocery trade division by 3.6%. In the building and technical trade division, net sales grew by 5.7% year-on-year in comparable terms, while reported net sales decreased by 6.1% due to the change in the consolidation method of Kesko Senukai. Net sales for the car trade division increased 3.3% thanks to the acquisitions carried out, but decreased 3.3% in comparable terms. The Group's net sales increased in comparable terms by 3.3% in Finland, and by 5.1% elsewhere. The comparable change % has been calculated in local currencies and excluding the impact of Kesko Senukai and acquisitions and divestments completed in 2019 and 2020.

Net sales grew in the grocery trade division in all grocery store chains and K-Citymarket's home and speciality goods trade. Net sales decreased in Kespro's foodservice business due to the Covid-19 pandemic and related restrictions.

Net sales for the building and technical trade division grew in comparable terms in Finland, Sweden, Norway and Poland. Net sales were boosted by the acquisitions of K-Bygg in 2019, Mark & Infra i Sverige AB in April 2020, and Bygg & Interiör in September 2020 in Sweden, and the acquisition of Carlsen Fritzøe Handel in September 2020 and Flokkmann in October 2020 in Norway. The weakening of the Norwegian krone and the Polish zloty against the euro diminished net sales development in euro terms.

In the car trade division, net sales increased due to the acquisitions carried out in 2019, but in comparable terms, net sales decreased. The decrease in net sales was impacted by the weakened demand witnessed in the first year-half, and longer car delivery times.

The comparable operating profit for the Group's continuing operations grew by €106.2 million, or by €118.9 million with Kesko Senukai treated as a joint venture also for the comparison period (illustrative comparison figures). Profit development was also positively affected by the Covid-19 pandemic and resulting changes in consumer behaviour. Kesko estimates that less than half of the profit improvement in 2020 is attributable to the pandemic. In the grocery trade division, profitability improved thanks to good grocery sales development in the grocery store chains and cost adjustment measures especially in Kespro's foodservice business and K-Citymarket's home and speciality goods trade. The decrease in Kespro's net sales, resulting from restrictions imposed due to the Covid-19 pandemic, had a weakening impact on Kespro's comparable operating profit. In the building and technical trade division, the comparable operating profit for building and home improvement trade grew in Finland, Sweden and Norway. The acquisitions carried out in Norway and Sweden in 2018-2020 accounted for €33.9 million (€14.5 million) of the comparable operating profit. Onninen's comparable operating profit clearly strengthened and grew in Finland, Sweden, Norway and Poland. In the Baltics, Onninen's comparable operating profit remained at level of the previous year. Kesko Senukai had a €25.1 million impact on the Group's comparable operating profit (€34.7 million, consolidated as a subsidiary). Kesko Senukai has been consolidated as a joint venture from 1 July 2020 onwards. In the car trade division, the comparable operating profit decreased due to weakened demand in the first year-half and longer car delivery times.

Items affecting comparability, € million	1–12/2020	1–12/2019
Comparable operating profit	**567.8**	**461.6**
Items affecting comparability		
+gains on disposal	9.8	4.6
-losses on disposal	-0.2	-0.9
+/-structural arrangements	22.8	-17.5
Total items affecting comparability	32.4	-13.8
Operating profit	**600.2**	**447.8**

The most significant items affecting comparability were the positive profit impact of €46.1 million resulting from the change in the consolidation method of Kesko Senukai; the €2.5 million negative profit impact of changes in the store site network in Sweden; the €6.4 million sales gain from the divestment of machinery trade operations in the Baltics, completed on 31 March 2020 – all in the building and technical trade division – as well as the €5.2 million costs related to corporate restructuring in common functions, and the €10.4 million costs related to the discontinuation of The Athlete's Foot and Kookenkä chains in the leisure trade. The most significant items affecting comparability in the comparison year were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in the building and technical trade in Sweden, the €4.3 million costs related to acquisitions, and the net €+4.8 million items related to the subsidiary consolidation of Kruunuvuoren Satama Oy.

K Group's (Kesko and the chain stores) retail and B2B sales (0% VAT) totalled €13,988.5 million, representing a growth of 4.4% compared to the previous year. The K-Plussa customer loyalty programme added 113,143 new households in 2020. The number of K-Plussa households stood at 2.5 million at the end of December and there were 3.5 million K-Plussa cardholders in total.

Net finance costs, income tax and earnings per share

Net finance costs, income tax and earnings per share	1–12/2020	1–12/2019
Continuing operations		
Net finance costs, € million	-86.8	-91.4
Interests on lease liabilities, € million	-83.3	-95.4
Profit before tax, comparable, € million	481.9	370.7
Profit before tax, € million	527.6	403.3
Income tax, € million	-92.3	-69.6
Earnings per share, comparable, €	0.97	0.74
Earnings per share, €	1.09	0.83
Group		
Equity per share, €	5.52	5.11

Net finance costs for the Group's continuing operations were up due to exchange differences and change in the fair value of interest rate derivatives. Of the exchange differences, €-2.8 million was due to exchange rate losses on euro-denominated loan financing in January-June at Kesko Senukai's Belarussian subsidiary OMA, and €-1.7 million due to the weakening of the Norwegian krone, Swedish krona and Polish zloty.

The share of result of associates amounted to €14.3 million (€46.8 million), or €1.5 million (€0.7 million) in comparable terms. The share of result of associates included a €11.6 million profit related to the dissolution of Valluga-sijoitus Oy, recognised as an item affecting comparability. In 2019, Kruunuvuoren Satama Oy had a €17.8 million impact on the share of result of associates and a €0.3 million impact on the comparable share of result, taking into account the gains on disposal and impairment charges related to Kruunuvuoren Satama Oy's ownership arrangement, net €+17.4 million. Other associates had a combined impact of €29.1 million on the result of associates in the comparison year, and the impact on the comparable share of result was €0.3 million excluding the sales gains amounting to €28.7 million included in the share of results of associates and reported as items affecting comparability.

The comparable profit before tax for the Group's continuing operations grew thanks to operating profit growth and reduction in net finance costs compared to the year before. The Group's effective tax rate was 17.5% (17.3%). The Group's effective tax rate decreased due to a positive profit impact of €46.1 million arising from the change in the consolidation method of Kesko Senukai, recognised as an item affecting comparability, tax-exempt sales gains, and share of result of associates and joint ventures totalling €21.8 million. The Group's effective tax rate was raised by a €3.7 million residual tax related to a reassessment decision on 2013 and 2014 for Indoor Group Oy concerning the right of deduction of losses transferred in a cross-border merger, recorded in Q2.

Earnings per share and comparable earnings per share for the Group's continuing operations grew compared to the year before.

Cash flow and financial position

The cash flow from operating activities for the Group's continuing operations totalled €1,152.4 million (€893.1 million). The cash flow from operating activities for continuing operations in the comparison year included a €48.3 million return of surplus assets paid by Kesko Pension Fund, the dividend payment and repayment of equity by Kruunuvuoren Satama Oy in May 2019 totalling €44.1 million, and the €39.3 million dividend paid by the associate Valluga-sijoitus Oy, meaning that operatively, cash flow from operating activities increased by €391.1 million. Cash flow from operating activities increased due to operating profit growth and improved capital efficiency. The cash flow from operating activities for discontinued operations in the comparison year totalled €3.5 million. The Group's cash flow from operating activities totalled €1,152.4 million (€896.6 million).

Cash flow, € million	1–12/2020	1–12/2019
Continuing operations		
Cash flow from operating activities	1,152.4	893.1
Cash flow from investing activities	-413.7	-620.3
Group		
Cash flow from financing activities	-707.5	-295.4

Financial position	31/12/2020	31/12/2019
Group		
Liquid assets, € million	306.0	169.0
Interest-bearing liabilities, € million	2,616.3	3,037.3
Lease liabilities, € million	2,025.0	2,422.2
Interest-bearing net debt excl. lease liabilities, € million	285.3	446.1
Interest-bearing net debt/EBITDA, excl. IFRS 16 impact, rolling 12 months	0.4	0.9
Gearing, %	105.5	134.0
Equity ratio, %	33.1	31.2

The cash flow from investing activities for the Group's continuing operations totalled €-413.7 million (€-620.3 million), which included €155.7 million in acquisitions, a negative €92.7 million impact of the change in Kesko Senukai's consolidation method, and a positive €19.6 million cash flow impact of the divestment of Baltic machinery trade operations. The acquisition of the store property of K-Citymarket in Järvenpää, previously leased by Kesko, is reported under cash flow from financing activities. The cash flow from investing activities for the comparison year included acquisitions totalling €280.7 million and Kruunuvuoren Satama Oy's ownership arrangement, which had a negative €84.6 million impact.

The Group's liquidity remained strong throughout the year despite the economic uncertainty caused by the Covid-19 pandemic. Kesko Group implemented adjustment measures in all its operating countries to secure cash flow.

Capital expenditure

Capital expenditure, € million	1–12/2020	1–12/2019
Continuing operations	**398.4**	**686.1**
Store sites	125.8	227.7
Acquisitions	159.1	290.5
IT	25.6	33.9
Other investments	87.9	134.0

Capital expenditure in store sites was increased in part by the acquisition of the store property of K-Citymarket in Järvenpää in the first quarter. Kruunuvuoren Satama Oy's ownership arrangement had a €85.3 million impact on capital expenditure in store sites in the comparison year.

Acquisitions consisted of Mark & Infra i Sverige AB (MIAB) and Bygg & Interiör in Sweden and Carlsen Fritzøe Handel and Flokkmann in Norway, while acquisitions in the comparison year comprised Sørbø's building and home improvement stores in Norway, Huittisten Laatuauto Oy's Volkswagen and SEAT business operations in Forssa and Huittinen, LänsiAuto Oy's Volkswagen, Audi and SEAT businesses in Kotka, Kouvola and Lappeenranta, Laakkonen Group's Volkswagen, Audi and SEAT businesses, and Fresks group in Sweden.

Segments

Seasonal nature of operations

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

Grocery trade

	1–12/2020	1–12/2019
Net sales, € million	5,732.0	5,531.2
Operating profit, comparable, € million	375.2	327.9
Operating margin, comparable, %	6.5	5.9
Return on capital employed, comparable, %	16.9	14.5
Capital expenditure, € million	125.4	180.8
Personnel, average	6,197	6,063

Net sales, € million	**1–12/2020**	**1–12/2019**	**Change, %**	**Change, %, comparable**
Sales to K-food stores				
K-Citymarket, food	1,291.7	1,150.4	+12.3	+12.3
K-Supermarket	1,549.6	1,417.0	+9.4	+9.4
K-Market	1,434.9	1,336.3	+7.4	+7.4
K-Citymarket, non-food	585.5	584.6	+0.2	+0.2
Kespro	777.9	935.5	-16.8	-16.8
Others and eliminations	92.4	107.4	-14.0	-14.0
Total	**5,732.0**	**5,531.2**	**+3.6**	**+3.6**

Net sales for the grocery trade amounted to €5,732.0 million (€5,531.2 million), an increase of 3.6%. Net sales grew in all grocery store chains and K-Citymarket's home and speciality goods trade. Net sales decreased in Kespro's foodservice business due to the Covid-19 pandemic and related restrictions.

The total grocery market in Finland (incl. VAT) is estimated to have grown by approximately 8.6% (Finnish Grocery Trade Association PTY) and retail prices are estimated to have risen by some 1.9% (incl. VAT, PTY's price development estimate). K Group's grocery sales grew by 9.4% (incl. VAT), thus exceeding the market growth. K Group's sales grew in all grocery store chains. Online sales of groceries grew by 378%, and accounted for approximately 2.9% of K Group's grocery sales (incl. VAT). All K Group grocery store chains offer online grocery sales services. The number of K-food stores offering online grocery sales services grew by 241 to 469.

The comparable operating profit for the grocery trade totalled €375.2 million (€327.9 million), up by €47.3 million. Profitability improved thanks to good grocery sales development in the food store chains and cost adjustment measures. The decrease in Kespro's net sales, resulting from restrictions imposed due to the Covid-19 pandemic, had a weakening impact on Kespro's comparable operating profit. Operating profit for the grocery trade totalled €373.7 million (€334.6 million). Items affecting comparability totalled €-1.5 million (€6.7 million).

Capital expenditure for the grocery trade totalled €125.4 million (€180.8 million), of which €109.7 million (€157.0 million) was in store sites. Kruunuvuoren Satama Oy's ownership arrangement had a €62.8 million impact on capital expenditure in store sites in the comparison year.

Two new K-Supermarket stores and eight new K-Market stores (four replacement new buildings) opened in 2020. Remodelling and extensions were made in a total of 43 stores.

Building and technical trade

The change in Kesko Senukai's consolidation method from a subsidiary to a joint venture as of 1 July 2020 has impacted the performance indicators for the building and technical trade in the segment information. In the segment information for the building and technical trade, performance indicators are illustrative except for the balance sheet indicators and personnel numbers. Due to the change in consolidation method, the Group changed the internal reporting to its highest operative decision-maker, the Group Management Board. Consequently, Kesko Senukai has been reported in the 1-12/2019 and 1-6/2020 income statement figures for the building and technical trade as if it had been consolidated on one line before operating profit in accordance with ownership interest, as opposed to the subsidiary consolidation method used before. Such a change has not been made to internally reported balance sheet figures or personnel numbers.

	1–12/2020	1–12/2019
Net sales, € million	**3,639.5**	**3,472.8**
Building and technical trade excl. speciality goods trade	3,424.3	3,126.1
Building & home improvement trade	1,845.8	1,589.0
Onninen	1,625.6	1,587.7
Speciality goods trade	215.2	346.7
Operating profit, comparable, € million	**187.7**	**115.9**
Building and technical trade excl. speciality goods trade	169.4	98.5
Building & home improvement trade	99.5	48.6
Onninen	70.7	50.0
Speciality goods trade	7.4	9.5
Kesko Senukai	11.0	7.8
Operating margin, comparable, %	**5.2**	**3.3**
Building and technical trade excl. speciality goods trade	4.9	3.2
Building & home improvement trade	5.4	3.1
Onninen	4.4	3.2
Speciality goods trade	3.4	2.7

	1–12/2020	1–12/2019
Return on capital employed, comparable, %	11.2	7.4
Capital expenditure, € million	186.3	332.7
Personnel, average	9,308	12,630

Net sales, € million	1–12/2020	1–12/2019	Change, %	Change, %, comparable
Building and home improvement trade, Finland	971.6	908.4	+7.0	+6.8
K-Rauta, Sweden	186.1	163.7	+13.7	+12.6
K-Bygg, Sweden	228.4	132.8	+72.0	+9.6
Byggmakker and Carlsen Fritzøe, Norway	463.0	386.9	+19.7	+7.9
Building and home improvement trade, total	**1,845.8**	**1,589.0**	**+16.2**	**+7.9**
Onninen, Finland	985.2	909.6	+8.3	+8.3
Onninen and MIAB, Sweden*	101.5	121.2	-16.3	-5.6
Onninen, Norway	227.6	237.8	-4.3	+4.2
Onninen, Baltics	80.1	85.2	-6.1	-6.1
Onninen, Poland	234.1	237.2	-1.3	+2.0
Onninen, total*	**1,625.5**	**1,587.7**	**+2.4**	**+5.2**
Building and technical trade excl. speciality goods trade total	**3,424.3**	**3,126.1**	**+9.5**	**+6.5**
Leisure trade, Finland	192.4	203.7	-5.5	-5.5
Machinery trade	22.8	143.0	-84.1	-
Speciality goods trade total	**215.2**	**346.7**	**-37.9**	**-5.5**
Total	**3,639.5**	**3,472.8**	**+4.8**	**+5.7**

(...) Change over 100%
* Onninen's comparable net sales development in Sweden calculated minus internal net sales in Sweden to K-Rauta.

Net sales for the building and technical trade totalled €3,639.5 million (€3,472.8 million). Net sales grew by 4.8%, or by 5.7% in comparable terms. Net sales grew in comparable terms in Finland, Sweden, Norway and Poland. In the Baltics, net sales decreased. The weakening of the Norwegian krone and the Polish zloty against the euro diminished net sales development in Norway and Poland in euro terms. The comparable change % has been calculated in local currencies and excluding the impact of Kesko Senukai and the acquisitions and divestments completed in 2019 and 2020. The exceptional circumstances related to the Covid-19 pandemic have impacted the businesses and operating countries in different ways from March onwards.

In Finland, net sales for the building and technical trade totalled €2,102.7 million (€1,992.8 million), up by 5.5%. In comparable terms, net sales in Finland grew by 6.2%. Net sales from international operations amounted to €1,536.8 million (€1,480.0 million), an increase of 3.8%. In comparable terms, net sales from international operations grew by 5.1%.

Net sales for the building and home improvement trade grew in Finland, Sweden and Norway.

Onninen's net sales grew in comparable terms in Finland, Norway and Poland. In Sweden and the Baltic countries, net sales decreased compared to the year before.

In the speciality goods leisure trade, net sales decreased.

The comparable operating profit for the building and technical trade totalled €187.7 million (€115.9 million), up by €71.9 million. The comparable operating profit for the building and home improvement trade grew by €50.8 million, and grew in Finland, Sweden and Norway. The acquisitions carried out in Norway and Sweden in 2018-2020 accounted for €33.9 million (€14.5 million) of the comparable operating profit. Onninen's comparable operating profit grew in Finland, Sweden, Norway and Poland. In the Baltics, Onninen's comparable operating profit remained at level of the previous year.

The comparable operating profit for the building and technical trade totalled €126.5 million (€94.2 million) in Finland, €15.4 million (€-6.2 million) in Sweden and €29.5 million (€10.3 million) in Norway.

Operating profit for the building and technical trade totalled €177.7 million (€100.7 million). Items affecting comparability totalled €-10.0 million (€-15.2 million). The most significant items affecting comparability were the €10.4 million costs related to the discontinuation of The Athlete's Foot and Kookenkä chains in the leisure trade, the €2.5 million negative profit impact of changes to the store site network in Sweden, and the €6.4 million sales gain on the divestment of machinery trade operations in the Baltics, completed on 31 March 2020. The most significant items affecting comparability in the comparison year were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in Sweden.

Capital expenditure for the building and technical trade totalled €186.3 million (€332.7 million). Capital expenditure included €159.1 million (€233.2 million) in acquisitions.

Kesko reports Kesko Senukai Group, which is part of the building and technical trade segment and operates in the Baltic countries and Belarus, as a joint venture on one line in the consolidated income statement and balance sheet as of 1 July 2020. Kesko Senukai Group was reported as a subsidiary until 30 June 2020. The table below shows Kesko Senukai's financials for the financial year 2020 and the comparison year and the share of result of joint ventures reported in the illustrative comparison figures.

Kesko Senukai financials, € million	1–12/2020	1–12/2019
Net sales	921.7	860.1
Operating profit	59.3	34.6
Operating profit, comparable	59.3	34.7
Net profit for the period	30.7	15.9
Kesko Group's share of result of joint ventures	11.0	7.8

	31/12/2020	31/12/2019
Assets	760.8	721.2
Liabilities	549.4	529.2
Equity	211.4	191.9

The figures include Kesko Senukai's business and real estate companies. A profit impact of €4.4 million of fair value allocation has been deducted from Kesko Group's share of result of joint ventures for 1-12/2020.

Car trade

	1–12/2020	1–12/2019
Net sales, € million	892.6	863.9
Operating profit, comparable, € million	23.4	26.8
Operating margin, comparable, %	2.6	3.1
Return on capital employed, comparable, %	6.3	9.5
Capital expenditure, € million	64.7	131.3
Personnel, average	1,283	1,179

Net sales, € million	1–12/2020	1–12/2019	Change, %	Change, %, comparable
Car trade	892.6	863.9	+3.3	-3.3

Net sales for the car trade totalled €892.6 million (€863.9 million). In comparable terms, net sales decreased by 3.3%. The comparable change % has been calculated excluding the impact of acquisitions completed in 2019. The Covid-19 pandemic weakened customer demand for both new and used cars in the first half of the year. Net sales saw a turnaround and began to grow in the latter half of the year thanks to strengthened demand.

The combined market performance of first registrations of passenger cars and vans was -15.6% (-5.4%). The combined market share of the Volkswagen, Audi, SEAT, Porsche and Bentley passenger cars and Volkswagen and MAN vans imported by the car trade division was 16.9% (16.9%).

The comparable operating profit for the car trade totalled €23.4 million (€26.8 million). Operating profit for the car trade totalled €23.3 million (€25.5 million). In the comparison year, items affecting comparability totalled €-1.2 million, related to efficiency improvement measures and structural arrangements carried out.

Capital expenditure for the car trade totalled €64.7 million (€131.3 million). Capital expenditure for the comparison year contained the acquisitions of Huittisten Laatuauto and the Volkswagen, Audi and SEAT businesses of LänsiAuto and Laakkonen Group, in total €57.4 million.

Changes in group composition

Kesko Corporation changed the consolidation method of Kesko Senukai in Kesko's consolidated financial statements from a subsidiary to a joint venture as of 1 July 2020.

On 1 October 2020, Kesko acquired Reidar Flokkmanns Eftf AS (Flokkmann), which is part of the Norwegian Byggmakker chain, and the store property Arn Eiendom AS.

On 2 September 2020, Kesko acquired Carlsen Fritzøe Handel AS in Norway. The acquisition strengthens Kesko's position in the Oslo fjord region, where the Carlsen Fritzøe Handel network of 25 stores complements Kesko's existing Byggmakker store network.

Kesko Group simplified its corporate structure in Sweden by merging Onninen AB with K-Rauta AB on 1 May 2020. The name of the company is Kesko AB. The merger did not impact the operations of Onninen or K-Rauta in Sweden.

On 1 April 2020, Kesko acquired the Swedish Mark & Infra i Sverige AB (MIAB), a company specialising in the sales of water and sewage products. The acquisition strengthens Onninen's technical wholesale offering to Infra customers in Sweden.

On 31 March 2020, Konekesko Oy divested its remaining shares in its Baltic subsidiaries.

Main objectives and results achieved in sustainability

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

The most important cash flows comprise revenue from customer purchases and retailer operations, purchases from goods suppliers and service providers, dividends to shareholders, salaries and wages paid to personnel, taxes and capital expenditure. Kesko employs 17,650 people. In 2020, Kesko paid €613.1 million in wages and salaries. The income taxes paid by

Kesko in 2020 totalled €70.6 million in Finland and €13.9 million in other countries. Kesko also pays real estate and net-worth taxes and collects, reports and remits indirect taxes, such as value added tax and excise duties. Kesko's capital expenditure has a positive financial impact on the operations of building firms and suppliers of fixtures, equipment and information systems, for example. In 2020, Kesko's capital expenditure totalled €398 million. At the end of 2020, Kesko had over 57,000 shareholders. Dividends paid for 2019 totalled €249 million.

Key commitments, policies and principles

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

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

Kesko's operations are based on data and processing of data in the company's operating environments. Ensuring data protection is part of Kesko's compliance activities, risk management and the K Code of Conduct. Kesko's data protection policy determines the principles, practices and responsibilities concerning the lawful processing of personal data and for ensuring the high level of data protection at Kesko.

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

In spring 2019, Kesko's Board made sustainability and combatting climate change strategic focus areas for Kesko. Key concerns in our corporate responsibility work are transparency in sourcing, mitigating climate change and environmental care, responsibility for personnel, and extensive value creation throughout the society.

Kesko's materiality assessment determines key corporate responsibility and sustainability themes for Kesko and its stakeholders. It guides Kesko's corporate responsibility efforts and work with stakeholders and actions to meet stakeholder expectations. Kesko last conducted a materiality assessment in autumn 2020. The biggest changes to the previous assessment were the increased importance of climate change, sustainable products, and biodiversity. Responsibility in the purchasing chain and personnel responsibility remained among key issues.

Since 2000, Kesko has reported on its actions annually in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. 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. The Sustainability section of Kesko's Annual Report details Kesko's sustainability principles, management, objectives, processes and results.

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 Index the DJSI World, the FTSE4Good Index, and the STOXX Global ESG Leaders Index.

In September 2020, Kesko was included in the Dow Jones Sustainability Index the DJSI World. In the 2020 assessment, Kesko's overall score rose compared to the year before. Kesko received the industry best overall score in the Environmental Dimension. Kesko received excellent scores in Climate Reporting, Climate Strategy, Operational Eco-Efficiency, and Water Related Risks. Kesko has previously been included in the DJSI World and DJSI Europe indices in 2003-2014 and 2017-2019.

Kesko received the 'A' score in CDP's global Climate questionnaire in 2020.

Kesko ranked 87th on the Global 100 list of the Most Sustainable Corporations in the World in 2021 (99th in 2020). In 2021, Kesko ranked the highest in the 'Grocery and Diversified Stores' category, and thus was the most sustainable grocery trade company in the world for the seventh consecutive year.

Human rights and purchasing

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

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

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

Kesko employs sustainability policies to guide the sourcing of products containing raw materials identified as critical from a social and environmental responsibility perspective. At the end of 2020, Kesko had ten sustainability policies, the most recent addition being the packaging policy published in the summer of 2020.

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

Kesko has joined the 2018 Accord on Fire and Building Safety in Bangladesh to improve the safety of clothing factories in the country. Kesko is a member of the Center for Child Rights and Corporate Social Responsibility (CCR CSR) based in China.

In an effort to improve the transparency of its supply chains, Kesko launched a new 'Tracing our products' website at kesko.fi/producttracing in autumn 2020. The products highlighted on the website represent K Group's own product brands. Focus is especially on products where the sustainable production of ingredients or raw materials is challenging and where K Group uses its own sustainability policies to guide purchasing.

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 and other promises. Product labelling complies with legislative requirements and authority recommendations. 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 Quality and Product Development unit in Kesko's grocery trade. The manufacturers of Kesko's own-brand food products have international certifications that assure product safety. The standards approved by Kesko's grocery trade include BRC, IFS, FSSC 22000 and GlobalGAP. The unit's laboratory monitors the product safety and quality of the own brand products and own imports in the grocery trade. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

Climate and environment

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

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

Kesko is committed to the Paris Climate Agreement goal of mitigating global warming. In 2017, Kesko was the first company in Finland to set Science Based Targets for emissions from its own operations and supply chain.

In February 2020, Kesko set more challenging climate targets, aiming for carbon neutrality by 2025. Kesko will seek to systematically reduce emissions to reach net zero emissions from its own operations by 2030. From 2025 onwards, Kesko will offset the remaining emissions from its own operations. Kesko also aims to have reduction targets set for two-thirds of its direct supplier emissions by 2025.

K Group is moving towards carbon neutrality by increasing the share of electricity and heat produced with renewable energy, by improving energy efficiency, and by switching to biofuels in transports in Finland. In October 2020, Kesko joined the CDP supply chain programme to challenge its suppliers to reduce and report their emissions.

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%. A new energy recycling model was developed for K-food stores in 2019, which can reduce heat consumption by as much as 95% and turn a grocery store property almost carbon neutral in terms of energy. Our objective is to have the new system installed in all K Group grocery stores by 2030.

All electricity purchased by Kesko for K-stores and other Kesko properties in Finland is produced with renewable energy. In 2020, this comprised hydropower, bioenergy and wind power. Some of the electricity is generated with Kesko's own solar power plants. At the end of 2020, K Group stores and properties hosted 42 solar power plants, with a combined power of some 13.5 MWp and an electricity production capacity of some 11.4 GWh.

In 2019, Kesko began extensive work to identify sustainable products from a climate perspective in each division. Sustainable products are those with a markedly smaller climate impact than that of comparable products, and products that are significant in adjusting to climate change. The objective is to monitor and report the sales of sustainable products going forward.

Climate related risks and opportunities

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

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

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

Financing linked to sustainability targets

During the 2019 financial year, Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million during the 2019 financial year, and has the possibility to draw down more later on with a separate credit decision by the banks. Kesko also agreed on a Revolving Credit Facility of €100 million linked to the same sustainability targets, which was not in use on 31 December 2020.

Personnel

Personnel	1–12/2020	1–12/2019
Average number of personnel converted into full-time employees, continuing operations	**17,629**	**20,846**

	31/12/2020	31/12/2019
Personnel at the end of the reporting period		
Finland	12,647	12,657
Other countries	5,003	12,511
Total	17,650	25,168

The change in the consolidation method of Kesko Senukai has a marked impact on the number of Group employees outside Finland.

In the first year-half, Kesko carried out adjustment measures due to a reduction in workloads brought on by the Covid-19 pandemic. In total, some 2,500 Kesko employees in Finland working in business operations and support functions were affected by the various adjustment measures. Of those, temporary lay-off measures affected some 2,000 employees. Adjustment measures were also carried out in Kesko's operations in Sweden, Norway, Poland and the Baltic countries.

Professional, committed personnel is the basis for all our operations. Kesko's personnel management is guided by Kesko's HR policy, the K Code of Conduct and common operating principles. The HR policy is based on Kesko's mission, vision, strategy, value and responsible operating and management principles. The objective of the HR policy is to ensure that Kesko has skilled and committed personnel that knows where Kesko is heading and what their own objectives are, thus creating a foundation for achieving good and sustainable financial results.

To ensure the implementation of Kesko's strategy, the company's methods for target setting, performance management, personnel development and remuneration are based on management by information. Recruitments are based on need, an approved resourcing plan, and identified change initiatives. In recruitments, we are committed to equality, non-discrimination and selection based on factors that predict success at a position.

Personnel satisfaction and wellbeing are measured, and development measures are drafted at various organisational levels based on the results. Proactive management of personnel wellbeing and working capacity is used to reduce the number of sick leaves and to prevent occupational injuries and premature retirement due to disability. We aim for zero injuries.

Since the beginning of the Covid-19 pandemic, ensuring the safety of personnel and customers has been a key priority for K Group. Special focus has been on doing everything possible to ensure the health and safety of the people working in logistics and the stores, while also enabling safe shopping for customers. Kesko and the K-retailers have developed new services, such as dedicated shopping hours for at-risk people, extended online grocery services, delivery services, and a new advice and phone order service for people over 70.

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

In 2020, we prepared a diversity and inclusion programme to enable a more diverse and equal K Group. Our objectives include increasingly employing minority language speakers and helping persons with partial working capacity cope at work. A diverse working community and inclusive corporate culture are built through the actions, attitudes and choices of everyone at Kesko.

Compliance programmes

Kesko's Board has confirmed a K Compliance operating model for Kesko. The model strengthens Kesko's compliance with laws, rules and regulations. The K Code of Conduct forms the basis and core for the operating model. Individual group-wide programmes confirmed based on the operating model concern key legislation the breach of which could result in significant negative consequences for Kesko, such as serious financial or reputational risk. The programmes include the prevention of corruption and bribery, competition law, data protection, and consumer protection.

The K Compliance operating model confirms the organisation and steering model for the compliance function. Operations are guided by the identification of key compliance risks related to Kesko's strategy and business. Kesko's Legal Affairs, Risk Management and business operations regularly survey and prioritise risks. Based on the prioritisation of risks, Kesko's Governance, Risk and Compliance (GRC) steering group determines the necessary compliance programmes, which are confirmed by Kesko's President and CEO and reported to the Board's Audit Committee. Annual plans for the compliance programmes are established based on risk assessment. The GRC steering group monitors changes in risks and guides and controls the implementation of the compliance programmes.

Prevention of corruption and bribery

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

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

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

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

Main objectives and results achieved

Human rights and purchasing

Target	Method	Results in 2020
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.	210 (180) factories or farms underwent full amfori BSCI audits
	Amfori BSCI follow-up audits conducted at the factories and farms of suppliers in high-risk countries.	117 (172) factories or farms underwent amfori BSCI follow-up audits
	Suppliers in high-risk countries have valid social responsibility audits and certifications.	613 (733) suppliers in high-risk countries had valid social responsibility audits and certifications

Product safety

Target	Method	Results in 2020
Products are safe for users and meet quality promises	The manufacturers of Kesko's own-brand food products have international certifications that assure product safety.	517 (605) suppliers have an audit certificate
	The Quality and Product Development unit monitors the safety and quality of own brand products and own imports in the grocery trade.	Product samples analysed by the unit's laboratory and test kitchen 6,440 (7,405)
	If a fault is detected in the quality of a product on the market, a recall is made.	167 (164) product recalls, of which 43 (46) K Group's own brand products; 6 (2) public recalls of own brand products (cases where a fault in the product could endanger consumer health)

Climate and environment

Target	Method	Results in 2020
Reducing the climate and environmental impacts of Kesko's operations	Kesko has committed to the Energy Efficiency Agreement for the commerce sector in Finland and to reducing its energy consumption by 7.5% between 2017 and 2025.	Energy consumption in properties managed by Kesko in all operating countries* (Q4/2019–Q3/2020) 934 GWh (997 GWh) *Change in calculation method: electricity consumption in Finland includes electricity provided by Ankkuri-Energia Oy and electricity obtained by retailers from other sources, used by Kesko
	All electricity purchased by Kesko for K-stores and other Kesko properties in Finland is produced with renewable energy. In recent years, Kesko has been building solar power plants at K Group stores and properties.	Renewable electricity purchases 560 GWh (560 GWh), 42 (34) own solar power plants, electricity production in Finland 9.3 GWh (6.8 GWh)
	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 (Q4/2019–Q3/2020) 90,260 (118,879) tCO_2e

Personnel

Target	Method	Results in 2020
Prevention of corruption and bribery (Governance)	Employees agree upon their personal objectives together with their managers in accordance with the performance management process.	Objectives set for approximately 84% (85%) of the target group
	Personnel satisfaction and commitment are measured in personnel surveys conducted every other year (last conducted in 2019), with complementary Pulse surveys when necessary. In 2020, two Pulse surveys were conducted to gauge how personnel were coping with the prolonged exceptional circumstances caused by the Covid-19 pandemic.	Personnel commitment in 2019 was 76% (78%); 76% (76%) of personnel would recommend K Group as an employer (in 2019). Respondents to the Pulse surveys rated their overall satisfaction at 3.4 in the spring and 3.5 in the autumn.
	Active early identification and intervention with regard to sickness absences is used to promote personnel wellbeing and working capacity.	Sickness absences 5.1% (4.7%); premature retirement due to disability 23 (21)

Prevention of corruption and bribery (Governance)

Target	Method	Results in 2020
100% commitment to compliance with the K Code of Conduct	"We do not offer or accept bribes", "We comply with the Kesko policies on hospitality and gifts" and "We avoid conflicts of interest" are key sections of the K Code of Conduct.	86% (82%) of personnel signed the annual revision of the K Code of Conduct
	SpeakUp is a confidential reporting channel for both personnel and Kesko's partners, meant for reporting criminal and malpractice suspicions when, for one reason or another, the information cannot be passed directly to Kesko's persons in charge. The SpeakUp channel can also be used to report suspected breaches of securities market regulation.	31 (28) notifications received via the SpeakUp channel

Shares, securities market and board authorisations

At the end of December 2020, the total number of Kesko Corporation shares was 400,079,008, of which 126,948,028, or 31.7%, were A shares and 273,130,980 or 68.3%, were B shares. In the second quarter, the number of shares in Kesko Corporation increased following the resolution of the 28 April 2020 Annual General Meeting to carry out a share issue without payment (share split) (stock exchange releases on 28 April 2020 and 30 April 2020). On 31 December 2020, Kesko Corporation held 3,339,862 of its own B shares as treasury shares.

These treasury shares accounted for 1.22% of the total number of B shares, 0.83% of the total number of shares, and 0.22% of the votes attached to all shares in the Company. The total number of votes attached to all shares was 1,542,611,260. Each A share carries ten (10) votes and each B share one (1) vote. The Company cannot vote with own shares held by it as treasury shares and no dividend is paid on them. At the end of December 2020, Kesko Corporation's share capital totalled €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €58.80 at the end of 2019 (€14.70 with the share split), and €20.00 at the end of 2020, representing an increase of 36.1%. Correspondingly, the price of a B share was €63.08 at the end of 2019 (€15.77 with the share split), and €21.04 at the end of December 2020, representing an increase of 33.4%. In 2020, the highest A share price was €22.80 and the lowest €10.40. The highest B share price was €24.08 and the lowest €10.41. The Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 10.1% and the weighted OMX Helsinki Cap index by 10.4%. The Retail Sector Index was up by 45.9%.

At the end of December 2020, the market capitalisation of the A shares was €2,539 million. The market capitalisation of the B shares was €5,676 million, excluding the shares held by the parent company. The combined market capitalisation of the A and B shares was €8,215 million, an increase of €2,100.7 million from the end of 2019.

In 2020, a total of 10.6 million A shares were traded on Nasdaq Helsinki (calculated with the post-split number of shares). The exchange value of the A shares was €175.3 million. Meanwhile, 249.0 million B shares were traded (calculated with the post-split number of shares), with an exchange value of €4,434.2 million. Nasdaq Helsinki accounted for over 90% of the trading on Kesko's A shares in 2020 and over 80% of the trading on B shares. Kesko shares were also traded on multilateral trading facilities, the most significant of which was Cboe (source: Euroland).

The number of registered shareholders rose by 38.8% in 2020. At the end of December 2020, the number of registered shareholders was 57,132, which is 15,957 more than at the end of 2019. At the end of December, foreign ownership of all shares was 37.12%, and foreign ownership of B shares 53.38%.

Kesko has a share-based commitment and incentive scheme. To implement the scheme, Kesko's Board of Directors may decide, within share issue authorisations granted by the Company's General Meeting, to transfer Kesko B shares held by the Company as treasury shares. In 2020, Kesko Corporation transferred 381,124 Kesko B shares held as treasury shares to members of management and other selected key persons in accordance with the terms and conditions of share award plans. 3,692 B shares were returned to the Company without consideration based on the same terms and conditions. The share numbers are presented as numbers following the share issue without payment (share split). Kesko issued related stock exchange releases on 12 March 2020 and 29 September 2020. Kesko issued a stock exchange release on 5 February 2020 regarding the most recent share-based commitment and incentive plans. Kesko Corporation also transferred a total of 8,158 of its own B shares held by the Company as treasury shares to the members of Kesko's Board of Directors as part of the Board members' annual remuneration, and issued a related stock exchange release on 5 May 2020.

Kesko's Annual General Meeting of 28 April 2020 authorised the Board to decide on the issue of a total maximum of 40,000,000 new B shares and B shares held by the Company as treasury shares. The authorisation is valid until 30 June 2021. The authorisation was communicated in a stock exchange release on 28 April 2020.

Key events during the financial year

The Market Court in Finland announced its decision on Kesko's acquisition of the Heinon Tukku foodservice wholesale company, prohibiting the transaction. (Press release 17.2.2020)

Kesko agreed to acquire the Swedish Mark & Infra i Sverige AB (MIAB), a company specialising in the sales of water and sewage products. The acquisition strengthens Onninen's technical wholesale offering to Infra customers in Sweden. (Press release 6.3.2020)

Kesko issued a profit warning due to the Covid-19 pandemic and related global economic uncertainty. Kesko cancelled its previous outlook statement regarding the net sales for continuing operations and changed the outlook statement regarding the comparable operating profit for continuing operations, both issued in connection with the financial statements release on 5 February 2020. (Stock exchange release 18.3.2020)

Kesko's Board of Directors decided to cancel the Annual General Meeting convened for 30 March 2020 due to developments concerning the Covid-19 pandemic, and to reconvene a new meeting later on. (Stock exchange release 19.3.2020)

The Danish Agro Group company DA Agravis Machinery Holding A/S acquired Konekesko Oy's remaining stake in its Baltic subsidiaries. (Press release 31.3.2020)

Kesko announced that it would adjust its operations due to the Covid-19 pandemic. Temporary lay-off measures were estimated to affect approximately 2,000 Kesko employees in Finland – Kesko managed to significantly reduce the number with employee transfers between units. (Press release 3.4.2020)

Kesko's Annual General Meeting convened on 28 April 2020. (Stock exchange releases 7.4.2020 and 28.4.2020)

A total of 95,211,021 new A shares and 204,848,235 new B shares issued in the share issue without payment (share split) decided upon by the Annual General Meeting of Kesko Corporation on 28 April 2020 were entered in the Finnish Trade Register on 30 April 2020. In the share issue without payment, new shares were issued to the shareholders in proportion to their existing holdings, so that three (3) new A shares were issued for each A share held, and three (3) new B shares for each B share held. (Stock exchange release 30.4.2020)

K Group raised its climate goals to a new level and will strive to become carbon neutral by 2025. K Group will seek to systematically reduce emissions to reach net zero emissions from its own operations and transports by 2030. (Press release 12.5.2020)

Kesko issued a positive profit warning and provided preliminary information on its second-quarter net sales and comparable operating profit. Kesko raised its guidance for the comparable operating profit for its continuing operations, issued in connection with the company's interim report on 28 April 2020. (Stock exchange release 10.7.2020)

Kesko's subsidiary Byggmakker Handel AS acquired Carlsen Fritzøe Handel AS, a Norwegian operator in the building and home improvement trade with net sales of approximately €201 million in 2019. The acquisition strengthens Kesko's position in the Oslo fjord region, where the Carlsen Fritzøe Handel network of 25 stores complements Kesko's existing Byggmakker store network. (Press releases 8.7.2020 and 2.9.2020)

Kesko acquired the Swedish Bygg & Interiör building and home improvement trade stores. The acquisition complements Kesko's growing K-Bygg chain for professional builders in the Mälaren Valley region of Sweden. (Press release 2.9.2020)

Kesko's Annual General Meeting of 28 April 2020 resolved to establish a Shareholders' Nomination Committee. The Committee will prepare proposals related to the number, election and remuneration of Board members to Kesko's General Meeting of shareholders. The Nomination Committee has three members: two appointed by Kesko's biggest shareholders and one who is the Chairman of Kesko's Board of Directors. (Stock exchange release 11.9.2020)

Kesko announced that it would be changing the consolidation method of Kesko Senukai, which is part of the building and technical trade segment and operates in the Baltic countries and Belarus, from a subsidiary to a joint venture in its consolidated financial statements as of 1 July 2020. Kesko Senukai was reported as a subsidiary until 30 June 2020. (Stock exchange release 17.9.2020)

Kesko issued a positive profit warning and raised its guidance for the 2020 comparable operating profit for its continuing operations. Kesko estimated that the comparable operating profit for its continuing operations would be in the range of €510-570 million in 2020. The guidance upgrade was based on better than anticipated sales development in all divisions, improved cost efficiency, and a more positive outlook for the remainder of the year. (Stock exchange release 17.9.2020)

Karoliina Partanen, M.Sc. (Soc.), was appointed Executive Vice President in charge of Communications, Brand and Stakeholder Relations and a member of Kesko's Group Management Board as of 1 October 2020. (Stock exchange release 18.9.2020)

The new medium-term financial targets for profitability, as approved by the Board of Directors of Kesko Corporation, are a comparable operating margin of 5.5% and a comparable return on capital employed of 12.5%. In terms of financial position, as before, the Group targets a maximum interest-bearing net debt/EBITDA ratio of 2.5, excluding the impact of IFRS 16. Kesko Group's previous financial targets were a comparable operating margin of 5.0%, a comparable return on capital employed of 11.0%, and interest-bearing net debt/EBITDA of less than 2.5 excluding the impact of IFRS 16. (Stock exchange release 1.12.2020)

The Board of Directors of Kesko Corporation approved an updated disclosure policy on 17 December 2020, which describes the key disclosure principles Kesko observes in its investor communication and financial reporting. The updated disclosure policy came into force on 1 January 2021. The main changes to the disclosure policy concern the so-called silent period and a new “investor news” category for releases. (Stock exchange release 18.12.2020))

After the financial year, Riikka Joukio, M.Sc. (Tech.), eMBA, has been appointed Executive Vice President in charge of Corporate Responsibility and Public Affairs, and a member of Kesko's Group Management Board. Joukio will join the company on 1 August 2021 at the latest. (Stock exchange release 11.1.2021)

Key events after the financial year

No significant events took place after the balance sheet date.

Resolutions of the 2020 annual general meeting and decisions of the board's organisational meeting

The Annual General Meeting of Kesko Corporation on 28 April 2020 adopted the financial statements and consolidated financial statements for 2019. The Annual General Meeting resolved to distribute a dividend of €2.52 per share on shares held outside the Company, paid in two instalments. The record date of the first dividend instalment of €1.28 per share was 30 April 2020 and pay date 8 May 2020. The record date of the second dividend instalment of €0.31 per share was 1 October 2020 and pay date 8 October 2020. The Annual General Meeting discharged the Board members and the Managing Director from liability for the financial year 2019, confirmed the Company's Remuneration Policy for Governing Bodies, and resolved to keep the Board members' fees unchanged.

The Annual General Meeting resolved that the Auditor's fee and the reimbursements of the Auditor's expenses will be paid according to an invoice approved by the Company. The Annual General Meeting elected the firm of authorised public accountants Deloitte Oy as the Company's new Auditor. APA Jukka Vattulainen is the auditor with principal responsibility.

The Annual General resolved, in accordance with the Board's proposal, to carry out a share issue without payment (share split). According to the resolution, in the share issue without payment, new shares were issued without payment to the shareholders in proportion to their existing holdings, so that three (3) new A shares were issued for each A share held, and three (3) new B shares for each B share held. In addition, new B shares were similarly issued without payment to the Company on the basis of B shares held by the Company. A total of 95,211,021 new A shares and a total of 204,848,235 new B shares were issued. The shares were issued to shareholders who were registered in the Company's register of shareholders maintained by Euroclear Finland Ltd on the record date of the share issue, 30 April 2020. The share issue without payment was executed in the book-entry system and did not require any action on the part of the shareholders. The new shares have generated shareholder rights as of 30 April 2020 when they were registered in the Trade Register. The registration of the new shares in the shareholders' book-entry accounts took place on 4 May 2020. The new shares did not entitle their holders to the first instalment of dividend in accordance with the Board's proposal for the distribution of profit of €1.28 per share, but they did entitle the holders to the second proposed dividend instalment of €0.31 per share. The Annual General Meeting also resolved to amend section 3 of the Company's Articles of Association ("Shares") in accordance with the Board's proposal.

The Annual General Meeting resolved, in accordance with the Board's proposal, to authorise the Board to decide on the issuance of new B series shares as well as of own B shares held by the Company as treasury shares. The number of B shares thereby issued would total at maximum 40,000,000. The authorisation is valid until 30 June 2021.

The Annual General Meeting resolved, in accordance with the Board's proposal, to establish a Shareholders' Nomination Committee, and confirmed the Committee's rules of procedure.

The Annual General Meeting resolved, in accordance with the Board's proposal, to authorise the Board to decide on donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2021, and to decide on the donation recipients, purposes of use and other terms of the donations.

The Board members were elected by the 2018 Annual General Meeting to serve the three-year terms provided in the Company's Articles of Association, ending at the close of the 2021 Annual General Meeting. The Board elects its Chairman and Deputy Chairman for the Board's whole three-year term of office. In the organisational meeting held by the Board after the Annual General Meeting of 11 April 2018, the Board elected Esa Kiiskinen as Chairman of the Board and Peter Fagernäs as Deputy Chairman. The Board did not make changes to the compositions of its Audit Committee or Remuneration Committee in its organisational meeting held after the Annual General Meeting on 28 April 2020. Jannica Fagerholm was elected as Chairman of the Board's Audit Committee, Matti Kyytsönen as Deputy Chairman, and Piia Karhu as a Committee member. Esa Kiiskinen was elected as Chairman of the Board's Remuneration Committee, Peter Fagernäs as Deputy Chairman, and Matti Kyytsönen as a Committee member.

The resolutions of the Annual General Meeting and the decisions of the Board's organisational meeting were communicated in more detail in stock exchange releases on 28 April 2020.

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in Note 2.5.

Financial risks and information on financial instruments measured at fair value are disclosed in Note 4.3.

Related party transactions are disclosed in Note 5.3.

Information on disputes and legal and authority proceedings is disclosed in Note 5.5.

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, responses to and indicators for them are reported to the Kesko Board's Audit Committee quarterly in connection with the review of interim reports, the half year financial report and financial statements. The Audit Committee Chair reports on risk management to the Board as part of the Audit Committee report. The most significant risks and uncertainties are reported to the market by the Board in the Report by the Board of Directors and any material changes in them in the interim reports and the half year financial report.

The following describes the risks and uncertainties assessed as significant.

Significant risks and uncertainties

Impact of economic uncertainty on Kesko's sales and profit

There is great uncertainty regarding developments with the pandemic and its duration, which impacts economic outlook and consumer behaviour in all of Kesko's operating countries. A significant weakening of the economy would impact especially the building and technical trade and the car trade. Extended restrictions on restaurants impact the foodservice business.

Should the economy weaken, we will continue the determined execution of Kesko's strategy, and if necessary, will prioritise and adjust operations to changes in demand.

Competitive situation in the grocery trade

A weakening economy causes consumers to focus on price when it comes to decisions on products and services. This causes competition to tighten.

K Group ensures customer satisfaction and the competitiveness of its stores by efficiently utilising customer data, by offering customers a safe shopping experience, by implementing store-specific business ideas, by investing considerably in digital services that make everyday life easier for customers, and by ensuring competitive selections and prices.

Impact of the Covid-19 pandemic on business continuity and personnel health

Large numbers of sick employees in the logistics centres or stores and key members of personnel getting sick could endanger the continuity of K Group's critical operations and supply chain and product availability. There is a significantly bigger emphasis on ensuring the safety of personnel and customers in management and everyday operations.

The safety of personnel is ensured by following internal safety instructions and procedures that are based on instructions and recommendations issued by authorities and healthcare experts. Business continuity and product availability are ensured through efficient implementation of function-specific contingency and preparedness plans.

Critical information falling into the wrong hands

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

When protecting critical information, it is essential to constantly monitor data security threats and proactively develop data security, train personnel comprehensively, and maintain the data security of systems throughout their lifecycle.

Business interruptions due to cybercrime and information technology failures

Growing threats necessitate quality actions from service providers, good data security, and sufficient data security skills from our personnel. Cyber-attacks could, for example, result in significant loss of sales and weakened customer satisfaction. In addition to cyber threats, failures may arise due to e.g. hardware failures, issues with data communications, and software errors.

A high level of service data security and contingency and recovery plans for disruptions are required from critical service providers. To ensure operational continuity, contingency plans have been established for critical operations and there is a standard process for managing disruptions. Continuity exercises are used to maintain the ability to operate during disruptions.

Integration of acquisitions in the building and technical trade

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

The key to risk management is to follow the integration plan and ensure sufficient resources for implementing the plan.

Product safety

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

Risk management responses include Kesko's quality and product development unit's quality control of grocery trade products, and product safety management of the companies manufacturing own brand products. Self-control ensures compliance with foodstuffs regulations. Defective products can be quickly withdrawn from sale using the recall procedure.

Staff availability

The implementation of strategies and the achievement of objectives require competent and motivated personnel. The acquisitions carried out as well as other significant business and development projects, coupled with an increased need for special competencies increase the key-person risk and the dependency on individual expertise.

In connection with strategy work, the competencies required for strategy implementation are identified and personnel plans are drawn up. Personnel surveys play a central role in the development of human resources management. Recruitment processes have been developed and personnel members are provided with a variety of training opportunities and career paths. Employee wellbeing and working capacity are promoted with Kesko's wellbeing at work development programme. Kesko's employer image is developed through systematic cooperation with stakeholders, as well as internal and external communications.

Compliance with laws and agreements

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

Separate compliance programmes are established for managing key legal risks. In general, legal risks are managed through the monitoring of changes in legislation, personnel training, by conducting audits and self-assessments, and by developing technical data security and data protection. Contractual risks are managed by harmonising agreements and agreement-making processes and by electronic agreement archiving.

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.

Management responses to the risks include long-term store network planning, careful preparatory work preceding each decision to invest in a store site, long-term cooperation with lessors, as well as management solutions and the sale and leaseback operating model. In cases where Kesko is the property developer, the aim is that the space solutions and use of the store site can be changed flexibly as necessary. The needs of multichannel business operations are taken into account when new premises are designed and existing premises are modernised. Flexibility and continuity are ensured with extension options included in lease agreements.

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 could result in negative publicity for Kesko and cause operational and financial damage. Challenges in Kesko's corporate responsibility work include communicating responsibility principles to customers and ensuring responsibility in the supply chain of products.

The K Code of Conduct has been implemented among the whole personnel and partners. Kesko's responsible purchasing is guided by ethical purchasing principles, the compliance with which is ensured by continuous training of purchasing personnel. Responsibility in purchasing is also maintained by ensuring the existence and timeliness of suppliers' product safety systems and self-control plans. The SpeakUp reporting channel, intended for reporting suspected criminal offences or misconduct related to Kesko's operations, is in use in all Kesko operating countries.

Climate change

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

Kesko aims to reach carbon neutrality in K Group by 2025 and to cut emissions from own operations and transports down to zero by 2030. One key action on the road to zero emissions is to increase the share of electricity and heat produced with renewable energy. K Group is also encouraging its suppliers, the whole supply chain, and customers to take action to reduce emissions. Kesko aims to have reduction targets set for two-thirds of its direct supplier emissions by 2025.

Reporting to market

In its investor communication and financial reporting, Kesko follows the disclosure policy approved by Kesko's Board of Directors. Kesko's objective is to produce and publish reliable and timely information. Disclosure follows the principle of providing all market participants information in a timely manner and non-selectively to form the basis for the price formation of Kesko's financial instruments such as shares. 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 dependency on information systems create challenges for the accuracy of financial information.

The risk is mitigated with efficient internal control, careful process scheduling and instructions and by ensuring the right resources, explicit responsibilities and sufficient competencies.

Risks of damage

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

Financial consequences of damage are insured against in accordance with the principles confirmed by Kesko's Board of Directors. Kesko Group has international insurance schemes that cover, for example, property damage, business interruption losses and liability damage. The Group's risk management has centralised control over the implementation of the Group's insurance schemes.

Proposal for profit distribution

The Board of Directors of Kesko Corporation proposes to the Annual General Meeting to be held on 12 April 2021 that a dividend of €0.75 per share be paid for the year 2020 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, €0.38 per share, is to be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the first dividend instalment payment record date 14 April 2021. The Board proposes that the first dividend instalment pay date be 21 April 2021.

The second instalment, €0.37 per share, is to be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the second dividend instalment payment record date 1 October 2021. The Board proposes that the second dividend instalment pay date be 8 October 2021. The Board proposes that it be authorised to decide, if necessary, on a new dividend payment record date and pay date for the second instalment if the rules and statutes of the Finnish book-entry system change or otherwise so require.

As at the date of the proposal for the distribution of profit, 2 February 2021, 396,739,146 shares were held outside the Company, and the corresponding total amount of dividends is €297,554,359.50.

The distributable assets of Kesko Corporation total €1,436,295,866.09, of which profit for the financial year is €234,293,405.12.

Annual general meeting

The Board of Directors has decided that the Annual General Meeting will be held on 12 April 2021 at 1.00 pm (EET).

Group's key performance indicators

		Group	Continuing operations			
				IFRS 16 applied		
		2016	2017	2018	2019	2020
Income statement						
Net sales	€ million	10,180.4	10,491.8	10,382.8	10,720.3	10,669.2
Change in net sales	%	17.3	3.1	-1.0	3.3	-0.5
Change in net sales, comparable	%	1.6	1.9	3.5	1.4	3.6
Operating profit, comparable	€ million	272.9	296.2	428.5	461.6	567.8
Operating profit as percentage of net sales, comparable	%	2.7	2.8	4.1	4.3	5.3
Operating profit	€ million	146.8	338.6	404.3	447.8	600.2
Operating profit as percentage of net sales	%	1.4	3.2	3.9	4.2	5.6
Profit for the year (incl. non-controlling interests)	€ million	113.8	284.5	232.4	333.6	435.3
Profit for the year as percentage of net sales	%	1.1	2.7	2.2	3.1	4.1
Profitability						
Return on equity, group	%	5.2	12.3	8.7	16.6	20.1
Return on equity, comparable, group	%	9.8	10.9	12.5	15.1	17.8
Return on capital employed	%	6.4	15.2	9.2	9.3	12.7
Return on capital employed, comparable	%	11.9	13.3	9.8	9.6	12.0

		Group	Continuing operations			
				IFRS 16 applied		
		2016	2017	2018	2019	2020
Funding and financial position						
Interest-bearing net debt, group	€ million	123.3	135.9	2,450.7	2,868.4	2,310.3
Interest-bearing net debt excluding lease liabilities	€ million	123.3	135.9	161.6	446.1	285.3
Gearing, group	%	5.8	6.1	121.3	134.0	105.5
Equity ratio, group	%	48.6	50.4	31.9	31.2	33.1
Interest-bearing net debt/ EBITDA excluding the impact of IFRS 16, group		0.4	0.3	0.4	0.9	0.4
Other performance indicators						
Capital expenditure	€ million	743.1	333.5	417.6	686.1	398.4
Capital expenditure as percentage of net sales	%	7.3	3.2	4.0	6.4	3.7
Cash flow from operating activities	€ million	170.2	291.8	748.3	893.1	1,152.4
Cash flow from investing activities	€ million	-501.1	-71.5	-373.3	-620.3	-413.7
Cash flow from operating activities, discontinued operations	€ million	-	9.9	-23.3	3.5	-
Cash flow from investing activities, discontinued operations	€ million	-	-16.8	164.3	3.5	-
Personnel, average for the period, group total		22,475	22,077	19,995	20,852	17,629
Personnel, as at 31 Dec., group total		27,656	24,984	23,458	25,168	17,650

		2016	2017	2018 (IFRS 16 applied)	2019 (IFRS 16 applied)	2020 (IFRS 16 applied)
Share performance indicators						
Earnings/share, basic and diluted**						
Continuing operations	€	-	0.69	0.54	0.83	1.09
Discontinued operations	€	-	-0.04	-0.14	0.03	-
Group total	€	0.25	0.65	0.40	0.86	1.09
Earnings/share, comparable, basic**						
Continuing operations	€	-	0.57	0.61	0.74	0.97
Group total	€	0.50	-	-	-	-
Equity/share**	€	5.11	5.36	4.83	5.11	5.52
Dividend/share*	€	0.50	0.55	0.59	0.63	0.75
Payout ratio	%	201.3	84.9	145.2	74.8	69.8
Payout ratio, comparable	%	99.5	96.6	95.8	80.3	77.4
Cash flow from operating activities/share, adjusted, group total**	€	0.43	0.76	1.83	2.26	2.91
Cash flow from operating activities/share, adjusted, continuing operations**	€	-	-	1.89	2.25	2.91
Price/earnings ratio (P/E), A share, adjusted		44.14	17.01	27.05	17.44	18.62
Price/earnings ratio (P/E), B share, adjusted		47.80	17.45	29.22	18.71	19.59
Effective dividend yield, A share	%	4.6	5.0	5.4	4.3	3.8
Effective dividend yield, B share	%	4.2	4.9	5.0	4.0	3.6

		2016	2017	2018 (IFRS 16 applied)	2019 (IFRS 16 applied)	2020 (IFRS 16 applied)
Share price as at 31 Dec.						
A share**	€	10.96	11.03	10.90	14.70	20.00
B share**	€	11.87	11.31	11.78	15.77	21.04
Average share price						
A share**	€	9.33	10.91	11.80	12.31	16.62
B share**	€	9.76	11.13	12.17	13.57	17.72
Market capitalisation as at 31 Dec., A share	€ million	987.7	1,399.6	1,383.7	1,866.1	2,539.0
Market capitalisation as at 31 Dec., B share	€ million	2,181.9	3,064.3	3,169.0	4,248.5	5,676.4
Turnover						
A share	Million pcs	2	1	1	7	11***
B share	Million pcs	52	49	52	46	249***
Relative turnover rate						
A share	%	5.4	4.0	4.6	21.1	8.2
B share	%	74.3	70.9	75.9	67.5	91.2
Diluted average number of shares**	Thousand pcs	396,995	397,705	396,728	396,296	396,661

* Proposal to the General Meeting
**Kesko Corporations 's Annual General Meeting on 28 April 2020 decided on a share issue without payment (share split) in which three (3) new A shares were issued for each existing A share, and three (3) new B shares for each existing B share. The share-specific indicators have been calculated using the post-share split number of shares. Share-specific indicators for the comparison periods have been adjusted to correspond to the post-share split number of shares.
*** Calculated with post-split number of shares

Net sales by segment

€ million	1–12/2020	1–12/2019	Change, %
Grocery trade, Finland	5,732.0	5,531.2	3.6
Grocery trade, total	**5,732.0**	**5,531.2**	**3.6**
- of which intersegment trade	15.3	10.2	51.0
Building and technical trade, Finland	2,102.7	1,992.8	5.5
Building and technical trade, other countries*	1,536.8	1,480.0	3.8
Building and technical trade, total	**3,639.5**	**3,472.8**	**4.8**
- of which intersegment trade	-0.7	-0.6	15.7
Car trade, Finland	892.6	863.9	3.3
Car trade, total	**892.6**	**863.9**	**3.3**
- of which intersegment trade	6.7	3.4	95.8
Common functions and eliminations	-21.4	-5.9	(..)
Finland, total	**8,705.8**	**8,382.0**	**3.9**
Other countries, total*	**1,536.8**	**1,480.0**	**3.8**
Segment information, total	**10,242.6**	**9,862.0**	**3.9**
Impact of change in Kesko Senukai's consolidation method**	426.6	858.3	-50.3
Reported continuing operations	**10,669.2**	**10,720.3**	**-0.5**

(..) Change over 100%
*Net sales in countries other than Finland
** Kesko Senukai's net sales, net of Group company net sales from sales of products and services to Kesko Senukai, have been consolidated in the consolidated income statement. The sum is not presented in the segment reporting as net sales due to a different accounting policy.

Operating profit by segment

€ million	1–12/2020	1–12/2019	Change
Grocery trade	373.7	334.6	39.1
Building and technical trade	177.7	100.7	77.0
Car trade	23.3	25.5	-2.2
Common functions and eliminations	-34.8	-39.9	5.1
Segment information, total	**540.0**	**421.0**	**119.0**
Impact of change in Kesko Senukai's consolidation method*	60.2	26.9	33.4
Reported continuing operations	**600.2**	**447.8**	**152.4**

* 100% of the operating profit reported by Kesko Senukai in 1-12/2019 and 1-6/2020 and the realised profit of €46.1 million from the change in consolidation method in 7-12/2020 are consolidated in the operating profit in the consolidated income statement. In segment reporting, the share of joint venture's net profit equivalent to ownership interest has been consolidated in the 1-12/2019 and 1-6/2020 operating profit.

Comparable operating profit by segment

€ million	1–12/2020	1–12/2019	Change
Grocery trade	375.2	327.9	47.3
Building and technical trade	187.7	115.9	71.9
Car trade	23.4	26.8	-3.3
Common functions and eliminations	-32.7	-35.9	3.2
Segment information, total	**553.6**	**434.7**	**118.9**
Impact of change in Kesko Senukai's consolidation method*	14.1	26.9	-12.8
Reported continuing operations	**567.8**	**461.6**	**106.2**

* 100% of the operating profit reported by Kesko Senukai in 1-12/2019 and 1-6/2020 has been consolidated in the operating profit in the consolidated income statement. In segment reporting, the share of joint venture's net profit equivalent to ownership interest has been consolidated in the 1-12/2019 and 1-6/2020 operating profit.

Comparable operating margin by segment, %

	1–12/2020	1–12/2019	Change, pp
Grocery trade	6.5	5.9	0.6
Building and technical trade	5.2	3.3	1.8
Car trade	2.6	3.1	-0.5
Segment information, total	**5.4**	**4.4**	**1.0**
Impact of change in Kesko Senukai's consolidation method*	0.1	0.1	0.0
Reported continuing operations	**5.3**	**4.3**	**1.0**

* The difference between the operating margin in segment reporting and the operating margin calculated based on the consolidated income statement

Comparable return on capital employed by segment, %

€ million	1–12/2020	1–12/2019	Change, pp
Grocery trade	16.9	14.5	2.4
Building and technical trade	11.2	7.4	3.8
Car trade	6.3	9.5	-3.3
Continuing operations, total	**12.0**	**9.6**	**2.4**

Capital expenditure by segment

€ million	1–12/2020	1–12/2019	Change
Grocery trade	125.4	180.4	-55.3
Building and technical trade	186.3	332.7	-146.5
Car trade	64.7	131.3	-66.6
Common functions and eliminations	22.0	41.3	-19.3
Continuing operations, total	**398.4**	**686.1**	**-287.7**

Group's performance indicators by quarter

	1–3/2019	4–6/2019	7–9/2019	10–12/2019	1–3/2020	4–6/2020	7–9/2020	10–12/2020
Net sales, continuing operations, € million	2,400.8	2,781.4	2,803.9	2,734.2	2,540.4	2,814.5	2,651.9	2,662.3
Change in net sales, continuing operations, %	-0.5	4.1	6.1	3.0	5.8	1.2	-5.4	-2.6
Change in net sales, comparable, continuing operations, %	-0.6	2.1	2.9	0.9	4.0	2.2	4.6	4.5
EBITDA, comparable, € million	173.4	242.2	275.4	258.0	190.5	281.8	299.4	285.6
Operating profit, continuing operations, € million	51.6	119.9	148.6	127.8	65.9	154.1	224.6	155.6
Operating profit, comparable, continuing operations, € million	57.5	122.5	152.0	129.7	65.1	155.2	181.8	165.6
Operating margin, comparable, continuing operations, %	2.4	4.4	5.4	4.7	2.6	5.5	6.9	6.2
Finance income/costs, continuing operations, € million	-23.7	-23.1	-23.3	-21.3	-32.3	-20.4	-19.1	-15.0
Interest expense for lease liabilities, € million	-24.6	-24.2	-23.1	-23.5	-23.1	-22.4	-19.0	-18.8
Profit before tax, continuing operations, € million	28.8	114.1	154.8	105.7	33.1	136.2	220.0	138.4
Profit before tax, continuing operations, %	1.2	4.1	5.5	3.9	1.3	4.8	8.3	5.2
Return on capital employed, continuing operations, %	4.6	10.3	12.0	10.1	5.3	12.8	19.9	13.7
Return on capital employed, comparable, continuing operations, %	5.1	10.5	12.3	10.2	5.2	12.9	16.1	14.6
Return on equity, %	4.3	20.3	25.7	17.7	5.0	20.8	37.9	21.5
Return on equity, comparable, %	5.4	17.7	20.7	17.8	4.8	20.5	26.5	23.4
Cash flow from operating activities/share, continuing operations, €	0.40	0.68	0.48	0.69	0.34	1.06	0.72	0.78
Equity ratio, %	31.8	27.9	29.6	31.2	30.0	27.4	30.8	33.1
Capital expenditure, continuing operations, € million	97.3	373.4	132.2	83.3	99.0	69.1	174.8	55.5
Earnings/share, basic and diluted, €								
Continuing operations	0.07	0.22	0.32	0.22	0.09	0.24	0.48	0.29
Discontinued operations	0.00	0.03	0.00	0.01	-	-	-	-
Group total	0.07	0.24	0.31	0.23	0.09	0.24	0.48	0.29
Earnings/share, basic and diluted, comparable €								
Continuing operations	0.08	0.18	0.25	0.23	0.08	0.24	0.33	0.31
Equity/share, €	4.95	4.61	4.92	5.11	5.02	4.68	5.15	5.52

Net sales by segment

€ million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020	7-9/2020	10-12/2020
Grocery trade	1,263.9	1,408.6	1,402.7	1,456.0	1,321.5	1,431.1	1,462.1	1,517.2
Building and technical trade	767.3	933.2	945.1	827.2	816.3	954.4	951.2	917.6
Car trade	200.5	211.9	222.9	228.5	222.6	192.0	244.3	233.6
Common functions and eliminations	-1.2	-1.0	-1.8	-1.9	-4.8	-4.8	-5.7	-6.1
Segment information, total	**2,230.6**	**2,552.7**	**2,568.9**	**2,509.8**	**2,355.6**	**2,572.7**	**2,651.9**	**2,662.3**
Impact of change in Kesko Senukai's consolidation method*	170.3	228.7	235.0	224.4	184.8	241.9	-	-
Reported continuing operations	**2,400.8**	**2,781.4**	**2,803.9**	**2,734.2**	**2,540.4**	**2,814.5**	**2,651.9**	**2,662.3**

* Kesko Senukai's net sales, net of Group company net sales from sales of products and services to Kesko Senukai, have been consolidated in the consolidated income statement. The sum is not presented in the segment reporting as net sales due to a different accounting policy.

Operating profit by segment

€ million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020	7-9/2020	10-12/2020
Grocery trade	56.8	85.6	93.7	98.5	59.8	82.3	108.6	123.0
Building and technical trade	-3.9	35.4	49.4	19.7	13.0	63.3	69.0	32.4
Car trade	7.6	4.9	4.9	8.0	6.1	3.8	7.3	6.2
Common functions and eliminations	-10.7	-14.3	-7.8	-7.1	-13.5	-8.9	-8.0	-4.4
Segment information, total	**49.9**	**111.6**	**140.3**	**119.1**	**65.5**	**140.4**	**176.9**	**157.2**
Impact of change in Kesko Senukai's consolidation method*	1.7	8.3	8.3	8.6	0.5	13.7	47.7	-1.6
Reported continuing operations	**51.6**	**119.9**	**148.6**	**127.8**	**65.9**	**154.1**	**224.6**	**155.6**

* 100% of the operating profit reported by Kesko Senukai in 1-12/2019 and 1-6/2020 and the realised profit of €46.1 million from the change in consolidation method in 7-12/2020 are consolidated in the operating profit in the consolidated income statement. In segment reporting, the share of joint venture's net profit equivalent to ownership interest has been consolidated in the 1-12/2019 and 1-6/2020 operating profit.

Items in operating profit affecting comparability

€ million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020	7-9/2020	10-12/2020
Grocery trade	0.0	6.6	0.3	-0.2	-0.5	-0.7	-0.1	-0.2
Building and technical trade	-5.4	-4.7	-2.5	-2.6	6.5	-0.4	-4.1	-11.9
Car trade	-0.1	-0.1	-0.1	-1.0	-	-	-0.1	-
Common functions and eliminations	-0.4	-4.3	-1.0	1.8	-5.1	0.0	-0.6	3.6
Segment information, total	**-5.8**	**-2.6**	**-3.4**	**-1.9**	**0.8**	**-1.1**	**-4.9**	**-8.4**
Impact of change in Kesko Senukai's consolidation method	-	-	-0.1	-	-	-	47.7	-1.6
Reported continuing operations	**-5.8**	**-2.6**	**-3.5**	**-1.9**	**0.8**	**-1.1**	**42.8**	**-10.1**

Comparable operating profit by segment

€ million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020	7-9/2020	10-12/2020
Grocery trade	56.8	79.0	93.5	98.6	60.4	83.0	108.7	123.2
Building and technical trade	1.5	40.1	51.9	22.3	6.5	63.7	73.2	44.3
Car trade	7.7	5.0	5.0	9.0	6.1	3.8	7.4	6.2
Common functions and eliminations	-10.3	-10.0	-6.7	-8.9	-8.4	-8.9	-7.4	-8.0
Segment information, total	**55.7**	**114.2**	**143.7**	**121.1**	**64.6**	**141.5**	**181.8**	**165.6**
Impact of change in Kesko Senukai's consolidation method*	1.7	8.3	8.3	8.6	0.5	13.7	-	-
Reported continuing operations	**57.5**	**122.5**	**152.0**	**129.7**	**65.1**	**155.2**	**181.8**	**165.6**

* 100% of the comparable operating profit reported by Kesko Senukai in 1-12/2019 and 1-6/2020 has been consolidated in the comparable operating profit calculated based on the operating profit in the the consolidated income statement. In segment reporting, the share of joint venture's net profit equivalent to ownership interest has been consolidated in the 1-12/2019 and 1-6/2020 comparable operating profit.

Comparable operating margin by segment, %

€ million	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-3/2020	4-6/2020	7-9/2020	10-12/2020
Grocery trade	4.5	5.6	6.7	6.8	4.6	5.8	7.4	8.1
Building and technical trade	0.2	4.3	5.5	2.7	0.8	6.7	7.7	4.8
Car trade	3.8	2.4	2.3	3.9	2.7	2.0	3.0	2.6
Segment information, total	**2.5**	**4.5**	**5.6**	**4.8**	**2.7**	**5.5**	**6.9**	**6.2**
Impact of change in Kesko Senukai's consolidation method*	-0.1	-0.1	-0.2	-0.1	-0.2	-0.0	-	-
Reported continuing operations	**2.4**	**4.4**	**5.4**	**4.7**	**2.6**	**5.5**	**6.9**	**6.2**

* The difference between the operating margin in segment reporting and the operating margin calculated based on the consolidated income statement.

Calculation of performance indicators

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

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

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

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

Profitability

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

Funding, capital expenditure and financial position

Equity ratio, %	Shareholders' equity x 100 / (Balance sheet total − Advances received)
Gearing, %	Interest-bearing net debt x 100 / Shareholders' equity
Interest-bearing net debt	Interest-bearing liabilities + Lease liabilities – Financial assets at fair value through profit or loss – Available-for-sale financial assets - Cash and cash equivalents
Interest-bearing net debt excluding lease liabilities	Interest-bearing net debt – Lease Liabilities
Capital expenditure	Investments in property, plant and equipment, intangible assets, subsidiary shares, shares in associates and joint ventures and other shares
Interest-bearing net debt / EBITDA excluding the impact of IFRS 16	Interest-bearing net debt excluding lease liabilities / EBITDA excluding the impact of IFRS 16

Share performance indicators

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

Reconciliation of performance indicators to IFRS financial statements

€ million	1–12/2020	1–12/2019
Continuing operations		
Items affecting comparability		
Gains on disposal	9.8	4.6
Losses on disposal	-0.2	-0.9
Structural arrangements	22.8	-17.5
Items in operating profit affecting comparability	**32.4**	**-13.8**
Items in financial items affecting comparability	13.4	46.3
Items in income taxes affecting comparability	4.1	0.4
Total items affecting comparability	**49.9**	**32.9**
Items in EBITDA affecting comparability	**39.1**	**-14.5**
Operating profit, comparable		
Operating profit	600.2	447.8
Net of		
Items in operating profit affecting comparability	32.4	-13.8
Operating profit, comparable	**567.8**	**461.6**
EBITDA		
Operating profit	600.2	447.8
Plus		
Depreciation and impairment charges	170.2	161.5
Depreciation and impairment charges for right-of-use assets	325.8	325.0
EBITDA	**1,096.2**	**934.4**
EBITDA, comparable		
EBITDA	1,096.2	934.4
Net of		
Items in EBITDA affecting comparability	39.1	-14.5
EBITDA, comparable	**1,057.1**	**948.9**

€ million	1–12/2020	1–12/2019
Profit before tax, comparable		
Profit before tax	527.6	403.3
Net of		
Items in operating profit affecting comparability	32.4	-13.8
Items in financial items affecting comparability	13.4	46.3
Profit before tax, comparable	**481.9**	**370.7**
Net profit, comparable		
Comparable profit before tax	481.9	370.7
Net of		
Income tax	92.3	69.6
Items in income taxes affecting comparability	4.1	0.4
Net profit, comparable	**385.5**	**300.7**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	385.5	300.7
Net profit attributable to non-controlling interests	2.0	6.0
Net profit attributable to owners of the parent, comparable	**383.5**	**294.7**
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	383.5	294.7
Average number of shares, basic, 1,000 pcs	396,661	396,296
Earnings/share, comparable, €	**0.97**	**0.74**
Return on capital employed, %		
Operating profit	600.2	447.8
Capital employed, average	4,718.5	4,803.3
Return on capital employed, %	**12.7**	**9.3**

€ million	1–12/2020	1–12/2019
Return on capital employed, comparable, %		
Operating profit, comparable	567.8	461.6
Capital employed, average	4,718.5	4,803.3
Return on capital employed, comparable, %	**12.0**	**9.6**
Group		
Return on equity, %		
Net profit	435.3	345.2
Equity, average	2,165.0	2,080.9
Return on equity, %	**20.1**	**16.6**
Return on equity, comparable, %		
Net profit, comparable	385.5	313.2
Equity, average	2,165.0	2,080.9
Return on equity, comparable, %	**17.8**	**15.1**
Equity ratio, %		
Shareholders' equity	2,189.3	2,140.8
Total assets	6,641.9	6,899.3
Advances received	32.8	34.6
Equity ratio, %	**33.1**	**31.2**

Reconciliation of performance indicators to IFRS financial statements by quarter

€ million	1–3/2019	4–6/2019	7–9/2019	10–12/2019	1–3/2020	4–6/2020	7–9/2020	10–12/2020
Continuing operations								
Items affecting comparability								
Gains on disposal	0.0	1.0	0.4	3.3	6.4	-	-	3.5
Losses on disposal	-0.0	-	-	-0.9	-0.0	-	-0.1	-0.1
Impairment charges	-	-	0.0	-	-	-	-	-
Structural arrangements	-5.8	-3.5	-3.8	-4.3	-5.5	-1.1	42.8	-13.5
Items in operating profit affecting comparability	**-5.8**	**-2.6**	**-3.5**	**-1.9**	**0.8**	**-1.1**	**42.8**	**-10.1**
Items in financial items affecting comparability	-	17.4	29.0	-0.1	-0.4	2.1	13.6	-1.9
Items in income taxes affecting comparability	0.1	-1.5	0.5	1.3	1.1	0.2	0.9	2.0
Total items affecting comparability	**-5.8**	**13.4**	**26.0**	**-0.7**	**1.5**	**1.2**	**57.2**	**-10.0**
Items in EBITDA affecting comparability	**-5.6**	**-5.4**	**-2.0**	**-1.5**	**0.2**	**-1.1**	**44.8**	**-4.8**
Operating profit, comparable								
Operating profit	51.6	119.9	148.6	127.8	65.9	154.1	224.6	155.6
Net of								
Items in operating profit affecting comparability	-5.8	-2.6	-3.5	-1.9	0.8	-1.1	42.8	-10.1
Operating profit, comparable	**57.5**	**122.5**	**152.0**	**129.7**	**65.1**	**155.2**	**181.8**	**165.6**
EBITDA								
Operating profit	51.6	119.9	148.6	127.8	65.9	154.1	224.6	155.6
Plus								
Depreciation and impairment charges	35.3	41.1	41.7	43.4	40.9	43.8	41.7	43.8
Depreciation and impairment charges for right-of-use assets	80.8	75.8	83.1	85.4	83.9	82.7	77.8	81.4
EBITDA	**167.8**	**236.8**	**273.3**	**256.5**	**190.7**	**280.6**	**344.2**	**280.7**
EBITDA, comparable								
EBITDA	167.8	236.8	273.3	256.5	190.7	280.6	344.2	280.7
Net of								
Items in EBITDA affecting comparability	-5.6	-5.4	-2.0	-1.5	0.2	-1.1	44.8	-4.8
EBITDA, comparable	**173.4**	**242.2**	**275.4**	**258.0**	**190.5**	**281.8**	**299.4**	**285.6**

€ million	1–3/2019	4–6/2019	7–9/2019	10–12/2019	1–3/2020	4–6/2020	7–9/2020	10–12/2020
Profit before tax, comparable								
Profit before tax	28.8	114.1	154.8	105.7	33.1	136.2	220.0	138.4
Net of								
Items in operating profit affecting comparability	-5.8	-2.6	-3.5	-1.9	0.8	-1.1	42.8	-10.1
Items in financial items affecting comparability	-	17.4	29.0	-0.1	-0.4	2.1	13.6	-1.9
Profit before tax, comparable	**34.6**	**99.2**	**129.3**	**107.7**	**32.7**	**135.2**	**163.6**	**150.4**
Net profit, comparable								
Profit before tax, comparable	34.6	99.2	129.3	107.7	32.7	135.2	163.6	150.4
Net of								
Income tax	6.1	23.3	25.3	14.9	6.4	31.0	30.2	24.7
Items in income taxes affecting comparability	0.1	-1.5	0.5	1.3	1.1	0.2	0.9	2.0
Net profit, comparable	**28.4**	**77.3**	**103.5**	**91.4**	**25.2**	**104.1**	**132.6**	**123.6**
Net profit attributable to owners of the parent, comparable								
Net profit, comparable	28.4	77.3	103.5	91.4	25.2	104.1	132.6	123.6
Net of								
Net profit attributable to non-controlling interests	-4.7	5.2	3.7	1.8	-8.0	9.9	-	-
Net profit attributable to owners of the parent, comparable	**33.2**	**72.1**	**99.8**	**89.7**	**33.1**	**94.2**	**132.6**	**123.6**
Earnings/share, comparable, €								
Net profit attributable to owners of the parent, comparable	33.2	72.1	99.8	89.7	33.1	94.2	132.6	123.6
Average number of shares, basic, 1,000 pcs	396,108	396,236	396,277	396,296	396,432	396,583	396,635	396,661
Earnings/share, comparable, €	**0.08**	**0.18**	**0.25**	**0.23**	**0.08**	**0.24**	**0.33**	**0.31**
Return on capital employed, %								
Operating profit	51.6	119.9	148.6	127.8	65.9	154.1	224.6	155.6
Capital employed, average	4,537.4	4,673.8	4,956.6	5,064.1	5,015.1	4,810.5	4,521.0	4,552.4
Return on capital employed, %	**4.6**	**10.3**	**12.0**	**10.1**	**5.3**	**12.8**	**19.9**	**13.7**
Return on capital employed, comparable, %								
Operating profit, comparable	57.5	122.5	152.0	129.7	65.1	155.2	181.8	165.6
Capital employed, average	4,537.4	4,673.8	4,956.6	5,064.1	5,015.1	4,810.5	4,521.0	4,552.4
Return on capital employed, comparable, %	**5.1**	**10.5**	**12.3**	**10.2**	**5.2**	**12.9**	**16.1**	**14.6**

€ million	1–3/2019	4–6/2019	7–9/2019	10–12/2019	1–3/2020	4–6/2020	7–9/2020	10–12/2020
Group								
Return on equity, %								
Net profit	22.2	101.7	128.6	92.8	26.6	105.3	189.8	113.6
Equity, average	2,042.7	2,000.3	1,997.6	2,099.8	2,115.4	2,027.7	2,003.6	2,115.6
Return on equity, %	**4.3**	**20.3**	**25.7**	**17.7**	**5.0**	**20.8**	**37.9**	**21.5**
Return on equity, comparable, %								
Net profit, comparable	27.6	88.6	103.5	93.5	25.2	104.1	132.6	123.6
Equity, average	2,042.7	2,000.3	1,997.6	2,099.8	2,115.4	2,027.7	2,003.6	2,115.6
Return on equity, comparable, %	**5.4**	**17.7**	**20.7**	**17.8**	**4.8**	**20.5**	**26.5**	**23.4**
Equity ratio, %								
Shareholders' equity	2,064.4	1,936.3	2,058.8	2,140.8	2,090.0	1,965.3	2,042.0	2,189.3
Total assets	6,523.8	6,985.0	6,987.9	6,899.3	6,987.8	7,199.2	6,653.7	6,641.9
Advances received	35.4	37.0	24.4	34.6	28.5	29.3	21.9	32.8
Equity ratio, %	**31.8**	**27.9**	**29.6**	**31.2**	**30.0**	**27.4**	**30.8**	**33.1**

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2020

All shares	Number of shares, pcs	Percentage of all shares, %
Nominee-registered and non-Finnish holders	148,520,801	37.12
Households	94,784,874	23.69
Non-financial corporations and housing corporations	94,506,752	23.62
General government*	29,239,849	7.31
Non-profit institutions serving households**	21,158,564	5.29
Financial and insurance corporations	11,868,168	2.97
Total	**400,079,008**	**100.00**

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	74,592,047	58.76	18.64
Households	23,160,087	18.24	5.79
General government*	15,946,564	12.56	3.99
Non-profit institutions serving households**	9,392,019	7.40	2.35
Nominee-registered and non-Finnish holders	2,715,723	2.14	0.68
Financial and insurance corporations	1,141,588	0.90	0.29
Total	**126,948,028**	**100.00**	**31.73**

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Nominee-registered and non-Finnish holders	145,805,078	53.38	36.44
Households	71,624,787	26.22	17.90
Non-financial corporations and housing corporations	19,914,705	7.29	4.98
General government*	13,293,285	4.87	3.32
Non-profit institutions serving households**	11,766,545	4.31	2.94
Financial and insurance corporations	10,726,580	3.93	2.68
Total	**273,130,980**	**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. 2020

All shares Number of shares	Number of shareholders, pcs	Percentage of shareholders, %	Share total, pcs	Percentage of shares, %
1–100	16,843	29.48	705,708	0.18
101–500	15,936	27.89	4,402,528	1.10
501–1,000	7,190	12.58	5,408,675	1.35
1,001–5,000	11,985	20.98	28,587,750	7.15
5,001–10,000	2,473	4.33	17,601,378	4.40
10,001–50,000	2,233	3.91	45,900,958	11.47
50,001–100,000	252	0.44	17,641,492	4.41
100,001–500,000	178	0.31	35,164,735	8.79
500,001–	42	0.07	244,665,784	61.15
Total	**57,132**	**100.00**	**400,079,008**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A shareholders, %	A share total, pcs	Percentage of A shares, %
1–100	5,776	40.82	213,874	0.17
101–500	3,211	22.69	859,422	0.68
501–1,000	1,121	7.92	839,272	0.66
1,001–5,000	2,229	15.75	6,208,527	4.89
5,001–10,000	683	4.83	4,961,881	3.91
10,001–50,000	889	6.28	18,758,636	14.78
50,001–100,000	128	0.90	9,159,453	7.22
100,001–500,000	100	0.71	19,405,081	15.29
500,001–	14	0.10	66,541,882	52.42
Total	**14,151**	**100.00**	**126,948,028**	**100.00**

B shares Number of shares	Number of shareholders, pcs	Percentage of B shareholders, %	B share total, pcs	Percentage of B shares, %
1–100	12,157	26.22	530,783	0.19
101–500	13,709	29.57	3,830,026	1.40
501–1,000	6,496	14.01	4,898,950	1.79
1,001–5,000	10,417	22.47	23,892,173	8.75
5,001–10,000	1,950	4.21	13,842,738	5.07
10,001–50,000	1,397	3.01	27,464,920	10.06
50,001–100,000	128	0.28	8,601,129	3.15
100,001–500,000	87	0.19	17,504,209	6.41
500,001–	23	0.05	172,566,052	63.18
Total	**46,364**	**100.00**	**273,130,980**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2020

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	20,136,381	5.03	201,363,810	13.05
2.	Ilmarinen Mutual Pension Insurance Company	16,175,084	4.04	159,500840	10.34
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Varma Mutual Pension Insurance Company	5,073,944	1.27	5,073,944	0.33
5.	Foundation for Vocational Training in the Retail Trade	5,061,123	1.27	50,611,230	3.28
6.	Elo Mutual Pension Insurance	4,204,628	1.05	4,384,628	0.28
7.	The State Pension Fund	2,660,000	0.67	2,660,000	0.17
8.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
9.	K-Food Retailers' Club	2,224,955	0.56	22,249,550	1.44
10.	Food Paradise Oy	2,064,164	0.52	20,641,640	1.34

Does not contain shares held by Kesko Corporation, amounting to 3,339,862 on 31 Dec. 2020.

10 largest shareholders by number of votes as at 31 Dec. 2020

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	20,136,381	5.03	201,363,810	13.05
2.	Ilmarinen Mutual Pension Insurance Company	16,175,084	4.04	159,500,840	10.34
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Foundation for Vocational Training in the Retail Trade	5,061,123	1.27	50,611,230	3.28
5.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
6.	K-Food Retailers' Club	2,224,955	0.56	22,249,550	1.44
7.	Food Paradise Oy	2,064,164	0.52	20,641,640	1.34
8.	OP-Finland mutual fund	2,030,000	0.51	9,168,458	0.59
9.	T.A.T. Invest Oy	792,080	0.20	7,726,400	0.50
10.	Pokela Oy Iso Omena	745,600	0.19	7,456,000	0.48

Management's shareholdings

At the end of December 2020, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 1,277,056 Kesko Corporation A shares and 315,530 Kesko Corporation B shares, i.e. a total of 1,592,586 shares, which represents 0.40% of the total number of shares and 0.85 % of votes carried by all shares of the Company.

At 31 December 2020, the President and CEO held 269,844 Kesko Corporation B shares, which represented 0.07% of the total number of shares and 0.02% of votes carried by all shares of the Company. At 31 December 2020, the Group Management Board including the President and CEO held 324 Kesko Corporation A shares and 774,528 Kesko Corporation B shares, which represented 0.19% of the total number of shares and 0.05% of votes carried by all shares of the Company.

FINANCIAL STATEMENTS

2020

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2020	%	1 Jan.–31 Dec. 2019	%
Continuing operations					
Net sales	2.1	**10,669.2**	100.0	**10,720.3**	100.0
Material and services	2.3	-9,148.3	-85.7	-9,238.4	-86.2
Change in inventory		-6.9	-0.1	47.9	0.4
Other operating income	2.4	930.9	8.7	823.1	7.7
Employee benefit expenses	2.5	-750.7	-7.0	-775.4	-7.2
Depreciation, amortisation and impairment charges	3.2,3.3	-170.2	-1.6	-161.5	-1.5
Depreciation, amortisation and impairment charges for right-of-use assets	3.4	-325.8	-3.1	-325.0	-3.0
Other operating expenses	2.5	-605.5	-5.7	-643.0	-6.0
Share of result of joint ventures		7.5	0.1	-	-
Operating profit		**600.2**	5.6	**447.8**	4.2
Interest income and other finance income	4.4	11.7	0.1	14.0	0.1
Interest expense and other finance costs	4.4	-10.5	-0.1	-9.1	-0.1
Interest expense for lease liabilities	4.4	-83.3	-0.8	-95.4	-0.9
Foreign exchange differences	4.4	-4.7	0.0	-0.8	0.0
Total finance income and costs	4.4	-86.8	-0.8	-91.4	-0.9
Share of result of associates		14.3	0.1	46.8	0.4
Profit before tax		**527.6**	4.9	**403.3**	3.8
Income tax	2.7	-92.3	-0.9	-69.6	-0.6
Net profit for the year, continuing operations		**435.3**	**4.1**	**333.6**	**3.1**
Discontinued operations					
Net profit for the year from discontinued operations		-		11.6	0.1
Net profit for the year		**435.3**	**4.1**	**345.2**	**3.2**
Net profit for the year attributable to					
Owners of the parent		433.4		339.2	
Non-controlling interests		2.0		6.0	
Earnings per share for net profit attributable to owners of the parent					
Basic and diluted, continuing operations, €	2.8	1.09		0.83	
Basic and diluted, discontinued operations, €	2.8	-		0.03	
Basic and diluted, Group total, €	2.8	1.09		0.86	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Net profit for the year		**435.3**	**345.2**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	2.10,3.7	0.8	-3.6
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	2.10	-2.8	3.8
Cash flow hedge revaluation	2.10	-2.7	-1.0
Others	2.10	-0.3	-0.3
Total comprehensive income for the year, net of tax		**-4.9**	**-1.2**
Total comprehensive income for the year		**430.5**	**344.1**
Comprehensive income for the year attributable to			
Owners of the parent		432.6	336.7
Non-controlling interests		-2.2	7.4

Consolidated statement of financial position

€ million	Note	31 Dec. 2020	%	31 Dec. 2019	%
ASSETS					
Non-current assets					
Property, plant and equipment	3.2	1,450.8		1,487.9	
Goodwill	3.3	572.1		479.0	
Intangible assets	3.3	205.2		205.6	
Right-of-use assets	3.4	1,819.0		2,191.3	
Shares in associates and joint ventures	3.8,5.2	199.1		57.8	
Financial assets at fair value through profit or loss	4.3,4.5	22.7		20.6	
Non-current receivables	4.3,4.5	73.8		59.9	
Deferred tax assets	2.7	1.5		7.6	
Pension assets	3.7	89.6		93.2	
Total non-current assets		**4,433.8**	**66.8**	**4,602.9**	**66.7**
Current assets					
Inventories	3.5	836.9		1,037.7	
Interest-bearing receivables	3.6,4.5	12.3		2.2	
Trade receivables	3.6,4.3,4.5	776.5		804.7	
Income tax assets	3.6	1.6		14.4	
Other non-interest-bearing receivables	3.6,4.5	265.0		206.6	
Financial assets at fair value through profit or loss	4.3,4.5	119.8		10.1	
Financial assets at amortised cost	4.3,4.5	31.7		34.5	
Cash and cash equivalents		154.5		124.4	
Total current assets		**2,198.2**	**33.1**	**2,234.5**	**32.4**
Non-current assets classified as held for sale		9.9	0.1	61.9	0.9
Total assets		**6,641.9**	**100.0**	**6,899.3**	**100.0**

€ million	Note	31 Dec. 2020	%	31 Dec. 2019	%
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	266.8		267.0	
Currency translation differences	4.2	-20.0		-21.3	
Revaluation reserve	4.2	-2.0		0.6	
Retained earnings		1,549.3		1,384.4	
		2,189.3	**33.0**	**2,025.8**	**29.4**
Non-controlling interests	5.1	-	-	**115.0**	**1.7**
Total equity		**2,189.3**	**33.0**	**2,140.8**	**31.0**
Non-current liabilities					
Interest-bearing non-current liabilities	4.3,4.5,4.6	408.7		477.3	
Lease liabilities	4.5,4.6	1,712.3		2,039.0	
Non-interest-bearing non-current liabilities	4.3,4.5	29.5		29.8	
Deferred tax liabilities	2.7	16.4		6.8	
Pension obligations		0.4		0.4	
Provisions	3.9	20.3		19.7	
Total non-current liabilities		**2,187.7**	**32.9**	**2,573.0**	**37.3**
Current liabilities					
Current interest-bearing liabilities	4.3,4.5,4.6	182.6		137.8	
Lease liabilities	4.5,4.6	312.7		383.2	
Trade payables	4.3,4.5	1,091.3		1,029.9	
Other non-interest-bearing liabilities	4.3,4.5	218.1		207.9	
Income tax liabilities	4.5	35.2		11.8	
Accrued liabilities	4.3,4.5	405.1		387.6	
Provisions	3.9	17.7		16.4	
Total current liabilities		**2,262.6**	**34.1**	**2,174.7**	**31.5**
Liabilities related to available-for-sale non-current assets		2.3	0.0	10.9	0.2
Total liabilities		**4,452.6**	**67.0**	**4,758.5**	**69.0**
Total equity and liabilities		**6,641.9**	**100.0**	**6,899.3**	**100.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Cash flows from operating activities			
Profit before tax		527.6	403.3
Adjustments			
Depreciation according to plan		170.2	161.5
Depreciation and impairment for right-of-use assets		325.8	325.0
Finance income and costs		3.5	-4.0
Interest expense for lease liabilities		83.3	95.4
Other adjustments	2.9	-54.3	0.3
		528.6	578.2
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-64.3	26.3
Inventories, increase (-)/decrease (+)		5.5	-47.8
Current non-interest-bearing liabilities, increase (+)/decrease (-)		287.9	33.1
		229.1	11.6
Interest paid and other finance costs		-7.7	-8.2
Interest paid on lease liabilities		-83.3	-95.4
Interest received		9.1	14.1
Dividends received		0.7	0.8
Dividends received from associated companies and joint ventures		2.5	83.4
Income taxes paid		-54.0	-94.7
Net cash flows from operating activities, continuing operations		**1,152.4**	**893.1**
Net cash flows from operating activities, discontinued operations		-	3.5
Net cash flows from operating activities, total		**1,152.4**	**896.6**
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.1	-155.7	-280.7
Payments for property, plant, equipment and intangible assets	2.9	-203.9	-377.6
Proceeds from sale of subsidiaries, net cash deducted		19.6	-
Impact of change in Kesko Senukai's consolidation method	3.1	-92.7	-
Proceeds from equity accounted investments		5.7	4.6
Proceeds from sale of property, plant, equipment and intangible assets		10.6	29.7
Proceeds from sale of financial assets measured at fair value		0.1	-
Non-current loan and receivables, increase (-)/decrease (+)		2.7	3.6
Net cash flows from investing activities, continuing operations		**-413.7**	**-620.3**
Net cash flows from investing activities, discontinued operations		-	3.5
Net cash flows from investing activities, total		**-413.7**	**-616.8**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	2.9	18.9	209.1
Payments for lease liabilities	2.9	-363.3	-330.9
Interest-bearing receivables, increase (-)/decrease (+)	2.9	-0.9	-0.4
Dividends paid		-249.9	-238.2
Equity increase		-	6.4
Short-term money market investments, increase (-)/decrease (+)		-107.5	64.6
Other items		-4.7	-6.2
Net cash flows from financing activities, continuing operations		**-707.5**	**-295.4**
Net cash flows from financing activities, discontinued operations		-	-
Net cash flows from financing activities, total		**-707.5**	**-295.4**
Change in cash and cash equivalents		**31.3**	**-15.6**
Cash and cash equivalents as at 1 January, continuing operations	2.9	124.4	139.2
Cash and cash equivalents as at 1 January, discontinued operations	2.9	-	0.4
Currency translation difference adjustment and change in value		-1.2	0.4
Cash and cash equivalents assets as at 31 December, Group	2.9	**154.5**	**124.4**

Consolidated statement of changes in equity

	Attributable to owners of the parent								
€ million	**Share capital**	**Reserves**	**Currency translation differences**	**Revaluation reserve**	**Treasury shares**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2020	**197.3**	**464.8**	**-21.3**	**0.6**	**-35.4**	**1,419.8**	**2,025.8**	**115.0**	**2,140.8**
Share-based payments					4.0		4.0		4.0
Dividends						-249.9	-249.9		-249.9
Increase in share capital								1.2	1.2
Disposal of subsidiaries		0.0				-21.2	-21.3	-4.1	-25.4
Change in Kesko Senukai's consolidation method		-0.1					-0.1	-109.9	-110.0
Other changes						-1.9	-1.9		-1.9
Transactions with owners, total		-0.2			4.0	-273.0	-269.2	-112.8	-382.0
Comprehensive income									
Net profit for the year, continuing operations						433.4	433.4	2.0	435.3
Actuarial gains/losses						1.0	1.0		1.0
Currency translation differences related to a foreign operation			1.3			0.1	1.4	-4.1	-2.8
Cash flow hedge revaluation				-3.3			-3.3		-3.3
Other items						-0.3	-0.3		-0.3
Tax related to other comprehensive income				0.7		-0.2	0.5		0.5
Total comprehensive income for the period			1.3	-2.7		434.0	432.6	-2.2	430.5
Balance as at 31 December 2020	**197.3**	**464.7**	**-20.0**	**-2.0**	**-31.4**	**1,580.7**	**2,189.3**	**0.0**	**2,189.3**

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

Further information on share capital and reserves is disclosed in note 4.2, on components of other comprehensive income in note 2.10 and on share-based compensation plans in note 5.4.

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

IN THIS SECTION

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

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

1.1 Basic information about the Company

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

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, Finland and its registered address is PO Box 1, FI-00016 KESKO. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, PO Box 1, Helsinki, FI-00016 KESKO, visiting address Työpajankatu 12, Helsinki, Finland and from the internet at **www.kesko.fi**.

Kesko's Board of Directors has approved these financial statements for disclosure on 2 February 2021.

Kesko is issuing an XHTML financial review complying with the ESEF requirements on a voluntary basis on Kesko's website. The Audit firm Deloitte Oy has provided to company an independent auditor's reasonable assurance report in accordance with ISAE 3000 (Revised) on Kesko's ESEF Financial Statements.

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 2020. 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.

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

1.3 Critical accounting estimates and assumptions

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

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

Measurement of assets acquired and liabilities assumed

Assets acquired and liabilities assumed in business combinations are measured at their fair values at the date of acquisition. The fair values on which the allocation of costs and liabilities is based are determined by reference to market values to the extent they are available.
If market values are not available, the measurement is based on the estimated earnings-generating capacity of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets. More detailed information in Note 3.1.

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. More detailed information in Note 3.3.

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:

- 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. More detailed information in Note 3.7.

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. More detailed information in Note 3.5.

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. More detailed information in Note 3.6.

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

Leases
When recognising leases in the balance sheet, assessments must be made concerning the lease term, use of extension options and the discount rate used. When assessing the lease term of a new lease, extension options are not acknowledged until a commitment has been made to use the extension option. The assessments may differ from the actualised future lease terms and conditions. More detailed information in Note 4.6.

1.4 Critical judgements in applying accounting policies
The Group's management uses its judgement in the adoption and application of accounting policies in the financial statements. The management has exercised its judgement in the application of accounting policies in the income statement with regard to the presentation of profits (Note 2.1), the existence of control over subsidiaries (Note 3.1), measuring receivables, determining provisions for restructuring, and measuring assets and liabilities recognised in the balance sheet based on leases (Note 4.6).

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 agreements

Joint agreements 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 agreement whereby the parties that have joint control of the agreement have rights to the net assets of the agreement. 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 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 Discontinued operations and non-current assets classified as held for sale and related liabilities

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. The Group did not have discontinued operations in the 2020 financial year.

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

IFRIC interpretations, amendments to existing standards, and new and updated standards

In May 2020, IASB published the 'Covid-19-Related Rent Concessions' amendment to 'IFRS 16 Leases'. The amendment enables an alternative treatment of rent concessions related to the Covid-19 pandemic. The lessee does not have to determine whether rent concessions are lease modifications. The Group does not apply the alternative treatment. The rent concessions received do not have a material impact.

An amendment to IFRS 3 'Business Combinations' specifies the definition of a business. The amendment did not have an impact on the 2020 financial statements.

Annual improvements or amendments to standards that become effective on 1 January 2021 or later are not estimated to have a significant impact on the consolidated financial statements.

Notes to the consolidated financial statements

2. FINANCIAL RESULTS

IN THIS SECTION

2.1 Revenue recognition

Accounting policies

In the consolidated income statement, net sales comprise the sales of goods, services and energy based on customer agreements. The share of sales of services and energy of total net sales is not significant. The Group sells products to retailers and other business customers and engages in own retailing. Income from sales of goods and services is recognised when the customer obtains control of the goods or services. Customers obtain control when they have 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 business customers are based on invoicing. Sales to consumers are mainly in cash or by credit card.

When calculating net sales, sales revenue is adjusted for indirect taxes, sales adjustment items and the exchange differences of foreign-currency-denominated sales. In businesses in Finland that are part of the K-Plussa customer loyalty scheme, sales adjustment items include loyalty award credits, 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 businesses that grant K-Plussa customer loyalty award credits in Finland and engage in retailing.

Other operating income includes income other than that associated with the sale of goods or services based on customer agreements, such as lease income, store site and chain fees charged from retailers, and various other service fees and commissions. Fees charged from retailer entrepreneurs are based on a partnership agreement (chain agreement) based on which the retailers engage in business in line with the chain's operating models and objectives. Store site fees and chain fees vary depending on the growth and profitability of the retailer's business operations under the chain agreement. Chain marketing fees and data system fees are cost-based charges.

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.

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.

2.2 Segment information

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 change in Kesko Senukai's consolidation method from a subsidiary to a joint venture as of 1 July 2020 impacted performance indicators for the building and technical trade in segment information. Due to the change, the Group changed internal reporting to its highest operative decision-maker, the Group Management Board, so that Kesko Senukai is reported in the income statement figures for the building and technical trade as if it has been consolidated on one line before operating profit in accordance with ownership interest as of 1 January 2019, as opposed to the subsidiary consolidation method used before. Such a change has not been made for internally reported balance sheet figures.

The Group Management Board uses alternative performance indicators alongside the IFRS financial statements indicators in the Group's results reporting. The Group Management Board assesses the divisions' performances based on operating profit, comparable operating profit, and comparable return on capital employed. Results reporting to management corresponds to the accounting policies of the consolidated financial statements apart from items affecting comparability and the treatment of the change in the consolidation method of Kesko Senukai, detailed above. Finance income and costs are not allocated to the divisions as the Group's cash and cash equivalents and financial liabilities are managed by the Group Treasury. Changes in the fair values of intra-Group foreign exchange forward contracts entered into and realised gains and losses are reported as part of other operating income and expenses to the extent that they hedge the divisions' foreign exchange risk.

The assets and liabilities of a division's capital employed consist of operating items that can be justifiably allocated to the divisions. The assets of capital employed comprise property, plant and equipment and intangible assets, right-of-use assets related to leases, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables, and assets held for sale. The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions. Capital employed does not include deferred tax assets and liabilities, financial assets at fair value through profit or loss with the exception of fair value of foreign exchange forward contracts recognised in the balance sheet, cash and cash equivalents, or interest-bearing liabilities.

The same revenue recognition policies apply to segment information as to the consolidated financial statements and consolidated statement of financial position. The revenue recognition policies are presented in Note 2.1.

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 and B2B trade. 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 49 % (45%) of the Group's net sales in 2020. B2B trade accounted for 33% (37%) of the Group's net sales in 2020. Kesko's own retailing accounted for 18 % (18%) of the Group's net sales. According to Kesko's management, the above depicts how economic factors impact the nature, amount, timing and uncertainties of sales gains and cash flows.

Grocery trade

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

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries and Poland. 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 and Norway. The retail store chains are K-Rauta (Finland and Sweden), K-Bygg (Sweden) and Byggmakker as well as Carlsen Fritzøe (Norway). The building and home improvement stores serve both consumers and business customers. Onninen provides HEPAC and electrical products and services to business customers in the Baltic Sea Region and Scandinavia. The group specialises in the B2B trade and has around 130 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

The specialty trade included in the building and technical trade division comprises leisure trade in Finland. The chains in the leisure trade are Intersport, Budget Sport, The Athlete's Foot and Kookenkä. As part of the strategy for the leisure trade, measures were initiated in December to discontinue The Athlete's Foot and KooKenkä chains. The machinery trade operations in the Baltics were divested during the 2020 financial year.

Car trade

The car trade comprises the business operations of K-Auto, K-Caara and AutoCarrera. The car trade imports and markets Volkswagen, Audi, Seat, Porsche and Bentley 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.

Segment information 2020

Profit, continuing operations

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Segment information total	Impact of change in Kesko Senukai's consolidation method	Total
Division net sales	5,732.0	3,639.5	892.6	0.1	10,264.2	426.7	10,690.8
of which intersegment sales	-15.3	0.7	-6.7	-0.3	-21.6	0.0	-21.6
Net sales from external customers	**5,716.6**	**3,640.3**	**885.8**	**-0.1**	**10,242.6**	**426.6**	**10,669.2**
Change in net sales in local currency excluding acquisitions and disposals, %	3.6	5.7	-3.3	(..)	3.6		3.6
Change in net sales, %	3.6	4.8	3.3	(..)	4.1		-0.5
Other division income	703.8	152.1	8.2	19.6	883.8	52.7	936.4
of which intersegment income	-1.1	-0.6	0.0	-1.7	-3.5	-1.9	-5.4
Other operating income from external customers	**702.7**	**151.5**	**8.2**	**17.9**	**880.3**	**50.7**	**930.9**
Depreciation and amortisation	-79.1	-29.7	-25.1	-31.8	-165.7	-4.5	-170.2
Depreciation and impairment charges for right-of-use assets	-203.8	-89.7	-10.1	-5.9	-309.5	-16.3	-325.8
Share of result of joint ventures		11.0			11.0	-3.5	7.5
Operating profit	**373.7**	**177.7**	**23.3**	**-34.8**	**540.0**	**60.2**	**600.2**
Items affecting comparability	-1.5	-10.0	-0.1	-2.1	-13.7	46.1	32.4
Comparable operating profit	**375.2**	**187.7**	**23.4**	**-32.7**	**553.6**	**14.1**	**567.8**
Finance income and costs							-86.8
Share of result of associates							14.3
Profit before tax							**527.6**

(..) Change over 100%

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	1,120.0	801.0	218.8	90.0	-1.6	2,228.2
Right-of-use assets	1,195.4	488.4	65.8	69.4		1,819.0
Interests in associates and joint ventures and other investments	7.7	141.9	0.0	72.8	-0.6	221.8
Pension assets	19.8	4.5		65.3		89.6
Inventories	230.4	414.2	192.2			836.9
Trade receivables	334.9	406.6	34.8	2.3	-2.0	776.5
Other non-interest-bearing receivables	97.3	167.6	10.1	26.8	-33.0	268.8
Interest-bearing receivables	0.3	8.2		75.4	0.0	83.8
Non-current assets classified as held for sale		9.4		0.5	0.0	9.9
Assets included in capital employed	**3,005.7**	**2,441.8**	**521.7**	**402.4**	**-37.2**	**6,334.3**
Unallocated items						
Deferred tax assets						1.5
Financial assets at fair value through profit or loss						119.8
Financial assets at amortised cost						31.7
Cash and cash equivalents						154.5
Total assets	**3,005.7**	**2,441.8**	**521.7**	**402.4**	**-37.2**	**6,641.9**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	544.9	515.7	17.5	14.8	-1.6	1,091.3
Other non-interest-bearing liabilities	288.4	246.5	88.8	71.6	-33.4	661.9
Provisions	2.9	4.3	30.7	0.0		37.9
Liabilities related to assets held for sale		2.3				2.3
Liabilities included in capital employed	**836.1**	**768.8**	**137.0**	**86.4**	**-35.0**	**1,793.4**
Unallocated items						
Interest-bearing liabilities						591.3
Lease liabilities						2,025.0
Other non-interest-bearing liabilities						26.4
Deferred tax liabilities						16.4
Total liabilities	**836.1**	**768.8**	**137.0**	**86.4**	**-35.0**	**4,452.6**
Total capital employed as at 31 December, continuing operations	**2,169.6**	**1,673.0**	**384.6**	**315.9**	**-2.3**	**4,540.9**
Average capital employed, continuing operations	**2,223.7**	**1,804.5**	**372.8**	**319.6**	**-2.2**	**4,718.5**
Return on capital employed, %, comparable	**16.9**	**11.2**	**6.3**			**12.0**
Number of personnel as at 31 December, continuing operations	**8,286**	**7,193**	**1,310**	**861**		**17,650**
Average number of personnel, continuing operations	**6,197**	**9,308**	**1,283**	**841**		**17,629**

Segment information 2019

Profit, continuing operations

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Segment information total	Impact of change in Kesko Senukai's consolidation method	Total
Division net sales	5,531.2	3,472.8	863.9	25.3	9,893.2	858.3	10,751.5
of which intersegment sales	-10.2	0.6	-3.4	-18.3	-31.2	0.0	-31.2
Net sales from external customers	**5,521.0**	**3,473.5**	**860.4**	**7.1**	**9,862.0**	**858.3**	**10,720.3**
Other division income	654.9	137.6	8.0	15.9	816.4	8.9	825.3
of which intersegment income	-0.9	-0.5	0.0	-0.7	-2.1	-0.1	-2.2
Other operating income from external customers	**654.0**	**137.1**	**8.0**	**15.2**	**814.3**	**8.8**	**823.1**
Depreciation and amortisation	-73.3	-28.2	-18.9	-33.0	-153.4	-8.1	-161.5
Depreciation and impairment charges for right-of-use assets	-197.2	-85.6	-7.0	-4.9	-294.7	-30.4	-325.0
Share of result of joint ventures		7.8			7.8	-7.8	0.0
Operating profit	**334.6**	**100.7**	**25.5**	**-39.9**	**421.0**	**26.9**	**447.8**
Items affecting comparability	6.7	-15.2	-1.2	-4.0	-13.7		-13.8
Comparable operating profit	**327.9**	**115.9**	**26.8**	**-35.9**	**434.7**	**26.9**	**461.6**
Finance income and costs							-91.4
Share of result of associates							46.8
Profit before tax							**403.3**

(..) Change over 100%

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	1,079.8	800.4	193.9	100.0	-1.6	2,172.6
Right-of-use assets	1,334.5	711.5	71.7	73.6		2,191.3
Interests in associates and joint ventures and other investments	7.6	9.1	0.0	62.3	-0.6	78.4
Pension assets	20.2	7.6		65.4		93.2
Inventories	216.9	597.5	223.3			1,037.7
Trade receivables	329.2	432.6	43.9	6.2	-7.2	804.7
Other non-interest-bearing receivables	53.8	132.6	15.1	34.0	-13.2	222.3
Interest-bearing receivables	1.0	1.7		58.1	0.0	60.8
Non-current assets classified as held for sale		61.5		0.5	-0.1	61.9
Assets included in capital employed	**3,043.0**	**2,754.5**	**547.9**	**400.1**	**-22.8**	**6,722.7**
Unallocated items						
Deferred tax assets						7.6
Financial assets at fair value through profit or loss						10.1
Financial assets at amortised cost						34.5
Cash and cash equivalents						124.4
Total assets	**3,043.0**	**2,754.5**	**547.9**	**400.1**	**-22.8**	**6,899.3**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	502.4	486.3	25.6	19.1	-3.5	1,029.9
Other non-interest-bearing liabilities	244.0	227.9	98.6	55.3	-16.9	608.9
Provisions	3.1	1.3	30.6	1.2		36.1
Liabilities related to assets held for sale		10.9				10.9
Liabilities included in capital employed	**749.5**	**726.3**	**154.8**	**75.6**	**-20.4**	**1,685.8**
Unallocated items						
Interest-bearing liabilities						615.1
Lease liabilities						2,422.2
Other non-interest-bearing liabilities						28.5
Deferred tax liabilities						6.8
Total liabilities	**749.5**	**726.3**	**154.8**	**75.6**	**-20.4**	**4,758.5**
Total capital employed as at 31 December	**2,293.5**	**2,028.2**	**393.1**	**324.5**	**-2.4**	**5,036.9**
Average capital employed	**2,261.8**	**1,923.8**	**280.5**	**340.6**	**-3.4**	**4,803.3**
Return on capital employed, %, comparable	**14.5**	**7.4**	**9.5**			**9.6**
Number of personnel as at 31 December	**8,086**	**14,743**	**1,337**	**1,002**		**25,168**
Average number of personnel	**6,063**	**12,630**	**1,179**	**975**		**20,846**

Alternative performance indicators in segment reporting

Kesko uses alternative performance indicators in internal reporting of business performance and profitability to the highest operational decision-making body, i.e. the Group Management Board. These indicators should be examined together with the IFRS-compliant performance indicators.

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

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability. Performance indicators reflecting comparable profit and profitability are used to improve the comparability of operational performance between periods. As items affecting comparability are identified gains and losses on the disposal of real estate, shares and business operations, impairments and significant restructurings as items affecting comparability. Gains on disposals are presented in the income statement within other operating income, and losses on disposals within other operating expenses. Impairment charges and significant profit and loss items related to changes in leases are presented in the income statement under depreciation, amortisation and impairment charges.

Alternative performance measures that have been adjusted for the impact of IFRS 16 are used to illustrate continuity in business profitability and financial position and the achievement of certain financial targets. The EBITDA excluding the impact of IFRS 16 corresponds to EBITDA before the adoption of IFRS 16, and the interest-bearing net debt excluding lease liabilities correspond to interest-bearing net debt before the adoption of the standard. These restated indicators are included as components in the Group's financial targets' performance indicators. The indicator is presented in Note 4.1 Capital management.

Items affecting comparability

€ million, continuing operations	**2020**	**2019**
Gains on disposal	9.8	4.6
Losses on disposal	-0.2	-0.9
Structural arrangements	22.8	-17.5
Items in operating profit affecting comparability, total	**32.4**	**-13.8**

The most significant items affecting comparability were the positive profit impact of €46.1 million resulting from the change in the consolidation method of Kesko Senukai; the negative €2.5 million profit impact of changes in the store site network in Sweden; the €6.4 million sales gain from the divestment of machinery trade operations in the Baltics, completed on 31 March 2020, the €5.2 million costs related to corporate restructuring, and the €10.4 million costs related to the discontinuation of The Athlete's Foot and Kookenkä chains in the leisure trade. Items related to structural arrangements are presented on the following lines in the consolidated income statement: materials and services (€-0.6 million), change in inventory (€-1.1 million), other operating income (€46.1 million), employee benefit expenses (€-5.0 million), depreciation, amortisation and impairment charges (€-0.3 million), depreciation, amortisation and impairment charges for right-of-use assets (€-6.7 million), and other operating expenses (€-9.4 million).

In 2019, the most significant items affecting comparability were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in the building and technical trade in Sweden, the €4.3 million costs related to acquisitions, and the net €+4.8 million items related to the subsidiary consolidation of Kruunuvuoren Satama Oy. Items related to structural arrangements are presented on the following lines in the consolidated income statement: materials and services (€-0.4 million), change in inventory (€-5.2 million), other operating income (€0.9 million), employee benefit expenses (€-5.5 million), depreciation, amortisation and impairment charges (€-3.6 million), depreciation, amortisation and impairment charges for right-of-use assets (€3.4 million), and other operating expenses (€-7.2 million).

Reconciliation of performance indicators to IFRS financial statements

€ million, continuing operations	2020	2019
Operating profit, comparable		
Operating profit	600.2	447.8
Net of		
Items in operating profit affecting comparability	32.4	-13.8
Operating profit, comparable	**567.8**	**461.6**
Return on capital employed, comparable, %		
Operating profit, comparable	567.8	461.6
Capital employed, average	4,718.5	4,803.3
Return on capital employed, comparable, %	**12.0**	**9.6**

Comparable change in net sales

€ million	2020	2019
Net sales, illustrative, building and technical trade	3,639.5	3,472.8
Foreign exchange effects	63.5	
Effect of acquisitions and divestments	-206.8	-166.0
Change in net sales, comparable, %	5.7	
Net sales, car trade	892.6	863.9
Effect of acquisitions and divestments*	-56.9	
Change in net sales, comparable, %	-3.3	
Net sales, illustrative, Group	10,242.6	9,862.0
Foreign exchange effects	63.5	
Effect of acquisitions and divestments	-263.6	-166.0
Change in net sales, comparable, %	3.6	

* When calculating the change in the comparable net sales for the car trade, on the line 'Effect of acquisitions and divestments' the total net sales of dealers acquired have been deducted and the net sales from car trade imports to the acquired dealers added.

Calculation of performance indicators

Operating profit, comparable

Operating profit +/– items affecting comparability

Return on capital employed, comparable, %

$$\frac{\text{Comparable operating profit x 100}}{\text{(Property, plant and equipment + Goodwill + Intangible assets + Right-of-use assets + Shares in associates and joint ventures + Financial assets at fair value through profit or loss + Non-current receivables + Pension assets + Inventories + Trade receivables + Income tax assets + Other non-interest-bearing receivables + Non-current assets classified as held for sale - Non-interest-bearing non-current liabilities - Pension obligations - Provisions - Trade payables - Other non-interest bearing liabilities - Income tax liabilities - Accrued liabilities - Liabilities related to available-for-sale non-current assets) on average for the reporting period}}$$

Geographical information, continuing operations

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland. The grocery trade operates in Finland. The building and technical trade operates in Finland, Sweden, Norway, the Baltic countries and Poland, and the car trade operates in Finland. Net sales, assets, capital expenditure and personnel are presented by location.

The change in Kesko Senukai's consolidation method from a subsidiary to a joint venture as of 1 July 2020 impacted performance indicators for the building and technical trade in segment information. Due to the change, the Group changed internal reporting to its highest operative decision-maker, the Group Management Board, so that Kesko Senukai is reported in the income statement figures for the building and technical trade as if it has been consolidated on one line before operating profit in accordance with ownership interest as of 1 January 2019, as opposed to the subsidiary consolidation method used before. Such a change has not been made for internally reported balance sheet figures.

2020 **€ million**	**Finland**	**Other Nordic countries**	**Baltic countries**	**Others**	**Eliminations**	**Segment information total**	**Impact of change in Kesko Senukai's consolidation method**	**Total, continuing operations**
Net sales	8,713.5	1,200.0	102.8	234.1	-7.9	10,242.6	426.6	10,669.2
Assets included in capital employed	4,877.8	1,140.6	195.8	120.1		-	-	6,334.3
Average number of personnel	10,339	2,560	3,908	822		-	-	17,629

2019 **€ million**	**Finland**	**Other Nordic countries**	**Baltic countries**	**Others**	**Eliminations**	**Segment information total**	**Impact of change in Kesko Senukai's consolidation method**	**Total, continuing operations**
Net sales	8,389.6	1,028.3	214.9	237.2	-8.1	9,862.0	858.3	10,720.3
Assets included in capital employed	4,962.4	839.7	706.0	214.6		-	-	6,722.7
Average number of personnel	10,194	2,192	5,094	3,365		-	-	20,845

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

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

2.3 Material and services

€ million	2020	2019
Material and services	-8,959.1	-9,052.4
External services	-189.2	-186.0
Total, continuing operations	**-9,148.3**	**-9,238.4**

2.4 Other operating income

Revenue recognition, including the definition of income reported under other operating income, is presented in Note 2.1.

€ million	2020	2019
Income from services	694.9	641.2
Lease income	41.5	43.8
Gains on disposal of property, plant, equipment and intangible assets	0.9	2.5
Gains on disposal of businesses	55.5	3.1
Realised gains on derivative contracts and changes in fair value	6.6	4.1
Others	131.7	128.4
Total, continuing operations	**930.9**	**823.1**

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

More information on lease income is provided in note 4.6.

2.5 Operating expenses

Accounting policies

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

Employee benefit expenses

€ million	2020	2019
Salaries and fees	-613.1	-633.8
Social security costs	-50.5	-52.6
Pension costs		
Defined benefit plans	-5.5	-2.9
Defined contribution plans	-72.1	-79.2
Share-based payment	-9.5	-7.0
Total, continuing operations	**-750.7**	**-775.4**

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

	2020	2019
Grocery trade	6,197	6,063
Building and technical trade	9,308	12,630
Car trade	1,283	1,179
Common functions	841	975
Total, continuing operations	**17,629**	**20,846**
Discontinued operations	-	6
Total, Group	**17,629**	**20,852**

Other operating expenses

€ million	2020	2019
Marketing costs	-207.4	-215.3
Property and store site maintenance expenses	-159.4	-159.9
ICT expenses	-97.8	-98.7
Lease expenditure	-8.2	-12.9
Losses on disposal of property, plant, equipment and intangible assets	-0.6	-1.9
Realised losses on derivative contracts and changes in fair value	-7.6	-3.4
Other operating expenses	-124.5	-150.7
Total, continuing operations	**-605.5**	**-643.0**

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

Auditors' fees

€ million	2020	2019
Audit	1.0	1.0
Tax consultation	0.0	0.1
Other services	0.0	0.6
Total	**1.0**	**1.7**

The Annual General Meeting of 28 April 2020 elected Deloitte Oy as Kesko Corporation's Auditor. In 2019, Kesko's Auditor was PricewaterhouseCoopers Oy.

2.6 Foreign exchange differences recognised in operating profit

€ million	2020	2019
Sales	-0.1	-0.2
Other income	6.6	4.1
Purchases	-0.9	0.2
Other expenses	-7.6	-3.4
Total, continuing operations	**-2.1**	**0.7**

2.7 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 and for unused tax losses. Deferred tax liability has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognised unless a distribution of earnings is probable, causing tax implications.

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

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

The Group's tax position is regularly assessed to identify situations open to interpretation. The Group prepares for situations in which it is deemed unlikely that the Group's interpretation will be approved in the calculation of income tax. An uncertain tax position may affect taxes or deferred taxes for the financial year or both.

€ million	2020	2019
Current tax	-80.8	-77.4
Tax for prior years	-3.7	-0.4
Deferred tax	-7.8	8.1
Total, continuing operations	**-92.3**	**-69.6**

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

€ million	2020	2019
Profit before tax	527.6	403.3
Tax at parent's rate 20.0%	-105.5	-80.7
Effect of foreign subsidiaries' different tax rates	-1.1	-1.2
Effect of tax-free income	12.4	0.8
Effect of expenses not deductible for tax purposes	-1.6	-1.5
Effect of unrecognised deferred tax assets	2.6	2.9
Effect of consolidation of share of result of associates and joint ventures	4.4	9.4
Tax for prior years	-3.7	-0.4
Effect of change in tax rate	0.1	-
Others	0.2	1.1
Tax charge, continuing operations	**-92.3**	**-69.6**
Effective tax rate, continuing operations	**17.5%**	**17.3%**

The Group's effective tax rate decreased due to a positive profit impact of €46.1 million arising from the change in the consolidation method of Kesko Senukai, and by tax-exempt sales gains and share of result of associates and joint ventures totalling €21.8 million. Taxes for previous financial years include a €3.7 million residual tax related to a reassessment decision on 2013 and 2014 for Indoor Group Oy concerning the right of deduction of losses transferred in a cross-border merger, paid during the financial year.

The impact of the corporation tax rate change effective from 1 January 2021 in Sweden on taxes for the financial year 2020 was €0.1 million.

Movements in deferred tax in 2020

€ million	1 Jan. 2020	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2020
Deferred tax assets						
Leases	43.0	0.8		0.0	-2.1	41.6
Provisions	7.1	0.2		0.0	0.3	7.6
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	16.4	-12.0		0.0	-0.1	4.3
Other temporary differences	23.4	3.8	0.7	-0.6	-3.8	23.6
Total	90.0	-7.2	0.7	-0.7	-5.7	77.1
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	40.1	3.3			0.5	43.9
Fair value allocation	24.0	-1.1		-0.6	3.1	25.4
Defined benefit pension plans	18.6	-1.2	0.2			17.6
Other temporary differences	6.4	-0.4	0.1	-0.1	-1.0	5.1
Total	89.1	0.7	0.3	-0.7	2.6	92.0
Net deferred tax asset (+)/ liability (-)	0.8					-14.9

Balance sheet division of net deferred tax asset

€ million	2020	2019
Deferred tax assets	1.5	7.6
Deferred tax liabilities	16.4	6.8
Total	**-14.9**	**0.8**

Other temporary differences within deferred tax assets include €15.3 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Movements in deferred tax in 2019

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

Tax loss carry-forwards

As at 31 December 2020, the Group had €209.2 million losses from foreign operations 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	2021	2022	2023	2024	2025	2026-	Total
						209.0	209.0

2.8 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.

Kesko Corporations 's Annual General Meeting on 28 April 2020 decided on a share issue without payment (share split) in which three (3) new A shares were issued for each existing A share, and three (3) new B shares for each existing B share. The share-specific indicators have been calculated using the post-share split number of shares. Share-specific indicators for the comparison periods have been adjusted to correspond to the post-share split number of shares.

	2020	2019
Net profit for the period attributable to equity holders of the parent, € million	433.4	339.2
Number of shares		
Weighted average number of shares outstanding	396,661,394	396,296,140
Diluted weighted average number of shares outstanding	396,661,394	396,296,140
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, continuing operations, €	1.09	0.83
Basic and diluted, discontinued operations, €	-	0.03
Basic and diluted, Group total, €	1.09	0.86

2.9 Notes related to the statement of cash flows

Capital expenditure and non-cash financing activities

€ million	2020	2019
Total acquisitions of property, plant, equipment and intangible assets	222.8	399.7
Total acquisitions of subsidiaries and investments in associates and other investments	175.7	286.4
Total capital expenditure	**398.4**	**686.1**
of which cash payments	378.4	599.8
Loans relating to acquired companies and cash and cash equivalents	15.9	83.5
Payments arising from prior period investing activities	-11.5	-12.4
Capital expenditure financed with liabilities	15.7	15.3
Total, continuing operations	**398.4**	**686.1**

The acquisition of the store property of K-Citymarket in Järvenpää, previously leased by Kesko, is reported under cash flow from financing activities in the statement of cash flows.

Adjustments to cash flows from operating activities

€ million	2020	2019
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	2.0	-6.8
Share of results of associates and joint ventures	-21.9	-46.8
Impairments	-	0.0
Credit losses	6.1	3.6
Gains on disposal of property, plant, equipment and intangible assets and business operations	-50.1	-0.7
Losses on disposal of property, plant, equipment and intangible assets and business operations	0.6	1.9
Share-based compensation	-3.4	-2.9
Defined benefit pensions	4.8	50.1
Others	7.7	2.0
Total, continuing operations	**-54.3**	**0.3**

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

Cash flow from leases

€ million	2020	2019
Interest expense for lease liabilities	-83.3	-95.4
Decrease in lease liabilities	-363.3	-328.3
Rent in income statement	-8.2	-12.9
Total	**-454.8**	**-436.6**

Information on leases is presented in Note 4.6, and information on right-of-use assets related to leases in Note 3.4.

Cash and cash equivalents

€ million	2020	2019
Financial assets at amortised cost (maturing in less than 3 months), continuing operations	4.5	2.0
Financial assets at amortised cost (maturing in less than 3 months), discontinued operations	-	-
Cash and cash equivalents, continuing operations	150.0	122.4
Cash and cash equivalents, discontinued operations	-	0.0
Total	**154.5**	**124.4**

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

Reconciliation of cash and debt

€ million	2020	2019
Financial assets at amortised cost (maturing in less than 3 months)	4.5	2.0
Cash and cash equivalents	150.0	122.4
Borrowings - repayable within one year (including overdraft)	-182.6	-137.8
Lease liabilities - repayable within one year	-312.7	-383.2
Borrowings - repayable after one year	-408.7	-477.3
Lease liabilities - repayable after one year	-1,712.3	-2,039.0
Cash and debt, net	**-2,461.9**	**-2,913.0**

€ million	2020	2019
Cash and cash equivalents and financial assets at amortised cost (maturing in less than 3 months)	154.5	124.4
Gross debt - fixed interest rates	-142.1	-162.5
Gross debt - variable interest rates	-449.3	-452.6
Lease liabilities	-2,025.0	-2,422.2
Cash and debt, net	**-2,461.9**	**-2,913.0**

€ million	Other assets		Finance-related debt				
	Cash and overdraft	Financial assets at amortised cost	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
Cash and debt, net as at 1 Jan. 2020	122.4	2.0	-383.2	-2,039.0	-137.8	-477.3	-2913.0
Cash flows	125.2	2.5	363.3		-49.2	33.6	475.3
Acquisitions of subsidiaries	1.0		-9.4	-86.5	-0.1	-0.1	-95.0
Sale of subsidiaries	-5.0		1.6	2.3			-1.1
Impact of change in Kesko Senukai's consolidation method	-92.9		26.6	288.7	4.0	34.1	260.6
Net changes of lease liabilities			-312.8	119.0			-193.9
Foreign exchange adjustments	-0.7		1.2	3.1	0.5	0.9	5.1
Cash and debt, net as at 31 Dec. 2020	**150.0**	**4.5**	**-312.7**	**-1,712.3**	**-182.6**	**-408.7**	**-2,461.9**

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

2.10 Components of other comprehensive income

€ million	2020 Before tax	Tax charge/ credit	After tax	2019 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	1.0	-0.2	0.8	-4.5	0.9	-3.6
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-2.8		-2.8	3.8		3.8
Cash flow hedge revaluation	-3.3	0.7	-2.7	-1.3	0.3	-1.0
Others	-0.3		-0.3	-0.3		-0.3
Total, continuing operations	**-5.3**	**0.5**	**-4.9**	**-2.3**	**1.2**	**-1.2**
Discontinued operations	-		-	0.0		0.0
Group total	**-5.3**	**0.5**	**-4.9**	**-2.3**	**1.2**	**-1.2**

Notes to the consolidated financial statements

3. CAPITAL EMPLOYED

IN THIS SECTION

3.1. Business acquisitions, disposals of assets, and non-current assets classified as held for sale and related liabilities

Acquisitions in 2020

Carlsen Fritzøe Handel AS

Kesko's subsidiary Byggmakker Handel AS acquired the entire capital stock of the Norwegian building and home improvement trade company Carlsen Fritzøe Handel AS on 1 September 2020. The preliminary consideration paid was €127.6 million, and the amount of cash and cash equivalents obtained was €0.1 million. The amount of consideration paid will be specified during 2021. Carlsen Fritzøe Handel AS recorded net sales of some €201 million in 2019. The acquisition strengthens Kesko's position in the Oslo fjord region, where the Carlsen Fritzøe Handel network of 25 stores complements Kesko's existing Byggmakker store network.

On 1 October 2020, Kesko's subsidiary Byggmakker Nord AS acquired the entire capital stock of both Reidar Flokkmanns Eftf AS, which is part of the Norwegian Byggmakker chain, and the store property Arn Eiendom AS (together 'Flokkmann). The preliminary consideration paid was €10.4 million, and the amount of cash and cash equivalents obtained was €0.8 million. The amount of consideration paid will be specified during 2021.

According to a preliminary acquisition cost calculation concerning Carlsen Fritzøe Handel AS, assets acquired for Kesko Group amounted to €156.2 million and liabilities assumed to €129.2 million. The fair value of the intangible assets acquired (including customer relationships and trademark) at the date of acquisition totalled €8.8 million. The €103.7 million goodwill arising from the acquisition reflects the synergies expected to be achieved in sales, purchasing, selections, logistics and operational efficiency. The goodwill is not tax deductible. The Group income statement includes €1.3 million in acquisition-related costs under "Other operating expenses", presented as items affecting comparability. According to a preliminary acquisition cost calculation for Flokkmann, assets acquired for Kesko Group amounted to €7.7 million and liabilities assumed to €2.1 million. The Group income statement includes minor acquisition-related costs for Flokkmann under "Other operating expenses", presented as items affecting comparability.

Carlsen Fritzøe Handel AS had a €77.9 million impact on net sales for September-December. The impact on the profit for September-December was €5.0 million. If the acquisition had taken place on 1 January 2020, according to management estimates, the impact on Group net sales would have been approximately €226.9 million. The impact on profit would have been €15.1 million. In determining the net sales and 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 2020. Flokkmann's impact on Group net sales and profit was minor.

Mark & Infra i Sverige AB Bygg & Interiör

Kesko's Swedish subsidiary Fresks Försäjlning AB acquired the Bygg & Interiör building and home improvement trade stores for professional builders in Sweden on 1 September 2020. On 1 April 2020, Kesko's Swedish subsidiary Kesko AB acquired the Swedish Mark & Infra i Sverige AB (MIAB), a company specialising in the sales of water and sewage products. The combined consideration paid for the acquisitions completed in Sweden was €21.6 million, and the amount of cash and cash equivalents obtained was €0.1 million.

According to preliminary acquisition cost calculations concerning Bygg & Interiör and Mark & Infra, assets acquired for Kesko Group amounted to €16.8 million and liabilities assumed to €10.2 million. The goodwill is not tax deductible. The Group income statement includes minor acquisition-related costs under "Other operating expenses", presented as items affecting comparability. The impact of the acquired businesses on the Group's net sales and operating profit was minor.

The acquisitions completed in Sweden complement Kesko's K-Bygg chain for professional builders in the Mälaren Valley region as well as Onninen's technical wholesale offering for Infra customers in Sweden.

The following 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.

2020 € million	Carlsen Fritzøe Handel AS and Flokkmann	Mark & Infra i Sverige AB and Bygg & Interiör
Debt-free acquisition price	141.4	22.5
Fair values of assets acquired and liabilities assumed at the date of acquisition		
Intangible assets	8.8	2.0
Property, plant, equipment, right-of-use assets and investments	96.7	3.6
Inventories	25.2	4.3
Receivables	31.4	6.9
Deferred tax asset	0.8	
Cash and cash equivalents	0.9	0.1
Total assets	**163.9**	**16.8**
Trade payables, other payables, provisions, lease liabilities	129.2	9.4
Deferred tax liability	2.0	0.8
Total liabilities	**131.3**	**10.2**
Net assets acquired, total	**32.6**	**6.6**
Goodwill	**108.8**	**16.0**
Cash flow impact of acquisition		
Consideration paid	-138.1	-21.6
Cash and cash equivalents acquired	0.9	0.1
Unpaid share	0.0	2.8
Cash flow impact of acquisition	**-137.2**	**-18.7**

Change in Kesko Senukai's consolidation method in the 2020 consolidated financial statements

During the financial year, Kesko announced that it had initiated a strategic review concerning the business operations in the Baltics and Belarus. Kesko also stated that it was examining conditions for the subsidiary consolidation of the company UAB Kesko Senukai Lithuania in Kesko's consolidated financial statements due to significant disagreements concerning the management of and exercise of control over Kesko Senukai.

Kesko's management exercised its judgement in reassessing control over and conditions for subsidiary consolidation of Kesko Senukai under IFRS 10. In 2020, the company's shareholders had significant differences of opinion regarding the management and development of the company and exercise of control over it. According to Kesko's management's assessment, the company is no longer managed in accordance with the shareholders' agreement and previously established practices. Work on Kesko Senukai's Board has become difficult and has been fully prevented in some areas. Kesko's ability to obtain information on the company has been significantly restricted. According to the management assessment, Kesko no longer exercises the type of control referred to in IFRS 10 over Kesko Senukai. According to the management estimate, the loss of control was not due to any individual event, but was affected by the changes in circumstances and actions by minority shareholders referred to above. Kesko has detailed the litigation related to these actions in Note 5.5 of the consolidated financial statements.

Due to the loss of control, Kesko decided to classify Kesko Senukai as a joint venture as of 1 July 2020. None of the shareholders exercise control over Kesko Senukai. Instead, the shareholders exercise joint control based on a contractual arrangement, as defined in IFRS 11.5. As a joint venture, Kesko Senukai's shareholders are entitled to its net assets, and the shareholders' liability for the company's obligations is limited to the amount of equity invested.

As a result of the change in classification, the assets, liabilities, share of non-controlling interests, and accumulated currency translation differences were no longer recognised in the consolidated statement of financial position, and the share of joint ventures was recognised at fair value on the balance sheet. Consequently, a profit of €46.1 million was recognised under "Other operating income" on the consolidated income statement, which arose when the share of joint venture related to Kesko Senukai was valued at fair value. A negative item of €92.7 million was recognised under "Cash flows from investing activities" in the consolidated statement of cash flows, corresponding to the amount of Kesko Senukai's cash and cash equivalents on the balance sheet on 30 June 2020 before the end of subsidiary consolidation. The €109.9 million non-controlling interest in Kesko Senukai, included in equity in the consolidated statement of financial position, is no longer recognised in the consolidated statement of financial position.

The fair value of the share of joint venture has been determined using discounted cash flow method. Cash flows have been determined using country-specific projections on developments in construction, consumer demand, GDP and inflation. In the DCF model the compound annual growth rate for the forecast period is 3.7% and the EBITDA ratio range (excluding IFRS 16 impact) is 3.7-4.4%. Cash flows have been discounted using the weighted average cost of capital of Kesko Senukai's operating countries, which was 10.3%. The discount rate has been determined taking into account the weak liquidity of the unlisted shareholding by raising the discount rate. Due to the differences of opinion regarding the management and development of the joint venture, the forecast periods contain the assumption that Kesko Senukai cannot be managed optimally. This may lead to a lower valuation (minority discount).

Due to the change in classification, from 1 July 2020 onwards Kesko Senukai is consolidated as a joint venture on one line "Share of result of joint ventures" before operating profit in Kesko's consolidated income statement, instead of the previous line-by-line subsidiary consolidation. In the consolidated statement of financial position, the change means that the share of Kesko Senukai's net assets is presented on one line "Shares in associates and joint ventures" instead of the previous line-by-line consolidation of assets and liabilities.

Calculation of impacts of the change in Kesko Senukai's classification, € million	**1 Jul. 2020**
Kesko Senukai's net assets in the consolidated statement of financial position	-184.9
Carrying amount of non-controlling interests	109.9
Fair value of ownership interest in joint venture	127.7
Translation differences in comprehensive income	-6.7
Profit recognised in income statement for measurement at fair value	**46.1**

Kesko Senukai's assets and liabilities included in the consolidated statement of financial position, € million	**30 Jun. 2020**
Assets	
Property, plant and equipment	88.4
Right-of-use assets	298.5
Intangible assets	38.3
Deferred tax assets and other long-term receivables	6.3
Total	431.4
Inventories	198.7
Non-interest-bearing receivables	54.5
Other interest-bearing receivables	0.6
Cash and cash equivalents	92.7
Total	346.5
Total assets	**777.9**
Non-current interest-bearing liabilities	54.8
Lease liabilities	289.7
Deferred tax liabilities	0.1
Total	344.5
Current interest-bearing liabilities	10.8
Lease liabilities	26.7
Non-interest-bearing liabilities	211.0
Total	248.5
Total liabilities	**593.1**
Net assets	**184.9**

Disposals of assets in 2020

On 31 March 2020, Kesko sold its remaining stake in its Baltic machinery trade subsidiaries in the building and technical trade division to the Danish Agro Group company DA Agravis Machinery Holding A/S.

Impact of the divestment of Baltic machinery trade operations, € million	31 Mar. 2020
Konekesko Baltics' net assets in the consolidated statement of financial position	-39.2
Carrying amount of non-controlling interests	4.1
Transaction price	41.6
Translation differences in comprehensive income	-0.2
Profit recognised in income statement for the disposal	**6.4**

Baltic machnicery trade assets and liabilities included in the consolidated statement of financial position, € million	31 Mar. 2020
Property, plant and equipment	3.2
Right-of-use assets	3.3
Intangible assets	0.0
Inventories	58.3
Trade receivables and other non-interest-bearing receivables	8.2
Interest-bearing receivables	7.8
Cash and cash equivalents	5.0
Assets, total	**85.7**
Trade payables and other non-interest-bearing current liabilities	29.6
Lease liabilities	3.9
Other interest-bearing liabilities	11.9
Provisions	1.2
Liabilities, total	**46.6**
Net assets	**39.2**

Of the total transaction price, €20.4 million was paid during the 2020 financial year. As for cash flow, cash and cash equivalents and interest-bearing receivables from Kesko at the date of disposal are deducted from the selling price and interest-bearing liabilities to Kesko added, arriving at a cash flow impact of €19.6 million.

Non-current assets classified as held for sale and related liabilities

Liabilities related to available-for-sale non-current assets, € million	2020	2019
Intangible assets	0.2	0.0
Property, plant and equipment	1.2	3.5
Right-of-use assets	-	3.6
Inventories	6.1	48.3
Trade receivables	1.1	5.9
Other receivables	1.3	0.6
Non-current assets held for sale	**9.9**	**61.9**
Trade payables	-0.6	-6.1
Other liabilities	-1.8	-3.6
Provisions	-	-1.2
Liabilities related to assets held for sale	**-2.3**	**-10.9**

At the end of the 2020 financial year, non-current assets classified as held for sale and related liabilities mainly comprised items related to two building and home improvement stores in Finland. The building and home improvement stores are to be transferred to retailers during 2021. At the end of the 2019 financial year, non-current assets classified as held for sale and related liabilities mainly comprised items related Baltic machinery trade operations.

Acquisitions in 2019

The DIY business of the Sørbø retailer group

In January, Kesko Corporation subsidiaries Skattum Handel AS and Rake Eiendom AS acquired the DIY retail business and related properties of the Norwegian Sørbø retailer group as well as a B2B logistics centre. The acquired stores previously operated Byggmakker stores under the retailer business model. The debt-free price of the transaction, structured as a share purchase and business acquisition, totalled NOK 238.2 million (€24.2 million). The acquisitions resulted in goodwill totalling €4.6 million.The consolidated income statement includes minor acquisition-related costs under other operating expenses, presented as items affecting comparability. The impact of the acquired businesses on the Group's net sales and operating profit in 2019 February-December was minor.

Fresks Group (K-Bygg)

Kesko Group company K-rauta AB completed the acquisition of Fresks Group from Litorina, Oscarson Invest and the group's management. The debt-free price of the transaction, structured as a share purchase, was SEK 2,192.0 million (€209.8 million). The acquisition of Fresks Group significantly strengthened Kesko's market position in Sweden, especially in the growing professional builders customer segment. With the acquisition, Kesko assumed ownership of 33 stores and some 500 employees, who mainly serve small and medium-sized renovation companies. Since June 2019, Fresks Group has served customers under the K-Bygg brand.

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totalled €4.8 million. The €170.5 million goodwill arising from the acquisition reflects the synergies expected to be achieved in sales, purchasing, selections, logistics and operational efficiency. The consolidated income statement included €1.4 million in acquisition-related costs under other operating expenses, presented as items affecting comparability.

Fresks Group's impact on net sales for May-December 2019 was €132.8 million. The impact on the profit for May-December 2019 was €6.2 million. If the acquisitions had taken place on 1 January 2019, according to management estimates, the impact on Group net sales would have been approximately €199.1 million. The impact on profit would have been €6.5 million. In determining the net sales and comparable operating profit, management estimates that recorded fair values would have been the same on the date of acquisition had the acquisition taken place on 1 January 2019.

Car trade acquisitions from Huittisten Laatuauto, LänsiAuto and Laakkonen Group

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

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €0.5 million. The €23.1 million goodwill arising from the acquisitions reflects the synergies expected to be achieved in efficiency in retail and other operations. The consolidated income statement included minor acquisition-related costs under other operating expenses. The impact of the acquired businesses on the Group's net sales and operating profit in March-December 2019 was minor.

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.

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

Disposals of assets in 2019

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

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

3.2 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 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.

2020 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and construction in progress	Total 2020
Cost						
Cost as at 1 January	301.9	1,384.1	610.8	37.5	36.3	2,370.6
Exchange differences	-0.3	-3.2	-1.1	-0.4	-0.3	-5.2
Additions	9.3	62.0	100.5	0.9	16.9	189.7
Acquisitions	1.3	21.7	2.6	0.2		25.8
Deductions	-1.6	-22.8	-41.6	-0.3	-2.8	-69.0
Impact of change in Kesko Senukai's consolidation method	-13.0	-50.1	-73.6	-2.6	-1.2	-140.6
Transfers between items	4.4	19.4	6.6	0.2	-37.0	-6.4
Cost as at 31 December	302.0	1,411.0	604.2	35.7	11.9	2,364.8
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-5.0	-499.0	-358.3	-20.5		-882.8
Exchange differences		0.0	0.2	-0.1		0.2
Accumulated depreciation on deductions		20.5	26.3	0.2		47.0
Impact of change in Kesko Senukai's consolidation method		6.3	45.1	0.8		52.2
Accumulated depreciation on transfers		0.0	0.2	0.0		0.2
Depreciation and impairment charges for the year		-64.9	-63.8	-2.2		-130.9
Accumulated depreciation and impairment charges as at 31 December	-5.0	-537.1	-350.3	-21.6		-914.0
Carrying amount as at 1 January	296.9	885.0	252.5	17.0	36.3	1,487.8
Carrying amount as at 31 December	**297.0**	**873.9**	**253.9**	**14.0**	**11.9**	**1,450.8**

2019 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and construction in progress	Total 2019
Cost						
Cost as at 1 January	260.8	1,206.4	559.5	29.6	34.0	2,090.2
Exchange differences	-0.2	0.5	0.2	0.0	0.2	0.6
Additions	14.7	106.1	131.6	3.5	48.0	303.8
Acquisitions	29.1	107.1	3.8	1.4	0.0	141.4
Deductions	-3.7	-68.9	-61.2	-2.1	-0.2	-136.0
Transfers between items*	1.2	33.0	-23.1	5.2	-45.8	-29.4
Cost as at 31 December	301.9	1,384.1	610.8	37.5	36.3	2,370.6
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-6.0	-499.3	-369.4	-19.2		-893.8
Exchange differences		0.1	0.0	0.0		0.2
Accumulated depreciation on deductions	1.0	58.7	47.2	0.9		107.8
Accumulated depreciation on transfers*		0.2	23.6	-0.1		23.7
Depreciation and impairment charges for the year		-58.8	-59.7	-2.1		-120.7
Accumulated depreciation and impairment charges as at 31 December	-5.0	-499.0	-358.3	-20.5		-882.8
Carrying amount as at 1 January	254.8	707.1	190.1	10.4	34.0	1,196.4
Carrying amount as at 31 December	**296.9**	**885.0**	**252.5**	**17.0**	**36.3**	**1,487.8**

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

3.3 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. Costs for intangible assets without indefinite useful lives are recognised in the balance sheet as costs during the useful lives of the assets. 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	5-10 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.

2020 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2020
Cost					
Cost as at 1 January	530.8	94.6	246.6	13.7	885.7
Exchange differences	1.4	-1.8	-2.1		-2.5
Additions			23.1	6.3	29.4
Acquisitions	124.8	2.2	8.6		135.6
Deductions			-11.3	-0.1	-11.4
Impact of change in Kesko Senukai's consolidation method	-38.6		-16.3		-54.9
Transfers between items	-0.1		13.1	-8.0	4.9
Cost as at 31 December	618.3	95.0	261.6	11.9	986.8
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-51.7	-7.2	-142.2		-201.0
Exchange differences	-0.2	0.4	1.7		1.9
Accumulated amortisation and impairment charges on disposals			12.2		12.2
Impact of change in Kesko Senukai's consolidation method	5.7		11.0		16.7
Accumulated amortisation on transfers	0.1				0.1
Amortisation and impairment charges for the year	0.0	-0.5	-38.8		-39.3
Accumulated amortisation and impairment charges as at 31 December	-46.2	-7.2	-156.0		-209.5
Carrying amount as at 1 January	479.1	87.4	104.5	13.7	684.7
Carrying amount as at 31 December	**572.1**	**87.7**	**105.6**	**11.9**	**777.4**

2019 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2019
Cost					
Cost as at 1 January	330.4	94.3	244.0	17.9	686.6
Exchange differences	3.1	0.3	0.3	-0.1	3.6
Additions	198.1		23.8	9.1	231.1
Acquisitions			4.8		4.8
Deductions	-0.8		-34.4	-4.7	-39.9
Transfers between items			8.1	-8.6	-0.5
Cost as at 31 December	530.8	94.6	246.6	13.7	885.7
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-51.7	-7.1	-135.7		-194.5
Exchange differences	0.0	-0.1	-0.2		-0.3
Accumulated amortisation and impairment charges on disposals	0.0		34.6		34.6
Accumulated amortisation on transfers	0.0		0.0		0.0
Amortisation and impairment charges for the year	0.0		-40.9		-40.9
Accumulated amortisation and impairment charges as at 31 December	-51.7	-7.2	-142.2		-201.0
Carrying amount as at 1 January	278.7	87.2	108.3	17.9	492.1
Carrying amount as at 31 December	**479.0**	**87.4**	**104.5**	**13.7**	**684.7**

Other intangible assets include other non-current expenditure, of which €50.0 million (€66.0 million) are software and licence costs.

Goodwill and intangible rights by division

€ million	Trade-marks 2020	Goodwill 2020	Pre-tax discount rate 2020	Trade-marks 2019	Goodwill 2019	Pre-tax discount rate 2019
Grocery trade, chain operations		76.1	5.7		76.1	5.6
Grocery trade, Kespro	5.3	2.0	5.5	5.3	2.0	5.5
Building and technical trade						
Byggmakker and Carlsen Fritzøe, Norway	23.7	201.9	6.8	23.8	98.9	6.8
Onninen	58.6	66.3	7.3	58.3	55.1	7.4
Kesko Senukai, Baltics		-	-		33.0	7.6
K-Bygg, Sweden		182.7	6.7		171.0	6.7
Car trade		43.1	6.8		43.1	6.9
Total	**87.7**	**572.1**		**87.4**	**479.0**	

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

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

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

Impairment test for goodwill and intangible assets

The recoverable amount of a cash-generating unit's business is determined based on value-in-use calculations in impairment testing. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of three years. The plans are based on external sources concerning projections for total market growth, weighted with the cash-generating unit's own business' share of the market in question. Profitability trends, including changes in store site network, product and service selection, pricing and movements in operating costs, are based on management-approved plans. The average compound annual growth rate for the forecast period was 1.7-7.8% and the EBITDA ratio range 4.7-12.4%. Cash flows after the period are estimated based on a 0.5-2.0% (1.0–2.0%) growth projection, taking into account country-specific differences. The growth projection for chain operations in grocery trade in Finland for the period following the forecast period is 0.5%, while the projection for Kespro is 1.5% and for the car trade 1.5%. The projected growth for K-Bygg in Sweden and Byggmakker and Carlsen Fritzøe in Norway is 2.0%. The projected growth for Onninen, which operates in seven countries, after the forecast period is 2.0%.

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. In goodwill impairment testing, the adoption of IFRS 16 Leases in 2019 increased recoverable amounts and assets tested. Discount rates have been determined using formula inputs based on IFRS 16.

Impairment losses

There were no impairment charges recognised on goodwill or intangible rights in the financial years 2020 and 2019.

Sensitivity analysis

The key variables used in impairment testing are the growth percentage, EBITDA margin and discount rate after the forecast period. The plans are based on external sources concerning projections for total market growth, weighted with the cash-generating unit's own business' share of the market in question.

The most sensitive to movements in assumptions is the goodwill impairment test for K-Bygg. K-Bygg's net sales in 2020 totalled €228.4 million, and the comparable change in net sales (calculated in local currency and excluding the impact of acquisitions and divestments) was 9.6%. During the forecast period, the range for change in K-Bygg's net sales is 3.2-9.0%; the highest growth rate is explained by the acquisitions completed in September 2020. The growth forecast for K-Bygg's net sales for the period following the forecast period is 2%.

By the end of the forecast period, K-Bygg's EBITDA margin is expected to have grown by 0.1 percentage points from the EBITDA margin achieved in 2020. Impairment would be recognised if the post-forecast period EBITDA margin would decrease by more than 1.5 percentage points, if the post-forecast period growth percentage would be below 0.7%, or if the pre-tax discount rate was above 8.0%. In K-Bygg's impairment test, the recoverable amount exceeded the carrying amount of the assets tested by €81.5 million (31 Dec. 2019: €204.3 million).

The impairment testing sensitivity of Byggmakker's goodwill has been reduced by the increase in the share of own retailing following the acquisition of Carlsen Fritzøe, which has increased the profitability of the cash-generating unit.

During the financial year, an impairment test concerning goodwill for the car trade was conducted because due to increased economic uncertainty caused by the Covid-19 pandemic, projections for the car trade market had not materialised. According to the annual impairment testing conducted at the end of the financial year, sensitivity to movements in assumptions used in the testing had decreased, primarily due to the improved market situation in the car trade in the latter half of the financial year. According to the impairment test, the recoverable amount on 31 December 2020 exceeded the carrying amount of the assets tested by €202.8 million, versus €74.7 million in the impairment test on 30 June 2020.

With regard to the other cash generating units, according to management estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount.

3.4 Right-of-use assets

Accounting policies

The Group leases properties, machinery and equipment for use in its business operations. A right-of-use asset and lease liability corresponding to the present value of future lease payments are recognised in the balance sheet at the initiation of a lease. The right-of-use asset is remeasured with corresponding remeasurement of lease liability. The lease liability is remeasured at the effective date of lease modification, and the consequent change is recognised as an adjustment to the right-of-use asset. If the reduction in lease liability exceeds the right-of-use asset, the difference is recognised in profit or loss. Lease liabilities must be remeasured using a revised discount rate when there is a change in the lease term, the assessment of whether an option to extend or terminate the lease is exercised, or the lease payment amount, and when there is a change in the assessment of whether an option to purchase the underlying asset is exercised. Information on leases can be found in Note 4.6, and cash flows from leases are presented in Note 2.9.

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

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

2020 € million	Land and buildings	Machinery and equipment	Total
Carrying amount as at 1 January	2,170.2	21.1	2,191.3
Additions	231.4	9.2	240.6
Acquisitions	94.8		94.8
Transfers between items	1.8	0.6	2.4
Impact of change in Kesko Senukai's consolidation method	-297.7	-0.7	-298.4
Depreciation	-307.9	-8.6	-316.5
Impairment charges	-10.9		-10.9
Deductions	-81.3	-0.4	-81.8
Exchange differences	-2.3	-0.2	-2.5
Carrying amount as at 31 December	1,798.1	20.9	1,819.0

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

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	2020	2019
Goods	835.6	1,027.0
Prepayments	1.3	10.6
Total	836.9	1,037.7
Write-down of inventories to net realisable value	48.2	46.6

3.6 Trade and other current receivables

Accounting policies

Trade receivables are recognised in the amounts of initial sale. According to the IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, 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	2020	2019
Interest-bearing receivables		
Interest-bearing loans and receivables	12.3	2.2
Total interest-bearing receivables	12.3	2.2
Trade receivables	776.5	804.7
Income tax assets	1.6	14.4
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	45.6	25.6
Prepaid expenses	219.3	181.0
Total other non-interest-bearing receivables	265.0	206.6
Total	**1,055.3**	**1,027.8**

A total amount of €6.1 million (€3.6 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 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 2020, the Pension Fund had 2,269 beneficiaries, of whom 330 were active employees and 1,939 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.9% (96.6%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

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

Kesko Pension Fund did not charge contributions from its shareholders during this or the previous financial year. During the previous financial year, Kesko Pension Fund paid €48 million in total in return of surplus assets to Finnish Group companies. Kesko Group does not expect to pay contributions to the Pension Fund in 2021.

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

€ million	2020	2019
Present value of defined benefit obligation	-294.4	-284.7
Fair value of plan assets	384.0	377.8
Net assets recognised in the balance sheet	**89.6**	**93.2**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	**93.2**	**148.0**
Income/cost recognised in the income statement	-5.5	-2.9
Remeasurement	1.0	-4.5
Return of surplus assets	0.0	-48.3
Contributions to plan and plan costs	1.0	0.9
As at 31 December	**89.6**	**93.2**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2020	-284.7	377.8	93.2
Current service cost	-4.1		-4.1
Past service cost			0.0
Gains or losses on settlement	-2.1		-2.1
Interest cost/income	-2.2	2.9	0.7
	-8.5	**2.9**	**-5.5**
Remeasurement			
Return on plan assets		15.9	15.9
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	-14.9		-14.9
Experience gains/losses	0.0		0.0
	-15.0	**15.9**	**1.0**
Contributions to plan and plan costs		1.0	1.0
Return of surplus assets		0.0	0.0
Benefit payments	13.6	-13.6	0.0
As at 31 December 2020	**-294.5**	**384.0**	**89.6**

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

Plan assets were comprised as follows in 2020

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments		27.4	27.4
Debt instruments	32.0	13.5	45.5
Investment funds	81.0	11.2	92.2
Properties		117.5	117.5
United States			0.0
Equity instruments			0.0
Investment funds	79.8		79.8
Other countries			0.0
Investment funds	34.4		34.4
Total	**227.2**	**169.6**	**396.8**

Plan assets were comprised as follows in 2019

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

€ million	2020	2019
Kesko Corporation shares included in fair value	-	-
Properties leased by Kesko Group included in fair value	117.5	88.6

Principal actuarial assumptions:

	2020	2019
Discount rate	0.45%	0.79%
Salary growth rate	1.80%	1.80%
Inflation	1.30%	1.30%
Pension growth rate	1.60%	1.60%
Average service expectancy, years	7	7

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

	2020	2019
Weighted average duration of pension obligations, years	15	15
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	14.1	14.1
Between 1–10 years	109.1	110.3
Between 10–20 years	92.2	93.8
Between 20–30 years	58.7	59.6
Over 30 years	43.9	45.6
Total	**318.0**	**323.5**

Risks related to pension plan

Asset related risks

The Pension Fund's investment assets comprise properties, equity index funds, private equity funds, unlisted shares 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 2020, the realised return on investing activity was 6.4%.

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 €91.0 million as at 31 December 2020. 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
2020			
Discount rate	0.50%	-7.19%	8.15%
Salary growth rate	0.50%	1.12%	-1.07%
Pension growth rate	0.50%	6.60%	-6.00%
2019			
Discount rate	0.50%	-7.04%	7.96%
Salary growth rate	0.50%	1.15%	-1.10%
Pension growth rate	0.50%	6.40%	-5.80%

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.

3.8 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are treated as equity-accounted investments. The shares in associates and joint ventures are not quoted on the market. Associates and joint ventures are listed in Note 5.1. Related party information is presented in Note 5.3.

Significant joint ventures

The Group has a significant joint venture, UAB Kesko Senukai Lithuania. Kesko Senukai Group engages in building and home improvement trade in Lithuania, Estonia, Latvia and Belarus. The Group's parent company, UAB Kesko Senukai Lithuania, is a limited liability company registered in Lithuania. Kesko Group has a 50.0% holding in Kesko Senukai Group.

UAB KS Holding is a limited liability company registered in Lithuania that engages in real estate development and real estate rental. Its operations are closely related to the operations of Kesko Senukai Group. The real estate companies owned by KS Holding in Lithuania, Latvia and Estonia rent and build store properties primarily for the use of Kesko Senukai Group. Kesko Group's holding in KS Holding Group is 50.0%.

Kesko Senukai and KS Holding were consolidated as a subsidiary in the consolidated financial statements up until 30 June 2020; as of 1 July 2020, they have been consolidated as joint ventures. Due to the change in classification, from 1 July 2020 onwards the companies are consolidated as joint ventures on one line "Share of result of joint ventures" before operating profit in Kesko's consolidated income statement. The reclassification had a positive impact of €127.7 million on the balance sheet value of associates and joint ventures. The change in consolidation methods, the grounds for the change and the financial impacts have been detailed in Note 3.1. Kesko Senukai's subsidiary consolidation in the 2019 financial year is presented in Note 5.1.

Summary of financials of significant joint ventures, € million	2020
Current assets	342.5
Non-current assets	418.3
Current liabilities	227.7
Non-current liabilities	321.7
The above-mentioned balance sheet items contain the following items:	
Cash and cash equivalents	77.0
Current interest-bearing liabilities	49.7
Non-current interest-bearing liabilities	321.6

	1.7-31.12.2020	1.1-31.12.2020
Net sales	494.4	921.7
Net profit attributable to owners of the parent	23.7	30.7
Group share of profit for the year	11.8	-
Fair value allocation of inventories	-4.4	-
Share consolidated as a joint venture in consolidated financial statements in 1.7.-31.12.2020	7.5	-
The above-mentioned income statement items contain the following items:		
Depreciation, amortisation and impairment	-21.3	-42.2
Interest income	0.1	0.2
Interest expense	-7.3	-14.8
Income tax	-5.3	-6.6
Dividends received from Kesko Senukai during the financial year	-2.5	-2.5

Reconciliation for balance sheet value of joint ventures, € million	2020
Net assets of joint ventures	211.4
Minority interest in net assets	26.7
Group interest in net assets	92.3
Goodwill	17.7
Fair value allocations	22.7
Balance sheet value of joint ventures	132.7

Significant associates

Mercada Oy is a limited liability company registered in Finland, which operates in real estate investment. Mercada owns, manages and develops retail sites mainly used by Kesko Group in Finland and Sweden. Kesko Corporation's holding in Mercada is 33.3%. Mercada's three shareholders have equal stakes in the company.

Summary of financials of a significant associate, € million	2020	2019
Current assets	13.0	8.1
Non-current assets	554.1	586.8
Current liabilities	17.1	17.6
Non-current liabilities	521.2	547.7
Equity attributable to equity holders of the parent	28.7	29.6
Non-controlling interests	-	-
Net sales	47.9	50.1
Net profit for the year	-0.9	0.7
Parent company owners' share of comprehensive income for the year	-0.6	0.4
Comprehensive income for the year, total	-0.6	0.4

Reconciliation for balance sheet value of an associate, € million	2020	2019
Net assets of the associate	28.7	29.6
Group interest in net assets	9.6	9.9
Balance sheet value of the associate	9.6	9.9

Other associates

Summary of financials of other associates, € million	2020	2019
Group share of profit for the year	12.3	44.5
Group share of comprehensive income for the year	12.3	44.5
Balance sheet value of associates in the consolidated statement of financial position	56.8	47.8

The table depicts the associates Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy, which sell services to Kesko and retail companies of K-retailers, as well as business property companies that have leased their properties for use by Kesko Group.

The associate Valluga-Sijoitus Oy was dissolved during the financial year. In the dissolution, Kesko Corporation received shares in Vähittäiskaupan Takaus Oy and minor liquid assets as share in the distribution. The dissolution of Valluga-Sijoitus Oy resulted in a €11.6 million profit in the consolidated income statement. The dissolution had a positive impact of €13.4 million on the balance sheet value of associates and joint ventures.

Kruunuvuoren Satama Oy became a wholly-owned subsidiary of Kesko Corporation in May 2019, when Kesko Corporation, Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company dissolved their joint ownership of Kruunuvuoren Satama Oy. In November 2019, Hehku Kauppa Oy became a wholly-owned subsidiary of Kesko Corporation, when Kesko Corporation acquired Oriola Corporation's 50% stake in the company.

Mutual real estate companies

Associates that are mutual real estate companies are consolidated in the consolidated financial statements in proportion to ownership. 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 treated as common functions in proportion to ownership.

€ million	2020	2019
Non-current assets	28.9	30.8
Current assets	0.5	0.6
Non-current liabilities	0.2	1.6
Current liabilities	8.0	5.1
Net assets	21.2	24.8
Income	2.4	2.9
Costs	3.5	3.6
Net profit for the year	-1.2	-0.7

3.9 Provisions

Accounting policies

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

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

€ million	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2020	19.0	17.0	36.1
Foreign exchange effects	0.0	0.0	0.0
Additional provisions	11.7	12.1	23.9
Unused amounts reversed	-4.1	-1.5	-5.5
Amounts charged against provision	-8.7	-7.8	-16.6
Changes in the Group structure	-0.1	0.1	0.1
Provisions as at 31 Dec. 2020	17.9	20.0	37.9
Analysis of total provisions			
Non-current	8.5	11.8	20.3
Current	9.4	8.2	17.7

The biggest items in other provisions are costs related to care plans of vehicles and machines sold by Group companies, real estate costs for empty store sites, and restructuring costs. The average duration for care plans is 3-4 years.

Notes to the consolidated financial statements

4. CAPITAL STRUCTURE AND FINANCIAL RISKS

IN THIS SECTION

4.1 Capital 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.

Target levels for Kesko Group's performance indicators are approved by the Board of Directors of Kesko Corporation. As part of the Group's medium-term financial targets, on 1 December 2020, the Board approved the target level of <2.5 for interest-bearing net debt/EBITDA. As before, the indicator is calculated as interest-bearing net debt/EBITDA excluding the impact of IFRS 16. The actual interest-bearing net debt/EBITDA on 31 December 2020 was 0.4 (0.9).

€ million	2020	2019
Interest-bearing liabilities and lease liabilities in the consolidated statement of financial position	2,616.3	3,037.3
- Lease liabilities	2,025.0	2,422.2
- Current financial assets at fair value through profit or loss	119.8	10.1
- Current financial assets at amortised cost	31.7	34.5
- Cash and cash equivalents	154.5	124.4
Interest-bearing net debt excluding lease liabilities	**285.3**	**446.1**
Operating profit	600.2	446.3
+ depreciation, amortisation and impairment	170.2	160.9
+ depreciation and impairment charges for right-of-use-assets	325.8	325.0
- lease payments for right-of-use-assets	408.0	424.6
EBITDA excluding the impact of IFRS 16	**688.2**	**507.7**
Interest bearing net debt/EBITDA excluding the impact of IFRS 16	**0.4**	**0.9**

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.

The number of shares in Kesko Corporation increased during the financial year following the resolution of the 28 April 2020 Annual General Meeting to conduct a share issue without payment (share split). In the share issue without payment, new shares were issued without payment to the shareholders in proportion to their existing holdings, so that three (3) new A shares were issued for each A share held, and three (3) new B shares for each B share held. At the end of December 2020, the total number of shares in Kesko Corporation was 400,079,008, of which 126,948,028, or 31.7%, were A shares and 273,130,980 or 68.3%, were B shares. All issued shares have been paid in full. The maximum number of A shares is 250 million and the maximum number of B shares is 360 million, and the maximum number of total shares 610 million. Each A share carries ten (10) votes and each B share one (1) vote. The total number of votes attached to all shares was 1,542,611,260. At the end of December 2020, Kesko Corporation's share capital totalled €197,282,584.

Change in share numbers and equity reserves

	Number of shares						
Share capital	A	B	Total	Share capital € million	Reserve of invested non-restricted equity € million	Share premium € million	Total € million
1 January 2019	31,737,007	67,281,346*	99,018,353*	197.3	22.8	197.8	417.8
Transfer of treasury shares		70,036	70,036				
31 December 2019	31,737,007	67,351,382*	99,088,389*	197.3	22.8	197.8	417.8
Number of shares after the split	126,948,028	269,405,528	396,353,556				
Transfer of treasury shares		385,590	385,590				
31 December 2020	**126,948,028**	**269,791,118***	**396,739,146***	**197.3**	**22.8**	**197.8**	**417.8**
Number of votes	**1,269,480,280**	**269,791,118**	**1,539,271,398**				

* Excluding treasury shares, which totalled 3,339,862 (3,725,452) 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.

	pcs
B shares held by the Company as at 31 Dec. 2019	**3,725,452**
Transfer, share-based compensation plan	-389,282
Returned during the period	3,692
B shares held by the Company as at 31 Dec. 2020	**3,339,862**

Dividends

After the balance sheet date, the Board of Directors proposed the distribution of a dividend of €0.75 per share. The dividend distributed for the profit for 2019 was €2.52 per share, or €0.63 per share with the post-split number of shares.

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.

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 €244.3 million, have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves to a total amount of €242.3 million at the end of the financial year.

Currency translation differences

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

Revaluation reserve

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

4.3 Financial risks

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

Foreign exchange risks

Kesko Group conducts business operations in seven 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.

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. 2020 € million	NOK	SEK	PLN
Net investment	305.1	242.2	43.9

Group's translation exposure as at 31 Dec. 2019 € million	NOK	SEK	PLN	BYN
Net investment	194.1	195.6	44.2	10.4

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

Sensitivity analysis, impact on equity as at 31 Dec. 2020 € million	NOK	SEK	PLN
Change +10%	-27.7	-22.0	-4.0
Change -10%	33.9	26.9	4.9

Sensitivity analysis, impact on equity as at 31 Dec. 2019 € million	NOK	SEK	PLN	BYN
Change +10%	-17.6	-17.8	-4.0	-0.9
Change -10%	21.6	21.7	4.9	1.2

Transaction risks

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

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

As a rule, the Group does not apply hedge accounting in accordance with IFRS 9 to hedge the transaction risk 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.

Insofar as the Group applies hedge accounting to hedge purchases, the valuation of derivatives is recognised in the revaluation reserve of equity. When a derivative matures, it is treated similarly to the hedged item.

Hedge accounting is applied to some USD-denominated purchases. The foreign currency risk of these items is €18.7 million, and the related hedges total €14.5 million. The impact of the open exposure on equity would be €+0.4 million/€-0.5 million with a +/-10% exchange rate change. These figures are not included in the table below.

Group's transaction exposure as at 31 Dec. 2020 € million	USD	SEK	NOK	PLN
Group's transaction risk	-3.1	51.9	78.6	18.6
Hedging derivatives	29.3	-35.9	-60.2	-11.0
Open exposure	26.2	16.0	18.4	7.6

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

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The table above depicts transaction exposure excluding future cash flows. It does not depict the Group's actual foreign exchange risk after hedging. When forecast amounts are included in the transaction exposure, the most significant difference to the table is in the USD exposures. As at 31 December 2020, the exposure with respect to USD was €-15.9 million.

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. 2020 € million	USD	SEK	NOK	PLN
Change +10%	-2.4	-1.5	-1.7	-0.7
Change -10%	2.9	1.8	2.0	0.8

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

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.

Liquid assets comprise cash and cash equivalents in the balance sheet, financial assets at amortised cost, and current financial assets at fair value through profit or loss. Changes in these balance sheet items are presented in the consolidated statement of cash flows under change in cash and cash equivalents for cash and cash equivalents, and under change in short-term money market investments in cash flow from financing activities for other items.

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 in 2020 was -0.1% (2.5%) and the duration 0.6 years at the end of the financial year. The maximum credit risk is the fair value of these investments on the balance sheet at the balance sheet date.

The Group had liquid assets of €306.0 million (€169.0 million) on 31 December 2020. Interest-bearing liabilities on 31 December 2020 totalled €2,616.3 million (€3,037.3 million) of which lease liabilities accounted for €2,025.0 million (€2,422.2 million). Interest-bearing net debt totalled €2,310.3 million (€2,868.4 million), and interest-bearing net debt excluding lease liabilities totalled €285.3 million (€446.1 million).

	31 Dec. 2020				31 Dec. 2019			
€ million	**< 1 years**	**1–5 years**	**> 5 years**	**Total**	**< 1 years**	**1–5 years**	**> 5 years**	**Total**
Maturities of financial liabilities and related finance costs								
Borrowings from financial institutions	**1.8**	**300.2**	**0.1**	**302.1**	**8.3**	**327.4**	**0.2**	**335.8**
finance costs	2.1	4.2	0.0	6.3	3.3	6.3	0.0	9.6
Pension loans	**28.4**	**88.7**	**20.4**	**137.5**	**22.7**	**98.7**	**38.8**	**160.1**
finance costs	1.8	3.6	0.5	5.8	2.0	4.8	0.9	7.8
Lease liabilities	**312.7**	**1,005.1**	**707.2**	**2,025.0**	**383.3**	**1,097.3**	**941.6**	**2,422.2**
finance costs	68.0	168.4	68.7	305.1	84.7	215.9	100.8	401.3
Payables to K-retailers	**123.0**			**123.0**	**98.0**			**98.0**
finance costs								
Other interest-bearing liabilities	**29.4**	**0.0**	**0.0**	**29.4**	**12.8**	**9.0**	**0.0**	**21.8**
finance costs	0.0			0.0	0.4	0.7		1.1
Non-current non-interest-bearing liabilities	**0.8**	**5.4**	**23.3**	**29.5**	**1.0**	**3.6**	**25.2**	**29.8**
Current non-interest-bearing liabilities								
Trade payables	**1,091.3**			**1,091.3**	**1,029.9**			**1,029.9**
Accrued expenses	**405.1**			**405.1**	**387.6**			**387.6**
Other non-interest-bearing liabilities	**185.3**			**185.3**	**173.3**			**173.3**

Financial liabilities in the balance sheet include €14.9 million (€6.8 million) in items related to derivatives, of which €8.7 million will mature within the next 12 months. Lease liabilities are presented in note 4.6.

€ million	31 Dec. 2020 < 1 years	1–5 years	> 5 years	Total	31 Dec. 2019 < 1 years	1–5 years	> 5 years	Total
Cash flows of derivatives								
Payables								
Foreign currency derivatives	207.8			207.8	153.8			153.8
Interest rate derivatives	1.7	4.3	0.6	6.6	1.2	3.7	0.9	5.7
Electricity derivatives	1.0	2.0		3.0	0.0	0.1	0.0	0.1
Receivables								
Foreign currency derivatives	202.2			202.2	151.1			151.1
Interest rate derivatives	0.1	0.2		0.3	0.1	0.3		0.4
Electricity derivatives	0.1	1.4		1.5	0.6	0.2		0.9

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

During the 2019 financial year, Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million during the financial year 2019, and has the possibility to draw down more later on with a separate credit decision by the banks. Kesko also agreed on a Revolving Credit Facility of €100 million linked to the same sustainability targets, which was not in use on 31 December 2020.

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €300 million (€300 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €506 million (€506 million).

Interest rate risk on borrowings and sensitivity analysis

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

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate derivative contracts. The target duration is three years, which is allowed to vary between one and a half and four years. The actual duration during the financial year was 2.0 (2.1) years on average.

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 2020, the effect of variable rate borrowings on the pre-tax profit would have been €-/+0.3 million (€-/+1.1 million), if the interest rate level had risen or fallen by 1 percentage point.

Pension loans, €137.5 million in aggregate, have fixed rates, and their effective interest cost was 1.3%. Other borrowings from financial institutions have variable interest rates. At the end of the financial year, the average rate of these borrowings, payables to retailers, and other interest-bearing liabilities was 0.7%.

Supply chain financing scheme

The Group has established a supply chain financing scheme with three banks. Trade payables in the consolidated statement of financial position on 31 December 2020 totalled €1,091.3 million, of which €180.9 million were liabilities related to open purchase accounts covered by the schemes. In supply chain financing, the supplier utilises the buyer's credit rating when selling its receivables to a financing institution. Once the buyer approves the purchase accounts, the bank pays them to the supplier without a right of recourse, meaning the supplier has quick access to the cash flows related to trade receivables. The Group does not pay commission to the banks for the supply chain financing, and the payment terms do not materially deviate from the payment terms applied with suppliers. Open purchase accounts covered by the scheme are presented under trade payables on the Group balance sheet. The impact of these trade payables can be seen in cash flow from operating activities as change in working capital.

Financial assets and liabilities recognised at fair value

The following table analyses financial instruments carried at fair value by valuation method.

Fair value hierarchy of financial assets and liabilities	Fair value as at 31 Dec. 2020			
€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Money market funds		119.8		119.8
Private equity funds and other shares and interests			22.7	22.7
Total		**119.8**	**22.7**	**142.5**
Derivative financial instruments at fair value				
Derivative financial assets		2.0		2.0
Derivative financial liabilities		14.9		14.9

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

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	2020	2019
Private equity funds and other shares and interests as at 1 January	20.6	20.8
Purchases	0.1	0.3
Refunds received	-	-0.6
Gains and losses through profit or loss	-0.1	-1.0
Changes in fair values	2.1	1.1
Private equity funds and other shares and interests as at 31 December	**22.7**	**20.6**

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 €2.1 million has been recorded on these investments for the financial year 2020.

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	2020	2019
Carrying amount as at 1 January	34.5	59.1
Changes	-2.8	-24.6
Carrying amount as at 31 December	**31.7**	**34.5**

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

In the sensitivity analysis of floating rate receivables, average annual balances of invested assets have been used. The receivables include customer financing receivables, other interest-bearing receivables, and within investments 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 €+/-1.4 million (€+/-1.1 million).

Maturity of non-current receivables

Maturity analysis of non-current receivables as at 31 Dec. 2020 € million	2022	2023	2024	2025	2026–	Total
Non-interest-bearing non-current receivables	1.2	0.6	0.2	0.0	0.2	2.2
Loans and receivables from associates and joint ventures	3.4	3.4	3.4	3.4	58.0	71.5
Other non-current receivables	0.0	0.0	-	-	-	0.1
Total	**4.6**	**4.0**	**3.5**	**3.4**	**58.2**	**73.8**

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

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

Credit and counterparty risk

Business entities are responsible for managing the credit risk associated with amounts due from customers. Due to the Covid-19 pandemic, the Group's credit policy was tightened in March 2020 by specifying the terms and conditions of credit sale and collateral requirements and by tightening the decision-making authorisations for credit facilities. Efficiency was raised in credit control to identify customers with risk and to ensure that credit decisions are based on up-to-date information on a customer's solvency and any changes in solvency. The amount of credit losses remained moderate despite the pandemic. Increased economic uncertainty has been acknowledged in the measurement of trade receivables by increasing the amount of credit losses recognised. The Group's trade receivables are from a large number of individual customers, and balance sheet receivables do not contain significant risk concentrations. In Finland, the main part of the Group's business activities is carried out in cooperation with retailers. According to retailer agreements, retailers shall arrange overdraft facilities to be held as collateral for their trade payables by the relevant Kesko subsidiary. The seasonality of businesses impacts the amount of trade receivables in the consolidated statement of financial position.

According to the IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, the Group has classified Group companies into risk categories on the basis of their business model and realised historical credit losses. In addition, impairment is recognised, if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. As for other financial assets, the change in impairment model has not had a material impact on the consolidated financial statements. The ageing analysis of trade receivables as at 31 December is presented in the following table.

Ageing analysis of trade receivables € million	2020	2019
Trade receivables fully performing	721.7	712.1
1–7 days past due trade receivables	22.3	31.4
8–30 days past due trade receivables	13.6	30.4
31–60 days past due trade receivables	4.4	8.9
over 60 days past due trade receivables	14.5	21.8
Total	**776.5**	**804.7**

Within trade receivables, €350.2 million (€317.2 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 €309.6 million (€247.4 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 €21.5 million (€23.7 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €6.1 million (€3.6 million).

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

Financial credit risk

Financial instruments involve the risk of non-performance by counterparties. Credit risk is managed with agreements with financially sound Finnish and foreign banks, financial institutes and brokers, within the counterparty risks limits set in the treasury policy. Financial assets are also invested in money market funds and the bonds, commercial papers and certificates of deposit issued by conservatively selected companies and banks. Due to the Covid-19 pandemic, target-specific limits in line with the Group's investment policy were reduced to a minimum. The limits are reviewed regularly 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 applies hedging to 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 €2.7 million (€0.7 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-5.1 million (€-0.8 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €-7.8 million (€-1.5 million) before accounting for deferred tax.

As at the balance sheet date, a total quantity of 922,338 MWH (495,424 MWH) of electricity had been purchased with electricity derivatives and 744,744 MWH (559,027 MWH) under fixed price purchase agreements. The 1–12 month hedging level was 83% (76%), the 13–24 month level was 73% (62%), the 25–36 month level was 70% (43%), and the 37–48 month level was 35% (18%).

The sensitivity analysis of electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by -/+20% from the balance sheet date 31 December 2020, it would contribute €-/+0.7 million (€-/+1.1 million) to the 2021 income statement and €-/+3.5 million (€-/+2.2 million) to equity. The impact has been calculated before taxes.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2020 Positive fair value (balance sheet value)	31 Dec. 2020 Negative fair value (balance sheet value)	31 Dec. 2019 Positive fair value (balance sheet value)	31 Dec. 2019 Negative fair value (balance sheet value)
Interest rate derivatives	0.0	-5.8	0.2	-3.8
Foreign currency derivatives	0.5	-6.1	0.2	-2.9
Electricity derivatives	1.5	-3.0	0.9	-0.1

Notional principal amounts of derivative contracts € million	31 Dec. 2020	31 Dec. 2019
Interest rate derivatives	420.0	340.0
Foreign currency derivatives	206.2	154.4
Electricity derivatives	20.4	15.7

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €0.5 million.

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

4.4 Finance income and costs

€ million, continuing operations	2020	2019
Interest income and other finance income		
Interest income on financial assets at amortised cost	0.2	0.8
Interest income on loans and receivables	8.8	10.2
Interest income on financial assets at fair value through profit or loss	0.0	-1.0
Gains on disposal of financial assets at amortised cost	-	0.6
Gains on disposal of financial assets at fair value through profit or loss	2.1	2.7
Other finance income	0.7	0.8
Total interest income and other finance income	11.7	14.0
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-6.4	-6.0
Losses on disposal of financial assets at amortised cost	-0.1	0.0
Losses on disposal of financial assets at fair value through profit or loss	-0.3	-
Other finance costs	-3.8	-3.2
Total interest expense and other finance costs	-10.5	-9.1
Interest expense for lease liabilities	-83.3	-95.4
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-4.7	-0.8
Total exchange differences	-4.7	-0.8
Total finance income and costs	**-86.8**	**-91.4**

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

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

Regular way purchases or sales of financial assets are recognised on settlement 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 counterparties deemed creditworthy. The impairment model for expected credit losses in line with the standard requires credit losses to be recognised with a forward-looking approach. As for other financial assets, lacking historical credit losses, counterparty risk is monitored actively and credit losses are recognised if risk is observed.

Financial assets at amortised cost

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

Financial assets at fair value

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

Cash and cash equivalents

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

Financial liabilities

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

Derivative financial instruments and hedge accounting

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

When a hedging arrangement is entered into, the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedge relationship is tested regularly and the effective portion is recognised, according to the nature of the hedged item, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation reserve. The ineffective portion is recognised, according to its nature, either in financial items or other operating income and expenses.

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 2020

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Measured at fair value in comprehensive income	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial assets					
Financial assets at fair value through profit or loss	22.7			22.7	22.7
Non-current receivables		73.8		73.8	73.8
Non-current receivables contain derivatives			1.4		
Current financial assets					
Trade and other receivables		1,053.7		1,053.7	1,053.7
Other receivables contain derivatives	0.5		0.1		
Financial assets at fair value through profit or loss	119.8			119.8	119.8
Financial assets at amortised cost		31.7		31.7	31.7
Cash and cash equivalents		154.5		154.5	154.5
Total financial assets	**142.5**	**1,313.7**		**1,456.2**	**1,456.2**

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Measured at fair value in comprehensive income	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial liabilities					
Non-current interest-bearing liabilities		408.7		408.7	410.3
Non-current lease liabilities		1,712.3		1,712.3	1,712.3
Non-current non-interest-bearing liabilities		29.5		29.5	29.5
Non-current non-interest-bearing liabilities contain derivatives			1.9		
Current financial liabilities					
Current interest-bearing liabilities		182.6		182.6	182.6
Current lease liabilities		312.7		312.7	312.7
Trade payables		1,091.3		1,091.3	1,091.3
Other non-interest-bearing liabilities and accrued liabilities		623.2		623.2	623.2
Other non-interest-bearing liabilities and accrued liabilities contain derivatives	12.0		1.1		
Total financial liabilities		**4,360.3**		**4,360.3**	**4,361.9**

As at 31 December 2019

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Measured at fair value in comprehensive income	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial assets					
Financial assets at fair value through profit or loss	20.6			20.6	20.6
Non-current receivables		59.9		59.9	59.9
Non-current receivables contain derivatives			0.2		
Current financial assets					
Trade and other receivables		1,013.5		1,013.5	1,013.5
Other receivables contain derivatives	0.4		0.7		
Financial assets at fair value through profit or loss	10.1			10.1	10.1
Financial assets at amortised cost		34.5		34.5	34.5
Cash and cash equivalents		124.4		124.4	124.4
Total financial assets	**30.6**	**1,232.3**		**1,263.0**	**1,263.0**

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Measured at fair value in comprehensive income	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial liabilities					
Non-current interest-bearing liabilities		477.3		477.3	480.0
Non-current lease liabilities		2,039.0		2,039.0	2,039.0
Non-current non-interest-bearing liabilities		29.8		29.8	29.8
Current financial liabilities					
Current interest-bearing liabilities		137.8		137.8	137.8
Current lease liabilities		383.2		383.2	383.2
Trade payables		1,029.9		1,029.9	1,029.9
Other non-interest-bearing liabilities and accrued liabilities		560.9		560.9	560.9
Other non-interest-bearing liabilities and accrued liabilities contain derivatives	6.7		0.1		
Total financial liabilities		**4,657.9**		**4,657.9**	**4,660.6**

Non-current receivables from associates and joint ventures contain the shareholder loan granted to Mercada Oy and the financing loans granted to UAB Kesko Senukai.

Prepaid expenses and accrued expenses do not include income tax assets of €1.6 million (€14.4 million) or income tax liabilities of €35.2 million (€11.8 million). Prepayments received of €32.8 million (€34.6 million) are not categorised as financial liabilities and are not included in the table above.

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

4.6 Leases

Accounting policies

IFRS 16 Leases is only applied to the leases of properties, machinery and equipment. Kesko Group leases properties, machinery and equipment for use in its business operations in all of its operating countries. For most of these leases, assets and liabilities corresponding to the present value of future lease payments are recognised in the balance sheet at the commencement of the lease. The Group adopted IFRS 16 using a full retrospective method, and the impact on the date of transition 1 January 2018 has been calculated as if the standard had always been in effect. The change in right-of-use assets from leases recognised in the balance sheet is presented in Note 3.4 and cash flows related to leases in Note 2.9.

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

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

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

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

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

The right-of-use asset is remeasured with corresponding remeasurement of lease liability. The lessee depreciates the right-of-use asset from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. More information on right-of-use assets is provided in note 3.4.

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

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

Group as a lessee

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

Lease expenditure

€ million	2020	2019
Lease expenditure for short-term leases	-3.5	-8.5
Lease expenditure for low-value assets	-4.4	-4.4
Variable lease expenditure	-0.3	-0.0
Total, continuing operations	**-8.2**	**-12.9**

Right-of-use assets related to leases are presented in note 3.4.

Cash flows from lease liabilities are detailed in note 2.9, and the maturity of lease liabilities and related finance costs is detailed in note 4.3.

Lease liabilities

€ million	2020	2019
Lease liabilities for leases not recognised in the balance sheet	96.7	101.6

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

Group as a lessor

Kesko leases premises to entrepreneurs other than K-retailers to ensure that the combination of services at a store site supports Kesko's overall profit generation. Such premises typically include so-called store entrance shops at large retail outlets. The business premises owned or rented by Kesko and used by K-retailers to conduct chain operations are provided to the retailers under chain agreements, and are not treated as leases. The treatment of income based on chain agreements is detailed in Note 2.1.

Lease income

€ million	2020	2019
Lease income for operating leases	16.9	17.0
Lease income for subleases	24.5	26.8
Total, continuing operations	**41.5**	**43.8**

4.7 Contingent liabilities

€ million	2020	2019
Collateral given for own commitments		
Pledges	9.0	152.3
Mortgages	213.1	212.1
Guarantees	25.0	16.2
Other commitments and contingent liabilities	64.8	57.5
Collateral given for others		
Guarantees	-	3.2
Other commitments and contingent liabilities	-	23.5

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 4.6.

Guarantee maturities are €3.5 million in 2021 and €21.6 million in 2022–2025.

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

Notes to the consolidated financial statements

5. OTHER

IN THIS SECTION

5.1 Group composition

Group composition

Kesko Group has 92 (118) subsidiaries. The Group has the majority of voting rights in all companies. Consolidation principles are described in Note 1.5. Kesko Senukai was consolidated as a subsidiary in the consolidated financial statements up until 30 June 2020; as of 1 July 2020, it has been consolidated as a joint venture. The change in consolidation method, the grounds for the change and the financial impacts have been detailed in Note 3.1.

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

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

Toimiala	Country of incorporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2020	Number of wholly-owned subsidiaries 2019	Number of partly-owned subsidiaries 2020	Number of partly-owned subsidiaries 2019
Grocery trade	Finland	K-Market Oy	29	28	7	7
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland	Onninen Group, Byggmakker Group, Kesko AB, K-Bygg Group	47	47	-	26
Car trade	Finland	K-Auto Oy	8	8	-	-
Others	Finland		1	2	-	-

Material non-controlling interest 31.12.2019

There is a material non-controlling interest in Kesko Group company Kesko Senukai Group, which was consolidated as a subsidiary in the consolidated financial statements up until 30 June 2020. Kesko Group's holding in Kesko Senukai Group's parent UAB Kesko Senukai Lithuania is 50.0%. The company is domiciled in Vilnius, Lithuania. Kesko Senukai Group operates in Lithuania, Estonia, Latvia and Belarus. The share of non-controlling interests of the net profit of Kesko Senukai Group was €8.5 million in 2019 and in equity, the share was €105.7 million in 2019.

Summarised financial information on subsidiary with material non-controlling interest

€ million	Kesko Senukai Group 2019
Current assets	285.0
Non-current assets	390.7
Current liabilities	184.0
Non-current liabilities	309.3
Net sales	860.1
Net profit/loss	17.3
Parent company owners' share of net profit/loss	16.8
Non-controlling interests' share of net profit/loss	0.5
Comprehensive income for the period	19.3
Parent company owners' share of comprehensive income for the period	17.8
Non-controlling interests' share of comprehensive income for the period	1.6
Dividends paid to non-controlling interests	-0.4
Net cash generated from operating activities	41.9
Net cash used in investing activities	-12.2
Net cash used in financing activities	-39.7

The amounts above are before intra-Group eliminations.

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

Subsidiaries

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Barker-Littoinen Oy	Espoo	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Hehku Kauppa Oy	Espoo	100.00	100.00
Intersport Finland Oy	Helsinki	100.00	100.00
Kalatukku E. Eriksson Oy	Helsinki	100.00	100.00
K Auto Oy	Helsinki	100.00	100.00
Kenkäkesko Oy	Helsinki	100.00	100.00
Keskinäinen Kiinteistö Oy Malmin Kankirauta	Helsinki	100.00	100.00
Keskinäinen Kiinteistö Oy Voisalmentie 9 Lappeenranta	Helsinki	100.00	100.00
Kesko AB	Stockholm, Sweden	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
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 Järvenpään Helsingintie 41	Helsinki	100.00	100.00
Kiinteistö Oy Kiimingin Liiketalo 1	Oulu	100.00	100.00
Kiinteistö Oy Kittilän Valtatie 31-33	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 Pontsonkulma	Helsinki	94.6	94.6

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	100.00	100.00
Kiinteistö Oy Riistaveden Keskustie 15	Helsinki	79.50	79.50
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Klintcenter Ab	Mariehamn	100.00	100.00
K-Market Oy	Helsinki	100.00	100.00
Konekesko Oy	Helsinki	100.00	100.00
Koskelan Ostokeskus Oy	Oulu	58.64	29.32
K-Rauta Holding Finland Kaukajärvi Oy	Helsinki	100.00	100.00
Liiketalo Oy Kaijonkeskus	Oulu	100.00	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00	100.00
Onninen Oy	Helsinki	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
Reinin Liha Oy	Helsinki	100.00	100.00
Tampereen Länsikeskus Oy	Tampere	100.00	100.00
Vaajakosken Liikekeskus Oy	Jyväskylä	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Arn Eiendom AS	Vefsn, Norway	100.00	
Oy Autocarrera Ab	Helsinki	100.00	
Autocarrera Autotalot Oy	Helsinki	100.00	
Bygg & Interiör i Katrineholm AB	Katrineholm, Sweden	100.00	
Bygg & Interiör i Flen AB	Flen, Sweden	100.00	
Bygg & Interiör i Vingåker AB	Vingåker, Sweden	100.00	
Byggmakker Mosjøen AS	Vefsn, Norway	100.00	
Byggmakker Nord AS	Steinkjer, Norway	100.00	
Byggmakker Sør AS	Gjøvik, Norway	100.00	
Carlsen Fritzøe Handel AS	Sandefjord, Norway	100.00	
Fresks Försäljning AB	Östersund, Sweden	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
K Auto Leasing Oy	Helsinki	100.00	
K Bygg Östergyllen AB	Linköping, Sweden	100.00	
K Caara Oy	Helsinki	100.00	
Kesko Onninen International Trading Co., Ltd	Shanghai, China	100.00	
K rauta SIA	Riga, Latvia	100.00	
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	
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	
Marks & Infra i Sverige AB	Täby, Sweden	100.00	
Olarin Autokiinteistö Oy	Espoo	100.00	
Onninen AS	Skedsmo, Norway	100.00	
Onninen AS	Tallinn, Estonia	100.00	
Onninen LLP	Aktau, Kazakhstan	100.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
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	
Oskar Harju AB	Örnsködsvik, Sweden	100.00	
Peltosaaren Liikekeskus Oy	Riihimäki	59.67	
Profelco Oy	Vantaa	100.00	
Rake Bergen AS	Oppegård, Norway	100.00	
Sørbø AS	Skedsmokorset, Norway	100.00	
Tau & Jørpeland Eiendom	Jørpeland, Norway	100.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
Urban Strålin Byggvaror AB	Ulricehamn, Sweden	100.00	
Övik Låsteknik AB	Örnsköldsvik, Sweden	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Kesko Senukai Lithuania UAB	Vilna, Lithuania	50.00	50.00
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Mercada Oy	Helsinki	33.33	33.33
Vähittäiskaupan Takaus Oy	Helsinki	44.49	44.49
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

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	
Daugavpils project 1 SIA	Daugavpils, Latvia	50.01	
Delta turtas UAB	Vilnius, Lithuania	50.01	
Fintorus Oy	Lappeenranta	21.40	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Kesko Senukai Digital UAB	Vilna, Liettua	25.50	
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	
KS Holding UAB	Vilnius, Lithuania	50.01	
Ksenukai Digital Oü	Tallinn, Estonia	25.50	
MD Galerija Azur SIA	Riga, Latvia	50.01	
Mobilukss SIA	Riga, Latvia	25.50	
Nomine UAB	Vilnius, Lithuania	50.01	
OMA OOO	Minsk, Belarus	25.00	
Penktoji Projekto Bendrové UAB	Vilnius, Lithuania	25.50	
Proffsenteret AS	Ringerike, Norway	34.11	
Punane Project Oü	Tallinn, Estonia	50.01	
Romos Holdingas UAB	Kaunas, Lithuania	25.00	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	25.50	
SPC Holding UAB	Kaunas, Lithuania	50.00	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo	46.22	46.22
Asunto Oy Kajaanin Louhikatu 2	Kajaani	42.96	42.96
Asunto Oy Soukan Itäinentorni	Espoo	46.60	46.60
Asunto-Oy Punkalaitumen Pankkitalo	Punkalaidun	33.82	
Itäkeskuksen Pysäköintitalo Oy	Helsinki	36.16	36.16
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere	34.54	
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Lapin Tehdastalo Oy	Tampere	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Raksilan Paikoitus Oy	Oulu	33.33	33.33
Talo Oy Kalevanpuisto	Kuopio	47.60	47.60
Voisalmen Ostoskeskus Oy	Lappeenranta	50.00	

5.3 Related party transactions

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

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

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

Kesko reports Kesko Senukai Group, which is part of Kesko's building and technical trade segment and operates in the Baltic countries and Belarus, as a joint venture accounted for using the equity method as of 1 July 2020. The change in consolidation method has been detailed in Note 3.1. Transactions involving Kesko Senukai Group companies have been reported as related party transactions as of 1 July 2020.

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

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. At the end of 2020 or 2019, the pension assets did not include Kesko Corporation shares. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2020 and 2019, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement	**Associates and joint ventures**		**Board and management**		**Pension Fund**	
€ million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Sales of goods	7.1	6.2	93.0	85.0		
Sales of services	6.0	4.9	0.8	0.7	0.2	0.2
Purchases of goods	-1.1	-1.3	-7.1	-6.7		
Purchases of services	-0.1	0.0	0.0	0.0	-0.4	0.0
Other operating income	0.6	1.4	17.0	14.8		
Other operating costs	-3.8	-3.2	-0.8	-0.8	-0.2	-0.1
Finance income	6.6	5.6				

Balance sheet	**Associates and joint ventures**		**Board and management**		**Pension Fund**	
€ million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Current receivables	13.4	1.9	6.8	7.4	0.2	
Non-current receivables	71.5	57.7				
Current liabilities	4.1	4.3	2.4	2.5	13.5	7.0
Non-current liabilities	0.1		0.1			

Items related to leases	**Associates and joint ventures**		**Board and management**		**Pension Fund**	
€ million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Cash flow from leases	-35.5	-43.0	-5.5	-3.7	-7.8	-6.3
Lease liabilities	268.8	298.5	23.4	27.6	55.1	43.6

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €6.8 million (€7.4 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 €8.8 million (€6.5 million).

Non-current receivables from associates and joint ventures contain the shareholder loan granted to Mercada Oy and the financing loans granted to UAB Kesko Senukai and UAB KS Holding. Current receivables contain €11.5 million of the current portion of these loans. Other current liabilities include, for example, chain rebate payables to companies controlled by the Kesko Board members. Chain rebates are paid retrospectively based on criteria related to the amount of actual annual purchases and the quality of operations.

During the financial year, Kesko Corporation sold the entire capital stock of one real estate company and 6,600 shares in Vähittäiskaupan Takaus Oy to Kesko Pension Fund. The combined transaction price totalled €6.5 million, based on the fair value of the asset items sold. During the 2019 financial year, Kesko Corporation sold 7,000 shares in Vähittäiskaupan Takaus Oy to Kesko Pension Fund for €4.6 million.

During the financial year 2019, Kesko Pension Fund paid in total €48 million in return of surplus assets to Finnish Group companies.

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

Management's employee benefits

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

Monetary salaries, fees, fringe benefits and share-based compensation €1,000		2020	2019
Mikko Helander	President and CEO	2,997.4	2,633.1
Group Management Board	other members	5,443.7	4,885.1
Esa Kiiskinen	Board Chairman	118.0	109.0
Toni Pokela	Board member	53.5	49.5
Matti Kyytsönen	Board member	59.0	55.5
Matti Naumanen	Board member	53.5	50.0
Jannica Fagerholm	Board member	74.0	72.0
Peter Fagernäs	Board Deputy Chairman	70.5	67.0
Piia Karhu	Board member	56.5	53.5
Total		**8,926.1**	**7,974.7**

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. 8,158 Kesko Corporation B shares were granted to members of Board of Directors in 2020.

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. Three 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. Four 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 €1.2 million (€1.1 million) and the related pension asset in the balance sheet was €1.7 million (€1.0 million). The pension cost of the President and CEO's statutory pension provision was €0.3 million (€0.3 million).

Share awards

During the 2020 reporting period, members of the Group Management Board were granted 77,922 shares based on the 2020 PSP 2018–2022 plan, while the maximum number of shares to be granted was 123,000. The number of shares represents gross earnings, from which withholding tax is deducted. During the 2019 reporting period, 61,219 shares were granted based on the 2017 PSP Plan. The number of shares represents gross earnings, from which withholding tax is deducted.

Termination benefits

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

Shareholdings

On 31 December 2020, the President and CEO held 269,844 Kesko Corporation B shares, which represented 0.07% of the total number of shares and 0.02% of votes carried by all shares of the Company. As at 31 December 2020, the Group Management Board, including the President and CEO, held 324 Kesko Corporation A shares and 774,528 Kesko Corporation B shares, which represented 0.19% of the total number of shares and 0.05% 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 four 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 between 2017-2020. 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 PSP was complemented with a new Key Personnel Share Plan (KPSP) decided upon by the Board in 2020. The KPSP is targeted at specific key persons at Kesko. The KPSP has a one-year performance period followed by a two-year commitment period. The performance criteria for the plan comprise indicators related to Kesko's profitability and the profitability, growth and capital efficiency of the participant's area of responsibility, and Kesko's share performance. The shares are paid to the recipients after the commitment period. 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 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 was terminated prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In the 2014-2016 plans, in addition to the shares granted, a cash component at maximum equal to the value of the shares was paid to cover the taxes and tax-like charges incurred under the award.

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

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

Share award grant dates and fair values: PSP, KPSP and RSP	**2020 PSP**	**2020 KPSP**	**2020 RSP**	**2019 PSP**	**2019 RSP**
Grant dates	4.2.2020	4.2.2020	4.2.2020	20.3.2019	20.3.2019
Grant date fair value of share award, €	14.85	14.85	14.85	13.11	13.11
Share price at grant date, €	15.48	15.48	15.48	13.70	13.70
Share-based compensation plan duration					
Performance period start date	1.1.2020	1.1.2020	-	1.1.2019	-
Perfromance period end date	31.12.2021	31.12.2020	-	31.12.2020	-
Commitment period start date	1.1.2022	1.1.2021	1.1.2020	1.1.2021	1.1.2019
Commitment period end date	10.2.2024	15.3.2023	15.3.2023	10.2.2023	15.3.2022

Share award grant dates and fair values: PSP, RSP and Bridge plan	2018 PSP	2018 RSP	2017 PSP	2017 RSP	2017 Bridge plan
Grant dates	20.3.2018	20.3.2018	1.2.2017	1.2.2017	1.2.2017
Grant date fair value of share award, €	11.62	11.62	11.17	11.17	11.17
Share price at grant date, €	12.17	12.17	11.67	11.67	11.67
Share-based compensation plan duration					
Performance period start date	1.1.2018	-	1.1.2017	-	1.1.2017
Perfromance period end date	31.12.2019	-	31.12.2018	-	31.12.2017
Commitment period start date	1.1.2020	1.1.2018	1.1.2019	1.1.2017	1.1.2018
Commitment period end date	10.2.2022	15.3.2021	10.2.2021	15.3.2020	10.2.2021

Assumptions applied in determining the fair value of share award: PSP, KPSP, RSP, Bridge plan*	Performance period 2020-2021 PSP and RSP	Performance period 2020 KPSP	Performance period 2019-2020 PSP and RSP	Performance period 2018-2019 PSP and RSP	Performance period 2017-2018 PSP	Performance period 2017 Bridge plan
Number of share awards granted, maximum, pcs**	850,350	257,900	1,236,600	1,331,600	1,301,200	1,301,200
Changes in the number of shares granted, pcs	-21,200	-4,700	-113,600	-54,092	-248,800	-106,400
Actual amount of share award, pcs				380,488	285,728	262,608
Number of plan participants at end of financial year	54	92	120	127	111	125
Share price at balance sheet date, €	21.04	21.04	15.77	11.78	11.31	11.31
Assumed fulfilment of performance criteria, %	63.3	96.7	63.6	63.4	43.4	46.7
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5	2.5	2.5	2.5

* The Annual General Meeting of Kesko Corporation on 28 April 2020 decided on a share issue without payment in which three (3) new A shares were issued for each existing A share, and three (3) new B shares each existing B share. The share numbers and prices are presented with the post-split (share issue without payment) number of shares. Share numbers for the pre-2020 plans have been adjusted to correspond to the post-split number of shares.
** 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, fair values and assumptions applied in determining the fair value of share award: 2016 share-based payments plan	**Vesting period 2016**
Grant dates	3.2.2016
Grant date fair value of share award, €*	8.11
Share price at grant date, €*	8.74
Share-based compensation plan duration	
Vesting period start date	1.1.2016
Vesting period end date	31.12.2016
Commitment period end date	31.12.2019
Number of share awards granted, maximum, pcs*	1,052,000
Changes in the number of shares granted, pcs*	-39,200
Actual amount of share award, pcs*	771,288
Number of plan participants at end of financial year	131
Share price at balance sheet date, €*	11.87
Assumed fulfilment of vesting criteria, %	56.7
Estimated number of share awards returned prior to the end of commitment period, %	5.0

* The share numbers and prices are presented with the post-split (share issue without payment carried out on 28 April 2020) number of shares.

The impact of the above share-based compensation plans on the Group's profit for 2020 was €-9.5 million (€-7.0 million).

As at 31 December 2020, the amount to be recognised as expense for the financial years 2021–2023 is estimated at a total of €-10.4 million. The actual amount may differ from the estimate.

5.5 Legal disputes and possible legal proceedings

Group companies act as plaintiffs, defendants or parties to certain legal proceedings, disputes or investigations related to the Group's business operations. Although according to Kesko's management's estimate, the outcome of pending disputes and legal and authority proceedings is unlikely to have any material impact on the Group's financial position, the outcome of disputes and legal and authority proceedings is difficult to predict.

Investigation by the Finnish Competition and Consumer Authority regarding Onninen Oy – The Finnish Competition and Consumer Authority has a pending investigation concerning a suspected infringement of competition rules by Onninen Oy. Onninen Oy was informed of the investigation in 2015. Kesko acquired the entire capital stock of Onninen Oy on 1 June 2016. The investigation and the potential related risks are addressed in the acquisition terms and conditions.

Legal proceedings concerning UAB Kesko Senukai Lithuania – Kesko is party to two legal proceedings concerning the shareholder agreement of Kesko's joint venture UAB Kesko Senukai Lithuania and the disagreements concerning the management and development of the company and its subsidiary. The other parties to these legal proceedings include the minority shareholders of UAB Kesko Senukai Lithuania.

5.6 Events after the balance sheet date

No significant events after the balance sheet date.

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Net sales	**6,082,401,524.72**	**5,775,844,550.19**
Other operating income	801,970,996.90	726,873,282.24
Materials and services	-5,427,027,023.60	-5,134,495,774.80
Change in inventory	12,037,712.37	4,067,102.84
Employee benefit expenses	-346,675,475.05	-298,785,601.32
Depreciation, amortisation and impairment	-95,788,132.83	-91,263,907.43
Other operating expenses	-716,240,161.88	-688,829,297.79
Operating profit	**310,679,440.62**	**293,410,353.93**
Finance income and costs	2,815,406.38	119,779,773.09
Profit before appropriations and taxes	**313,494,847.00**	**413,190,127.02**
Appropriations		
Change in depreciation reserve	-6,562,563.46	-4,117,086.35
Group contribution	-16,959,349.26	31,342,249.81
Profit before taxes	**289,972,934.28**	**440,415,290.48**
Income taxes	-55,679,529.16	-46,538,073.71
Profit for the financial year	**234,293,405.12**	**393,877,216.77**

Parent company's balance sheet

€	31 Dec. 2020	31 Dec. 2019
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	4,603,727.43	5,955,939.06
Other intangible assets	170,920,751.14	157,959,763.45
Prepayments	11,928,843.06	13,717,562.03
	187,453,321.63	177,633,264.54
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	208,806,109.85	174,933,985.21
Leasehold interests and connection fees	2,211,652.42	2,202,637.74
Buildings		
Owned	439,134,460.45	354,398,749.73
Machinery and equipment	88,490,328.81	91,300,872.26
Other tangible assets	6,128,727.98	6,376,255.89
Prepayments and construction in progress	10,459,602.85	20,844,597.14
	755,230,882.36	650,057,097.97
INVESTMENTS		
Investments in subsidiaries	1,087,168,327.86	1,028,450,981.49
Investments in associates	111,025,938.95	36,383,054.61
Other investments	18,580,026.52	18,508,819.82
	1,216,774,293.33	1,083,342,855.92
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	256,583,563.54	244,545,904.24
	256,583,563.54	244,545,904.24

€	31 Dec. 2020	31 Dec. 2019
RECEIVABLES		
Long-term		
Receivables from subsidiaries	124,207,994.34	310,453,860.52
Receivables from associates	71,502,199.58	57,594,199.58
Other receivables	8,192,666.63	6,892,666.62
	203,902,860.55	374,940,726.72
Short-term		
Trade receivables	357,582,841.05	355,726,614.66
Receivables from subsidiaries	497,767,542.55	560,544,582.68
Receivables from associates	4,938,308.22	1,539,823.31
Loan receivables	133,095.97	-
Other receivables	19,545,572.22	5,940,967.57
Prepayments and accrued income	89,245,140.20	84,046,309.95
	969,212,500.21	1,007,798,298.17
INVESTMENTS		
Other investments	114,158,274.36	16,777,819.41
CASH AND CASH EQUIVALENTS	136,613,110.09	58,133,140.52
TOTAL ASSETS	**3,839,928,806.07**	**3,613,229,107.49**

€	31 Dec. 2020	31 Dec. 2019
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	935,833,358.02	786,980,069.48
Profit for the financial year	234,293,405.12	393,877,216.77
	1,831,076,460.99	1,841,806,984.10
APPROPRIATIONS		
Depreciation reserve	139,946,004.30	117,206,574.66
PROVISIONS		
Other provisions	2,364,199.37	5,050,441.54
LIABILITIES		
Non-current		
Loans from financial institutes	300,000,000.00	300,000,000.00
Pension loans	109,041,000.00	137,465,000.00
Other creditors	7,625,996.00	6,405,992.00
	416,666,996.00	443,870,992.00
Current		
Pension loans	28,424,000.00	22,680,000.00
Advances received	19,960,149.87	16,871,347.76
Trade payables	627,726,576.50	552,318,045.53
Payables to subsidiaries	304,017,086.16	224,164,957.75
Payables to associates	4,143,483.40	4,310,376.72
Other payables	225,646,770.59	169,031,420.71
Accruals and deferred income	239,957,078.89	215,917,966.72
	1,449,875,145.41	1,205,294,115.19
TOTAL LIABILITIES	**3,839,928,806.07**	**3,613,229,107.49**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Cash flows from operating activities		
Profit before appropriations	313,494,847.00	413,190,127.02
Adjustments		
Depreciation according to plan	95,788,132.83	91,263,907.43
Finance income and costs	-2,815,406.38	-119,779,773.09
Other adjustments	-16,972,259.98	-19,695,899.51
	389,495,313.47	**364,978,361.85**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	-8,896,516.50	240,375,874.77
Inventories increase (-)/decrease (+)	-12,037,659.30	-4,067,102.84
Current non-interest-bearing liabilities, increase (+)/decrease (-)	130,315,518.00	-190,853,266.60
	109,381,342.20	45,455,505.33
Interests paid and other finance costs	-18,814,688.27	-24,330,213.74
Interests received	14,230,494.16	21,624,990.73
Dividends received	15,651,093.31	134,819,314.46
Income tax paid	-39,359,524.45	-69,602,708.60
	-28,292,625.25	62,511,382.85
Net cash generated from operating activities	**470,584,030.42**	**472,945,250.03**
Cash flows from investing activities		
Purchases of property, plant, equipment and intangible assets	-125,938,686.88	-234,019,028.95
Acquisitions of subsidiaries	-145,706,898.89	-145,117,483.68
Sales of subsidiaries, net of cash	768,900.84	-
Acquisitions of associates	-517,085.27	-
Proceeds from equity accounted investments	5,703,974.06	4,641,237.84
Proceeds from disposal of property, plant, equipment and intangible assets	1,963,066.20	6,379,050.36
Long-term receivables, increase (-)/decrease (+)	168,275,515.71	-61,194,718.73
Net cash used in investing activities	**-95,451,214.23**	**-429,310,943.16**

€	1 Jan.–31 Dec. 2020	1 Jan.–31 Dec. 2019
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	86,223,942.62	94,574,493.04
Short-term interest-bearing receivables, increase (-)/decrease (+)	-16,164,893.57	-138,626,259.43
Short-term money market investments, increase (-)/decrease (+)	-94,931,147.26	94,336,148.04
Dividends paid	-249,942,576.94	-231,868,024.83
Group contributions received and paid	-16,959,349.26	31,342,249.81
Other items	-3,128,677.85	-6,709,600.98
Net cash used in financing activities	**-294,902,702.26**	**-156,950,994.35**
Change in cash and cash equivalents	**80,230,113.93**	**-113,316,687.48**
Cash and cash equivalents as at 1 Jan.	**60,131,031.63**	**86,300,962.53**
Cash and cash equivalents transferred in connection with dissolution	747,155.61	87,146,756.58
Cash and cash equivalents as at 31 Dec.	**141,108,301.17**	**60,131,031.63**

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

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

Non-current assets

Intangible assets

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

Depreciation plan

Other capitalised expenditure	5–10 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 fair value, but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign currency derivatives

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

Commodity derivatives

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

Pension plans

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

Provisions

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

Income tax

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

Notes to the income statement

Note 2. Net sales by division

€ million	2020	2019
Grocery trade	5,119.1	4,847.5
Building and home improvement trade	963.2	903.0
Others	0.1	25.3
Total	**6,082.4**	**5,775.8**

Note 3. Material and services

€ million	2020	2019
Material and services	-5,329.1	-5,039.9
Change in inventory	12.0	4.1
External services	-97.9	-94.6
Total	**-5,415.0**	**-5,130.4**

Note 4. Other operating income

€ million	2020	2019
Gains on sales of real estate and shares	5.7	7.0
Rent income	89.8	84.6
Fees for services	517.5	469.8
Profits from mergers	32.0	13.6
Others	157.0	151.9
Total	**802.0**	**726.9**

Note 5. Employee benefit expenses

€ million	2020	2019
Salaries and fees	-292.8	-284.7
Social security costs		
Pension costs	-44.2	-4.7
Other social security costs	-9.7	-9.4
Total	**-346.7**	**-298.8**

In the comparison perios Kesko's pension costs include a €45.3 million return of surplus assets by Kesko Pension Fund.

The average number of personnel at Kesko Corporation was 7,271 (7,224) people.

Salaries and fees to the management

€ million	2020	2019
Managing Director	3.0	2.6
Members of the Board of Directors	0.5	0.5
Total	**3.5**	**3.1**

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

Note 6. Depreciation, amortisation and impairment

€ million	2020	2019
Depreciation according to plan	-93.6	-88.7
Impairment, non-current assets	-2.2	-2.6
Total	**-95.8**	**-91.3**

Note 7. Other operating expenses

€ million	2020	2019
Rent expenses	-334.4	-338.3
Marketing expenses	-147.7	-138.4
Maintenance of real estate and store sites	-85.2	-81.0
Losses on disposals of non-current assets	-	-1.0
Telecommunication expenses	-70.5	-73.2
Losses from mergers	-23.3	0.0
Other operating expenses	-55.1	-57.0
Total	**-716.2**	**-688.8**

Auditors' fees

€ million	2020	2019
Audit	0.4	0.3
Tax consultation	0.0	0.0
Other services	0.0	0.5
Total	**0.4**	**0.8**

The Annual General Meeting on 28 April 2020 elected Deloitte Oy as Kesko Corporation's Auditor. In 2019, Kesko's Auditor was PricewaterhouseCoopers Oy.

Note 8. Finance income and costs

€ million	2020	2019
Income from long-term investments		
Dividend income from subsidiaries	13.1	51.4
Dividend income from associates	-	83.4
Dividend income from others	2.6	0.0
Gains on disposal of shares	0.0	0.2
Gains on sales of investments	0.0	0.9
Income from long-term investments, total	**15.7**	**135.9**
Other interest and finance income		
From subsidiaries	7.6	10.7
From others	23.3	14.2
Interest and finance income, total	**31.0**	**25.0**
Impairment of investments held as non-current assets		
Impairment of shares	-3.2	-0.1
Changes in fair value	0.0	0.4
Impairment and changes in fair value of investments held as non-current assets, total	**-3.3**	**0.3**
Interest and other finance costs		
To subsidiaries	-12.4	-18.3
To others	-28.2	-23.1
Interest and finance costs, total	**-40.6**	**-41.4**
Total	**2.8**	**119.8**

Note 9. Appropriations

€ million	2020	2019
Difference between depreciation according to plan and depreciation in taxation	-6.6	-4.1
Group contributions received	28.0	46.8
Group contributions paid	-45.0	-15.4
Total	**-23.5**	**27.2**

An increased 50% depreciation on machinery and equipment and similar fixed assets acquired during the 2020 financial year has been made in compliance with the Finnish Business Tax Act.

Note 10. Changes in provisions

€ million	2020	2019
Other changes	-2.7	-0.2
Total	**-2.7**	**-0.2**

Note 11. Income taxes

€ million	2020	2019
Income taxes on group contributions	3.4	-6.3
Income taxes on ordinary activities	-55.3	-40.2
Taxes for prior years	-3.7	-0.1
Total	**-55.7**	**-46.5**

Note 12. Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €28.0 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 13. Intangible assets

€ million	2020	2019
Intangible rights		
Acquisition cost as at 1 Jan.	15.3	25.8
Increases	0.2	1.3
Decreases	-1.8	-11.7
Transfers between items	1.7	0.0
Acquisition cost as at 31 Dec.	15.4	15.3
Accumulated depreciation as at 1 Jan.	-9.3	-17.6
Accumulated depreciation on decreases and transfers	1.8	11.7
Depreciation and amortisations for the financial year	-3.3	-3.4
Accumulated depreciation as at 31 Dec.	-10.8	-9.3
Book value as at 31 Dec.	**4.6**	**6.0**
Other intangible assets		
Acquisition cost as at 1 Jan.	295.3	296.6
Increases	41.3	48.5
Decreases	-9.7	-60.1
Transfers between items	15.9	10.3
Acquisition cost as at 31 Dec.	342.8	295.3
Accumulated depreciation as at 1 Jan.	-137.3	-158.1
Accumulated depreciation on decreases and transfers	7.1	60.1
Depreciation and amortisations for the financial year	-41.6	-39.4
Accumulated depreciation as at 31 Dec.	-171.9	-137.3
Book value as at 31 Dec.	**170.9**	**158.0**

€ million	2020	2019
Prepayments		
Acquisition cost as at 1 Jan.	13.7	13.0
Increases	6.3	9.1
Decreases	-0.1	-1.6
Transfers between items	-8.0	-6.8
Acquisition cost as at 31 Dec.	11.9	13.7
Book value as at 31 Dec.	**11.9**	**13.7**

Note 14. Property, plant and equipment

€ million	2020	2019
Land and waters, owned		
Acquisition cost as at 1 Jan.	174.9	172.2
Increases	1.6	3.6
Transferred in mergers	28.3	0.0
Decreases	-	-1.3
Transfers between items	4.0	0.4
Acquisition cost as at 31 Dec.	208.8	174.9
Book value as at 31 Dec.	**208.8**	**174.9**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	2.2	1.9
Increases	-	0.2
Transfers between items	-	0.1
Acquisition cost as at 31 Dec.	2.2	2.2
Book value as at 31 Dec.	**2.2**	**2.2**
Buildings		
Acquisition cost as at 1 Jan.	613.7	584.0
Increases	20.8	18.9
Transferred in mergers	136.9	0.0
Decreases	-14.5	0.0
Transfers between items	0.8	10.8
Acquisition cost as at 31 Dec.	757.6	613.7
Accumulated depreciation as at 1 Jan.	-259.3	-239.4
Transferred in mergers	-52.8	0.0
Accumulated depreciation on decreases and transfers	14.3	0.0
Depreciation for the financial year	-20.7	-19.9
Accumulated depreciation as at 31 Dec.	-318.5	-259.3
Book value as at 31 Dec.	**439.1**	**354.4**

€ million	2020	2019
Machinery and equipment		
Acquisition cost as at 1 Jan.	287.9	279.4
Increases	22.2	39.6
Decreases	-12.6	-32.8
Transfers between items	2.3	1.7
Acquisition cost as at 31 Dec.	299.8	287.9
Accumulated depreciation as at 1 Jan.	-196.5	-202.1
Accumulated depreciation on decreases and transfers	12.0	32.7
Depreciation for the financial year	-26.8	-27.2
Accumulated depreciation as at 31 Dec.	-211.3	-196.5
Book value as at 31 Dec.	**88.5**	**91.3**
Other tangible assets		
Acquisition cost as at 1 Jan.	19.4	19.0
Increases	0.9	0.3
Transferred in mergers	0.0	0.0
Decreases	0.0	0.0
Transfers between items	0.1	0.1
Acquisition cost as at 31 Dec.	20.5	19.4
Accumulated depreciation as at 1 Jan.	-13.0	-11.7
Transferred in mergers	0.0	0.0
Accumulated depreciation on decreases and transfers	0.0	0.1
Depreciation for the financial year	-1.3	-1.4
Accumulated depreciation as at 31 Dec.	-14.3	-13.0
Book value as at 31 Dec.	**6.1**	**6.4**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	20.8	24.8
Increases	8.5	12.8
Decreases	-2.2	0.0
Transfers between items	-16.7	-16.7
Acquisition cost as at 31 Dec.	10.5	20.8
Book value as at 31 Dec.	**10.5**	**20.8**

Note 15. Investments

€ million	2020	2019
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	1,116.0	1,069.0
Increases	169.0	171.0
Transferred in mergers	1.9	0.0
Decreases	-66.7	-180.7
Transfers between items	-42.3	56.6
Acquisition cost as at 31 Dec.	1,177.9	1,116.0
Impairment as at 1 Jan.	-87.5	-180.5
Accumulated impairments on decreases	-	103.9
Accumulated impairments on transfers	-	-10.8
Impairment for the period	-3.2	-0.1
Impairment as at 31 Dec.	-90.7	-87.5
Book value as at 31 Dec.	**1,087.2**	**1,028.5**
Investments in associates		
Acquisition cost as at 1 Jan.	36.4	82.2
Increases	32.9	-
Decreases	-0.5	-0.1
Transfers between items	42.3	-45.7
Book value as at 31 Dec.	**111.0**	**36.4**
Other investments		
Acquisition cost as at 1 Jan.	18.5	13.8
Increases	0.1	5.6
Transferred in mergers	0.0	-1.0
Transfers between items	-	0.1
Acquisition cost as at 31 Dec.	18.6	18.5
Book value as at 31 Dec.	**18.6**	**18.5**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2020 is presented in the notes to the consolidated financial statements.

Note 16. Receivables

Receivables from subsidiaries

€ million	2020	2019
Long-term		
Loan receivables	124.2	310.5
Long-term, total	**124.2**	**310.5**
Short-term		
Trade receivables	14.6	42.7
Loan receivables	456.3	496.5
Prepayments and accrued income	26.9	21.3
Short-term, total	**497.8**	**560.5**
Total	**622.0**	**871.0**

Receivables from associates and joint ventures

€ million	2020	2019
Long-term		
Loan receivables	71.5	57.5
Other receivables	0.0	0.1
Long-term, total	**71.5**	**57.6**
Short-term receivables	4.9	1.5
Total	**76.4**	**59.1**

Kesko Corporation has advanced a long-term loan to its associated company, Mercada Oy, in the amount of €56.0 million and to its joint venture, UAB Kesko Senukai, in the amount of €13,9 million.

Prepayments and accrued income

€ million	2020	2019
Taxes	-	11.6
Fees for services	11.6	5.9
Employee benefit expenses	6.9	6.7
Purchases	32.3	30.6
Others	38.4	29.2
Total	**89.2**	**84.0**

Note 17. Shareholders' equity

€ million	Share capital	Share premium	Contin-gency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2019	197.3	197.5	243.4	22.8	1,015.3	1,676.2
Dividends					-231.9	-231.9
Treasury shares					3.9	3.9
Transfer to donations					-0.3	-0.3
Profit for the year					393.9	393.9
Balance as at 31 December 2019	197.3	197.5	243.4	22.8	1,180.9	1,841.8
Dividends					-249.9	-249.9
Treasury shares					5.2	5.2
Transfer to donations					-0.3	-0.3
Profit for the year					234.3	234.3
Balance as at 31 December 2020	**197.3**	**197.5**	**243.4**	**22.8**	**1,170.1**	**1,831.1**

Restricted equity	2020	2019
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2020	2019
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,170.1	1,180.9
Total	**1,436.3**	**1,447.0**

Calculation of distributable profits	2020	2019
Other reserves	266.2	266.2
Retained earnings	935.8	787.0
Profit for the year	234.3	393.9
Total	**1,436.3**	**1,447.0**

On 31 December 2020, Kesko's distributable assets totalled €1,436,295,866.09.

Breakdown of parent company shares	Pcs
A shares	126,948,028
B shares	273,130,980
Total	**400,079,008**

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

The number of shares in Kesko Corporation increased during the financial year following the resolution of the 28 April 2020 Annual General Meeting to conduct a share issue without payment (share split). In the share issue without payment, new shares were issued without payment to the shareholders in proportion to their existing holdings, so that three (3) new A shares were issued for each A share held, and three (3) new B shares for each B share held. At the end of December 2020, the total number of shares in Kesko Corporation was 400,079,008, of which 126,948,028, or 31.7%, were A shares and 273,130,980 or 68.3%, were B shares. All issued shares have been paid in full. The maximum number of A shares is 250 million and the maximum number of B shares is 360 million, and the maximum number of total shares 610 million.

Board's authorisations to acquire and issue own 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 Board is entitled to transfer them. The Board has an authorisation, granted by the Annual General Meeting of 28 April 2020 and valid until 30 June 2021, to issue a maximum of 40,000,000 B shares.

Treasury shares

On 5 May 2020, Kesko Corporation transferred a total of 8,158 of its own B shares (KESKOB) held by the Company as treasury shares to the members of Kesko's Board of Directors. The transfer was based on the resolution made by the Annual General Meeting on 28 April 2020 to pay a portion of the Board members' annual fees in Kesko B shares.

	Shares
Own B shares held by the Company as at 31 Dec. 2019	**3,725,452**
Transferred, share-based compensation scheme	-381,124
Transferred, Board of Directors	-8,158
Returned during the financial year	3,692
Own B shares held by the Company as at 31 Dec. 2020	**3,339,862**

Note 18. Provisions

€ million	2020	2019
Provisions for leases	1.1	2.4
Other provisions	1.2	2.6
Total	**2.4**	**5.1**

Note 19. Non-current liabilities

During the 2019 financial year, Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. During the financial year 2019 Kesko drew down €300 million, and has the possibility to draw down more later on with a separate credit decision by the banks. Kesko also agreed on a Revolving Credit Facility of €100 million linked to the same sustainability targets, which was not in use on 31 December 2020.

Note 20. Current liabilities

€ million	2020	2019
Liabilities to subsidiaries		
Trade payables	1.4	10.3
Other payables	27.0	5.6
Accruals and deferred income	275.6	208.3
Total	**304.0**	**224.2**
Liabilities to associates		
Trade payables	0.0	0.0
Accruals and deferred income	0.0	0.0
Other payables	4.1	4.3
Total	**4.1**	**4.3**
Accruals and deferred income		
Employee benefit expenses	101.6	91.7
Accruals and deferred income from purchases	33.7	32.1
Taxes	5.3	-
Transaction prices	0.4	0.8
Fees for services	34.7	3.2
Others	64.3	88.1
Total	**240.0**	**215.9**

Note 21. Non-interest-bearing liabilities

€ million	2020	2019
Current liabilities	1,019.9	888.8
Total	**1,019.9**	**888.8**

Note 22. Guarantees, liability engagements and other liabilities

€ million	2020	2019
Real estate mortgages		
For own debt	193.0	192.1
For subsidiaries	0.8	0.8
Pledged shares	9.0	9.0
Guarantees		
For own debt	0.4	1.0
For subsidiaries	33.1	8.0
Other liabilities and liability engagements		
For own debt	35.8	32.3
Rent liabilities on machinery and fixtures		
Falling due within a year	7.2	7.9
Falling due later	7.7	9.8
Rent liabilities on real estate		
Falling due within a year	275.5	293.4
Falling due later	1,530.0	1,742.8

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. 2020 € million	USD	SEK	NOK	PLN
Transaction risk	-28.2	54.5	80.3	19.2
Hedging derivatives	43.8	-35.9	-60.2	-11.0
Exposure	**15.6**	**18.7**	**20.1**	**8.3**

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

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. 2020 € million	USD	SEK	NOK	PLN
Change +10%	-1.4	-1.7	-1.8	-0.8
Change -10%	1.7	2.1	2.2	0.9

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

Derivatives

Fair values of derivative contracts € million	31 Dec. 2020 Positive fair value (balance sheet value)	31 Dec. 2020 Negative fair value (balance sheet value)	31 Dec. 2019 Positive fair value (balance sheet value)	31 Dec. 2019 Negative fair value (balance sheet value)
Currency derivatives	0.9	-6.1	0.3	-2.9
Interest rate derivatives	**0.0**	**-5.8**	**0.2**	**-3.8**

Notional amounts of derivative contracts € million	31 Dec. 2020 Notional amount	31 Dec. 2019 Notional amount
Currency derivatives	217.9	157.3
Interest rate derivatives	420.0	340.0

All currency derivatives mature in 2021. Interest rate derivatives mature in 2022, 2024, 2026 and 2027.

€ million	2020	Fair value	2019	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives				
Interest rate swaps	420	-5.8	340	-3.6
Foreign currency derivatives				
Forward and future contracts	218	-5.2	157	-2.6
Outside the Group	206	-5.6	151	-2.7
Inside the Group	12	0.4	7	0.1
Currency swaps				
Commodity derivatives				
Electricity derivatives	41	0.0	31	0.0
Outside the Group	20	-1.5	16	0.8
Inside the Group	20	1.5	16	-0.8

Note 23. Cash and cash equivalents within the statement of cash flows

€ million	2020	2019
Available-for-sale financial assets	4.5	2.0
Cash and cash equivalents	136.6	58.1
Total	**141.1**	**60.1**

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 24. Related parties

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

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, 2 February 2021

Esa Kiiskinen	Peter Fagernäs	
Jannica Fagerholm	Piia Karhu	Matti Kyytsönen
Matti Naumanen	Toni Pokela	Mikko Helander President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 2 February 2021

Deloitte Oy
Authorised public accountants

Jukka Vattulainen
APA

AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Kesko Oyj

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Kesko Oyj (business identity code 0109862-8) for the year ended 31 December, 2020. The financial statements comprise the consolidated income statement, statement of comprehensive income, financial position, statement of cash flows, statement of changes in equity and notes, including a summary of significant accounting policies, as well as the parent company's income statement, balance sheet, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, 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 financial statements in Finland and comply with statutory requirements.

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

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 Financial Statements section of our report.

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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014.

The non-audit services that we have provided have been disclosed in note 2.5 to the consolidated financial statements.

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

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.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of Goodwill and trademarks	
Refer to Note 3.3 in the consolidated financial statements of Kesko Oyj. Consolidated statement of financial position includes goodwill of €572.1 million (€479.0 million), of which €124.8 million relates to goodwill arising from provisional business combination accounting prepared in accordance with IFRS 3 relating to businesses acquired during 2020. In addition, Consolidated statement of financial position includes €87.7 million (€87.4 million) Trademarks. Goodwill is subject to management's annual impairment test. As a result of management's goodwill impairment test, no impairment was identified. Goodwill impairment testing requires substantial management judgment over the projected future business performance, cash flows and applied discount rate. Note 3.3 in the Consolidated financial statements describes key assumptions used by management and sensitivity analysis for the impairment tests approved by the Board. This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	As part of our audit procedures we have assessed the impairment testing calculations prepared by management and approved by the board, and assessed key controls over impairment testing for each cash generating unit. The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. Estimated Cash flows used in these calculations are based on three-year financial plans approved by management. The key assumptions used for the plans are total market growth and profitability trends, changes in store network, product and service selection, pricing and movements in operating costs. We have assessed the key assumptions used by management in the Goodwill impairment tests: • comparing the growth and profitability estimates to historical performance. • comparing the estimates with the latest approved budgets and strategic plans. • comparing applied discount rates to external sources. • testing the mathematical accuracy of the impairment calculations We have also assessed the related disclosure information.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Refer to accounting policies for the consolidated financial statements and note 2.1. Consolidated Net Sales of Kesko Oyj amounted to €10,669.2 million (€10,720.3 million). Kesko operates in grocery trade, building and technical trade, and car trade through wide sales- and retail network. Consolidated net sales comprise the sale of goods, services and energy from contracts with customers. The contribution of the sales of services and energy to total net sales is not significant. The Group sells products to retailers and other retail dealers and engages in own retailing. Due to the volume of transactions and due to the significance of related IT systems for the revenue process, we identified as a specific risk of error and fraud in respect of revenue recognition, as follows: - Improper revenue recognition relating to manual journal entries for exceptional sales transactions. Revenue recognition due to its significance require specific attention both from the accounting and the auditing perspective.	We have evaluated the IT systems used for recognizing revenue by testing access and change management controls. We also evaluated process level controls by performing walkthroughs of each significant class of revenue transactions, assessed the design of key controls and tested the operating effectiveness of those controls. We have analyzed the revenue transactions recored to net sales to identify entries originating from automated processes and entries from manual journals, and to focus our audit procedures. Our audit procedures to ensure appropriateness of revenue recognition for sales transaction population recorded to net sales have consisted among others, performing comprehensive data analytics based substantive audit procedures together with sample based test of details. We have made a focused risk assessment for addressing fraud risk relating to revenue recognition, and identified manual journal entries by applying data analytics. Based on the risk assessment for fraud, we have focused our substantive audit procedures for the transactions identified to ensure the appropriateness and accuracy. We have assessed the basis and appropriateness for significant credit entries and the appropriateness of exceptional entries, and assessed the appropriateness of applied management judgment.

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 parent company financial statements.

Responsibilities of the Board of Directors and the President and CEO for the financial statements

The Board of Directors and the President and CEO 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 CEO 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 President and CEO are responsible for assessing the parent company's and the group's ability to continue as 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 cease operations, or there is no realistic alternative but to do so.

Auditor's responsibilities in the audit of financial statements

Our objectives are to obtain reasonable assurance on 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 President and CEO'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 company 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 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

Information on our audit engagement

We have been acting as Kesko's auditor a total period of uninterrupted engagement of 1 year since 2020.

Other information

The Board of Directors and the President and CEO 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 report thereon. We have obtained the report of the Board of Directors prior to the date of the 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 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 and 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 this fact. We have nothing to report in this regard.

Other Statements

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

Helsinki, 2 February 2021

Deloitte Oy
Audit Firm

Jukka Vattulainen
Authorised Public Accountant (KHT)