



Financial statements

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Kesko Annual Report 2016



Financial statements 2016

Report by the Board of Directors and Key Performance Indicators

Report by the Board of Directors	4
Group's key performance indicators	23
Calculation of performance indicators	31
Analysis of shareholding	33

Consolidated financial statements (IFRS)

Consolidated income statement	38
Consolidated statement of financial position	40
Consolidated statement of cash flows	42
Consolidated statement of changes in equity	44

Notes to the consolidated financial statements

Note 1. Accounting policies for the consolidated financial statements	46
Note 2. Segment information	59
Note 3. Business acquisitions and disposals of assets	68
Note 4. Other operating income and other operating expenses	72
Note 5. Items affecting comparability	74
Note 6. Employee benefit expense, management compensation and number of personnel	75
Note 7. Finance income and costs	76
Note 8. Income tax	78
Note 9. Components of other comprehensive income	79
Note 10. Earnings per share	80
Note 11. Property, plant and equipment	81
Note 12. Intangible assets	83
Note 13. Equity accounted investments	87
Note 14. Non-current receivables	89
Note 15. Finance lease receivables	90
Note 16. Deferred tax	91
Note 17. Pension assets	93
Note 18. Inventories	100
Note 19. Trade and other current receivables	101
Note 20. Current available-for-sale financial assets	102
Note 21. Non-current assets classified as held for sale and related liabilities	103
Note 22. Shareholders' equity	104



Note 23. Carrying amounts of financial assets and liabilities by category	107
Note 24. Finance lease liabilities	111
Note 25. Provisions	112
Note 26. Trade payables and other current non-interest-bearing liabilities	113
Note 27. Joint operations	114
Note 28. Commitments	115
Note 29. Operating leases	116
Note 30. Share-based payment	117
Note 31. Notes related to the statement of cash flows	120
Note 32. Financial risk management	122
Note 33. Related party transactions	136
Note 34. Legal disputes and possible legal proceedings	140
Note 35. Other notes	141
Note 36. Group composition	142
Note 37. Subsidiaries, equity accounted investments and proportionately consolidated mutual real estate companies as at 31 Dec. 2016	144
Parent company's financial statements (FAS)	
Parent company's income statement	149
Parent company's balance sheet	150
Parent company's cash flow statement	153
Notes to the parent company's financial statements	
Note 1. Principles used for preparing the financial statements	155
Notes 2.-11. Notes to the income statement	157
Notes 12.-14. Notes to non-current assets	162
Note 15. Receivables	167
Note 16. Shareholders' equity	169
Notes 17.-20. Debt	171
Note 21. Commitments	173
Note 22.-23. Other notes	177
Signatures	178
Auditor's report	179



Report by the Board of Directors

Financial performance

Net sales and profit for 2016

The Group's net sales were €10,180 million, which is 17.3% up on the corresponding period of the previous year (€8,679 million). Acquisitions and disposals excluded, net sales in local currencies grew by 1.6%. Suomen Lähikauppa Oy has been consolidated into Kesko Group as of 12 April 2016, Onninen Group as of 1 June 2016 and Oy Autocarrera Ab as of 1 December 2016. The Russian business of the grocery trade is included in the figures until 30 November 2016 and Anttila was included in the figures for the comparative period until 16 March 2015.

In the grocery trade, the 12.0% net sales growth was significantly attributable to the acquisition of Suomen Lähikauppa. Net sales in local currencies, excluding Suomen Lähikauppa and the Russian business, were down 0.2%. In the building and technical trade, net sales increased by 26.2% and in local currencies, excluding Onninen and Anttila, by 2.1%. In the car trade, net sales were up markedly, by 13.5%, and excluding the acquisition of AutoCarrera, by 13.0%. The Group's net sales in Finland increased by 15.3%, and acquisitions and disposals excluded, by 1.1%. In the other countries, net sales increased by 26.0% and in local currencies, acquisitions and disposals excluded, by 3.9%. International operations accounted for 20.3% (18.9%) of net sales.

1-12/2016	Net sales, € million	Change %	Change in local currency excl. acquisitions and disposals,%	Operating profit,* € million	Change, € million
Grocery trade	5,236	+12.0	-0.2	175.9	-1.5
Building and technical trade	4,100	+26.2	+2,1	97.9	+34,4
Car trade	849	+13.5	+13,0	29.5	+3,4
Common functions and eliminations	-5	(..)	(..)	-30.5	-7,7
Total	10,180	+17.3	+1,6	272.9	+28,5

* Comparable
(..) Change over 100%

The Group's comparable operating profit was €272.9 million (€244.5 million). In the grocery trade, profitability was good. Comparable operating profit remained at the previous year's level while an intensive reform of business operations was carried out, the acquisition of Suomen Lähikauppa was implemented and its integration into Kesko's business operations was

started. The real estate arrangement completed in June 2015 had a €6.5 million negative impact on the comparable operating profit of the grocery trade. In the building and technical trade, profitability was improved by the acquisition of Onninen during the financial period, the disposal of Intersport's business in Russia, the good profit performance in the building and home



improvement trade in Lithuania and Sweden, in the agricultural and machinery trade and in the furniture trade, as well as the divestment of Anttila completed in the previous year. In the car trade, profitability continued to improve thanks to good sales performance. The total impact of the real estate arrangement completed in June 2015 on the Group's comparable operating profit in the grocery trade and the building and technical trade was €-8.4 million.

The operating profit was €146.8 million (€194.6 million). The items affecting comparability totalled €-126.2 million (€-49.9 million). The most significant items affecting comparability included a €69.2 million loss on the disposal of the Russian grocery trade, €30.0 million

in impairment charges, €11.4 million in costs related to the conversion of Suomen Lähikauppa's chains, and €6.9 million in asset transfer taxes on acquisitions included in structural arrangements. Due to the change in the Russian real estate market, the functional currency of the building and home improvement trade's Russian properties was changed from euro to rouble on 31 December 2016, and as a result, a €15 million impairment charge was allocated to the properties. In the previous year, the items affecting the comparability of the operating profit included a €130 million loss on the divestment of Anttila and €101 million in gains on the disposal of real estate.

Items affecting comparability, € million	1-12/2016	1-12/2015
Comparable operating profit	272.9	244.5
Items affecting comparability		
+gains on disposal	+4.2	+101.2
-losses on disposal	-71.0	-131.8
-impairment charges	-30.0	-
+/-structural arrangements	-23.1	-19.3
+/-others	-6.3	+0.0
Total items affecting comparability	-126.2	-49.9
Operating profit	146.8	194.6

The Group's profit before tax was €145.2 million (€188.0 million). The Group's earnings per share were €0.99 (€1.03). The Group's equity per share was €20.44 (€21.82).

K Group's (i.e. Kesko's and the chain stores') retail and B2B sales (VAT 0%) were €12,463 million, up 14.6% compared to the previous year. The K-Plussa customer loyalty programme gained 73,218 new households in 2016. At the end of December, there were 2.3 million K-Plussa households and 3.6 million K-Plussa cardholders.

Finance

The cash flow from operating activities was €170.2 million (€276.4 million). The cash flow from investing activities was €-501.1 million (€217.1 million). The cash flow impact of the disposal of the Russian grocery trade business on the cash flows from investing activities was €167.0 million.

At the end of December, liquid assets totalled €391 million (€887 million). Interest-bearing liabilities were €515 million (€439 million) and interest-bearing net debt was €123 million (€-448 million) at the end of December. The equity ratio was 48.6% (54.7%).



The Group's net finance costs were €1.0 million (€7.1 million).

Taxes

The Group's taxes were €31.4 million (€70.7 million). The effective tax rate was 21.6% (37.6%).

Capital expenditure

The Group's capital expenditure totalled €743.1 million (€218.5 million), or 7.3% (2.5%) of net sales. Capital expenditure in store sites was €216.7 million (€166.7 million), in acquisitions €461.6 million, in IT €29.3

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

million (€20.4 million) and other capital expenditure was €35.5 million (€31.4 million).

Personnel

The average number of personnel in Kesko Group was 22,476 (18,956) converted into full-time employees. The increase was due to the acquisitions of Suomen Lähikauppa and Onninen.

At the end of December 2016, the number of personnel was 27,656 (21,935), of whom 14,845 (10,081) worked in Finland and 12,811 (11,854) outside Finland. The number of Suomen Lähikauppa's personnel was 3,129, that of Onninen 3,068 and that of AutoCarrera 37.

segment. In terms of the level of operating profit, the second and third quarter are strongest, whereas the impact of the first quarter on the full year profit is smallest. The acquisitions of Suomen Lähikauppa and Onninen increase the seasonal fluctuations between quarters. The operating profit levels of Onninen and Suomen Lähikauppa are lowest for the first quarter.



Grocery trade

	1-12/2016	1-12/2015
Net sales, € million	5,236	4,673
Comparable operating profit, € million	175.9	177.5
Comparable operating margin,%	3.4	3.8
Capital expenditure, € million	238.1	128.9

Net sales, € million	1-12/2016	Change,%
Sales to K-food stores	3,161	0.0
K-Citymarket, home and speciality goods	588	+0.0
Suomen Lähikauppa	575	-
Kespro	804	+1.5
K-ruoka, Russia	105	-1.9
Others and eliminations	4	-85.9
Total	5,236	+12.0

The net sales of the grocery trade were €5,236 million (€4,673 million), representing a growth of 12.0%. Suomen Lähikauppa and the Russian business excluded, net sales performance was -0.2%. The grocery sales of K-food stores in Finland increased by 0.5% (VAT 0%) (excluding Suomen Lähikauppa) and Suomen Lähikauppa included, by 12.1%. In the grocery market in Finland, retail prices are estimated to have changed by approximately -0.6% compared to the previous year (VAT 0%; Kesko's own estimate based on the Consumer Price Index of Statistics Finland) and the total market (VAT 0%) is estimated to have increased by approximately 1% (Kesko's own estimate).

The acquisition of Suomen Lähikauppa was completed on 12 April 2016 and the conversion of the Siwa and Valintatalo stores into K-Market stores was begun in May. By the end of the year, 223 Siwas and Valintatalos had been converted into K-Markets. At the same time, the renewal of the entire K-Market chain started. As a result of the acquisition, Kesko's neighbourhood retail services improve significantly and the acquisition

provides significant economies of scale and synergies for Kesko. In November, the Russian grocery trade was disposed of, the growth of which would have required significant capital expenditures.

The comparable operating profit of the grocery trade was €175.9 million (€177.5 million). Comparable operating profit remained at the previous year's level while an intensive reform of business operations was carried out, the acquisition of Suomen Lähikauppa was implemented and its integration into Kesko's business operations was started. Profitability was improved by cost savings and the synergies achieved from the acquisition of Suomen Lähikauppa. The real estate arrangement completed in June 2015 had a €6.5 million negative impact on comparable operating profit. The operating profit of the grocery trade was €93.0 million (€249.4 million). The items affecting comparability were €-82.9 million (€71.9 million) the most important of which are the €69.2 million loss on the disposal of the Russian grocery trade and the €11.4 million expenses related to the conversion of Siwas and Valintatalos into



K-Markets. Suomen Lähikauppa contributed €-7.4 million, and taking synergies into account, €-3.2 million to the comparable operating profit.

The capital expenditure of the grocery trade was €238.1 million (€128.9 million), of which €159.6 million (€117.7 million) was in store sites and €54.3 million in acquisitions.

Building and technical trade

	1-12/2016	1-12/2015
Net sales, € million	4,100	3,250
Comparable operating profit, € million	97.9	63.6
Comparable operating margin,%	2.4	2.0
Capital expenditure, € million	451.7	55.3

Net sales, € million	1-12/2016	Change,%
Building and home improvement trade, Finland	826	+4.1
K-rauta, Sweden	217	+3.6
Bygghälsan, Norway	402	-3.8
K-rauta, Russia	174	-9.5
Kesko Senukai, Baltics	486	+5.7
OMA, Belarus	101	-12.7
Onninen	908	-
Agricultural and machinery trade	608	-1.1
Intersport, Finland	178	+2.1
Indoor	187	+4.3
Others	30	-70.9
Total	4,100	+26.2

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

The net sales of the building and technical trade in Finland were €2,142 million (€1,719 million), up 24.6%. Acquisitions and disposals excluded, net sales in Finland grew by 0.5%. The net sales from foreign operations were €1,959 million (€1,530 million), up 28.0%. In local

currencies, excluding acquisitions and disposals, the net sales from foreign operations increased by 3.9%. Foreign operations contributed 47.8% (47.1%) to the net sales of the building and technical trade.

The acquisition of Onninen was completed on 1 June 2016. Onninen's net sales were €908 million. The acquisition accelerates the implementation of the international growth strategy of Kesko's building and



technical trade and provides significant synergy potential.

The net sales of the building and home improvement trade were €2,196 million (€2,181 million), an increase of 0.7%. In local currencies, net sales were up by 3.7%. In respective local currencies, net sales grew in Sweden by 4.7%, in Norway by 0.6% and in Russia by 0.3%. In the building and home improvement trade, growth strengthened especially in B2B trade. In the building and technical trade, the market share of K Group's building and home improvement trade is estimated to have strengthened especially in Finland, Sweden, the Baltics and Belarus. K Group's sales of building and home improvement products in Finland increased by a total of 4.3% and the total market (VAT 0%) is estimated to have grown by approximately 1.9% (Kesko's own estimate).

The net sales of the agricultural and machinery trade were €608 million (€615 million), down 1.1% compared to the previous year. Net sales in Finland were €479 million, down 4.2%. The net sales from foreign operations were €129 million, up 12.3%. The retail sales of the K-maatalous chain in Finland were €424 million, down 3.1%.

The net sales of the leisure trade in Finland were €197 million (€193 million), an increase of 2.0%.

The net sales of the furniture trade were €187 million (€179 million), which was up 4.3%.

The comparable operating profit of the building and technical trade was €97.9 million (€63.6 million), up

€34.4 million compared to the previous year.

Profitability was improved by the acquisition of Onninen during the financial period, the disposal of Intersport's Russian business, as well as the good profit performance of the building and home improvement trade in Lithuania and Sweden, in the agricultural and machinery trade and in the furniture trade. The profit for the comparative period includes a €12.7 million operating loss from Anttila divested in March 2015. Onninen's contribution to the comparable operating profit was €18.2 million, adversely impacted by the fair value allocations of inventories written off in the amount of €5.1 million.

The operating profit of the building and technical trade was €60.8 million (€-57.2 million). The most significant items affecting comparability are the €15 million in impairment charges related to the change of the functional currency of the Russian properties and the €5.8 million in asset transfer taxes related to acquisitions. In the previous year, the most significant items affecting comparability included a €130 million loss on the divestment of Anttila and €28 million recognized in gains on the disposal of real estate.

The capital expenditure of the building and technical trade totalled €451.7 million (€55.3 million), of which €380.1 million was in acquisitions and €55.8 million (€40.8 million) in store sites. The acquisitions include €364.1 million for the acquisition of Onninen and €10.0 million for increasing the ownership interest in the Belarusian OMA.



Car trade

	1-12/2016	1-12/2015
Net sales, € million	849	748
Comparable operating profit, € million	29.5	26.1
Comparable operating margin,%	3.5	3.5
Capital expenditure, € million	41.4	16.0

Net sales, € million	1-12/2016	Change,%
VV-Auto	845	+13.0
AutoCarrera	4	-
Yhteensä	849	+13.5

The net sales of the car trade were €849 million (€748 million), up 13.5%. The combined market performance of first registrations of passenger cars and vans was 10.2% (2.8%). The combined market share of passenger cars and vans imported by VV-Auto was 18.8% (19.1%) and Volkswagen was the most registered passenger car brand in 2016.

On 1 December 2016, VV-Auto acquired the share capital of Oy Autocarrera Ab and as a result, the import and retailing of Porsche transferred to VV-Auto. In December, AutoCarrera's net sales were €4.4 million. The net sales growth of the car trade, excluding AutoCarrera's impact, was 13.0%.

The profitability of the car trade continued to improve thanks to good sales performance. The comparable operating profit was €29.5 million (€26.1 million). The operating profit was €28.9 million (€26.1 million). Comparability was affected by the €0.6 million expenses related to the acquisition of Oy Autocarrera Ab. AutoCarrera's impact on comparable operating profit was €0.0 million, and the profit was adversely impacted by the fair value allocations of inventories written off in the amount of €0.1 million.

The capital expenditure of the car trade was €41.4 million (€16.0 million).

Changes in the Group composition

Kesko implemented the arrangement it had agreed in the autumn of 2015 to centralise its Baltic building and home improvement trade in UAB Senuku Prekybos centras (Senukai). The company's name has been changed to Kesko Senukai. In the arrangement, Kesko sold the shares in its wholly owned companies responsible for the operations of K-rauta stores in Estonia and Latvia to its subsidiary Senukai, in which Kesko has a majority interest. (Stock exchange release on 1 April 2016).

Kesko Food Ltd, a Kesko Corporation subsidiary, acquired the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. (Stock exchange release on 12 April 2016). Suomen Lähikauppa Oy was renamed to K-Market Oy in August.

Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy. The acquisition does not include Onninen's steel business or Russian subsidiary. (Stock exchange release on 1 June 2016).



In June, the Group's ownership interest in the Group's Belarusian subsidiary OMA increased to 25% (previously 9%).

In July, Kesko Corporation disposed of the Intersport business in Russia.

In September, Kesko acquired the Russian project business from Onvest Oy.

Kesko Corporation's wholly owned subsidiaries Rautakesko Ltd, Keslog Ltd and Musta Pörssi Ltd merged into Kesko Corporation on 31 October 2016.

In November, Kesko Food Russia Holding Oy, part of Kesko Group, sold its grocery trade business in Russia and the real estate companies related to the operations to Lenta Ltd. (Stock exchange release on 30 November 2016).

In December, Kesko Corporation's subsidiary VV-Auto Group Oy acquired the whole share capital of Oy Autocarrera Ab. As a result of the transaction, the import and retailing of Porsche have transferred to VV-Auto (Stock exchange release on 14 November 2016, 24 November 2016 and on 1 December 2016).

Shares, securities market and Board authorisations

At the end of December 2016, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. At 31 December 2016, Kesko Corporation held 746,109 own B shares as treasury shares. These treasury shares accounted for 1.09% of the number of B shares, 0.75% of the total number of shares, and 0.19% of votes attached to all shares of the Company. The total number of votes attached to all shares was 385,652,815. Each A share carries ten (10) votes and each B share one (1) vote. The Company cannot vote with own shares held by it as treasury shares and no dividend is paid on them. At the end of December 2016, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €31.12 at the end of 2015, and €43.85 at the end of December 2016, representing an increase of 40.9%. Correspondingly, the price of a B share was €32.37 at the end of 2015, and €47.48 at the end of December 2016, representing an increase of 46.7%. The highest A share price was €44.54 and the lowest was €28.98. The highest B share price was €48.48 and the lowest was €29.56. The Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 3.6% and the weighted OMX Helsinki Cap index by 8.2%. The Retail Sector Index was up by 40.6%.

At the end of December 2016, the market capitalisation of A shares was €1,392 million, while that of B shares was €3,207 million, excluding the shares held by the parent company as treasury shares. The combined market capitalisation of A and B shares was €4,598

million, an increase of €1,429 million from the end of 2015.

In 2016, a total of 1.7 million (2.4 million) A shares were traded on Nasdaq Helsinki, a decrease of 26.7%. The exchange value of A shares was €65 million. The number of B shares traded was 51.6 million (59.4 million), a decrease of 13.2%. The exchange value of B shares was €2,015 million. Nasdaq Helsinki accounted for 55% of the Kesko A and B share trading in 2016. Kesko shares were also traded on multilateral trading facilities, the most significant of which were BATS Chi-X with 27% and Turquoise with 16% of the trading (source: Fidessa).

During the financial year, the Board had the authority to decide on the transfer of a maximum of 1,000,000 own B shares held by the Company as treasury shares. On 3 February 2016, the Board decided to grant own B shares held by the Company as treasury shares to persons included in the target group of the 2015 vesting period, based on this share issue authorisation and the fulfilment of the vesting criteria of the 2015 vesting period of Kesko's three-year share-based compensation plan. This transfer of a total of 137,054 own B shares was announced in a stock exchange release on 17 March 2016, and the transfer of 2,670 own B shares was announced in a stock exchange release on 27 April 2016. Based on the 2014-2016 share-based compensation plan decided by the Board, a total maximum of 600,000 own B shares held by the Company as treasury shares can be granted within a period of three years based on the fulfilment of the vesting criteria. The Board decides on the vesting



criteria and the target group separately for each vesting period. The share-based compensation plan was announced in a stock exchange release on 4 February 2014. During the year, a total of 8,256 shares granted based on the fulfilment of the vesting criteria of the share-based compensation plans (the 2011-2013 and the 2014-2016 share-based compensation plans) was returned to the Company in accordance with the terms and conditions of the share-based compensation plans. The returns during the reporting period were notified in a stock exchange release on 17 March 2016, 31 March 2016, 27 April 2016, 30 May 2016 and 15 November 2016.

Kesko's Annual General Meeting held on 4 April 2016 authorised the Company's Board to make decisions concerning the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (the 2016 share issue authorisation). The authorisation cancelled the earlier share issue authorisation corresponding in content. Based on the authorisation, own B shares held by the Company as treasury shares can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the Company shares, regardless of whether they own A or B shares. Shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, for a weighty financial reason of the Company, such as using the shares to develop the Company's capital structure, to finance possible acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. Own B shares held by the Company as treasury shares can be transferred either against or without payment. A share issue can only be without payment, if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to share issues. The amount possibly paid for the Company's own shares is recorded in the reserve of unrestricted equity. The authorisation is valid until 30 June 2020.

The Annual General Meeting held on 4 April 2016 also approved the Board's proposal for its authorisation to

decide on the acquisition of a maximum of 1,000,000 own B shares of the Company (the 2016 authorisation to acquire own shares). B shares are acquired with the Company's distributable unrestricted equity, not in proportion to the shareholdings of shareholders, at the market price quoted in public trading organised by Nasdaq Helsinki Ltd ("the exchange") at the date of acquisition. The shares are acquired and paid in accordance with the rules of the exchange. The acquisition of own shares reduces the amount of the Company's distributable unrestricted equity. B shares are acquired for use in the development of the Company's capital structure, to finance possible acquisitions, capital expenditure and/or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. The Board makes decisions concerning any other issues related to the acquisition of own B shares. The authorisation is valid until 30 September 2017.

In addition, the Board has a share issue authorisation according to which the Board is authorised to issue a maximum of 20,000,000 new B shares (the 2015 share issue authorisation). The authorisation is valid until 30 June 2018. The shares can be issued against payment to be subscribed by shareholders in a directed issue in proportion to their existing holdings of the Company shares regardless of whether they hold A or B shares, or, departing from the shareholder's pre-emptive right, in a directed issue, if there is a weighty financial reason for the Company, such as using the shares to develop the Company's capital structure and financing possible acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations. The amount paid for the shares is recognised in the reserve of invested non-restricted equity. The authorisation also includes the Board's authority to decide on the share subscription price, the right to issue shares for non-cash consideration and the right to make decisions on other matters concerning share issues.

At the end of December 2016, the number of shareholders was 39,404, which is 125 less than at the end of 2015. At the end of December, foreign ownership of all shares was 32%. Foreign ownership of B shares was 46% at the end of December.



Flagging notifications

Kesko Corporation did not receive any flagging notifications during the reporting period.

Key events during the reporting period

Tomi Korpisaari, a member of Kesko Corporation's Board of Directors, announced that he would resign from the Company's Board of Directors for reasons of health as of 1 March 2016. Kaarina Ståhlberg was appointed General Counsel and member of the Management Board of Posti Group Corporation as of 1 March 2016, as a result of which Ståhlberg announced that she would resign from Kesko Corporation's Board of Directors as of 1 March 2016. (Stock exchange release on 5 February 2016 and 15 February 2016)

The arrangement agreed by Kesko in the autumn of 2015 to centralise the Baltic building and home improvement trade in UAB Senuku Prekybos centras (Senukai) was completed. The company's name has been changed to Kesko Senukai. In the arrangement, Kesko sold the shares in its wholly owned companies responsible for the operations of K-Rauta stores in Estonia and Latvia to its subsidiary Senukai, in which Kesko has a majority interest. (Stock exchange release on 1 April 2016)

The transaction agreed between Kesko Corporation's subsidiary Kesko Food and the private equity investment firm Triton to acquire Suomen Lähikauppa was completed. The debt-free price of the acquisition, structured as a share purchase, was €54 million. In 2015, Suomen Lähikauppa's net sales were €935.7 million, it had around 600 Siwa and Valintalo stores and around 3,800 employees. The Finnish Competition and Consumer Authority (FCCA) announced their approval of the acquisition on 11 April 2016. The permission contains conditions imposed by the FCCA. The FCCA made the acquisition conditional on the sale of 60 stores of Suomen Lähikauppa Oy to competitors. In case the sale of some store or some stores is not possible, the selling obligation imposed on Kesko Food Ltd will cease. (Stock exchange release on 11 April 2016 and 12 April 2016)

The transaction agreed between Kesko Corporation and Onvest Oy to acquire the whole share capital of Onninen Oy was completed. The acquisition does not include Onninen's steel business or Russian subsidiary. In 2015, the pro forma net sales of the acquired business were €1,465 million and the EBITDA was €39 million. The price of the debt-free acquisition, structured as a share purchase, was €364 million. (Stock exchange release on 12 January 2016, 20 April 2016 and 1 June 2016)

Johan Friman, 51, Master of Science (Economics), was appointed Executive Vice President responsible for Kesko's car trade and President of VV-Auto Group Oy. He also became a member of Kesko's Group Management Board. Johan Friman took over his new position on 1 January 2017 and Pekka Lahti, the current Executive Vice President for the car trade, will retire on a pension in accordance with his service contract on 1 April 2017. (Stock exchange release on 21 September 2016)

Kesko Food Russia Holding Oy, part of Kesko Group, sold its grocery trade business in Russia to Lenta Ltd. The aggregate consideration for the disposal including sales price adjustment was approximately RUB 11.4 billion (approximately EUR 163 million). (Stock exchange release on 30 November 2016)

Kesko Corporation's subsidiary VV-Auto Group Oy acquired the whole share capital of Oy Autocarrera Ab. As a result of the transaction, the import and retailing of Porsche transferred to VV-Auto. The price of the acquisition, structured as a share purchase, was approximately €27 million (Stock exchange release on 14 November 2016, 24 November 2016 and 1 December 2016)



Events after the reporting period

The court of arbitration dismissed Voimaosakeyhtiö SF's action against Kestra Kiinteistöpalvelut Oy concerning the further financing of the Fennovoima nuclear power

plant project. (Stock exchange release on 10 January 2017)

Resolutions of the 2016 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting, held on 4 April 2016, adopted the financial statements and the consolidated financial statements for 2015 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute a dividend of €2.50 per share as proposed by the Board, or a total amount of €248,195,187.50. The dividend pay date was 13 April 2016.

The General Meeting resolved to leave the number of Board members unchanged at seven. The term of office of each of the seven (7) Board members elected by the Annual General Meeting on 13 April 2015, i.e. retailer, Business College Graduate Esa Kiiskinen, retailer, Master of Science in Economics Tomi Korpisaari, retailer, eMBA Toni Pokela, eMBA Mikael Aro, Master of Science in Economics Matti Kyytsönen, Master of Science in Economics Anu Nissinen and Master of Laws Kaarina Ståhlberg, will expire at the close of the 2018 Annual General Meeting in accordance with Kesko's Articles of Association. Korpisaari and Ståhlberg had resigned from the membership of the Company's Board of Directors as of 1 March 2016. The General Meeting resolved to replace them by retailer, trade technician Matti Naumanen and Managing Director, Master of Science in Economics Jannica Fagerholm until the close of the Annual General Meeting to be held in 2018. In addition, the General Meeting resolved to leave the Board members' fees and the basis for reimbursement of expenses unchanged.

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

The General Meeting approved the Board's proposal for share issue authorisation according to which the Board may decide on the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (the 2016 share issue authorisation). The General Meeting also approved the Board's proposal for the authorisation to acquire own shares, according to which the Board may decide on the acquisition of a maximum of 1,000,000 own B shares of the Company (the 2016 authorisation to acquire own shares).

In addition, the General Meeting approved the Board's proposal for its authorisation to decide on the donations in a total maximum of €300,000 for charitable or similar purposes until the Annual General Meeting to be held in 2017 and to decide on the donation recipients, purposes of use and other terms of the donations.

After the Annual General Meeting, Kesko Corporation's Board of Directors held an organisational meeting in which it elected M.Sc. (Econ.) Jannica Fagerholm as the Chair of the Audit Committee, re-elected eMBA Mikael Aro as its Deputy Chair and M.Sc. (Econ.) Matti Kyytsönen as its member. Business College Graduate Esa Kiiskinen (Ch.), Mikael Aro (Dep. Ch.) and M.Sc. (Econ.) Anu Nissinen were re-elected to the Board's Remuneration Committee.

The resolutions of Annual General Meeting and the decisions of the Board's organisational meeting were announced in more detail in stock exchange releases on 4 April 2016.



Corporate responsibility

Kesko was the best trading sector company (Food & Staples Retailing) on 'The Global 100 Most Sustainable Corporations' list of 2016. Kesko placed 15th on the list.

In February, Kesko, Arla Finland, HKScan Finland and Unilever Finland initiated a Finnish soy commitment in cooperation with WWF Finland. The members of the commitment pledge to ensure that by 2020, all the soy used in the production chain of their private label products will be responsibly produced, either Round Table on Responsible Soy (RTRS) or ProTerra certified soy.

At the beginning of April, the Pirkka Thank the Producer product range expanded from meat products to milks. A certain proportion of the price of the products in the range is paid directly to Finnish producers. The objective of K Group is to support Finnish producers with hundreds of thousands of euros through the Thank the Producer operating model in 2016.

Kespro was granted the MSC and ASC Chain of Custody - the traceability certificate - in April. All phases of Kespro's fish and shellfish supply chain have been audited, and Kespro and its certified customer restaurants can use MSC and ASC ecolabelling in their marketing.

Kesko and the child rights organization Plan International Finland continue cooperating to improve the responsibility of the fishing industry and the situation of migrant workers in Thailand. As a part of the project, already 60 children from migrant families have been able to start school.

Kesko's grocery trade and the Finnish cancer foundation Syöpäsäätiö signed an agreement on main sponsorship in the Pink ribbon campaign in May. The objective is to generate tenfold donations to the fundraising from K-food stores compared to what they were before.

Pirkka Street Basket events were arranged in 16 localities in Finland in May. Pirkka Street Basket 2016 is part of the Little Wolves project by the Finnish Basketball Association and Kesko's grocery trade that aims to promote physical activity for children.

Kesko had Finland's largest property-specific solar utility built on the roof of K-citymarket Tammisto in

Vantaa in May-June. The peak power of the solar utility is 503 kWp and it generates electricity for the property.

The K-maatalous Experimental farm made a Baltic Sea Commitment to Baltic Sea Action Group, BSAG, in June. The Experimental farm's commitment concentrates on developing soil condition and nutrient usage measurement practices and technology.

Kesko has completed a human rights impact assessment in compliance with UN's Guiding Principles on Business and Human Rights and published a human rights commitment on its web pages in September.

In January-September, Pirkka 'Thank the Producer' products sold at K-food stores generated a support amount of approximately €170,000 to be remitted to Finnish producers. The aim is to add more products to the product group, provided that their good sales performance continues.

In September, K-food stores and Kesko joined the Consumer Association's Food Waste Week Campaign to promote the reduction of food wastage and increase the appreciation of food.

In September-October, K-food stores took part in the Pink Ribbon campaign raising funds for Finnish breast cancer research and cancer counselling. The aim is to increase tenfold the amounts donated by K-food stores to the Pink Ribbon campaign.

K-rauta is a partner in the Liiteri tool rental service trial targeted at urban home renovators, which was launched in September at Teurastamo, Helsinki.

Kesko received the A- score in CDP's Climate Change Disclosure inquiry.

Kesko participates in the 2017-2025 action plan of the commerce sector Energy Efficiency Agreement. In accordance with the agreement, Kesko commits itself to reducing its energy consumption by 7.5% through various saving measures. All K Group store chains are included in the agreement.

K Group is committed to the EU's aim to keep the annual consumption of plastic bags below 40 bags per inhabitant. Actions to achieve this target include



charging a price for plastic bags and providing alternative shopping bags.

Kesko's updated operating principles, the K Code of Conduct, outline the shared guidelines for the work of all Kesko personnel and business partners.

Kesko is committed to support the UN Sustainable Development Goals, the SDGs, in its operations. The website 'UN Sustainable Development Goals and Kesko', published in November, explains about the

actions taken to contribute to the 17 Sustainable Development Goals.

In December, K Group started the building of seven new solar power plants on the rooftops of K-food stores. By summer 2017, there will be as many as 15 solar power plants operating in connection with K-food stores. The new investments will make K Group the biggest producer and user of solar power in Finland.

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in note 6. Related party transactions are disclosed in note 33.

Risk management

Risk management in Kesko Group is guided by the risk management policy approved by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. The management of financial risks is based on the Group's finance policy confirmed by Kesko's Board of Directors. The managements of the business and the common functions are responsible for the execution of risk management. Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division and function levels in all operating countries.

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

The following describes the risks and uncertainties assessed as significant.

Significant risks and uncertainties

Trends in purchasing power and trading sector demand especially in Finland

The uncertain outlook for the Finnish economy, increases in taxes and public payments resulting from the indebtedness of the public sector as well as high unemployment weaken purchasing power and

consumer confidence and can cause a long-term decline in the level of demand. This would have negative repercussions especially on Kesko's building and technical trade and car trade in Finland.



Decline in price levels and intensification of price competition in Finnish grocery trade

The level of food prices in Finland declined further in 2016. As consumers' purchasing power has fallen in recent years, competition has become more intense and stores have lowered their prices in order to increase market shares. The decline in price levels and the intensified price competition can weaken the profitability of Kesko's grocery trade and retailers.

Neighbourhood market strategy of grocery trade

In 2016, Kesko acquired Suomen Lähikauppa as part of the neighbourhood market strategy implementation. The integration of Suomen Lähikauppa's business operations into those of Kesko, the conversion of Siwa and Valintatalo stores into K-Markets as well as the replacement of the stores' business model by the retailer business model are significant change projects and the achievement of their objectives involves operational and financial risks.

Business arrangement of building and technical trade

The integration of the Onninen acquisition into Kesko's business operations and the combination of Kesko Senukai's business in the Baltics are demanding and extended projects. The integration of business operations and the creation of uniform operating models involve risks that can make the achievement of the operational and financial objectives and targets set for the arrangement more difficult.

Strong change in the trading sector caused by digitalisation

In the midst of the retail transition, the achievement of business objectives requires an active approach and strong expertise in the development of digital services and online stores that are attractive to customers, and the use of a multichannel approach with supporting customer communications. There is a risk that some of the traditional brick and mortar stores become unprofitable and that the progress of e-commerce and digital service development projects is outpaced by competitors. Competition can also be intensified by companies entering the value chain of trade by introducing new business models.

Employee competencies and working capacity

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

Suppliers and distribution channels

In divisions strongly dependent on individual principals and suppliers, such as the car trade, ownership arrangements and changes in the strategy of a principal or a supplier as well as changes in product selections, product pricing and distribution channel solutions can mean weakened competitiveness, a decrease in sales or loss of business.

Product safety and supply chain quality

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

Store sites and properties

With a view to business growth and profitability, good store sites are a key competitive factor. The acquisition of store sites can be delayed by town planning and permit procedures and the availability and pricing of sites. Considerable amounts of capital or lease liabilities are tied up in properties for years. When the market situation changes, the business is rearranged, the significance of e-commerce grows, or a chain concept proves inefficient there is a risk that a store site or a property becomes unprofitable and operations are discontinued while long-term liabilities remain.

Business interruptions and information system failures

The trading sector is characterised by increasingly complicated and long supply chains and a higher dependency on information systems, data communications and external service providers. Failures can be caused by hardware failures, software errors or external cyber threats. Extended malfunctions in information systems, payment transfers, or in other



parts of the supply chain, can cause significant losses in sales and weaken customer satisfaction.

Responsible operating practices and reputation management

Various aspects of corporate responsibility, such as ensuring responsibility in the purchasing chain of products, fair and equal treatment of employees and environmental protection, are increasingly important to customers. Any failures of corporate responsibility would result in negative publicity for Kesko and can cause operational and financial damages.

Compliance with laws and agreements

Compliance with laws and agreements is an important part of Kesko's corporate responsibility. Non-compliance can result in fines, claims for damages and other financial losses, and a loss of confidence and reputation.

Reporting to market

Kesko's objective is to produce and publish reliable and timely information. If any information published by

Kesko proved to be incorrect, or communications failed to meet regulations in other respects, it can result in losing investor and other stakeholder confidence and in possible sanctions. Significant business arrangements, tight disclosure schedules and the dependency on information systems create challenges to the accuracy of financial information.

Risks of damage

Accidents, natural phenomena and epidemics can cause significant damages to people, property or business. In addition, risks of damage may cause business interruptions that cannot be prevented. There is also the risk that insurance policies do not cover all unexpected accidents and damages, or covering them with insurance is not profitable.

Crime and malpractice

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

Outlook

Estimates for the outlook of Kesko Group's net sales and comparable operating profit are given for the 12-month period following the reporting period (1/2017-12/2017) in comparison with the 12 months preceding the end of the reporting period (1/2016-12/2016).

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, the trading sector is expected to grow slightly. In the Finnish grocery trade, intense competition is expected to continue. The market for the

Finnish building and technical trade is expected to improve slightly. In Sweden and Norway, the market is expected to grow but at a somewhat slower rate. The trend in the Russian market is expected to remain modest. In the Baltic countries, the market is expected to grow.

Kesko Group's net sales for 2017 are expected to exceed the level of the previous year. The comparable operating profit for 2017 is expected to exceed the level of 2016.

Proposal for profit distribution

The parent's distributable profits are €1,006,169,969.92, of which the profit for the financial year is €147,927,559.98.

The Board of Directors proposes to the Annual General Meeting to be held on 3 April 2017 that a dividend of

€2.00 per share be paid on shares held outside the Company at the date of dividend distribution. No dividend is paid on own shares held by the Company as treasury shares at the record date of dividend distribution.



At the date of the proposal for distributions of profits, 1 February 2017, a total of 99,273,643 shares were held

outside the Company, amounting to a total dividend of €198,547,286.00.

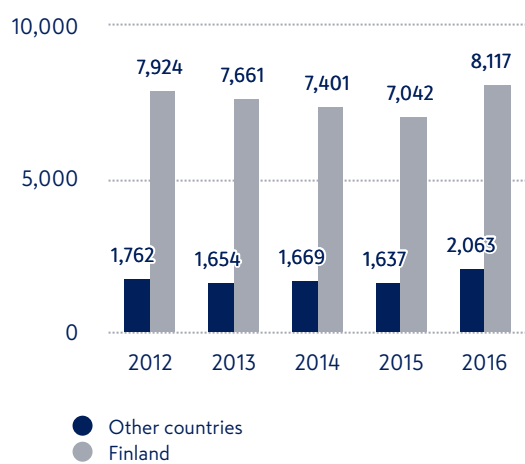
Annual General Meeting

The Board of Directors decided to convene the Annual General Meeting at Messukeskus Helsinki, on 3 April 2017 at 13.00. Kesko Corporation will publish a notice of the General Meeting at a later date.



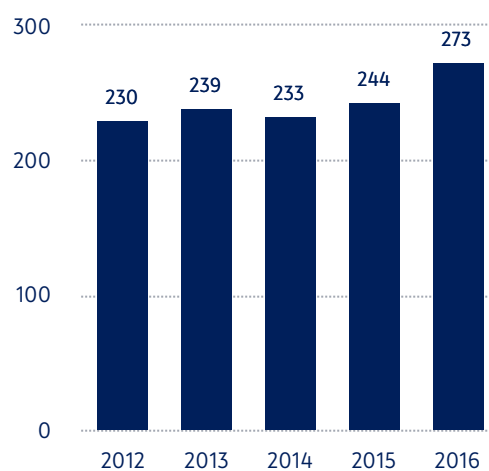
Net sales

€ million



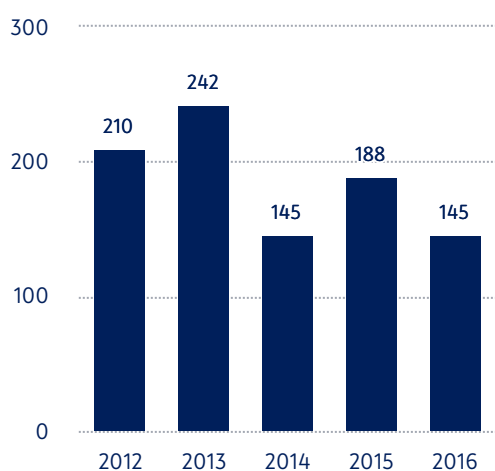
Comparable operating profit

€ million



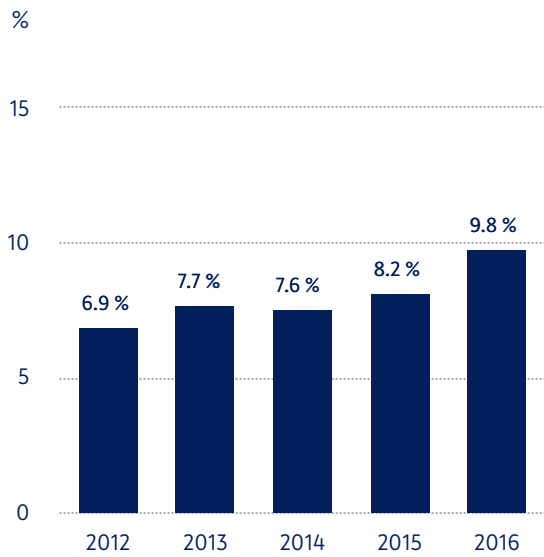
Profit before tax

€ million

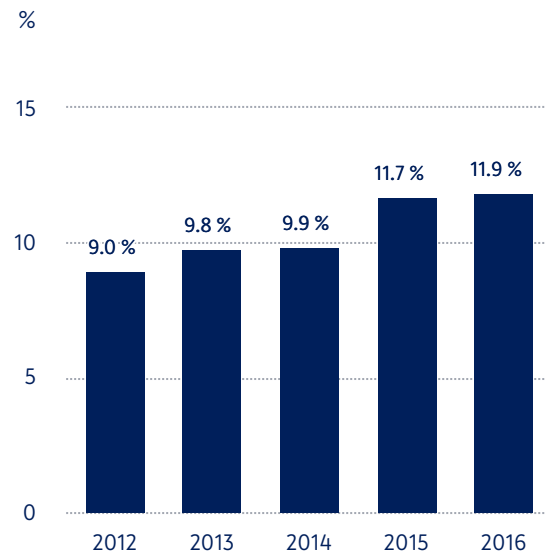




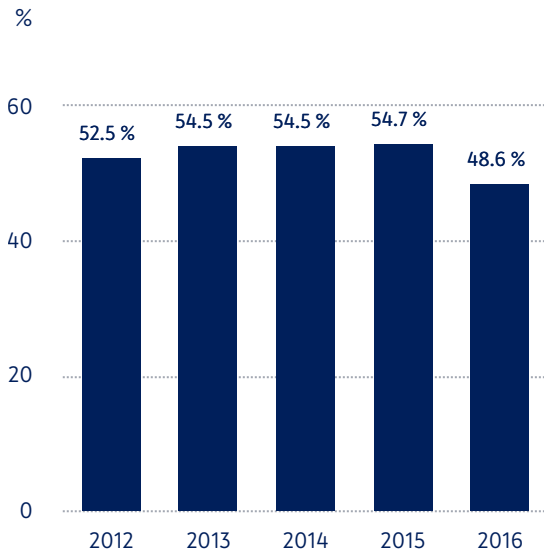
Comparable return on equity



Comparable return on capital employed



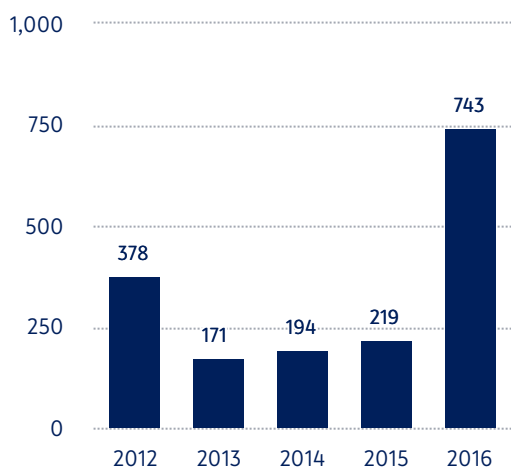
Equity ratio





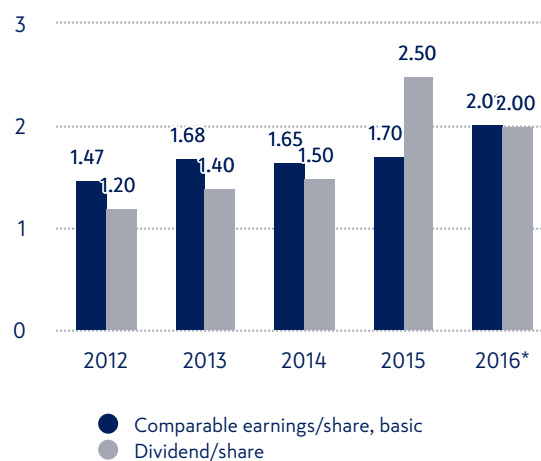
Capital expenditure

€ million



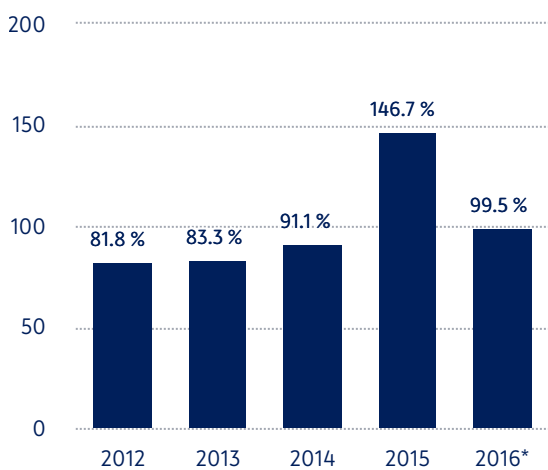
Comparable earnings/share and dividend/share

€



Payout ratio

%



* Proposal to the General Meeting

* Proposal to the General Meeting



Group's key performance indicators

		2012	2013	2014	2015	2016
Income statement						
Net sales	€ million	9,686	9,315	9,071	8,679	10,180
Change in net sales	%	2.4	-3.8	-2.6	-4.3	17.3
Comparable operating profit	€ million	230.0	238.8	232.6	244.5	272.9
Comparable operating profit as percentage of net sales	%	2.4	2.6	2.6	2.8	2.7
Profit for the year (incl. non-controlling interests)	€ million	136	185	108	117	114
Profit for the year as percentage of net sales	%	1.4	2.0	1.2	1.4	1.1
Profitability						
Return on equity	%	6.0	8.0	4.7	5.2	5.2
Comparable return on equity	%	6.9	7.7	7.6	8.2	9.8
Return on capital employed	%	8.3	10.2	6.4	9.3	6.4
Comparable return on capital employed	%	9.0	9.8	9.9	11.7	11.9
Funding and financial position						
Interest-bearing net liabilities	€ million	135.3	-126.4	-99.2	-448.1	123.3
Gearing	%	6.0	-5.4	-4.4	-20.0	5.8
Equity ratio	%	52.5	54.5	54.5	54.7	48.6
Interest-bearing net debt/EBITDA		0.4	-0.3	-0.3	-1.4	0.4
Other performance indicators						
Capital expenditure	€ million	378	171	194	219	743
Capital expenditure as percentage of net sales	%	3.9	1.8	2.1	2.5	7.3
Cash flow from operating activities	€ million	382	414	304	276	170
Cash flow from investing activities	€ million	-391	-152	-182	217	-501
Personnel, average for the period		19,747	19,489	19,976	18,955	22,476
Personnel, as at 31 Dec.		24,080	23,863	23,794	21,935	27,656



		2012	2013	2014	2015	2016
Share performance indicators						
Earnings/share, diluted	€	1.26	1.75	0.97	1.03	0.99
Earnings/share, basic	€	1.27	1.75	0.97	1.03	0.99
Comparable earnings/share, basic	€	1.47	1.68	1.65	1.70	2.01
Equity/share	€	22.48	22.96	22.05	21.82	20.44
Dividend/share	€	1.20	1.40	1.50	2.50	2.00*
Payout ratio	%	94.5	79.9	154.7	243.8	201.3*
Comparable payout ratio	%	81.8	83.3	91.1	146.7	99.5*
Cash flow from operating activities/share, adjusted	€	3.88	4.17	3.07	2.79	1.71
Price/earnings ratio (P/E), A share, adjusted		19.30	15.35	29.49	30.35	44.14
Price/earnings ratio (P/E), B share, adjusted		19.60	15.35	31.16	31.57	47.80
Effective dividend yield, A share	%	4.9	5.2	5.3	8.0	4.6*
Effective dividend yield, B share	%	4.8	5.2	5.0	7.7	4.2*
Share price as at 31 Dec.						
A share	€	24.39	26.80	28.56	31.12	43.85
B share	€	24.77	26.80	30.18	32.37	47.48
Average share price						
A share	€	23.71	24.85	29.06	31.85	37.30
B share	€	22.75	24.11	29.82	33.52	39.03
Market capitalisation as at 31 Dec., A share						
Market capitalisation as at 31 Dec., A share	€ million	774	851	906	988	1,392
Market capitalisation as at 31 Dec., B share						
Market capitalisation as at 31 Dec., B share	€ million	1,644	1,810	2,031	2,182	3,207
Turnover						
A share	Million pcs	2	1	2	2	2
B share	Million pcs	68	51	47	59	52
Relative turnover rate						
A share	%	7.6	3.6	6.3	7.5	5.4
B share	%	102.0	77.0	69.5	87.0	74.3
Diluted average number of shares						
Diluted average number of shares	Thousand pcs	98,472	99,136	99,161	99,114	99,249



Yield of A share for the last five financial years	%	-4.5	8.5	8.3	2.3	9.1
Yield of B share						
For the last five financial years	%	-3.7	13.7	10.1	3	18.6
For the last ten financial years	%	14.6	13.4	10.2	7.7	6.6

* Proposal to the General Meeting

Net sales by segment

€ million	1-12/2016	1-12/2015	Change,%
Grocery trade, Finland	5,131	4,566	12.4
Grocery trade, other countries*	105	107	-1.9
Grocery trade, total	5,236	4,673	12.0
- of which intersegment trade	10	15	-34.3
Building and technical trade, Finland	2,142	1,719	24.6
Building and technical trade, other countries*	1,959	1,530	28.0
Building and technical trade, total	4,100	3,250	26.2
- of which intersegment trade	11	1	(..)
Car trade, Finland	849	748	13.5
Car trade, total	849	748	13.5
- of which intersegment trade	0	0	-57.7
Common functions and eliminations	-5	8	(..)
Finland, total	8,117	7,042	15.3
Other countries, total*	2,063	1,637	26.0
Group total	10,180	8,679	17.3

*Net sales in countries other than Finland

(..) Change over 100%



Operating profit by segment

€ million	1-12/2016	1-12/2015	Change
Grocery trade	93.0	249.4	-156.4
Building and technical trade	60.8	-57.2	118.0
Car trade	28.9	26.1	2.8
Common functions and eliminations	-36.0	-23.7	-12.2
Group total	146.8	194.6	-47.8

Comparable operating profit by segment

€ million	1-12/2016	1-12/2015	Change
Grocery trade	175.9	177.5	-1.5
Building and technical trade	97.9	63.6	34.4
Car trade	29.5	26.1	3.4
Common functions and eliminations	-30.5	-22.7	-7.7
Group total	272.9	244.5	28.5



Group's performance indicators by quarter

	1-3/ 2015	4-6/ 2015	7-9/ 2015	10-12/ 2015	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016
Net sales, € million	2,082	2,227	2,203	2,166	2,013	2,610	2,792	2,765
Change in net sales,%	-2.2	-6.0	-4.4	-4.4	-3.3	17.2	26.7	27.6
Operating profit, € million	-103.6	175.8	83.1	39.3	33.5	68.0	85.5	-40.3
Operating margin,%	-5.0	7.9	3.8	1.8	1.7	2.6	3.1	-1.5
Comparable operating profit, € million	26.5	76.4	82.5	59.1	32.3	79.1	98.2	63.3
Comparable operating profit,%	1.3	3.4	3.7	2.7	1.6	3.0	3.5	2.3
Finance income/costs, € million	-0.3	-4.2	-3.5	0.9	2.7	1.7	-1.1	-4.3
Profit before tax, € million	-103.7	172.1	78.8	40.7	35.7	68.1	84.8	-43.5
Profit before tax,%	-5.0	7.7	3.6	1.9	1.8	2.6	3.0	-1.6
Return on capital employed,%	-18.1	31.9	17.6	8.2	6.7	12.3	13.6	-6.4
Comparable return on capital employed,%	4.6	13.9	17.5	12.4	6.5	14.3	15.6	10.1
Return on equity,%	-19.9	28.0	8.9	4.8	5.1	9.8	12.8	-6.9
Comparable return on equity,%	3.1	10.6	10.6	9.2	4.8	11.7	14.7	8.4
Equity ratio,%	51.5	52.2	54.2	54.7	54.8	44.8	47.9	48.6
Capital expenditure, € million	51.5	58.6	41.5	66.9	51.4	512.7	73.6	105.4
Earnings/share, diluted, €	-1.11	1.48	0.43	0.22	0.28	0.49	0.63	-0.40
Equity/share, €	21.30	21.21	21.41	21.82	22.13	20.31	20.84	20.44

Items affecting comparability

€ million	1-3/ 2015	4-6/ 2015	7-9/ 2015	10-12/ 2015	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016
Items affecting comparability								
Gains on disposal	0.3	99.6	1.2	0.1	1.3	2.9	0.8	-0.8
Losses on disposal	-130.6	-1.0	-0.2	-	-	-0.3	-0.1	-70.6
Impairment charges	-	-	-	-	-	-7.9	-3.1	-18.9
Structural arrangements	-	-	-	-19.3	0.0	-9.1	-4.6	-9.4
Others	0.2	0.9	-0.4	-0.7	-	3.3	-5.7	-3.9
Items in operating profit affecting comparability	-130.1	99.4	0.7	-19.9	1.3	-11.1	-12.7	-103.6
Items in income taxes affecting comparability	2.1	-4.5	-10.4	-4.6	0.1	0.8	2.7	21.6
Total items affecting comparability	-128.0	95.0	-9.7	-24.5	1.4	-10.3	-10.0	-82.0



Comparable operating profit									
Operating profit	-103.6	175.8	83.1	39.3	33.5	68.0	85.5	-40.3	
Net of									
Items in operating profit affecting comparability	-130.1	99.4	0.7	-19.9	1.3	-11.1	-12.7	-103.6	
Comparable operating profit	26.5	76.4	82.5	59.1	32.3	79.1	98.2	63.3	
Comparable operating margin,%									
	1.3	3.4	3.7	2.7	1.6	3.0	3.5	2.3	
Capital employed, average									
	2,295	2,204	1,889	1,907	1,990	2,207	2,523	2,497	
Comparable return on capital employed,%	4.6	13.9	17.5	12.4	6.5	14.3	15.6	10.1	
Comparable profit before tax									
Profit before tax	-103.7	172.1	78.8	40.7	35.7	68.1	84.8	-43.5	
Net of									
Items in operating profit affecting comparability	-130.1	99.4	0.7	-19.9	1.3	-11.1	-12.7	-103.6	
Comparable profit before tax	26.4	72.7	78.2	60.6	34.5	79.2	97.5	60.2	
Comparable profit									
Comparable profit before tax	26.4	72.7	78.2	60.6	34.5	79.2	97.5	60.2	
Net of									
Income tax	-7.0	-19.4	-30.4	-14.0	-7.0	-14.3	-16.4	6.4	
Items in income tax affecting comparability	-2.1	4.5	10.4	4.6	-0.1	-0.8	-2.7	-21.6	
Comparable profit	17.4	57.8	58.2	51.3	27.3	64.0	78.4	44.9	
Equity, average									
	2,227	2,184	2,189	2,220	2,265	2,195	2,131	2,143	
Comparable return on equity,%	3.1	10.6	10.6	9.2	4.8	11.7	14.7	8.4	
Comparable profit attributable to owners of the parent									
Comparable profit	17.4	57.8	58.2	51.3	27.3	64.0	78.4	44.9	
Profit attributable to non-controlling interests	-1.1	5.9	5.8	5.1	1.3	5.5	5.7	2.8	
Comparable profit attributable to owners of the parent	18.5	51.9	52.5	46.1	26.0	58.6	72.7	42.1	
Average number of shaers, basic, 1,000 pcs									
	99,024	99,084	99,104	99,114	99,163	99,221	99,240	99,249	
Comparable earnings/share, €	0.19	0.52	0.53	0.47	0.26	0.59	0.73	0.42	



Net sales by segment

€ million	1-3/ 2015	4-6/ 2015	7-9/ 2015	10-12/ 2015	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016
Grocery trade	1,103	1,149	1,171	1,249	1,094	1,353	1,367	1,422
Building and technical trade	773	883	857	736	695	1,046	1,238	1,121
Car trade	210	190	170	177	225	214	190	221
Common functions and eliminations	-3	4	4	4	-1	-2	-3	1
Group total	2,082	2,227	2,203	2,166	2,013	2,610	2,792	2,765

Operating profit by segment

€ million	1-3/ 2015	4-6/ 2015	7-9/ 2015	10-12/ 2015	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016
Grocery trade	35.2	115.8	45.0	53.4	30.2	44.1	44.8	-26.1
Building and technical trade	-144.7	61.5	36.8	-10.9	1.8	32.8	37.9	-11.7
Car trade	9.8	6.5	6.0	3.8	9.4	5.8	6.8	7.0
Common functions and eliminations	-3.9	-8.0	-4.6	-7.1	-7.8	-14.7	-4.0	-9.5
Group total	-103.6	175.8	83.1	39.3	33.5	68.0	85.5	-40.3

Items affecting comparability

€ million	1-3/ 2015	4-6/ 2015	7-9/ 2015	10-12/ 2015	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016
Grocery trade	0.3	72.4	0.2	-1.0	-1.1	0.5	-4.4	-78.0
Building and technical trade	-130.4	27.0	1.0	-18.4	1.5	-5.1	-7.4	-26.1
Car trade	-	-	-	-	-	-	-	-0.6
Common functions and eliminations	-	0.0	-0.6	-0.5	0.9	-6.5	-0.9	1.1
Group total	-130.1	99.4	0.7	-19.9	1.3	-11.1	-12.7	-103.6



Comparable operating profit by segment

€ million	1-3/ 2015	4-6/ 2015	7-9/ 2015	10-12/ 2015	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016
Grocery trade	34.9	43.3	44.8	54.5	31.3	43.6	49.2	51.9
Building and technical trade	-14.2	34.5	35.8	7.5	0.3	37.9	45.3	14.4
Car trade	9.8	6.5	6.0	3.8	9.4	5.8	6.8	7.5
Common functions and eliminations	-3.9	-8.0	-4.1	-6.7	-8.7	-8.2	-3.1	-10.5
Group total	26.5	76.4	82.5	59.1	32.3	79.1	98.2	63.3



Calculation of performance indicators

Profitability

Return on equity, %	$\frac{(\text{Profit/loss before tax} - \text{Income tax}) \times 100}{\text{Shareholders' equity, average of the beginning and end of the reporting period}}$
Comparable return on equity, %	$\frac{\text{Profit/loss adjusted for items affecting comparability before tax} - \text{Income tax adjusted for the tax effect of the items affecting comparability}) \times 100}{\text{Shareholders' equity, average of the beginning and end of the reporting period}}$
Return on capital employed, %	$\frac{\text{Operating profit} \times 100}{(\text{Non-current assets} + \text{Inventories} + \text{Receivables} + \text{Other current assets} - \text{Non-interest-bearing liabilities}) \text{ on average for the reporting period}}$
Comparable return on capital employed, %	$\frac{\text{Comparable operating profit} \times 100}{\text{Non-current assets} + \text{Inventories} + \text{Receivables} + \text{Other current assets} - \text{Non-interest-bearing liabilities}) \text{ on average for 12 months}}$
EBITDA	Operating profit + Depreciation and amortisation + Impairments

Funding and financial position

Equity ratio, %	$\frac{\text{Shareholders' equity} \times 100}{(\text{Balance sheet total} - \text{Prepayments received})}$
Gearing, %	$\frac{\text{Interest-bearing net liabilities} \times 100}{\text{Shareholders' equity}}$
Interest-bearing net debt	Interest-bearing liabilities – Money market investments – Cash and cash equivalents
Interest-bearing net debt/EBITDA	$\frac{\text{Interest-bearing liabilities}}{\text{EBITDA}}$



Share performance indicators

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



Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2016

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	24,496,401	24.49
Financial and insurance corporations	7,100,230	7.10
General government*	6,017,157	6.02
Households	25,140,166	25.14
Non-profit institutions**	5,290,423	5.29
Rest of the world	349,744	0.35
Nominee registered	31,625,631	31.62
Total	100,019,752	100.00

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	18,441,913	58.11	18.44
Financial and insurance corporations	4,097,314	12.91	4.10
General government*	401,002	1.26	0.40
Households	6,130,446	19.32	6.13
Non-profit institutions**	1,889,840	5.95	1.89
Rest of the world	21,179	0.07	0.02
Nominee registered	755,313	2.38	0.76
Total	31,737,007	100.00	31.73



B shares	Number of shares, pcs	Percentage of B shares,%	Percentage of all shares,%
Non-financial corporations and housing corporations	6,054,488	8.87	6.05
Financial and insurance corporations	3,002,916	4.40	3.00
General government*	5,616,155	8.22	5.62
Households	19,009,720	27.84	19.01
Non-profit institutions**	3,400,583	4.98	3.40
Rest of the world	328,565	0.48	0.33
Nominee registered	30,870,318	45.21	30.86
Total	68,282,745	100.00	68.27

* General government, for example, municipalities, the provincial administration of Åland, authorised pension providers and social security funds

** Non-profit institutions, for example, foundations awarding scholarships, organisations safeguarding certain interests and various charitable associations

Analysis of shareholding by number of shares held as at 31 Dec. 2016

All shares Number of shares	Number of shareholders, pcs	Percentage of share- holders,%	Share total, pcs	Percentage of shares,%
1-100	13,834	35.11	735,255	0.74
101-500	14,102	35.79	3,771,603	3.77
501-1,000	4,900	12.44	3,856,491	3.86
1,001-5,000	5,105	12.96	11,192,661	11.19
5,001-10,000	788	2.00	5,591,464	5.59
10,001-50,000	555	1.41	11,244,776	11.24
50,001-100,000	65	0.16	4,648,968	4.65
100,001-500,000	39	0.10	7,805,124	7.80
500,001-999,999,999,999	16	0.04	51,173,410	51.16
Yhteensä	39,404	100.00	100,019,752	100.00



A shares Number of shares	Number of shareholders, pcs	Percentage of A share- holders,%	A share total, pcs	Percentage of A shares,%
1-100	2,864	36.03	124,616	0.39
101-500	1,916	24.10	495,374	1.56
501-1,000	1,038	13.06	894,864	2.82
1,001-5,000	1,449	18.23	3,526,671	11.11
5,001-10,000	351	4.42	2,478,311	7.81
10,001-50,000	279	3.51	5,961,278	18.78
50,001-100,000	32	0.40	2,253,856	7.10
100,001-500,000	15	0.19	3,525,577	11.11
500,001-999,999,999,999	5	0.06	12,476,460	39.31
Yhteensä	7,949	100.00	31,737,007	100.00

B shares Number of shares	Number of shareholders, pcs	Percentage of B share- holders,%	B share total, pcs	Percentage of B shares,%
1-100	11,957	35.33	661,383	0.97
101-500	13,036	38.51	3,492,651	5.11
501-1,000	4,093	12.09	3,151,020	4.61
1,001-5,000	3,985	11.77	8,396,440	12.30
5,001-10,000	426	1.26	3,032,853	4.44
10,001-50,000	283	0.84	5,479,867	8.03
50,001-100,000	33	0.10	2,403,071	3.52
100,001-500,000	23	0.07	4,656,401	6.82
500,001-999,999,999,999	11	0.03	37,009,059	54.20
Yhteensä	33,847	100.00	68,282,745	100.00



10 largest shareholders by number of shares held as at 31 Dec. 2016

	Number of shares, pcs	Percentage of shares,%	Number of votes	Percentage of votes,%
1. K-Retailers' Association	4,017,154	4.02	40,171,540	10.42
2. Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
3. Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
4. Ilmarinen Mutual Pension Insurance Company	1,990,632	1.99	5,596,320	1.45
5. Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
6. Foundation for Vocational Training in the Retail Trade	1,147,164	1.15	10,610,205	2.75
7. Varma Mutual Pension Insurance Company	1,130,986	1.13	1,130,986	0.29
8. Oy The English Tearoom Ab	1,000,000	1.00	1,000,000	0.26
9. The State Pension Fund	950,000	0.95	950,000	0.25
10. Elo Mutual Pension Insurance Company	896,968	0.90	896,968	0.23

10 largest shareholders by number of votes as at 31 Dec. 2016

	Number of shares, pcs	Percentage of shares,%	Number of votes	Percentage of votes,%
1. K-Retailers' Association	4,017,154	4.02	40,171,540	10.42
2. Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
3. Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
4. Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
5. Foundation for Vocational Training in the Retail Trade	1,147,164	1.15	10,610,205	2.75
6. Ilmarinen Mutual Pension Insurance Company	1,990,632	1.99	5,596,320	1.45
7. K-Food Retailers' Club	484,336	0.48	4,843,360	1.26
8. Heimo Välinen Oy	470,000	0.47	4,700,000	1.22
9. Food Paradise Oy	469,541	0.47	4,695,410	1.22
10. T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50



Management's shareholdings

At the end of December 2016, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 306,814 Kesko Corporation A shares and 22,000 Kesko Corporation B shares, i.e. a total of 328,814 shares, which represents 0.33% of the total number of shares and 0.80% of votes carried by all shares of the Company.

At 31 December 2016, the President and CEO held 20,005 Kesko Corporation B shares, which represented 0.02% of the total number of shares and 0.01% of votes carried by all shares of the Company. At 31 December 2016, the Group Management Board including the President and CEO held 104,678 Kesko Corporation B shares, which represented 0.1% of the total number of shares and 0.03% of votes attached to all shares of the Company.



Consolidated financial statements (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2016	%	1 Jan.–31 Dec. 2015	%
Net sales	2	10,180.4	100.0	8,678.9	100.0
Cost of goods sold		-8,718.7	-85.6	-7,540.4	-86.9
Gross profit		1,461.7	14.4	1,138.5	13.1
Other operating income	4 5	699.0	6.9	800.4	9.2
Employee benefit expense	6 30	-722.8	-7.1	-544.8	-6.3
Lease expenditure		-458.1	-4.5	-407.7	-4.7
Marketing costs		-219.2	-2.2	-221.6	-2.6
Property and store site maintenance		-129.0	-1.3	-105.4	-1.2
Information system expenses		-91.8	-0.9	-78.5	-0.9
Other operating expenses	4	-231.4	-2.3	-249.6	-2.9
Depreciation, amortisation and impairment	11 12	-161.6	-1.6	-136.8	-1.6
Operating profit		146.8	1.4	194.6	2.2
Interest income and other finance income	7	15.0	0.1	10.4	0.1
Interest expense and other finance costs	7	-11.6	-0.1	-14.2	-0.2
Foreign exchange differences	7	-4.4	-0.0	-3.3	-0.0
Total finance income and costs	7	-1.0	-0.0	-7.1	-0.1
Investments accounted for using the equity method		-0.6	-0.0	0.6	0.0
Profit before tax		145.2	1.4	188.0	2.2
Income tax	8	-31.4	-0.3	-70.7	-0.8
Profit for the year		113.8	1.1	117.4	1.4



Profit for the year attributable to			
Owners of the parent		98.6	101.6
Non-controlling interests		15.3	15.7
Earnings per share for profit attributable to owners of the parent			
Basic, €	10	0.99	1.03
Diluted, €	10	0.99	1.03

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2016	1 Jan.–31 Dec. 2015
Profit for the year		113.8	117.4
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	9 17	-11.1	23.0
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	9	10.4	-17.4
Cash flow hedge revaluation	9	2.4	-0.0
Revaluation of available-for-sale financial assets	9	0.5	1.1
Others	9	-0.3	-0.3
Total comprehensive income for the year, net of tax		2.0	6.4
Total comprehensive income for the year		115.8	123.8
Comprehensive income for the year attributable to			
Owners of the parent		100.8	118.9
Non-controlling interests		15.0	4.9



Consolidated statement of financial position

€ million	Note			31 Dec. 2016	%	31 Dec. 2015	%
ASSETS							
Non-current assets							
Property, plant and equipment	11			1,150.4		1,282.1	
Intangible assets	12			430.5		168.4	
Equity accounted investments	13	37		107.9		99.2	
Available-for-sale financial assets	23	32		15.1		15.3	
Non-current receivables	14	15	23	62.6		62.9	
Deferred tax assets		16		5.8		3.9	
Pension assets		17		164.7		176.4	
Total non-current assets				1,937.1	43.9	1,808.3	43.7
Current assets							
Inventories		18		978.9		735.0	
Interest-bearing receivables		19	23	3.7		10.0	
Trade receivables	19	23	32	831.2		581.7	
Income tax assets		19	23	21.2		2.0	
Other non-interest-bearing receivables		19	23	198.6		114.6	
Financial assets at fair value through profit or loss		23	32	93.3		374.2	
Available-for-sale financial assets	20	23	32	156.8		371.7	
Cash and cash equivalents				141.3		141.2	
Total current assets				2,424.9	55.0	2,330.5	56.3
Non-current assets held for sale		21		45.7	1.0	0.5	0.0
Total assets				4,407.7	100.0	4,139.3	100.0



€ million	Note			31 Dec. 2016	%	31 Dec. 2015	%
EQUITY AND LIABILITIES							
Equity attributable to owners of the parent							
Share capital		22		197.3		197.3	
Share premium		22		197.8		197.8	
Other reserves		22		265.6		265.5	
Currency translation differences		22		-23.7		-44.6	
Revaluation reserve		22		3.2		0.2	
Retained earnings				1,389.0		1,547.1	
				2,029.1	46.0	2,163.4	52.3
Non-controlling interests				97.3	2.2	78.6	1.9
Total equity				2,126.3	48.2	2,241.9	54.2
Non-current liabilities							
Interest-bearing non-current liabilities	23	24	32	358.7		258.3	
Non-interest-bearing non-current liabilities		23	32	40.2		42.2	
Deferred tax liabilities			16	48.1		71.4	
Pension obligations			17	0.8		0.9	
Provisions			25	14.9		15.6	
Total non-current liabilities				462.5	10.5	388.4	9.4
Current liabilities							
Current interest-bearing liabilities		23	32	156.0		180.8	
Trade payables	23	26	32	1,069.2		795.1	
Other non-interest-bearing liabilities	23	26	32	226.9		212.6	
Income tax liabilities	23	26	32	8.7		31.4	
Accrued liabilities	23	26	32	316.2		251.3	
Provisions			25	41.0		37.8	
Total current liabilities				1,818.0	41.2	1,509.0	36.5
Liabilities related to available-for-sale non-current assets				0.8	0.0	-	-
Total liabilities				2,281.3	51.8	1,897.3	45.8
Total equity and liabilities				4,407.7	100.0	4,139.3	100.0



Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2016	1 Jan.–31 Dec. 2015
Cash flows from operating activities			
Profit before tax		145.2	188.0
Adjustments			
Depreciation according to plan		137.6	127.6
Finance income and costs		1.0	7.1
Other adjustments	31	90.6	40.1
		229.2	174.8
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-43.8	-1.8
Inventories increase (-)/decrease (+)		5.1	-43.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-78.5	7.0
		-117.2	-38.8
Interest paid and other finance costs		-17.0	-17.6
Interest received		14.1	8.9
Dividends received		0.0	0.1
Income taxes paid		-84.1	-38.9
Net cash flows from operating activities		170.2	276.4



Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3	-427.5	-
Payments to acquire equity accounted investments	31	-	-11.0
Payments for tangible and intangible assets	31	-277.4	-203.8
Proceeds from sale of subsidiaries, net of cash disposed of	31	160.9	-47.3
Equity repaid by associates and joint ventures		-	9.5
Proceeds from sale of tangible and intangible assets		44.0	470.4
Proceeds from sale of available-for-sale financial assets		0.4	-
Non-current loan and receivables, increase (-)/decrease (+)		-1.5	-0.6
Net cash flows from investing activities		-501.1	217.1
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)		63.0	-58.6
Repayments of finance lease liabilities		-3.6	-2.8
Interest-bearing receivables, increase (-)/decrease (+)		2.0	1.8
Dividends paid		-249.5	-156.1
Proceeds from issue of shares		12.6	-
Acquisition of treasury shares		-0.3	-
Short-term money market investments, increase (-)/decrease (+)		364.5	-269.2
Other items		6.9	19.3
Net cash flows from financing activities		195.6	-465.7
Change in cash and cash equivalents and current available-for-sale financial assets		-135.3	27.8
Cash and cash equivalents and current available-for-sale financial assets as at 1 January	31	334.1	313.3
Currency translation difference adjustment and change in value		2.1	-7.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December	31	200.8	334.1



Consolidated statement of changes in equity

€ million	Attributable to owners of the parent							Non-controlling interest	Total equity
	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total		
Balance as at 1 January 2016	197.3	463.4	-44.6	0.2	-27.5	1,574.6	2,163.4	78.6	2,241.9
Share-based payment					4.3		4.3		4.3
Treasury shares					-0.3		-0.3		-0.3
Dividends						-248.2	-248.2	-1.1	-249.3
Increase in share capital								12.6	12.6
Disposal of subsidiary			10.2			-10.2	0.0		0.0
Acquisition of non-controlling interest		0.0				0.5	0.5	-7.8	-7.4
Other changes		0.0				8.6	8.6		8.6
Transactions with owners, total		0.0	10.2		4.0	-249.3	-235.1	3.7	-231.4
Comprehensive income									
Profit for the year						98.6	98.6	15.3	113.8
Actuarial gains/losses						-14.0	-14.0		-14.0
Currency translation differences related to a foreign operation		0.0	10.6				10.6	-0.2	10.4
Cash flow hedge revaluation				3.1			3.1		3.1
Revaluation of available-for-sale financial assets				0.7			0.7		0.7
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				-0.7		2.8	2.1		2.1
Total comprehensive income for the period		0.0	10.6	3.0		87.2	100.8	15.0	115.8
Balance as at 31 December 2016	197.3	463.4	-23.7	3.2	-23.5	1,412.4	2,029.1	97.3	2,126.3



€ million	Attributable to owners of the parent							Non-controlling interest	Total equity
	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total		
Balance as at 1 January 2015	197.3	463.3	-37.9	-0.9	-31.5	1,593.5	2,183.9	81.6	2,265.5
Share-based payment					4.0		4.0		4.0
Treasury shares					-0.1		-0.1		-0.1
Dividends						-148.7	-148.7	-7.3	-156.1
Acquisition of non-controlling interest					0.0	0.1	0.1	-0.6	-0.5
Other changes		0.0	-0.0			5.3	5.3	0.0	5.3
Transactions with owners, total		0.0	-0.0		4.0	-143.3	-139.3	-8.0	-147.3
Comprehensive income									
Profit for the year						101.6	101.6	15.7	117.4
Actuarial gains/losses						28.8	28.8		28.8
Currency translation differences related to a foreign operation		0.0	-6.6				-6.6	-10.8	-17.4
Cash flow hedge revaluation				-0.0			-0.0		-0.0
Revaluation of available-for-sale financial assets				1.4			1.4		1.4
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				-0.3		-5.8	-6.1		-6.1
Total comprehensive income for the period		0.0	-6.6	1.1		124.3	118.9	4.9	123.8
Balance as at 31 December 2015	197.3	463.4	-44.6	0.2	-27.5	1,574.6	2,163.4	78.6	2,241.9

Further information on share capital and reserves is disclosed in note 22, on components of other comprehensive income in note 9 and on share-based compensation plans in note 30.



Notes to the consolidated financial statements

Note 1. Accounting policies for the consolidated financial statements

Basic information about the Company

Kesko is a Finnish listed trading sector company. Kesko has over 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Poland, Russia and Belarus.

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

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

Kesko's Board of Directors has approved these financial statements for disclosure on 1 February 2017.

General information

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2015. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish

Accounting Act and regulations based on it. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

New standards were not adopted during the financial year 2016.

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

Critical accounting estimates and assumptions

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

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

Measurement of assets acquired and liabilities assumed

Assets acquired and liabilities assumed in business combinations are measured at their fair values at the date of acquisition. The fair values on which the



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

Impairment test

The recoverable amounts of cash generating units have been determined using calculations based on value in use. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of three years. (Note 12)

Employee benefits

The Group operates both defined contribution pension plans and defined benefit pension plans. Items relating to employee benefits are calculated using several factors that require the application of judgement. Pension calculations under defined benefit plans in compliance with IAS 19 are based on, among others, the following factors that rely on management estimates (Note 17):

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

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

Measurement of inventories

The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records an

impairment as necessary. Such reviews require assessments of future demand for products. Possible changes in these estimates may cause changes in inventory measurement in future periods.

Trade receivables

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

Provisions

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

Critical judgements in applying accounting policies

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

Consolidation principles

Subsidiaries

The consolidated financial statements combine the financial statements of Kesko Corporation and subsidiaries controlled by the Group. Control exists when the Group has more than half of the voting rights of a subsidiary or otherwise exerts control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. The



existence of potential voting rights has been considered when assessing the existence of control in the case that the instruments entitling to potential control are currently exercisable. Subsidiaries are listed in note 37.

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

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

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

Associates

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

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

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from associates are deducted from

the Group's result and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised.

Joint arrangements

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

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

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

Mutual real estate companies

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

Subsidiaries, equity accounted investments and proportionately consolidated mutual real estate companies are listed in note 37.



Foreign currency items

The consolidated financial statements are presented in euros, which is both the functional currency of the environment in which the Group's parent operates and the presentation currency. On initial recognition, the amounts with respect to the result and financial position of the Group companies located outside the euro zone are recorded in the functional currency of each of their operating environments. Until 31 December 2016, the functional currency of the real estate companies operating in Russia in St. Petersburg and Moscow was the euro, which is why no significant exchange differences have not been realised from their balance sheets to the Group. A change has taken place in the Russian real estate market as a result of which, an increasing number of leases is rouble denominated. Earlier leases were mainly denominated in the euro. As of 1 January 2017, the functional currency of Russian real estate companies is the rouble as a result of the change in the Russian rental market.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currency are translated into euros using the closing rate. Exchange rate gains and losses on foreign currency transactions and receivables and liabilities denominated in foreign currency are recognised in the income statement, with the exception of those loan exchange rate movements designated as hedges of foreign net investments and regarded as effective. These exchange differences are recognised in equity, in compliance with the rules of hedge accounting, and their changes are presented in other comprehensive income. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign exchange forward contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in financial income and costs.

The income statements of the Group companies operating outside the euro zone, and whose functional currency is not that of a hyperinflationary economy, have been translated into euros at the average rate of the financial year, and the balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, and the translation differences

arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, and the hedging result of net investments in them are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, translation differences are recognised in the income statement as part of the gains or losses on the disposal.

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

The assets and liabilities of entities operating in countries that have been identified as hyperinflationary economies have been restated to correspond to the change in purchasing power prior to foreign currency translation. The income statements and balance sheets of these entities have been translated into euros at the rate of the balance sheet date. In 2016, the Group did not have entities operating in hyperinflationary economies.

Financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss
- available-for-sale financial assets
- loans and receivables

The classification at initial recognition depends on the purpose for which the financial asset was acquired.

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

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



At each date of the financial statements, the Group assesses whether there is evidence that a financial asset is impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the fair value based on the market price or the present value of cash flows. The fair value of financial assets is determined on the basis of a maturity based interest rate quotation. An impairment loss is recognised if the carrying amount of financial assets exceeds the recoverable amount. Impairment losses are recognised within the financial items of the income statement.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include instruments initially classified as financial assets at fair value through profit or loss (the fair value option). These instruments are managed based on fair value and they include investments in money market funds, as well as investments in other interest-bearing instruments with maturities of over three months, as defined by the Group's treasury policy. The interest income from these financial assets and changes in their fair values, as well as any commissions returned by the funds are presented on a net basis in the interest income of the relevant class in the income statement.

In addition, financial assets at fair value through profit or loss include all derivatives that do not qualify for hedge accounting in compliance with IAS 39. Derivatives are carried at fair value using prices quoted in active markets. The results of derivatives used for hedging purchases and sales are recognised in other operating income or expenses. The result of derivatives used for hedging financial items is recognised in financial items, unless the derivative has been designated as a hedging instrument.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets designated as available for sale at the date of initial recognition. Available-for-sale financial assets are measured at fair value at the balance sheet date and the changes in their fair values are recognised in equity and presented in other comprehensive income. The fair

value of publicly quoted financial assets is determined based on their market value. Financial assets not quoted publicly are measured at cost if their fair values cannot be measured reliably.

Dividends from equity investments included in available-for-sale financial assets are recognised in financial items in the income statement. The interest income from available-for-sale financial assets is recognised in the financial items of the relevant class. When an available-for-sale financial asset is sold, the accumulated changes in fair value recognised in equity are included in other financial income/expenses in the income statement.

Loans and receivables

Loans and receivables are non-derivative assets with fixed or measurable payments, and they are not quoted in active markets. Loans and receivables also include trade receivables and other receivables. They are recognised at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with banks. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of the division parent companies, used as cash floats in stores, or amounts being transferred to the respective companies.

Financial liabilities

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



Derivative financial instruments and hedge accounting

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

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

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

Measurement principles

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

Hedging a net investment in foreign operations

During the financial year, the Group has not hedged net investments in foreign operations. If a hedge is initiated, the Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the hedging instruments are recognised in profit or loss.

Embedded derivatives

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



measurement date and the change in fair value is recognised in the income statement.

Property, plant and equipment

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

Subsequent costs relating to items of property, plant and equipment are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with

the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. The machinery and equipment of buildings are treated as separate assets and any significant expenditure related to their replacement is capitalised. All other repair, service and maintenance expenditures of items of property, plant and equipment are charged to the income statement during the financial period in which they are incurred.

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

The most common estimated useful lives are:

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

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

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

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

Intangible assets

Goodwill and trademarks

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

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



Other intangible assets

The cost of intangible assets with definite useful lives are recorded in the balance sheet and recognised as expenses during their useful lives. Such intangible assets include software licences, customer relationships

and licences measured at the fair value at the date of acquisition, and leasehold interests that are amortised during their probable lease terms.

The estimated useful lives are:

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

Research and development expenses

The costs of research and development activities have been expensed as incurred, because the Group does not have development costs eligible for capitalisation. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

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.

Software

The salary costs of the Group employees working on projects for developing new software and other directly attributable costs are capitalised as part of the software cost. On the balance sheet, software is included in intangible assets and its cost is amortised over the useful life of the software. Costs associated with maintaining the software are recognised as an expense as incurred.

Leases

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 Group acts as both lessor and lessee of real estate and machines. Leases in which risks and rewards incidental to ownership are not transferred to the lessee are classified as operating leases. Lease payments related to them are recognised in the income statement on a straight-line basis over the lease term.

Leases that substantially transfer all risks and rewards incidental to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower of the fair value at the inception date and the present value of



minimum lease payments. The lease obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are recognized as finance costs and a decrease in the liability. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Similarly, leases in which assets are leased out by the Group and substantially all the risks and rewards incidental to ownership are transferred to the lessee, are classified as finance leases. Assets leased under such contracts are recognised as a receivable in the balance sheet and the receivable is stated at present value. The financial income from finance leases is determined so as to achieve a constant periodic rate of return on the remaining net investment for the lease term.

In sale and leaseback transactions, the selling price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any proceeds exceeding the carrying amount are not immediately recognised as income. Instead, the amount is recognised as a liability in the balance sheet and amortised over the period of the lease. If a sale and leaseback transaction results in an operating lease and the transaction was executed at fair value, any profit or loss is recognised immediately.

If the selling price is less than fair value, any profit or loss is recognised immediately, unless the loss is compensated by future lease payments at below market price, in which case the loss is deferred and amortised over the period for which the asset is expected to be used. If the selling price exceeds fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognised immediately.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less direct costs necessary to make the sale. The cost is determined using weighted average costs. The cost of certain categories of inventory is determined using the

FIFO method. The cost of finished goods comprises all costs of purchase including freight. The cost of self-constructed goods comprises all costs of conversion including direct costs and allocations of variable and fixed production overheads. The cost excludes borrowing costs.

Trade receivables

Trade receivables are recognised in the amounts of initial sale. Impairment is recognised when there is objective evidence of impairment loss. The Group has established uniform principles for the determination of impairment of trade receivables based on the time receivables have been overdue. In addition, impairment is recognized, if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Impairment is recognised as an expense in other operating expenses. If an amount previously written off is subsequently settled, it is recognised as a reduction of other operating expenses.

Non-current assets held for sale and discontinued operations

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

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives. In the financial years 2016 and 2015, the Group had no discontinued operations.

Equity

The Group classifies the instruments it has issued either in equity or in financial liabilities based on their nature. An equity instrument is any contract that evidences a residual interest in the assets of an entity after



deducting all of its liabilities. Expenses related to the issuance or acquisition of equity instruments are presented as an allowance for equity. If Kesko Corporation acquires equity instruments of its own, their cost is deducted from equity.

Provisions

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

A warranty provision is recognised when a product covered by warranty provisions is sold. The provision amount is based on historical experience about the level of warranty expenses. Leases become onerous and a provision is recognised for them, if the leased premises remain vacant, or if they are subleased at a rate lower than the original. A provision is recognised for the estimated loss from vacant leased premises over the remaining lease term and for losses from subleased premises.

Employee benefits

Pension plans

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

In defined benefit plans, the Group may incur obligations or assets after the payment of the

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

Share-based payment

Share awards

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

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



Revenue recognition policies

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

For net sales, sales revenue is adjusted for indirect taxes, sales adjustment items and the exchange differences of foreign-currency-denominated sales. Sales adjustment items include loyalty award credits relating to the K-Plus customer loyalty scheme, which are recognised at fair values as part of sales transactions. Loyalty award credits affect the net sales of those segments which grant K-Plus customer loyalty credits and are engaged in retailing.

The Group sells products to retailers and other retail dealers in addition to engaging in own retailing. Income from sales of goods is recognised when significant risks, benefits and control relating to the ownership of the goods have been transferred to the buyer, and it is probable that the economic benefits associated with the transaction will flow to the Group. As a rule, income from sales of goods can be recognised at the time of transfer. Sales to retailers and other retail dealers are based on invoicing. Retail sales are mainly in cash and by credit card.

Income from services is recognised after the service has been performed and when a flow of economic benefits associated with the service is probable.

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

Other operating income and expenses

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

Borrowing costs

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

Directly attributable transaction costs clearly associated with a certain borrowing are included in the original amortised cost of the borrowing and amortised as an interest expense using the effective interest method.

Income tax

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

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

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

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

Dividend distribution

The dividend proposed by the Board of Directors to the General Meeting has not been deducted from equity.



Instead, dividends are recognised on the basis of the resolution by the General Meeting.

New IFRS standards and IFRIC interpretations and amendments to the existing standards and interpretations

In addition to the standards and interpretations presented in the 2016 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2017 or subsequent financial statements.

IFRS 9 Financial instruments

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 allows financial assets to be classified into three measurement categories: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The measurement category is determined on initial recognition. Classification depends on the business model for managing financial assets and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income, unless this creates an accounting mismatch. The Group's management estimates that the new standard will have a minor impact on the accounting treatment of financial assets.

The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

IFRS 15 Revenue from Contracts with Customer

The standard replaces IAS 11, 'Construction contracts' and IAS 18, 'Revenue' and related interpretations'. Revenue is recognised when control of goods or

services transfers to a customer. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the goods or services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Kesko Group's income mainly consists of sales of goods and services to business and consumer customers under ordinary trading sector terms and conditions. Management estimates that the adoption of the new standard will not have a material impact on the consolidated financial statements. The standard is not estimated to have any impact on customer agreements or business operations. The adoption of the standard is estimated to have only minor impacts on business support processes or information systems.

The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

IFRS 16 Leases

On 13 January 2016, IASB issued a new IFRS standard, IFRS 16 Leases. The standard addresses the definition, recording, measurement of lease contracts and notes related to lease arrangements. According to the standard, all leases of over 12 months are recognized as assets and liabilities (right-of-use assets).

The store site network is a strategic competitive factor for K Group. Kesko Group leases store sites for use in its business operations in all of its operating countries. At the end of 2016, Kesko Group had over 1,500 leased properties the rental liability for which was €2,957 million.

Management estimates that the new leasing standard will have a significant impact on the Company's income statement, balance sheet and performance indicators.

The effective date of the standard is 1 January 2019. The standard has not yet been endorsed for adoption by the EU.

Management estimates that the other issued new IFRS standards, IFRIC interpretations and amendments to the existing standards and interpretations will not have a



material impact on the consolidated financial statements or their presentation.



Note 2. Segment information

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

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

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

The assets and liabilities of a segment's capital employed consist of operating items that can be justifiably allocated to the segments. The assets of capital employed comprise property, plant and equipment and intangible assets, investments accounted for using the equity method and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables and assets held for sale. The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the segments.

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

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries in Finland. In Finland, Kesko Food operates under the K-retailer business model. The Russian grocery trade business was disposed of on 30 November 2016. Following the acquisition of Suomen Lähikauppa Oy, Kesko Food itself acts as a retailer in Finland. The conversion of Siwas and Valintatalos into K-Markets was begun in May 2016 and by the end of the year, 223 stores had been converted. Suomen Lähikauppa Oy was renamed K-Market Oy in autumn 2016. There are around 900 K-food stores operating under the K-retailer business model. These stores form the K-Citymarket, K-Supermarket and K-Market grocery retail chains. Kesko Food manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Kesko Food's subsidiary Kespro Ltd engages in grocery wholesaling in the Finnish hotel, restaurant and catering (HoReCa) business. K-citymarket, home and speciality goods, is a retailer of home and speciality goods in Finland.

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries, Poland, Russia and Belarus. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland. The



Group itself acts as a retail operator in Sweden, the Baltic countries, Russia and Belarus. The retail store chains are K-Rauta, Rautia, Byggmakker (Norway), K-Senukai (the Baltic countries) and OMA (Belarus). The building and home improvement stores serve both consumer and professional customers. On 1 June 2016, Kesko Corporation acquired Onninen Oy which specialises in the B2B trade. Onninen is one of the leading suppliers of HEPAC and electrical products and related service providers. The group specialises in the B2B trade and has around 150 places of business in Finland, Sweden, Norway, Poland, the Baltic countries and Russia. Kesko's business operations in the HEPAC and electrical product groups will expand and it will be able to provide better service to contractor customers in particular.

This reportable segment also includes the agricultural and machinery trade in Finland, the machinery trade in the Baltic countries, the leisure trade in Finland and the furniture trade. The furniture trade chains in Finland and the Baltic countries are Asko and Sotka. Intersport, Budget Sport and Kookenkä are the leisure chains. Intersport engages in the sports equipment trade in Finland. The agricultural and machinery trade comprises the operations of K-maatalous and Konekesko. The machinery trade is a service company specialising in the import and trade of construction, environmental, agricultural and recreational machinery.

Car trade

The car trade comprises the business operations of VV-Auto. VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen and MAN commercial vehicles in Finland. VV-Auto also engages in car retailing and provides after-sales services at its own retail outlets. In December 2016, VV-Auto Group acquired Oy Autocarrera Ab and as a result, the import and retailing of Porsche transferred to VV-Auto.

Common functions

Common functions comprise Group support functions.



Segment information for 2016

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Segment net sales	5,235.6	4,100.3	849.2	123.4	10,308.5
of which intersegment sales	-10.1	-11.2	-0.2	-106.7	-128.1
Net sales from external customers	5,225.5	4,089.2	849.0	16.8	10,180.4
Other segment income	527.2	169.6	4.4	10.8	712.0
of which intersegment income	-5.7	-8.8		1.5	-13.0
Other operating income from external customers	521.5	160.8	4.4	12.2	699.0
Depreciation and amortisation	-73.0	-48.5	-9.0	-7.1	-137.6
Impairment	-0.4	-17.6		-6.0	-24.0
Operating profit	93.0	60.8	28.9	-36.0	146.8
Items affecting comparability	-82.9	-37.2	-0.6	-5.5	-126.2
Comparable operating profit	175.9	97.9	29.5	-30.5	272.9
Finance income and costs					-1.0
Investments accounted for using the equity method					-0.6
Profit before tax					145.2



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Tangible and intangible assets	791.5	661.6	95.9	28.9	2.9	1,580.9
Equity accounted investments and other investments	4.8	1.5	0.0	117.4	-0.6	123.0
Pension assets	40.6	16.2		107.9		164.7
Inventories	233.3	601.4	144.1		-0.0	978.9
Trade receivables	294.5	486.6	51.1	14.8	-15.9	831.2
Other non-interest-bearing receivables	64.7	106.5	9.2	56.3	-15.0	221.6
Interest-bearing receivables	0.8	2.9	0.0	60.8		64.5
Assets held for sale	2.6	42.7		0.5		45.7
Assets included in capital employed	1,432.9	1,919.5	300.3	386.5	-28.7	4,010.5
Unallocated items						
Deferred tax assets						5.8
Financial assets at fair value through profit or loss						93.3
Available-for-sale financial assets						156.8
Cash and cash equivalents						141.3
Total assets	1,432.9	1,919.5	300.3	386.5	-28.7	4,407.7
Trade payables	516.9	539.8	21.3	4.5	-13.4	1,069.2
Other non-interest-bearing liabilities	229.6	212.3	76.3	59.5	-15.5	562.2
Provisions	6.1	10.5	37.9	1.4		55.8
Liabilities related to assets held for sale		0.8				0.8
Liabilities included in capital employed	752.6	763.5	135.4	65.4	-28.8	1,688.1
Unallocated items						
Interest-bearing liabilities						514.6
Other non-interest-bearing liabilities						30.6
Deferred tax liabilities						48.1
Total liabilities	752.6	763.5	135.4	65.4	-28.8	2,281.3



Total capital employed as at 31 December	680.3	1,156.1	164.8	321.1	0.2	2,322.4
Average capital employed	827.6	1,000.4	123.9	337.8	-2.2	2,287.5
Return on capital employed, comparable,%	21.3	9.8	23.8	-9.0		11.9
Capital expenditure	238.1	451.7	41.4	14.9	-3.0	743.1
Number of personnel as at 31 December	10,338	15,630	817	871		27,656
Average number of personnel	8,200	12,744	780	752		22,476



Segment information for 2015

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Total
Segment net sales	4,672.9	3,249.8	747.9	129.4	8,799.9
of which intersegment sales	-15.4	-0.6	-0.4	-104.6	-121.0
Net sales from external customers	4,657.5	3,249.1	747.5	24.8	8,678.9
Other segment income	607.9	187.6	4.3	14.7	814.5
of which intersegment income	-6.1	-10.0	0.0	2.0	-14.1
Other operating income from external customers	601.9	177.6	4.3	16.7	800.4
Depreciation and amortisation	-69.1	-44.6	-8.0	-5.8	-127.6
Impairment	-0.0	-9.2			-9.2
Operating profit	249.4	-57.2	26.1	-23.7	194.6
Items affecting comparability	71.9	-120.8		-1.0	-49.9
Comparable operating profit	177.5	63.6	26.1	-22.7	244.5
Finance income and costs					-7.1
Investments accounted for using the equity method					0.6
Profit before tax					188.0



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Tangible and intangible assets	788.3	523.7	75.7	60.0	2.9	1,450.5
Equity accounted investments and other investments	4.7	0.2	0.0	110.2	-0.6	114.5
Pension assets	40.6	16.3		119.5		176.4
Inventories	211.9	382.3	140.9		-0.0	735.0
Trade receivables	284.5	256.6	43.4	11.3	-14.1	581.7
Other non-interest-bearing receivables	50.5	60.7	4.1	24.2	-21.0	118.5
Interest-bearing receivables	3.8	3.8	0.3	63.1		71.0
Assets held for sale				0.5		0.5
Assets included in capital employed	1,384.3	1,243.5	264.4	388.8	-32.8	3,248.1
Unallocated items						
Deferred tax assets						3.9
Financial assets at fair value through profit or loss						374.2
Available-for-sale financial assets						371.7
Cash and cash equivalents						141.2
Total assets	1,384.3	1,243.5	264.4	388.8	-32.8	4,139.3
Trade payables	424.4	355.3	17.4	7.7	-9.8	795.1
Other non-interest-bearing liabilities	233.5	131.3	69.2	88.8	-15.7	507.2
Provisions	4.0	16.6	31.9	0.9		53.4
Liabilities included in capital employed	661.9	503.3	118.6	97.5	-25.4	1,355.7
Unallocated items						
Interest-bearing liabilities						439.1
Other non-interest-bearing liabilities						31.2
Deferred tax liabilities						71.4
Total liabilities	661.9	503.3	118.6	97.5	-25.4	1,897.3



Total capital employed as at 31 December	722.4	740.3	145.8	291.3	-7.4	1,892.4
Average capital employed	871.4	823.0	103.7	292.2	-7.1	2,083.2
Return on capital employed, comparable,%	20.4	7.7	25.2			11.7
Capital expenditure	128.9	55.3	16.0	18.5	-0.2	218.5
Number of personnel as at 31 December	8,364	12,270	783	518		21,935
Average number of personnel	6,420	11,269	780	487		18,955



Group-wide information

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus. The grocery trade operates in Finland and, until the end of November 2016, in Russia. The building and technical trade operates in Finland, Sweden, Norway, the Baltic countries, Poland, Russia and Belarus, and the car trade operates in Finland.

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

2016 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	8,133.6	899.6	661.8	502.7	-17.4	10,180.4
Assets	3,035.7	332.5	258.9	383.3		4,010.5
Capital expenditure	630.1	3.1	24.7	85.2		743.1
Average number of personnel	10,714	1,327	4,597	5,838		22,476

2015 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	7,056.8	627.2	584.1	426.8	-16.0	8,678.9
Assets	2,357.1	182.3	216.3	492.5		3,248.1
Capital expenditure	130.6	4.2	4.1	79.6		218.5
Average number of personnel	8,300	988	4,508	5,160		18,955

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

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



Note 3. Business acquisitions and disposals of assets

Acquisitions

On 12 April 2016, Kesko Food Ltd, a Kesko Corporation subsidiary, acquired the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy on 1 June 2016. VV-Auto Group acquired the whole share capital of Oy Autocarrera Ab and as a result, the import and retailing of Porsche transferred to VV-Auto.

	Suomen Lähikauppa € million	Onninen Group € million	Oy Auto- carrera Ab € million
Consideration paid	54	364	27
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition			
Intangible assets	5	94	2
Tangible assets and investments	33	21	1
Inventories	33	227	9
Receivables	12	238	4
Deferred tax asset	22	3	-
Cash and cash equivalents	8	17	0
Total assets	113	599	16
Trade payables, other payables, provisions	134	275	7
Deferred tax liability	0	16	1
Total liabilities	134	291	8
Net assets acquired, total	-22	309	8
Goodwill	76	55	19
Cash flow impact of acquisition			
Consideration paid	-54	-364	-25
Cash and cash equivalents acquired	8	17	0
Cash flow impact of acquisition	-46	-347	-25



Suomen Lähikauppa Oy

On 12 April 2016, Kesko Food Ltd, a Kesko Corporation subsidiary, acquired the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. The debt-free price of the acquisition, structured as a share purchase, was €54 million.

Suomen Lähikauppa has concentrated on grocery stores located near customers. The acquisition underpins Kesko's new strategy, one focus area of which is to increase and renew the neighbourhood store network.

The tables above are a condensed presentation of the consideration paid to Triton, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition.

The €76 million goodwill from the acquisition reflects the synergies expected to arise especially from purchasing and logistics, marketing, store site network development, information system expenses and administration. Kesko estimates that it will gain annual synergy benefits of over 30 million at EBITDA level from the acquisition as of 2018. The achievement of synergies will require conversion costs for the renewal of the stores acquired from Suomen Lähikauppa. The costs of store and network conversion, to be treated as restructuring costs affecting the comparability of the operating profit, will total approximately €30 million in 2016-2018. The goodwill derived from the acquisition is not tax deductible.

The Group's profit for January-December 2016 includes costs incurred from an acquisition in the amount of €1.2 million, the most significant of which is the €0.6 million asset transfer tax. The costs are presented within items affecting comparability.

Suomen Lähikauppa contributed €575 million to the net sales of the April-December period. The impact on the comparable operating profit for the April-December period was €-7.4 million and taking synergies into account, €-3.2 million. Management estimates that if the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €795 million. The impact on the comparable operating profit would have been €-17 million. When determining the amounts of net sales and comparable operating profit, management estimates that the fair values recognized at the date of acquisition would have been the same if the acquisition had been completed on 1 January 2016.

Onninen Oy

Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy on 1 June 2016. The debt-free price of the acquisition, structured as a share purchase, was €364 million.

Onninen is one of the leading providers of HEPAC and electrical products and services in the Baltic Sea Region and Scandinavia. The group specialises in the B2B trade and has around 140 places of business in Finland, Sweden, Norway, Poland, the Baltic countries and Russia. Kesko's business operations will expand in the HEPAC and electrical product groups and it will be able to better serve contractor customers in particular. In addition, Kesko will gain new customer relationships in the infrastructure and industry customer groups.

The tables above are a condensed presentation of the consideration paid to Onvest Oy, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition.

The total value of the intangible assets acquired as at the date of the acquisition (including customer relationships and trademarks) is €94 million. The balance sheet value of current trade receivables equals their fair value.

The €55 million goodwill from the acquisition reflects the synergies expected to mainly arise from the utilisation of the common customer relationships, from purchasing and logistics, the development of the store site network, as well as from ICT and



administration. Kesko estimates that it will gain annual synergy benefits of approximately €30 million at EBITDA level from the acquisition as of 2020. The achievement of synergies will require both capital expenditures and non-recurring costs. The combined net cash flow impact of synergy benefits is estimated at around €25 million positive in 2016-2019. The goodwill derived from the acquisition is not tax deductible.

The Group's profit for January-December 2016 include costs incurred from an acquisition in the amount of €6.8 million, the most significant of which is the €5.8 million asset transfer tax. The costs are presented within items affecting comparability.

Onninen contributed €908 million to the net sales of the June-December period. The impact on the comparable operating profit for the June-December period was €18.2 million, adversely impacted by the fair value allocations of inventories written off in the amount of €5.1 million. Management estimates that if the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €1,500 million. The impact on the comparable operating profit would have been €17.7 million. When determining the amounts of net sales and comparable operating profit, management estimates that the fair values recognized at the date of acquisition would have been the same if the acquisition had been completed on 1 January 2016.

Oy Autocarrera Ab

In December VV-Auto Group, a Kesko Corporation subsidiary, acquired the whole share capital of Oy Autocarrera Ab. As a result, the import and retailing of Porsche transferred to VV-Auto. The price of the acquisition, structured as a share purchase, was €27 million.

The tables above are a condensed presentation of the consideration paid, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition.

The €19 million goodwill derived from the acquisition reflects the synergies and growth potential expected to be realised as Porsche increases VV-Auto's car selection. The acquisition will also create synergies in the car trade processes, such as purchases, store site network, logistics, ICT and administration. The goodwill derived from the acquisition is not tax deductible.

The Group's profit for December 2016 include costs incurred from an acquisition in the amount of €0.6 million, the most significant of which is the €0.4 million asset transfer tax.

AutoCarrera contributed €4.4 million to the net sales of December. The impact on the comparable operating profit for the December was €-0.0 million, adversely impacted by the fair value allocations of inventories written off in the amount of €0.1 million. Management estimates that if the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €45 million. The impact on the comparable operating profit would have been €2.2 million. When determining the amounts of net sales and comparable operating profit, management estimates that the fair values recognized at the date of acquisition would have been the same if the acquisition had been completed on 1 January 2016.

In 2015 Kesko Group did not have acquisitions to be accounted for as business combinations.



Disposals of assets

In July 2016, Kesko sold its shares in OOO Johaston and at the same time, disposed of the Intersport business in Russia.

In November 2016, Kesko sold the grocery business in Russia to Lenta Ltd. The aggregate consideration for the disposal was approximately €178 million, on which a €69 million comparable loss affecting comparability was recognised.

In 2015, Kesko sold the department store chain Anttila Oy to the German investment fund 4K INVEST at a price of €1 million. The date of the transaction was 16 March 2015. A €-130 million loss on the disposal affecting comparability was recorded on the transaction.

In 2015, Kesko, AMF Pensionsförsäkring and Ilmarinen established a joint real estate investment company. Kesko sold some of its store sites in both Finland and Sweden to the established joint venture. A €75.6 million selling profit affecting comparability was recorded.

In 2015, Kesko also sold four properties to Kesko Pension Fund. A €22.9 million selling profit affecting comparability was recorded.



Note 4. Other operating income and other operating expenses

Other operating income

€ million	2016	2015
Income from services	535.3	544.3
Lease income	41.9	44.5
Gains on disposal of tangible and intangible assets	3.3	102.7
Realised gains on derivative contracts and changes in fair value	5.2	6.6
Others	113.3	102.3
Total	699.0	800.4

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

Other operating income includes €1.8 million (€101.0 million) of items affecting comparability. More information on items affecting comparability is presented in note 5.

Other operating expenses

€ million	2016	2015
Other operating expenses	-161.9	-112.2
Losses on disposal of tangible assets and shares	-65.8	-130.6
Realised losses on derivative contracts and changes in fair value*	-3.7	-6.8
Total	-231.4	-249.6

* Includes changes in fair values of embedded derivatives.



Auditors' fees

€ million	2016	2015
PricewaterhouseCoopers, firm of auditors		
Audit	0.9	0.8
Tax consultation	0.1	0.1
Other services	0.3	0.6
Total	1.4	1.5
Other audit firms		
	2.0	1.2



Note 5. Items affecting comparability

€ million	2016	2015
Gains on disposal of properties and shares	4.2	101.2
Losses on disposal of properties and shares	-71.0	-131.8
Impairment losses	-30.0	-
Structural arrangements	-23.1	-19.3
Other items	-6.3	0.0
Total	-126.2	-49.9

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and they have been allocated to segments. The Group identifies gains and losses on disposal of real estate, shares and business operations, impairment charges and significant costs of discontinuing business operations and restructurings as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement. Impairment charges have been presented within depreciation, amortisation and impairment in the income statement.

In 2016, the items affecting comparability include €69.2 million loss on the disposal of the Russian grocery trade, €30.0 million in impairment charges, €11.4 million in costs related to the conversion of Suomen Lähikauppa's chains, and €6.9 million in asset transfer taxes on acquisitions included in structural arrangements. Due to the change in the Russian real estate market, the functional currency of the building and home improvement trade's Russian properties was changed from euro to rouble on 31 December 2016, and as a result, a €15 million impairment charge was allocated to the properties. In 2015, the items affecting comparability include a €130 million loss on the divestment of Anttila, gains on disposal of properties in the amount of €101.0 million, and relating to the restructuring of Intersport Russia's operations, a total of €17.2 million of impairment charges and provisions.



Note 6. Employee benefit expense, management compensation and number of personnel

€ million	2016	2015
Salaries and fees	-574.7	-440.2
Social security costs	-57.5	-43.2
Pension costs	-78.3	-55.0
Defined benefit plans	2.2	0.5
Defined contribution plans	-80.5	-55.5
Share-based payment	-12.3	-6.4
Total	-722.8	-544.8

Information on the employee benefits of the Group's management personnel and other related party transactions are presented in note 33, and on share-based payment in note 30.

Remuneration of the Group companies' managing directors and board members

€ million	2016	2015
Salaries of managing directors (incl. fringe benefits)	8.0	6.0
Remuneration of Board members	0.4	0.4
Total	8.3	6.4

Average number of the Group personnel

	2016	2015
Grocery trade	8,200	6,420
Building and technical trade	12,744	11,269
Car trade	780	780
Common functions	752	487
Total	22,476	18,956



Note 7. Finance income and costs

€ million	2016	2015
Interest income and other finance income		
Interest income on loans and receivables	11.3	7.8
Interest income on financial assets at fair value through profit or loss	0.7	0.8
Interest income on available-for-sale financial assets	1.6	1.6
Gains on disposal of available-for-sale financial assets	1.0	0.1
Other finance income	0.4	0.1
Total interest income and other finance income	15.0	10.4
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-10.8	-11.6
Losses on disposal of available-for-sale financial assets	0.0	-1.1
Other finance costs	-0.8	-1.6
Total interest expense and other finance costs	-11.6	-14.2
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-4.4	-3.3
Total exchange differences	-4.4	-3.3
Total finance income and costs	-1.0	-7.1

The interest expense includes €0.1 million (€0.2 million) of interests on finance leases recognised as expenses for the period.

The realised result of interest rate derivatives used for hedging a USD-denominated Private Placement credit facility is recognised in net terms in interest expense with the loan interest.



Exchange differences recognised in the income statement

€ million	2016	2015
Sales	-0.1	-0.1
Other income	2.7	6.6
Purchases	0.2	0.2
Other expenses	-3.7	-5.4
Finance income and costs	-4.4	-3.3
Total	-5.3	-2.1



Note 8. Income tax

€ million	2016	2015
Current tax	-41.3	-83.4
Tax for prior years	-0.8	-0.0
Deferred tax	10.7	12.8
Total	-31.4	-70.7

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

€ million	2016	2015
Profit before tax	145.2	188.0
Tax at parent's rate 20.0%	-29.0	-37.6
Effect of foreign subsidiaries' different tax rates	3.3	3.0
Effect of tax-free income	0.6	2.8
Effect of expenses not deductible for tax purposes	-7.1	-32.8
Effect of tax losses	-4.9	-5.7
Effect of consolidation	6.4	-0.3
Tax for prior years	-0.8	-0.0
Effect of change in tax rate	0.3	0.3
Others	-0.2	-0.4
Tax charge	-31.4	-70.7

The impact of the corporation tax rate change, effective from 1 January 2017 in Norway, on the deferred tax for the financial year 2016 was €0.3 million. The impact of the corporation tax rate change, effective from 1 January 2016 in Norway, on the deferred tax for the financial year 2015 was €0.3 million.



Note 9. Components of other comprehensive income

Components of other comprehensive income and related tax

€ million	2016 Before tax	Tax charge/ credit	After tax	2015 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-14.0	2.8	-11.1	28.8	-5.8	23.0
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	10.4		10.4	-17.4		-17.4
Cash flow hedge revaluation	3.1	-0.6	2.4	-0.0	0.0	-0.0
Revaluation of available-for-sale financial assets	0.7	-0.1	0.5	1.4	-0.3	1.1
Others	-0.3		-0.3	-0.3		-0.3
Total	-0.1	2.1	2.0	12.5	-6.1	6.4



Note 10. Earnings per share

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

	2016	2015
Profit for the period attributable to equity holders of the parent, € million	98.6	101.6
Number of shares		
Weighted average number of shares outstanding	99,248,794	99,113,741
Diluted weighted average number of shares outstanding	99,248,794	99,113,741
Earnings per share from profit attributable to equity holders of the parent		
Basic, €	0.99	1.03
Diluted, €	0.99	1.03



Note 11. Property, plant and equipment

2016 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and construction in progress	Total 2016
Cost						
Cost as at 1 January	357.2	1,184.2	508.5	83.3	71.1	2,204.4
Currency translation differences	0.9	4.2	7.0	1.0	0.2	13.3
Additions	13.5	68.4	58.3	5.8	86.2	232.2
Acquisitions	1.4	11.2	44.9	0.2	1.7	59.4
Deductions	-2.4	-19.9	-55.3	-0.4	-0.7	-78.6
Disposals	-52.1	-180.8	-34.4	-26.1	-2.7	-296.0
Transfers between items	-15.7	-8.6	1.7	-5.5	-54.8	-82.7
Cost as at 31 December	302.8	1,058.9	530.7	58.4	101.1	2,052.0
Accumulated depreciation, amortisation and impairment						
Accumulated depreciation, amortisation and impairment as at 1 January	-11.7	-486.1	-391.3	-33.1		-922.3
Currency translation differences		-1.4	-2.9	-0.5		-4.8
Accumulated depreciation, amortisation and impairment on disposals	9.6	40.8	15.8	4.3		70.4
Accumulated depreciation and amortisation on deductions		11.4	44.9	-0.2		56.1
Accumulated depreciation and amortisation on transfers		25.9	3.6	5.2		34.8
Depreciation charge for the year and impairments	-4.0	-76.1	-48.8	-6.9		-135.8
Accumulated depreciation, amortisation and impairment as at 31 December	-6.1	-485.6	-378.7	-31.2		-901.6
Carrying amount as at 1 January	345.5	698.1	117.2	50.2	71.1	1,282.1
Carrying amount as at 31 December	296.6	573.3	152.0	27.2	101.1	1,150.4



2015 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and construction in progress	Total 2015
Cost						
Cost as at 1 January	426.0	1,513.0	547.0	97.1	48.0	2,631.1
Currency translation differences	-0.5	-7.8	-6.4	-1.1	0.0	-15.6
Additions	6.3	61.9	41.0	6.3	65.5	180.9
Deductions	-74.8	-419.5	-76.5	-20.5	-0.2	-591.6
Transfers between items	0.2	36.6	3.4	1.5	-42.2	-0.4
Cost as at 31 December	357.2	1,184.2	508.5	83.3	71.1	2,204.4
Accumulated depreciation, amortisation and impairment						
Accumulated depreciation, amortisation and impairment charges as at 1 January	-11.7	-550.1	-408.7	-36.5		-1,007.0
Currency translation differences		1.2	3.0	0.3		4.5
Accumulated depreciation of deductions and transfers		125.9	55.6	10.1		191.7
Depreciation charge for the year and impairments		-63.2	-41.2	-7.1		-111.5
Accumulated depreciation, amortisation and impairment charges as at 31 December	-11.7	-486.1	-391.3	-33.1		-922.3
Carrying amount as at 1 January	414.3	962.9	138.3	60.7	48.0	1,624.1
Carrying amount as at 31 December	345.5	698.1	117.2	50.2	71.1	1,282.1

Property, plant and equipment include the following amounts of machinery and equipment leased under finance leases:

€ million	2016	2015
Cost	23.4	26.8
Accumulated depreciation	-15.3	-21.5
Carrying amount	8.1	5.3



Note 12. Intangible assets

2016 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2016
Cost					
Cost as at 1 January	101.6	70.9	229.5	8.4	410.3
Currency translation differences	-0.0	1.8	2.3		4.1
Additions	152.2		25.1	14.6	191.8
Acquisitions		58.3	39.6	6.2	104.0
Disposals	-0.1		-9.8		-9.9
Deductions			-10.5	-0.2	-10.7
Transfers between items	-4.0		8.0	-10.7	-6.7
Cost as at 31 December	249.6	131.0	284.0	18.3	682.9
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges as at 1 January	-60.6	-7.4	-174.0	0.0	-241.8
Currency translation differences	0.1	-0.4	-1.8		-2.1
Accumulated depreciation, amortisation and impairment on disposals	0.1		3.8		3.9
Accumulated depreciation and amortisation on deductions	0.6		10.5		11.1
Amortisation charge for the year and impairments			-23.4		-23.4
Accumulated amortisation and impairment charges as at 31 December	-59.7	-7.8	-184.9	0.0	-252.3
Carrying amount as at 1 January	41.0	63.5	55.5	8.4	168.4
Carrying amount as at 31 December	189.9	123.3	99.1	18.3	430.6



2015 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2015
Cost					
Cost as at 1 January	145.2	72.9	213.2	11.5	442.7
Currency translation differences	0.1	-2.0	-2.8	-0.0	-4.6
Additions			19.1	6.5	25.6
Deductions	-43.8		-4.4	-5.4	-53.6
Transfers between items			4.3	-4.2	0.1
Cost as at 31 December	101.6	70.9	229.5	8.4	410.3
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges as at 1 January	-104.2	-7.8	-152.9		-264.8
Currency translation differences	-0.1	0.5	2.4		2.8
Accumulated amortisation of deductions and transfers	43.8		1.8		45.6
Amortisation charge for the year and impairments			-25.3		-25.3
Accumulated amortisation and impairment charges as at 31 December	-60.6	-7.4	-174.0	0.0	-241.8
Carrying amount as at 1 January	41.0	65.1	60.4	11.5	177.9
Carrying amount as at 31 December	41.0	63.5	55.5	8.4	168.4

Other intangible assets include other non-current expenditure, of which €55.4 million (€33.4 million) are software and licence costs.



Goodwill and intangible rights by segment

€ million	Trademarks* 2016	Goodwill 2016	Discount rate (WACC)** 2016	Trademarks* 2015	Goodwill 2015	Discount rate (WACC)** 2015
Grocery trade		76.1	6.0	-	-	-
Building and technical trade						
Byggmakker, Norway	25.9		7.0	24.5		6.0
Onninen	58.3	55.1	7.1	-	-	-
Kesko Senukai, Baltics		20.5	7.0		18.3	7.0
K-rauta Rus, Russia		14.5	11.0		14.6	11.4
Indoor, Finland	39.1	4.1	7.0	39.1	4.1	6.0
Car trade		19.7	7.0		0.2	
Total	123.3	189.9		63.5	37.2	

* Intangible assets with indefinite useful lives

** After tax, rate used in impairment testing

The car trade excluded, the cash generating units have been identified at a lower level than the reportable segments. The units have been identified at the chain level. The €3.8 million goodwill related to Konekesko's Yamarin business is presented within available-for-sale non-current assets.

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

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

Impairment test for goodwill and intangible assets

In impairment testing, the recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by management, covering a period of three years. The key assumptions used for the plans are total market growth and profitability trends, changes in store site network, product and service selection, pricing and movements in operating costs. Cash flows beyond this period have been extrapolated mainly based on 1.0–4.0% (1.0–4.0%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each segment and country and adjusted for tax effect in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium,



industry-specific beta factor, target capital structure, borrowing cost and country risks. As a result of the update of calculation parameters, discount rates fell in Russia and rose in Norway and Finland compared to the previous year.

Impairment losses

There were no impairment charges recognised on goodwill or intangible rights in the financial years 2016 and 2015.

Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate. The most sensitive to movements in assumptions in the building and technical trade are the brand related to the Bygghemmer business and the goodwill related to the Russian business. If their residual EBITDA decreased by more than 0.3-0.5 percentage points, an impairment would be recognised. Regarding the other cash generating units, according to management's estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount.



Note 13. Equity accounted investments

€ million	2016	2015
Carrying amount as at 1 January	99.2	92.2
Share of the profit for the financial year	-1.3	0.2
Additions	9.9	16.3
Repaid equity	0.0	-9.4
Carrying amount as at 31 December	107.9	99.2

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

Disclosures on equity accounted investments and the Group's ownership interest in their aggregated assets, liabilities, net sales and profits/losses:

€ million	Assets	Liabilities	Net sales	Profit/loss	Ownership interest,%
2016					
Mercada Oy, Helsinki	668.9	624.0	48.3	3.8	33.3
Kruunuvuoren Satama Oy, Helsinki	257.3	131.9	12.9	8.5	49.0
Valluga-sijoitus Oy, Helsinki	30.2	0.3	0.0	2.7	46.2
Vähittäiskaupan Takaus Oy, Helsinki	86.8	0.3	1.4	7.4	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.2	1.7	9.1	-0.0	30.0
Others	43.8	35.7	0.1	-0.1	
Total	1,094.1	793.9	71.8	22.3	



2015

Mercada Oy, Helsinki	670.7	627.3	26.9	10.2	33.3
Kruunuvuoren Satama Oy, Helsinki	261.7	148.5	13.1	7.2	49.0
Valluga-sijoitus Oy, Helsinki	27.3	0.0	-	1.6	46.2
Vähittäiskaupan Takaus Oy, Helsinki	79.3	0.2	1.4	4.5	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.4	1.9	9.3	0.2	30.0
Others	4.4	3.1	0.2	0.0	
Total	1050.8	781.0	51.0	23.6	



Note 14. Non-current receivables

Maturity analysis of non-current receivables as at 31 Dec. 2016

€ million	2018	2019	2020	2021	2022–	Yhteensä
Non-interest-bearing non-current receivables	1.4	0.0		0.2	0.4	1.8
Loans and receivables from associates and joint ventures	1.5				56.0	57.5
Other non-current receivables	0.3	2.9	0.0	0.0	0.0	3.3
Total	3.2	2.9	0.0	0.2	56.4	62.6

The carrying amount of non-interest-bearing non-current receivables and finance lease receivables equal their fair value.

Maturity analysis of non-current receivables as at 31 Dec. 2015

€ million	2017	2018	2019	2020	2021–	Yhteensä
Non-interest-bearing non-current receivables	1.4	0.0		0.0	0.4	1.9
Finance lease receivables	0.3					0.3
Loans and receivables from associates and joint ventures		1.5			56.0	57.5
Other non-current receivables	0.4	0.4	2.3	0.1	0.1	3.3
Total	2.1	1.9	2.3	0.1	56.5	62.9



Note 15. Finance lease receivables

€ million	2016			2015		
	Minimum lease receivables	Unearned finance income	Present value of minimum lease receivables	Minimum lease receivables	Unearned finance income	Present value of minimum lease receivables
Finance lease receivables are due as follows:						
No later than 1 year	0.3	0.0	0.3	2.7	0.0	2.7
Later than 1 year and no later than 5 years	-	-	-	0.3	0.0	0.3
Later than 5 years	-	-	-	-	-	-
Total finance lease receivables	0.3	0.0	0.3	3.0	0.0	3.0



Note 16. Deferred tax

Movements in deferred tax in 2016

€ million	1 Jan. 2016	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2016
Deferred tax assets						
Provisions	9.6	0.3		0.0	0.1	10.0
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	8.3	-3.2		2.1	18.4	25.6
Other temporary differences	19.8	0.1	-0.6	1.3	-1.1	19.4
Total	37.8	-2.8	-0.6	3.4	17.3	55.1
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	49.6	-12.2			-6.5	30.9
Fair value allocation	9.3	-1.5		0.3	15.3	23.5
Defined benefit pension plans	35.3	0.6	-2.8			33.1
Other temporary differences	11.0	0.2	0.2	0.7	-2.2	9.9
Total	105.2	-12.9	-2.7	1.1	6.6	97.4
Net deferred tax liability	67.5					42.3

Balance sheet division of net deferred tax liability

€ million	2016	2015
Deferred tax assets	5.8	3.9
Deferred tax liabilities	48.1	71.4
Total	42.3	67.5

Other temporary differences within deferred tax assets include €3.6 million of deferred tax assets arising from compliance with the Group's accounting principles and €4.2 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.



Movements in deferred tax in 2015

€ million	1 Jan. 2015	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2015
Deferred tax assets						
Provisions	13.2	-0.7			-2.9	9.6
Defined benefit pension plans	0.3	-0.2				0.1
Tax loss carry-forwards	10.1	0.8		-2.6		8.3
Other temporary differences	18.0	9.9	-0.0	-1.2	-6.9	19.8
Total	41.5	9.8	-0.0	-3.8	-9.8	37.8
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	54.1	-4.5				49.6
Fair value allocation	11.3	-1.6		-0.4		9.3
Defined benefit pension plans	29.5	0.0	5.8			35.3
Other temporary differences	9.8	1.4	0.3	-0.5		11.0
Total	104.7	-4.7	6.1	-0.9	0.0	105.2
Net deferred tax liability	63.2					67.5

Tax loss carry-forwards

As at 31 December 2016, the Group's unused tax losses carried forward were €169.0 million, for which deferred tax assets have not been recognised, because at the balance sheet date, the realisation of the related tax benefit through future taxable profits is not probable.

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

€ million	2017	2018	2019	2020	2021	2022–	Total
	0.8	9.0	8.6	7.6	1.6	141.3	169.0

Deferred tax liabilities have not been recognised for taxes that would be payable on subsidiaries' undistributed earnings, because the subsidiaries' distributions are at the discretion of the Group, and a distribution of profits with tax effect is not probable in the near future.



Note 17. Pension assets

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

As regards foreign subsidiaries, the pension plan operated in Norway is classified as a defined benefit plan. As at 31 December 2016, the net liability in respect of the defined benefit plan in Norway was €0.2 million (€0.3 million). The defined benefit plan in Norway is not included in the tables below, because its impact on the consolidated amounts is insignificant. The pension plans in the other foreign subsidiaries are managed in accordance with local regulations and practices in each country and they are defined contribution plans.

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund's department A. Department A was closed on 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. At the end of 2016, the Pension Fund had 2,717 beneficiaries, of whom 641 were active employees and 2,076 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.7% (96.7%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

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

Kesko Group does not expect to pay contributions to the Pension Fund in 2017.



The defined benefit asset recognised in the balance sheet in respect of Kesko Pension Fund is determined as follows:

€ million	2016	2015
Present value of defined benefit obligation	-300.4	-266.1
Fair value of plan assets	464.5	442.4
Net assets recognised in the balance sheet	164.1	176.4
Movement in the net assets recognised in the balance sheet:		
As at 1 January	176.4	147.2
Income/cost recognised in the income statement	2.2	0.5
Remeasurement	-14.1	28.8
Contributions to plan and plan costs	-0.4	-0.4
As at 31 December	164.1	176.4

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2016	-266.4	442.8	176.4
Current service cost	-1.8		-1.8
Interest cost/income	-6.0	10.0	4.1
	-7.8	10.0	2.2
Remeasurement			
Return on plan assets		26.6	26.6
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	-41.4		-41.4
Experience gains/losses	0.7		0.7
	-40.7	26.6	-14.1
Contributions to plan and plan costs		-0.4	-0.4
Benefit payments	14.7	-14.7	0.0
As at 31 December 2016	-300.4	464.5	164.1



€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2015	-289.3	436.5	147.2
Current service cost	-2.8		-2.8
Interest cost/income	-6.5	9.8	3.3
	-9.3	9.8	0.5
Remeasurement			
Return on plan assets		11.5	11.5
Gain/loss from changes in demographic assumptions	0.6		0.6
Gain/loss from changes in financial assumptions	9.0		9.0
Experience gains/losses	7.7		7.7
	17.4	11.5	28.8
Contributions to plan and plan costs		-0.4	-0.4
Benefit payments	14.5	-14.5	0.0
As at 31 December 2015	-266.4	442.8	176.4



Plan assets were comprised as follows in 2016

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	100.3	56.5	156.8
Debt instruments	26.5	37.0	63.5
Investment funds	35.0	17.2	52.2
Properties		147.4	147.4
United States			
Equity instruments	4.7		4.7
Investment funds	32.8		32.8
Other countries			
Investment funds	22.7		22.7
Total	222.0	258.1	480.1

Plan assets were comprised as follows in 2015

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	89.7	43.0	132.7
Debt instruments	26.5	31.6	58.1
Investment funds	30.3	18.4	48.7
Properties	-	159.3	159.3
United States			
Equity instruments	6.0	-	6.0
Investment funds	27.8	-	27.8
Other countries			
Investment funds	26.5	-	26.5
Total	206.8	252.3	459.1



€ million	2016	2015
Kesko Corporation shares included in fair value	23.0	15.7
Properties leased by Kesko Group included in fair value	179.5	186.1

Principal actuarial assumptions:

	2016	2015
Discount rate	1.50%	2.30%
Salary growth rate	2.30%	2.20%
Inflation	1.80%	1.70%
Pension growth rate	2.10%	1.90%
Average service expectancy, years	10	10

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

	2016	2015
Weighted average duration of pension obligations, years	16	15
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	15.0	15.2
Between 1–10 years	118.6	118.6
Between 10–20 years	112.4	111.5
Between 20–30 years	78.0	77.5
Over 30 years	70.7	71.5
Total	394.6	394.3

Finnish pension reform

It has been decided to reform the statutory pension provision in Finland and the amendments will come into force at the beginning of 2017. The objective of the amendments is to extend working life in order that the financing of the statutory earnings-related pension scheme and sufficient pension provision can be ensured.

In the financial year 2016, the rules of the Pension Fund were changed to the effect that the Pension Fund's supplementary retirement benefit does not compensate for the lowering of the statutory pension provision resulting from the rise of the statutory pension age. The effect of the change in the rules was a €2 million decrease in the defined benefit obligation, which was recorded in the financial statements at 31 December 2016.



Risks related to pension plan

Asset related risks

The Pension Fund's investment assets comprise properties, shares and equity funds, private equity funds and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually confirmed by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target return on investment activity is 5.0%. The risks involved in investing activity are managed by continuously monitoring market developments and analysing the adequacy of the return and risk potential of the investments. The returns compared to chosen reference indices and the breakdown of investments are reported on a monthly basis. In 2016, the realised return on investing activity was 8.3%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined pension obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €164.1 million as at 31 December 2016. Local rules concerning the Pension Fund may also create a contribution obligation in situations in which the IAS 19 obligation is fully covered. In such a case, the amount of contributions charged increases the amount of pension assets according to IAS 19.

Obligation related risks

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

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



Sensitivity analysis

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

Actuarial assumption	Change in assumption	Impact on defined benefit obligation, increase	Impact on defined benefit obligation, decrease
2016			
Discount rate	0.50%	-7.30%	8.30%
Salary growth rate	0.50%	1.50%	-1.40%
Pension growth rate	0.50%	6.40%	-5.80%
2015			
Discount rate	0.50%	-6.80%	7.60%
Salary growth rate	0.50%	1.40%	-1.40%
Pension growth rate	0.50%	6.00%	-5.40%

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



Note 18. Inventories

€ million	2016	2015
Goods	969.3	729.7
Prepayments	9.5	5.3
Total	978.9	735.0
Write-down of inventories to net realisable value	48.0	39.2



Note 19. Trade and other current receivables

€ million	2016	2015
Interest-bearing receivables		
Finance lease receivables	0.3	2.7
Interest-bearing loans and receivables	3.4	7.3
Total interest-bearing receivables	3.7	10.0
Trade receivables	831.2	581.7
Income tax assets	21.2	2.0
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	24.5	19.6
Prepaid expenses	174.1	95.0
Total other non-interest-bearing receivables	198.6	114.6
Total	1,054.6	708.3

A total amount of €6.7 million (€3.7 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 32.

Prepaid expenses mainly comprise allocations of purchases and employee benefit expenses.

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



Note 20. Current available-for-sale financial assets

€ million	2016	2015
Carrying amount as at 1 January	371.7	271.7
Changes	-215.7	99.8
Changes in fair value	0.7	0.2
Carrying amount as at 31 December	156.8	371.7

The available-for-sale financial assets include current investments in commercial papers, certificates of deposits and other interest rate instruments. An analysis of the assets is given in note 32.



Note 21. Non-current assets classified as held for sale and related liabilities

€ million	2016	2015
Intangible assets	3.9	-
Land	10.4	0.3
Buildings and real estate shares	6.7	0.2
Machinery and equipment	1.1	-
Inventories	23.5	-
Total	45.7	0.5

In December 2016, Kesko signed an agreement concerning the sale of properties in use by the building and technical trade in Estonia and Latvia. According to the agreement, the Kesko Group companies will sell three properties in Estonia and four in Latvia, including the real estate companies that own them, to a Lithuanian real estate investment company. After completion of the transaction, the Group companies will lease the properties back for use in their business operations, and the Kesko subsidiary SIA Kesko Real Estate Latvia will become a minority shareholder in the real estate investment company with a 10% ownership interest. The carrying amount of the properties and the real estate companies is around €17 million. The transaction is expected to be completed in the first half of 2017.

In addition, Konekesko Ltd, part of Kesko Group, has signed an agreement to sell its Yamaha representation, Yamarin boat business and certain other representations of it to Inhan Tehtaat Oy Ab, owned by Yamaha Motor Europe N.V. The carrying amount of assets related to the business to be sold is around €28 million. The transaction is expected to be completed in the first half of 2017.

The total liabilities related to the non-current assets classified as held for sale are €0.8 million.



Note 22. Shareholders' equity

At the end of December 2016, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. All issued shares have been fully paid. The maximum number of A shares is 250 million and the maximum number of B shares is also 250 million, so that the total number of shares is 400 million at maximum. Each A share carries ten (10) votes and each B share one (1) vote. The total number of votes attached to all shares was 385,652,815. At the end of December 2016, Kesko Corporation's share capital was €197,282,584.

Changes in share capital

Share capital	Number of shares			Share capital € million	Reserve of invested non- restricted equity € million	Share premium € million	Total € million
	A	B	Total				
1 January 2015	31,737,007	67,287,430*	99,024,437*	197.3	22.8	197.8	417.8
Transfer of treasury shares		117,738	117,738				
31 December 2015	31,737,007	67,405,168*	99,142,175*	197.3	22.8	197.8	417.8
Transfer of treasury shares		131,468	131,468				
31 December 2016	31,737,007	67,536,636*	99,273,643*	197.3	22.8	197.8	417.8
Number of votes	317,370,070	67,536,636	384,906,706				

* Excluding treasury shares which totalled 746,109 (877,577) at the end of the financial year.

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 700,000 own B shares (purchase price €23.7 million) in the financial year 2011 and a total of 500,000 own B shares (purchase price €16.1 million) in the financial year 2014. The total prices paid for the shares have been deducted from retained earnings in equity. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. Based on the authorisations to issue own shares and the fulfilment of the vesting criteria of the 2014 vesting period of Kesko's share-based compensation plans, the Board granted a total of 120,022 own shares held by the Company as treasury shares, and based on the fulfilment of the 2015 vesting period, a total of 139,724 own shares held by the Company as treasury shares to the persons included in the target groups of the vesting periods. The transfers of treasury shares were announced in a stock exchange release on 1 April 2015, 7 April 2015, 17 March 2016 and 27 April 2016. During the financial year, a total of 8,256 shares already granted were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. At the end of the financial year, the Company held 746,109 (877,577) own B shares as treasury shares. The €23.5 million (€27.5 million) acquisition cost of these shares has been deducted from retained earnings in equity. Details of the share-based payments are disclosed in note 30.



Dividends

After the balance sheet date, the Board of Directors has proposed that €2.00 per share be distributed as dividends. A dividend of €2.50 per share was distributed on the profit for 2015.

Equity and reserves

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

Share premium

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

Reserve of invested non-restricted equity

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

Other reserves

Other reserves, a total of €242.8 million, have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves to a total amount of €242.3 million at the end of the financial year.

Currency translation differences

Currency translation differences arise from the translation of foreign operations' financial statements. Gains and losses arising from net investment hedges in foreign operations are also included in currency translation differences, provided they qualify for hedge accounting. The change in currency translation differences is stated within comprehensive income.

Revaluation reserve

The revaluation reserve includes the change in the fair value of available-for-sale financial instruments and the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied. Cash flow hedges include electricity derivatives and interest rate derivatives hedging the Private Placement note interest. The change in the reserve is stated within comprehensive income.



Result of cash flow hedging

Hedge accounting is applied to hedging electricity price risk. As a result, an amount of €1.8 million (€2.6 million) was removed from equity and included in the income statement as purchase cost adjustment, and €1.4 million (€-3.2 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €3.2 million (€-0.5 million) before accounting for deferred tax assets.

A fair value change of €-0.1 million (€0.5 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.3 million (€0.5 million) interest expense adjustment for interest rate derivatives was recognised in the income statement.



Note 23. Carrying amounts of financial assets and liabilities by category

As at 31 December 2016

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receiv- ables	Available- for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			15.1			15.1	15.1
Non-current non-interest-bearing receivables		1.8				1.8	1.8
Derivatives					0.0	0.0	0.0
Non-current interest-bearing receivables		58.1				58.1	58.1
Derivatives					2.7	2.7	2.7
Total non-current interest-bearing receivables		58.1			2.7	60.8	60.8
Total non-current financial assets		59.9	15.1		2.7	77.8	77.8
Current financial assets							
Trade and other non-interest-bearing receivables*		1,028.0				1,028.0	1,028.0
Derivatives	1.5				0.2	1.7	1.7
Total trade and other non-interest- bearing receivables*	1.5	1,028.0				1,029.7	1,029.7
Interest-bearing receivables		3.7				3.7	3.7
Financial assets at fair value through profit or loss	93.3					93.3	93.3
Available-for-sale financial assets			156.8			156.8	156.8
Total current financial assets	94.8	1,031.7	156.8		0.0	1,283.5	1,283.5
Carrying amount by category	94.8	1,091.6	171.9		2.7	1,361.3	1,361.3



Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receiv- ables	Available- for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				358.7		358.7	364.8
Total non-current interest-bearing liabilities				358.7		358.7	364.8
Non-current non-interest-bearing liabilities				39.6		39.6	39.6
Derivatives					0.6	0.6	0.6
Total non-current non-interest-bearing liabilities				39.6	0.6	40.2	40.2
Total non-current financial liabilities				398.2	0.6	398.8	405.0
Current financial liabilities							
Current interest-bearing liabilities				156.0		156.0	156.1
Total current interest-bearing liabilities				156.0		156.0	156.1
Trade payables				1,053.7		1,069.2	1,069.2
Other non-interest-bearing liabilities**				205.7		190.2	190.2
Derivatives					1.3	1.3	1.3
Total other non-interest-bearing liabilities**				205.7	1.3	191.6	191.6
Accrued expenses*				311.7		311.7	311.7
Derivatives	4.6					4.6	4.6
Total accrued expenses*	4.6			311.7		316.2	316.2
Total current financial liabilities	4.6			1,727.1	1.3	1,733.0	1,733.1
Carrying amount by category	4.6			2,125.3	1.9	2,131.8	2,138.1



As at 31 December 2015

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receiv- ables	Available- for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			15.3			15.3	15.3
Non-current non-interest-bearing receivables		1.9				1.9	1.9
Non-current interest-bearing receivables		59.1				59.1	59.1
Derivatives					2.0	2.0	2.0
Total non-current interest-bearing receivables		59.1			2.0	61.1	61.1
Total non-current financial assets		61.0	15.3		2.0	78.2	78.2
Current financial assets							
Trade and other non-interest-bearing receivables*		687.9				687.9	687.9
Derivatives	8.4					8.4	8.4
Total trade and other non-interest-bearing receivables*	8.4	687.9				696.3	696.3
Interest-bearing receivables		7.0				7.0	7.0
Derivatives					2.9	2.9	2.9
Total interest-bearing receivables		7.0			2.9	10.0	10.0
Financial assets at fair value through profit or loss	374.2					374.2	374.2
Available-for-sale financial assets			371.7			371.7	371.7
Total current financial assets	382.6	694.9	371.7		2.9	1,452.2	1,452.2
Carrying amount by category	382.6	755.9	387.0		4.9	1,530.4	1,530.4



Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receiv- ables	Available- for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				258.3		258.3	269.5
Total non-current interest-bearing liabilities				258.3		258.3	269.5
Non-current non-interest-bearing liabilities				38.7		38.7	38.7
Derivatives					3.5	3.5	3.5
Total non-current non-interest-bearing liabilities				38.7	3.5	42.2	42.2
Total non-current financial liabilities				297.0	3.5	300.5	311.7
Current financial liabilities							
Current interest-bearing liabilities				180.8		180.8	181.7
Derivatives					0.0	0.0	0.0
Total current interest-bearing liabilities				180.8	0.0	180.8	181.7
Trade payables				795.1		795.1	795.1
Other non-interest-bearing liabilities**				170.6		170.6	170.6
Derivatives					3.7	3.7	3.7
Total other non-interest-bearing liabilities**				170.6	3.7	174.3	174.3
Accrued expenses*				242.7		242.7	242.7
Derivatives	8.6					8.6	8.6
Total accrued expenses*	8.6			242.7		251.3	251.3
Total current financial liabilities	8.6			1,389.2	3.7	1,401.5	1,402.4
Carrying amount by category	8.6			1,686.1	7.2	1,702.0	1,714.1

* Excluding €21.2 million (€2.0 million) in income tax receivables and €9.0 million (€31.4 million) in income tax liabilities.

** Excluding €35.3 million (€38.2 million) in prepayments received.

The fair values of borrowings have been calculated based on the present value of future cash flows using the 0.1%–1.5% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity analysis of non-current receivables is presented in note 14, and that of non-current borrowings in note 32.



Note 24. Finance lease liabilities

€ million	2016			2015		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Minimum lease payments						
Within 1 year	3.1	0.2	2.9	4.7	0.2	4.5
Later than 1 year and no later than 5 years	6.0	0.6	5.4	4.4	0.6	3.7
Later than 5 years	0.1	0.0	0.0	0.2	0.0	0.1
Total lease payments	9.1	0.7	8.4	9.2	0.9	8.3
Expected sublease payments			0.3			3.0

Financial lease liabilities mainly comprise warehouse technology leased by the Group from finance companies and store equipment leased by the Group and subleased to chain companies.



Note 25. Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2016	12.4	21.3	19.7	53.4
Foreign exchange effects		0.0		0.0
Additional provisions	16.8	14.8	7.6	39.2
Unused amounts reversed	-0.6	-10.7	-4.9	-16.2
Amounts charged against provision	-11.2	-0.6	-9.9	-21.7
Changes in the Group structure	-5.1	0.1	6.2	1.1
Provisions as at 31 Dec. 2016	12.3	24.9	18.6	55.8
Analysis of total provisions				
Non-current	0.2	13.1	1.5	14.9
Current	12.1	11.8	17.1	41.0

The provisions for onerous leases relate to lease liabilities for premises vacated from the Group's operating activities, and to net rental losses on subleased premises. A provision has been recognised for warranties and care plans of vehicles and machines sold by the Group companies. The provision amount is based on experience of realised warranty obligations in previous years.



Note 26. Trade payables and other current non-interest-bearing liabilities

€ million	2016	2015
Trade payables	1,069.2	795.1
Other non-interest-bearing liabilities	226.9	212.6
Income tax liabilities	8.7	31.4
Accrued expenses	316.2	251.3
Total current non-interest-bearing liabilities	1,621.1	1,290.3

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



Note 27. Joint operations

The figures in the following table represent the Group's interests in the joint operations' assets and liabilities and profit included in the consolidated statement of financial position and the consolidated income statement. The joint operations are mutual real estate companies.

€ million	2016	2015
Non-current assets	36.5	38.0
Current assets	0.7	0.7
Total	37.2	38.7
Non-current liabilities	2.5	2.8
Current liabilities	5.2	5.2
Total	7.7	8.1
Net assets	29.5	30.6
Income	2.7	3.5
Costs	3.9	3.9
Profit	-1.2	-0.3



Note 28. Commitments

€ million	2016	2015
Collateral given for own commitments		
Pledges	124.2	76.2
Mortgages	23.3	23.3
Guarantees	5.1	17.7
Other commitments and contingent liabilities	32.9	34.4
Collateral given for others		
Guarantees	0.3	0.3
Other commitments and contingent liabilities	19.6	14.2

The guarantees given do not include guarantees related to the item presented within liabilities in the consolidated statement of financial position or as a lease liability in note 29.



Note 29. Operating leases

Group as lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2016	2015
Within 1 year	414.8	357.8
Later than 1 year and no later than 5 years	1,344.0	1,154.7
Later than 5 years	1,269.9	1,108.4
Total	3,028.7	2,620.9
Expected future minimum lease payments under non-cancellable sublease agreements	52.9	69.9
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	423.0	372.0
Sublease income	21.8	34.3

The 2016 income statement includes capital lease payments and maintenance rentals on real estate under operating leases, and other rentals to a total amount of €458.1 million (€407.7 million). Maintenance rentals are not included in minimum lease payments.

Kesko leases retail and logistics premises for its operating activities. Most of the leases are index-linked and in conformity with local market practice. Some of the property leases contain extension options.

Group as lessor

Minimum lease payments received under non-cancellable operating lease agreements:

€ million	2016	2015
Within 1 year	10.3	7.8
Later than 1 year and no later than 5 years	18.7	13.0
Later than 5 years	28.5	24.6
Total	57.4	45.4
Aggregate contingent rents charged to the income statement	2.2	1.8

Kesko leases premises to entrepreneurs other than K-retailers in order that the total service offer of a store site supports its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.



Note 30. Share-based payment

Share-based compensation plan

Kesko operates two share-based compensation plans, the 2011–2013 plan and the 2014–2016 plan, decided by the Company's Board of Directors and intended for members of the Group's management and selected other key persons. Under both plans, a total maximum of 600,000 own B shares held by the Company as treasury shares can be granted within a period of three years.

Both of the share-based compensation plans have three vesting periods, namely the calendar years 2011, 2012 and 2013, and 2014, 2015 and 2016 respectively. Kesko's Board of Directors decides the vesting criteria, the target group and the maximum amounts of the share award separately for each vesting period based on the Remuneration Committee's proposal. At the beginning of the year following the vesting period, Kesko's Board of Directors determines the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The criteria for the vesting periods 2011, 2012, 2013, 2014, 2015 and 2016 were, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, Kesko's comparable basic earnings per share (EPS), and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI index.

The award possibly paid for a vesting period is paid in Kesko B shares. In addition, a cash component equalling at maximum the value of the shares, is paid to cover the taxes and tax-like charges incurred under the award.

A commitment period of three calendar years following each vesting period is attached to the shares granted, during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, he/she must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In individual cases, the Board may decide that the grantee can keep the shares under the return obligation, or some of them. If the grantee retires in the commitment period, he/she is entitled to keep the shares and other securities already received.

Based on the 2015 vesting period, 139,724 shares were assigned during the financial year ended 31 December 2016. Based on the 2014 vesting period, 120,022 shares were assigned during the financial year ended 31 December 2015. Based on the 2013 vesting period, 50,520 shares were assigned during the financial year ended 31 December 2014. Based on the 2012 vesting period, 66,331 shares were assigned during the financial year ended 31 December 2013. Based on the 2011 vesting period, 92,751 shares were assigned during the financial year ended 31 December 2012.

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

Share award grant dates and fair values, vesting period 2012

Grant dates	2 Feb. 2012	20 Feb. 2012	22 Mar. 2012
Grant date fair value of share award, €	23.76	25.04	23.44
Share price at grant date, €	24.96	26.24	24.64
Share-based compensation plan duration			
Vesting period start date			1 Jan. 2012
Vesting period end date			31 Dec. 2012
Commitment period end date			31 Dec. 2015



Share award grant dates and fair values, vesting period 2013

Grant dates	5 Feb. 2013
Grant date fair value of share award, €	23.30
Share price at grant date, €	24.50
Share-based compensation plan duration	
Vesting period start date	1 Jan. 2013
Vesting period end date	31 Dec. 2013
Commitment period end date	31 Dec. 2016

Share award grant dates and fair values, vesting period 2014

Grant dates	3 Feb. 2014
Grant date fair value of share award, €	25.66
Share price at grant date, €	27.06
Share-based compensation plan duration	
Vesting period start date	1 Jan. 2014
Vesting period end date	31 Dec. 2014
Commitment period end date	31 Dec. 2017

Share award grant dates and fair values, vesting period 2015

Grant dates	9 Feb. 2015
Grant date fair value of share award, €	30.74
Share price at grant date, €	32.24
Share-based compensation plan duration	
Vesting period start date	1 Jan. 2015
Vesting period end date	31 Dec. 2015
Commitment period end date	31 Dec. 2018



Share award grant dates and fair values, vesting period 2016

Grant dates	3 Feb. 2016
Grant date fair value of share award, €	32.45
Share price at grant date, €	34.95
Share-based compensation plan duration	
Vesting period start date	1 Jan. 2016
Vesting period end date	31 Dec. 2016
Commitment period end date	31 Dec. 2019

Assumptions applied in determining the fair value of share award	Vesting period 2016	Vesting period 2015	Vesting period 2014	Vesting period 2013	Vesting period 2012
Number of share awards granted, maximum, pcs	263,000	262,800	278,400	263,600	257,400
Changes in the number of shares granted, pcs	-9,800	-3,600	-2,000	-9,500	-6,575
Actual amount of share award, pcs		139,724	120,022	50,520	66,331
Number of plan participants at end of financial year	131	142	143	134	125
Share price at balance sheet date, €	47.48	32.37	30.18	26.80	24.77
Assumed fulfilment of vesting criteria,%	56.7	53.4	43.4	20.0	30.0
Estimated number of share awards returned prior to the end of commitment period,%	5.0	5.0	5.0	5.0	5.0

The impact of the above share-based compensation plans on the Group's profit for 2016 was €-12.3 million (€-6.3 million).

As at 31 December 2016, the amount to be recognised as expense for the financial years 2016–2018 is estimated at a total of €-5.9 million. The actual amount may differ from the estimate.



Note 31. Notes related to the statement of cash flows

Capital expenditure and non-cash financing activities

€ million	2016	2015
Total purchases of fixed assets	280.8	218.5
Total acquisitions of subsidiaries	434.5	-
of which cash payments	567.6	214.8
Loans relating to acquired companies	139.7	-
Payments arising from prior period investing activities	-4.9	-4.9
Capital expenditure financed with finance lease or other liability	12.9	8.6

Adjustments to cash flows from operating activities

€ million	2016	2015
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	4.9	-0.6
Investments accounted for using the equity method	0.6	-0.6
Impairments	24.0	9.2
Credit losses	6.7	3.7
Non-recurring gains on disposal of fixed assets	-3.7	-102.9
Non-recurring losses on disposal of fixed assets	65.8	132.7
Share-based compensation	-1.2	-0.8
Defined benefit pensions	-0.8	-1.3
Others	-5.7	0.6
Total	90.6	40.1

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



Net assets of subsidiaries sold

€ million	2016	2015
Tangible and intangible assets	266.9	16.5
Inventories	7.3	71.7
Receivables	9.6	29.4
Cash and cash equivalents	6.1	21.5
Deferred taxes	-3.2	-
Liabilities	-180.4	-34.4
Provisions	-	-15.8
Net assets total	106.3	89.0

Cash and cash equivalents within the statement of cash flows

€ million	2016	2015
Available-for-sale financial assets (maturing in less than 3 months)	59.6	192.8
Cash and cash equivalents	141.3	141.2
Total	200.8	334.1

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



Note 32. Financial risk management

Financial risk management

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

Foreign exchange risks

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

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

Translation risks

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

Until 31 December 2016, the functional currency of the real estate companies operating in Russia in St. Petersburg and Moscow was the euro, which is why no significant exchange differences have not been realised from their balance sheets to the Group. A change has taken place in the Russian real estate market as a result of which, an increasing number of leases is rouble denominated. Earlier leases were mainly denominated in strong currencies, such as the euro. As of 1 January 2017, the functional currency of Russian real estate companies is the rouble.

Group's translation exposure as at 31 Dec. 2016 € million	NOK	SEK	RUB	PLN	BYN
Net investment	80.1	96.1	67.9	24.4	7.0

Group's translation exposure as at 31 Dec. 2015 € million	NOK	SEK	RUB	PLN	BYN
Net investment	29.6	94.4	70.3	-	3.5



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

Sensitivity analysis, impact on equity as at 31 Dec. 2016 € million	NOK	SEK	RUB	PLN	BYN
Change +/-10%	8.0	9.6	6.8	2.4	0.7

Sensitivity analysis, impact on equity as at 31 Dec. 2015 € million	NOK	SEK	RUB	PLN	BYN
Change +/-10%	3.0	9.4	7.0	-	0.4

Transaction risks

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

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

The Group does not apply hedge accounting in accordance with IAS 39 to the hedging of transaction risks relating to purchases and sales. In initial measurement, derivative instruments are recognised at fair value and subsequently in the financial statements, they are remeasured at fair value. The change in fair value of foreign currency derivatives used for hedging purchases and sales is recognised in other operating income or expenses.

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The following table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual foreign exchange risk after hedgings. When forecast amounts are included in the transaction exposure, the most significant differences from the table below are in the USD and RUB exposures. As at 31 December 2016, the exposure with respect to USD was €-54.8 million, and with respect to RUB, it was €37.3 million.



Group's transaction exposure as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-3.9	16.6	22.6	16.6	32.1	1.8
Hedging derivatives	31.3	-12.0	-18.2	-9.1	-19.6	
Open exposure	27.4	4.6	4.4	7.5	12.5	1.8

Group's transaction exposure as at 31 Dec. 2015 € million	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-1.1	-13.2	23.9	-	7.0	-0.2
Hedging derivatives	29.4	7.1	-18.7	-	-13.6	
Open exposure	28.3	-6.1	5.1	-	-6.6	-0.2

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

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +/-10%	2.7	0.5	0.4	0.7	1.3	0.2

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2015 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +/-10%	2.8	-0.6	0.5	-	-0.7	0.0



Liquidity risk

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

The Group's solvency was excellent throughout the financial year 2016. As at 31 December 2016, liquid assets totalled €391 million (€887 million). Interest-bearing liabilities were €515 million (€439 million) and interest-bearing net debt €123 million (€-448 million) as at 31 December 2016.

Maturities of financial liabilities and related finance costs as at 31 Dec. 2016 € million	2017	2018	2019	2020	2021–	Total	Balance sheet value
Borrowings from financial institutions	5.0	0.3	0.1	0.1	1.7	7.3	7.3
finance costs	0.0	0.0	0.0	0.0	0.0	0.1	
Private Placement notes (USD)*			22.0			22.0	22.0
finance costs	1.4	1.4	0.7			3.6	
Bonds		225.0				225.0	225.0
finance costs	6.2	6.2				12.4	
Pension loans	2.4	10.5	17.4	16.3	59.4	105.9	105.9
finance costs	1.1	1.0	0.8	0.7	1.6	5.3	
Finance lease liabilities	2.9	2.8	1.2	1.1	0.5	8.6	8.6
finance costs	0.3	0.2	0.1	0.1	0.1	0.7	
Payables to K-retailers	116.0					116.0	116.0
finance costs						0.0	
Other interest-bearing liabilities	29.6					29.6	29.6
finance costs						0.0	
Non-current non-interest-bearing liabilities	0.7	10.1	0.8	0.7	27.9	40.2	40.2
Current non-interest-bearing liabilities							
Trade payables	1,069.2					1,069.2	1,069.2
Accrued expenses	316.2					316.2	316.2
Other non-interest-bearing liabilities	226.9					226.9	226.9

* The cash flows of Private Placement notes and related currency and interest rate derivatives are settled on a net basis. The interest rate derivative liability related to the arrangement is presented within other interest-bearing liabilities in the balance sheet. The amount of interest-bearing liability in the balance sheet arising from this credit facility totals €20.1 million (€50.2 million).

Guarantee maturities are €3.5 million in 2017 and €2.0 million in 2018–2021.



Maturities of financial liabilities and related finance costs as at 31 Dec. 2015 € million	2016	2017	2018	2019	2020–	Total	Balance sheet value
Borrowings from financial institutions	0.3	0.3	0.1	0.1	1.8	2.7	2.7
finance costs						0.0	
Private Placement notes (USD)*	33.1			22.0		55.1	55.1
finance costs	2.5	1.4	1.4	0.7		6.0	
Bonds			224.1			224.1	224.1
finance costs	6.2	6.2	6.2			18.6	
Pension loans	2.4	2.4	2.4	1.2		8.3	8.3
finance costs	0.5	0.5	0.5	0.3		1.8	
Finance lease liabilities	4.5	1.6	1.0	0.6	0.7	8.3	8.3
finance costs	0.1	0.1	0.0	0.0	0.0	0.3	
Payables to K-retailers	114.5					114.5	114.5
finance costs						0.0	
Other interest-bearing liabilities	26.1					26.1	26.1
finance costs						0.0	
Non-current non-interest-bearing liabilities	0.7	10.6	1.7	0.8	28.5	42.2	42.2
Current non-interest-bearing liabilities							
Trade payables	795.1					795.1	795.1
Accrued expenses	251.3					251.3	251.3
Other non-interest-bearing liabilities	212.6					212.6	212.6

The terms and conditions of the Private Placement credit facility and the committed facilities include ordinary financial covenants. The requirements of these covenants have been met. The borrowing terms include a financial covenant defining the ratio between net debt and EBITDA, which remained far from the maximum throughout the financial year. At change of control, Kesko is obligated to offer a repayment of the whole loan capital to the note holders. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control.

Payables to K-retailers consist of two types of interest-bearing liabilities by Kesko to K-retailers: retailers' prepayments to Kesko and Kesko's chain rebate liabilities to retailers. Chain rebates are retrospective discounts given to retailers and the terms vary from one chain to another.

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €150.0 million (€100.0 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €449 million



(€359 million). In addition, in January 2017, the Group companies held a total of €364.6 million available for re-borrowing in a pension insurance company. Part of the pension insurance premiums paid annually by the Group companies are funded and the accumulated funds can be re-borrowed with a term of 1–10 years in accordance with regulations confirmed by the Ministry of Social Affairs and Health. Any amount of borrowing requires the posting of adequate collateral.

Interest rate risk on borrowings and sensitivity analysis

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

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate contracts. The target duration is three years, which is allowed to vary between one and a half and four years. The actual duration during the financial year was 1.9 (1.9) years on average.

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon interest at 2.75% and a maturity of six years from issuance.

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

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

The sensitivity analysis for changes in interest rate level in respect of commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2016, the effect of variable rate borrowings on the pre-tax profit would have been €-/ +2.0 million (€-/ +1.2 million), if the interest rate level had risen or fallen by 1 percentage point.

The bond, Private Placement notes and pension loans, €353.1 million in aggregate, have fixed rates, and their effective interest cost was 2.7%. At the end of the financial year, the average rate of variable-interest-rate borrowings from financial institutions, payables to retailers and other interest-bearing liabilities was 0.2%. Most of the borrowings are euro-denominated and the Private Placement notes are USD-denominated.



Financial assets and liabilities recognised at fair value

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and deposits with banks operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on these investments for 2016 was 1.7% (0.3%) and the duration was 0.9 years at the end of the financial year. The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date. The table below analyses financial instruments carried at fair value by valuation method.

Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec. 2016			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Money market funds	59.8			59.8
Commercial papers		28.5		28.5
Bank certificates of deposit and deposits		5.0		5.0
Bonds				
Total	59.8	33.5		93.3
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		4.4		4.4
Derivative financial liabilities		6.6		6.6
Available-for-sale financial assets				
Private equity funds and other shares and interests			15.1	15.1
Commercial papers (maturing in less than 3 months)		53.5		53.5
Bank certificates of deposit and deposits (maturing in less than 3 months)		6.0		6.0
Bonds and corporate bond funds	97.3			97.3
Total	97.3	59.5	15.1	171.9



Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec. 2015			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Money market funds	209.6			209.6
Commercial papers		65.5		65.5
Bank certificates of deposit and deposits		93.7		93.7
Bonds	5.5			5.5
Total	215.1	159.2		374.2
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		13.3		13.3
Derivative financial liabilities		8.6		8.6
Available-for-sale financial assets				
Private equity funds and other shares and interests			15.3	15.3
Commercial papers (maturing in less than 3 months)		84.0		84.0
Bank certificates of deposit and deposits (maturing in less than 3 months)		108.8		108.8
Bonds and corporate bond funds	178.9			178.9
Total	178.9	192.8	15.3	387.0

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



Changes in level 3 instruments € million	2016	2015
Private equity funds and other shares and interests as at 1 January	15.3	13.1
Purchases	0.6	3.3
Refunds received	-1.3	-2.2
Gains and losses through profit or loss	0.6	-
Changes in fair values	-0.1	1.2
Private equity funds and other shares and interests as at 31 December	15.1	15.3

Level 3 includes private equity funds and other shares and interests. These investments have been classified as non-current available-for-sale financial assets. Level 3 financial assets are measured based on computations received from the companies. An income of €0.6 million has been recorded on these investments for the financial year 2016.

Interest-bearing receivables and sensitivity analysis

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

In the sensitivity analysis of floating rate receivables, average annual balances of invested assets have been used. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/-2.0 million (€+/-3.5 million) and €+/-1.7 million (€+/-2.7 million) on equity at the balance sheet date.

Credit and counterparty risk

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

The Group companies apply a uniform practice to measuring past due receivables. A receivable is written down when there is objective evidence of impairment. The ageing analysis of trade receivables as at 31 December was as follows:



Ageing analysis of trade receivables € million	2016	2015
Trade receivables fully performing	731.1	540.7
1-7 days past due trade receivables	49.6	9.9
8-30 days past due trade receivables	18.6	11.4
31-60 days past due trade receivables	5.9	5.2
over 60 days past due trade receivables	26.0	14.4
Total	831.2	581.7

Within trade receivables, €355.7 million (€331.9 million) were from chain retailers. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the countersecurity from the K-retailer's company and its entrepreneur to Vähittäiskaupan Takaus Oy. At the end of the financial year, the aggregate value of countersecurities was €224.1 million (€171.1 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €24.6 million (€17.2 million) monitored on a separate allowance account. The original balance sheet value of these trade receivables was €35.2 million (€21.9 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €6.7 million (€3.7 million).

The amount of receivables with renegotiated terms totalled €3.1 million (€3.2 million).

Financial credit risk

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

Commodity risks and their sensitivity analysis

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

At the end of the year, the ineffective portion of derivatives hedging the price risk of electricity was €0.6 million (€-2.9 million).

As at the balance sheet date, a total quantity of 463,460 MWH (464,832 MWH) of electricity had been purchased with electricity derivatives and 236,520 MWH under fixed price purchase agreements. The 1-12 month hedging level was 71% (66%), the 13-24 month level was 43% (60%), the 25-36 month level was 16% (38%), and the 37-48 month level was 3% (4%).



The sensitivity analysis of electricity derivatives assumed that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by +/-20% from the balance sheet date 31 December 2016, it would contribute €-/ +1.5 million (€-/ +0.7 million) to the 2017 income statement and €-/ +0.7 million (€-/ +1.1 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2016 Positive fair value (balance sheet value)	31 Dec. 2016 Negative fair value (balance sheet value)		31 Dec. 2015 Positive fair value (balance sheet value)		31 Dec. 2015 Negative fair value (balance sheet value)
Interest rate derivatives	2.7	-2.8				
Foreign currency derivatives	4.2	-4.6	*	13.3		-1.4
Electricity derivatives	0.2	-2.0				-7.2

Notional principal amounts of derivative contracts € million	31 Dec. 2016 Notional principal amount		31.12.2015 Notional principal amount
Interest rate derivatives	40.2	*	100.4
Foreign currency derivatives	197.8	*	287.6
Electricity derivatives	11.2		9.4

* The derivative contracts include interest rate swaps relating to a foreign currency borrowing facility with a gross notional principal amount of €40.2 million and a fair value of €-0.1 million (€0.0 million), and currency swaps with a notional principal amount of €20.1 million and a fair value of €2.7 million (€4.9 million).

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €3.9 million.

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



Cash flows from derivative contracts as at 31 Dec. 2016 € million	2017	2018	2019	2020	2021	2022–	Total
Payables							
Foreign exchange forward contracts outside hedge accounting	175.4						175.4
Net settlement of payables							
Interest rate derivatives							
Electricity derivatives	1.2	0.7	0.1				2.0
Derivatives relating to Private Placement notes*							
Foreign currency derivatives	1.5	0.0	2.1				
Receivables							
Foreign exchange forward contracts outside hedge accounting	172.4						172.4
Net settlement of receivables							
Electricity derivatives	0.2	0.1	0.0				0.3
Derivatives relating to Private Placement notes*							
Foreign currency derivatives							0.0
Interest rate derivatives		0.8	0.7				1.5

* The cash flows from Private Placement notes and related foreign currency derivatives and interest rate derivatives are settled on a net basis. The debt on interest rate derivatives relating to the facility is presented in the balance sheet within 'other interest-bearing liabilities'. The balance sheet shows a total interest-bearing liability of €20.1 million (€50.2 million) relating to this credit facility.



Cash flows from derivative contracts as at 31 Dec. 2015 € million	2016	2017	2018	2019	2020	2021–	Total
Payables							
Foreign exchange forward contracts outside hedge accounting	236.1						236.1
Net settlement of payables							
Interest rate derivatives							
Electricity derivatives	3.4	2.7	1.1	0.1			7.2
Derivatives relating to Private Placement notes*							
Foreign currency derivatives							
Receivables							
Foreign exchange forward contracts outside hedge accounting	243.0						243.0
Net settlement of receivables							
Derivatives relating to Private Placement notes*							
Foreign currency derivatives	3.2	0.1	0.1	2.0			5.4
Interest rate derivatives	0.3	0.2	0.2	0.1			0.8



Capital structure management

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

The target levels for Kesko Group's performance indicators are approved by the Board of Directors. On 26 May 2015, the Board approved, as a part of the Group's medium term financial objectives, the following values for the performance indicators: 'return on capital employed excluding non-recurring items', 'return on equity excluding non-recurring items' and 'interest-bearing net debt/EBITDA'.

	Target level	Level achieved in 2016	Level achieved in 2015
Comparable return on capital employed	14%	11.9	11.7
Comparable return on equity	12%	9.8	8.2
Interest-bearing net debt/EBITDA	< 2,5	0.4	-1.4

€ million	2016	2015
Interest-bearing liabilities	514.6	439.1
Liquid assets	391.4	887.2
Interest-bearing net debt	123.3	-448.1
EBITDA	308.4	331.4
Interest-bearing net debt/EBITDA	0.4	-1.4



Note 33. Related party transactions

The Group's related parties include its management personnel (the Board of Directors, the President and CEO and the Group Management Board), companies controlled by them, subsidiaries, associates, joint ventures and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 37).

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

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

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Mercada Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies and the Lithuanian UAB Mokilizingas provides consumer financing to local consumers. Until 10 October 2016, Suomen Lähikauppa was a member of Tuko Logistics Cooperative. Suomen Lähikauppa's purchases from Tuko have been reported within related party transaction until 10 October 2016. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. The pension assets include Kesko Corporation shares with a value of €23.0 million (€15.7 million). Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2016 and 2015, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement € million	Associates and joint ventures		Board and management		Pension Fund	
	2016	2015	2016	2015	2016	2015
Sales of goods	0.0		73.6	59.8		
Sales of services	3.6	3.6	0.3	0.2	0.3	0.3
Purchases of goods	-128.8		-6.9	-13.8		
Purchases of services	-7.7	-0.2	-0.1	0.0		
Operating income	1.5	0.6	11.3	10.6		0.0
Operating costs	-53.2	-37.0	-1.6	-0.1	-11.3	-12.2
Finance income	5.7	3.1				



Balance sheet € million	Associates and joint ventures		Board and management		Pension Fund	
	2016	2015	2016	2015	2016	2015
Current receivables	0.2	1.1	7.6	4.3	0.0	
Non-current receivables	57.6	57.6				
Current liabilities	37.5	19.2	1.6	2.0	5.5	2.1

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €7.6 million (€4.3 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the countersecurity from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the countersecurity was valued at €5.5 million (€5.0 million).

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

In 2015, Kesko, AMF Pensionsförsäkring and Ilmarinen established a joint venture, Mercada Oy. The joint venture owns, governs and develops store sites mainly used by Kesko Group. Kesko sold some of its store sites in Finland and Sweden to the joint venture. The fair value of the stores sites sold totalled €485 million and a €75.6 million selling profit affecting comparability was recorded on the transaction. The cash inflow from the arrangement was €403 million. Kesko Group companies lease the sold stores sites for their use with 15-year long-term leases and in Sweden, with 10-year long-term leases. At shopping centres, the Group companies lease premises for their use with 5–15-year leases. Kesko's equity investment in the joint venture is around €67 million, comprising an investment in the company's equity and an equity shareholder loan.

In addition, Kesko sold four properties to Kesko Pension Fund in 2015. A €22.9 million gain on the sale affecting comparability was recorded on the transaction.

In addition, Kesko had non-current receivables from a real estate associate to the amount of €1.5 million in 2015.



Management's employee benefits

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

Monetary salaries, fees and fringe benefits €1,000		2016	2015
Mikko Helander	President and CEO (since 1 Jan. 2015)	1,316.8	1,018.5
Group Management Board	other members	2,534.2	2,275.9
Esa Kiiskinen	Board Chair	87.5	88.0
Mikael Aro	Board Deputy Chair (since 13 Apr. 2015)	60.5	43.5
Toni Pokela	Board member	42.5	43.5
Matti Kyytsönen	Board member (since 13 Apr. 2015)	45.5	33.7
Anu Nissinen	Board member (since 13 Apr. 2015)	44.5	32.2
Matti Naumanen	Board member (since 4 Apr. 2016)	31.1	-
Jannica Fagerholm	Board member (since 4 Apr. 2016)	34.1	-
Tomi Korpisaari	Board member (until 29 Feb. 2016)	7.2	43.5
Kaarina Ståhlberg	Board member (since 13 Apr. 2015)(until 29 Feb. 2016)	10.7	35.2
Seppo Paatelainen	Board Deputy Chair (until 13 Apr. 2015)	-	17.0
Ilpo Kokkila	Board member (until 13 Apr. 2015)	-	12.3
Maarit Näkyvä	Board member (until 13 Apr. 2015)	-	13.2
Virpi Tuunainen	Board member (until 13 Apr. 2015)	-	12.3
Total		4,214.6	3,669.1

Retirement benefits

The statutory pension provision of the President and CEO and the other members of the Group Management Board is provided through a pension insurance company. Four Group Management Board members are members of Kesko Pension Fund's department A which was closed in 1998, and their supplementary pensions are determined based on its rules and their personal service contracts. Their retirement benefits are based on a defined benefit plan. Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings in accordance with the Employees' Pensions Act (TyEL). The pensionable salary is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last ten (10) years. The supplementary pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €1.0 million and the pension asset was €0.6 million. The pension cost of the President and CEO's statutory pension provision was €0.2 million.



Share awards

The following share awards were granted to the Group Management Board members: under the 2012 plan 15,113 shares (maximum was 56,600 shares), under the 2013 plan 13,500 shares (maximum was 67,500), under the 2014 plan 18,354 shares (maximum was 69,000) and under the 2015 plan 39,516 shares (maximum was 74,000). The maximum under the 2016 plan is 74,000 shares. In addition, the taxes and tax-like charges incurred from the award were paid in cash.

Termination benefits

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

Shareholdings

As at 31 December 2016, the President and CEO held 20,005 Kesko Corporation B shares, which represent 0.02% of all shares of the Company and 0.01% of votes attached to all shares. As at 31 December 2016, the Group Management Board, including the President and CEO, held 104,678 Kesko Corporation B shares, which represent 0.1% of all shares of the Company and 0.03% of votes carried by all shares.



Note 34. Legal disputes and possible legal proceedings

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

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Note 35. Other notes

Events after the balance sheet date

In January, the court of arbitration dismissed Voimaosakeyhtiö SF's action against Kesko subsidiary Kestra Kiinteistöpalvelut Oy.

On 10 January 2017, the court of arbitration made an arbitration award in the case in which Voimaosakeyhtiö SF demanded the court of arbitration to confirm that Kestra Kiinteistöpalvelut Oy's notification to Voimaosakeyhtiö SF about participation in the further financing of the Fennovoima project is binding on Kestra Kiinteistöpalvelut Oy. In its arbitration award, the court of arbitration dismissed Voimaosakeyhtiö SF's action requirements. (Stock exchange release on 10 January 2017)



Note 36. Group composition

Group composition

Kesko Group has 102 (101) subsidiaries. The Group has the majority of voting rights in all companies. Kesko Group's sub-group, Senukai, has a material non-controlling interest (see section Material non-controlling interest).

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

Division	Country of incorporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2016	Number of wholly-owned subsidiaries 2015	Number of partly-owned subsidiaries 2016	Number of partly-owned subsidiaries 2015
Grocery trade	Finland	Kesko Food Ltd, K-citymarket Oy, K-Market Oy, Kespro Ltd	23	26	4	-
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia, Belarus	Onninen Group, Kesko Senukai	52	49	12	7
Car trade	Finland	VV-Auto Group Oy	6	5	-	-
Others	Finland, Estonia		5	10	-	-

In the financial year 2016, K-talousspalvelukeskus Oy, K-Plus Oy, K-instituutti Oy, Rautakesko Ltd, Musta Pörssi Ltd and Keslog Ltd merged into Kesko Corporation.

In addition, the Group has partly owned mutual real estate companies. The Group's subsidiaries, equity-accounted investments and mutual real estate companies consolidated using the proportionate method are listed in note 37.

Material non-controlling interest

Senukai Group, which is part of Kesko Group, has a material non-controlling interest. The sub-group's parent, UAB Kesko Senukai Lithuania, is a subsidiary of Kesko Corporation and it is domiciled in Vilnius, Lithuania. Kesko Group's ownership interest in Senukai Group is 50.0% increased by one share (50.0% increased by one share). Kesko Group has the right to nominate the majority of Board members and the Board Chair. The Board controls the company's operational activities and makes decisions on the use of resources. The share of non-controlling interests of the profit of Senukai Group was €15.3 million (€15.7 million) and in equity, the share was €97.3 million (€78.6 million).

The arrangement agreed by Kesko in the autumn of 2015 to centralise the Baltic building and home improvement trade in UAB Senuku Prekybos centras (Senukai) was completed. The company's name was changed to Kesko Senukai. In the arrangement, Kesko sold the shares in its wholly owned companies responsible for the operations of K-rauta stores in Estonia and Latvia to its subsidiary Senukai, which is majority-owned by Kesko. The Kesko Senukai subgroup operates in Lithuania, Estonia, Latvia and Belarus.



Summarised financial information on subsidiary with material non-controlling interest

€ million	Senukai Group 2016	Senukai Group 2015
Current assets	289.8	167.3
Non-current assets	98.1	29.6
Current liabilities	110.8	75.1
Non-current liabilities	18.2	0.3
Net sales	557.3	437.0
Profit/loss	31.3	23.1
Parent company owners' share of profit/loss	16.0	7.3
Non-controlling interests' share of profit/loss	15.3	15.7
Comprehensive income for the period	31.4	9.0
Parent company owners' share of comprehensive income for the period	16.3	4.0
Non-controlling interests' share of comprehensive income for the period	15.0	4.9
Dividends paid to non-controlling interests	1.1	5.9
Net cash generated from operating activities	28.4	27.1
Net cash used in investing activities	-26.0	-5.1
Net cash used in financing activities	38.5	-12.7

The amounts above are before intra-Group eliminations.



Note 37. Subsidiaries, equity accounted investments and proportionately consolidated mutual real estate companies as at 31 Dec. 2016

Subsidiaries

Owned by the parent	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Indoor Group Ltd	Helsinki	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Johaston Oy	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Keru Kiinteistöt Oy	Helsinki	100.00	100.00
Kesko Food Ltd	Helsinki	100.00	100.00
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	100.00
Kesko Senukai Lithuania UAB	Vilnius, Lithuania	50.00	50.00
Kiinteistö Mesta Oy	Helsinki	100.00	100.00
Kiinteistö Oy Keravan Alikervantie 77	Helsinki	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Klintcenter Ab	Maarianhamina	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
K-rauta AB	Stockholm, Sweden	100.00	100.00
KR Fastigheter AB	Sollentuna, Sweden	100.00	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00	100.00
Onninen Oy	Helsinki	100.00	100.00
Plusa OÜ	Tallinn, Estonia	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
VV-Auto Group Oy	Helsinki	100.00	100.00



Owned by other Group companies	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Antigravity Payment System UAB	Vilnius, Lithuania	25.50	
App-Hallinta Oy	Helsinki	100.00	
Oy Autocarrera Ab	Helsinki	100.00	
Barker-Littoinen Oy	Espoo	100.00	
Daugavkrasts M SIA	Riga, Latvia	100.00	
Ecomtrade Sp z o.o	Warsaw, Poland	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
Indoor Group AS	Tallinn, Estonia	100.00	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Insofa Oy	Lahti	100.00	
Jyrängön Palvelukeskus Oy	Heinola	50.45	
K-citymarket Oy	Helsinki	100.00	
Kesko Food Russia Holding Oy	Helsinki	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kesko Senukai Digital UAB	Vilnius, Lithuania	25.50	
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	
Kespro Ltd	Helsinki	100.00	
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	
Kiinteistö Oy Furupuro	Vantaa	100.00	
Kiinteistö Oy Helsingin Itäkeskus	Helsinki	100.00	
Kiinteistö Oy Hyvinkään Tuomaankulma	Hyvinkää	100.00	
Kiinteistö Oy Hyvinkään Tuuliankulma	Hyvinkää	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2-4	Kokkola	64.78	
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	
Kiinteistö Oy Kuvernöörintie 8	Helsinki	100.00	
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta	100.00	
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Kiinteistö Oy Vantaan Simonsampo	Vantaa	100.00	



Kiinteistö Oy Visuveden Liiketalo	Ruovesi	100.00
K-Market Oy	Helsinki	100.00
Knuto AS	Oppegård, Norway	100.00
Konekesko Eesti AS	Tallinn, Estonia	100.00
Konekesko Latvija SIA	Riga, Latvia	100.00
Konekesko Lietuva UAB	Vilnius, Lithuania	100.00
K Prof SIA	Riga, Latvia	100.00
K rauta SIA	Riga, Latvia	100.00
K-rauta Rus OOO	St. Petersburg, Russia	100.00
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00
LLC LR Rustaveli StP	St. Petersburg, Russia	100.00
Lämpö-Tukku Oy	Helsinki	100.00
Norgros AS	Oppegård, Norway	100.00
Olarin Autokiinteistö Oy	Espoo	100.00
OMA OOO	Minsk, Belarus	25.00
Onninen AB	Solna, Sweden	100.00
Onninen AS	Skedsmo, Norway	100.00
Onninen AS	Tallinn, Estonia	100.00
Onninen LLP	Aktau, Kazakhstan	100.00
Onninen OOO	St. Petersburg, Russia	100.00
Onninen Russia Holding Oy	Helsinki	100.00
Onninen SIA	Riga, Latvia	100.00
Onninen Sp. z o.o.	Warsaw, Poland	100.00
Onninen UAB	Vilnius, Lithuania	100.00
Parnas 11 OOO	St. Petersburg, Russia	100.00
Peltosaaren Liikekeskus Oy	Riihimäki	59.67
Penktoji Projekto Bendrovė UAB	Vilnius, Lithuania	25.50
Polo LS SIA	Riga, Latvia	100.00
Profelco Oy	Vantaa	100.00
Rake Bergen AS	Oppegård, Norway	100.00
Romos Holdingas UAB	Kaunas, Lithuania	25.00
Saele og Hollevik Trading AS	Bergen, Norway	100.00



Senukai UAB	Kaunas, Lithuania	49.61
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	50.00
SPC Holding UAB	Kaunas, Lithuania	50.00
Tampereen Länsikeskus Oy	Tampere	100.00
TD-Kiinteistöt Oy	Turku	100.00
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00
Trøgstadveien 13 AS	Oppegård, Norway	100.00
VV-Autotalot Oy	Helsinki	100.00

Equity accounted investments

Owned by the parent	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Kiinteistö Oy Mellunmäen Liike- ja toimintakeskus	Helsinki	23.42	23.42
Kruunuvuoren Satama Oy	Helsinki	49.00	49.00
Mercada Oy	Helsinki	33.33	33.33
Valluga-sijoitus Oy	Helsinki	46.15	46.15
Vähittäiskaupan Takaus Oy	Helsinki	34.35	34.35
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00



Owned by other Group companies	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Fintorus Oy	Lappeenranta	21.40	
Mokilizingas UAB	Vilnius, Lithuania	12.75	
Rakentamisen MALL Oy	Helsinki	25.00	
Suomen LVIS-Tietoverkko Oy	Vantaa	20.00	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Asunto-Oy Punkalaitumen Pankkitalo	Punkalaidun	33.82	
Asunto Oy Soukan Itäinentorni	Espoo	46.60	19.31
Itäkeskuksen Pysäköintitalo Oy	Helsinki	36.16	36.16
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere	34.54	
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	84.14	
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Koskelan Ostokeskus Oy	Oulu	29.32	
Laajasalon Liikekeskus Oy	Helsinki	50.35	
Lapin Tehdastalo Oy	Tampere	21.24	
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	
Voisalmen Ostoskeskus Oy	Lappeenranta	50.00	



Parent company's financial statements (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2016	1 Jan.–31 Dec. 2015
Net sales	307,057,226.84	43,091,016.90
Other operating income	145,872,845.35	157,968,731.51
Materials and services	-182,055,341.10	-1,753.06
Employee benefit expense	-78,391,983.08	-21,213,756.01
Depreciation, amortisation and impairment	-25,123,873.93	-21,156,816.18
Other operating expenses	-153,377,504.75	-206,748,452.39
Operating profit	13,981,369.33	-48,061,029.23
Finance income and cost	10,150,624.85	-20,534,327.74
Profit before appropriations and taxes	24,131,994.18	-68,595,356.97
Appropriations		
Change in depreciation reserve	7,253,944.92	15,486,295.81
Group contribution	137,567,419.37	289,585,913.15
Profit before taxes	168,953,358.47	236,476,851.99
Income taxes	-21,025,798.49	-74,658,981.88
Profit for the financial year	147,927,559.98	161,817,870.11



Parent company's balance sheet

€	31 Dec. 2016	31 Dec. 2015
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	7,693,643.06	6,257,340.41
Other intangible rights	15,684,207.80	6,786,292.90
Prepayments	8,303,933.25	1,271,305.11
	31,681,784.11	14,314,938.42
TANGIBLE ASSETS		
Land and waters	85,978,000.42	77,868,955.35
Buildings	161,741,464.59	121,044,023.13
Machinery and equipment	11,989,536.91	1,481,275.98
Other tangible assets	5,206,436.83	712,088.96
Prepayments and construction in progress	9,260,388.69	3,900,399.35
	274,175,827.44	205,006,742.77
INVESTMENTS		
Investments in subsidiaries	805,822,696.65	190,391,107.79
Investments in associates	78,255,203.86	78,255,203.86
Other investments	7,623,896.27	10,373,702.57
	891,701,796.78	279,020,014.22
CURRENT ASSETS		
STOCKS		
Finished products/goods	46,416,088.41	-
	46,416,088.41	-
RECEIVABLES		
Long-term		
Receivables from subsidiaries	214,140,932.90	227,099,825.48
Receivables from associates	57,629,471.31	57,641,471.31
Other receivables	5,184,785.91	2,328,804.39
	276,955,190.12	287,070,101.18



Short-term		
Trade receivables	144,796,523.71	712,242.35
Receivables from subsidiaries	625,191,943.42	839,381,775.07
Receivables from associates	991,449.83	910,936.05
Loan receivables	2,019,258.12	-
Other receivables	1,638,531.21	3,925.16
Prepayments and accrued income	69,232,300.91	11,149,444.76
	843,870,007.20	852,158,323.39
INVESTMENTS		
Other investments	246,965,095.16	740,652,092.53
CASH AND CASH EQUIVALENTS	48,104,149.95	45,391,996.15
TOTAL ASSETS	2,659,869,939.17	2,423,614,208.66



€	31 Dec. 2016	31 Dec. 2015
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium	197,498,010.90	197,498,010.90
Other reserves		
Reserve of invested non-restricted equity	22,753,307.40	22,753,307.40
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	592,073,306.99	673,737,292.41
Profit for the financial year	147,927,559.98	161,817,870.11
	1,400,950,564.82	1,496,504,860.37
APPROPRIATIONS		
Depreciation reserve	59,756,479.17	56,903,041.19
PROVISIONS		
Other provisions	9,168,725.12	913,455.00
LIABILITIES		
Non-current		
Bonds	225,005,000.00	225,005,000.00
Private Placement notes	20,083,682.01	20,083,682.01
Pension loans	100,000,000.00	
Other creditors	8,238,366.94	7,258,654.09
	353,327,048.95	252,347,336.10
Current		
Private placement notes	-	30,125,523.01
Advances received	39,667.98	52,373.52
Trade payables	135,005,784.67	6,937,288.22
Payables to subsidiaries	527,926,338.03	510,084,729.57
Payables to associates	21,949,611.28	19,126,189.41
Other payables	85,096,642.64	5,157,547.10
Accruals and deferred income	66,649,076.51	45,461,865.17
	836,667,121.11	616,945,516.00
TOTAL LIABILITIES	2,659,869,939.17	2,423,614,208.66



Parent company's cash flow statement

€	1 Jan.–31 Dec. 2016	1 Jan.–31 Dec. 2015
Cash flows from operating activities		
Profit before extraordinary items	24,131,994.18	-68,595,356.97
Adjustments		
Depreciation according to plan	17,936,645.13	16,361,194.76
Finance income and costs	-10,150,624.85	20,534,327.74
Other adjustments	-31,774,213.98	55,440,430.67
	143,800.48	23,740,596.20
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	49,585,713.94	-840,197.26
Inventories increase (-)/decrease (+)	5,152,816.06	-
Current non-interest-bearing liabilities, increase (+)/decrease (-)	12,543,253.34	-4,046,119.66
	67,281,783.34	-4,886,316.92
Interests paid and other finance costs	-17,959,831.97	-18,027,879.99
Interests received	26,198,246.35	19,415,447.46
Dividends received	1,975,275.20	3,767,022.20
Income tax paid	-71,583,714.69	-23,473,972.12
	-61,370,025.11	-18,319,382.45
Net cash generated from operating activities	6,055,558.71	534,896.83



Cash flows from investing activities		
Purchases of tangible and intangible assets	-25,073,151.29	-9,458,291.76
Receivables, increase (-)/decrease (+)	-2,000,758.55	197,031.14
Acquisitions of subsidiaries	-280,846,572.73	-6,986,047.00
Acquisitions of associates	-	-10,997,500.00
Proceeds from sale of subsidiaries, net of cash disposed of	-5,000,000.00	-57,860,016.59
Equity repaid by associates and joint ventures	-	9,446,399.83
Proceeds from disposal of other investments	166,095.44	-
Proceeds from disposal of tangible and intangible assets	29,537,990.00	79,137,019.78
Net cash used in investing activities	-283,216,397.13	3,478,595.40
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	127,193,797.33	114,337,761.43
Short-term interest-bearing receivables, increase (-)/decrease (+)	-237,114,236.83	-9,107,188.00
Short-term money market investments	364,532,233.40	-269,234,272.08
Dividends paid	-248,194,233.30	-148,715,547.00
Group contributions received and paid	137,567,419.37	289,585,913.15
Acquisition of treasury shares	-313,793.94	-
Other items	5,737,941.24	21,212,728.94
Net cash used in financing activities	149,409,127.27	-1,920,603.56
Change in liquid assets	-127,751,711.15	2,092,888.67
Liquid assets as at 1 January	234,321,700.54	232,228,811.87
Liquid assets as at 31 December	106,569,989.39	234,321,700.54



Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

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

In the financial year 2016, K-talouspalvelukeskus Oy, K-Plus Oy, K-instituutti Oy, Rautakesko Ltd, Musta Pörssi Ltd and Keslog Ltd merged into Kesko Corporation.

Non-current assets

Intangible assets

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

Depreciation plan

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

Tangible assets

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

Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of tangible assets over their estimated useful lives.

The most common estimated useful lives are:

Buildings	10–33 years
Fixtures and fittings	8 years
Machinery and equipment	25% reducing balance method
Transportation fleet	5 years
Other tangible assets	5–14 years

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

Valuation of inventories

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

Valuation of financial assets

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



Foreign currency items

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

Derivative contracts

Interest rate derivatives

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

Foreign currency derivatives

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

Commodity derivatives

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

Pension plans

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

Provisions

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

Income tax

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



Notes to the income statement

Note 2. Net sales by division

€ million	2016	2015
Building and technical trade	165.9	-
Others	141.1	43.1
Total	307.1	43.1

In the financial year 2016, K-talouspalvelukeskus Oy, K-Plus Oy, K-instituutti Oy, Rautakesko Ltd, Musta Pörssi Ltd and Keslog Ltd merged into Kesko Corporation.

Note 3. Other operating income

€ million	2016	2015
Gains on sales of real estate and shares	2.2	57.7
Rent income	84.5	99.5
Fees for services	9.0	-
Profits from mergers	46.2	-
Others	3.8	0.7
Total	145.9	158.0

Note 4. Average number of personnel

	2016	2015
Kesko Corporation	716	180
Total	716	180



Note 5. Employee benefit expense

€ million	2016	2015
Salaries and fees	-64.6	-17.8
Social security costs		
Pension costs	-10.6	-2.6
Other social security costs	-3.2	-0.8
Total	-78.4	-21.2

Salaries and fees to the management

€ million	2016	2015
Managing Director	1.3	1.0
Members of the Board of Directors	0.3	0.4
Total	1.6	1.4

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

Note 6. Depreciation, amortisation and impairment

€ million	2016	2015
Depreciation according to plan	-17.9	-16.4
Impairment, non-current assets	-7.2	-4.8
Total	-25.1	-21.2



Note 7. Other operating expenses

€ million	2016	2015
Rent expenses	-57.9	-51.4
Marketing expenses	-44.5	-3.7
Maintenance of real estate and store sites	-8.2	-5.6
Telecommunication expenses	-25.9	-24.4
Losses from mergers	-0.2	-
Other operating expenses	-16.8	-121.6
Total	-153.4	-206.7

The other operating expenses include a €107.6 million loss on the divestment of Anttila.

Auditors' fees

€ million	2016	2015
PricewaterhouseCoopers, firm of auditors		
Audit	0.2	0.3
Tax consultation	0.0	0.1
Other services	0.2	0.4
Total	0.4	0.8



Note 8. Finance income and costs

€ million	2016	2015
Income from long-term investments		
Dividend income from subsidiaries	1.4	3.8
Gains on disposal of shares	0.2	-
Gains on sales of investments	0.6	-
Income from long-term investments, total	2.1	3.8
Other interest and finance income		
From subsidiaries	17.1	15.0
From others	11.8	18.6
Interest and finance income, total	29.0	33.6
Impairment of investments held as non-current assets		
Impairment of shares	-2.8	-26.5
Impairment of other investments	0.0	-1.1
Impairment of investments held as non-current assets, total	-2.8	-27.6
Interest and other finance costs		
To subsidiaries	-2.2	-2.7
To others	-15.9	-27.6
Interest and finance costs, total	-18.1	-30.3
Total	10.2	-20.5

Note 9. Appropriations

€ million	2016	2015
Difference between depreciation according to plan and depreciation in taxation	7.3	15.5
Group contributions received	216.2	306.0
Group contributions paid	-78.7	-16.4
Total	144.8	305.1



Note 10. Changes in provisions

€ million	2016	2015
Transferred on mergers	5.3	-
Other changes	3.0	0.7
Total	8.3	0.7

Note 11. Income taxes

Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €12.0 million. The amount of other deferred tax liabilities or assets is not material.



Notes to the balance sheet

Note 12. Intangible assets

€ million	2016	2015
Intangible rights		
Acquisition cost as at 1 January	9.5	9.0
Increases	5.7	0.6
Decreases	-0.0	-0.1
Transfers between items	0.1	0.1
Acquisition cost as at 31 December	15.3	9.5
Accumulated depreciation as at 1 January	-3.2	-1.4
Accumulated depreciation on decreases and transfers	-2.0	0.0
Depreciation and amortisations for the financial year	-2.4	-1.9
Accumulated depreciation as at 31 December	-7.6	-3.2
Book value as at 31 December	7.7	6.3
Other intangible assets		
Acquisition cost as at 1 January	20.2	15.6
Increases	68.1	2.1
Decreases	-5.4	-
Transfers between items	0.6	2.5
Acquisition cost as at 31 December	83.5	20.2
Accumulated depreciation as at 1 January	-13.4	-6.4
Accumulated depreciation on decreases and transfers	-51.7	-
Depreciation and amortisations for the financial year	-2.7	-7.1
Accumulated depreciation as at 31 December	-67.8	-13.4
Book value as at 31 December	15.7	6.8



Prepayments		
Acquisition cost as at 1 January	1.3	3.6
Increases	7.8	0.7
Decreases	-0.1	-0.4
Transfers between items	-0.7	-2.6
Acquisition cost as at 31 December	8.3	1.3
Book value as at 31 December	8.3	1.3



Note 13. Tangible assets

€ million	2016	2015
Land and waters		
Acquisition cost as at 1 January	77.9	93.4
Increases	14.0	1.5
Decreases	-5.9	-17.0
Acquisition cost as at 31 December	86.0	77.9
Book value as at 31 December	86.0	77.9
Buildings		
Acquisition cost as at 1 January	262.1	365.8
Increases	61.6	0.9
Decreases	-8.6	-104.7
Transfers between items	1.3	0.1
Acquisition cost as at 31 December	316.4	262.1
Accumulated depreciation as at 1 January	-141.1	-178.2
Accumulated depreciation on decreases and transfers	-3.0	48.4
Depreciation for the financial year	-10.6	-11.2
Accumulated depreciation as at 31 December	-154.7	-141.1
Book value as at 31 December	161.7	121.0
Machinery and equipment		
Acquisition cost as at 1 January	11.8	15.6
Increases	47.4	0.2
Decreases	-10.4	-4.1
Transfers between items	2.2	-
Acquisition cost as at 31 December	51.0	11.8



Accumulated depreciation as at 1 January	-10.3	-13.0
Accumulated depreciation on decreases and transfers	-26.9	3.2
Depreciation for the financial year	-1.8	-0.5
Accumulated depreciation as at 31 December	-39.0	-10.3
Book value as at 31 December	12.0	1.5
Other tangible assets		
Acquisition cost as at 1 January	3.0	8.1
Increases	6.7	0.0
Decreases	-0.2	-5.2
Transfers between items	-	0.0
Acquisition cost as at 31 December	9.5	3.0
Accumulated depreciation as at 1 January	-2.3	-4.4
Accumulated depreciation on decreases and transfers	-1.6	2.7
Depreciation for the financial year	-0.4	-0.5
Accumulated depreciation as at 31 December	-4.3	-2.3
Book value as at 31 December	5.2	0.7
Prepayments and construction in progress		
Acquisition cost as at 1 January	3.9	0.5
Increases	9.2	3.5
Decreases	-0.3	0.0
Transfers between items	-3.5	-0.1
Acquisition cost as at 31 December	9.3	3.9
Book value as at 31 December	9.3	3.9



Note 14. Investments

€ million	2016	2015
Investments in subsidiaries		
Acquisition cost as at 1 January	244.7	309.9
Increases	724.8	7.6
Decreases	-134.4	-72.9
Acquisition cost as at 31 December	835.1	244.7
Impairment		
Impairment as at 1 January	-54.3	-55.9
Accumulated impairments on decreases	27.8	28.1
Impairment for the period	-2.8	-26.5
Impairment as at 31 December	-29.3	-54.3
Book value as at 31 December	805.8	190.4
Investments in associates		
Acquisition cost as at 1 January	78.3	76.7
Increases	-	11.0
Returned equity	-	-9.4
Book value as at 31 December	78.3	78.3
Other investments		
Acquisition cost as at 1 January	10.4	9.5
Increases	1.2	2.7
Decreases	-1.3	-1.8
Acquisition cost as at 31 December	10.2	10.4
Impairment for the period	-2.6	-
Impairment as at 31 December	-2.6	-
Book value as at 31 December	7.6	10.4

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2016 is presented in the notes to the consolidated financial statements.



Note 15. Receivables

€ million	2016	2015
Receivables from subsidiaries		
Long-term		
Loan receivables	214.1	217.1
Subordinated loans	-	10.0
Long-term, total	214.1	227.1
Short-term		
Trade receivables	44.0	5.6
Loan receivables	570.1	832.7
Prepayments and accrued income	11.1	1.1
Short-term, total	625.2	839.4
Total	839.3	1,066.5

€ million	2016	2015
Receivables from associates and joint ventures		
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	57.6	57.6
Short-term receivables	1.0	0.9
Total	58.6	58.5

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



€ million	2016	2015
Prepayments and accrued income		
Taxes	20.7	0.0
Employee benefit expense	6.2	0.5
Others	42.4	10.6
Total	69.2	11.1



Note 16. Shareholders' equity

€ million	Share capital	Share premium	Contingency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2015	197.3	197.5	243.4	22.8	818.0	1,478.9
Dividends					-148.7	-148.7
Treasury shares					4.7	4.7
Transfer to donations					-0.3	-0.3
Profit for the year					161.8	161.8
Balance as at 31 December 2015	197.3	197.5	243.4	22.8	835.5	1,496.5
Dividends					-248.2	-248.2
Treasury shares					5.0	5.0
Transfer to donations					-0.3	-0.3
Profit for the year					147.9	147.9
Balance as at 31 December 2016	197.3	197.5	243.4	22.8	740.0	1,400.9

Calculation of distributable profits	2016	2015
Other reserves	266.2	266.2
Retained earnings	592.1	673.7
Profit for the year	147.9	161.8
Total	1,006.2	1,101.7

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



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

Board's authorisations to acquire and issue own shares

The Annual General Meeting held on 4 April 2016 approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 own B shares of the Company. The authorisation is valid until 30 September 2017. The Board has the authority, granted by the Annual General Meeting of 13 April 2015 and valid until 30 June 2018, to issue a total maximum of 20,000,000 new B shares. Kesko's Annual General Meeting held on 4 April 2016 also authorised the Company's Board to make decisions concerning the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares. The authorisation is valid until 30 June 2020.

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 700,000 own B shares (purchase price €23.7 million) in the financial year 2011 and a total of 500,000 own B shares (purchase price €16.1 million) in the financial year 2014. The total prices paid for the shares have been deducted from retained earnings in equity. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. Based on the authorisations to issue own shares and the fulfilment of the vesting criteria of the 2014 vesting period of Kesko's share-based compensation plans, the Board granted a total of 120,022 own shares held by the Company as treasury shares, and based on the fulfilment of the 2015 vesting period, a total of 139,724 own shares held by the Company as treasury shares to the persons included in the target groups of the vesting periods. The transfers of treasury shares were announced in a stock exchange release on 1 April 2015, 7 April 2015, 17 March 2016 and 27 April 2016. During the financial year, a total of 8,256 shares already granted were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. At the end of the financial year, the Company held 746,109 (877,577) own B shares as treasury shares. The €23.5 million (€27.5 million) acquisition cost of these shares has been deducted from retained earnings in equity.



Note 17. Provisions

€ million	2016	2015
Provisions for leases	8.0	-
Other provisions	1.2	0.9
Total	9.2	0.9

Note 18. Non-current liabilities

On 10 June 2004, Kesko Corporation issued a Private Placement of USD 120 million in the US. The facility has three tranches with bullet repayments, of which the first tranche (USD 60 million) was due in 2014 and the second (USD 36 million) in 2016. The third tranche will be due in 2019 (USD 24 million). Kesko has hedged the loan with currency and interest rate swaps and will apply hedge accounting to the facility. At the balance sheet date, the fair value of the foreign currency derivatives hedging the private placement was €+2.7 million and the fair value of the interest rate derivatives was €-0.1 million. The loan capital is €20.1 million and the fixed interest rate is 6.2%.

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon rate of 2.75%. The bond matures after six years from issuance.



Note 19. Current liabilities

€ million	2016	2015
Liabilities to subsidiaries		
Trade payables	1.8	0.2
Other payables	520.9	507.3
Accruals and deferred income	5.2	2.6
Total	527.9	510.1
Liabilities to associates		
Accrued expenses	0.0	0.1
Other payables	21.9	19.0
Total	21.9	19.1
Accruals and deferred income		
Staff costs	34.0	3.8
Others	32.6	41.7
Total	66.6	45.5

Note 20. Interest-free liabilities

€ million	2016	2015
Current liabilities	258.1	57.1
Non-current liabilities	8.2	7.3
Total	266.3	64.4



Note 21. Guarantees, liability engagements and other liabilities

€ million	2016	2015
Real estate mortgages		
For subsidiaries	4	4
Pledged shares	58	28
Guarantees		
For subsidiaries	72	81
Other liabilities and liability engagements		
For own debt	15	4
Rent liabilities on machinery and fixtures		
Falling due within a year	4	1
Falling due later	7	1
Rent liabilities on real estate		
Falling due within a year	104	40
Falling due later	400	156

Foreign currency risks

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

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

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

The results of derivatives are recognised in financial items.



Company's transaction exposure as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Transaction risk	-20.2	19.6	22.4	16.5	14.4	0.0
Hedging derivatives	31.3	-12.0	-18.2	-9.1	-17.6	0.0
Exposure	11.1	7.6	4.2	7.4	-3.1	0.0

Company's transaction exposure as at 31 Dec. 2015 € million	USD	SEK	NOK	PLN	RUB	BYN
Transaction risk	-19.7	-11.2	23.9	0.0	13.4	0.0
Hedging derivatives	29.4	3.8	-18.7	0.0	-16.7	0.0
Exposure	9.7	-7.4	5.1	0.0	-3.3	0.0

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

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +/-10%	1.1	0.8	0.4	0.7	-0.3	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2015 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +/-10%	1.0	-0.7	0.5	0.0	-0.3	0.0



Derivatives

Fair values of derivative contracts € million	31.12.2016 Positive fair value (balance sheet value)	31.12.2016 Negative fair value (balance sheet value)	31.12.2015 Positive fair value (balance sheet value)	31.12.2015 Negative fair value (balance sheet value)
Currency derivatives	4.4	-5.4	12.2	-2.3

Notional amounts of derivative contracts € million	31.12.2016 Notional amount	31.12.2015 Notional amount
Currency derivatives	213.7	302.8

All currency derivatives mature in 2017.

€ million	2016	Fair value	2015	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 December				
Interest rate derivatives				
Interest rate swaps	40	-0.1	100	-0.0
Foreign currency derivatives				
Forward and future contracts	193	-3.6	252	5.1
Outside the Group	174	-2.9	225	5.8
Inside the Group	19	-0.7	26	-0.6
Option agreements				
Bought, inside the Group	0	-0.0	0	-0.0
Written, inside the Group	0	-0.0	1	-0.0
Currency swaps	20	2.7	50	4.9



Commodity derivatives				
Electricity derivatives	22	0.0	19	-0.0
Outside the Group	11	-1.7	9	-7.2
Inside the Group	11	1.7	9	7.2



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

€ million	2016	2015
Available-for-sale financial assets	58.5	188.9
Cash and cash equivalents	48.1	45.4
Total	106.6	234.3

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

Note 23. Related parties

The Group's related parties include its management personnel (the Board of Directors, the President and CEO and the Group Management Board), companies controlled by them, subsidiaries, associates, joint ventures and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 37).

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



Signatures

Signatures

Helsinki, 1 February 2017

Esa Kiiskinen

Mikael Aro

Jannica Fagerholm

Matti Kyytsönen

Matti Naumanen

Anu Nissinen

Toni Pokela

Mikko Helander
President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 1 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
APA



Auditor's report

(Translation from the Finnish Original)

To the Annual General Meeting of Kesko Oyj

Report on the audit of the financial statements

Opinion

In our opinion,

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

What we have audited

We have audited the financial statements of Kesko Oyj (Business ID: 0109862-8) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's responsibilities for the audit of the financial

statements section of our report.

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

Independence

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

Our audit approach

Overview

Overall materiality

- We have defined that in Kesko Group audit material are misstatements whose impact individually or in aggregate is 5% of comparable profit before tax. Calculated from comparable profit before tax in 2016 financial year it is € 13 million.

Group audit scope

- We performed an audit in Kesko Group companies that are most significant based on the financial position and result. We have performed audit procedures in Kesko's nine operating countries.

Key audit matters

- Business combination of Suomen Lähikauppa, Onninen and AutoCarrera
- Goodwill and trademarks – management impairment testing
- Inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant



accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

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

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

We determined that overall group materiality € 13 million. We chose comparable profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Group audit scope

Kesko operates in grocery trade, building and technical trade and car trade. Operations are based in nine

countries. We tailored the scope of our audit, taking into account the structure of the Kesko Group, the industry and the accounting processes and controls.

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

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

Key audit matters

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

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



Key audit matter in the audit of the Group

How our audit addressed the Key audit matter

Business combination of Suomen Lähikauppa, Onninen and AutoCarrera

Refer to note 1 (Accounting policies for the consolidated financial statements), note 12 (Intangible assets) and note 3 (Business acquisitions and disposals)

During the financial year, Kesko has acquired the whole share capital of Suomen Lähikauppa Oy, Onninen Oy and Oy AutoCarrera Ab. These acquisitions have been treated as business combinations based on IFRS 3 in Kesko consolidated financial statements.

Regarding these acquisitions we focused on meeting the criteria of business combination based on IFRS 3, intangible assets identification and determination of the fair value of net assets. These matters involve management judgment and the result is dependent on valuation methods, assumptions and inputs used in the model.

In our audit we reviewed management's assessment about, whether acquisitions of Suomen Lähikauppa, Onninen and AutoCarrera meet the definition of business combination as set out in IFRS 3.

We assessed the appropriateness of the identifiable assets acquired and the liabilities assumed at the acquisition date by comparing these to the clauses laid out in the Asset Purchase Agreements. We reviewed management's procedure for determining the fair value of the net identifiable assets acquired.

We tested appropriateness of valuation models and mathematical accuracy by sample as well as by comparing input data used to clauses laid out in the Asset Purchase Agreements.

We tested the amount of goodwill arising from the acquisition by reviewing purchase price allocation accounting principles and formulas of calculations. We assessed whether goodwill arising from the acquisitions is allocated to cash generating units based on applied accounting standards.

Goodwill and trademarks – management impairment testing

Refer to note 1 (Accounting policies for the consolidated financial statements) and note 12 (Intangible assets)

Kesko Group balance sheet includes goodwill in amount of € 189.9 million and trademarks € 123.3 million. No impairment loss of goodwill and trademarks has been identified nor recognised during the financial year.

Kesko Group management carries out impairment test of goodwill and trademarks annually. Impairment test result is based on management estimates, eg. market growth and profitability trends estimates, changes in store site network, product and service selection, pricing and movements in operating costs.

In our audit we focused on the methodologies and assumptions used in management impairment testing. We specially focused on those cash generating units, whose value-in-use and carrying value difference have been smallest in previous years and therefore sensitive to changes in estimations.

We reviewed financial plans prepared by the management and compared to the financial plans approved by the Board of Directors.

We evaluated appropriateness of value-in-use valuation method used and traced input information to the source.

We challenged the management on assumptions used in value-in-use calculations. In evaluating one of the key assumption, Weighted Average Cost of Capital, we utilized PwC valuation experts. We performed back testing comparing forecasts used in previous years testing to actual results as it would give an indication of the quality of the forecasting process.

In addition, we assessed the adequacy of the disclosures, particularly on sensitivities.

Inventories

Refer to note 1 (Accounting policies for the consolidated financial statements) and note 18 (Inventories)

Kesko Group balance sheet includes inventory amount of € 978.9 million.

Inventories are measured at the lower of cost and net realisable value.

The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records an impairment as necessary. Such reviews require assessments of future demand for products.

The cost of finished goods comprises all costs of purchase including freight. Inventory cost is adjusted by vendor allowances. The Group uses judgment to what extent allowances clauses laid out in purchase agreements are fulfilled at the financial statements period end date.

In our audit we focused on the assessment of net realisable value and underlying assumptions. In addition, we focused on assessment of fulfilment of vendor agreement clauses at the financial statements period end date.

In our evaluation of the Group reviews on inventory net realisable value, we walked through monitoring processes over inventory obsolescence and turnover and processes of net realisation calculation. We identified key controls and tested efficiency of those.

We reviewed on a sample basis inventory write-off calculations and reconciled source data to inventory accounting. We tested by sample basis formulas of valuation reports to ensure that formulas lead to the correct result.

In our evaluation over the vendor allowances we walked through the Group monitoring processes, identified key controls and tested efficiency of those. We tested on a sample basis vendor allowances calculations and reconciled input information to clauses laid out in purchase agreements and financial year purchases information. In addition, we reconciled comparable reporting date vendor allowance accruals to materialized allowances to evaluate the quality of the process and accuracy of the accruals.

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

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

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

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for

assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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



influence the economic decisions of users taken on the basis of these financial statements.

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

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

group audit. We remain solely responsible for our audit opinion.

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

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

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

Other reporting requirements

Other information

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

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



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

In our opinion,

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable legal requirements.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required

to report that fact. We have nothing to report in this regard.

Other Opinions

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

Helsinki 1 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen