



KESKO'S
ANNUAL REPORT 2018

REPORT BY THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

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

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Report by the Board of Directors

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

Kesko's principal business model on the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 46% of Kesko's net sales in 2018. B2B trade is a significant and growing part of Kesko's business operations. B2B trade accounted for 36% of Kesko's net sales in 2018. Kesko's own retailing accounted for 18% of the Group's net sales.

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

Operating environment

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

Financial performance of continuing operations

Net sales and profit for 2018

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

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

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

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

Reinin Liha became part of Kesko Group's foodservice wholesale company Kespro following an acquisition completed on 1 June 2018, and Kalatukku E. Eriksson on 2 July 2018. Kesko Corporation's subsidiary Byggnakker Handel AS took over the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS, which have been operating Byggnakker stores under the retailer business model, on 2 July 2018 and 23 July 2018, respectively. Kesko Senukai assumed ownership of 1A Group, an online retail company operating in the Baltic States, on 1 October 2018. During the financial year 2017, Kesko Group divested the K-maatalous agricultural business on 1 June 2017, and on 30 June 2017, the Asko and Sotka furniture trade, the Yamarin boat business and the Yamaha representation.

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

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

(..) Change over 100%

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

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

Operating profit was €307.9 million (€338.6 million). Items affecting comparability totalled €-24.2 million (€42.5 million). The most significant items affecting comparability were the €7.6 million costs related to conversions of Suomen Lähikauppa's chains and changes in the store site network, the €8.1 million costs in building and technical trade related to acquisitions and divestments and structural changes in the Swedish operations, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million. The transfer of former Suomen Lähikauppa stores to retailers was completed on 30 June 2018. The most significant items affecting comparability the year before were the €49.7 million gain on the divestment of real estate in the Baltics, the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains, the €12.3 million gain on the divestment of the K-maatalous agricultural business, as well as the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million.

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

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

K Group's (Kesko and chain stores) retail and B2B sales (VAT 0%) totalled €12,852 million, representing a growth of 2.5% compared to the previous year (pro forma). The K-Plussa customer loyalty programme added 86,886 new households in 2018. The number of K-Plussa households stood at 2.4 million at the end of December and there were 3.5 million K-Plussa cardholders in total.

Finance

The Group's cash flow from operating activities in continuing operations was €437.1 million (€291.9 million). Cash flow was strengthened by improved profitability and the €58 million return of surplus assets paid by Kesko Pension Fund in March. The cash flow from operating activities in discontinued operations was €-23.3 million (€9.9 million). The Group's cash flow from operating activities was €413.8 million (€301.7 million).

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

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

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

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

Taxes

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

Capital expenditure

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

Discontinued operations

In February 2018, Kesko Corporation agreed to sell 12 K-Rauta properties in the St. Petersburg and Moscow regions to the Russian division of the French Leroy Merlin. The business operations conducted in the properties and stocks were not included within the scope of the transaction; instead, the operations were discontinued during the first year-half. The ownership of the properties was transferred to the buyer during the second quarter of 2018. The two building and home improvement store properties in the Moscow region excluded from the transaction were sold in December 2018.

The divestment of the properties resulted in a positive cash flow of €171 million for Kesko Corporation in February. The divestment of the properties resulted in a net €16 million sales gain for discontinued operations. The operative result after taxes for the operations was €-1.7 million. In addition, a cost of €23 million related to the discontinuation of operations was recorded as were translation differences of €-39 million related to the equity financing of Russian subsidiaries. The divestment of the properties also resulted in a €8 million tax cost.

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

Segments

Seasonal nature of operations

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

Grocery trade

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

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

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

Net sales for the grocery trade amounted to €5,386 million (€5,282 million), an increase of 2.0%. In comparable terms, net sales increased by 5.1%. Net sales development in the K-Market chain was affected by changes in Suomen Lähikauppa's store site network and the transfer of stores to retailers. The comparable change has been calculated by including in the net sales those stores acquired from Suomen Lähikauppa which have been in the store network during both the financial year as well as the comparison year, and by deducting the impact of Reinin Liha and Kalatukku E. Eriksson. Reinin Liha became part of Kesko Group's foodservice wholesale company Kespro following an acquisition completed on 1 June 2018, and Kalatukku E. Eriksson on 2 July 2018.

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

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

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

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

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

Building and technical trade

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

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

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

Kesko Corporation's subsidiary Bygghjælper Handel AS took over the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS, which have been operating Bygghjælper stores under the retailer business model, on 2 July 2018 and 23 July 2018, respectively. Kesko Senukai assumed ownership of 1A Group, an online retail company operating in the Baltic States, on 1 October 2018.

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

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

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

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

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

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

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

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

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

items affecting comparability were the €8.1 million costs related to acquisitions and the restructuring of operations in Sweden, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million. The most significant items affecting comparability the year before were the €49.7 million gain on the divestment of real estate in the Baltics, the €12.3 million gain on the divestment of the K-maatalous agricultural business, as well as the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million.

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

Car trade

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

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

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

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

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

Changes in Group composition

In June, Kesko Corporation agreed to make Reinin Liha and Kalatukku E. Eriksson part of its foodservice wholesale business Kespro. Reinin Liha Oy's acquisition was completed on 1 June 2018 and Kalatukku E. Eriksson Oy's on 2 July 2018.

In June, Kesko Corporation's subsidiary Byggmakker Handel AS agreed to acquire Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS. The acquisition of Skattum Handel AS was completed on 2 July 2018 and the acquisition of Gipling AS on 23 July 2018.

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

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

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

Main objectives and results achieved in sustainability

Key commitments, policies and principles

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

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

In 2018, special focus in corporate responsibility work was on data protection issues, as we were obliged to comply with the EU General Data Protection Regulation from 25 May 2018 onwards. Consequently, we made sure all personal data was secure and used confidentially. Kesko has established processes for handling requests for action and mechanisms for identifying and reporting information leaks.

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

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

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

Kesko in sustainability indices

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

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

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

Purchasing and human rights

In September 2016, Kesko published its human rights commitment and impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights. The human rights assessment is reviewed every three years, with the next review taking place in 2019.

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

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

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

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

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

Product safety

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

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

Environmental issues

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

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

Kesko participates in mitigating climate change by increasing purchases and production of renewable energy and by improving energy efficiency. Kesko participates in the 2017-2025 action plan of the commerce sector Energy Efficiency Agreement, according to which Kesko commits to reducing its energy consumption through various savings measures by 7.5%.

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

Direct and indirect emissions by 18% by 2025, using a 2015 base year. Kesko has also committed to reducing other indirect emissions in its supply chain so that 90% of its key suppliers will set greenhouse gas (GHG) emission targets by 2025.

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

Personnel

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

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

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

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

Compliance programmes

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

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

Prevention of corruption and bribery

The K Code of Conduct is a means to ensure that everyone at Kesko has the same understanding of the values and principles that guide our daily work. The K Code of Conduct has been published in nine languages and the principles are the same for all Kesko employees in all operating countries. Clear examples lay out what is expected of Kesko employees and business partners in the areas of human rights, environmental care and fair competition, for example. To communicate and implement the principles, some 20 K Code of Conduct ambassadors in different operating countries have been appointed to act as messengers and contact persons.

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

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

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

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

Main objectives and results achieved

PURCHASING AND HUMAN RIGHTS

Objective	Method	Results 2018
The social responsibility of the production of own direct imports from high-risk countries has been assured	Full amfori BSCI audits conducted at the factories and farms of suppliers in high-risk countries	190 (157) factories or farms underwent full amfori BSCI audits
	Amfori BSCI follow-up audits conducted at the factories or farms of suppliers in high-risk countries	135 (146) factories or farms underwent amfori BSCI follow-up audits

PRODUCT SAFETY

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

ENVIRONMENT

Objective	Method	Results 2018
Reducing the environmental impact of Kesko's operations	Kesko has committed to the Energy Efficiency Agreement for the commerce sector in Finland and to reducing its annual energy consumption by 7.5% between 2017 and 2025	Energy consumption in properties managed by Kesko in all operating countries (Q4/2017-Q3/2018): 931 (1,012) GWh
	Since the beginning of 2017, Kesko has purchased electricity produced with 100% renewable energy in Finland. In recent years, Kesko has invested in solar power plants on store roofs.	Renewable electricity purchases: 580 (504) GWh; number of own solar power plants 27 (19) and electricity production 4.1 (3.0) GWh in Finland
	Kesko has set Science Based Targets for reducing emissions from its facilities, transportation, and supply chains. Kesko has committed to reducing its direct and indirect (scope 1 and 2) emissions by 18% by 2025, using a 2015 base year.	Scope 1 and 2 emissions in all operating countries (Q4/2017-Q3/2018): 124,756 (138,653) tCO ₂ e (reporting boundary changed)

PERSONNEL

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

PREVENTION OF CORRUPTION AND BRIBERY (GOVERNANCE)

Objective	Method	Results 2018
100% commitment to compliance with the K Code of Conduct	"We do not offer or accept bribes" and "We comply with the Kesko policies on hospitality and gifts" are key statements of the K Code of Conduct	79 (65) % of personnel signed the annual revision of the K Code of Conduct
	SpeakUp is a confidential reporting channel for employees and business partners	Notifications received via the SpeakUp channel: 11 (38)

Shares, securities market and Board authorisations

At the end of 2018, the total number of Kesko Corporation shares was 100,019,752 of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. On 31 December 2018, Kesko Corporation held 1,001,399 of its own B shares as treasury shares. These treasury shares accounted for 1.47% of the total number of B shares, 1.00% of the total number of shares, and 0.26% of votes attached to all shares in the Company. The total number of votes attached to all shares was 385,652,815. Each A share carries ten (10) votes and each B share one (1) vote. The Company cannot vote with own shares held by it as treasury shares and no dividend is paid on them. At the end of 2018, Kesko Corporation's share capital was €197,282,584.

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

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

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

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

On 1 February 2017, Kesko Corporation's Board of Directors made a decision to establish a new share-based long-term incentive scheme for Kesko's top management and key persons selected separately. The scheme consists of a performance share plan (PSP) as the main structure, and of a restricted share pool (RSP), which is a complementary share plan for special situations. Besides the PSP, the Board made a decision to establish a share-based Bridge Plan to cover the transitional phase during which Kesko transfers from a one-year performance period to a longer performance period in its long-term incentive scheme structure. If the performance criteria set for the 2017-2020 PSP are achieved in full, the maximum number of series B shares to be paid based on this plan is 340,000 shares. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. The new share-based compensation scheme was communicated in a stock exchange release on 2 February 2017, and the realisation of the Bridge Plan in a stock exchange release on 1 February 2018.

The Board of Directors of Kesko Corporation decided on 20 March 2018 to initiate a performance share plan (PSP) for 2018-2021. The Board of Directors also decided that the target group for the plan will comprise 130 members of Kesko's management and other specified key persons. The Board decided to set the development of Kesko Group's tax free sales (%), Kesko Group's comparable return on capital employed (ROCE, %) and the absolute total shareholder return (TSR, %) of a Kesko B share as the performance criteria for the 2018 calendar year, matching the 2017 criteria. The performance criteria concern the performance year 2018 of the 2017-2020 PSP and 2018-2021 PSP. A maximum total

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

In 2018, a total of 7,211 shares granted based on the fulfilment of the performance criteria of the share-based compensation plan in force in 2014-2016 and on the Bridge Plan were returned to the Company in accordance with the terms and conditions of the share-based compensation scheme. The returns during the reporting year were communicated in stock exchange releases on 28 February 2018, 30 July 2018, and 7 September 2018. The share-based compensation plan in force in 2014-2016 was announced in a stock exchange release on 4 February 2014, and the Bridge Plan was announced in a stock exchange release on 2 February 2017.

Kesko's Board of Directors holds a valid authorisation granted by the Annual General Meeting held on 4 April 2016 to transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (2016 Share issue authorisation). Based on the authorisation, own B shares held by the Company as treasury shares can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the Company's shares, regardless of whether they own A or B shares. Shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, for a weighty financial reason for the Company, such as using the shares to develop the Company's capital structure, to finance possible acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. Own B shares held by the Company as treasury shares can be issued either

against or without payment. A share issue can only be without payment if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to the share issues. The amount possibly paid for the Company's own shares is recorded in the reserve of invested non-restricted equity. The authorisation is valid until 30 June 2020. Kesko Corporation's Annual General Meeting on 11 April 2018 resolved that approximately 30% of the annual fees to the members of Kesko's Board of Directors will be paid in B series shares in the Company (Stock exchange release 11 April 2018). Kesko's Board of Directors decided on 24 April 2018 to implement the resolution of the General Meeting regarding the payment of the share portion of the annual remuneration by transferring B shares held by the Company as treasury shares to the Board members based on the 2016 Share issue authorisation (Stock exchange release 25 April 2018). These shares, totalling 2,759, were transferred to the Board members on 27 April 2018. A Board member cannot transfer shares obtained in this manner until either three years have passed from the day the member has received the shares or their membership on the Board has ended, whichever comes first.

The Annual General Meeting of 11 April 2018 approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 of the Company's own B shares (2018 Authorisation to acquire own shares). The B shares will be acquired with the Company's distributable unrestricted equity, not in proportion to the shareholdings of shareholders, at the market price quoted in public trading organised by Nasdaq Helsinki Ltd ("the exchange") at the time of acquisition. The shares will be acquired and paid for in accordance with the rules of the exchange. The acquisition of own shares reduces the amount of the Company's distributable unrestricted equity. The B shares will be acquired for use in the development of the Company's capital structure, to finance possible acquisitions, capital expenditure and/or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme for management and other personnel. The Board will make decisions concerning any other issues related to the acquisition of B shares. The authorisation is valid until 30 September 2019.

The Board of Directors of Kesko Corporation decided in its meeting on 24 April 2018 to use the authorisation granted by the General Meeting of 11 April 2018 to acquire B shares in the Company, and established a temporary share buy-back programme for the purpose. The shares were acquired to fulfil obligations related to the Company's share-based commitment and incentive schemes. The Board also decided to implement the resolution made by the General Meeting on 11 April 2018 to pay approximately 30% of the annual fees to

members of the Board in B series shares in the Company, by using B series shares held by the Company as treasury shares in the payment of the share portion of the remuneration. The acquisitions of the shares began on 26 April 2018 and ended on 18 May 2018. During that time, Kesko acquired 500,000 of its own B series shares for an average price per share of €48.83. Following the acquisitions, Kesko held a total of 996,325 of its own B shares, which represents approximately 1.00 per cent of all shares in Kesko Corporation and 1.46 per cent of Kesko Corporation's B series shares. (Stock exchange releases 25.4.2018 and 21.5.2018)

Kesko's Annual General Meeting of 11 April 2018 also approved the Board's proposal for its authorisation to decide on the issuance of a maximum of 10,000,000 new B shares (2018 Share issue authorisation). The new shares can only be issued against payment. The new shares can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the Company's shares regardless of whether they hold A or B shares, or, departing from the shareholder's pre-emptive right, in a directed issue if there is a weighty financial reason for the Company, such as using the shares to develop the Company's capital structure and financing possible acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations. The Board of Directors will decide the subscription price for the issued shares. The Board will also have the right to issue shares for a non-cash consideration. The subscription price is recognised in the reserve of invested non-restricted equity. The Board will make decisions regarding any other matters related to the share issues. The authorisation will be valid until 30 June 2021, and it cancelled the authorisation given to the Board by the General Meeting of 13 April 2015 to issue a total maximum of 20,000,000 new B shares, which the Board did not use.

At the end of 2018, the number of shareholders was 40,745, which is 1,577 less than at the end of 2017. At the end of December, foreign ownership of all shares was 35.2%, and foreign ownership of B shares 50.3%.

Flagging notifications

There were no flagging notifications during the financial year.

Key events during the financial year

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

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

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

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

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

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

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

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

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

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

Key events after the financial year

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

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

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

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

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

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

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

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

The General Meeting also approved the Board's proposal to authorise the Board to decide on the donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2019, and to decide on the donation recipients, purposes of use and other terms of the donations.

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

The resolutions of the Annual General Meeting and the decisions of the Board's organisational meeting were communicated in more detail in stock exchange releases on 11 April 2018.

Information contained in the notes to the financial statements

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

Related party transactions are disclosed in note 5.3.

Risk Management

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

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

The following describes the risks and uncertainties assessed as significant.

Significant risks and uncertainties

Intensification of price competition in Finnish grocery trade

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

Business interruptions and information system failures

The trading sector is characterised by increasingly complicated and long supply chains and a higher dependency on information systems, data communications and external service providers. Disruptions can be caused by hardware failures, software errors or constantly increasing cyber threats. Extended malfunctions in information systems, payment transfers, or in other parts of the supply chain could cause significant losses in sales and weaken customer satisfaction.

Data breach or critical information falling into the wrong hands

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

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

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

Cost structure in the building and technical trade division

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

Impact of changes in emissions testing norms on the car trade

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

Compliance with laws and agreements

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

Product safety

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

Change in the trading sector caused by digitalisation

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

Employee competencies and working capacity

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

Store sites and properties

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

Responsible operating practices and reputation management

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

Climate change

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

Reporting to market

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

Risks of damage

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

Outlook

Estimates for the outlook for the net sales and comparable operating profit for Kesko Group's continuing operations are given for the 12-month period following the reporting period (1/2019-12/2019) in comparison with the 12 months preceding the end of the reporting period (1/2018-12/2018). The outlook is based on IFRS in force on 31 December 2018, and does not take account of the impacts of IFRS 16 Leases, which took effect on 1 January 2019.

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

In comparable terms, the net sales for continuing operations for the next 12 months are expected to exceed the level of the previous 12 months. The comparable operating profit for continuing operations for the next 12-month period is expected to exceed the level of the preceding 12 months. However, investments in information systems and digital services will burden profitability during the period. In the car trade, profitability is burdened by the shift to WLTP emissions testing, which postpones car delivery times. In the building and technical trade, the share of own retailing has risen following the acquisitions carried out, which increases profit-related seasonal fluctuations.

Updated dividend policy

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

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

Proposal for profit distribution

The Board of Directors of Kesko Corporation proposes to the Annual General Meeting to be held on 8 April 2019 that a dividend of €2.34 per share be paid for the year 2018 based on the adopted balance sheet on shares held outside the Company at the date of dividend distribution. The remaining distributable assets will remain in equity.

The Board proposes that the dividend be paid in two instalments. The first instalment, €1.17 per share, will be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the first dividend instalment payment record date 10 April 2019. The Board proposes that the first dividend instalment pay date be 17 April 2019.

The second instalment, €1.17 per share, will be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the second dividend instalment payment record date 10 October 2019. The Board proposes that the second dividend instalment pay date be 17 October 2019. The Board proposes it be authorised to decide, if necessary, on a new dividend payment record date and pay date for the second instalment if the rules and statutes of the Finnish book-entry system change or otherwise so require.

As at the date of the proposal for the distribution of profit, 5 February 2019, 99,018,353 shares were held outside the Company, and the corresponding total amount of dividends is €231,702,946.02.

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

Annual General Meeting

The Board of Directors has decided to convene the Annual General Meeting at Messukeskus in Helsinki on 8 April 2019 at 13.00 (EET). Kesko Corporation will publish a notice of the General Meeting at a later date.

Group's key performance indicators

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

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

	2014	2015	2016	2017	2018
Share performance indicators					
Earnings/share, basic and diluted					
Continuing operations	€	-	-	2.75	2.18
Discontinued operations	€	-	-	-0.16	-0.56
Group total	€	0.97	1.03	0.99	2.59
Earnings/share, comparable, basic					
Continuing operations	€	-	-	2.29	2.47
Group total	€	1.65	1.70	2.01	-
Equity/share	€	22.05	21.82	20.44	21.45
Dividend/share	€	1.50	2.50	2.00	2.20
Payout ratio	%	154.7	243.8	201.3	84.9
Payout ratio, comparable	%	91.1	146.7	99.5	96.6
Cash flow from operating activities/share, adjusted, group total	€	3.07	2.79	1.72	3.03
Cash flow from operating activities/share, adjusted, continuing operations	€	-	-	-	2.94
Price/earnings ratio (P/E), A share, adjusted		29.49	30.35	44.14	17.01
Price/earnings ratio (P/E), B share, adjusted		31.16	31.57	47.80	17.45
Effective dividend yield, A share	%	5.3	8.0	4.6	5.0
Effective dividend yield, B share	%	5.0	7.7	4.2	4.9
Share price as at 31 Dec.					
A share	€	28.56	31.12	43.85	44.10
B share	€	30.18	32.37	47.48	45.25
Average share price					
A share	€	29.06	31.85	37.30	43.62
B share	€	29.82	33.52	39.03	44.52
Market capitalisation as at 31 Dec., A share	€ million	906	988	1,392	1,400
Market capitalisation as at 31 Dec., B share	€ million	2,031	2,182	3,207	3,064

	2014	2015	2016	2017	2018
Turnover					
A share	Million pcs	2	2	2	1
B share	Million pcs	47	59	52	49
Relative turnover rate					
A share	%	6.3	7.5	5.4	4.0
B share	%	69.5	87.0	74.3	70.9
Diluted average number of shares	Thousand pcs	99,161	99,114	99,249	99,426
Yield of A share for the past five financial years	%	8.3	2.3	17.8	18.4
Yield of B share					
For the past five financial years	%	10.1	3.0	18.6	18.5
For the past ten financial years	%	10.2	7.7	6.6	6.8

* Proposal to the General Meeting

Net sales by segment

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

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

Operating profit by segment

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

Comparable operating profit by segment

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

Group's performance indicators by quarter

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

Net sales by segment

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

Operating profit by segment

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

Items in operating profit affecting comparability

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

Comparable operating profit by segment

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

Calculation of performance indicators

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

Change in comparable net sales is used to reflect changes in the Group's business volume between periods. The indicator reflects the change in net sales excluding the impact of acquisitions and divestments, in local currencies. The comparable net sales have been calculated by including in the net sales the business operations that have been part of Kesko Group in both the financial year as well as the comparison year. Other structural arrangements related to acquisitions and divestments have been adjusted in the same manner as acquisitions. The changes in Suomen Lähikauppa Oy's store site network in 2017 and 2018 have been handled in this manner.

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

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

Profitability

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

Funding, capital expenditure and financial position

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

Share performance indicators

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

Reconciliation of performance indicators to IFRS financial statements

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

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

Reconciliation of performance indicators to IFRS financial statements by quarter

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

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

Analysis of shareholding

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

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	27,668,787	27.66
Financial and insurance corporations	3,109,934	3.11
General government*	4,718,143	4.72
Households	24,192,608	24.19
Non-profit institutions**	5,152,908	5.15
Foreign and nominee-registered	35,177,372	35.17
Total	100,019,752	100.00

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	21,026,307	66.25	21.02
Financial and insurance corporations	1,416,882	4.46	1.42
General government*	542,756	1.71	0.54
Households	5,854,848	18.45	5.85
Non-profit institutions**	2,091,706	6.59	2.09
Foreign and nominee-registered	804,508	2.53	0.80
Total	31,737,007	100.00	31.73

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	6,642,480	9.73	6.64
Financial and insurance corporations	1,693,052	2.48	1.69
General government*	4,175,387	6.11	4.17
Households	18,337,760	26.86	18.33
Non-profit institutions**	3,061,202	4.48	3.06
Foreign and nominee-registered	34,372,864	50.34	34.37
Total	68,282,745	100.00	68.27

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

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

Analysis of shareholding by number of shares held as at 31 Dec. 2018

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

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

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

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

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

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

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

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

Management's shareholdings

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

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



FINANCIAL STATEMENTS

Consolidated financial statements (IFRS)

Consolidated income statement

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

Consolidated statement of comprehensive income

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

Consolidated statement of financial position

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

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

Consolidated statement of cash flows

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

€ million	Note	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Net cash flows from investing activities, total			
		-209.0	-88.3
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	-97.6	5.2
Repayments of finance lease liabilities	2.8	-4.3	-5.4
Interest-bearing receivables, increase (-)/decrease (+)	2.8	0.1	0.3
Dividends paid		-225.4	-203.8
Equity increase	4.2	-24.4	-
Short-term money market investments, increase (-)/decrease (+)		116.5	-36.4
Other items		0.8	-2.9
Net cash flows from financing activities, continuing operations		-234.3	-242.9
Net cash flows from financing activities, discontinued operations		-	-
Net cash flows from financing activities, total		-234.3	-242.9
Change in cash and cash equivalents and current available-for-sale financial assets			
		-29.5	-29.5
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, continuing operations	2.8	163.7	198.6
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, discontinued operations	2.8	6.5	2.3
Currency translation difference adjustment and change in value		-1.1	-1.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, continuing operations	2.8	139.2	163.7
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, discontinued operations	2.8	0.4	6.5

Consolidated statement of changes in equity

€ million	Attributable to owners of the parent						Total	Non-controlling interest	Total equity
	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings			
Balance as at 1 January 2018	197.3	464.7	-50.1	3.5	-18.0	1,536.0	2,133.4	98.7	2,232.1
Impact of new IFRS adoption				-3.9	3.7	2.6	2.4	0.0	2.4
Adjusted opening balance 1 January 2018	197.3	464.7	-50.1	-0.4	-14.2	1,538.6	2,135.9	98.7	2,234.6
Share-based payments					1.8		1.8		1.8
Acquisition of treasury shares					-24.4		-24.4		-24.4
Dividends						-221.8	-221.8	-3.9	-225.7
Increase in share capital							0.0	0.7	0.7
Other changes		0.0	0.0			7.7	7.6	0.2	7.8
Transactions with owners, total		0.0	0.0		-22.6	-214.2	-236.8	-3.0	-239.9
Comprehensive income									
Net profit for the year, continuing operations						215.8	215.8	19.0	234.8
Net profit for the year, discontinued operations						-55.9	-55.9		-55.9
Actuarial gains/losses						-2.3	-2.3		-2.3
Currency translation differences related to a foreign operation			-9.0			0.1	-8.9	-1.4	-10.4
Cash flow hedge revaluation				2.6			2.6		2.6
Others						-0.1	-0.1		-0.1
Tax related to other comprehensive income				-0.5		0.4	-0.1		-0.1
Comprehensive income, discontinued operations				35.1			35.1		35.1
Total comprehensive income for the period			26.1	2.1		157.9	186.1	17.6	203.6
Balance as at 31 December 2018	197.3	464.7	-24.0	1.7	-36.9	1,482.3	2,085.1	113.2	2,198.3

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

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

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

1. Accounting policies for the consolidated financial statements

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

1.1 Basic information about the Company

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

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

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

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

1.2 Basis of preparation

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2018. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with

the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Act and regulations based on it. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

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

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

1.3 Critical accounting estimates and assumptions

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

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

Measurement of assets acquired and liabilities assumed

Assets acquired and liabilities assumed in business combinations are measured at their fair values at the date of acquisition. The fair values on which the allocation of costs and liabilities is based are determined by reference to market values to the extent they are avail-

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

Impairment test

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

Employee benefits

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

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

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

Measurement of inventories

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

Trade receivables

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

Provisions

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

1.4 Critical judgements in applying accounting policies

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

1.5 Consolidation principles

Subsidiaries

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

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

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

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

Associates

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

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

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

Joint arrangements

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

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

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

Mutual real estate companies

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

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

Foreign currency items

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

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currency are translated into euros using the closing rate. Exchange rate gains and losses on foreign currency transactions as well as receivables and liabilities denominated in foreign currency are recognised in the income statement, with the exception of monetary items that form a part of a net investment in a foreign operation and loans designated as hedges for foreign net investments and regarded as effective. These exchange differences are recognised in equity and their changes are presented in other comprehensive income. The exchange differences

are presented in the income statement on disposal of the foreign operation or settlement of the hedges. The Group has currently no loans designated as hedges for foreign net investments. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign exchange forward contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in finance income and costs.

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

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

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

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

The impact of the changes in standards on the Group's opening balance sheet and shareholders' equity, and the changes to accounting policies are presented below. The tables only include the balance sheet items affected by the changes in standards, and thus subtotals are not presented.

Impact of new and amended standards on the opening balance sheet

€ million	31/12/2017	Adjustments	01/01/2018
ASSETS			
Current assets			
Trade receivables	836	-2	834
Financial assets at fair value through profit or loss	171	10	181
Financial assets at amortised cost		57	57
Available-for-sale financial assets	68	-68	0
Total current assets		-2	
EQUITY AND LIABILITIES			
Equity	2,133	2	2,135
Non-controlling interests	99	0	99
Total equity	2,232	2	2,235
Non-current liabilities			
Deferred tax liabilities	52	0	52
Total non-current liabilities		0	
Current liabilities			
Other non-interest-bearing liabilities	541	-4	537
Total current liabilities		-4	

Impact of new and amended standards on shareholders' equity in the opening balance sheet

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Non-controlling interests	Total
Closing balance at 31 December 2017	197	465	-50	3	-18	1,536	99	2,232
Reclassification of financial instruments				-4		3		-1
Changes in hedge accounting				0		0		0
Change in provisions for trade receivables						-1	0	-1
IFRS 9 adjustments, total				-4		3	0	-1
IFRS 2 adjustments					4			4
Adjustments total				-4	4	3	0	2
Opening balance at 1 January 2018	197	465	-50	0	-14	1,539	99	2,235

IFRS 9 Financial instruments

The Group has adopted the standard IFRS 9 Financial instruments as of 1 January 2018. The standard concerns the classification, measurement and hedge accounting of financial assets and liabilities. The opening balance sheet of 1 January 2018 has been adjusted for the accounting policy changes.

Following the adoption of IFRS 9, the Group's financial assets have been reclassified into three groups: financial assets measured at amortised cost, financial assets measured at fair value in other comprehensive income, and financial assets measured at fair value through profit or loss. Financial assets measured at amortised cost consist of assets that are to be held to maturity and whose cash flows consist solely of payments of principal and interest. Financial assets measured at fair value in other comprehensive income comprise derivatives used for hedging. Financial assets that do not meet the criteria of the other groups are classified as financial assets measured at fair value through profit or loss. Following the adoption of IFRS 9, investments of available-for-sale financial assets in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds as measured at fair value through profit or loss. Investments of financial assets measured at fair value through profit or loss in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds are still measured at fair value through profit or loss.

In hedge accounting, the Group will switch to the requirements of IFRS 9. In the hedging of electricity price risk, hedge accounting is applied only to system price.

According to the new IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses, while previously, impairment was only recognised when there was objective evidence of impairment. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, the Group has classified Group companies into risk categories on the basis of their business model and realised historical credit losses. As for other financial assets, the change in impairment model has not had a material impact on the consolidated financial statements.

Reclassification of financial assets

€ million	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Derivatives used for hedging	Financial assets at amortised cost	Total
Closing balance 31 December 2017	171	1,099	117	0		1,388
Reclassification of investments in funds from available-for-sale to fair value through profit or loss	44		-44			0
Reclassification of investments in interest-bearing instruments from available-for-sale to amortised cost			-73		72	-1
Reclassification of investments in interest-bearing instruments from fair value through profit or loss to amortised cost	-11				11	0
Loans and receivables classified as financial assets measured at amortised cost		-1,099			1,099	0
Opening balance 1 January 2018	204	0	0	0	1,182	1,387

IFRS 15 Revenue from Contracts with Customers

The Group has adopted the standard IFRS 15 Revenue from Contracts with Customers as of 1 January 2018. The standard replaced IAS 11 Construction Contracts and IAS 18 Revenue, and related interpretations. The standard did not have a material impact on the consolidated financial statements or the accounting policies. Under the standard, revenue is recognised when the control of goods or services transfers to a customer. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the goods or services.

Kesko Group's income mainly consists of sales of goods and services to business and consumer customers under ordinary trading sector terms and conditions. The adoption of the new standard has not had a material impact on the consolidated financial statements, and the accounting policies for income recognition have not been changed. The adoption of the standard has also not impacted customer agreements or business operations, and it has had only a minor impact on business support processes and information systems.

IFRS 2 Share-based Payment

The Group has adopted changes to the standard IFRS 2 Share-based Payment as of 1 January 2018. The opening balance sheet of 1 January 2018 has been adjusted for the accounting policy changes.

Due to the change, the Group has reclassified the cash-settled portions of its share-based compensation plans as equity-settled share-based payments. As a result of the change, such cash-settled share-based payments for which the employer shall deduct, on behalf of the employee, from the share award such number of shares which covers taxes and tax-like charges paid in cash, shall be classified in their entirety as equity-settled share-based payments.

The change concerns the following share-based compensation plans: the 2017 Performance Share Plan (PSP), the 2017 share-based incentive plan (Bridge Plan), and the Restricted Share Pool (RSP) plan, as well as share-based compensation plans granted after 1 January 2018.

IFRS 16 Leases

IFRS 16 Leases took effect on 1 January 2019. The standard addresses the definition, recognition and measurement of lease agreements and other information given in relation to lease agreements in financial statements. According to the standard, the lessee recognises in its balance sheet right-of-use assets and financial liabilities.

Kesko Group leases store sites and other properties for use in its business operations in all of its operating countries. Kesko has a significant number of lease agreements that before the implementation of IFRS 16 Leases were categorised as operating leases and recognised

as lease expenditure in the income statement on a time apportionment basis. According to the new standard that took effect on 1 January 2019, assets and liabilities corresponding to the present value of minimum lease payments will be recognised in the balance sheet at the commencement of most of these leases, meaning assets and liabilities recognised in the balance sheet will increase significantly. At the end of 2018 the lease liability for Kesko Group's properties was €2,934 million, in addition to which the Group had other lease liabilities of €24 million. The content of lease agreements recognised in the balance sheet under IFRS 16 Leases differs from the reporting of lease liabilities in the notes to balance sheet for the 2018 reporting period with regard to, for example, exemptions concerning short-term leases and asset items of low value. There are also timing-related differences, as lease liabilities reported under notes to the consolidated financial statements include also the nominal amount of liability for lease agreements that will enter into force in the future, while under IFRS 16 Leases, lease agreements are recognised in the balance sheet at the commencement date of the agreement.

According to IFRS 16 Leases, the measurement of the right-of-use assets and the lease liabilities is determined by discounting the minimum future lease payments. The Group will adopt the standard using a retrospective method, and the impact on the date of transition (1 January 2018) has been calculated as if the standard had always been in effect. The discount rate should primarily be the interest rate implicit in the lease, if available. An interest rate implicit in the lease is not available for all lease agreements. In such cases, the Group will use the incremental borrowing rate, which comprises the reference rate, credit spread for the incremental borrowing, and a potential country and currency risk premium. With the retrospective method, the incremental borrowing rate is determined and the minimum lease payments discounted at the commencement date of each lease agreement. IFRS 16 Leases includes exemptions for lease agreements with a term of less than 12 months and for asset items of low value, which the Group will adopt. The lessor's reporting remains unchanged, meaning lease agreements are still divided into finance lease agreements and operating leases.

The new standard has a significant impact on the Group's income statement and balance sheet and on some performance indicators. The implementation of IFRS 16 increases significantly the Group's EBITDA and comparable EBITDA and operating profit and comparable operating profit when the lease expenditure recognised in the income statement is replaced by depreciation of right-of-use-assets and interest expenses for liability recognised in finance costs. In addition, change in deferred tax is recognised in income taxes.

Assets in the consolidated statement of financial position increase by the right-of-use-asset calculated for the commencement date of each lease agreement, to be depreciated over their lease term. The amount of interest-bearing liabilities in the consolidated statement of financial position increases by the discounted amount of lease liabilities. In addition, the implementation of the new standard affects the cash flow from operating activities and cash flow from financing activities in the consolidated statement of cash flows, as realised rent payments are allocated to cash flow from operating activities for the portion corresponding to finance costs and to cash flow from financing activities for the portion corresponding to part payment of debt. The new standard does not have a practical impact on Kesko Group's cash flows, and the Group's cash flow as a whole will not change. The standard only changes the way different items in the statement of cash flows are presented. The retroactive implementation of the new accounting standard will result in an equity recording at the date of transition on 1 January 2018 as the values of assets and liabilities recognised in the balance sheet differ at the date of transition.

In the opening balance of 1 January 2018 drawn in conjunction with the implementation of IFRS 16 and calculated in accordance with the standard, the Group's right-of-use-assets total €1,996 million, and the corresponding interest-bearing liabilities €2,214 million. The implementation of the standard results in a €72 million increase in the comparable operating profit for continuing operations in January-September, as the operating profit is burdened by depreciation instead of rents. The positive impact on operating profit for the whole year 2018 is estimated to amount to some €95-98 million. The interest costs on interest-bearing liabilities calculated in accordance with the standard are recognised in the income statement, and these interest expenses are estimated to amount to some €99-101 million for 2018. Consequently, the net impact of the implementation of the standard on the Group's profit before taxes is estimated to amount to some €-3--5 million for 2018. The estimates given will become more specific once IFRS 16-compliant comparison figures for the whole 2018 reporting period are ready. Unaudited information on Kesko Group's restated comparison figures and the impact on the Group's key performance indicators for January-September 2018 with regard to the implementation of IFRS 16 Leases were published in a stock exchange release on 19 December 2018. IFRS 16-compliant comparison figures for the whole 2018 reporting period will be published before the publication of the Q1/2019 interim report, in April 2019 at the latest.

Consolidated statement of financial position, condensed

€ million	Opening balance sheet 1 Jan. 2018*	Impact of IFRS 16	Opening balance 1 Jan. 2018 restated
ASSETS			
Non-current assets			
Property, plant and equipment	1,293		1,293
Intangible assets	376		376
Right-of use assets	-	1,996	1,996
Shares in associates and joint ventures and other financial assets	140		140
Loans and receivables	71	3	74
Pension assets	207		207
Total	2,088	1,999	4,087
Current assets			
Inventories	939		939
Trade receivables	834		834
Other receivables	209		209
Financial assets at fair value through profit or loss	181		181
Financial assets at amortised cost	46		46
Cash and cash equivalents	170		170
Total	2,380		2,380
Non-current assets classified as held for sale	2		2
Total assets	4,470	1,999	6,469
EQUITY AND LIABILITIES			
Equity	2,135	-169	1,966
Non-controlling interests	99	-6	93
Total equity	2,235	-175	2,059

€ million	Opening balance sheet 1 Jan. 2018*	Impact of IFRS 16	Opening balance 1 Jan. 2018 restated
Non-current liabilities			
Interest-bearing liabilities	129		129
IFRS financial liabilities	-	1,922	1922
Non-interest-bearing liabilities	31		31
Deferred tax liabilities	52	-40	12
Pension obligations	0		0
Provisions	25		25
Total	238	1,883	2,121
Current liabilities			
Interest-bearing liabilities	405		405
IFRS financial liabilities	-	291	291
Trade payables	1,024		1,024
Other non-interest-bearing liabilities	537	8	545
Provisions	32	-8	24
Total	1,998	291	2,289
Liabilities related to available-for-sale non-current assets	0		0
Total equity and liabilities	4,470	1,999	6,469

* The impacts of the new and amended IFRS 9 and IFRS 2 on the Group's opening balance sheet are included in the opening balance sheet of 1 Jan. 2018.

2. FINANCIAL RESULTS

- 2.1. Kesko's divisions

- 2.2. Items affecting comparability

- 2.3. Other operating income

- 2.4. Operating expenses

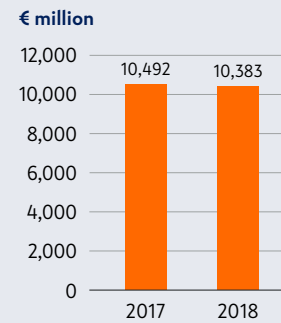
- 2.5. Foreign exchange differences recognised in operating profit

- 2.6. Income tax

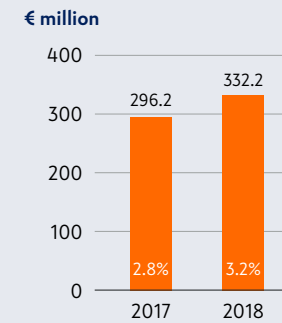
- 2.7. Earnings per share

- 2.8. Notes related to the statement of cash flows

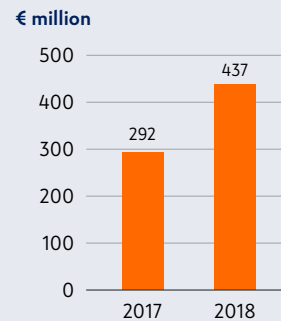
Net sales, continuing operations



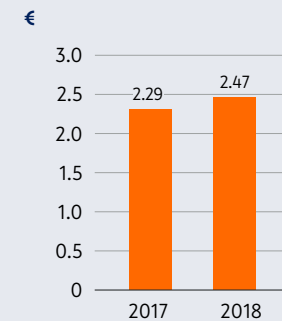
Comparable operating profit, continuing operations



Cash flow from operating activities, continuing operations



Comparable earnings/share, continuing operations



2.1 Kesko's divisions

Accounting policies

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

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

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

The assets and liabilities of a division's capital employed consist of operating items that can be justifiably allocated to the divisions. The assets of capital employed comprise property, plant and equipment and intangible assets, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables and assets held for sale.

The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions.

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

Revenue recognition policies

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

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

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

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

Kesko's business models

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Kesko manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 46% of the Group's net sales in 2018 (44%). B2B trade is a significant, growing part of business operations. B2B trade accounted for 36% (35%) of the Group's net sales in 2018. Kesko's own retailing accounted for 18% (21%) of the Group's net sales.

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries and the retailing of home and speciality goods in Finland. Kesko's grocery trade operates under the K-retailer business model. There are approximately 1,200 K-food stores operated by K-retailers in Finland. These stores form the K-Citymarket, K-Supermarket, K-Market and Neste K grocery retail chains. The transfer of the Suomen Lähikauppa stores acquired in 2016 to retailers was completed by the end of June 2018. Kespro is the foodservice (formerly HoReCa) provider and wholesaler in Finland. Kespro's foodservice offering was expanded with the acquisitions of Reinin Liha and Kalatukku E. Eriksson, completed on 1 June 2018 and 2 July 2018, respectively. K-Citymarket's home and speciality goods trade operates in home and speciality goods retailing in Finland.

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries, Poland and Belarus. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland where the retailer business model is employed. Kesko itself acts as a retail operator in Sweden, Norway, the Baltic countries and Belarus. The retail store chains are K-Rauta (Finland and Sweden), Bygghälsan (Norway), K-Senukai (the Baltic countries) and OMA (Belarus). The building and home improvement stores serve both consumers and business customers. 29 stores in the Bygghälsan chain became part of Kesko Group following the completion of the acquisitions of Skattum Handel AS and Gipling AS on 2 July and 23 July 2018, respectively. Kesko Senukai strengthened its online retailing by

acquiring 1A Group, one of the leading online retail market players in the Baltic States. Onninen is one of the leading suppliers of HEPAC and electrical products and related service providers in the Baltic Sea region and Scandinavia. The group specialises in the B2B trade and has around 150 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

The specialty trade included in the building and technical trade division comprises machinery trade in Finland and the Baltic countries and leisure trade in Finland. The chains in the leisure goods trade are Intersport, Budget Sport, The Athlete's Foot and Kookenkä. Kesko has stated it will sell its remaining shares in the Baltic machinery trade companies and Konekesko Finland's agricultural machinery trade operations to Danish Agro Group. Of the leisure trade businesses, the K-maatalous business was divested on 1 June 2017, and the Asko and Sotka furniture business and the Yamaha representation were divested on 30 June 2017.

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

Car trade

The car trade comprises the business operations of K-Auto, K-Caara and AutoCarrera. The car trade imports and markets Volkswagen, Audi, Seat and Porsche passenger cars and Volkswagen and MAN commercial vehicles in Finland. K-Auto also engages in car retailing and provides after-sales services at its own retail outlets.

Common functions

Common functions comprise Group support functions.

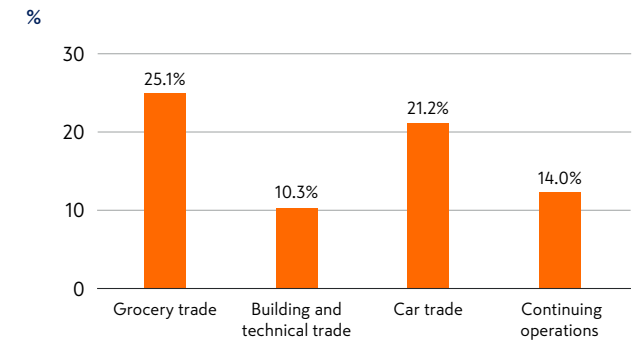
Kesco's divisions 2018

Profit, continuing operations

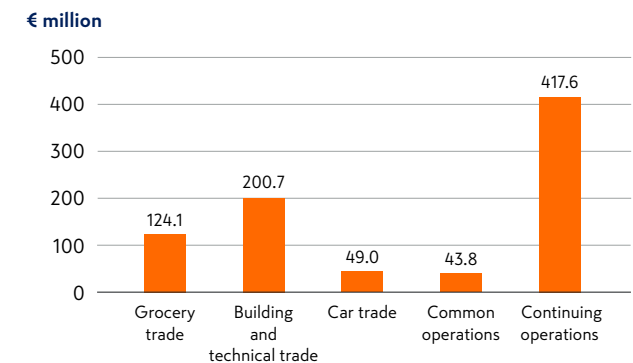
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,385.7	4,102.6	893.1	27.9	10,409.3
of which intersegment sales	-5.8	-0.1	-1.6	-19.0	-26.5
Net sales from external customers	5,379.9	4,102.5	891.4	8.9	10,382.8
Change in net sales in local currency excluding acquisitions and disposals, %	5.1	2.7	-1.8	(..)	3.5
Change in net sales, %	2.0	-4.6	-1.8	(..)	-1.0
Other division income	609.5	154.7	9.4	17.8	791.4
of which intersegment income	-0.8	-0.6	-	-0.2	-1.6
Other operating income from external customers	608.7	154.1	9.4	17.5	789.8
Depreciation and amortisation	-67.0	-38.0	-12.2	-26.3	-143.5
Impairment	0.0	-3.4	-	-	-3.4
Operating profit	219.3	84.9	34.4	-30.6	307.9
Items affecting comparability	-8.7	-13.5	-0.1	-1.9	-24.2
Comparable operating profit	228.0	98.4	34.5	-28.7	332.2
Finance income and costs					-1.1
Investments accounted for using the equity method					-10.1
Profit before tax					296.8

(..) change over 100%

Comparable return on capital employed by segment, continuing operations 2018



Capital expenditure by segment, continuing operations 2018



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	944.1	535.5	122.5	88.0	-1.6	1,688.5
Interests in associates and joint ventures and other investments	7.5	9.1	0.0	128.3	-0.6	144.3
Pension assets	29.5	10.8		107.7		148.0
Inventories	219.4	542.0	151.5			913.0
Trade receivables	341.8	435.3	43.7	5.3	-5.8	820.3
Other non-interest-bearing receivables	58.3	116.2	11.3	22.8	-11.3	197.3
Interest-bearing receivables	0.3	0.1		65.2		65.6
Non-current assets classified as held for sale	0.0	60.6		0.5	-0.1	61.0
Assets included in capital employed	1,600.9	1,709.8	329.0	417.7	-19.4	4,038.0
Unallocated items						
Deferred tax assets						5.3
Financial assets at fair value through profit or loss						50.9
Financial assets at amortised cost						90.8
Cash and cash equivalents						107.5
Non-current assets classified as held for sale, discontinued operations						10.4
Total assets	1,600.9	1,709.8	329.0	417.7	-19.4	4,302.9

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	482.9	466.2	24.3	14.2	-4.8	982.7
Other non-interest-bearing liabilities	233.4	206.1	78.8	62.5	-12.0	568.8
Provisions	8.9	6.7	35.8	0.9		52.2
Liabilities related to assets held for sale		14.9				14.9
Liabilities included in capital employed	725.1	693.9	138.9	77.6	-16.7	1,618.7
Unallocated items						
Interest-bearing liabilities						411.2
Other non-interest-bearing liabilities						29.2
Deferred tax liabilities						44.9
Liabilities related to assets held for sale, discontinued operations						0.5
Total liabilities	725.1	693.9	138.9	77.6	-16.7	2,104.6
Total capital employed as at 31 December, continuing operations	875.8	1,015.9	190.0	340.2	-2.7	2,419.3
Average capital employed, continuing operations	908.2	951.2	162.7	356.4	-0.6	2,377.9
Number of personnel as at 31 December, continuing operations	7,971	13,559	824	1,047		23,401
Average number of personnel, continuing operations	6,094	11,663	835	987		19,579

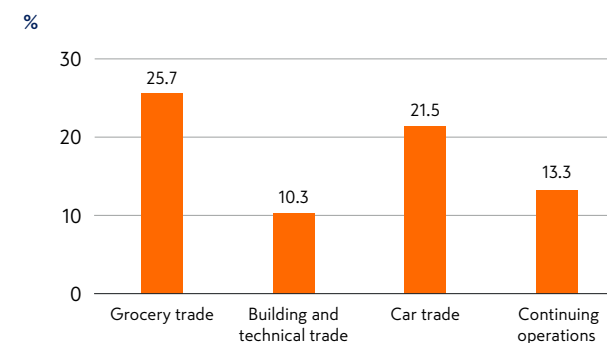
Kesko's divisions 2017

Profit, continuing operations

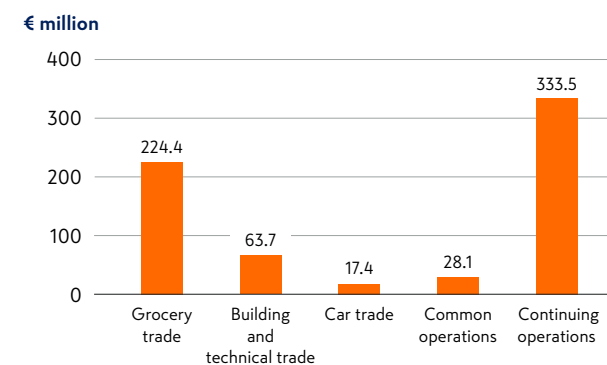
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,282.0	4,301.9	909.4	32.9	10,526.2
of which intersegment sales	-6.7	-2.6	-0.6	-24.5	-34.4
Net sales from external customers	5,275.3	4,299.3	908.8	8.5	10,491.8
Change in net sales in local currency excluding acquisitions and disposals, %	2.4	1.4	1.0	-3.4	1.9
Change in net sales, %	0.9	9.6	7.1	(..)	4.8
Other division income	546.0	231.4	4.2	10.5	792.1
of which intersegment income	-4.2	-1.9		0.5	-5.6
Other operating income from external customers	541.6	229.5	4.2	11.1	786.6
Depreciation and amortisation	-62.7	-40.3	-9.4	-17.7	-130.2
Impairment	0.0	-	-	-	0.0
Operating profit	181.3	168.7	33.1	-44.5	338.6
Items affecting comparability	-22.1	73.5		-8.9	42.5
Comparable operating profit	203.4	95.2	33.1	-35.6	296.2
Finance income and costs					2.2
Investments accounted for using the equity method					1.6
Profit before tax					342.4

(..) change over 100%

Comparable return on capital employed by segment, continuing operations 2017



Capital expenditure by segment, continuing operations 2017



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	903.8	435.8	93.4	71.5	0.6	1,505.0
Interests in associates and joint ventures and other investments	7.7	10.4	0.0	123.0	-0.6	140.5
Pension assets	40.6	16.2		150.6		207.5
Inventories	219.6	517.5	166.4	0.0		903.4
Trade receivables	344.3	439.0	44.7	7.7	-7.5	828.1
Other non-interest-bearing receivables	79.4	103.1	8.7	26.4	-7.0	210.6
Interest-bearing receivables	0.6	0.6		63.0		64.2
Non-current assets classified as held for sale		1.3		0.5		1.8
Assets included in capital employed	1,595.9	1,523.9	313.1	442.8	-14.5	3,861.1
Discontinued operations, assets of capital employed (note 3.7)						210.3
Eliminations between continuing and discontinued operations of assets of capital employed						-3.3
Unallocated items						
Deferred tax assets						5.6
Financial assets at fair value through profit or loss						171.0
Available-for-sale financial assets						94.2
Cash and cash equivalents						132.7
Total assets	1,595.9	1,523.9	313.1	442.8	-14.5	4,471.6

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	509.5	458.8	22.0	13.8	-4.9	999.4
Other non-interest-bearing liabilities	242.0	183.2	70.2	54.1	-9.4	540.0
Provisions	11.6	4.7	39.4	1.1		56.7
Liabilities related to assets held for sale		0.1				0.1
Liabilities included in capital employed	763.1	646.8	131.6	69.0	-14.3	1,596.2
Discontinued operations, liabilities of capital employed (note 3.7)						30.1
Eliminations between continuing and discontinued operations of liabilities of capital employed						-2.6
Unallocated items						
Interest-bearing liabilities						533.9
Other non-interest-bearing liabilities						29.9
Deferred tax liabilities						52.0
Total liabilities	763.1	646.8	131.6	69.0	-14.3	2,239.5
Total capital employed as at 31 December	832.8	877.1	181.5	373.8	-0.2	2,265.0
Average capital employed	791.3	923.5	154.1	353.7	1.6	2,224.2
Number of personnel as at 31 December	8,584	12,779	818	864		23,045
Average number of personnel	6,733	11,967	809	872		20,382

Geographical information, continuing operations

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

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

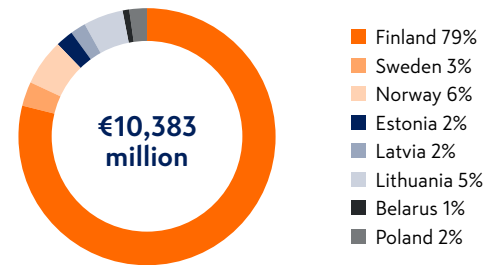
2018 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total, continuing operations
Net sales	8,260.7	940.6	824.3	367.2	-10.1	10,382.8
Assets included in capital employed	3,053.1	435.1	384.0	165.8		4,038.0
Capital expenditure	225.6	161.4	28.1	2.5		417.6
Average number of personnel	9,822	1,598	4,740	3,419		19,579

2017 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total, continuing operations
Net sales	8,391.3	1,046.8	717.0	348.4	-11.8	10,491.8
Assets included in capital employed	3,088.9	297.2	312.9	162.1		3,861.1
Capital expenditure	299.2	3.3	21.5	9.5		333.5
Average number of personnel	10,691	1,460	4,793	3,438		20,382

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

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

Net sales by country, continuing operations



2.2 Items affecting comparability

Accounting policies

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

€ million, continuing operations	2018	2017
Items affecting comparability		
Gains on disposal	6.7	83.4
Losses on disposal	-0.1	-1.8
Impairment charges	-5.6	-0.5
Structural arrangements	-25.3	-38.6
Items in operating profit affecting comparability, total	-24.2	42.5
Items in financial items affecting comparability	-6.5	-0.4
Items in income taxes affecting comparability	4.5	3.8
Items in net profit attributable to non-controlling interests affecting comparability	-3.2	-
Items affecting comparability, total	-29.4	45.9

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

In 2017, the most significant items affecting comparability were the €49.7 million gain on the divestment of real estate in the Baltics, the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains, the €12.3 million gain on the divestment of the K-maatalous agricultural business, as well as the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million.

Reconciliation of performance indicators to IFRS financial statements, € million, continuing operations	2018	2017
Operating profit, comparable		
Operating profit	307.9	338.6
Net of		
Items in operating profit affecting comparability	-24.2	42.5
Operating profit, comparable	332.2	296.2
Profit before tax, comparable		
Profit before tax	296.8	342.4
Net of		
Items in operating profit affecting comparability	-24.2	42.5
Items in financial items affecting comparability	-6.5	-0.4
Profit before tax, comparable	327.5	300.3
Net profit, comparable		
Profit before tax, comparable	327.5	300.3
Net of		
Income tax	61.9	57.9
Items in income tax affecting comparability	4.5	3.8
Net profit, comparable	261.1	238.5
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	261.1	238.5
Net of		
Net profit attributable to non-controlling interests	19.0	11.0
Items in net profit attributable to non-controlling interests affecting comparability	-3.2	-
Net profit attributable to owners of the parent, comparable	245.3	227.5

Reconciliation of performance indicators to IFRS financial statements, € million, continuing operations	2018	2017
Earnings per share, comparable, €		
Net profit attributable to the owners of the parent, comparable	245.3	227.5
Average number of shares, basic, 1,000 pcs	99,182	99,426
Earnings per share, comparable, €	2.47	2.29
Return on capital employed, comparable, %		
Operating profit, comparable	332.2	296.2
Capital employed, average	2,378	2,224
Return on capital employed, comparable, %	14.0	13.3

Reconciliation of performance indicators to IFRS financial statements , € million, Group	2018	2017
Return on equity, %		
Net profit	178.9	268.8
Equity, average	2,215	2,179
Return on equity, %	8.1	12.3
Return on equity, comparable, %		
Net profit, comparable	258.1	237.5
Equity, average	2,215	2,179
Return on equity, comparable, %	11.7	10.9
Equity ratio, %		
Shareholders' equity	2,198	2,232
Total assets	4,303	4,472
Advances received	26	39
Equity ratio, %	51.4	50.4

Calculation of performance indicators

Operating profit, comparable

Operating profit +/- items affecting comparability

Earnings per share, comparable, €

Net profit/loss adjusted for items affecting comparability - Share of non-controlling interests of net profit/loss adjusted for items affecting comparability

Average number of shares

Return on capital employed, comparable, %

Comparable operating profit x 100

(Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for the reporting period

Return on equity, %

(Profit/loss before tax - Income tax) x 100

Shareholders' equity, average of the beginning and end of the reporting period

Return on equity, %, comparable

(Profit/loss adjusted for items affecting comparability before tax - Income tax adjusted for the tax effect of items affecting comparability) x 100

Shareholders' equity, average of the beginning and end of the reporting period

Equity ratio, %

Shareholders' equity x 100

(Total assets - Advances received)

2.3 Other operating income

Accounting policies

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

€ million	2018	2017
Income from services	611.3	550.3
Lease income	44.3	39.9
Gains on disposal of property, plant, equipment and intangible assets	5.0	54.2
Gains on disposal of businesses	4.3	31.4
Realised gains on derivative contracts and changes in fair value	4.8	2.2
Others	120.2	108.5
Total, continuing operations	789.8	786.6

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

Other operating income includes €8.0 million (€86.6 million) of items affecting comparability. More information on items affecting comparability is presented in note 2.2.

2.4 Operating expenses

Accounting policies

Other operating expenses include expenses other than the cost of goods sold, such as employee benefit expenses, lease expenditure, marketing costs, property and store site maintenance costs and information system expenses. Other operating expenses also include losses on the disposal of property, plant and equipment and intangible assets, losses on disposal of business operations as well as realised and unrealised losses on derivatives used for hedging foreign currency risks associated with commercial transactions.

Employee benefit expenses

€ million	2018	2017
Salaries and fees	-567.1	-594.9
Social security costs	-47.5	-48.4
Pension costs		
Defined benefit plans	0.0	-3.2
Defined contribution plans	-73.0	-81.8
Share-based payment	-6.5	-9.8
Total, continuing operations	-694.1	-738.1

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

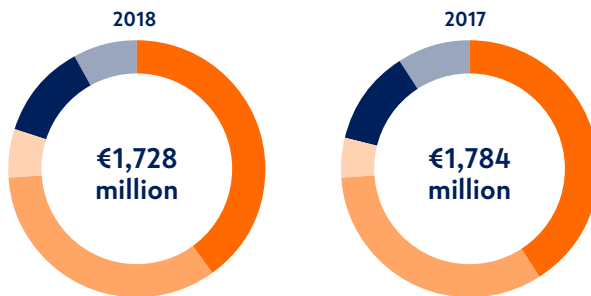
Average number of the Group personnel

	2018	2017
Grocery trade	6,094	6,733
Building and technical trade	11,663	11,967
Car trade	835	809
Common functions	987	872
Total, continuing operations	19,579	20,382
Discontinued operations	416	1,695
Total, Group	19,995	22,077

Other operating expenses

€ million	2018	2017
Lease expenditure	-466.6	-463.2
Marketing costs	-210.4	-206.3
Property and store site maintenance expenses	-119.0	-124.6
ICT expenses	-96.1	-92.2
Losses on disposal of property, plant, equipment and intangible assets	-1.7	-2.4
Losses on disposal of business operations	-	-1.4
Realised losses on derivative contracts and changes in fair value	-3.8	-3.7
Other operating expenses	-136.5	-152.1
Total, continuing operations	-1,034.2	-1,045.8

Expenses by type, continuing operations



- Personnel costs 40% (41%)
- Rents and store site costs 34% (33%)
- ICT costs 6% (5%)
- Marketing and loyalty costs 12% (12%)
- Other costs 8% (9%)

Auditors' fees

€ million	2018	2017
Fees to PwC chain companies		
Audit	0.9	1.0
Tax consultation	0.2	0.1
Other services	0.6	1.2
Total	1.7	2.2
Other audit firms	1.2	1.2

Fees paid to PricewaterhouseCoopers Oy for services other than audit to Kesko Group companies totalled €0.8 million.

2.5 Foreign exchange differences recognised in operating profit

€ million	2018	2017
Sales	-0.1	0.0
Other income	4.8	1.9
Purchases	-0.3	-0.8
Other expenses	-3.8	-3.7
Total, continuing operations	0.5	-2.6

2.6 Income tax

Accounting policies

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

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

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

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

€ million	2018	2017
Current tax	-71.8	-54.8
Tax for prior years	-0.2	-0.4
Deferred tax	10.1	-2.7
Total, continuing operations	-61.9	-57.9

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

€ million	2018	2017
Profit before tax	296.8	342.4
Tax at parent's rate 20.0%	-59.4	-68.5
Effect of foreign subsidiaries' different tax rates	4.2	2.2
Effect of tax-free income	1.9	15.4
Effect of expenses not deductible for tax purposes	-6.7	-0.6
Effect of tax losses	-0.6	-5.9
Effect of consolidation	0.2	0.3
Tax for prior years	-1.2	-0.4
Effect of change in tax rate	0.2	-0.3
Others	-0.6	-0.1
Tax charge, continuing operations	-61.9	-57.9

The impact of the corporation tax rate change, effective from 1 January 2019 in Norway, on taxes for the financial year 2018 was €0.2 million. The impact of the corporation tax rate changes, effective from 1 January 2018 in Norway and Latvia, on taxes for the financial year 2017 was €-0.3 million.

2.7 Earnings per share

Accounting policies

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

	2018	2017
Net profit for the period attributable to equity holders of the parent, € million	159.9	257.8
Number of shares		
Weighted average number of shares outstanding	99,181,927	99,426,302
Diluted weighted average number of shares outstanding	99,181,927	99,426,302
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, continuing operations, €	2.18	2.75
Basic and diluted, discontinued operations, €	-0.56	-0.16
Basic and diluted, Group total, €	1.61	2.59
Comparable earnings/share, basic, continuing operations, €	2.47	2.29

Reconciliation for comparable earnings is presented in note 2.2.

2.8 Notes related to the statement of cash flows

Capital expenditure and non-cash financing activities

€ million	2018	2017
Total acquisitions of property, plant, equipment and intangible assets	236.2	326.0
Total acquisitions of subsidiaries and investments in associates and other investments	181.3	2.0
Total capital expenditure	417.5	328.0
of which cash payments	375.9	305.1
Loans relating to acquired companies and cash and cash equivalents	29.5	1.0
Payments arising from prior period investing activities	-16.3	-9.6
Capital expenditure financed with finance lease or other liability	28.4	31.5
Total, continuing operations	417.5	328.0

Adjustments to cash flows from operating activities

€ million	2018	2017
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-3.1	1.5
Share of results of associates and joint ventures	10.1	-1.6
Impairments	3.4	0.0
Credit losses	5.2	4.9
Gains on disposal of property, plant, equipment and intangible assets and business operations	-9.3	-91.2
Losses on disposal of property, plant, equipment and intangible assets and business operations	1.7	4.0
Share-based compensation	-2.8	-2.6
Defined benefit pensions	57.1	1.7
Others	-6.5	5.4
Total, continuing operations	55.9	-78.0

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

Cash and cash equivalents within the statement of cash flows

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

€ million	2017
Available-for-sale financial assets (maturing in less than 3 months), continuing operations	34.0
Available-for-sale financial assets (maturing in less than 3 months), discontinued operations	3.5
Cash and cash equivalents, continuing operations	129.7
Cash and cash equivalents, discontinued operations	3.0
Total	170.2

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

Reconciliation of cash and debt

€ million	2018
Financial assets at amortised cost (maturing in less than 3 months)	31.7
Cash and cash equivalents	107.9
Borrowings - repayable within one year (including overdraft)	-233.4
Borrowings - repayable after one year	-177.8
Cash and debt, net	-271.7

€ million	2017
Available-for-sale financial assets (maturing in less than 3 months)	37.5
Cash and cash equivalents	132.7
Borrowings - repayable within one year (including overdraft)	-404.6
Borrowings - repayable after one year	-129.3
Cash and debt, net	-363.7

€ million	2018
Cash and cash equivalents and financial assets at amortised cost (maturing in less than 3 months)	139,6
Gross debt - fixed interest rates	-241,7
Gross debt - variable interest rates	-169,5
Cash and debt, net	-271,7

€ million	2017
Cash and cash equivalents and available-for-sale financial assets (maturing in less than 3 months)	170,2
Gross debt - fixed interest rates	-363,6
Gross debt - variable interest rates	-170,3
Cash and debt, net	-363,7

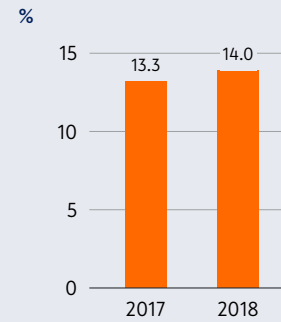
€ million	Other assets		Finance-related debt				Total
	Cash and overdraft	Financial assets at amortised cost	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	
Cash and debt, net as at 1 Jan. 2018	132.7	37.5	-3.5	-7.0	-401.1	-122.3	-363.7
Cash flows	-30.1	-5.3	1.3	3.7	169.8	-53.1	86.3
Acquisitions of subsidiaries	7.0		0.0	0.0	-0.4		6.6
Disposals of subsidiaries							0.0
Acquisitions - finance leases and lease incentives			0.0	0.1			0.2
Foreign exchange adjustments	-1.7	-0.4	0.0	0.0	0.3	0.8	-1.1
Cash and debt, net as at 31 Dec. 2018	107.9	31.7	-2.1	-3.2	-231.4	-174.6	-271.7

€ million	Other assets		Finance-related debt				Total
	Cash and overdraft	Available-for-sale financial assets	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	
Cash and debt, net as at 1 Jan. 2017	141.3	59.6	-2.9	-5.7	-153.1	-352.9	-313.8
Cash flows	-8.4	-22.1	1.7	5.4	-235.5	230.6	-28.3
Acquisitions of subsidiaries	1.0				-13.1		-12.1
Disposals of subsidiaries	-1.2		0.0	0.0	0.0	0.0	-1.2
Acquisitions - finance leases and lease incentives			-2.3	-6.8			-9.1
Foreign exchange adjustments	0.1		0.0	0.1	0.6	0.0	0.7
Cash and debt, net as at 31 Dec. 2017	132.7	37.5	-3.5	-7.0	-401.1	-122.3	-363.7

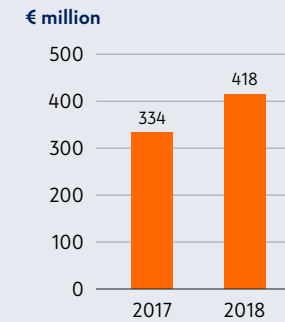
3. CAPITAL EMPLOYED

- 3.1 Capital employed and working capital
- 3.2 Business acquisitions and disposals of assets
- 3.3 Property, plant and equipment
- 3.4 Intangible assets
- 3.5 Inventories
- 3.6 Trade and other current receivables
- 3.7 Discontinued operations and non-current assets classified as held for sale and related liabilities
- 3.8 Pension assets
- 3.9 Shares in associates and joint ventures
- 3.10 Provisions

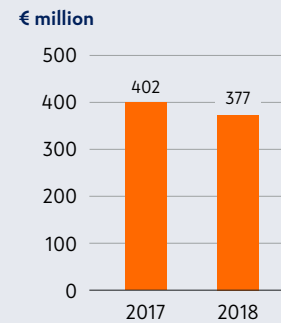
Comparable return on capital employed, continuing operations



Capital expenditure, continuing operations



Working capital, continuing operations



3.1 Capital employed and working capital

Capital employed

€ million	Note	31 Dec. 2018	31 Dec. 2017
Property, plant and equipment	3.3	1,196.4	1,140.7
Intangible assets	3.4	492.1	364.3
Interests in associates and joint ventures	3.9	123.5	117.4
Financial assets at fair value through profit or loss	4.3	20.8	-
Non-current available-for-sale financial assets	4.3	-	23.0
Non-current receivables	4.3	65.7	65.4
Pension assets	3.8	148.0	207.5
Current interest-bearing receivables	4.5	2.7	1.5
Non-current assets classified as held for sale	3.7	61.0	1.8
Non-interest-bearing non-current liabilities	4.5	-0.2	-1.5
Pension obligations		-0.4	-0.4
Provisions	3.10	-52.2	-56.7
Liabilities related to available-for-sale non-current assets	3.7	-14.9	-0.1
Working capital		376.8	402.0
Total, continuing operations		2,419.3	2,265.0
Discontinued operations, assets of capital employed	3.7	-	210.3
Eliminations between continuing and discontinued operations of assets of capital employed	3.7	-	-3.3
Discontinued operations, liabilities of capital employed	3.7	-	-30.1
Eliminations between continuing and discontinued operations of liabilities of capital employed	3.7	-	2.6
Group total		2,419.3	2,444.4

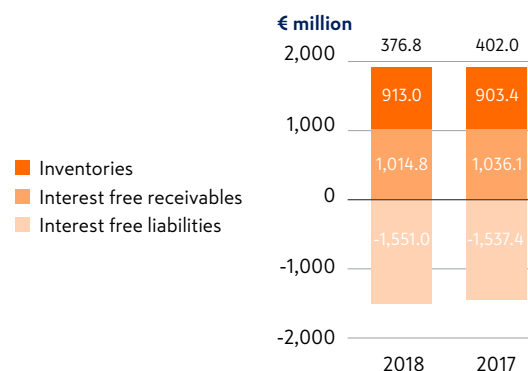
Accrued liabilities are mainly due to the timing of purchases and employee benefit expenses.

Non-current non-interest-bearing liabilities also include an item of €29.2 million (€29.9 million) not allocated to divisions, related to the accrual of a gain on a real estate sale to a joint venture. The item is not included in capital employed.

Working capital

€ million	Note	31 Dec. 2018	31 Dec. 2017
Inventories	3.5	913.0	903.4
Trade receivables	3.6	820.3	827.9
Income tax assets	3.6	0.1	11.1
Other non-interest-bearing receivables	3.6	194.4	197.1
Trade payables	4.3 4.5	-982.7	-999.4
Other non-interest-bearing liabilities	4.3 4.5	-197.8	-225.5
Income tax liabilities	4.5	-16.5	-5.6
Accrued liabilities	4.3 4.5	-353.9	-307.0
Total, continuing operations		376.8	402.0
Discontinued operations, working capital assets	3.7	-	46.0
Eliminations between continuing and discontinued operations of working capital assets	3.7	-	-3.3
Discontinued operations, working capital liabilities	3.7	-	-30.1
Eliminations between continuing and discontinued operations of working capital liabilities	3.7	-	2.6
Group total		376.8	417.1

Working capital, continuing operations



3.2 Business acquisitions and disposals of assets

Acquisitions in 2018

In June, Kesko Corporation agreed to acquire Reinin Liha and Kalatukku E. Eriksson as part of its foodservice wholesale business Kespro. Reinin Liha Oy's acquisition was completed on 1 June 2018 and Kalatukku E. Eriksson Oy's on 2 July 2018. The combined debt-free transaction price of the acquisitions, structured as share purchases, was €15 million.

In June, Kesko Corporation's subsidiary Bygghakker Handel AS agreed to acquire the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS. The acquisition of Skattum Handel AS was completed on 2 July 2018 and the acquisition of Gipling AS on 23 July 2018. The combined debt-free transaction price of the acquisitions, structured as share purchases, was NOK 1,467 million (€147 million).

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

Skattum Handel AS and Gipling AS

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

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

The preliminary fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €8 million. The balance sheet value of current trade receivables equals their fair value. The €93 million goodwill arising from the acquisition reflects market share and business knowledge as well as the synergies expected to be achieved in purchasing, selections, logistics, ICT systems and operational efficiency. The Group profit for 2018 includes acquisition-related costs of €1.8 million. The costs are presented as items affecting comparability.

2018 € million	Skattum Handel AS and Gipling AS	Kalatukku E. Eriksson Oy and Reinin Liha Oy
Consideration paid	147	15
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition		
Intangible assets	8	8
Property, plant, equipment and investments	6	6
Inventories	31	2
Receivables	36	4
Deferred tax asset	1	-
Cash and cash equivalents	5	1
Total assets	86	21
Trade payables, other payables, provisions	31	6
Deferred tax liability	1	2
Total liabilities	32	8
Net assets acquired, total	54	13
Goodwill	93	2
Cash flow impact of acquisition		
Consideration paid	-153	-15
Cash and cash equivalents acquired	6	1
Unpaid share	-	2
Cash flow impact of acquisition	-147	-12

The impact of Skattum Handel AS and Gipling AS on net sales for July-December was €40 million. The impact on the comparable operating profit for July-December was €2.2 million. If the acquisitions had taken place on 1 January 2018, according to management estimates, the impact on Group net sales would have been approximately €71 million, and the impact on comparable operating profit would have been €5.9 million. In determining the net sales and comparable operating profit, the management estimates that recorded fair values would have been the same on the date of acquisition had the acquisition taken place on 1 January 2018.

Kalatukku E. Eriksson Oy and Reinin Liha Oy

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

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

The preliminary fair value of the intangible assets acquired (including customer relationships and trademarks) at the date of acquisition totals €8 million. The balance sheet value of current trade receivables equals their fair value. The €2 million goodwill arising from the acquisition reflects the synergies expected to be achieved from joint customer relationships, logistics, ICT and administration. The Group profit for 2018 includes acquisition-related costs of €0.9 million. The costs are presented as items affecting comparability.

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

Acquisitions in 2017

In 2017, Kesko Group did not have acquisitions to be accounted for as business combinations.

Disposals of assets 2018

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

Disposals of assets 2017

In May 2017, Kesko sold seven store sites used by Kesko Senukai in Estonia and Latvia to the property investment company UAB Baltic Retail Properties. At the same time, Kesko acquired a 10% shareholding in the property investment company.

In June 2017, Konekesko Ltd, a Kesko Corporation subsidiary, sold its Yamarin boat business to Inhan Tehtaat Oy Ab, a subsidiary owned by Yamaha Motor Europe N.V. At the same time, the transfer of the representation of Yamaha's recreational machinery in Finland from Konekesko Ltd to Yamaha Motor Europe N.V. was also completed.

In June 2017, Kesko Corporation sold Indoor Group, which is responsible for the Asko and Sotka furniture trade, to a company owned by Sievi Capital Oyj, three franchising entrepreneurs from the Sotka chain and Etera Mutual Pension Insurance Company. The debt free price of the sale, structured as a share transaction, was €67 million.

In June 2017, Kesko Corporation sold its K-maatalous business to Swedish Lantmännen ek för. The debt free price of the sale, structured as a share transaction, was €38.5 million.

Net assets of subsidiaries sold

€ million	2018	2017
Property, plant, equipment and intangible assets	-	66.1
Inventories	-	61.3
Receivables	-	69.4
Cash and cash equivalents	-	1.2
Deferred taxes	-	-7.8
Liabilities	-	-117.7
Provisions	-	-0.4
Net assets total	-	72.2

In addition, the real estate divestment in the Baltics completed on 24 May 2017 had a €14.0 million impact on the Group's net assets.

3.3 Property, plant and equipment

Accounting policies

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

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

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

The most common estimated useful lives are:

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

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

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

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

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

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

2017 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Pre- payments and construction in progress	Total 2017
Cost						
Cost as at 1 January	302.8	1,058.9	530.7	58.4	101.1	2,052.0
Exchange differences	-5.4	-15.2	-4.1	-2.8	-0.4	-27.9
Additions	13.0	185.6	75.1	4.3	29.3	307.4
Acquisitions	2.8	8.6	0.0	0.0		11.4
Deductions	-0.8	-6.1	-75.4	-0.3	-6.4	-89.0
Disposals	-1.2	-12.9	-12.5	-0.1	-0.1	-26.8
Transfers between items	2.5	60.2	7.0	0.9	-73.6	-3.0
Cost as at 31 December	313.7	1,279.2	520.8	60.4	50.0	2,224.0
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-6.1	-485.6	-378.7	-31.2		-901.6
Exchange differences	0.0	5.9	2.9	1.4		10.2
Accumulated depreciation on deductions	0.3	4.8	50.3	0.2		55.6
Accumulated depreciation and impairment charges on disposals	-1.1	7.5	9.0	0.1		15.6
Accumulated depreciation on transfers		0.0	0.1	0.0		0.1
Depreciation and impairment charges for the year	0.0	-50.4	-55.5	-4.9		-110.7
Accumulated depreciation and impairment charges as at 31 December	-7.0	-517.8	-371.9	-34.3		-931.0
Carrying amount as at 1 January	296.6	573.3	152.0	27.2	101.1	1,150.4
Carrying amount as at 31 December	306.8	761.4	148.9	26.0	50.0	1,293.1

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

€ million	2018	2017
Cost	42.6	28.5
Accumulated depreciation	-24.0	-18.3
Carrying amount	18.6	10.2

3.4 Intangible assets

Accounting policies

Goodwill and trademarks

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

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

Other intangible assets

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

The estimated useful lives are:

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

Research and development expenses

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

Software

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

Impairment of non-financial assets

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

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed, if the revaluation shows an increase in the recoverable amount. However, the reversal of an impairment loss of an

asset should not exceed the carrying amount of the asset without impairment loss recognition. For goodwill, a recognised impairment loss is not reversed under any circumstances.

2018 € million	Goodwill	Trademarks	Other intangible assets	Prepay- ments	Total 2018
Cost					
Cost as at 1 January	237.5	89.3	222.6	17.0	566.5
Exchange differences	-3.5	-0.3	-0.6		-4.5
Additions	110.9		30.4	12.6	153.9
Acquisitions		5.3	14.0		19.3
Deductions			-19.9	-2.1	-21.9
Transfers between items	-14.5		-2.5	-9.7	-26.7
Cost as at 31 December	330.4	94.3	244.0	17.9	686.6
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-65.2	-7.2	-117.8	0.0	-190.2
Exchange differences	0.0	0.1	0.6		0.7
Accumulated amortisation and impairment charges on disposals	-1.0		16.6		15.6
Accumulated amortisation on deductions and transfers	14.5		1.9		16.4
Amortisation and impairment charges for the year	0.0		-36.9		-36.9
Accumulated amortisation and impairment charges as at 31 December	-51.7	-7.1	-135.7	0.0	-194.5
Carrying amount as at 1 January	172.3	82.2	104.7	17.0	376.2
Carrying amount as at 31 December	278.7	87.2	108.3	17.9	492.1

2017 € million	Goodwill	Trademarks	Other intangible assets	Prepay- ments	Total 2017
Cost					
Cost as at 1 January	249.6	131.0	284.0	18.3	682.9
Exchange differences	-0.2	-2.6	-4.0	0.0	-6.9
Additions	1.0		17.7	14.2	32.9
Acquisitions			0.0		0.0
Deductions			-80.6	-0.5	-81.1
Disposals	-12.9	-39.1	-12.4	0.0	-64.3
Transfers between items			18.0	-14.9	3.0
Cost as at 31 December	237.5	89.3	222.6	17.0	566.5
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-59.7	-7.8	-184.9	0.0	-252.3
Exchange differences	0.2	0.6	2.9		3.7
Accumulated amortisation on deductions and transfers			80.6		80.6
Accumulated amortisation and impairment charges on disposals	8.8		12.0		20.8
Amortisation and impairment charges for the year	-14.5		-28.5		-43.0
Accumulated amortisation and impairment charges as at 31 December	-65.2	-7.2	-117.8	0.0	-190.2
Carrying amount as at 1 January	189.9	123.3	99.1	18.3	430.5
Carrying amount as at 31 December	172.3	82.2	104.7	17.0	376.2

Other intangible assets include other non-current expenditure, of which €70.3 million (€62.5 million) are software and licence costs.

Goodwill and intangible rights by division

€ million	Trade- marks 2018	Goodwill 2018	Discount rate (WACC) 2018	Trade- marks 2017	Goodwill 2017	Discount rate (WACC) 2017
Grocery trade, chain operations		76.1	6.0		76.1	6.0
Grocery trade, Kespro	5.3	2.0	6.0			
Building and technical trade						
Bygghakker, Norway	23.6	93.4	7.0	23.9		7.0
Onninen	58.3	55.1	7.3	58.3	55.1	7.2
Kesko Senukai, Baltics		32.0	7.0		21.1	7.0
Car trade		20.0	7.0		20.0	7.0
Total	87.2	278.7		82.2	172.3	

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

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

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

WACC is determined after tax. The rate is used in impairment testing.

Impairment test for goodwill and intangible assets

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

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each division and country and adjusted for tax effect in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. Discount rates remained at the level of the previous year.

Impairment losses

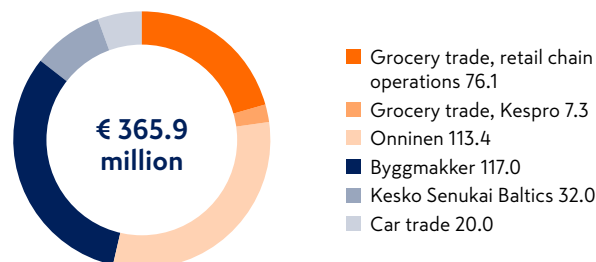
There were no impairment charges recognised on goodwill or intangible rights in the financial year 2018. During the 2017 financial year, a €14.5 million goodwill impairment was recorded for K-rauta Rus (building and technical trade).

Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate. The most sensitive to movements in assumptions is the car trade related goodwill: if the residual EBITDA decreased by more than 1.2 percentage points, an impairment would be recognised. Regarding the other cash generating units, according to management's estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount.

Goodwill and trademarks

€ million



3.5 Inventories

Accounting policies

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

€ million	2018	2017
Goods	904.9	931.7
Prepayments	8.1	6.9
Total	913.0	938.6
Write-down of inventories to net realisable value	39.3	44.3

3.6 Trade and other current receivables

Accounting policies

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

€ million	2018	2017
Interest-bearing receivables		
Finance lease receivables	0.0	0.0
Interest-bearing loans and receivables	2.7	1.5
Total interest-bearing receivables	2.7	1.5
Trade receivables	820.3	836.0
Income tax assets	0.1	11.1
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	22.1	21.8
Prepaid expenses	172.3	174.5
Total other non-interest-bearing receivables	194.4	196.4
Total	1 017.5	1 045.0

A total amount of €5.2 million (€4.9 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 4.3.

Prepaid expenses mainly comprise allocations of purchases.

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

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

Accounting policies

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

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives. In the financial year 2017 the Group had no discontinued operations.

Discontinued operations

In February 2018, Kesko Corporation agreed to sell 12 K-Rauta properties in the St. Petersburg and Moscow regions to the Russian division of the French Leroy Merlin. The business operations conducted in the properties and stocks were not included within the scope of the transaction; instead, the operations were discontinued during the first year-half. The ownership of the properties was transferred to the buyer during the second quarter of 2018. The two building and home improvement store properties in the Moscow region excluded from the transaction were sold in December 2018.

The divestment of the properties resulted in a positive cash flow of €171 million for Kesko Corporation in February. The divestment of the properties resulted in a net €16 million sales gain for discontinued operations. The operative result after taxes for the operations was €-1.7 million. In addition, a cost of €23 million related to the discontinuation of operations was recorded as were translation differences of €-39 million related to the equity financing of Russian subsidiaries. The divestment of properties and discontinuation of operations also resulted in a €8 million tax cost.

The divested Russian building and home improvement trade operations are reported as discontinued operations and are not included in the figures for the Group's continuing

operations in this financial statement. The comparison data for the 2017 income statement, statement of cash flows and certain performance indicators have been adjusted. The net sales for the Russian building and home improvement trade was €184 million in 2017 and the comparable operating profit €0.6 million.

Result for the Russian building and home improvement trade

€ million	2018	2017
Income	46	203
Expense	-48	-217
Profit/loss before tax	-1	-15
Income tax	0	-1
Net profit/loss after tax	-2	-16
Loss on discontinued Russian building and home improvement trade before tax	-46	
Income tax	-8	
Loss on discontinued Russian building and home improvement trade after tax	-54	
Net loss for the period from discontinued operations	-56	
Comprehensive income for the period, net of tax	35	
Comprehensive income from discontinued operations	-21	

Assets and liabilities of the Russian building and home improvement trade

€ million	2018	2017
ASSETS		
Intangible assets	-	12
Tangible assets	0	152
Deferred tax assets	-	7
Total	0	171
Current assets		
Inventories	-	35
Trade receivables	0	8
Other receivables, non-interest-bearing	10	3
Loan receivables, interest-bearing	-	5
Cash and cash equivalents	0	7
Total	10	57
Total assets	10	229

€ million	2018	2017
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	-	6
Total	-	6
Current liabilities		
Trade payables	0	25
Other non-interest-bearing liabilities	0	5
Other liabilities, interest-bearing	-	96
Provisions	0	-
Total	1	127
Total liabilities	1	133

Cash flows for the Russian building and home improvement trade

€ million	2018	2017
Net cash flows from operating activities	-23	10
Net cash flows from investing activities	164	-17
Net cash flows from financing activities	-	-
Increase in liquid assets	141	-7

Assets held for sale

Kesko has stated it will sell its remaining shares in the Baltic machinery trade companies and Konekesko Finland's agricultural machinery trade operations to Danish Agro Group. The assets and liabilities of the Baltic machinery trade and Finnish agricultural machinery trade operations have been classified as "held for sale" as of June 2018.

During the reporting period, Kesko Group company Konekesko Oy divested its Still forklift business. The carrying amount of approximately €1 million of the assets of the divested business is included in the data for the comparison year.

€ million	2018	2017
Intangible assets	0.0	-
Land	0.9	0.3
Buildings and real estate shares	1.6	0.2
Machinery and equipment	1.0	0.0
Other tangible assets	0.0	-
Inventories	53.7	1.3
Trade receivables	3.6	-
Other receivables	10.1	-
Cash and cash equivalents	0.4	-
Non-current assets held for sale	71.5	1.8
Trade payables	-9.9	-
Other liabilities	-4.1	-0.1
Provisions	-1.5	-
Liabilities related to non-current assets held for sale	-15.4	-0.1

3.8 Pension assets

Accounting policies

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

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

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

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

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund's department A. Department A was closed on 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. At the end of 2018, the Pension Fund had 2,581 beneficiaries, of whom 579 were active employees and 2,002 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.9% (96.9%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

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

During the reporting period, Kesko Pension Fund paid in total €58.1 million in return of surplus assets to Finnish Group companies. Kesko Group does not expect to pay contributions to the Pension Fund in 2019.

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

€ million	2018	2017
Present value of defined benefit obligation	-254.2	-266.6
Fair value of plan assets	402.2	474.1
Net assets recognised in the balance sheet	148.0	207.5
Movement in the net assets recognised in the balance sheet:		
As at 1 January	207.5	164.7
Income/cost recognised in the income statement	0.0	-3.2
Remeasurement	-2.3	45.0
Return of surplus assets	-58.1	-
Contributions to plan and plan costs	1.0	1.1
As at 31 December	148.0	207.5

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

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2017	-302.3	467.1	164.7
Current service cost	-4.8		-4.8
Past service cost	-1.3		-1.3
Gains or losses on settlement	0.4		0.4
Interest cost/income	-4.4	6.9	2.5
	-10.0	6.9	-3.2
Remeasurement			
Return on plan assets		13.2	13.2
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	29.0		29.0
Experience gains/losses	2.8		2.8
	31.8	13.2	45.0
Contributions to plan and plan costs		1.1	1.1
Benefit payments	14.1	-14.1	0.0
As at 31 December 2017	-266.6	474.1	207.5

Plan assets were comprised as follows in 2018

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

Plan assets were comprised as follows in 2017

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	97.3	60.0	157.3
Debt instruments	25.0	31.3	56.3
Investment funds	117.5	15.9	133.4
Properties		87.6	87.6
United States			
Equity instruments	5.3		5.3
Investment funds	35.1		35.1
Other countries			
Investment funds	14.0		14.0
Total	294.2	194.8	489.0

€ million	2018	2017
Kesko Corporation shares included in fair value	0.0	21.9
Properties leased by Kesko Group included in fair value	124.5	122.2

Principal actuarial assumptions:

	2018	2017
Discount rate	2.09%	2.08%
Salary growth rate	2.18%	2.23%
Inflation	1.59%	1.69%
Pension growth rate	1.86%	1.97%
Average service expectancy, years	8	9

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

	2018	2017
Weighted average duration of pension obligations, years	14	14
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	13.8	14.9
Between 1–10 years	114.2	117.8
Between 10–20 years	103.1	107.7
Between 20–30 years	68.8	73.3
Over 30 years	56.1	63.8
Total	356.0	377.5

Finnish pension reform

The statutory pension provision in Finland has been amended, effective from 1 January 2017. The objective of the amendments is to extend working life so that the financing of the statutory earnings-related pension scheme and sufficient pension provision can be ensured also going forward. The rules of the Pension Fund were changed before the amendments came into effect, so that the Pension Fund's supplementary retirement benefit does not compensate for the lowering of the statutory pension provision resulting from the rise of the statutory pension age.

Risks related to pension plan

Asset related risks

The Pension Fund's investment assets comprise properties, shares and equity funds, private equity funds and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually confirmed by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target

return on investment activity is 5.0%. The risks involved in investment activity are managed by continuously monitoring market developments and analysing the adequacy of the return and risk potential of the investments. The returns compared to chosen reference indices and the breakdown of investments are reported on a monthly basis. In 2018, the realised return on investing activity was -0.3%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined pension obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €147.6 million as at 31 December 2018. Local rules concerning the Pension Fund may also create a contribution obligation in situations in which the IAS 19 obligation is fully covered. In such a case, the amount of contributions charged increases the amount of pension assets according to IAS 19.

Obligation related risks

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

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

Sensitivity analysis

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

Actuarial assumption	Change in assumption	Impact on defined benefit obligation, increase	Impact on defined benefit obligation, decrease
2018			
Discount rate	0.50%	-6.56%	7.37%
Salary growth rate	0.50%	1.19%	-1.14%
Pension growth rate	0.50%	5.90%	-5.30%
2017			
Discount rate	0.50%	-6.80%	7.60%
Salary growth rate	0.50%	1.30%	-1.20%
Pension growth rate	0.50%	6.00%	-5.50%

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

3.9 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are handled as equity accounted investments.

€ million	2018	2017
Carrying amount as at 1 January	117.4	107.9
Share of the net profit for the financial year	-4.3	0.9
Additions	17.6	8.6
Deductions	3.6	-
Impairment charges	-10.8	-
Carrying amount as at 31 December	123.5	117.4

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

Kesko and Oriola's joint venture, the Hehku wellbeing chain, had an impact of €-11.2 million, which includes discontinuation costs for the joint venture.

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

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Mercada Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. Hehku Kauppa Oy is a Kesko and Oriola joint venture. A decision has been made to discontinue its operations. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests. UAB Mokilizingas was divested in May 2018.

2018 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	693.6	609.5	49.9	11.9	33.3
Kruunuvuoren Satama Oy, Helsinki	249.9	113.8	12.4	7.6	49.0
UAB Mokilizingas, Vilnius, Lithuania	-	-	1.8	0.2	12.8
Hehku Shop Ltd, Espoo	6.4	2.3	7.7	-18.9	50.0
Valluga-sijoitus Oy, Helsinki	34.4	0.0	-	2.4	46.2
Vähittäiskaupan Takaus Oy, Helsinki	101.2	0.2	1.7	7.4	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	8.6	1.9	10.6	0.8	30.0
Others	13.3	10.2	4.2	-0.1	
Total	1,107.4	738.0	88.3	11.4	

2017 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	686.5	613.7	50.1	26.2	33.3
Kruunuvuoren Satama Oy, Helsinki	252.6	124.1	12.3	6.8	49.0
UAB Mokilizingas, Vilnius, Lithuania	54.2	45.4	5.9	1.6	12.8
Hehku Shop Ltd, Espoo	1.8	0.8	-	-2.3	50.0
Valluga-sijoitus Oy, Helsinki	32.2	0.1	-	2.1	46.2
Vähittäiskaupan Takaus Oy, Helsinki	94.1	0.6	1.5	6.8	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.6	1.8	9.6	0.3	30.0
Others	4.6	3.3	0.2	0.0	
Total	1,133.5	789.8	79.6	41.5	

Mutual real estate companies

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

€ million	2018	2017
Non-current assets	34.8	36.3
Current assets	0.8	0.9
Total	35.7	37.2
Non-current liabilities	1.9	2.2
Current liabilities	5.2	5.3
Total	7.1	7.6
Net assets	28.6	29.6
Income	2.7	2.3
Costs	3.8	3.5
Net profit	-1.1	-1.2

3.10 Provisions

Accounting policies

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

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

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2018	7.6	25.6	23.4	56.7
Foreign exchange effects		0.0	0.0	0.0
Additional provisions	10.4	9.0	10.2	29.7
Unused amounts reversed		-10.4	-7.2	-17.6
Amounts charged against provision	-8.6	-0.7	-6.4	-15.7
Changes in the Group structure		-0.7	-0.1	-0.8
Provisions as at 31 Dec. 2018	9.5	22.8	19.9	52.2
Analysis of total provisions				
Non-current	3.5	13.3	10.3	27.1
Current	6.0	9.5	9.6	25.2

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

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

4. CAPITAL STRUCTURE AND FINANCIAL RISK

4.1 Capital structure management

4.2 Shareholders' equity

4.3 Financial risks

4.4 Finance income and costs

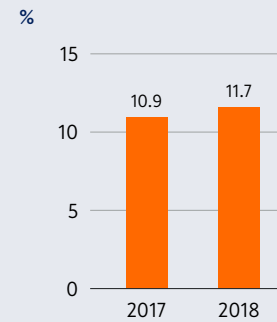
4.5 Financial assets and liabilities by category

4.6 Finance lease liabilities

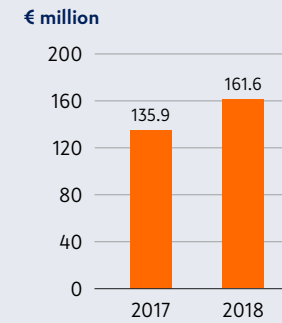
4.7 Lease liabilities

4.8 Other contingent liabilities

Comparable return on equity



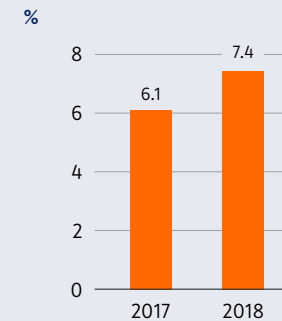
Interest-bearing net liabilities



Interest-bearing net debt/EBITDA



Gearing



4.1 Capital structure management

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

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

	Target level	Level achieved in 2018	Level achieved in 2017
Comparable return on capital employed, continuing operations	14%	14.0	13.3
Comparable return on equity	12%	11.7	10.9
Interest-bearing net debt/EBITDA	< 2.5	0.4	0.3

€ million	2018	2017
Interest-bearing liabilities	411.2	533.9
- Financial assets at fair value through profit or loss	50.9	171.0
- Financial assets at amortised cost	59.1	-
- Available-for-sale financial assets	-	56.8
- Cash and cash equivalents	139.6	170.2
Interest-bearing net debt	161.6	135.9
Operating profit	262.6	324.6
+ depreciation, amortisation and impairment	151.3	153.7
EBITDA	413.9	478.3
Interest-bearing net debt/EBITDA	0.4	0.3

Gearing, %

$\frac{\text{Interest-bearing net debt} \times 100}{\text{Equity}}$

Following the adoption of IFRS 9, investments of available-for-sale financial assets in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds as measured at fair value through profit or loss. Investments of financial assets measured at fair value through profit or loss in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds are still measured at fair value through profit or loss.

4.2 Shareholders' equity

Accounting policies

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

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

At the end of December 2018, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. All issued shares have been fully paid. The maximum number of A shares is 250 million and the maximum number of B shares is also 250 million, so that the total number of shares is 400 million at maximum. Each A share carries ten (10) votes and each B share one (1) vote. The total number of votes attached to all shares was 385,652,815. At the end of December 2018, Kesko Corporation's share capital was €197,282,584.

Changes in share capital

Share capital	Number of shares			Share capital € million	Reserve of invested non- restricted equity € million	Share premium € million	Total € million
	A	B	Total				
1 January 2017	31,737,007	67,536,636*	99,273,643*	197.3	22.8	197.8	417.8
Transfer of treasury shares		182,972	182,972				
31 December 2017	31,737,007	67,719,608*	99,456,615*	197.3	22.8	197.8	417.8
Transfer of treasury shares		61,738	61,738				
Acquisition of treasury shares		-500,000	-500,000				
31 December 2018	31,737,007	67,281,346*	99,018,353*	197.3	22.8	197.8	417.8
Number of votes	317,370,070	67,281,346	384,651,416				

*Excluding treasury shares which totalled 1,001,399 (563,137) at the end of the financial year.

Treasury shares

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

	kpl
B shares held by the Company as at 31 Dec. 2017	563,137
Transfer, share-based compensation plan	-68,949
Acquired during the period	500,000
Returned during the period	7,211
B shares held by the Company as at 31 Dec. 2018	1,001,399

Dividends

After the balance sheet date, the Board of Directors has proposed that €2.34 per share be distributed as dividends. A dividend of €2.20 per share was distributed on the profit for 2017.

Equity and reserves

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

Share premium

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

Reserve of invested non-restricted equity

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

Other reserves

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

Currency translation differences

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

Revaluation reserve

The revaluation reserve includes the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied. Cash flow hedges include electricity derivatives and interest rate derivatives hedging the Private Placement note interest. The change in the reserve is stated within comprehensive income. The result of cash flow hedging has been presented in note 4.3 Financial risks. In 2017, before the implementation of IFRS 9, the revaluation reserve also included the change in the fair value of available-for-sale financial instruments.

4.3 Financial risks

With respect to financial risk management, the Group observes a uniform treasury policy that has been approved by the Company's Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Board's Audit Committee. The Group Treasury is centrally responsible for obtaining financial resources for the Group, for liquidity management, relations with providers of finance, and the management of financial risks. In the main, the Group's financial resources have been obtained through the parent company, and the Group Treasury arranges financial resources for sub-

sidaries in their functional currencies. For subsidiaries with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

Foreign exchange risks

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

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

Translation risks

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

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

Group's translation exposure as at 31 Dec. 2017 € million	NOK	SEK	RUB	PLN	BYN
Net investment	82.1	85.0	140.9	22.6	8.7

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

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

Sensitivity analysis, impact on equity as at 31 Dec. 2017 € million					
	NOK	SEK	RUB	PLN	BYN
Change +10%	-7.5	-7.7	-12.8	-2.1	-0.8
Change -10%	9.1	9.4	15.7	2.5	1.0

Transaction risks

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

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

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

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The following table analyses the transaction exposure excluding future

cash flows. The presentation does not illustrate the Group's actual foreign exchange risk after hedgings. When forecast amounts are included in the transaction exposure, the most significant difference from the table below is in the USD exposures. As at 31 December 2018, the exposure with respect to USD was €-48.3 million.

Group's transaction exposure as at 31 Dec. 2018 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-17.0	14.3	41.7	24.1	-0.2	19.2
Hedging derivatives	21.0	-13.7	-40.7	-16.3		
Open exposure	4.0	0.6	1.0	7.8	-0.2	19.2

Group's transaction exposure as at 31 Dec. 2017 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-6.2	7.6	2.8	27.8	11.3	14.5
Hedging derivatives	21.7	-9.1	-4.6	-14.4	-8.6	
Open exposure	15.5	-1.5	-1.8	13.5	2.7	14.5

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

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2018 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Change +10%	-0.4	-0.1	-0.1	-0.7	0.0	-1.7
Change -10%	0.4	0.1	0.1	0.9	0.0	2.1

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2017 € million						
	USD	SEK	NOK	PLN	RUB	BYN
Change +10%	-1.4	0.1	-0.5	-1.2	-0.2	-1.3
Change -10%	1.7	-0.2	0.6	1.5	0.3	1.6

Liquidity risk

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

The Group's solvency was excellent throughout the financial year 2018. As at 31 December 2018, liquid assets totalled €250 million (€398 million). Interest-bearing liabilities were €411 million (€534 million) and interest-bearing net debt €162 million (€136 million) as at 31 December 2018.

€ million	31 Dec. 2018				31 Dec. 2017			
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total
Maturities of financial liabilities and related finance costs								
Borrowings from financial institutions	5.7	7.7	0.2	13.7	6.4	8.9	0.1	15.5
finance costs	0.4	0.6	0.0	1.0	0.8	1.1	0.0	1.9
Private Placement notes (USD)	20.1			20.1		20.0		20.0
finance costs	0.6			0.6	1.3	0.6		1.9
Bonds					224.8			224.8
finance costs					6.2			6.2
Pension loans	23.9	103.0	57.2	184.0	10.5	66.2	26.9	103.5
finance costs	2.3	6.2	1.7	10.1	1.0	2.5	0.6	4.1
Finance lease liabilities	2.4	3.4	0.0	5.9	3.5	7.5	0.1	11.0
finance costs	0.1	0.1	0.0	0.2	0.1	0.2	0.0	0.3
Payables to K-retailers	119.3			119.3	113.3			113.3
finance costs								
Other interest-bearing liabilities	61.4		6.5	67.9	37.8	1.7	6.5	46.0
finance costs	0.4	1.0	0.1	1.5	0.3	1.1	0.1	1.6
Non-current non-interest-bearing liabilities	0.9	2.7	25.8	29.4	0.8	4.0	26.5	31.2
Current non-interest-bearing liabilities								
Trade payables	982.8			982.8	1 023.7			1 023.7
Accrued expenses	353.9			353.9	308.5			308.5
Other non-interest-bearing liabilities	171.7			171.7	188.6			188.6

Financial liabilities in the balance sheet include €2.7 million (€3.4m) in items related to derivatives.

€ million	31 Dec. 2018				31 Dec. 2017			
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total
Cash flows of derivatives								
Payables								
Foreign exchange forward contracts outside hedge accounting	128.9			128.9	78.1			78.1
Net settlement of payables								
Interest rate derivatives	0.8	3.1	1.3	5.3	0.2	1.3		1.5
Electricity derivatives	0.0	0.0		0.0	0.6			0.6
Foreign currency derivatives						0.1		0.1
Receivables								
Foreign exchange forward contracts outside hedge accounting	130.5			130.5	76.2			76.2
Net settlement of receivables								
Electricity derivatives	1.2	1.1	0.0	2.3	0.2	0.2		0.4
Derivatives relating to Private Placement notes								
Foreign currency derivatives	0.9			0.9				
Interest rate derivatives	0.1			0.1	0.2	0.1		0.3

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

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

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

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €200 million (€200 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €449 million (€449 million). In addition, in January 2019, the Group companies held a total of €324 million available for re-borrowing in a pension insurance company. Part of the pension insurance premiums paid annually by the Group companies are funded and the accumulated funds can be re-borrowed with a term of 1–10 years in accordance with regulations confirmed by the Ministry of Social Affairs and Health. Any amount of borrowing requires the posting of adequate collateral.

Interest rate risk on borrowings and sensitivity analysis

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

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

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon interest at 2.75% and it was due for payment on 11 September 2018.

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

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

The sensitivity analysis for changes in interest rate level in respect of commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2018, the effect of variable rate borrowings on the pre-tax profit would have been €-/ +1.7 million (€-/ +1.7 million), if the interest rate level had risen or fallen by 1 percentage point.

Private Placement notes and pension loans, €204.9 million in aggregate, have fixed rates, and their effective interest cost was 1.7%. At the end of the financial year, the average rate of variable-interest-rate borrowings from financial institutions, payables to retailers and other interest-bearing liabilities was 0.2%. Most of the borrowings are euro-denominated and the Private Placement notes are USD-denominated.

Financial assets and liabilities recognised at fair value

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and deposits with banks operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on

these investments for 2018 was 0.1% (1.0%) and the duration was 1.3 years at the end of the financial year. The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date. The table below analyses financial instruments carried at fair value by valuation method. The implementation of IFRS 9 changed the classification of financial assets and financial liabilities (note 4.5).

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

Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec. 2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Money market funds	159.9			159.9
Commercial papers		6.0		6.0
Bank certificates of deposit and deposits		5.0		5.0
Total	159.9	11.0		171.0
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		0.7		0.7
Derivative financial liabilities		3.4		3.4
Available-for-sale financial assets				
Private equity funds and other shares and interests			23.0	23.0
Commercial papers (maturing in less than 3 months)		37.5		37.5
Bonds and corporate bond funds	56.8			56.8
Total	56.8	37.5	23.0	117.3

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

Changes in level 3 instruments € million	2018	2017
Private equity funds and other shares and interests as at 1 January	23.0	15.1
Purchases	0.5	9.3
Refunds received	-0.9	-0.5
Gains and losses through profit or loss	-4.8	-0.4
Changes in fair values	2.9	-0.6
Private equity funds and other shares and interests as at 31 December	20.8	23.0

Level 3 includes private equity funds and other shares and interests. These investments have been classified as financial assets through profit or loss. Level 3 financial assets are measured based on computations received from the companies. An income of €2.9 million has been recorded on these investments for the financial year 2018.

Current interest-bearing receivables and sensitivity analysis

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

Financial assets at amortised cost € million	2018
Carrying amount as at 1 January	83.0
Changes	7.8
Carrying amount as at 31 December	90.8

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

Current available-for-sale financial assets € million	2017
Carrying amount as at 1 January	156.8
Changes	-62.9
Changes in fair value	0.3
Carrying amount as at 31 December	94.2

The current available-for-sale financial assets include investments in commercial papers, certificates of deposits and other interest rate instruments.

In the sensitivity analysis of floating rate receivables, average annual balances of invested assets have been used. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/- 1.7 million (€+/-2.3 million). In the comparison year, the effect on equity would have been +/- €1.3 million.

Maturity of non-current receivables

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

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

Maturity analysis of non-current receivables as at 31 Dec. 2017

€ million	2019	2020	2021	2022	2023–	Total
Non-interest-bearing non-current receivables	2.2	0.1	0.0		0.4	2.7
Loans and receivables from associates and joint ventures	0.0				57.5	57.5
Other non-current receivables	0.0	0.0	0.0	0.0	5.0	5.1
Total	2.3	0.1	0.0	0.0	62.9	65.4

Credit and counterparty risk

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

According to the new IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses, while previously, impairment was only recognised when there was objective evidence of impairment. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, the Group has classified Group companies into risk categories on the basis of their business model and realised historical credit losses. As for other financial assets, the change in impairment model has not had a material impact on the consolidated financial statements.

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

Ageing analysis of trade receivables € million	2018	2017
Trade receivables fully performing	732.0	742.2
1–7 days past due trade receivables	30.9	32.3
8–30 days past due trade receivables	23.4	22.5
31–60 days past due trade receivables	9.3	12.0
over 60 days past due trade receivables	24.7	27.1
Total	820.3	836.0

Within trade receivables, €348.0 million (€346.9 million) were from chain retailers. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the countersecurity from the K-retailer's company and its entrepreneur to Vähittäiskaupan Takaus Oy. At the end of the financial year, the aggregate value of countersecurities was €197.1 million (€211.5 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €24.3 million (€23.2 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €5.2 million (€4.9 million).

The amount of receivables with renegotiated terms totalled €5.1 million (€5.9 million).

Financial credit risk

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

Commodity risks and their sensitivity analysis

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

Result of cash flow hedging

As a result of hedge accounting applied to electricity, an amount of €2.2 million (€-1.1 million) was removed from equity and included in the income statement as purchase cost adjustment, and €4.6 million (€-0.1 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €2.3 million (€1.0 million) before accounting for deferred tax assets.

A fair value change of €0.2 million (€-0.3 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.2 million (€0.2 million) interest expense adjustment for interest rate derivatives was recognised in the income statement.

As at the balance sheet date, a total quantity of 265,075 MWH (268,656 MWH) of electricity had been purchased with electricity derivatives and 718,428 MWH under fixed price purchase agreements. The 1-12 month hedging level was 68% (77%), the 13-24 month level was 53% (50%), the 25-36 month level was 43% (39%), and the 37-48 month level was 27% (25%).

The sensitivity analysis of electricity derivatives assumed that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by +/-20% from the balance sheet date 31 December 2018, it would contribute €-/+0.8 million (€-/+1.0 million) to the 2019 income statement and €-/+1.2 million (€-/+0.3 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2018 Positive fair value (balance sheet value)	31 Dec. 2018 Negative fair value (balance sheet value)	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)
Interest rate derivatives	0.4	-2.4	1.7	-1.9
Foreign currency derivatives	3.2	-0.8	0.4	-2.3
Electricity derivatives	2.3	-0.0	0.3	-0.6

Notional principal amounts of derivative contracts € million	31 Dec. 2018 Notional principal amount	31 Dec. 2017 Notional principal amount
Interest rate derivatives	350.2	250.2
Foreign currency derivatives	149.2	96.8
Electricity derivatives	11.0	6.2

The derivative contracts include interest rate swaps relating to a foreign currency borrowing facility with a gross notional principal amount of €40.2 million and a fair value of €-0.2 million (€-0.4 million), and currency swaps with a notional principal amount of €20.1 million and a fair value of €0.9 million (€-0.1 million).

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €1.7 million.

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

4.4 Finance income and costs

€ million	2018	2017
Interest income and other finance income		
Interest income on financial assets at amortised cost	0.9	-
Interest income on loans and receivables	10.2	9.9
Interest income on financial assets at fair value through profit or loss	-0.7	0.3
Interest income on available-for-sale financial assets	-	1.2
Gains on disposal of financial assets at amortised cost	0.1	-
Gains on disposal of financial assets at fair value through profit or loss	2.9	-
Gains on disposal of available-for-sale financial assets	-	2.6
Other finance income	0.7	4.5
Total interest income and other finance income	14.1	18.5
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-9.2	-11.3
Losses on disposal of financial assets at fair value through profit or loss	0.0	-
Losses on disposal of available-for-sale financial assets	-	0.0
Other finance costs	-3.2	-2.5
Total interest expense and other finance costs	-12.4	-13.8
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-2.8	-2.4
Total exchange differences	-2.8	-2.4
Total finance income and costs	-1.1	2.2

The interest expense includes €0.1 million (€0.3 million) of interests on finance leases recognised as expenses for the period.

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

Following the adoption of IFRS 9, investments of available-for-sale financial assets in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds as measured at fair value through profit or loss. Investments of financial assets measured at fair value through profit or loss in interest-bearing instruments have been reclassified as measured at amortised cost, and investments in funds are still measured at fair value through profit or loss under IFRS 9.

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

Following the adoption of the new IFRS 9, the Group will reclassify financial assets into three groups. Financial assets are classified either as financial assets measured at amortised cost, at fair value through profit or loss or at fair value in other comprehensive income, depending on the business model objectives and contractual cash flows.

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

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

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

Financial assets at amortised cost

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

Financial assets at fair value

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

Cash and cash equivalents

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

Financial liabilities

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

Derivative financial instruments and hedge accounting

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

operating income or expenses. Concerning derivatives hedging financial transactions, the amount to be recognised in the income statement is included in financial items.

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

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

Measurement principles

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

Hedging a net investment in foreign operations

During the financial year, the Group has not hedged net investments in foreign operations. If a hedge is initiated, the Group applies hedge accounting in accordance with IFRS 9 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging

instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the hedging instruments are recognised in profit or loss.

Embedded derivatives

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

As at 31 December 2018

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial assets					
Financial assets at fair value through profit or loss	20.8			20.8	20.8
Non-current non-interest-bearing receivables		1.8		1.8	1.8
Derivatives			1.0	1.0	1.0
Total non-current non-interest-bearing receivables		1.8		2.8	2.8
Total non-current interest-bearing receivables		62.8		62.8	62.8
Total non-current financial assets	20.8	66.4	1.0	88.3	88.3
Current financial assets					
Trade and other non-interest-bearing receivables		1,014.9		1,014.9	1,014.9
Derivatives	2.4		1.3	3.6	3.6
Total trade and other non-interest-bearing receivables	2.4	1,014.9	1.3	1,018.5	1,018.5
Current interest-bearing receivables		1.8		1.8	1.8
Derivatives			0.9	0.9	0.9
Total current interest-bearing receivables		1.8	0.9	2.7	2.7
Financial assets at fair value through profit or loss	50.9			50.9	50.9
Financial assets at amortised cost		90.8		90.8	90.8
Total current financial assets	53.3	1,107.5	2.1	1,162.9	1,162.9
Carrying amount by category	74.1	1,173.9	3.2	1,251.2	1,251.2

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial liabilities					
Non-current interest-bearing liabilities		177.8		177.8	179.7
Non-current non-interest-bearing liabilities		29.4		29.4	29.4
Total non-current financial liabilities		207.2		207.2	209.1
Current financial liabilities					
Current interest-bearing liabilities		233.4		233.4	234.0
Trade payables		982.7		982.7	982.7
Other non-interest-bearing liabilities		197.6		197.6	197.6
Derivatives			0.2	0.2	0.2
Total other non-interest-bearing liabilities		197.6	0.2	197.8	197.8
Accrued expenses		351.4		351.4	351.4
Derivatives	2.5			2.5	2.5
Total accrued expenses	2.5	351.4		353.9	353.9
Total current non-interest-bearing liabilities	2.5		0.2	551.7	551.7
Total current financial liabilities	2.5	1,765.1	0.2	1,767.8	1,768.4
Carrying amount by category	2.5	1,972.4	0.2	1,975.1	1,977.5

Accounting policies for financial assets as at 31 December 2017

Financial assets

The Group classifies its financial assets into the following categories:

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

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include instruments initially classified as financial assets at fair value through profit or loss (the fair value option). These instruments are managed based on fair value and they include investments in money

market funds, as well as investments in other interest-bearing instruments with maturities of over three months, as defined by the Group's treasury policy. The interest income from these financial assets and changes in their fair values, as well as any commissions returned by the funds are presented on a net basis in the interest income of the relevant class in the income statement.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets designated as available for sale at the date of initial recognition. Available-for-sale financial assets are measured at fair value at the balance sheet date and the changes in their fair values are recognised in equity and presented in other comprehensive income. The fair value of publicly quoted financial assets is determined based on their market value. Financial assets not quoted publicly are measured at cost if their fair values cannot be measured reliably.

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

Loans and receivables

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

As at 31 December 2017

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/ liabilities as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			23.0			23.0	23.0
Non-current non-interest-bearing receivables		2.6				2.6	2.6
Derivatives					0.1	0.1	0.1
Total non-current non-interest-bearing receivables		2.6			0.1	2.7	2.7
Non-current interest-bearing receivables		62.7				62.7	62.7
Total non-current financial assets		65.3	23.0		0.1	88.4	88.4
Current financial assets							
Trade and other non-interest-bearing receivables		1,031.8				1,031.8	1,031.8
Derivatives	0.4				0.2	0.6	0.6
Total trade and other non-interest-bearing receivables	0.4	1,031.8			0.2	1,032.4	1,032.4
Interest-bearing receivables		1.5				1.5	1.5
Financial assets at fair value through profit or loss	171.0					171.0	171.0
Available-for-sale financial assets			94.2			94.2	94.2
Total current financial assets	171.3	1,033.3	94.2		0.2	1,299.1	1,299.1
Carrying amount by category	171.3	1,098.6	117.3		0.3	1,387.5	1,387.5

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/ liabilities as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				129.2		129.2	132.8
Derivatives					0.1	0.1	0.1
Total non-current interest-bearing liabilities				129.2	0.1	129.3	132.9
Non-current non-interest-bearing liabilities				31.0		31.0	31.0
Derivatives					0.4	0.4	0.4
Total non-current non-interest-bearing liabilities				31.0	0.4	31.4	31.4
Total non-current financial liabilities				160.2	0.5	160.7	164.3
Current financial liabilities							
Current interest-bearing liabilities							
Trade payables				404.6		404.6	403.6
Other non-interest-bearing liabilities				188.0		188.0	188.0
Derivatives					0.6	0.6	0.6
Total other non-interest-bearing liabilities				188.0	0.6	188.6	188.6
Accrued expenses				306.3		306.3	306.3
Derivatives	2.3					2.3	2.3
Total accrued expenses	2.3			306.3		308.5	308.5
Total current non-interest-bearing liabilities	2.3			1,517.9	0.6	1,520.8	1,520.8
Total current financial liabilities	2.3			1,922.5	0.6	1,925.4	1,924.4
Carrying amount by category	2.3			2,082.7	1.1	2,086.1	2,088.7

Prepaid expenses and accrued expenses do not include income tax assets of €6.0 million (€11.1 million) or income tax liabilities of €16.8 million (€5.6 million). Prepayments received of €26.0 million (€38.5 million) are not categorised as financial liabilities and are not included in the table above.

The fair values of borrowings have been calculated based on the present value of future cash flows using the 0.0%–1.5% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity structure of non-current borrowings has been presented in note 4.3.

4.6 Finance lease liabilities

Accounting policies

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

Leases that substantially transfer all risks and rewards incidental to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower of the fair value at the inception date and the present value of minimum lease payments. The lease obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are recognised as finance costs and a decrease in the liability. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

In sale and leaseback transactions, the selling price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any

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

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

€ million	2018			2017		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Lease payments to be paid						
Within 1 year	2.4	0.1	2.3	3.5	0.0	3.5
Later than 1 year and no later than 5 years	3.6	0.1	3.5	7.7	0.3	7.4
Later than 5 years	0.0	0.0	0.0	0.1	0.0	0.1
Total lease payments	6.1	0.2	5.9	11.3	0.3	11.0

Financial lease liabilities mainly comprise cars and warehouse technology leased by the Group from finance companies.

4.7 Lease liabilities

Group as lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2018	2017
Within 1 year	409.3	390.9
Later than 1 year and no later than 5 years	1,367.8	1,283.9
Later than 5 years	1,203.8	1,238.0
Total	2,980.9	2,912.9
Expected future minimum lease payments under non-cancellable sublease agreements	61.0	60.9
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	414.3	406.8
Sublease income	24.9	21.8

The 2018 income statement includes capital lease payments and maintenance rentals on real estate under operating leases, and other rentals to a total amount of €466,6 million (€463.2 million). Maintenance rentals are not included in minimum lease payments.

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

Group as lessor

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

€ million	2018	2017
Within 1 year	15.6	11.4
Later than 1 year and no later than 5 years	32.1	26.5
Later than 5 years	19.8	19.0
Total	67.6	56.8
Aggregate contingent rents charged to the income statement	0.2	1.4

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

4.8 Other contingent liabilities

€ million	2018	2017
Collateral given for own commitments		
Pledges	138.0	92.6
Mortgages	206.1	84.5
Guarantees	10.1	6.0
Other commitments and contingent liabilities	55.8	59.8
Collateral given for others		
Guarantees	3.5	0.3
Other commitments and contingent liabilities	19.6	20.5

The guarantees given do not include guarantees related to the items presented within liabilities in the consolidated statement of financial position or as a lease liability in note 4.7.

Guarantee maturities are €4 million in 2019 and €10 million in 2020–2023.

5. OTHER

5.1 Group composition

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

5.3 Related party transactions

5.4 Share-based compensation

5.5 Deferred tax

5.6 Components of other comprehensive income

5.7 Legal disputes and possible legal proceedings

5.8 Events after the balance sheet date

5.1 Group composition

Group composition

Kesko Group has 99 (97) subsidiaries. The Group has the majority of voting rights in all companies. Kesko Group's subgroup, Kesko Senukai, has a material non-controlling interest (see section Material non-controlling interest).

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

Division	Country of in-corporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2018	Number of wholly-owned subsidiaries 2017	Number of partly-owned subsidiaries 2018	Number of partly-owned subsidiaries 2017
Grocery trade	Finland	K-Market Oy	23	26	5	5
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Belarus	Onninen Group, Byggmakker Group, Kesko Senukai Group	37	39	26	19
Car trade	Finland	K-Auto Oy	7	6	-	-
Others	Finland		1	2	-	-

Kesko has simplified its group structure in 2016-2017. In the financial year 2017, Kesko Food Ltd, K-citymarket Oy and Kespro Ltd merged into the Kesko Group parent company Kesko Corporation. In the financial year 2016, K-talousoalvelukeskus Oy, K-Plus Oy, K-instituutti Oy, Rautakesko Ltd, Musta Pörssi Ltd and Keslog Ltd merged into Kesko Corporation.

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

Material non-controlling interest

Kesko Senukai Group, which is part of Kesko Group, has a material non-controlling interest. The subgroup's parent, UAB Kesko Senukai Lithuania, is a subsidiary of Kesko Corporation and it is domiciled in Vilnius, Lithuania. Kesko Group's ownership interest in Kesko Senukai Group is 50.0% increased by one share (50.0% increased by one share). Kesko Group has the right to nominate the majority of Board members and the Board Chairman. The Board controls the company's operational activities and makes decisions on the use of resources. The share of non-controlling interests of the net profit of Kesko Senukai Group was €15.4 million (€8.5 million) and in equity, the share was €107.6 million (€97.0 million).

Summarised financial information on subsidiary with material non-controlling interest

€ million	Kesko Senukai Group 2018	Kesko Senukai Group 2017
Current assets	276.8	238.8
Non-current assets	92.2	52.7
Current liabilities	146.9	114.1
Non-current liabilities	30.1	31.7
Net sales	729.1	628.9
Net profit/loss	27.6	17.1
Parent company owners' share of net profit/loss	24.3	16.1
Non-controlling interests' share of net profit/loss	3.3	1.0
Comprehensive income for the period	25.6	10.7
Parent company owners' share of comprehensive income for the period	23.6	13.8
Non-controlling interests' share of comprehensive income for the period	2.0	-3.1
Dividends paid to non-controlling interests	-0.6	-1.7
Net cash generated from operating activities	19.7	13.4
Net cash used in investing activities	-8.7	-16.8
Net cash used in financing activities	-12.6	17.5

The amounts above are before intra-Group eliminations.

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

Subsidiaries

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Barker-Littoinen Oy	Espoo	100.00	100.00
Byggmakker Handel AS	Oppesgård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Kalaturku E. Eriksson Oy	Helsinki	100.00	100.00
K Auto Oy	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Kesko Export Oy	Helsinki	100.00	100.00
Kesko Food Russia Holding Oy	Helsinki	100.00	100.00
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	100.00
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	100.00
Kesko Senukai Lithuania UAB	Vilnius, Lithuania	50.00	50.00
Kiinteistö Oy Helsingin Itäkeskus	Helsinki	100.00	100.00
Kiinteistö Oy Hiukkavaaran Kauppa	Oulu	100.00	100.00
Kiinteistö Oy Hämeenlinnan Visamäentie 16	Helsinki	100.00	100.00
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	100.00
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta	56.50	56.50
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	67.88
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Klintcenter Ab	Mariehamn	100.00	100.00
K-Market Oy	Helsinki	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
KR Fastigheter AB	Sollentuna, Sweden	100.00	100.00
K-rauta AB	Stockholm, Sweden	100.00	100.00
K-rauta Rus OOO	St. Petersburg, Russia	100.00	100.00
KS Holding UAB	Vilnius, Lithuania	100.00	100.00
Liiketalo Oy Kaijonkeskus	Oulu	50.01	50.01
LLC LR Rustaveli StP	St. Petersburg, Russia	100.00	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00	100.00
Onninen Oy	Helsinki	100.00	100.00
Rake Eiendom AS	Oppesgård, Norway	100.00	100.00
Reinin Liha Oy	Helsinki	100.00	100.00
Tampereen Länsikeskus Oy	Tampere	100.00	100.00
Vaajakosken Liikekeskus Oy	Jyväskylä	100,00	100,00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
1A Grupa SIA	Riga, Latvia	25.50	
1A.EE Oü	Tallinn, Estonia	25.50	
1A.LT	Vilnius, Lithuania	25.50	
Antigravity Payment System UAB	Vilnius, Lithuania	25.50	
Oy Autocarrera Ab	Helsinki	100.00	
Daugavpils project 1 SIA	Daugavpils, Latvia	50.01	
Delta turtas UAB	Vilnius, Lithuania	50.01	
Gipling AS	Steinkjer, Norway	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Jyrängön Palvelukeskus Oy	Heinola	50.45	
K Auto Leasing Oy	Helsinki	100.00	
K Caara Oy	Helsinki	100.00	
K rauta SIA	Riga, Latvia	100.00	
Kesko Senukai Digital UAB	Vilnius, Lithuania	25.50	
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2-4	Kokkola	64.78	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Kiinteistö Oy Vantaan Simonsampo	Vantaa	100.00	
Kiinteistö Oy Visuveden Liiketalo	Ruovesi	100.00	
Konekesko Eesti AS	Tallinn, Estonia	55.00	
Konekesko Latvija SIA	Riga, Latvia	55.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	55.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
K-Rauta Holding Finland Oy	Helsinki	100.00	
Ksenukai Digital Oü	Tallinn, Estonia	25.50	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
MD Galerija Azur SIA	Riga, Latvia	50.01	
Mobilukss SIA	Riga, Latvia	25.50	
Nomine UAB	Vilnius, Lithuania	50.01	
Norgros AS	Oppegård, Norway	100.00	
Olarin Autokiinteistö Oy	Espoo	100.00	
OMA OOO	Minsk, Belarus	25.00	
Onninen AB	Solna, Sweden	100.00	
Onninen AS	Skedsmo, Norway	100.00	
Onninen AS	Tallinn, Estonia	100.00	
Onninen LLP	Aktau, Kazakhstan	100.00	
Onninen OOO	St. Petersburg, Russia	100.00	
Onninen Russia Holding Oy	Helsinki	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Warsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	
Peltosaaren Liikekeskus Oy	Riihimäki	59.67	
Penktoji Projekto Bendrovė UAB	Vilnius, Lithuania	25.50	
Profelco Oy	Vantaa	100.00	
Punane Project Oü	Tallinn, Estonia	50.01	
Rake Bergen AS	Oppegård, Norway	100.00	
Romos Holdingas UAB	Kaunas, Lithuania	25.00	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	25.50	
Skattum Handel AS	Gjøvik, Norway	100.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

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

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Fintorus Oy	Lappeenranta	21.40	
Proffsenteret AS	Ringerike, Norway	34.11	
Rakentamisen MALL Oy	Helsinki	25.00	
Suomen LVIS-Tietoverkko Oy	Vantaa	20.00	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo	46.22	46.22
Asunto Oy Kajaanin Louhikatu 2	Kajaani	42.96	42.96
Asunto Oy Soukan Itäinentorni	Espoo	46.60	46.60
Asunto-Oy Punkalaitumen Pankkitalo	Punkalaidun	33.82	
Itäkeskuksen Pysäköintitalo Oy	Helsinki	36.16	36.16
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere	34.54	
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	84.14	84.14
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Koskelan Ostokeskus Oy	Oulu	29.32	
Laajasalon Liikekeskus Oy	Helsinki	50.35	50.35
Lapin Tehdastalo Oy	Tampere	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	47.60
Voisalmen Ostoskeskus Oy	Lappeenranta	50.00	

5.3 Related party transactions

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

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

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

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Mercada Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. Hehku Kauppa Oy is a Kesko and Oriola joint venture. A decision has been made to discontinue its operations. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. At the end of 2018, the pension assets did not include Kesko Corporation shares. At the end of 2017, the pension assets included Kesko Corporation shares with a value of €21.9 million. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2018 and 2017, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement € million	Associates and joint ventures		Board and management		Pension Fund	
	2018	2017	2018	2017	2018	2017
Sales of goods	8.9	0.1	81.6	79.6		
Sales of services	5.1	3.9	0.4	0.4	0.2	0.3
Purchases of goods	-0.5		-7.6	-7.8		
Purchases of services	-0.1	-0.1	0.0	-0.1	0.0	
Operating income	1.1	1.5	14.5	13.1		0.0
Operating costs	-52.3	-53.0	-2.6	-2.9	-6.3	-11.1
Finance income	5.7	5.6				

Balance sheet € million	Associates and joint ventures		Board and management		Pension Fund	
	2018	2017	2018	2017	2018	2017
Current receivables	2.4	0.5	6.2	5.9	0.0	
Non-current receivables	57.7	57.7				
Current liabilities	26.9	24.1	1.3	0.9	4.1	9.7

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €6.2 million (€5.9 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the countersecurity from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the countersecurity was valued at €4.8 million (€5.5 million).

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

During the reporting period, Kesko Pension Fund paid in total €58.1 million in return of surplus assets to Finnish Group companies. In 2017 Kesko bought two properties from Kesko Pension Fund for a transaction price of €46.5 million, including asset transfer tax.

Management's employee benefits

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

Monetary salaries, fees, fringe benefits and share-based compensation €1,000		2018	2017
Mikko Helander	President and CEO	2,299.7	2,849.4
Group Management Board	other members	4,188.6	6,185.1
Esa Kiiskinen	Board Chairman	126.5	87.5
Toni Pokela	Board member	59.3	43.0
Matti Kyytsönen	Board member	61.8	45.5
Matti Naumanen	Board member	59.3	43.0
Jannica Fagerholm	Board member	79.3	48.0
Peter Fagerlös	Board Deputy Chairman (since 11 April 2018)	63.0	-
Piia Karhu	Board member (since 11 April 2018)	49.5	-
Mikael Aro	Board Deputy Chairman (until 11 Apr. 2018)	17.0	60.0
Anu Nissinen	Board member (until 11 Apr. 2018)	12.8	44.5
Total		7,016.8	9,406.1

Approximately 30% of the annual fees for Board members was paid in shares in the Company and the remaining fee amount was paid in cash.

Retirement benefits

The statutory pension provision for the President and CEO and other members of the Group Management Board is provided through a pension insurance company. Four Group Management Board members are provided with a supplementary pension based on a defined benefit plan in line with the rules of Kesko Pension Fund and personal service

contracts. Three Group Management Board members are provided with a defined contribution supplementary pension. President and CEO Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings for the final 10 years in accordance with the Employees' Pensions Act (TyEL). The pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €1.1 million (€0.9 million) and the related pension asset in the balance sheet was €0.4 million (€0.6 million). The pension cost of the President and CEO's statutory pension provision was €0.2 million (€0.3 million).

Share awards

During the 2018 reporting period, members of the Group Management Board were granted 51,931 shares based on the 2017 Bridge Plan, while the maximum number of shares to be granted was 114,200. The number of shares represents gross earnings, from which withholding tax is deducted. During the 2017 reporting period, 56,684 shares were granted based on the 2016 plan, in addition to which a cash component at maximum equal to the value of the shares was paid to cover the taxes and tax-like charges incurred under the award.

Termination benefits

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

Shareholdings

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

5.4 Share-based compensation

Accounting policies

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

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

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

Share-based commitment and incentive scheme

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

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

The 2014-2016 share-based compensation scheme had three one-year performance periods: calendar years 2014, 2015 and 2016. A commitment period of three calendar years following each performance period was attached to the shares granted, during which

the shares could not be pledged or transferred, but the other rights attached to the shares remained in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In the 2014-2016 plans, in addition to the shares granted, a cash component at maximum equal to the value of the shares was paid to cover the taxes and tax-like charges incurred under the award.

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

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

Share award grant dates and fair values, performance period 2018: PSP, RSP and Bridge plan	2018 PSP		2018 RSP		2017 PSP		2017 Bridge Plan
Grant dates	20 Mar. 2018	20 Mar. 2018	1 Feb. 2017	1 Feb. 2017	1 Feb. 2017	1 Feb. 2017	1 Feb. 2017
Grant date fair value of share award, €	46.48	48.00	44.67	44.80	44.67	44.80	44.67
Share price at grant date, €	48.68	50.20	46.67	47.00	46.67	47.00	46.67
Share-based compensation plan duration							
Performance period start date	1 Jan. 2018	-	1 Jan. 2017	-	1 Jan. 2017	-	1 Jan. 2017
Performance period end date	31 Dec. 2019	-	31 Dec. 2018	-	31 Dec. 2018	-	31 Dec. 2017
Commitment period start date	1 Jan. 2020	1 Jan. 2018	1 Jan. 2019	1 Jan. 2017	1 Jan. 2019	1 Jan. 2017	1 Jan. 2018
Commitment period end date	10 Feb. 2022	15 Mar. 2021	10 Feb. 2021	15 Mar. 2020	10 Feb. 2021	15 Mar. 2020	10 Feb. 2021

Assumptions applied in determining the fair value of share award: PSP, RSP, Bridge plan	Performance period 2018-2019 PSP and RSP	Performance period 2017-2018 PSP	Performance period 2017 Bridge plan
Number of share awards granted, maximum, pcs	331,300*	325,300*	325,300*
Changes in the number of shares granted, pcs	-4,000	-57,100	-26,600
Actual amount of share award, pcs			65,652
Number of plan participants at end of financial year	137	111	125
Share price at balance sheet date, €	47.10	45.25	45.25
Assumed fulfilment of performance criteria, %	40.0	43.4	46.7
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5

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

Share award grant dates and fair values: 2014-2016 share-based payments plans	Vesting period 2016	Vesting period 2015	Vesting period 2014
Grant dates	3 Feb. 2016	9 Feb. 2015	3 Feb. 2014
Grant date fair value of share award, €	32.45	30.74	25.66
Share price at grant date, €	34.95	32.24	27.06
Share-based compensation plan duration			
Vesting period start date	1 Jan. 2016	1 Jan. 2015	1 Jan. 2014
Vesting period end date	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
Commitment period end date	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017

Assumptions applied in determining the fair value of share award: 2014-2016 share-based payments plans	Vesting period 2016	Vesting period 2015	Vesting period 2014
Number of share awards granted, maximum, pcs	263,000	262,800	278,400
Changes in the number of shares granted, pcs	-9,800	-3,600	-2,000
Actual amount of share award, pcs	192,822	139,724	120,022
Number of plan participants at end of financial year	131	142	143
Share price at balance sheet date, €	47.48	32.37	30.18
Assumed fulfilment of vesting criteria, %	56.7	53.4	43.4
Estimated number of share awards returned prior to the end of commitment period, %	5.0	5.0	5.0

The impact of the above share-based compensation plans on the Group's profit for 2018 was €-6.5 million (€-9.8 million).

As at 31 December 2018, the amount to be recognised as expense for the financial years 2019–2021 is estimated at a total of €-7.3 million. The actual amount may differ from the estimate.

5.5 Deferred tax

Movements in deferred tax in 2018

€ million	1 Jan. 2018	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2018
Deferred tax assets						
Provisions	9.8	-0.3				9.5
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	23.1	1.9		-0.3	-1.9	22.8
Other temporary differences	16.8	-0.2	0.3	-0.7	-3.5	12.7
Total	49.8	1.4	0.3	-1.1	-5.4	45.0
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	31.5	2.5		-0.6	-3.8	29.6
Fair value allocation	18.8	0.1		-0.1	1.3	20.1
Defined benefit pension plans	40.7	-10.7	-0.4			29.7
Other temporary differences	5.2	-0.6	0.2	-0.2	0.7	5.3
Total	96.2	-8.7	-0.2	-0.8	-1.9	84.7
Net deferred tax liability	46.4					39.6

Balance sheet division of net deferred tax liability

€ million	2018	2017
Deferred tax assets	5.3	5.6
Deferred tax liabilities	44.9	52.0
Total	39.6	46.4

Other temporary differences within deferred tax assets include €2.0 million of deferred tax assets arising from compliance with the Group's accounting principles and €4.0 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Movements in deferred tax in 2017

€ million	1 Jan. 2017	Income statement charge	Tax charged/credited to equity	Exchange differences	Other changes	31 Dec. 2017
Deferred tax assets						
Provisions	10.0	-0.2				9.8
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	25.6	-2.4		-0.1	0.0	23.1
Other temporary differences	19.4	-1.5	-0.1	-0.7	-0.2	16.8
Total	55.1	-4.2	-0.1	-0.8	-0.2	49.8
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	30.9	1.0		-0.4		31.5
Fair value allocation	23.5	-0.4		-0.5	-3.9	18.8
Defined benefit pension plans	33.1	-1.3	9.0			40.7
Other temporary differences	9.9	-0.7	0.0	-0.1	-3.9	5.2
Total	97.4	-1.4	9.0	-0.9	-7.8	96.2
Net deferred tax liability	42.3					46.4

Tax loss carry-forwards

As at 31 December 2018, the Group's unused tax losses carried forward were €174.8 million, for which deferred tax assets have not been recognised, because at the balance sheet date, the realisation of the related tax benefit through future taxable profits is not probable.

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

€ million	2019	2020	2021	2022	2023	2024–	Total
	-	0.1	0.1	1.0	1.6	172.0	174.8

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

5.6 Components of other comprehensive income

€ million	2018 Before tax	Tax charge/credit	After tax	2017 Before tax	Tax charge/credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-2.3	0.4	-1.9	45.0	-9.0	36.0
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-10.4		-10.4	-15.1		-15.1
Cash flow hedge revaluation	2.6	-0.5	2.1	0.8	-0.2	0.6
Revaluation of available-for-sale financial assets	-	-	-	-0.4	0.1	-0.3
Others	-0.1		-0.1	-0.3		-0.3
Total, continuing operations	-10.2	-0.1	-10.4	30.0	-9.1	20.9
Discontinued operations	35.1		35.1	-14.2		-14.2
Group total	24.9	-0.1	24.7	15.8	-9.1	6.7

5.7 Legal disputes and possible legal proceedings

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

5.8 Events after the balance sheet date

Kesko Group company K Caara Oy has agreed to acquire LänsiAuto Oy's Volkswagen, Audi and SEAT businesses in Kotka, Kouvola and Lappeenranta. (Press release 2 January 2019)

Kesko Group company K Caara Oy has agreed to acquire Huittisten Laatuauto Oy's Volkswagen and SEAT business operations in Forssa and Huittinen. The transaction includes new and used car sales, servicing and after-sales services. (Press release 3 January 2019)

Kesko Corporation's subsidiary Byggnakker completed the acquisition of the DIY retail business of Sørbo Trelast AS and Tau & Jørpeland Bygg AS. The acquisition comprises two Byggnakker stores and a B2B logistics centre in Norway. (Press release 31 January 2019)

Parent company's financial statements (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Net sales	4,978,145,962.28	4,546,014,549.58
Other operating income	647,958,938.08	957,239,419.90
Materials and services	-4,354,234,332.77	-3,999,992,238.07
Employee benefit expenses	-276,407,553.63	-292,237,926.43
Depreciation, amortisation and impairment	-81,515,728.01	-64,691,857.88
Other operating expenses	-689,375,528.78	-581,088,865.22
Operating profit	224,571,757.17	565,243,081.88
Finance income and costs	-21,802,538.58	-71,760,675.11
Profit before appropriations and taxes	202,769,218.59	493,482,406.77
Appropriations		
Change in depreciation reserve	-5,999,575.17	-4,820,340.90
Group contribution	78,635,864.70	47,337,019.21
Profit before taxes	275,405,508.12	535,999,085.08
Income taxes	-63,446,219.12	-40,943,927.77
Profit for the financial year	211,959,289.00	495,055,157.31

Parent company's balance sheet

€	31 Dec. 2018	31 Dec. 2017
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	8,128,559.02	13,028,438.27
Other intangible assets	138,491,710.44	111,897,224.51
Prepayments	12,993,020.11	16,015,144.73
	159,613,289.57	140,940,807.51
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	172,241,827.54	168,837,197.54
Leasehold interests and connection fees	1,948,263.42	1,524,238.07
Buildings		
Owned	344,641,067.56	344,012,526.20
Machinery and equipment	77,275,608.72	65,603,590.38
Other tangible assets	7,342,344.76	7,981,818.89
Prepayments and construction in progress	24,843,274.21	21,303,057.62
	628,292,386.21	609,262,428.70
INVESTMENTS		
Investments in subsidiaries	888,538,761.72	805,999,408.32
Investments in associates	82,209,122.85	83,982,695.77
Other investments	13,826,612.84	14,785,256.50
	984,574,497.41	904,767,360.59
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	240,478,801.40	234,744,925.64
	240,478,801.40	234,744,925.64

€	31 Dec. 2018	31 Dec. 2017
RECEIVABLES		
Long-term		
Receivables from subsidiaries	178,774,050.29	168,035,008.16
Receivables from associates	57,605,471.31	57,617,471.31
Loan receivables	5,158,542.00	5,000,000.00
Other receivables	6,207,944.39	5,237,960.95
	247,746,007.99	235,890,440.42
Short-term		
Trade receivables	371,547,340.31	373,594,000.87
Receivables from subsidiaries	642,884,942.51	675,384,765.34
Receivables from associates	1,445,407.99	3,044,550.12
Loan receivables	1,334,500.22	743,587.07
Other receivables	7,021,688.77	7,326,678.80
Prepayments and accrued income	76,972,059.17	103,271,251.54
	1,101,205,938.97	1,163,364,833.74
INVESTMENTS		
Other investments	139,678,745.75	259,111,541.02
CASH AND CASH EQUIVALENTS	55,329,096.57	75,212,606.84
TOTAL ASSETS	3,556,918,763.87	3,623,294,944.46

€	31 Dec. 2018	31 Dec. 2017
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium	197,498,010.90	197,498,010.90
Reserve of invested non-restricted equity	22,753,307.40	22,753,307.40
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	803,322,671.03	548,730,492.69
Profit for the financial year	211,959,289.00	495,055,157.31
	1,676,231,657.88	1,704,735,347.85
APPROPRIATIONS		
Depreciation reserve	113,089,488.31	106,651,164.74
PROVISIONS		
Other provisions	5,218,250.05	9,894,444.82
LIABILITIES		
Non-current		
Private Placement notes	-	20,083,682.01
Pension loans	160,145,000.00	92,136,875.00
Other creditors	4,822,996.00	3,511,411.00
	164,967,996.00	115,731,968.01
Current		
Bonds	20,083,682.01	225,005,000.00
Pension loans	22,941,875.00	8,648,750.00
Advances received	13,485,074.15	24,169,912.84
Trade payables	573,034,271.45	588,622,363.88
Payables to subsidiaries	501,797,147.84	428,755,044.00
Payables to associates	26,938,671.50	24,100,220.87
Other payables	224,194,396.53	195,351,522.98
Accruals and deferred income	214,936,253.15	191,629,204.47
	1,597,411,371.63	1,686,282,019.04
TOTAL LIABILITIES	3,556,918,763.87	3,623,294,944.46

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Cash flows from operating activities		
Profit before appropriations	202,769,218.59	493,482,406.77
Adjustments		
Depreciation according to plan	81,515,728.01	64,691,857.88
Finance income and costs	21,802,538.58	71,760,675.11
Other adjustments	31,906,258.86	-406,115,335.96
	337,993,743.84	223,819,603.80
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	-9,020,672.35	-161,680,563.29
Inventories increase (-)/decrease (+)	-5,733,875.76	-6,091,469.70
Current non-interest-bearing liabilities, increase (+)/decrease (-)	25,642,307.85	293,051,955.47
	10,887,759.74	125,279,922.48
Interests paid and other finance costs	-46,517,834.41	-17,045,129.76
Interests received	20,602,046.52	23,874,783.91
Dividends received	61,535,360.40	30,309,924.47
Income tax paid	-48,029,655.86	-29,272,453.12
	-12,410,083.35	7,867,125.50
Net cash generated from operating activities	336,471,420.23	356,966,651.78
Cash flows from investing activities		
Purchases of other investments	-10,668.96	-2,500.00
Purchases of property, plant, equipment and intangible assets	-121,023,284.92	-145,763,474.03
Acquisitions of subsidiaries	-120,671,597.18	-37,274,243.48
Acquisitions of associates	-9,200,000.00	-1,641,250.00
Sales of subsidiaries, net of cash	-	103,066,291.87
Proceeds from disposal of other investments	24,700.00	112,984.89
Proceeds from disposal of property, plant, equipment and intangible assets	4,953,757.95	10,181,110.33
Long-term receivables, increase (-)/decrease (+)	-11,697,025.57	39,290,538.07
Net cash used in investing activities	-257,624,118.68	-32,030,542.35

€	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	-54,237,730.95	-268,123,604.86
Short-term interest-bearing receivables, increase (-)/decrease (+)	368,581.36	125,198,252.65
Short-term money market investments, increase (-)/decrease (+)	116,459,434.77	-36,407,333.34
Dividends paid	-218,945,469.60	-198,932,108.72
Group contributions received and paid	78,635,864.70	47,337,019.21
Acquisition of treasury shares	-24,412,806.00	-
Other items	402,045.12	-3,244,788.93
Net cash used in financing activities	-101,730,080.60	-334,172,563.99
Change in cash and cash equivalents	-22,882,779.05	-9,236,454.56
Cash and cash equivalents and current available-for-sale financial assets as at 1 Jan.	109,183,741.58	106,569,989.39
Cash and cash equivalents transferred in merger	-	11,850,206.75
Cash and cash equivalents and current available-for-sale financial assets as at 31 Dec.	86,300,962.53	109,183,741.58

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

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

During the financial year 2017, K-citymarket Oy, Kespro Ltd and Kesko Food Ltd merged into Kesko Group's parent company Kesko Corporation.

Due to the mergers, data from the previous financial year are not comparable with the data from financial year 2018.

Non-current assets

Intangible assets

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

Depreciation plan

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

Property, plant and equipment

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

Depreciation plan

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

The most common estimated useful lives are:

Buildings	10–33 years
Fixtures and fittings	8 years
Machinery and equipment	25% reducing balance method
Transportation fleet	5 years
IT equipment	3–8 years
Other tangible assets	5–14 years

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

Valuation of inventories

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

Valuation of financial assets

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

Foreign currency items

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

Derivative contracts

Interest rate derivatives

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

Foreign currency derivatives

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

Commodity derivatives

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

Pension plans

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

Provisions

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

Income tax

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

Notes to the income statement

Note 2. Net sales by division

€ million	2018	2017
Grocery trade	4,058.0	3,493.7
Building and home improvement trade	892.2	1,019.3
Others	27.9	32.9
Total	4,978.1	4,546.0

Note 3. Other operating income

€ million	2018	2017
Gains on sales of real estate and shares	4.9	61.6
Rent income	59.2	62.0
Fees for services	444.1	367.6
Profits from mergers	0.1	350.0
Others	139.7	116.1
Total	648.0	957.2

Note 4. Employee benefit expenses

€ million	2018	2017
Salaries and fees	-273.1	-240.9
Social security costs		
Pension costs	6.9	-41.0
Other social security costs	-10.2	-10.3
Total	-276.4	-292.2

Kesko's pension costs include a €53.3 million return of surplus assets by Kesko Pension Fund. The average number of personnel at Kesko Corporation was 7,174 (6,576) people.

Salaries and fees to the management

€ million	2018	2017
Managing Director	2.3	2.8
Members of the Board of Directors	0.5	0.4
Total	2.8	3.2

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

Note 5. Depreciation, amortisation and impairment

€ million	2018	2017
Depreciation according to plan	-79.2	-62.2
Impairment, non-current assets	-2.3	-2.5
Total	-81.5	-64.7

Note 6. Other operating expenses

€ million	2018	2017
Rent expenses	-302.0	-267.9
Marketing expenses	-140.7	-130.8
Maintenance of real estate and store sites	-78.9	-62.1
Losses on disposals of non-current assets	-3.2	-1.2
Telecommunication expenses	-73.6	-63.0
Losses from mergers	-33.2	0.0
Other operating expenses	-57.8	-56.1
Total	-689.4	-581.1

Auditors' fees

€ million	2018	2017
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.3	0.3
Tax consultation	0.1	0.1
Other services	0.3	1.1
Total	0.7	1.5

Note 7. Finance income and costs

€ million	2018	2017
Income from long-term investments		
Dividend income from subsidiaries	67.3	30.3
Dividend income from others	0.0	2.4
Gains on disposal of shares	-	0.1
Gains on sales of investments	4.7	2.0
Income from long-term investments, total	72.0	34.7
Other interest and finance income		
From subsidiaries	8.2	10.8
From others	30.5	18.7
Interest and finance income, total	38.6	29.5
Impairment of investments held as non-current assets		
Impairment of shares	-80.1	-96.9
Changes in fair value	0.0	0.2
Impairment and changes in fair value of investments held as non-current assets, total	-80.1	-96.7
Interest and other finance costs		
To subsidiaries	-25.9	-12.9
To others	-26.4	-26.3
Interest and finance costs, total	-52.3	-39.2
Total	-21.8	-71.8

Note 8. Appropriations

€ million	2018	2017
Difference between depreciation according to plan and depreciation in taxation	-6.0	-4.8
Group contributions received	84.9	77.7
Group contributions paid	-6.3	-30.3
Total	72.6	42.5

Note 9. Changes in provisions

€ million	2018	2017
Transferred in mergers	-	1.7
Other changes	-4.7	-0.9
Total	-4.7	0.7

Note 10. Income taxes

€ million	2018	2017
Income taxes on group contributions	-15.7	-9.5
Income taxes on ordinary activities	-47.6	-30.8
Taxes for prior years	-0.1	-0.7
Total	-63.4	-40.9

Note 11. Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €22.6 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2018	2017
Intangible rights		
Acquisition cost as at 1 Jan.	26.2	15.3
Increases	1.3	0.7
Transferred in mergers	-	15.5
Decreases	-1.8	-11.5
Transfers between items	0.0	6.1
Acquisition cost as at 31 Dec.	25.8	26.2
Accumulated depreciation as at 1 Jan.	-13.2	-7.6
Transferred in mergers	-	-11.8
Accumulated depreciation on decreases and transfers	1.4	11.4
Depreciation and amortisations for the financial year	-5.9	-5.1
Accumulated depreciation as at 31 Dec.	-17.6	-13.2
Book value as at 31 Dec.	8.1	13.0
Other intangible assets		
Acquisition cost as at 1 Jan.	250.8	83.5
Increases	45.2	35.9
Transferred in mergers	0.4	188.3
Decreases	-11.5	-64.2
Transfers between items	11.7	7.3
Acquisition cost as at 31 Dec.	296.6	250.8

€ million	2018	2017
Accumulated depreciation as at 1 Jan.	-139.0	-67.8
Transferred in mergers	0.0	-114.3
Accumulated depreciation on decreases and transfers	11.8	63.2
Depreciation and amortisations for the financial year	-30.9	-20.1
Accumulated depreciation as at 31 Dec.	-158.1	-139.0
Book value as at 31 Dec.	138.5	111.9
Prepayments		
Acquisition cost as at 1 Jan.	16.0	8.3
Increases	7.7	13.0
Transferred in mergers	0.0	5.9
Decreases	-2.1	-0.1
Transfers between items	-8.6	-11.1
Acquisition cost as at 31 Dec.	13.0	16.0
Book value as at 31 Dec.	13.0	16.0

Note 13. Property, plant and equipment

€ million	2018	2017
Land and waters, owned		
Acquisition cost as at 1 Jan.	168.8	85.9
Increases	2.1	4.4
Transferred in mergers	0.3	79.5
Decreases	-	-2.9
Transfers between items	1.1	2.1
Acquisition cost as at 31 Dec.	172.2	168.8
Book value as at 31 Dec.	172.2	168.8
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	1.5	0.1
Increases	0.4	0.4
Transferred in mergers	-	1.1
Decreases	-	0.0
Acquisition cost as at 31 Dec.	1.9	1.5
Book value as at 31 Dec.	1.9	1.5
Buildings		
Acquisition cost as at 1 Jan.	563.2	316.4
Increases	10.4	67.5
Transferred in mergers	8.3	165.4
Decreases	-0.1	-2.1
Transfers between items	2.2	15.9
Acquisition cost as at 31 Dec.	584.0	563.2
Accumulated depreciation as at 1 Jan.	-219.1	-154.7
Transferred in mergers	-1.3	-49.1
Accumulated depreciation on decreases and transfers	0.1	0.9
Depreciation for the financial year	-19.0	-16.3
Accumulated depreciation as at 31 Dec.	-239.4	-219.1
Book value as at 31 Dec.	344.6	344.0

€ million	2018	2017
Machinery and equipment		
Acquisition cost as at 1 Jan.	265.4	51.0
Increases	33.5	25.9
Transferred in mergers	0.4	220.8
Decreases	-22.0	-34.4
Transfers between items	2.0	2.2
Acquisition cost as at 31 Dec.	279.4	265.4
Accumulated depreciation as at 1 Jan.	-199.8	-39.0
Transferred in mergers	-0.1	-174.8
Accumulated depreciation on decreases and transfers	21.8	33.3
Depreciation for the financial year	-23.9	-19.3
Accumulated depreciation as at 31 Dec.	-202.1	-199.8
Book value as at 31 Dec.	77.3	65.6
Other tangible assets		
Acquisition cost as at 1 Jan.	18.0	9.5
Increases	0.6	0.5
Transferred in mergers	0.4	7.1
Decreases	0.0	0.0
Transfers between items	0.1	0.8
Acquisition cost as at 31 Dec.	19.0	18.0
Accumulated depreciation as at 1 Jan.	-10.0	-4.3
Transferred in mergers	-0.2	-4.2
Accumulated depreciation on decreases and transfers	0.0	0.0
Depreciation for the financial year	-1.5	-1.5
Accumulated depreciation as at 31 Dec.	-11.7	-10.0
Book value as at 31 Dec.	7.3	8.0

€ million	2018	2017
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	21.3	9.3
Increases	15.8	6.2
Transferred in mergers	-	35.9
Decreases	-4.0	-6.8
Transfers between items	-8.3	-23.2
Acquisition cost as at 31 Dec.	24.8	21.3
Book value as at 31 Dec.	24.8	21.3

Note 14. Investments

€ million	2018	2017
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	966.8	835.1
Increases	123.1	38.0
Transferred in mergers	177.4	146.9
Decreases	-198.2	-53.3
Acquisition cost as at 31 Dec.	1,069.0	966.8
Impairment as at 1 Jan.	-160.8	-29.3
Transferred in mergers	-34.6	-63.0
Accumulated impairments on decreases	84.2	28.1
Impairment for the period	-69.3	-96.6
Impairment as at 31 Dec.	-180.5	-160.8
Book value as at 31 Dec.	888.5	806.0

€ million	2018	2017
Investments in associates		
Acquisition cost as at 1 Jan.	84.0	78.3
Increases	9.3	1.7
Transferred in mergers	-	4.5
Decreases	-11.0	-0.5
Book value as at 31 Dec.	82.2	84.0
Other investments		
Acquisition cost as at 1 Jan.	14.8	10.2
Increases	0.0	0.1
Transferred in mergers	-	7.4
Decreases	-1.0	-2.6
Acquisition cost as at 31 Dec.	13.8	15.2
Impairment for the period	-	-0.3
Impairment as at 31 Dec.	0.0	-0.3
Book value as at 31 Dec.	13.8	14.8

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2018 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

Receivables from subsidiaries

€ million	2018	2017
Long-term		
Loan receivables	178.8	168.0
Long-term, total	178.8	168.0
Short-term		
Trade receivables	137.9	126.1
Loan receivables	356.6	430.0
Prepayments and accrued income	148.4	119.3
Short-term, total	642.9	675.4
Total	821.7	843.4

Receivables from associates and joints ventures

€ million	2018	2017
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	57.6	57.6
Short-term receivables	1.4	3.0
Total	59.1	60.7

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

Prepayments and accrued income

€ million	2018	2017
Taxes	0.0	4.1
Fees for services	3.2	3.7
Employee benefit expenses	7.2	10.8
Purchases	28.1	29.4
Others	38.5	55.3
Total	77.0	103.3

Note 16. Shareholders' equity

€ million	Share capital	Share premium	Contingency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2017	197.3	197.5	243.4	22.8	740.0	1,400.9
Dividends					-198.9	-198.9
Treasury shares					7.9	7.9
Transfer to donations					-0.3	-0.3
Profit for the year					495.1	495.1
Balance as at 31 December 2017	197.3	197.5	243.4	22.8	1,043.8	1,704.7
Dividends					-218.9	-218.9
Treasury shares					-21.4	-21.4
Transfer to donations					-0.1	-0.1
Profit for the year					212.0	212.0
Balance as at 31 December 2018	197.3	197.5	243.4	22.8	1,015.3	1,676.2

Restricted equity	2018	2017
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	394.8	394.8

Non-restricted equity	2018	2017
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,015.3	1,043.8
Total	1,281.5	1,310.0

Calculation of distributable profits	2018	2017
Other reserves	266.2	266.2
Retained earnings	803.3	548.7
Profit for the year	212.0	495.1
Total	1,281.5	1,310.0

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

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

Board's authorisations to acquire and issue own shares

The Annual General Meeting of 11 April 2018 approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 of the Company's own B shares. The authorisation is valid until 30 September 2019. The Board also has an authorisation, granted by the Annual General Meeting of 11 April 2018 and valid until 30 June 2021, to issue a maximum of 10,000,000 new B shares. This authorisation cancelled the authorisation granted by the Annual General Meeting of 13 April 2015 to issue a total maximum of 20,000,000 new B shares, which would have been in force until 30 June 2018. Furthermore, Kesko's Annual General Meeting of 4 April 2016 authorised the Company's Board to decide on the transfer of a total maximum of 1,000,000 of own B shares held by the Company as treasury shares. The authorisation is valid until 30 June 2020.

Treasury shares

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

	Shares
Own B shares held by the Company as at 31 Dec. 2017	563,137
Transferred, share-based compensation scheme	-68,949
Acquired during the financial year	500,000
Returned during the financial year	7,211
Own B shares held by the Company as at 31 Dec. 2018	1,001,399

Note 17. Provisions

€ million	2018	2017
Provisions for leases	2.3	4.5
Other provisions	2.9	5.4
Total	5.2	9.9

Note 18. Non-current liabilities

On 10 June 2004, Kesko Corporation issued a Private Placement of USD 120 million in the US. The facility has three tranches with bullet repayments, of which the first tranche (USD 60 million) was due in 2014 and the second (USD 36 million) in 2016. The third tranche will be due in 2019 (USD 24 million). Kesko has hedged the loan with currency and interest rate swaps and will apply hedge accounting to the facility. At the balance sheet date, the fair value of the foreign currency derivatives hedging the private placement was €0.9 million and the fair value of the interest rate derivatives was €-0.2 million. The loan capital is €20.1 million and the fixed interest rate is 6.2%.

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon rate of 2.75%. The bond was due on 11 September 2018.

Note 19. Current liabilities

€ million	2018	2017
Liabilities to subsidiaries		
Trade payables	140.2	128.5
Other payables	293.8	235.7
Accruals and deferred income	67.8	64.5
Total	501.8	428.8
Liabilities to associates		
Trade payables	0.0	0.0
Accruals and deferred income	0.0	0.2
Other payables	26.9	23.9
Total	26.9	24.1
Accruals and deferred income		
Employee benefit expenses	87.8	71.3
Accruals and deferred income from purchases	35.2	41.6
Taxes	11.4	-
Transaction prices	2.2	1.8
Fees for services	2.1	1.2
Others	76.3	75.8
Total	214.9	191.6

Note 20. Interest-free liabilities

€ million	2018	2017
Current liabilities	1,096.6	1,076.9
Non-current liabilities	0.0	0.0
Total	1,096.6	1,076.9

Note 21. Guarantees, liability engagements and other liabilities

€ million	2018	2017
Real estate mortgages		
For own debt	176	54
For subsidiaries	11	11
Pledged shares	9	9
Guarantees		
For subsidiaries	49	78
Other liabilities and liability engagements		
For own debt	27	35
Rent liabilities on machinery and fixtures		
Falling due within a year	9	9
Falling due later	12	12
Rent liabilities on real estate		
Falling due within a year	290	283
Falling due later	1,868	1,936

Foreign currency risks

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

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

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

The results of derivatives are recognised in financial items.

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

Company's transaction exposure as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB
Transaction risk	-18.5	5.3	1.9	25.0	11.9
Hedging derivatives	21.7	-9.1	-4.6	-14.4	-8.6
Exposure	3.2	-3.9	-2.6	10.6	3.2

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

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2018 € million	USD	SEK	NOK	PLN	RUB
Change +10%	0.1	0.0	-0.2	-0.6	0.0
Change -10%	-0.1	0.0	0.2	0.8	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB
Change +10%	-0.3	0.4	0.2	-1.0	-0.3
Change -10%	0.4	-0.4	-0.3	1.2	0.4

Derivatives

Fair values of derivative contracts € million	31 Dec. 2018 Positive fair value (balance sheet value)	31 Dec. 2018 Negative fair value (balance sheet value)	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)
Currency derivatives	3.3	0.8	0.4	-2.4

Notional amounts of derivative contracts € million	31 Dec. 2018 Notional amount	31 Dec. 2017 Notional amount
Currency derivatives	155.9	103.6

All currency derivatives mature in 2019.

€ million	2018	Fair value	2017	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives	70	0.1	70	0.3
Interest rate swaps	280	-2.0	180	-0.5
Foreign currency derivatives				
Forward and future contracts	136	1.5	84	-1.9
Outside the Group	129	1.6	77	-1.9
Inside the Group	7	-0.1	7	0.0
Currency swaps	20	0.9	20	-0.1
Commodity derivatives				
Electricity derivatives	22	0.0	12	0.0
Outside the Group	11	2.3	6	-0.3
Inside the Group	11	-2.3	6	0.3

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

€ million	2018	2017
Available-for-sale financial assets	31.0	34.0
Cash and cash equivalents	55.3	75.2
Total	86.3	109.2

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

Note 23. Related parties

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

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

Signatures

Signatures for financial statements and report by the Board of Directors

Helsinki, 5 February 2019

Esa Kiiskinen

Peter Fagerlös

Jannica Fagerholm

Piia Karhu

Matti Kyytsönen

Matti Naumanen

Toni Pokela

Mikko Helander
President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 5 February 2019

PricewaterhouseCoopers Oy
Authorised public accountants

Mikko Nieminen
Authorised Public Accountant

Auditor's report (Translation from the Finnish Original)

To the Annual General Meeting of Kesko Oyj

Report on the audit of the financial statements

Opinion

In our opinion

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

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

What we have audited

We have audited the financial statements of Kesko Oyj (Business ID: 0109862-8) for the year ended 31 December 2018. The financial statements comprise:

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

Basis for opinion

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

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

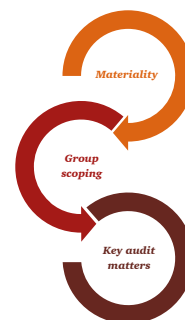
Independence

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

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

Our audit approach

Overview



Overall materiality

- We determined that overall group materiality € 15 million. We have assessed that in Kesko Group audit material are misstatements whose impact individually or in aggregate is at the level of 5% of comparable profit before tax.

Group audit scope

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

Key audit matters

- Goodwill and trademarks – management impairment testing
- Inventories

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

Materiality

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

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

We determined that overall group materiality is € 15 million. We chose comparable profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose a level of 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Group audit scope

Kesko operates in the grocery trade, the building and technical trade and the car trade. In 2018, Kesko operated in nine countries. During the year it withdrew from the Russian market. We tailored the scope of our audit, taking into account the structure of the Kesko Group, the industry and the accounting processes and controls.

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

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

Key audit matters

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

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

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
<p>Goodwill and trademarks – management impairment testing</p> <p><i>Refer to note 3.4 Intangible assets.</i></p> <p>Kesko Group balance sheet includes goodwill in amount of € 278.7 million (2017: 172.3) and trademarks € 87.2 million (2016: 82.2).</p> <p>Kesko Group management carries out impairment test of goodwill and trademarks annually. Impairment test result is based on management estimates, e.g. market growth and profitability trends estimates, changes in store site network, product and service selection, pricing and movements in operating costs.</p> <p>In our audit we focused on the methodologies and assumptions used in management impairment testing. We specially focused on those cash generating units, whose value-in-use and carrying value difference have been smallest in previous years and therefore sensitive to changes in estimations.</p>	<p>We reviewed financial plans prepared by the management and compared to the financial plans approved by the Board of Directors.</p> <p>We evaluated appropriateness of value-in-use valuation method used and traced input information to the source.</p> <p>We challenged the management on assumptions used in value-in-use calculations. In evaluating one of the key assumptions, Weighted Average Cost of Capital, we utilised PwC valuation experts. We performed back testing comparing forecasts used in previous years testing to actual results as it would give an indication of the quality of the forecasting process.</p> <p>In addition, we assessed the adequacy of the disclosures, particularly on sensitivities.</p>
<p>Inventories</p> <p><i>Refer to note 3.5 Inventories.</i></p> <p>Kesko Group balance sheet includes inventory in amount of € 913.0 million (2016: 938.6).</p> <p>Inventories are measured at the lower of cost and net realisable value.</p>	<p>In our evaluation of the Group reviews on inventory net realisable value, we walked through monitoring processes over inventory obsolescence and turnover and processes of net realisation calculation. We identified key controls and tested efficiency of those.</p>

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Other reporting requirements

Appointment

PricewaterhouseCoopers Oy was first appointed as auditor of Kesko Oyj by the Annual General Meeting on 26 April 1976 and our appointment represents a total period of uninterrupted engagement of 43 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed. Kesko Oyj became publicly listed company on 15 May 1960.

Other information

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

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

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

In our opinion

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

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

Other Statements

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

Helsinki 5 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant