FINANCIAL STATEMENTS

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, Russia, Belarus and Poland.

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 43% of Kesko's net sales in 2017. B2B trade is a significant and growing part of Kesko's business operations. B2B trade accounted for 35% of Kesko's net sales in 2017. Kesko's own retailing accounted for 22% of net sales. Outside Finland, Kesko mainly engages in own retailing and B2B trade.

Kesko's operations are founded on professional and committed personnel throughout the value chain, a strong K brand, efficient logistics operations and information systems, and stable finances. Kesko creates value to all its stakeholder groups: 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, 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 multi-channel approach to trade, the economic operating environment, the supply chain, and the impacts of climate change. Risks have been described in more detail in the Significant risks and uncertainties section of this Board of Directors' Report.

Financial performance

Net sales and profit for 2017

The Group's net sales for 2017 were €10,676 million, which is an increase of 4.9% on previous year (€10,180 million). Net sales development was affected by both the acquisitions made in 2016 as well as the divestments made in the first half of 2017. In comparable terms, net sales grew by 1.8% in local currencies, excluding the impact of acquisitions and divestments. The Group's net sales increased by 3.2% in Finland and by 1.9% in comparable terms. In other countries, net sales grew by 11.3%, or 1.2% in comparable terms. International operations accounted for 21.5% (20.3%) of the Group's net sales.

The 0.9% growth in the net sales for the grocery trade was affected by the acquisition of Suomen Lähikauppa on 12 April 2016 and the changes to Suomen Lähikauppa's store site network, as well as by the divestment of Russian business operations on 30 November 2016. In comparable terms, net sales increased by 2.4%. 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.

In the building and technical trade, net sales grew by 9.4%. In comparable terms, net sales increased by 1.1% in local currencies. In the calculation of the comparable change, Onninen's net sales have been included for the period between 1 June and 31 December for both the reporting year and the comparison year, while the net sales for the K-maatalous agricultural business, divested on 1 June 2017, and the Asko and Sotka furniture trade, divested on 30 June 2017, have been excluded from both the reporting year and the comparison year. Net sales for the building and technical trade excluding the speciality goods trade increased by 23.4%, or 3.1% in comparable terms. Net sales for the speciality goods trade decreased by 33.8% due to divestments.

In the car trade, net sales grew by 7.1%, or 1.0% in comparable terms. In the calculation of the comparable change, AutoCarrera's net sales for December have been included in the net sales for both the reporting year and the comparison year.

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.

1-12/2017	Net sales, € million	Change %	Change in local currency excl. acquisitions and disposals, %	Operating profit, comparable € million	Change, € million
Grocery trade	5,282	+0.9	+2.4	203.4	+27.4
Building and technical trade excl. speciality goods trade	3,823	+23.4	+3.1	79.5	+7.0
Speciality goods trade	663	-33.8	-11.5	16.2	-9.3
Building and technical trade total	4,486	+9.4	+1.1	95.8	-2.2
Car trade	909	+7.1	+1.0	33.1	+3.6
Common functions and eliminations	-1	-68.5	-3.4	-35.6	-5.1
Total	**10,676**	**+4.9**	**+1.8**	**296.7**	**+23.8**

The Group's comparable operating profit was €296.7 million (€272.9 million). Profitability improved significantly in the grocery trade due to increased sales, successful chain redesigns, realised synergy benefits, and the divestment of the loss-making Russian business operations in 2016. In the building and technical trade excluding the speciality goods trade, operating profit increased in the building and home improvement trade in Finland and Norway and Onninen, while the operating result for Sweden and for Kesko Senukai decreased compared to the previous year. Operating profit for the speciality goods trade decreased due to divestments and the decrease in the operating profits of the leisure trade and the machinery trade. Profitability in the car trade improved thanks to growth in sales and the acquisition of AutoCarrera's Porsche business.

Operating profit totalled €324.6 million (€146.8 million). Items affecting comparability totalled €27.9 million (€-126.2 million). The most significant items affecting comparability were the €49.7 million gain on the divestment of properties in the Baltics, the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains and the transfer of the stores to retailers, the gain on the divestment of the K-maatalous agricultural business of €12.3 million, the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million, and the €14.5 million impairment of goodwill in the Russian building and home improvement business.

Items affecting comparability, € million	1-12/2017	1-12/2016
Comparable operating profit	**296.7**	**272.9**
Items affecting comparability		
+gains on disposal	+83.4	+4.2
-losses on disposal	-1.8	-71.0
-impairment charges	-15.0	-30.0
+/-structural arrangements	-38.7	-29.4
Total items affecting comparability	+27.9	-126.2
Operating profit	**324.6**	**146.8**

The Group's comparable profit before tax was €300.1 million (€271.4 million). The Group's profit before tax was €327.6 million (€145.2 million). The Group's earnings per share were €2.59 (€0.99). The comparable earnings per share were €2.28 (€2.01). The Group's equity per share was €21.45 (€20.44).

K Group's (Kesko and K-chain stores) retail and B2B sales (VAT 0%) amounted to €12,754 million, representing a growth of 1.5% compared to the previous year (pro forma). The K-Plussa customer loyalty programme added 73,146 new households in 2017. At the end of December, there were 2.3 million K-Plussa households and 3.6 million K-Plussa cardholders.

Finance

Cash flow from operating activities was €301.7 million (€170.2 million). Cash flow was strengthened by improved profitability. Cash flow from investing activities amounted to €-88.3 million (€-501.1 million), which includes divestments of €199.6 million.

At the end of December, liquid assets totalled €398 million (€391 million). Interest-bearing liabilities were €534 million (€515 million) and interest-bearing net debt was €136 million (€123 million) at the end of December. The equity ratio was 50.4% (48.6%) at the end of the year.

The Group's comparable net finance income was €1.8 million (net finance costs €1.0 million). The Group's net finance income was €1.5 million (net finance costs €1.0 million). The financial items include dividend income and interest income on cooperative capital of €4.5 million, of which €2.3 million is interest income on cooperative capital from Suomen Luotto-osuuskunta. Items affecting comparability totalled €-0.4 million.

Taxes

The Group's taxes were €58.8 million (€31.4 million). The effective tax rate was 17.9% (21.6%). The Group's effective tax rate was lowered by tax-exempt gains on the sale of properties and subsidiaries.

Capital expenditure

The Group's capital expenditure totalled €349.8 million (€743.1 million), or 3.3% (7.3%) of net sales. Capital expenditure in store sites was €255.7 million (€216.7 million), in IT €32.9 million (€29.3 million) and other capital expenditure was €61.2 million (€35.5 million). Capital expenditure includes real estate purchases of €46.5 million from Kesko Pension Fund, related to the decision made by the Pension Fund in December to return surplus assets to its shareholders. The surplus amount to be paid to Kesko Group companies is estimated at €58 million, and the Pension Fund is estimated to pay the return in March 2018 after having received approval from the Finnish Financial Supervisory Authority. The comparison year includes acquisitions amounting to €461.6 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 the smallest. The acquisitions of Suomen Lähikauppa and Onninen have increased the seasonal fluctuations between quarters. The operating profit levels of Onninen and Suomen Lähikauppa are lowest in the first quarter.

GROCERY TRADE

	1-12/2017	1-12/2016
Net sales, € million	5,282	5,236
Comparable operating profit, € million	203.4	175.9
Comparable operating margin, %	3.9	3.4
Capital expenditure, € million	224.4	238.1

Net sales, € million	**1-12/2017**	**Change, %**
Sales to K-food stores	3,331	+5.4
K-Citymarket, home and speciality goods	585	+2.1
K-Market, own retail trade	479	-16.7
Kespro	815	+4.1
Others and eliminations	72	-49.5
Total	**5,282**	**+0.9**

Net sales for the grocery trade amounted to €5,282 million (€5,236 million), an increase of 0.9%. Net sales development was affected by the acquisition of Suomen Lähikauppa on 12 April 2016 and changes in its store site network, as well as the divestment of the Russian business operations on 30 November 2016. In comparable terms, net sales for the grocery trade grew by 2.4%. 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 net sales of the divested business in Russia.

K Group's grocery sales grew by 2.4% (incl. VAT) if the impact of the acquisition of Suomen Lähikauppa is excluded. K Group's grocery trade sales pro forma growth was 0.5% (incl. VAT), which was affected by the Suomen Lähikauppa store site network being smaller than the previous year. In the Finnish grocery market, retail prices are estimated to have remained at the level of the previous year (incl. VAT, Kesko's own estimate based on the Consumer Price Index of Statistics Finland) and the total market (incl. VAT) is estimated to have increased by approximately 1.7% in 2017 (Kesko's own estimate).

The acquisition of Suomen Lähikauppa was completed in April 2016 and the conversion of Siwa and Valintatalo stores into K-Markets began in May of that year. By the end of May 2017, all Siwa and Valintatalo stores that continued operating (at 409 store locations) had been converted into K-stores (408 K-Markets and 1 K-Supermarket). Of these, 243 stores had been transferred to retailers by the end of December. The transfer of the stores to retailers will be completed by the end of the first half of 2018.

The comparable operating profit for the grocery trade amounted to €203.4 million (€175.9 million), an increase of €27.4 million. Profitability improved significantly in the grocery trade due to sales growth, successful chain redesigns, realised synergy benefits, and the divestment of the loss-making Russian business operations in 2016. Kespro's sales grew and profitability improved. The effect of Suomen Lähikauppa on the comparable operating profit for reporting year 2017 was €+4.0 million (€-3.2 million in April–December 2016). The loss of the Russian business operations divested in November 2016 was €17.1 million in the comparison year.

The grocery trade's operating profit was €181.3 million (€93.0 million). Items affecting comparability amounted to €-22.1 million (€-82.9 million), and they were mainly related to the restructuring of Suomen Lähikauppa, €-21.4 million. The most significant items affecting comparability in the comparison year were the €69.2 million loss on the disposal of the Russian grocery trade, and the €11.4 million costs related to the restructuring of Suomen Lähikauppa.

Capital expenditure for the grocery trade was €224.4 million (€238.1 million), of which €213.1 million (€159.6 million) was in store sites. The comparison year includes acquisitions amounting to €54.3 million.

BUILDING AND TECHNICAL TRADE

	1-12/2017	1-12/2016
Net sales, € million	**4,486**	**4,100**
Building and technical trade excl. speciality goods trade	3,823	3,099
Speciality goods trade	663	1,002
Comparable operating profit, € million	**95.8**	**97.9**
Building and technical trade excl. speciality goods trade	79.5	72.5
Speciality goods trade	16.2	25.5
Comparable operating margin, %	**2.1**	**2.4**
Building and technical trade excl. speciality goods trade	2.1	2.3
Speciality goods trade	2.4	2.5
Capital expenditure, € million	**80.0**	**451.7**

Net sales, € million	1-12/2017	Change, %
Building and home improvement trade, Finland	870	+5.4
K-Rauta, Sweden	200	-7.7
Byggmakker, Norway	397	-1.2
K-Rauta, Russia	184	+6.0
Kesko Senukai, the Baltics	510	+5.0
OMA, Belarus	120	+18.4
Onninen	1,571	+73.0
Building and technical trade excl. speciality goods trade total	**3,823**	**+23.4**
Machinery trade	229	-16.3
Leisure trade, Finland	196	-0.2
Others	238	-55.2
Speciality goods trade total	**663**	**-33.8**
Total	**4,486**	**+9.4**

Net sales for the building and technical trade were €4,486 million (€4,100 million), up by 9.4%. In comparable terms, net sales increased by 1.1% in local currencies. In the calculation of the comparable change, Onninen's net sales have been included for the period between 1 June and 31 December for both the reporting year and the comparison year, while the net sales for the K-maatalous agricultural business, divested on 1 June 2017, and the Asko and Sotka furniture trade, divested on 30 June 2017, have been excluded from both the reporting year and the comparison year.

In Finland, net sales for the building and technical trade were €2,190 million (€2,142 million), up by 2.3%. In comparable terms, net sales in Finland increased by 1.0%. Net sales from foreign operations amounted to €2,296 million (€1,959 million), an increase of 17.2%. Net sales from foreign operations were up by 1.2% in comparable terms. Foreign operations accounted for 51.2% (47.8%) of the net sales for the building and technical trade. Net sales for the building and technical trade excluding the speciality goods trade were €3,823 million (€3,099 million), an increase of 23.4%. In comparable terms, net sales grew by 3.1%.

Net sales for the building and home improvement trade were €2,276 million (€2,196 million), an increase of 3.7%. In local currencies, net sales grew by 2.9%. Net sales in local currency decreased in Norway by 0.8%, in Sweden by 6.1% and in Russia by 5.8%. In Sweden, the decrease in net sales was impacted by closures of K-Rauta stores due to the termination of lease agreements. In Belarus, net sales grew in local currency by 17.4%. Net sales for the building and home improvement trade grew in the B2B segment. Onninen's net sales in 2017 amounted to €1,571 million (€908 million in June–December 2016). In comparable terms, Onninen's net sales grew by 4.5%.

The market share of K Group's building and technical trade is estimated to have strengthened in Finland. K Group's sales of building and home improvement products in Finland increased by 4.1% and the total market (VAT 0%) is estimated to have grown by about 1.1% (Kesko's own estimate).

Net sales for the speciality goods trade amounted to €663 million (€1,002 million), a decrease of 33.8%. The decrease was affected by the divestments carried out. Net sales for the machinery trade amounted to €229 million (€274 million), a decrease of 16.3% from the previous year. Net sales for the machinery trade in Finland were €96 million, down by 33.5%. Net sales from foreign operations totalled €133 million, up by 3.0%. Net sales for the leisure trade in Finland were €196 million (€197 million), down by 0.2%. Net sales for the Asko and Sotka furniture trade, K-maatalous agricultural business, Yamarin boat business and Yamaha representation, all divested in June, totalled €279 million in the first half of the year (€595 million in January–December 2016).

The comparable operating profit for the building and technical trade totalled €95.8 million (€97.9 million), down by €2.2 million on the year before. The comparable operating profit for the building and technical trade excluding the speciality goods trade was €79.5 million (€72.5 million), an increase of €7.0 million. Profitability was boosted by Onninen's good profit performance. Onninen's comparable operating profit in 2017 was €32.7 million (€18.2 million in June–December 2016). Profitability also improved in the building and home improvement trade in Finland and Norway. Profitability was weakened by losses in the Swedish operations and by Kesko Senukai's lower operating profit compared to the previous year, which was partly due to the renewal and expansion of the store site network in the Baltic countries and Belarus. The comparable operating profit for the speciality goods trade was €16.2 million (€25.5 million), down by €9.3 million. The comparable operating profit for the K-maatalous agricultural business and the Asko and Sotka furniture trade, all divested in June, was €6.8 million for the first half of the year (€15.0 million in January–December 2016).

Operating profit for the building and technical trade was €154.7 million (€60.8 million). Items affecting comparability totalled €58.9 million (€-37.2 million). The most significant items affecting comparability were the €49.7 million gain on the divestment of properties in the Baltics, the gain on the divestment of the K-maatalous agricultural business of €12.3 million, the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million, and the €14.5 million impairment of goodwill in the Russian building and home improvement business. The most significant items affecting comparability in 2016 were the €15.0 million in impairment charges related to the change of the functional currency of the Russian properties and the €5.8 million in asset transfer taxes related to acquisitions.

Capital expenditure for the building and technical trade totalled €80.0 million (€451.7 million), of which €41.4 million (€55.8 million) was in store sites. The comparison year included €380.1 million in acquisitions.

CAR TRADE

	1-12/2017	1-12/2016
Net sales, € million	909	849
Comparable operating profit, € million	33.1	29.5
Comparable operating margin, %	3.6	3.5
Capital expenditure, € million	17.4	41.4

Net sales, € million	1-12/2017	Change, %
VV-Auto	855	+1.2
AutoCarrera	55	-
Total	**909**	**+7.1**

Net sales for the car trade were €909 million (€849 million), an increase of 7.1%. The comparable net sales growth was +1.0%. In the calculation of the comparable change, AutoCarrera's net sales for December have been included in the net sales for both the reporting year and the comparison year. The combined market performance of first time registered passenger cars and vans in 2017 was +1.0% (+10.2%). The combined market share for cars and vans imported by the car trade was 18.6% (18.9%) in 2017. Market share for the comparison year included first time registrations of Porsche for the whole of 2016.

In the car trade, profitability continued to improve thanks to good sales performance and the acquisition of AutoCarrera's Porsche business. The comparable operating profit amounted to €33.1 million (€29.5 million), an increase of €3.6 million. AutoCarrera's comparable operating profit was €3.0 million. Operating profit for the car trade was €33.1 million (€28.9 million).

Capital expenditure for the car trade totalled €17.4 million (€41.4 million). The comparison year includes €27.1 million of acquisitions.

Acquisitions, divestments and other changes in Group composition in 2017

Kesko has carried out several significant acquisitions and divestments in 2016 and 2017.

Acquired businesses	Net sales, € million 1-12/2017	Comparable operating profit, € million 1-12/2017	Net sales, € million 1-12/2016	Comparable operating profit, € million 1-12/2016	Transaction price, € million
Suomen Lähikauppa, 4/2016	644	4	580	-3	54
Onninen, 6/2016	1,571	33	908	18	364
AutoCarrera, 12/2016	55	3	4	0	27
Total	**2,270**	**40**	**1,492**	**15**	**445**

Divested businesses	Net sales, € million 1-12/2017	Comparable operating profit, € million 1-12/2017	Net sales, € million 1-12/2016	Comparable operating profit, € million 1-12/2016	Transaction price, € million
K-ruoka Russia, 11/2016	-	-	105	-17	178
K-maatalous, 6/2017	149	4	334	5	39
Indoor Group, 6/2017	89	3	187	10	67
Yamaha and Yamarin, 6/2017	41	-	61	-	-
Total	**279**	**7**	**687**	**-2**	**284**

Kesko Corporation sold its K-maatalous agricultural business to Swedish Lantmännen ek. för. The debt free price of the sale, structured as a share transaction, was €38.5 million. (Press release 1 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. (Press releases on 20 June 2017 and 30 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. (Press release 30 June 2017)

In March, Kesko and Oriola announced their intention to establish a new chain of health, beauty and wellbeing stores across Finland. Finland's Competition and Consumer Authority approved the establishment of the joint venture on 26 June 2017 and the establishment of the company was finalised at the end of June. Both parties own 50% of the new company. (Press release 30 June 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. (Press release 24 May 2017)

Kesko Food Ltd, K-citymarket Oy and Kespro Ltd, subsidiaries wholly-owned by Kesko Corporation, merged into Kesko Corporation on 28 February 2017.

Kesko Corporation's subsidiary Konekesko Ltd sold 45% of its Baltic subsidiaries' shares to Danish Agro a.m.b.a.'s group company DAVA Agravis Machinery Holding A/S. In the same context, an agreement was made on options to expand DAVA Agravis' ownership to include the whole share capital of the Baltic machinery trade companies and Danish Agro group's ownership to include Konekesko's agricultural machinery business in Finland. (Stock exchange release on 10 February 2017)

Main objectives and results achieved in sustainability

Key commitments, policies and principles

Kesko's operations are based on its value, vision and mission. Work is guided by Kesko's strategy, operating principles and the K Code of Conduct. Key group-level policies guiding Kesko's operations include Kesko's risk management policy, treasury policy, data protection policy, information security policy, and security policy.

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 purchasing is guided by Kesko's ethical purchasing principles.

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 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 DJSI World and DJSI Europe, the FTSE4Good Index, the CDP Climate A- List and the STOXX Global ESG Leaders Index. Kesko is ranked number 31 on the Global 100 list of the Most Sustainable Corporations in the World (in 2018) and number 25 in 2017, and the world's most sustainable trading sector company.

In September 2017, Kesko rose to the world's most prestigious sustainability indices, the DJSI World and DJSI Europe. Kesko's scores rose especially in the areas of environmental responsibility and social responsibility. Kesko was previously included in the DJSI indices between 2003 and 2014.

Kesko’s sustainability principles, management, objectives, processes and results are described in more detail in Kesko’s Annual Report. Kesko reports on its corporate responsibility work in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The Sustainability section of the Annual Report is prepared in accordance with the GRI standards and covers the key areas of economic, social and environmental responsibility.

Purchasing and human rights

In accordance with its human rights commitment, Kesko respects all internationally recognised human rights. Kesko’s purchasing is guided by Kesko’s ethical principles for purchasing, which are based on the fundamental rights at work accepted by the International Labour Organisation (ILO), the UN Declaration of Human Rights, and the UN Convention on the Rights of the Child. The K Code of Conduct was implemented in the autumn of 2016 and is widely in use in Kesko Group’s standard agreements. According to Group guidelines, a K Code of Conduct contract clause is to be added to all agreements under which the Group companies purchase products or services from external parties.

In purchasing chains, Kesko pays special attention to human rights issues and working conditions in high-risk countries. Kesko is a member of amfori (formerly Foreign Trade Association) and participates in the amfori Business Social Compliance Initiative (amfori BSCI). 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 cooperation begins. Primarily, Kesko requires amfori BSCI audits from suppliers in high-risk countries. Kesko also accepts other assessment systems of social responsibility if their criteria correspond to those of amfori BSCI auditing and if the audit is conducted by an independent party.

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. In 2017, this was followed up with a review of working conditions in the supply chain of grapes, conducted by Kesko and the Trade Union Solidarity Centre of Finland (SASK). The human rights assessment will be reviewed every three years, with the next review taking place in 2019.

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 safety and quality of own brand products and own imports in the grocery trade. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

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 electricity and heat consumed on properties, emissions from logistics, 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 has set emission targets approved by the Science Based Targets initiative in line with the two degree climate warming target of the Paris Agreement. Kesko has committed to reducing its direct and indirect emissions by 18% by 2025 from the 2015 base year. Kesko has also committed to reducing indirect emissions in its supply chain so that 90% of its key suppliers will set greenhouse gas (GHG) emission targets by 2025. 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%.

Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy. In recent years, Kesko has made significant investments in building solar power plants.

Personnel

In 2017, the average number of personnel in Kesko Group was 22,077 (22,475), converted into full-time employees. At the end of the year, the number of personnel was 24,983 (27,657), of whom 12,327 (14,845) worked in Finland and 12,656 (12,812) elsewhere.

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

Personnel satisfaction and wellbeing are measured, and development actions are implemented 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.

Prevention of corruption and bribery

The K Code of Conduct is a means to ensure that everyone at Kesko has the same understanding of the values and principles that guide their daily work. 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, 20 K Code of Conduct ambassadors in different operating countries have been appointed to act as messengers and contact persons.

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

All Kesko Group personnel 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.

Compliance with operating principles builds trust between Kesko, K-stores, customers and business partners. The K Code of Conduct was adopted in the autumn of 2016 and is widely in use in Kesko Group's standard agreements. According to Group guidelines, a K Code of Conduct contract clause is to be added to agreements under which the Group companies purchase products or services from external parties.

Employees can give feedback and present questions not only within their own units but also directly to Kesko's top management via intranet. Feedback can be given openly or anonymously. 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 in 2017
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 or farms of suppliers in high-risk countries.	157 (210) 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.	146 (60) factories or farms underwent amfori BSCI follow-up audits

Product safety

Objective	Method	Results in 2017
Products are safe for users and meet quality promises	The manufacturers of Kesko's own brands of food products each have an international certification that assure product safety.	522 (503) suppliers have an audit certificate; in addition, 59 (58) audits by Kesko
	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 7,350 (7,770)
	If a fault is detected in the quality of a product on the market, a recall is made.	Product recalls: 146 (106), of which 33 (26) Kesko's own brand products; public recalls of own brand products (cases where a fault in the product could endanger consumer health) 4 (2)

Environment

Objective	Method	Results in 2017
Reducing the environmental impact of Kesko's operations	Kesko has committed to the Energy Efficiency Agreement for the commerce sector in Finland to reduce its annual energy consumption by 7.5% between 2017 and 2025.	Energy consumption in properties managed by Kesko in all operating countries (Q4/ 2016–Q3/2017) 1,012 (923) GWh
	Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy. In recent years, Kesko has invested in solar power plants on store roofs.	Renewable electricity purchases 504 (0) GWh, number of own solar power plants 19 (13) and electricity production 3.0 (0.2) GWh in Finland
	Kesko has set emission targets approved by the Science Based Targets initiative in line with the two degree climate warming target of the Paris Agreement. Kesko commits to reduce its direct and indirect (scope 1 and 2) emissions by 18% by 2025 from the 2015 base year.	Scope 1 and 2 emissions in all operating countries (Q4/ 2016–Q3/2017) 145,607 (124,965) tCO2e

Personnel		
Objective	**Method**	**Results in 2017**
Kesko has the professional and committed personnel required to implement its strategy	K SuccessFactors is a system for managing the employee's personal objectives agreed upon with their manager.	Objectives have been set for approximately 90% of the target group
	Kesko wants to improve employee satisfaction and personnel commitment.	Personnel commitment 78% (61%); 79% (68%) 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% (4.3%), premature retirement due to disability 24 (18)

Prevention of corruption and bribery (Governance)		
Objective	**Method**	**Results in 2017**
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.	65% of personnel have made the annual compliance confirmation regarding K Code of Conduct (comparison figure not available, practice introduced in 2017)
	SpeakUp is a confidential reporting channel for employees and business partners.	Notices received via SpeakUp 38 (6 – the channel was taken into use on 1 Oct. 2016)

Shares, securities market and Board authorisations

At the end of December 2017, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. At 31 December 2017, Kesko Corporation held 563,137 own B shares as treasury shares. These treasury shares accounted for 0.82% of the number of B shares, 0.56% of the total number of shares, and 0.15% of votes attached to all shares of the Company. The total number of votes attached to all shares was 385,652,815. Each A share carries ten (10) votes and each B share one (1) vote. The Company cannot vote with own shares held by it as treasury shares and no dividend is paid on them. At the end of December 2017, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €43.85 at the end of 2016, and €44.10 at the end of December 2017, representing an increase of 0.6%. Correspondingly, the price of a B share was €47.48 at the end of 2016, and €45.25 at the end of December 2017, representing a decrease of 4.7%. In 2017, the highest A share price was €45.99 and the lowest was €40.11. The highest B share price was €48.59 and the lowest was €41.51. In 2017, the Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 6.4% and the weighted OMX Helsinki Cap index by 7.3%. The Retail Sector Index was down by 7.1%.

At the end of December 2017, the market capitalisation of the A shares was €1,399.6 million, while that of the B shares was €3,064.3 million, excluding the shares held by the parent company as treasury shares. The combined market capitalisation of the A and B shares was €4,463.9 million, a decrease of €134.4 million from the end of 2016.

In 2017, a total of 1.3 million A shares were traded on Nasdaq Helsinki, a decrease of 27.0%. The exchange value of the A shares was €55.1 million. The number of B shares traded was 48.7 million, a decrease of 5.6%. The exchange value of the B shares was €2,168.7 million. Nasdaq Helsinki accounted for some 42% of the trading of Kesko's A and B shares in 2017. Kesko shares were also traded on multilateral trading facilities, the most significant of which was the Cboe CXE (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 (the 2016 share issue authorisation). On 1 February 2017, the Board decided to grant own B shares held by the Company as treasury shares to persons included in the target group of the 2016 performance period, based on this share issue authorisation and the fulfilment of the performance criteria of the 2016 performance period of Kesko's three-year share-based compensation plan. This transfer of a total of 192,822 own B shares was announced in a stock exchange release on 15 March 2017. Based on the 2014–2016 share-based compensation plan decided by the Board, a total maximum of 600,000 own B shares held by the Company as treasury shares could be granted within a period of three years based on the fulfilment of the performance criteria. The Board decided on the performance criteria and the target group separately for each performance period. In January–December, a total of 9,850 shares granted based on the fulfilment of the performance criteria of the share-based compensation plan 2014–2016 were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. The returns during the reporting period were communicated in stock exchange releases on 12 May, 18 September and 28 December 2017. The share-based compensation plan 2014–2016 was announced in a stock exchange release on 4 February 2014.

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 PSP 2017–2020 plan are achieved in full, the maximum number of series B shares to be paid based on the plan is 340,000 shares. If all the performance criteria set for the Bridge Plan are achieved in full, the maximum number of series B shares to be paid based on the Bridge Plan is 340,000 shares. The total maximum amount of share awards payable under the RSP 2017–2019 is 20,000. The new share-based incentive scheme was announced in a stock exchange release on 2 February 2017.

Kesko's Board of Directors holds a valid authorisation decided 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 (the 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 shares, regardless of whether they own A or B shares. Shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, for a weighty financial reason of the Company, such as using the shares to develop the Company's capital structure, to finance possible acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. Own B shares held by the Company as treasury shares can be transferred either against or without payment. A share issue can only be without payment if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to the share issues. The amount possibly paid for the Company's own shares is recorded in the reserve of unrestricted equity. The authorisation is valid until 30 June 2020.

Kesko's Board of Directors also held a valid authorisation decided by the Annual General Meeting of 4 April 2016 to acquire a maximum of 1,000,000 own B shares of the Company (the 2016 authorisation to acquire own shares). B shares are acquired with the Company's distributable unrestricted equity, not in proportion to the shareholdings of shareholders, at the market price quoted in public trading organised by Nasdaq Helsinki Ltd ("the exchange") at the date of acquisition. The shares 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. B shares are acquired for use in the development of the Company's capital structure, to finance possible acquisitions, capital expenditure and/or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. The Board makes decisions concerning any other issues related to the acquisition of own B shares. The authorisation was valid until 30 September 2017.

In addition, Kesko's Board of Directors holds a share issue authorisation, decided by the Annual General Meeting of 13 April 2015, to issue a maximum of 20,000,000 new B shares (the 2015 share issue authorisation). The shares can be issued against payment to be subscribed by shareholders in a directed issue in proportion to their existing holdings of the Company shares regardless of whether they hold A or B shares, or, departing from the shareholder's pre-emptive right, in a directed issue, if there is a weighty financial reason for the Company, such as using the shares to develop the Company's capital structure and financing possible acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations. The amount paid for the shares is recognised in the reserve of invested non-restricted equity. The authorisation also includes the Board's authority to decide on the share subscription price, the right to issue shares for non-cash consideration and the right to make decisions on other matters concerning share issues. The authorisation is valid until 30 June 2018.

At the end of December 2017, the number of shareholders was 42,322, which is 2,918 more than at the end of 2016. At the end of December, foreign ownership of all shares was 31.3%. Foreign ownership of B shares at the end of December was 44.7%.

Flagging notifications

According to a notification received by Kesko Corporation, the combined voting rights in respect of shares in Kesko held by K-Retailers' Association, its Branch Clubs and the Foundation for Vocational Training in the Retail Trade rose to 15% on 3 February 2017 and exceeded 15% on 6 February 2017. (Stock exchange release on 7 February 2017)

Key events during the financial year

The court of arbitration dismissed Voimaosakeyhtiö SF's action against Kestra Kiinteistöpalvelut Oy concerning the further financing of the Fennovoima nuclear power plant project. (Stock exchange release on 10 January 2017)

Kesko Corporation's Board of Directors decided to establish a new share-based long-term incentive scheme for Kesko's top management and key persons selected separately. In addition, the Board of Directors decided to grant a total of 192,822 own B shares held by the Company as treasury shares, based on the fulfilment of the performance criteria of the 2016 performance period of Kesko's share-based compensation plan 2014–2016, to 130 Kesko management employees and other specified key persons. (Stock exchange release on 2 February 2017)

Kesko Corporation's subsidiary Konekesko Ltd sold 45% of its Baltic subsidiaries' shares to Danish Agro a.m.b.a.'s group company DAVA Agravis Machinery Holding A/S. In the same context, an agreement was made on options to expand DAVA Agravis' ownership to include the whole share capital of the Baltic machinery trade companies and Danish Agro group's ownership to include Konekesko's agricultural machinery business in Finland. (Stock exchange release on 10 February 2017)

Kesko Corporation and Oriola Corporation will build a completely new kind of store chain in Finland, specialising in overall wellbeing. The companies signed an agreement to establish a joint venture. Finland's Competition and Consumer Authority approved the establishment of the joint venture on 26 June 2017 and the establishment of the company was finalised. Each party owns 50% of the new company. The chain is called Hehku and the first stores were opened at the end of January 2018, alongside the launch of the hehku.fi online store. The objective for the first phase is to create a chain of 100 stores and the online store. The plan is, if legislation is amended, to expand the business to include the sales of pharmaceuticals. (Stock exchange release 13 March 2017, press release 30 June 2017, press release 15 November 2017, press release 24 January 2018)

The trading symbols of Kesko Corporation shares changed as of 15 March 2017. The new symbols are KESKOA (share series A) and KESKOB (share series B). (Stock exchange release on 13 March 2017)

Kesko Corporation sold its K-maatalous agricultural business to Swedish Lantmännen ek. för. The debt free price of the sale, structured as a share transaction, was €38.5 million. Kesko Corporation recorded a profit of €12.2 million on the disposal. On 26 May 2017, the Finnish Competition and Consumer Authority (FCCA) announced that it approves the disposal, and it was completed on 1 June 2017. The approval was not subject to any conditions. (Stock exchange release on 11 April 2017, press release on 1 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, and the sale was completed on 30 June 2017. Kesko Corporation recorded a profit of €19.0 million on the divestment. (Press releases on 20 June 2017 and 30 June 2017)

Kesko was added to the Dow Jones Sustainability Indices, the DJSI World and the DJSI Europe. Kesko's scores rose especially in the areas of environmental responsibility and social responsibility. (Press release 13 September 2017)

Mika Majoinen, 53, Master of Laws, was appointed Kesko's EVP, Group General Counsel as of 1 January 2018. He also became a member of Kesko's Group Management Board. Kesko's previous Group General Counsel, EVP Anne Leppälä-Nilsson, retired on 31 December 2017, in accordance with her contract. (Stock exchange release on 21 September 2017)

K Group entered into cooperation with Alibaba to open a food online store in China. The aim of the cooperation between K Group and Alibaba is to export Finnish food brands to the growing market in China. At the same time, Kesko will learn from a global pioneer in e-commerce. (Press release 29 September 2017)

Lauri Peltola, EVP, Marketing and Corporate Affairs and member of Group Management Board, left Kesko Corporation. Lauri Peltola's membership in the Group Management Board ended on 31 October 2017. (Stock exchange release on 29 September 2017)

Karoliina Partanen, M.Soc.Sci., was appointed Senior Vice President, Communications and Identity, and Eeva Salmenpohja, M.Soc.Sci., was appointed Vice President, Public Affairs, under the President and CEO as of 1 November 2017. (Press release 24 October 2017)

Jorma Rauhala, 52, M.Sc. (Econ.), was appointed President of the building and technical trade division and deputy to Kesko's President and CEO Mikko Helander. Ari Akseli, 45, M.Sc. (Econ.), was appointed President of the grocery trade division and a member of the Group Management Board. Terho Kalliokoski, the previous President of the building and technical trade division and a member of the Group Management Board, left Kesko. The changes became effective on 15 November 2017. (Stock exchange release on 15 November 2017)

Events after the financial year

No significant events deviating from normal business operations have taken place after the end of the financial year.

Resolutions of the 2017 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting held on 3 April 2017 adopted the financial statements and the consolidated financial statements for 2016 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute €2.00 per share as dividends, or a total of €198,932,930.00. The dividend pay date was 12 April 2017.

The General Meeting resolved to leave the number of Board members unchanged at seven. The Annual General Meeting held on 13 April 2015 elected seven (7) Board members for terms of office in accordance with the Articles of Association expiring at the close of the Annual General Meeting to be held in 2018. Those Board members are retailer Esa Kiiskinen, Master of Science in Economics Tomi Korpisaari, retailer, eMBA Toni Pokela, eMBA Mikael Aro, Master of Science in Economics Matti Kyytsönen, Master of Science in Economics Anu Nissinen and Master of Laws Kaarina Ståhlberg. Korpisaari and Ståhlberg resigned from the membership of the Company's Board of Directors as of 1 March 2016. The General Meeting held on 4 April 2016 replaced Korpisaari and Ståhlberg by retailer, trade technician Matti Naumanen and Managing Director, Master of Science in Economics Jannica Fagerholm until the close of the Annual General Meeting to be held in 2018.

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

In addition, the General Meeting approved the Board's proposal for its authorisation to decide on donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2018, and to decide on the donation recipients, purposes of use and other terms of the donations.

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

The resolutions of the Annual General Meeting and the decisions of the Board's organisational meeting were announced in more detail in stock exchange releases on 3 April 2017.

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

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

The following describes the risks and uncertainties assessed as significant.

Significant risks and uncertainties

Continued intense price competition in the Finnish grocery trade

Competition in the food trade has intensified in recent years and stores have lowered their prices in order to increase market shares. Continued intense price competition could weaken profitability for Kesko's grocery trade and retailers.

Integration and synergies in the building and technical trade

The integration of business operations and the creation of uniform operating models still involve risks that can make the achievement of the operational and financial objectives and targets set for the arrangement more difficult.

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 external cyber threats. Extended malfunctions in information systems, payment transfers, or in other parts of the supply chain, can cause significant losses in sales and weaken customer satisfaction.

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. The implementation of the new EU general data protection regulation will require changes in the procedures for personal data processing and in information systems. The changes will result in significant costs and require development resources to ensure compliance.

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 information, can cause losses, claims for damages and reputational harm.

Product safety and supply chain sustainability

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

Strong 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 food stores include the cost efficiency of logistical operating models and the suitability of existing store sites for online sales of food.

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. When the market situation changes, the business is rearranged, the significance of e-commerce grows, or a chain concept proves inefficient there is a risk that a store site or a property becomes unprofitable and operations are discontinued while long-term liabilities remain.

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 damages. Challenges in Kesko's corporate responsibility work include communicating responsibility principles to suppliers, retailers and customers, and ensuring responsibility in the supply chain of products.

Climate change

Climate change presents physical and regulatory risks and risks affecting reputational factors. Climate change will increase 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 can cause significant damages to people, property or business. In addition, risks of damage may cause business interruptions that cannot be prevented. There is also the risk that insurance policies do not cover all unexpected accidents and damages, or covering them with insurance is not profitable.

Outlook

Estimates for the outlook of Kesko Group's net sales and comparable operating profit are given for the 12-month period following the reporting period (1/2018–12/2018) in comparison with the 12 months preceding the end of the reporting period (1/2017–12/2017).

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, growth in B2B sales is expected to continue stronger than the growth in consumer sales. The market is expected to grow in the Nordic and Baltic countries, but at a somewhat slower rate. The trend in the Russian market is expected to remain modest.

In comparable terms, the net sales for the next 12 months are expected to exceed the level of the previous 12 months. Due to divestments and restructuring, Kesko Group's net sales for the next 12 months are expected to fall below the level of the previous 12 months. That development results from the divestments of the K-maatalous agricultural business, the Asko and Sotka furniture trade, the Yamarin boat business and Kesko's Yamaha representation as well as store closures and the transfer of Suomen Lähikauppa stores to retailers.

The comparable operating profit for the next 12-month period is expected to exceed the level of the preceding 12 months. However, investments in store openings and redesigns, in the expansion of logistics operations, and in digital services will burden profitability during the period.

Proposal for profit distribution

The parent company's distributable profits are €1,309,954,752.95, of which the profit for the financial year is €495,055,157.31.

The Board of Directors proposes to the Annual General Meeting to be held on 11 April 2018 that a dividend of €2.20 per share be paid on shares held outside the Company at the date of dividend distribution. No dividend is paid on own shares held as treasury shares by the Company at the record date for the payment of dividend.

As at the date of the proposal for the distribution of profit, 31 January 2018, 99,456,615 shares were held outside the Company, and the corresponding total amount of dividends is €218,804,553.00.

Annual General Meeting

The Board of Directors has decided to convene the Annual General Meeting at Messukeskus in Helsinki on 11 April 2018 at 13.00 (EET). Kesko Corporation will publish a notice of the General Meeting at a later date.

GROUP'S KEY PERFORMANCE INDICATORS

		2013	2014	2015	2016	2017
Income statement						
Net sales	€ million	9,315	9,071	8,679	10,180	10,676
Change in net sales	%	-3.8	-2.6	-4.3	17.3	4.9
Comparable operating profit	€ million	238.8	232.6	244.5	272.9	296.7
Comparable operating profit as percentage of net sales	%	2.6	2.6	2.8	2.7	2.8
Profit for the year (incl. non-controlling interests)	€ million	185	108	117	114	269
Profit for the year as percentage of net sales	%	2.0	1.2	1.4	1.1	2.5
Profitability						
Return on equity	%	8.0	4.7	5.2	5.2	12.3
Comparable return on equity	%	7.7	7.6	8.2	9.8	10.9
Return on capital employed	%	10.2	6.4	9.3	6.4	13.4
Comparable return on capital employed	%	9.8	9.9	11.7	11.9	12.2
Funding and financial position						
Interest-bearing net debt	€ million	-126.4	-99.2	-448.1	123.3	135.9
Gearing	%	-5.4	-4.4	-20.0	5.8	6.1
Equity ratio	%	54.5	54.5	54.7	48.6	50.4
Interest-bearing net debt/EBITDA		-0.3	-0.3	-1.4	0.4	0.3
Other performance indicators						
Capital expenditure	€ million	171	194	219	743	350
Capital expenditure as percentage of net sales	%	1.8	2.1	2.5	7.3	3.3
Cash flow from operating activities	€ million	414	304	276	170	302
Cash flow from investing activities	€ million	-152	-182	217	-501	-88
Personnel, average for the period		19,489	19,976	18,956	22,475	22,077
Personnel, as at 31 Dec.		23,863	23,794	21,935	27,657	24,983

		2013	2014	2015	2016	2017
Share performance indicators						
Earnings/share, diluted	€	1.75	0.97	1.03	0.99	2.59
Earnings/share, basic	€	1.75	0.97	1.03	0.99	2.59
Comparable earnings/share, basic	€	1.68	1.65	1.70	2.01	2.28
Equity/share	€	22.96	22.05	21.82	20.44	21.45
Dividend/share	€	1.40	1.50	2.50	2.00	2.20*
Payout ratio	%	79.9	154.7	243.8	201.3	84.9*
Comparable payout ratio	%	83.3	91.1	146.7	99.5	96.6*
Cash flow from operating activities/share, adjusted	€	4.17	3.07	2.79	1.71	3.03
Price/earnings ratio (P/E), A share, adjusted		15.35	29.49	30.35	44.14	17.01
Price/earnings ratio (P/E), B share, adjusted		15.35	31.16	31.57	47.80	17.45
Effective dividend yield, A share	%	5.2	5.3	8.0	4.6	5.0*
Effective dividend yield, B share	%	5.2	5.0	7.7	4.2	4.9*
Share price as at 31 Dec.						
A share	€	26.80	28.56	31.12	43.85	44.10
B share	€	26.80	30.18	32.37	47.48	45.25
Average share price						
A share	€	24.85	29.06	31.85	37.30	43.62
B share	€	24.11	29.82	33.52	39.03	44.52
Market capitalisation as at 31 Dec., A share	€ million	851	906	988	1,392	1,400
Market capitalisation as at 31 Dec., B share	€ million	1,810	2,031	2,182	3,207	3,064
Turnover						
A share	Million pcs	1	2	2	2	1
B share	Million pcs	51	47	59	52	49
Relative turnover rate						
A share	%	3.6	6.3	7.5	5.4	4.0
B share	%	77.0	69.5	87.0	74.3	70.9
Diluted average number of shares	Thousand pcs	99,136	99,161	99,114	99,249	99,426
Yield of A share for the past five financial years	%	8.5	8.3	2.3	17.8	18.4
Yield of B share						
For the past five financial years	%	13.7	10.1	3.0	18.6	18.5
For the past ten financial years	%	13.4	10.2	7.7	6.6	6.8

* Proposal to the General Meeting

NET SALES BY SEGMENT

€ million	1-12/2017	1-12/2016	Change, %
Grocery trade, Finland	5,282	5,131	2.9
Grocery trade, other countries*	-	105	-
Grocery trade, total	**5,282**	**5,236**	**0.9**
- of which intersegment trade	7	10	-33.4
Building and technical trade, Finland	2,190	2,142	2.3
Building and technical trade, other countries*	2,296	1,959	17.2
Building and technical trade, total	**4,486**	**4,100**	**9.4**
- of which intersegment trade	3	11	-76.9
Car trade, Finland	909	849	7.1
Car trade, total	**909**	**849**	**7.1**
- of which intersegment trade	1	0	(..)
Common functions and eliminations	-1	-5	-68.5
Finland, total	**8,380**	**8,117**	**3.2**
Other countries, total*	**2,296**	**2,063**	**11.3**
Group total	**10,676**	**10,180**	**4.9**

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

OPERATING PROFIT BY SEGMENT

€ million	1-12/2017	1-12/2016	Change
Grocery trade	181.3	93.0	88.3
Building and technical trade	154.7	60.8	93.9
Car trade	33.1	28.9	4.2
Common functions and eliminations	-44.5	-36.0	-8.5
Group total	**324.6**	**146.8**	**177.8**

COMPARABLE OPERATING PROFIT BY SEGMENT

€ million	1-12/2017	1-12/2016	Change
Grocery trade	203.4	175.9	27.4
Building and technical trade	95.8	97.9	-2.2
Car trade	33.1	29.5	3.6
Common functions and eliminations	-35.6	-30.5	-5.1
Group total	**296.7**	**272.9**	**23.8**

GROUP'S PERFORMANCE INDICATORS BY QUARTER

	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Net sales, € million	2,013	2,610	2,792	2,765	2,597	2,814	2,647	2,618
Change in net sales, %	-3.3	17.2	26.7	27.6	29.0	7.8	-5.2	-5.3
Operating profit, € million	33.5	68.0	85.5	-40.3	16.6	152.5	98.6	56.9
Operating margin, %	1.7	2.6	3.1	-1.5	0.6	5.4	3.7	2.2
Comparable operating profit, € million	32.3	79.1	98.2	63.3	28.7	84.6	102.5	81.0
Comparable operating margin, %	1.6	3.0	3.5	2.3	1.1	3.0	3.9	3.1
Finance income/costs, € million	2.7	1.7	-1.1	-4.3	4.2	-1.3	-0.6	-0.9
Profit before tax, € million	35.7	68.1	84.8	-43.5	21.5	150.5	98.0	57.6
Profit before tax, %	1.8	2.6	3.0	-1.6	0.8	5.4	3.7	2.2
Return on capital employed, %	6.7	12.3	13.6	-6.4	2.7	24.8	16.6	9.3
Comparable return on capital employed, %	6.5	14.3	15.6	10.1	4.7	13.8	17.3	13.3
Return on equity, %	5.1	9.8	12.8	-6.9	3.2	24.8	13.9	8.1
Comparable return on equity, %	4.8	11.7	14.7	8.4	5.1	12.2	14.6	12.2
Cash flow from operating activities/share, €	-0.97	0.79	0.81	1.09	-0.58	1.42	1.03	1.16
Equity ratio, %	54.8	44.8	47.9	48.6	47.4	47.0	49.1	50.4
Capital expenditure, € million	51.4	512.7	73.6	105.4	78.3	91.7	62.7	117.1
Earnings/share, diluted, €	0.28	0.49	0.63	-0.40	0.18	1.29	0.69	0.43
Earnings per share, comparable, basic, €	0.26	0.59	0.73	0.42	0.29	0.61	0.72	0.65
Equity/share, €	22.13	20.31	20.84	20.44	20.98	20.18	20.89	21.45

NET SALES BY SEGMENT

Milj. €	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	1,094	1,353	1,367	1,422	1,243	1,327	1,313	1,399
Building and technical trade	695	1,046	1,238	1,121	1,112	1,253	1,121	1,000
Car trade	225	214	190	221	245	234	212	218
Common functions and eliminations	-1	-2	-3	1	-2	0	0	1
Group total	**2,013**	**2,610**	**2,792**	**2,765**	**2,597**	**2,814**	**2,647**	**2,618**

OPERATING PROFIT BY SEGMENT

€ million	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	30.2	44.1	44.8	-26.1	16.7	39.9	59.3	65.4
Building and technical trade	1.8	32.8	37.9	-11.7	1.2	115.3	39.9	-1.7
Car trade	9.4	5.8	6.8	7.0	10.0	7.6	8.8	6.7
Common functions and eliminations	-7.8	-14.7	-4.0	-9.5	-11.4	-10.3	-9.4	-13.4
Group total	**33.5**	**68.0**	**85.5**	**-40.3**	**16.6**	**152.5**	**98.6**	**56.9**

ITEMS IN OPERATING PROFIT AFFECTING COMPARABILITY

€ million	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	-1.1	0.5	-4.4	-78.0	-9.7	-10.6	-0.2	-1.7
Building and technical trade	1.5	-5.1	-7.4	-26.1	-1.8	79.8	-2.8	-16.3
Car trade	-	-	-	-0.6	-	-	-	-
Common functions and eliminations	0.9	-6.5	-0.9	1.1	-0.6	-1.3	-1.0	-6.0
Group total	**1.3**	**-11.1**	**-12.7**	**-103.6**	**-12.1**	**67.9**	**-4.0**	**-24.0**

COMPARABLE OPERATING PROFIT BY SEGMENT

Milj. €	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	31.3	43.6	49.2	51.9	26.4	50.5	59.4	67.0
Building and technical trade	0.3	37.9	45.3	14.4	3.0	35.5	42.7	14.6
Car trade	9.4	5.8	6.8	7.5	10.0	7.6	8.8	6.7
Common functions and eliminations	-8.7	-8.2	-3.1	-10.5	-10.8	-9.0	-8.5	-7.4
Group total	**32.3**	**79.1**	**98.2**	**63.3**	**28.7**	**84.6**	**102.5**	**81.0**

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 reporting 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 2016 and 2017 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, %	(Profit/loss before tax - Income tax) x 100 ——— Shareholders' equity, average of the beginning and end of the reporting period
Comparable return on equity, %	(Profit/loss adjusted for items affecting comparability before tax - Income tax adjusted for the tax effect of the items affecting comparability) x 100 ——— Shareholders' equity, average of the beginning and end of the reporting period
Return on capital employed, %	Operating profit x 100 ——— (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months
Comparable return on capital employed, %	Comparable operating profit x 100 ——— (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months
EBITDA	Operating profit + Depreciation and amortisation + Impairments

Funding, capital expenditure and financial position

Equity ratio, %	$\frac{\text{Shareholders' equity x 100}}{\text{(Balance sheet total - Prepayments received)}}$
Gearing, %	$\frac{\text{Interest-bearing net debt x 100}}{\text{Shareholders' equity}}$
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	$\frac{\text{Net profit/loss - Non-controlling interests}}{\text{Average number of shares adjusted for the dilutive effect}}$
Earnings/share, basic	$\frac{\text{Net profit/loss - Non-controlling interests}}{\text{Average number of shares}}$
Earnings/share, basic, comparable	$\frac{\text{Net profit/loss adjusted for items affecting comparability - Non-controlling interests}}{\text{Average number of shares}}$
Equity/share	$\frac{\text{Equity attributable to equity holders of the parent}}{\text{Basic number of shares at the balance sheet date}}$
Payout ratio, %	$\frac{\text{(Dividend/share) x 100}}{\text{(Earnings/share)}}$
Price/earnings ratio (P/E)	$\frac{\text{Share price at balance sheet date}}{\text{(Earnings/share)}}$
Effective dividend yield, %	$\frac{\text{(Dividend/share) x 100}}{\text{Share price at balance sheet date}}$
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	1-12/2017	1-12/2016
Items affecting comparability		
Gains on disposal	83.4	4.2
Losses on disposal	-1.8	-71.0
Impairment charges	-15.0	-30.0
Structural arrangements	-38.7	-29.4
Items in operating profit affecting comparability	**27.9**	**-126.2**
Items in financial items affecting comparability	-0.4	-
Items in income taxes affecting comparability	3.8	25.3
Total items affecting comparability	**31.4**	**-100.9**
Operating profit, comparable		
Operating profit	324.6	146.8
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Operating profit, comparable	**296.7**	**272.9**
Profit before tax, comparable		
Profit before tax	327.6	145.2
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Items in financial items affecting comparability	-0.4	-
Profit before tax, comparable	**300.1**	**271.4**
Net profit, comparable		
Comparable profit before tax	300.1	271.4
Net of		
Income tax	58.8	31.4
Items in income taxes affecting comparability	3.8	25.3
Net profit, comparable	**237.5**	**214.8**

€ million	1-12/2017	1-12/2016
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	237.5	214.8
Net profit attributable to non-controlling interests	11.0	15.3
Net profit attributable to owners of the parent, comparable	**226.4**	**199.5**
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	226.4	199.5
Average number of shares, basic, 1,000 pcs	99,426	99,249
Earnings/share, comparable, €	**2.28**	**2.01**
Return on capital employed, %		
Operating profit	324.6	146.8
Capital employed, average	2,427	2,288
Return on capital employed, %	**13.4**	**6.4**
Return on capital employed, %, comparable		
Operating profit, comparable	296.7	272.9
Capital employed, average	2,427	2,288
Return on capital employed, %, comparable	**12.2**	**11.9**
Return on equity, %		
Net profit	268.8	113.8
Equity, average	2,179	2,184
Return on equity, %	**12.3**	**5.2**
Return on equity, %, comparable		
Net profit, comparable	237.5	214.8
Equity, average	2,179	2,184
Return on equity, %, comparable	**10.9**	**9.8**
Equity ratio, %		
Shareholders' equity	2,232	2,126
Total assets	4,472	4,408
Advances received	39	35
Equity ratio, %	**50.4**	**48.6**

RECONCILIATION OF PERFORMANCE INDICATORS TO IFRS FINANCIAL STATEMENTS BY QUARTER

€ million	1–3/ 2016	4–6/ 2016	7–9/ 2016	10–12/ 2016	1–3/ 2017	4–6/ 2017	7–9/ 2017	10–12/ 2017
Items affecting comparability								
Gains on disposal	1.3	2.9	0.8	-0.8	0.3	81.8	0.6	0.6
Losses on disposal	-	-0.3	-0.1	-70.6	-0.4	-1.2	-0.1	-0.1
Impairment charges	-	-7.9	-3.1	-18.9	-	-	-0.5	-14.5
Structural arrangements	0.0	-5.8	-10.3	-13.3	-12.1	-12.6	-4.0	-10.1
Items in operating profit affecting comparability	**1.3**	**-11.1**	**-12.7**	**-103.6**	**-12.1**	**67.9**	**-4.0**	**-24.0**
Items in financial items affecting comparability	-	-	-	-	-	-	-	-0.4
Items in income taxes affecting comparability	0.1	0.8	2.7	21.6	2.0	-0.4	0.1	2.1
Total items affecting comparability	**1.4**	**-10.3**	**-10.0**	**-82.0**	**-10.1**	**67.5**	**-3.8**	**-22.3**
Operating profit, comparable								
Operating profit	33.5	68.0	85.5	-40.3	16.6	152.5	98.6	56.9
Net of								
Items in operating profit affecting comparability	1.3	-11.1	-12.7	-103.6	-12.1	67.9	-4.0	-24.0
Operating profit, comparable	**32.3**	**79.1**	**98.2**	**63.3**	**28.7**	**84.6**	**102.5**	**81.0**
Profit before tax, comparable								
Profit before tax	35.7	68.1	84.8	-43.5	21.5	150.5	98.0	57.6
Net of								
Items in operating profit affecting comparability	1.3	-11.1	-12.7	-103.6	-12.1	67.9	-4.0	-24.0
Items in financial items affecting comparability	-	-	-	-	-	-	-	-0.4
Profit before tax, comparable	**34.5**	**79.2**	**97.5**	**60.2**	**33.6**	**82.6**	**101.9**	**82.0**
Net profit, comparable								
Comparable profit before tax	34.5	79.2	97.5	60.2	33.6	82.6	101.9	82.0
Net of								
Income tax	7.0	14.3	16.4	-6.4	4.3	17.8	23.8	12.9
Items in income taxes affecting comparability	0.1	0.8	2.7	21.6	2.0	-0.4	0.1	2.1
Net profit, comparable	**27.3**	**64.0**	**78.4**	**44.9**	**27.4**	**65.2**	**77.9**	**67.0**
Net profit attributable to owners of the parent, comparable								
Net profit, comparable	27.3	64.0	78.4	44.9	27.4	65.2	77.9	67.0

€ million	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Net profit attributable to non-controlling interests	1.3	5.5	5.7	2.8	-1.0	4.2	6.0	1.8
Net profit attributable to owners of the parent, comparable	**26.0**	**58.6**	**72.7**	**42.1**	**28.4**	**61.0**	**72.0**	**65.1**
Earnings/share, comparable, €								
Net profit attributable to owners of the parent, comparable	26.0	58.6	72.7	42.1	28.4	61.0	72.0	65.1
Average number of shares, basic, 1,000 pcs	99,163	99,221	99,240	99,249	99,308	99,387	99,414	99,426
Earnings/share, comparable, €	**0.26**	**0.59**	**0.73**	**0.42**	**0.29**	**0.61**	**0.72**	**0.65**
Return on capital employed, %								
Operating profit	33.5	68.0	85.5	-40.3	16.6	152.5	98.6	59.6
Capital employed, average	1,990	2,207	2,523	2,497	2,430	2,455	2,375	2,442
Return on capital employed, %	**6.7**	**12.3**	**13.6**	**-6.4**	**2.7**	**24.8**	**16.6**	**9.3**
Return on capital employed, %, comparable								
Operating profit, comparable	32.3	79.1	98.2	63.3	28.7	84.6	102.5	81.0
Capital employed, average	1,990	2,207	2,523	2,497	2,430	2,455	2,375	2,442
Return on capital employed, %, comparable	**6.5**	**14.3**	**15.6**	**10.1**	**4.7**	**13.8**	**17.3**	**13.3**
Return on equity, %								
Net profit	28.7	53.8	68.5	-37.1	17.2	132.8	74.1	44.7
Equity, average	2,265	2,195	2,131	2,143	2,155	2,142	2,138	2,204
Return on equity, %	**5.1**	**9.8**	**12.8**	**-6.9**	**3.2**	**24.8**	**13.9**	**8.1**
Return on equity, %, comparable								
Net profit, comparable	27.3	64.0	78.4	44.9	27.4	65.2	77.9	67.0
Equity, average	2,265	2,195	2,131	2,143	2,155	2,142	2,138	2,204
Return on equity, %, comparable	**4.8**	**11.7**	**14.7**	**8.4**	**5.1**	**12.2**	**14.6**	**12.2**
Equity ratio, %								
Shareholders' equity	2,287	2,102	2,161	2,126	2,183	2,100	2,176	2,232
Total assets	4,201	4,712	4,538	4,408	4,638	4,496	4,464	4,472
Advances received	28	25	26	35	32	27	32	39
Equity ratio, %	**54.8**	**44.8**	**47.9**	**48.6**	**47.4**	**47.0**	**49.1**	**50.4**

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2017

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	24,473,866	24.47
Financial and insurance corporations	7,372,041	7.37
General government*	5,722,264	5.72
Households	25,707,650	25.70
Non-profit institutions**	5,447,565	5.45
Foreign and nominee-registered	31,296,366	31.29
Total	**100,019,752**	**100.00**

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	18,438,943	58.10	18.44
Financial and insurance corporations	4,017,971	12.66	4.02
General government*	443,066	1.40	0.44
Households	6,053,948	19.08	6.05
Non-profit institutions**	2,041,815	6.43	2.04
Foreign and nominee-registered	741,264	2.34	0.74
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	6,034,923	8.84	6.03
Financial and insurance corporations	3,354,070	4.91	3.35
General government*	5,279,198	7.73	5.28
Households	19,653,702	28.78	19.65
Non-profit institutions**	3,405,750	4.99	3.41
Foreign and nominee-registered	30,555,102	44.75	30.55
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. 2017

All shares Number of shares	Number of shareholders, pcs	Percentage of share-holders, %	Share total, pcs	Percentage of shares, %
1–100	15,610	36.88	810,697	0.81
101–500	15,130	35.75	3,977,499	3.98
501–1,000	4,983	11.77	3,920,758	3.92
1,001–5,000	5,136	12.14	11,220,269	11.22
5,001–10,000	787	1.86	5,569,694	5.57
10,001–50,000	552	1.30	10,963,711	10.96
50,001–100,000	68	0.16	4,837,246	4.84
100,001–500,000	39	0.09	7,730,463	7.73
500,001–	17	0.04	50,989,415	50.98
Total	**42,322**	**100.00**	**100,019,752**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A share-holders, %	A share total, pcs	Percentage of A shares, %
1–100	3,246	38.60	134,589	0.42
101–500	1,983	23.58	503,895	1.59
501–1,000	1,084	12.89	941,465	2.97
1,001–5,000	1,427	16.97	3,436,596	10.83
5,001–10,000	348	4.14	2,450,573	7.72
10,001–50,000	270	3.21	5,757,940	18.14
50,001–100,000	32	0.38	2,267,659	7.15
100,001–500,000	12	0.14	2,482,803	7.82
500,001–	7	0.08	13,761,487	43.36
Total	**8,409**	**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	13,458	36.94	731,014	1.07
101–500	14,019	38.48	3,696,566	5.41
501–1,000	4,150	11.39	3,187,670	4.67
1,001–5,000	4,015	11.02	8,458,243	12.39
5,001–10,000	434	1.19	3,108,052	4.55
10,001–50,000	284	0.78	5,481,686	8.03
50,001–100,000	33	0.09	2,427,146	3.55
100,001–500,000	25	0.07	5,412,854	7.93
500,001–	10	0.03	35,779,514	52.40
Total	**36,428**	**100.00**	**68,282,745**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2017

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	4,140,092	4.14	41,400,920	10.74
2.	Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
3.	Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
4.	Ilmarinen Mutual Pension Insurance Company	1,951,696	1.95	5,935,960	1.54
5.	Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
6.	Foundation for Vocational Training in the Retail Trade	1,180,950	1.18	11,809,500	3.06
7.	Varma Mutual Pension Insurance Company	1,130,986	1.13	1,130,986	0.29
8.	The State Pension Fund	1,050,000	1.05	1,050,000	0.27
9.	Oy The English Tearoom Ab	1,000,000	1.00	1,000,000	0.26
10.	Heimo Välinen Oy	530,000	0.53	5,300,000	1.37

Does not contain shares held by Kesko Corporation, amounting to 563,137 on 31 Dec. 2017.

10 largest shareholders by number of votes as at 31 Dec. 2017

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	4,140,092	4.14	41,400,920	10.74
2.	Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
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5.	Foundation for Vocational Training in the Retail Trade	1,180,950	1.18	11,809,500	3.06
6.	Ilmarinen Mutual Pension Insurance Company	1,951,696	1.95	5,935,960	1.54
7.	Heimo Välinen Oy	530,000	0.53	5,300,000	1.37
8.	K-Food Retailers' Club	502,588	0.50	5,025,880	1.30
9.	Food Paradise Oy	489,541	0.49	4,895,410	1.27
10.	T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50

Management's shareholdings

At the end of December 2017, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 306,814 Kesko Corporation A shares and 58,650 Kesko Corporation B shares, i.e. a total of 365,464 shares, which represents 0.37% of the total number of shares and 0.81% of votes carried by all shares of the Company.

At 31 December 2017, the President and CEO held 36,091 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 2017, the Group Management Board including the President and CEO held 81 Kesko Corporation A shares and 116,858 Kesko Corporation B shares, which represented 0.12% of the total number of shares and 0.03% of votes carried by all shares of the Company.

Consolidated financial statements (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2017	%	1 Jan.–31 Dec. 2016	%
Net sales	**2.1**	**10,675.9**	**100.0**	**10,180.4**	**100.0**
Cost of goods sold		-9,162.3	-85.8	-8,718.7	-85.6
Gross profit		**1,513.6**	**14.2**	**1,461.7**	**14.4**
Other operating income	2.3	790.9	7.4	699.0	6.9
Employee benefit expenses	2.4	-758.8	-7.1	-722.8	-7.1
Depreciation, amortisation and impairment	3.3, 3.4	-153.7	-1.4	-161.6	-1.6
Other operating expenses	2.4	-1,067.5	-10.0	-1,129.5	-11.1
Operating profit		**324.6**	**3.0**	**146.8**	**1.4**
Interest income and other finance income	4.4	18.6	0.2	15.0	0.1
Interest expense and other finance costs	4.4	-13.8	-0.1	-11.6	-0.1
Foreign exchange differences	4.4	-3.3	0.0	-4.4	0.0
Total finance income and costs	4.4	**1.5**	**0.0**	**-1.0**	**0.0**
Share of result of associates and joint ventures		1.6	0.0	-0.6	0.0
Profit before tax		**327.6**	**3.1**	**145.2**	**1.4**
Income tax	2.6	-58.8	-0.6	-31.4	-0.3
Net profit for the year		**268.8**	**2.5**	**113.8**	**1.1**
Net profit for the year attributable to					
Owners of the parent		257.8		98.6	
Non-controlling interests		11.0		15.3	
Earnings per share for net profit attributable to owners of the parent					
Basic, €	2.7	2.59		0.99	
Diluted, €	2.7	2.59		0.99	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Net profit for the year		**268.8**	**113.8**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	3.8, 5.6	36.0	-11.1
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	5.6	-29.3	10.4
Cash flow hedge revaluation	5.6	0.6	2.4
Revaluation of available-for-sale financial assets	5.6	-0.3	0.5
Others	5.6	-0.3	-0.3
Total comprehensive income for the year, net of tax		**6.7**	**2.0**
Total comprehensive income for the year		**275.6**	**115.8**
Comprehensive income for the year attributable to			
Owners of the parent		268.8	100.8
Non-controlling interests		6.8	15.0

Consolidated statement of financial position

€ million	Note	31 Dec. 2017	%	31 Dec. 2016	%
ASSETS					
Non-current assets					
Property, plant and equipment	3.3	1,293.1		1,150.4	
Intangible assets	3.4	376.2		430.5	
Interests in associates and joint ventures	3.9, 5.2	117.4		107.9	
Available-for-sale financial assets	4.3, 4.5	23.0		15.1	
Non-current receivables	4.3, 4.5	65.4		62.6	
Deferred tax assets	5.5	5.6		5.8	
Pension assets	3.8	207.5		164.7	
Total non-current assets		**2,088.3**	**46.7**	**1,937.1**	**43.9**
Current assets					
Inventories	3.5	938.6		978.9	
Interest-bearing receivables	3.6, 4.5	1.5		3.7	
Trade receivables	3.6, 4.3, 4.5	836.0		831.2	
Income tax assets	3.6	11.1		21.2	
Other non-interest-bearing receivables	3.6, 4.5	196.4		198.6	
Financial assets at fair value through profit or loss	4.3, 4.5	171.0		93.3	
Available-for-sale financial assets	4.3, 4.5	94.2		156.8	
Cash and cash equivalents		132.7		141.3	
Total current assets		**2,381.5**	**53.3**	**2,424.9**	**55.0**
Non-current assets held for sale	3.7	1.8	0.0	45.7	1.0
Total assets		**4,471.6**	**100.0**	**4,407.7**	**100.0**

€ million	Note	31 Dec. 2017	%	31 Dec. 2016	%
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		265.6	
Currency translation differences	4.2	-50.1		-23.7	
Revaluation reserve	4.2	3.5		3.2	
Retained earnings		1,518.0		1,389.0	
		2,133.4	**47.7**	**2,029.1**	**46.0**
Non-controlling interests	**5.1**	**98.7**	**2.2**	**97.3**	**2.2**
Total equity		**2,232.1**	**49.9**	**2,126.3**	**48.2**
Non-current liabilities					
Interest-bearing non-current liabilities	4.3, 4.5, 4.6	129.3		358.7	
Non-interest-bearing non-current liabilities	4.3, 4.5	31.4		40.2	
Deferred tax liabilities	5.5	52.0		48.1	
Pension obligations		0.4		0.8	
Provisions	3.10	25.1		14.9	
Total non-current liabilities		**238.2**	**5.3**	**462.5**	**10.5**
Current liabilities					
Current interest-bearing liabilities	4.3, 4.5, 4.6	404.6		156.0	
Trade payables	4.3, 4.5	1,023.7		1,069.2	
Other non-interest-bearing liabilities	4.3, 4.5	227.1		226.9	
Income tax liabilities	4.5	5.6		8.7	
Accrued liabilities	4.3, 4.5	308.5		316.2	
Provisions	3.10	31.6		41.0	
Total current liabilities		**2,001.1**	**44.8**	**1,818.0**	**41.2**
Liabilities related to available-for-sale non-current assets	3.7	0.1	0.0	0.8	0.0
Total liabilities		**2,239.5**	**50.1**	**2,281.3**	**51.8**
Total equity and liabilities		**4,471.6**	**100.0**	**4,407.7**	**100.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from operating activities			
Profit before tax		327.6	145.2
Adjustments			
Depreciation according to plan		139.2	137.6
Finance income and costs		-1.5	1.0
Other adjustments	2.8	-66.9	90.6
		70.9	**229.2**
Change in working capital			
Current non-interest-bearing receivables, increase (-)/ decrease (+)		-73.0	-43.8
Inventories, increase (-)/decrease (+)		-9.2	5.1
Current non-interest-bearing liabilities, increase (+)/ decrease (-)		29.2	-78.5
		-53.0	-117.2
Interest paid and other finance costs		-15.5	-17.0
Interest received		16.1	14.1
Dividends received		2.2	0.0
Income taxes paid		-46.6	-84.1
Net cash flows from operating activities		**301.7**	**170.2**

€ million	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.2	-0.5	-427.5
Payments to acquire equity accounted investments	2.8	-1.6	-
Payments for property, plant, equipment and intangible assets	2.8	-319.9	-277.4
Proceeds from sale of business operations, net of cash disposed of	3.2	143.9	160.9
Proceeds from sale of property, plant, equipment and intangible assets		96.7	44.0
Proceeds from sale of available-for-sale financial assets		0.1	0.4
Non-current loan and receivables, increase (-)/ decrease (+)		-7.0	-1.5
Net cash flows from investing activities		**-88.3**	**-501.1**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	5.2	63.0
Repayments of finance lease liabilities	2.8	-5.4	-3.6
Interest-bearing receivables, increase (-)/decrease (+)	2.8	0.3	2.0
Dividends paid		-203.8	-249.5
Equity increase		-	12.6
Short-term money market investments, increase (-)/decrease (+)		-36.4	364.5
Other items		-2.9	6.5
Net cash flows from financing activities		**-242.9**	**195.6**
Change in cash and cash equivalents and current available-for-sale financial assets		**-29.5**	**-135.3**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January	2.8	200.8	334.1
Currency translation difference adjustment and change in value		-1.1	2.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December	**2.8**	**170.2**	**200.8**

Consolidated statement of changes in equity

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of the parent								
Balance as at 1 January 2017	**197.3**	**463.4**	**-23.7**	**3.2**	**-23.5**	**1,412.4**	**2,029.1**	**97.3**	**2,126.3**
Share-based payment					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						257.8	257.8	11.0	268.8
Actuarial gains/losses						45.0	45.0		45.0
Currency translation differences related to a foreign operation			-25.0				-25.0	-4.3	-29.3
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
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**

Consolidated statement of changes in equity

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

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.

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, Russia and Belarus.

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

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

Kesko's Board of Directors has approved these financial statements for disclosure on 31 January 2018.

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 2017. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Act and regulations based on it. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

New standards were not adopted during the financial year 2017.

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

1.3 Critical accounting estimates and assumptions

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

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

Measurement of assets acquired and liabilities assumed

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

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

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

- 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, equity accounted investments 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. Until 31 December 2016, the functional currency of the real estate companies operating in Russia in St. Petersburg and Moscow was the euro, which is why no significant exchange differences realised before 2017 from their balance sheets to the Group. A change has taken place in the Russian real estate market as a result of which an increasing number of leases are rouble denominated. Earlier leases were mainly denominated in the euro. As a result of the change in the lease market, the functional currency of the Russian real estate companies has been the rouble as of 1 January 2017.

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 amendments to the existing standards and interpretations

In addition to the standards and interpretations presented in the 2017 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2018 or subsequent financial statements.

IFRS 9 Financial instruments

IFRS 9 concerns the classification, measurement and recognition of financial assets and financial liabilities, changes the rules concerning hedge accounting, and provides a new impairment model for financial assets. The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

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

The measurement and classification of the Group's financial assets and financial liabilities has been reviewed with regard the new standard. The Group's management estimates that the new standard will result in only minor changes to the classification of financial assets and that the changes in classification will have only a minor impact on the Group's result. The standard is not expected to have an impact on the accounting treatment of financial liabilities.

In hedge accounting, IFRS 9 eases the requirements concerning hedge effectiveness by removing pre-determined effectiveness testing thresholds. Under the standard, an economic relationship must exist between the hedging instrument and the hedged item and the hedge ratio designated must be the one actually used by the management for risk management. Documentation requirement will continue to exist, but it will differ from the IAS 39 requirements. The new model links accounting treatment with risk management and enables the hedging of net positions. The Group has concluded that its current hedge ratios fulfil the criteria for continued hedging when implementing IFRS 9. As for the hedging of electricity price risk, the standard will enable having only electricity system price as a hedged item. Management estimates that the new standard will have a minor impact on the accounting treatment of the Group's hedgings.

According to the new IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. Under IAS 39, impairment was only recognised on realised credit losses. Management estimates that the new standard will have only a minor impact on the time of recognition of impairment losses on trade receivables and on the measurement of other financial assets.

IFRS 15 Revenue from Contracts with Customer

The standard replaces IAS 11, 'Construction contracts' and IAS 18, 'Revenue and related interpretations'. According to the standard, revenue is recognised when control of goods or services transfers to a customer. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the goods or services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

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

IFRS 16 Leases

IFRS 16 concerns the definition, recognition and measurement of lease agreements and notes related to leases. According to the standard, the lessee recognises in its balance sheet right-of-use assets and lease liabilities. The standard includes optional exemptions for leases with a term of less than 12 months and for asset items of low value. The lessor's reporting remains unchanged, meaning leases are still divided into finance lease agreements and operating leases. The effective date of the standard is 1 January 2019. The standard has been endorsed for adoption by the EU.

Kesko Group leases store sites for use in its business operations in all of its operating countries. The store site network is a strategic competitive factor for the Group. At the end of 2017, Kesko Group had over 1,500 leased properties, the lease liability for which was €2,892 million, in addition to which the Group had other lease liabilities of €21 million.

The Group has initiated an assessment regarding the impact of IFRS 16 on its financial statements. Management estimates that the new lease standard will have a significant impact on the Company's income statement, balance sheet and performance indicators. Kesko has a significant number of lease agreements that according to the standard currently in force are categorised as operating leases and have been recognised as lease expenditure in the income statement on a time apportionment basis. According to the new standard, assets and liabilities corresponding to the present value of minimum lease payments shall be recognised in the balance sheet at the commencement of the leases, meaning assets and liabilities will increase significantly in the balance sheet. The new standard will increase the Group's operating profit as the current lease expenditure will be replaced by depreciation of a fixed asset item. In addition, interest expenses for liability will also be recognised and presented under finance costs in the income statement.

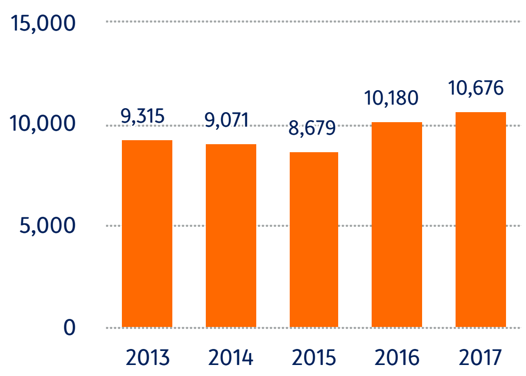
According to IFRS 16, the measurement of the right-of-use assets and the lease liabilities is determined by discounting the minimum future lease payments. The Group intends to adopt the standard using the retrospective method. The discount rate should primarily be the interest rate implicit in the lease, if available. The Group will use the interest rate implicit in the lease for agreements where this rate is available. The interest rate implicit in the lease is not available for all lease agreements, in which case the Group will use the incremental borrowing rate, which comprises reference rate, credit spread for the incremental borrowing, and a potential country and currency risk premium. At the commencement date of each lease agreement, the incremental borrowing rate will be determined and the minimum lease payments will be discounted. The Group has yet to determine the quantitative impacts the application of IFRS 16 will have on its financial statements. The Group will assess the impacts in more detail during the reporting period beginning on 1 January 2018.

Management estimates that the other issued new IFRS standards, IFRIC interpretations and amendments to the existing standards and interpretations will not have a material impact on the consolidated financial statements or their presentation.

2 Financial results

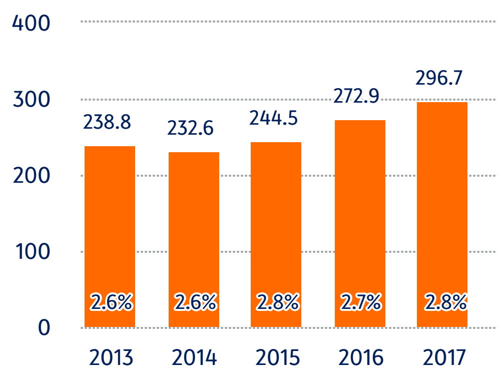
Net sales

€ million



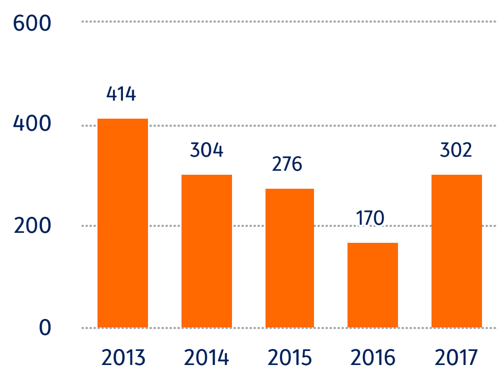
Comparable operating profit

€ million



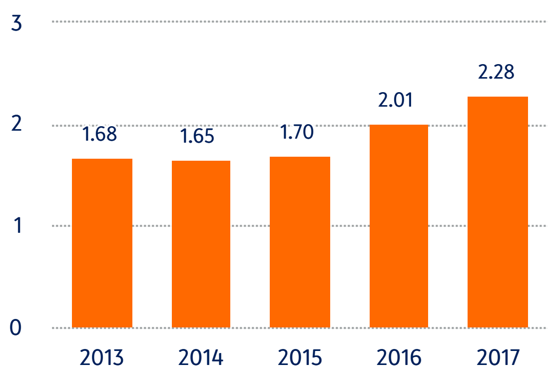
Cash flow from operating activities

€ million



Comparable earnings/share

€



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 except for fair value measurements of foreign exchange forward contracts recognised in the balance sheet, available-for-sale financial assets, cash and cash equivalents, or interest-bearing liabilities.

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 programme, which are recognised at fair values as part of sales transactions. Loyalty award credits affect the net sales of those segments which grant K-Plussa customer loyalty credits and are engaged in retailing.

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

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

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

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries in Finland. Kesko's grocery trade operates under the K-retailer business model. There are approximately 1,100 K-food stores operating under the K-retailer business model in Finland. These stores form the K-Citymarket, K-Supermarket and K-Market grocery retail 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. Following the acquisition of Suomen Lähikauppa Oy (K-Market Oy as of 2016), Kesko itself has acted as a retailer in Finland. The conversion of Siwa and Valintatalo stores into K-food stores began in May 2016 and by the end of May 2017, all 409 continuing stores had been converted into K-stores. By the end of 2017, 243 of the converted stores had been transferred to retailers. The transfer of the stores to retailers will be completed by the end of H1 2018. Kespro provides Foodservice (previously HoReCa) and wholesale services in Finland. K-Citymarket's home and speciality goods trade is a retailer of home and speciality goods in Finland. The Russian grocery trade business was disposed of on 30 November 2016.

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries, Poland, Russia and Belarus. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland. Kesko itself acts as a retail operator in Sweden, the Baltic countries, Russia and Belarus. The retail store chains are K-Rauta, Byggmakker (Norway), K-Senukai (the Baltic countries) and OMA (Belarus). The building and home improvement stores serve both consumers and business customers. On 1 June 2016, Kesko Corporation acquired Onninen Oy, which specialises in the technical wholesale trade. 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 speciality goods trade included in the building and technical trade division comprises machinery trade in Finland and the Baltic countries and leisure goods trade in Finland. The leisure goods trade comprises Intersport, Budget Sport and Kookenkä. Of the speciality goods trade businesses, the K-maatalous agricultural business was divested on 1 June 2017, and the Asko and Sotka furniture business and Yamarin boat business and Yamaha representation were divested on 30 June 2017.

Car trade

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

Common functions

Common functions comprise Group support functions.

Kesko's divisions 2017
Profit

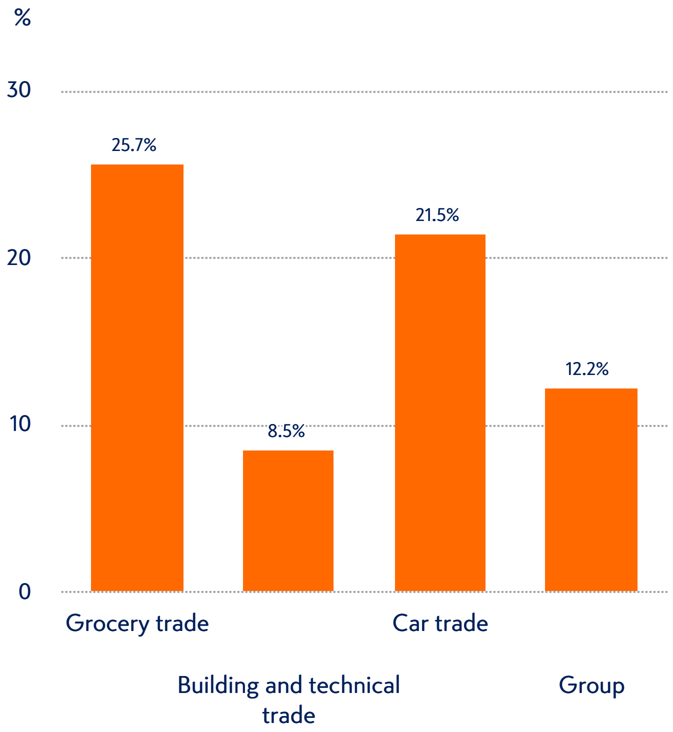
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,282.0	4,486.0	909.4	32.9	10,710.3
of which intersegment sales	-6.7	-2.6	-0.6	-24.5	-34.4
Net sales from external customers	**5,275.2**	**4,483.4**	**908.8**	**8.4**	**10,675.9**
Change in net sales in local currency excluding acquisitions and disposals, %	2.4	1.1	1.0	-3.4	1.8
Change in net sales, %	0.9	9.4	7.1	-68.5	4.9
Other division income	546.0	235.7	4.2	10.5	796.4
of which intersegment income	-4.2	-1.9	0.0	0.5	-5.6
Other operating income from external customers	**541.7**	**233.8**	**4.2**	**11.1**	**790.9**
Depreciation and amortisation	-62.7	-49.3	-9.4	-17.7	-139.2
Impairment	0.0	-14.5			-14.5
Operating profit	**181.3**	**154.7**	**33.1**	**-44.5**	**324.6**
Items affecting comparability	-22.1	58.9		-8.9	27.9
Comparable operating profit	**203.4**	**95.8**	**33.1**	**-35.6**	**296.7**
Finance income and costs					1.5
Investments accounted for using the equity method					1.6
Profit before tax					**327.6**

Assets and liabilities

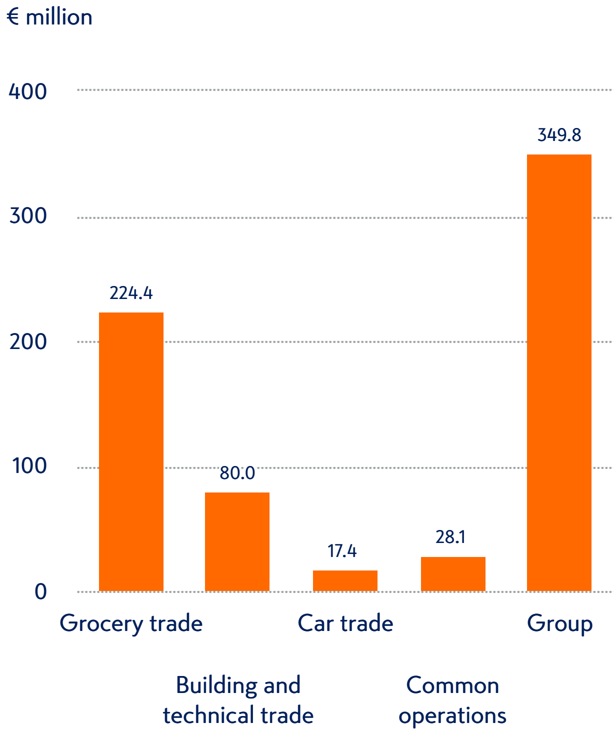
€ million	Grocery trade	Building and technical trade	Car trade	Common opera-tions	Elimi-nations	Total
Property, plant, equipment and intangible assets	903.8	602.3	93.4	71.5	-1.6	1,669.3
Interests in associates and joint ventures and other investments	7.7	10.4	0.0	123.0	-0.6	140.5
Pension assets	40.6	16.2		150.6		207.5
Inventories	219.6	552.7	166.4			938.6
Trade receivables	344.3	447.0	44.7	7.7	-7.6	836.0
Other non-interest-bearing receivables	79.4	105.7	8.7	26.4	-10.1	210.2
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**	**1,736.3**	**313.1**	**442.8**	**-20.0**	**4,068.1**
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**	**1,736.3**	**313.1**	**442.8**	**-20.0**	**4,471.6**

€ million	Grocery trade	Building and technical trade	Car trade	Common opera-tions	Elimi-nations	Total
Trade payables	509.5	483.5	22.0	13.8	-5.2	1,023.7
Other non-interest-bearing liabilities	242.0	188.5	70.2	54.1	-11.6	543.2
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**	**676.8**	**131.6**	**69.0**	**-16.8**	**1,623.7**
Unallocated items						
Interest-bearing liabilities						533.9
Other non-interest-bearing liabilities						29.9
Deferred tax liabilities						52.0
Total liabilities	**763.1**	**676.8**	**131.6**	**69.0**	**-16.8**	**2,239.5**
Total capital employed as at 31 December	**832.8**	**1,059.4**	**181.5**	**373.8**	**-3.1**	**2,444.4**
Average capital employed	**791.3**	**1,129.3**	**154.1**	**353.7**	**-1.2**	**2,427.2**
Number of personnel as at 31 December	**8,584**	**14,717**	**818**	**864**		**24,983**
Average number of personnel	**6,733**	**13,662**	**809**	**872**		**22,077**

Comparable return on capital employed by segment 2017



Capital expenditure by segment 2017



Kesko's divisions 2016
Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,235.6	4,100.3	849.2	123.4	10,308.5
of which intersegment sales	-10.1	-11.2	-0.2	-106.7	-128.1
Net sales from external customers	**5,225.5**	**4,089.2**	**849.0**	**16.8**	**10,180.4**
Change in net sales in local currency excluding acquisitions and disposals, %	-0.2	2.1	13.0	(..)	1.6
Change in net sales, %	12.0	26.2	13.5	(..)	17.3
Other division income	527.2	169.6	4.4	10.8	712.0
of which intersegment income	-5.7	-8.8		1.5	-13.0
Other operating income from external customers	**521.5**	**160.8**	**4.4**	**12.2**	**699.0**
Depreciation and amortisation	-73.0	-48.5	-9.0	-7.1	-137.6
Impairment	-0.4	-17.6		-6.0	-24.0
Operating profit	**93.0**	**60.8**	**28.9**	**-36.0**	**146.8**
Items affecting comparability	-82.9	-37.2	-0.6	-5.5	-126.2
Comparable operating profit	**175.9**	**97.9**	**29.5**	**-30.5**	**272.9**
Finance income and costs					-1.0
Investments accounted for using the equity method					-0.6
Profit before tax					**145.2**

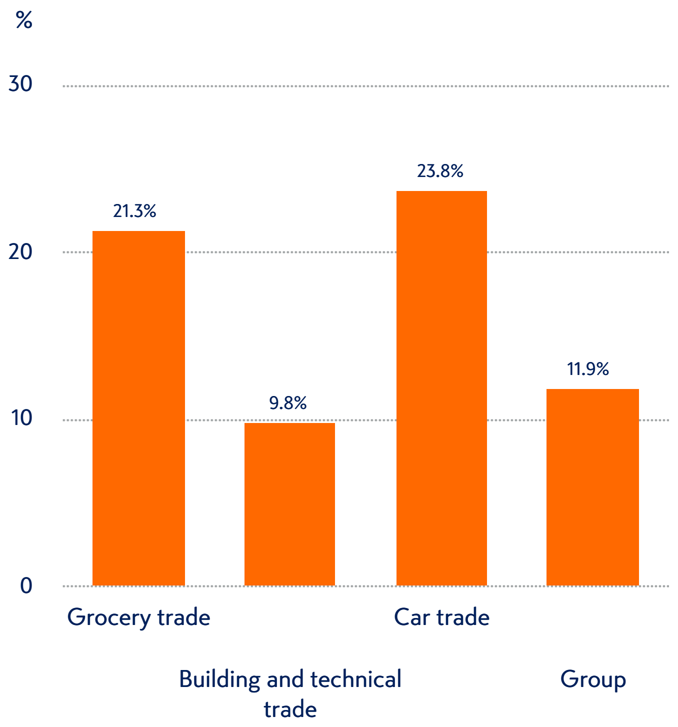
(..) Change over 100%

Assets and liabilities

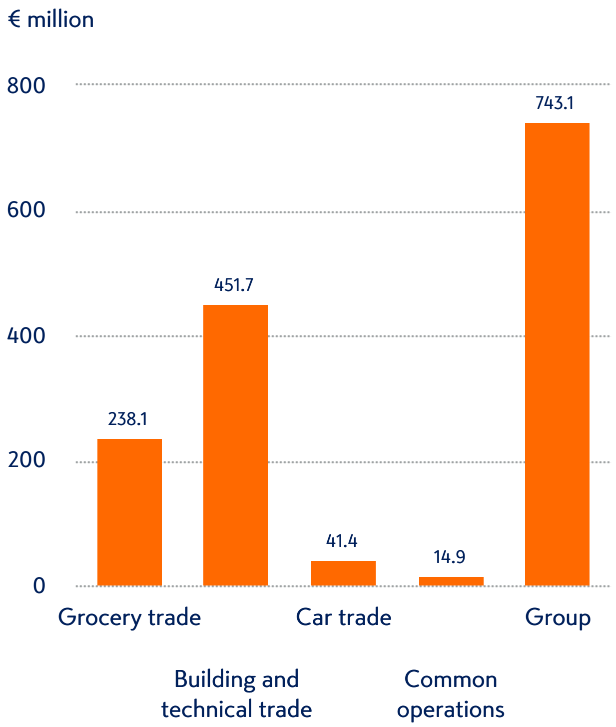
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimi-nations	Total
Property, plant, equipment and intangible assets	791.5	661.6	95.9	28.9	2.9	1,580.9
Interests in associates and joint ventures and other investments	4.8	1.5	0.0	117.4	-0.6	123.0
Pension assets	40.6	16.2		107.9		164.7
Inventories	233.3	601.4	144.1		0.0	978.9
Trade receivables	294.5	486.6	51.1	14.8	-15.9	831.2
Other non-interest-bearing receivables	64.7	106.5	9.2	56.3	-15.0	221.6
Interest-bearing receivables	0.8	2.9	0.0	60.8		64.5
Non-current assets classified as held for sale	2.6	42.7		0.5		45.7
Assets included in capital employed	**1,432.9**	**1,919.5**	**300.3**	**386.5**	**-28.7**	**4,010.5**
Unallocated items						
Deferred tax assets						5.8
Financial assets at fair value through profit or loss						93.3
Available-for-sale financial assets						156.8
Cash and cash equivalents						141.3
Total assets	**1,432.9**	**1,919.5**	**300.3**	**386.5**	**-28.7**	**4,407.7**

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimi-nations	Total
Trade payables	516.9	539.8	21.3	4.5	-13.4	1,069.2
Other non-interest-bearing liabilities	229.6	212.3	76.3	59.5	-15.5	562.2
Provisions	6.1	10.5	37.9	1.4		55.8
Liabilities related to assets held for sale		0.8				0.8
Liabilities included in capital employed	**752.6**	**763.5**	**135.4**	**65.4**	**-28.8**	**1,688.1**
Unallocated items						
Interest-bearing liabilities						514.6
Other non-interest-bearing liabilities						30.6
Deferred tax liabilities						48.1
Total liabilities	**752.6**	**763.5**	**135.4**	**65.4**	**-28.8**	**2,281.3**
Total capital employed as at 31 December	**680.3**	**1,156.1**	**164.8**	**321.1**	**0.2**	**2,322.4**
Average capital employed	**827.6**	**1,000.4**	**123.9**	**337.8**	**-2.2**	**2,287.5**
Number of personnel as at 31 December	**10,339**	**15,616**	**817**	**885**		**27,657**
Average number of personnel	**8,200**	**12,743**	**780**	**752**		**22,475**

Comparable return on capital employed by segment 2016



Capital expenditure by segment 2016



Geographical information

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

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

Net sales by country

2017 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	8,391	1,047	717	533	-12	10,676
Assets	3,108.9	297.2	289.6	372.4		4,068.1
Capital expenditure	299.2	3.3	21.5	25.8		349.8
Average number of personnel	10,691	1,460	4,793	5,133		22,077

2016 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	8,134	900	662	503	-17	10,180
Assets	3,035.7	332.5	258.9	383.3		4,010.5
Capital expenditure	630.1	3.1	24.7	85.2		743.1
Average number of personnel	10,713	1,327	4,596	5,839		22,475

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

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

2.2 Items affecting comparability

Accounting policies

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and 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	2017	2016
Items affecting comparability		
Gains on disposal	83.4	4.2
Losses on disposal	-1.8	-71.0
Impairment charges	-15.0	-30.0
Structural arrangements	-38.7	-29.4
Items in operating profit affecting comparability, total	**27.9**	**-126.2**
Items in financial items affecting comparability	-0.4	-
Items in income taxes affecting comparability	3.8	25.3
Items affecting comparability, total	**31.4**	**-100.9**

The most significant items affecting comparability in 2017 were the €49.7 million gain on the divestment of properties in the Baltics, the gain on the divestment of the K-maatalous agricultural business of €12.3 million, the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million, the €14.5 million impairment of goodwill in Russia and the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains and the transfer of stores to retailers.

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

€ million	2017	2016
Operating profit, comparable		
Operating profit	324.6	146.8
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Operating profit, comparable	**296.7**	**272.9**
Profit before tax, comparable		
Profit before tax	327.6	145.2
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Items in financial items affecting comparability	-0.4	-
Profit before tax, comparable	**300.1**	**271.4**
Net profit, comparable		
Profit before tax, comparable	300.1	271.4
Net of		
Income tax	58.8	31.4
Items in income tax affecting comparability	3.8	25.3
Net profit, comparable	**237.5**	**214.8**

€ million	2017	2016
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	237.5	214.8
Net profit attributable to non-controlling interests	11.0	15.3
Net profit attributable to owners of the parent, comparable	**226.4**	**199.5**
Earnings per share, comparable, €		
Net profit attributable to the owners of the parent, comparable	226.4	199.5
Average number of shares, basic, 1,000 pcs	99,426	99,249
Earnings per share, comparable, €	**2.28**	**2.01**
Return on capital employed, comparable, %		
Operating profit, comparable	296.7	272.9
Capital employed, average	2,427	2,288
Return on capital employed, comparable, %	**12.2**	**11.9**
Return on equity, comparable, %		
Net profit, comparable	237.5	214.8
Equity, average	2,179	2,184
Return on equity, comparable, %	**10.9**	**9.8**

Calculation of performance indicators

Operating profit, comparable

Operating profit +/- items affecting comparability

Earnings per share, comparable, €

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

Return on capital employed, comparable, %

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

Return on equity, %, comparable

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

2.3 Other operating income

Accounting policies

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

€ million	2017	2016
Income from services	550.4	535.3
Lease income	40.4	41.9
Gains on disposal of property, plant, equipment and intangible assets	54.3	3.3
Gains on disposal of businesses	32.6	0.6
Realised gains on derivative contracts and changes in fair value	2.2	5.2
Others	111.0	112.7
Total	**790.9**	**699.0**

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

Other operating income includes €86.6 million (€1.8 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	2017	2016
Salaries and fees	-610.9	-574.7
Social security costs	-53.2	-57.5
Pension costs		
Defined benefit plans	-3.2	0.3
Defined contribution plans	-81.8	-78.6
Share-based payment	-9.8	-12.3
Total	**-758.8**	**-722.8**

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

	2017	2016
Grocery trade	6,733	8,200
Building and technical trade	13,662	12,743
Car trade	809	780
Common functions	872	752
Total	**22,077**	**22,475**

Other operating expenses

€ million	2017	2016
Lease expenditure	-463.7	-458.1
Marketing costs	-210.1	-219.2
Property and store site maintenance expenses	-131.8	-129.0
ICT expenses	-93.3	-91.8
Losses on disposal of property, plant, equipment and intangible assets	-2.4	-2.1
Losses on disposal of business operations	-1.5	-63.7
Realised losses on derivative contracts and changes in fair value	-3.9	-3.7
Other operating expenses	-160.8	-161.9
Total	**-1,067.5**	**-1,129.5**

Expenses by type 2017

Expenses by type 2016

Auditors' fees

€ million	2017	2016
Fees to PwC chain companies		
Audit	1.0	0.9
Tax consultation	0.1	0.1
Other services	1.2	0.3
Total	2.2	1.4
Other audit firms	**1.2**	**2.0**

Fees paid to PwC Oy for services other than audit to Kesko Group companies totalled €1.2 million.

2.5 Foreign exchange differences recognised in operating profit

€ million	2017	2016
Sales	0.0	-0.1
Other income	1.9	2.7
Purchases	-0.8	0.2
Other expenses	-3.9	-3.7
Total	**-2.8**	**-1.0**

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	2017	2016
Current tax	-55.7	-41.3
Tax for prior years	-0.4	-0.8
Deferred tax	-2.7	10.7
Total	**-58.8**	**-31.4**

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

€ million	2017	2016
Profit before tax	327.6	145.2
Tax at parent's rate 20.0%	-65.5	-29.0
Effect of foreign subsidiaries' different tax rates	2.2	3.3
Effect of tax-free income	15.4	0.6
Effect of expenses not deductible for tax purposes	-4.6	-7.1
Effect of tax losses	-4.9	-4.9
Effect of consolidation	0.3	6.4
Tax for prior years	-0.4	-0.8
Effect of change in tax rate	-0.3	0.3
Others	-0.9	-0.2
Tax charge	**-58.8**	**-31.4**

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

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.

	2017	2016
Net profit for the period attributable to equity holders of the parent, € million	**257.8**	**98.6**
Number of shares		
Weighted average number of shares outstanding	99,426,302	99,248,794
Diluted weighted average number of shares outstanding	99,426,302	99,248,794
Earnings per share from net profit attributable to equity holders of the parent		
Basic, €	2.59	0.99
Diluted, €	2.59	0.99
Comparable earnings/share, basic, €	2.28	2.01

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	2017	2016
Total acquisitions of property, plant, equipment and intangible assets	347.8	280.8
Total acquisitions of subsidiaries and investments in associates and other investments	2.1	434.5
Total capital expenditure	**349.9**	**715.3**
of which cash payments	327.0	567.6
Loans relating to acquired companies and cash and cash equivalents	1.0	139.7
Payments arising from prior period investing activities	-9.6	-4.9
Capital expenditure financed with finance lease or other liability	31.5	12.9
Total	**349.9**	**715.3**

Adjustments to cash flows from operating activities

€ million	2017	2016
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	1.5	4.9
Share of results of associates and joint ventures	-1.6	0.6
Impairments	14.5	24.0
Credit losses	5.2	6.7
Gains on disposal of property, plant, equipment and intangible assets and business operations	-91.3	-3.7
Losses on disposal of property, plant, equipment and intangible assets and business operations	4.1	65.8
Share-based compensation	-2.6	-1.2
Defined benefit pensions	1.7	-0.8
Others	1.8	-5.7
Total	**-66.9**	**90.6**

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	2017	2016
Available-for-sale financial assets (maturing in less than 3 months)	37.5	59.6
Cash and cash equivalents	132.7	141.3
Total	**170.2**	**200.8**

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	2017	2016
Available-for-sale financial assets (maturing in less than 3 months)	37.5	59.6
Cash and cash equivalents	132.7	141.3
Borrowings - repayable within one year (including overdraft)	-404.6	-156.0
Borrowings - repayable after one year	-129.3	-358.7
Cash and debt, net	**-363.7**	**-313.8**

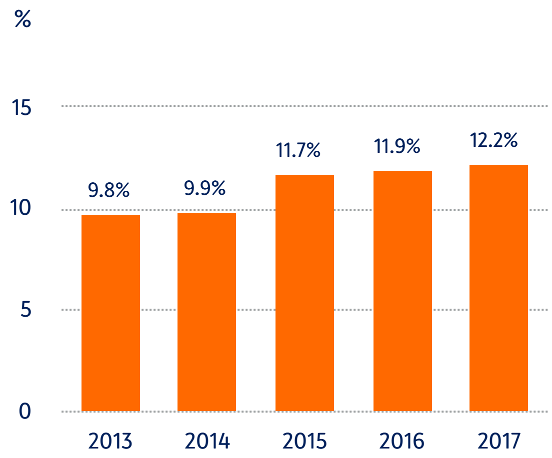
€ million	2017	2016
Cash and available-for-sale financial assets	170.2	200.8
Gross debt - fixed interest rates	-363.6	-366.9
Gross debt - variable interest rates	-170.3	-147.7
Cash and debt, net	**-363.7**	**-313.8**

€ million	Other assets		Finance-related debt				
	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	Total
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**

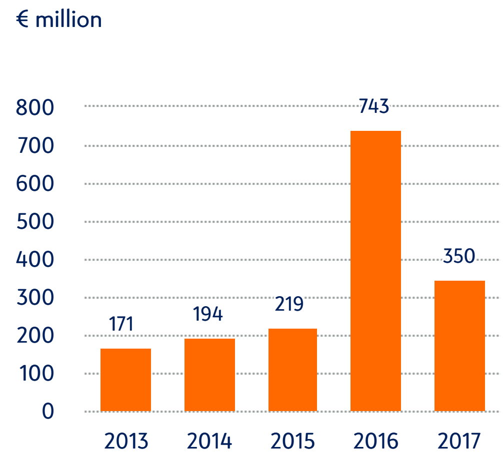
€ million	Other assets		Finance-related debt				
	Cash and overdraft	Available-for-sale financial assets	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
Cash and debt, net as at 1 Jan. 2016	**141.2**	**192.8**	**-4.5**	**-3.8**	**-176.3**	**-254.5**	**-105.1**
Cash flows	-31.0	-133.9	3.0	2.0	23.9	-98.5	-234.5
Acquisitions of subsidiaries	30.4		-1.2	-3.5	-0.7		25.0
Disposals of subsidiaries	-5.2				0.0		-5.2
Acquisitions - finance leases and lease incentives			-0.1	-0.4			-0.5
Foreign exchange adjustments	5.8	0.7	0.0	0.0	0.0	0.0	6.5
Cash and debt, net as at 31 Dec. 2016	**141.3**	**59.6**	**-2.9**	**-5.7**	**-153.1**	**-352.9**	**-313.8**

3 Capital employed

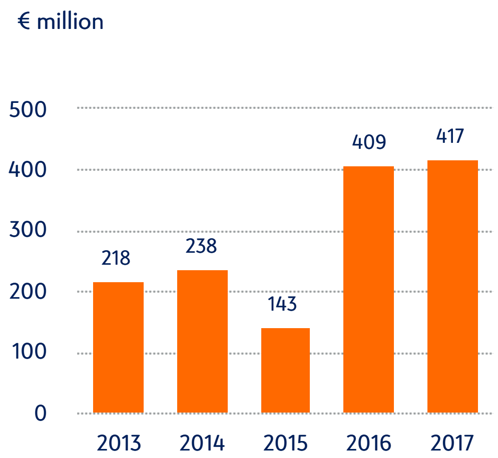
Comparable return on capital employed



Capital expenditure



Working capital



3.1 Capital employed and working capital

Capital employed

€ million	Note	31 Dec. 2017	31 Dec. 2016
Property, plant and equipment	3.3	1,293.1	1,150.4
Intangible assets	3.4	376.2	430.5
Interests in associates and joint ventures	3.9	117.4	107.9
Non-current available-for-sale financial assets	4.3	23.0	15.1
Non-current receivables	4.3	65.4	62.6
Pension assets	3.8	207.5	164.7
Current interest-bearing receivables	4.5	1.5	3.7
Non-current assets classified as held for sale	3.7	1.8	45.7
Non-interest-bearing non-current liabilities		-1.5	-9.6
Pension obligations	3.8	-0.4	-0.8
Provisions	3.10	-56.7	-55.8
Liabilities related to available-for-sale non-current assets	3.7	-0.1	-0.8
Working capital		417.1	408.7
Total		**2,444.4**	**2,322.4**

Working capital

€ million	Note	31 Dec. 2017	31 Dec. 2016
Inventories	3.5	938.6	978.9
Trade receivables	3.6	836.0	831.2
Income tax assets	3.6	11.1	21.2
Other non-interest-bearing receivables	3.6	196.4	198.6
Trade payables		-1,023.7	-1,069.2
Other non-interest-bearing liabilities		-227.1	-226.9
Income tax liabilities		-5.6	-8.7
Accrued liabilities		-308.5	-316.2
Total		**417.1**	**408.7**

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

Non-current non-interest-bearing liabilities also include an item of €29.9 million (€30.6 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.

3.2 Business acquisitions and disposals of assets

Acquisitions in 2017

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

Acquisitions in 2016

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

2016 **€ million**	**Suomen Lähikauppa**	**Onninen Group**	**Oy Auto-carrera Ab**
Consideration paid	**54**	**364**	**27**
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition			
Intangible assets	5	94	2
Property, plant, equipment and investments	33	21	1
Inventories	33	227	9
Receivables	12	238	4
Deferred tax asset	22	3	-
Cash and cash equivalents	8	17	0
Total assets	**113**	**599**	**16**
Trade payables, other payables, provisions	134	275	7
Deferred tax liability	0	16	1
Total liabilities	**134**	**291**	**8**
Net assets acquired, total	**-22**	**309**	**8**
Goodwill	**76**	**55**	**19**
Cash flow impact of acquisition			
Consideration paid	-54	-364	-25
Cash and cash equivalents acquired	8	17	0
Cash flow impact of acquisition	-46	-347	-25

Suomen Lähikauppa Oy

On 12 April 2016, Kesko Food Ltd, a Kesko Corporation subsidiary, acquired the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. The debt-free price of the acquisition, structured as a share purchase, was €54 million. Suomen Lähikauppa has concentrated on grocery stores located near customers. The acquisition underpins Kesko's new strategy, one focus area of which is to increase and renew the neighbourhood store network.

The tables above are a condensed presentation of the consideration paid to Triton, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition. The €76 million goodwill from the acquisition reflects the synergies expected to arise especially from purchasing and logistics, marketing, store site network development, information system expenses and administration.

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

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

Onninen Oy

Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy on 1 June 2016. The debt-free price of the acquisition, structured as a share purchase, was €364 million. Onninen is one of the leading providers of HEPAC and electrical products and services in the Baltic Sea Region and Scandinavia. The group specialises in B2B trade and has around 150 units in Finland, Sweden, Norway, Poland and the Baltic countries.

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

The total value of the intangible assets acquired as at the date of the acquisition (including customer relationships and trademarks) is €94 million. The balance sheet value of current trade receivables equals their fair value. The €55 million goodwill from the acquisition reflects the synergies expected to mainly arise from the utilisation of the common customer relationships, from purchasing and logistics, the development of the store site network, as well as from ICT and administration.

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

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

Oy Autocarrera Ab

In December 2016 VV-Auto Group, a Kesko Corporation subsidiary, acquired the whole share capital of Oy Autocarrera Ab. As a result, the import and retailing of Porsche transferred to VV-Auto. The price of the acquisition, structured as a share purchase, was €27 million.

The tables above are a condensed presentation of the consideration paid, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition. The €19 million goodwill derived from the acquisition reflects the synergies and growth potential expected to be realised as Porsche increases VV-Auto's car selection.

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

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

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.

Disposals of assets 2016

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

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

Net assets of subsidiaries sold

€ million	2017	2016
Property, plant, equipment and intangible assets	66.1	266.9
Inventories	61.3	7.3
Receivables	69.4	9.6
Cash and cash equivalents	1.2	6.1
Deferred taxes	-7.8	-3.2
Liabilities	-117.7	-180.4
Provisions	-0.4	-
Net assets total	**72.2**	**106.3**

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.

2017 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments 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 and impairment charges on disposals	-1.1	7.5	9.0	0.1		15.6
Accumulated depreciation on deductions	0.3	4.8	50.3	0.2		55.6
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**

2016 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2016
Cost						
Cost as at 1 January	357.2	1,184.2	508.5	83.3	71.1	2,204.4
Exchange differences	0.9	4.2	7.0	1.0	0.2	13.3
Additions	13.5	68.4	58.3	5.8	86.2	232.2
Acquisitions	1.4	11.2	44.9	0.2	1.7	59.4
Deductions	-2.4	-19.9	-55.3	-0.4	-0.7	-78.6
Disposals	-52.1	-180.8	-34.4	-26.1	-2.7	-296.0
Transfers between items	-15.7	-8.6	1.7	-5.5	-54.8	-82.7
Cost as at 31 December	302.8	1,058.9	530.7	58.4	101.1	2,052.0
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-11.7	-486.1	-391.3	-33.1		-922.3
Exchange differences		-1.4	-2.9	-0.5		-4.8
Accumulated depreciation and impairment charges on disposals	9.6	40.8	15.8	4.3		70.4
Accumulated depreciation on deductions		11.4	44.9	-0.2		56.1
Accumulated depreciation on transfers		25.9	3.6	5.2		34.8
Depreciation and impairment charges for the year	-4.0	-76.1	-48.8	-6.9		-135.8
Accumulated depreciation and impairment charges as at 31 December	-6.1	-485.6	-378.7	-31.2		-901.6
Carrying amount as at 1 January	345.5	6,98.1	117.2	50.2	71.1	1,282.1
Carrying amount as at 31 December	**296.6**	**573.3**	**152.0**	**27.2**	**101.1**	**1,150.4**

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

€ million	2017	2016
Cost	28.5	23.4
Accumulated depreciation	-18.3	-15.3
Carrying amount	**10.2**	**8.1**

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.

2017 € million	**Goodwill**	**Trademarks**	**Other intangible assets**	**Pre-payments**	**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
Disposals	-12.9	-39.1	-12.4	0.0	-64.3
Deductions			-80.6	-0.5	-81.1
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 and impairment charges on disposals	8.8		12.0		20.8
Accumulated amortisation on deductions and transfers			80.6		80.6
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**

2016 € million	Goodwill	Trademarks	Other intangible assets	Pre-payments	Total 2016
Cost					
Cost as at 1 January	101.6	70.9	229.5	8.4	410.3
Exchange differences	0.0	1.8	2.3		4.1
Additions	152.2		25.1	14.6	191.8
Acquisitions		58.3	39.6	6.2	104.0
Disposals	-0.1		-9.8		-9.9
Deductions			-10.5	-0.2	-10.7
Transfers between items	-4.0		8.0	-10.7	-6.7
Cost as at 31 December	249.6	131.0	284.0	18.3	682.9
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-60.6	-7.4	-174.0	0.0	-241.8
Exchange differences	0.1	-0.4	-1.8		-2.1
Accumulated amortisation and impairment charges on disposals	0.1		3.8		3.9
Accumulated amortisation on deductions and transfers	0.6		10.5		11.1
Amortisation and impairment charges for the year			-23.4		-23.4
Accumulated amortisation and impairment charges as at 31December	-59.7	-7.8	-184.9	0.0	-252.3
Carrying amount as at 1 January	41.0	63.5	55.5	8.4	168.4
Carrying amount as at 31 December	**189.9**	**123.3**	**99.1**	**18.3**	**430.5**

Other intangible assets include other non-current expenditure, of which €62.5 million (€55.4 million) are software and licence costs.

Goodwill and intangible rights by division

€ million	Trademarks 2017	Goodwill 2017	Discount rate (WACC) 2017	Trademarks 2016	Goodwill 2016	Discount rate (WACC) 2016
Grocery trade		76.1	6.0		76.1	6.0
Building and technical trade						
Byggmakker, Norway	23.9		7.0	25.9		7.0
Onninen	58.3	55.1	7.2	58.3	55.1	7.1
Kesko Senukai, Baltics		21.1	7.0		20.5	7.0
K-rauta Rus, Russia					14.5	11.0
Indoor, Finland				39.1	4.1	7.0
Car trade		20.0	7.0		19.7	7.0
Total	**82.2**	**172.3**		**123.3**	**189.9**	

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% (1.0–4.0%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each 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

During the 2017 financial year, a €14.5 million goodwill impairment was recorded for K-rauta Rus (building and technical trade) due to lower than targeted profit development. The impairment has been presented as an item affecting profitability. There were no impairment charges recognised on goodwill or intangible rights in the financial year 2016.

Sensitivity analysis

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

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	**2017**	**2016**
Goods	931.7	969.3
Prepayments	6.9	9.5
Total	938.6	978.9
Write-down of inventories to net realisable value	44.3	48.0

3.6 Trade and other current receivables

Accounting policies

Trade receivables are recognised in the amounts of initial sale. Impairment is recognised when there is objective evidence of impairment loss. The Group has established uniform principles for the determination of impairment of trade receivables based on the time receivables have been overdue. In addition, impairment is 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	**2017**	**2016**
Interest-bearing receivables		
Finance lease receivables	-	0.3
Interest-bearing loans and receivables	1.5	3.4
Total interest-bearing receivables	1.5	3.7
Trade receivables	836.0	831.2
Income tax assets	11.1	21.2
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	21.8	24.5
Prepaid expenses	174.5	174.1
Total other non-interest-bearing receivables	196.4	198.6
Total	**1,045.0**	**1,054.6**

A total amount of €5.2 million (€6.7 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 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 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 years 2017 and 2016, the Group had no discontinued operations.

€ million	2017	2016
Intangible assets	-	3.9
Land	0.3	10.4
Buildings and real estate shares	0.2	6.7
Machinery and equipment	0.0	1.1
Inventories	1.3	23.5
Total	**1.8**	**45.7**

Kesko Group company Konekesko Oy has agreed to sell its Still truck business in the first half of 2018. The carrying amount of the assets related to the business to be disposed is approximately €1 million.

In 2017, the liabilities related to non-current assets classified as held for sale were €0.1 million.

In 2016, the liabilities related to non-current assets classified as held for sale included properties used by the building and technical trade in Estonia and Latvia, divested in May 2017.

In addition, the liabilities related to non-current assets classified as held for sale in 2016 included the Yamaha presentations and the Yamarin boat business, which Konekesko Oy divested in June 2017.

The total liabilities related to the non-current assets classified as held for sale were €0.8 million in 2016.

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.

As regards to foreign subsidiaries, the former pension plan operated in Norway was classified as a defined benefit plan. The related liability expired during the financial year (net debt in financial year 2016 was €0.2 million). The defined benefit plan in Norway is not included in the tables below, because its impact on the consolidated amounts is insignificant.

The pension plans in the other foreign subsidiaries are managed in accordance with local regulations and practices in each country and they are defined contribution plans.

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund's department A. Department A was closed on 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. At the end of 2017, the Pension Fund had 2,651 beneficiaries, of whom 608 were active employees and 2,043 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.9% (96.7%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

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

Kesko Group does not expect to pay contributions to the Pension Fund in 2018.

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

€ million	2017	2016
Present value of defined benefit obligation	-266.6	-302.3
Fair value of plan assets	474.1	467.1
Net assets recognised in the balance sheet	**207.5**	**164.7**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	164.7	176.4
Income/cost recognised in the income statement	-3.2	0.3
Remeasurement	45.0	-14.0
Contributions to plan and plan costs	1.1	2.0
As at 31 December	**207.5**	**164.7**

€ 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**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2016	-266.4	442.8	176.4
Current service cost	-3.8		-3.8
Interest cost/income	-6.0	10.0	4.1
	-9.7	10.0	0.3
Remeasurement			
Return on plan assets		26.8	26.8
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	-41.4		-41.4
Experience gains/losses	0.7		0.7
	-40.7	26.8	-14.0
Contributions to plan and plan costs		2.0	2.0
Benefit payments	14.7	-14.7	0.0
As at 31 December 2016	**-302.3**	**467.1**	**164.7**

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**

Plan assets were comprised as follows in 2016

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	100.3	56.5	156.8
Debt instruments	26.5	37.0	63.5
Investment funds	37.6	17.2	54.8
Properties		147.4	147.4
United States			
Equity instruments	4.7		4.7
Investment funds	32.8		32.8
Other countries			
Investment funds	22.7		22.7
Total	**224.6**	**258.1**	**482.7**

€ million	2017	2016
Kesko Corporation shares included in fair value	21.9	23.0
Properties leased by Kesko Group included in fair value	122.2	179.5

Principal actuarial assumptions:

	2017	2016
Discount rate	2.08%	1.50%
Salary growth rate	2.23%	2.30%
Inflation	1.69%	1.80%
Pension growth rate	1.97%	2.10%
Average service expectancy, years	9	10

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

	2017	2016
Weighted average duration of pension obligations, years	14	16
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	14.9	15.0
Between 1–10 years	117.8	118.6
Between 10–20 years	107.7	112.4
Between 20–30 years	73.3	78.0
Over 30 years	63.8	70.7
Total	**377.5**	**394.6**

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.

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

Risks related to pension plan

Asset related risks

The Pension Fund's investment assets comprise properties, shares and equity funds, private equity funds and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually confirmed by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target return on investment activity is 5.0%. The risks involved in 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 2017, the realised return on investing activity was 3.8%.

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 €206.9 million as at 31 December 2017. 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
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%
2016			
Discount rate	0.50%	-7.30%	8.30%
Salary growth rate	0.50%	1.50%	-1.40%
Pension growth rate	0.50%	6.40%	-5.80%

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	2017	2016
Carrying amount as at 1 January	107.9	99.2
Share of the net profit for the financial year	0.9	-1.3
Additions	8.6	9.9
Carrying amount as at 31 December	**117.4**	**107.9**

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

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 and the Lithuanian UAB Mokilizingas provides consumer financing to local consumers. Hehku Shop Ltd is a joint venture established by Kesko and Oriola in June 2017 to create a chain of health, beauty and wellbeing stores in Finland. 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.

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	0.0	-	2.3	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**	**789.6**	**79.6**	**41.6**	

2016 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	671.7	633.5	48.3	6.0	33.3
Kruunuvuoren Satama Oy, Helsinki	257.3	135.5	12.9	8.5	49.0
UAB Mokilizingas, Vilnius, Lithuania	39.4	32.6	5.9	1.9	12.8
Valluga-sijoitus Oy, Helsinki	30.2	0.3	0.0	2.7	46.2
Vähittäiskaupan Takaus Oy, Helsinki	86.8	0.3	1.4	7.4	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.2	1.7	9.1	0.0	30.0
Others	4.4	3.1	0.2	0.0	
Total	**1,097.0**	**806.9**	**77.8**	**26.4**	

Mutual real estate companies

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

€ million	2017	2016
Non-current assets	36.2	36.5
Current assets	0.9	0.7
Total	37.1	37.2
Non-current liabilities	2.2	2.5
Current liabilities	5.3	5.2
Total	7.5	7.7
Net assets	29.6	29.5
Income	2.3	2.7
Costs	3.5	3.9
Net profit	**-1.2**	**-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.

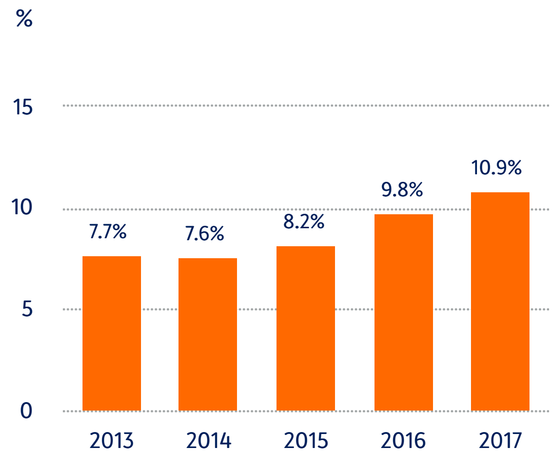
A warranty provision is recognised when a product covered by warranty provisions is sold. The provision amount is based on historical experience about the level of warranty expenses. Leases become onerous and a provision is recognised for them, if the leased premises remain vacant, or if they are subleased 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. 2017	12.3	24.9	18.6	55.8
Foreign exchange effects		0.0		0.0
Additional provisions	9.9	13.7	12.8	36.4
Unused amounts reversed	0.0	-12.0	-4.8	-16.8
Amounts charged against provision	-14.6	-0.9	-3.6	-19.1
Changes in the Group structure			0.4	0.4
Provisions as at 31 Dec. 2017	7.6	25.6	23.5	56.7
Analysis of total provisions				
Non-current		13.2	11.9	25.1
Current	7.6	12.4	11.5	31.6

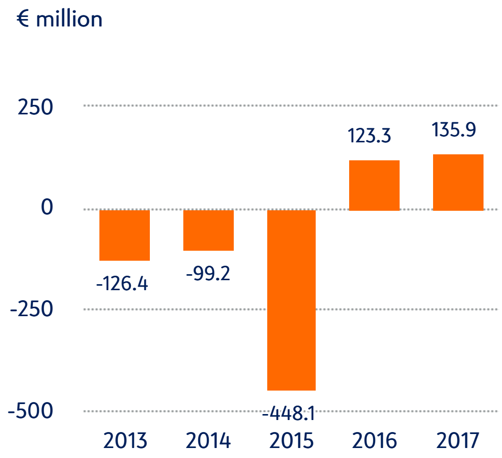
The provisions for onerous leases relate to lease liabilities for premises vacated from the Group's operating activities, and to net rental losses on subleased premises. A provision has been recognised for warranties and care plans of vehicles and machines sold by the Group companies. The provision amount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

4. Capital structure and financial risk

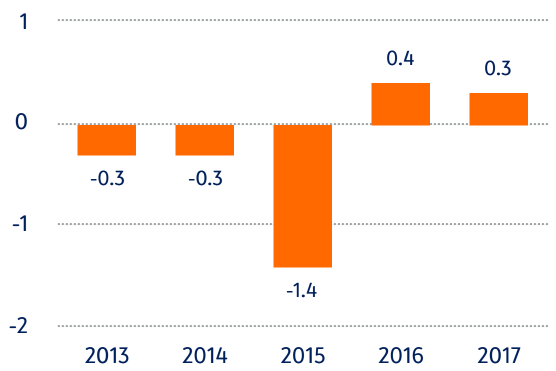
Comparable return on equity



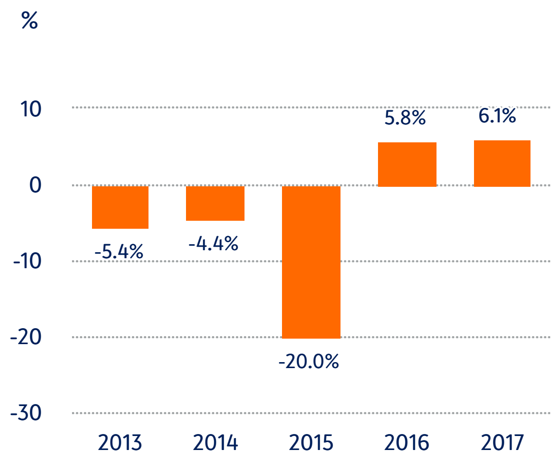
Interest-bearing net debt



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 2017**	**Level achieved in 2016**
Comparable return on capital employed	14%	12.2	11.9
Comparable return on equity	12%	10.9	9.8
Interest-bearing net debt/EBITDA	< 2,5	0.3	0.4

€ million	**2017**	**2016**
Interest-bearing liabilities	533.9	514.6
- Financial assets at fair value through profit or loss	171.0	93.3
- Available-for-sale financial assets	94.2	156.8
- Cash and cash equivalents	132.7	141.3
Interest-bearing net debt	**135.9**	**123.3**
Operating profit	324.6	146.8
+ depreciation, amortisation and impairment	153.7	161.6
EBITDA	478.3	308.4
Interest-bearing net debt/EBITDA	**0.3**	**0.4**

Gearing, %

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

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 2017, 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 2017, Kesko Corporation's share capital was €197,282,584.

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Reserve of invested non-restricted equity € million	Share premium € million	Total € million
1 January 2016	31,737,007	67,405,168*	99,142,175*	197.3	22.8	197.8	417.8
Transfer of treasury shares		131,468	131,468				
31 December 2016	31,737,007	67,536,636*	99,273,643*	197.3	22.8	197.8	417.8
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**
Number of votes	**317,370,070**	**67,719,608**	**385,089,678**				

* Excluding treasury shares which totalled 563,137 (746,109) at the end of the financial year.

Treasury shares

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

	pcs
B shares held by the Company as at 31 Dec. 2016	**746,109**
Transfer, share-based compensation plan	-192,822
Returned during the period	9,850
B shares held by the Company as at 31 Dec. 2017	**563,137**

Dividends

After the balance sheet date, the Board of Directors has proposed that €2.20 per share be distributed as dividends. A dividend of €2.00 per share was distributed on the profit for 2016.

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

Revaluation reserve

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

4.3 Financial risks

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

Foreign exchange risks

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

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

Translation risks

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

As of 1 January 2017, the functional currency of Russian real estate companies has been the rouble.

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

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

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. 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

Sensitivity analysis, impact on equity as at 31 Dec. 2016 € million	**NOK**	**SEK**	**RUB**	**PLN**	**BYN**
Change +10%	-7.3	-8.7	-6.2	-2.2	-0.6
Change -10%	8.9	10.7	7.5	2.7	0.8

Transaction risks

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

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

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

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The following table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual foreign exchange risk after hedgings. When forecast amounts are included in the transaction exposure, the most significant difference from the table below is in the USD exposures. As at 31 December 2017, the exposure with respect to USD was €-26 million.

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**

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

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. 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

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +10%	-2.5	-0.4	-0.4	-0.7	-1.1	-0.2
Change -10%	3.0	0.5	0.5	0.8	1.4	0.2

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 2017. As at 31 December 2017, liquid assets totalled €398 million (€391 million). Interest-bearing liabilities were €534 million (€515 million) and interest-bearing net debt €136 million (€123 million) as at 31 December 2017.

	31 Dec. 2017				31 Dec. 2016			
€ million	**< 1 year**	**1-5 years**	**> 5 years**	**Total**	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Maturities of financial liabilities and related finance costs								
Borrowings from financial institutions	**6.4**	**8.9**	**0.1**	**15.5**	**5.0**	**2.3**		**7.3**
finance costs	0.8	1.1	0.0	1.9	0.0	0.1		0.1
Private Placement notes (USD)		**20.0**		**20.0**		**22.0**		**22.0**
finance costs	1.3	0.6		1.9	1.4	2.1		3.6
Bonds	**224.8**			**224.8**		**225.0**		**225.0**
finance costs	6.2			6.2	6.2	6.2		12.4
Pension loans	**10.5**	**66.2**	**26.9**	**103.5**	**2.4**	**60.4**	**43.1**	**105.9**
finance costs	1.0	2.5	0.6	4.1	1.1	3.1	1.0	5.3
Finance lease liabilities	**3.5**	**7.5**	**0.1**	**11.0**	**2.9**	**5.7**	**0.0**	**8.6**
finance costs	0.1	0.2	0.0	0.3	0.3	0.4	0.0	0.7
Payables to K-retailers	**113.3**			**113.3**	**116.0**			**116.0**
finance costs								0.0
Other interest-bearing liabilities	**37.8**	**1.7**	**6.5**	**46.0**	**29.6**			**29.6**
finance costs	0.3	1.1	0.1	1.6				0.0
Non-current non-interest-bearing liabilities	**0.8**	**4.0**	**26.5**	**31.2**	**0.7**	**12.3**	**27.2**	**40.2**
Current non-interest-bearing liabilities								
Trade payables	**1,023.7**			**1,023.7**	**1,069.2**			**1,069.2**
Accrued expenses	**308.5**			**308.5**	**316.2**			**316.2**
Other non-interest-bearing liabilities	**188.6**			**188.6**	**191.6**			**191.6**

Financial liabilities in the balance sheet include €3.4 million (€6.5m) in items related to derivatives.

€ million	31 Dec. 2017 < 1 year	1–5 years	> 5 years	Total	31 Dec. 2016 < 1 year	1–5 years	> 5 years	Total
Cash flows of derivatives								
Payables								
Foreign exchange forward contracts outside hedge accounting	78.1			78.1	175.4			175.4
Net settlement of payables								
Interest rate derivatives	0.2	1.3		1.5				
Electricity derivatives	0.6			0.6	1.2	0.8		2.0
Foreign currency derivatives		0.1		0.1	1.5	2.1		3.6
Receivables								
Foreign exchange forward contracts outside hedge accounting	76.2			76.2	172.4			172.4
Net settlement of receivables								
Electricity derivatives	0.2	0.2		0.4	0.2	0.1		0.3
Derivatives relating to Private Placement notes								
Foreign currency derivatives								0.0
Interest rate derivatives	0.2	0.1		0.3		1.5		1.5

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. Chain rebates are retrospective discounts given to retailers and the terms vary from one chain to another.

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €200.0 million (€150.0 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €449 million (€449 million). In addition, in January 2018, the Group companies held a total of €334.1 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 (1.9) years on average.

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon interest at 2.75% and it will be 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 2017, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.7 million (€-/+2.0 million), if the interest rate level had risen or fallen by 1 percentage point.

The bond, Private Placement notes and pension loans, €348.4 million in aggregate, have fixed rates, and their effective interest cost was 2.6%. 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 2017 was 1.0% (1.7%) and the duration was 0.9 years at the end of the financial year. The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date. The table below analyses financial instruments carried at fair value by valuation method.

Fair value hierarchy of financial assets and liabilities	**Fair value as at 31 Dec. 2017**			
€ million	**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**

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

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	2017	2016
Private equity funds and other shares and interests as at 1 January	15.1	15.3
Purchases	9.3	0.6
Refunds received	-0.5	-1.3
Gains and losses through profit or loss	-0.4	0.6
Changes in fair values	-0.6	-0.1
Private equity funds and other shares and interests as at 31 December	**23.0**	**15.1**

Level 3 includes private equity funds and other shares and interests. These investments have been classified as non-current available-for-sale financial assets. Level 3 financial assets are measured based on computations received from the companies. An income of €1.6 million has been recorded on these investments for the financial year 2017.

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.

Current available-for-sale financial assets € million	2017	2016
Carrying amount as at 1 January	156.8	371.7
Changes	-62.9	-215.7
Changes in fair value	0.3	0.7
Carrying amount as at 31 December	**94.2**	**156.8**

The available-for-sale financial assets include current 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 €+/-2.3 million (€+/-2.0 million) and €+/-1.3 million (€+/-1.7 million) on equity at the balance sheet date.

Maturity of non-current receivables

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**

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

Maturity analysis of non-current receivables as at 31 Dec. 2016 € million	2018	2019	2020	2021	2022–	Total
Non-interest-bearing non-current receivables	1.4	0.0		0.2	0.4	1.8
Loans and receivables from associates and joint ventures	1.5				56.0	57.5
Other non-current receivables	0.3	2.9	0.0	0.0	0.0	3.3
Total	**3.2**	**2.9**	**0.0**	**0.2**	**56.4**	**62.6**

Credit and counterparty risk

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

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

Ageing analysis of trade receivables € million	2017	2016
Trade receivables fully performing	742.2	731.1
1–7 days past due trade receivables	32.3	49.6
8–30 days past due trade receivables	22.5	18.6
31–60 days past due trade receivables	12.0	5.9
over 60 days past due trade receivables	27.1	26.0
Total	**836.0**	**831.2**

Within trade receivables, €346.9 million (€355.7 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 €211.5 million (€224.1 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €23.2 million (€24.6 million) monitored on a separate allowance account. The original balance sheet value of these trade receivables was €37.2 million (€35.2 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €5.2 million (€6.7 million).

The amount of receivables with renegotiated terms totalled €5.9 million (€3.1 million).

Financial credit risk

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

Commodity risks and their sensitivity analysis

The Group uses electricity derivatives for the purpose of balancing out energy costs.
The electricity price risk is assessed for five-year periods. The changes in the fair values of

derivatives hedging the price of electricity supplied during the financial year are recognised within adjustments to purchases. Hedge accounting is applied to contracts hedging future purchases. The effective portion of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity and the ineffective portion in the income statement within other operating income or expenses. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under revaluation of cash flow hedge.

Result of cash flow hedging

As a result of hedge accounting applied to electricity, an amount of €1.1 million (€1.8 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-0.1 million (€1.4 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €1.0 million (€3.2 million) before accounting for deferred tax assets.

A fair value change of €-0.3 million (€-0.1 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.2 million (€0.3 million) interest expense adjustment for interest rate derivatives was recognised in the income statement.

At the end of the year, the ineffective portion of derivatives hedging the price risk of electricity was €-0.2 million (€-0.6 million).

As at the balance sheet date, a total quantity of 268,656 MWH (463,460 MWH) of electricity had been purchased with electricity derivatives and 657,384 MWH under fixed price purchase agreements. The 1–12 month hedging level was 77% (71%), the 13–24 month level was 50% (43%), the 25–36 month level was 39% (16%), and the 37–48 month level was 25% (3%).

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 2017, it would contribute €-/+1.0 million (€-/+1.5 million) to the 2018 income statement and €-/+0.3 million (€-/+0.7 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)	31 Dec. 2016 Positive fair value (balance sheet value)	31 Dec. 2016 Negative fair value (balance sheet value)
Interest rate derivatives	1.7	-1.9	2.7	-2.8
Foreign currency derivatives	0.4	-2.3	4.2	-4.6
Electricity derivatives	0.3	-0.6	0.2	-2.0

Notional principal amounts of derivative contracts € million	31 Dec. 2017 Notional principal amount	31 Dec. 2016 Notional principal amount
Interest rate derivatives	250.2	40.2
Foreign currency derivatives	96.8	197.8
Electricity derivatives	6.2	11.2

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 €-0.4 million (€-0.1 million), and currency swaps with a notional principal amount of €20.1 million and a fair value of €-0.1 million (€2.7 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 €0.5 million.

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

4.4 Finance income and costs

€ million	2017	2016
Interest income and other finance income		
Interest income on loans and receivables	10.0	11.3
Interest income on financial assets at fair value through profit or loss	0.3	0.7
Interest income on available-for-sale financial assets	1.2	1.6
Gains on disposal of available-for-sale financial assets	2.6	1.0
Other finance income	4.5	0.4
Total interest income and other finance income	18.6	15.0
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-11.3	-10.8
Losses on disposal of available-for-sale financial assets	0.0	0.0
Other finance costs	-2.5	-0.8
Total interest expense and other finance costs	-13.8	-11.6
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-3.3	-4.4
Total exchange differences	-3.3	-4.4
Total finance income and costs	1.5	-1.0

The interest expense includes €0.3 million (€0.1 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.

4.5 Financial assets and liabilities by category

Accounting policies

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.

Cash and cash equivalents

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

Financial liabilities

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

Derivative financial instruments and hedge accounting

When derivative contracts are entered into, they are recognised at fair value and in the financial statements, they are re-measured at their fair value. The recognition of changes in the fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting 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 IAS 39 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the hedging instruments are recognised in profit or loss.

Embedded derivatives

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

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 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**
Total 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 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				**404.6**		**404.6**	**403.6**
Trade payables				**1,023.7**		**1,023.7**	**1,023.7**
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**

As at 31 December 2016

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 as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			**15.1**			**15.1**	**15.1**
Non-current non-interest-bearing receivables		1.8				1.8	1.8
Derivatives					0.0	0.0	0.0
Total non-current non-interest-bearing receivables		**1.8**			**0.0**	**1.9**	**1.9**
Non-current interest-bearing receivables		58.1				58.1	58.1
Derivatives					2.7	2.7	2.7
Total non-current interest-bearing receivables		**58.1**			**2.7**	**60.8**	**60.8**
Total non-current financial assets		**59.9**	**15.1**		**2.7**	**77.8**	**77.8**
Current financial assets							
Trade and other non-interest-bearing receivables		1,028.0				1,028.0	1,028.0
Derivatives	1.5				0.2	1.7	1.7
Total trade and other non-interest-bearing receivables	**1.5**	**1,028.0**				**1,029.7**	**1,029.7**
Interest-bearing receivables		**3.7**				**3.7**	**3.7**
Financial assets at fair value through profit or loss	93.3					93.3	93.3
Available-for-sale financial assets			156.8			156.8	156.8
Total current financial assets	**94.8**	**1,031.7**	**156.8**		**0.0**	**1,283.5**	**1,283.5**
Carrying amount by category	**94.8**	**1,091.6**	**171.9**		**2.7**	**1,361.3**	**1,361.3**

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				**358.7**		**358.7**	**364.8**
Non-current non-interest-bearing liabilities				39.6		39.6	39.6
Derivatives					0.6	0.6	0.6
Total non-current non-interest-bearing liabilities				**39.6**	**0.6**	**40.2**	**40.2**
Total non-current financial liabilities				**398.2**	**0.6**	**398.8**	**405.0**
Current financial liabilities							
Current interest-bearing liabilities				**156.0**		**156.0**	**156.1**
Trade payables				**1,069.2**		**1,069.2**	**1,069.2**
Other non-interest-bearing liabilities				190.2		190.2	190.2
Derivatives					1.3	1.3	1.3
Other non-interest-bearing liabilities				**190.2**	**1.3**	**191.6**	**191.6**
Accrued expenses				311.7		311.7	311.7
Derivatives	4.6					4.6	4.6
Total accrued expenses	**4.6**			**311.7**		**316.2**	**316.2**
Total current non-interest-bearing liabilities	**4.6**			**1,571.1**	**1.3**	**1,577.0**	**1,577.0**
Total current financial liabilities	**4.6**			**1,727.1**	**1.3**	**1,733.0**	**1,733.1**
Carrying amount by category	**4.6**			**2,125.3**	**1.9**	**2,131.8**	**2,138.1**

Prepaid expenses and accrued expenses do not include income tax assets of €11.1 million (€21.2m) or income tax liabilities of €5.6 million (€8.7m).
Prepayments received of €38.5 million(€35.3m) 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 0.1%–1.5% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity 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.

	2017			2016		
€ million	**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	3.5	0.0	3.5	3.1	0.2	2.9
Later than 1 year and no later than 5 years	7.7	0.3	7.4	6.0	0.6	5.4
Later than 5 years	0.1	0.0	0.1	0.1	0.0	0.0
Total lease payments	**11.3**	**0.3**	**11.0**	**9.1**	**0.7**	**8.4**
Expected sublease payments			-			0.3

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	2017	2016
Within 1 year	390.9	414.8
Later than 1 year and no later than 5 years	1,283.9	1,344.0
Later than 5 years	1,238.0	1,269.9
Total	2,912.9	3,028.7
Expected future minimum lease payments under non-cancellable sublease agreements	60.2	52.9
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	407.3	423.0
Sublease income	22.3	21.8

The 2017 income statement includes capital lease payments and maintenance rentals on real estate under operating leases, and other rentals to a total amount of €463.7 million (€458.1 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	2017	2016
Within 1 year	11.4	10.3
Later than 1 year and no later than 5 years	26.5	18.7
Later than 5 years	19.0	28.5
Total	56.8	57.4
Aggregate contingent rents charged to the income statement	1.4	2.2

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	2017	2016
Collateral given for own commitments		
Pledges	156.9	124.2
Mortgages	23.3	23.3
Guarantees	6.0	5.1
Other commitments and contingent liabilities	59.8	33.4
Collateral given for others		
Guarantees	0.3	0.3
Other commitments and contingent liabilities	20.5	19.3

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 €5.6 million in 2018 and €0.6 million in 2019–2022.

5 Other notes

5.1 Group composition

Group composition

Kesko Group has 97 (102) 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 incorpo-ration	Most significant subsidiaries	Number of wholly-owned subsidiaries 2017	Number of wholly-owned subsidiaries 2016	Number of partly-owned subsidiaries 2017	Number of partly-owned subsidiaries 2016
Grocery trade	Finland	K-Market Oy	26	23	5	4
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia, Belarus	Onninen Group, Kesko Senukai Group	39	52	19	12
Car trade	Finland	VV-Auto Group Oy	6	6	-	-
Others	Finland, Estonia		2	5	-	-

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-talouspalvelukeskus 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 €8.6 million (€15.3 million) and in equity, the share was €96.7 million (€97.3 million).

The arrangement agreed by Kesko in the autumn of 2015 to centralise the Baltic building and home improvement trade in UAB Senuku Prekybos centras (Senukai) was completed in 2016. The company's name was changed to Kesko Senukai. In the arrangement, Kesko sold the shares in its wholly owned companies responsible for the operations of K-rauta stores in Estonia and Latvia to its subsidiary Senukai, which is majority-owned by Kesko. The Kesko Senukai subgroup operates in Lithuania, Estonia, Latvia and Belarus.

Summarised financial information on subsidiary with material non-controlling interest

€ million	Kesko Senukai Group 2017	Kesko Senukai Group 2016
Current assets	238.8	224.0
Non-current assets	109.7	87.9
Current liabilities	114.1	111.0
Non-current liabilities	31.7	18.0
Net sales	628.9	586.0
Net profit/loss	17.1	25.1
Parent company owners' share of net profit/loss	16.1	22.4
Non-controlling interests' share of net profit/loss	1.0	2.7
Comprehensive income for the period	10.7	24.3
Parent company owners' share of comprehensive income for the period	13.8	22.5
Non-controlling interests' share of comprehensive income for the period	-3.1	1.8
Dividends paid to non-controlling interests	-1.7	-1.1
Net cash generated from operating activities	13.4	14.3
Net cash used in investing activities	-16.8	-26.0
Net cash used in financing activities	17.5	52.5

The amounts above are before intra-Group eliminations.

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

Subsidiaries

Kesko Corporation's fully-owned subsidiaries Kesko Food Ltd, K-citymarket Oy and Kespro Ltd merged into Kesko Corporation on 28 February 2017.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Barker-Littoinen Oy	Espoo	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Keru Kiinteistöt Oy	Helsinki	100.00	100.00
Kesko Export Oy	Helsinki	100.00	100.00
Kesko Food Russia Holding Oy	Helsinki	100.00	100.00
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	100.00
Kesko Senukai Lithuania UAB	Vilnius, Lithuania	50.00	50.00
Kiinteistö Oy Furupuro	Vantaa	100.00	100.00
Kiinteistö Oy Helsingin Itäkeskus	Helsinki	100.00	100.00
Kiinteistö Oy Hyvinkään Tuomaankulma	Hyvinkää	100.00	100.00
Kiinteistö Oy Hyvinkään Tuuliankulma	Hyvinkää	100.00	100.00
Kiinteistö Oy Hämeenlinnan Visamäentie 16	Helsinki	100.00	100.00
Kiinteistö Oy Kellokosken Vanha valtie 189	Tuusula	100.00	100.00
Kiinteistö Oy Keravan Alikeravantie 77	Helsinki	100.00	100.00
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	100.00
Kiinteistö Oy Kuvernöörintie 8	Helsinki	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

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Klintcenter Ab	Maarianhamina	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 Russia Holding Oy	Helsinki	100.00	100.00
KS Holding UAB	Vilnius, Lithuania	50.01	50.01
Liiketalo Oy Kaijonkeskus	Oulu	100.00	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00	100.00
Onninen Oy	Helsinki	100.00	100.00
Plussa OÜ	Tallinn, Estonia	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
Tampereen Länsikeskus Oy	Tampere	100.00	100.00
TD-Kiinteistöt Oy	Turku	100.00	100.00
Vaajakosken Liikekeskus Oy	Jyväskylä	100.00	100.00
VV-Auto Group Oy	Helsinki	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Antigravity Payment System UAB	Vilnius, Lithuania	25.50	
Oy Autocarrera Ab	Helsinki	100.00	
Daugavpils project 1 SIA	Daugavpils, Latvia	50.01	
Hasti-Ari AS	Oppegård, Norway	100.00	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Jyrängön Palvelukeskus Oy	Heinola	50.45	
K rauta SIA	Riga, Latvia	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kesko Senukai Digital UAB	Vilnius, Lithuania	25.50	
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
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 Rus OOO	St. Petersburg, Russia	100.00	
Ksenukai Digital Oü	Tallinn, Estonia	25.50	
LLC LR Rustaveli StP	St. Petersburg, Russia	100.00	
Lämpö-Tukku Oy	Helsinki	100.00	
MD Galerija Azur SIA	Riga, Latvia	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	
Rake Bergen AS	Oppegård, Norway	100.00	
Romos Holdingas UAB	Kaunas, Lithuania	25.00	
Saele og Hollevik Trading AS	Bergen, Norway	100.00	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	25.50	
SPC Holding UAB	Kaunas, Lithuania	50.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
VV-Autotalot Oy	Helsinki	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	
Mokilizingas UAB	Vilnius, Lithuania	12.75	
Rakentamisen MALL Oy	Helsinki	25.00	
Suomen LVIS-Tietoverkko Oy	Vantaa	20.00	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo	50.01	50.01
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 and the Lithuanian UAB Mokilizingas provides consumer financing to local consumers. Until 10 October 2016, Suomen Lähikauppa was a member of Tuko Logistics Cooperative. Suomen Lähikauppa's purchases from Tuko have been reported within related party transactions until 10 October 2016. Hehku Shop Ltd is a joint venture established by Kesko and Oriola in June 2017 to create a chain of health, beauty and wellbeing stores in Finland. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. The pension assets include Kesko Corporation shares with a value of €21.9 million (€23.0 million). Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2017 and 2016, 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 2017	Associates and joint ventures 2016	Board and management 2017	Board and management 2016	Pension Fund 2017	Pension Fund 2016
Sales of goods	0.1	0.0	79.6	73.6		
Sales of services	3.9	3.6	0.4	0.3	0.3	0.3
Purchases of goods		-128.8	-7.8	-6.9		
Purchases of services	-0.1	-7.7	-0.1	-0.1		
Operating income	1.5	1.5	13.1	11.3	0.0	
Operating costs	-53.0	-53.2	-2.9	-1.6	-11.1	-11.3
Finance income	5.6	5.7				

Balance sheet € million	Associates and joint ventures 2017	Associates and joint ventures 2016	Board and management 2017	Board and management 2016	Pension Fund 2017	Pension Fund 2016
Current receivables	0.5	0.2	5.9	7.6		0.0
Non-current receivables	57.7	57.6				
Current liabilities	24.1	37.5	0.9	1.6	9.7	5.5

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €5.9 million (€7.6 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the countersecurity from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the countersecurity was valued at €5.5 million (€5.5 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 financial year, 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		2017	2016
Mikko Helander	President and CEO	2,849.4	2,174.0
Group Management Board	other members	6,185.1	4,683.4
Esa Kiiskinen	Board Chairman	87.5	87.5
Mikael Aro	Board Deputy Chairman	60.0	60.5
Toni Pokela	Board member	43.0	42.5
Matti Kyytsönen	Board member	45.5	45.5
Anu Nissinen	Board member	44.5	44.5
Matti Naumanen	Board member (since 4 Apr. 2016)	43.0	31.1
Jannica Fagerholm	Board member (since 4 Apr. 2016)	48.0	34.1
Tomi Korpisaari	Board member (until 29 Feb. 2016)		7.2
Kaarina Ståhlberg	Board member (until 29 Feb. 2016)		10.7
Total		**9,406.1**	**7,221.0**

Retirement benefits

The statutory pension provision of the President and CEO and the other members of the Group Management Board is provided through a pension insurance company. The supplementary pensions of three Group Management Board members are based on a defined benefit plan and determined based on the rules of Kesko Pension Fund and their personal service contracts. The supplementary pensions of four Group Management Board members are based on a defined contribution plan. 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 in accordance with the Employees' Pensions Act (TyEL) for the ten (10) calendar years preceding the retirement. The pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €0.9 million (€1.0 million) and the pension asset was €0.6 million (€0.6 million). The pension cost of the President and CEO's statutory pension provision was €0.3 million (€0.2 million).

Share awards
The following share awards were granted to the Group Management Board members: under the 2015 plan 39,516 shares (maximum was 74,000) and under the 2016 plan 56,684 shares (maximum was 74,000). The maximum under the 2017 plan is 114,200 shares, which represents gross earnings, from which the applicable withholding tax is deducted.

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

Shareholdings
At 31 December 2017, the President and CEO held 36,091 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 2017, the Group Management Board, including the President and CEO, held 81 Kesko Corporation A shares and 116,858 Kesko Corporation B shares, which represented 0.12% 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.

Share-based compensation plan
Kesko has five share-based compensation plans directed at members of the Group's management and other specified key persons: the 2011−2013 plan, the 2014−2016 plan, and the plans decided in 2017, namely the performance share plan (PSP) and the transitional share-based incentive plan (Bridge Plan). Kesko's Board has also decided on a restricted share pool (RSP), which is a complementary share plan for special situations. Under the 2011–2013 and 2014–2016 share-based compensation plans, a total maximum of 600,000 own B shares held by the Company as treasury shares could be granted over three years.

The 2011–2013 and the 2014–2016 share-based compensation plans had three vesting periods: the calendar years 2011, 2012 and 2013 and the calendar years 2014, 2015 and 2016. The vesting period for the new 2017 share plan is two years. The vesting period for the transitional share-based incentive plan (Bridge Plan) was year 2017. There were no events in the restricted share pool (RSP) in 2017. Kesko's Board has decided the vesting criteria, the target group and the maximum amounts of the share award separately for each vesting period based on the Remuneration Committee's proposal. The final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria have been decided by the Board at the beginning of the year following the vesting period. The criteria for the 2011, 2012, 2013, 2014, 2015 and 2016 vesting periods were, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, Kesko's basic comparable earnings per share (EPS), and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index. In the 2017 plans (PSP and Bridge Plan) the criteria for the vesting period are, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, the comparable return (%) on capital employed (ROCE), and the absolute total shareholder return (TSR, %) of a Kesko B share.

In all the plans, the award possibly paid for a vesting period is paid in Kesko B shares. In addition, in the 2011–2013 and 2014–2016 plans, a cash component at maximum equal to the value of the shares is paid to cover the taxes and tax-like charges incurred under the award. In the new plans initiated in 2017 (PSP and Bridge Plan), the possibly paid total award amount is the gross earning of shares from which the applicable withholding tax is deducted, and the remaining net amount is paid in shares.

A commitment period of three calendar years following each vesting period is attached to the shares granted (the 2011–2013 and 2014–2016 plans and Bridge Plan), during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. In the 2017 performance share plan (PSP), the two-year vesting period is followed by a two-year commitment period. If a person's employment or service relationship terminates prior to the expiry of a commitment period, he/she must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In individual cases, the Board may decide that the grantee can keep the shares under the return obligation, or some of them. If the grantee retires during the commitment period, he/she is entitled to keep the shares and other securities already received.

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

Share award grant dates and fair values, vesting period 2017	**PSP**	**Bridge Plan**
Grant dates	1 Feb. 2017	1 Feb. 2017
Grant date fair value of share award, €	44.67	44.67
Share price at grant date, €	46.67	46.67
Share-based compensation plan duration		
Vesting period start date	1 Jan. 2017	1 Jan. 2017
Vesting period end date	31 Dec. 2018	31 Dec. 2017
Commitment period end date	31 Dec. 2020	31 Dec. 2020

Share award grant dates and fair values	**Vesting period 2016**	**Vesting period 2015**	**Vesting period 2014**	**Vesting period 2013**
Grant dates	3 Feb. 2016	9 Feb. 2015	3 Feb. 2014	5 Feb. 2013
Grant date fair value of share award, €	32.45	30.74	25.66	23.30
Share price at grant date, €	34.95	32.24	27.06	24.50
Share-based compensation plan duration				
Vesting period start date	1 Jan. 2016	1 Jan. 2015	1 Jan. 2014	1 Jan. 2013
Vesting period end date	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014	31 Dec. 2013
Commitment period end date	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017	31 Dec. 2016

Assumptions applied in determining the fair value of share award	**Vesting period 2017 PSP**	**Vesting period 2017 Bridge plan**	**Vesting period 2016**	**Vesting period 2015**	**Vesting period 2014**	**Vesting period 2013**
Number of share awards granted, maximum, pcs	325,300*	325,300*	263,000	262,800	278,400	263,600
Changes in the number of shares granted, pcs	-34,900	-25,900	-9,800	-3,600	-2,000	-9,500
Actual amount of share award, pcs			192,822	139,724	120,022	50,520
Number of plan participants at end of financial year	125	126	131	142	143	134
Share price at balance sheet date, €	45.25	45.25	47.48	32.37	30.18	26.80
Assumed fulfilment of vesting criteria, %	40.0	40.0	56.7	53.4	43.4	20.0
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	5.0	5.0	5.0	5.0

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

The impact of the above share-based compensation plans on the Group's profit for 2017 was €-9.8 million (€-12.3 million).

As at 31 December 2017, the amount to be recognised as expense for the financial years 2018–2020 is estimated at a total of €-9.8 million. The actual amount may differ from the estimate.

5.5 Deferred tax

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

Movements in deferred tax in 2016

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

Balance sheet division of net deferred tax liability

€ million	2017	2016
Deferred tax assets	5.6	5.8
Deferred tax liabilities	52.0	48.1
Total	**46.4**	**42.3**

Other temporary differences within deferred tax assets include €3.1 million of deferred tax assets arising from compliance with the Group's accounting principles and €3.4 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Tax loss carry-forwards

As at 31 December 2017, the Group's unused tax losses carried forward were €181.0 million, for which deferred tax assets have not been recognised, because at the balance sheet date, the realisation of the related tax benefit through future taxable profits is not probable.

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

€ million	2018	2019	2020	2021	2022	2023–	Yhteensä
	0.0	0.9	3.7	1.6	4.4	170.4	181.0

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

5.6 Components of other comprehensive income

€ million	2017 Before tax	Tax charge/ credit	After tax	2016 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	45.0	-9.0	36.0	-14.0	2.8	-11.1
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-29.3		-29.3	10.4		10.4
Cash flow hedge revaluation	0.8	-0.2	0.6	3.1	-0.6	2.4
Revaluation of available-for-sale financial assets	-0.4	0.1	-0.3	0.7	-0.1	0.5
Others	-0.3		-0.3	-0.3		-0.3
Total	**15.8**	**-9.1**	**6.7**	**-0.1**	**2.1**	**2.0**

5.7 Legal disputes and possible legal proceedings

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

5.8 Events after the balance sheet date

No significant events deviating from normal business operations have taken place after the balance sheet date.

Parent company's financial statements (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Net sales	**4,546,014,549.58**	**307,057,226.84**
Other operating income	957,239,419.90	145,872,845.35
Materials and services	-3,999,992,238.07	-182,055,341.10
Employee benefit expenses	-292,237,926.43	-78,391,983.08
Depreciation, amortisation and impairment	-64,691,857.88	-25,123,873.93
Other operating expenses	-581,088,865.22	-153,377,504.75
Operating profit	**565,243,081.88**	**13,981,369.33**
Finance income and costs	-71,760,675.11	10,150,624.85
Profit before appropriations and taxes	**493,482,406.77**	**24,131,994.18**
Appropriations		
Change in depreciation reserve	-4,820,340.90	7,253,944.92
Group contribution	47,337,019.21	137,567,419.37
Profit before taxes	**535,999,085.08**	**168,953,358.47**
Income taxes	-40,943,927.77	-21,025,798.49
Profit for the financial year	**495,055,157.31**	**147,927,559.98**

Parent company's balance sheet

€	31 Dec. 2017	31 Dec. 2016
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	13,028,438.27	7,693,643.06
Other intangible assets	111,897,224.51	15,684,207.80
Prepayments	16,015,144.73	8,303,933.25
	140,940,807.51	31,681,784.11
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	168,837,197.54	85,898,561.81
Leasehold interests and connection fees	1,524,238.07	79,438.61
Buildings		
Owned	344,012,526.20	161,741,464.59
Machinery and equipment	65,603,590.38	11,989,536.91
Other tangible assets	7,981,818.89	5,206,436.83
Prepayments and construction in progress	21,303,057.62	9,260,388.69
	609,262,428.70	274,175,827.44
INVESTMENTS		
Investments in subsidiaries	805,999,408.32	805,822,696.65
Investments in associates	83,982,695.77	78,255,203.86
Other investments	14,785,256.50	7,623,896.27
	904,767,360.59	891,701,796.78
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	234,744,925.64	46,416,088.41
	234,744,925.64	46,416,088.41

€	31 Dec. 2017	31 Dec. 2016
RECEIVABLES		
Long-term		
Receivables from subsidiaries	168,035,008.16	214,140,932.90
Receivables from associates	57,617,471.31	57,629,471.31
Loan receivables	5,000,000.00	-
Other receivables	5,237,960.95	5,184,785.91
	235,890,440.42	276,955,190.12
Short-term		
Trade receivables	373,594,000.87	144,796,523.71
Receivables from subsidiaries	675,384,765.34	625,191,943.42
Receivables from associates	3,044,550.12	991,449.83
Loan receivables	743,587.07	2,019,258.12
Other receivables	7,326,678.80	1,638,531.21
Prepayments and accrued income	103,271,251.54	69,232,300.91
	1,163,364,833.74	843,870,007.20
INVESTMENTS		
Other investments	259,111,541.02	246,965,095.16
CASH AND CASH EQUIVALENTS	75,212,606.84	48,104,149.95
TOTAL ASSETS	**3,623,294,944.46**	**2,659,869,939.17**

€	31 Dec. 2017	31 Dec. 2016
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	548,730,492.69	592,073,306.99
Profit for the financial year	495,055,157.31	147,927,559.98
	1,704,735,347.85	1,400,950,564.82
APPROPRIATIONS		
Depreciation reserve	106,651,164.74	59,756,479.17
PROVISIONS		
Other provisions	9,894,444.82	9,168,725.12
LIABILITIES		
Non-current		
Bonds	-	225,005,000.00
Private Placement notes	20,083,682.01	20,083,682.01
Pension loans	92,136,875.00	100,000,000.00
Other creditors	3,511,411.00	8,238,366.94
	115,731,968.01	353,327,048.95
Current		
Bonds	225,005,000.00	-
Pension loans	8,648,750.00	-
Advances received	24,169,912.84	39,667.98
Trade payables	588,622,363.88	135,005,784.67
Payables to subsidiaries	428,755,044.00	527,926,338.03
Payables to associates	24,100,220.87	21,949,611.28
Other payables	217,749,350.00	85,096,642.64
Accruals and deferred income	169,231,377.45	66,649,076.51
	1,686,282,019.04	836,667,121.11
TOTAL LIABILITIES	**3,623,294,944.46**	**2,659,869,939.17**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from operating activities		
Profit before appropriations	493,482,406.77	24,131,994.18
Adjustments		
Depreciation according to plan	64,691,857.88	17,936,645.13
Finance income and costs	71,760,675.11	-10,150,624.85
Other adjustments	-406,115,335.96	-31,774,213.98
	223,819,603.80	143,800.48
Change in working capital		
Current non-interest-bearing receivables, increase (-)/ decrease (+)	-161,680,563.29	49,585,713.94
Inventories increase (-)/decrease (+)	-6,091,469.70	5,152,816.06
Current non-interest-bearing liabilities, increase (+)/ decrease (-)	293,051,955.47	12,543,253.34
	125,279,922.48	67,281,783.34
Interests paid and other finance costs	-17,045,129.76	-17,959,831.97
Interests received	23,874,783.91	26,198,246.35
Dividends received	30,309,924.47	1,975,275.20
Income tax paid	-29,272,453.12	-71,583,714.69
	7,867,125.50	-61,370,025.11
Net cash generated from operating activities	**356,966,651.78**	**6,055,558.71**

€	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from investing activities		
Purchases of other investments	-2,500.00	-
Purchases of property, plant, equipment and intangible assets	-145,763,474.03	-25,073,151.29
Acquisitions of subsidiaries	-37,274,243.48	-280,846,572.73
Acquisitions of associates	-1,641,250.00	-
Sales of subsidiaries, net of cash	103,066,291.87	-5,000,000.00
Proceeds from disposal of other investments	112,984.89	166,095.44
Proceeds from disposal of property, plant, equipment and intangible assets	10,181,110.33	29,537,990.00
Long-term receivables, increase (-)/decrease (+)	39,290,538.07	-2,000,758.55
Net cash used in investing activities	**-32,030,542.35**	**-283,216,397.13**
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	-268,123,604.86	127,193,797.33
Short-term interest-bearing receivables, increase (-)/ decrease (+)	125,198,252.65	-237,114,236.83
Short-term money market investments, increase (-)/ decrease (+)	-36,407,333.34	364,532,233.40
Dividends paid	-198,932,108.72	-248,194,233.30
Group contributions received and paid	47,337,019.21	137,567,419.37
Other items	-3,244,788.93	5,424,147.30
Net cash used in financing activities	**-334,172,563.99**	**149,409,127.27**
Change in cash and cash equivalents	**-9,236,454.56**	**-127,751,711.15**
Cash and cash equivalents and current available-for-sale financial assets as at 1 Jan.	**106,569,989.39**	**234,321,700.54**
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.	**109,183,741.58**	**106,569,989.39**

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

Due to the mergers, data from the previous financial year are not comparable with the data from financial year 2017.

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 propert, 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	3–5 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 counter-party 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	2017	2016
Grocery trade	3,493.7	-
Building and home improvement trade	1,019.3	165.9
Others	32.9	141.1
Total	**4,546.0**	**307.1**

Note 3. Other operating income

€ million	2017	2016
Gains on sales of real estate and shares	61.6	2.2
Rent income	62.0	84.5
Fees for services	367.6	9.0
Profits from mergers	350.0	46.2
Others	116.1	3.8
Total	**957.2**	**145.9**

Note 4. Employee benefit expenses

€ million	2017	2016
Salaries and fees	-240.9	-64.6
Social security costs		
Pension costs	-41.0	-10.6
Other social security costs	-10.3	-3.2
Total	**-292.2**	**-78.4**

The average number of personnel at Kesko Corporation was 6,576 (2,797) people.

Salaries and fees to the management

€ million	2017	2016
Managing Director	1.5	1.3
Members of the Board of Directors	0.4	0.4
Total	**1.8**	**1.7**

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	2017	2016
Depreciation according to plan	-62.2	-17.9
Impairment, non-current assets	-2.5	-7.2
Total	**-64.7**	**-25.1**

Note 6. Other operating expenses

€ million	2017	2016
Rent expenses	-267.9	-57.9
Marketing expenses	-130.8	-44.5
Maintenance of real estate and store sites	-62.1	-8.2
Losses on disposals of non-current assets	-1.2	-9.9
Telecommunication expenses	-63.0	-25.9
Losses from mergers	0.0	-0.2
Other operating expenses	-56.1	-6.9
Total	**-581.1**	**-153.4**

Auditors' fees

€ million	2017	2016
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.3	0.2
Tax consultation	0.1	0.0
Other services	1.1	0.2
Total	**1.5**	**0.4**

Note 7. Finance income and costs

€ million	2017	2016
Income from long-term investments		
Dividend income from subsidiaries	30.3	1.4
Dividend income from others	2.4	0.0
Gains on disposal of shares	0.1	0.2
Gains on sales of investments	2.0	0.6
Income from long-term investments, total	**34.7**	**2.1**
Other interest and finance income		
From subsidiaries	10.8	17.1
From others	18.7	11.8
Interest and finance income, total	**29.5**	**29.0**
Impairment of investments held as non-current assets		
Impairment of shares	-96.9	-2.8
Changes in fair value	0.2	0.0
Impairment and changes in fair value of investments held as non-current assets, total	**-96.7**	**-2.8**
Interest and other finance costs		
To subsidiaries	-12.9	-2.2
To others	-26.3	-15.9
Interest and finance costs, total	**-39.2**	**-18.1**
Total	**-71.8**	**10.2**

Note 8. Appropriations

€ million	2017	2016
Difference between depreciation according to plan and depreciation in taxation	-4.8	7.3
Group contributions received	77.7	216.2
Group contributions paid	-30.3	-78.7
Total	**42.5**	**144.8**

Note 9. Changes in provisions

€ million	2017	2016
Transferred in mergers	1.7	5.6
Other changes	-0.9	2.6
Total	**0.7**	**8.3**

Note 10. Income taxes

€ million	2017	2016
Income taxes on group contributions	-9.5	-27.5
Income taxes on ordinary activities	-30.8	6.6
Taxes for prior years	-0.7	-0.1
Total	**-40.9**	**-21.0**

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 €21.3 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2017	2016
Intangible rights		
Acquisition cost as at 1 Jan.	15.3	9.5
Increases	0.7	2.9
Transferred in mergers	15.5	2.9
Decreases	-11.5	0.0
Transfers between items	6.1	0.1
Acquisition cost as at 31 Dec.	26.2	15.3
Accumulated depreciation as at 1 Jan.	-7.6	-3.2
Transferred in mergers	-11.8	-2.0
Accumulated depreciation on decreases and transfers	11.4	0.0
Depreciation and amortisations for the financial year	-5.1	-2.4
Accumulated depreciation as at 31 Dec.	-13.2	-7.6
Book value as at 31 Dec.	**13.0**	**7.7**
Other intangible assets		
Acquisition cost as at 1 Jan.	83.5	20.2
Increases	35.9	1.6
Transferred in mergers	188.3	66.5
Decreases	-64.2	-5.4
Transfers between items	7.3	0.6
Acquisition cost as at 31 Dec.	250.8	83.5
Accumulated depreciation as at 1 Jan.	-67.8	-13.4
Transferred in mergers	-114.3	-56.4
Accumulated depreciation on decreases and transfers	63.2	4.7
Depreciation and amortisations for the financial year	-20.1	-2.7
Accumulated depreciation as at 31 Dec.	-139.0	-67.8
Book value as at 31 Dec.	**111.9**	**15.7**

€ million	2017	2016
Prepayments		
Acquisition cost as at 1 Jan.	8.3	1.3
Increases	13.0	7.1
Transferred in mergers	5.9	0.7
Decreases	-0.1	-0.1
Transfers between items	-11.1	-0.7
Acquisition cost as at 31 Dec.	16.0	8.3
Book value as at 31 Dec.	**16.0**	**8.3**

Note 13. Property, plant and equipment

€ million	2017	2016
Land and waters, owned		
Acquisition cost as at 1 Jan.	85.9	77.9
Increases	4.4	5.1
Transferred in mergers	79.5	8.8
Decreases	-2.9	-5.9
Transfers between items	2.1	-
Acquisition cost as at 31 Dec.	168.8	85.9
Book value as at 31 Dec.	**168.8**	**85.9**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	0.1	-
Increases	0.4	-
Transferred in mergers	1.1	0.1
Decreases	0.0	-
Acquisition cost as at 31 Dec.	1.5	0.1
Book value as at 31 Dec.	**1.5**	**0.1**
Buildings		
Acquisition cost as at 1 Jan.	316.4	262.1
Increases	67.5	8.1
Transferred in mergers	165.4	53.5
Decreases	-2.1	-8.6
Transfers between items	15.9	1.3
Acquisition cost as at 31 Dec.	563.2	316.4

€ million	2017	2016
Accumulated depreciation as at 1 Jan.	-154.7	-141.1
Transferred in mergers	-49.1	-10.8
Accumulated depreciation on decreases and transfers	0.9	7.8
Depreciation for the financial year	-16.3	-10.6
Accumulated depreciation as at 31 Dec.	-219.1	-154.7
Book value as at 31 Dec.	**344.0**	**161.7**
Machinery and equipment		
Acquisition cost as at 1 Jan.	51.0	11.8
Increases	25.9	1.9
Transferred in mergers	220.8	45.5
Decreases	-34.4	-10.4
Transfers between items	2.2	2.2
Acquisition cost as at 31 Dec.	265.4	51.0
Accumulated depreciation as at 1 Jan.	-39.0	-10.3
Transferred in mergers	-174.8	-32.7
Accumulated depreciation on decreases and transfers	33.3	5.8
Depreciation for the financial year	-19.3	-1.8
Accumulated depreciation as at 31 Dec.	-199.8	-39.0
Book value as at 31 Dec.	**65.6**	**12.0**

€ million	2017	2016
Other tangible assets		
Acquisition cost as at 1 Jan.	9.5	3.0
Increases	0.5	-
Transferred in mergers	7.1	6.7
Decreases	0.0	-0.2
Transfers between items	0.8	-
Acquisition cost as at 31 Dec.	18.0	9.5
Accumulated depreciation as at 1 Jan.	-4.3	-2.3
Transferred in mergers	-4.2	-1.8
Accumulated depreciation on decreases and transfers	0.0	0.2
Depreciation for the financial year	-1.5	-0.4
Accumulated depreciation as at 31 Dec.	-10.0	-4.3
Book value as at 31 Dec.	**8.0**	**5.2**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	9.3	3.9
Increases	6.2	4.1
Transferred in mergers	35.9	5.0
Decreases	-6.8	-0.3
Transfers between items	-23.2	-3.5
Acquisition cost as at 31 Dec.	21.3	9.3
Book value as at 31 Dec.	**21.3**	**9.3**

Note 14. Investments

€ million	2017	2016
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	835.1	244.7
Increases	38.0	280.9
Transferred in mergers	146.9	444.0
Decreases	-53.3	-134.4
Acquisition cost as at 31 Dec.	966.8	835.1
Impairment as at 1 Jan.	-29.3	-54.3
Transferred in mergers	-63.0	-
Accumulated impairments on decreases	28.1	27.8
Impairment for the period	-96.6	-2.8
Impairment as at 31 Dec.	-160.8	-29.3
Book value as at 31 Dec.	**806.0**	**805.8**
Investments in associates		
Acquisition cost as at 1 Jan.	78.3	78.3
Increases	1.7	-
Transferred in mergers	4.5	-
Decreases	-0.5	-
Book value as at 31 Dec.	**84.0**	**78.3**
Other investments		
Acquisition cost as at 1 Jan.	10.2	10.4
Increases	0.1	1.0
Transferred in mergers	7.4	0.2
Decreases	-2.6	-1.3
Acquisition cost as at 31 Dec.	15.2	10.2
Impairment for the period	-0.3	-2.6
Impairment as at 31 Dec.	-0.3	-2.6
Book value as at 31 Dec.	**14.8**	**7.6**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2017 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

Receivables from subsidiaries

€ million	2017	2016
Long-term		
Loan receivables	168.0	214.1
Long-term, total	**168.0**	**214.1**
Short-term		
Trade receivables	126.1	44.0
Loan receivables	430.0	570.1
Prepayments and accrued income	119.3	11.1
Short-term, total	**675.4**	**625.2**
Total	**843.4**	**839.3**

Receivables from associates and joint ventures

€ million	2017	2016
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	**57.6**	**57.6**
Short-term receivables	**3.0**	**1.0**
Total	**60.7**	**58.6**

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	2017	2016
Taxes	4.1	20.7
Fees for services	3.7	0.9
Employee benefit expenses	10.8	6.2
Purchases	29.4	15.8
Others	55.3	25.7
Total	**103.3**	**69.2**

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 2016	197.3	197.5	243.4	22.8	835.5	1,496.5
Dividends					-248.2	-248.2
Treasury shares					5.0	5.0
Transfer to donations					-0.3	-0.3
Profit for the year					147.9	147.9
Balance as at 31 December 2016	197.3	197.5	243.4	22.8	740.0	1,400.9
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**

Restricted equity	2017	2016
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2017	2016
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,043.8	740.0
Total	**1,310.0**	**1,006.2**

Calculation of distributable profits	2017	2016
Other reserves	266.2	266.2
Retained earnings	548.7	592.1
Profit for the year	495.1	147.9
Total	**1,310.0**	**1,006.2**

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

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

Board's authorisations to acquire and issue own shares

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

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 1,200,000 of the Company’s own B shares in the financial years 2011 and 2014. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. The acquisition cost of the shares held by the Company, €23.5 million, has been deducted from retained earnings in equity.

	Shares
Own B shares held by the Company as at 31 Dec. 2016	**746,109**
Transferred, share-based compensation scheme	-192,822
Returned during the financial year	9,850
Own B shares held by the Company as at 31 Dec. 2017	**563,137**

Note 17. Provisions

€ million	2017	2016
Provisions for leases	4.5	8.0
Other provisions	5.4	1.2
Total	**9.9**	**9.2**

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 tranch (USD 60 million) was due in 2014 and the second (USD 36 million) in 2016. The third tranch 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 €-0.1 million and the fair value of the interest rate derivatives was €-0.4 million. The loan capital is €20.1 million and the fixed interest rate is 6.2%.

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

Note 19. Current liabilities

€ million	2017	2016
Liabilities to subsidiaries		
Trade payables	128.5	1.8
Other payables	235.7	520.9
Accruals and deferred income	64.5	5.2
Total	428.8	527.9
Liabilities to associates		
Trade payables	0.0	0.0
Accruals and deferred income	0.2	0.0
Other payables	23.9	21.9
Total	24.1	21.9
Accruals and deferred income		
Employee benefit expenses	71.3	38.7
Accruals and deferred income from purchases	41.6	5.3
Transaction prices	1.8	-
Fees for services	1.2	-
Others	53.4	22.7
Total	**169.2**	**66.6**

Note 20. Interest-free liabilities

€ million	2017	2016
Current liabilities	1,077.3	258.1
Non-current liabilities	0.0	8.2
Total	**1077.3**	**266.3**

Note 21. Guarantees, liability engagements and other liabilities

€ million	2017	2016
Real estate mortgages		
For subsidiaries	4	4
Pledged shares	73	58
Guarantees		
For subsidiaries	78	72
Other liabilities and liability engagements		
For own debt	35	15
Rent liabilities on machinery and fixtures		
Falling due within a year	9	4
Falling due later	12	7
Rent liabilities on real estate		
Falling due within a year	283	104
Falling due later	1936	400

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. 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**

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

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. 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

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB
Change +10%	-1.0	-0.7	-0.4	-0.7	0.3
Change -10%	1.2	0.8	0.5	0.8	-0.3

Derivatives

Fair values of derivative contracts € million	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)	31 Dec. 2016 Positive fair value (balance sheet value)	31 Dec. 2016 Negative fair value (balance sheet value)
Currency derivatives	0.4	-2.4	4.4	-5.4

Notional amounts of derivative contracts € million	31 Dec. 2017 Notional amount	31 Dec. 2016 Notional amount
Currency derivatives	103.6	213.7

All currency derivatives mature in 2018.

€ million	2017	Fair value	2016	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives	70	0.3	-	-
Interest rate swaps	180	-0.5	40	-0.1
Foreign currency derivatives				
Forward and future contracts	84	-1.9	193	-3.6
Outside the Group	77	-1.9	174	-2.9
Inside the Group	7	0.0	19	-0.7
Option agreements				
Bought, inside the Group	-	-	0	0.0
Written, inside the Group	-	-	0	0.0
Currency swaps	20	-0.1	20	2.7
Commodity derivatives				
Electricity derivatives	12	0.0	22	0.0
Outside the Group	6	-0.3	11	-1.7
Inside the Group	6	0.3	11	1.7

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

€ million	2017	2016
Available-for-sale financial assets	34.0	58.5
Cash and cash equivalents	75.2	48.1
Total	**109.2**	**106.6**

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, 31 January 2018

Esa Kiiskinen	Mikael Aro	
Jannica Fagerholm	Matti Kyytsönen	Matti Naumanen
Anu Nissinen	Toni Pokela	Mikko Helander President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 31 January 2018

PricewaterhouseCoopers Oy
Authorised public accountants

Mikko Nieminen
APA

Auditor's report (Translation from the Finnish Original)

To the Annual General Meeting of Kesko Oyj

Report on the audit of the financial statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the 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, 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, 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 have defined that in Kesko Group audit material are misstatements whose impact individually or in aggregate is 5% of comparable profit before tax. Calculated from comparable profit before tax in 2017 financial year it is € 15 million.

Group audit scope

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

Key audit matters

- 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 € 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 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Group audit scope

Kesko operates in grocery trade, building and technical trade and car trade. Operations are based in nine countries. We tailored the scope of our audit, taking into account the structure of the Kesko Group, the industry and the accounting processes and controls.

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

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

Key audit matters

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

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

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
Goodwill and trademarks – management impairment testing *Refer to note 3.4 Intangible assets.* Kesko Group balance sheet includes goodwill in amount of € 172.3 million (2016: 189.9) and trademarks € 82.2 million (2016: 123.3). Kesko Group management carries out impairment test of goodwill and trademarks annually. Impairment test result is based on management estimates, e.g. market growth and profitability trends estimates, changes in store site network, product and service selection, pricing and movements in operating costs. In our audit we focused on the methodologies and assumptions used in management impairment testing. We specially focused on those cash generating units, whose value-in-use and carrying value difference have been smallest in previous years and therefore sensitive to changes in estimations.	We reviewed financial plans prepared by the management and compared to the financial plans approved by the Board of Directors. We evaluated appropriateness of value-in-use valuation method used and traced input information to the source. We challenged the management on assumptions used in value-in-use calculations. In evaluating one of the key assumption, Weighted Average Cost of Capital, we utilized PwC valuation experts. We performed back testing comparing forecasts used in previous years testing to actual results as it would give an indication of the quality of the forecasting process. In addition, we assessed the adequacy of the disclosures, particularly on sensitivities.
Inventories *Refer to note 3.5 Inventories.* Kesko Group balance sheet includes inventory amount of € 938.6 million (2016: 978.9). Inventories are measured at the lower of cost and net realisable value. The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records an impairment as necessary. Such reviews require assessments of future demand for products. The cost of finished goods comprises all costs of purchase including freight. Inventory cost is adjusted by vendor allowances. The Group uses judgment to what extent allowances clauses laid out in purchase agreements are fulfilled at the financial statements period end date. In our audit we focused on the assessment of net realisable value and underlying assumptions. In addition, we focused on assessment of fulfilment of vendor agreement clauses at the financial statements period end date.	In our evaluation of the Group reviews on inventory net realisable value, we walked through monitoring processes over inventory obsolescence and turnover and processes of net realisation calculation. We identified key controls and tested efficiency of those. We reviewed on a sample basis inventory write-off calculations and reconciled source data to inventory accounting. We tested by sample basis formulas of valuation reports to ensure that formulas lead to the correct result. In our evaluation over the vendor allowances we walked through the Group monitoring processes, identified key controls and tested efficiency of those. We tested on a sample basis vendor allowances calculations and reconciled input information to clauses laid out in purchase agreements and financial year purchases information. In addition, we reconciled comparable reporting date vendor allowance accruals to materialized allowances to evaluate the quality of the process and accuracy of the accruals.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Other reporting requirements

Appointment

PricewaterhouseCoopers Oy was first appointed as auditor of Kesko Oyj by the annual general meeting on 26.4.1976 and our appointment represents a total period of uninterrupted engagement of 42 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed. Kesko Oyj became publicly listed company on 15.5.1960.

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 31.1.2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant