KESKO ANNUAL REPORT

KESKO'S ANNUAL REPORT 2019

Kesko's Annual Report 2019 describes the progress made in Kesko's strategy execution, financial performance, and sustainability work, with comprehensive performance indicators. The report presents K Group's operations and impact on the society, our value creation and perspectives from our stakeholders.

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

Read more in the Annual Report

Read more on our website

Kesko's direction

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

Sustainability

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

Financial review

This section comprises the Report by the Board of Directors, the Group's key performance indicators, and the financial statements and Auditor's Report for 2019.

Corporate governance

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

KESKO ANNUAL REPORT

KESKO’S DIRECTION

KESKO'S DIRECTION

Kesko's Annual Report 2019 has four sections. This section describes Kesko and its divisions and the progress made in their strategy execution, as well as Kesko's financial targets, operating environment and value creation.

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

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KESKO IN BRIEF

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

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

Kesko and K-retailers together form K Group, whose sales (pro forma) totalled approximately €13.3 billion in 2019. K Group is the biggest trading sector operator in Finland and one of the biggest in Northern Europe. We employ some 43,000 people.

Kesko's strategic business areas are grocery trade, building and technical trade, and car trade. These are all areas where Kesko has strong expertise and market positions; they also offer good potential for profitable growth in the long term.

Corporate responsibility is a strategic choice for K Group and it is integrated into our day-to-day activities. Key focus areas in our corporate responsibility work are transparency in sourcing, mitigating climate change and environmental care, and extensive value creation throughout the society.

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

The biggest trading sector operator in Finland, one of the biggest in Northern Europe	Strong financial position with good dividend capacity	Market capitalisation €6.1 billion (31.12.2019), 41,000 shareholders	Profitable growth strategy, 3 divisions, 1,800 stores in 8 countries and extensive digital services	World's most sustainable grocery trade company (Global 100)

KESKO'S BUSINESS MODEL

Kesko's principal business model on the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for approximately 45% of Kesko's net sales in 2019.

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

B2B trade is a significant and growing part of Kesko's business. Net sales from B2B trade totalled some €4.0 billion in 2019, accounting for some 37% of Kesko's total net sales.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. Net sales from international operations totalled some €2.3 billion, or 22% of Kesko's total net sales.

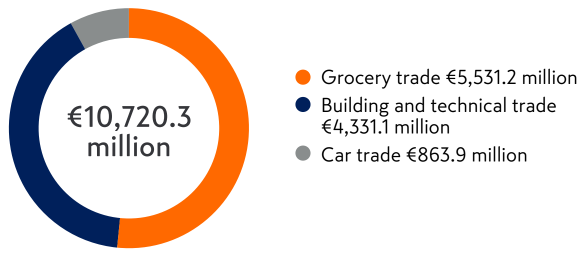
KEY INDICATORS

Successful execution of our growth strategy enabled us to achieve an all-time record result in 2019. Our net sales grew by 1.4% in comparable terms, and our comparable operating profit rose by €33 million. Comparable net sales and operating profit grew in the grocery trade and building and technical trade. The car trade division maintained good profit capacity despite the challenging market situation.

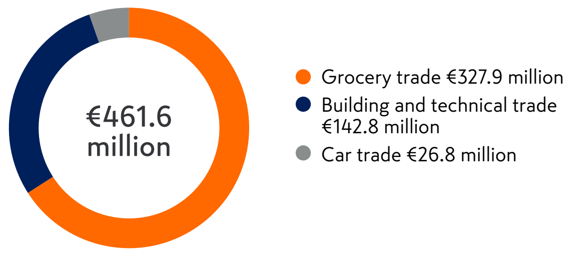
Net sales, € million	Operating profit, comparable, € million	Operating margin, comparable,
10,720	462	4.3%

Capital expenditure, € million	Comparable return on capital employed	Personnel, (31.12.2019)
686	9.6%	25,000

Net sales 2019



Comparable operating profit 2019



Read more in the Report by the Board of Directors

DIVISIONS IN BRIEF

Grocery trade

K Group is the second biggest grocery trade operator in Finland. A total of 913 independent K-food retailers are in charge of daily customer experiences. There are some 1,200 K-food stores in Finland, with 1.2 million daily customer visits. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K. Kespro is the leading foodservice provider in Finland.

	2019	2018
Net sales, € million	5,531.2	5,385.7
Operating profit, comparable, € million	327.9	294.5
Operating margin, comparable, %	5.9	5.5
Return on capital employed, comparable, %	14.5	13.1
Capital expenditure, € million	180.8	124.1
Personnel, average	6,063	6,094

Read more about the division and key events in 2019

Building and technical trade

The division has operations in eight countries – Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus – with a total of some 440 stores. Its chains are Onninen, which serves technical professionals, and K-Rauta, Byggmakker, K-Bygg, K-Senukai and OMA, which serve professional builders and consumers. The leisure trade chains Intersport, Budget Sport, The Athlete's Foot and Kookenkä are also part of the division with some 100 stores.

	2019	2018
Net sales, € million	4,331.1	4,102.6
Operating profit, comparable, € million	142.8	126.8
Operating margin, comparable, %	3.3	3.1
Return on capital employed, comparable, %	7.4	7.9
Capital expenditure, € million	332.7	200.7
Personnel, average	12,630	11,668

Read more about the division and key events in 2019

Car trade

Kesko imports and sells Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars, Volkswagen Commercial Vehicles and MAN trucks in Finland, and SEAT cars in Estonia and Latvia. Kesko's retail company K-Caara and independent dealers are retailers of new and used vehicles and they offer servicing and after-sales services at 17 outlets across Finland.

	2019	2018
Net sales, € million	863.9	893.1
Operating profit, comparable, € million	26.8	35.2
Operating margin, comparable, %	3.1	3.9
Return on capital employed, comparable, %	9.5	20.8
Capital expenditure, € million	131.3	49.0
Personnel, average	1,179	835

Read more about the division and key events in 2019

EVENTS IN 2019

Q1

JANUARY
The DIY retail business of Sørbø Trelast AS and Tau & Jørpeland Bygg AS acquired in Norway.

JANUARY
Kesko ranks 88th on the Global 100 list, and for the fifth year in a row, is the most sustainable trading sector company in the world.

MARCH
Volkswagen and SEAT businesses acquired from Huittisten Laatuauto.

Volkswagen, Audi and SEAT businesses acquired from LänsiAuto.

MARCH
K-Ostokset service launched; features enabling the tracking of Finnish purchases and the shopper's own carbon footprint introduced during the year.

Q2

MAY
Fresks Group acquired in Sweden. The acquisition significantly strengthens our market position among professional builders in Sweden.

MAY
Onninen's HEPAC contractor business divested in Sweden.

JUNE
Over 1,800 K Group employees move to Kesko's new K-Kampus headquarters.

Q3

JULY
Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group.

AUGUST
Konekesko's agricultural machinery operations in Finland divested.

SEPTEMBER
Kesko included in the Dow Jones Sustainability Indices, the DJSI World and DJSI Europe.

Q4

OCTOBER
K Group set to develop an operating model for carbon neutral grocery stores.

With 34 solar power plants, K Group is one of the biggest producers and users of solar power in Finland.

NOVEMBER
K-Citymarket Järvenpää named the best grocery store in the world (IGD Awards Store of the Year 2019).

DECEMBER
All-time record result. Net sales up by 3.3%, comparable operating profit up by €33 million.

REVIEW BY THE PRESIDENT AND CEO

GROWTH STRATEGY YIELDS RECORD RESULT

2019 was a very strong year for Kesko and K Group. Our strategy of profitable growth and strong transformation has yielded results. At the core of our strategy is focusing our operations as 'One unified K' on the grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland. Our strategic objective is to strengthen the customer experience for consumers and businesses, both in our stores and digital channels.

The record result for 2019 acts as proof of our excellent cooperation towards achieving common goals. I want to thank all Kesko employees, K-retailers and their staff, our shareholders and our partners for their valuable contributions to our success. I am particularly happy about the enthusiastic and collaborative spirit we now have at K Group. You can sense this spirit at the new K-Kampus headquarters, which has been home to some 1,800 K Group employees in the greater Helsinki area since last summer.

- Continued growth in net sales to €10,720 million. Comparable operating profit rose to a record €462 million, up by €33 million on 2018.
- Investments in growth in line with our strategy have significantly improved our profitability.
- Return on capital employed stood at 9.6% thanks to successful strategy execution.

Customer experience is at the core of everything we do

Our great success is based on the strategy established in 2015 and its successful execution. Customer-orientation drives everything we do. The cornerstones of our strategy are profitable growth, business focus, sustainability and combatting climate change, and "One unified K". The fact that trust towards K Group has significantly improved in recent years is another sign of our success.

Best grocery store in the world

Net sales for the grocery trade division grew by 2.7%, totalling €5.5 billion. The comparable operating profit for the division rose to €328 million, and its profitability stood at 5.9%, an excellent level on an international scale.

Our success in the grocery trade is founded on good customer experiences. Our sales and market share have been growing at a good pace for some time, and continued to do so also in 2019. Profitability has improved not only thanks to sales growth, but also due to more extensive utilisation of technology and improved efficiency in logistics. Strategy execution has seen customer satisfaction strengthen further. Growth also continued strong in the online sales of groceries. The good performance was also supported by increased consumer purchasing power.

At the core of our strategy are store-specific business ideas built on top of our chain concepts. I have been pleased to see how sales have grown in those K-stores where store-specific business ideas have resulted in even better selections and services for our customers. I see significant further potential to increase sales and profit by supporting and encouraging K-retailers to implement store-specific business ideas throughout our network of 1,200 K-food stores.

I am proud that K-Citymarket Järvenpää was named the best grocery store in the world at the IGD Awards gala in London in November. This prestigious international industry recognition is a sign of our and K-retailers' bold customer-oriented transformation efforts.

Our customers must always be able to trust that K-stores enable them to make responsible choices.

Kespro's growth in foodservice wholesale continued. The strong performance was underpinned by the robustly growing trend of eating out in Finland. People are also increasingly buying high-quality ready meals from grocery stores.

Growth continued strong in the building and technical trade

In the building and technical trade division, sales grew and profit strengthened. Net sales for the division grew by 5.6% and totalled €4.3 billion. International operations accounted for 54% of net sales. The comparable operating profit for the division rose to €143 million, supported by successful acquisitions. Digital solutions and a multichannel customer experience are very significant for the division.

We saw growth especially in Sweden following the acquisition of the Fresks chain in spring 2019, which markedly strengthened our market position in Sweden and increased the share of the growing B2B business. We renamed the chain K-Bygg and successfully integrated it. We also continued actions to strengthen our market position and profitability in Norway. The Swedish and Norwegian markets offer considerable growth potential for Kesko.

Onninen's comparable net sales grew by 3.0%. Sales and profit grew especially in Finland, the Baltics and Poland. In Sweden, we divested Onninen's HEPAC contractor business to accelerate a turnaround and to focus fully on Onninen's growing infrastructure construction business in line with our strategy.

Kesko Senukai's net sales in the Baltic countries and Belarus also grew.

Changing market in the car trade

Net sales for the car trade division decreased by 3.3%, totalling €864 million. The comparable operating profit totalled €27 million despite the market disruptions. The market continued to be challenging, but grew stronger towards the end of the year. The Finnish market began to weaken in autumn 2018 due to the implementation of WLTP emissions testing, uncertainties regarding car taxation, and debate over motive power choices. Nonetheless, our competitiveness will increase thanks to an updated range, improved availability and efficiency measures carried out.

The division's strategic objective is to grow its business in collaboration with the Volkswagen Group and to strengthen its market position in retail. In 2019, we strengthened our dealer network by acquiring Volkswagen, Audi and SEAT businesses from Laakkonen Group, Huittisten Laatuauto and LänsiAuto.

We held a 16.9% market share in passenger cars and vans, and with our extensive brand portfolio, we are the market leader in Finland. Demand was particularly strong for electric cars: for example, pre-orders for the all-electric SEAT Mii electric were record-high. We want to offer our customers the full driving value chain and reduce the stress of car ownership by offering e.g. private and corporate leasing products and car sharing services.

Sustainability forms the foundation for our operations

In January 2020, we were once again ranked as the most sustainable grocery trade company in the world. This is thanks to years of effort. We engage in long-term, tangible corporate responsibility efforts on many fronts. Key issues include transparency in sourcing, mitigating climate change and environmental care, as well as creating welfare extensively throughout the society. In spring 2019, our Board of Directors made sustainability and combatting climate change a focus area for Kesko's strategy.

As a trading sector company, we have a unique opportunity and the responsibility to enable sustainable lifestyles for our customers. This means, for example, transparently disclosing the origin and carbon footprint of products we purchase, thus offering customers in K-stores the chance to make sustainable choices.

The key issue is how visible and tangible sustainability is in K Group's 1,800 stores. One example of our efforts is the Cursing Carbon campaign in Finland, designed to spur us and our customers towards more climate friendly choices.

Besides financial factors, investors increasingly take into account aspects related to the environment, social responsibility, and corporate governance (ESG) when making investment decisions. Kesko is again included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. In October 2019, we made financing agreements totalling €700 million where the interest margin will increase or decrease depending on our ability to meet set sustainability targets.

Kesko has been included on the Global 100 Most Sustainable Companies in the World list for 16 years straight. Kesko was the only company from the Food and Beverage Retail sector to be included on the list in 2020.

Our transformation continues

The rapid changes in the trading sector present us with great opportunities. We will continue the determined execution of our strategy, building 'One unified K' and further developing our customer-oriented operating model. Only through transformation and constant development of our operations can we take K Group to the next level. I see plenty of untapped potential to increase our sales further by improving customer experiences and working more efficiently. Our good profit ability and strong financial position enable both investments and good dividend capacity. Kesko's Board proposes a dividend of €2.52 per share to the Annual General Meeting. The combined market capitalisation of Kesko's A and B series shares at the end of December 2019 was over €6 billion.

This is an important anniversary year for us. Kesko was born when four regional wholesaling companies merged in October 1940. We will celebrate our 80th anniversary throughout the year both within K Group as well as with our stakeholders.

Mikko Helander
President and CEO

MEGATRENDS AFFECTING OUR OPERATIONS

The trading sector is affected by various global megatrends. By identifying the trends that affect K Group's operations, we strive to anticipate future challenges and opportunities.

Megatrends

GLOBALISATION
- Urbanisation
- Global supply
- Intensifying price competition

CLIMATE CHANGE
- Sustainable lifestyles: the carbon footprint of food, living and mobility
- Renewable energy, cutting emissions and carbon neutrality
- Circular economy solutions
- Minimising food waste

DIGITALISATION
- Growth in international and Finnish online trade
- Seamless multichannel customer experience
- Customer services that utilise customer data and artificial intelligence
- Targeted marketing

INCREASED CUSTOMER KNOWLEDGE AND POWER
- Customers seek information as the basis for their choices
- Customers want to impact selections
- Peer experiences have a big impact on choices

SUSTAINABILITY AND CONSCIENTIOUS CONSUMPTION
- Responsible operating principles
- Open dialogue with stakeholders
- Transparency of purchasing chains
- Strong brands
- Responsible investment

INDIVIDUAL CUSTOMER BEHAVIOUR
- Customers value convenience and quality
- Changes in purchasing habits, individualisation
- Customers want to optimise their consumption choices

STRATEGY AND OBJECTIVES

In line with its strategy, Kesko is a focused company that concentrates on growth and profitability improvement in three strategic areas: the grocery trade, building and technical trade, and car trade. Concentration enables the efficient allocation of capital to increase shareholder value. Quality and customer orientation are increasingly important strategic focus areas. In 2019, we made combatting climate change a strategic focus area alongside sustainability.

Our strategy, established in 2015, aims for profitable growth through stronger business focus and transformation. The fast-paced changes in the trading sector present us with great opportunities.

Our businesses – the grocery trade, building and technical trade, and car trade – are areas in which we have strong market positions and the best capabilities and long-term development potential. We use quality and customer orientation to differentiate ourselves from the competition, from store services to digital services.

'One unified K' is an important part of our strategy. We want to establish a strong reliable K Brand and provide even better service to our customers. In addition to a common strategy, 'One unified K' means seamless cooperation with retailers and across divisions.

We continue to execute our strategy

VISION	To be the preferred choice for customers and the quality leader in the European trading sector					
STRATEGIC FOCUS AREAS	Profitable growth	Business focus	Quality and customer orientation	Best digital services	Sustainability and combatting climate change	One unified K
DIVISIONS	Grocery trade		Building and technical trade		Car trade	
VALUE	The customer and quality – in everything we do					

Successful growth strategy execution

In the grocery trade, we aim for continued profitable growth in Finland. We want to offer the most inspiring and customer-oriented food stores and the best digital solutions on the market. Our strategic investments in remodelling stores in all chains and store-specific business ideas tailored to each local customer base strengthened K Group's sales and customer satisfaction. K-retail entrepreneurs guarantee customer orientation and quality in our store network, which is the most extensive in Finland.

Strong growth continued in the online sales of groceries. In 2019, online grocery sales grew by 106%, and related net sales totalled €36.2 million. We thus exceeded the target for 100% growth set for the year. The growth in online sales supports the sales of our physical stores, as our most active online customers are also loyal customers for the brick and mortar stores.

Megatrends such as urbanisation, population ageing and increasingly individual customer behaviour support the strengthening of neighbourhood services. K Group holds a nearly 60% share of the neighbourhood market, with a network of 777 K-Market stores.

Growing Kespro's foodservice business is another strategic focus area, supported by the growing trend of eating out.

In the building and technical trade, we seek an even stronger position in Northern Europe, and strive to better address the expectations and particular local needs of each customer segment. Each operating country has its own customer-oriented strategy. The division's customer segments are technical professionals, professional builders, and consumers. We seek synergies both within and between the operating countries. In line with our strategy, we seek growth both organically and through targeted acquisitions.

In spring 2019, we carried out the acquisition of Fresks Group to strengthen our market position in Sweden. During the summer, Fresks was integrated into our Swedish operations under the new name K-Bygg. We divested Onninen's HEPAC contractor business, and Onninen in Sweden will now concentrate on the Infra business, where we have a strong position on the growing market. In Norway, we completed the acquisition of Sørbø's DIY retail business first agreed in 2018. Together with the acquisitions made in 2018, this strengthens our own business in Norway. These acquisitions and operational changes have strengthened our market share and operating profit in Sweden and Norway.

B2B trade now accounts for 70% of the division's sales. Building and renovation are becoming more technical and increasingly outsourced to professionals. The need for renovation building is also growing in Northern Europe. Onninen and the acquisition of Fresks in particular have strengthened our position in the growing B2B segment.

New digital services and online sales are a significant part of the customer journey and more efficient operations. For B2B customers, digital services primarily provide an efficient order channel. Consumers compare and seek information on products online, yet still usually get professional advice on choosing and using the products at the store.

In the car trade, our objective is to grow our market-leading position in Finland through close partnership with the Volkswagen Group and to strengthen our own service business and market position in retail. Our goal is to outgrow the market and improve profitability.

We strengthened our dealer network with three significant acquisitions in 2019. Their integration has proceeded well, supporting our profitable growth. During the year, K-Auto began importing Bentley and opened a Bentley showroom in Espoo.

In addition to traditional car sales and servicing operations, we continued to strengthen our service business, and began offering leasing services to both consumers and businesses. The whole car sector and the concept of mobility are rapidly changing, and we need to be constantly developing our operating models, services and technologies.

We expect the sales of electric cars to grow in upcoming years, and support the trend by expanding our K Charge network.

Sustainable choices for our customers

Kesko has been ranked as the most sustainable grocery trade company in the world multiple times. Our key issues include transparency in sourcing, mitigating climate change and environmental care, and extensive value creation throughout the society. We want to become an even more active member of society and engage in public discussion.

We want to enable a sustainable lifestyle for our customers, and offer a multitude of sustainable alternatives in different areas. Our customers must always be able to trust that K-stores enable them to make responsible choices.

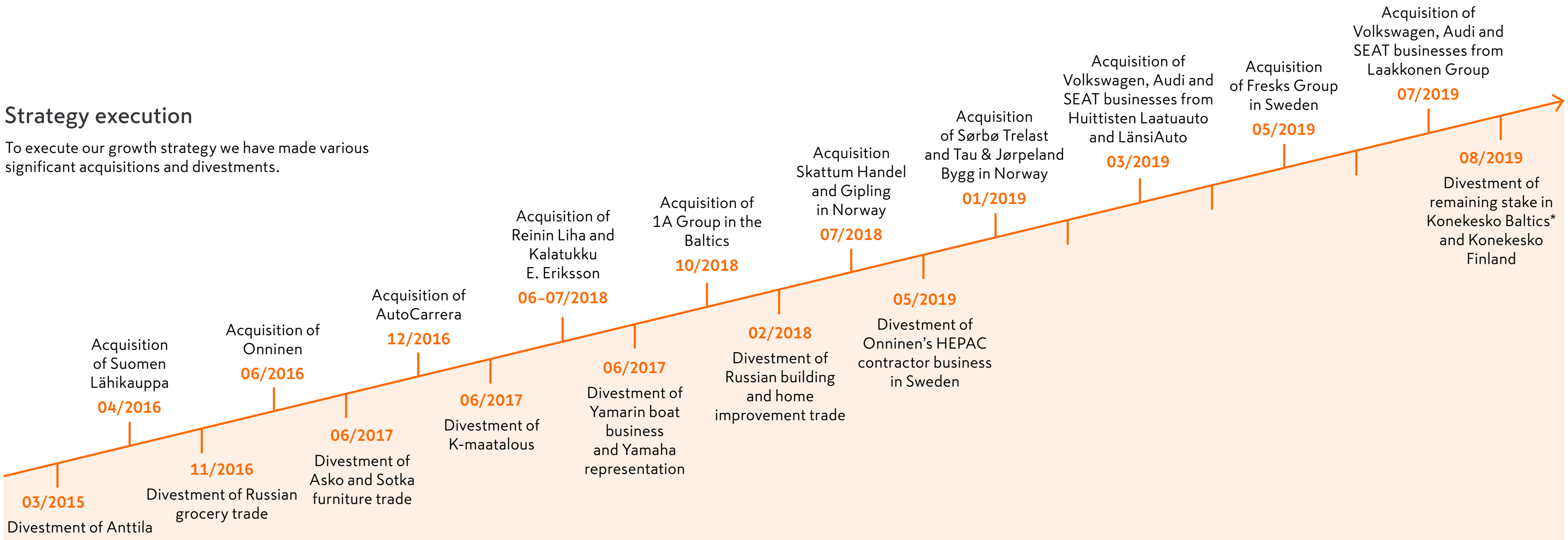
We are committed to international climate summit goals on mitigating global warming, and have set Science Based Targets for emissions from our operations and supply chain. We are reducing emissions through the use of renewable energy, energy-efficiency at our stores, and efficient logistics. All electricity purchased by Kesko in Finland is generated with renewable energy, and we are one of the biggest producers and users of solar power in the country with 34 solar power plants.

In October, we made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on our ability to meet the sustainability targets set for our carbon footprint, food waste, and audits in high-risk countries. These also support Kesko's sustainability strategy and Science Based Targets.

As a sign of our long-term commitment to corporate responsibility, Kesko is included in the prestigious Dow Jones Sustainability Indices the DJSI World and DJSI Europe. Kesko ranked 99th on the Global 100 Most Sustainable Corporations in the World list published in January 2020.

Strategy execution

To execute our growth strategy we have made various significant acquisitions and divestments.



*Agreement signed, waiting for completion

OPPORTUNITIES AND RISKS IN OUR OPERATING ENVIRONMENT

	OPPORTUNITIES	RISKS
Economic operating environment Our three strategic growth areas are the grocery trade, building and technical trade, and car trade. In terms of growth, it is crucial that we increase our market share in the Finnish grocery trade, grow our building and technical trade in Northern Europe, strengthen our market leadership in the Finnish car trade, and develop digital services.	• Customer orientation, quality and competitive prices lend us a competitive advantage. • In Finland, retailer entrepreneurs enable agile operations. • Our strong financial position provides excellent opportunities for growth and operational development. • Responding to the needs of different customer groups utilising customer data and analytics.	• Rapid changes in the market and customer behaviour could affect our growth potential and profitability. • Cyclical fluctuations and tightened competition could weaken business profitability. • Failure to deliver on quality and service would result in poorer customer experience. • Misjudged acquisitions and failure to integrate could result in financial losses.
Climate change The impacts of climate change are twofold: • The impacts of climate change on Kesko are related to increased regulation and extreme weather phenomena. • The impacts of Kesko's operations on the climate are related to the lifecycle impact of products and services sold and energy solutions and emissions.	All Kesko divisions can offer customers solutions that help them reduce their climate impact, as living, food and mobility are the biggest sources of greenhouse gases in private consumption. • New business models related to mobility • Climate responsible products • Increased energy efficiency • Promoting circular economy	Transition risks • Increasing regulation necessitates changes in business operations and leads to additional costs. • In the long term, changes in consumer behaviour require changes to business models. Physical risks • Increase in extreme weather phenomena can impact product availability and cause disturbances in logistics and the store site network. Climate impacts • Life cycle impact of products and services sold on climate change. • Emissions resulting from energy solutions and energy consumption.
Social responsibility and human rights in the purchasing chain Our objective is to provide our customers with more information on the origin, production conditions and environmental impacts of products offered.	• By cooperating with goods and service suppliers who share our operating principles, we improve transparency and promote responsibility in the whole supply chain. • Our efforts to improve responsibility in the supply chain and product safety increase stakeholder trust in us.	• Irregularities in the management of social or environmental responsibility in the purchasing chain could result in human rights violations, environmental damage, financial losses, and loss of stakeholder trust and negatively affect our corporate responsibility work and its credibility. • A failure in product safety control or supply chain quality assurance could result in financial losses, loss of customer trust, or, in the worst case, a health hazard to customers.
Digital services and management by information As our strategy states, we aim to offer our customers the best digital services in the trading sector.	• We use customer data and research to develop a more personalised customer experience and store-specific business ideas. • We offer a seamless customer experience in all channels by utilising artificial intelligence, data analytics and service design. • By combining online sales and digital services with our extensive store site network, we enable excellent customer service in K Group.	• Challenges related to the profitability of online commerce include the efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online commerce. • Cyber threats directed at digital services and information systems increase risks related to business continuity and customer data management. • The constant evolution of online commerce and digital services presents special challenges to the fast development and integration of new services into existing operating models and systems.

FINANCIAL TARGETS

We are moving strongly towards our financial targets and a better return on capital through growth, increased profitability, synergies and better working capital efficiency. In addition to growth, we continue to focus on improving cost-efficiency in all our operations to ensure competitiveness.

Our strong balance sheet enables both investments in strategic growth endeavours as well as good dividend capacity. Between 2015 and 2019, we invested €2.4 billion in business operations and acquisitions, and divested some €1.0 billion worth of non-strategic business operations and real estate.

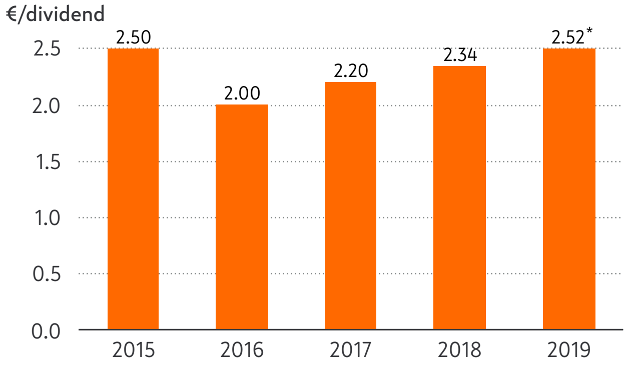
Organic investments were at their highest in 2017, and are planned to come down in upcoming years to an annual level of €200-250 million. Investments in store sites will decrease, while investments in digitalisation will increase. In future acquisitions, we will seek economies of scale and improved competitiveness,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

In spring 2019, Kesko's Board of Directors approved new medium-term financial targets for the Group. The financial targets for profitability are a comparable operating margin of 5.0% and a comparable return on capital employed of 11.0%. The profitability targets take into account the impacts of IFRS 16 Leases. In terms of financial position, as before, the Group uses interest-bearing net debt/EBITDA and targets a maximum level of 2.5, excluding the impact of IFRS 16.

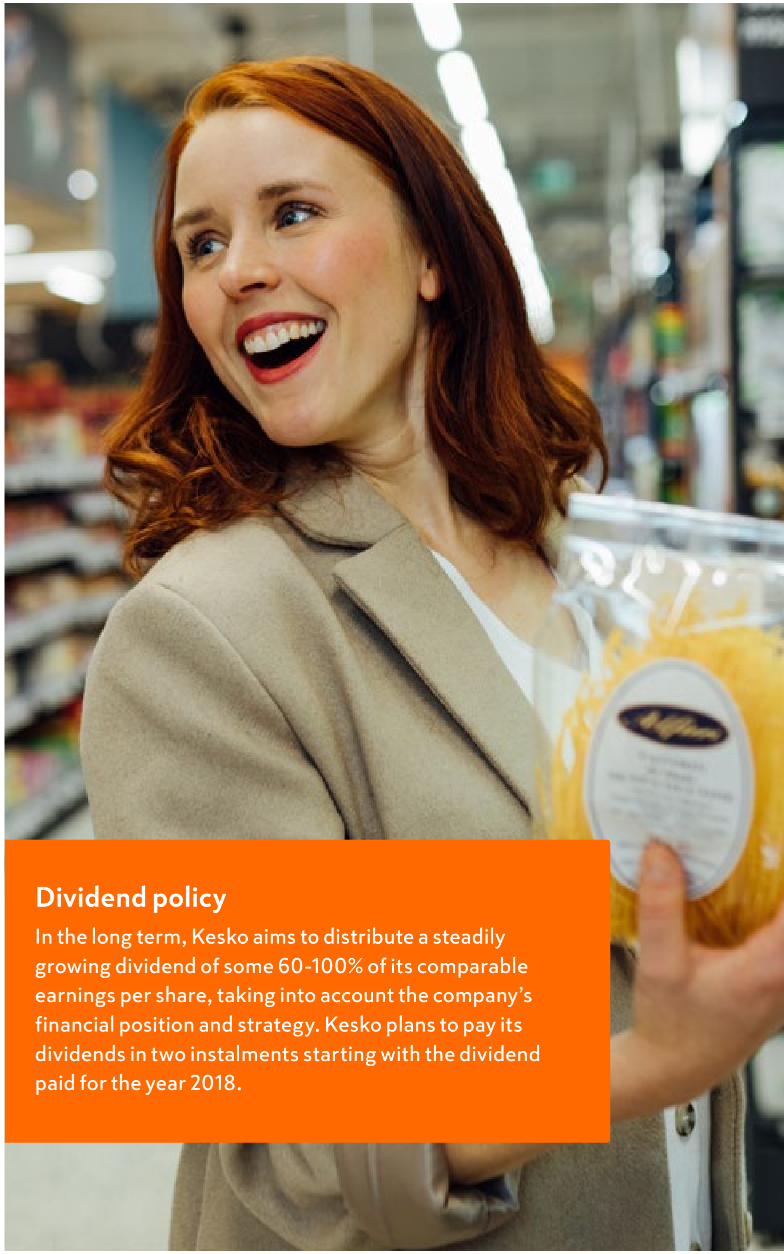
Financial targets

Indicator	Target	Level achieved in 2019
Comparable operating margin, %	5.0	4.3
Comparable return on capital employed, %	11.0	9.6
Interest-bearing net debt/EBITDA, excluding the impact of IFRS 16	2.5	0.9

Dividend history 2014–2019



*Proposal to the Annual General Meeting



Dividend policy

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

RESPONSIBLE VALUE CREATION FOR THE WHOLE SOCIETY

OUR RESOURCES

PERSONNEL AND RETAILERS
- 25,000 employees in Kesko
- 1,100 K-retailers employ 18,000 people

STORE SITES
- 1,800 stores in eight countries
- Online stores and digital services

INTANGIBLE ASSETS
- Brands and own brand products
- Customer dialogue
- 3.5 million K-Plussa customers
- Store concepts
- Relationships with product suppliers and service providers

FINANCIAL RESOURCES
- Balance sheet €6.9 billion
- Equity €2.0 billion

NATURAL RESOURCES
- 100% renewable electricity in Finland
- Own energy production; solar power plants

PROCESSES
- Management by information
- Purchasing and product research
- Logistics
- Selection management

GROCERY TRADE 52%*

BUILDING AND TECHNICAL TRADE 40%*

CAR TRADE 8%*

THE CUSTOMER AND QUALITY – IN EVERYTHING WE DO

* Share of division's net sales of Kesko's total net sales

ADDED VALUE AND IMPACTS

CUSTOMERS
- Well-researched, safe and responsibly produced products
- Tailored selections and individual stores
- More affordable shopping baskets with own brand products

PERSONNEL
- Salaries €634 million, training €2.9 million

SUPPLIERS AND SERVICE PROVIDERS
- Purchases €10 billion
- Business partnerships and distribution channels
- Social responsibility audits of suppliers in high-risk countries
- Sourcing policies for raw materials critical from a social and environmental responsibility perspective

SHARE-HOLDERS
- In 2019 Kesko paid €232 million as dividends
- Total annual shareholder return of a B share 21.7%
- A responsible investment

SHARED VALUE AND IMPACTS

SOCIAL IMPACTS
- Investments €686 million, of which €386 million in Finland
- Remitted and paid taxes €1,052 million, of which €841 million to Finland
- Co-operation with NGOs

ENVIRONMENT
- Emissions (Scope 1 and 2) 120,165 tons of CO_2-eq
- Science Based Targets for emissions
- Waste recovery in Finland 100%

A YEAR OF STRONG GROWTH IN THE GROCERY TRADE

The strategy for the grocery trade division is to increase sales and profitability in a changing market with a customer-oriented approach. Our sales, market share and profitability continued to strengthen, with marked improvement in customer satisfaction. Strong growth also continued in Kespro.

Ari Akseli
President,
grocery trade division

"Our strategy in the changing market is working. In 2019, customer satisfaction grew in all our grocery store chains and our market share increased. Store-specific business ideas have proven the right strategic choice and have now been implemented in nearly all our stores. The popularity of online grocery sales grew forcefully and customer numbers doubled. As part of our corporate responsibility work, we offered our customers the chance to track their carbon footprint and level of Finnish purchases.

Customer satisfaction and market share strengthened further

K Group is a strong forerunner in the changing Finnish grocery trade market. We focus on responsible high-quality selections, convenience in shopping, multichannel service and individuality, as well as price levels. Based on customer data, we have introduced new services that best suit the needs of each store's customers. Our strategic choices have proven correct, and customer satisfaction grew year-on-year in all our grocery store chains.

K Group is the second biggest grocery trade operator in Finland, with a market share of 36.7%* (2018: 36.1%). We gained market share in all chains. In 2019, we opened one K-Citymarket (replacement new building), two K-Supermarkets and 14 K-Markets (five replacement new buildings). We have redesigned all our chain brands and remodelled almost our entire store network, not forgetting digital channels. During the year, we invested €94 million in remodelling the network: nearly 100% of our grocery stores and Neste K stations have now been rebranded. We extended opening hours, and 15 stores now serve customers 24/7.

Growth continued in online sales of groceries

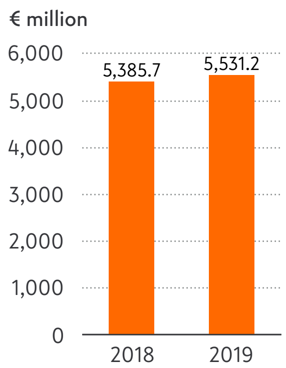
The online sales of groceries grew by 106% in 2019, totalling €36.2 million. Around 230 K-food stores now offer online purchasing. Customer numbers have doubled and satisfaction among online customers is very high. Our digital services are also growing strongly: K-Ruoka is the biggest food media in Finland with 2.4 million weekly visitors at the K-Ruoka.fi website and the K-Ruoka mobile app. The app has over 700,000 registered users, and the number grew by 100,000 in 2019.

* Kesko's own estimate, based on Nielsen's peer group

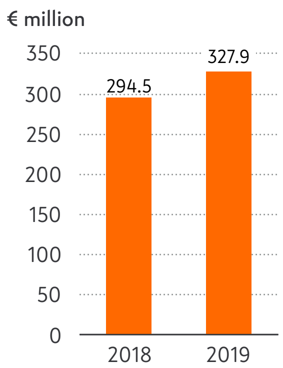
We develop retailer entrepreneurship as a competitive advantage

Our grocery store business is heavily based on retailer entrepreneurship. K-food retailers are pioneers in modernising Finnish grocery store selections. Based on their own store-specific business ideas, they handle selections, customer service, staff skills, product quality and business profitability in their stores. We have made management

Net sales



Operating profit*



*Comparable

PIRKKA IS THE BEST KNOWN STORE BRAND

The share of retail sales of own brand products of grocery trade retail sales was approximately 18%. Own brand products play a significant role in ensuring versatility in selections. They also offer small producers a pathway to K-food store selections nationwide.

- Some 2,800 Pirkka products in total; 265 new products launched
- Nearly 250 Pirkka Parhaat premium products
- Nearly 200 Pirkka Luomu organic products
- Some 300 K-Menu products

BEST GROCERY STORE IN THE WORLD

The implementation of store-specific business ideas has proven the right strategic choice. As proof, K-Citymarket Järvenpää was named Store of the Year 2019 at the IGD Awards, a prestigious international industry recognition.

SUSTAINABILITY

We introduced a carbon footprint calculator for our customers as part of the K-Ostokset service, which also allows people to track how much local Finnish products they are buying.

By the end of 2019, we had accumulated some €3 million in total to Finnish food producers with our 'Thank the Producer' operating model. We will double the number of Thank the Producer products in 2020.

We are creating an operating model for a carbon neutral grocery store together with the Natural Resources Institute Finland (Luke). We are currently piloting the model and will expand it in 2020.

by information an integral part of the stores' operations, and support K-retailers in creating their own store-specific business ideas based on customer data. Customer satisfaction has improved significantly in stores that have adopted the model. We see plenty of potential to improve sales and profit by creating store-specific business ideas for all 1,200 K-food stores.

Over 550 K-food stores and 225 retailers now operate under the multi-store model, in which one K-retailer has multiple stores. The model has proven successful and will continue to be expanded. In 2019, 44 people began their careers as new K-food retailers.

The strategy for the grocery trade division is to increase sales and profitability in a changing market with a customer-oriented approach

BUSINESS ENVIRONMENT

- **Digital is a basic requirement**
- **Hybrid and polarised consumption set to grow stronger**
- **Significant demographic changes**
- **Emphasised importance of climate change and environmental consciousness**
- **Operations and concepts must be responsible and sustainable**

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
The most customer-oriented and inspiring food stores with store-specific business ideas	• Further sharpening store-specific business ideas • Improved food solutions • Developing digital solutions and services
Profitable development and redesign of the store network	• Brand and concept redesigns
A seamless omni-channel customer experience	• Expanding the online sales network and increasing sales • Updating the K-Ruoka mobile application • Implementing personalised customer communications
Good price competitiveness	• Developing selections • Utilising synergies • Own brands
Developing retailer entrepreneurship as a competitive advantage	• Strengthening the good reputation of K-retailership as a career • More extensive implementation of store-specific business ideas • Developing tools for management by information
Significant growth in the foodservice business	• Increasing sales and profitability • Developing services and concepts

We aim to significantly grow Kespro's business

Kespro is the leading foodservice wholesale company in Finland and acts as a partner for its customer businesses, municipalities and other public operators. Kespro offers a diverse range of tailored procurement solutions as well as delivery and collection services on the basis of extensive customer data. The specialty fish and meat wholesalers Kalatukku E. Eriksson and Reinin Liha are part of Kespro. Kespro has 14 cash & carry outlets in Finland. During the year, we remodelled the outlet in Lahti, and established Kespro's third Foodsteri product development kitchen. The Foodsteri in Helsinki is the most modern product development kitchen in the country, and is located at the new K-Kampus headquarters.

Kespro's net sales continued to grow in 2019, with all-time high sales.

Grocery trade in figures

	Number of stores		Sales (VAT 0%) (pro forma), € million	
Retail sales and number of stores	**2019**	**2018**	**2019**	**Change, %**
K-Citymarket, food	81	81	1,711.3	5.4
K-Citymarket, non-food	81	81	586.5	0.5
K-Supermarket	243	244	2,051.3	4.1
K-Market	777	782	1,863.7	2.1
Neste K	73	72	130.9	-1.2
Others	78	80	43.6	5.9
Total	**1,252**	**1,259**	**6,387.3**	**3.4**
Kespro	-	-	944.3	7.6
Grocery trade, total	**1,252**	**1,259**	**7,331.5**	**3.9**

In addition, several K-food stores offer e-commerce services to their customers.

Key figures	**2019**	**2018**
Net sales, € million	5,531.2	5,385.7
Operating profit, comparable, € million	327.9	294.5
Operating margin, comparable	5.9	5.5
Return on capital employed, comparable, %, rolling 12 months	14.5	13.1
Capital expenditure, € million	180.8	124.1
Personnel, average	6,063	6,094

Properties	**2019**	**2018**
Owned properties, capital, € million	763	658
Owned properties, area, 1,000 m²	516	433
Leased properties, lease liabilities, € million	1,495	1,512
Leased properties, area, 1,000 m²	1,520	1,581

Markets

In 2019, the Finnish grocery trade market was worth approximately €18.6 billion (incl. VAT), representing a growth of some 2% (Kesko's own estimate). The overall market growth was impacted by e.g. continued good consumer purchasing power and a rise in prices, over one-third of which was attributable to increases in alcohol and tobacco taxes. Price competition in the Finnish grocery trade market has continued to be intense. However, consumers also increasingly value local food, sustainability, healthiness and quality.

Market shares

Food trade

The market share in Finland is 36.7% (Kesko's own estimate, based on Nielsen's new peer group which includes discount stores and service stations as well as grocery stores).

Competitors: Prisma, S-market, Alepa/Sale and Food Market Herkku (S-Group), ABC, Lidl, Tokmanni, Minimani, Halpa-Halli and M-chain stores.

K-Citymarket's home and speciality goods trade

Market share cannot be reliably calculated.

Competitors: hypermarkets, department stores, discounters, specialist chains and online stores.

Foodservice Kespro, Finland

The market share is estimated to have strengthened to 42.2%
(in the Finnish Grocery Trade Association's foodservice wholesale peer group).

Competitors: Meira Nova, Metro-tukku, Heinon Tukku, Suomen Palvelutukkurit.

PROFITABILITY IMPROVED IN THE BUILDING AND TECHNICAL TRADE

The strategic objective for the building and technical trade division is an even stronger position in Northern Europe. To ensure a solid foundation for the execution of our international growth strategy, in 2019 we concentrated on improving profitability through organic growth and acquisitions.

Jorma Rauhala
President, building and technical trade division, Deputy CEO

"In 2019, we continued the execution of country-specific strategies, with marked improvement in our profitability. Our strategy acknowledges the differing needs of our three customer segments, and we seek synergies both within and between our operating countries. We continued to improve operational efficiency and implemented our growth strategy with targeted acquisitions in Norway and Sweden. The integration of the Fresks acquisition and the consequent adoption of the K-Bygg brand have been a success.

Execution of country-specific strategies continued with good results

K Group's building and technical trade division is the leading operator in Northern Europe. In 2019, we continued to execute our country-specific strategies, and the division's profitability improved markedly. Our strategy execution takes account of our three customer segments – consumers, professional builders, and technical professionals – and their distinctive needs. We have also sought synergies within and between the operating countries in areas such as concept and own brand development. In 2019, we continued targeted acquisitions in line with our strategy in Sweden and Norway, and the integration of previously acquired businesses.

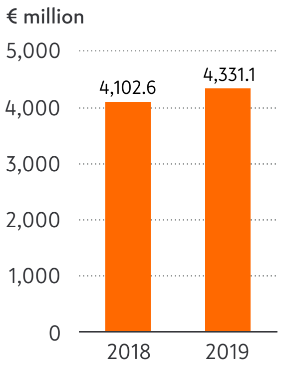
K-Rauta and Onninen continued as market leaders in Finland

Sales growth in K-Rauta in Finland outpaced the market and its market share totalled 42%, with marked improvement in profitability as well. Well-performing B2B trade has been established alongside strong consumer business. We are improving customer service and customer experience and maintaining sales growth with store-specific business ideas, online sales and extended opening hours. Store-specific business ideas have proven successful in the grocery trade, and we have begun implementing them also in K-Rauta. Management by information enables selections and services that meet the specific needs of each store's customer base.

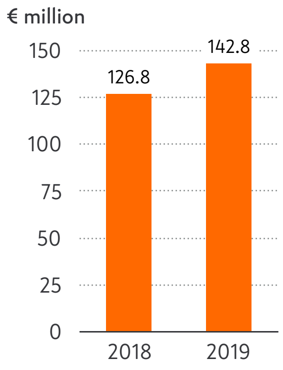
Onninen has been a success as part of Kesko, and has given us a strong foothold in technical wholesale. Onninen's net sales improved and operating profit grew significantly in 2019, and its market-leading position in Finland strengthened, with a market share of 38%. The market and growth outlook for technical wholesale and Onninen are good in Finland and elsewhere in Northern Europe. In the leisure trade, the sales development for Intersport and Budget Sport was in line with the market, with strong profit performance. Profitability improved for The Athlete's Foot. The Intersport and Kookenkä chains kept their positions as the most trusted brands in their respective fields in Finland*.

*Reader's Digest Trusted Brand survey

Net sales



Operating profit*



*Comparable

ACQUISITIONS SUPPORT OUR STRATEGY

The building and technical trade division has been undergoing a major transformation in recent years. We have used acquisitions to expand on the Nordic and Baltic markets. In 2019, the most significant acquisition was Fresks Group in Sweden, which made us one of the leading building and home improvement store operators in the country. The stores now serve customers under the K-Bygg brand.

We have actively concentrated the division's operations in recent years, divesting non-core operations such as the furniture and the agricultural machinery trade businesses.

SUSTAINABILITY

According to K Group's timber and paper policy, by the year 2025, 100% of the wood and paper products in Kesko's range will be of sustainable origin, either FSC or PEFC certified or recycled material.

K-Rauta focuses in particular on the sustainability of wood, and is committed to increasing the number of PEFC-certified products in its selections. K-Rauta stores in Finland offer e.g. PEFC-certified construction timber, panels and terrace boards. PEFC certificates in K-Rauta Finland's selections cover spruce and pine timber and wood products manufactured from those. The selections also include other wood-based yard and garden products with a PEFC certificate.

Profitability improved in Sweden

Sweden has the biggest building and technical trade market of our operating countries. In spring 2019, we carried out the acquisition of Fresks, which strengthened our market position. The integration of Fresks and adoption of the new K-Bygg brand have been a success. We now more distinctly serve three customer segments: K-rauta consumers, K-Bygg B2B customers, and Onninen Infra customers.

We divested Onninen's HEPAC contractor business to accelerate the turnaround in Sweden. Onninen in Sweden will now concentrate on the Infra business, where it has a strong position on the growing market. The acquisitions and divestments and operational changes have resulted in a turnaround in profitability and we expect to see synergies in 2020. We see strong further growth potential in Sweden.

In Norway, we concluded the acquisition of Sørbø's DIY retail business as agreed in 2018. Following the acquisitions in 2018 and 2019, we now operate over half of all Byggmakker stores. This enables further operational development and better profitability. We have also managed to turn around Onninen's sales in Norway. We see significant growth potential in Norway in the long term.

An even stronger position in building and technical trade in Northern Europe as our strategic objective

BUSINESS ENVIRONMENT

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

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
Country focus, with country-specific strategic actions	• **Finland:** Focusing on fully utilising the potential provided by our market-leading position and constantly improving customer experience by expanding Onninen's services and focusing on implementing store-specific business ideas in K-Rauta; actively developing multichannel business in the leisure trade • **Norway:** Seeking growth in sales and profitability by developing Byggmakker's business • **Sweden:** Continuing measures to improve profitability; utilising synergies from acquisitions and serving our three customer segments comprehensively • **The Baltics and Belarus:** Focusing on growing and redesigning the store network • **Poland:** Systematically developing the business
Serving three different customer segments according to their specific customer needs	• Continuing digital channel development by customer segment • Striving for the best customer experience in all channels
Seeking synergies	• Actively seeking synergies within operating countries in e.g. logistics and support functions, and between the countries in e.g. in sourcing, digital services and concept development • Utilising synergies obtained from integrating acquisitions
Organic growth and profitability improvement	• Continuing systematic actions to support growth and profitability improvement • Increasing the role of our own brand products
Targeted acquisitions	• Continuing acquisitions in selected markets and segments

Good profit development in the Baltics and Poland

In the Baltics, Kesko Senukai's sales growth was very strong, especially in Latvia. Store redesigns have brought good results and we have invested in network and concept development. Onninen's performance in the Baltics was good. OMA in Belarus also performed strongly in terms of both sales and profit.

In Poland, Onninen's good profit performance continues, and we have strengthened our position in technical wholesale.

We agreed to sell our remaining stake in the Baltic machinery trade subsidiaries and Konekesko Finland's agricultural machinery trade operations in 2018, and completed the latter divestment in 2019.

Strong sales growth online

Our ambition is to offer an effective combination of online sales, electronic services, professional sales and comprehensive store network to best suit the needs of each of our customer segments. In 2019, we developed logistics for the K-rauta.fi online store in Finland, offering new delivery options to consumers. Reception was positive and online sales in Finland grew by 80%. Onninen's digital sales in Finland also developed well and grew by 10%.

Building and technical trade in figures

	Number of stores		Sales (VAT 0%) (pro forma), € million	
Retail sales and number of stores	**2019**	**2018**	**2019**	**Change, %**
K-Rauta and Rautia	131	135	1,075.1	1.9
Rautakesko B2B Service	-	-	255.5	-2.4
Onninen, Finland	57	56	926.6	3.3
Leisure trade, Finland	107	109	283.5	-0.2
Finland, total	**295**	**300**	**2,540.7**	**1.7**
K-Rauta, Sweden	18	18	164.3	-6.3
K-Bygg, Sweden	34	-	204.4	-2.3
Onninen, Sweden	-	13	99.4	17.7
Byggmakker, Norway	63	65	485.6	-6.6
Onninen, Norway	18	25	258.1	-5.1
Kesko Senukai, Baltic countries	42	40	723.1	12.6
Onninen, Baltic countries	17	15	85.4	10.5
Machinery trade, Baltic countries	-	-	131.4	-10.4
OMA, Belarus	17	17	146.6	14.4
Onninen, Poland	36	36	283.3	-0.8
Other countries, total	**245**	**229**	**2,536.5**	**1.6**
Building and technical trade, total	**540**	**529**	**5,077.2**	**1.7**

In addition, building and technical trade stores offer e-commerce services to their customers. Two Onninen stores in Finland operate in the same store premises with K-Rauta.

Key figures	2019	2018
Net sales, € million	**4,331.1**	**4,102.6**
Building and technical trade excl. speciality goods trade	3,984.5	3,728.0
Speciality goods trade	346.7	374.6
Operating profit, comparable, € million	**142.8**	**126.8**
Building and technical trade excl. speciality goods trade	133.3	117.5
Speciality goods trade	9.5	9.3
Operating margin, comparable, %	**3.3**	**3.1**
Building and technical trade excl. speciality goods trade	3.3	3.2
Speciality goods trade	2.7	2.5
Return on capital employed, comparable, %, rolling 12 months	7.4	7.9
Capital expenditure, € million	332.7	200.7
Personnel, average	12,630	11,668

Properties	2019	2018
Owned properties, capital, € million	222	169
Owned properties, area, 1,000 m²	298	235
Leased properties, lease liabilities, € million	758	748
Leased properties, area, 1,000 m²	1,253	1,169

Markets and market shares 2019

Market by country, along with the improvement from the previous year (retail trade, VAT 0%), market shares and main competitors.

Building and home improvement trade

Market area	Market size and change	Market share	Main competitors
Finland	€3.2 bn (-0.6%), (RaSi ry, Finnish Hardware Association, DIY)	43% (RaSi ry, Finnish Hardware Association, DIY)	STARK, S-Group, Bauhaus
Sweden	€4.8 bn (+3.0%) (Byggmaterialhandlarna and Kesko's own estimate)	8%*	Beijer, XL Bygg, Optimera, Woody, Bauhaus, Byggmax, Bolist
Norway	€5.0 bn (+1.0%), (Virke, Kesko's own estimate)	10%*	Optimera, Mestergruppen, Coop, Maxbo
Estonia	€0.6 bn (+5.5%)**	19%**	Espak, Bauhof
Latvia	€0.6 bn (+0.9%)**	17%**	Depo, Kursi
Lithuania	€1.1 bn (+5.9%)**	36%**	Ermitazas, Moki-Vezi, Depo
Belarus	€1.4 bn (+9.1%)*	11%*	Mile, Materik, Praktik

*Kesko's own estimate **K-Senukai's selection, Kesko's own estimate

Onninen

Market area	Market size and change	Market share	Main competitors
Finland	€2.2 bn (+1,1%), (STK, Talteka)	38% (STK, Talteka)	Dahl, Ahlsell, SLO, Rexel
Sweden	€2.1 bn (+3.1%), (SEG, electrotechnical trade)	5% (SEG)	Dahl, Ahlsell, Elektroskandia, Rexel
Norway	€1.4 bn (+3.0%), (EFO, electrotechnical trade)	17% (EFO)	Elektroskandia, Solar, Ahlsell, Berggård Amundsen, Otra
Poland	€5.1 bn (+3.0%)*	5%*	GC Group (BIMs, HTI, Hydrosolar), Grudnik, TIM, Kaczmarek, Alfa Elektro, Grodno
Estonia	€0.4 bn (+8.6%)*	11%*	FEB (Ahlsell), W.E.G (Würth), Dahl, Esvika, SLO
Latvia	€0.4 bn (+11.5%)*	5%*	Sanistal, EVA-SAT, Energokomplekss, SLO
Lithuania	€0.6 bn (+5.4%)*	3%*	Sanistal, Dahlgera, Elektrobalt, SLO

*Kesko's own estimate

Leisure goods trade, Finland

Market area	Market size and change	Market share	Main competitors
Sports trade	Around €0.9 bn (-0.3%), (Textile and Fashion Suppliers and Retailers Finland TMA and Kesko's own estimate)	Intersport, Budget Sport, The Athlete's Foot and Kesport 28%*	XXL, Stadium, hypermarkets and online stores
Shoe trade	Around €0.3 bn (-2.6%), (Textile and Fashion Suppliers and Retailers Finland TMA and Kesko's own estimate)	Kookenkä and Kenkäexpertti 10%*	Other speciality stores, department stores, hypermarkets, sports stores and online stores

*Kesko's own estimate

CAR TRADE PICKED UP TOWARDS THE END OF A CHALLENGING YEAR

The strategic goal for the car trade division is to outgrow the market and improve profitability by growing our business in collaboration with the Volkswagen Group and by strengthening our market position throughout the car trade value chain.

Johan Friman
President,
car trade division

"The car trade market, driving and mobility are constantly evolving. Thanks to our strategic partnership with the world's biggest car manufacturer the Volkswagen Group and our extensive and constantly updated range of brands and models, we have long been the market leader in the Finnish car trade. Developing our own service business, digital services and a multichannel customer experience have become increasingly important alongside traditional car sales.

The market grew stronger towards the end of the year

In 2019, K-Auto's market share in Finland was 16.9% for passenger cars and vans, down due to availability issues in H1/2019. The market share for trucks (over 6 t) was 3.1%. The market for the car trade continued to be challenging, but strengthened towards the end of the year. Demand for all-electric cars and rechargeable hybrids grew, with e.g. pre-orders for the SEAT Mii electric breaking records. Volkswagen Commercial Vehicles was the second most registered brand of vans in Finland. Uncertainties regarding car taxation and debate over motive power choices caused disruptions in the consumer market. Moreover, the implementation of the new WLTP emissions testing in autumn 2018 continued to impact the sales of Audi and Porsche in particular in the first half of 2019. New car sales in Finland were also impacted by the significant rise in imports of used cars.

Bentley Suomi, operated by K-Auto's retail company K-Caara, began as the official importer for Bentley Motors in Finland. The sales, servicing and after-sales services are located in a new facility in Espoo.

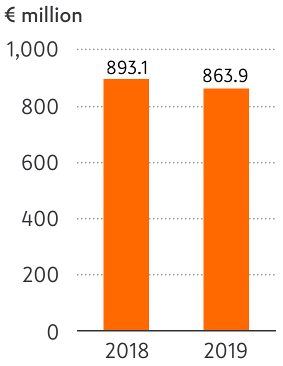
Acquisitions support profitable growth

K-Auto's retail company K-Caara carried out three significant acquisitions in 2019 to strengthen our dealer network. In the spring, we completed the acquisitions of car trade businesses from Huittisten Laatuauto and LänsiAuto, and in the summer, the acquisition of Volkswagen, Audi and SEAT businesses from Laakkonen Group. The integration of the operations has proceeded well, supporting our profitable growth.

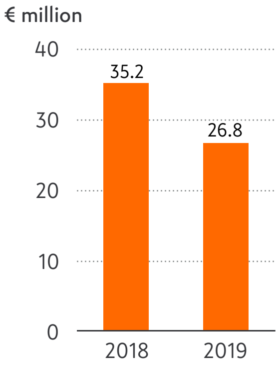
Expansion of K Charge network continued, nearly 400 charging points in use

K Group wants to be a pioneer in mobility, and make sustainable choices easier for its customers also when it comes to electric vehicles. We continued to build the K Charge electric car charging network launched in 2018, and by the end of 2019, the network comprised nearly 270 basic charging points and over 100 fast charging points at nearly 80 K-store locations. The K Charge network hosts some 40% of all public fast charging points in Finland. All K Charge electricity is renewable Finnish wind power,

Net sales



Operating profit*



*Comparable

NEW ADDITIONS TO THE RANGE

The updated and expanding range of brands represented by K-Auto strengthens our competitiveness.

New models introduced to the market in 2019:

- Volkswagen T-Cross and T-Roc R
- Audi A1 citycarver, Audi Q3 and Audi e-tron
- Porsche 911 4S Cabriolet, 911 S Cabriolet, 911 Speedster, Cayenne Coupé, Cayenne Turbo Coupé, Cayenne E-Hybrid Coupé and Cayenne Turbo S E-Hybrid Coupé and Cayenne Turbo S E-Hybrid
- Volkswagen e-Crafter

SUSTAINABILITY

- All electricity charged at K Charge stations is renewable Finnish wind power
- K-Auto joined the Green Deal for the Finnish automotive sector
- A 57% increase in registered passenger cars imported by K-Auto (Volkswagen, SEAT, Audi and Porsche) in the below 100 g/km CO_2 bracket
- Over 99% waste recycling rate in the network – dealerships produce less than 10 kg of non-recyclable waste per year
- K-Caara's spare parts logistics in Finland are carbon neutral (freight partner)

and has powered journeys of approximately 5 million kilometres in total.

We expanded our service offering

In addition to traditional car sales and servicing operations, we continued to strengthen our service business, introducing private leasing to our offering. We now offer leasing services to both private customers and businesses.

We will also continue to evaluate the car-sharing market and its service potential based on an ongoing pilot. The changes in the automotive sector and new forms of mobility necessitate the constant development of operating models, services and technologies.

K Group's car trade division aims to return its sales and profitability to a good level and to further improve them.

Due to the challenging market situation, we had to adjust our costs and conduct related codetermination negotiations with personnel in autumn 2019. We also made some changes to our organisation to be better able to respond to the situation following the acquisitions. Thanks to these efficiency improvement measures, an updated range and improved availability, we have strong faith in our ability to achieve the goals.

Car trade's strategic objective is to outgrow the market and improve profitability

BUSINESS ENVIRONMENT

- Utilisation of customer data
- Hybrid cars
- All-electric cars
- Connectivity and digitalisation
- Mobility services

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
Growing our business in collaboration with the Volkswagen Group	• Strengthening the market position of Volkswagen passenger and commercial vehicles, Audi, SEAT, CUPRA, Porsche, Bentley and MAN in Finland • Growing the range of all-electric cars, rechargeable hybrids, mild hybrids and gas cars • Growing and developing our own dealer network
Expanding our own service business	• Further developing our private and corporate leasing services • Expanding the K Charge network • Introducing new mobility services to our service selection
The best customer experience in all channels	• Utilising K Group's customer data • Developing digital services and increasing offering

Car trade markets

In 2019, there were 114,199 first registrations of passenger cars, 14,702 first registrations of vans and 4,020 first registrations of trucks in Finland. The passenger car market declined by 5.2% and the market for vans declined by 5.2% compared to the year before, while the market for trucks grew by 3.1%.

The total number of first registrations of passenger cars and vans imported by K-Auto was 21,505 (excluding motorhomes). The number of MAN trucks registered was 100.

Car trade in figures

	Number of stores		Sales (VAT 0%) (pro forma), € million	
Retail sales and number of stores	**2019**	**2018**	**2019**	**Change, %**
K-Caara	42	13	616.0	-18.2
K-Auto, import	-	-	268.0	8.3
AutoCarrera	3	3	48.0	-23.1
Car trade, total	**45**	**16**	**932.0**	**-12.3**

Key figures	**2019**	**2018**
Net sales, € million	863.9	893.1
Operating profit, comparable, € million	26.8	35.2
Operating margin, comparable	3.1	3.9
Return on capital employed, comparable, %, rolling 12 months	9.5	20.8
Capital expenditure, € million	131.3	49.0
Personnel, average	1,179	835

Properties	**2019**	**2018**
Owned properties, capital, € million	53	50
Owned properties, area, 1,000 m²	47	47
Leased properties, lease liabilities, € million	72	6
Leased properties, area, 1,000 m²	98	26

Market shares 2019

Car trade, Finland

- K-Auto's market share 16.9% (Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen vans combined, excluding motorhomes)
- Volkswagen passenger cars 10.5%
- Audi 3.2%
- SEAT 2.2%
- Porsche 0.2%
- Volkswagen vans 23.0%
- MAN trucks 3.1% (over 6t)

FOUR REASONS TO INVEST IN KESKO

Kesko is a growing and profitable Northern European retail company that strives to strengthen its cash flow and dividend capacity with a long-term focus.

Jukka Erlund
Executive Vice President, CFO

"Our customer-oriented growth strategy has proven effective, as evidenced by our record result in 2019. Our strong financial position enables further investments in growth and good dividend capacity.

1 Profitable growth strategy and strong track record in strategy execution

Customer-orientation and quality are at the core of Kesko's growth strategy. We seek focused profitable growth in three strategic areas – the grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland – both organically and via acquisitions. We began the execution of our current strategy in 2015, and since then our net sales have annually increased on average by 5.4% and our operating profit on average by 17.2%. During the period, the net sales for Kesko's core businesses have increased by €3.1 billion, and we have invested €2.4 billion in growth, while divesting some €1.0 billion worth of non-core business operations. The improvement in profitability is the result of customer-oriented growth strategies in our divisions, constant improvements in cost efficiency, and efficient capital allocation. We operate as "One unified K" and maximise the utilisation of synergies between our businesses.

2 Strong market position

Kesko is one of the leading retail companies in Northern Europe and the biggest retail operator in Finland. Our objective is to always be among the top two operators in all our businesses to ensure economies of scale. Finland accounts for approximately 78% of our net sales, and Kesko is the biggest trading sector company in Finland, and the biggest operator in the Finnish building and technical trade and car trade. We also have strong market shares outside Finland in Sweden, Norway, the Baltics and Belarus.

3 Ability to increase shareholder value

Kesko's good dividend capacity is based on the strong and steady ability of its businesses to generate cash flow. Our objective is a steadily growing, attractive dividend yield. Kesko has paid dividends uninterrupted every year since 1968, and over the past five years, Kesko's dividend yield has averaged 5.4% a year. The total annual shareholder return of a Kesko B share since the beginning of 2015 is 21.7%. Growth in shareholder value is based on making and implementing successful strategic choices and on efficient allocation of capital – these saw Kesko's return on capital employed rise to 9.6% in 2019.

4 Corporate responsibility

Thanks to our extensive long-term corporate responsibility work, Kesko is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe, as well as the Global 100 Most Sustainable Corporations in the World list. Kesko's climate work focuses on the purchasing and production of renewable energy and increased energy efficiency. We have set tight Science Based Targets for emissions from our operations and supply chain. We also actively offer our customers convenient ways to reduce their carbon footprint.

Kesko in sustainability indices

INVESTOR INFORMATION

Kesko's shares are listed on NASDAQ Helsinki. The shares are divided into series A and series B shares, with the respective trading symbols KESKOA and KESKOB.

At the end of December 2019, the total number of Kesko Corporation shares was 100,019,752, of which 31.7% were A shares and 68.3% B shares. Kesko's share capital totalled €197,282,584. The combined market capitalisation of the shares was €6,114.7 million at the end of December 2019, an increase of €1,562.0 million from the end of 2018.

At the end of 2019, the company had 41,000 shareholders.

Annual General Meeting

Kesko Corporation will hold its Annual General Meeting of shareholders on Monday, 30 March 2020, starting at 13.00 EET, at Messukeskus Helsinki, Rautatieläisenkatu 3 (Siipi entrance), Helsinki.

Participants must register for the Annual General Meeting beforehand. A shareholder in the register of shareholders wishing to participate must register by 25 March 2020 at 16.00 EET at the latest, by which time the registration will have to have been received by the Company.

Additional investor information on our website

More information on the Annual General Meeting

Dividend

The Board of Directors proposes to the Annual General Meeting to be held on 30 March 2020 that based on the adopted balance sheet, a dividend of €2.52 per share be paid for the year 2019. The Board proposes that the dividend be paid in two instalments. The first instalment, €1.28 per share, is proposed to be paid on 8 April 2020.

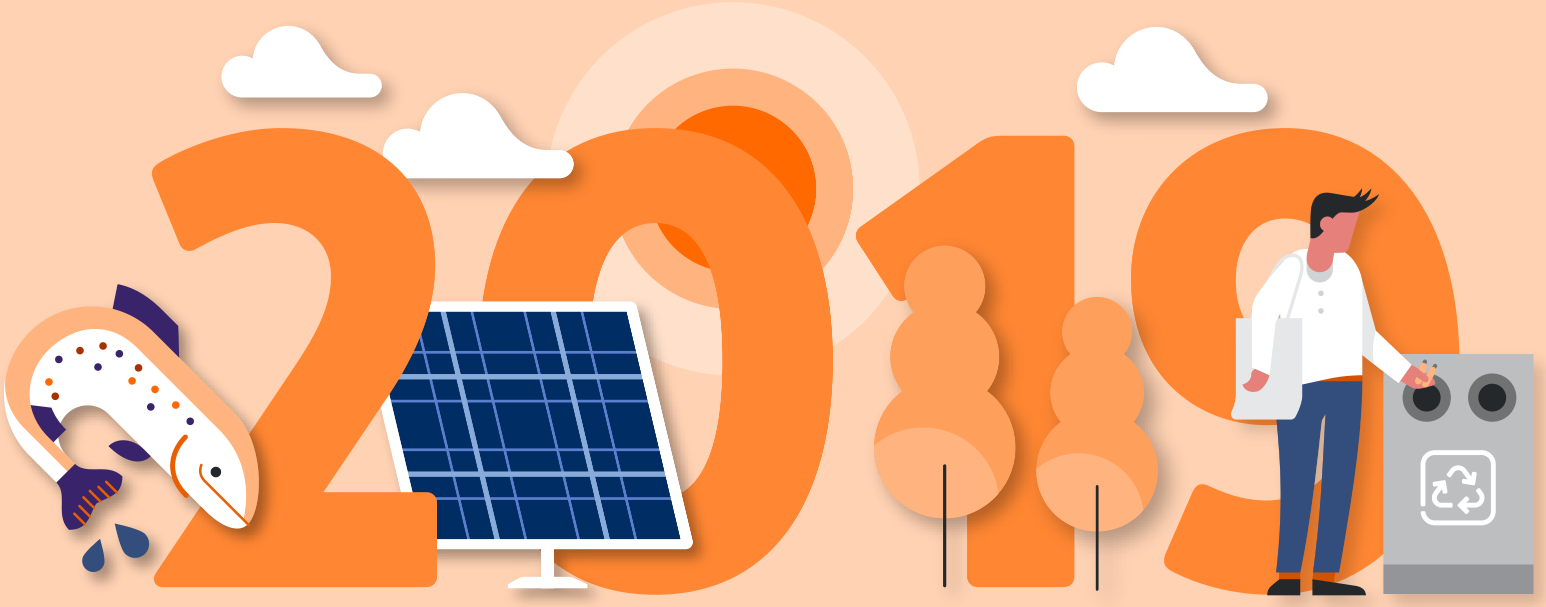
The Board proposes to the Annual General Meeting that shareholders be issued, without payment, three (3) new A shares for each current A share held and three (3) new B shares for each current B share held. If the proposal is approved, the second instalment will be divided between one current and three new shares, so that a dividend of €0.31 is paid on each share. If the General Meeting does not approve the Board proposal concerning a share issue without payment, the second dividend instalment will be €1.24 per share.

Kesko's investor relations

The objective of Kesko's investor relations is to support the appropriate valuation of Kesko's shares by continuously and consistently communicating all essential information on the company equally to all market parties. We want to serve both private and institutional investors and analysts covering the company in Finland and elsewhere. Investor relations contact details and more investor information can be found on our website.

INTERIM REPORT PUBLICATION DATES IN 2020:

- Interim report for January–March 2020: 28 April 2020
- Half year financial report for January–June 2020: 23 July 2020
- Interim report for January–September 2020: 29 October 2020



KESKO ANNUAL REPORT

SUSTAINABILITY

SUSTAINABILITY

Kesko's Annual Report 2019 has four sections. This section describes highlights in sustainability and the objectives and progress made in our responsibility programme, and provides key sustainability indicators in accordance with GRI standards.

The responsibility programme as a whole is available on our website.

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

Read more in the Annual Report

Read more on our website

HIGHLIGHTS 2019

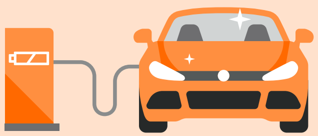
Progress made in our sustainability work:

NEW ENERGY RECYCLING SYSTEM REVOLUTIONISES ENERGY ECONOMY

A new energy recycling model was developed for K-food stores that can reduce heat consumption by as much as 95%, making a K-food store almost carbon neutral in terms of energy. Motiva awarded the system the Energy Genius of the Year 2019 recognition.

K-OSTOKSET SERVICE HELPS CUSTOMERS MAKE SUSTAINABLE CHOICES

With the data-based K-Ostokset service we want to help our customers understand the impacts of their purchase decisions. In addition to enabling our customers to track their purchases of Finnish products, we developed a carbon footprint calculator that provides information on the carbon footprint of the customer's shopping basket at product category level. K-Ostokset already has over 100,000 service users.



WE BUILT A NATIONWIDE K CHARGE NETWORK AT OUR STORE LOCATIONS

For electric cars to gain popularity it is essential that the charging network is sufficiently extensive. Our K Charge network allows drivers to conveniently recharge their electric car while doing their shopping. In 2019, the K Charge network became the largest fast charging network for electric cars in Finland.

DAY CARE FOR CHILDREN ENABLED MIGRANT FAMILIES TO SPEND THE SUMMER TOGETHER

We want to bear more social responsibility for the wellbeing of the employees in our global supply chain. Together with the international organisation the Center for Child Rights and Corporate Social Responsibility (CCR CSR), we opened a children's summer day care facility for families of migrant workers at a factory in Ningbo, China, which supplies site lighting to Onninen and K-Rauta stores.

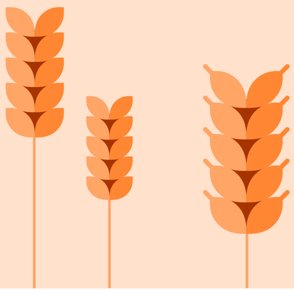
What we continue to work on:

CARBON NEUTRAL K GROUP IN 2025

In spring 2019, Kesko's Board of Directors made sustainability and combatting climate change strategic focus areas. We began the preparation of the K Group climate programme and, in February 2020, set a target to be carbon neutral in 2025.

SUSTAINABLE PRODUCTS

In 2019, we initiated extensive work to identify the products in each division that are sustainable from a climate perspective. We defined sustainable products as those which have a significantly smaller climate impact than comparable products or which are important for adapting to climate change.



SUSTAINABILITY STRATEGY 2018–2022

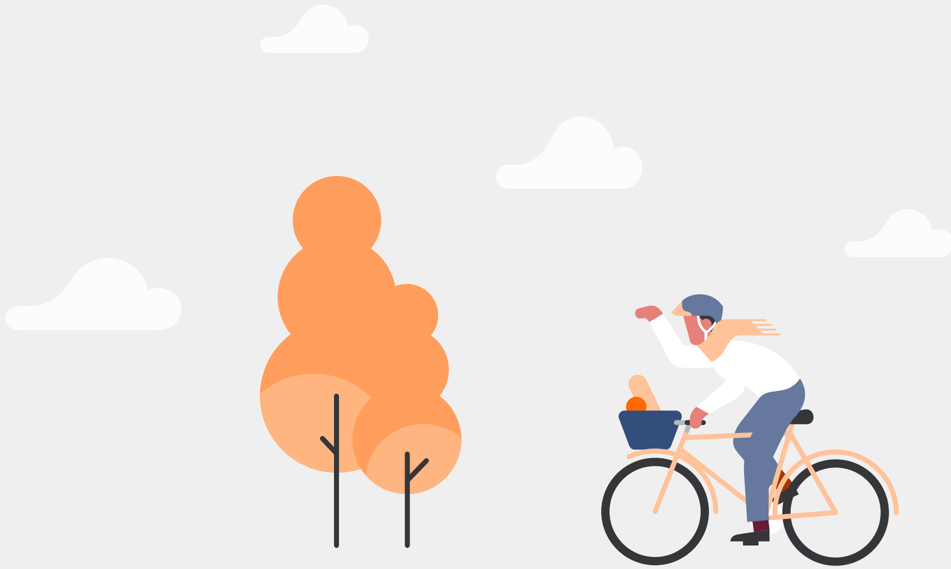
Our sustainability strategy focuses our sustainability efforts increasingly on our customers. We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living.

In spring 2019, Kesko's Board of Directors made sustainability and combatting climate change strategic focus areas.

VISION	WE ENABLE SUSTAINABLE LIFESTYLES FOR OUR CUSTOMERS			
STRATEGIC OBJECTIVES	Sustainability and benefits derived from it drive customer preference in both B2C and B2B	Investors prefer Kesko as a sustainable investment	Employees and K-retailers are proud advocates of K Group's sustainability work	K Group has a significant role in societal discussion through recognised leadership in sustainability

STRATEGIC ACTIONS

1. Pursuing leadership in circular economy solutions
2. Strengthening responsible and transparent sourcing in the supply chain
3. Commercialisation of sustainability through our own brand products
4. Creating data-based services for customers and the society using customer data and AI responsibly
5. Expanding communal responsibility initiatives together with K-retailers and our employees
6. Reducing energy consumption and increasing our own renewable energy production



SUSTAINABILITY THEMES

SOCIETY

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

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

We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living. We offer products and services which allow our customers to make more sustainable choices.

IN THIS SECTION:

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

- 3 GOOD HEALTH AND WELL-BEING
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Our operations create added value for various stakeholders

201-1

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

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

We pay steady dividends

Kesko has some 41,000 shareholders. In the long term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko's Board of Directors proposes to the Annual General Meeting to be held in March 2020 that a total dividend of €250 million be paid for the year 2019, which would represent 74.8% of earnings per share and 80.3% of comparable earnings per share. In 2019, Kesko distributed a total of €232 million as dividends, which represented 145.2% of earnings per share and 95.8% of comparable earnings per share.

Economic benefits from Kesko's operations to stakeholders

		Continuing operations		
€ million		**2019**	**2018**	**2017**
Customers[1]	Revenues	11,543	11,173	11,278
Value added generated		**11,543**	**11,173**	**11,278**
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-10,150	-9,920	-10,065
Employees	Salaries, fees and social security expenses	-775	-694	-738
Payments to providers of capital	Net finance income/costs	-91	-100	2
Owners	Dividend	-250[2]	-232	-219
Public sector	Taxes[3]	-84	-77	-60
Community investments	Donations	-2	-2	-2
Development of business operations		191	148	197

[1] Incl. net sales and other operating income

[2] Proposal to the General Meeting

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

Data based on figures from the audited consolidated financial statements. In 2019, Kesko adopted the new IFRS 16 Leases accounting standard, which it applies using a retrospective method, so that the figures for 2018 have been restated. The new standard had a significant impact on accounting for leases. In the table above, the adoption of the new standard has decreased services purchased by €100 million (€-96 million) and increased finance costs by €95 million (€99 million) in 2019 and 2018 compared with the previous accounting practice. Figures for 2017 do not include the impact of IFRS 16.

Economic benefits from Kesko's operations by market area in 2019

€ million	**Purchases**	**Capital expenditure**	**Salaries and share-based payments**	**Social security expenses**	**Taxes[1]**	**Total**
Finland	5,958	386	420	89	841	7,695
Other Nordic countries	931	244	101	30	81	1,387
Baltic countries, Poland and Belarus	824	56	120	15	130	1,145
Other countries	1,414					1,414
Total	**9,127**	**686**	**641**	**135**	**1,052**	**11,641**

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

Our investments impact the whole society

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

The capital expenditure for Kesko's continuing operations in 2019 totalled €686 million (2018: €418 million), or 6.4% of net sales (2018: 4.0%). The store site network is a strategic competitive factor for K Group. In 2019, capital expenditure on store sites totalled €228 million (2018: €112 million). Capital expenditure for foreign operations accounted for 43.7% (2018: 46.0%) of total capital expenditure. In addition to Kesko, K-retailers invest in e.g. store fixtures. These figures included, K Group's total capital expenditure in Finland in 2019 amounted to some €491 million.

Financial assistance received from government

201-4

In 2019, Kesko Group received financial assistance totalling €2.3 million from the public sector. The sum consists mainly of assistance received in Finland (€1.6 million) and in Sweden (€0.6 million). Most of the public sector assistance received in Finland is related to investments in the charging network for electric cars and to investments in solar power.

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2019

Region € million	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure[1]	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	Total
Åland	46.2	-	0.1	0.2	-	-	46.6
Southern Karelia	13.3	7.2	10.2	5.7	13.6	0.7	50.8
Southern Ostrobothnia	239.7	15.8	4.6	4.4	13.4	1.1	279.0
Southern Savo	50.0	8.7	1.9	3.8	11.6	1.5	77.6
Kainuu	16.2	10.4	2.3	1.2	7.5	1.0	38.6
Kanta-Häme	57.5	17.3	41.2	6.6	13.2	1.1	136.9
Central Ostrobothnia	47.2	5.6	0.5	1.9	4.2	0.5	59.8
Central Finland	49.1	18.4	14.7	8.0	20.7	1.8	112.7
Kymenlaakso	43.3	10.3	4.9	7.7	12.7	1.1	80.0
Lapland	20.1	25.0	18.6	5.3	22.9	3.0	94.9
Pirkanmaa	268.3	36.3	30.8	34.0	46.8	4.3	420.5
Ostrobothnia	159.0	12.5	3.1	5.1	11.6	1.1	192.5
Northern Karelia	34.7	20.1	12.0	5.5	11.9	1.6	85.8
Northern Ostrobothnia	141.7	48.5	27.9	18.1	31.3	3.1	270.6
Northern Savo	230.1	35.6	6.7	12.2	22.3	2.0	308.9
Päijät-Häme	125.6	11.9	15.1	9.8	14.4	1.2	178.1
Satakunta	172.8	31.0	9.1	6.9	19.1	1.6	240.6
Uusimaa	3,464.7	179.6	267.2	301.5	152.4	18.3	4,383.7
Varsinais-Suomi	715.2	91.5	20.0	26.4	45.4	5.9	904.4
Total	**5,894.8**	**585.9**	**491.2**	**464.5**	**475.0**	**50.8**	**7,962.1**

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

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

We are a significant taxpayer

203-2

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

Kesko and K-retailers together form K Group. Purchases by K Group have economic impacts on suppliers of goods and services, such as better availability of jobs. Purchases from local producers affect regional business activities. The salaries, taxes and employee benefit expenses paid by K Group and K Group's capital expenditure impact regional economic welfare.

In 2019, income taxes paid by Kesko to Finland totalled €65.9 million and to other countries €11.8 million. The Group's effective tax rate was 17.3%. K Group's income tax is discussed in the Financials section in **Note 2.6** of the consolidated financial statements.

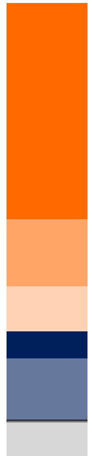
Kesko paid €4.9 million in real estate taxes and net-worth taxes to Finland and €1.0 million to its other operating countries in 2019.

Kesko also collects, reports and remits indirect taxes, such as value-added taxes and excise duties. Kesko remits value-added taxes to tax recipients in its capacity as a company selling goods and services. In 2019, Kesko remitted value-added taxes in Finland to the amount of €462.4 million, and €139.5 million in other countries. Kesko remits car taxes, and excise duties on confectionery, alcohol and soft drinks, for example. In 2019, Kesko remitted excise duties in Finland to a total amount of €71.5 million.

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

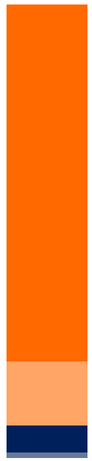
Taxes remitted in 2019

- Value-added taxes, Finland €462 million
- Value-added taxes, other countries €140 million
- Withholding taxes, Finland €100 million
- Withholding taxes, other countries €54 million
- Car taxes, Finland €130 million
- Customs duties, Finland €6 million
- Customs duties, other countries €5 million
- Excise duties, Finland €72 million



Taxes payable in 2019

- Income taxes, Finland €66 million
- Income taxes, other countries €12 million
- Real estate taxes, Finland €5 million
- Real estate taxes and net-worth taxes, other countries €1 million

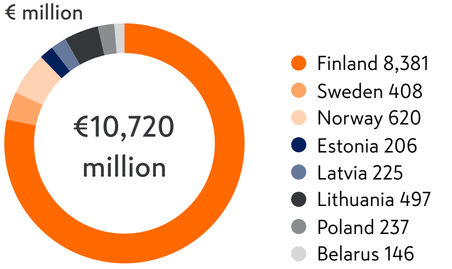


Our principle is that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations. In Estonia and Latvia, companies pay income tax for distributed profit.

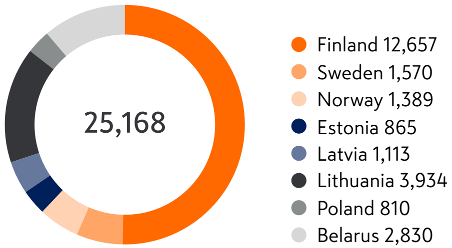
Kesko operates and has personnel in eight countries, and engages in both retail and wholesale operations. Kesko has a permanent place of business in China for its purchasing operations and some other permanent places of business for export projects. The taxes of permanent places of business are paid both in the operating country and in Finland. Taxes are paid in Finland if the income tax base of the operating country is lower than in Finland.

Kesko does not channel its income into low tax base countries (tax havens), nor does Kesko have any subsidiaries in such countries. Kesko's subsidiaries are listed in the Financials section in **Note 5.2** of the consolidated financial statements.

Net sales by country, continuing operations



Personnel by country at 31 Dec. 2019



Taxes by country in 2019

€ million, continuing operations	Income taxes	Real estate and property taxes	Car taxes	Customs duties	Excise duties
Finland	65.9	4.9	130.1	6.4	71.5
Sweden	1.9	0.3	-	0.1	0.1
Norway	2.4	0.1	-	0.0	-
Estonia	2.3	0.0	-	0.3	-
Latvia	0.2	0.1	-	0.1	-
Lithuania	3.0	0.0	-	2.8	-
Poland	0.1	0.1	-	0.1	-
Belarus	2.0	0.4	-	1.4	-
Total	**77.7**	**6.0**	**130.1**	**11.1**	**71.6**

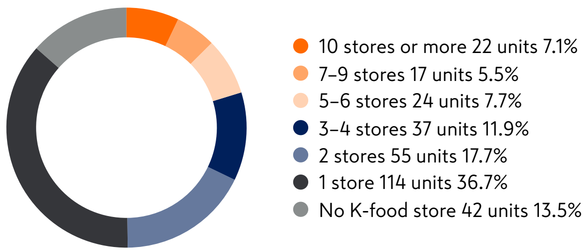
An extensive store network and additional services to customers

203-1

Kesko's principal business model on the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 45% of Kesko's net sales in 2019. At the end of 2019, Kesko had over 1,100 independent K-retailer entrepreneurs as partners. Together, Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled €13.3 billion in 2019 (0% VAT). K Group employs around 43,000 people.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. The share of B2B trade grew further on the previous year, and it accounted for 37% of Kesko's net sales in 2019. Kesko's own retailing accounted for 18% of net sales.

K-food stores in Finnish municipalities on 31 Dec. 2019



K Group has an extensive network of K-food stores in Finland. There is a K-food store in most municipalities in the country. Every day, some 1.2 million customers visit K-food stores.

Especially outside growth centres, stores can offer services which may otherwise be scarcely available.

In 2019, the following additional services were available at K-stores:

- Cashback services at all K-food stores
- Parcel and postal services at nearly 1,000 stores
- Charging points for electric cars at nearly 80 stores
- Over 410 Rinki eco take-back points

We comply with anti-competitive laws and regulations

206-1

No authority rulings or legal actions regarding anti-competitive behaviour, anti-trust, and monopoly practices were reported in 2019.

Political contributions

415-1

We do not make monetary donations to political parties.

Customer privacy is of utmost importance to us

418-1

In 2019, we received no complaints from the authorities or our customers regarding the breach of customer privacy.

We always comply with the law

419-1

There were no breaches of laws or regulations in the social and economic area in 2019.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Additional services at our stores

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We provide convenient services for our customers.	Parcel pick-up and sending services were brought closer to an increasing number of Finns by opening nearly 100 new service points and 270 parcel lockers at K-stores. We opened the first four automatic collection points for online food purchases. We successfully piloted the use of the Mobilepay application and prepared for its extensive adoption in early 2020.	We will develop and maintain a network of services to ensure that stores and important services for customers continue to be within easy reach in the future as well. We will continue to expand the network of joint automatic pick-up points to allow customers to receive their online shopping from various online stores at one location.

By providing support we increase wellbeing in society

201-1

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

Kesko's community investments

€1,000	2019	2018	2017
Non-governmental, environmental and other organisations	164	299	231
Sports (adults)	597	603	1,145
Youth sports and other youth work	572	203	144
Science, research and education	36	69	50
Culture	71	45	32
Health	792	596	459
Veteran organisations and national defence	7	22	113
Total	**2,238**	**1,836**	**2,174**

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Donations, sponsoring and charity campaigns

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We focus primarily on sponsoring nationwide projects in Finland that are connected to the everyday lives of children and young people, promote the quality of living and sustainability, and bring joy to as many people as possible.	Together with our customers we raised a record-breaking sum for the Pink Ribbon campaign: over €770,000 for cancer research in Finland. We were involved in Yrityskylä (Me & My City) activities targeted at 6th grade elementary school pupils in five localities in which the aim is to develop young people's working life skills and increase their knowledge on entrepreneurship and the trading sector.	The Finnish Basketball Association and K Group's grocery trade have agreed to continue their cooperation for several years. This cooperation focuses on organising physical activities for primary school children, such as the Pikkusudet (Little Wolves) basketball events and the Pirkka Street Basket tour. Our new pilot will focus on increasing physical activity among secondary school pupils through basketball.

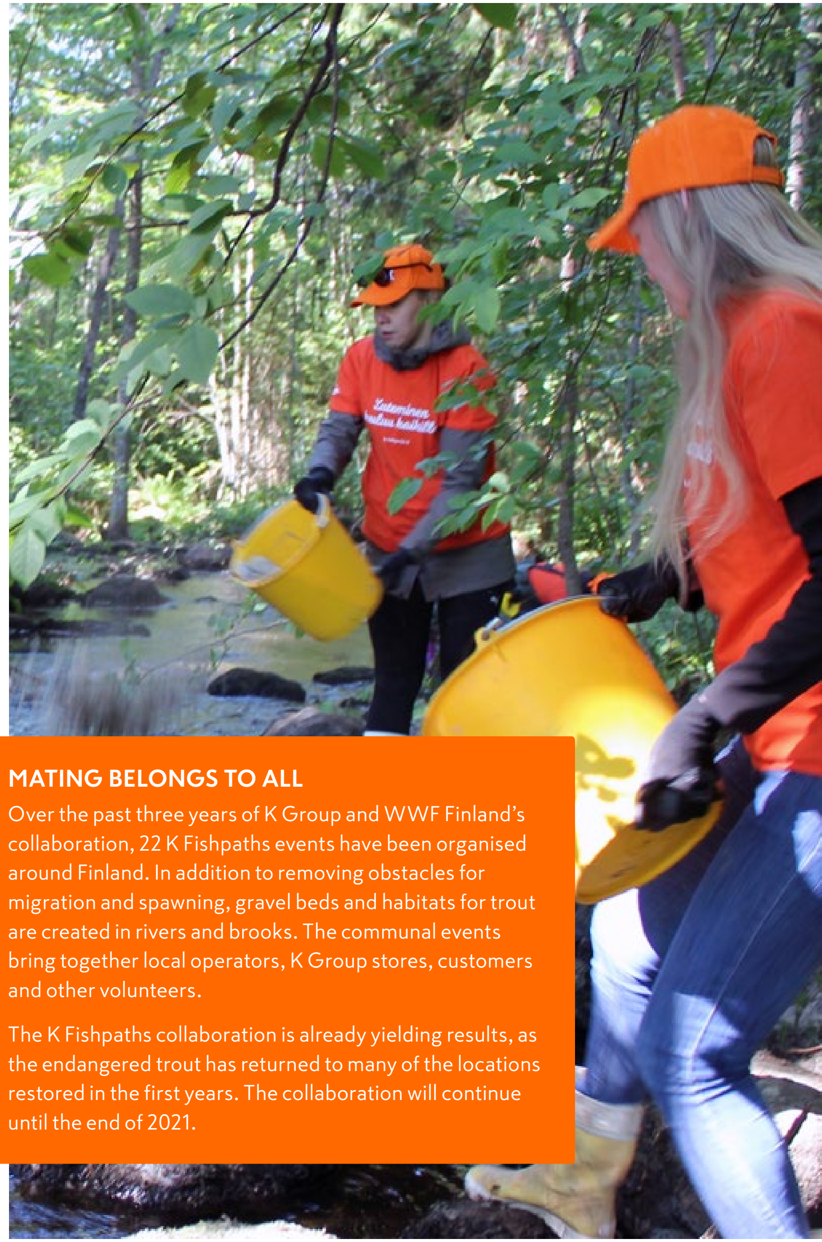
K Fishpaths

The K Fishpaths collaboration between K Group and WWF Finland is a great example of a company and an environmental organisation working together to create new operating models and promote biodiversity.

Over 200 gravel beds restored

Over 80 km of spawning grounds and habitats

Over 800 volunteers signed up



MATING BELONGS TO ALL

Over the past three years of K Group and WWF Finland's collaboration, 22 K Fishpaths events have been organised around Finland. In addition to removing obstacles for migration and spawning, gravel beds and habitats for trout are created in rivers and brooks. The communal events bring together local operators, K Group stores, customers and other volunteers.

The K Fishpaths collaboration is already yielding results, as the endangered trout has returned to many of the locations restored in the first years. The collaboration will continue until the end of 2021.

Read more on the K Fishpaths page

SELECTIONS AND PURCHASING

Our products are researched, safe and responsibly produced. We support local production and offer products from local producers.

Most of our purchases are made from suppliers operating in Finland. In global purchases, we pay special attention to human rights issues and environmental impacts in our supply chains.

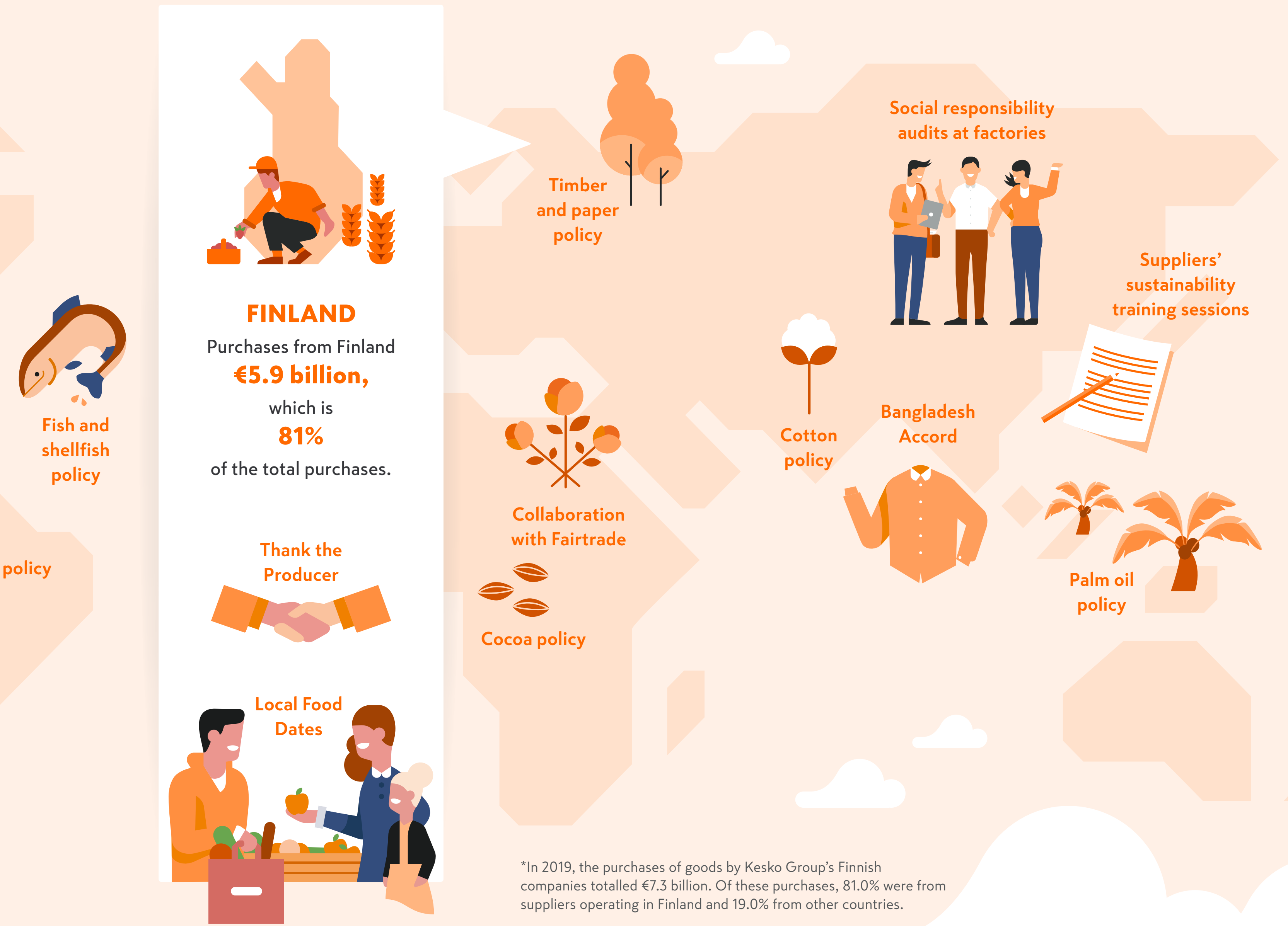
We promote sustainability in our supply chains with sustainability policies, suppliers' factory audits, sustainability training and by working in cooperation with international organisations.

IN THIS SECTION:

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

SUSTAINABLE SOURCING GLOBALLY

We promote sustainability in our supply chains with sustainability policies, suppliers' factory audits, sustainability training and by working in cooperation with international organisations.



*In 2019, the purchases of goods by Kesko Group's Finnish companies totalled €7.3 billion. Of these purchases, 81.0% were from suppliers operating in Finland and 19.0% from other countries.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Sustainability policies guiding our sourcing - 1 (2)

	OBJECTIVE	PROGRESS IN 2019
Fish and shellfish policy	Our selections do not include species on the red list of WWF Finland's Seafood Guide. When making decisions concerning selections, we favour sustainable stocks of fish and MSC- and ASC-certified suppliers.	Our fish and shellfish policy based on WWF Finland's Seafood Guide has been in effect for 11 years. The retail selection of Kesko's grocery trade included 200 (2018: 200) MSC-certified fish products and 30 (9) ASC-certified products. Kespro's HoReCa selection had a total of 226 (2018: 168) MSC-certified products and 25 (9) ASC-certified products. Five K-Supermarket stores were granted the MSC and ASC traceability certificates promoting sustainable fishing and aquaculture.
Palm oil policy	By 2020, the palm oil in our own brand groceries will be 100% sustainably produced (CSPO).	100% (2018: 99.2%) of the palm oil in Kespro's Menu food products sold in 2019 was sustainably produced (CSPO), of which 0.2% was Identity Preserved, 88.3% Segregated, 9.5% Mass Balance, and 2.0% RSPO Credits. 100% (2018: 67%) of the palm oil in Pirkka and K-Menu food products sold in 2019 was sustainably produced (CSPO), of which 34% was Segregated, 60% Mass Balance and 6% RSPO Credits.
Soy policy	By 2020, the ingredients of soy origin in the grocery trade's own brand food products and the soy fodder used in the production of products of animal origin will be 100% sustainably produced, and be either RTRS or ProTerra certified.	100% of the soy used as an ingredient in and the soy fodder used in the production of products of animal origin in Kespro's Menu, Pirkka and K-Menu food products sold in 2019 was sustainably produced.
Timber and paper policy	By 2025, timber and paper products in Kesko's product range will be 100% of sustainable origin, FSC- or PEFC-certified or made of recycled materials. In the grocery trade, the policy applies to our own brand products.	Kesko's building and technical trade has been awarded the PEFC certificate, which covers sawn pine and spruce timber and processed timber as well as the wholesale distribution of MDF boards in Finland (percentage-based method). The average PEFC certification percentage in 2019 was 88.9% (2018: 88.5%) for pine and 83.4% (85.6%) for spruce. Of the timber and paper products in the grocery trade's Pirkka and K-Menu ranges, 24% (2018: 51%) contained sustainable raw material, of which 48% were FSC-certified, 45% PEFC-certified and 8% of recycled materials. In Kespro's Menu range, 31% (2018: 17%) of timber and paper products contained sustainable raw material, of which 71% were FSC-certified and 29% PEFC-certified.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Sustainability policies guiding our sourcing - 2

	OBJECTIVE	PROGRESS IN 2019
Plastics policy	By the end of 2025, all of the packaging used in our own brand products are recyclable, reusable or biodegradable.	In 2019, we made innovative changes to the packaging of 26 own brand products of our own. For example, deposits were added to 10 Pirkka squash bottles. In addition, the recyclability of the packaging material of 16 products was improved: In 11 products, black plastic was replaced with other materials, in 3 products PLA plastic was replaced with PET plastic, and the new Pirkka Parhaat bouquets are now wrapped in paper instead of plastic.
	Our objective is to reduce the amount of plastic contained in the packaging of our own brand products by 20% by the end of 2025.	By the end of 2019, we had reduced the use of plastic in the packaging of our own brand products in Kesko's grocery trade by more than (100 tonnes) 3%. We are on schedule to achieving the goal.
Animal welfare policy	When making decisions concerning selections, we take the well-being of farmed animals into account. From the start of 2026, we will no longer accept eggs from furnished cages into Kesko's selections. In 2019, we updated the animal welfare policy, and we will no longer accept eggs from furnished cages as an ingredient in our own brand products from the start of 2026.	In 2019, we sold some 230 million eggs, of which 57% were furnished cage eggs and 43% were barn eggs, organic and free-range eggs.
Cocoa policy	By the end of 2020, all the cocoa used in Kesko's own brand cocoa drinks, chocolate confectionery products and chocolate baking products will be of sustainable origin. The cocoa used in other own brand products containing cocoa will be 100% of sustainable origin by the end of 2025.	78% of Pirkka and K-Menu cocoa drinks, chocolate confectionery products and chocolate baking products sold in 2019 contained sustainable cocoa. Of the products containing sustainable cocoa, 80% were UTZ-certfied and 20% Fairtrade-certified. The Kespro Menu Fairtrade cocoa drink powder was 100% of sustainable origin.
Cotton policy	All of the cotton sourced for our own clothing and home textile brands will be more sustainable cotton by the end of 2024. Sustainable cotton is certified organic cotton, recycled cotton, Better Cotton or Fairtrade cotton. Our own brand clothing and home textiles include K-Citymarket's mywear clothes and myhome home textiles, Pirkka socks and K-Rauta's PROF workwear and Cello interior textiles.	We prepared our cotton policy to be published in March 2020 and set a target for increasing the use of more sustainable cotton in our own brand clothing and home textiles. Kesko is a member of the Better Cotton Initiative (BCI) since March 2020. The Better Cotton Initiative exists to make global cotton production better for the people who produce it, the environment it grows in and the sector's future. Kesko is committed to improving cotton farming practices globally with the Better Cotton Initiative.

The majority of purchases are from Finnish suppliers

204-1

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

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

Most of the economic benefit generated by Kesko's operations – approximately 85% of Kesko's net sales – flows to suppliers of goods, purchases from which were valued at €9.1 billion in 2019. The purchases of all Kesko companies from suppliers operating in Finland totalled €6.0 billion, or 65.3% (2018: 65.7%) of the Group's total purchases.

In 2019, Kesko had around 21,700 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, approximately 9,600 operated in Finland, 10,000 in Kesko's other operating countries, and approximately 2,100 elsewhere.

The 10 largest suppliers accounted for 25.1% (2018: 26.3%) of the Group's purchases of goods, and the 100 largest suppliers for 57.1% (2018: 59.3%). Of the ten largest suppliers, six were Finnish food industry companies, three import companies operating in Finland, and one German car manufacturer.

The purchases of goods by Kesko Group's Finnish companies totalled €7.3 billion. Of these purchases, 81.0% were from suppliers operating in Finland and 19.0% from other countries. Some of the suppliers operating in Finland are import companies, and reliable statistics cannot be compiled on the origin of goods supplied by them.

Kesko's purchases by company's and supplier's country of domicile in 2019

	Supplier's country of domicile									
Company's country of domicile	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus	Other countries	Total
Finland	5,895	183	12	35	3	12	29	9	1,103	7,281
Sweden	12	263	4	2	-	0	2	-	12	295
Norway	3	6	460	-	-	0	-	-	5	475
Estonia	23	1	0	77	4	2	9	-	30	146
Latvia	15	1	-	9	82	14	14	0	45	180
Lithuania	8	2	-	22	47	109	51	4	165	409
Poland	1	0	0	-	-	-	225	-	12	238
Belarus	0	-	-	-	0	0	4	58	41	103
Total	5,958	456	476	146	136	138	333	72	1,414	9,127

Kesko's purchases by operating country in 2019

	Suppliers of goods and services in operating country	Purchases from suppliers of goods		Suppliers of goods and services in other operating countries	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	9,386	5,895	81.0	1,982	1,386	19.0
Sweden	2,716	263	89.0	215	32	11.0
Norway	2,392	460	96.9	139	15	3.1
Estonia	1,046	77	52.4	457	70	47.6
Latvia	1,220	82	45.5	555	98	54.5
Lithuania	409	109	26.7	201	300	73.3
Poland	966	225	94.6	58	13	5.4
Belarus	-	58	56.4	-	45	43.6
Total	**18,135**	**7,169**	**78.5**	**3,607**	**1,958**	**21.5**

We support local producers

Kesko is actively increasing the amount of local purchases and encourages K-retailers to include products from local producers in their selections. In 2019, K-retailers' direct purchases from Finnish regions totalled €585.9 million.

Finnish food producers play a key role in K Group's grocery trade, and the share of locally produced food in the store selections is growing. The Local Food Date events held across Finland for many years have made the path of local food to store shelves smoother. Organised by K Group and Finfood - Finnish Food Information, these events bring together K-retailers and small food producers. From 2014 to 2019, a total of 36 Local Food Date events were held across Finland, and more than 500 producers and 1,500 retailer representatives participated in them.

The 'Thank the Producer' operating model is one of the ways in which K Group supports Finnish agriculture. The purpose of the operating model is to increase the public's appreciation for Finnish food and its producers. Under the operating model, the consumer price may be slightly higher for the products, which enables K Group to pay an additional payment to the producers. The additional sum is paid directly to the producers. By the end of 2019, products sold under the Thank the Producer model had accrued more than €2.94 million in additional money for farmers.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Local production

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We support local producers	The number of Thank the Producer products was 64 in 2019. The Thank the Producer products sold in 2019 accumulated more than €1.57 million in additional money paid directly to food producers in Finland.	We aim to double the number of Thank the Producer products in 2020.
	In 2019, we organised five Local Food Date events, where a total of 150 different producers and a total of 380 representatives of K-retailers built partnerships.	We will continue to organise Local Food Date events in 2020.

Efforts to promote transparency in global purchasing chains

414-1 414-2

Kesko pays special attention to human rights issues and working conditions in its purchasing chain in countries with the greatest risk of human rights violations. In the risk assessment of supply countries, we utilise **the amfori Country Risk Classification** based on Worldwide Governance indicators published by the World Bank.

In 2019, direct purchases from suppliers in risk countries totalled €104 million (2018: €105 million) and accounted for approximately 1.1% (2018: 1.2%) of Kesko's total purchases. Direct imports from risk countries accounted for approximately 13.9% (2018: 14.5%) of Kesko's total imports to Finland. The figures concern direct purchases in Finland; no statistics are available on direct imports from risk countries in Kesko's other operating countries.

We publish the list of manufacturers of clothes, accessories, shoes and bags of our own brands and own imports located in risk countries and the addresses of the factories annually on our **website** to improve the transparency of the supply chain.

Social responsibility assessments of suppliers in risk countries

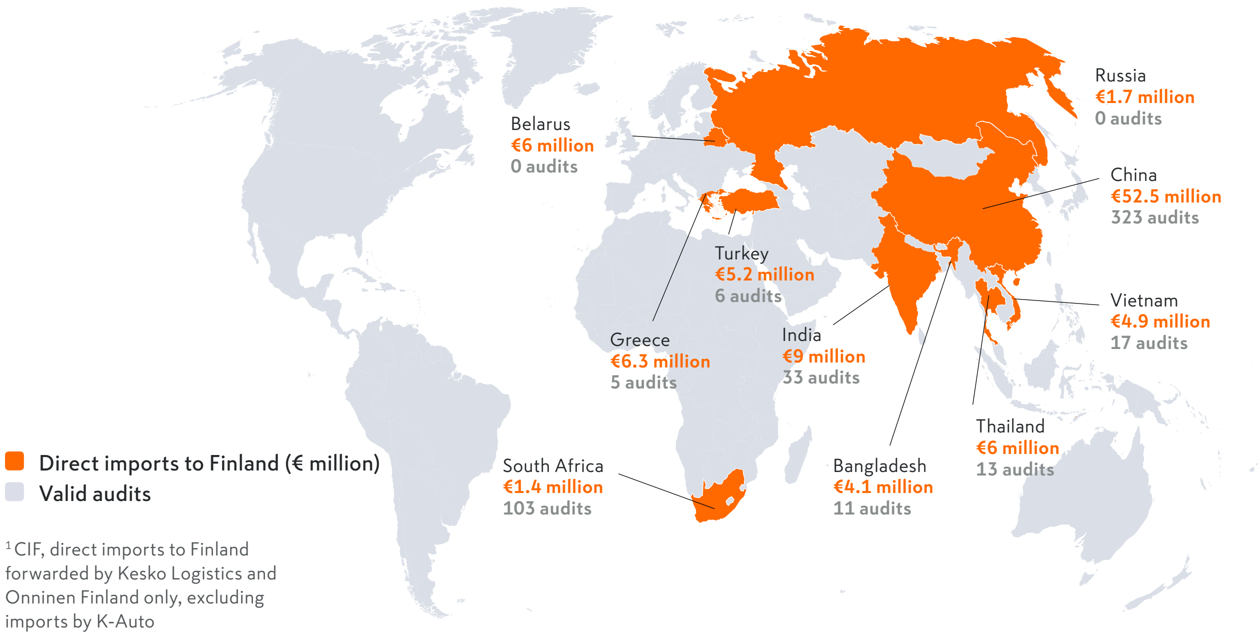
Kesko is a member of amfori, an association dedicated to promoting sustainable trade. We improve the social performance of our supply chain via amfori BSCI. Kesko utilises global social responsibility audit and certification systems, primarily amfori BSCI audits, in the assessment of suppliers in risk countries. Kesko is committed to promoting compliance with the amfori BSCI Code of Conduct in its supply chain. According to Group guidelines, an amfori BSCI Code of Conduct contract clause must be added to supplier agreements.

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

Our principle in risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when the cooperation begins. Kesko's grocery trade and building and technical trade require all of their suppliers in risk countries to have an approved audit when the cooperation begins.

Some of Kesko's suppliers are also members of amfori and thus promote amfori BSCI audits in their own supply chains.

Value of Kesko's direct imports and number of social responsibility audits, 10 largest risk countries of import[1]



[1] CIF, direct imports to Finland forwarded by Kesko Logistics and Onninen Finland only, excluding imports by K-Auto

Results of amfori BSCI audits

In 2019, a total of 180 (2018: 190) of the factories or plantations of Kesko's suppliers underwent full amfori BSCI audits. In addition, 172 (2018: 135) factories or plantations of suppliers underwent amfori BSCI follow-up audits.

The results of the 2019 amfori BSCI audits of Kesko's suppliers' factories and plantations are shown on page 22. The majority of the deficiencies occurred in matters related to working hours, social management systems and workers' involvement and protection. Corrective actions and monitoring are included in the audit process.

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

Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2019, we were obligated to terminate cooperation with nine factories because a consensus could not be reached with the factories regarding necessary corrective measures.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Supply chain

OBJECTIVE	PROGRESS IN 2019
The social responsibility of the production of own direct imports from risk countries has been assured.	A total of 180 (2018: 190) of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 172 (2018: 135) suppliers' factories or plantations underwent amfori BSCI follow-up audits. At the beginning of 2020, Kesko's suppliers in high-risk countries had a total of 733 (2018: 585) valid social responsibility audits.
We assure the responsibility of the ingredients (Tier 2–3) of our own brand Pirkka and K-Menu food products.	In 2015–2018, we conducted an investigation and risk analysis of the origin of the ingredients of 2,240 Pirkka and K-Menu own brand food products. In 2019, we adjusted the risk analysis of the ingredients and decided to concentrate on primary ingredients of Pirkka and K-Menu food products originating from risk countries. We made risk analyses for 904 primary ingredients of Pirkka and K-Menu food products.
We identify and take account of water risks in our supply chain.	We started preparing a **survey of water risks** related to Pirkka mini plum tomatoes in 2019.

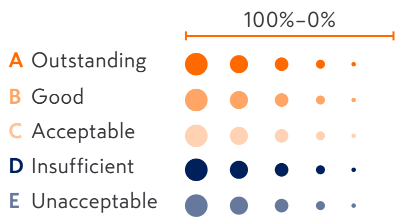
Social responsibility audits and certifications of suppliers in risk countries

Social responsibility assessment system	Jan 1 2020, total	Jan 1 2019, total
amfori BSCI	347	300
SMETA	177	136
SIZA	100	54
SA8000	15	12
Fairtrade	28	21
Rainforest Alliance	22	14
Fair for Life	4	1
For Life	10	12
ICA Social Audit	22	26
ICTI	8	8

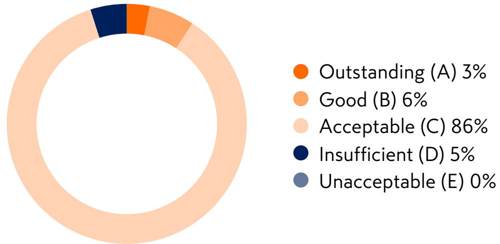
amfori BSCI audit results by area in 2019

Full audits	A Outstanding	B Good	C Acceptable	D Insufficient	E Unacceptable
Social Management System and Cascade Effect	2%	10%	12%	75%	1%
Workers' Involvement and Protection	43%	34%	21%	2%	0%
The Rights of Freedom of Association and Collective Bargaining	100%				
No Discrimination	91%	5%	4%		
Fair Remuneration	38%	53%	7%	1%	1%
Decent Working Hours	13%		3%	82%	2%
Occupational Health and Safety	61%	27%	4%	6%	2%
No Child Labour	99%	1%			
Special Protection of Young Workers	99%	1%			
No Precarious Employment	95%	4%		1%	
No Bonded Labour	99%	1%			
Protection of the Environment	67%	21%	11%	1%	
Ethical Business Behaviour	88%	10%	2%		

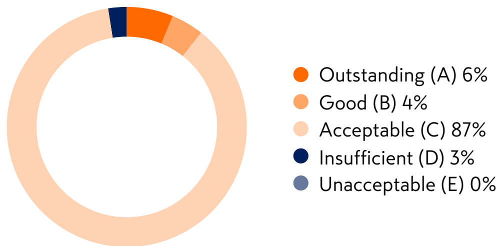
Follow-up audits	Outstanding	Good	Acceptable	Insufficient	Unacceptable
Social Management System and Cascade Effect	4%	7%	8%	80%	1%
Workers' Involvement and Protection	58%	29%	11%	2%	
The Rights of Freedom of Association and Collective Bargaining	99%	1%			
No Discrimination	94%	4%	2%		
Fair Remuneration	40%	52%	7%		1%
Decent Working Hours	15%	0%	5%	79%	1%
Occupational Health and Safety	70%	23%	1%	5%	1%
No Child Labour	99%	1%			
Special Protection of Young Workers	99%	1%			
No Precarious Employment	96%	4%			
No Bonded Labour	99%	1%			
Protection of the Environment	73%	16%	11%		
Ethical Business Behaviour	91%	7%	2%		



amfori BSCI results in 2019, full audits



amfori BSCI results in 2019, follow-up audits



If the supplier underwent more than one amfori BSCI audit during 2019, the results of the latest audit only are presented.

Suppliers' sustainability training

Increasing suppliers' awareness of sustainability is important for promoting social responsibility in our supply chains. We annually organise sustainability training sessions for goods suppliers both in-house and through our partners.

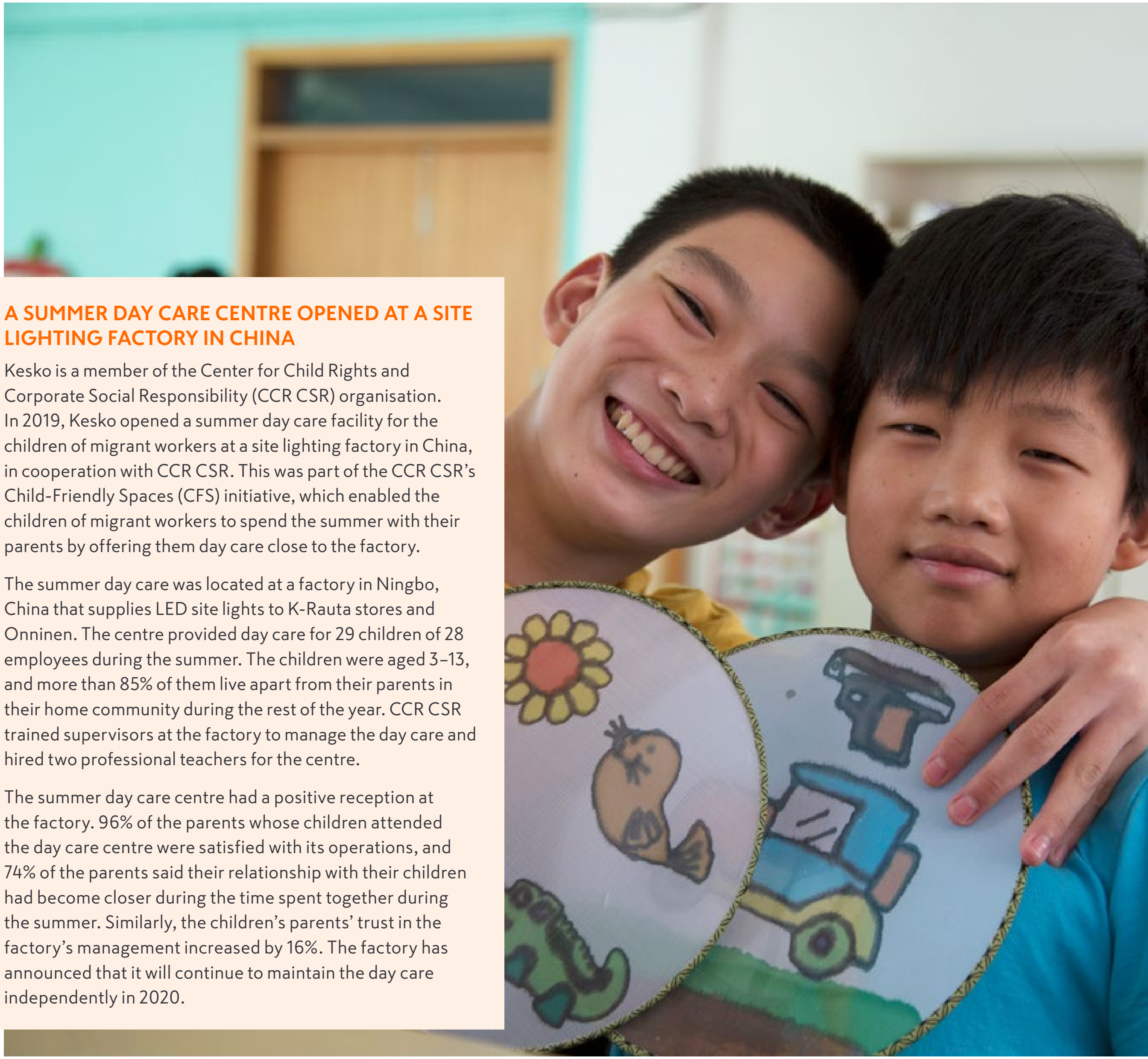
In 2019, as part of ICA Global Sourcing (IGS) purchase collaboration, Kesko and IGS organised a sustainability training in India targeted to local suppliers. The training session discussed Kesko's social responsibility requirements to suppliers, the factory auditing process and the product quality and safety requirements. A total of four suppliers took part in the training.

During the year, Kesko provided sustainability training to two suppliers of Kenkäkesko and one supplier of the building and technical trade.

In 2019, 35 suppliers of Kesko took part in sustainability training sessions targeted to suppliers organised by amfori BSCI. The topics dealt with at the training events were amfori BSCI auditing process, fire and building safety, working hours and remuneration, responsible recruitment, occupational health and safety, women empowerment and workers involvement and protection. In addition amfori BEPI environmental programme was handled in three training events.

Bangladesh Accord

Kesko is a member of the Bangladesh Accord. The purpose of the Accord on Fire and Building Safety in Bangladesh agreement is to improve electric, fire and building safety in ready-made garment factories in Bangladesh through inspection, training and corrective measures. Kesko requires



A SUMMER DAY CARE CENTRE OPENED AT A SITE LIGHTING FACTORY IN CHINA

Kesko is a member of the Center for Child Rights and Corporate Social Responsibility (CCR CSR) organisation. In 2019, Kesko opened a summer day care facility for the children of migrant workers at a site lighting factory in China, in cooperation with CCR CSR. This was part of the CCR CSR's Child-Friendly Spaces (CFS) initiative, which enabled the children of migrant workers to spend the summer with their parents by offering them day care close to the factory.

The summer day care was located at a factory in Ningbo, China that supplies LED site lights to K-Rauta stores and Onninen. The centre provided day care for 29 children of 28 employees during the summer. The children were aged 3–13, and more than 85% of them live apart from their parents in their home community during the rest of the year. CCR CSR trained supervisors at the factory to manage the day care and hired two professional teachers for the centre.

The summer day care centre had a positive reception at the factory. 96% of the parents whose children attended the day care centre were satisfied with its operations, and 74% of the parents said their relationship with their children had become closer during the time spent together during the summer. Similarly, the children's parents' trust in the factory's management increased by 16%. The factory has announced that it will continue to maintain the day care independently in 2020.

the ready-made garment factories in Bangladesh that produce for K-Citymarket's mywear brand to be included in the Accord process. In 2019, six ready-made garment factories in Bangladesh producing for K-Citymarket's mywear brand were included in the Accord process.

Fairtrade premiums to develop local communities

Kesko's grocery trade selections have included Fairtrade products since 1999. In 2019, the retail selection of Kesko's grocery trade included 230 Fairtrade products, 27 of which were Pirkka products (2018: 23). Kespro's selection had a total of 202 Fairtrade products, 4 of which were Menu products (2018: 4).

In 2009–2019, a total of more than €5 million was generated as Fairtrade premiums for social development projects in local communities from Fairtrade products sold by K-food stores. In 2019, a total Fairtrade premium of €964,807 was generated by products sold by K-food stores and Kespro (2018: €915,909).

The products generating the largest Fairtrade premiums were Fairtrade flower, bananas and coffee. The Fairtrade premiums have been used for the renovation and extension of a school and a day care centre and for purchasing kitchen accessories in the local communities.

Suppliers' environmental assessment

308-1

In 2019, KOPO (Kesko Onninen Purchasing Office), the purchasing office of the building and technical trade in Shanghai, carried out an audit on 35 suppliers with a focus on environmental management and the ISO 14001 environmental system. At the end of 2019, 39 suppliers had a valid ISO 14001 certification.

As part of the IGS (ICA Global Sourcing) purchasing cooperation, we have introduced the IGS Environmental Assessment in which we ask suppliers for information on their energy consumption and sources and their measures taken to reduce energy consumption. In 2019, an IGS Environmental Assessment was carried out on 28 suppliers.

We participate in the amfori BEPI programme, which aims to develop environmental management of suppliers in risk countries. At the end of 2019, 19 of our suppliers in risk countries participated in the amfori BEPI process and 18 had completed the first self-assessment stage. One supplier had passed the BEPI assessment carried out by a third party.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Own brand products with responsibility labelling

OBJECTIVE	PROGRESS IN 2019		
We offer an extensive selection of own brand products with responsibility labelling.	**The grocery trade's Pirkka selection:** • 309 (2018: 286) Hyvää Suomesta (Produce of Finland) products • 183 (153) products with the Key Flag symbol • 201 (123) organic products • 84 (111) Seed leaf label products • 97 (86) Nordic Swan label products • 27 (23) Fairtrade products • 52 (48) UTZ-certified products • 40 (40) MSC-certified fish products • 4 (4) ASC-certified fish products • 9 (5) products with the Finnish allergy label (Allergiatunnus)	**Kespro's Menu selection:** • 4 (12) Hyvää Suomesta (Produce of Finland) products • 35 (27) products with the Key Flag symbol • 10 (8) organic products • 24 (21) Seed leaf label products • 25 (20) Nordic Swan label products • 4 (4) Fairtrade products • 11 (10) UTZ-certified products • 41 (25) MSC-certified products • 3 (3) ASC-certified products • 1 (1) product with the Finnish allergy label (Allergiatunnus)	**The building and technical trade's Cello selection:** • 1,027 (1,006) products with the Key Flag symbol • 30 (30) Nordic Swan label products • 267 (262) products with the Finnish allergy label (Allergiatunnus) • 61 (63) M1-certified products

We are committed to promoting the production of more sustainable cotton

Cotton production involves several identified problems related to environmental responsibility, social responsibility and economic responsibility. In 2019, we started our work towards promoting the sourcing of more sustainable cotton for our own clothing and home textile brands. Our own clothing and home textile brands that contain cotton are K-Citymarket's mywear clothes and myhome home textiles, Pirkka socks and K-Rauta's PROF workwear and Cello interior textiles.

In March 2020, we published **Kesko's cotton policy**, under which we are committed to sourcing all of the cotton for our clothing and home textile brands as more sustainable cotton by the end of 2024. Sustainable cotton is certified organic cotton, recycled cotton, Better Cotton or Fairtrade cotton.

Kesko is a member of the Better Cotton Initiative (BCI) since March 2020. The Better Cotton Initiative exists to make global cotton production better for the people who produce it, the environment it grows in and the sector's future. Kesko is committed to improving cotton farming practices globally with the Better Cotton Initiative.

Sustainable products

In 2019, we initiated extensive work to identify the products in each division that are sustainable from the climate perspective.

Read more about sustainable products

MSC- and ASC-certified fish counters introduced at five K-Supermarkets

In compliance with K Group's fish and shellfish policy, Kesko's groceries trade, Kespro and K-food stores favour products from sustainable fish stocks and MSC- and ASC-certified suppliers in their selections. In 2019, the fish counters at five K-Supermarkets were awarded the MSC and ASC traceability certificate, which promotes sustainable fishing and aquaculture. The MSC and ASC traceability certificate allows the stores to sell MSC and ASC labelled unpackaged fish and shellfish at their service counters.

The MSC (Marine Stewardship Council) environmental label is awarded to wild fish and shellfish products that are sourced from certified and responsible fisheries. The ASC (Aquaculture Stewardship Council) ecolabel is a certificate awarded to seafood producers and farmed fish that indicates they meet the requirements for socially and environmentally responsible aquaculture. The MSC and ASC labels also indicate that the product can be traced from the fish counter all the way back to its source at sea.

The certifications were conducted by Bureau Veritas, an independent provider of certification services, and the certificates were awarded by MSC Finland. Certifications will also be sought for fish counters at other K-food stores as well. In 2020, the aim is to certify dozens of new fish counters.

Efforts to promote human rights

412-1 412-2

In compliance with its human rights commitment, Kesko respects all internationally recognised human rights. Our sourcing operations are guided by Kesko's ethical purchasing principles, which are based on the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO), the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child.

In September 2016, Kesko published its **statement of commitment on human rights and impact assessment** in compliance with the UN's Guiding Principles on Business and Human Rights. The human rights assessment is reviewed every three years by the responsibility management group, with the latest review conducted in autumn 2019.

As part of the human rights assessment in 2016, we conducted a human rights review at factories in the high-risk countries of China, India, Bangladesh and the Philippines in cooperation with the Trade Union Solidarity Centre of Finland SASK. In 2017, we carried out an investigation with SASK into the realisation of human rights in the purchasing chain of grapes in Brazil, India and South America. In 2018, we conducted an extensive survey on the water risks related to our own avocado purchases.

Our **K Code of Conduct** guidelines include a section on human rights. In 2019, we published a new eLearning programme on the K Code of Conduct targeted at the entire personnel, in which one of the themes is non-discrimination. A total of 4,617 employees had completed the eLearning programme by the end of 2019. Awareness of the K Code of Conduct is regularly promoted through communications and K Code of Conduct training sessions. According to Group guidelines, K Code of Conduct contract clause must be added to all agreements under which the Kesko Group companies purchase products or services from outside the Group.

Kesko has a Employee Equality and Diversity Group in accordance with the non-discrimination plan. The working group includes representatives of the employer, personnel and labour protection functions and handles matters related to non-discrimination and equality within the Group. In 2019, we organised training for the working group members on diversity and inclusion of the personnel. The themes discussed were, for example, prejudices and respectful encounters. In addition, on the working group's recommendation we acted as a partner of Helsinki Pride 2019, taking a stand on the discrimination of sexual and gender minorities.

The regular training sessions in responsible purchasing discuss the implementation of human rights in global supply chains. The training sessions discuss the sustainability policies guiding sourcing, the assurance process in purchasing from high-risk countries, the amfori BSCI Code of Conduct principles and the social responsibility assessment systems approved by Kesko. In 2019, we organised a total of five training sessions for Kesko's grocery trade, for Kespro employees working in purchasing, as well as for Kookenkä retailers.

We care for the health and safety of our customers

416-1 416-2

The activities of our Product Research Unit include assessing the impacts of products on health and safety. Manufacturers of our own brand food products must have international certifications that assure product safety. The standards we approve include: BRC, IFS, FSSC 22000 and GlobalGAP. In 2019, the total number of certified suppliers was 642 (2018: 553). This number also includes audits of local suppliers conducted according to our own audit guidelines (37).

A total of 7,405 product samples were analysed (2018: 7,678). More than 4,000 of the samples were related to the product development of our own brands. A total of 2,478 own control samples were analysed (2018: 2,300).

As proposed in The EC **White Paper** on Nutrition, Overweight and Obesity-related Health Issues, sugar, saturated fat and salt were reduced in more than 150 Pirkka products during the period 2007–2013. The health aspects of new Pirkka products are considered at the product development stage.

The National Nutrition Council of Finland published its **nutrition commitment** operating model in June 2017. The nutrition commitment is the Finnish contribution to the EU **Roadmap for Action on Food Product Improvement** framework's reformulation programme.

We encourage our customers to increase their use of vegetables

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

- We set a target that by 2020, at least 400 K-food stores will have dedicated 'veggie shelves' for vegetable protein products. In August 2017, some 200 K-food stores had a veggie shelf. By the end of 2019, there was a veggie shelf in approximately 700 K-food stores.
- We will organise at least 250 vegetable-related campaigns at K-food stores each year (2018–2020). In 2019, we organised 279 vegetable-related campaigns with 1,267 vegetable products.
- We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2019, we added 73 (2018: 42) new fruit and vegetable products to our selections.

We monitor product safety

We take measures against food fraud in accordance with the VACCP plan (Vulnerability Assessment and Critical Control Points). The VACCP plan contains an assessment of the probability of encountering food fraud and a monitoring plan to protect us against such fraud. Product groups identified as critical control points are not only subjected to normal product and supplier controls, but also regular analytic monitoring to detect any frauds.

In 2019, we made 156 product recalls in the grocery trade (2018: 178). Of these, 39 concerned our own brand products (2018: 46). In other cases, our Product Research Unit assisted the product manufacturers in the recall. If a defect or error in a product might have health impacts, a public recall is carried out. In 2019, this happened twice for our own brand products (2018: 2).

In the building and technical trade, we made 7 recalls in K-Rauta in 2019 (2018: 2) and 1 in Onninen (2018: 2).

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

In 2019, a total of 57 recall campaigns were launched for brands represented by K-Auto (Volkswagen passenger cars and commercial vehicles, Audi, SEAT, CUPRA, Porsche and MAN).

There were no legal proceedings or fines associated with product safety or health in Kesko in 2019.

Marketing communications and product information

Package labelling helps consumers in making sustainable choices

417-1

We comply with all relevant legislation on the product labelling of our own brand products and imports. Key regulations include:

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

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

We disclose the country of origin of meat in accordance with regulation EU No 1337/2013. We label meat and dairy as ingredients in accordance with the national decree MMM 218/2017. We will state the origin of the main ingredient in our own brand food products in accordance with the Commission Implementing Regulation (EU) 2018/775. The regulation will be applied as of 1 April 2020.

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

Read more about own brands with responsibility labelling

We add material symbols on the packaging of own brand products of Kesko's grocery trade. During 2019, we also began to add written recycling instructions to our product packaging. These instructions will be added to all packaging to make it easier for consumers to sort their packaging waste correctly.

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

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

417-2

In 2019, there were 4 product recalls of Kesko's own brand products resulting from defective product labelling (2018: 8).

We observe good marketing manners

417-3

In October 2019, the Council of Ethics in Advertising issued a statement of a lacking commercial cooperation mention in an Instagram post by a social media influencer who acted as a partner to Intersport Finland Oy.

In 2019, there were no violations of the law or any other violations of voluntary principles in Kesko's operations.

Responsible sales of alcohol and tobacco

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

We verify the age of all customers who purchase alcohol or tobacco and appear younger than 30. This way, we aim to ensure that no alcohol or tobacco is sold to minors. In 2019, our cashiers verified the age of 3,252,195 (2018: 2,008,876) customers purchasing alcohol and 1,711,473 (2018: 1,152,770) customers purchasing tobacco. Based on these checks, we had to decline 24,864 alcohol purchases (2018: 14,760) and 15,657 tobacco purchases (2018: 10,808).

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

CLIMATE AND ENVIRONMENT

We are committed to international climate summit goals in the mitigation of climate change. We have set science-based emission targets for our operations and supply chain.

We reduce emissions through the use of renewable energy, energy-efficiency at the stores, and efficient logistics.

We promote the sustainable use of natural resources in our supply chains.

We reduce food waste in cooperation with the food supply chain, from primary production to the store.

We also help our customers to reduce their own environmental impacts.

IN THIS SECTION:

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

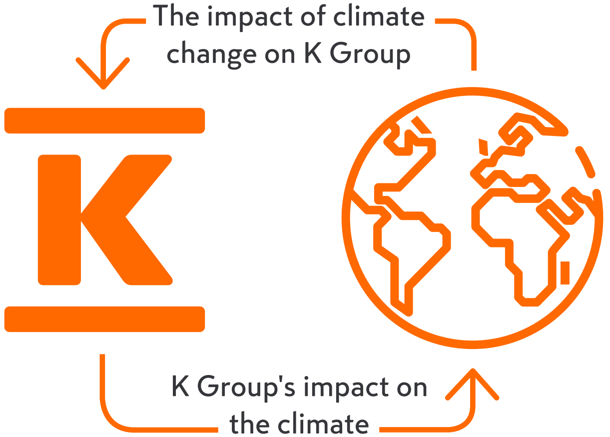
6 CLEAN WATER AND SANITATION
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
15 LIFE ON LAND

Climate work to the next level

In spring 2019, Kesko's Board of Directors made sustainability and combatting climate change a focus area for Kesko's strategy.

All K Group divisions have the opportunity to offer customers solutions for reducing their climate impacts, since the biggest sources of greenhouse gas emissions in private consumption are housing, food, and transportation.

In 2019, we conducted a risk assessment of our climate-related risks and opportunities. We identified K Group's impacts on the climate and the effects of climate change on K Group's operations.



Carbon Neutral K Group 2025

We began preparing K Group's climate programme and, in February 2020, we set our target to be carbon neutral K Group in 2025. We will systematically reduce the emissions of our own operations towards our goal of emission-free operations by 2030. Starting in 2025, we will compensate the remaining emissions from our own operations. Our new target is to have emission reduction targets by 2025 for two-thirds of the emissions from direct suppliers.

Carbon neutral grocery store

In 2019, K Group, together with Natural Resources Institute Finland (Luke), developed a model which enables a grocery store to become carbon neutral. The model was piloted in three K-food stores in the autumn. Based on the experiences, the aim is to expand the model to other K-food stores during 2020.

The carbon neutral store operating model defines the carbon footprint of the store's own activities and its footprint reduction target. The aim is to identify and implement actions to reduce the carbon footprint of the store and then calculate the necessary amount of compensation. Our goal is that stores have less and less to compensate for in the future.

+ Read more about the risks and opportunities

K-Ostokset carbon footprint calculator

With our data-based K-Ostokset service we want to help our customers understand the climate impacts of their purchases. The K-Ostokset application includes a carbon footprint calculator, which provides information on the carbon footprint of the customer's shopping basket at product category level. By the end of January 2020, 100,000 customers were using the K-Ostokset service.

K-Kampus awarded the WWF Green Office certificate

The WWF Finland environmental organisation has granted the prestigious Green Office certificate to K-Kampus, K Group's new headquarters. K-Kampus was designed as an energy-efficient smart building, and the carbon footprint of its waste management is compensated. The themes of the K-Kampus Green Office environmental programme concern matters to further reduce the carbon footprint of the building's users: catering and food waste, recycling and sorting, mobility and purchases.

K GROUP'S CLIMATE IMPACTS

K Group's climate impacts originate from emissions in Kesko's own operations and the value chain, where the highest emissions are generated during the lifecycle of products and services sold by us.

EMISSIONS FROM THE PRODUCTION OF PRODUCTS SOLD

6,100,000 tCO_2e

- The most significant emissions from food come from agriculture.

EMISSIONS FROM KESKO'S OWN OPERATIONS

120,000 tCO_2e

- Kesko's emissions are caused by generation of electricity and heat energy consumed by properties and fuel consumption by Kesko Logistics.

EMISSIONS FROM STORES

- Refrigerants and food waste are significant sources of emissions in K-food stores.
- The estimated emissions from energy consumption in properties managed by K-retailers are 94,000 tCO_2e.

Indirect emissions caused by new building projects, outsourced logistics, production and distribution losses of purchased energy and final treatment of waste amount to a total of approximately **73,000 tCO_2e**.

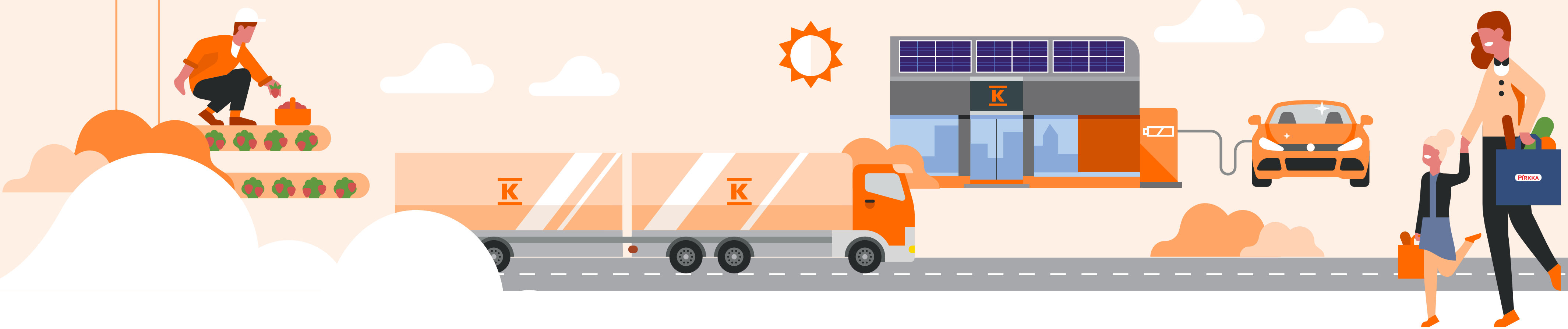
Annual emissions from commuting and business trips made by Kesko's personnel are approximately **21,000 tCO_2e**.

Customer shopping commutes cause annual emissions of approximately **141,000 tCO_2e**.

EMISSIONS FROM THE USE AND END-OF-LIFE TREATMENT OF PRODUCTS AND SERVICES SOLD

1,600,000 tCO_2e

- The lifecycle carbon footprint of a building is affected by the construction materials selected and the use of the building.
- The use phase of a car has a significant impact on its lifecycle emissions.



Renewable energy and energy efficiency

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

Renewable electricity

302-1

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

In 2019, we purchased 560 GWh of Renewable Energy Guarantees of Origin (REGO). This renewable electricity was produced in the Nordic countries, and 82% of it was produced by hydroelectric power and 18% by bioenergy. Around 488 GWh of the renewable electricity was provided by Kesko's electricity purchasing company, Ankkuri-Energia Oy. The remainder of the renewable electricity was purchased elsewhere by K-retailers and used by Kesko.

In addition, the electricity used by K Charge stations is produced with Finnish wind power.

Energy consumption of properties in Finland

At the end of 2019, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and 1,247 store sites. The most significant properties in terms of energy consumption include K-Citymarkets, K-Supermarkets and large wholesale and storage buildings.

The majority of properties used district heat and additionally 3.3% of the heat energy was produced with fuels. In 2019, the heat energy self-produced with natural gas and oil at properties in Finland totalled 40.1 TJ (11,136 MWh).

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Renewable energy

OBJECTIVE	PROGRESS IN 2019
We will purchase 100% renewable electricity in Finland.	In 2019, we purchased 560 GWh of renewable electricity based on hydropower and bioenergy with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries.
We will increase the production of solar power for our own use.	In 2019, Kesko had 34 solar power plants installed at properties it manages. A total of 6.8 GWh of electricity was produced with solar power. At the end of 2019, the annual electricity production capacity of our solar power plants was approximately 10 GWh.

Energy consumption in properties in other operating countries

The heat energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (1,226 MWh) and peat (68 MWh) were also used for heating. In 2019, the fuels used for self-produced heat totalled 74.4 TJ (20,662 MWh).

Energy consumption of properties

Finland	2019	2018
Electricity[1] (MWh)	488,335	493,347
District heat (MWh)	327,711	328,842
Fuel for self-produced heat (MWh)	11,136	8,483
Total energy consumption (MWh)	827,182	830,672
Total energy consumption (TJ)	2,978	2,990
Other operating countries	**2019**	**2018**
Electricity (MWh)	75,620	71,392
District heat (MWh)	16,697	16,862
Fuel for self-produced heat (MWh)	20,662	19,481
Total energy consumption (MWh)	112,979	107,735
Total energy consumption (TJ)	407	388
All operating countries	**2019**	**2018**
Total energy consumption (MWh)	940,161	938,407
Total energy consumption (TJ)	3,385	3,378

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

Total energy consumption

In 2019, our energy consumption in all operating countries totalled 3,998 TJ (including properties and logistics).

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2019:

- Renewable: 2,413 TJ (72 %)
- Nuclear power: 43 TJ (1 %)
- Non-renewable: 897 TJ (27 %)

Fuel consumption

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 572 TJ in 2019. The fuel used was diesel. In 2019, the total distance driven by Kesko Logistics was 38.9 million km. Energy consumption was calculated using data on kilometres driven, volumetric efficiencies and the transportation fleet according to the **Lipasto calculation system** of the VTT Technical Research Centre of Finland.

Logistics operations in the other operating countries are mostly outsourced. In 2019, logistics in Sweden, Poland, Estonia and Belarus consumed 40.6 TJ of fuel (diesel, petrol and gas).

A total of 723 TJ of fuels from non-renewable sources were used for logistics as well as self-produced heat of properties. In addition, 4.4 TJ of renewable fuels were consumed.

Energy intensity

302-3

Maintaining the cold chain throughout the grocery trade's logistics and grocery stores requires greater amounts of energy in comparison with other business sectors.

Specific consumptions of energy, properties managed by Kesko in Finland

kWh/br-m²	2019	2018
Specific consumption of electricity	201	210
Specific consumption of district heat	86	88

Increasing energy efficiency

302-4

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

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

New energy recycling system introduced to K-food stores

The new energy recycling system implemented in 2019 combines a very low-emission refrigeration system that uses a natural refrigerant, a heat pump and recovery systems needed for recycling energy. It utilises the condensation heat generated as a by-product of refrigeration for heating the premises. The innovation can reduce a property's heat consumption by as much as 85–95%, making the store almost carbon neutral instantly in terms of energy.

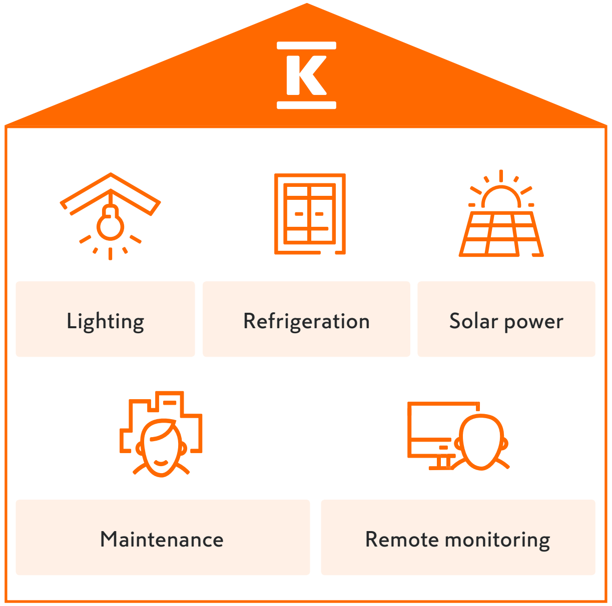
The concept can be replicated in stores of all sizes. In 2019, the system was installed in 13 of K Group properties. Motiva awarded the system the Energy Genius of the Year 2019 recognition.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Energy efficiency in stores

OBJECTIVE	PROGRESS IN 2019
During the agreement period 2017–2025: We commit to making energy saving measures equivalent to 7.5% of our 2015 energy consumption.	Up to this point, we have recorded energy saving measures of 51 GWh, which is 64% of the target for 2025. The calculation includes electricity, heating, fuels and district cooling.

Energy solutions in K-stores



1. Lighting

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

2. Renewing refrigeration systems

In food stores, refrigeration systems can account for more than half of the total electricity consumed at small store sites. Condensation heat from refrigeration units is recovered at nearly all K-food stores, which means that additional heat energy is needed only during very low sub-zero temperatures. A new energy recycling system combines a very low-emission refrigeration system that uses a natural refrigerant, a heat pump and recovery systems needed for recycling energy.

Old systems, which use R404A as refrigerant, will be converted into energy efficient, environmentally friendly carbon dioxide based systems by 2030. At the end of 2019, the refrigeration units at 175 K-food stores used carbon dioxide recovered from industrial processes as the refrigerant, while units at 94 stores used R290 propane. A total of 269 stores used natural refrigerants that complied with the requirements of the EU's F-gas Regulation.

3. Solar power

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

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

At the end of 2019, there were 34 solar power plants installed at stores and properties managed by Kesko. A total of 6.8 GWh of electricity was produced with solar power for own use at K-food stores. At the end of 2019, the annual electricity production capacity of our solar power plants was approximately 10 GWh.

We will continue to invest in solar power – two new solar power plants are under construction and they will be in use during 2020. After the introduction of these new power plants, the total output of our solar power plants will amount to approximately 12.7 MW_p, and the estimated annual production will be approximately 10.8 GWh.

4. Maintenance process

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

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

5. Remote monitoring

The set points of building automation systems can be changed from the remote management centre as required, which enables rapid reaction to disturbances. Setting the correct running times and set points is one of the easiest and most effective ways to improve energy efficiency. At the end of 2019, 291 sites with significant energy consumption were connected to the remote monitoring centre. An expert at the monitoring centre supports maintenance personnel in technical matters around the clock.

Reducing emissions

We report direct and indirect (Scope 1, 2 and 3) greenhouse gas (GHG) emissions from our operations according to the **GHG Protocol standard**.

Direct and indirect GHG emissions (Scope 1, 2 and 3)

305-1 305-2 305-3

Scope 1

Our Scope 1 emissions are caused by fuel consumption for generating heat at properties managed by Kesko and for the transportation of goods directly controlled by Kesko.

The heat energy at properties was partly self-produced using mostly natural gas and oil.

The transportation of goods for Kesko's grocery trade in Finland is managed by Kesko Logistics. Emissions from logistics in the other operating countries were reported for Sweden, Poland, Estonia and Belarus. Most of the logistics in the other operating countries are outsourced.

Logistics emissions in Finland were calculated based on kilometres driven, volumetric efficiencies and the transportation fleet accordingto the Lipasto calculation system of the VTT Technical Research Centre of Finland using EURO 6 engine standard emissions. The emissions for logistics operations in other countries were calculated based on fuel consumption.

Scope 1 and 2 GHG emissions

Tonnes CO_2-eq	2019	2018
Direct (Scope 1)	47,721	45,139
Finland	40,329	40,679
logistics (Kesko Logistics)	37,659	38,634
self-produced heat (natural gas and oil)	2,670	2,045
Other operating countries	7,392	4,460
logistics (Sweden, Poland, Estonia and Belarus)	2,946	386
self-produced heat (natural gas, oil, peat and timber[1])	4,446	4,074
Indirect (Scope 2)	72,444	80,822
Finland	51,924	60,232
purchased electricity (market-based)	0	0
purchased electricity (location-based)[2]	77,157	80,909
purchased district heat (location-based)	51,924	60,232
Other operating countries	20,520	20,590
purchased electricity (location-based)	17,467	17,084
purchased district heat (location-based)	3,053	3,506
Total	120,165	125,961
Finland, Scope 1 and 2 total	92,253	100,911
Other operating countries, Scope 1 and 2 total	27,912	25,050

[1] The biogenous CO_2 emission figure of the timber used for heating one facility in Belarus is reported in Scope 1, because its proportion of the total fuel quantity is insignificant (1 226 MWh).

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

Scope 2

Our Scope 2 emissions are caused by the generation of electricity purchased by Kesko and district heating consumed in properties managed by Kesko.

Read more about renewable energy and energy efficiency

Scope 3

Our indirect Scope 3 emissions are caused by the life cycle emissions of sold products and services, such as the primary production of raw materials, the manufacture of products, packaging, transportation and the use of products. In addition, indirect emissions come from such sources as our customers' shopping commutes, our personnel's work commutes and business travel, the final treatment of our waste and the emissions from production and distribution losses of the energy we procure.

Our greatest indirect emissions are caused by the production of the products for sale (76%), in the use phase of the products (19%) and by the shopping commutes of customers (2%).

GHG emissions intensity

305-4

The Scope 1 and 2 greenhouse gas emissions intensity is calculated in relation to net sales (2019: €10,720 million) and the average number of employees (2019: 20,852).

	2019	2018
Based on net sales (tonnes CO_2e / € million)	11.2	12.1
Based on average number of employees (tonnes CO_2e / person)	5.8	6.3

Other indirect (Scope 3) GHG emissions

Tonnes CO_2-eq	2019	2018
Upstream		
Purchased goods and services	6,120,100	7,300,300
Capital goods (buildings)	29,600	29,600
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	26,700	30,200
Transport and distribution of goods[1]	8,400	6,500
Waste	8,300	11,600
Business travel[1 2]	2,700	3,500
Employee commuting[1]	18,500	18,100
Downstream		
Shopping commutes by customers[1]	141,200	149,100
Use of sold products	1,523,300	1,993,400
End-of-life treatment of sold products	46,600	45,400
Franchises (K-retailer entrepreneurs)	93,800	92,900

[1] Boundary: Finland

[2] The boundary has changed in 2019, business travel includes air and car travel

Nitrogen oxides (NOx), sulphur oxides (SOx) and other significant air emissions

305-7

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2019 caused:

- NOx emissions: 246 tonnes (2018: 252 tonnes)
- SO_2 emissions: 209 tonnes (2018: 214 tonnes)
- Amount of radioactive waste produced by nuclear power: 0,4 tonnes (2018: 0,4 tonnes)

The particulate emissions in 2019 for Kesko's logistics in Finland were:

- NOx emissions: 11 tonnes
- SO_2 emissions: 0,1 tonnes

Science Based Targets

305-5

We are the first Finnish company to set climate targets approved by the Science Based Targets initiative.

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

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Science Based Targets

OBJECTIVE	PROGRESS IN 2019
We commit to reducing our direct and indirect (Scope 1 and 2) emissions 18% by 2025 from base year 2015.	Scope 1 and 2 emissions were 4% greater compared to the base year due to significant acquisitions in the past few years. Emissions decreased 7% from the previous year.
In addition, we are committed to reducing our supply chain emissions (Scope 3) so that 90% of Kesko's key suppliers will set their own GHG emissions reduction targets by 2025.	Out of Kesko's key suppliers of 2019, 39% had set their own emission reduction targets.

Logistics

In 2019, Kesko Logistics set a target of achieving carbon neutral operations by 2030.

The reduction of emissions at Kesko Logistics is a long-term task:

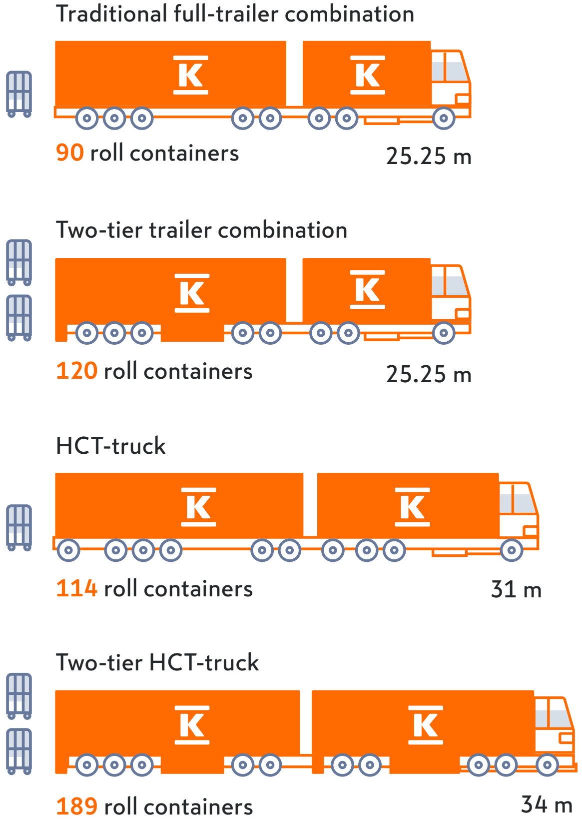
- Efficiency of logistics: centralised distribution, optimisation of delivery routes and high volumetric efficiency
- Efficient reverse logistics: collection of purchase loads, carrier trays, pallets, roll containers, cardboard and recycled bottles and cans on the return route
- Courses in economical driving: all of Kesko Logistics' more than 500 contract drivers have been trained
- Renewing the vehicle fleet, utilising renewable fuels and increasing use of electric trucks as technology develops

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Logistics emissions

OBJECTIVE	PROGRESS IN 2019
The target of Kesko Logistics during 2012–2020 is to reduce emissions relative to the net sales index by 10% from the 2011 base year.	The relative emissions decreased by 24.6% from the level of the 2011 base year. In 2019, the relative emissions decreased by 9.4% from 2018.

Efficient logistics fleet



Emission reductions of products for sale

By far, the greatest indirect emissions of Kesko are caused in the production of the products for sale and during their use phase. These emissions can be mitigated by offering selections of products and services causing less emissions and by customer communications.

We have initiated extensive work to identify our **sustainable products**.

Environmental impacts of food choices

Consumers can decrease the environmental impact of their food choices by reducing the consumption of animal-based products and household food waste. We help our customers understand and decrease the **carbon footprint** of their shopping.

In 2019, we introduced a carbon footprint calculator to our K-Ostokset service. It offers customers information on the carbon footprint of their food purchases at product category level.

We offer a wide selection of plant-based products and **encourage our customers to increase the use of vegetables**.

Housing solutions

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

Electric cars are increasingly popular

In 2019, our selection included 20 (2018: 11) plug-in hybrid car models (PHEV) and 6 (2018: 3) electric cars as well as 11 (2018: 11) car models using natural gas or biogas as fuel. In 2019, the registrations of Volkswagen, Audi and Porsche plug-in hybrids in Finland decreased by 23%, whereas the registrations of electric cars increased by 63% compared to 2018. The registrations of natural gas or biogas cars increased by 86% compared to 2018.

We have built an extensive network of electric vehicle charging points adjacent to K Group stores in order to advance the electrification of cars. At the end of 2019, the K Charge network had 106 fast charging points and 268 standard charging points at a total of 76 K-stores. The K Charge network is the largest fast charging network in Finland, with standard charging also offered. We also offer three extremely efficient high-power charging (HPC) stations in cooperation with IONITY. The electricity provided at all K Charge stations is produced with Finnish wind power.

SUSTAINABLE PRODUCTS

Read more:
Kesko.fi/sustainableproducts

In 2019, we initiated extensive work to identify the products in each division that are sustainable from a climate perspective. We defined sustainable products as those which have a significantly smaller climate impact than comparable products or which are important for adapting to climate change. Our next goal is to report and monitor the sales of sustainable products.

GROCERY TRADE

- Products compliant with Kesko's sustainability policies
- Products with sustainability certification and labelling
- Plant-based products
- Circular economy products

BUILDING AND TECHNICAL TRADE

- Products reducing energy and emissions
- Renewable energy supply and distribution products
- Sustainably produced timber and wood products
- Products enabling a healthy and sustainable indoor environment

CAR TRADE

- Vehicles with low and zero CO_2 emissions
- Reconditioned parts offered in aftersales business
- Renewable electricity offered to charge hybrid and electric cars at K Charge stations

Customer shopping commutes

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

We have built an extensive network of electric vehicle charging points adjacent to K Group stores in order to advance the electrification of cars.

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

Employee commuting

We want to support our employees in commuting to work in healthy, environmentally friendly ways, such as cycling, walking, running or public transport.

Our new K-Kampus headquarters has a separate parking space for bicycles in the parking garage as well as showers, dressing rooms, a drying room, and a bicycle maintenance space specifically designed for those using physical activity to commute to work.

K-Kampus is located next to good public transport connections, which enables the personnel's and visitors' arrival by public transport. Kesko provides an employment benefit to its personnel, which can be used for the payment of public transport.

Business travel

Kesko offers 10 shared bicycles, including some electric bicycles, to the personnel at K-Kampus for work-related errands during the working day.

At the beginning of 2020, we introduced four shared K-Kampus cars, two of which are electric cars, one is a natural gas/petrol hybrid and one is a multi-purpose vehicle.

In 2019, the air miles flown by Kesko employees travelling for business totalled 8.6 million (2018: 9.8 million). We encourage the use of online meetings in order to avoid air travel.

Water and biodiversity

Water

303-1

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

Water risk in the supply chain

All of the own brand fruits and vegetables we import to Finland are GLOBALG.A.P. certified. The environmental requirements of GLOBALG.A.P. certification include a requirement on good water management. Finnish fruits and vegetables meet the requirements of the Finnish Horticultural Products Society's Kotimaiset Kasvikset quality certification.

Our objective is to identify critical products in terms of water risk. By conducting a water risk assessment of these products we identify the water basins most affected by water scarcity or contamination issues in their supply chain. The results of water risk assessments are used to plan actions.

We have conducted a water risk assessment of our avocado sourcing using the WWF's Water Risk Filter tool. On the basis of the assessment, we will increasingly put emphasis on purchases from areas with lesser water risks. In 2019, we initiated a survey of the water risks in the supply chain of Pirkka mini plum tomatoes.

Water consumption at our properties

Properties managed by Kesko use water from municipal water supplies in all operating countries. In addition, a few wells are in use on properties in Estonia, Lithuania and Belarus. However, water from these wells accounts for only a negligible portion (3.5%) of total water consumption and is thus reported with the municipal water consumption. Waste water from Kesko's operations goes to municipal sewer systems.

Water consumption by country

m^3	2019	2018
Finland	1,036,734	1,055,406
Sweden	7,107	8,369
Norway	12,485	5,888
Estonia	7,762	9,001
Latvia	12,061	10,714
Lithuania	47,512	44,839
Poland	5,206	4,476
Belarus	64,879	54,570
Total	1,193,745	1,193,263

Biodiversity

304-2

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

Supply chain

Our greatest impacts on biodiversity occur throughout the lifecycle of the products sold. Raw materials critical to biodiversity in our supply chain include fish and shellfish, timber, palm oil, soy, cocoa and cotton. The sustainable sourcing of these materials are guided by our **sourcing policies**.

In 2019, the fish counters at five K-Supermarkets were awarded the **MSC and ASC traceability certificate**, which promotes sustainable fishing and aquaculture.

We avoid, reduce and recycle plastic

We create operating models that prevent plastics from ending up in water bodies and elsewhere in the environment. Read more about our **plastics policy** and our progress towards our targets.

We participate in efforts to protect the Baltic Sea

Our selection includes three products which use the abundant fish species of the Baltic Sea as an ingredient or feed, reducing the environmental load on the Baltic. Two Pirkka archipelago fish patty products are made of Baltic bream selectively fished for the purpose of managing fish stocks. In addition, the feed for the Pirkka Parhaat Benella rainbow trout farmed in Finland uses Baltic herring and sprat as raw material. The recycling of nutrients reduces phosphorus load in water bodies and improves the condition of the Baltic Sea.

K-Kampus, the new headquarters of K Group, has been awarded the WWF Green Office certificate. K Group's Green Office payments support WWF Finland in its efforts to protect the Baltic Sea. Moreover, customers can donate their K-Plussa points to WWF Finland as a way of endorsing nature conservation. In 2019, we held a campaign offering customers an easy way to support the work of WWF Finland to mitigate climate change and protect the arctic area. One per cent of gift card sales in K Group stores was disbursed to WWF Finland in cooperation with K Group's partners.

We restore habitats

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K Fishpaths

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

Store sites

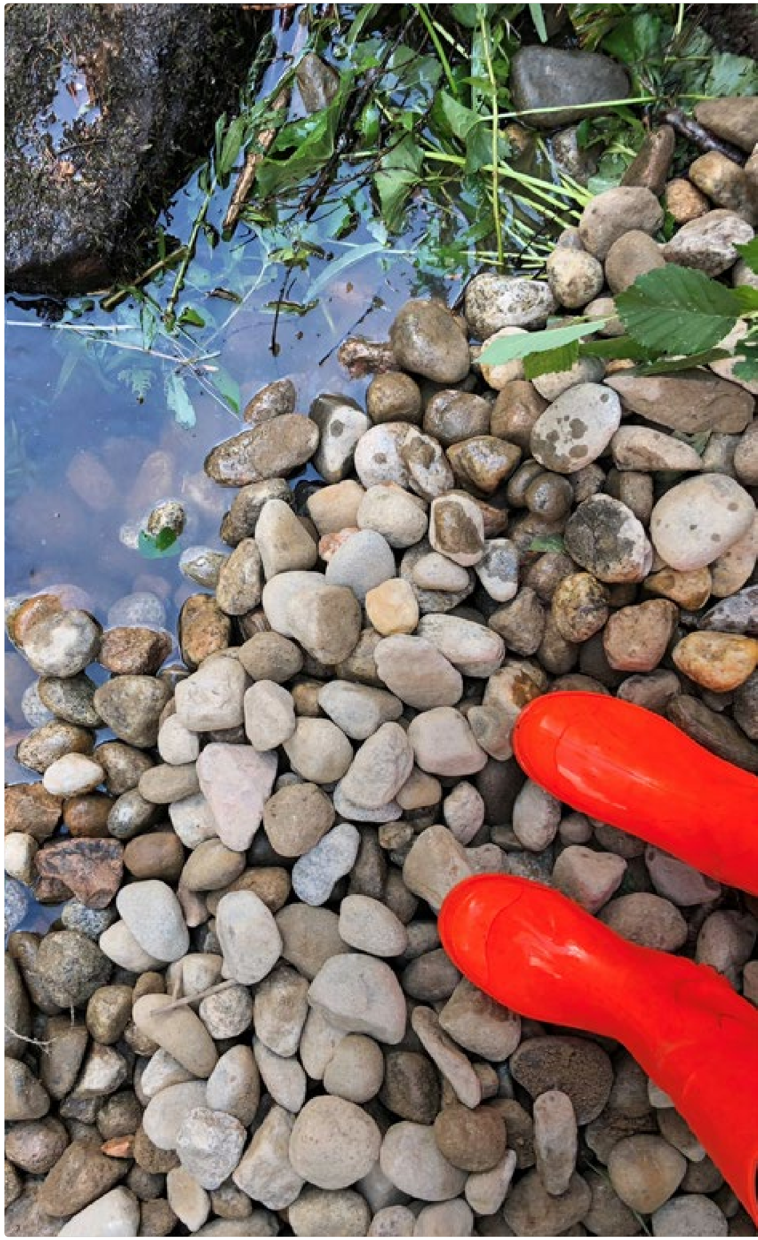
We build store sites only in areas planned by municipalities for business properties. Surveys of contaminated land are made annually in conjunction with construction work and real estate transactions. In 2019, Kesko did not have any sites for restoration in Finland.

Kesko does not have any protected habitats of its own.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Biodiversity

OBJECTIVE	PROGRESS IN 2019
K Fishpaths collaboration with WWF Finland: We will remove at least 50 barriers preventing endangered migratory fish from swimming upstream and create at least 100 spawning grounds in Finland between 2017 and 2021. We will increase awareness of the endangered nature of migratory fish and arrange volunteer events.	During the third season of the K Fishpaths collaboration, we built more than 60 gravel beds for spawning and opened 7 barriers, freeing as much as an additional 50 km of new spawning grounds and habitat formerly inaccessible to fish. A total of approximately 180 volunteers and 12 local K-retailers participated in the work organised at 7 locations. The trout were observed to have returned to the areas restored during previous seasons.



Circular economy and waste management

The transition to a circular economy requires increasingly efficient circulation of materials. We provide our customers with diverse recycling services for waste and discarded items and develop innovative circular economy solutions in cooperation with other operators.

Stringent targets for the avoidance, reduction and recycling of plastic

In our plastics policy, we have set stringent targets for the avoidance, reduction and recycling of plastic. We are a signatory to The New Plastics Economy Global Commitment.

Kesko Logistics' centralised collection services

In 2019, cardboard and plastic bales were centrally directed by Kesko's grocery trade for industry reuse. Around 3,650 tonnes of cardboard (2018: 3,355) and about 90 tonnes of plastic (2018: 48) were collected.

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

Kesko Logistics' reverse logistics

1,000 pcs	2019	2018
Aluminium cans	86,007	89,913
PET bottles	62,887	67,157
Recyclable glass bottles	9,803	12,267
Reusable crates	21,106	21,059

Circular Economy Agreement for stores in Finland

Kesko and Lassila & Tikanoja offer K Group stores in Finland the opportunity to participate in the national centralised Circular Economy Agreement. The agreement offers K-retailers strong know-how on the changing requirements of waste management. The aim is to prevent the creation of waste, increase the efficiency of recycling and advance the circular economy.

At the end of 2019, a total of 664 stores and K Group business locations (2018: 585) participated in the Circular Economy Agreement. The recovery rate of the waste generated in these sites was 100% (2018: 100%) and the recycling rate was around 74% (2018: 69%). In February 2019, we signed the commitment for materials efficiency in the food industry and set an objective to increase the recycling rate of stores to 78%.

We develop circular economy solutions

We actively develop solutions together with our partners to utilise, for example, production side streams or food waste. We also strive to promote circular economy with packaging design. Read more about our **circular economy innovations**.

From ham fat to biodiesel

In 2019, we took part in the fourth Ham Trick campaign, where customers took the fat from their roasted Christmas hams to collection points at K-food stores for the production of renewable diesel. An estimate of 204,000 households participated in the campaign, and the collected fat totalled approximately 122 tonnes.

Collection services for our customers in Finland

301-3

At the end of 2019, there were 413 (2018: 405) Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 227 (2018: 193) eco take-back points. Our aim is to introduce collection of plastic at all Rinki eco take-back points adjacent to all other K-food stores by the end of 2022.

In connection with our stores, customers can also return deposit beverage containers, batteries and accumulators, waste electrical and electronic equipment (WEEE) and discarded clothing for recycling.

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

	2019	2018
Deposit aluminium cans (million pcs)	383	387
Deposit recyclable plastic bottles (million pcs)	146	138
Deposit recyclable glass bottles (million pcs)	33	32
Batteries and accumulators (tonnes)	413	293
WEEE (tonnes)	159	152

Read more about our actions to reduce plastic

Waste for recovery

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

Tonnes	2019	2018
Non-hazardous waste	**32,128**	**29,812**
Recycling/recovery	26,696	24,395
Landfill	5,432	5,417
Hazardous waste	**1,611**	**1,563**
Recycling/recovery	1,234	996
Hazardous waste treatment	377	567
Total	**33,739**	**31,375**

Waste recovery rates

In Finland, Kesko's waste statistics mostly cover warehousing operations, whereas in the other countries, most of the waste included in the statistics is generated in stores. The recovery rate includes all waste except waste to landfill. The type of waste treatment was determined by the waste management company.

The recovery rate for reported waste management in Finland was nearly 100% and in the other operating countries it was 69% (includes hazardous waste treatment).

Waste: Finland, Sweden and Norway

	Finland		Sweden		Norway	
Tonnes	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Non-hazardous waste	**15,934**	**15,831**	**2,652**	**2,822**	**2,581**	**919**
Recycling/recovery	15,931	15,820	2,503	2,598	2,515	895
Landfill	3	11	149	224	66	24
Hazardous waste	**427**	**289**	**174**	**160**	**560**	**733**
Recycling/recovery	281	177	105	3	520	517
Hazardous waste treatment	146	112	69	157	40	216
Total	**16,361**	**16,119**	**2,826**	**2,982**	**3,141**	**1,652**
Recovery rate %	99,98	99,93	95	92	98	99

Waste: Estonia, Latvia and Lithuania

	Estonia		Latvia		Lithuania	
Tonnes	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Non-hazardous waste	**1,208**	**859**	**1,243**	**1,545**	**6,422**	**5,895**
Recycling/recovery	1,108	793	206	193	3,230	2,966
Landfill	100	66	1,037	1,352	3,192	2,929
Hazardous waste	**42**	**55**	**29**	**13**	**266**	**170**
Recycling/recovery	1	4	0	0	214	155
Hazardous waste treatment	41	51	29	13	52	15
Total	**1,250**	**914**	**1,272**	**1,558**	**6,688**	**6,065**
Recovery rate %	92	93	18	13	52	52

Waste: Poland and Belarus

	Poland		Belarus	
Tonnes	**2019**	**2018**	**2019**	**2018**
Non-hazardous waste	**421**	**413**	**1,667**	**1,528**
Recycling/recovery	129	137	1,074	992
Landfill	292	276	593	536
Hazardous waste	**21**	**18**	**92**	**125**
Recycling/recovery	21	18	92	123
Hazardous waste treatment	0	0	0,1	2
Total	**442**	**432**	**1,759**	**1,653**
Recovery rate %	34	36	66	68

We reduce food waste

We reduce food waste in cooperation with the entire food supply chain, from primary production to the customer. Our objective is to reduce K Group's identified food waste relative to sales by 13% from the 2016 level by 2021.

Food waste prevention

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

At the store

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

The circular economy also plays an important role in reducing food waste. K-stores are exploring numerous ways of utilising their own food waste by turning it into new added value products. Fruits, vegetables and bread going to waste can become raw materials for new jams, juices, smoothies and even beer.

K Group food waste hierarchy

ResQ Club app for reducing food waste

With the ResQ Club waste food app, K-food stores can sell food products nearing their expiry dates to consumers. In 2019, the ResQ Club waste food application was already in use at over 110 K-food stores across Finland. This operating model reduces the store's waste, and at the same time customers have the opportunity to buy food at reduced prices. Some of the K-food stores which have adopted the application have managed to cut down food waste to about one-sixth of what it used to be.

Food donations

Some 90% of K-food stores donate edible food products they can no longer sell to local charities, which then distribute the products as food aid to those in need. In 2019, the amount of food products donated to charities by K-food stores was 4% higher than the year before. Additionally, some food that would otherwise go to waste is also given to farms for animal feed.

Biogas from food waste

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

Biogas produced from inedible food waste collected from approximately 400 K-food stores and the Kesko Logistics central warehouse is utilised as energy in the production of new Pirkka products. In 2019, some 4,800 tonnes of organic waste (2018: 4,000) were turned into approximately 3,600 MWh of biogas (2018: 3,000). CO_2 emissions were reduced by 716 tonnes compared to natural gas (emission factor 199 g CO_2/kWh) and by 947 tonnes compared to fuel oil (emission factor 263 g CO_2/kWh).

Household food waste

The food waste pages on K-ruoka.fi inform our customers on how to reduce food waste. The K-ruoka mobile app helps our customers plan their grocery shopping by offering personalised benefits, store-specific offers, a smart shopping list and about 8,000 K-ruoka.fi recipes.

During Food Waste Week Finland held in autumn 2019, we organised a food waste chat on Twitter for the second time, giving experts, K Group and customers a chance to discuss food waste and ways of reducing it.

Food waste from K-food stores

	2019	2018
Identified food waste (tonnes)	17,920	18,931
Identified food waste in proportion to food sold (kg)	1.56%	1.65%
Development of food waste in proportion to food sold from base year 2016	-3%	

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Food waste

OBJECTIVE	PROGRESS IN 2019
K Group aims to minimise the food waste resulting from its operations and utilise the inevitably accumulated organic waste. In February 2019, we signed a commitment for materials efficiency in the food industry, and set an objective to reduce our identified food waste in proportion to sales by a minimum of 13% from the 2016 level by the end of 2021.	Food waste decreased by 3% from the previous 2016 base level. Compared to 2018, K-food stores donated 4% more food to charity.

WORKING COMMUNITY

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

Our common guidelines, the K Code of Conduct, ensure that everyone in K Group has the same understanding of the values and principles that guide our everyday work.

Equal opportunities, fairness and non-discrimination are important principles that we have committed to observing.

We aim to be the most attractive workplace in the trading sector, with special focus on developing our corporate culture, leadership, and employee wellbeing.

IN THIS SECTION:

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

Half of our employees work in Finland

401-1

In 2019, Kesko had an average of approximately 20,852 (2018: 19,579) full-time equivalent employees in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. 48% of the personnel were based in Finland and 52% in the other operating countries.

Towards a new career

Internal job rotation opens up possibilities for various careers options. In 2019, 2,604 internal transfers were made in Finland (2018: 1,569) and 2,124 in the other operating countries in total (2018: 2,361). In 2019, we established a new operating model in Finland for situations where an employee's working capacity is permanently reduced compared to the requirements of the current job, and the employee is no longer capable of returning to do the job.

In Finland, K Group's recruitment is supported by the K Trainee and retailer coaching programmes.

Move to the new K-Kampus main office building

We are modernising Kesko's work environments across Finland. In summer 2019, some 1,800 K Group employees working in specialist positions moved to the new K-Kampus main office building from eight office locations around the greater Helsinki area. In addition to modern facilities, we focus on tools and ways of working that enable open and agile, collaborative work.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Employer image

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We are the best employer in the trading sector in terms of job satisfaction.	Ranking 30th, K Group improved its position in the Universum Ideal Employer Ranking student survey. K Group was up by 17 positions and received an award for being the best climber.	We will continue our systematic work to improve employer image both with our external and internal key stakeholders.
	We expanded our national cooperation network in Finland and launched a new educational institute ambassador model.	We will continue to strengthen our cooperation with selected educational institutions.

Changes in the number of Kesko employees

	2019	2018	2017
Finland on 31 Dec.	12,657	11,878	12,327
Other operating countries on 31 Dec.	12,511	11,523	12,656
Total on 31 Dec.	25,168	23,401	24,983
Finland, average	10,194	9,822	10,691
Other operating countries, average	10,658	9,757	11,386
Total, average	**20,852**	19,579	22,077

Fixed-term and part-time employments at Kesko

	2019	2018	2017
Fixed-term employees of total personnel on 31 Dec., %			
Finland	14.9	14.1	14.2
Other operating countries	6.9	6.7	4.8
Whole Group, total	**10.9**	9.4	9.2
Part-time employees of total personnel on 31 Dec., %			
Finland	37.2	40.8	43.9
Other operating countries	13.0	7.8	6.7
Whole Group, total	**25.2**	24.1	26.7

Kesko's personnel statistics for 2019 analysed by operating country

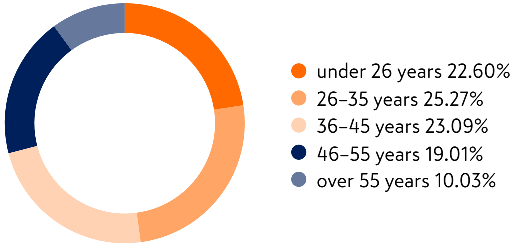
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of personnel at 31 Dec.	12,657	1,570	1,389	865	1,113	3,934	810	2,830
Average number of personnel in 2019	10,194	1,158	1,034	758	925	3,411	799	2,566
Number of new employments[1]	4,152	491	246	528	701	1,680	188	1,199
- women	2,148	174	53	252	252	668	32	508
- men	2,004	317	193	276	449	992	156	691
Number of terminated employments[1]	3,753	432	184	489	654	1,787	131	1,352
- women	2,009	139	41	208	114	659	16	531
- men	1,744	293	143	281	540	1,128	115	821
Percentage of new employments[1]								
- women	51.7	35.4	21.5	47.7	35.9	41.0	17.0	42.4
- men	48.3	64.6	78.5	52.3	64.1	59.0	83.0	57.6
Percentage of terminated employments[1]								
- women	53.5	32.2	22.3	42.5	17.4	36.9	12.2	39.3
- men	46.5	67.8	77.7	57.5	82.6	63.1	87.8	60.7
Terminated by employer, %	3.4	1.4	13.6	9.0	26.8	2.9	21.1	1.6
Total turnover rate, %[2]	**20.1**	**27.5**	**13.2**	**47.7**	**50.2**	**44.1**	**13.3**	**47.8**

[1] Including summer employees

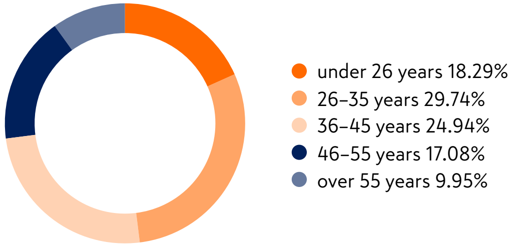
[2] Excluding summer employees

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

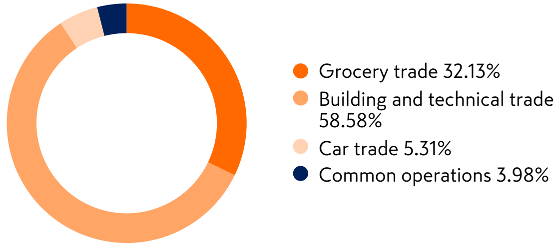
Age distribution of Kesko personnel in Finland in 2019, %



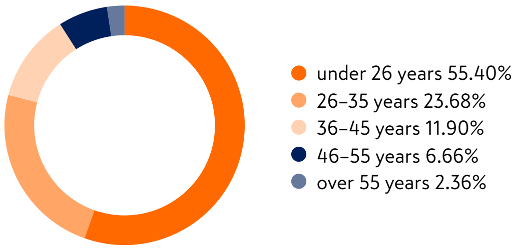
Age distribution of Kesko personnel in the other operating countries in 2019, %



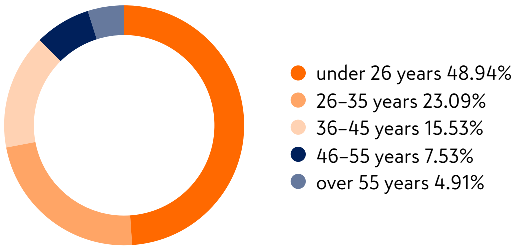
Distribution of Kesko personnel by division at 31 Dec. 2019, %



Recruits, age distribution in 2019, %



Terminated employments, age distribution in 2019, %



We offer comprehensive personnel benefits

401-2

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

In addition, we offer our personnel occupational health care services, retirement benefits, versatile shopping benefits in K Group stores and the staff store as well as the possibility for private car leasing for employees. In all operating countries, we support our employees' leisure-time exercise activities in different ways. The Finnish companies provide a benefit for physical exercise, cultural activities and commuting, which in 2019 expanded to cover wellbeing services.

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

Performance bonuses and share compensation plan

The performance bonus schemes cover all personnel, with the exception of sales assistant jobs and jobs covered by other types of bonus or commission systems. The indicators of the performance bonus scheme include, for example, the Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on the role, personal performance bonus targets may also be set.

In spring 2019, around €18.9 million (2018: €15.1 million) was paid in Finland in bonuses under the 2019 performance bonus schemes, accounting for approximately 4.1% (2018: 3.5%) of the total payroll. In 2019, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland: €19.3 million (2018: €16.1 million)
- In the other operating countries: €3.4 million (2018: €4.5 million)

The maximum performance bonus amounts vary depending on the profit impact of the person's role and are equivalent to 10-100% of the person's annual salary.

Kesko operates a share-based compensation plan for some 130 members of management and other specified key personnel members. Read more about the **share-based compensation plan**.

Pensions

201-3

New pensions were granted to 204 people (2018: 193) in Kesko Group in Finland. Of these, 35 were disability pensions (2018: 32), of which 14 (2018: 15) were partial disability pensions. Rehabilitation benefit is a form of fixed-term disability pension granted with the aim that the employee is rehabilitated and returns to working life. Rehabilitation benefits were granted for the purpose of retraining or work trials to 50 people (2018: 93), who were at a clear risk of incapacity for work within a few years. The average retirement age of employees in 2019 was 61.3 (2018: 61.9). The average retirement age for old-age was 63.7 (2018: 63.7) and the age for disability pension was 47 (2018: 47). In the other operating countries 35 (2018: 21) employees retired.

+ Read more about pensions

Occupational health and safety

403-1 403-2 403-3 403-4 403-5 403-6 403-7 403-8 403-9 403-10

Our occupational health and safety management is based on statutory comprehensive risk identification and assessment and monitoring of follow-up of measures. Our objective is continuous comprehensive improvement of occupational safety, in accordance with the ISO 14001 and ISO 45001 standards. In cooperation with business units, annual goals have been set for the Occupational Health and Safety function. The realisation of Group goals is reported to Kesko's Board of Directors. Common occupational health and safety principles are in use in all of operating countries.

In 2020, we will introduce a new working capacity system to support personnel wellbeing, to monitor sickness absences and to anticipate risks of incapacity for work.

Occupational safety risk management part of daily operations

We have improved the personnel's awareness of occupational safety risks and increased the reporting of close call situations with our risk management systems. With jointly set indicators, we have strengthened the occupational safety culture.

The labour protection programme also contains the evaluation of health risks by occupational health care professionals. An evaluation team at the workplace carries out an evaluation of risks that physical work involves. In 2019, the psychosocial load was evaluated as part of the personnel survey.

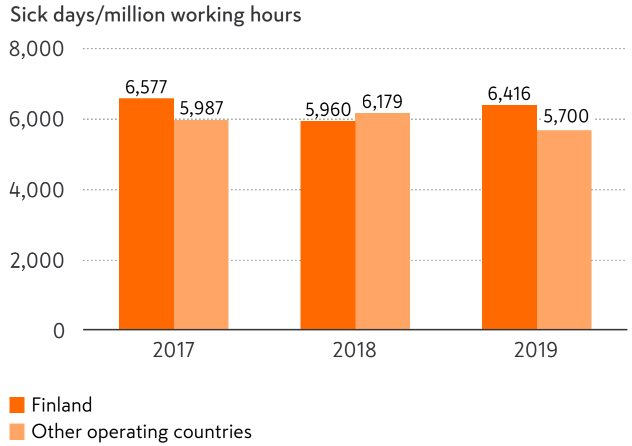
Occupational health plays a key role in maintaining working capacity

Comprehensive occupational health services are based on the legislation of each operating country, with focus on preventive measures. In 2019, the strategic focus areas in occupational health cooperation were management by information, strengthening the K culture, maintaining and improving the personnel's wellbeing at work, and supporting managerial work.

In 2019, 12,002 Kesko Group employees in Finland were covered by occupational health services (2018: 12,261). In Finland, Kesko's occupational health care provides services for employees in the Greater Helsinki area and purchases occupational healthcare services from one provider for employees elsewhere in the country. Kesko makes active use of health care professionals for the prevention of incapacity for work and in maintaining working capacity.

A total of some €5.9 million (2018: €5.5 million) was spent on occupational health care in Finland in 2019. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €2.8 million (2018: €2.8 million) of this sum. In 2019, Kesko's occupational health care spent €492 (2018: €447) per employee on maintaining personnel working capacity and providing medical care.

Trend in number of sick days



Sickness absences by country in 2019

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of sick days	**123,354**	**13,682**	**13,872**	**8,483**	**5,494**	**49,519**	**8,886**	**19,938**
Per employee	12.1	11.8	13.4	11.2	5.9	14.5	11.1	7.8
Per million working hours	6,416	6,713	7,623	5,513	2,940	7,187	5,347	3,824

The calculation method: sick days per employee have been calculated on the average number of employees during the year. Companies not included in the figures: OU 1A.EE, UAB 1A.LT, Oskar Harju AB, K-Rauta Finland Holding Kaukajärvi Oy, SIA Mobilukss, UABKesko Senukai Digital, Byggvaruhuset Färingsö Trä AB.

Kesko's contribution to occupational health care, Finland

€/person	2019	2018	2017
	492	447	494

In 2019, the sickness absence rate in the Group companies in Finland was 4.6% of hours worked (2018: 4.3%). Approximately 73.2% (2018: 76.2%) of sickness absences were paid short-term absences. In the other countries, the sickness absence rate was 4.8% (2018: 5.1%).

Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables on the right. In the other countries, a total of 52 injuries occurred resulting in sickness absences of more than three days in 2019. The corresponding figure in Finland was 163.

Personnel representatives involved in occupational safety and health cooperation

A labour protection group and a cooperation group operate in Kesko. The industrial safety delegates and shop stewards participate in the planning, implementation and follow-up of occupational health and safety matters. The cooperation involves active support for personnel wellbeing at work and proactive identification of risks by the personnel. Realisation of the agreed targets is evaluated on a quarterly basis in all business areas.

Injuries and occupational diseases in Finland

	2019			2018	2017
	Men	Women	Total		
Fatal injuries	0	0	0	0	0
Occupational injuries, excl. commuting injuries	116	47	163	181	226
Commuting injuries	34	39	73	67	79
Injury rate[1] /million working hours			12	13	11
Average degree of injury severity, days			38.2	31.6	20.9
Suspected occupational diseases	4	1	5	3	2
Occupational diseases	1	0	1	2	1
Sick days due to occupational injuries, commuting injuries and occupational diseases	4,064	4,943	9,007	8,040	6,473
Per employee			**0.9**	0.8	0.6

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

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

Injuries and occupational diseases in other operating countries

	2019
Fatal injuries	0
Occupational injuries, excl. commuting injuries	52
Commuting injuries	22
Injury rate[1] / million working hours	4.9
Suspected occupational diseases	0
Occupational diseases	3
Per employee	0.1

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

We invest in personnel wellbeing and occupational safety competence

First aid and occupational safety training is organised in all divisions on a regular basis. The personnel have the opportunity to study occupational safety both through coaching and through independent study. Occupational health and safety topics are part of the induction of new employees.

We promote a wholistic approach to employee health and organise various programmes that support wellbeing and health, from wellbeing lectures to more extensive coaching. This includes, for example, training which supports stress management and work-life balance and wellbeing.

Both online examinations and appointments for medical examinations are offered to the personnel at regular intervals.

In 2019, manager competence in factors that contribute to wellbeing and working capacity was increased. At the K-Kampus main office, space solutions that support personnel wellbeing in a variety of ways and the concept of increasing physical activity during work commutes were promoted.

We offer retailers and store personnel occupational safety training and organise occupational safety lectures as part of our cooperation with educational institutions.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Occupational wellbeing and working capacity

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We will improve work motivation and job satisfaction.	In Finland, we launched the K Well operating model which emphasises the employees' own opportunities to impact their wellbeing and combines the operating models supporting wellbeing and employer services into a comprehensive package.	We will expand the K Well operating model to business operations and integrate it into manager training, for example. We will place special emphasis on supporting mental wellbeing and services.
We will reduce the number of sick leave absences, accidents at work and numbers for premature retirement due to disability.	We developed a new working capacity management system, updated our working capacity management processes and launched communications of the roll-out of changes as well as manager training. We evaluated the personnel's psychosocial load using common indicators as part of our personnel survey.	In Finland, we will launch a new working capacity management system and new processes. The follow-up of risk of incapacity for work caused by an occupational accident will be implemented in the same process. Norway has its own management system for occupational safety.

An operating environment in transition calls for continuous competence development

404-1 404-2

The systematic, business-driven development of personnel competencies is a critical factor for future success. The transformation of the trading sector, digitalisation and continuous changes in working life act as drivers for future development needs.

Key areas of competence building in K Group are:

- Leadership and management
- Knowledge work
- Interaction and self-management skills
- Training for store personnel: sales, service and product competence

Developing leadership and management

Managers are offered a large variety of coaching to support their daily managerial work.

In 2019, we arranged leadership training targeted at all managers in Finland in which Kesko's Group Management Board members acted as coaches and presented Kesko's new leadership fundamentals.

The management training programme initiated in the K-Citymarket chain was completed and more than 300 store managers obtained specialist vocational qualifications in management.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Competence development

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We conduct an annual performance and development review with every employee.	Performance and development reviews are a systematic part of our performance management model. Approximately 85% of our employees have discussed their objectives and development with their manager.	We will continue to give guidance and training on performance and development reviews to our managers and personnel.
We regularly train our managers.	In Finland, we arranged training for all managers on our new leadership fundamentals: 1,218 persons took part in the training.	Based on selected focus areas, we will continue to systematically develop managerial work.

Knowledge work

Knowledge work comprises the development of teamwork tools, collaboration and meeting practices and emphasising the openness of information. Knowledge work practices and the tools chosen for the purpose ease our everyday work and serve the successful implementation of our common strategy. In 2019, we focused on training both in relation to information systems and knowledge work practices.

Self-management and interaction skills

To support wellbeing at work, we focused on self-management and the development of interaction skills. In 2019, we organised training, for example, on self-management, time management, networking and influencing and negotiating skills. We developed an online coaching programme on working life skills directed at young employees at the start of their careers.

Training for store personnel

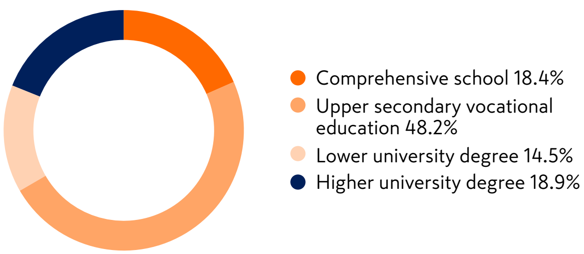
Via K-Academy, we provide store personnel with professional training in the form of coaching and e-learning as well as an opportunity to complete vocational degrees. In 2019, together with our businesses and retailers we developed tailored learning paths for sales assistants, heads of departments and retailers to be applied in various situations. Since 2018, we have been training workplace instructors for stores, and by the end of 2019, more than 700 workplace instructors had been trained.

Training days and costs in 2019

	2019	2018
Training days		
Finland	74,199	58,191
- women[1]	27,281	
- men[1]	30,012	
Other countries	64,890	64,331
- women[1]	25,163	
- men[1]	12,450	
Training days per employee		
Finland	7.3	5.9
- women[1]	4.4	
- men[1]	4.7	
Other countries	6.1	6.6
- women[1]	5.4	
- men[1]	1.8	
Training costs, million €		
Finland	2.3	2.7
Other countries	0.6	0.4
Training costs per employee, €		
Finland	224	277
Other countries	60	45

[1] eLearning trainings not included

Distribution by education at 31 Dec. 2019, %



Sweden and Norway not included

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

404-3

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

In performance and development reviews we discuss the employee's competencies and motivation, career wishes, the quality and development of managerial work and the entire working community. Finally, a personal development plan is created for the interviewee. In 2019, evaluation of the level of professional competencies was introduced as part of the performance and development reviews. These discussions were used in the creation of development plans.

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

Personnel survey as a tool for developing operations

The personnel survey is among the key tools for improving methods of operation and managerial work and one way of listening to the views of the personnel. In 2019, the Group's personnel survey was conducted in Finland, Sweden, Norway, Poland and the Baltic States.

10,761 Kesko employees responded to the personnel survey in 2019, giving a response rate of 75%. Questions measuring the psychosocial load of employees and indices reflecting leadership fundamentals in managerial work were added to the survey. Compared to the previous Group level results from 2017, improvement was identified especially in cooperation between teams and units and in development opportunities.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Performance management

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We know the targets set for our work and receive feedback on our performance.	According to the 2019 personnel survey, 93% of our personnel understood how their individual work effort contributed to achieving the common goals of their own unit. Approximately 60% of the personnel received regular feedback from their manager for their work performance.	We will promote the managers' ability to give feedback by focusing on it as part of performance management and manager training. We will develop performance bonus models further to better serve our business operations.

We promote equal opportunities and diversity

405-1 406-1

Zero-tolerance for discrimination

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

Kesko has established an Employee Equality and Diversity Group in accordance with the non-discrimination plan, which handles matters related to non-discrimination and equality within the Group. The Employee Equility and Diversity Group includes representatives of the employer, personnel and labour protection functions. In 2019, we organised training for members of the working group on diversity and inclusion of personnel. The themes discussed included, for example, prejudices and respectful encounters. In addition, on the working group's recommendation we acted as a partner for Helsinki Pride 2019, taking a stand on the discrimination of sexual and gender minorities.

No cases of discrimination were reported to us in 2019.

Diverse working community

In autumn 2019, we prepared a diversity coaching programme for use by working communities through the development of the employee ambassador model. The most important resourcing on equal opportunities and equality activities was to recruit a personnel responsibility specialist to coordinate and implement projects under the theme and to prepare a programme on personnel responsibility.

According to the diversity policy of Kesko's Board of Directors, Kesko seeks to have a balanced representation of genders on the Board. At the end of 2019, women accounted for two out of the seven members of the Board and one out of the eight members of the Group Management Board.

We have started several programmes in recent years to employ young people and people from special groups, and employing them has become a permanent operating model. So far, more than 3,100 young people in this target group have been hired to K Group through work trials, salary support and apprenticeship training.

In the future, immigrants will be an increasingly important target group for recruitment into service positions in the retail sector. At present, the highest number of immigrants are employed in the stores and warehouses of K Group.

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

People of various ages are an asset

In Finland, the average age of the employees was 37.4 in 2019. In the other countries, the average age of employees varied from 35 to 45 years.

PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Human rights and equality

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We respect human rights and consider them in all of our operations.	We reviewed our **human rights commitment and assessment**. We organised training for members of the Employee Equality and Diversity Group on diversity and inclusion.	As part of the Group's personnel sustainability work we are developing a personnel diversity and inclusion programme by organising, for example, stakeholder hearings.
We promote the implementation of gender equality in our own operations and supply chains.	Together with the Center for Child Rights and Corporate Social Responsibility (CCR CSR), we opened a **children's summer day care** facility at a factory in China that supplies site lighting to Onninen and K-Rauta stores.	

Long careers are not rare: 1,059 employees in Finland have worked at Kesko for over 25 years. In Finland, 34.7% of the employees have worked at Kesko for over 10 years and 65.3% under 10 years, and in the other countries the figures were 18.8% and 81.2%, respectively.

We promote the realisation of pay equality

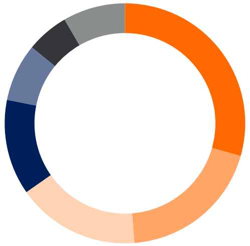
405-2

The average annual salary of Kesko employees was €40,578 in Finland, €38,282 in Sweden, €54,355 in Norway, €17,533 in Estonia, €16,056 in Latvia, €18,219 in Lithuania, €18,881 in Poland and €5,340 in Belarus. As Kesko Group operates in many lines of business, the average salary is not a good indicator of salary level or structure. The wage groups and tables specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality.

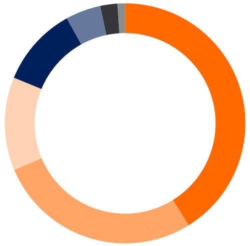
Besides the role and its requirements, the salary of a specialist is determined by competence, experience, performance and results. Kesko uses a job grade classification system.

In jobs classified based on job grades, in higher and middle management jobs the women's salary is 97% of men's salary in comparable jobs, and 98% with manager and expert positions, respectively. As a whole, women's salary is 98% of men's salary in comparable jobs.

Years of service in Finland in 2019, %



Years of service in the other operating countries in 2019, %



Percentage of women and men of personnel, Finland

	Women	Men
Full-time	35.5	64.5
Part-time	70.8	29.2
Permanent	49.7	50.3
Fixed-term	47.8	52.2
Managers	43.7	56.3

Percentage of women and men of personnel, other operating countries

	Women	Men
Full-time	43.8	56.2
Part-time	38.8	61.2
Permanent	44.2	55.8
Fixed-term	30.5	69.5
Managers	41.6	58.4

Percentage of women by employee category, Finland

	2019	2018	2017
Top management	27.5	28.6	28.3
Middle management	27.8	23.3	22.6
Managers and specialists	47.1	46.8	45.2
Workers and white-collar employees	50.4	53.5	58.4
Total	**49.3**	51.8	55.5

Percentage of women by employee category, other operating countries

	2019	2018	2017
Top management	12.5	12.5	0.0
Middle management	39.8	42.3	56.2
Managers and specialists	47.4	51.8	49.1
Workers and white-collar employees	36.2	39.3	41.6
Total	**40.0**	43.6	46.7

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

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

205-1 205-2 205-3

With K Code of Conduct, we ensure that everyone in Kesko has the same understanding of the values and principles that guide our everyday work. The principles are the same for every Kesko employee in all of our operating countries.

We also require our business partners to have responsible operations.

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

Risks related to corruption are discussed as part of Kesko Group's risk management. Key risks are identified, assessed, managed, monitored and reported regularly as part of business operations in all operating countries. This includes risks related to corruption. In 2019, we also updated a separate group-level compliance risk assessment, in which we assessed risks related to corruption from the perspective of legislation and regulation. The most significant corruption risks are related to real estate and store site projects and the purchasing of goods and services.

Kesko's anti-corruption principles were included in the K Code of Conduct guidelines published in 2016. The guidelines and the website have been published in the languages of all operating countries. Kesko employees and business partners have their own versions of the K Code of Conduct. All Kesko Group personnel are obliged to annually confirm their compliance with the K Code of Conduct. We have prepared an eLearning package for employees to internalise the K Code of Conduct. We also organise K Code of Conduct training each year in Kesko's operating countries for the management of the units and local Group companies with focus on anti-corruption activities.

In 2019, the prevention of malpractice was one of the focus areas for Kesko's corporate security function. None of the cases of suspected malpractice reported during the year was related to corruption.

Through the group-wide SpeakUp channel, employees and business partners can report any violations of the K Code of Conduct. In 2019, 28 notices were submitted through the SpeakUp channel (2018: 11). They were related, among other things, to managerial work, operation of stores and phishing messages received by customers.

In 2019, no corruption related lawsuits against any Kesko Group company came to our knowledge.

PROGREES MADE IN OUR RESPONSIBILITY PROGRAMME:

K Code of Conduct

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
All of our personnel act in compliance with the K Code of Conduct.	The entire personnel is obligated to annually commit to compliance with the K Code of Conduct. In 2019, 82% of personnel signed the annual confirmation.	We will continue to make the annual confirmation process more systematic and promote commitment to the K Code of Conduct through managerial work, training and continuous visibility. In Finland, we will pilot the annual confirmation process as part of K Success Factors personnel system.
We organise regular training on the K Code of Conduct.	In October, we published a new refresher eLearning course on the K Code of Conduct in all operating countries. A total of 4,617 employees had completed the eLearning programme by the end of 2019. We arranged K Code of Conduct sessions for Kesko in Sweden and for key persons at Kespro, focusing especially on corruption and fraud-related issues.	We will continue to systematically promote the awareness of the K Code of Conduct through various actions. In addition to the longer K Code of Conduct eLearning course, we aim to publish a shorter refresher course on selected themes every two years. Communications and roll-out are supported by our active group of K Code of Conduct ambassadors.

Freedom of association is an important value

407-1

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

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

The freedom of association is also supported by the newly relaunched EWC (European Work Council) activities in cooperation with the Service Union United PAM. In autumn 2019, an international meeting was organised on EWC activities with Kesko's representatives from Finland, Sweden, Norway, Poland and the Baltic States.

Out of the total personnel, 50% are covered by collective agreements.

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

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

Periods of notice and restructuring situations

402-1

Kesko complies with local legislation in all of its operating countries, or the notice periods specified in collective agreements.

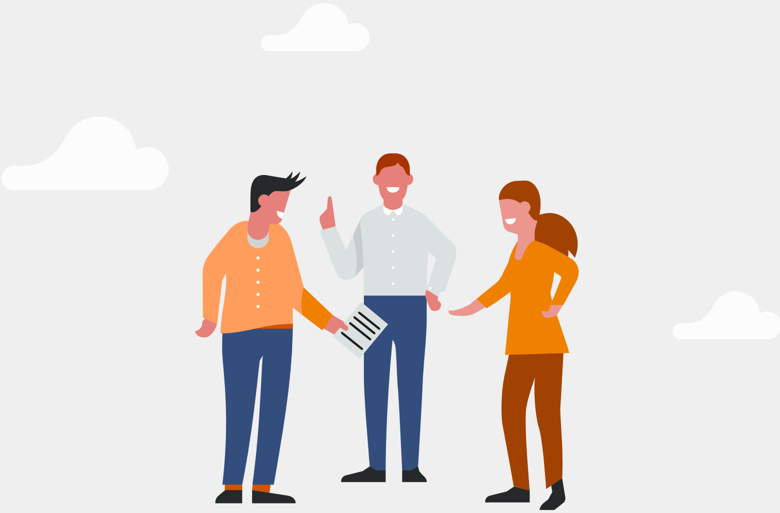
In Finland, the notice period is from two weeks to six months depending on the duration of employment.
In Finland, the key statutes governing restructuring situations are included in the Act on Co-operation within Undertakings, which stipulates that the employer must provide reasonable notice of decisions for consideration on the basis of negotiations. The collective agreement for the trading sector does not specify any minimum notice periods applying to restructuring situations. In terminations of employment, legislation on public employment and enterprise services has been observed by providing coaching due to protection in the event of restructuring and by providing an adjusted training programme for those who would not be entitled to coaching due to protection in the event of restructuring on the basis of the said legislation.

In Sweden, the statutory minimum notice period in the event of organisational changes is 8–24 weeks depending on the nature of the change. The collective agreement applying to operations in Sweden also does not specify minimum notice periods for restructuring situations.

No specific minimum notice period for organisational changes is defined in Norway, but both legislation and the collective agreement stipulate that personnel shall be informed of organisational changes at the earliest opportunity.

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

In Poland, the notice period with permanent and temporary employments varies from two weeks to three months depending on the duration of employment. The same periods of notice are valid in restructuring situations as well.



SUSTAINABILITY MANAGEMENT APPROACH AND REPORTING

STAKEHOLDER ENGAGEMENT

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

Matti Kalervo
Vice President of Corporate Responsibility

"Our most important stakeholders are future generations. Decisions we make today have an impact for decades to come. We are committed to promoting the UN Sustainable Development Goals in our operations. Emissions targets, renewable energy, electric cars and the K Charge network as well the sustainability policies guiding our purchasing are examples of how we as a big operator can impact the future.

Key stakeholders	Engagement and channels for interaction	Key topics of interest and concern for our stakeholders in 2019	How we have addressed stakeholder expectations
Customers	• Daily customer encounters • Customer service channels and applications • Customer surveys • Social media	Conscientious consumption is reflected in K-food stores in the preference for local and ethically produced foods and environmentally friendly choices. Consumers want more information on the climate impact of their food shopping. Sources: The K Group Food Trends 2019 survey and K Group trend review 11/2019	K Group is using its Local Food Date events to increase the offering of products by small producers in K-food stores. The K-Ostokset service now enables tracking how much Finnish foods you are buying and the carbon footprint of your food shopping.
		According to the 'Suomi Syö 2019' study, people are eating more vegetarian food, and over half of all customers have changed at least one thing related to food and eating for environmental reasons.	The sales and selections of plant-based fresh products and meat-replacement proteins grew in K-food stores.
		Onninen sees growing demand for solar power equipment and systems.	Onninen offers a wider selection of solar panel solutions for different customer needs.
		K-Rauta customers are increasingly interested in the sustainable origin of wood.	K-Rauta has committed to increasing the number of PEFC-certified products in its selections. During the year, we communicated to customers issues related to sustainable wood via marketing and communications, for example: **https://kesko.fi/en/media/news-and-releases/news/2019/certification-labels-verify-the-sustainable-origin-of-wood-for-customers/**
Investors, shareholders, analysts and other representatives of capital markets	• General Meeting • Results announcements • Press conferences • Investor web pages and other digital channels • Investor meetings • Surveys and assessments	Analysts are increasingly incorporating ESG aspects into their equity research.	In spring 2019, Kesko's Board of Directors made sustainability and climate change a strategic focus area.
		At investor meetings, we were asked what we are doing to mitigate climate change.	Together with the Natural Resources Institute Finland (Luke), we contructed an operating model for a carbon neutral grocery store.
		Investors were also interested in our Science Based Targets for emissions and the progress made in achieving them.	We continue our work to reduce our emissions by increasing the use of renewable energy and by improving energy efficiency.
Kesko personnel and potential employees	• Performance and competence: personnel survey, development discussions and daily interaction • Co-operation with personnel • Organisational communication and feedback and discussion channels for personnel • SpeakUp reporting channel • K Code of Conduct • Student and recruitment events	When 1,800 employees moved to the new headquarters on K-Kampus in summer 2019, many questions arose regarding ways of working in a multispace office environment.	Training and info sessions on new ways of working were arranged for personnel. Personnel satisfaction has been good following the move (4 on a scale of 1 to 5).
		K-Kampus also attracted a lot of interest at student events. Students were particularly interested in K Group's sustainability work, the K Trainee programme, and digitalisation in the trading sector.	We expanded the network of institutes of higher education we collaborate with across Finland and adopted a new model for school ambassadors.

Key stakeholders	Engagement and channels for interaction	Key topics of interest and concern for our stakeholders in 2019	How we have addressed stakeholder expectations
Retailers and store staff	• Retailer events and meetings • Electronic communication channels and common trade magazine • Responsible operating principles for K-retailers and K-stores (K Code of Conduct) • K Group's joint trade event K-Team Päivät	The availability of skilled store staff continued to be a talking point among retailers. Concerns over climate change have further increased the importance of safe and sustainably produced store selections.	Over 730 workplace coaches for stores were trained in 2018–2019. We continued to develop and promote K Group's shared training portal **k-academy.fi**. We continued close collaboration with universities of applied sciences.
Suppliers and service providers	• Meetings with suppliers and partner events • K Code of Conduct and Principles and Practice of Socially Responsible Trading • Co-operation in accordance with fair trading practices • Audits and training	Topics of interest for grocery trade suppliers included our 'Thank the Producer'operating model, the climate impact of food and stores, plastic packaging and conscientious consumption.	The number of 'Thank the Producer' products grew, and so far the operating model has accumulated over €3 million in support for Finnish food producers. We made changes to the packaging of our own brand products in the grocery trade, significantly reducing the amount of plastic. Together with our suppliers, we are constantly seeking new ways to add easily recyclable or reusable packaging and circular economy products to our selections.
Society (media, authorities, non-governmental and other organisations, and trade unions)	• Meetings • Media events and enquiries • Activities in organisations • Enquiries from NGOs	K Group's actions have wide reaching impacts on the society. We want to actively take part in public discussion and develop new solutions. K Group wants to do its part in supporting democracy. In election years, political parties and candidates are given equal opportunities to hold election events in the yards and lobbies of K Group stores. The final decision on campaigning on store premises is always made by the local retailer. In media queries, the biggest sustainability-related topics were climate change, the vegetarian food trend, plant-based protein products and reducing plastic. During the year, we answered enquiries from NGOS regarding e.g. working conditions on coffee and tea farms and the sustainability of clothing brands.	In the spring, we invited representatives from business and politics to our Day of Commerce event to discuss ways to build a more sustainable future together. In connection with the parliamentary and European elections held in Finland in spring 2019, we informed all the parties represented in Parliament and their campaign personnel about our policy. We also posted on various social media channels to increase voter turnout. We actively communicated on sustainability issues in our various channels, e.g. **https://kesko.fi/en/media/themes/climate-change/** **https://kesko.fi/en/media/themes/smarter-with-plastic/** We continued to develop our purchasing processes and improve the transparency of our supply chains. We published a **cocoa policy** and made preparations for a cotton policy.

MANAGEMENT APPROACH

	GOOD CORPORATE GOVERNANCE AND FINANCE	CUSTOMERS
Material aspects	Economic performance Indirect economic impacts Anti-corruption Anti-competitive behaviour Compliance Grievance mechanisms for impacts on society Customer privacy	Customer health Product safety
Policies and commitments	Accounting policies Kesko Group complies with the International Financial Reporting Standards (IFRS) approved for adoption by the EU. **Corporate Governance principles** **Risk management principles** **Good trading principles in the food supply chain** **K Code of Conduct** **Data protection policy**	
Monitoring and control systems	**Financial reporting and planning** Compliance: compliance programmes Prevention of malpractice: **internal audit; K Code of Conduct** **Risk management** **Customer privacy**	Kesko's Product Research Unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade.
Programmes, projects and initiatives		Food store operations utilise the Hymy customer feedback system. The service level, recognition and image of Kesko's chains are regularly monitored in brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plussa customer loyalty programme and the grocery trade's own brand products. Store-level customer satisfaction is measured by customer satisfaction surveys and the mystery shopping method in food stores and building and home improvement stores.
Grievance mechanisms	Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel. **SpeakUp reporting channel**.	**Plussa.com** K Consumer Service Chains' customer feedback systems
Boundaries	Corporate governance: Kesko Finance: Kesko	Customer health and safety: Kesko's own brand products and own imports Product and service information: Kesko's own brand products and own imports Marketing communications: Kesko Compliance: Kesko

	SOCIETY	WORKING COMMUNITY
Material aspects	Procurement practices	Employment Labour/management relations Occupational health and safety Training Diversity and equal opportunities Equal remuneration Labour practices grievance mechanisms
Policies and commitments	Kesko requires that its business partners act in compliance with the K Code of Conduct guidelines. We add K Code of Conduct contract clauses to agreements under which the Kesko Group companies purchase products and services from outside the Group. **Good trading principles** in the food supply chain.	**K Code of Conduct** **HR policy**
Monitoring and control systems	Changes in the operating environment and in K Group are taken into account by adjusting objectives, operating principles, monitoring systems and/or resources.	Labour protection and HR
Programmes, projects and initiatives	**Thank the Producer**	K Well wellbeing model TASY Employee Equality and Diversity Group **Youth employment at K Group**
Grievance mechanisms	**SpeakUp reporting channel**	Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel. **SpeakUp reporting channel**
Boundaries	Economic performance: Kesko Indirect economic impacts: K Group Purchase practices: K Group	Working community: Kesko

	RESPONSIBLE PURCHASING AND SUSTAINABLE SELECTIONS	ENVIRONMENT
Material aspects	Information and compliance of products and services Customer health and safety Assessment of suppliers' working conditions Human rights Marketing communications	Energy Water Biodiversity Emissions Waste Food waste
Policies and commitments	**Kesko's purchasing principles** **K Group's plastics policy** **K Group's animal welfare policy** Product group specific **sustainability policies** Kesko's policy on chemicals for home textiles, clothing, leather goods, shoes and upholstered furniture	**K Group's environmental and energy policy** **UN Global Compact Initiative** **UN Sustainable Development Goals**
Monitoring and control systems	**Certification and audit systems related to production in high-risk countries approved by Kesko.** Supplier agreements require that suppliers and service provides comply with the principles of the **K Code of Conduct** and the **amfori BSCI Code of Conduct**. Kesko's grocery trade requires that the manufacturers and producers of its own brand products have an international food safety certification. Kesko's grocery trade approves the following audit procedures, among others: BRC, IFS, ISO/FSSC 22000, SQF1000/2000 and GlobalGAP or Laatutarha. The Product Research unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade. All of our food product operations have a self-control plan in place. The laboratory is a T251 testing laboratory that has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.	Group Corporate Responsibility Advisory Board EnerKey.com monitoring system All of Onninen's operations in all operating countries are ISO 14001 certified. The operations of Kesko Logistics are ISO 14001 certified.
Programmes, projects and initiatives	**The Principles and Practice of Socially Responsible Trading guide** **The Center for Child Rights and Corporate Social Responsibility**	**Science Based Targets** Action plan for 2017–2025 under the retail sector's **Energy Efficiency Agreement**. **amfori Business Environmental Performance Initiative (BEPI)** **Kesko's timber and paper policy** **Kesko's fish and shellfish policy** **RSPO** Finnish soy commitment and **RTRS**
Grievance mechanisms	K Consumer Service Chains' customer feedback systems **SpeakUp reporting channel**	**SpeakUp reporting channel**
Boundaries	Compliance: Kesko Product safety: Kesko's own brand products and own imports Social responsibility of procurement (1st tier): Kesko	Energy and water: Kesko Biodiversity: Kesko Emissions: Scope 1 and 2: Kesko; Scope 3: K-stores and supply chain Waste: Finland: Kesko's warehousing operations; other operating countries: stores Food waste: Kesko's grocery trade division and K-food stores

REPORTING PRINCIPLES

Reporting principles in accordance with the GRI standards

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

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

Kesko applies in its operations the AA1000 AccountAbility Principles: stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders. Kesko has taken account of the ISO 26000 standard as a source document providing guidelines for corporate responsibility.

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

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

Assurance of reporting

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

The conclusions, observations and recommendations by PricewaterhouseCoopers Oy are detailed in **the assurance report**. The assurance is commissioned by the operative management of Kesko Corporation.

Global Compact reporting

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

Report stakeholders

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

Reporting period and contact information

This report describes the progress and results of responsibility work in 2019. It includes some information from January and February 2020. The report for 2018 was published in March 2019. The report for 2020 will be published in the spring of 2021.

Further information on the topics covered in the report can be obtained from **Kesko's contact persons**.

> Kesko participates in the UN Global Compact initiative and is committed to observing ten generally accepted principles concerning human rights, labour standards, the environment and anti-corruption in all of its operating countries.
>
> **Mikko Helander,**
> President and CEO

WE SUPPORT UN GLOBAL COMPACT

GRI INDEX

KD = Kesko's Direction
SU = Sustainability
CG = Corporate Governance
FS = Financial Statements

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
GRI 102 GENERAL STANDARD DISCLOSURES						**2016**
102-1	Name of the organisation	KD 3				
102-2	Activities, brands, products and services	KD 5				
102-3	Location of headquarters	KD 3				
102-4	Location of operations	KD 3				
102-5	Ownership and legal form	KD 3				
102-6	Markets served	KD 3				
102-7	Scale of the organisation	KD 3				
102-8	Information on employees and other workers	SU 49–51		There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work. There are no significant seasonal fluctuations in the number of employees.	x	
102-9	Supply chain	SU 18–19				
102-10	Significant changes to the organisation and its supply chain	KD 6				
102-11	Precautionary Principle or approach	KD 14				
102-12	External initiatives	Kesko.fi Principles of corporate responsibility				
102-13	Membership of associations	Kesko.fi Activities in organisations				
102-14	Statement from senior decisionmaker	KD 7–9				
102-15	Key impacts, risks and opportunities	KD 14, KD 16				
102-16	Values, principles, standards, and norms of behaviour	Kesko.fi K Code of Conduct			x	
102-17	Mechanisms for advice and concerns about ethics	Kesko.fi Reporting concerns and instances of non-compliance			x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
102-18	Governance structure	CG 5				
102-19	Delegating authority	CG 11–12, Kesko.fi Sustainability governance				
102-20	Executive-level responsibility for economic, environmental and social topics	EVP, CFO; EVP, Human Resources, Corporate Responsibility and Regional Relations		Both are members of the Group Management Board.		
102-21	Consulting stakeholders on economic, environmental, and social topics	SU 64–66				
102-22	Composition of the highest governance body and its committees	CG 6–13				
102-23	Chair of the highest governance body	CG 6–13				
102-24	Nominating and selecting the highest governance body	CG 6–13				
102-25	Conflicts of interest	CG 6–13		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.		
102-26	Role of highest governance body in setting purpose, values, and strategy	CG 6–13				
102-28	Evaluating the highest governance body' s performance	CG 6–13	Only the Board's self-assessment has been reported.			
102-29	Identifying and managing economic, environmental, and social impacts	CG 6–13				
102-30	Effectiveness of risk management processes	CG 17–18				
102-31	Review of economic, environmental, and social topics	CG 17–18				
102-32	Highest governance body's role in sustainability reporting	CG 9				
102-33	Communicating critical concerns	CG 16				
102-35	Remuneration policies	CG 22-30				
102-40	List of stakeholder groups	SU 64–66				
102-41	Collective bargaining agreements	SU 62			x	
102-42	Identifying and selecting stakeholders	SU 64–66				
102-43	Approach to stakeholder engagement	SU 64–66				
102-44	Key topics and concerns raised	SU 64–66				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
102-45	Entities included in the consolidated financial statements	FS 47–49, FS 113–116				
102-46	Defining report content and topic Boundaries	SU 70				
102-47	List of material topics	Kesko.fi Materiality assessment of corporate responsibility				
102-48	Restatements of information	No significant changes.		Changes reported in connection with topic-specific information.		
102-49	Changes in reporting	No significant changes.				
102-50	Reporting period	SU 70				
102-51	Date of most recent report	SU 70				
102-52	Raportin julkaisutiheys	SU 70				
102-53	Contact point for questions regarding the report	Kesko.fi Contacts, responsibility				
102-54	Claims of reporting in accordance with the GRI Standards	SU 70				
102-55	GRI content index	SU 71–78				
102-56	External assurance	SU 79–81				
GRI 103 MANAGEMENT APPROACH						**2016**
103-1	Explanation of the material topic and its Boundary	SU 67–69				
103-2	The management approach and its components	SU 67–69				
103-3	Evaluation of the management approach	SU 67–69				
TOPIC-SPECIFIC CONTENT						
Topic-specific content is reported regarding aspects identified as material.						

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
ECONOMIC IMPACTS						
201	**Economic performance**					**2016**
201-1	Direct economic value generated and distributed	SU 7–8, SU 12				
201-2	Financial implications and other risks and opportunities due to climate change	KD 14	Monetary evaluations or realisations have not been reported for risks and opportunities. Information is not available, as climate change is difficult to estimate.		x	
201-3	Defined benefit plan obligations and other retirement plans	SU 52				
201-4	Financial assistance received from government	SU 8				
203	**Indirect economic impacts**					**2016**
203-1	Infrastructure investments and servies supported	SU 11				
203-2	Significant indirect economic impacts	SU 9–10				
204	**Procurement practices**					**2016**
204-1	Proportion of spending on local suppliers	SU 18–19				
205	**Anti-corruption**					**2016**
205-1	Operations assessed for risks related to corruption	SU 61–62	The number and percentage of business units have not been reported. Information is not available as the risks related to corruption are part of a wider assessment of business risks.	Risks related to corruption are discussed as part of Kesko's risk managament. Key risks are identified and assessed regularly throughout the year.	x	
205-2	Communication and training about anti-corruption policies and procedures	SU 61–62	Percentages have not been reported by personnel group or geographical region. Information is not available.		x	
205-3	Confirmed incidents of corruption and actions taken	SU 61–62			x	
206	**Anti-competitive behaviour**					**2016**
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	SU 11				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
ENVIRONMENTAL IMPACTS						
301	**Materials**					**2016**
301-3	Reclaimed products and their packaging materials	SU 44	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.			
302	**Energy**					**2016**
302-1	Energy consumption within the organisation	SU 33–34	At some properties located in leased premises outside Finland, the heat energy data is not reported because it is included in the lease or data is not available.	Energy consumption tracking, 2019 Emissions report, Finland, 2019 The energy consumption data from other countries is compiled from fuel and purchased energy consumption data reported by subsidiaries.	x	
302-2	Energy consumption outside the organisation	SU 37	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		x	
302-3	Energ y intensity	SU 34		Energy consumption tracking, 2019	x	
302-4	Reduction of energy consumption	SU 34–35			x	
303	**Water**					**2018**
303-1	Water withdrawal by source	SU 42	At some properties located in leased premises outside Finland, water consumption is included in the lease and data is not available for reporting	Energy consumption tracking 2019 The water consumption data from other countries is compiled from water billing or consumption data reported by subsidiaries.	x	
304	**Biodiversity**					**2016**
304-2	Significant impacts of activities, products, and services on biodiversity	SU 42			x	
304-3	Habitats protected or restored	SU 43			x	
305	**Emissions**					**2016**
305-1	Direct (Scope 1) GHG emissions	SU 36		Emissions report, Finland, 2019 Emissions report, other countries, 2019	x	
305-2	Energy indirect (Scope 2) GHG emissions	SU 36		Emissions report, Finland, 2019 Emissions report, other countries, 2019	x	
305-3	Other indirect (Scope 3) GHG emissions	SU 37		Scope 3 report, 2019	x	
305-4	GHG emissions intensity	SU 37			x	
305-5	Reduction of GHG emissions	SU 38–41			x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	SU 37		Emissions report, Finland, 2019	x	
306	**Effluents and waste**					**2016**
306-2	Waste by type and disposal method	SU 45			x	
	Food waste					
-	Food waste	SU 46–47		Material topic without applicable standard.	x	
308	**Supplier environmental assessment**					**2016**
308-1	Supplier environmental assessment	SU 24	Not reported by percentage. Information not available.			

SOCIAL IMPACTS

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
401	**Employment**					**2016**
401-1	New employee hires and employee turnover	SU 49–51	In new employee hires, not reported by age category, and regional ratio not reported. In employee turnover, not reported by age category.		x	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	SU 52, Kesko.fi Benefits and rewards	Benefits exceeding the statutory level have not been reported in detail. Practices vary in different operating countries.			
402	**Labour/Management relations**					**2016**
402-1	Minimum notice periods regarding operational changes	SU 62	Arrangements compliant to legislation. Legislation does not define minimum notice periods at the precision required by GRI.		x	
403	**Occupational health and safety**					**2018**
403-1	Occupational health and safety management system	SU 53–55				
403-2	Hazard identification, risk assessment, and incident investigation	SU 53–55				
403-3	Occupational health services	SU 53–55				
403-4	Worker participation, consultation, and communication on occupational health and safety	SU 53–55				
403-5	Worker training on occupational health and safety	SU 53–55				
403-6	Promotion of worker health	SU 53–55				
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	SU 53–55				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
403-8	Workers covered by an occupational health and safety management system	SU 53–55	Does not cover all personnel, hired labour or contractors. Figure and percentage not available.			
403-9	Work-related injuries	SU 53–55	Not reported by injury type. Not reported for hired labour or contractors. Information not available.			
403-10	Work-related ill health	SU 53–55	Not reported by occupational disease. Not reported for hired labour or contractors. Information not available.			
404	**Training and education**					**2016**
404-1	Average hours of training per year per employee	SU 56–57	Not reported by gender and employee category. Information not available.		x	
404-2	Programmes for upgrading employee skills and transition assistance programmes	SU 56–57				
404-3	Percentage of employees receiving regular performance and career development reviews	SU 58	Not reported by gender and employee category. Information not available.		x	
405	**Diversity and equal opportunity**					**2016**
405-1	Diversity of governance bodies and employees	SU 59	Not reported by age category. Information not available.		x	
405-2	Ratio of basic salary and remuneration of women to men	SU 60–61			x	
406	**Non-discrimination**					**2016**
406-1	Incidents of discrimination and corrective actions taken	SU 59			x	
407	**Freedom of association and collective bargaining**					**2016**
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	SU 62			x	
412	**Human rights assessments**					**2016**
412-1	Operations that have been subject to human rights reviews or impact	SU 26	Information about percentage is not available.	The human rights assessment and commitment apply to all of Kesko's divisions and operating countries.	x	
412-2	Employee training on human rights	SU 26	Information about number of hours and percentage of employees trained is not available.		x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
414	**Supplier social assessment**					**2016**
414-1	New suppliers that were screened using social criteria	SU 20–25	The percentage of suppliers screened has not been separately out of all suppliers in high-risk countries.			
414-2	Negative social impacts in the supply chain and actions taken	SU 20–25				
415	**Public policy**					**2016**
415-1	Political contributions	SU 11			x	
416	**Customer health and safety**					**2016**
416-1	Assessment of the health and safety impacts of product and service categories	SU 26–28	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.			
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	SU 26–28				
417	**Marketing and labelling**					**2016**
417-1	Requirements for product and service information and labelling	SU 28–29	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.			
417-2	Incidents of non-compliance information and labelling	SU 29				
417-3	Incidents of non-compliance concerning marketing communications	SU 29				
418	**Customer privacy**					**2016**
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	SU 11				
419	**Socioeconomic compliance**					**2016**
419-1	Non-compliance with laws and regulations in the social and economic area	SU 11				

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

(Translation from the Finnish original)

To the Management of Kesko Corporation

We have been engaged by the Management of Kesko Corporation (hereinafter also the Company) to perform a limited assurance engagement on the economic, social and environmental performance indicators for the reporting period 1 January 2019 to 31 December 2019 disclosed in the "Kesko's Direction" and "Sustainability" sections of "Kesko's Annual Report 2019". In terms of the Company's GRI Standards reporting and GRI Standards Content Index, the scope of the assurance has covered economic, social and environmental disclosures listed within the Topic-specific Standards as well as General Disclosures 102-8, 102-41 and 102-54 (hereinafter Sustainability Information).

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

Management's responsibility

The Management of Kesko Corporation is responsible for preparing the Sustainability Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Sustainability Reporting Standards of the Global Reporting Initiative. The Management of Kesko Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of the Sustainability Information that is free from material misstatement, whether due to fraud or error.

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

Practitioner's responsibility

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

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

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

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

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material sustainability topics as well as assessing the Sustainability Information based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as one site in Poland.
- Interviewing employees responsible for collecting and reporting the Sustainability Information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Kesko Corporation's Sustainability Information for the reporting period ended 31 December 2019 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the Sustainability Information is not reliable, in all material respects, based on the Reporting criteria.

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

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

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

Observations and recommendations

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

- **Inclusivity:** The Company has processes in place for stakeholder inclusivity, collection of feedback as well as for stakeholder engagement. During the reporting period, the new K-Kampus and the new working methods have improved the Company's opportunities to engage the employees in the sustainability work. We recommend that the Company continues to engage its stakeholders in the sustainability work by ensuring the geographical coverage of the engagement.
- **Materiality:** The Company has a process in place to evaluate and determine the materiality of sustainability topics, and the Company updates its sustainability program regularly. In the next update of the sustainability program, we recommend that the Company ensures that the program is, be relevant matters, also linked to its business strategy.
- **Responsiveness:** The Company is in dialogue with its stakeholders to identify their expectations and develops its operations to respond to them through the continuous development of its activities. We recommend that the Company, when communicating the results of the development work to its stakeholders, takes into account the different needs of its stakeholders and supports them in responding and communicating to them.

Practitioner's independence, qualifications and quality control

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

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

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

Helsinki 2 March 2020

PricewaterhouseCoopers Oy

Enel Sintonen
Partner, Authorised Public Accountant
Assurance Services

Sirpa Juutinen
Partner
Sustainability & Climate Change

AA1000
Licensed Assurance Provider
000-29

KESKO ANNUAL REPORT

FINANCIAL REVIEW

FINANCIAL REVIEW

Kesko's Annual Report 2019 has four sections. This section comprises the Report by the Board of Directors, the Group's key performance indicators, and the financial statements and Auditor's Report for 2019.

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

Read more in the Annual Report

Read more on our website

THE REPORT BY THE BOARD OF DIRECTORS

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

Kesko's principal business model on the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 45% of the Group's net sales in 2019. B2B trade is a significant and growing part of Kesko's business operations and it accounted for 37% of the Group's net sales in 2019. Kesko's own retailing accounted for 18% of Group net sales.

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

Operating environment

Identified megatrends affecting K Group's operations are global economy, digital revolution, demographic changes (urbanisation, growth in single-person households, population ageing), increased consumer knowledge and power, sustainability and climate change. Key operating opportunities and risks are related to the increased importance of a digital and 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 for continuing operations

Net sales and profit for 2019

The net sales for the Group's continuing operations in 2019 totalled €10,720.3 million, which is 3.3% up on the corresponding period of the previous year (€10,382.8 million). In comparable terms, net sales increased by 1.4% in local currencies, excluding the impact of acquisitions and divestments. Net sales grew in the grocery trade and building and technical trade, but decreased in the car trade and – following divestments in the machinery trade – in the speciality goods trade. The Group's net sales increased by 1.6% in Finland, or by 1.1% in comparable terms. In other countries, net sales increased by 9.8%, or by 2.6% in comparable terms. International operations accounted for 21.8% (20.5%) of the Group's net sales.

Net sales for the grocery trade grew by 2.7%, or by 3.2% in comparable terms. Net sales grew in all food store chains and Kespro. 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 including in the net sales the comparable months of Reinin Liha and Kalatukku E. Eriksson, both acquired in 2018.

In the building and technical trade, net sales grew by 5.6%. In comparable terms, net sales grew by 2.1%. The net sales for the building and technical trade excluding the speciality goods trade increased by 6.9%, or by 2.7% in comparable terms. Net sales grew in comparable terms in Finland, the Baltics and Belarus. In Norway and Sweden, net sales increased due to the acquisitions completed. The comparable change % has been calculated in local currencies and by including in the net sales the comparable months of Skattum Handel AS, Gipling AS and 1A Group, all acquired in 2018, and by excluding the impact of the acquisitions of the DIY business of Sørbø on 31 January 2019 and Fresks Group on 17 May 2019, as well as the impact of the divestment of Onninen AB's HEPAC contractor business on 15 May 2019. Net sales for the speciality goods trade decreased by 7.5%, or by 3.7% in comparable terms. The comparable change % has been calculated by excluding the impact of the Finnish agricultural machinery trade, divested on 1 August 2019.

In the car trade, net sales decreased by 3.3%, or by 11.6% in comparable terms. Demand in the consumer market in 2019 was affected by uncertainties regarding car taxation and debate over motive power choices as well as changes related to WLTP emissions testing. The comparable change % has been calculated by excluding the impact of the car trade businesses acquired from Huittisten Laatuauto and LänsiAuto on 1 March 2019, and the Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group on 1 July 2019.

Reinin Liha and Kalatukku E. Eriksson became part of Kesko Group's foodservice wholesale company Kespro following acquisitions completed on 1 June 2018 and 2 July 2018, respectively. Kesko Corporation's subsidiary Byggmakker Handel AS took over the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS, which previously operated Byggmakker stores under the retailer business model, on 2 July 2018 and 23 July 2018, respectively. Kesko Senukai assumed ownership of 1A Group, an online retail company operating in the Baltic States, on 1 October 2018. On 31 January 2019, Kesko Corporation subsidiaries Skattum Handel AS and Rake Eiendom AS assumed ownership of the DIY retail business and properties of the Sørbø retailer group in Norway, which had been operating Byggmakker stores under the retailer business model. K-Caara assumed ownership of car trade businesses acquired from Huittisten Laatuauto and LänsiAuto on 1 March 2019. Kesko Corporation's subsidiary K-rauta AB assumed ownership of the Swedish building and home improvement group Fresks on 17 May 2019. Fresks strengthens Kesko's position in Sweden, especially in the professional builders customer segment. The divestment of Onninen AB's HEPAC contractor business was completed on 15 May 2019. K-Caara assumed ownership of the Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group on 1 July 2019. The Finnish agricultural machinery trade operations were divested on 1 August 2019.

The Group's comparable operating profit for continuing operations totalled €461.6 million (€428.5 million). Profitability improved in the grocery trade due to good sales performance and improved operational efficiency. The comparable operating profit for the building and technical trade grew in Finland, Sweden, Norway and Belarus. Profitability in Norway and Sweden improved due to acquisitions and divestments carried out. In the Baltic States, the comparable operating profit fell short of the level of the comparison period. The acquisitions carried out in 2018 and the first half of 2019 accounted for €13.4 million (€2.1 million) of the comparable operating profit for the building and technical trade. The comparable operating profit for the car trade was down by €8.5 million due to a decline in net sales.

1–12/2019	Net sales, € million	Change %	Change, comparable, %	Operating profit, comparable € million	Change, € million
Grocery trade	5,531.2	+2.7	+3.2	327.9	+33.4
Building and technical trade excl. speciality goods trade	3,984.5	+6.9	+2.7	133.3	+15.7
Speciality goods trade	346.7	-7.5	-3.7	9.5	+0.2
Building and technical trade total	4,331.1	+5.6	+2.1	142.8	+16.0
Car trade	863.9	-3.3	-11.6	26.8	-8.5
Common functions and eliminations	-5.9	(..)	(..)	-35.9	-7.8
Total	**10,720.3**	**+3.3**	**+1.4**	**461.6**	**+33.1**

(..) change over 100%

Operating profit totalled €447.8 million (€404.3 million). Items affecting comparability totalled €-13.8 million (€-24.2 million). The most significant items affecting comparability were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in the building and technical trade in Sweden, the €4.3 million costs related to acquisitions, and the net €+4.8 million items related to the subsidiary consolidation of Kruunuvuoren Satama Oy. The most significant items affecting comparability in the comparison period were the €7.6 million costs related to conversions of Suomen Lähikauppa's chains and changes in the store site network, the €8.1 million costs in building and technical trade related to acquisitions and divestments and structural changes in the Swedish operations, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million.

Items affecting comparability, € million	1–12/2019	1–12/2018
Comparable operating profit	**461.6**	**428.5**
Items affecting comparability		
+gains on disposal	4.6	6.7
-losses on disposal	-0.9	-0.1
-impairment charges	-	-5.6
+/-structural arrangements	-17.5	-25.3
Total items affecting comparability	-13.8	-24.2
Operating profit	**447.8**	**404.3**

The comparable profit before tax for the Group's continuing operations totalled €370.7 million (€325.2 million). The profit before tax for the Group's continuing operations totalled €403.3 million (€294.5 million). The earnings per share for the Group's continuing operations were €3.31 (€2.16), and the comparable earnings per share €2.97 (€2.45). The Group's equity per share was €20.44 (€19.33).

K Group's (Kesko and chain stores) retail and B2B sales (VAT 0%) totalled €13,340.8 million, which is a growth of 1.8% compared to the previous year (pro forma). The K-Plussa customer loyalty programme added 98,902 new households between January and December 2019. The number of K-Plussa households stood at 2.4 million at the end of December and there were 3.5 million K-Plussa cardholders in total.

Finance

The Group's cash flow from operating activities for continuing operations totalled €893.1 million (€748.4 million). The cash flow from operating activities excluding the impact of IFRS 16 was €564.8 million (€437.1 million). Cash flow was strengthened by improved capital efficiency, the €48.3 million (€57.8 million) return of surplus assets paid by Kesko Pension Fund in March 2019, the dividend payment and repayment of capital by Kruunuvuoren Satama Oy in May 2019 totalling €44.1 million, and the dividend of €39.3 million paid by the associate Valluga-sijoitus Oy in H2/2019. The cash flow from operating activities for discontinued operations totalled €3.5 million (€-23.3 million). The Group's cash flow from operating activities totalled €896.6 million (€725.2 million).

The Group's cash flow from investing activities totalled €-616.8 million (€-209.0 million). Kruunuvuoren Satama Oy's ownership arrangement had a €-84.6 million impact on the cash flow from investing activities. Cash flow from investing activities for the comparison year includes the €161.3 million transaction price obtained from the divestment of properties in Russia.

The Group had liquid assets of €169.0 million at the end of the 2019 (€249.6 million). Interest-bearing liabilities at the end of December totalled €3,037.3 million (€2,700.3 million), and interest-bearing net debt €2,868.4 million (€2,450.7 million), of which lease liabilities accounted for €2,422.2 million (€2,289.0 million). Interest-bearing net debt excluding lease liabilities totalled €446.1 million (€161.6 million). The equity ratio was 31.2% (31.9%) at the end of the financial year.

The net finance costs for the Group's continuing operations totalled €91.4 million (€99.7 million), including interests on lease liabilities of €95.4 million (€98.6 million). The share of result of associates and joint ventures was €46.8 million (€-10.1 million). Kruunuvuoren Satama Oy had a €17.8 million impact on the result of associates and joint ventures and a €0.3 million impact on the comparable share of result, taking into account the sales gains and impairment charges related to Kruunuvuoren Satama Oy's ownership arrangement, net €17.4 million. Kruunuvuoren Satama Oy was consolidated in Kesko Group as an associate until 14 June 2019, after which it has been consolidated as a subsidiary in the consolidated financial statements. Other associates had a combined impact of €29.1 million on the result of associates and joint ventures and the impact on the comparable share of result was €0.3 million excluding the sales gains amounting to €28.7 million included in the results of associates and reported as items affecting comparability. Kesko and Oriola's joint venture, the Hehku wellbeing chain, had an impact of €-11.2 million of the share of result of the previous year.

Taxes

The taxes for the Group's continuing operations totalled €69.6 million (€62.1 million). The effective tax rate was 17.3% (21.1%), impacted by the share of result of associates and joint ventures.

Capital expenditure

The capital expenditure for the Group's continuing operations totalled €686.1 million (€417.6 million), or 6.4% (4.0%) of net sales. Capital expenditure in store sites totalled €227.7 million (€111.8 million), in acquisitions €290.5 million (€172.0 million), and in IT €33.9 million (€48.8 million) and other capital expenditure totalled €134.0 million (€85.1 million). Kruunuvuoren Satama Oy's ownership arrangement had an €85.3 million impact on capital expenditure in store sites.

Discontinued operations

The Russian building and home improvement trade operations, discontinued in 2018, are reported as discontinued operations in the consolidated financial statements, and are not included in the figures for the Group's continuing operations or the figures for the building and technical trade for the financial year or the comparison period in this financial statements release. The dissolution of the Russian subsidiaries was completed during the financial year.

Segments

Seasonal nature of operations

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

Grocery trade

	1–12/2019	1–12/2018
Net sales, € million	5,531.2	5,385.7
Operating profit, comparable, € million	327.9	294.5
Operating margin, comparable, %	5.9	5.5
Return on capital employed, comparable, %	14.5	13.1
Capital expenditure, € million	180.8	124.1
Personnel, average	6,063	6,094

Net sales, € million	1–12/2019	1–12/2018	Change, %
Sales to K-food stores			
K-Citymarket, food	1,150.4	1,108.1	+3.8
K-Supermarket	1,417.0	1,377.4	+2.9
K-Market*	1,336.3	1,250.6	+6.9
K-Citymarket, non-food	584.6	581.2	+0.6
Kespro	944.9	871.5	+8.4
Others and eliminations	98.0	196.9	-50.2
Total	**5,531.2**	**5,385.7**	**+2.7**

* The comparable change in net sales attributable to K-Market was +5.3%.

The net sales for the grocery trade amounted to €5,531.2 million (€5,385.7 million), an increase of 2.7%. Net sales grew in all food store chains and Kespro. Net sales development in the K-Market chain was affected by changes in Suomen Lähikauppa's store site network and the transfer of stores to retailers in the first half of 2018. In comparable terms, net sales grew by 3.2%. 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 including in the net sales the comparable months of Reinin Liha and Kalatukku E. Eriksson, both acquired in 2018.

The total grocery market in Finland (incl. VAT) is estimated to have grown by approximately 2.6% (Kesko's own estimate) and retail prices are estimated to have risen by some 1.4% (incl. VAT, Kesko's own estimate based on the price development estimate of the Finnish Grocery Trade Association). K Group's grocery sales grew by 3.7% (incl. VAT), thus clearly exceeding the market growth. K Group's sales grew in all food store chains.

The comparable operating profit for the grocery trade amounted to €327.9 million (€294.5 million), an increase of €33.4 million. Profitability improved in the grocery trade following good sales performance due to the redesign of the store site network and store-specific business ideas, and improved operational efficiency.

Operating profit for the grocery trade totalled €334.6 million (€285.9 million). Items affecting comparability totalled €6.7 million (€-8.7 million). Profits affecting comparability of €5.9 million are related to the consolidation of Kruunuvuoren Satama Oy. Items affecting comparability in the comparison year were mainly related to the restructuring of Suomen Lähikauppa, €-7.6 million.

Capital expenditure for the grocery trade totalled €180.8 million (€124.1 million), of which €157.0 million (€89.5 million) was in store sites. Kruunuvuoren Satama Oy's share of capital expenditure in store sites was €62.8 million. Store redesigns and expansions accounted for 73% of other capital expenditure in store sites.

Building and technical trade

	1–12/2019	1–12/2018
Net sales, € million	**4,331.1**	**4,102.6**
Building and technical trade excl. speciality goods trade	3,984.5	3,728.0
Speciality goods trade	346.7	374.6
Operating profit, comparable, € million	**142.8**	**126.8**
Building and technical trade excl. speciality goods trade	133.3	117.5
Speciality goods trade	9.5	9.3
Operating margin, comparable, %	**3.3**	**3.1**
Building and technical trade excl. speciality goods trade	3.3	3.2
Speciality goods trade	2.7	2.5
Return on capital employed, comparable, %	7.4	7.9
Capital expenditure, € million	332.7	200.7
Personnel, average	12,630	11,668

Net sales, € million	**1–12/2019**	**1–12/2018**	**Change, %**
Building and home improvement trade, Finland	908.4	892.1	+1.8
K-Rauta, Sweden	163.7	174.6	-6.3
K-Bygg, Sweden	132.8	-	-
Byggmakker, Norway	386.9	370.4	+4.4
Kesko Senukai, Baltics	715.5	602.1	+18.8
OMA, Belarus	146.6	128.2	+14.4
Onninen, Finland	909.6	881.4	+3.2
Onninen, Sweden	121.2	150.9	-19.7
Onninen, Norway	237.8	251.9	-5.6
Onninen, Baltics	85.2	77.2	+10.4
Onninen, Poland	237.2	239.0	-0.7
Building and technical trade excl. speciality goods trade total	**3,984.5**	**3,728.0**	**+6.9**
Leisure trade, Finland	203.7	201.6	+1.1
Machinery trade	143.0	173.0	-17.4
Speciality goods trade total	**346.7**	**374.6**	**-7.5**
Total	**4,331.1**	**4,102.6**	**+5.6**

Net sales for the building and technical trade totalled €4,331.1 million (€4,102.6 million), up by 5.6%. In comparable terms, net sales grew by 2.1%. Net sales grew in comparable terms in Finland, the Baltics and Belarus. In Norway and Sweden, net sales increased due to the acquisitions and divestments completed.

The comparable change % has been calculated in local currencies and by including in the net sales the comparable months of Skattum Handel AS, Gipling AS and 1A Group, all acquired in 2018, and excluding the impact of the acquisitions of the DIY business of Sørbø on 31 January 2019 and Fresks Group on 17 May 2019, as well as the impact of the divestments of Onninen AB's HEPAC contractor business on 15 May 2019 and the Finnish agricultural machinery trade on 1 August 2019.

On 31 January 2019, Kesko Corporation subsidiaries Skattum Handel AS and Rake Eiendom AS assumed ownership of the DIY retail business and properties of the Sørbø retailer group in Norway, which had been operating Byggmakker stores under the retailer business model. Kesko Corporation's subsidiary K-rauta AB assumed ownership of Fresks Group on 17 May 2019. A new K-Bygg brand, aimed at professional builders, was launched in Sweden, and Fresks stores serve customers under the new brand. The Finnish agricultural machinery trade operations were divested on 1 August 2019.

In Finland, net sales for the building and technical trade totalled €1,991.6 million (€1,972.0 million), up by 1.0%. In comparable terms, net sales increased by 1.5% in Finland. Net sales from foreign operations amounted to €2,339.6 million (€2,130.6 million) in January-December, an increase of 9.8%. In comparable terms, net sales from foreign operations were up by 2.6%. Foreign operations contributed 54.0% (51.9%) of the net sales for the building and technical trade.

Net sales for the building and technical trade excluding the speciality goods trade totalled €3,984.5 million (€3,728.0 million) in January-December, an increase of 6.9%. In comparable terms, net sales grew by 2.7%.

Net sales for the building and home improvement trade totalled €2,447.8 million (€2,161.8 million), an increase of 13.2%. In comparable terms, net sales grew by 3.3%. Net sales in Finland grew by 1.8% and in the Baltics by 18.8% Net sales increased in local currencies in Belarus by 11.4%, in Norway by 7.2% and in Sweden by 75.1%. In comparable terms, net sales increased by 1.3% in Finland and by 13.3% in the Baltics, and decreased by 3.3% in Sweden and by 7.8% in Norway.

Onninen's net sales amounted to €1,587.7 million (€1,597.3 million), a decrease of 0.6%. In comparable terms, net sales increased by 3.0%. Net sales in Finland grew by 3.2% and in the Baltics by 10.4%. In Poland, net sales in local currency were at the same level as the year before. Net sales decreased in local currencies in Norway by 3.1% and in Sweden by 17.1%. In comparable terms, net sales in Sweden grew by 20.8%, taking into account the divestment of the HEPAC contractor business during the financial year.

Net sales for the speciality goods trade amounted to €346.7 million (€374.6 million) in January-December, a decrease of 7.5%. In comparable terms, net sales decreased by 3.7%. The comparable change % has been calculated by excluding the impact of the Finnish agricultural machinery trade, divested on 1 August 2019. Net sales for the leisure trade totalled €203.7 million (€201.6 million), an increase of 1.1%. Net sales for the machinery trade totalled €143.0 million (€173.0 million) in January-December, down by 17.4%. Net sales for the machinery trade in Finland totalled €13.4 million (€28.2 million), down by 52.5%. The net sales from foreign operations totalled €129.6 million (€144.8 million), down by 10.5%.

The comparable operating profit for the building and technical trade totalled €142.8 million (€126.8 million), up by €16.0 million compared to the previous year. The comparable operating profit for the building and technical trade, excluding the speciality goods trade, totalled €133.3 million (€117.5 million), an increase of €15.7 million. The comparable operating profit for the building and home improvement trade totalled €83.3 million (€72.5 million), up by €10.8 million. Comparable operating profit grew in the building and home improvement trade in Finland, Norway, Sweden and Belarus. Profitability in Norway and Sweden improved due to acquisitions and divestments carried out. In the Baltic States, the comparable operating profit fell short of the level of the comparison period. The acquisitions carried out in 2018 and the first half of 2019 accounted for €13.4 million (€2.1 million) of the comparable operating profit. Onninen's comparable operating profit totalled €50.0 million (€45.0 million). Onninen's comparable operating profit grew in Finland, Sweden and Poland.

In the Baltics, Onninen's comparable operating profit remained at level of the previous year. The comparable operating profit for the speciality goods trade totalled €9.5 million (€9.3 million).

Operating profit of the building and technical trade totalled €127.6 million (€113.3 million). Items affecting comparability totalled €-15.3 million (€-13.5 million). The most significant items affecting comparability were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in Sweden. The most significant items affecting comparability in the comparison period were the €8.1 million costs related to acquisitions and the restructuring of operations in Sweden, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million.

Capital expenditure for the building and technical trade totalled €332.7 million (€200.7 million), of which €60.2 million (€21.8 million) was in store sites and €233.2 million (€159.0 million) in acquisitions. Kruunuvuoren Satama Oy's share of capital expenditure in store sites was €22.4 million. During the reporting year, the acquisitions of Sørbø's DIY retail business in Norway and Fresks Group in Sweden were completed.

Car trade

	1–12/2019	1–12/2018
Net sales, € million	863.9	893.1
Operating profit, comparable, € million	26.8	35.2
Operating margin, comparable, %	3.1	3.9
Return on capital employed, comparable, %	9.5	20.8
Capital expenditure, € million	131.3	49.0
Personnel, average	1,179	835

Net sales, € million	1–12/2019	1–12/2018	Change, %
K-Auto	816.1	830.9	-1.8
AutoCarrera	49.5	63.1	-21.5
Total	**863.9**	**893.1**	**-3.3**

Net sales for the car trade totalled €863.9 million (€893.1 million), a decrease of 3.3%. In comparable terms net sales decreased by 11.6%. Demand in the consumer market in 2019 was affected by uncertainties regarding car taxation and debate over motive power choices as well as changes related to WLTP emissions testing. The comparable change % has been calculated by excluding the impact of the car trade businesses acquired from Huittisten Laatuauto and LänsiAuto on 1 March 2019, and the Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group on 1 July 2019.

The combined market performance of first registrations of passenger cars and vans was -5.4% (1.3%). The combined market share of the Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen and MAN vans imported by the car trade division was 16.9% (18.5%).

The comparable operating profit for the car trade totalled €26.8 million (€35.2 million), down by €8.5 million due to the decline in net sales. The comparable operating profit for AutoCarrera totalled €1.1 million (€4.5 million).

Operating profit for the car trade totalled €25.5 million (€35.1 million). Items affecting comparability totalled €-1.2 million (€-0.1 million), related to the efficiency improvement measures and structural arrangements carried out.

Capital expenditure for the car trade totalled €131.3 million (€49.0 million). The acquisitions of car trade businesses from Huittisten Laatuauto and LänsiAuto and the Volkswagen, Audi and SEAT businesses of Laakkonen Group totalled €57.4 million. Capital expenditure includes cars obtained for the leasing fleet and rental cars sold with repurchase commitments.

Changes in Group composition

Kesko Corporation's subsidiary Byggmakker completed the acquisition of the DIY retail business of Sørbø Trelast AS and Tau & Jørpeland Bygg AS. The transaction included two Byggmakker stores and a B2B logistics centre in Norway.

Kesko Group company K Caara Oy completed the acquisition of Volkswagen and SEAT businesses from Huittisten Laatuauto Oy in Forssa and Huittinen, and Volkswagen, Audi and SEAT businesses from LänsiAuto Oy in Kotka, Kouvola and Lappeenranta.

Kesko Group company K-rauta AB completed the acquisition of Fresks Group from Litorina, Oscarson Invest and the group's management. Fresks Group is a significant operator in the Swedish builders' merchant business. The acquisition significantly strengthens Kesko's market position in Sweden, especially in the growing professional builders customer segment.

Kruunuvuoren Satama Oy became a wholly-owned subsidiary of Kesko Corporation on 14 June 2019 when Kesko Corporation, Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company carried out their agreement to dissolve their joint ownership of Kruunuvuoren Satama Oy.

Kesko Group company K Caara Oy completed the acquisition of the Volkswagen, Audi and SEAT businesses of Laakkonen Group.

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

Main objectives and results achieved in sustainability

Key commitments, policies and principles

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

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

Kesko pays special attention to data protection. We make sure all personal data are secure and used confidentially. Kesko has established processes for handling requests for action and mechanisms for identifying and reporting information leaks.

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

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

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

Kesko in sustainability indices

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

Kesko ranked 99th on the Global 100 list of the Most Sustainable Corporations in the World in 2020 (88th in 2019). Kesko is the only company from the Food and Beverage Retail sector to have made it onto the list in 2020.

In September 2019, Kesko was included in the Dow Jones Sustainability Indices, the DJSI World and the DJSI Europe. Kesko received the industry best overall score in the Environmental Dimension, and the industry best score in Privacy Protection in the Economic Dimension. Kesko has previously been included in the DJSI in 2003–2014 and 2017–2018.

Human rights and purchasing

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

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

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

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

Kesko employs sustainability policies to guide the sourcing of products containing raw materials identified as critical from a social and environmental responsibility perspective. At the end 2019, Kesko had nine sustainability policies, the most recent of which was the cocoa policy published in spring 2019.

Kesko has joined the 2018 Accord on Fire and Building Safety in Bangladesh to improve the safety of factories in the country. Kesko is a member of the Centre for Child Rights and Corporate Social Responsibility (CCR CSR) based in China. In 2019, Kesko together with CCR CSR opened a summer day care facility for the children of migrant workers at a LED site lighting factory in China.

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. Product labelling complies with legislative requirements and the recommendations of authorities. All food product operations have a self-control plan in place, as required by law.

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

Climate and environment

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

Kesko is committed to international climate summit goals regarding the mitigation of global warming, and has set Science Based Targets for emissions from its operations and supply chain. Kesko has committed to reducing its direct and indirect (Scope 1 and 2) emissions by 18% by 2025, using a 2015 base year. Kesko has also committed to reducing other indirect emissions in its supply chain so that 90% of its key suppliers will set emissions reduction targets by 2025.

Kesko participates in efforts to mitigate climate change by increasing the purchase of renewable energy and its own energy production and by promoting energy efficiency. Kesko participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement, according to which Kesko commits to reducing its energy consumption through various savings measures by 7.5%.

All electricity purchased by Kesko for K-stores and other Kesko properties in Finland is produced with renewable energy. As part of its energy strategy, Kesko is building solar power plants at its stores and properties. At the end of 2019, K Group stores and properties hosted 34 solar power plants, with a combined power of some 12 MWp.

During 2019, we began extensive work to identify sustainable products from a climate perspective in each division. Sustainable products by our classification are those with a markedly smaller climate impact than that of comparable products and products that are significant in adjusting to climate change. Our objective is to monitor and report the sales of sustainable products.

Climate related risks and opportunities

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

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

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

Financing linked to sustainability targets

In October 2019, Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million, and has the possibility to draw down more later on.

Personnel

The average number of personnel for the Group's continuing operations was 20,846 (19,579), converted into full-time employees. The growth in personnel numbers is attributable to the acquisitions carried out in Finland, Sweden and Norway. At the end of December 2019, the number of personnel for the Group's continuing operations totalled 25,168 (23,401), of whom 12,657 (11,878) worked in Finland and 12,511 (11,523) outside Finland.

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 HR policy. Each immediate manager is the employer's representative in HR matters.

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

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

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

Compliance programmes

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

Prevention of corruption and bribery

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

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

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

SpeakUp is a confidential reporting channel for both Kesko's partners and personnel, 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. The SpeakUp channel can also be used to report suspected breach of securities market regulation.

Main objectives and results achieved

	Target	Method	Results 2019
Human rights and purchasing	The social responsibility of the production of own direct imports from high-risk countries has been assured	Full amfori BSCI audits conducted at the factories and farms of suppliers in high-risk countries.	180 (190) factories or farms underwent full amfori BSCI audits
		Amfori BSCI follow-up audits conducted at the factories and farms of suppliers in high-risk countries.	172 (135) factories or farms underwent amfori BSCI follow-up audits
		Suppliers in high-risk countries have valid social responsibility audits and certifications.	733 (585) suppliers in high-risk countries had valid social responsibility audits and certifications
Product safety	Products are safe for users and meet quality promises	The manufacturers of own brand food products have international certifications that assure product safety.	605 (521) suppliers had an audit certificate
		The Product Research Unit monitors the safety and quality of own brand products and own imports in the grocery trade.	7,405 (7,678) product samples analysed by the Product Research laboratory and test kitchen
		If a fault is detected in the quality of a product on the market, a recall is made.	164 (182) product recalls, of which 46 (48) K Group's own brand products; 2 (2) public recalls of own brand products (cases where a fault in the product could endanger consumer health)
Climate and environment	Reducing the climate and environmental impacts of Kesko's operations	Kesko has committed to the Energy Efficiency Agreement for the commerce sector in Finland and to reducing its energy consumption by 7.5% between 2017 and 2025.	Energy consumption in properties managed by Kesko in all operating countries (Q4/2018–Q3/2019) 924 (931) GWh
		All electricity purchased by Kesko for K-stores and other Kesko properties in Finland is produced with renewable energy. In recent years, Kesko has been building solar power plants at K Group stores and properties.	Renewable electricity purchases 560 (580) GWh, number of own solar power plants 34 (27) and electricity production 6.8 (4.1) GWh in Finland
		Kesko has set Science Based Targets for reducing emissions from its facilities, transportation, and supply chains. Kesko has committed to reducing its direct and indirect (Scope 1 and 2) emissions by 18% by 2025, using a 2015 base year.	Scope 1 and 2 emissions in all operating countries (Q4/2018–Q3/2019) 118,879 (124,756) tCO_2e
Personnel	Kesko has the professional and committed personnel required to implement its strategy	Employees agree upon their personal objectives together with their managers in accordance with the performance management process.	Objectives set for approximately 85% (80%) of the target group
		Personnel satisfaction and commitment are measured in personnel surveys conducted every other year (last conducted in 2019), with complementary pulse surveys (last conducted in 2018).	Personnel commitment in 2019 was 76% (78%). 76% (76%) of personnel would recommend K Group as an employer (in 2019).
		Active early identification and intervention with regard to sickness absences is used to promote personnel wellbeing and working capacity.	Sickness absences 4.7% (4.7%), premature retirement due to disability 21 (17)
Prevention of corruption and bribery (Governance)	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.	82% (79%) of personnel signed the annual revision of the K Code of Conduct
		SpeakUp is a confidential reporting channel for both personnel and Kesko's partners, meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to Kesko's persons in charge. The SpeakUp channel can also be used to report suspected breach of securities market regulation.	28 (11) notifications received via the SpeakUp channel

Shares, securities market and Board authorisations

At the end of December 2019, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. On 31 December 2019, Kesko Corporation held 931,363 of its own B shares as treasury shares. These treasury shares accounted for 1.36% of the total number of B shares, 0.93% of the total number of shares, and 0.24% of votes attached to all shares in the Company. The total number of votes attached to all shares was 385,652,815. Each A share carries ten (10) votes and each B share one (1) vote. The Company cannot vote with own shares held by it as treasury shares and no dividend is paid on them. At the end of December 2019, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €43.60 at the end of 2018, and €58.80 at the end of December 2019, representing an increase of 34.9%. Correspondingly, the price of a B share was €47.10 at the end of 2018, and €63.08 at the end of December 2019, representing an increase of 33.9%. In 2019, the highest price for an A share was €59.20 and the lowest €42.10. The highest price for a B share was €64.12 and the lowest €45.19. In 2019, the Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 12.2% and the weighted OMX Helsinki Cap index by 13.7%. The Retail Sector Index was up by 34.4%.

At the end of December 2019, the market capitalisation of the A shares was €1,866.1 million. The market capitalisation of the B shares was €4,248.5 million, excluding the shares held by the parent company. The combined market capitalisation of the A and B shares was €6,114.7 million, an increase of €1,562.0 million from the end of 2018.

In 2019, a total of 6.7 million A shares were traded on Nasdaq Helsinki. The exchange value of the A shares was €329.7 million. Meanwhile, 45.5 million B shares were traded, with an exchange value of €2,459.8 million. Nasdaq Helsinki accounted for approximately 66.0% of the trading on Kesko's A and B shares in 2019. Kesko shares were also traded on multilateral trading facilities, the most significant of which was Cboe (source: Euroland).

The Board holds a valid authorisation to decide on the transfer of a maximum of 1,000,000 own B shares held by the Company as treasury shares (2016 Share issue authorisation). On 5 February 2019, the Board decided, based on this authorisation and the fulfilment of the performance criteria for the 2017–2018 performance period of Kesko's share-based commitment and incentive plan (PSP), to transfer own B shares held by the Company as treasury shares to persons included in the target group for the plan. This transfer of a total of 71,432 own B shares was communicated in stock exchange releases on 6 February 2019 and 20 March 2019.

Kesko Corporation's Annual General Meeting of 8 April 2019 resolved that approximately 30% of the annual fees to the members of Kesko's Board of Directors be paid in B series shares in the Company (Stock exchange release 8 April 2019). According to the resolution by the Annual General Meeting, the shares will be acquired or transferred to the Board members on the first working day to follow the publication of the interim report for the first quarter of 2019. Kesko's Board of Directors decided to implement the resolution of the General Meeting regarding the payment of the share portion of the annual remuneration by transferring B shares held by the Company as treasury shares to the Board members based on the 2016 Share issue authorisation (Stock exchange release 25.4.2019). These shares, totalling 2,378, were transferred to the Company's Board members on 26 April 2019 (Stock exchange release 26.4.2019). A Board member cannot transfer shares obtained in this manner until either three years have passed from the day the member has received the shares or their membership on the Board has ended, whichever comes first.

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. The new share-based compensation scheme was communicated in a stock exchange release on 2 February 2017, and the realisation of the Bridge Plan in a stock exchange release on 1 February 2018.

The Board of Directors of Kesko Corporation decided on 20 March 2018 to initiate a performance share plan (PSP) for 2018–2021. The Board of Directors also decided that the target group for the plan will comprise some 130 members of Kesko's management and other specified key persons. The Board of Directors decided to set the development of Kesko Group's comparable tax-free sales (%), Kesko Group's comparable return on capital employed (ROCE, %) and the absolute total shareholder return (TSR, %) of a Kesko B share as the performance criteria for the 2018 calendar year. A maximum total of 340,000 Kesko B shares may be granted in relation to the PSP 2018–2021. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Corporation's Board of Directors also decided on initiating an RSP (Restricted Share Pool) plan for 2018–2020. The plan includes a three-year commitment period, after which the potentially granted share awards for an individual plan will be paid to the participants in Kesko B shares, provided that their employment or service relationships with Kesko Group continue until the payment of the awards. The purpose of the RSP plan is to serve as a complementary long-term share plan to be used as a commitment instrument for selected key persons in special situations. In addition to the above employment precondition, Kesko may set participant-specific or company-specific criteria, the fulfilment of which is a precondition for the payment of restricted share awards. The total maximum amount of share awards payable under the RSP 2018–2020 is 20,000 Kesko B shares. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Any potential share awards from the RSP initiated in 2018 will be paid out in the spring of 2021. The PSP 2018–2021 and RSP 2018–2020 share plans were communicated in a stock exchange release on 21 March 2018.

The Board of Directors of Kesko Corporation decided on 19 March 2019 to initiate a performance share plan (PSP) for 2019–2022. The Board of Directors also decided that the target group for the plan will comprise some 130 members of Kesko's management and other specified key persons. The Board decided to set the development of Kesko Group's comparable tax free sales (%), Kesko Group's comparable return on capital employed (ROCE, %) and the absolute total shareholder return (TSR, %) of a Kesko B share as the performance criteria for the 2019 calendar year, matching the 2018 criteria. The performance criteria concern the performance year 2019 of the PSP 2018–2021 and PSP 2019–2022.

A maximum total of 310,000 Kesko B shares may be granted in relation to the PSP 2019–2022. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Corporation's Board of Directors also decided on initiating an RSP (Restricted Share Pool) plan for 2019–2021. The plan includes a three-year commitment period, after which the potentially granted share awards for an individual plan will be paid to the participants in Kesko B shares, provided that their employment or service relationships with Kesko Group continue until the payment of the awards. The purpose of the RSP plan is to serve as a complementary long-term share plan to be used as a commitment instrument for selected key persons in special situations. In addition to the above employment precondition, Kesko may set participant-specific or company-specific criteria, the fulfilment of which is a precondition for the payment of restricted share awards. The total maximum amount of share awards payable under the RSP 2019–2021 is 20,000 Kesko B shares. This number of shares represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Any potential share awards from the RSP beginning in 2019 will be paid out in the spring of 2022. The new PSP 2019–2022 and RSP 2019–2021 share plans were communicated in a stock exchange release on 20 March 2019.

In 2019, a total of 3,774 shares were returned to the Company in accordance with the terms and conditions of the share-based compensation plan 2014–2016, the Bridge Plan 2017–2020, and the performance share plan PSP 2017. The returns during the reporting year were communicated in stock exchange releases on 8 March 2019, and 14 June 2019 and 24 September 2019. The share-based compensation plan 2014–2016 was announced in a stock exchange release on 4 February 2014, and the Bridge Plan and the PSP 2017 were announced in a stock exchange release on 2 February 2017.

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

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

The Board of Directors of Kesko Corporation decided in its meeting on 24 April 2018 to use the authorisation granted by the General Meeting of 11 April 2018 to acquire B shares in the Company, and established a temporary share buy-back programme for the purpose. The shares were acquired to fulfil obligations related to the Company's share-based commitment and incentive plans. The acquisitions of the shares began on 26 April 2018 and ended on 18 May 2018. During that time, Kesko acquired 500,000 of its own B series shares for an average price per share of €48.83. Following the acquisitions, Kesko held a total of 996,325 of its own B shares, which represents approximately 1.00 per cent of all shares in Kesko Corporation and 1.46 per cent of Kesko Corporation's B series shares. (Stock exchange releases 25.4.2018 and 21.5.2018)

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

At the end of December 2019, the number of shareholders was 41,175, which is 430 more than at the end of 2018. At the end of December, foreign ownership of all shares was 36.35%, and foreign ownership of B shares 52.11%.

Flagging notifications

According to a notification received by Kesko Corporation, on 28 May 2019, Ilmarinen Mutual Pension Insurance Company's holding exceeded the threshold of five (5) per cent for shares and ten (10) per cent for voting rights in Kesko. (Stock exchange release 28.5.2019)

According to a notification received by Kesko Corporation, Kruunuvuoren Satama Oy's holding of shares and voting rights in Kesko decreased to zero due to a share transaction carried out on 28 May 2019. (Stock exchange release 28.5.2019)

According to a notification received by Kesko Corporation, on 30 August 2019, K-Retailers' Association's holding exceeded the threshold of five (5) per cent for shares in Kesko. (Stock exchange release 30.8.2019)

According to a notification received by Kesko Corporation, on 28 October 2019, Ilmarinen Mutual Pension Insurance Company's holding in Kesko fell below the threshold of five (5) per cent for shares. (Stock exchange release 29.10.2019)

Key events during the financial year

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

Kesko Group company K Caara Oy completed the acquisitions of the Volkswagen and SEAT businesses of Huittisten Laatuauto Oy in Forssa and Huittinen, and the Volkswagen, Audi and SEAT businesses of LänsiAuto Oy in Kotka, Kouvola and Lappeenranta. (Press release 1.3.2019)

Kesko Corporation agreed to sell Onninen AB's HEPAC contractor business in Sweden to Solar A/S. The transaction was completed on 15 May 2019. (Press releases 12.3.2019 and 15.5.2019)

Kesko Group company K-rauta AB agreed to acquire Fresks Group, a significant building material retailer in Sweden. The transaction was completed on 17 May 2019. (Press releases 29.3.2019 and 17.5.2019)

The new medium-term financial targets for profitability, as approved by the Board of Directors of Kesko Corporation, are a comparable operating margin of 5.0% and a comparable return on capital employed of 11.0%. The profitability targets take into account the impacts of IFRS 16 Leases. In terms of financial position, as before, the Group uses interest-bearing net debt/EBITDA and targets a maximum level of 2.5, excluding the impact of IFRS 16. (Stock exchange release 25.4.2019)

Kesko Group company K Caara Oy agreed to acquire the Volkswagen, Audi and SEAT businesses of Laakkonen Group. The combined pro forma net sales of the businesses totalled some €259 million in 2018 and operating profit €5.4 million. The 470 employees of the businesses transferred to Kesko. The transaction was completed on 1 July 2019. (Press releases 25.4.2019 and 1.7.2019)

Kesko agreed to acquire the wholesaler Heinon Tukku Oy from the family-owned company Tukkuheino Oy and private individuals to implement Kesko's growth strategy and increase its offering in the growing foodservice market. The Finnish Competition and Consumer Authority (KKV) announced on 13 September 2019 that it would extend the investigation of the matter until 31 October 2019. On 18 November 2019, KKV proposed to the Market Court that the transaction be prohibited. Proceedings concerning the acquisition continue in the Market Court, which is expected to issue a decision on the matter within three months. (Press releases 17.5.2019 and 18.11.2019)

Kesko Corporation, Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company agreed on 28 May 2019 to dissolve their joint ownership of Kruunuvuoren Satama Oy. Ilmarinen furthermore acquired the 3,438,885 Kesko A shares held by Kruunuvuoren Satama Oy. Kruunuvuoren Satama Oy became a wholly-owned subsidiary of Kesko Corporation on 14 June 2019. (Stock exchange release 28.5.2019)

Konekesko Oy and Danish Agro Machinery A/S, a Danish Agro Group company, agreed that Konekesko's Finnish agricultural machinery trade operations were to be transferred to Danish Agro Machinery's Finnish subsidiary Finnish Agro Machinery on 1 August 2019. (Press release 3.7.2019)

The codetermination negotiations of the car importer K-Auto and the car retailer K-Caara, initiated in August, were concluded. As a result of the negotiations, the personnel numbers of both companies were adjusted and changes were made to the organisational structures. The employment of some 100 people in total was terminated. (Press release 4.10.2019)

Kesko made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on Kesko's ability to meet the sustainability targets set for its carbon footprint, food waste, and audits in high-risk countries. Kesko drew down €300 million, and has the possibility to draw down more later on. (Press release 7.10.2019)

Kesko Corporation reorganised its Legal Affairs function. Lasse Luukkainen, Master of Laws, 41, was appointed Kesko's Group General Counsel as of 1 January 2020. He will also act as Company Secretary for Kesko's Board of Directors and its Committees and the Group Management Board. Luukkainen reports to President and CEO Mikko Helander. Kesko's previous Group General Counsel and member of Group Management Board Mika Majoinen left the company. (Stock exchange release 13.12.2019)

Resolutions of the 2019 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting was held on 8 April 2019. The meeting adopted the financial statements and consolidated financial statements for 2018 and discharged the Board members and the Managing Director from liability. The Annual General Meeting resolved to distribute a dividend of €2.34 per share on shares held outside the Company, to be paid in two instalments of €1.17. The first dividend instalment record date was 10 April 2019 and pay date 17 April 2019. The second dividend instalment record date was 10 October 2019 and pay date 17 October 2019.

The Annual General Meeting resolved that the number of Board members be seven (7). Retailer Esa Kiiskinen (Chairman), Peter Fagernäs, Master of Laws (Deputy Chairman), Jannica Fagerholm, Master of Science (Economics), Piia Karhu, Doctor of Science (Economics and Business Administration), Matti Kyytsönen, Master of Science (Economics), retailer Matti Naumanen, and retailer Toni Pokela, eMBA continue as Board members. The Board members were elected by the 2018 Annual General Meeting to serve the three-year terms provided in the Company's Articles of Association, ending at the close of the 2021 Annual General Meeting. The Annual General Meeting resolved to keep the Board members' fees unchanged.

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

The Annual General Meeting resolved to amend section 6 "Auditor", section 9 "Notice of the General Meeting", and section 10 "Annual General Meeting" of the Company's Articles of Association in accordance with the Board's proposal.

The Annual General Meeting also approved the Board's proposal to authorise the Board to decide on the donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2020, and to decide on the donation recipients, purposes of use and other terms of the donations.

The Board of Kesko Corporation elects its Chairman and Deputy Chairman for the Board's whole three-year term of office, and the Chairmen, Deputy Chairmen and members of the Committees for one year at a time. In the organisational meeting held by the Board after the Annual General Meeting of 11 April 2018, the Board elected Esa Kiiskinen as Chairman and Peter Fagernäs as Deputy Chairman. The Board of did not make changes to the compositions of its Audit Committee or Remuneration Committee in its organisational meeting held after the Annual General Meeting on 8 April 2019. Jannica Fagerholm was elected as Chairman of the Board's Audit Committee, Matti Kyytsönen as Deputy Chairman, and Piia Karhu as a Committee member. Esa Kiiskinen was elected as Chairman of the Board's Remuneration Committee, Peter Fagernäs as Deputy Chairman, and Matti Kyytsönen as a Committee member.

The resolutions of the Annual General Meeting and the decisions of the Board's organisational meeting were communicated in more detail in stock exchange releases on 8 April 2019.

Information contained in the notes to the financial statements

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

Related party transactions are disclosed in note 5.3.

Risk management

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

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

The following describes the risks and uncertainties assessed as significant.

Significant risks and uncertainties

Economic slowdown

There are uncertainties related to the outlook for economic growth in Kesko's operating countries. A significant weakening in the economy would impact especially the car trade, and the construction market. In the grocery trade, an economic slowdown would shift emphasis in consumer behaviour more towards price.

Critical information falling into the wrong hands

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

Integration of acquisitions in the building and technical trade

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

Market for the car trade

Uncertainty among consumers regarding the motive power choices and resale value of cars, and potential changes in car taxation can weaken the market for the car trade.

Business interruptions and information system failures

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

Staff availability

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. In the greater Helsinki region, there are difficulties in obtaining skilled workers for logistics and stores.

Product safety

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

Compliance with laws and agreements

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

Store sites and properties

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

Responsible operating practices and reputation management

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

Climate change

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

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 trust and in possible sanctions. Significant business arrangements, tight disclosure schedules and dependency on information systems create challenges for the accuracy of financial information.

Risks of damage

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

Outlook

Estimates for the outlook for the net sales and comparable operating profit for Kesko Group's continuing operations are given for the 12-month period following the reporting period (1/2020–12/2020) in comparison with the 12 months preceding the end of the reporting period (1/2019–12/2019). The outlook estimate includes the impact of IFRS 16 Leases on the Group's comparable operating profit for both the 12-month period following the reporting period as well as the 12-month period preceding the reporting period.

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. Uncertainty related to general economic development has grown in Kesko's operating countries and the pace of economic growth is expected to slow down. In the Finnish grocery trade, intense competition is expected to continue, but the market is expected to grow. In the Northern European construction market, volumes in new housing construction have returned to normal from the high levels of top years, and the focus is expected to shift to renovation building and business premises construction. In the Finnish car trade, the market is expected to be slightly lower than the long-term average.

Kesko continues the determined customer-oriented transformation of its business and execution of its strategy. In comparable terms, the net sales for continuing operations for the next 12 months are expected to exceed the level of the previous 12 months. The comparable operating profit for continuing operations for the next 12-month period is expected to exceed the level of the preceding 12 months.

Proposal for profit distribution

The Board of Directors of Kesko Corporation proposes to the Annual General Meeting to be held on 30 March 2020 that based on the adopted balance sheet, a dividend of €2.52 per share be paid for the year 2019 on shares held outside the Company at the date of dividend distribution. The remaining distributable assets will remain in equity. The Board proposes that the dividend be paid in two instalments.

The first instalment, €1.28 per share, is to be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the first dividend instalment payment record date 1 April 2020. The Board proposes that the first dividend instalment pay date be 8 April 2020.

The second instalment is to be paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the second dividend instalment payment record date, 1 October 2020. The Board also proposes to the Annual General Meeting a resolution on a share issue without payment. If the Board proposal concerning a share issue without payment is approved, the second instalment will be divided between one current and three new shares, so that a dividend of €0.31 per share is paid on each share. If the Annual General Meeting does not approve the Board proposal concerning a share issue without payment, the second dividend instalment will be paid as the first, i.e. €1.24 per share. The Board proposes 8 October 2020 as the second dividend instalment pay date. The Board proposes that it be authorised to decide, if necessary, on a new dividend payment record date and pay date for the second instalment if the rules and statutes of the Finnish book-entry system change or otherwise so require.

As at the date of the proposal for the distribution of profit, 4 February 2020, a total of 99,088,389 shares were held outside the Company, and the corresponding total amount of dividends is €249,702,740.28.

The distributable assets of Kesko Corporation total €1,447,026,389.20, of which profit for the financial year is €393,877,216.77.

Annual General Meeting

The Board of Directors has decided to convene the Annual General Meeting of shareholders at Messukeskus in Helsinki on 30 March 2020 at 13.00 (EET). Kesko Corporation will publish a notice of the General Meeting at a later date.

Group's key performance indicators

		Group		Continuing operations		
					IFRS 16 applied	
		2015	2016	2017	2018	2019
Income statement						
Net sales	€ million	8,678.9	10,180.4	10,491.8	10,382.8	10,720.3
Change in net sales	%	-4.3	17.3	3.1	-1.0	3.3
Operating profit, comparable	€ million	244.5	272.9	296.2	428.5	461.6
Operating profit as percentage of net sales, comparable	%	2.8	2.7	2.8	4.1	4.3
Operating profit	€ million	194.6	146.8	338.6	404.3	447.8
Operating profit as percentage of net sales	%	2.2	1.4	3.2	3.9	4.2
Profit for the year (incl. non-controlling interests)	€ million	117.4	113.8	284.5	232.4	333.6
Profit for the year as percentage of net sales	%	1.4	1.1	2.7	2.2	3.1
Profitability						
Return on equity, group	%	5.2	5.2	12.3	8.7	16.6
Return on equity, comparable, group	%	8.2	9.8	10.9	12.5	15.1
Return on capital employed	%	9.3	6.4	15.2	9.2	9.3
Return on capital employed, comparable	%	11.7	11.9	13.3	9.8	9.6
Funding and financial position						
Interest-bearing net debt, group	€ million	-448.1	123.3	135.9	2,450.7	2,868.4
Interest-bearing net debt excluding lease liabilities	€ million	-448.1	123.3	135.9	161.6	446.1
Gearing, group	%	-20.0	5.8	6.1	121.3	134.0
Equity ratio, group	%	54.7	48.6	50.4	31.9	31.2
Interest-bearing net debt/EBITDA excluding the impact of IFRS 16, group		-1.4	0.4	0.3	0.4	0.9

		Group		Continuing operations		
					IFRS 16 applied	
		2015	2016	2017	2018	2019
Other performance indicators						
Capital expenditure	€ million	219.0	743.1	333.5	417.6	686.1
Capital expenditure as percentage of net sales	%	2.5	7.3	3.2	4.0	6.4
Cash flow from operating activities	€ million	276.4	170.2	291.8	748.4	893.1
Cash flow from investing activities	€ million	217.1	-501.1	-71.5	-373.3	-620.3
Cash flow from operating activities, discontinued operations	€ million	-	-	9.9	-23.3	3.5
Cash flow from investing activities, discontinued operations	€ million	-	-	-16.8	164.3	3.5
Personnel, average for the period, group total		18,956	22,475	22,077	19,995	20,852
Personnel, as at 31 Dec., group total		21,935	27,656	24,984	23,458	25,168

		2015	2016	2017	2018 (IFRS 16 applied)	2019 (IFRS 16 applied)
Share performance indicators						
Earnings/share, basic and diluted						
Continuing operations	€	-	-	2.75	2.16	3.31
Discontinued operations	€	-	-	-0.16	-0.56	0.12
Group total	€	1.03	0.99	2.59	1.59	3.42
Earnings/share, comparable, basic						
Continuing operations	€	-	-	2.29	2.45	2.97
Group total	€	1.70	2.01	-	-	-
Equity/share	€	21.82	20.44	21.45	19.33	20.44
Dividend/share	€	2.50	2.00	2.20	2.34	2.52*
Payout ratio	%	243.8	201.3	84.9	145.2	74.8*
Payout ratio, comparable	%	146.7	99.5	96.6	95.8	80.3*
Cash flow from operating activities/share, adjusted, group total	€	2.79	1.72	3.03	7.31	9.05
Cash flow from operating activities/share, adjusted, continuing operations	€	-	-	-	7.55	9.01
Price/earnings ratio (P/E), A share, adjusted		30.35	44.14	17.01	27.05	17.44
Price/earnings ratio (P/E), B share, adjusted		31.57	47.80	17.45	29.22	18.71
Effective dividend yield, A share	%	8.0	4.6	5.0	5.4	4.3*
Effective dividend yield, B share	%	7.7	4.2	4.9	5.0	4.0*

		2015	2016	2017	2018	2019
Share price as at 31 Dec.						
A share	€	31.12	43.85	44.10	43.60	58.80
B share	€	32.37	47.48	45.25	47.10	63.08
Average share price						
A share	€	31.85	37.30	43.62	47.21	49.23
B share	€	33.52	39.03	44.52	48.68	54.28
Market capitalisation as at 31 Dec., A share	€ million	987.7	1,391.7	1,399.6	1,383.7	1,866.1
Market capitalisation as at 31 Dec., B share	€ million	2,181.9	3,206.6	3,064.3	3,169.0	4,248.5
Turnover						
A share	Million pcs	2	2	1	1	7
B share	Million pcs	59	52	49	52	46
Relative turnover rate						
A share	%	7.5	5.4	4.0	4.6	21.1
B share	%	87.0	74.3	70.9	75.9	67.5
Diluted average number of shares	Thousand pcs	99,114	99,249	99,426	99,182	99,074
Yield of A share for the past five financial years	%	2.3	17.8	18.4	16.0	21.6
Yield of B share						
For the past five financial years	%	3.0	18.6	18.5	17.6	21.7
For the past ten financial years	%	7.7	6.6	6.8	15.6	15.7

* Proposal to the General Meeting

Net sales by segment

€ million	1–12/2019	1–12/2018	Change, %
Grocery trade, Finland	5,531.2	5,385.7	2.7
Grocery trade, total	**5,531.2**	**5,385.7**	**2.7**
- of which intersegment trade	10.2	5.8	75.7
Building and technical trade, Finland	1,991.6	1,972.0	1.0
Building and technical trade, other countries*	2,339.6	2,130.6	9.8
Building and technical trade, total	**4,331.1**	**4,102.6**	**5.6**
- of which intersegment trade	-0.6	0.1	(..)
Car trade, Finland	863.9	893.1	-3.3
Car trade, total	**863.9**	**893.1**	**-3.3**
- of which intersegment trade	3.4	1.6	(..)
Common functions and eliminations	-5.9	1.4	(..)
Finland, total	**8,380.7**	**8,252.2**	**1.6**
Other countries, total*	**2,339.6**	**2,130.6**	**9.8**
Continuing operations, total	**10,720.3**	**10,382.8**	**3.3**

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

Operating profit by segment

€ million	1–12/2019	1–12/2018	Change
Grocery trade	334.6	285.9	48.7
Building and technical trade	127.6	113.3	14.2
Car trade	25.5	35.1	-9.5
Common functions and eliminations	-39.9	-30.0	-9.9
Continuing operations, total	**447.8**	**404.3**	**43.5**

Comparable operating profit by segment

€ million	1–12/2019	1–12/2018	Change
Grocery trade	327.9	294.5	33.4
Building and technical trade	142.8	126.8	16.0
Car trade	26.8	35.2	-8.5
Common functions and eliminations	-35.9	-28.1	-7.8
Continuing operations, total	**461.6**	**428.5**	**33.1**

Group's performance indicators by quarter

	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Net sales, continuing operations, € million	2,413.2	2,672.7	2,641.8	2,655.1	2,400.8	2,781.4	2,803.9	2,734.2
Change in net sales, continuing operations, %	-5.7	-3.3	1.8	3.1	-0.5	4.1	6.1	3.0
EBITDA, comparable, € million	170.7	221.9	251.0	232.1	173.4	242.2	275.4	258.0
Operating profit, continuing operations, € million	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Operating margin, continuing operations, %	2.5	4.0	5.1	3.9	2.1	4.3	5.3	4.7
Operating profit, comparable, continuing operations, € million	63.8	113.2	137.0	114.5	57.5	122.5	152.0	129.7
Operating margin, comparable, continuing operations, %	2.6	4.2	5.2	4.3	2.4	4.4	5.4	4.7
Finance income/costs, continuing operations, € million	-25.3	-26.1	-25.3	-23.1	-23.7	-23.1	-23.3	-21.3
Interest expense for lease liabilities, € million	-25.4	-25.2	-25.0	-23.1	-24.6	-24.2	-23.1	-23.5
Profit before tax, continuing operations, € million	34.9	77.5	108.5	73.6	28.8	114.1	154.8	105.7
Profit before tax, continuing operations, %	1.4	2.9	4.1	2.8	1.2	4.1	5.5	3.9
Return on capital employed, continuing operations, %	5.6	9.9	12.2	9.2	4.5	10.3	12.0	10.1
Return on capital employed, comparable, continuing operations, %	5.9	10.6	12.5	10.2	5.1	10.5	12.3	10.2
Return on equity, %	0.9	6.8	17.0	11.2	4.3	20.3	25.7	17.7
Return on equity, comparable, %	5.7	13.5	17.9	14.5	5.4	17.7	20.7	17.8
Cash flow from operating activities/share, continuing operations, €	1.17	2.17	2.10	2.11	1.59	2.74	1.93	2.76
Equity ratio, %	31.4	29.3	30.8	31.9	31.8	27.9	29.6	31.2
Capital expenditure, continuing operations, € million	54.5	74.2	221.2	67.7	97.3	373.4	132.2	83.3
Earnings/share, basic and diluted, €								
Continuing operations	0.31	0.51	0.79	0.55	0.28	0.86	1.27	0.90
Discontinued operations	-0.24	-0.28	-0.03	-0.02	0.00	0.11	-0.01	0.02
Group total	0.07	0.23	0.76	0.53	0.27	0.97	1.26	0.92
Earnings/share, basic and diluted, comparable €								
Continuing operations	0.34	0.60	0.81	0.70	0.33	0.73	1.01	0.90
Equity/share, €	19.81	18.14	19.04	19.33	19.79	18.44	19.69	20.44

Net sales by segment

€ million	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
Grocery trade	1,276.2	1,327.3	1,352.4	1,429.8	1,263.9	1,408.6	1,402.7	1,456.0
Building and technical trade	877.3	1,101.7	1,089.0	1,034.6	937.6	1,161.8	1,180.1	1,051.6
Car trade	258.9	243.6	200.3	190.2	200.5	211.9	222.9	228.5
Common functions and eliminations	0.8	0.1	0.1	0.5	-1.2	-1.0	-1.8	-1.9
Continuing operations, total	**2,413.2**	**2,672.7**	**2,641.8**	**2,655.1**	**2,400.8**	**2,781.4**	**2,803.9**	**2,734.2**

Operating profit by segment

€ million	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
Grocery trade	54.1	65.0	80.2	86.7	56.8	85.6	93.7	98.5
Building and technical trade	2.7	38.2	52.0	20.4	-2.1	43.7	57.7	28.4
Car trade	11.1	8.9	8.0	7.0	7.6	4.9	4.9	8.0
Common functions and eliminations	-7.5	-6.3	-5.9	-10.3	-10.7	-14.3	-7.8	-7.1
Continuing operations, total	**60.4**	**105.8**	**134.3**	**103.8**	**51.6**	**119.9**	**148.6**	**127.8**

Items in operating profit affecting comparability

€ million	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
Grocery trade	-1.2	-4.5	-1.1	-1.9	0.0	6.6	0.3	-0.2
Building and technical trade	-2.0	-2.4	-1.3	-7.8	-5.4	-4.7	-2.6	-2.6
Car trade	-	-	-	-0.1	-0.1	-0.1	-0.1	-1.0
Common functions and eliminations	-0.3	-0.5	-0.3	-0.8	-0.4	-4.3	-1.0	1.8
Continuing operations, total	**-3.4**	**-7.5**	**-2.7**	**-10.7**	**-5.8**	**-2.6**	**-3.5**	**-1.9**

Comparable operating profit by segment

€ million	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
Grocery trade	55.2	69.5	81.3	88.6	56.8	79.0	93.5	98.6
Building and technical trade	4.7	40.6	53.3	28.3	3.2	48.4	60.3	30.9
Car trade	11.1	8.9	8.0	7.2	7.7	5.0	5.0	9.0
Common functions and eliminations	-7.2	-5.7	-5.6	-9.5	-10.3	-10.0	-6.7	-8.9
Continuing operations, total	**63.8**	**113.2**	**137.0**	**114.5**	**57.5**	**122.5**	**152.0**	**129.7**

Calculation of performance indicators

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

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

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

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

Profitability

Operating profit, comparable	Operating profit +/– items affecting comparability
Items affecting comparability	– gains on disposal + losses on disposal + impairment charges +/- structural arrangements
Return on equity, %	(Profit/loss before tax – Income tax) x 100 / Shareholders' equity, average of the beginning and end of the financial year
Return on equity, comparable, %	(Profit/loss adjusted for items affecting comparability before tax – Income tax adjusted for the tax effect of the items affecting comparability) x 100 / Shareholders' equity, average of the beginning and end of the financial year
Return on capital employed, %	Operating profit x 100 / (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months
Return on capital employed, comparable, %	Comparable operating profit x 100 / (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months
EBITDA	Operating profit + Depreciation and amortisation + Impairment charges
Interest-bearing net debt / EBITDA excluding the impact of IFRS 16	Interest-bearing net debt excluding lease liabilities / EBITDA excluding the impact of IFRS 16

Funding, capital expenditure and financial position

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

Share performance indicators

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

Reconciliation of performance indicators to IFRS financial statements

€ million	1–12/2019	1–12/2018
Continuing operations		
Items affecting comparability		
Gains on disposal	4.6	6.7
Losses on disposal	-0.9	-0.1
Impairment charges	-	-5.6
Structural arrangements	-17.5	-25.3
Items in operating profit affecting comparability	**-13.8**	**-24.2**
Items in financial items affecting comparability	46.3	-6.5
Items in income taxes affecting comparability	0.4	4.5
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.2
Total items affecting comparability	**32.9**	**-29.4**
Items in EBITDA affecting comparability	**-14.5**	**-9.2**
Operating profit, comparable		
Operating profit	447.8	404.3
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Operating profit, comparable	**461.6**	**428.5**
EBITDA		
Operating profit	447.8	404.3
Plus		
Depreciation and impairment charges	-161.5	142.1
Depreciation and impairment charges for right-of-use assets	-325.0	320.3
EBITDA	**934.4**	**866.6**

€ million	1–12/2019	1–12/2018
EBITDA, comparable		
EBITDA	934.4	866.6
Net of		
Items in EBITDA affecting comparability	-14.5	-9.2
EBITDA, comparable	**948.9**	**875.8**
Profit before tax, comparable		
Profit before tax	403.3	294.5
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Items in financial items affecting comparability	46.3	-6.5
Profit before tax, comparable	**370.7**	**325.2**
Net profit, comparable		
Comparable profit before tax	370.7	325.2
Net of		
Income tax	69.6	62.1
Items in income taxes affecting comparability	0.4	4.5
Net profit, comparable	**300.7**	**258.7**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	300.7	258.7
Net profit attributable to non-controlling interests	6.0	18.5
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.2
Net profit attributable to owners of the parent, comparable	**294.7**	**243.4**

€ million	1–12/2019	1–12/2018
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	294.7	243.4
Average number of shares, basic, 1,000 pcs	99,074	99,182
Earnings/share, comparable, €	**2.97**	**2.45**
Return on capital employed, %		
Operating profit	447.8	404.3
Capital employed, average	4,803.3	4,383.8
Return on capital employed, %	**9.3**	**9.2**
Return on capital employed, comparable, %		
Operating profit, comparable	461.6	428.5
Capital employed, average	4,803.3	4,383.8
Return on capital employed, comparable, %	**9.6**	**9.8**
Group		
Return on equity, %		
Net profit	345.2	176.5
Equity, average	2,080.9	2,039.0
Return on equity, %	**16.6**	**8.7**
Return on equity, comparable, %		
Net profit, comparable	313.2	255.8
Equity, average	2,080.9	2,039.0
Return on equity, comparable, %	**15.1**	**12.5**
Equity ratio, %		
Shareholders' equity	2,140.8	2,021.1
Total assets	6,899.3	6,366.8
Advances received	34.6	26.0
Equity ratio, %	**31.2**	**31.9**

Reconciliation of performance indicators to IFRS financial statements by quarter

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Continuing operations								
Items affecting comparability								
Gains on disposal	2.5	4.3	0.0	0.0	0.0	1.0	0.4	3.3
Losses on disposal	0.0	-	0.0	-	-0.0	-	-	-0.9
Impairment charges	-	-3.4	-	-2.2	-	-	0.0	-
Structural arrangements	-5.8	-8.4	-2.6	-8.5	-5.8	-3.5	-3.8	-4.3
Items in operating profit affecting comparability	**-3.4**	**-7.5**	**-2.7**	**-10.7**	**-5.8**	**-2.6**	**-3.5**	**-1.9**
Items in financial items affecting comparability	-	-	-	-6.5	-	17.4	29.0	-0.1
Items in income taxes affecting comparability	0.4	2.0	0.3	1.8	0.1	-1.5	0.5	1.3
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.7	0.5	-	-	-	-	-
Total items affecting comparability	**-3.0**	**-9.2**	**-1.8**	**-15.4**	**-5.8**	**13.4**	**26.0**	**-0.7**
Items in EBITDA affecting comparability	**-1.5**	**-1.2**	**-2.5**	**-4.0**	**-5.6**	**-5.4**	**-2.0**	**-1.5**
Operating profit, comparable								
Operating profit	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Net of								
Items in operating profit affecting comparability	-3.4	-7.5	-2.7	-10.7	-5.8	-2.6	-3.5	-1.9
Operating profit, comparable	**63.8**	**113.2**	**137.0**	**114.5**	**57.5**	**122.5**	**152.0**	**129.7**
EBITDA								
Operating profit	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Plus								
Depreciation and impairment charges	31.0	36.3	34.5	40.2	35.3	41.1	41.7	43.4
Depreciation and impairment charges for right-of-use assets	77.9	78.7	79.7	84.0	80.8	75.8	83.1	85.4
EBITDA	**169.2**	**220.7**	**248.6**	**228.1**	**167.8**	**236.8**	**273.3**	**256.5**
EBITDA, comparable								
EBITDA	169.2	220.7	248.6	228.1	167.8	236.8	273.3	256.5
Net of								
Items in EBITDA affecting comparability	-1.5	-1.2	-2.5	-4.0	-5.6	-5.4	-2.0	-1.5
EBITDA, comparable	**170.7**	**221.9**	**251.0**	**232.1**	**173.4**	**242.2**	**275.4**	**258.0**

€ million	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
Profit before tax, comparable								
Profit before tax	34.9	77.5	108.5	73.6	28.8	114.1	154.8	105.7
Net of								
Items in operating profit affecting comparability	-3.4	-7.5	-2.7	-10.7	-5.8	-2.6	-3.5	-1.9
Items in financial items affecting comparability	-	-	-	-6.5	-	17.4	29.0	-0.1
Profit before tax, comparable	**38.3**	**85.0**	**111.2**	**90.8**	**34.6**	**99.2**	**129.3**	**107.7**
Net profit, comparable								
Profit before tax, comparable	38.3	85.0	111.2	90.8	34.6	99.2	129.3	107.7
Net of								
Income tax	7.0	16.1	23.4	15.5	6.1	23.3	25.3	14.9
Items in income taxes affecting comparability	0.4	2.0	0.3	1.8	0.1	-1.5	0.5	1.3
Net profit, comparable	**30.9**	**66.9**	**87.5**	**73.4**	**28.4**	**77.3**	**103.5**	**91.4**
Net profit attributable to owners of the parent, comparable								
Net profit, comparable	30.9	66.9	87.5	73.4	28.4	77.3	103.5	91.4
Net of								
Net profit attributable to non-controlling interests	-2.9	10.7	6.7	3.9	-4.7	5.2	3.7	1.8
Items in net profit attributable to non-controlling interests affecting comparability	-	-3.7	0.5	-	-	-	-	-
Net profit attributable to owners of the parent, comparable	**33.8**	**59.9**	**80.2**	**69.5**	**33.2**	**72.1**	**99.8**	**89.7**
Earnings/share, comparable, €								
Net profit attributable to owners of the parent, comparable	33.8	59.9	80.2	69.5	33.2	72.1	99.8	89.7
Average number of shares, basic, 1,000 pcs	99,468	99,347	99,237	99,182	99,027	99,059	99,069	99,074
Earnings/share, comparable, €	**0.34**	**0.60**	**0.81**	**0.70**	**0.33**	**0.73**	**1.01**	**0.90**
Return on capital employed, %								
Operating profit	60.4	105.8	134.3	103.8	51.6	119.9	148.6	127.8
Capital employed, average	4,323.5	4,291.1	4,396.5	4,490.3	4,537.4	4,673.8	4,956.6	5,064.1
Return on capital employed, %	**5.6**	**9.9**	**12.2**	**9.2**	**4.6**	**10.3**	**12.0**	**10.1**

€ million	1–3/2018	4–6/2018	7–9/2018	10–12/2018	1–3/2019	4–6/2019	7–9/2019	10–12/2019
Return on capital employed, comparable, %								
Operating profit, comparable	63.8	113.2	137.0	114.5	57.5	122.5	152.0	129.7
Capital employed, average	4,323.5	4,291.1	4,396.5	4,490.3	4,537.4	4,673.8	4,956.6	5,064.1
Return on capital employed, comparable, %	**5.9**	**10.6**	**12.5**	**10.2**	**5.1**	**10.5**	**12.3**	**10.2**
Group								
Return on equity, %								
Net profit	4.5	33.5	82.4	56.2	22.2	101.7	128.6	92.8
Equity, average	2,059.2	1,977.1	1,940.9	2,005.0	2,042.7	2,000.3	1,997.6	2,099.8
Return on equity, %	**0.9**	**6.8**	**17.0**	**11.2**	**4.3**	**20.3**	**25.7**	**17.7**
Return on equity, comparable, %								
Net profit, comparable	29.1	66.9	87.0	72.7	27.6	88.6	103.5	93.5
Equity, average	2,059.2	1,977.1	1,940.9	2,005.0	2,042.7	2,000.3	1,997.6	2,099.8
Return on equity, comparable, %	**5.7**	**13.5**	**17.9**	**14.5**	**5.4**	**17.7**	**20.7**	**17.8**
Equity ratio, %								
Shareholders' equity	2,061.3	1,892.9	1,989.0	2,021.1	2,064.4	1,936.3	2,058.8	2,140.8
Total assets	6,798.7	6,486.7	6,494.0	6,366.8	6,523.8	6,985.0	6,987.9	6,899.3
Advances received	239.7	28.0	29.7	26.0	35.4	37.0	24.4	34.6
Equity ratio, %	**31.4**	**29.3**	**30.8**	**31.9**	**31.8**	**27.9**	**29.6**	**31.2**

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2019

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	23,852,197	23.85
Financial and insurance corporations	3,166,064	3.17
General government*	8,005,478	8.00
Households	23,429,475	23.42
Non-profit institutions**	5,212,460	5.21
Foreign and nominee-registered	36,354,078	36.35
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	18,814,636	59.28	18.81
Financial and insurance corporations	262,544	0.83	0.26
General government*	3,981,641	12.55	3.98
Households	5,741,545	18.09	5.74
Non-profit institutions**	2,163,812	6.82	2.16
Foreign and nominee-registered	772,829	2.44	0.77
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	5,037,561	7.38	5.04
Financial and insurance corporations	2,903,520	4.25	2.90
General government*	4,023,837	5.89	4.02
Households	17,687,930	25.90	17.68
Non-profit institutions**	3,048,648	4.46	3.05
Foreign and nominee-registered	35,581,249	52.11	35.57
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. 2019

All shares Number of shares	Number of shareholders, pcs	Percentage of shareholders, %	Share total, pcs	Percentage of shares, %
1–100	16,295	39.57	780,977	0.78
101–500	13,983	33.96	3,683,991	3.68
501–1,000	4,765	11.57	3,743,418	3.74
1,001–5,000	4,783	11.62	10,384,907	10.38
5,001–10,000	741	1.80	5,227,702	5.23
10,001–50,000	498	1.21	9,841,697	9.84
50,001–100,000	59	0.14	4,152,915	4.15
100,001–500,000	35	0.09	6,313,994	6.31
500,001–	16	0.04	55,890,151	55.88
Total	**41,175**	**100.00**	**100,019,752**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A shareholders, %	A share total, pcs	Percentage of A shares, %
1–100	3,906	42.97	149,178	0.47
101–500	2,034	22.37	512,480	1.61
501–1,000	1,135	12.48	986,746	3.11
1,001–5,000	1,394	15.33	3,325,302	10.48
5,001–10,000	320	3.52	2,260,111	7.12
10,001–50,000	254	2.79	5,398,510	17.01
50,001–100,000	32	0.35	2,311,994	7.28
100,001–500,000	9	0.10	1,616,421	5.09
500,001–	7	0.08	15,176,265	47.82
Total	**9,091**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of shareholders, pcs	Percentage of B shareholders, %	B share total, pcs	Percentage of B shares, %
1–100	13,554	39.11	686,063	1.00
101–500	12,834	37.03	3,394,400	4.97
501–1,000	3,884	11.21	2,962,078	4.34
1,001–5,000	3,678	10.61	7,720,576	11.31
5,001–10,000	395	1.14	2,793,447	4.09
10,001–50,000	255	0.74	4,893,190	7.17
50,001–100,000	26	0.08	1,836,932	2.69
100,001–500,000	21	0.06	4,044,719	5.92
500,001–	10	0.03	39,951,340	58.51
Total	**34,657**	**100.00**	**68,282,745**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2019

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	5,029,728	5.03	50,297,280	13.04
2.	Ilmarinen Mutual Pension Insurance Company	4,665,303	4.66	40,496,742	10.50
3.	Vähittäiskaupan Takaus Oy	3,298,752	3.30	32,987,520	8.55
4.	Varma Mutual Pension Insurance Company	1,630,986	1.63	1,630,986	0.42
5.	Foundation for Vocational Training in the Retail Trade	1,241,147	1.24	12,411,470	3.22
6.	OP-Finland mutual fund	755,635	0.76	2,190,190	0.57
7.	Elo Mutual Pension Insurance	641,957	0.64	641,957	0.17
8.	The State Pension Fund	640,000	0.64	640,000	0.17
9.	Heimo Välinen Oy	570,000	0.57	5,700,000	1.48
10.	K-Food Retailers' Club	539,326	0.54	5,393,260	1.40

Does not contain shares held by Kesko Corporation, amounting to 931,363 on 31 Dec. 2019.

10 largest shareholders by number of votes as at 31 Dec. 2019

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	5,029,728	5.03	50,297,280	13.04
2.	Ilmarinen Mutual Pension Insurance Company	4,665,303	4.66	40,496,742	10.50
3.	Vähittäiskaupan Takaus Oy	3,298,752	3.30	32,987,520	8.55
4.	Foundation for Vocational Training in the Retail Trade	1,241,147	1.24	12,411,470	3.22
5.	Heimo Välinen Oy	570,000	0.57	5,700,000	1.48
6.	K-Food Retailers' Club	539,326	0.54	5,393,260	1.40
7.	Food Paradise Oy	516,041	0.52	5,160,410	1.34
8.	OP-Finland mutual fund	755,635	0.76	2,190,190	0.57
9.	T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50
10.	Pokela Oy Iso Omena	179,400	0.18	1,794,000	0.47

Management's shareholdings

At the end of December 2019, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 307,814 Kesko Corporation A shares and 62,556 Kesko Corporation B shares, i.e. a total of 370,370 shares, which represents 0.37% of the total number of shares and 0.81% of votes carried by all shares of the Company.

On 31 December 2019, the President and CEO held 55,424 Kesko Corporation B shares, which represented 0.06% of the total number of shares and 0.01% of votes carried by all shares of the Company. On 31 December 2019, the Group Management Board including the President and CEO held 81 Kesko Corporation A shares and 164,594 Kesko Corporation B shares, which represented 0.16% of the total number of shares and 0.04% of votes carried by all shares of the Company.

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2019	%	1 Jan.–31 Dec. 2018, restated	%
Continuing operations					
Net sales	2.1	**10,720.3**	100.0	**10,382.8**	100.0
Cost of goods sold		-9,190.6	-85.7	-8,989.5	-86.6
Gross profit		**1,529.7**	14.3	**1,393.2**	13.4
Other operating income	2.3	823.1	7.7	789.8	7.6
Employee benefit expenses	2.4	-775.4	-7.2	-694.1	-6.7
Depreciation, amortisation and impairment charges	3.3 3.4	-161.5	-1.5	-146.9	-1.4
Depreciation, amortisation and impairment charges for right-of-use assets	3.5	-325.0	-3.0	-315.5	-3.0
Other operating expenses	2.4	-643.0	-6.0	-622.3	-6.0
Operating profit		**447.8**	4.2	**404.3**	3.9
Interest income and other finance income	4.4	14.0	0.1	14.1	0.1
Interest expense and other finance costs	4.4	-9.1	-0.1	-12.4	-0.1
Interest expense for lease liabilities	4.4	-95.4	-0.9	-98.6	-0.9
Foreign exchange differences	4.4	-0.8	0.0	-2.8	0.0
Total finance income and costs	4.4	-91.4	-0.9	-99.7	-1.0
Share of result of associates and joint ventures		46.8	0.4	-10.1	-0.1
Profit before tax		**403.3**	3.8	**294.5**	2.8
Income tax	2.6	-69.6	-0.6	-62.1	-0.6
Net profit for the year, continuing operations		**333.6**	**3.1**	**232.4**	**2.2**
Discontinued operations					
Net profit for the year from discontinued operations	3.8	11.6	0.1	-55.9	-0.5
Net profit for the year		**345.2**	**3.2**	**176.5**	**1.7**
Net profit for the year attributable to					
Owners of the parent		339.2		158.0	
Non-controlling interests		6.0		18.5	
Earnings per share for net profit attributable to owners of the parent					
Basic and diluted, continuing operations, €	2.7	3.31		2.16	
Basic and diluted, discontinued operations, €	2.7	0.12		-0.56	
Basic and diluted, Group total, €	2.7	3.42		1.59	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018, restated
Net profit for the year		**345.2**	**176.5**
Continuing operations			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	3.9 5.6	-3.6	-1.9
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	5.6	3.8	-10.1
Cash flow hedge revaluation	5.6	-1.0	2.1
Others	5.6	-0.3	-0.1
Total comprehensive income for the year, net of tax, continuing operations		**-1.2**	**-10.1**
Total comprehensive income for the year, net of tax, discontinued operations		-	35.1
Total comprehensive income for the year		**344.1**	**201.5**
Comprehensive income for the year attributable to			
Owners of the parent		336.7	184.5
Non-controlling interests		7.4	17.0

Consolidated statement of financial position

€ million	Note	31 Dec. 2019	%	31 Dec. 2018, restated	%	1.1.2018, restated	%
ASSETS							
Non-current assets							
Property, plant and equipment	3.3	1,487.9		1,196.4		1,293.1	
Intangible assets	3.4	684.6		492.1		376.2	
Right-of-use assets	3.5	2,191.3		2,057.0		1,996.0	
Shares in associates and joint ventures	3.10 5.2	57.8		123.5		117.4	
Financial assets at fair value through profit or loss	4.3 4.5	20.6		20.8		23.0	
Non-current receivables	4.3 4.5	59.9		65.7		65.4	
Deferred tax assets	5.5	7.6		8.1		8.5	
Pension assets	3.8	93.2		148.0		207.5	
Total non-current assets		**4,602.9**	**66.7**	**4,111.5**	**64.6**	**4,087.2**	**63.2**
Current assets							
Inventories	3.6	1,037.7		913.0		938.6	
Interest-bearing receivables	3.7 4.5	2.2		2.7		1.5	
Trade receivables	3.7 4.3 4.5	804.7		820.3		834.0	
Income tax assets	3.7	14.4		0.1		11.1	
Other non-interest-bearing receivables	3.7 4.5	206.6		194.4		196.4	
Financial assets at fair value through profit or loss	4.3 4.5	10.1		50.9		181.3	
Financial assets at amortised cost	4.3 4.5	34.5		59.1		46.4	
Cash and cash equivalents		124.4		139.2		170.2	
Total current assets		**2,234.5**	**32.4**	**2,179.7**	**34.2**	**2,379.5**	**36.8**
Non-current assets classified as held for sale	3.8	61.9	0.9	75.6	1.2	1.8	0.0
Total assets		**6,899.3**	**100.0**	**6,366.8**	**100.0**	**6,468.5**	**100.0**

€ million	Note	31 Dec. 2019	%	31 Dec. 2018, restated	%	1.1.2018, restated	%
EQUITY AND LIABILITIES							
Equity attributable to owners of the parent							
Share capital	4.2	197.3		197.3		197.3	
Share premium	4.2	197.8		197.8		197.8	
Other reserves	4.2	267.0		266.9		266.9	
Currency translation differences	4.2	-21.3		-23.7		-50.1	
Revaluation reserve	4.2	0.6		1.7		-0.4	
Retained earnings		1,384.4		1,274.1		1,354.8	
		2,025.8	**29.4**	**1,914.1**	**30.1**	**1,966.4**	**30.4**
Non-controlling interests	5.1	**115.0**	**1.7**	**107.0**	**1.7**	**93.0**	**1.4**
Total equity		**2,140.8**	**31.0**	**2,021.1**	**31.7**	**2,059.4**	**31.8**
Non-current liabilities							
Interest-bearing non-current liabilities	4.3 4.5 4.6	477.3		177.8		129.3	
Lease liabilities	4.6	2,039.0		1,979.6		1,922.5	
Non-interest-bearing non-current liabilities	4.3 4.5	29.8		29.4		31.4	
Deferred tax liabilities	5.5	6.8		5.4		11.9	
Pension obligations		0.4		0.4		0.4	
Provisions	3.11	19.7		23.6		25.1	
Total non-current liabilities		**2,573.0**	**37.3**	**2,216.2**	**34.8**	**2,120.6**	**32.8**
Current liabilities							
Current interest-bearing liabilities	4.3 4.5 4.6	137.8		233.4		404.6	
Lease liabilities	4.6	383.2		309.5		291.2	
Trade payables	4.3 4.5	1,029.9		982.7		1,023.7	
Other non-interest-bearing liabilities	4.3 4.5	207.9		197.8		224.2	
Income tax liabilities	4.5	11.8		16.5		5.6	
Accrued liabilities	4.3 4.5	387.6		355.0		315.1	
Provisions	3.11	16.4		19.2		24.0	
Total current liabilities		**2,174.7**	**31.5**	**2,114.2**	**33.2**	**2,288.4**	**35.4**
Liabilities related to available-for-sale non-current assets	3.8	10.9	0.2	15.4	0.2	0.1	0.0
Total liabilities		**4,758.5**	**69.0**	**4,345.8**	**68.3**	**4,409.1**	**68.2**
Total equity and liabilities		**6,899.3**	**100.0**	**6,366.8**	**100.0**	**6,468.5**	**100.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018, restated
Cash flows from operating activities			
Profit before tax		403.3	294.5
Adjustments			
Depreciation according to plan		161.5	138.7
Depreciation and impairment for right-of-use assets		325.0	320.3
Finance income and costs		-4.0	1.1
Interest expense for lease liabilities		95.4	98.6
Other adjustments	2.8	0.3	54.0
		578.2	612.7
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		26.3	46.7
Inventories, increase (-)/decrease (+)		-47.8	-33.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		33.1	-24.5
		11.6	-11.7
Interest paid and other finance costs		-8.2	-14.1
Interest paid on lease liabilities		-95.5	-98.6
Interest received		14.1	15.6
Dividends received		0.8	0.7
Dividends received from associated companies		83.4	-
Income taxes paid		-94.7	-50.5
Net cash flows from operating activities, continuing operations		**893.1**	**748.4**
Net cash flows from operating activities, discontinued operations	3.8	3.5	-23.3
Net cash flows from operating activities, total		**896.6**	**725.2**
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.2	-280.7	-164.7
Payments to acquire equity accounted investments	2.8	-	-9.2
Payments for property, plant, equipment and intangible assets	2.8	-377.6	-224.1
Proceeds from equity accounted investments		4.6	7.5
Proceeds from sale of property, plant, equipment and intangible assets		29.7	18.7
Proceeds from sale of financial assets measured at fair value		-	0.0
Non-current loan and receivables, increase (-)/decrease (+)		3.6	-1.5
Net cash flows from investing activities, continuing operations		**-620.3**	**-373.3**
Net cash flows from investing activities, discontinued operations	3.8	3.5	164.3
Net cash flows from investing activities, total		**-616.8**	**-209.0**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	209.1	-97.6
Lease liabilities, increase (+)/decrease (-)	2.8	-330.9	-315.6
Interest-bearing receivables, increase (-)/decrease (+)	2.8	-0.4	0.1
Dividends paid		-238.2	-225.4
Acquisition of treasury shares	4.2	-	-24.4
Equity increase		6.4	-
Short-term money market investments, increase (-)/decrease (+)		64.6	116.5
Other items		-6.2	0.8
Net cash flows from financing activities, continuing operations		**-295.4**	**-545.7**
Net cash flows from financing activities, discontinued operations		-	-
Net cash flows from financing activities, total		**-295.4**	**-545.7**
Change in cash and cash equivalents and current available-for-sale financial assets		**-15.6**	**-29.5**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, continuing operations	2.8	139.2	163.7
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, discontinued operations	2.8	0.4	6.5
Currency translation difference adjustment and change in value		0.4	-1.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, continuing operations	2.8	**124.4**	**139.2**
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, discontinued operations	2.8	**-**	**0.4**

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

€ 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 2018	**197.3**	**464.7**	**-50.1**	**-0.4**	**-14.2**	**1,538.6**	**2,135.9**	**98.7**	**2,234.6**
Impact of IFRS 16 adoption						-169.5	-169.5	-5.7	-175.2
Adjusted opening balance 1 January 2018	**197.3**	**464.7**	**-50.1**	**-0.4**	**-14.2**	**1,369.1**	**1,966.4**	**93.0**	**2,059.4**
Share-based payments					1.8		1.8		1.8
Acquisition of treasury shares					-24.4		-24.4		-24.4
Dividends						-221.8	-221.8	-3.9	-225.7
Increase in share capital							0.0	0.7	0.7
Other changes		0.0	0.0			7.7	7.6	0.2	7.8
Transactions with owners, total		0.0	0.0		-22.6	-214.2	-236.8	-3.0	-239.9
Comprehensive income									
Net profit for the year, continuing operations						214.0	214.0	18.5	232.4
Net profit for the year, discontinued operations						-55.9	-55.9		-55.9
Actuarial gains/losses						-2.3	-2.3		-2.3
Currency translation differences related to a foreign operation			-8.7			0.1	-8.6	-1.4	-10.1
Cash flow hedge revaluation				2.6			2.6		2.6
Others						-0.1	-0.1		-0.1
Tax related to other comprehensive income				-0.5		0.4	-0.1		-0.1
Comprehensive income, discontinued operations			35.1				35.1		35.1
Total comprehensive income for the period			26.4	2.1		156.1	184.5	17.0	201.5
Balance as at 31 December 2018	**197.3**	**464.7**	**-23.7**	**1.7**	**-36.9**	**1,311.0**	**1,914.0**	**107.0**	**2,021.1**

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

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

IN THIS SECTION

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

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

1.1 Basic information about the Company

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

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

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The Company's business ID is 0109862-8, it is domiciled in Helsinki, and its registered address is PO Box 1, FI-00016 KESKO. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, PO Box 1, Helsinki, FI-00016 KESKO, visiting address Työpajankatu 12, Helsinki, and from the internet at www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 4 February 2020.

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 2019. 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.

The Group has adopted the new standard IFRS 16 Leases, which became effective on 1 January 2019. The Group adopted the standard using a full retrospective method, and the impact on the date of transition (1 January 2018) has been calculated as if the standard had always been in effect. Following the adoption of IFRS 16, the Group's opening balance of 1 January 2018 and the income statement, balance sheet, cash flow, consolidated statement of changes in equity, and notes for the 2018 comparison period have been restated. The impacts of the adoption of the standard are presented in note 1.6. In the financial year 2018, the Group adopted the new standards IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers and the changes to the standard IFRS 2 Share-based Payments, effective as of 1 January 2018.

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

1.3 Critical accounting estimates and assumptions

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

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

Measurement of assets acquired and liabilities assumed

Assets acquired and liabilities assumed in business combinations are measured at their fair values at the date of acquisition. The fair values on which the allocation of costs and liabilities is based are determined by reference to market values to the extent they are 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 3.9):

- 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.

Leases

When recognising leases in the balance sheet, assessments must be made concerning the lease term, use of extension options and the discount rate used. The assessments may differ from the actualised future lease terms and conditions.

1.4 Critical judgements in applying accounting policies

The Group's management uses its judgement in the adoption and application of accounting policies in the financial statements. The management has exercised its judgement in the application of accounting policies when, for example, measuring receivables, determining provisions for restructuring, and measuring assets and liabilities recognised in the balance sheet based on leases.

1.5 Consolidation principles

Subsidiaries

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

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

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

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

Associates

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

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

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

Joint arrangements

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

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

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

Mutual real estate companies

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

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

Foreign currency items

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

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currency are translated into euros using the closing rate. Exchange rate gains and losses on foreign currency transactions as well as receivables and liabilities denominated in foreign currency are recognised in the income statement, with the exception of monetary items that form a part of a net investment in a foreign operation and loans designated as hedges for foreign net investments and regarded as effective. These exchange differences are recognised in equity and their changes are presented in other comprehensive income. The exchange differences are presented in the income statement on disposal of the foreign operation or settlement of the hedges. The Group has currently no loans designated as hedges for foreign net investments. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign exchange forward contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in finance income and costs.

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

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

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

IFRS 16 Leases

The Group has adopted the new standard IFRS 16 Leases, which became effective on 1 January 2019. The Group adopted IFRS 16 using a full retrospective method, and the impact on the date of transition 1 January 2018 has been calculated as if the standard had always been in effect. Following the adoption of IFRS 16, the Group's opening balance sheet of 1 January 2018 and the income statement, balance sheet, cash flow, consolidated statement of changes in equity, and notes for the 2018 comparison period have been restated.

Kesko Group leases properties, machinery and equipment for use in its business operations in all of its operating countries. For most of these leases, assets and liabilities corresponding to the present value of future lease payments are recognised in the balance sheet at the commencement of the lease in accordance with IFRS 16 Leases. With the retrospective method, the interest rate used in calculating the present value of future lease payments was determined for the commencement date for the lease, and lease payments were discounted as of the commencement date of each lease. IFRS 16 Leases includes exemptions for leases with a term of less than 12 months and for low-value assets, which the Group adopted. Kesko also leases properties. In the new IFRS 16 Leases, reporting for the lessor remains unchanged.

The adoption of the new IFRS 16 Leases had a significant impact on the Group's income statement and consolidated statement of financial position. Assets in the opening consolidated statement of financial position on 1 January 2018 were increased by €1,996.0 million of right-of-use assets from leases. Interest-bearing liabilities in the consolidated statement of financial position increased in the opening balance sheet of 1 January 2018 by the amount of lease liabilities corresponding to the present value of future lease payments, €2,213.7 million. There was a €-175.2 million impact on equity at the date of transition on 1 January 2018, as the values of assets and liabilities recognised in the balance sheet differed at the date of transition due to the use of the retrospective method. The adoption of IFRS 16 Leases increased operating profit in the consolidated income statement for the 2018 financial year, as lease expenditure previously recognised in the income statement was replaced with depreciation of right-of-use assets. Interest expenses for lease liabilities recognised in financial items in the consolidated income statement increased finance costs. In addition, change in deferred tax was recognised in income taxes. The adoption of the new standard affected the cash flow from operating activities and cash flow from financing activities in the consolidated statement of cash flows, as realised rent payments were allocated to cash flow from operating activities for the portion corresponding to finance costs and to cash flow from financing activities for the portion corresponding to part payment of debt. The Group's cash flow as a whole has not changed, the standard has only changed the way different items in the statement of cash flows are presented.

The impacts of the adoption of IFRS 16 Leases on the opening balance sheet of 1 January 2018 and the income statement and balance sheet of the comparison period 2018 are presented below.

Consolidated statement of financial position 1 Jan. 2018

€ million	Note	Opening balance sheet 1 Jan. 2018	Impact of IFRS 16	Opening balance sheet 1 Jan. 2018, restated
ASSETS				
Non-current assets				
Property, plant and equipment		1,293.1		1,293.1
Intangible assets		376.2		376.2
Right-of-use assets	3.5	-	1,996.0	1,996.0
Shares in associates and joint ventures		117.4		117.4
Financial assets at fair value through profit or loss		23.1		23.1
Non-current receivables		65.4		65.4
Deferred tax assets	5.5	5.6	2.9	8.5
Pension assets		207.5		207.5
Total non-current assets		**2,088.3**	**1,998.9**	**4,087.2**
Current assets				
Inventories		938.6		938.6
Interest-bearing receivables		1.5		1.5
Trade receivables		834.0		834.0
Income tax assets		11.1		11.1
Other non-interest-bearing receivables		196.4		196.4
Financial assets at fair value through profit or loss		181.3		181.3
Financial assets at amortised cost		46.4		46.4
Cash and cash equivalents		170.2		170.2
Total current assets		**2,379.5**		**2,379.5**
Non-current assets classified as held for sale		1.8		1.8
Total assets		**4,469.6**	**1,998.9**	**6,468.5**

€ million	Note	Opening balance sheet 1 Jan. 2018	Impact of IFRS 16	Opening balance sheet 1 Jan. 2018, restated
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		197.3		197.3
Share premium		197.8		197.8
Other reserves		266.9		266.9
Currency translation differences		-50.1		-50.1
Revaluation reserve		-0.4		-0.4
Retained earnings		1,524.4	-169.5	1,354.8
		2,135.9	-169.5	1,966.4
Non-controlling interests	5.1	98.7	-5.7	93.0
Total equity		**2,234.6**	**-175.2**	**2,059.4**
Non-current liabilities				
Interest-bearing non-current liabilities		129.3		129.3
Lease liabilities	4.6	-	1,922.5	1,922.5
Non-interest-bearing non-current liabilities		31.4		31.4
Deferred tax liabilities	5.5	51.6	-39.7	11.9
Pension obligations		0.4		0.4
Provisions		25.1		25.1
Total non-current liabilities		**237.8**	**1,882.8**	**2,120.6**
Current liabilities				
Current interest-bearing liabilities		404.6		404.6
Lease liabilities	4.6	-	291.2	291.2
Trade payables		1,023.7		1,023.7
Other non-interest-bearing liabilities		224.2		224.2
Income tax liabilities		5.6		5.6
Accrued liabilities	4.3 4.5	307.4	7.7	315.1
Provisions	3.11	31.6	-7.6	24.0
Total current liabilities		**1,997.1**	**291.3**	**2,288.4**
Liabilities related to available-for-sale non-current assets		0.1		0.1
Total equity and liabilities		**4,469.6**	**1,998.9**	**6,468.5**

Consolidated income statement 1 Jan.–31 Dec. 2018

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Continuing operations				
Net sales		**10,382.8**		**10,382.8**
Cost of goods sold		-8,989.5		-8,989.5
Gross profit		**1,393.2**		**1,393.2**
Other operating income		789.8		789.8
Employee benefit expenses		-694.1		-694.1
Depreciation, amortisation and impairment charges	3.5	-146.9	-315.5	-462.3
Other operating expenses	2.4	-1,034.2	411.8	-622.3
Operating profit		**307.9**	**96.3**	**404.3**
Interest income and other finance income		14.1		14.1
Interest expense and other finance costs	4.4	-12.4	-98.6	-111.0
Foreign exchange differences		-2.8		-2.8
Total finance income and costs	4.4	-1.1	-98.6	-99.7
Share of result of associates and joint ventures		-10.1		-10.1
Profit before tax		**296.8**	**-2.3**	**294.5**
Income tax	2.6	-61.9	-0.1	-62.1
Net profit for the year, continuing operations		**234.8**	**-2.4**	**232.4**
Discontinued operations				
Net profit for the year from discontinued operations		-55.9		-55.9
Net profit for the year		**178.9**	**-2.4**	**176.5**
Net profit for the year attributable to				
Owners of the parent		159.9	-1.8	158.0
Non-controlling interests		19.0	-0.5	18.5
Earnings per share for net profit attributable to owners of the parent				
Basic and diluted, continuing operations, €	2.7	2.18	-0.02	2.16
Basic and diluted, discontinued operations, €	2.7	-0.56		-0.56
Basic and diluted, Group total, €	2.7	1.61	-0.02	1.59

Consolidated statement of comprehensive income 1 Jan.–31 Dec. 2018

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Net profit for the year		**178.9**	**-2.4**	**176.5**
Continuing operations				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains and losses		-1.9		-1.9
Items that may be reclassified subsequently to profit or loss				
Currency translation differences related to a foreign operation	5.6	-10.4	0.3	-10.1
Cash flow hedge revaluation		2.1		2.1
Revaluation of available-for-sale financial assets		-		-
Others		-0.1		-0.1
Total comprehensive income for the year, net of tax, continuing operations		**168.5**	**-2.1**	**166.5**
Total comprehensive income for the year, net of tax, discontinued operations		35.1		35.1
Total comprehensive income for the year		**203.6**	**-2.1**	**201.5**
Comprehensive income for the year attributable to				
Owners of the parent		186.1	-1.5	184.5
Non-controlling interests		17.6	-0.5	17.0

Consolidated statement of financial position 31 Dec. 2018

€ million	Note	Balance sheet 31 Dec. 2018, published	Impact of IFRS 16	Balance sheet 31 Dec. 2018, restated
ASSETS				
Non-current assets				
Property, plant and equipment		1,191.1		1,191.1
Intangible assets		492.1		492.1
Right-of-use assets	3.5	5.3	2,057.0	2,062.2
Shares in associates and joint ventures		123.5		123.5
Financial assets at fair value through profit or loss	4.3 4.5	20.8	2.8	23.6
Non-current receivables		65.7		65.7
Deferred tax assets		5.3		5.3
Pension assets		148.0		148.0
Total non-current assets		**2,051.7**	**2,059.8**	**4,111.5**
Current assets				
Inventories		913.0		913.0
Interest-bearing receivables		2.7		2.7
Trade receivables		820.3		820.3
Income tax assets		0.1		0.1
Other non-interest-bearing receivables		194.4		194.4
Financial assets at fair value through profit or loss		50.9		50.9
Financial assets at amortised cost		59.1		59.1
Cash and cash equivalents		139.2		139.2
Total current assets		**2,179.7**		**2,179.7**
Non-current assets classified as held for sale	3.8	71.5	4.1	75.6
Total assets		**4,302.9**	**2,063.9**	**6,366.8**

€ million	Note	Balance sheet 31 Dec. 2018, published	Impact of IFRS 16	Balance sheet 31 Dec. 2018, restated
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		197.3		197.3
Share premium		197.8		197.8
Other reserves		266.9		266.9
Currency translation differences	4.2	-24.0	0.3	-23.7
Revaluation reserve		1.7		1.7
Retained earnings		1,445.4	-171.3	1,274.1
		2,085.1	-171.0	1,914.1
Non-controlling interests	5.1	113.2	-6.2	107.0
Total equity		**2,198.3**	**-177.3**	**2,021.1**
Non-current liabilities				
Interest-bearing non-current liabilities		177.8		177.8
Lease liabilities	4.6	-	1,979.6	1,979.6
Non-interest-bearing non-current liabilities		29.4		29.4
Deferred tax liabilities	4.3 4.5	44.9	-39.6	5.4
Pension obligations		0.4		0.4
Provisions	3.11	27.1	-3.5	23.6
Total non-current liabilities		**279.6**	**1,936.6**	**2,216.2**
Current liabilities				
Current interest-bearing liabilities		233.4		233.4
Lease liabilities	4.6	-	309.5	309.5
Trade payables		982.7		982.7
Other non-interest-bearing liabilities		197.8		197.8
Income tax liabilities		16.5		16.5
Accrued liabilities	4.3 4.5	353.9	1.2	355.0
Provisions	3.11	25.2	-6.0	19.2
Total current liabilities		**1,809.6**	**304.6**	**2,114.2**
Liabilities related to available-for-sale non-current assets	3.8	15.4		15.4
Total equity and liabilities		**4,302.9**	**2,063.9**	**6,366.8**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Cash flows from operating activities				
Profit before tax		296.8	-2.3	294.5
Adjustments				
Depreciation according to plan		138.7		138.7
Depreciation and impairment for right-of-use assets		4.8	315.5	320.3
Finance income and costs		1.1		1.1
Interest expense for lease liabilities			98.6	98.6
Other adjustments	2.8	55.9	-1.8	54.0
		200.5	412.2	612.7
Change in working capital				
Current non-interest-bearing receivables, increase (-)/decrease (+)		46.7		46.7
Inventories, increase (-)/decrease (+)		-33.9		-33.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-24.5		-24.5
		-11.7		-11.7
Interest paid and other finance costs		-14.1		-14.1
Interest paid on lease liabilities			-98.6	-98.6
Interest received		15.6		15.6
Dividends received		0.7		0.7
Income taxes paid		-50.5		-50.5
Net cash flows from operating activities, continuing operations		**437.1**	**311.3**	**748.4**
Net cash flows from operating activities, discontinued operations	2.8	-23.2		-23.2
Net cash flows from operating activities, total		**413.8**	**311.3**	**725.2**
Cash flows from investing activities				
Payments for acquisition of subsidiary shares, net of cash acquired		-164.7		-164.7
Payments to acquire equity accounted investments		-9.2		-9.2
Payments for property, plant, equipment and intangible assets		-224.1		-224.1
Proceeds from sale of business operations, net of cash disposed of		-		-

€ million	Note	1 Jan.–31 Dec. 2018, published	Impact of IFRS 16	1 Jan.–31 Dec. 2018, restated
Proceeds from equity accounted investments		7.5		7.5
Proceeds from sale of property, plant, equipment and intangible assets		18.7		18.7
Proceeds from sale of available-for-sale financial assets		0.0		0.0
Non-current loan and receivables, increase (-)/decrease (+)		-1.5		-1.5
Net cash flows from investing activities, continuing operations		**-373.3**		**-373.3**
Net cash flows from investing activities, discontinued operations	3.8	164.3		164.3
Net cash flows from investing activities, total		**-209.0**		**-209.0**
Cash flows from financing activities				
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	-97.6		-97.6
Lease liabilities, increase (+)/decrease (-)	2.8	-4.3	-311.4	-315.6
Interest-bearing receivables, increase (-)/decrease (+)	2.8	0.1		0.1
Dividends paid		-225.4		-225.4
Acquisition of treasury shares	4.2	-24.4		-24.4
Short-term money market investments, increase (-)/decrease (+)		116.5		116.5
Other items		0.8		0.8
Net cash flows from financing activities, continuing operations		**-234.3**	**-311.4**	**-545.7**
Net cash flows from financing activities, discontinued operations		-		-
Net cash flows from financing activities, total		**-234.3**	**-311.4**	**-545.7**
Change in cash and cash equivalents and current available-for-sale financial assets		**-29.5**		**-29.5**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, continuing operations	2.8	163.7		163.7
Cash and cash equivalents and current available-for-sale financial assets as at 1 January, discontinued operations	2.8	6.5		6.5
Currency translation difference adjustment and change in value	2.8	-1.1		-1.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, continuing operations	**2.8**	**139.2**		**139.2**
Cash and cash equivalents and current available-for-sale financial assets as at 31 December, discontinued operations	**2.8**	**0.4**		**0.4**

IFRIC interpretations and new and updated standards

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation, which became effective on 1 January 2019, explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and provides detailed instructions on the correct handling in financial statements.

Annual Improvements to IFRS Standards

The following improvements to IFRS standards became effective on 1 January 2019

- IFRS 3 Business Combinations – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages
- IFRS 11 Joint Arrangements – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation
- IAS 12 Income Taxes – clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised
- IAS 23 Borrowing Costs – clarified that, if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. The amendments contain specifications for the calculation of current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement.

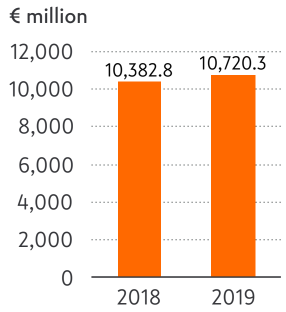
The aforementioned interpretations and annual improvements or the amendments to IAS 19 Employee Benefits do not have a significant impact on the consolidated financial statements.

New standards that become effective on 1 January 2020 or later are not estimated to have an impact on the consolidated financial statements.

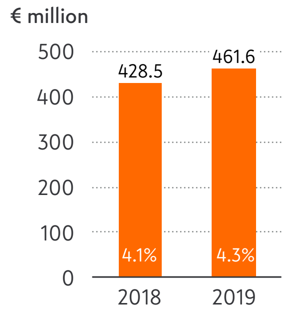
2. FINANCIAL RESULTS

IN THIS SECTION

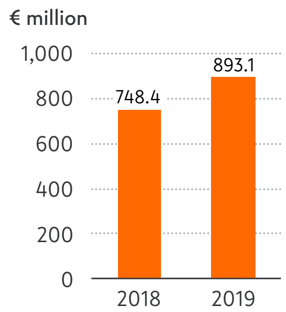
Net sales, continuing operations



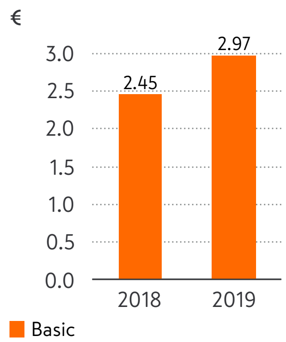
Comparable operating profit, continuing operations



Cash flow from operating activities, continuing operations



Comparable earnings/share, continuing operations



2.1 Kesko's divisions

Accounting policies

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

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

The Group Management Board assesses the divisions' performances based on operating profit, comparable operating profit, and comparable return on capital employed. Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and are allocated to the divisions. The Group identifies gains and losses on the disposal of real estate, shares and business operations, impairments and significant restructurings as items affecting comparability. Gains on disposals are presented in the income statement within other operating income, and losses on disposals within other operating expenses. Impairment charges and significant profit and loss items related to changes in leases are presented in the income statement under depreciation, amortisation and impairment charges. 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, right-of-use assets related to leases, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables, and assets held for sale. The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions.

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

Revenue recognition policies

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

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

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

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

Kesko's business models

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Kesko manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 45% (46%) of the Group's net sales in 2019. B2B trade is a significant, growing part of business operations. B2B trade accounted for 37% (36%) of the Group's net sales in 2019. Kesko's own retailing accounted for 18% (18%) of the Group's net sales.

Grocery trade

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

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries, Poland and Belarus. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland where the retailer business model is employed. Kesko itself acts as a retail operator in Sweden, Norway, the Baltic countries and Belarus. The retail store chains are K-Rauta (Finland, Sweden and Estonia), K-Bygg (Sweden), Byggmakker (Norway), K-Senukai (Latvia and Lithuania) and OMA (Belarus). The building and home improvement stores serve both consumers and business customers. The Group assumed ownership of the Swedish building and home improvement group Fresks on 17 May 2019. Former Fresks stores have been serving customers under the K-Bygg brand since June 2019. The acquisition strengthens Kesko's position in Sweden, especially in the professional builders customer segment. 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 130 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

The specialty trade included in the building and technical trade division comprises machinery trade in the Baltic countries and leisure trade in Finland. The chains in the leisure goods trade are Intersport, Budget Sport, The Athlete's Foot and Kookenkä. Konekesko Oy's agricultural machinery trade operations in Finland were sold to Danish Agro Group on 1 August 2019. Kesko has stated it will also divest its remaining stake in the Baltic machinery trade subsidiaries to Danish Agro Group.

The Russian building and home improvement trade operations, discontinued in 2018, are reported as discontinued operations in the consolidated financial statements, and are not included in the financial statements in the figures for the Group's continuing operations or the figures for the building and technical trade for the financial year or for the comparison period. The dissolution of the Russian subsidiaries was completed during the financial year.

Car trade

The car trade comprises the business operations of K-Auto, K-Caara and AutoCarrera. The car trade imports and markets Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen and MAN commercial vehicles in Finland. K-Auto also engages in car retailing and provides after-sales services at its own retail outlets. On 1 March 2019, K Caara Oy completed the acquisition of Volkswagen and SEAT businesses from Huittisten Laatuauto Oy in Forssa and Huittinen, and the acquisition of Volkswagen, Audi and SEAT businesses from LänsiAuto Oy in Kotka, Kouvola and Lappeenranta. On 1 July 2019, K Caara Oy completed the acquisition of Volkswagen, Audi and SEAT businesses from Laakkonen Group.

Common functions

Common functions comprise Group support functions.

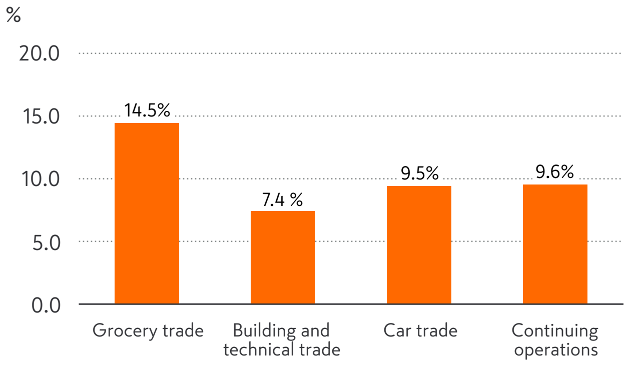
Kesko's divisions 2019

Profit, continuing operations

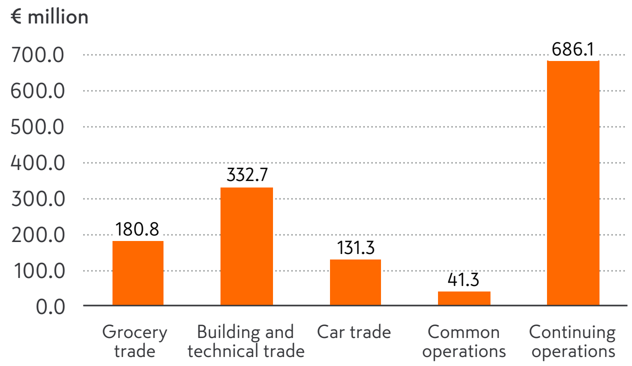
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,531.2	4,331.1	863.9	25.3	10,751.5
of which intersegment sales	-10.2	0.6	-3.4	-18.3	-31.2
Net sales from external customers	**5,521.0**	**4,331.8**	**860.4**	**7.1**	**10,720.3**
Change in net sales in local currency excluding acquisitions and disposals, %	3.2	2.1	-11.6	(..)	1.4
Change in net sales, %	2.7	5.6	-3.3	(..)	3.3
Other division income	654.9	146.5	8.0	15.9	825.3
of which intersegment income	-0.9	-0.6	0.0	-0.7	-2.2
Other operating income from external customers	**654.0**	**145.8**	**8.0**	**15.2**	**823.1**
Depreciation and amortisation	-73.3	-36.3	-18.9	-33.0	-161.5
Impairment	0.0	0.0	-	-	0.0
Depreciation and impairment for right-of-use assets	-197.2	-116.0	-7.0	-4.9	-325.0
Operating profit	**334.6**	**127.6**	**25.5**	**-39.9**	**447.8**
Items affecting comparability	6.7	-15.3	-1.2	-4.0	-13.8
Comparable operating profit	**327.9**	**142.8**	**26.8**	**-35.9**	**461.6**
Finance income and costs					-91.4
Investments accounted for using the equity method					46.8
Profit before tax					**403.3**

(..) Change over 100%

Comparable return on capital employed by segment, continuing operations 2019



Capital expenditure by segment, continuing operations 2019



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	1,079.8	800.4	193.9	100.0	-1.6	2,172.6
Right-of-use assets	1,334.5	711.5	71.7	73.6		2,191.3
Interests in associates and joint ventures and other investments	7.6	9.1	0.0	62.3	-0.6	78.4
Pension assets	20.2	7.6		65.4		93.2
Inventories	216.9	597.5	223.3			1,037.7
Trade receivables	329.2	432.6	43.9	6.2	-7.2	804.7
Other non-interest-bearing receivables	53.8	132.6	15.1	34.0	-13.2	222.3
Interest-bearing receivables	1.0	1.7		58.1	0.0	60.8
Non-current assets classified as held for sale		61.5		0.5	-0.1	61.9
Assets included in capital employed	**3,043.0**	**2,754.5**	**547.9**	**400.1**	**-22.8**	**6,722.7**
Unallocated items						
Deferred tax assets						7.6
Financial assets at fair value through profit or loss						10.1
Financial assets at amortised cost						36.5
Cash and cash equivalents						122.4
Total assets	**3,043.0**	**2,754.5**	**547.9**	**400.1**	**-22.8**	**6,899.3**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	502.4	486.3	25.6	19.1	-3.5	1,029.9
Other non-interest-bearing liabilities	244.0	227.9	98.6	55.3	-16.9	608.9
Provisions	3.1	1.3	30.6	1.2		36.1
Liabilities related to assets held for sale		10.9				10.9
Liabilities included in capital employed	**749.5**	**726.3**	**154.8**	**75.6**	**-20.4**	**1,685.8**
Unallocated items						
Interest-bearing liabilities						614.1
Lease liabilities						2,423.2
Other non-interest-bearing liabilities						28.5
Deferred tax liabilities						6.8
Total liabilities	**749.5**	**726.3**	**154.8**	**75.6**	**-20.4**	**4,758.5**
Total capital employed as at 31 December, continuing operations	**2,293.5**	**2,028.2**	**393.1**	**324.5**	**-2.3**	**5,036.9**
Average capital employed, continuing operations	**2,261.8**	**1,923.8**	**280.5**	**340.6**	**-3.4**	**4,803.3**
Number of personnel as at 31 December, continuing operations	**8,086**	**14,743**	**1,337**	**1,002**		**25,168**
Average number of personnel, continuing operations	**6,063**	**12,630**	**1,179**	**975**		**20,846**

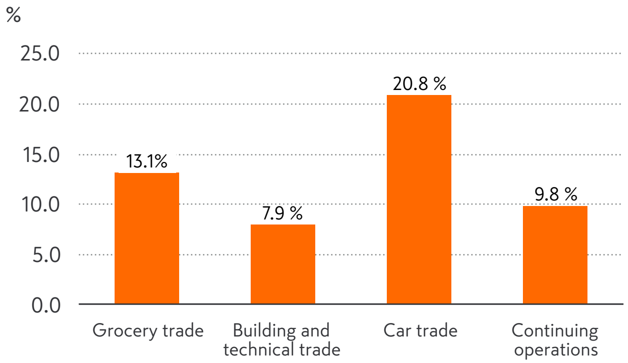
Kesko's divisions 2018

Profit, continuing operations

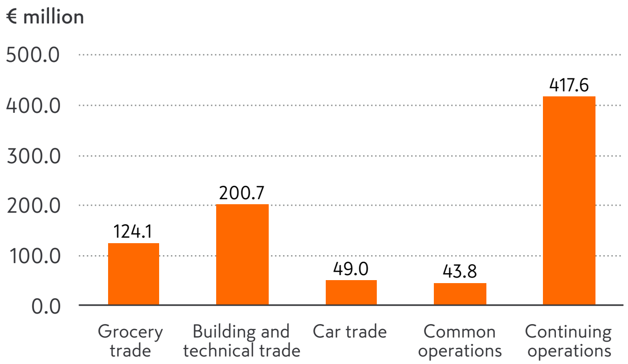
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,385.7	4,102.6	893.1	27.9	10,409.3
of which intersegment sales	-5.8	-0.1	-1.6	-19.0	-26.5
Net sales from external customers	**5,379.9**	**4,102.5**	**891.4**	**8.9**	**10,382.8**
Change in net sales in local currency excluding acquisitions and disposals, %	5.1	2.7	-1.8	(..)	3.5
Change in net sales, %	2.0	-4.6	-1.8	(..)	-1.0
Other division income	609.5	154.7	9.4	17.8	791.4
of which intersegment income	-0.8	-0.6		-0.2	-1.6
Other operating income from external customers	**608.7**	**154.1**	**9.4**	**17.5**	**789.8**
Depreciation and amortisation	-67.0	-38.0	-12.2	-26.3	-143.5
Impairment	0.0	-3.4	-	-	-3.4
Depreciation and impairment for right-of-use assets	-200.7	-109.7	-3.2	-2.0	-315.5
Operating profit	**285.9**	**113.3**	**35.1**	**-30.0**	**404.3**
Items affecting comparability	-8.7	-13.5	-0.1	-1.9	-24.2
Comparable operating profit	**294.5**	**126.8**	**35.2**	**-28.1**	**428.5**
Finance income and costs					-99.7
Investments accounted for using the equity method					-10.1
Profit before tax					**294.5**

(..) Change over 100%

Comparable return on capital employed by segment, continuing operations 2018



Capital expenditure by segment, continuing operations 2018



Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Property, plant, equipment and intangible assets	942.7	532.1	122.5	87.6	-1.6	1,683.2
Right-of-use assets	1,350.5	703.2	5.2	3.3		2,062.2
Interests in associates and joint ventures and other investments	7.5	9.1	0.0	128.3	-0.6	144.3
Pension assets	29.5	10.8		107.7		148.0
Inventories	219.4	542.0	151.5	0.0		913.0
Trade receivables	341.8	435.3	43.7	5.3	-5.8	820.3
Other non-interest-bearing receivables	58.3	116.2	11.3	22.8	-11.3	197.3
Interest-bearing receivables	0.3	0.1		65.2		65.6
Non-current assets classified as held for sale		64.8		0.5	-0.1	65.1
Assets included in capital employed	**2,950.0**	**2,413.7**	**334.2**	**420.6**	**-19.4**	**6,099.1**
Unallocated items						
Deferred tax assets						8.1
Financial assets at fair value through profit or loss						50.9
Financial assets at amortised cost						90.8
Cash and cash equivalents						107.5
Non-current assets classified as held for sale, discontinued operations						10.4
Total assets	**2,950.0**	**2,413.7**	**334.2**	**420.6**	**-19.4**	**6,366.8**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	482.9	466.2	24.3	14.2	-4.8	982.7
Other non-interest-bearing liabilities	235.5	205.2	78.8	62.5	-12.0	570.0
Provisions	4.1	2.1	35.8	0.9		42.8
Liabilities related to assets held for sale		14.9				14.9
Liabilities included in capital employed	**722.4**	**688.3**	**138.9**	**77.6**	**-16.7**	**1,610.4**
Unallocated items						
Interest-bearing liabilities						406.0
Lease liabilities						2,294.3
Other non-interest-bearing liabilities						29.2
Deferred tax liabilities						5.4
Liabilities related to assets held for sale, discontinued operations						0.5
Total liabilities	**722.4**	**688.3**	**138.9**	**77.6**	**-16.7**	**4,345.8**
Total capital employed as at 31 December	**2,227.6**	**1,725.4**	**195.3**	**343.1**	**-2.7**	**4,488.7**
Average capital employed	**2,243.5**	**1,611.2**	**169.6**	**360.1**	**-0.6**	**4,383.8**
Number of personnel as at 31 December	**7,971**	**13,559**	**824**	**1,047**		**23,401**
Average number of personnel	**6,094**	**11,663**	**835**	**987**		**19,579**

Geographical information, continuing operations

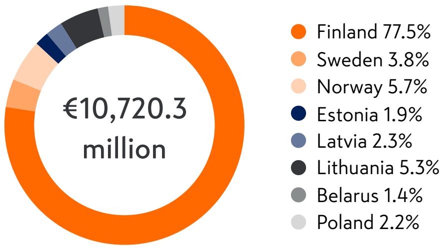
The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. The grocery trade operates in Finland. The building and technical trade operates in Finland, Sweden, Norway, the Baltic countries, Poland and Belarus, and the car trade operates in Finland. The Russian operations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

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

2019 € million	Finland	Other Nordic countries	Baltic countries	Others	Elimina-tions	Total, continuing operations
Net sales	8,389.6	1,028.3	930.0	383.8	-11.4	10,720.3
Assets included in capital employed	4,962.4	839.7	706.0	214.6		6,722.7
Capital expenditure	386.5	243.7	35.6	20.4		686.1
Average number of personnel	10,194	2,192	5,094	3,365		20,845

2018 € million	Finland	Other Nordic countries	Baltic countries	Others	Elimina-tions	Total, continuing operations
Net sales	8,260.7	940.6	824.3	367.2	-10.1	10,382.8
Assets included in capital employed	4,665.3	570.4	677.0	186.5		6,099.1
Capital expenditure	225.6	161.4	28.1	2.5		417.6
Average number of personnel	9,822	1,598	4,740	3,419		19,579

Net sales by country, continuing operations



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 are allocated to the divisions. Gains and losses on disposal of real estate, shares and business operations, impairment charges, significant profit and loss items related to changes in leases, 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. Impairment charges and significant profit and loss items related to changes in leases are presented in the income statement under depreciation, amortisation and impairment charges.

€ million, continuing operations	2019	2018
Items affecting comparability		
Gains on disposal	4.6	6.7
Losses on disposal	-0.9	-0.1
Impairment charges	-	-5.6
Structural arrangements	-17.5	-25.3
Items in operating profit affecting comparability, total	**-13.8**	**-24.2**
Items in financial items affecting comparability	46.3	-6.5
Items in income taxes affecting comparability	0.4	4.5
Items in net profit attributable to non-controlling interests affecting comparability	0.0	-3.2
Items affecting comparability, total	**32.9**	**-29.4**

In 2019, the most significant items affecting comparability were the €7.8 million costs related to the divestment of Onninen's HEPAC contractor business in the building and technical trade in Sweden, the €4.3 million costs related to acquisitions, and the net €+4.8 million items related to the subsidiary consolidation of Kruunuvuoren Satama Oy.

In 2018, the most significant items affecting comparability were the €7.6 million costs related to conversions of Suomen Lähikauppa's chains and changes in the store site network, the €8.1 million costs in building and technical trade related to acquisitions and divestments and structural changes in the Swedish operations, and gains and losses on disposal of real estate and other non-current assets and impairment charges, totalling €-3.8 million.

Reconciliation of performance indicators to IFRS financial statements € million, continuing operations	2019	2018
Operating profit, comparable		
Operating profit	447.8	404.3
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Operating profit, comparable	**461.6**	**428.5**
Profit before tax, comparable		
Profit before tax	403.3	294.5
Net of		
Items in operating profit affecting comparability	-13.8	-24.2
Items in financial items affecting comparability	46.3	-6.5
Profit before tax, comparable	**370.7**	**325.2**
Net profit, comparable		
Profit before tax, comparable	370.7	325.2
Net of		
Income tax	69.6	62.1
Items in income tax affecting comparability	0.4	4.5
Net profit, comparable	**300.7**	**258.7**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	300.7	258.7
Net of		
Net profit attributable to non-controlling interests	6.0	18.5
Items in net profit attributable to non-controlling interests affecting comparability	0.0	-3.2
Net profit attributable to owners of the parent, comparable	**294.7**	**243.4**

Reconciliation of performance indicators to IFRS financial statements € million, continuing operations	2019	2018
Earnings per share, comparable, €		
Net profit attributable to the owners of the parent, comparable	294.7	243.4
Average number of shares, basic, 1,000 pcs	99,074	99,182
Earnings per share, comparable, €	**2.97**	**2.45**
Return on capital employed, comparable, %		
Operating profit, comparable	461.6	428.5
Capital employed, average	4,803.3	4,383.8
Return on capital employed, comparable, %	**9.6**	**9.8**

Reconciliation of performance indicators to IFRS financial statements € million, Group	2019	2018
Net profit, comparable, Group		
Net profit, comparable, continuing operations	300.7	258.7
Net of		
Net profit, comparable, discontinued operations	12.5	-3.0
Return on equity, %, Group	**313.2**	**255.8**
Return on equity, comparable, %		
Net profit, comparable	313.2	255.8
Equity, average	2,080.9	2,039.0
Return on equity, comparable, %	**15.1**	**12.5**

Calculation of performance indicators

Operating profit, comparable

Operating profit +/– items affecting comparability

Profit before tax, comparable

Profit before tax +/- Items in operating profit affecting comparability +/- Items in financial items affecting comparability

Net profit, comparable

Comparable profit before tax - Income tax +/- Items in income taxes affecting comparability

Net profit attributable to owners of the parent, comparable

Net profit, comparable - Net profit attributable to non-controlling interests +/- Items in net profit attributable to non-controlling interests affecting comparability

Earnings per share, comparable, €

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

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Average number of shares

Return on capital employed, comparable, %

Comparable operating profit x 100

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

Return on equity, comparable, %

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

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

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	2019	2018
Income from services	641.2	611.3
Lease income	43.8	44.3
Gains on disposal of property, plant, equipment and intangible assets	2.5	5.0
Gains on disposal of businesses	3.1	4.3
Realised gains on derivative contracts and changes in fair value	4.1	4.8
Others	128.4	120.2
Total, continuing operations	**823.1**	**789.8**

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

Other operating income includes €5.5 million (€8.0 million) of items affecting comparability. More information on items affecting comparability is presented in note 2.2.

More information on lease income is provided in note 4.6.

2.4 Operating expenses

Accounting policies

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

Employee benefit expenses

€ million	2019	2018
Salaries and fees	-633.8	-567.1
Social security costs	-52.6	-47.5
Pension costs		
Defined benefit plans	-2.9	0.0
Defined contribution plans	-79.2	-73.0
Share-based payment	-7.0	-6.5
Total, continuing operations	**-775.4**	**-694.1**

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

Average number of the Group personnel

€ million	2019	2018
Grocery trade	6,063	6,094
Building and technical trade	12,630	11,663
Car trade	1,179	835
Common functions	975	987
Total, continuing operations	**20,846**	**19,579**
Discontinued operations	6	416
Total, Group	**20,852**	**19,995**

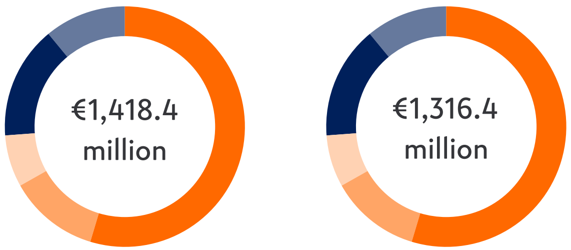
Other operating expenses

€ million	2019	2018
Marketing costs	-215.3	-210.4
Property and store site maintenance expenses	-159.9	-157.6
ICT expenses	-98.7	-96.1
Lease expenditure	-12.9	-8.9
Losses on disposal of property, plant, equipment and intangible assets	-1.9	-1.7
Realised losses on derivative contracts and changes in fair value	-3.4	-3.8
Other operating expenses	-150.7	-143.7
Total, continuing operations	**-643.0**	**-622.3**

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

Expenses by type, continuing operations

2019 2018



- Personnel costs 54.7% (52.7%)
- Rents and store site costs 12.2% (12.7%)
- ICT costs 7.0% (7.3%)
- Marketing and loyalty costs 15.2% (16.0%)
- Other costs 11.0% (11.3%)

Auditors' fees

€ million	2019	2018
Fees to PwC chain companies		
Audit	0.9	0.9
Tax consultation	0.1	0.2
Other services	0.6	0.6
Total	**1.6**	**1.7**
Fees to non-PwC chain companies, audit	0.1	0.0
Fees to non-PwC chain companies, other services	0.0	0.0

Fees paid to PricewaterhouseCoopers Oy for services other than audit to Kesko Group companies totalled €0.7 million.

2.5 Foreign exchange differences recognised in operating profit

€ million	2019	2018
Sales	-0.2	-0.1
Other income	4.1	4.8
Purchases	0.2	-0.3
Other expenses	-3.4	-3.8
Total, continuing operations	**0.7**	**0.5**

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 leases, defined benefit pension plans, property, plant and equipment (depreciation difference), provisions and measurements at fair value of asset items in connection with acquisitions.

€ million	2019	2018
Current tax	-77.4	-71.8
Tax for prior years	-0.4	-0.2
Deferred tax	8.1	10.0
Total, continuing operations	**-69.6**	**-62.1**

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

€ million	2019	2018
Profit before tax	403.3	294.5
Tax at parent's rate 20.0%	-80.7	-58.9
Effect of foreign subsidiaries' different tax rates	-1.2	3.2
Effect of tax-free income	0.8	1.9
Effect of expenses not deductible for tax purposes	-1.5	-6.7
Effect of tax losses	2.9	-0.6
Impact of consolidation of share of result of associates and joint ventures	9.4	0.2
Tax for prior years	-0.4	-0.2
Effect of change in tax rate	-	0.1
Others	1.1	-1.0
Tax charge, continuing operations	**-69.6**	**-62.1**

The impact of the corporation tax rate change effective from 1 January 2019 in Norway on taxes for the financial year 2018 was €0.1 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.

	2019	2018
Net profit for the period attributable to equity holders of the parent, € million	339.2	158.0
Number of shares		
Weighted average number of shares outstanding	99,074,035	99,181,927
Diluted weighted average number of shares outstanding	99,074,035	99,181,927
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, continuing operations, €	3.31	2.16
Basic and diluted, discontinued operations, €	0.12	-0.56
Basic and diluted, Group total, €	3.42	1.59
Comparable earnings/share, basic, continuing operations, €	2.97	2.45

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	2019	2018
Total acquisitions of property, plant, equipment and intangible assets	399.7	236.2
Total acquisitions of subsidiaries and investments in associates and other investments	286.4	181.3
Total capital expenditure	**686.1**	**417.5**
of which cash payments	599.8	375.9
Loans relating to acquired companies and cash and cash equivalents	83.5	29.5
Payments arising from prior period investing activities	-12.4	-16.3
Capital expenditure financed with liabilities	15.3	28.4
Total, continuing operations	**686.1**	**417.5**

Adjustments to cash flows from operating activities

€ million	2019	2018
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-6.8	-4.9
Share of results of associates and joint ventures	-46.8	10.1
Impairments	0.0	3.4
Credit losses	3.6	5.2
Gains on disposal of property, plant, equipment and intangible assets and business operations	-0.7	-9.3
Losses on disposal of property, plant, equipment and intangible assets and business operations	1.9	1.7
Share-based compensation	-2.9	-2.8
Defined benefit pensions	50.1	57.1
Others	2.0	-6.5
Total, continuing operations	**0.3**	**54.0**

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

Cash flow from leases

Cash flow from leases totalled €-423.7 million (€-410.0 million).

Cash and cash equivalents

€ million	2019	2018
Financial assets at amortised cost (maturing in less than 3 months), continuing operations	2.0	31.7
Financial assets at amortised cost (maturing in less than 3 months), discontinued operations	-	-
Cash and cash equivalents, continuing operations	122.4	107.5
Cash and cash equivalents, discontinued operations	-	0.4
Total	**124.4**	**139.6**

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

Reconciliation of cash and debt

€ million	2019	2018
Financial assets at amortised cost (maturing in less than 3 months)	2.0	31.7
Cash and cash equivalents	122.4	107.9
Borrowings - repayable within one year (including overdraft)	-137.8	-231.4
Lease liabilities - repayable within one year	-383.2	-311.5
Borrowings - repayable after one year	-477.3	-174.6
Lease liabilities - repayable after one year	-2,039.0	-1,982.8
Cash and debt, net	**-2,913.0**	**-2,560.7**

€ million	2019	2018
Cash and cash equivalents and financial assets at amortised cost (maturing in less than 3 months)	124.4	139.6
Gross debt - fixed interest rates	-162.5	-236.5
Gross debt - variable interest rates	-452.6	-169.5
Lease liabilities	-2,422.2	-2,294.3
Cash and debt, net	**-2,913.0**	**-2,560.7**

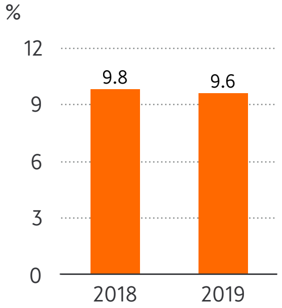
	Other assets		Finance-related debt				
€ million	Cash and overdraft	Financial assets at amortised cost	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
Cash and debt, net as at 1 Jan. 2019	107.9	31.7	-311.5	-1,982.8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

	Other assets		Finance-related debt				
€ million	Cash and overdraft	Financial assets at amortised cost	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
Cash and debt, net as at 1 Jan. 2018	132.7	37.5	-294.7	-1,929.5	-401.1	-122.3	-2,577.4
Cash flows	-30.1	-5.3	314.5	3.7	169.8	-53.1	399.5
Acquisitions of subsidiaries	7.0		-8.6	-53.5	-0.4		-55.6
Net changes of lease liabilities			-323.4	-5.5			-328.8
Foreign exchange adjustments	-1.7	-0.4	0.6	2.0	0.3	0.8	1.5
Cash and debt, net as at 31 Dec. 2018	**107.9**	**31.7**	**-311.5**	**-1,982.8**	**-231.4**	**-174.6**	**-2,560.7**

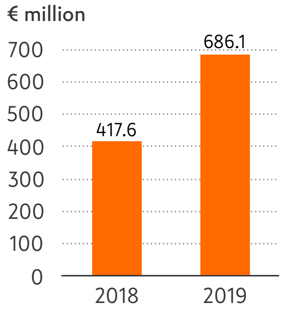
3. CAPITAL EMPLOYED

IN THIS SECTION

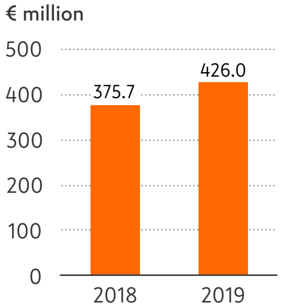
Comparable return on capital employed, continuing operations



Capital expenditure, continuing operations



Working capital, continuing operations



3.1 Capital employed and working capital

Capital employed

€ million	Note	31 Dec. 2019	31 Dec. 2018
Property, plant and equipment	3.3	1,487.9	1,196.4
Intangible assets	3.4	684.6	492.1
Right-of-use assets	3.5	2,191.3	2,057.0
Interests in associates and joint ventures	3.10	57.8	123.5
Financial assets at fair value through profit or loss	4.3	20.6	20.8
Non-current receivables	4.3	59.9	65.7
Pension assets	3.9	93.2	148.0
Current interest-bearing receivables	4.5	2.2	2.7
Non-current assets classified as held for sale	3.8	61.9	65.1
Non-interest-bearing non-current liabilities	4.5	-1.2	-0.2
Pension obligations		-0.4	-0.4
Provisions	3.11	-36.1	-42.8
Liabilities related to non-current assets classified as held for sale	3.8	-10.9	-14.9
Working capital		426.0	375.7
Total, continuing operations		**5,036.9**	**4,488.7**

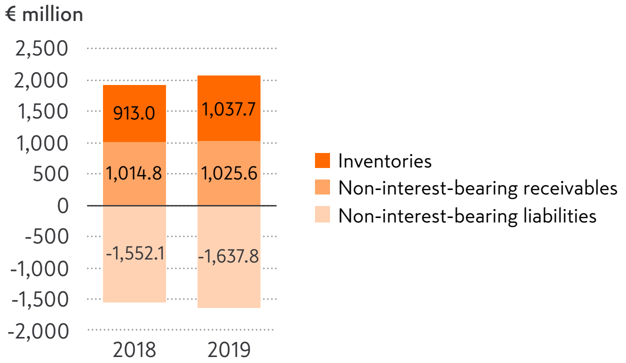
Accrued liabilities are mainly due to the timing of purchases and employee benefit expenses.

Non-current non-interest-bearing liabilities also include an item of €28.5 million (€29.2 million) not allocated to divisions, related to the accrual of a gain on a real estate sale to a joint venture. The item is not included in capital employed.

Working capital

€ million	Note	31 Dec. 2019	31 Dec. 2018
Inventories	3.6	1,037.7	913.0
Trade receivables	3.7	804.7	820.3
Income tax assets	3.7	14.4	0.1
Other non-interest-bearing receivables	3.7	206.6	194.4
Trade payables	4.3 4.5	-1,029.9	-982.7
Other non-interest-bearing liabilities	4.3 4.5	-207.9	-197.8
Income tax liabilities	4.5	-11.8	-16.5
Accrued liabilities	4.3 4.5	-387.6	-355.0
Total, continuing operations		**426.0**	**375.7**

Working capital, continuing operations



3.2 Business acquisitions and disposals of assets

Acquisitions in 2019

In January, Kesko Corporation subsidiaries Skattum Handel AS and Rake Eiendom AS acquired the DIY retail business and related properties of the Norwegian Sørbø retailer group as well as a B2B logistics centre. The acquired stores previously operated Byggmakker stores under the retailer business model. The debt-free price of the transaction, structured as a share purchase and business acquisition, totalled NOK 238.2 million (€24.2 million).

Kesko Group company K-rauta AB completed the acquisition of Fresks Group from Litorina, Oscarson Invest and the group's management. The debt-free price of the transaction, structured as a share purchase, was SEK 2,192.0 million (€209.8 million).

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

The DIY business of the Sørbø retailer group

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

The acquisitions resulted in goodwill totalling €4.6 million. The Group profit includes minor acquisition-related costs, which are presented as items affecting comparability. The impact of the acquired businesses on the Group's net sales and operating profit in February-December was minor.

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

Fresks Group (K-Bygg)

The acquisition of Fresks Group significantly strengthens Kesko's market position in Sweden, especially in the growing professional builders customer segment. With the acquisition, Kesko assumed ownership of 33 stores and some 500 employees, who mainly serve small and medium-sized renovation companies. Since June, Fresks Group has served customers under the K-Bygg brand.

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

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €4.8 million. The €170.5 million goodwill arising from the acquisition reflects the synergies expected to be achieved in sales, purchasing, selections, logistics and operational efficiency. The Group profit includes acquisition-related costs of €1.4 million, which are presented as items affecting comparability.

Fresks Group's impact on net sales in May-December was €132.8 million. The impact on the comparable operating profit in May-December was €+9.6 million. If the acquisitions had taken place on 1 January 2019, according to management estimates, the impact on Group net sales would have been approximately €199.1 million, and the impact on the comparable operating profit would have been €+12.1 million. In determining the net sales and comparable operating profit, the management estimates that recorded fair values would have been the same on the date of acquisition had the acquisition taken place on 1 January 2019.

Car trade acquisitions from Huittisten Laatuauto, LänsiAuto and Laakkonen Group

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

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €0.5 million. The €23.1 million goodwill arising from the acquisitions reflects the synergies expected to be achieved in efficiency in retail and other operations.

The Group profit includes minor acquisition-related costs, which are presented as items affecting comparability. The impact of the acquired businesses on the Group's net sales and operating profit in March-December was minor.

Acquisitions in 2018

In June, Kesko Corporation agreed to acquire Reinin Liha and Kalatukku E. Eriksson as part of its foodservice wholesale business Kespro. Reinin Liha Oy's acquisition was completed on 1 June 2018 and Kalatukku E. Eriksson Oy's on 2 July 2018. The combined debt-free transaction price of the acquisitions, structured as share purchases, was €14.8 million.

In June, Kesko Corporation's subsidiary Byggmakker Handel AS agreed to acquire the Norwegian building and home improvement trade companies Skattum Handel AS and Gipling AS. The acquisition of Skattum Handel AS was completed on 2 July 2018 and the acquisition of Gipling AS on 23 July 2018. The combined debt-free transaction price of the acquisitions, structured as share purchases, was NOK 1,466.7 million (€147.4 million).

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

2018 € million	Skattum Handel AS and Gipling AS	Kalatukku E. Eriksson Oy and Reinin Liha Oy
Consideration paid	147.4	14.8
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition		
Intangible assets	7.6	7.6
Property, plant, equipment, right-of-use assets and investments	26.4	6.1
Inventories	31.0	1.9
Receivables	35.8	4.1
Deferred tax asset	0.6	-
Cash and cash equivalents	5.5	1.2
Total assets	**107.0**	**20.8**
Trade payables, other payables, provisions, lease liabilities	51.6	6.1
Deferred tax liability	1.3	2.0
Total liabilities	**52.9**	**8.0**
Net assets acquired, total	**54.1**	**12.8**
Goodwill	**93.4**	**2.0**
Cash flow impact of acquisition		
Consideration paid	-152.8	-14.8
Cash and cash equivalents acquired	5.7	1.2
Unpaid share	-	1.8
Cash flow impact of acquisition	**-147.1**	**-11.9**

Skattum Handel AS and Gipling AS

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

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

The fair value of the intangible assets acquired (including customer relationships) at the date of acquisition totals €7.6 million. The balance sheet value of current trade receivables equals their fair value. The €93.4 million goodwill arising from the acquisition reflects market share and business knowledge as well as the synergies expected to be achieved in purchasing, selections, logistics, ICT systems and operational efficiency. The Group profit for 2018 includes acquisition-related costs of €1.8 million. The costs are presented as items affecting comparability.

The impact of Skattum Handel AS and Gipling AS on net sales for July-December was €39.7 million. The impact on the comparable operating profit for July-December was €2.4 million. If the acquisitions had taken place on 1 January 2018, according to management estimates, the impact on Group net sales would have been approximately €70.9 million, and the impact on comparable operating profit would have been €5.9 million, excluding the impact of IFRS 16. In determining the net sales and comparable operating profit, the management estimates that recorded fair values would have been the same on the date of acquisition had the acquisition taken place on 1 January 2018.

Kalatukku E. Eriksson Oy and Reinin Liha Oy

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

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

The fair value of the intangible assets acquired (including customer relationships and trademarks) at the date of acquisition totals €7.6 million. The balance sheet value of current trade receivables equals their fair value. The €2.0 million goodwill arising from the acquisition reflects the synergies expected to be achieved from joint customer relationships, logistics, ICT and administration. The Group profit for 2018 includes acquisition-related costs of €0.9 million. The costs are presented as items affecting comparability.

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

Disposals of assets in 2019

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

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

Disposals of assets in 2018

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

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.

2019 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construc-tion in progress	Total 2019
Cost						
Cost as at 1 January	260.8	1,206.4	559.5	29.6	34.0	2,090.2
Exchange differences	-0.2	0.5	0.2	0.0	0.2	0.6
Additions	14.7	106.1	131.6	3.5	48.0	303.8
Acquisitions	29.1	107.1	3.8	1.4	0.0	141.4
Deductions	-3.7	-68.9	-61.2	-2.1	-0.2	-136.0
Transfers between items*	1.2	33.0	-23.1	5.2	-45.8	-29.4
Cost as at 31 December	301.9	1,384.1	610.8	37.5	36.3	2,370.6
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-6.0	-499.3	-369.4	-19.2		-893.8
Exchange differences		0.1	0.0	0.0		0.2
Accumulated depreciation on deductions	1.0	58.7	47.2	0.9		107.7
Accumulated depreciation on transfers*		0.2	23.6	-0.1		23.7
Depreciation and impairment charges for the year		-58.8	-59.7	-2.1		-120.6
Accumulated depreciation and impairment charges as at 31 December	-5.0	-499.0	-358.3	-20.5		-882.8
Carrying amount as at 1 January	254.8	707.1	190.1	10.4	34.0	1,196.4
Carrying amount as at 31 December	**296.9**	**885.0**	**252.5**	**17.0**	**36.3**	**1,487.9**

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

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

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.

2019 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2019
Cost					
Cost as at 1 January	330.4	94.3	244.0	17.9	686.6
Exchange differences	3.1	0.3	0.3	-0.1	3.6
Additions	198.1		23.8	9.1	231.1
Acquisitions			4.8		4.8
Deductions	-0.8		-34.4	-4.7	-39.9
Transfers between items			8.1	-8.6	-0.5
Cost as at 31 December	530.8	94.6	246.6	13.7	885.7
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-51.7	-7.1	-135.7		-194.5
Exchange differences	0.0	-0.1	-0.2		-0.3
Accumulated amortisation on deductions	0.0		34.6		34.6
Accumulated amortisation on transfers	0.0		0.0		0.0
Amortisation and impairment charges for the year	0.0		-40.9		-40.9
Accumulated amortisation and impairment charges as at 31 December	-51.7	-7.2	-142.2		-201.1
Carrying amount as at 1 January	278.7	87.2	108.3	17.9	492.1
Carrying amount as at 31 December	**479.0**	**87.4**	**104.5**	**13.7**	**684.6**

2018 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2018
Cost					
Cost as at 1 January	237.5	89.3	222.6	17.0	566.5
Exchange differences	-3.5	-0.3	-0.6		-4.5
Additions	110.9		30.4	12.6	153.9
Acquisitions		5.3	14.0		19.3
Deductions			-19.9	-2.1	-21.9
Transfers to non-current assets classified as held for sale	-14.5		-2.5	-9.7	-26.7
Cost as at 31 December	330.4	94.3	244.0	17.9	686.6
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-65.2	-7.2	-117.8		-190.2
Exchange differences	0.0	0.1	0.6		0.7
Accumulated amortisation on transfers to non-current assets classified as held for sale	14.5		1.9		16.4
Accumulated amortisation and impairment charges on disposals	-1.0		16.6		15.6
Amortisation and impairment charges for the year	0.0		-36.9		-36.9
Accumulated amortisation and impairment charges as at 31 December	-51.7	-7.1	-135.7		-194.5
Carrying amount as at 1 January	172.4	82.2	104.7	17.0	376.2
Carrying amount as at 31 December	**278.7**	**87.2**	**108.3**	**17.9**	**492.1**

Other intangible assets include other non-current expenditure, of which €66.0 million (€70.3 million) are software and licence costs.

Goodwill and intangible rights by division

€ million	Trade-marks 2019	Goodwill 2019	Discount rate (WACC) 2019	Trade-marks 2018	Goodwill 2018	Discount rate (WACC) 2018
Grocery trade, chain operations		76.1	4.7		76.1	6.0
Grocery trade, Kespro	5.3	2.0	4.7	5.3	2.0	6.0
Building and technical trade						
Byggmakker, Norway	23.8	98.9	5.7	23.6	93.4	7.0
Onninen	58.3	55.1	6.2	58.3	55.1	7.3
Kesko Senukai, Baltics		33.0	6.7		32.0	7.0
K-Bygg, Sweden		171.0	5.7			
Car trade		43.1	5.7		20.0	7.0
Total	**87.4**	**479.0**		**87.2**	**278.7**	

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.

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 1.0–2.0% (1.5–2.0%) forecast growth rates, allowing for country-specific differences.

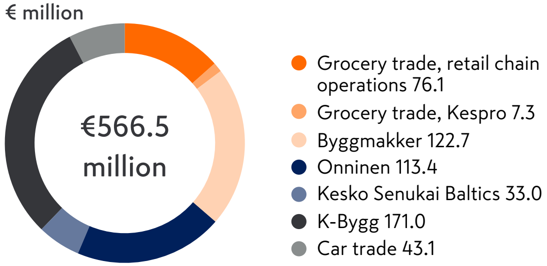
The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each division and country and adjusted for tax effect in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. Goodwill impairment testing for 2019 has been made using estimates based on accounting policies that include IFRS 16. Goodwill impairment testing for the comparison year was made with estimates based on accounting policies in force in 2018. In goodwill impairment testing, the adoption of IFRS 16 Leases increases recoverable amounts and assets tested. Discount rates for 2019 have been determined using formula inputs based on IFRS 16. Discount rates for the comparison year have been determined excluding the impact of IFRS 16.

Impairment losses

There were no impairment charges recognised on goodwill or intangible rights in the financial years 2019 and 2018.

Goodwill and trademarks

€ million



Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate. The most sensitive to movements in assumptions are the goodwill related to the car trade, where a more than 0.9 percentage point decrease in the residual EBITDA would mean an impairment would be recognised, and the Byggmakker-related goodwill, where a more than 1.1 percentage point decrease in the residual EBITDA would mean 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 Right-of-use assets

Accounting policies

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

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

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

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

2018 € million	Land and buildings	Machinery and equipment	Total
Carrying amount as at 1 January	1,977.7	18.3	1,996.0
Additions	361.0	8.8	369.8
Acquisitions	20.7	0.1	20.8
Depreciation	-296.6	-7.5	-304.0
Impairment charges	-11.8	-	-11.8
Carrying amount as at 31 December	2,039.5	17.5	2,057.0

3.6 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	2019	2018
Goods	1,027.0	904.9
Prepayments	10.6	8.1
Total	1,037.7	913.0
Write-down of inventories to net realisable value	46.6	39.3

3.7 Trade and other current receivables

Accounting policies

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

€ million	2019	2018
Interest-bearing receivables		
Interest-bearing loans and receivables	2.2	2.7
Total interest-bearing receivables	2.2	2.7
Trade receivables	804.7	820.3
Income tax assets	14.4	0.1
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	25.6	22.1
Prepaid expenses	181.0	172.3
Total other non-interest-bearing receivables	206.6	194.4
Total	**1,027.8**	**1,017.5**

A total amount of €3.6 million (€5.2 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.

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

Accounting policies

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

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives.

Discontinued operations

The Russian building and home improvement trade operations, discontinued in 2018, are reported as discontinued operations in the consolidated financial statements, and are not included in the financial statements in the figures for the Group's continuing operations or the segment figures for the building and technical trade for the financial year or the comparison period. In February 2018, Kesko Corporation agreed to sell 12 K-Rauta properties in the St. Petersburg and Moscow regions to the Russian division of the French Leroy Merlin. The business operations conducted in the properties were discontinued during the first half of 2018 and the ownership of the properties was transferred to the buyer during the second quarter of 2018. The two building and home improvement store properties in the Moscow region excluded from the transaction were sold in December 2018. The dissolution of the Russian subsidiaries was completed during the financial year 2019.

A cost of €1.5 million related to the discontinuation of operations and a €13.2 million positive tax impact were recorded in discontinued operations for the financial year 2019. The divestment of the properties resulted in a net €16.2 million sales gain for discontinued operations for the financial year 2018. The operative result after taxes for the operations was €-1.7 million. In addition, a cost of €23.3 million related to the discontinuation of operations was recorded as were translation differences of €-39.5 million related to the equity financing of Russian subsidiaries. The divestment of the properties also resulted in a €7.9 million tax cost. The divestment of the properties resulted in a positive cash flow of €161.3 million for Kesko Corporation for the financial year 2018.

Result for the Russian building and home improvement trade

€ million	2019	2018
Income	-	46.2
Expense	-	-47.6
Profit/loss before tax	-	-1.4
Income tax	-	-0.3
Net profit/loss after tax	-	-1.7
Loss on discontinued Russian building and home improvement trade before tax	-1.5	-46.2
Income tax	13.2	-7.9
Loss on discontinued Russian building and home improvement trade after tax	11.6	-54.1
Net loss for the period from discontinued operations	**11.6**	**-55.9**
Comprehensive income for the period, net of tax	-	-35.1
Comprehensive income from discontinued operations	**11.6**	**-20.8**

Assets and liabilities of the Russian building and home improvement trade

€ million	2019	2018
ASSETS		
Tangible assets	-	0.4
Total	-	0.4
Current assets		
Trade receivables	-	0.0
Other receivables, non-interest-bearing	-	9.7
Cash and cash equivalents	-	0.4
Total	-	10.1
Total assets	**-**	**10.5**

€ million	2019	2018
LIABILITIES		
Current liabilities		
Trade payables	-	0.1
Other non-interest-bearing liabilities	-	0.3
Provisions	-	0.2
Total	-	0.5
Total liabilities	**-**	**0.5**

Cash flows for the Russian building and home improvement trade

€ million	2019	2018
Net cash flows from operating activities	3.5	-23.3
Net cash flows from investing activities	3.5	164.3
Net cash flows from financing activities	-	-
Increase in liquid assets	**7.1**	**141.0**

Assets held for sale

The assets and liabilities of the Baltic machinery trade and Finnish agricultural machinery trade operations have been classified as "held for sale" as of June 2018. Konekesko Oy's agricultural machinery trade operations in Finland were sold to Danish Agro Group on 1 August 2019. Kesko has stated it will also divest its remaining stake in the Baltic machinery trade subsidiaries to Danish Agro Group.

During the financial year 2018, Kesko Group company Konekesko Oy divested its Still forklift business.

€ million	2019	2018
Intangible assets	0.0	0.0
Land	0.7	0.9
Buildings and real estate shares	1.4	1.6
Machinery and equipment	1.3	1.0
Other tangible assets	0.1	0.0
Right-of-use assets	3.6	4.1
Inventories	48.3	53.7
Trade receivables	5.9	3.6
Other receivables	0.6	10.1
Cash and cash equivalents	-	0.4
Non-current assets held for sale	**61.9**	**75.6**
Trade payables	-6.1	-9.9
Other liabilities	-3.6	-4.1
Provisions	-1.2	-1.5
Liabilities related to non-current assets held for sale	**-10.9**	**-15.4**

3.9 Pension assets

Accounting policies

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

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

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

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

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund's department A. Department A was closed on 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. At the end of 2019, the Pension Fund had 2,330 beneficiaries, of whom 360 were active employees and 1,970 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.6% (96.9%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

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

During the financial year, Kesko Pension Fund paid in total €48 million (€58 million) in return of surplus assets to Finnish Group companies. Kesko Group does not expect to pay contributions to the Pension Fund in 2020.

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

€ million	2019	2018
Present value of defined benefit obligation	-284.7	-254.2
Fair value of plan assets	377.8	402.2
Net assets recognised in the balance sheet	**93.2**	**148.0**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	**148.0**	**207.5**
Income/cost recognised in the income statement	-2.9	0.0
Remeasurement	-4.5	-2.3
Return of surplus assets	-48.3	-58.1
Contributions to plan and plan costs	0.9	1.0
As at 31 December	**93.2**	**148.0**

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

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

Plan assets were comprised as follows in 2019

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

Plan assets were comprised as follows in 2018

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

€ million	2019	2018
Kesko Corporation shares included in fair value	0.0	0.0
Properties leased by Kesko Group included in fair value	88.6	124.5

Principal actuarial assumptions:

	2019	2018
Discount rate	0.79%	2.09%
Salary growth rate	1.80%	2.18%
Inflation	1.30%	1.59%
Pension growth rate	1.60%	1.86%
Average service expectancy, years	7	8

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

	2019	2018
Weighted average duration of pension obligations, years	15	14
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	14.1	13.8
Between 1–10 years	110.3	114.2
Between 10–20 years	93.8	103.1
Between 20–30 years	59.6	68.8
Over 30 years	45.6	56.1
Total	**323.5**	**356.0**

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 2019, the realised return on investing activity was 9.9%.

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 €92.1 million as at 31 December 2019. 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
2019			
Discount rate	0.50%	-7.04%	7.96%
Salary growth rate	0.50%	1.15%	-1.10%
Pension growth rate	0.50%	6.40%	-5.80%
2018			
Discount rate	0.50%	-6.56%	7.37%
Salary growth rate	0.50%	1.19%	-1.14%
Pension growth rate	0.50%	5.90%	-5.30%

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.

3.10 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are handled as equity accounted investments.

€ million	2019	2018
Carrying amount as at 1 January	123.5	117.4
Share of the net profit for the financial year	46.1	-4.3
Additions	5.3	17.6
Deductions	-1.6	-3.6
Impairment charges	-	-10.8
Dividends received from associated companies	-83.4	-
Transfer to shares of subsidiaries	-32.1	-
Carrying amount as at 31 December	**57.8**	**123.5**

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

Kruunuvuoren Satama Oy became a wholly-owned subsidiary of Kesko Corporation in May 2019, when Kesko Corporation, Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company agreed on an arrangement to dissolve their joint ownership of Kruunuvuoren Satama Oy. Prior to the arrangement becoming effective, Kesko held 49% of the shares and votes in the company, first established in 2010. In November 2019, Hehku Kauppa Oy became a wholly-owned subsidiary of Kesko Corporation, when Kesko Corporation acquired Oriola Corporation's 50% stake in the company. Kruunuvuoren Satama Oy and Hehku Kauppa Oy have been consolidated as associates and joint ventures in the consolidated financial statements until the point they became Group subsidiaries.

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 venture consolidated using the equity method, Mercada Oy, owns properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

2019 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	682.1	586.8	50.1	11.5	33.3
Valluga-sijoitus Oy, Helsinki	1.1	-	-	51.9	46.2
Vähittäiskaupan Takaus Oy, Helsinki	154.3	0.3	1.8	53.3	32.6
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	9.8	2.6	11.2	0.6	30.0
Others	13.3	10.2	4.1	-0.1	
Total	**860.7**	**599.9**	**67.2**	**117.2**	

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

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	2019	2018
Non-current assets	29.3	34.8
Current assets	0.6	0.8
Total	29.9	35.7
Non-current liabilities	1.6	1.9
Current liabilities	5.9	5.2
Total	7.5	7.1
Net assets	22.4	28.6
Income	2.9	2.7
Costs	3.6	3.8
Net profit	**-0.7**	**-1.1**

3.11 Provisions

Accounting policies

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

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

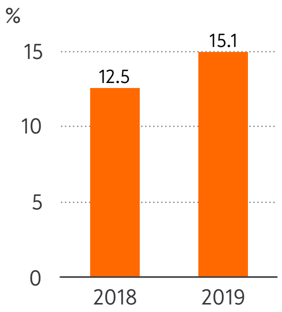
€ million	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2019	22.8	19.9	42.8
Foreign exchange effects	0.0	0.0	0.0
Additional provisions	11.8	10.0	21.8
Unused amounts reversed	-2.2	-0.9	-3.1
Amounts charged against provision	-13.5	-11.7	-25.2
Changes in the Group structure	0.1	-0.2	-0.1
Provisions as at 31 Dec. 2019	19.0	17.0	36.1
Analysis of total provisions			
Non-current	8.9	10.7	19.7
Current	10.1	6.3	16.4

A provision has been recognised for warranties and care plans of vehicles and machines sold by the Group companies.

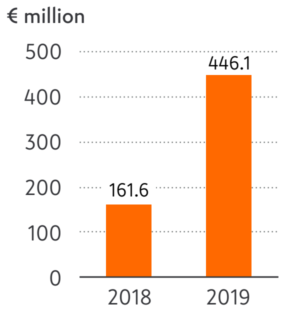
Changes in Group structure include transfers to liabilities related to non-current assets classified as held for sale, and the impacts of acquisitions and divestments.

4. CAPITAL STRUCTURE AND FINANCIAL RISKS

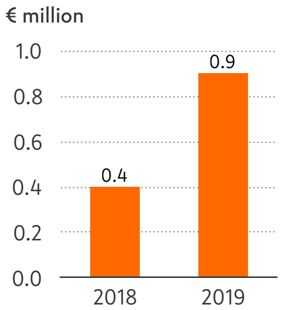
Comparable return on equity



Interest-bearing net liabilities excluding lease liabilities



Interest-bearing net debt/EBITDA excluding the impact of IFRS 16



IN THIS SECTION

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 25 April 2019, the Board of Directors approved the target levels presented below for comparable operating margin, comparable return on capital employed, and interest-bearing net debt/EBITDA, as part of the Group's medium-term financial targets. The profitability targets take into account the impacts of IFRS 16 Leases. In terms of financial position, as before, the Group uses interest-bearing net debt/EBITDA excluding the impact of IFRS 16.

	Target level	Level achieved in 2019	Level achieved in 2018
Comparable operating margin	5.0%	4.3	4.1
Comparable return on capital employed, continuing operations	11.0%	9.6	9.8
Interest-bearing net debt/EBITDA excluding the impact of IFRS 16	<2.5	0.9	0.4

€ million	2019	2018
Interest-bearing liabilities and lease liabilities in the consolidated statement of financial position	3,037.3	2,700.3
- Lease liabilities	2,422.2	2,289.0
- Current financial assets at fair value through profit or loss	10.1	50.9
- Current financial assets at amortised cost	34.5	59.1
- Cash and cash equivalents	124.4	139.6
Interest-bearing net debt excluding lease liabilities	**446.1**	**161.6**
Operating profit	446.3	359.0
+ depreciation, amortisation and impairment	160.9	146.5
+ depreciation and impairment charges for right-of-use-assets	325.0	320.3
- lease payments for right-of-use assets	424.6	411.8
EBITDA excluding the impact of IFRS 16	**507.7**	**413.9**
Interest bearing net debt/EBITDA excluding the impact of IFRS 16	**0.9**	**0.4**

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 2019, 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 2019, 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 2018	31,737,007	67,719,608*	99,456,615*	197.3	22.8	197.8	417.8
Transfer of treasury shares		61,738	61,738				
Acquisition of treasury shares		-500,000	-500,000				
31 December 2018	31,737,007	67,281,346*	99,018,353*	197.3	22.8	197.8	417.8
Transfer of treasury shares		70,036	70,036				
Acquisition of treasury shares							
31 December 2019	**31,737,007**	**67,351,382***	**99,088,389***	**197.3**	**22.8**	**197.8**	**417.8**
Number of votes	**317,370,070**	**67,351,382**	**384,721,452**				

* Excluding treasury shares which totalled 931,363 (1,001,399) at the end of the financial year.

Treasury shares

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

€ million	pcs
B shares held by the Company as at 31 Dec. 2018	**1,001,399**
Transfer, share-based compensation plan	-73,810
Returned during the period	3,774
B shares held by the Company as at 31 Dec. 2019	**931,363**

Dividends

After the balance sheet date, the Board of Directors has proposed that €2.52 per share be distributed as dividends. A dividend of €2.34 per share was distributed on the profit for 2018.

Equity and reserves

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

Share premium

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

Reserve of invested non-restricted equity

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

Other reserves

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

Currency translation differences

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

Revaluation reserve

The revaluation reserve includes the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied. Cash flow hedges include electricity derivatives. 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 eight countries, in addition to which it makes purchases from numerous countries. In consequence, the Group is exposed to various foreign exchange risks arising from net investments in foreign operations (translation risks) and from assets, liabilities and forecast transactions (transaction risks) denominated in foreign currencies.

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

Translation risks

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

Group's translation exposure as at 31 Dec. 2019 € million	**NOK**	**SEK**	**PLN**	**BYN**	**RUB**
Net investment	80.4	194.4	44.2	10.4	-

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

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

Sensitivity analysis, impact on equity as at 31 Dec. 2019 € million	**NOK**	**SEK**	**PLN**	**BYN**	**RUB**
Change +10%	-7.3	-17.7	-4.0	-0.9	-
Change -10%	8.9	21.6	4.9	1.2	-

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

Transaction risks

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

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

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

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The following table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual foreign exchange risk after hedgings. When forecast amounts are included in the transaction exposure, the most significant difference from the table below is in the USD exposures. As at 31 December 2019, the exposure with respect to USD was €-37.7 million.

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

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

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

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

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

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.

On 31 December 2019, the Group had liquid assets of €169.0 million (€249.6 million). Interest-bearing liabilities on 31 December 2019 totalled €3,037.3 million (€2,700.3 million), and interest-bearing net debt €2,868.4 million (€2,450.7 million), of which lease liabilities accounted for €2,422.2 million (€2,289.0 million). Interest-bearing net debt excluding lease liabilities totalled €446.1 million (€161.6 million).

	31 Dec. 2019				31 Dec. 2018			
€ 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	**8.3**	**327.4**	**0.2**	**335.8**	**5.7**	**7.7**	**0.2**	**13.7**
finance costs	3.3	6.3	0.0	9.6	0.4	0.6	0.0	1.0
Private Placement notes (USD)					**20.1**			**20.1**
finance costs					0.6			0.6
Pension loans	**22.7**	**98.7**	**38.8**	**160.1**	**23.9**	**103.0**	**57.2**	**184.0**
finance costs	2.0	4.8	0.9	7.8	2.3	6.2	1.7	10.1
Lease liabilities	**383.3**	**1,097.3**	**941.6**	**2,422.2**	**309.5**	**1,055.7**	**923.8**	**2,289.0**
finance costs	84.7	215.9	100.8	401.3	84.3	240.6	111.9	436.7
Payables to K-retailers	**98.0**			**98.0**	**119.3**			**119.3**
finance costs								
Other interest-bearing liabilities	**12.8**	**9.0**	**0.0**	**21.8**	**63.8**	**3.4**	**6.5**	**73.8**
finance costs	0.4	0.7		1.1	0.5	1.1	0.1	1.7
Non-current non-interest-bearing liabilities	**1.0**	**3.6**	**25.2**	**29.8**	**0.9**	**2.7**	**25.8**	**29.4**
Current non-interest-bearing liabilities								
Trade payables	**1,029.9**			**1,029.9**	**982.7**			**982.7**
Accrued expenses	**387.6**			**387.6**	**355.0**			**355.0**
Other non-interest-bearing liabilities	**173.3**			**173.3**	**171.7**			**171.7**

Financial liabilities in the balance sheet include €6.8 million (€2.7m) in items related to derivatives. Lease liabilities are presented in note 4.6.

	31 Dec. 2019				31 Dec. 2018			
€ million	<1 year	1–5 years	>5 years	Total	<1 year	1–5 years	>5 years	Total
Cash flows of derivatives								
Payables								
Foreign exchange forward contracts	153.8			153.8	128.9			128.9
Interest rate derivatives	1.2	3.7	0.9	5.7	0.8	3.1	1.3	5.3
Electricity derivatives	0.0	0.1	0.0	0.1	0.0	0.0		0.0
Receivables								
Foreign exchange forward contracts	151.1			151.1	130.5			130.5
Interest rate derivatives	0.1	0.3		0.4				
Electricity derivatives	0.6	0.2		0.9	1.2	1.1	0.0	2.3
Derivatives relating to Private Placement notes								
Foreign currency derivatives					0.9			0.9
Interest rate derivatives					0.1			0.1

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

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

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €300 million (€200 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €506 million (€449 million). In addition, in January 2020, the Group companies held a total of €414 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 2.1 (1.8) years on average.

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 had 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 was paid on 10 June 2019.

Kesko Corporation's USD Private Placement credit facility qualified for hedge accounting against both foreign exchange and interest rate risk and it was hedged by currency swaps and interest rate swaps with the same amounts and maturities as the borrowing. As a result, the borrowing were 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 2019, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.1 million (€-/+1.7 million), if the interest rate level had risen or fallen by 1 percentage point.

Pension loans, €160.1 million in aggregate, have fixed rates, and their effective interest cost was 1.3%. Other borrowings from financial institutions have variable interest rates. At the end of the financial year, the average rate of these borrowings, payables to retailers, and other interest-bearing liabilities was 0.8%.

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 2019 was 2.5% (1.0%) and the duration was 0.5 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 following table analyses financial instruments carried at fair value by valuation method.

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

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

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	2019	2018
Private equity funds and other shares and interests as at 1 January	20.8	23.0
Purchases	0.3	0.5
Refunds received	-0.6	-0.9
Gains and losses through profit or loss	-1.0	-4.8
Changes in fair values	1.1	2.9
Private equity funds and other shares and interests as at 31 December	**20.6**	**20.8**

Level 3 includes private equity funds and other shares and interests. These investments have been classified as financial assets through profit or loss. Level 3 financial assets are measured based on computations received from the companies. An income of €1.1 million has been recorded on these investments for the financial year 2019.

Current interest-bearing receivables and sensitivity analysis

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

Financial assets at amortised cost € million	2019	2018
Carrying amount as at 1 January	59.1	56.8
Changes	-24.6	2.3
Carrying amount as at 31 December	**34.5**	**59.1**

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

In the sensitivity analysis of floating rate receivables, average annual balances of invested assets have been used. The receivables include customer financing receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/- 1.1 million (€+/-1.7 million).

Maturity of non-current receivables

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

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

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

Credit and counterparty risk

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

According to retailer agreements, retailers shall arrange overdraft facilities to be held as collateral for their trade payables by the relevant Kesko subsidiary.

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

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

Ageing analysis of trade receivables € million	2019	2018
Trade receivables fully performing	712.1	732.0
1–7 days past due trade receivables	31.4	30.9
8–30 days past due trade receivables	30.4	23.4
31–60 days past due trade receivables	8.9	9.3
over 60 days past due trade receivables	21.8	24.7
Total	**804.7**	**820.3**

Within trade receivables, €317.2 million (€348.0 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 €247.4 million (€197.1 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 €23.7 million (€24.3 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €3.6 million (€5.2 million).

The amount of receivables with renegotiated terms totalled €1.2 million (€5.1 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 Group hedges the electricity system price in compliance with IFRS 9. The effective portion of the change in the value of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under Revaluation of cash flow hedge.

Result of cash flow hedging

As a result of hedge accounting applied to electricity, an amount of €0.7 million (€2.2 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-0.8 million (€4.6 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €-1.5 million (€2.3 million) before accounting for deferred tax.

As at the balance sheet date, a total quantity of 495,424 MWH (265,075 MWH) of electricity had been purchased with electricity derivatives and 559,027 MWH under fixed price purchase agreements. The 1–12 month hedging level was 76% (68%), the 13–24 month level was 62% (53%), the 25–36 month level was 43% (43%), and the 37–48 month level was 18% (27%).

The sensitivity analysis of electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by -/+20% from the balance sheet date 31 December 2019, it would contribute €-/+1.1 million (€-/+0.8 million) to the 2020 income statement and €-/+2.2 million (€-/+1.2 million) to equity. The impact has been calculated before taxes.

Derivatives

Fair values of derivative contracts € million	**31 Dec. 2019 Positive fair value (balance sheet value)**	**31 Dec. 2019 Negative fair value (balance sheet value)**	**31 Dec. 2018 Positive fair value (balance sheet value)**	**31 Dec. 2018 Negative fair value (balance sheet value)**
Interest rate derivatives	0.2	-3.8	0.4	-2.4
Foreign currency derivatives	0.2	-2.9	3.2	-0.8
Electricity derivatives	0.9	-0.1	2.3	-0.0

Notional principal amounts of derivative contracts € million	**31 Dec. 2019 Notional principal amount**	**31 Dec. 2018 Notional principal amount**
Interest rate derivatives	340.0	350.2
Foreign currency derivatives	154.4	149.2
Electricity derivatives	15.7	11.0

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 €0.2 million.

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

4.4 Finance income and costs

€ million, continuing operations	**2019**	**2018**
Interest income and other finance income		
Interest income on financial assets at amortised cost	0.8	0.9
Interest income on loans and receivables	10.2	10.2
Interest income on financial assets at fair value through profit or loss	-1.0	-0.7
Gains on disposal of financial assets at amortised cost	0.6	0.1
Gains on disposal of financial assets at fair value through profit or loss	2.7	2.9
Other finance income	0.8	0.7
Total interest income and other finance income	14.0	14.1
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-5.9	-9.2
Losses on disposal of financial assets at amortised cost	0.0	-
Losses on disposal of financial assets at fair value through profit or loss	-	0.0
Other finance costs	-3.2	-3.2
Total interest expense and other finance costs	-9.1	-12.4
Interest expense for lease liabilities	-95.4	-98.6
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	-0.8	-2.8
Total exchange differences	-0.8	-2.8
Total finance income and costs	**-91.4**	**-99.7**

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

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

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

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

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

Financial assets at amortised cost

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

Financial assets at fair value

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

Cash and cash equivalents

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

Financial liabilities

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

Derivative financial instruments and hedge accounting

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

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

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

Measurement principles

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

Hedging a net investment in foreign operations

During the financial year, the Group has not hedged net investments in foreign operations. If a hedge is initiated, the Group applies hedge accounting in accordance with IFRS 9 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the hedging instruments are recognised in profit or loss.

Embedded derivatives

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

As at 31 December 2019

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial assets					
Financial assets at fair value through profit or loss	**20.6**			**20.6**	**20.6**
Non-current non-interest-bearing receivables		1.1		1.1	1.1
Derivatives			0.2	0.2	0.2
Total non-current non-interest-bearing receivables		**1.1**	**0.2**	**1.3**	**1.3**
Total non-current interest-bearing receivables		**57.5**		**57.5**	**57.5**
Total non-current financial assets	**20.6**	**58.7**	**0.2**	**79.4**	**79.4**
Current financial assets					
Trade and other non-interest-bearing receivables		1,010.1		1,010.1	1,010.1
Derivatives	0.4		0.7	1.1	1.1
Total trade and other non-interest-bearing receivables	**0.4**	**1,010.1**	**0.7**	**1,011.2**	**1,011.2**
Current interest-bearing receivables		2.2		2.2	2.2
Total current interest-bearing receivables		**2.2**	**0.0**	**2.2**	**2.2**
Financial assets at fair value through profit or loss	**10.1**			**10.1**	**10.1**
Financial assets at amortised cost		**34.5**		**34.5**	**34.5**
Total current financial assets	**10.5**	**1,046.8**	**0.7**	**1,058.0**	**1,058.0**
Carrying amount by category	**31.1**	**1,105.5**	**0.9**	**1,137.5**	**1,137.4**

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial liabilities					
Non-current interest-bearing liabilities		477.3		477.3	480.0
Non-current lease liabilities		2,039.0		2,039.0	2,039.0
Non-current non-interest-bearing liabilities		29.8		29.8	29.8
Total non-current financial liabilities		**2,546.1**		**2,546.1**	**2,548.8**
Current financial liabilities					
Current interest-bearing liabilities		137.8		137.8	137.8
Current lease liabilities		383.2		383.2	383.2
Total current interest-bearing liabilities		**521.0**		**521.0**	**521.0**
Trade payables		**1,029.9**		**1,029.9**	**1,029.9**
Other non-interest-bearing liabilities		207.8		207.8	207.8
Derivatives			0.1	0.1	0.1
Total other non-interest-bearing liabilities		**207.8**	**0.1**	**207.9**	**207.9**
Accrued expenses		380.9		380.9	380.9
Derivatives	6.7			6.7	6.7
Total accrued expenses	**6.7**	**380.9**		**387.6**	**387.6**
Total current non-interest-bearing liabilities	**6.7**	**588.7**	**0.1**	**595.5**	**595.5**
Total current financial liabilities	**6.7**	**2,139.6**	**0.1**	**2,146.4**	**2,146.4**
Carrying amount by category	**6.7**	**4,685.7**	**0.1**	**4,692.5**	**4,695.1**

As at 31 December 2018

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial assets					
Financial assets at fair value through profit or loss	**20.8**			**20.8**	**20.8**
Non-current non-interest-bearing receivables		1.8		1.8	1.8
Derivatives			1.0	1.0	1.0
Total non-current non-interest-bearing receivables		**1.8**	**1.0**	**2.8**	**2.8**
Total non-current interest-bearing receivables		**62.8**		**62.8**	**62.8**
Total non-current financial assets	**20.8**	**64.8**	**1.0**	**86.5**	**86.5**
Current financial assets					
Trade and other non-interest-bearing receivables		1,014.9		1,014.9	1,014.9
Derivatives	2.4		1.3	3.6	3.6
Total trade and other non-interest-bearing receivables	**2.4**	**1,014.9**	**1.3**	**1,018.5**	**1,018.5**
Current interest-bearing receivables		1.8		1.8	1.8
Derivatives			0.9	0.9	0.9
Total current interest-bearing receivables		**1.8**	**0.9**	**2.7**	**2.7**
Financial assets at fair value through profit or loss	**50.9**			**50.9**	**50.9**
Financial assets at amortised cost		**59.1**		**59.1**	**59.1**
Total current financial assets	**53.3**	**1,075.8**	**2.1**	**1,131.2**	**1,131.2**
Carrying amount by category	**74.1**	**1,140.4**	**3.2**	**1,217.7**	**1,217.7**

Balance, € million	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets/liabilities as per balance sheet	Fair value
Non-current financial liabilities					
Non-current interest-bearing liabilities		177.8		177.8	179.7
Non-current lease liabilities		1,979.6		1,979.6	1,979.6
Non-current non-interest-bearing liabilities		29.4		29.4	29.4
Total non-current financial liabilities		**2,186.8**		**2,186.8**	**2,188.7**
Current financial liabilities					
Current interest-bearing liabilities		233.4		233.4	233.4
Current lease liabilities		309.5		309.5	309.5
Total current interest-bearing liabilities		**542.9**		**542.9**	**542.9**
Trade payables		**982.7**		**982.7**	**982.7**
Other non-interest-bearing liabilities		197.6		197.6	197.6
Derivatives			0.2	0.2	0.2
Total other non-interest-bearing liabilities		**197.6**	**0.2**	**197.8**	**197.8**
Accrued expenses		352.2		352.2	352.5
Derivatives	2.5			2.5	2.5
Total accrued expenses	**2.5**	**352.5**		**355.0**	**355.0**
Total current non-interest-bearing liabilities	**2.5**	**550.1**	**0.2**	**552.8**	**552.8**
Total current financial liabilities	**2.5**	**2,075.7**	**0.2**	**2,078.4**	**2,078.4**
Carrying amount by category	**2.5**	**4,262.5**	**0.2**	**4,265.2**	**4,267.1**

Prepaid expenses and accrued expenses do not include income tax assets of €14.4 million (€0.1 million) or income tax liabilities of €11.8 million (€16.5 million).
Prepayments received of €34.6 million (€25.9 million) are not categorised as financial liabilities and are not included in the table above.

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

4.6 Leases

Accounting policies

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

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

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

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

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

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

The right-of-use asset is remeasured with corresponding remeasurement of lease liability. The lessee depreciates the right-of-use asset from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. More information on right-of-use assets is provided in note 3.5.

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

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

Group as a lessee

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

Lease expenditure

€ million	2019	2018
Lease expenditure for short-term leases	-8.5	-6.3
Lease expenditure for low-value assets	-4.4	-2.6
Variable lease expenditure	-0.0	-0.0
Total, continuing operations	**-12.9**	**-8.9**

Right-of-use assets related to leases are presented in note 3.5.

Cash flows from lease liabilities are detailed in note 2.8, and the maturity of lease liabilities and related finance costs is detailed in note 4.3.

Lease liabilities

€ million	2019	2018
Lease liabilities for leases not recognised in the balance sheet	101.6	230.3

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

Group as a lessor

Kesko leases premises to entrepreneurs other than K-retailers to ensure that the combination of services at a store site supports Kesko's overall profit generation. Such premises typically include so-called store entrance shops at large retail outlets.

Lease income

€ million	2019	2018
Lease income for operating leases	17.0	16.0
Lease income for subleases	26.8	28.3
Total, continuing operations	**43.8**	**44.3**

4.7 Contingent liabilities

€ million	2019	2018
Collateral given for own commitments		
Pledges	152.3	138.0
Mortgages	212.1	206.1
Guarantees	16.2	10.1
Other commitments and contingent liabilities	57.5	55.8
Collateral given for others		
Guarantees	3.2	3.5
Other commitments and contingent liabilities	23.5	19.6

The guarantees given do not include guarantees related to the items presented within liabilities in the consolidated statement of financial position or as a lease liability in note 4.6.

Guarantee maturities are €11 million in 2020 and €8 million in 2021–2024.

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

5. OTHER

IN THIS SECTION

5.1 Group composition

Group composition

Kesko Group has 118 (99) 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 incorporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2019	Number of wholly-owned subsidiaries 2018	Number of partly-owned subsidiaries 2019	Number of partly-owned subsidiaries 2018
Grocery trade	Finland	K-Market Oy	28	23	7	5
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Belarus	Onninen Group, Byggmakker Group, K-Bygg Group, Kesko Senukai Group	47	37	26	26
Car trade	Finland	K-Auto Oy	8	7	-	-
Others	Finland		2	1	-	-

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

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 Senukai Group operates in Lithuania, Estonia, Latvia and Belarus. Kesko Group's holding in Kesko Senukai Group is 50.0%, and Kesko controls the majority of the shares and voting rights. 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 €8.5 million (€14.9 million) and in equity, the share was €105,7 million (€101.6 million).

Summarised financial information on subsidiary with material non-controlling interest

€ million	Kesko Senukai Group 2019	Kesko Senukai Group 2018
Current assets	285.0	273.3
Non-current assets	390.7	382.3
Current liabilities	184.0	173.3
Non-current liabilities	309.3	307.5
Net sales	860.1	729.1
Net profit/loss	17.3	26.5
Parent company owners' share of net profit/loss	16.8	23.2
Non-controlling interests' share of net profit/loss	0.5	3.3
Comprehensive income for the period	19.3	24.6
Parent company owners' share of comprehensive income for the period	17.8	22.6
Non-controlling interests' share of comprehensive income for the period	1.6	2.0
Dividends paid to non-controlling interests	-0.4	-0.6
Net cash generated from operating activities	41.9	46.0
Net cash used in investing activities	-12.2	-8.7
Net cash used in financing activities	-39.7	-38.8

The amounts above are before intra-Group eliminations.

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

Subsidiaries

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Barker-Littoinen Oy	Espoo	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Hehku Kauppa Oy	Espoo	100.00	100.00
Intersport Finland Oy	Helsinki	100.00	100.00
Kalatukku E. Eriksson Oy	Helsinki	100.00	100.00
K Auto Oy	Helsinki	100.00	100.00
Kenkäkesko Oy	Helsinki	100.00	100.00
Keskinäinen Kiinteistö Oy Malmin Kankirauta	Helsinki	100.00	100.00
Keskinäinen Kiinteistö Oy Voisalmentie 9 Lappeenranta	Helsinki	100.00	100.00
Kesko 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 Helsingin Itäkeskus	Helsinki	100.00	100.00
Kiinteistö Oy Hiukkavaaran Kauppa	Oulu	100.00	100.00
Kiinteistö Oy Hämeenlinnan Visamäentie 16	Helsinki	100.00	100.00
Kiinteistö Oy Kalkkipellontie 2	Espoo	100.00	100.00
Kiinteistö Oy Kiimingin Liiketalo 1	Oulu	100.00	100.00
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	100.00
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta	56.50	56.50
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	67.88
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	100.00	100.00
Kiinteistö Oy Riistaveden Keskustie 15	Helsinki	79.50	79.50

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

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
1A Grupa SIA	Riga, Latvia	25.50	
1A.EE Oü	Tallinn, Estonia	25.50	
1A.LT	Vilnius, Lithuania	25.50	
Antigravity Payment System UAB	Vilnius, Lithuania	25.50	
Oy Autocarrera Ab	Helsinki	100.00	
Autocarrera Autotalot Oy	Helsinki	100.00	
Byggmakker Nord AS	Steinkjer, Norway	100.00	
Byggmakker Sør AS	Gjøvik, Norway	100.00	
Byggmakker Sørbø AS	Stavanger, Norway	100.00	
Byggvaruhuset Färingsö Trä AB	Skå, Sweden	100.00	
Daugavpils project 1 SIA	Daugavpils, Latvia	50.01	
Delta turtas UAB	Vilnius, Lithuania	50.01	
Fresks Försäljning AB	Östersund, Sweden	100.00	
Fresks Group AB	Östersund, Sweden	100.00	
Fresks Holding AB	Östersund, Sweden	100.00	
Gärdin & Persson AB	Östersund, Sweden	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Jyrängön Palvelukeskus Oy	Heinola	50.45	
K Auto Leasing Oy	Helsinki	100.00	
K Bygg Östergyllen AB	Linköping, Sweden	100.00	
K Caara Oy	Helsinki	100.00	
K rauta SIA	Riga, Latvia	100.00	
Kesko Senukai Digital UAB	Vilnius, Lithuania	25.50	
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2–4	Kokkola	64.78	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Kiinteistö Oy Vantaan Simonsampo	Vantaa	100.00	
Kiinteistö Oy Visuveden Liiketalo	Ruovesi	100.00	
Konekesko Eesti AS	Tallinn, Estonia	55.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Konekesko Latvija SIA	Riga, Latvia	55.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	55.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
K-Rauta Holding Finland Oy	Helsinki	100.00	
KS Holding UAB	Vilnius, Lithuania	50.01	
Ksenukai Digital Oü	Tallinn, Estonia	25.50	
MD Galerija Azur SIA	Riga, Latvia	50.01	
Mobilukss SIA	Riga, Latvia	25.50	
Nomine UAB	Vilnius, Lithuania	50.01	
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 Russia Holding Oy	Helsinki	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Varsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	
Oskar Harju AB	Örnsködsvik, Sweden	100.00	
Peltosaaren Liikekeskus Oy	Riihimäki	59.67	
Penktoji Projekto Bendrové UAB	Vilnius, Lithuania	25.50	
Profelco Oy	Vantaa	100.00	
Punane Project Oü	Tallinn, Estonia	50.01	
Rake Bergen AS	Oppegård, Norway	100.00	
Romos Holdingas UAB	Kaunas, Lithuania	25.00	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	25.50	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Sørbø AS	Skedsmokorset, Norway	100.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
Tau & Jørpeland Bygg	Jørpeland, Norway	100.00	
Tau & Jørpeland Eiendom	Jørpeland, Norway	100.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
Urban Strålin Byggvaror AB	Ulricehamn, Sweden	100.00	
Övik Låsteknik AB	Örnsköldsvik, Sweden	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Mercada Oy	Helsinki	33.33	33.33
Valluga-sijoitus Oy	Helsinki	46.15	46.15
Vähittäiskaupan Takaus Oy	Helsinki	32.60	32.60
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

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

Proportionately consolidated mutual real estate companies

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

5.3 Related party transactions

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

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

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

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

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. At the end of 2019 or 2018, the pension assets did not include Kesko Corporation shares. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2019 and 2018, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement	Associates and joint ventures		Board and management		Pension Fund	
€ million	2019	2018	2019	2018	2019	2018
Sales of goods	6.2	8.9	85.0	81.6		
Sales of services	4.9	5.1	0.7	0.4	0.2	0.2
Purchases of goods	-1.3		-6.7	-7.6		
Purchases of services	0.0	-0.1	0.0	0.0	0.0	
Operating income	1.4	1.1	14.8	14.5		0.0
Operating costs	-3.2	-4.2	-0.8	-0.9	-0.1	-0.2
Finance income	5.6	5.7				

Balance sheet	Associates and joint ventures		Board and management		Pension Fund	
€ million	2019	2018	2019	2018	2019	2018
Current receivables	1.9	2.4	7.4	6.2	0.0	
Non-current receivables	57.7	57.7				
Current liabilities	4.3	26.9	2.5	1.3	7.0	4.1

Items related to leases	Associates and joint ventures		Board and management		Pension Fund	
€ million	2019	2018	2019	2018	2019	2018
Cash flow from leases	-43.0	-48.2	-3.7	-1.6	-6.3	-6.2
Lease liabilities	298.5	385.8	27.6	11.3	43.6	36.9

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €7,4 million (€6.2 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 €6,5 million (€4.8 million).

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

During the reporting period, Kesko Pension Fund paid in total €48 million (€58 million) in return of surplus assets to Finnish Group companies.

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

Management's employee benefits

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

Monetary salaries, fees, fringe benefits and share-based compensation € million		2019	2018
Mikko Helander	President and CEO	2,633.1	2,299.7
Group Management Board	other members	4,885.1	4,188.6
Esa Kiiskinen	Board Chairman	109.0	126.5
Toni Pokela	Board member	49.5	59.3
Matti Kyytsönen	Board member	55.5	61.8
Matti Naumanen	Board member	50.0	59.3
Jannica Fagerholm	Board member	72.0	79.3
Peter Fagernäs	Board Deputy Chairman (since 11 April 2018)	67.0	63.0
Piia Karhu	Board member (since 11 April 2018)	53.5	49.5
Mikael Aro	Board Deputy Chairman (until 11 Apr. 2018)	-	17.0
Anu Nissinen	Board member (until 11 Apr. 2018)	-	12.8
Total		**7,974.7**	**7,016.8**

Approximately 30% of the annual fees for Board members was paid in shares in the Company and the remaining fee amount was paid in cash. 2,378 Kesko Corporation B shares were granted to members of Board of Directors.

Retirement benefits

The statutory pension provision for the President and CEO and other members of the Group Management Board is provided through a pension insurance company. Four Group Management Board members are provided with a supplementary pension based on a defined benefit plan in line with the rules of Kesko Pension Fund and personal service contracts. Three Group Management Board members are provided with a defined contribution supplementary pension. President and CEO Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings for the final 10 years in accordance with the Employees' Pensions Act (TyEL). The pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €1.1 million (€1.1 million) and the related pension asset in the balance sheet was €1.0 million (€0.4 million). The pension cost of the President and CEO's statutory pension provision was €0.3 million (€0.2 million).

Share awards

During the 2019 reporting period, members of the Group Management Board were granted 61,219 shares based on the 2019 PSP 2017–2021 plan, while the maximum number of shares to be granted was 111,200. The number of shares represents gross earnings, from which withholding tax is deducted. During the 2018 reporting period, 51,931 shares were granted based on the 2017 Bridge Plan. The number of shares represents gross earnings, from which withholding tax is deducted.

Termination benefits

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

Shareholdings

On 31 December 2019, the President and CEO held 55,424 Kesko Corporation B shares, which represented 0.06% of the total number of shares and 0.01% of votes carried by all shares of the Company. As at 31 December 2019, the Group Management Board, including the President and CEO, held 81 Kesko Corporation A shares and 164,594 Kesko Corporation B shares, which represented 0.16% of the total number of shares and 0.04% of votes carried by all shares of the Company.

5.4 Share-based compensation

Accounting policies

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

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

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

Share-based commitment and incentive scheme

Kesko's long-term share-based commitment and incentive scheme consists of three share-based compensation plans, under which the Board can annually decide on the initiation of new share plans. The primary plan, the Performance Share Plan (PSP), consists of annually commencing individual share plans, each with a two-year performance period and a two-year commitment period following the potential payment of a share award, during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. Kesko Group's tax free sales (%), Kesko Group's comparable return on capital employed (ROCE,%) and the absolute total shareholder return (TSR, %) of a Kesko B share are the performance criteria for the PSPs initiated in 2017, 2018 and 2019. The recipient of the shares is free to use them once the commitment period of the share plan ends, provided that the person is still employed by Kesko Group. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Corporation's Board decides annually whether to initiate a new plan.

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

The 2014–2016 share-based compensation scheme had three one-year performance periods: calendar years 2014, 2015 and 2016. A commitment period of three calendar years following each performance period was attached to the shares granted, during which the shares could not be pledged or transferred, but the other rights attached to the shares remained in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In the 2014–2016 plans, in addition to the shares granted, a cash component at maximum equal to the value of the shares was paid to cover the taxes and tax-like charges incurred under the award.

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

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

Share award grant dates and fair values: PSP, RSP and Bridge plan	2019 PSP	2019 RSP	2018 PSP	2018 RSP	2017 PSP	2017 RSP	2017 Bridge plan
Grant dates	20 Mar. 2019	20 Mar. 2019	20 Mar. 2018	20 Mar. 2018	1 Feb. 2017	1 Feb. 2017	1 Feb. 2017
Grant date fair value of share award, €	52.44	52.44	46.48	46.48	44.67	44.67	44.67
Share price at grant date, €	54.78	54.78	48.68	48.68	46.67	46.67	46.67
Share-based compensation plan duration							
Performance period start date	1 Jan. 2019	-	1 Jan. 2018	-	1 Jan. 2017	-	1 Jan. 2017
Performance period end date	31 Dec. 2020	-	31 Dec. 2019	-	31 Dec. 2018	-	31 Dec. 2017
Commitment period start date	1 Jan. 2021	1 Jan. 2019	1 Jan. 2020	1 Jan. 2018	1 Jan. 2019	1 Jan. 2017	1 Jan. 2018
Commitment period end date	10 Feb. 2023	15 Mar. 2022	10 Feb. 2022	15 Mar. 2021	10 Feb. 2021	15 Mar. 2020	10 Feb. 2021

Assumptions applied in determining the fair value of share award: PSP, RSP, Bridge plan	Performance period 2019–2020 PSP and RSP	Performance period 2018–2019 PSP and RSP	Performance period 2017-2018 PSP	Performance period 2017 Bridge plan
Number of share awards granted, maximum, pcs	309,150*	332,900*	325,300*	325,300*
Changes in the number of shares granted, pcs	-3,950	-17,100	-62,200	-26,600
Actual amount of share award, pcs			71,432	65,652
Number of plan participants at end of financial year	138	141	111	125
Share price at balance sheet date, €	63.08	47.10	45.25	45.25
Assumed fulfilment of performance criteria, %	33.3	40.0	43.4	46.7
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5	2.5

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

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

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

The impact of the above share-based compensation plans on the Group's profit for 2019 was €-7.0 million (€-6.5 million).

As at 31 December 2019, the amount to be recognised as expense for the financial years 2020–2022 is estimated at a total of €-6.8 million. The actual amount may differ from the estimate.

5.5 Deferred tax

Movements in deferred tax in 2019

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

Balance sheet division of net deferred tax asset

€ million	2019	2018
Deferred tax assets	7.6	8.1
Deferred tax liabilities	6.8	5.4
Total	**0.8**	**2.7**

Other temporary differences within deferred tax assets include €2.2 million of deferred tax assets arising from compliance with the Group's accounting principles and €14.8 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Movements in deferred tax in 2018

€ million	1 Jan. 2018	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2018
Deferred tax assets						
Leases	43.5	0.2		-0.1		43.6
Provisions	8.9	-0.6				8.3
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	23.1	1.9		-0.3	-1.9	22.8
Other temporary differences	16.8	-0.2	0.3	-0.7	-3.5	12.7
Total	92.4	1.3	0.3	-1.1	-5.4	87.4
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	31.5	2.5		-0.6	-3.8	29.6
Fair value allocation	18.8	0.1		-0.1	1.3	20.1
Defined benefit pension plans	40.7	-10.7	-0.4			29.7
Other temporary differences	5.2	-0.6	0.2	-0.2	0.7	5.3
Total	96.2	-8.7	-0.2	-0.8	-1.9	84.7
Net deferred tax asset	-3.8					2.7

Tax loss carry-forwards

As at 31 December 2019, the Group's unused tax losses carried forward were €219.7 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	2020	2021	2022	2023	2024	2025–	Total
	-	0.5	0.0	0.0	0.0	219.2	219.7

Deferred tax on subsidiaries' undistributed earnings is only recognised if a decision on the distribution of earnings is probable in the near future.

5.6 Components of other comprehensive income

€ million	2019 Before tax	Tax charge/ credit	After tax	2018 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-4.5	0.9	-3.6	-2.3	0.4	-1.9
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	3.8		3.8	-10.1		-10.1
Cash flow hedge revaluation	-1.3	0.3	-1.0	2.6	-0.5	2.1
Others	-0.3		-0.3	-0.1		-0.1
Total, continuing operations	**-2.3**	**1.2**	**-1.2**	**-9.9**	**-0.1**	**-10.1**
Discontinued operations	0.0		0.0	35.1		35.1
Group total	**-2.3**	**1.2**	**-1.2**	**25.2**	**-0.1**	**25.0**

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.

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
Net sales	**5,775,844,550.19**	**4,978,145,962.28**
Other operating income	726,873,282.24	647,958,938.08
Materials and services	-5,130,428,671.96	-4,354,234,332.77
Employee benefit expenses	-298,785,601.32	-276,407,553.63
Depreciation, amortisation and impairment	-91,263,907.43	-81,515,728.01
Other operating expenses	-688,829,297.79	-689,375,528.78
Operating profit	**293,410,353.93**	**224,571,757.17**
Finance income and costs	119,779,773.09	-21,802,538.58
Profit before appropriations and taxes	**413,190,127.02**	**202,769,218.59**
Appropriations		
Change in depreciation difference	-4,117,086.35	-5,999,575.17
Group contribution	31,342,249.81	78,635,864.70
Profit before taxes	**440,415,290.48**	**275,405,508.12**
Income taxes	-46,538,073.71	-63,446,219.12
Profit for the financial year	**393,877,216.77**	**211,959,289.00**

Parent company's balance sheet

€	31 Dec. 2019	31 Dec. 2018
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	5,955,939.06	8,128,559.02
Other intangible assets	157,959,763.45	138,491,710.44
Prepayments	13,717,562.03	12,993,020.11
	177,633,264.54	159,613,289.57
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	174,933,985.21	172,241,827.54
Leasehold interests and connection fees	2,202,637.74	1,948,263.42
Buildings		
Owned	354,398,749.73	344,641,067.56
Machinery and equipment	91,300,872.26	77,275,608.72
Other tangible assets	6,376,255.89	7,342,344.76
Prepayments and construction in progress	20,844,597.14	24,843,274.21
	650,057,097.97	628,292,386.21
INVESTMENTS		
Investments in subsidiaries	1,028,450,981.49	888,538,761.72
Investments in associates	36,383,054.61	82,209,122.85
Other investments	18,508,819.82	13,826,612.84
	1,083,342,855.92	984,574,497.41
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	244,545,904.24	240,478,801.40
	244,545,904.24	240,478,801.40

€	31 Dec. 2019	31 Dec. 2018
RECEIVABLES		
Long-term		
Receivables from subsidiaries	310,453,860.52	178,774,050.29
Receivables from associates	57,594,199.58	57,605,471.31
Loan receivables	-	5,158,542.00
Other receivables	6,892,666.62	6,207,944.39
	374,940,726.72	247,746,007.99
Short-term		
Trade receivables	355,726,614.66	371,547,340.31
Receivables from subsidiaries	560,544,582.68	642,884,942.51
Receivables from associates	1,539,823.31	1,445,407.99
Loan receivables	-	1,334,500.22
Other receivables	5,940,967.57	7,021,688.77
Prepayments and accrued income	84,046,309.95	76,972,059.17
	1,007,798,298.17	1,101,205,938.97
INVESTMENTS		
Other investments	16,777,819.41	139,678,745.75
CASH AND CASH EQUIVALENTS	58,133,140.52	55,329,096.57
TOTAL ASSETS	**3,613,229,107.49**	**3,556,918,763.87**

€	31 Dec. 2019	31 Dec. 2018
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	786,980,069.48	803,322,671.03
Profit for the financial year	393,877,216.77	211,959,289.00
	1,841,806,984.10	1,676,231,657.88
APPROPRIATIONS		
Depreciation difference	117,206,574.66	113,089,488.31
PROVISIONS		
Other provisions	5,050,441.54	5,218,250.05
LIABILITIES		
Non-current		
Loans from financial institutes	300,000,000.00	0.00
Pension loans	137,465,000.00	160,145,000.00
Other creditors	6,405,992.00	4,822,996.00
	443,870,992.00	164,967,996.00
Current		
Bonds	0.00	20,083,682.01
Pension loans	22,680,000.00	22,941,875.00
Advances received	16,871,347.76	13,485,074.15
Trade payables	552,318,045.53	573,034,271.45
Payables to subsidiaries	224,164,957.75	501,797,147.84
Payables to associates	4,310,376.72	26,938,671.50
Other payables	169,031,420.71	224,194,396.53
Accruals and deferred income	215,917,966.72	214,936,253.15
	1,205,294,115.19	1,597,411,371.63
TOTAL LIABILITIES	**3,613,229,107.49**	**3,556,918,763.87**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
Cash flows from operating activities		
Profit before appropriations	413,190,127.02	202,769,218.59
Adjustments		
Depreciation according to plan	91,263,907.43	81,515,728.01
Finance income and costs	-119,779,773.09	21,802,538.58
Other adjustments	-19,695,899.51	31,906,258.66
	364,978,361.85	**337,993,743.84**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	240,375,874.77	-9,020,672.35
Inventories increase (-)/decrease (+)	-4,067,102.84	-5,733,875.76
Current non-interest-bearing liabilities, increase (+)/decrease (-)	-190,853,266.60	25,642,307.85
	45,455,505.33	10,887,759.74
Interests paid and other finance costs	-24,330,213.74	-46,517,834.41
Interests received	21,624,990.73	20,602,046.52
Dividends received	134,819,314.46	61,535,360.40
Income tax paid	-69,602,708.60	-48,029,655.86
	62,511,382.85	-12,410,083.35
Net cash generated from operating activities	**472,945,250.03**	**336,471,420.23**
Cash flows from investing activities		
Purchases of other investments	-	-10,668.96
Purchases of property, plant, equipment and intangible assets	-234,019,028.95	-121,023,284.92
Acquisitions of subsidiaries	-145,117,483.68	-120,671,597.18
Acquisitions of associates	-	-9,200,000.00
Proceeds from equity accounted investments	4,641,237.84	-
Proceeds from disposal of other investments	-	24,700.00
Proceeds from disposal of property, plant, equipment and intangible assets	6,379,050.36	4,953,757.95
Long-term receivables, increase (-)/decrease (+)	-61,194,718.73	-11,697,025.57
Net cash used in investing activities	**-429,310,943.16**	**-257,624,118.68**

€	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	94,574,493.04	-54,237,730.95
Short-term interest-bearing receivables, increase (-)/decrease (+)	-138,626,259.43	368,581.36
Short-term money market investments, increase (-)/decrease (+)	94,336,148.04	116,459,434.77
Dividends paid	-231,868,024.83	-218,945,469.60
Group contributions received and paid	31,342,249.81	78,635,864.70
Acquisition of treasury shares	-	-24,412,806.00
Other items	-6,709,600.98	402,045.12
Net cash used in financing activities	**-156,950,994.35**	**-101,730,080.60**
Change in cash and cash equivalents	**-113,316,687.48**	**-22,882,779.05**
Cash and cash equivalents as at 1 Jan.	**86,300,962.53**	**109,183,741.58**
Cash and cash equivalents transferred in connection with dissolution	**87,146,756.58**	**-**
Cash and cash equivalents as at 31 Dec.	**60,131,031.63**	**86,300,962.53**

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

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

Non-current assets

Intangible assets

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

Depreciation plan

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

Property, plant and equipment

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

Depreciation plan

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

The most common estimated useful lives are:

Buildings	10–33 years
Components of buildings	8 years
Machinery and equipment	25% reducing balance method
Cars and transport equipment	5 years
IT equipment	3–8 years
Other tangible assets	5–14 years

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

Valuation of inventories

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

Valuation of financial assets

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

Foreign currency items

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

Derivative contracts

Interest rate derivatives

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

Foreign currency derivatives

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

Commodity derivatives

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

Pension plans

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

Provisions

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

Income tax

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

Notes to the income statement

Note 2. Net sales by division

€ million	2019	2018
Grocery trade	4,847.5	4,058.0
Building and home improvement trade	903.0	892.2
Others	25.3	27.9
Total	**5,775.8**	**4,978.1**

Note 3. Other operating income

€ million	2019	2018
Gains on sales of real estate and shares	7.0	4.9
Rent income	84.6	59.2
Fees for services	469.8	444.1
Profits from mergers	13.6	0.1
Others	151.9	139.7
Total	**726.9**	**648.0**

Note 4. Employee benefit expenses

€ million	2019	2018
Salaries and fees	-284.7	-273.1
Social security costs		
Pension costs	-4.7	6.9
Other social security costs	-9.4	-10.2
Total	**-298.8**	**-276.4**

Pension costs include a €45.3 million return of surplus assets by Kesko Pension Fund

The average number of personnel at Kesko Corporation was 7,138 (7,174) people.

Salaries and fees to the management

€ million	2019	2018
Managing Director	2.6	2.3
Members of the Board of Directors	0.5	0.5
Total	**3.1**	**2.8**

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	2019	2018
Depreciation according to plan	-88.7	-79.2
Impairment, non-current assets	-2.6	-2.3
Total	**-91.3**	**-81.5**

Note 6. Other operating expenses

€ million	2019	2018
Rent expenses	-338.3	-302.0
Marketing expenses	-138.4	-140.7
Maintenance of real estate and store sites	-81.0	-78.9
Losses on disposals of non-current assets	-1.0	-3.2
Telecommunication expenses	-71.6	-73.6
Losses from mergers	0.0	-33.2
Other operating expenses	-58.6	-57.8
Total	**-688.8**	**-689.4**

Auditors' fees

€ million	2019	2018
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.3	0.3
Tax consultation	0.0	0.1
Other services	0.5	0.3
Total	**0.8**	**0.7**

Note 7. Finance income and costs

€ million	2019	2018
Income from long-term investments		
Dividend income from subsidiaries	51.4	67.3
Dividend income from associates	83.4	0.0
Dividend income from others	0.0	0.0
Gains on disposal of shares	0.2	-
Gains on sales of investments	0.9	4.7
Income from long-term investments, total	**135.9**	**72.0**
Other interest and finance income		
From subsidiaries	10.7	8.2
From others	14.2	30.5
Interest and finance income, total	**25.0**	**38.6**
Impairment of investments held as non-current assets		
Impairment of shares	-0.1	-80.1
Changes in fair value	0.4	0.0
Impairment and changes in fair value of investments held as non-current assets, total	**0.3**	**-80.1**
Interest and other finance costs		
To subsidiaries	-18.3	-25.9
To others	-23.1	-26.4
Interest and finance costs, total	**-41.4**	**-52.3**
Total	**119.8**	**-21.8**

Note 8. Appropriations

€ million	2019	2018
Difference between depreciation according to plan and depreciation in taxation	-4.1	-6.0
Group contributions received	46.8	84.9
Group contributions paid	-15.4	-6.3
Total	**27.2**	**72.6**

Note 9. Changes in provisions

€ million	2019	2018
Other changes	-0.2	-4.7
Total	**-0.2**	**-4.7**

Note 10. Income taxes

€ million	2019	2018
Income taxes on group contributions	-6.3	-15.7
Income taxes on ordinary activities	-40.2	-47.6
Taxes for prior years	-0.1	-0.1
Total	**-46.5**	**-63.4**

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 €23.4 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2019	2018
Intangible rights		
Acquisition cost as at 1 Jan.	25.8	26.2
Increases	1.3	1.3
Decreases	-11.7	-1.8
Transfers between items	0.0	0.0
Acquisition cost as at 31 Dec.	15.3	25.8
Accumulated depreciation as at 1 Jan.	-17.6	-13.2
Accumulated depreciation on decreases and transfers	11.7	1.4
Depreciation and amortisations for the financial year	-3.4	-5.9
Accumulated depreciation as at 31 Dec.	-9.3	-17.6
Book value as at 31 Dec.	**6.0**	**8.1**
Other intangible assets		
Acquisition cost as at 1 Jan.	296.6	250.8
Increases	48.5	45.2
Transferred in mergers	-	0.4
Decreases	-60.1	-11.5
Transfers between items	10.3	11.7
Acquisition cost as at 31 Dec.	295.3	296.6
Accumulated depreciation as at 1 Jan.	-158.1	-139.0
Transferred in mergers	0.0	0.0
Accumulated depreciation on decreases and transfers	60.1	11.8
Depreciation and amortisations for the financial year	-39.4	-30.9
Accumulated depreciation as at 31 Dec.	-137.3	-158.1
Book value as at 31 Dec.	**158.0**	**138.5**

€ million	2019	2018
Prepayments		
Acquisition cost as at 1 Jan.	13.0	16.0
Increases	9.1	7.7
Decreases	-1.6	-2.1
Transfers between items	-6.8	-8.6
Acquisition cost as at 31 Dec.	13.7	13.0
Book value as at 31 Dec.	**13.7**	**13.0**

Note 13. Property, plant and equipment

€ million	2019	2018
Land and waters, owned		
Acquisition cost as at 1 Jan.	172.2	168.8
Increases	3.6	2.1
Transferred in mergers	0.0	0.2
Decreases	-1.3	0.0
Transfers between items	0.4	1.1
Acquisition cost as at 31 Dec.	174.9	172.2
Book value as at 31 Dec.	**174.9**	**172.2**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	1.9	1.5
Increases	0.2	0.4
Transferred in mergers	0.0	0.0
Transfers between items	0.1	0.0
Decreases	0.0	0.0
Acquisition cost as at 31 Dec.	2.2	1.9
Book value as at 31 Dec.	**2.2**	**1.9**
Buildings		
Acquisition cost as at 1 Jan.	584.0	563.2
Increases	18.9	10.4
Transferred in mergers	0.0	8.3
Decreases	0.0	-0.1
Transfers between items	10.8	2.2
Acquisition cost as at 31 Dec.	613.7	584.0
Accumulated depreciation as at 1 Jan.	-239.4	-219.1
Transferred in mergers	0.0	-1.3
Accumulated depreciation on decreases and transfers	0.0	0.1
Depreciation for the financial year	-19.9	-19.0
Accumulated depreciation as at 31 Dec.	-259.3	-239.4
Book value as at 31 Dec.	**354.4**	**344.6**

€ million	2019	2018
Machinery and equipment		
Acquisition cost as at 1 Jan.	279.4	265.4
Increases	39.6	33.5
Transferred in mergers	0.0	0.4
Decreases	-32.8	-22.0
Transfers between items	1.7	2.0
Acquisition cost as at 31 Dec.	287.9	279.4
Accumulated depreciation as at 1 Jan.	-202.1	-199.8
Transferred in mergers	0.0	-0.1
Accumulated depreciation on decreases and transfers	32.7	21.8
Depreciation for the financial year	-27.2	-23.9
Accumulated depreciation as at 31 Dec.	-196.5	-202.1
Book value as at 31 Dec.	**91.3**	**77.3**
Other tangible assets		
Acquisition cost as at 1 Jan.	19.0	18.0
Increases	0.3	0.6
Transferred in mergers	0.0	0.4
Decreases	0.0	0.0
Transfers between items	0.1	0.1
Acquisition cost as at 31 Dec.	19.4	19.0
Accumulated depreciation as at 1 Jan.	-11.7	-10.0
Transferred in mergers	0.0	-0.2
Accumulated depreciation on decreases and transfers	0.1	0.0
Depreciation for the financial year	-1.4	-1.5
Accumulated depreciation as at 31 Dec.	-13.0	-11.7
Book value as at 31 Dec.	**6.4**	**7.3**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	24.8	21.3
Increases	12.8	15.8
Decreases	0.0	-4.0
Transfers between items	-16.7	-8.3
Acquisition cost as at 31 Dec.	20.8	24.8
Book value as at 31 Dec.	**20.8**	**24.8**

Note 14. Investments

€ million	2019	2018
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	1,069.0	966.8
Increases	171.0	123.1
Transferred in mergers	0.0	177.4
Decreases	-180.7	-198.2
Transfers between items	56.6	0.0
Acquisition cost as at 31 Dec.	1,116.0	1,069.0
Impairment as at 1 Jan.	-180.5	-160.8
Transferred in mergers	0.0	-34.6
Accumulated impairments on decreases	103.9	84.2
Accumulated impairments on transfers	-10.8	-
Impairment for the period	-0.1	-69.3
Impairment as at 31 Dec.	-87.5	-180.5
Book value as at 31 Dec.	**1,028.5**	**888.5**
Investments in associates		
Acquisition cost as at 1 Jan.	82.2	84.0
Increases	0.0	9.3
Decreases	-0.1	-11.0
Transfers between items	-45.7	-
Book value as at 31 Dec.	**36.4**	**82.2**
Other investments		
Acquisition cost as at 1 Jan.	13.8	14.8
Increases	5.6	0.0
Transferred in mergers	-1.0	-1.0
Decreases	0.1	0.0
Acquisition cost as at 31 Dec.	18.5	13.8
Book value as at 31 Dec.	**18.5**	**13.8**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2019 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

Receivables from subsidiaries

€ million	2019	2018
Long-term		
Loan receivables	310.5	178.8
Long-term, total	**310.5**	**178.8**
Short-term		
Trade receivables	42.7	137.9
Loan receivables	496.5	356.6
Prepayments and accrued income	21.3	148.4
Short-term, total	**560.5**	**642.9**
Total	**871.0**	**821.7**

Receivables from associates and joint ventures

€ million	2019	2018
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	**57.6**	**57.6**
Short-term receivables	1.5	1.4
Total	**59.1**	**59.1**

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	2019	2018
Taxes	11.6	0.0
Fees for services	5.9	3.2
Employee benefit expenses	6.7	7.2
Purchases	30.6	28.1
Others	29.2	38.5
Total	**84.0**	**77.0**

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 2018	197.3	197.5	243.4	22.8	1,043.8	1,704.7
Dividends					-218.9	-218.9
Treasury shares					-21.4	-21.4
Transfer to donations					-0.1	-0.1
Profit for the year					212.0	212.0
Balance as at 31 December 2018	197.3	197.5	243.4	22.8	1,015.3	1,676.2
Dividends					-231.9	-231.9
Treasury shares					3.9	3.9
Transfer to donations					-0.3	-0.3
Profit for the year					393.9	393.9
Balance as at 31 December 2019	**197.3**	**197.5**	**243.4**	**22.8**	**1,180.9**	**1,841.8**

Restricted equity	2019	2018
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2019	2018
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,180.9	1,015.3
Total	**1,447.0**	**1,281.5**

Calculation of distributable profits	2019	2018
Other reserves	266.2	266.2
Retained earnings	787.0	803.3
Profit for the year	393.9	212.0
Total	**1,447.0**	**1,281.5**

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

Treasury shares

On 26 April 2019, Kesko Corporation transferred a total of 2,378 of its own B shares (KESKOB) held by the Company as treasury shares to the members of Kesko's Board of Directors. The transfer was based on the resolution made by the Annual General Meeting on 8 April 2019 to pay a portion of the Board members' annual fees in Kesko B shares.

	Shares
Own B shares held by the Company as at 31 Dec. 2018	1,001,399
Transferred, share-based compensation scheme	-71,432
Acquired during the financial year	-2,378
Returned during the financial year	3,774
Own B shares held by the Company as at 31 Dec. 2019	**931,363**

Note 17. Provisions

€ million	2019	2018
Provisions for leases	2.4	2.3
Other provisions	2.6	2.9
Total	**5.1**	**5.2**

Note 18. Non-current liabilities

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

Note 19. Current liabilities

€ million	2019	2018
Liabilities to subsidiaries		
Trade payables	10.3	140.2
Accruals and deferred income	5.6	67.8
Other payables	208.3	293.8
Total	**224.2**	**501.8**
Liabilities to associates		
Trade payables	0.0	0.0
Accruals and deferred income	0.0	0.0
Other payables	4.3	26.9
Total	**4.3**	**26.9**
Accruals and deferred income		
Employee benefit expenses	91.7	87.8
Accruals and deferred income from purchases	32.1	35.2
Taxes	0.0	11.4
Transaction prices	0.8	2.2
Fees for services	3.2	2.1
Others	88.1	76.3
Total	**215.9**	**214.9**

Note 20. Interest-free liabilities

€ million	2019	2018
Current liabilities	888.8	1,096.6
Total	**888.8**	**1,096.6**

Note 21. Guarantees, liability engagements and other liabilities

€ million	2019	2018
Real estate mortgages		
For own debt	192	176
For subsidiaries	1	11
Pledged shares	9	9
Guarantees		
For own debt	1	-
For subsidiaries	8	49
Other liabilities and liability engagements		
For own debt	32	27
Rent liabilities on machinery and fixtures		
Falling due within a year	8	9
Falling due later	10	12
Rent liabilities on real estate		
Falling due within a year	293	290
Falling due later	1,743	1,868

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. 2019 € million	USD	SEK	NOK	PLN	RUB
Transaction risk	-22.6	66.4	65.8	22.9	0.0
Hedging derivatives	25.8	-50.3	-55.8	-12.9	-
Exposure	**3.2**	**16.1**	**10.0**	**10.0**	**0.0**

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

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. 2019 € million	USD	SEK	NOK	PLN	RUB
Change +10%	-0.3	-1.5	-0.9	-0.9	0.0
Change -10%	0.3	1.8	1.1	1.1	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2018 € million	USD	SEK	NOK	PLN	RUB
Change +10%	0.1	0.0	-0.2	-0.6	0.0
Change -10%	-0.2	0.0	0.4	1.4	0.1

Derivatives

Fair values of derivative contracts € million	31 Dec. 2019 Positive fair value (balance sheet value)	31 Dec. 2019 Negative fair value (balance sheet value)	31 Dec. 2018 Positive fair value (balance sheet value)	31 Dec. 2018 Negative fair value (balance sheet value)
Currency derivatives	0.3	-2.9	3.3	0.8

Notional amounts of derivative contracts € million	31 Dec. 2019 Notional amount	31 Dec. 2018 Notional amount
Currency derivatives	157.3	155.9

All currency derivatives mature in 2020.

€ million	2019	Fair value	2018	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives	-	-	70	0.1
Interest rate swaps	340	-3.6	280	-2.0
Foreign currency derivatives				
Forward and future contracts	157	-2.6	136	1.5
Outside the Group	151	-2.7	129	1.6
Inside the Group	7	0.1	7	-0.1
Currency swaps			20	0.9
Commodity derivatives				
Electricity derivatives	31	0.0	22	0.0
Outside the Group	16	0.8	11	2.3
Inside the Group	16	-0.8	11	-2.3

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

€ million	2019	2018
Available-for-sale financial assets	2.0	31.0
Cash and cash equivalents	58.1	55.3
Total	**60.1**	**86.3**

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

Note 23. Related parties

Kesko Corporation's related parties include the company's management (the Board of Directors, President and CEO and the Group Management Board) and the companies controlled by them, their family members and companies controlled by the family members, the Group's subsidiaries, associates and joint ventures, and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 5.3).

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, 4 February 2020

Esa Kiiskinen

Peter Fagernäs

Jannica Fagerholm

Piia Karhu

Matti Kyytsönen

Matti Naumanen

Toni Pokela

Mikko Helander
President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 4 February 2020

PricewaterhouseCoopers Oy
Authorised public accountants

Mikko Nieminen
Authorised Public Accountant

Auditor's Report *(Translation from the Finnish Original)*

To the Annual General Meeting of Kesko Oyj

Report on the audit of the financial statements

Opinion

In our opinion

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

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

What we have audited

We have audited the financial statements of Kesko Oyj (Business ID: 0109862-8) for the year ended 31 December, 2019. The financial statements comprise:

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

Basis for opinion

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

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

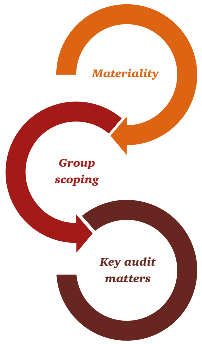
Independence

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

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

Our audit approach

Overview



Overall materiality

- We determined that overall group materiality € 16 million. We have assessed that in Kesko Group audit material are misstatements whose impact individually or in aggregate is at the level of 4% of profit before tax.

Group audit scope

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

Key audit matters

- First-time implementation of IFRS 16 Leasing Standard
- 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 for the consolidated financial statements. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

We determined that overall group materiality € 16 million. We chose 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 4% level, 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. In 2019, Kesko operated in eight 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. In other group companies we have performed analytical audit procedures. We have performed audit procedures in eight of Kesko's operating countries: in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus.

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

Key audit matters

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

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

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
First-time implementation of IFRS16 Leases Standard *Refer to note 1 (Accounting policies for the consolidated financial statements), note 3.5 (Right-of-use assets) and note 4.6 (Lease agreements)* IFRS 16 that was implemented in 2019 changed the accounting of leases. The implementation of the standard had a significant impact on Kesko's financial statements. According to the new standard lessee recognises in its balance sheet right-of-use assets and lease liabilities corresponding to the present value of future lease payments. Lease expenditure recognised previously in the income statement is now replaced by depreciation of right-of-use-assets and interest expenses for liability recognised in finance costs. Previously, future lease payments for operating leases were presented in the notes as operating lease commitments. Kesko implemented the standard using a full retrospective method, as a result, right-of-use assets at amount of €1,996.0 million and leasing liability at amount of €2,213.7 million was recognised in the opening balance sheet of 1 January 2018. A significant amount of the balance is related to the leased store sites and other properties. As of the reporting date 31 December 2019 right-of-use assets amounted to €2,191.3 million and leasing liabilities to amounted €2,422.2 million at the Group's balance sheet. Due to the magnitude of the balance we consider this as a key audit matter in the audit of the Group.	We focused on management approach over implementation of the standard and application of accounting standards. We gained understanding of the design of controls over lease accounting. We performed various types of testing of lease contracts accounting. Among others, we verified the accuracy of the underlying lease data by agreeing a sample of leases to original contract or other supporting information, and checked accuracy of relevant calculations. We assessed the appropriateness of the assumptions used in determination of discount rate and challenged the management on those. In addition, we assessed the adequacy of the disclosures.
Goodwill and trademarks – management impairment testing *Refer to note 3.4 Intangible assets.* Kesko Group balance sheet includes goodwill in amount of €479.0 million (2018: 278.7) and trademarks €87.4 million (2018: 87.2). 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 3.6 Inventories.* Kesko Group balance sheet includes inventory amount of €1,037.7 million (2018: 913.0). 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 April 1976 and our appointment represents a total period of uninterrupted engagement of 44 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed. Kesko Oyj became publicly listed company on 15 May 1960.

Other information

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

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

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

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

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

Helsinki 4 February 2020

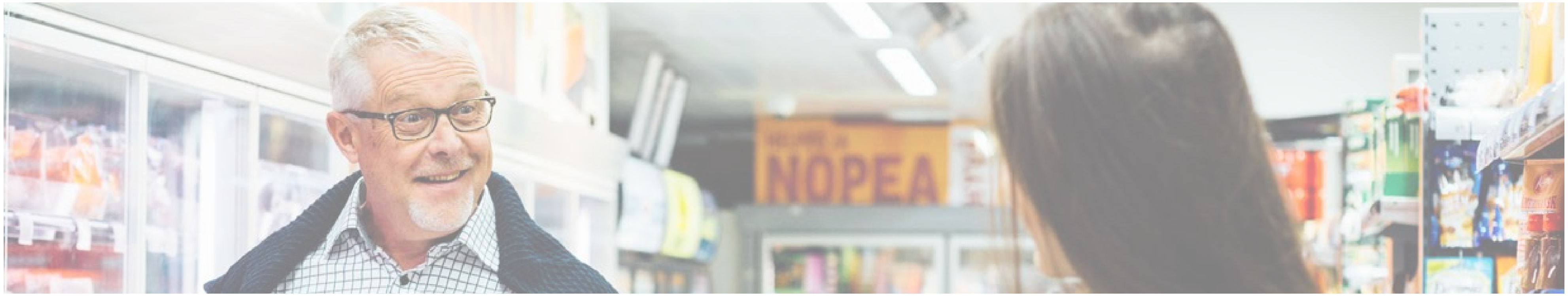
PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant

KESKO ANNUAL REPORT

CORPORATE GOVERNANCE

Corporate Governance Statement
Remuneration Statement



CORPORATE GOVERNANCE

Kesko's Annual Report 2019 has four sections. This section comprises Kesko's Corporate Governance Statement and Remuneration Statement.

2019

KESKO ANNUAL REPORT

CORPORATE GOVERNANCE STATEMENT

Introduction

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 3 February 2020.

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association and effective as of 1 January 2020. Kesko Corporation issues the statement separately from the Report by the Board of Directors. This statement and the other information to be disclosed in accordance with the Corporate Governance Code, and the Company's financial statements, the Report by the Board of Directors, and the Auditor's Report are available on Kesko's website at **www.kesko.fi/en/investor/corporate-governance/**.

Kesko Corporation ("Kesko" or "the Company") is a Finnish limited liability company in which the duties and responsibilities of management bodies are defined according to the regulations observed in Finland. The parent company Kesko and its subsidiaries form Kesko Group. The Company is domiciled in Helsinki.

Decision-making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors and its Committees, and the rules and guidelines of Nasdaq Helsinki Ltd.

CORPORATE GOVERNANCE CODES KESKO COMPLIES WITH AND DEPARTURES FROM THEM

Corporate Governance Code the Company complies with	The Corporate Governance Code effective as of 1 January 2020 ("Corporate Governance Code")
Website where the Corporate Governance Code is publicly available	**cgfinland.fi/en/corporate-governance-code/**
Corporate Governance Code recommendations from which the company departs	Recommendation 6 (Term of Office of the Board of Directors) Recommendation 10 (Independence of Directors)
Explanation of and grounds for the departure • grounds for the departure • decision-making concerning the departure • when the company plans to adopt the recommendation (in case of temporary departure) • when necessary, the company must describe the procedure implemented in place of the recommendation and explain how such a procedure establishes the objective of the recommendation or the code or how the procedure promotes the implementation of appropriate corporate governance in the company	The term of office of Kesko's Board of Directors departs from the one-year term pursuant to Recommendation 6 (Term of Office of the Board of Directors) of the Corporate Governance Code. The term of office of the Company's Board of Directors is determined in accordance with the Company's Articles of Association. The General Meeting decides on amendments to the Articles of Association. According to the Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. A shareholder that, together with related entities, represents over 10% of votes attached to all Kesko shares, has informed the Company's Board of Directors that it considers the term of office of three (3) years good for the Company's long-term development and has not seen any need to shorten the term stated in the Articles of Association. The independence of Kesko's Board members departs from Recommendation 10 (Independence of Directors) of the Corporate Governance Code, as the majority of the members of the Board of Directors are not independent of the Company. All members of Kesko's Board of Directors are non-executive directors. The Board carried out an independence evaluation on 8 April 2019. Esa Kiiskinen, Matti Naumanen and Toni Pokela are not independent of the Company, as they each control a company which has a chain agreement with Kesko. Furthermore, Piia Karhu, Finnair Plc's Senior Vice President, Customer Experience and a member of the Executive Board, is not independent of the Company, as the election of Kesko Group's CFO Jukka Erlund to the Board of Directors of Finnair Plc on 20 March 2019 resulted in an interlocking control relationship. As a result of the interlocking control relationship, the majority of the members of Kesko's Board are considered not to be independent of the Company. Kesko Corporation and Finnair Plc have a normal business relationship and the companies are not financially dependent on each other. The interlocking control relationship was not considered as a whole to result in conflicts of interest or to jeopardise the ability of the Board members to act in the best interest of the Company and all its shareholders. The Company's Board of Directors has given consent to Erlund being a member of the Board of Directors of Finnair Plc.

Descriptions concerning Corporate Governance

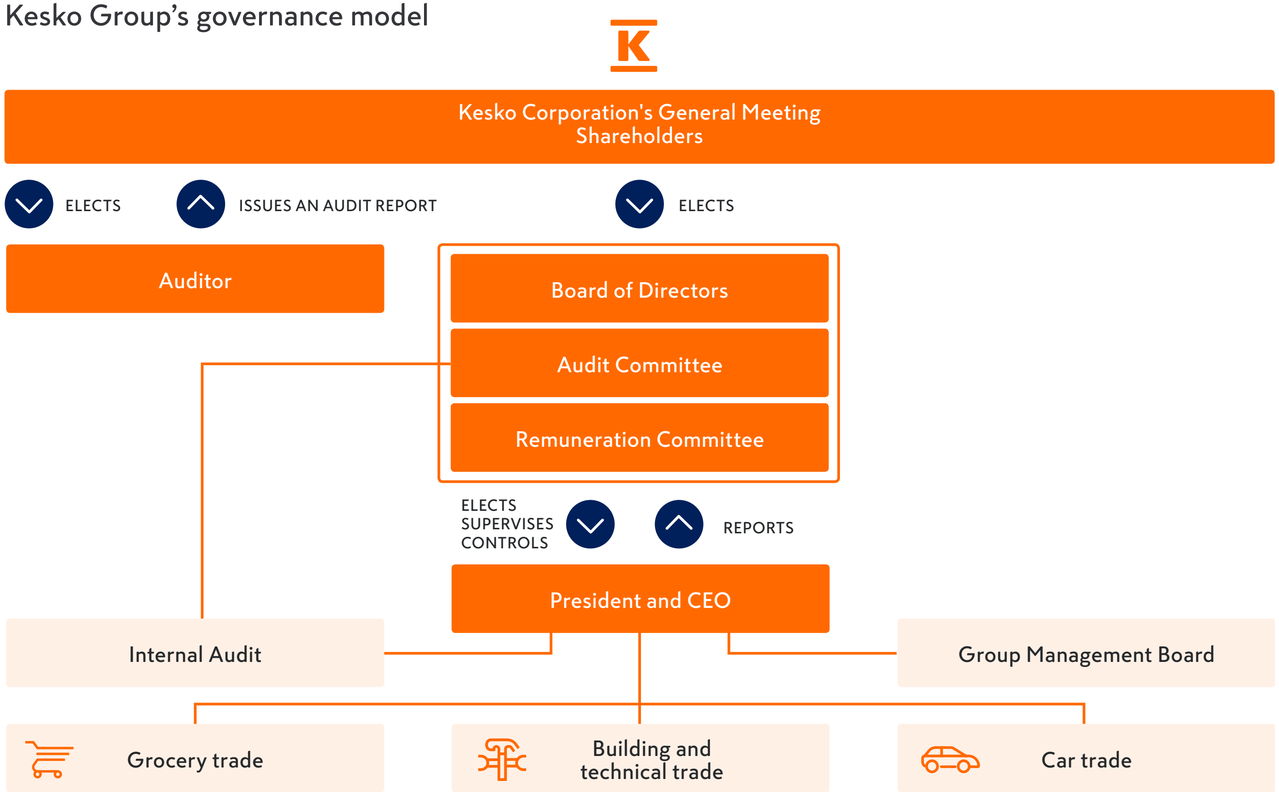
Kesko Group's corporate governance system

The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting. At the Annual General Meeting, the Company's shareholders elect the Company's Board of Directors and Auditor. Kesko Group is managed by the Board of Directors and the Managing Director, who is the President and CEO. The President and CEO is appointed by the Board of Directors. The Company uses a so-called one-tier governance model.

The Annual General Meeting is held annually by the end of June, on a date designated by the Company's Board of Directors. The most significant matters falling within the decision-making power of the Annual General Meeting include the election of the Board members and the Auditor, the adoption of the financial statements, the resolution on discharging the Board members and the Managing Director from liability, and the resolution on the distribution of the Company's assets, such as distribution of profit.

The Company has share series A and B, which differ with respect to the number of votes attached to the shares. An A share carries ten (10) votes and a B share carries one (1) vote at a General Meeting. When votes are taken, the proposal for which more than half of the votes were given will primarily be the resolution of the General Meeting, as prescribed by the Limited Liability Companies Act.

Kesko Group's governance model



However, pursuant to the Act, certain decisions – such as decisions to amend the Articles of Association and decisions on directed share issues – require a qualified majority of two-thirds of the votes cast and represented at the meeting. The Limited Liability Companies Act provides that specific shareholders or all shareholders must consent to a decision limiting the rights arising from shares or increasing the obligations of shareholders.

Shareholders are invited to attend a General Meeting by a Notice of the General Meeting published on the Company's website. The notice of the meeting is also published in a stock exchange release. The notice of the meeting and other General Meeting documents, including the Board of Directors' proposals to the General Meeting, are made available to shareholders no later than three weeks prior to the General Meeting on the Company's website at **www.kesko.fi**.

The Company aims for all members of Kesko's Board of Directors, the President and CEO, and the Auditor to be present at the Annual General Meeting. General Meeting Minutes are made available to shareholders on Kesko's website at www.kesko.fi within two weeks of the General Meeting. The resolutions of the General Meeting are published in a stock exchange release without delay after the meeting.

Board of Directors

The number, term of office and election process of Board members

According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. All Board members are elected by the General Meeting. There is no special committee or board used in the nomination of Board member candidates or their election at the General Meeting, as the number of Board members is resolved and the members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office of the Board.

According to the Articles of Association, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

In the preparation of the proposal for the composition of the Board of Directors, Kesko follows a procedure in which significant shareholders prepare to the Annual General Meeting the proposals concerning the Board of Directors, including the proposal for the remuneration of the Board members, and when necessary, the proposal for the number of Board members and the Board members. The proposal by significant shareholders is based on the Board's self-assessment, in which the performance and contribution of each Board member is assessed, in addition to the competencies and experience needed in the Board composition. Conclusions based on the self-assessment are communicated to the significant shareholders, and external advisors are used as necessary in surveying potential members who meet the set criteria. The Chairman of the Board interviews potential members and provides an opinion to the significant shareholders.

Board composition and shareholdings

The Annual General Meeting of 8 April 2019 resolved to keep the number of Board members at seven (7). As of the Annual General Meeting of 11 April 2018, the Board members have been Esa Kiiskinen (Chair), Peter Fagernäs (Deputy Chair), Jannica Fagerholm, Piia Karhu, Matti Kyytsönen, Matti Naumanen and Toni Pokela. The term of office of the Board members will end, in accordance with the Company's Articles of Association, at the close of the 2021 Annual General Meeting.

The Board of Directors' composition and shareholdings as at 31 December 2019 are presented in the table below.

BOARD COMPOSITION AND SHAREHOLDINGS ON 31 DEC. 2019

Name	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held on 31 Dec. 2019
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	1,350 A shares held by him and 106,000 A shares held by entities controlled by him 1,253 B shares held by him
Peter Fagernäs (Deputy Chair)	1952	Master of Laws	Chairman of the Board, Hermitage & Co Oy	2018	Remuneration Committee (Deputy Chair)	1,000 A shares and 776 B shares held by him
Jannica Fagerholm	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	1,776 B shares held by her
Piia Karhu	1976	Doctor of Science, Economics and Business Administration	Senior Vice President, Finnair Plc	2018	Audit Committee	583 B shares held by her
Matti Kyytsönen	1949	Master of Science (Economics)	Chairman of the Board, Silverback Consulting Oy	2015	Audit Committee (Deputy Chair) Remuneration Committee	1,578 B shares held by him
Matti Naumanen	1957	Trade Technician	Retailer	2016		2,400 A shares held by him and 17,664 A shares held by entities controlled by him 583 B shares held by him
Toni Pokela	1973	eMBA	Food retailer	2012		179,400 A shares held by entities controlled by him and 583 B shares held by him

Independence

All members of Kesko's Board of Directors are non-executive directors. The Board evaluates the independence of its members on a regular basis in accordance with Recommendation 10 of the Corporate Governance Code.

The Board carried out an independence evaluation in its organisational meeting held after the Annual General Meeting of 8 April 2019. Based on the independence evaluation, the Board deemed Esa Kiiskinen, Matti Naumanen and Toni Pokela not independent of the Company, as they each control a company that has a chain agreement with Kesko. Furthermore, Piia Karhu, Finnair Plc's Senior Vice President, Customer Experience and a member of the Executive Board, is not independent of the Company, as the election of Kesko Group's CFO Jukka Erlund on the Board of Directors of Finnair Plc on 20 March 2019 resulted in an interlocking control relationship. As a result of the interlocking control relationship, the majority of the members of Kesko's Board are considered not to be independent of the Company. Kesko Corporation and Finnair Plc have a normal business relationship and the companies are not financially dependent on each other. The interlocking control relationship was not considered as a whole to result in conflicts of interest or to jeopardise the ability of the Board members to act in the best interest of the Company and all its shareholders. The Company's Board of Directors has given consent to Erlund being a member of the Board of Directors of Finnair Plc. Based on the independence evaluation, the Board considered Toni Pokela not to be independent of the Company's significant shareholder, K-Retailers' Association, of which Pokela is the Chairman of the Board. A Board member is obliged to provide the Board with necessary information for the evaluation of independence. The Board members' independence is depicted in the table below.

Board members' independence 2019

	Independent of the Company	Independent of a significant shareholder
Esa Kiiskinen (Chair)	No*	Yes
Peter Fagernäs (Deputy Chair)	Yes	Yes
Jannica Fagerholm	Yes	Yes
Piia Karhu	No**	Yes
Matti Kyytsönen	Yes	Yes
Matti Naumanen	No*	Yes
Toni Pokela	No*	No***

* Each of the companies controlled by Kiiskinen, Naumanen and Pokela has a chain agreement with Kesko Corporation.
** An interlocking control relationship, as Piia Karhu is Finnair Plc's Senior Vice President, Customer Experience and a member of the Executive Board, while Kesko's CFO Jukka Erlund is a member of the Board of Directors of Finnair Plc.
*** Pokela is the Chairman of the Board of Kesko's significant shareholder K-Retailers' Association.

Description of the operations of the Board of Directors and the main contents of its charter

Kesko's Board of Directors is responsible for the Company's administration and for the proper organisation of its operations. The Board is responsible for the appropriate arrangement of the control of Kesko's accounts and finances. The Board of Directors has confirmed a written charter for the Board of Directors' duties, principles of operation, meeting practices and decision-making procedures.

In accordance with the charter, the Board reviews and makes decisions on matters that are financially, operationally or fundamentally significant to the Group. According to the charter, the Board of Directors' duties include:

Strategic and financial matters

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and rolling forecast, including a capital expenditure plan
- reviewing the Group's most significant risks and uncertainties
- deciding on strategically or financially significant individual investments, acquisitions, divestments or arrangements, and commitments
- confirming Kesko's values
- approving key Group policies, such as the treasury and investment policy and risk management policy
- establishing a dividend policy and being responsible for shareholder value performance

Organisation and personnel matters

- appointing and discharging the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her remuneration and other financial benefits, and making corresponding decisions also for the Deputy to the President and CEO
- deciding on the appointments of the Group Management Board members responsible for lines of business, their remuneration and financial benefits
- deciding on the essential structure and organisation of the Group

- ensuring the proper operation and supervision of the management system
- deciding on management authorisation rules
- deciding on the principles of Kesko's commitment and incentive schemes, the terms and conditions and distribution of shares or options under the remuneration policy in force, and monitoring the results of the schemes

Reporting matters

- reviewing and adopting the Group's financial statements, half year financial reports and interim reports and related stock exchange releases and the Report by the Board of Directors
- reviewing Kesko's Annual Report

Other duties

- submitting Board proposals to the Annual General Meeting on matters such as dividend distribution, Auditor, and authorisations to issue and acquire shares
- approving the Board's principles concerning diversity
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies Act or other, and for duties prescribed by the Finnish Corporate Governance Code.

Kesko's Board of Directors has a duty to promote the best interest of Kesko and all its shareholders. The Board members do not represent the interests of the parties that have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him/her (including entities over which he/she exercises control) and the Company. When a vote is taken, the Board's decision will be the opinion of the majority and if a vote results in a tie, the decision will be the opinion supported by the Chairman. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

Board of Directors' operations in 2019

In 2019, the Board held 10 meetings. Board meetings regularly discuss the review by the President and CEO on key topical issues, as well as the reports by the Chairmen of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meeting. The Auditor presents their findings to the Board once a year in connection with the review of the financial statements.

As in previous years, in 2019, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditure and divestments and new financing arrangements, monitored the progress of Group-level projects, and approved the interim reports, the half year financial report and the financial statements before they were published.

In 2019, the Board, among other things, further detailed and clarified the strategy approved for Kesko Group in spring 2015, monitored the execution of the strategy, and made decisions on acquisitions and divestments in line with the Group's confirmed strategy, such as the acquisition of Heinon Tukku Oy in the grocery trade division, the acquisition of Fresks Group by K-rauta AB in the building and technical trade division, and the acquisition of Laakkonen Group's Volkswagen, Audi and SEAT businesses in the car trade division. The Board monitored the financial performance of previously acquired companies and their integration into Kesko Group, and the implementation of divestments decided. The Board approved new medium-term financial targets for the Group. The Board reviewed matters such as Kesko's Annual Report and goodwill impairment testing, and decided on the establishment of a new share-based compensation plan and the use of donation funds approved by the Annual General Meeting.

The Board carried out a self-assessment, conducted via discussions between the Board's Chairman and each Board member based on a predetermined discussion agenda. Topics covered in the assessment included Group strategy, reporting, risk management, efficiency of Board and Committee work, Group management and contingency planning for Group Management, and individual Board member assessments. The Board reviewed a summary of the discussion results at its meeting. Focus areas included strategy-driven corporate leadership, the temporal aspect of strategy review, the scope of market and competitor information, the increased importance of cyber security in risk management, and an open and appreciative working atmosphere for the Board and its Committees. Focus areas included strategy-driven corporate leadership, the scope of market and competitor information, reviewing changes in risks, and an open, appreciative and conversational working atmosphere for the Board and its Committees In addition to the summary, each Board member received personal feedback.

Attendance at meetings by members of the Board and its Committees in 2019

	Committee membership	Attendance		
		Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Chair)	Remuneration Committee (Chair)	10/10		4/4
Peter Fagernäs (Deputy Chair)	Remuneration Committee (Deputy Chair)	10/10		4/4
Jannica Fagerholm	Audit Committee (Chair)	10/10	7/7	
Piia Karhu	Audit Committee	10/10	7/7	
Matti Kyytsönen	Audit Committee (Deputy Chair)	10/10	7/7	4/4
	Remuneration Committee			
Matti Naumanen		10/10		
Toni Pokela		9/10		

Principles concerning diversity

Kesko's Board of Directors approved a diversity policy on 25 October 2016. The policy has been published on the website at **kesko.fi/en/investor/corporate-governance/board-and-its-committees/diversity-policy**, in the following form

❞ Diversity is an essential component of Kesko's success, the achievement of Kesko's strategic objectives and good governance at Kesko. This diversity policy describes the objectives in the achievement of diversity in the operations and composition of Kesko Corporation's Board of Directors.

Board size and the election of its members

According to the Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. A sufficient number of Board members promotes the diversity of the Board composition, as the areas of expertise and competencies of the Board members are mutually complementary and the Board's independence requirements are satisfied.

The Board members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office of the Board. In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare to the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Planning the Board composition

The composition of Kesko's Board of Directors shall support Kesko's current and future business operations. The Board members are appointed on their merits. One of the essential features in the Board composition is that the Board members' educational backgrounds, experience, professional competencies and age and gender distribution support Kesko's business objectives and enable efficient Board work for Kesko. The Board members shall also be able to devote a sufficient amount of time to Board work.

Kesko aims to achieve a balanced gender distribution in the composition of its Board of Directors. The composition of the Board shall reflect experience in both national and international business operations. The educational background of the Board members shall represent multiple disciplines and diversity. In addition, Kesko's Board shall include members with strong experience in the trading sector and in-depth knowledge of the retailer business. The achievement of objectives is monitored annually and reported in the corporate governance statement. ❞

Monitoring the implementation of diversity policy objectives in 2019

In 2019, two of the seven Board members were women, in other words, the proportion of the gender with smaller representation on the Board was approximately 29%. The educational backgrounds and experience of the Board members represent multiple disciplines and diversity, and several members also have experience in international business operations (for the personal details of the Board members, see the table "Board composition and shareholdings"). Several Board members have experience in the trading sector and the principal occupation of three of the seven Board members is acting as a K-retailer.

Board Committees

Kesko has a Board's Audit Committee and Remuneration Committee, both of which are composed of three (3) Board members. The Board elected the Chairmen, the Deputy Chairmen and the members of the Committees from among its members at the close of the Annual General meeting.

All members of both committees are independent of the Company's significant shareholders, and the majority of the members of both committees are also independent of the Company. In the election of committee members, the competence requirements for the committee in question have been taken into account.

The Committees regularly assess their operations and working methods and carry out a related self-assessment once a year. The Board has confirmed written charters for the Committees, which contain the main duties and operating principles of the Committees.

The Committees have no independent decision-making power. Instead, the Board makes decisions on matters based on the Committees' preparatory work. The Committee Chairman reports on the Committee's work at the Board meeting following a Committee meeting. Minutes of the Committee meetings are submitted for information to the Board members.

Apart from the Audit and Remuneration Committees, Kesko's Board has not established any other committees, nor has the General Meeting appointed any committees or boards.

Audit Committee

The Board's organisational meeting, held after the Annual General Meeting of 8 April 2019, elected the following Board members as members of the Audit Committee:

- Jannica Fagerholm (Chair)
- Matti Kyytsönen (Deputy Chair)
- Piia Karhu

In accordance with its charter, the Audit Committee:

- monitors Kesko Group's (Kesko) financial position and funding
- monitors and assesses Kesko's financial reporting system, including the process for financial statements reporting
- monitors and assesses the effectiveness of Kesko's internal control, internal audit and risk management systems
- approves the operating instructions for the Company's internal audit and annually assesses the need for changes, approves the annual audit plan, budget and resources and related material changes, and reviews reports submitted to the Committee
- monitors the statutory auditing of the Company and the Group
- discusses matters that emerge in connection with auditing and in relation to the Committee's duties with the Company's Auditor when necessary and otherwise handles contacts with the Auditor
- reviews the Auditor's Report and possible audit minutes and reports presented by the Auditor to the Committee
- monitors and evaluates the independence of the Company's Auditor and, in particular, the non-audit services provided to Kesko by the Auditor and its network audit companies
- prepares the appointment of the Company's statutory Auditor and recommends an Auditor
- monitors and assesses how agreements and other legal acts between the Company and its related parties meet the requirements of ordinary course of business and arm's-length terms
- prepares a recommendation to the Board of Directors regarding the review of interim reports, the half year financial report, and the financial statements
- reviews the Company's Corporate Governance Statement and non-financial report
- prepares and reviews other tasks given by the Board to the Committee

In 2019, the Audit Committee held seven meetings. The members' attendance rate at the Committee meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller and the director in charge of internal audit regularly reported on their areas of responsibility to the Committee. The Committee also receives reports on Kesko Group's funding situation, taxation, information management, risk management and insurances.

The Auditor is present at the Committee meetings and presents their audit plan and report to the Audit Committee. During the year, the Committee reviewed the reports on the Group's financial situation, including the financial statements release, the half year financial report and the interim reports and updated forecasts, and made a recommendation to the Board on the review of the reports and the financial statements release. The Committee reviewed the reports of the Group's external and internal audits and risk management and the Corporate Governance Statement. The Audit Committee also reviewed goodwill impairment testing and the Group's risk reporting in the financial statements.

During the year, the Audit Committee arranged for the tendering of Kesko's statutory auditing, and gave the Board a recommendation for the proposal for the election of Auditor, based on which the Board submitted a proposal for the election of Auditor to the 2020 Annual General Meeting. The Audit Committee also prepared and submitted to the Board a recommendation for the proposal for the election of Auditor to Kesko's 2019 Annual General Meeting.

The Audit Committee monitored the implementation of the audit plan for internal audit, the impact of new IFRS standards on the Group's reporting, the development of associated companies and additional services purchased from firms of auditors, and reviewed the proposal for the Group's financial targets and cyber security reviews.

The Committee also monitored and evaluated the Auditor's independence and the non-auditing services provided by the Auditor to the Group. The Audit Committee also approved the audit plan, personnel resources and budget for the Group's internal audit in 2020.

The Audit Committee assessed its operations as part of the Board's self-assessment. Topics that emerged in the assessment included the Committee's significant role in monitoring the Group's risk management and the commitment of Committee members to their duties.

Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 8 April 2019, elected the following Board members as members of the Remuneration Committee:

- Esa Kiiskinen (Chair)
- Peter Fagernäs (Deputy Chair)
- Matti Kyytsönen

In accordance with its charter, the Remuneration Committee:

- prepares the Company's Remuneration Policy and Remuneration Report for Governing Bodies
- presents the remuneration policy and report at the General Meeting and responds to questions related thereto
- monitors the implementation of the remuneration policy presented to the General Meeting and ensures that the remuneration of the Company's governing bodies in conducted under the remuneration policy presented to the General Meeting
- conducts preparatory work for the remuneration and other financial benefits for the Company's President and CEO and Deputy to the President and CEO and for their service contracts
- conducts preparatory work for the remuneration and other financial benefits for Group Management Board members responsible for lines of business; decisions on the remuneration and financial benefits for Group Management Board members other than those responsible for lines of business are made by the President and CEO within the limits set by the Chairman of the Remuneration Committee
- conducts preparatory work pertaining to the appointment of a President and CEO, Deputy to the President and CEO, and Group Management Board members responsible for lines of business, and to identifying their potential successors
- conducts preparatory and development work on matters pertaining to remuneration schemes, including
  - evaluating the remuneration for the President and CEO, Deputy to the President and CEO and other management, and ensuring the appropriateness of the Company's remuneration schemes
  - preparing potential share or share-based compensation schemes
  - preparing the distribution and terms and conditions of shares or options under any share or share-based compensation schemes the General Meeting may have decided on
  - preparing the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success.
- prepares and reviews other tasks given by the Board to the Committee

In 2019, the Remuneration Committee held four meetings. The members' attendance rate at the Committee meetings was 100%. The Committee prepared, among other things, proposals to the Board for Kesko's 2019-2022 share plan, for the performance criteria, target levels and target group for share awards, for the principles of Group performance bonuses for 2019 and 2020, as well as for the performance bonuses to be paid for 2018 to the President and CEO and Group Management Board members responsible for lines of business. The Committee monitored and assessed the implementation of the reform of the management's total remuneration. In addition, the Committee reviewed, among other things, Kesko's Remuneration Statement and prepared the Company's Remuneration Policy for Governing Bodies. The Remuneration Committee assessed its operations as part of the Board's self-assessment. Topics that emerged in the assessment included the Committee's familiarity with and focus on the compensation scheme and remuneration principles.

Managing Director (President and CEO) and his duties

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Mikko Helander, Master of Science in Technology (b. 1960). He became Kesko's President and CEO on 1 January 2015. Helander was a member of the Group Management Board and Kesko's Executive Vice President from 1 October 2014 to 31 December 2014, and he has been the Chairman of the Group Management Board since 1 January 2015.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors and to report to the Board developments in the Company's business operations and financial situation. He is also responsible for organising the Company's day-to-day governance and for the Company's accounting complying with legislation and financial matters being arranged in a reliable manner. The President and CEO also chairs the Group Management Board.

The President and CEO is elected by the Board of Directors. The Board has decided the terms and conditions of the President and CEO's service contract. A written managing director's service contract, approved by the Board, has been made between the Company and the President and CEO.

Jorma Rauhala, M.Sc. (Econ.), (b. 1965) acts as the Deputy CEO.

Group Management Board

Kesko Group has a Group Management Board, the Chairman of which is Kesko's President and CEO. The Group Management Board does not have any powers under law or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level principles and procedures. In addition, the Group Management Board discusses, among other things, the Group's and the division companies' business plans, profit performance and matters reviewed by Kesko's Board of Directors, in whose preparation the Group Management Board also participates. The Group Management Board meets 14–18 times a year.

Group Management Board members, areas of responsibility and shareholdings on 31 Dec. 2019

	Group Management Board member since	Area of responsibility	Kesko shares held on 31 Dec. 2019
Mikko Helander, Chairman	01/10/2014	Kesko's President and CEO	55,424 B shares held by him
Jorma Rauhala, President, building and technical trade division, Deputy CEO	05/02/2013	Building and technical trade	28,704 B shares held by him
Ari Akseli, President, grocery trade division	15/11/2017	Grocery trade	9,808 B shares and 81 A shares held by him
Johan Friman, President, car trade division	01/01/2017	Car trade	7,327 B shares held by him
Jukka Erlund, EVP, Chief Financial Officer	01/11/2011	Finance and accounting, IT, Risk Management, M&A	24,167 B shares held by him
Mika Majoinen, EVP, Group General Counsel*	01/01/2018	Legal affairs	12,722 B shares held by him
Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations	01/10/2012	Human resources, Corporate Responsibility and Regional Relations	15,362 B shares held by him
Anni Ronkainen, EVP, Chief Digital Officer	20/04/2015	Chief Digital Officer	11,080 B shares held by her

* Mika Majoinen left the company on 31 December 2019.

Descriptions of internal control procedures and the main features of risk management systems

The Group's financial reporting

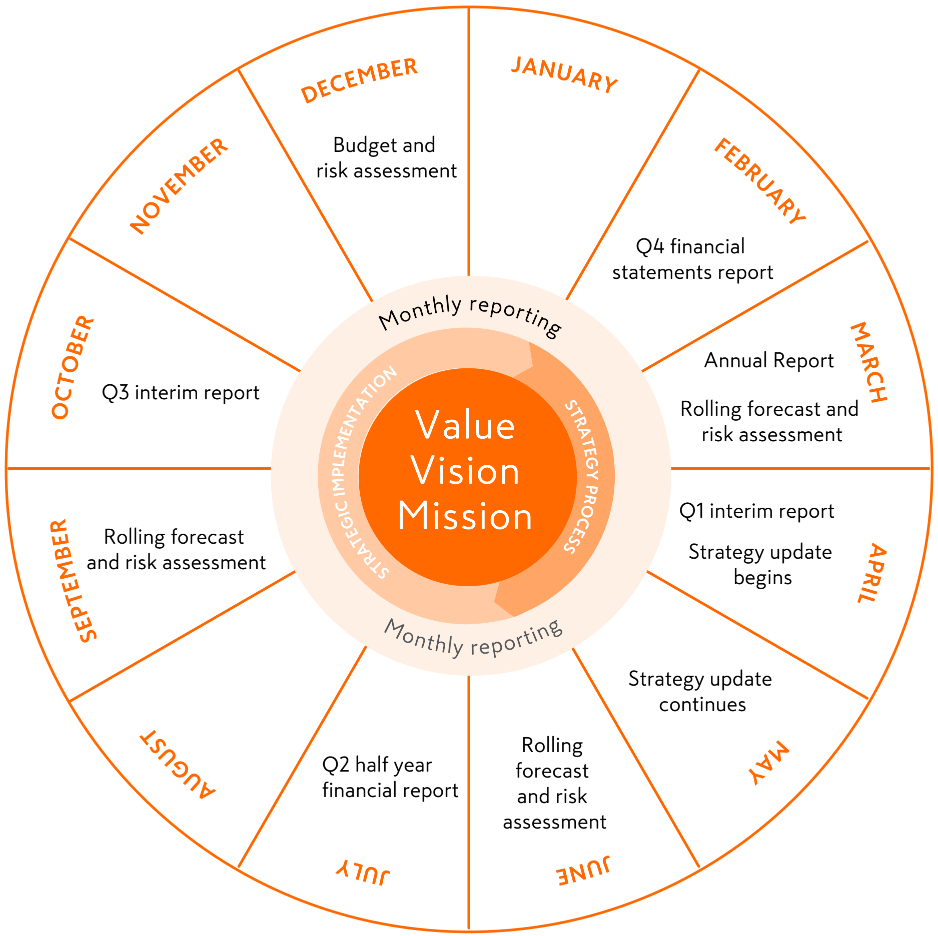
Kesko's management model

Kesko's financial reporting and planning are based on Kesko Group's management model. The Group units' financial results are reported and analysed internally within the Group on a monthly basis and disclosed quarterly in interim reports, the half year financial report and the financial statements release. Financial forecasts are updated quarterly, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.

Roles and responsibilities

Kesko Group's financial reporting and its supervision are organised on three levels. Businesses analyse and report their figures to the divisions, which then report the division-specific figures to Group accounting. Analysis and control points for ensuring the accuracy of reporting are used on each of the three reporting levels. The accuracy of reporting is also ensured with automated and manual controls at every reporting level. The implementation of the analyses and controls is supervised on a monthly basis at company, business, division and Group levels.

Kesko Group's management model



Planning and performance reporting

The Group's financial development and achievement of financial objectives are monitored by financial reporting covering the entire Group. Monthly performance reporting includes actual Group, division and business specific results, changes compared to the previous year, comparison with forecasts, and forecasts for the next 12 months. The Group's short-term financial planning is based on annual budgeting and quarterly updated forecasts extending over the following 12 to 15 months. The key financial indicators are sales performance for growth and comparable operating profit and comparable return on capital employed for profitability, monitored by monthly internal reporting. Information on the Group's financial situation is provided in interim reports, a half year financial report and the financial statements release. The Group's sales figures are published monthly.

Performance reporting to the Group's top management

Performance reporting to the Group's top management comprises monthly reports on the Group's, divisions', businesses' and subsidiaries' sales, profits and capital employed, as well as the Group's financial items, cash flows and balance sheet position. The businesses are primarily responsible for the financial reporting and the accuracy of the figures. The controlling function of each division analyses the whole division's figures for which the division's financial management is responsible. The Group is responsible for the whole Group's figures. The key items in the income statement, capital employed and balance sheet are analysed monthly at business, division and Group level, based on a documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available and enables real-time responses to possible flaws.

Public performance reporting

Public performance reporting comprises interim reports, a half year financial report, the financial statements release, the annual financial statements, and monthly sales reports. The same principles and control methods are applied to public performance reporting as to monthly performance reporting. The Audit Committee reviews the interim report, the half year financial report and the financial statements and gives a recommendation on their review to the Board of Directors. The Board approves the interim report, the half year financial report and the financial statements before they are published.

Key actions in 2019

In 2019, IFRS 16 Leases, which took effect on 1 January 2019, was implemented in the Group's financial reporting by adopting accounting policies in line with the new standard in the Group's internal monthly reporting and published interim reports, half year financial report and financial statements. The implementation of the new IFRS 16 Leases has been the single biggest change to Kesko's financial reporting since the switch to IFRS financial statements reporting, and the Group adopted the new standard using a retrospective method. During the year, the integration of acquired businesses in the car trade and the building and technical trade into Kesko Group's financial reporting systems began. The finance organisation also launched a Digital Finance project, which aims for harmonising and automating financial administration processes and for improving efficiency through the utilisation of technology.

Key actions in 2020

The harmonisation and automation of financial administration processes will continue in 2020 under individual Digital Finance projects both in Kesko's Business Service Center and the controlling organisation. The integration of the financial administration of acquired companies into the Group's financial administration systems will continue.

Accounting policies and financial administration IT systems

Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union. The accounting policies applied by the Group have been compiled in an accounting manual, which is updated as the standards are amended. The manual contains instructions for Group companies and for preparing the consolidated financial statements. Kesko Group's financial administration information is generated from division and company specific enterprise resource planning systems and basic finance systems into the Group's centralised consolidation system to produce the Group's key financial reports. The key systems used in the production of financial information have been certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

Internal control

Internal control is an integral part of management and of ensuring the achievement of business objectives. Through efficient internal control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken. Internal control tools include policies and principles, working instructions, approval authorisations, authorisations for use, manual and automatic controls integrated into information systems, monitoring reports and inspections and audits. The objective of internal control in Kesko Group is to ensure the productivity, efficiency, continuity and freedom from disruptions of operations, the reliability of financial and operational reporting both externally and internally, compliance with laws and agreements and Kesko's values and operating principles, as well as the safeguarding of assets, expertise and information.

The planning of control measures begins with the definition of business objectives and the identification and assessment of risks that threaten the objectives. The definition of objectives and the assessment of risks should take account of not only operational objectives, but also the requirements for compliance of operations with the law and for the accuracy of the information used in decision-making and reporting. Control measures are targeted based on risks and selected as appropriate so as to keep risks under control.

The Board of Directors and the President and CEO are responsible for organising internal control. The management of each division, company and unit is responsible for ensuring that efficient and effective control procedures are in place. The next year's focus areas for risk management and control are discussed in annual risk management and control discussions with the Group and division management. Every Kesko employee is obliged to comply with the K Code of Conduct and inform their manager of any grievances.

Kesko's common operations guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective areas of responsibility.

Kesko Group's internal audit function assesses and verifies the effectiveness and efficiency of Kesko's internal control, reports on it to the President and CEO and the Audit Committee of Kesko Corporations' Board of Directors, and assists management and Kesko companies in the development of the internal control system. The Audit Committee of Kesko's Board of Directors has confirmed the principles of Kesko's internal control, which are based on good control principles widely accepted internationally (COSO 2013).

Roles and responsibilities in Kesko Group's internal control

Risk management

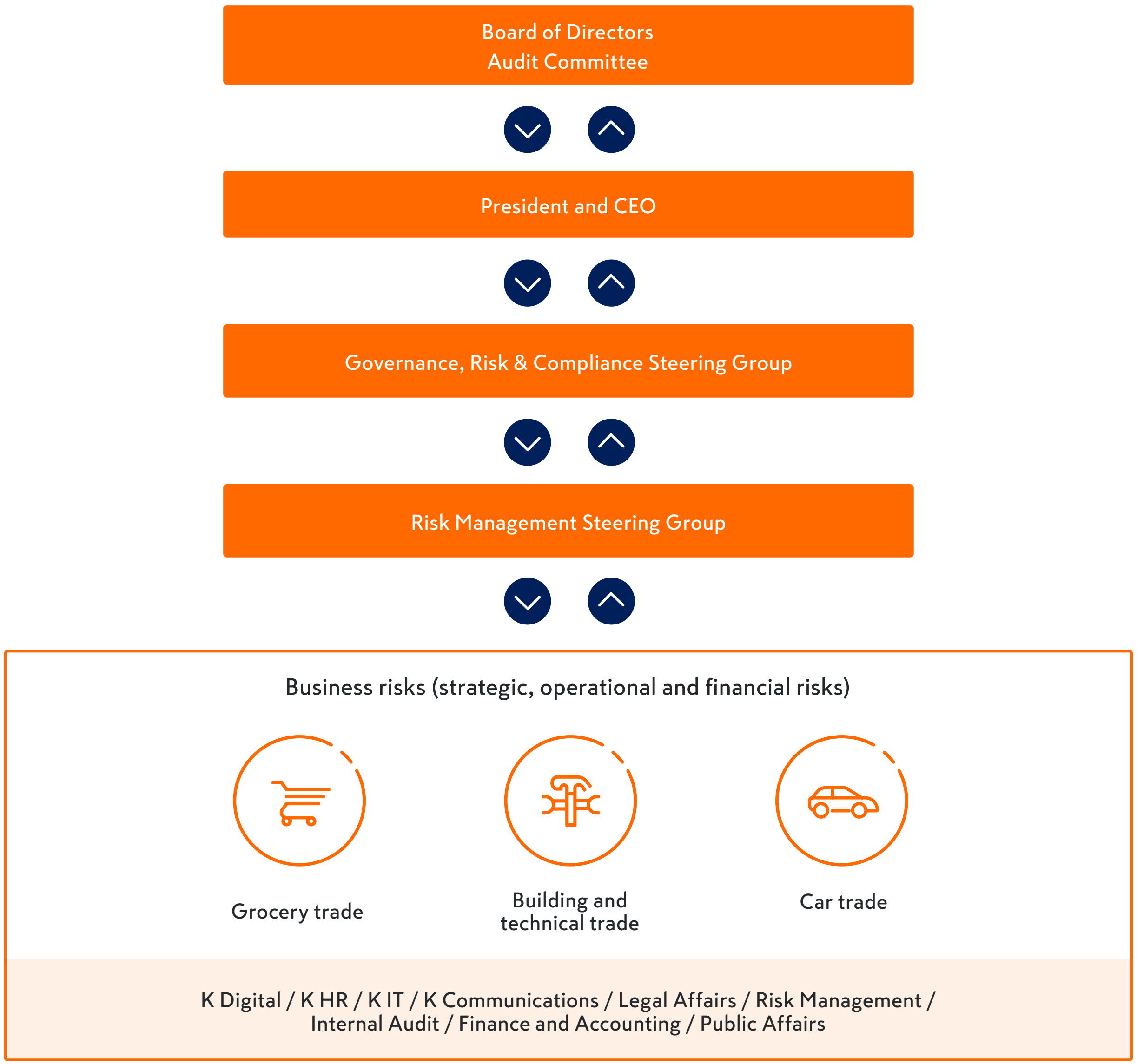
Kesko's risk management is proactive and an integral part of day-to-day management. The objective of risk management is to support the execution of Kesko's strategy.

Risk management in Kesko Group is guided by the risk management policy confirmed by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. In the management of financial risks, the Group's treasury policy, confirmed by Kesko's Board of Directors, is observed.

The management of business and common operations are responsible for the implementation of risk management. The finance director of each division is responsible for the implementation of risk management in the division. The risk management unit coordinates the risk management process and is responsible for risk reporting and carries out risk identification, the determination of risk management responses and their implementation jointly with the businesses and common operations. Every member of Kesko personnel must know and manage the risks in their areas of responsibility.

Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are identified, assessed, managed, monitored and reported as part of business operations at Group, division, company and function levels throughout the Group.

Risk management steering model



Kesko has a uniform risk assessment and reporting model. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised on the basis of their significance by assessing their impacts in euros and the probability of their realisation. When assessing the impact of realisation, the impacts on e.g. reputation, the wellbeing of people and the environment are assessed in addition to the impacts in euros.

Risk identification and assessment play a key role in Kesko's strategy work and operations planning. In addition, risk assessments are made on significant projects related to capital expenditure, business arrangements or changes in operations. The risk assessments of divisions and common operations that include a risk map, risk management responses, responsible persons and schedules are reviewed regularly by the management of the respective division or common operation.

Risks and risk management responses are reported in accordance with Kesko's reporting responsibilities. The divisions and the common operations report on risks and changes in them to the Group's risk management function. Risks are discussed by the risk management steering group, which includes representatives from the divisions and the common operations. On that basis, the Group's risk management function quarterly prepares the Group's risk report, which is reviewed by the Governance, Risk and Compliance (GRC) steering group. Kesko's President and CEO then approves the risk report.

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

Kesko's Board discusses Kesko Group's most significant risks and uncertainties. The Board reports the most significant risks and uncertainties to the market in the Report by the Board of Directors and any material changes in them in the half year financial report and interim reports.

Risk management responses in 2019

Focus areas for risk management included the systematisation of cyber risk management and its integration into the Group's risk management steering model, enforcing risk management in operations outside Finland, and improving the efficiency of processes related to updates and changes to the Group's insurance coverage. Continuity management principles were updated and their implementation initiated. The improvement of the cost-efficiency of security technology and services continued through concentration of purchases. In addition, the corporate security unit actively took part in the implementation of security arrangements on the new K-Kampus headquarters.

Risk management focus areas in 2020

Focus areas for risk management will include improving risk management coverage, further developing the steering model and increasing related cooperation with e.g. the IT organisation and the corporate responsibility function. The implementation of continuity management principles will continue and continuity management reporting will be developed. To ensure the effectiveness of insurance coverage, insurance services outside Finland will be harmonised. The improvement of the efficiency of security technology and services will continue through concentration of purchases, the development of the life cycle management of security and real estate systems, and the prevention of related cyber threats.

Other information to be provided in the CG statement

Internal audit

Kesko's internal audit is responsible for the Group's independent evaluation and assurance function required of a listed company, which systematically examines and verifies the efficiency of risk management and the managing, control and governance of risks. The Audit Committee of Kesko's Board of Directors has confirmed the operating instructions for Kesko's internal audit function.

The internal audit function is organised under Kesko's President and CEO and the Audit Committee, and it reports on its findings and recommendations to the Audit Committee, the President and CEO, the management of the audited operation, and the Auditor. The function covers all of Kesko's divisions, companies and functions. Auditing is based on risk analyses, as well as risk management and control discussions conducted with the Group's and divisions' management. Meetings with the Auditor are arranged on a regular basis in order to ensure sufficient audit coverage and to eliminate overlapping operations.

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The audit plan is modified on a risk basis, if necessary. As necessary, the internal audit function purchases external services for added resources or for the purpose of conducting audit operations which require special expertise. Audits can also make use of the expertise and work contribution of Kesko Group's other specialists.

Internal audit operations in 2019

In 2019, key focus areas for internal audit were the progress made in the execution of Kesko's strategies, acquisitions and divestments made, projects related to IT and digitalisation, and the implementation of information security and data protection and projects and changes related to those.

Internal audit focus areas in 2020

In 2020, key focus areas for internal audit will be progress in strategy execution, information security and data protection, process automation, and significant business and IT projects.

Related party transactions

Kesko complies with legislation concerning related party transactions. In accordance with the Corporate Governance Code, Kesko's Board has determined the principles for monitoring and evaluating related party transactions complied within the Group. The principles determine Kesko's related parties, and a list of related parties is maintained. Business operations that are part of ordinary course of business and implemented under arms-length terms have been identified. These include chain agreements in the K-chain operations used to join retailers to Kesko's retail chains, such as the K-Citymarket, K-Supermarket, K-Market and K-Rauta chains, and the terms and conditions of sales for K-chain commerce and services operations. Kesko has made chain agreements also with companies controlled by Board members engaged in retailer operations. Like other chain agreements, these are part of Kesko's ordinary course of business. The agreements are made at the same organisational level following the same principles as other similar chain agreements. The Board makes decisions on agreements and other legal acts that are not part of Kesko's ordinary course of business or are not implemented under arms-length terms. The matter and related decision-making are prepared with care utilising, for example, external evaluations. Decision-making complies with the conflict of interest provisions of the Finnish Limited Liability Companies Act. Related party transactions and information concerning the monitoring of related party transactions are reported to Kesko's Audit Committee, and the supervision of related party transactions is part of Kesko Group's internal control. Kesko regularly reports related party transactions as part of its financial reporting, and publishes related party transactions in a manner determined by regulations. Kesko Group's related party transactions are reported in **note 5.3 to the consolidated financial statements**.

Main procedures relating to insider administration

Kesko's insider guidelines

Kesko complies with Nasdaq Helsinki Ltd's guidelines for insiders in force at any given time. In addition, Kesko Corporation's Board of Directors has confirmed specific insider guidelines for the Company, complementing Nasdaq Helsinki Ltd's guidelines for insiders.

Closed period

The closed period of 30 calendar days before the publication of interim reports, the half year financial report and the financial statements release, as provided by the Market Abuse Regulation ("MAR"), is applied to specific members of management at Kesko. During the closed period, the management is prohibited from trading in Kesko's financial instruments. The Company has imposed a corresponding 30-day closed period also on persons involved in the preparation of Kesko's interim reports, the half year financial report, and the financial statements. Information on closed periods is provided annually on Kesko's website and in a stock exchange release.

Management transactions

When the public insider register was discontinued, the Company's obligation to disclose the transactions of the Company's management and persons closely associated with them changed as of 3 July 2016. At Kesko, Kesko Corporation's Board of Directors, President and CEO and other Group Management Board members have been defined to be subject to the requirement to announce their transactions. Transactions by Kesko's management and persons closely associated with them are disclosed in accordance with MAR.

Control and training

Kesko's Legal Affairs Services controls compliance with insider guidelines and maintains the Company's insider lists and a list of managers and persons closely associated with them. The duties of Kesko's Legal Affairs Services in the area of insider administration include the following:

- internal communication on insider matters
- training on insider matters
- drawing up and maintaining insider lists and submitting them on request to the Finnish Financial Supervisory Authority
- ensuring that any person on the insider list acknowledges the duties entailed according to MAR Article 18(2)
- maintaining a list of management and persons closely associated with them obligated to notify their transactions
- notifying management of their obligations under MAR Article 19(5)
- controlling insider matters
- keeping abreast of any changes to the regulation concerning insider matters.

Auditing

In accordance with the Company's Articles of Association, Kesko's auditor shall be an Authorised Public Accountants Organisation which shall designate an Authorised Public Accountant as the auditor with principal responsibility. The Audit Committee conducts preparatory work for the election of the Company's Auditor, and recommends an Auditor. The Board submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also monitors and assesses the Auditor's operations and services annually. The Auditor's term of office is the financial year during which the Auditor is elected, and the Auditor's duties terminate at the close of the next Annual General Meeting to follow. As a rule, an audit company belonging to the same network of audit companies as the audit firm elected by Kesko's Annual General Meeting as Auditor is elected as the auditor of each of the Group's foreign subsidiaries.

The Auditor provides Kesko's shareholders with the statutory Auditor's Report in connection with the Company's financial statements and regularly reports on its findings to the Audit Committee of Kesko's Board of Directors. The 2019 Annual General Meeting elected PricewaterhouseCoopers Oy, the firm of auditors, as the Company's Auditor. The Auditor with principal responsibility for the Company is APA Mikko Nieminen.

During 2019, APA Mikko Nieminen acted as the Managing Director of PricewaterhouseCoopers Oy as well as the Auditor with principal responsibility for two listed Finnish companies, Kesko Corporation and UPM-Kymmene Corporation.

APA Mikko Nieminen has been the Auditor with principal responsibility for the Company since 13 April 2015.

The Annual General Meeting resolved that the Auditor's fee be paid and expenses reimbursed according to invoices approved by the Company.

Auditors' fees in 2018–2019 (€1,000)

	2019			2018		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	251	710*	961	273	619	892
Tax consultation	37	30	67	80	90	170
IFRS consultation	8	0	8	45	0	45
Other services	472	100	572	253	290	543
Total	**768**	**840**	**1,608**	**651**	**999**	**1,650**

* Includes auditing fees to companies not belonging to the PwC chain for auditing related to Fresks Group.

2019

KESKO ANNUAL REPORT

REMUNERATION STATEMENT

Introduction

This Remuneration Statement has been reviewed at the meeting of the Remuneration Committee of Kesko Corporation's Board of Directors on 4 February 2020.

This is the Remuneration Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association and effective as of 1 January 2016. Kesko will issue its first Remuneration Report for Governing Bodies in accordance with the new Finnish Corporate Governance Code issued by the Securities Market Association and effective as of 1 January 2020 for the financial year beginning on 1 January 2020. This Remuneration Statement and other information to be disclosed in accordance with the Corporate Governance Code are available on Kesko's website at **www.kesko.fi/en/investor/corporate-governance**.

Decision-making procedure concerning remuneration

The Annual General Meeting decides on the fees and other financial benefits for the members of Kesko Corporation's ("Kesko") Board of Directors and its Committees annually. Significant shareholders prepare to the Annual General Meeting the proposals concerning the Board of Directors, including the proposal for the remuneration of Board members, and when necessary, the proposal for the number of Board members and the Board members.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions regarding the remuneration of the President and CEO and the Group Management Board members responsible for lines of business. As for the other Group Management Board members, Kesko's Board of Directors makes decisions on the performance bonus principles and share awards. Other decisions regarding remuneration are made by the President and CEO, based on preparatory work by the head of HR, within the limits set by the Chairman of the Board's Remuneration Committee.

The Board of Directors decides on the principles of Kesko's remuneration schemes, and monitors the implementation of the remuneration schemes for the President and CEO and other Group Management Board members. The Board also decides, within the limits of the authorisations granted by the Annual General Meeting, on the terms and conditions of share or share-based remuneration schemes and on the distribution of shares. Valid authorisations for the Board of Directors concerning remuneration and their use are described in the Remuneration Report.

Main principles of remuneration

Board of Directors

The remuneration of the members of the Board of Directors and its Committees comprises annual and meeting fees decided by the Annual General Meeting. Kesko's Annual General Meeting of 8 April 2019 resolved that approximately 30% of the annual fees are to be paid in shares in the Company and the remainder in cash. A Board member cannot transfer shares obtained as remuneration for Board work until either three years have passed from the day the member has received the shares or until their membership on the Board has ended, whichever comes first. The meeting fees are paid in cash. Daily allowances and the reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko. Members of the Board do not participate in the Company's other remuneration schemes or pension plans.

President and CEO and Group Management Board

General

The remuneration scheme for the President and CEO and the other members of the Group Management Board consists of a fixed monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria determined annually (short-term commitment and incentive scheme), a share compensation scheme (long-term commitment and incentive scheme) and retirement benefits for management. In addition, a health insurance, life insurance and leisure travel insurance have been taken out for President and CEO Helander. Termination benefits have been agreed upon with the President and CEO and the other Group Management Board members.

The total remuneration of Kesko's President and CEO and the other Group Management Board members is compared to that of similar positions in other large companies in Finland. Remuneration elements are compared to those of peer companies to ensure the competitiveness and appropriateness of total remuneration for each position.

Performance bonus scheme (Short-term commitment and incentive scheme)

Kesko employs annually determined performance bonuses for short-term remuneration. Kesko's Board of Directors makes decisions on performance bonus scheme criteria for management annually. One performance bonus criteria for all Group Management Board members is the Group's comparable operating profit. The targets for Group Management Board members responsible for lines of business stress their division's comparable operating profit, return on capital employed (ROCE %) and business-specific sales or market share indicator. For the other Group Management Board members, profit targets include the Group's return on capital employed (ROCE %) and the Group's sales target, in addition to the Group's operating profit target. Furthermore, each member of the Group Management Board has individual targets. The performance bonus criteria and their weights vary depending on duties. At least 80% of the performance bonus is tied to the fulfilment of financial targets.

Kesko's Board of Directors and its Remuneration Committee monitor and evaluate the fulfilment of the performance and profit criteria and their impact on the Company's long-term financial success.

The maximum performance bonus for Kesko's President and CEO corresponds to 100% of his monetary salary for the calendar year, excluding fringe benefits. For the other Group Management Board members, depending on the profit impact of their position, the maximum performance bonus corresponds to 33-67% of their monetary salary for the calendar year, excluding fringe benefits. In determining the performance bonus for a Group Management Board member, monetary salary for the calendar year is determined based on the fixed monetary salary of the final month of the calendar year the performance of which is the basis for the bonus. Performance bonuses are paid after the completion of the annual financial statements by the end of April following the year of determination.

If exceptional events with significant impact on operations take place during the financial year, or if the market situation or the Company's productivity trend so requires, the application, target-setting and payment rules of the performance bonus scheme can be changed by a decision by Kesko's Board also in individual cases.

At its discretion, the Board may decide not to pay a performance bonus or to recover a bonus that has already been paid, if the bonus recipient has been found guilty of malpractice or an action in breach of Kesko's ethical or responsibility principles or guidance that, as a whole, cannot be considered insignificant, or if there are weighty grounds for assuming that the recipient is guilty of such acts.

Share-based commitment and incentive scheme (Long-term commitment and incentive scheme)

In February 2017, Kesko's Board of Directors decided on a long-term share-based commitment and incentive scheme for top management and selected key persons. The scheme consists of three share-based compensation plans, under which the Board can annually decide on the initiation of new share plans. The primary share-based compensation plan is the Performance Share Plan (PSP). There is also a transitional Bridge Plan for 2017 and an RSP (Restricted Share Pool) plan for special situations. Share awards based on the plans are paid in Kesko B shares. The recipient of the shares is free to use them once the commitment period of the share plan has ended, provided that the person is still employed by a Kesko Group company.

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

The maximum gross amount of share award paid for each performance period is 400% of the monetary salary of the last calendar year of the performance period for which the award is paid.

The primary Performance Share Plan (PSP) consists of individual annually commencing share plans, each with a two-year performance period and a two-year commitment period following the payment of the potential share award. Kesko's Board decides annually whether to initiate a new plan. The PSP initiated at the start of 2019 consists of a two-year performance period (1 Jan. 2019–31 Dec. 2020), followed by a two-year commitment period (1 Jan. 2021–10 Feb. 2023). During the commitment period, the shares cannot be pledged or transferred, but the other rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of the commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In individual cases, the Board may decide that the grantee may keep some or all of the shares under return obligation. If the grantee retires during the commitment period, the grantee is entitled to keep the shares and other securities already received. Kesko Group's tax free sales (%), Kesko Group's comparable return on capital employed (ROCE,%) and the absolute total shareholder return (TSR, %) of a Kesko B share were the performance criteria for the PSPs initiated in 2019, 2018, and 2017, which the same criteria weights each year.

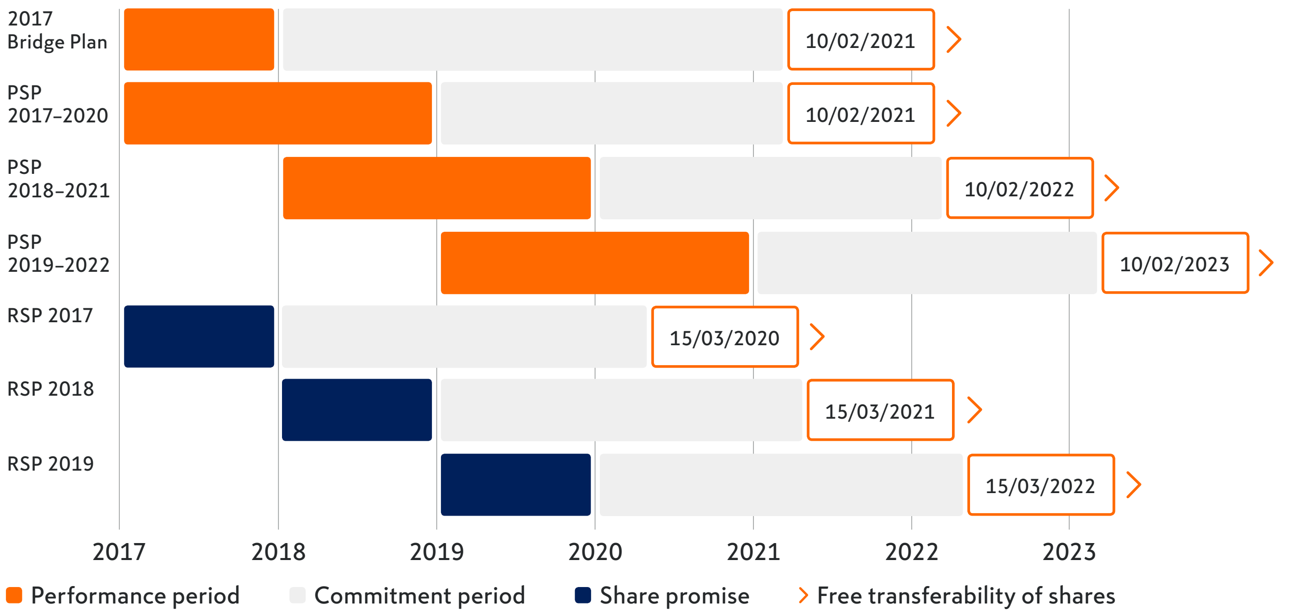
The transitional one-off Bridge Plan for 2017 had a one-year performance period (1 Jan. 2017 – 31 Dec. 2017) followed by a three-year commitment period (1 Jan. 2018 – 10 Feb. 2021). Apart from that, the rules of the plan are the same as for the PSP. The Bridge Plan aimed at covering the transitional phase from Kesko's previous long-term commitment and incentive scheme, which was based on one-year performance periods, to the new commitment

Share plan

	Bridge Plan 2017	PSP 2017–2020	PSP 2018–2021	PSP 2019–2022
Number of participants in the beginning of the plan	140	140	130	130
Maximum number of gross B shares granted				
Total	340,000	340,000	340,000	310,000
Allocated in the beginning of the plan				
President and CEO	38,000	38,000	38,000	38,000
Other Group Management Board members	96,800	96,800	94,000	94,000
Actual earnings	46.7%*	55.05%*	63.35%*	-
Performance period ends	31.12.2017	31.12.2018	31.12.2019	31.12.2020
Shares transferred	2018	2019	2020	2021
Commitment period ends	10.2.2021	10.2.2021	10.2.2022	10.02.2023

* For the Bridge Plan, the actual gross earning of B shares (amount of shares): total 133,751, the President and CEO 17,746, and other Group Management Board 34,185. For PSP 2017–2020, the actual gross earning of B shares (amount of shares): total 142,850, the President and CEO 20,919, and other Group Management Board 40,300. For PSP 2018–2021, the actual gross earning of B shares (amount of shares): total 191,434, the President and CEO 24,073, and other Group Management Board 56,700. Gross earning means that the applicable withholding tax is deducted from the earnings, and the remaining net amount is paid to the participants in shares.

Kesko's share-based compensation plans 2018



and incentive scheme adopted in 2017 with share plans with two-year performance periods.

The Restricted Share Pool (RSP) is a secondary share plan for special situations, to be decided upon separately. It consists of annually commencing individual share plans that each have a three-year commitment period, after which the potential promised share awards for an individual plan will be paid to the participants, provided that their employment or service relationship with Kesko Group continues until the payment of the awards.

In RSP plans, share promises have not been given to the President and CEO or other Group Management Board members. The maximum number of shares to be granted under the plans initiated in 2019, 2018 and 2017 is 20,000 shares per plan. The commitment period for the 2019 RSP will end on 15 March 2022, for the 2018 RSP on 15 March 2021, and for the 2017 RSP on 15 March 2020.

Kesko applies a share ownership recommendation to the members of Kesko's Group Management Board. According to the recommendation, each Group Management Board member shall maintain a holding of at least 50% of the net shares they have received under the Company's share-based compensation schemes until their holding of Kesko shares corresponds to at least their fixed gross annual salary.

At its discretion, the Board may decide not to pay a share award or to recover an award that has already been paid, if the recipient has been found guilty of malpractice or an action in breach of Kesko's ethical or responsibility principles or guidance that, as a whole, cannot be considered insignificant, or if there are weighty grounds for assuming that the recipient is guilty of such acts.

Retirement benefits

Retirement benefits for President and CEO

Old-age pension for the President and CEO begins at 63 and the amount has been agreed to be 60% of the President and CEO's pensionable earnings in accordance with the Employees' Pensions Act (TyEL) for the ten (10) calendar years preceding the retirement. The pension is based on a defined benefit plan.

Retirement benefits for Group Management Board members other than the President and CEO

The old-age pension age for Group Management Board members is 63 years.

In 2019, four Group Management Board members were members of Kesko Pension Fund (four in 2018). Their amount of old-age pension is 66% of pensionable earnings for the ten (10) years preceding the retirement. Their supplementary pensions are determined based on the rules of Kesko Pension Fund and their personal service contracts. Their supplementary pensions are based on a defined benefit plan. The old-age pensions of the other Group Management Board members are determined based on the general provisions applicable to employees' pensions in Finland (the Employees' Pensions Act, TyEL). In addition, they have a defined contribution supplementary pension.

Termination benefits

Termination benefit for President and CEO

The period of notice for President and CEO Helander is twelve (12) months if the managing director's service contract is terminated by the Company and six (6) months if Helander resigns. If the Company terminates the contract for a reason other than a material breach of contract by the President and CEO, and if the President and CEO does not retire on an old-age pension or some other pension, the President and CEO is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 12 months' monetary salary and fringe benefits.

Termination benefit for Group Management Board members other than the President and CEO

The period of notice for the other Group Management Board members is six (6) months if the service contract is terminated by the Company, and six (6) months if the executive resigns. If the Company terminates the contract for a reason other than a material breach of contract by the executive, and if the executive does not retire on an old-age pension or some other pension, the executive is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 6–12 months' monetary salary and fringe benefits.

Remuneration report

This remuneration report provides information on the fees and other financial benefits paid to members of the Board of Directors, the President and CEO and the other members of the Group Management Board during the financial year 2019. Fees paid during the 2018 financial year are presented as comparison data.

Board of Directors and its Committees

The 2019 Annual General Meeting resolved that approximately 30% of annual fees is to be paid in B series shares in the Company. After the transfer of shares, the remaining amount is to be paid in cash. A Board member cannot transfer shares obtained in this manner until either three years have passed from the day the member has received the shares or their membership on the Board has ended, whichever comes first. The meeting fees are paid in cash. Daily allowances and the reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko. Members of the Board do not have share compensation schemes nor do they participate in the Company's other remuneration schemes or pension plans.

Annual remuneration to Board members (€)

	2019	2018
Chair	97,000	97,000
Deputy Chair	60,000	60,000
Member	45,000	45,000
Board member who is the Audit Committee Chair	60,000	60,000

Meeting fees / meeting (€)

	2019	2018
Board meeting		
Chair	1,000	1,000
Member	500	500
Committee meeting		
Committee Chair who is not the Chair or Deputy Chair of the Board	1,000	1,000
Member	500	500

Annual remuneration and meeting fees paid to Board members for Board and Committee work in 2019*

	Annual remuneration	Meeting fees: Board	Meeting fees: Audit Committee	Meeting fees: Remuneration Committee	Total, €	Number of B shares transferred based on the annual remuneration**	Kesko shares held on 31 Dec. 2019
Esa Kiiskinen (Chair)	97,000	10,000		2,000	109,000	580	1,350 A shares held by him and 106,000 A shares held by entities controlled by him 1,253 B shares held by him
Peter Fagernäs (Deputy Chair)	60,000	5,000		2,000	67,000	359	1,000 A shares and 776 B shares held by him
Jannica Fagerholm	60,000	5,000	7,000		72,000	359	1,776 B shares held by her
Piia Karhu	45,000	5,000	3,500		53,500	270	583 B shares held by her
Matti Kyytsönen	45,000	5,000	3,500	2,000	55,500	270	1,578 B shares held by him
Matti Naumanen	45,000	5,000			50,000	270	2,400 A shares held by him and 17,664 A shares held by entities controlled by him 583 B shares held by him
Toni Pokela	45,000	4,500			49,500	270	179,400 A shares held by entities controlled by him and 583 B shares held by him
Total	397,000	39,500	14,000	6,000	456,500	2,378	

* Reported on a cash basis.
** Date of assignment for Kesko's treasury shares 26 April 2019.

President and CEO

Mikko Helander has been the Company's President and CEO and the Chairman of the Group Management Board since 1 January 2015. Remuneration for the President and CEO is based on the managing director's service contract approved by the Company's Board, in line with the Board decisions prepared by the Remuneration Committee.

Other Group Management Board members

In addition to the President and CEO, the Group Management Board members in 2019 were:

- Jorma Rauhala, President, building and technical trade division, Deputy to the President and CEO
- Ari Akseli, President, grocery trade division
- Johan Friman, President, car trade division
- Jukka Erlund, EVP, Chief Financial Officer
- Mika Majoinen, EVP, Group General Counsel*
- Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations
- Anni Ronkainen, EVP, Chief Digital Officer

*Mika Majoinen left the company on 31 December 2019

Salaries, bonuses and fringe and retirement benefits for the President and CEO (€)

Description	2019	2018
Fixed monetary salary	€930,000	€952,500
Performance bonus	€525,000	€450,000
Share awards*	€1,146,391	€868,998
Car and mobile phone benefits	€31,709	€28,158
Total:	€2,633,100	€2,299,656
Supplementary pension plan	€1,350,000	€1,350,000

*The euro value of the share awards has been calculated using the trade-weighted average share price of the dates of assignment, 20 March 2019 and 15 March 2018 The euro values of the share awards are gross amounts, from which the applicable withholding tax has been deducted and the remaining net amount has been paid in shares.The gross number of Kesko B shares transferred in 2019 was 20,919, and the net amount was 10,460 shares. The gross number of Kesko B shares transferred in 2018 was 17,746, and the net amount was 8,873 shares.

Salaries, bonuses and fringe benefits for Group Management Board members other than President and CEO (€)

Description	2019	2018
Fixed monetary salary	€2,002,280	€1,963,590
Performance bonus	€530,150	€417,400
Share awards*	€2,208,556	€1,673,996
Car and mobile phone benefits	€144,099	€133,582
Total:	€4,885,084	€4,188,568

*The euro value of the share awards has been calculated using the trade-weighted average share price of the dates of assignment, 20 March 2019 and 15 March 2018. The euro values of the share awards are gross amounts, from which the applicable withholding tax has been deducted and the remaining net amount has been paid in shares.The gross number of Kesko B shares transferred in 2019 was 40,300, and the net amount was 20,152 shares. The gross number of Kesko B shares transferred in 2018 was 34,185, and the net amount was 17,095 shares.

Shareholdings of President and CEO and other Group Management Board members

	Kesko shares held on 31 Dec. 2019	Kesko shares held on 31 Dec. 2018
Mikko Helander, Chairman	55,424 B shares held by him	44,964 B shares held by him
Jorma Rauhala, President, building and technical trade division, Deputy CEO	28,704 B shares held by him	24,300 B shares held by him
Ari Akseli, President, grocery trade division	9,808 B shares and 81 A shares held by him	8,596 B shares and 81 A shares held by him
Johan Friman, President, car trade division	7,327 B shares held by him	3,363 B shares held by him
Jukka Erlund, EVP, Chief Financial Officer	24,167 B shares held by him	20,203 B shares held by him
Mika Majoinen, EVP, Group General Counsel*	12,722 B shares held by him	11,070 B shares held by him
Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations	15,362 B shares held by him	12,884 B shares held by him
Anni Ronkainen, Executive Vice President, Chief Digital Officer	11,080 B shares held by her	8,602 B shares held by her

*Mika Majoinen left the company on 31 December 2019

Board of Directors' valid authorisations concerning remuneration and their use

Kesko's Annual General Meeting of 4 April 2016 authorised the Company's Board to decide on the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (2016 Share issue authorisation). Based on the authorisation, shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, for a weighty financial reason for the Company, such as implementing the Company's commitment and incentive scheme. Shares can be issued either against or without payment. A share issue can only be without payment, if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to the share issues. The authorisation is valid until 30 June 2020.

Based on the 2016 share issue authorisation, the Board decided to transfer own B shares held by the Company as treasury shares. Consequently, 71,432 shares were transferred on 20 March 2019 to members of management and key personnel included in the target group for the 2017-2018 performance period of the share-based commitment and incentive plan (PSP) (Stock exchange releases 6.2.2019 and 20.3.2019). Based on the 2016 share issue authorisation, in 2018 the Board transferred 66,190 shares to members of management and key personnel included in the target group for the 2017 performance period of the transitional share-based commitment and incentive plan (Bridge Plan) (Stock exchange releases 1.2.2018, 15.3.2018, 5.4.2018 and 1.6.2018). Based on the 2016 Share issue authorisation, in 2017 the Board transferred a total of 192,822 Kesko B shares held by the Company as treasury shares to persons included in the target group for the 2016 performance period of Kesko's previous share-based compensation scheme 2014-2016 (Stock exchange release 15.3.2017). Of the shares granted, 3,774 shares were returned to the Company during 2019, 7,211 shares in 2018 and 9,850 shares in 2017 in accordance with the terms and conditions of the share-based compensation scheme. The returns during 2019 were communicated in stock exchange releases on 8 March 2019, 14 June 2019, and 24 September 2019.

The Board decided to implement the resolution made by the Annual General Meeting of 8 April 2019 to pay a portion of the annual fees of Board members in B shares in the Company, by using the 2016 share issue authorisation to transfer 2,378 Kesko B shares held by the Company as treasury shares to the members of the Board. In line with the resolution of the Annual General Meeting, the number of shares corresponded to approximately 30% of the annual fees for each Board member, calculated on the closing price of the share on the date of the Board's meeting, 24 April 2019. The decision was communicated in a stock exchange release issued on 25 April 2019, and the transfer of shares in a stock exchange release on 26 April 2019.

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

On 24 April 2018, Kesko's Board decided, based on the 2018 authorisation to acquire own shares, to acquire B series shares in Kesko Corporation, and established a share buy-back programme for the purpose (Stock exchange release 25.4.2018). Under the share buy-back programme, Kesko acquired 500,000 of its own B series shares to implement a commitment and incentive scheme for management and personnel (Stock exchange release 21.5.2018). No shares were acquired in 2019.

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BOARD OF DIRECTORS AND GROUP MANAGEMENT BOARD

BOARD OF DIRECTORS

Esa Kiiskinen

Board Chairman,
Chairman of the Remuneration Committee

b. 1963, Kauppaneuvos
(an honorary title granted by the President of the Republic of Finland),
Business College Graduate.

Peter Fagernäs

Deputy Chairman,
Deputy Chairman of the Remuneration Committee

b. 1952,
Master of Laws.

Independence: He is considered by the Board not to be independent of the Company (entity controlled by him has a chain agreement with a Kesko Group company) but to be independent of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1990.

Main positions of trust: Taaleri Plc: member of the Board 2014–; Confederation of Finnish Industries EK: Chair of the Delegation for Entrepreneurs 2012–2014; Confederation of Finnish Industries EK: Vice Chair of the Board 2012–2014; Finnish Family Firms Association: member of the Board 2011–2012; The Foundation for Vocational Training in the Retail Trade: Chair of the Board 2008–2012; Saija ja Esa Kiiskinen Oy: Chair of the Board 1995–; Finnish Commerce Federation: member of the Board 2008–2012; K-Retailers' Association: Chair of the Board 2008–2012; Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board 2008–2012.

Board member since: 30 March 2009.

Kesko shares held:
- 31 December 2018: 673 B shares held by him and 107,350 A shares held by him and entities controlled by him.
- 31 December 2019: 1,253 B shares held by him and 107,350 A shares held by him and entities controlled by him.

Independence: He is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Chairman of the Board

Main employment history:
Hermitage & Co Oy: Chairman of the Board 2003–; Pohjola Group Plc: Chairman of the Board 2001–2003; Conventum Ltd: CEO 1996–1999 and Chairman of the Board 1999–2002; Merita Bank Ltd: member of management board 1995–1996; Prospectus Ltd: CEO 1993–1995; Kansallis-Osake-Pankki: 1977–1993.

Main positions of trust: Oy Hermitage Ab: Chairman of the Board 2003–; Taaleri Plc: Chairman of the Board 2007–; Amanda Capital Plc: member of the Board 2007–2011; Winpak Ltd: member of the Board 2006–2011; Fortum Corporation: Chairman of the Board 2004–2009.

Board member since: 11 April 2018.

Kesko shares held:
- 31 December 2018: 417 B shares and 1,000 A shares held by him.
- 31 December 2019: 776 B shares and 1,000 A shares held by him.

Jannica Fagerholm

Chairman of the Audit Committee

b. 1961,
Master of Science (Economics).

Independence: She is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Managing Director.

Main employment history: Signe and Ane Gyllenberg Foundation: Managing Director 2010–; SEB Gyllenberg Private Bank: Managing Director 1999–2010; Handelsbanken Liv Finland: Country Director 1998–1999.

Main positions of trust: Sampo plc: member of the Board 2013–; Teleste Corporation: member of the Board 2013–; Solidium Oy, member of the Board 2019–, Kelonia Ab, member of the Board 2010–; Veritas Pension Insurance, member of the Supervisory Board 2010–; The Society of Swedish Literature in Finland, member of the Board 2015–, member of the Financial Board 2001–2015; Eira Hospital Ltd: member of the Board 2010–; Hanken School of Economics: member of the Board 2008–, Chair of the Board 2019–; Aktia Abp: member of the Board 2012–2013; Partiosäätiö foundation: member of the Board 1997–2013.

Board member since: 4 April 2016.

Kesko shares held:
- 31 December 2018: 1,417 B shares held by her.
- 31 December 2019: 1,776 B shares held by her.

Piia Karhu

member of the Audit Committee

b. 1976,
Doctor of Science, Economics and Business Administration.

Independence: She is considered by the Board not to be independent of the Company (interlocking control relationship), but to be independent of its significant shareholders.

Domicile: Kauniainen, Finland.

Principal occupation: Senior Vice President

Main employment history: Finnair Plc: Senior Vice President, Customer Experience and member of the Executive Board since 2016. Various leadership positions at Finnair Plc since 2013. Previously worked as a management consultant for 12 years at Ernst & Young and Capgemini.

Main positions of trust: Finnair Kitchen Ltd: Chairman of the Board 2017–; Finnair Travel Retail Oy: Chairman of the Board 2016–; SMT Oy: member of the Board 2015–2016; Finnair Aircraft Finance Ltd: member of the Board 2015–2016.

Board member since: 11 April 2018.

Kesko shares held:
- 31 December 2018: 313 B shares held by her.
- 31 December 2019: 583 B shares held by her.

Matti Kyytsönen

Deputy Chairman of the Audit Committee, member of the Remuneration Committee

b. 1949,
Master of Science (Economics).

Independence: He is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Silverback Consulting Oy: Chair of the Board.

Main employment history: ISS Palvelut Oy: Managing Director 1992–2006; Esselte Oy: Managing Director 1984–1992; Oy Perkko: Managing Director 1983–1984; Tietoura-Yhtiöt Oy: Marketing Director 1981-1983; Oy Foto-Nyblin Ab: Finance and Marketing Manager 1977–1981; Insinööritoimisto Oy Vesto: Accounting Manager 1974–1976; Oy Mobil Oil Ab: Financial Analyst 1973–1974.

Main positions of trust: Eltel AB: member of the Board 2007–2017; Lindström Invest Oy: member of the Board 2009–2019 and Chair of the Board 2017–2019; KP Tekno Oy: member of the Board 2006–; Port of Helsinki Ltd: member of the Board 2015–; Esperi Care Oy: member of the Board 2008-2016; Oy Center-Inn Ab: member of the Board 2007–2012; Kiinteistöpalvelut ry: Chair of the Board 1996–2001 and 2005–2006; Palvelutyönantajat ry: member of the Board 1996–2001; Confederation of Finnish Industries (EK): member of the Board 2005–2006; The Unemployment Insurance Fund: member and Chair of the Supervisory Board 1999–2006; Varma Mutual Pension Insurance Company: member of the Supervisory Board 1998–2006.

Board member since: 13 April 2015.

Kesko shares held:
- 31 December 2018: 1,308 Kesko B shares held by him.
- 31 December 2019: 1,578 Kesko B shares held by him.

Matti Naumanen

b. 1957,
trade technician.

Independence: He is considered by the Board not to be independent of the Company (entity controlled by him has a chain agreement with a Kesko Group company) but to be independent of its significant shareholders.

Domicile: Joensuu, Finland.

Principal occupation: Retailer.

Main employment history: K-retailer since 1982.

Main positions of trust: K-Retailers' Association's Agricultural and Building and Home Improvement Retailers' Club: Chair of the Board 2009–2016. Former positions of trust: K-Retailers' Association: member of the Board 2009–2016; registered association Nurmeksen Yrittäjät: Chair of the Board; registered association Joensuun Yrittäjät: Chair of the Board.

Board member since: 4 April 2016.

Kesko shares held:
- 31 December 2018: 313 B shares held by him and 20,064 A shares held by him and entities controlled by him.
- 31 December 2019: 583 B shares held by him and 20,064 A shares held by him and entities controlled by him.

Toni Pokela

b. 1973,
Retailer, EMBA.

Independence: He is considered by the Board not to be independent of the Company (entity controlled by him has a chain agreement with a Kesko Group company) and of significant shareholders (Chair of the Board of a significant Company shareholder K-Retailers' Association).

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history:
K–food retailer since 1997.

Main positions of trust: Finnish Commerce Federation: member of the Board 2017–; Finnish Tennis Federation: Chair of the Board 2017–, member of the Board 2014–2016; K-Retailers' Association: Chair of the Board 2016–, member of the Board 2008–2012; Pokela Oy Iso Omena: member of the Board and Managing Director 1998–; Iso Omenan Yrittäjäyhdistys ry: Chair of the Board 2003–; Foundation for Vocational Training in the Retail Trade: Chair of the Board 2016–; Confederation of Finnish Industries EK: member of the Skilled Workforce Committee 2014–2016, member of the Delegation for Entrepreneurs 2017–; K-instituutti Oy: Deputy Chair of the Board 2010–2012; Vähittäiskaupan Takaus Oy: member of the Board 2010–2012; K-Food Retailers' Club: Chair of the Board 2010–2012; Deputy Chair 2008–2010; Finnish Grocery Trade Association: member of the Board 2010–2011.

Member of the Board since: 16 April 2012.

Kesko shares held:
- 31 December 2018: 313 B shares held by him and 179,400 A shares held by entities controlled by him.
- 31 December 2019: 583 B shares held by him and 179,400 A shares held by entities controlled by him.

GROUP MANAGEMENT BOARD

Mikko Helander

President and CEO of Kesko Corporation and Chairman of the Group Management Board.

b. 1960, Vuorineuvos (an honorary title granted by the President of the Republic of Finland), Master of Science (Technology).

Jorma Rauhala

President, building and technical trade, Deputy CEO.

b. 1965, Master of Science (Economics).

Domicile: Helsinki, Finland.

Other major duties: Stora Enso Oyj: member of the Board 2019-; Confederation of Finnish Industries EK: Deputy Chair of the Board 2019-; Finnish Commerce Federation: member of the Board 2015-; Finland Chamber of Commerce: member of the Board 2016-; Finnish Business and Policy Forum EVA: member 2015-; Finnish Fair Corporation: Board member 2015-; Rajamme Vartijain Säätiö: member of the Board 2019-; Ilmarinen Mutual Pension Insurance Company: member of the Board 2015 and Chair of the Board 2016-2019; East Office of Finnish Industries Oy: member of the Board 2015-2018.

Employment history: employed by Kesko Corporation since 2014. Kesko Corporation's Managing Director and Kesko Group's President and CEO since 1 January 2015. Kesko Corporation's Executive Vice President 2014. Metsä Board Corporation: Chief Executive Officer 2006–2014; Metsä Tissue Corporation: Chief Executive Officer 2003–2006; Various management positions at Valmet Corporation between 1993 and 2003; Managing Director of Kasten Hövik 1990–1993.

Member of the Group Management Board since: 1 October 2014.

Kesko shares held:
- 31 December 2018: 44,964 B shares.
- 31 December 2019: 55,424 B shares.

Domicile: Espoo, Finland

Other major duties: European DIY Retail Association (EDRA): member of the Board 2019–; The Finnish Grocery Trade Association: Chair of the Board 2017 (until 20.11.2017) and 2013–2014, member of the Board 2013–2016; the Association of Finnish Advertisers: member of the Board 2014–2017 (until 24.11.2017).

Employment history: employed by Kesko Corporation since 1992. President of Kesko's building and technical trade division since 15 November 2017. Senior Vice President, grocery trade division 2015–2017. President of Kesko Food Ltd 2013–2017. Vice President for the K-citymarket chain's food trade 2012–2013; Managing Director of Kespro Ltd 2007–2012; Purchasing Director of Kespro Ltd 2003–2007.

Member of the Group Management Board since: 5 February 2013.

Kesko shares held:
- 31 December 2018: 24,300 B shares.
- 31 December 2019: 28,704 B shares.

Ari Akseli

President, grocery trade.

b. 1972,
Master of Science
(Economics).

Johan Friman

President, car trade.

b. 1965,
Master of Science
(Economics).

Domicile: Helsinki, Finland.

Other major duties: The Finnish Grocery Trade Association: member of the Board 2019–, Chair of the Board 20.11.2017–31.12.2018; AMS Advisor Board: member 2013–2019; IGS Advisor Board: member 2016–; Ruokatieto: Vice Chairman of the Board 2016–2019, member of the Board 2013–2015; Association for Finnish Work: member of the Executive Committee 2014–2019.

Employment history: Employed by Kesko Corporation since 1995. President of Kesko's grocery trade division since 15 November 2017. Vice President for Commerce, Kesko's grocery trade 2013–2017; President, Anttila Oy 2010–2013; President, K-citymarket Oy 2008–2013.

Member of the Group Management Board since: 15 November 2017.

Kesko shares held:
- 31 December 2018: 81 A shares, 8,596 B shares.
- 31 December 2019: 81 A shares, 9,808 B shares.

Domicile: Espoo, Finland.

Other major duties: Association of Automobile Importers in Finland: member of the Board 2017–, Chair of the Board 2019–; Finnish Car Recycling Ltd: member of the Board 2019–; Finnish Commerce Federation: member of the Board 2020–; LeasePlan Belgium: member of the Board 2010–2016; LeasePlan Denmark: member of the Board 2011–2016; VMF Verband markenunabhängiger Fuhrparkmanagementgesellschaften, Deutschland: member of the Board 2006–2016.

Employment history: employed by Kesko Corporation since 2017. Senior Vice President, car trade division since 1 January 2017. LeasePlan Deutschland GmbH: Managing Director 2006–2016; LeasePlan Finland Oy: Managing Director 1997–2006; Inchcape Motors Finland Oy: Managing Director of the Retail business 1995–1997 and Marketing Director of the importer 1995; Bilia Oy: Sales Manager, Dealer Manager and Fleet sales 1991–1994.

Member of the Group Management Board since: 1 January 2017.

Kesko shares held:
- 31 December 2018: 3,363 B shares.
- 31 December 2019: 7,327 B shares.

Jukka Erlund

Executive Vice President, CFO.

b. 1974, Master of Science (Economics), EMBA.

Matti Mettälä

Executive Vice President, Human Resources, Corporate Responsibility and Regional Relations.

b. 1963, Master of Laws.

Domicile: Helsinki, Finland.

Other major duties: Finnair Plc: member of the Board 2019–; Finnish Commerce Federation: Chair of the Tax and Economic Policy Committee 2011–; Confederation of Finnish Industries EK: member of the Economy and Tax Committee 2012–; Suomen Luotto-osuuskunta: member of the Board 2012–; Varma Mutual Pension Insurance Company: member of the Supervisory Board 2018-.

Employment history: employed by Kesko Corporation since 2004. Senior Vice President, CFO since 1 November 2011. Kesko Food Ltd's Vice President for Finance 2010–2011; Kesko Corporation's Vice President, Corporate Controller 2007–2010; Kesko Corporation's Corporate Business Controller 2004–2007.

Member of the Group Management Board since: 1 November 2011.

Kesko shares held:
- 31 December 2018: 20,203 B shares.
- 31 December 2019: 24,167 B shares.

Domicile: Helsinki, Finland.

Other major duties: Unemployment Insurance Fund (TVR): member of the Supervisory Board 2018-; Huoltoupseeriyhdistys ry: member of delegation 2013–; Foundation for Vocational Training in the Retail Trade: member of the Board 2005–.

Employment history: employed by Kesko Corporation 1990–2005 and since 2012. Executive Vice President, Human Resources, Corporate Responsibility and Regional Relations as of 1 January 2018. Senior Vice President, Human Resources 2015–2017. Senior Vice President, Human Resources and Stakeholder Relations 2012-2014. K-retailers' Association: Managing Director 2005–2012; Kesko Hardware and Builders' Supplies: Vice President for Finance 2002–2005; Rautakesko Ltd: Development Director 2001–2002; Builders' and Agricultural Supplies Division: Project Manager 1999–2000; Kesko Hardware and Builders' Supplies: Vice President for the Rautia chain 1998–1999; Builders' and Agricultural Supplies Division: Retail Services Manager 1996–1998; Vähittäiskaupan Takaus Oy: Retail Services Manager 1994–1996; Kesko Ltd's Credit Department: Credit Manager 1991–1992; Kesko Ltd's Credit Department: Legal Counsel 1990–1991.

Member of the Group Management Board since: 1 October 2012.

Kesko shares held:
- 31 December 2018: 12,884 B shares.
- 31 December 2019: 15,362 B shares.

Also a member of the Group Management Board in 2019:

Anni Ronkainen

Executive Vice President,
Chief Digital Officer.

b. 1966,
Master of Science
(Economics).

Domicile: Helsinki, Finland.

Other major duties: DNA Plc: Member of the Board 2019–, Member of the Personnel Committee: 2019–; Fennia Mutual Insurance Company: member of the Board 2019–; Statistics Finland: Member of the Advisory Board 2019–; Finnish Chamber of Commerce: Chairman of the start-up committee 2018–, Marketing Finland ry: member of the Board 2018-; Business Finland: member of the Digital Advisory Board 2017–; Invesdor Oy: member of the Board 2018–2019; Asiakastieto Group Plc: member of the Board 2015–2019; Nordic Morning Plc: member of the Board 2015–2019; Robit Plc: member of the Board 2015–2017; Sunduka Ltd: member of the Board 2015–2017; Institute of Marketing: member of the Board 2010–2015; the American Chamber of Commerce in Finland (AmCham Finland): member of the Board 2011-2015; Marketing Executives Group: member of the Board 2009–2011.

Employment history: employed by Kesko Corporation since 2015. Chief Digital Officer as of 20 April 2015. Google Finland Ltd: Country Manager Finland 2009–2015; Industry Head, Multi-sector 2008–2009; McCann Worldgroup Helsinki Oy: CEO 2006–2008; Satama Finland Oy: Business Group Director 2001–2006.

Member of the Group Management Board since: 20 April 2015.

Kesko shares held:
- 31 December 2018: 8,602 B shares.
- 31 December 2019: 11,080 B shares.

Mika Majoinen

Executive Vice President,
Group General Counsel.

b. 1963,
Master of Laws.

Domicile: Helsinki, Finland.

Other major duties: ICC: member of the Advisory Board 2019-, Finnish Commerce Federation: member of the Legal Affairs Committee 2018–, Confederation of Finnish Industries EK: member of the Legal Affairs Committee 2018–.

Employment history: Employed by Kesko Corporation since 1990. Group General Counsel as of 1 January 2018. Executive Vice President, Group General Counsel, Company Secretary for Kesko's Board of Directors and Group Management Board 2005–2017, division lawyer for Rautakesko Ltd 2001–2005, lawyer for the Builders' and Agricultural Supplies Division 1998–2001, development manager at Kesko Corporation's Legal Affairs Department 1996–1998, lawyer at Kesko Corporation's Legal Affairs Department 1990–1996.

Member of the Group Management Board since: 1 January 2018.

Kesko shares held:
- 1 January 2019: 11,070 B shares.
- 31 December 2019: 12,722 B shares.