ANNUAL REPORT

Kesko 2015

Strategy report 2015

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Financial statements 2015

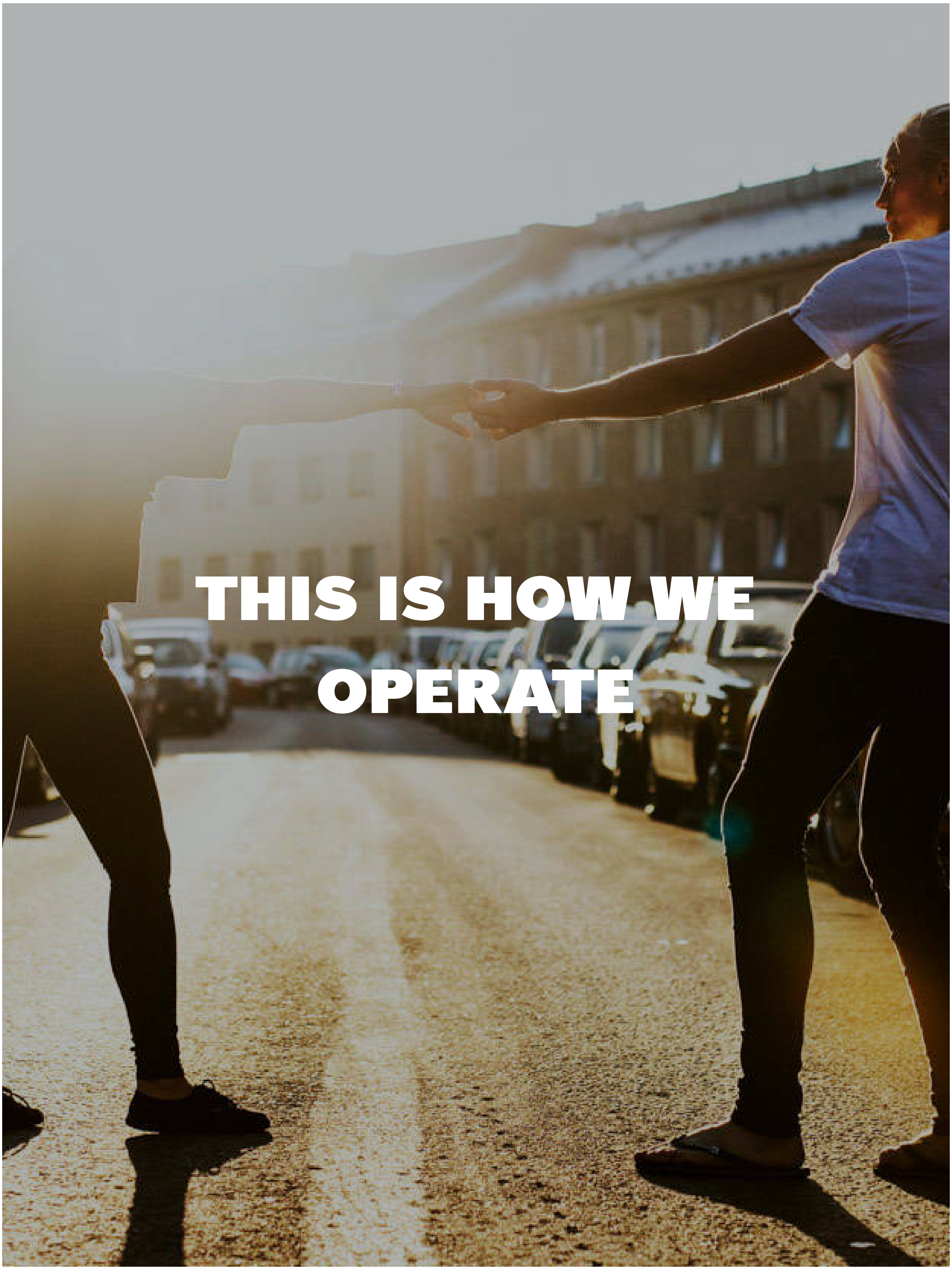
Corporate Governance 2015

CORPORATE GOVERNANCE STATEMENT 2015

REMUNERATION STATEMENT 2015

STRATEGY REPORT

Kesko 2015



THIS IS HOW WE OPERATE

THE CUSTOMER AND QUALITY – IN EVERYTHING WE DO

At the core of Kesko's strategy is profitable growth in three strategic sectors: the grocery trade, the building and home improvement trade and the car trade. Kesko differentiates itself from the competition with quality and customer orientation.

In the future, Kesko will operate more strongly as a unified K-Group, which will enable us to offer customers ever better services and to operate efficiently. The strategic objective is to strengthen the customer experience for consumers and businesses at both stores and on digital channels. The key focus areas include the renewal of the chain concepts, building the best digital services in the sector and revising the K-Plussa customer loyalty system.

In the grocery trade, Kesko's strategic objective is growth in the Finnish grocery trade. The key focus area is the renewal and growth of the K-Group's neighbourhood store network, which is underpinned by the acquisition announced in November 2015, when Kesko made an agreement to acquire Suomen Lähikauppa. The K-supermarket chain will be increased by several new store sites and the K-citymarket concept will be revised. In the strategy for Russia, the objective is to increase business and improve profitability in the St. Petersburg area. Increasing the business of the grocery wholesale company Kespro is also at the centre of the strategy.

In the building and home improvement trade, Kesko's objective is to further strengthen its position in Europe. Kesko is now already the fifth largest operator in Europe and has operations in eight countries. Kesko's strategic objective is to increase the building and technical trade, which is significantly underpinned by the acquisition announced in January 2016, when Kesko made an agreement to acquire Onninen, a company specialising in the trade of HEPAC and electrical products.

The completion of the acquisition of both Suomen Lähikauppa and Onninen is subject to the approval of the competition authority and the acquisitions are estimated to be completed in the first half of 2016.

In the car trade, Kesko is the market leader in Finland. In the future, Kesko's objective is to further increase its market share in the car trade in Finland and the Baltic countries.

Kesko's other businesses, i.e. the furniture trade, the sports trade, the agricultural trade, the machinery trade and the shoe trade, will be developed with the objective of increasing their value.

The financial objective in line with the strategy is to achieve a 14% return on capital employed and a 12% return on equity.

In order to ensure competitiveness and improve profitability, Kesko's strategic objective is to implement cost savings of at least €50 million in fixed assets by the end of 2016.

Kesko estimates that in the strategy period 2015–2017, its capital expenditure in its business operations will be around €750 million, excluding possible acquisitions.

STRATEGIC OBJECTIVES

- Growth in the Finnish grocery trade
- Increasing the building and home improvement trade in Europe
- Strengthening market leadership in the Finnish car trade
- The best omnichannel customer experience of the trading sector
- One unified Kesko, seeking synergies

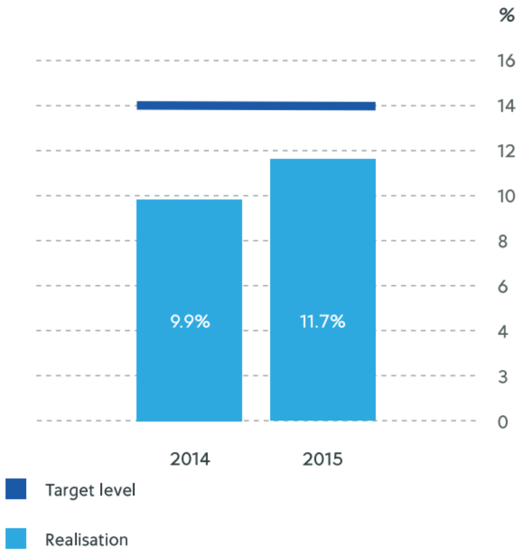
Financial objectives

Objectives	Target level	Realisation in 2015	Realisation in 2014
Return on capital employed*	14%	11.7%	9.9%
Return on equity*	12%	8.2%	7.6%
Interest-bearing net debt/EBITDA	< 2.5	-1.4	-0.3

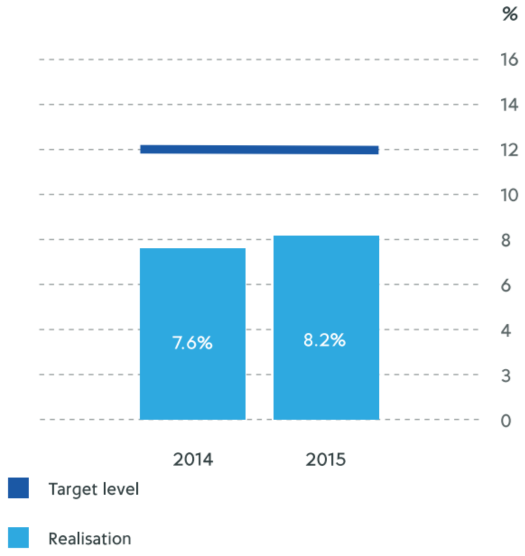
** Excluding non-recurring items*

Kesko's dividend policy: Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking into account, however, the Company's financial position and operating strategy.

*Return on capital employed**



*Return on equity**



CORNERSTONES OF THE STRATEGY

Value
The customer and quality – in everything we do

Vision
We are the customer's choice and the quality leader in the European trading sector

Mission
We create welfare responsibly for all our stakeholders and the whole society

PEOPLE PRINCIPLES

I operate directly, openly and honestly
Honest and open operation is the starting point for everything. Responsibility is a success factor for the K-Group, proof of which is customers' confidence in the K-Group's operating principles and products.

I'm all in
In the K-Group, personnel put themselves into play every day in order to offer their customers a diversified selection, quality products and first-class services that enable daily life to go smoothly.

I create trust
Trust in other people is, above all, based on our own operations. In the K-Group, people respect each other and listen to customers' needs.

I show the path
Through constant development and renewal, the K-Group gains a clear direction in serving customers ever better. In the K-Group, everyone knows his/her role and has the agility to respond to changing conditions.

VIDEO: THE K-GROUP PEOPLE PRINCIPLES

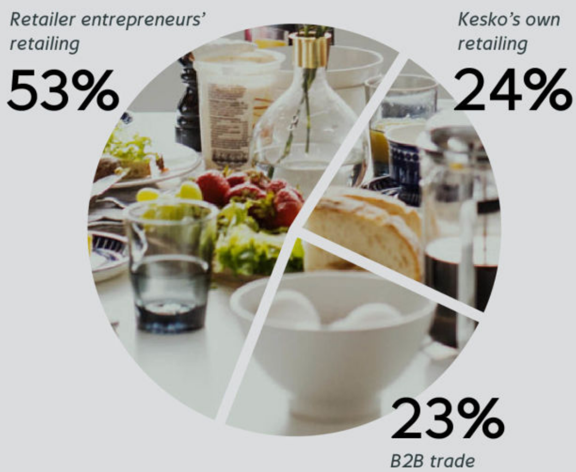
On this video, the K-Group employees share how People Principles come to life in their daily work. The K-Group is a great place to work and where things get done. The K-Group provides opportunities for professional and personal growth and allows everyone to do their best, for shopping to be fun. The People Principles are based on the K-Group's value, the customer and quality – in everything we do.

Watch the video

ONE UNIFIED K

1. Strong brand and identity
2. Efficiency
3. Customer relationships across divisional borders

Kesko's net sales by business model



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. In Finland, all food stores, building and home improvement stores, and agricultural stores in the K-Group are run by K-retailer entrepreneurs.

B2B trade is increasingly important to Kesko.

Outside Finland, own retailing is the main business model.

DESCRIPTION OF VALUE CREATION

OUR MOST IMPORTANT RESOURCES

Brands, reputation and customer data

Store sites

Personnel and retailers

Supplier relationships and logistic operating models

Financial resources

THE CUSTOMER AND QUALITY – IN EVERYTHING WE DO

Grocery trade
Home improvement and speciality goods trade
Car trade

Retailer entrepreneurs' retail trade

Kesko's own retail trade

B2B trade

Comprehensive store site network and multi-channel trade

1,500 different type and size stores, online stores and digital services in eight countries

FOR SHOPPING TO BE FUN

ADDED VALUE TO STAKEHOLDERS

High-quality products, services and solutions to customers
1.3 million customers per day

Shareholders
Dividends and capital appreciation

Personnel
Job and livelihood
Wellbeing at work

Suppliers
Partnership
Distribution channels

SHARED VALUE AND IMPACTS

Society
Providing employment

Providing services

Capital expenditure

Taxes

Local sourcing

Retail stores as local operators

Environmental impacts

WHAT DOES VALUE CREATION RELATE TO?

WE IDENTIFY THE RISKS AND OPPORTUNITIES OF OUR OPERATING ENVIRONMENT

The trading sector operations are affected by several global megatrends ranging from the digital transition to climate change. By identifying the trends that affect the K-Group's operations Kesko is able to effectively anticipate future challenges and opportunities and to respond to them ever better.

GLOBAL MEGATRENDS

GLOBAL ECONOMY

DIGITAL TRANSITION

INCREASING IMPORTANCE OF RESPONSIBILITY

CLIMATE CHANGE

CHANGES IN DEMOGRAPHIC STRUCTURE

TRENDS AFFECTING THE K-GROUP'S OPERATIONS

International trading groups concentrating on a single product line are challenging local operators

- Intensification of price competition
- Slow economic growth and decline in consumer demand
- Affordable products are preferred for the shopping basket
- Sales of own brand products are increasing

What we are doing

- We concentrate on a more limited number of business operations
- We operate more efficiently and at a higher quality level
- We develop our own brand products further

Consumers' ability to make analytical buying decisions has increased

- Transparency of selections, prices and availability
- Importance of social media channels: access to information, exchange of experiences and interaction
- Product origin and responsibility are important selection criteria
- Quality and food healthiness

What we are doing

- We make clear customer promises and deliver on them – service, quality, price
- We provide comprehensive product, price and availability information on digital channels

Digital services play a key role

- Ease of transactions
- 24/7 availability of services irrespective of place
- Targeted marketing based on customer data

What we are doing

- We offer an ever better customer experience by making use of the possibilities of mobile services, online services and digital marketing

Changes in demographic structure coupled with the change in consumer behaviour make customer behaviour increasingly individual

- Ageing of population
- Growth in single households
- Urbanisation
- Increasing cultural diversity

What we are doing

- We create new concepts and retailer models and make more extensive use of customer data

More than before, responsibility coupled with a strong identity and attractive brands is a prerequisite for operation in every line of business

- Good corporate governance
- Open communications
- Responsible operating principles
- Adaptation to climate change, energy efficiency and circular economy
- Management of purchasing chains
- Responsible investing

What we are doing

- We take care that responsibility is realised in all our operations
- We strengthen the corporate identity and the core brands

K IN ACTION: PIRKKA AND GASUM RECYCLE TOGETHER

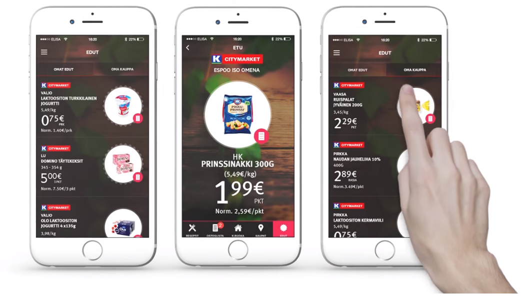
Biogas produced from K-food stores' waste is utilised as energy to manufacture Pirkka products. Cooperation between Kesko and Gasum provides K-stores with a new kind of way to use wastage, so we can contribute to turning Finland into a forerunner in bioeconomy and cleantech.

Watch the video

In the video, Jani Arala from Gasum and Timo Jäske from Kesko describe how Pirkka and Gasum recycle together

K IN ACTION: K-FOOD MOBILE APPLICATION HELPS CUSTOMERS IN STORE AND AT HOME

The new K-food mobile application that was launched in October 2015 provides personal benefits and store-specific offers plus a smart shopping list. The application makes customers' daily lives easier in many ways. It is available for all operating systems.



After the launch, the K-food application rose high on the lists of the most downloaded free apps in Finland. By the end of the year, the application was available in iPhone, Windows Phone and Android versions. By the beginning of March 2016, as many as 120,000 customers had already downloaded the application.

In addition to personal benefits and special offers, the application recommends to customers such products they might be interested in based on their shopping history. The application also has nearly 6,000 recipes directly available to customers.

The shopping list can be shared by several devices in the K-Plussa card household concerned and the list is updated in real time.

“Previously, K-food store customers received the special offers from their local store by e-mail at the beginning of the week. Now we also offer a mobile app with their personal benefits and the store's other special offers handily displayed and added to the shopping list,” says **Mika Kakko**, Sales Director of Kesko’s grocery trade.

The application also offers ideas and inspiration for cooking. The recipe search function includes special diets and the app also suggests the most popular, easy, affordable, topical recipes using seasonal ingredients.

The Palokangas family tested the K-food mobile app and commented on it in the Pirkka magazine in January 2016:

”It was good that after finding the recipe I could add all the ingredients needed to my shopping list with one click. In the store, it is easy to delete products from the list by clicking them and see what is missing. The application is also useful when deciding what to make for dinner,” says **Mari Palokangas**.

Kesko takes account of the stages and impacts of its value chain

Kesko's objective is to operate sustainably and responsibly at all stages of its value chain. In addition to its own direct impacts, Kesko's value chain generates significant indirect impacts.

Raw materials

In our operations, we promote the sustainable use of natural resources. We favour local purchases.

Production

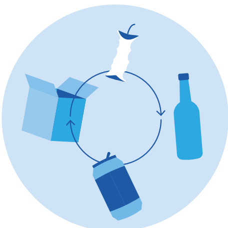
We ensure responsibility across our purchasing chain. We take account of health and environmental aspects in our selection decisions.

Logistics

We transport and warehouse our goods efficiently. We reduce the emissions from our transportation by using larger capacity trucks and route planning.

K-store
Kesko and K-retailers employ tens of thousands of people and create welfare to the local community. Our comprehensive store network and digital services provide service near customers.

Customer, services and products
Our customers can be confident that when they shop with K-stores they make responsible choices. We offer quality products and digital services that make customers' daily lives easier.



Recycling
We recover the waste generated in our operations. We help our customers reduce their environmental impacts.

OPPORTUNITIES AND RISKS RELATED TO THE OPERATING ENVIRONMENT

Multi-channelling is increasingly important in the retail trade

E-commerce and digital services are increasingly popular parts of consumers' shopping behaviour. E-commerce increases price transparency and consumers' choices. Purchasing and marketing of products and services is more individualised and increasingly web-based.

Opportunities

E-commerce and digital services coupled with a comprehensive store site network provide a basis for excellent customer service in the K-Group.

The aim is to serve customers as well as possible at different stages of the buying process irrespective of time and place.

In line with Kesko's strategy, the objective is to provide customers with the best multi-channel shopping experience in the trading sector.

Kesko develops targeted electronic customer marketing based on purchasing behaviour and increases online availability of product information for improved customer satisfaction and increased sales.

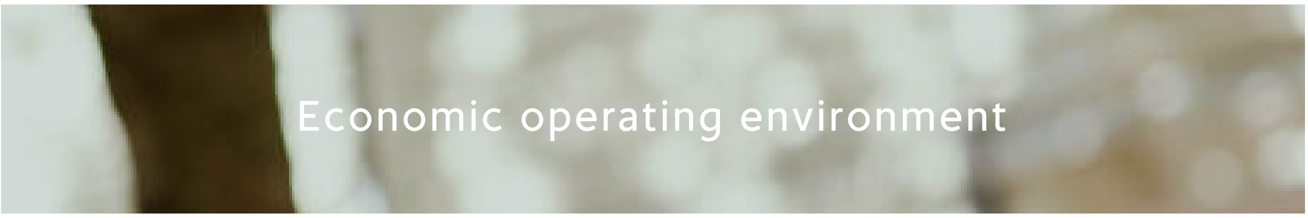
Risks

Challenges to e-commerce profitability include the cost-effectiveness of logistics models and the suitability of the current stores sites for e-commerce logistics.

Continuous changes in e-commerce and digital services present special challenges to the rapid development of new services.

Store site projects can be slowed by town planning and permit procedures and the availability and pricing of sites.

With the growth of e-commerce or changes in market situation, there is a risk that the operations of a chain or site relying on physical stores become unprofitable.



Economic operating environment

In line with the strategy, Kesko’s objective is to increase growth and invest capital particularly in its three strategic growth areas: the grocery trade, the building and home improvement trade, and the car trade. Achieving the objective requires customer-driven operations and good cost-efficiency in all of Kesko’s business operations. From the perspective of growth, key objectives include increasing our market share in the Finnish grocery trade, expanding the building and home improvement trade in Europe, strengthening market leadership in the Finnish car trade, and developing of e-commerce and online services.

Opportunities

Kesko's strategy emphasises customer-orientation and quality in all operations in addition to competitive prices.

Kesko’s strong financial position and net debt-free balance sheet provide excellent opportunities to develop operations.

Kesko sees Russia as an opportunity in the long term and continues to make deliberate capital expenditure in Russia.

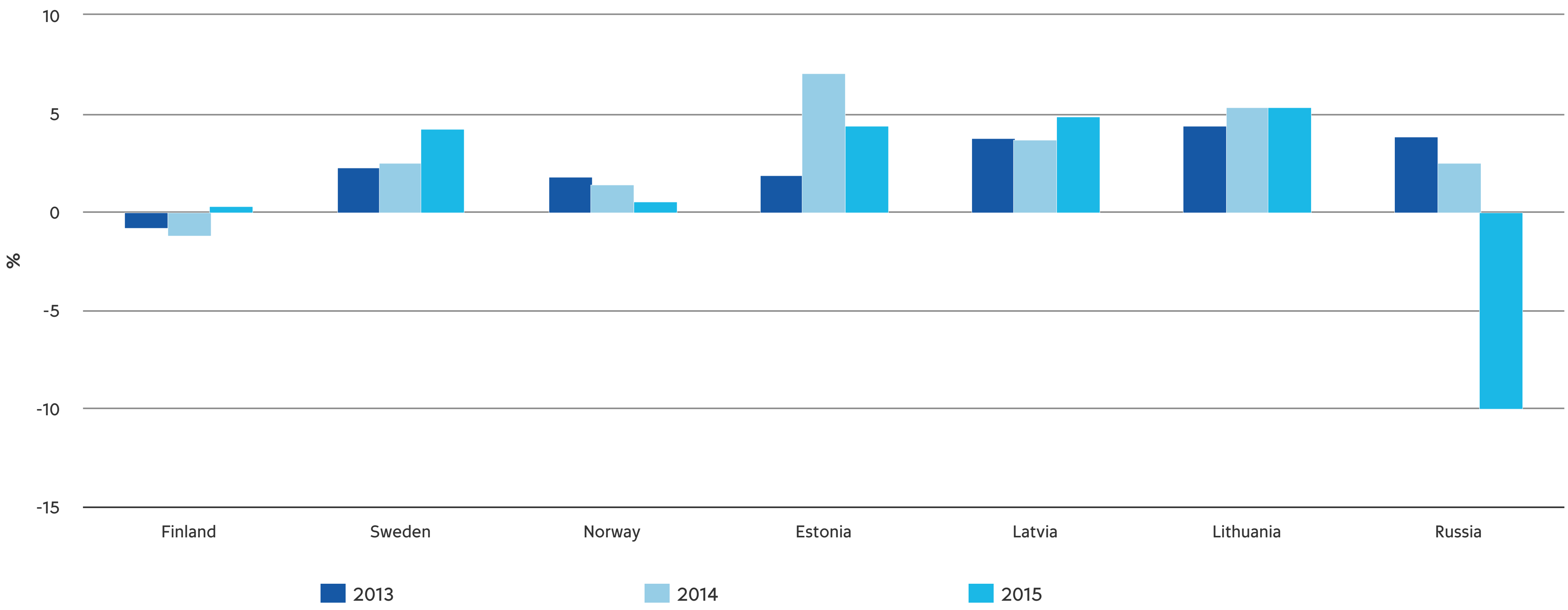
Risks

The weak outlook for the Finnish economy, increases in taxes and public payments resulting from the indebtedness of the public sector, coupled with increasing unemployment, weaken purchasing power and consumer confidence and may cause a long-term decline in the level of demand. This would have negative repercussions especially on Kesko's home improvement and speciality goods trade and car trade in Finland. In the grocery trade, price is increasingly important.

Kesko’s market performance varies greatly from one country and division to another.

There is great uncertainty around economic development in Russia, and political and country risks in Russia remain high.

Development of retail market in Kesko's operating countries in 2013–2015



Retail trade excluding motor vehicles, change %, deflated figures
Source: Eurostat, Rosstat for Russia

Purchasing chains

Transparency and responsibility in purchasing chains has become increasingly important.

It is necessary to provide customers with increasingly detailed information on the origins and manufacturing methods of products. Care must be taken to ensure that all operations throughout the supply chain are responsible. Product safety management must be flawless and traceable across the entire supply chain.

Opportunities

Networking with suppliers of goods and providers of services requires that all operators in the supply chain adopt the same values, objectives and operating practices and are committed to international sustainability assurance procedures.

Corporate responsibility communications, the store K-responsibility concept and product labelling can help customers make responsible purchasing decisions.

Careful and traceable product safety control and quality assurance strengthen customer confidence in the K-Group.

Risks

Non-compliance in the management of social or environmental responsibility within the supply chain cause human rights violations, environmental damages, financial loss and the loss of customer, shareholder and investor confidence while negatively affecting the corporate responsibility work and its credibility.

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

Impacts of climate change

Climate change causes risks and opportunities affecting habitats, regulations and reputation factors.

Emissions from the generation of electrical and heat energy of properties represent a significant proportion of the environmental impact Kesko and the K-Group stores. In accordance with Kesko's environmental and energy policy, the real estate functions work in cooperation with business partners to develop solutions for the new building, repair, concept changes, maintenance and use of real estate properties with the aim of reducing the consumption of materials and energy during the life cycles of these properties. We also help our customers find energy-efficient solutions. Read more about energy-efficient solutions.

Opportunities

Kesko efficiently recovers waste heat, such as condensation heat generated by store refrigeration units, for heating using the latest technology.

Kesko also actively examines the use of renewable energy sources. Among other things, the use of soil and water as sources of heat and cooling, as well as solar energy, will increasingly be potential alternatives as technical solutions become more sophisticated.

Products and services that enhance enery efficiency at homes and are available at the building and home improvement stores make it easy for customers to improve the energy efficiency of their homes and to find solutions that support sustainable development.

Risks

Climate change increases the risk of extreme weather phenomena. Extreme phenomena may cause damages or business interruptions that cannot be prevented. There is also the risk that insurance does not cover all unexpected accidents and damages caused by extreme weather phenomena.

If energy source policies prove wrong, they may lead to unpopularity among customers, shareholders and investors and cause financial losses.

THE CUSTOMER IN EVERYTHING WE DO

The K-Group's main duty is to offer customers the products and services they need. We operate for the good of customers and create new services that make customers' daily lives easier.

- Responsibility, local presence and K-retailers are our competitive advantages
- A personal approach and inspirational customer experience are our strengths
- We provide the market with the best digital services in the trading sector

In Finland, all of the K-Group's food stores, building and home improvement stores and agricultural stores are run by K-retailer entrepreneurs. Most of the K-stores are family businesses, run by a K-retailer couple. In 2015, there were over 1,100 K-retailers and 57 people began their K-retailer careers.

Retailer entrepreneurs build their selections flexibly according to the needs of the local community and customers. The chain's common selection is complemented with retailers' direct purchases, such as food from local producers. K-retailers' direct purchases from Finnish regions totalled €610 million in 2015.

The strength of the retailer business model is that the retailers are able to operate flexibly according to the needs of their local customers. The business model is agile because, as entrepreneurs, retailers can respond quickly and efficiently if the situation so requires.

K-retailers are present in their local communities. They influence the local community in many ways as they provide jobs, pay taxes, work in organisations, give lectures at schools and colleges, organise customer panels and support local activities.

K IN ACTION: LITTLE WOLVES BASKETBALL EVENT ENCOURAGED CHILDREN TO EXERCISE

A project began at the beginning of 2015 in cooperation between Kesko's grocery trade and the Finnish Basketball Association to promote physical exercise among children. Thousands of Finnish children took part during the year. Cooperation will continue in 2016.

The first year of cooperation between the Finnish Basketball Association and K-food stores was packed with action, made possible by local K-retailers. During the first year, more than

10,000 children across Finland had a chance to enjoy physical exercise.

Pirkka Street Basket and Pirkka Little Wolves events were organised in 20 locations for primary school students. Basketball clubs started 'Little Wolves' basketball schools in 50 locations, providing regular exercise to 2,200 children.

"Together with the Finnish Basketball Association we have had a chance to make an impact at the grassroot level and encourage thousands of children to be active. It is great that we can help schools encourage children to exercise at these times when schools' resources are scarce," says **Ari Akseli,** Vice President for commerce in Kesko's grocery trade.

One of the absolute highlights of the year was the advertising campaign 'Hungry as a wolf'. It conquered the media in August and September 2015, starring **Sasu Salin** and **Krista Gross,** two players of the national basketball team. The campaign also encouraged people to fix sports venues, while Pirkka provided food for all participants. Pirkka is also the main partner of the Finnish junior national basketball team.

Local selections based on customer wishes

Retailers are present in their customers' daily lives, building selections and providing services by listening to their wishes.

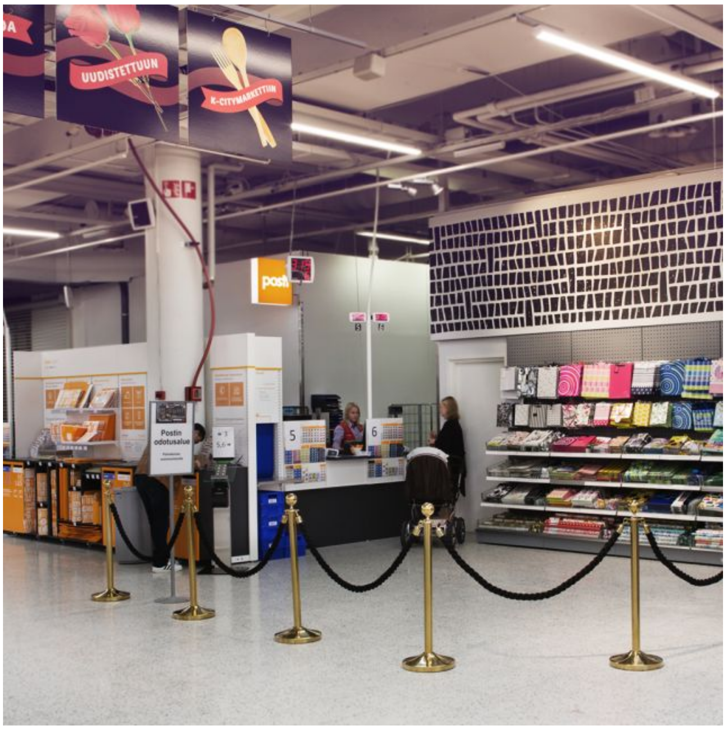
Local needs are taken into account individually. For example, the selections of K-supermarkets in the eastern suburbs of Helsinki, which have a lot of immigrant residents, are very different from those operating in the Savo municipalities in eastern Finland, which have lots of summer residents.

Outside growth centres in particular, a store is able to provide services for the public good which could otherwise be difficult to access.

Information about good products and responsible actions is given in stores and marketing with the help of the K-responsibility concept and its slogan 'Let's do good. Together.' The aim is to help and encourage customers to make responsible choices.

K IN ACTION: NEW SERVICES MAKE SHOPPING MORE FUN

Starbucks, Posti and DHL expanded their services to K-food stores in 2015. Appealing services offered by business partners make shopping at K-food stores easier, as many things can be taken care of at the same time.



Posti Group is renewing its network of service points and moving postal services from some of its own stores to places such as K-food store service points. K-food stores have long experience in providing postal services and Posti already has service points at about 170 stores. The change will improve the availability of services and enable longer opening hours.

”Postal service points at K-stores are a response to the accessibility that customers are looking for. New service points are open from morning till evening, including weekends, which is a great improvement to customer service,” says Sector Director **Minna Wallenius**, who is responsible for K-citymarket Oy’s checkout operations and customer service.

DHL Express and the K-Group started cooperation with the purpose of setting up 250–300 DHL service points at the K-Group’s food stores and building and home improvement stores across Finland. With their cooperation, Kesko and DHL aim to respond to the increasing popularity of e-commerce.

“Our partnering with DHL is bringing the world close to our customers. Parcels transported by DHL can be conveniently picked up while shopping with us,” says **Tommi Kasurinen**, Vice President for finance, store sites and logistics of Kesko's home improvement and speciality goods trade.

In spring 2015, Starbucks and the K-Group agreed to open Starbucks coffee shops at K-stores across Finland. The first one was opened at K-citymarket Sello in Espoo. In the future, Starbucks coffee shops will be opened in various parts of Finland.

“We want to offer K-store customers a new kind of experience by providing them with an opportunity to enjoy a high quality coffee shop experience when shopping for groceries. The core of Starbucks’ operations lies in delivering a superior customer experience, which is also of key importance for K-stores,” says **Jorma Rauhala**, Senior Vice President of Kesko’s grocery trade division.

The best digital services

The objective of Kesko's digitalisation strategy is for the K-Group to provide the best digital services in 2017. The aim of digital services is to make customers' daily lives easier, be it in cooking, shopping list planning, bathroom renovation, or car maintenance. Digital services will be tailored precisely to customers' individual needs. Customers will choose the services they use, and where, when and how they use them.

Digitalisation has transferred decison making power to the customer: customers research products and services online before purchasing and compare details on social media.

Customers can shop and receive goods via many channels irrespective of time and place. The customer can choose whether to shop for groceries in a retail store or online: whether to fill the shopping basket in a store, collect an online order from a store on the way home, or have the shopping delivered directly to the home. K-food stores' own online stores offer the click and collect service or home delivery, or both.

The K-food mobile application introduced in autumn 2015 offers personal benefits, store-specific special offers and a smart shopping list that recommends products frequently bought by the customer, as well as nearly 6,000 recipes with instructions.

K-Plussa's mobile card was also introduced in 2015. It is an app that can be downloaded to a phone and operates like a contactless K-Plussa card.

STAKEHOLDER ADDRESS: ONLINE SALES OF FOOD LINKED TO DOMESTIC HELP

In the collaboration between the K-food store and home service, store staff pick food items for as many as ten old people during one trip round the store for domestic help workers to collect and deliver to the old people' s homes.

We have long delivered food supplies to institutional kitchens in the Mikkeli region. In 2014, when I heard about Kesko's plans to start online food sales I became interested. At the same time, Mikkeli University of Applied Sciences launched a project called 'Customer-oriented home food services', which we were asked to contribute to.

When collaboration with the City of Mikkeli was confirmed, the introduction of the click and collect service proceeded rapidly. This collaboration remains an important part of the service. Domestic help workers place their customers' grocery orders online and we pick the items at the agreed time. Each domestic help worker then collects all of the purchases for her or his area from the store.

Customers order a wide range of products online: from fruit to dairy products and household tissues. Currently most of the people using the click and collect service are also customers of the municipal service for the elderly. The second largest group are families with small children. Daily routines become easier for families with children if they can place orders online at home. Customers can choose whether to collect shopping from the store or order home delivery. If delivery is chosen, the shopping is taken directly to the kitchen if the customer so wishes.

We think this service is socially significant. Together with domestic help, we can efficiently handle food shopping for the elderly. Staff can pick items for as many as ten old people during one trip round the store premises. Thanks to this collaboration, the store has been able to take on one more full-time employee.

This excellent service should be increasingly highlighted to consumers. This is a very favourably priced and quick way to shop for groceries for the whole week. Customers who use the service have praised it and would not like to return to the old system. The online food store is a new way to save time.

The click and collect service requires the store to be accurate. Staff must know the products and the entire store thoroughly. When picking products, special attention must be paid to their size options and EAN codes, so that the item that ends up in the basket is definitely the one the customer has ordered.

K-retailer Jari Mattila, K-supermarket Rokkala, Mikkeli

Management by information increasingly important

Knowledge of customer needs, taking advantage of customer data and the chains' customer programmes play a key role in business planning for Kesko and K-stores.

Digitalisation enables marketing to be targeted in a more personalised manner with the help of customer data. When marketing is based on customers' personal purchase histories they can receive benefits that are better suited to their particular needs. For example, customers can be sent post-purchase service messages, inquiries or personalised special offers via the channel of their choice.

In the future, reaching individual customers will be ever more difficult. Making use of customer data will become increasingly important, because the aim is to send even more personalized customer messages.

Management by information is especially important. Digital traces enable decisions to be made based on facts in a new way and us to listen to our customers and know what they want.

Customer feedback guides the development of operations

Social media provides new opportunities for interaction with consumers. Kesko and its chains as well as K-retailers engage in active dialogue with customers and other stakeholders on social media.

We encourage our customers to give us feedback and aim to make it easy for them. Kesko's objective is to provide a simple and fast multichannel platform for customer feedback. The feedback received guides the development of stores' and Kesko's operations.

Kesko Food's Consumer Service offers customers many kinds of information: in addition to giving feedback on products, customers ask about product origins, ingredients, their suitability for different users, and instructions for use and cooking. Customers can contact the Consumer Service to inquire about the country of origin of any ingredient of any Pirkka product. In 2015, the Consumer Service was contacted 19,770 times.

Customers give their opinion about the quality of our operations and products, and whether our service meets their expectations. In addition to customer satisfaction surveys, we continuously monitor Net Promoter Score for customer sentiment.

Read more about customer satisfaction surveys in the GRI report.

K IN ACTION: STORES MUST TAKE ALL CUSTOMERS' NEEDS INTO ACCOUNT

Can you get around every part of the store in a wheelchair? How does a visually impaired person handle payment at the checkout? Do security guards follow members of the Romany community who shop in stores? These were some of the issues discussed by the consumer panels organised as part of Kesko's human rights assessment.

In 2014, Kesko started to assess human rights related impacts in accordance with the UN Guiding Principles on Business and Human Rights.

As part of the human rights assessment we listened to our stakeholders' views on matters such as how they feel about human rights in customer situations. In the autumn of 2015, we organised four consumer panels. On the basis of these, two more extensive customer surveys were carried out, involving about 600 customers.

The panels discussed the experiences of the disabled, rehabilitees with mental problems, immigrants and other special groups when shopping in stores and what could be done to correct the faults.

"The discussions revealed that special groups should be taken into account to a greater extent from the planning stage of the store or service. Even neighbourhood stores should provide unrestricted access to all, older customers would like to have magnifying glasses on shelf edges to help reading, and many special groups would like assistance and unhurried presence for payment at checkouts," says **Matti Kalervo**, Kesko's Vice President for Corporate Responsibility.

Feedback helps improve the customer experience

The Non-Discrimination Act prohibits discrimination on the basis of age, nationality, state of health or other personal characteristics. No group as a whole must be judged on the basis of the actions of one member of the group.

Many of the panel participants said, however, that they have sometimes been discriminated against when shopping or applying for a job. A representative of the Romany community said that store security guards often follow her when she goes shopping. Young people feel that they are treated differently from other customers, while immigrants are less keen on shopping because of their inadequate knowledge of Finnish.

Consumer panel participants were pleased that the organisers wanted to hear about their experiences and wishes. Several ideas came up during the discussion about how to further improve the shopping experience:

- Staff should be trained to understand diversity and multi-cultural issues

- More people belonging to special groups should be employed on apprenticeship contracts, for example
- Low-income people also want to eat healthily, so special offers should include more healthy products
- Store signage is also needed at sitting height and in plain language, as suggested by panel members

The human rights assessment is expected to be completed during the first half of 2016. It will be published on Kesko's web pages.

Read more about how small changes can improve unobstructed shopping.

QUALITY AS THE BASIS OF OUR WORK

We have responsibility to our customers to ensure that the products sold at K-stores are of high quality, well researched and responsibly produced.

Quality and customer orientation are the basis of the K-Group's operations. We develop and improve our business operations continuously in order to ensure the high quality of our products and services.

- We have a strong corporate identity and strong brands
- We take care of wellbeing across the entire production chain and take responsibility from field to fork
- Our own product research laboratory controls the quality of groceries sold by K-food stores

Common K-brand

A strong corporate identity and strong brands are the prerequisite of the K-Group's renewal. As part of the strategy work, the common K-brand is developed and a strong umbrella brand and a corporate identity are built.

In accordance with the brand strategy, K makes daily life easier and builds the inspiration to make dreams come true. We anticipate our customers' needs and serve them personally throughout life. We make every effort for shopping to be fun.

The basic promise is delivered at every store and in every job. Our operations are guided by customers' needs, sentiments and their identification.

High-quality own brands

Pirkka products combine high quality and affordability. The Pirkka range contains over 2,500 products and has a significant position in the K-food store selection as a whole.

Finnish products are always preferred when selecting items to add to the Pirkka range, provided that the product meets the quality and price criteria. Nearly 100% of all fresh products, such as meat and processed meat, and liquid dairy products, like milks and creams, are of Finnish origin.

The number of products carrying a responsibility label is increased continuously. In 2015, the Pirkka range included:

- 95 Pirkka products bearing the Swan label
- 260 Pirkka products bearing the Hyvää Suomesta (Produce of Finland) label
- 40 Pirkka Fairtrade products
- 134 Pirkka Organic products
- 41 Pirkka MSC-certified fishes
- 17 Pirkka products bearing the UTZ label

The asset of the K-Menu range is affordability. The products in the range are good-quality daily essentials, such as fresh meats, processed meats, pasta, juices, frozen foods and canned foods. The emphasis is on basic foodstuffs, in other words, on products whose prices are the most important criterion to consumers making purchasing decisions. In 2015, there were 291 K-Menu products.

The Cello family of over 3,000 products is a versatile and trendy product brand for interior decoration and home improvement purposes. The range, sold by K-rauta and Rautia stores, is complemented monthly by new, carefully selected products and product packages. Cello products are reasonably priced, of good quality and durable and purchased from the best suppliers in the field. The range includes Cello indoor paints carrying the Swan label, and the Cello outdoor paint available in spring 2016 will also carry the Swan label. The paints have also been awarded the Key Flag symbol of the Association for Finnish Work.

K IN ACTION: KESKO'S OWN LAB MONITORS THE QUALITY OF PIRKKA AND K-MENU PRODUCTS

Kesko's Product Research laboratory monitors the quality of groceries sold by K-food stores. High-level research ensures food safety.

Kesko's Product Quality Manager Timo Kivi and Product Research Manager Heta Rautpalo

In 2015, the Product Research laboratory analysed 8,037 product samples and conducted 20,396 analyses.

Since the spring of 2015, the laboratory has focused on monitoring the quality of groceries and, above all, on microbiological determinations, such as monitoring salmonella and listeria levels.

All new own-brand products – those in the Pirkka and K-Menu ranges – are analysed carefully several times.

"Each new product to be included in the range goes through a multi-stage survey which consists of lab analyses and sensory evaluations. The quality and safety of the first finished lot of a new product are checked before the product is approved for sale. In accordance with our lot monitoring plan, we also regularly check that the quality of the product remains at the required high level," says Kesko's Product Quality Manager, **Timo Kivi.**

The quality of the lab's performance is assessed every year

The Product Research laboratory is a T251 testing laboratory that has been accredited by the FINAS accreditation services. It is the only research laboratory for trading sector own-label products that has been approved to comply with the SFSEN ISO/IEC 17025 standard.

An annual accreditation survey is conducted in which external reviewers of the FINAS accreditation services assess the performance and quality of the laboratory and its analyses.

The quality of measurements and accuracy of results are ensured when analysis methods are validated and measuring instruments are calibrated. The laboratory annually participates in comparative surveys in which several laboratories from different countries assess factors such as the salt content of the same sample.

K IN ACTION: K-MAATALOUS EXPERIMENTAL FARM PROMOTES DOMESTIC FOOD PRODUCTION

The K-maatalous Experimental Farm plays a significant role in the development of the Finnish food chain. Many new plants have found their way to the Finnish production and dinner tables thanks to the development and research carried out by the experimental farm.

The cultivation programme concept of the K-maatalous Experimental Farm contains the know-how farmers need to be able to produce the best quality food.

The K-maatalous Experimental Farm in Hauho focuses on the development of varieties and research work promoting sustainable cultivation methods and better domestic food production. The research conducted on the farm aims to provide K-maatalous retailers and farmers with tested solutions for making productive product choices and optimising their harvests.

During the growth season in Finland, the length of the day – the number of hours of light – is longer than in other areas on the globe where agriculture is practiced. Due to the short and intensive growth season, plants must adapt to the special circumstances in our country.

”Over the years, the Experimental Farm has made several agricultural machinery innovations and developed cultivation technology and completely new plants for Finnish production. The new varieties developed and tested here include beef tomatoes, root vegetables for stock and, most recently, autumn barley. The suitability of the varieties must be tested before they can be adopted for cultivation, and this is what we do for the farmers,” says **Marjo Serenius**, Research Director of the K-maatalous Experimental Farm.

Sustainable cultivation for decades to come

The experimental farm has been operating for over 50 years and also looks further into the future. The farm plans to study how to maintain the soil’s growth potential and keep it productive for future generations.

The future impacts of climate change on agriculture have been considered on the experimental farm.

‟According to scenarios, we may be suffering from drought in the spring, wider variations in temperatures and heavy occasional rains. All this makes farming more difficult, though global warming should also enable the cultivation of southern plant varieties here in the north. Nobody knows yet for certain if soybean, for example, could be cultivated at these latitudes in the future,” says Serenius.

Farming may become highly important to Finland. In line with climate change scenarios, the land areas that are currently fertile will dry out or become otherwise unsuitable for farming.

"This means that cultivation has to move to new areas in order to ensure food production around the globe. Maybe farming will, to some extent, be replaced with other means of food production, such as the artificial production of proteins or insects."

Responsible purchasing

Our customers can always trust that the products available at the K-Group stores are responsible choices.

Kesko's buyers and Product Research work daily to ensure that the products in the stores are high-quality, safe and produced responsibly. By the time products end up on store shelves, they have undergone extensive study and research.

Kesko's responsible purchasing is guided by:

- Kesko's purchasing principles
- The Principles and Practice of Socially Responsible Trading guide
- Policy statements

The environmental impacts of products are taken into account from the planning stage; unnecessary packaging is avoided and recyclable materials are favoured.

Special attention is paid to human rights issues and working conditions in the purchasing chain. When suppliers are monitored, the focus is on the countries where the risks of violations of these rights are the greatest (for example, most Asian and African countries).

Special attention is paid to working conditions at factories in high-risk countries, though the quantities imported from these countries are small (1.2% of all Kesko's purchases in 2015).

International assessment systems, BSCI auditing and SA8000 certification, are used for supplier audits in high-risk countries. Kesko is a member of the European Business Social Compliance Initiative (BSCI).

STAKEHOLDER ADDRESS: SUPPORT FOR MIGRANT WORKERS' FAMILIES PREVENTS HUMAN RIGHTS RISKS IN COMPANIES

The lives of migrant workers and their children in Thailand can be improved by developing working conditions and supporting children's access to schooling.

Pa moved to Thailand with her family 15 years ago. She earns 200–300 Thai baht (5–8 euro) per day by gutting and drying fish.

Her youngest child, seven-year-old Tai, was born in Thailand. The girl has not yet started school. In response to her enquiries, Pa has been receiving the same answer: there is no room at schools.

”I want my daughter to go to school. If there is no other choice, I will send her back to Cambodia. Then I would see her only once or twice a year,” Pa says.

Rights also belong to migrant workers

In the fish and shrimp industry of Thailand, cases often arise in which the rights of migrant workers are violated. In some cases, they are forced to work excessive hours. Both the EU and the USA have criticised the government of Thailand for not systematically intervening in violations of human rights in the fish industry.

Plan International, an organisation that promotes children's rights, works with local operators and Kesko to improve the conditions of migrant workers in the Thai fish industry. The aim of the project is to prevent all types of abuse and enable schooling and vocational training for migrant workers' children.

It's great that Kesko considers it important to support children's rights on a long term basis. By promoting the schooling and protection of migrant workers' children, Kesko can help us prevent human rights risks, such as child labour, in the production chain. This is in line with the *UN Guiding Principles* on Business and *Human Rights* and the international Convention on the Rights of the Child.

Joint efforts to find solutions to challenges faced by the fish industry

Investments in children's education and vocational skills do not alone permanently solve the malpractices and human rights risks in the fish industry of Thailand. Problems such as child labour and abuse of migrant workers occur particularly at the early phases of the production chain in the unofficial sector.

Attacking these problems requires cooperation between companies, the government and organisations. In cooperation with Kesko and other companies, Plan can achieve a much wider impact than it could alone.

Niina Mikolanniemi, Senior Corporate Partnership Manager, Plan International Finland

PIRKKA FAIRTRADE COFFEE FROM HONDURAS

Pirkka Fairtrade coffee beans are produced by small family farms in Honduras. Fairtrade is one way in which consumers can make sure that a product produced in a developing country has been cultivated in a sustainable manner with respect to both people and the environment.

Watch the video

Competent personnel assure quality

Kesko and K-stores offer a wide range of career and development opportunities in the trading sector. As the operating environment and customer needs change, the continuous development of employee competence is increasingly important.

Core areas in competence development are:

- Digital services
- Sales and service skills
- Product line specific competitive advantage initiatives
- Security and responsibility
- Immediate supervisory work
- Leadership

Sales and service training is particularly emphasized in the Master Sales Assistant programme targeted at all K-Group sales persons. Store personnel are also offered vocational training and opportunity to achieve vocational qualifications.

The transition of the trading sector, coupled with an increase in electronic transactions, have created the need for new skills. Digitalisation impacts on jobs at all levels and also creates new job titles, such as data analyst or e-commerce coordinator, for example.

The following actions were taken to improve the digital skills of Kesko personnel in 2015:

- The K Digital Academy training programme, with 31 marketing professionals from the K-Group, was delivered. The programme was part of strategy implementation aiming to strengthen digital marketing skills in all divisions.
- Employees' digital skills were mapped out with a digital questionnaire in connection with performance and development reviews, which received more than 600 replies
- An e-learning programme was prepared on the topic of digital marketing and made available to everyone
- Numerous training sessions on social media were arranged regionally for retailers

In 2016, the K-digitrainee training programme will be arranged. The young people selected for the programme will explore the many types of digital jobs within the K-Group. The K-digitrainee programme is linked to the initiative of Suomen Mentorit to support the employment of young people who have recently completed their degrees.

WE CREATE WELFARE FOR THE WHOLE SOCIETY

Kesko and K-retailers are significant employers, taxpayers and service providers. Their operations create welfare for the whole society.

- Kesko develops trading sector services
- employs people and creates new jobs directly and indirectly
- purchases, sells and arranges the manufacture of products
- is a financially sound investment
- identifies the impacts of its operations and operates sustainably

From the point of view of the wellbeing of the national economy, Kesko is the fourth most important company in Finland (source: Prime Minister's Office, Report 1/2015). Kesko's direct impact on the Finnish gross national product is nearly 1%. And taking account of the multiplier effects through purchases of Finnish products, transport and other services, Kesko's total contribution rises to several per cent. In addition to this, the K-retailer entrepreneurs have a significant impact on the Finnish national economy.

Kesko's operations generate economic benefits for shareholders, personnel, retailers, suppliers of goods and providers of services, customers, municipalities and states.

Kesko's chain operations comprise over 1,500 stores in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. About half of the Finnish population live within less than a kilometre of a K-food store.

Financially sound investment creates shareholder value

Kesko's share capital is divided into A and B share series, and the shares are listed on Nasdaq Helsinki. Most of the large shareholders are long-term owners of Kesko. There are several retailers among the large shareholders.

Kesko's financial position is very strong. At the end of 2015, Kesko's liquid assets were around €887 million and the balance sheet was net debt-free, which provides an excellent basis for Kesko's development.

The yield of a Kesko B share has increased by an average of 3.0% per year during the past five years. Kesko was listed on the Helsinki Stock Exchange in 1960. Kesko is a good dividend payer: it has distributed dividends every year except for one (1967) since it was listed.

STAKEHOLDER ADDRESS: KESKO.FI ONE OF THE BEST AT MEETING EXPECTATIONS

Corporate websites are the most important and most frequently used source of information about companies. Kesko manages to meet the high expectations of stakeholders.

Comprend conducts an annual webranking to examine what investors and jobseekers expect from companies' digital communications, mainly on their corporate websites. The research shows that corporate websites are the most frequently used source of information about listed companies, according to investors. In addition to the investors, stakeholders such as jobseekers and customers are also likely to go to the corporate website or look for the company on other digital channels.

Expectations are high among all stakeholder groups – it is not enough to simply publish official reports and press releases. The website needs to cater to those who are looking for detailed information, as well as those who are looking for an introduction to the company.

When measuring the performance of more than 800 corporate websites belonging to the largest listed companies in Europe, Kesko's website took second place. It is the best performing corporate website in Finland and within its sector. This means that it provides the majority of information sought by stakeholders.

Kesko is particularly good at providing information about the company and how it is governed. In fact, it is one of the most transparent companies in terms of matters such as providing details about the company's remuneration policy, the work of the Board and the company's lobbying policy. Kesko also received full points for its 'About us' section and a near-perfect score for its 'Careers' section.

Helena Wennergren, Head of Research, Comprend

Read more about Comprend's Webranking.

The K-Group's taxes benefit society

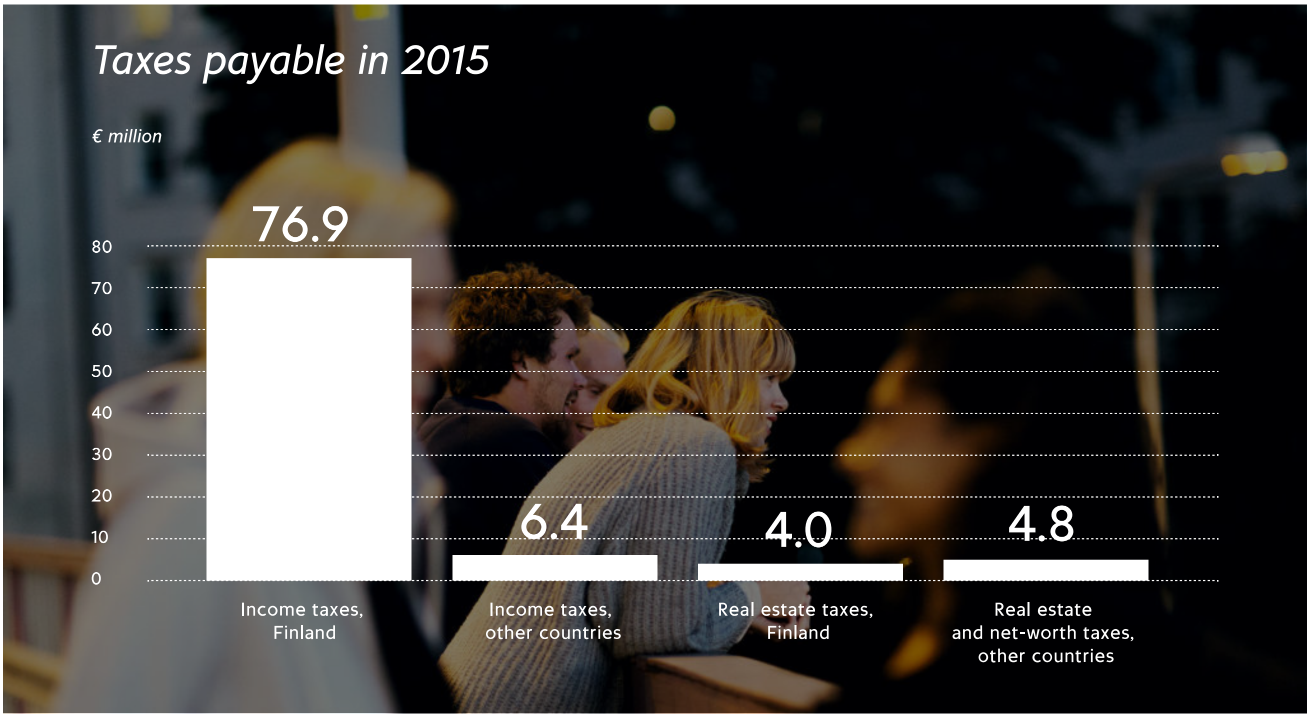
Kesko is a significant taxpayer: in addition to paying income and real estate taxes, Kesko collects, reports and remits indirect taxes, such as value added taxes and excise duties.

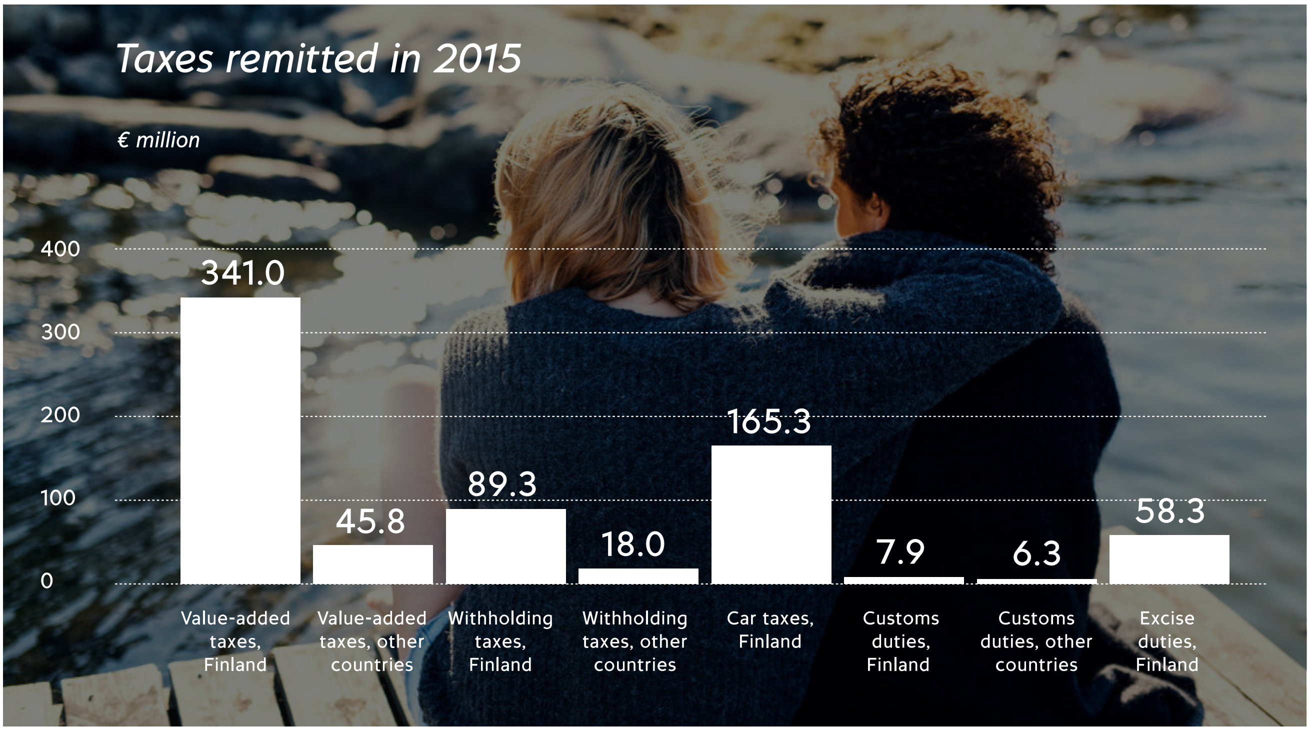
It is Kesko's principle that taxes on operating income and assets are always paid to the relevant operating country in compliance with local laws and regulations.

The impact of the K-Group and its around 40,000 employees on the municipal sector is substantial. Municipal taxes paid by employees account for a considerable proportion of municipalities' tax revenue.

In 2015, there were K-food stores in 270 municipalities in Finland. Real estate taxes on the business premises used by Kesko and the K-Group are paid to the municipalities in which the premises are located. Some of the income taxes from Kesko's and K-retailers' entrepreneurial activities are distributed to those municipalities where the activities take place.

Read more about taxes in the economic impacts section.


Taxes payable in 2015
€ million
80
70
60
50
40
30
20
10
0
76.9
6.4
4.0
4.8
Income taxes, Finland
Income taxes, other countries
Real estate taxes, Finland
Real estate and net-worth taxes, other countries


Taxes remitted in 2015
€ million
400
300
200
100
0
341.0
45.8
89.3
18.0
165.3
7.9
6.3
58.3
Value-added taxes, Finland
Value-added taxes, other countries
Withholding taxes, Finland
Withholding taxes, other countries
Car taxes, Finland
Customs duties, Finland
Customs duties, other countries
Excise duties, Finland

K IN ACTION: K-RAUTA RUSSIA SUPPORTS CHILDREN'S HOMES IN RUSSIA

K-rauta Russia participates in responsibility work by supporting children's homes and correctional boarding schools in Russia. During workshops in autumn 2015, employees of K-rauta Russia and children made birdhouses and jewellery boxes together.

K-rauta Russia began providing assistance to one children's home in St. Petersburg in 2013. The good results of this encouraged employees to offer assistance elsewhere and, in the following year, the work was expanded to the Nepetsinsky children's home, located in the Moscow region.

“We regularly organise events to raise funds to buy gifts and equipment. Our summer event and the one before Christmas and the New Year can already be called a tradition. We have used the funds we have raised to buy clothing, hygiene supplies and Christmas gifts for the children,” says **Vera Kalmychkova**, HR Director of K-rauta Russia.

In autumn 2015, K-rauta Russia organised a workshop day event in St. Petersburg with the aim of teaching children useful, practical skills. A total of 16 employees of K-rauta Russia and more than 50 children from the Vsevolozhskaya correctional boarding school participated in the event.

”The day was full of enthusiasm, laughter, warmth and inspiration! The atmosphere at the workshops was incredible – something difficult to put into words. At one of the workshops, children prepared salads, at another they made jewellery boxes, at the third one they made birdhouses, and much more besides. It was a great day for the children and also for the supervisors!” says Vera Kalmychkova.

We care!

K-rauta Russia brought its responsibility work into a uniform programme in the spring of 2015. The name of the programme – *We care!* – illustrates the purpose of the programme: we take responsibility for everything we do and influence.

The programme has five themes:

- Environmental protection
- Charity
- Working conditions
- High level customer service
- Responsible business

Suppliers are important partners

Most of the economic benefits generated by Kesko's operations – approximately 85% of Kesko's net sales – flow to suppliers of goods, from which purchases were valued at €7.4 billion in 2015.

In 2015, Kesko had around 21,100 suppliers and service providers from which Kesko made purchases valued at over €1,000 during the year. Of these, around 9,800 operated in Finland, around 8,100 in Kesko's other operating countries, and around 3,200 elsewhere.

Purchases of Finnish products and services generate economic benefits to our country and promote local work.

In 2015, the purchases of all Kesko companies from suppliers of goods operating in Finland totalled €4,956 million, accounting for 67.2% of the Group's total purchases. K-retailers' direct purchases from Finnish regions totalled €610 million.

Pirkka products are manufactured by nearly 170 companies across Finland. Their manufacture, or the inclusion of a manufacturer's own product in Kesko's grocery trade selections provides many regional companies with an opportunity to expand their market to cover the entire nation. Some examples of such companies and products are:

- SIM Finland Oy in Ylöjärvi with their Pirkka Argan skin care product range and Pirkka VOL. hair care products
- Aguila Ky in Espoo with their Pirkka milk free ice creams

The success of the Finnish retail trade also provides national manufacturers with opportunities to expand outside Finland. For many Finnish companies, Kesko's home improvement and speciality goods trade is a distribution channel and a partner for taking their products and services to international markets.

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2015

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	28.5	-	0.1	-	-	-	28.6
Southern Karelia	4.7	14.5	10.5	3.7	11.1	0.6	45.0
Southern Ostrobothnia	240.1	33.5	0.8	4.3	12.4	0.7	291.8
Southern Savo	33.2	14.4	1.7	3.7	11.1	1.3	65.4
Kainuu	5.9	6.9	0.6	1.0	6.4	0.4	21.2
Kanta-Häme	65.8	23.4	4.3	4.0	11.1	0.9	109.5
Central Ostrobothnia	44.0	13.0	2.6	1.4	4.8	0.7	66.6
Central Finland	50.2	24.7	3.9	7.7	18.5	1.7	106.8
Kymenlaakso	45.5	17.6	0.7	4.5	11.1	1.1	80.6
Lapland	13.6	25.6	5.5	4.9	18.0	1.9	69.4
Pirkanmaa	253.1	32.6	6.5	23.8	33.9	2.7	352.6
Ostrobothnia	140.1	11.4	3.6	4.0	8.6	0.8	168.4
Northern Karelia	24.4	26.0	3.3	3.7	11.6	1.4	70.3
Northern Ostrobothnia	104.2	44.5	14.6	14.2	25.6	2.2	205.4
Northern Savo	132.8	36.2	3.0	9.7	20.4	1.4	203.6
Päijät-Häme	126.2	26.3	10.3	8.0	12.0	1.2	184.0
Satakunta	112.1	27.0	2.5	4.2	15.0	0.9	161.7
Uusimaa	2,852.2	162.3	94.3	242.6	116.8	11.4	3,479.6
Varsinais-Suomi	653.0	70.2	10.2	20.4	35.7	3.4	792.9
Total	**4,929.6**	**610.0**	**178.9**	**365.7**	**384.2**	**34.9**	**6,503.4**

[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 85% of K-retailers' total business volume.

The K-Group creates jobs

At the end of 2015, Kesko had 21,935 employees. In all, the K-Group, i.e. Kesko and K-retailers, employ around 40,000 people.

Jobs vary from retail store duties to retailer entrepreneurship and specialist and supervisory jobs in various fields.

The K-Group annually employs thousands of summer employees, job trainees, young people for short-term orientation to working life and for short-term jobs called 'Learn and Earn'. Most of these jobs are in retail stores but Kesko's various functions also regularly employ trainees.

In recent years, the K-Group has launched initiatives to employ special groups:

- In 2012, the K-Retailers' Association launched a project called 'Many kinds of performers' in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent operating model was created for the employment of intellectually and developmentally disabled people.
- In 2013, Kesko and the K-Retailers' Association launched the Youth Guarantee in the K-Group programme, the aim of which was to offer a job, a work trial or an apprenticeship in the K-Group to 1,000 young people aged under 30 and at risk of social exclusion by the end of 2014. The target group also included young immigrants and young people with disabilities. By the end of 2015, more than 2,500 young people had found employment in the form of a work trial, through wage support and apprenticeship training. Employment of young people and special groups continues as a permenent model.

K IN ACTION: K-TRAINEE PROGRAMME – A VIEW TO INTERNATIONAL TRADE

”A couple of years ago I couldn’t have imagined that I would be actively participating in developing Kesko’s international business in St. Petersburg,” says K-trainee Leena Fedotov.

The fifth K-trainee programme began in June 2014 and ended in autumn 2015. From among hundreds of applicants, 11 students were selected for the K-trainee programme. The students were either at the final stages of their studies, recent graduates or those already employed. They all had a university or polytechnic degree.

This year’s K-trainee programme was the first one to provide an opportunity to assume a position of responsibility in the K-Group’s Russian companies. **Leena Fedotov**, a K-trainee in the grocery trade, moved to Kesko Food Rus in St. Petersburg after a few months in Finland.

”During the K-trainee programme, I learned that the key to retailing is the customer and fast reaction to changes. The K-food stores in St. Petersburg and the retail store management based on a centralised model differ from that in Finland. Most of the service counter’s selection is actually made in the store, and most of our stores are open 24/7", says Leena Fedotov.

According to Leena, the best aspects of the K-trainee programme were the continuous process of learning something new and networking.

When the programme is over, K-trainees quickly progress to trading sector managerial posts in Finland and other countries. After completing the programme, Leena was appointed as project manager to Kesko Food Rus in St. Petersburg.

“The job is very interesting and I have plenty to do. Kesko Food Rus is a true vantage point to getting things done!” Leena says, pleased.


YEAR 2015

REVIEW BY THE PRESIDENT AND CEO:

TOWARDS A UNIFIED K-GROUP – FOR SHOPPING TO BE FUN

2015 was a significant year for Kesko: in May we published our new strategy, which provides guidelines for our operations for years ahead. A successful strategy is based on the value that guides all our operations: ”The customer and quality – in everything we do”.

The long recession, public-sector cuts and increasing unemployment have reduced consumers’ purchasing power in Finland, our main market area. Despite the difficult market situation, we can be satisfied with strategy implementation and the financial result in 2015. In the grocery trade, market position remained stable and profitability was good. In the home improvement and speciality goods trade, profitability improved significantly and market share strengthened especially in Finland. In the car trade, Volkswagen was again the market leader.

In terms of Kesko's growth strategy, it was essential to make an agreement on the acquisition of Suomen Lähikauppa in November 2015 and on the acquisition of Onninen announced in January 2016. With the acquisition of Suomen Lähikauppa, Kesko's neighbourhood retail services will improve significantly. The acquisition of Onninen, for its part, will materially strengthen Kesko's position in the building and technical trade. Both of the acquisitions will enable strong growth and more customer oriented services as well as significant synergies.

Kesko Group's financial position is very strong. At the end of 2015, liquid assets were €887 million and the equity ratio stood at 54.7%. The return on capital employed excluding non-recurring items rose to 11.7%. In addition to financing the acquisitions, the strong balance sheet enables a €2.50 dividend per share to be proposed to the General Meeting to be held in April 2016.

Changing operating environment requires a readiness to change

The operating environment in the trading sector is undergoing a major change: e-commerce, multi-channel services, social media, the sharing economy and the awareness of the impacts of consumption on the environment are changing customers' purchasing behavior.

The rapid development of digital services enables customers to make and pick up their purchases via multiple channels irrespective of time and place. International retail groups that specialise in one product line are challenging local operators, which have to further increase the efficiency and quality of their operations.

For the K-Group, success in a tightening competitive situation requires a readiness to change and promote changes with determination and speed. This calls for focus, a clearer corporate identity, the highest priority on customer experience and quality, and digital services being launched more rapidly than before.

Kesko's strategy proceeds

Over the course of 2015, the determined implementation of the strategy proceeded in all of our strategic growth areas: the grocery trade, the building and home improvement trade, and the car trade.

In the grocery trade, the main strategic objective is growth in the Finnish grocery trade. In the building and home improvement trade, our objective is to be one of the three largest operators in Europe. In the car trade, the objective is to strengthen market leadership in Finland.

In March 2015, Kesko divested the department store chain Anttila Oy to the German investment fund 4K INVEST. The transaction supports our objective of being an increasingly focused operator in the future.

In June 2015, Kesko Corporation, AMF Pensionsförsäkring AB and Ilmarinen Mutual Pension Insurance Company set up a joint venture named Ankkurikadun Kiinteistöt Oy. The joint venture owns store sites primarily used by Kesko Group.

In November 2015, Kesko agreed to centralise its building and home improvement trade operations in the Baltic countries in Senukai, its Lithuania-based subsidiary. This will provide us with better opportunities to accelerate profitable growth in the developing Baltic and Belarusian markets.

In the grocery trade, one of the focus areas is increasing and renewing the network of neighbourhood stores. We want to enhance the availability, quality and price competitiveness of the neighbourhood retail services that are suitable for Finnish consumers. The acquisition announced in November 2015, in which Kesko agreed to acquire Suomen Lähikauppa Oy, contributes to this objective.

In the home improvement and speciality goods trade, Kesko's strategic objective is to increase the building and technical trade, which will be significantly strengthened by the acquisition announced in January 2016, in which Kesko agreed to acquire Onninen, which specialises in the HEPAC and electrical products trade.

In the car trade, the autumn was overshadowed by the negative publicity resulting from the software adjusting nitrogen oxide (NOx) emissions detected in EA 189 series diesel engines of Volkswagen Group. Remedial measures for the affected cars have been confirmed in Europe and a recall campaign will begin in Finland over the course of 2016. Read more in the GRI report.

Attention to the appreciation of Finnish production

Price competition in the food business has increased in Finland during the past year and the consumption of imported food has increased. It is important to understand that the fates of the Finnish trading sector and producers are connected. We cannot afford to lose any more jobs in our domestic food chain. We have publicly highlighted the need to ensure that price competition does not negatively affect the quality of Finnish food or the vitality of food production and the food industry. By introducing the 'Thank the Producer' operating model, we want to draw attention to the position of producers and the appreciation of Finnish production.

For shopping to be fun

The key success factor of Kesko and the K-Group has been K-retailer entrepreneurs, who are strongly present in consumers' daily lives.

Store-specific, tailored services are constantly being created in K-stores. Growing services for customers include click and collect services, parcel lockers and postal services. The first K-rauta Express was opened in Helsinki in August and the first Starbucks coffee shop was opened next to a K-citymarket in Espoo in September.

In November 2015, we opened K-Myllypuro, the K-Group's test store where Kesko, in cooperation with the retailer entrepreneur, will boldly experiment with various food store concepts and models. The test store also takes customer-orientation to a new level — customers will decide how the store, its product selections and services develop in the future.

As part of the implementation of the strategy we will create new digital services for customers. The K-food mobile application published at the beginning of October provides personal benefits and store-specific special offers, a smart shopping list that recommends products frequently bought by the customer, and nearly 6,000 recipes with instructions.

Responsibility provides the basis for our operations

In accordance with our mission, we create welfare responsibly for all our stakeholders and society as a whole. Kesko is a significant tax payer that always pays taxes on operating income and assets to the operating country in compliance with local legislation and regulations.

In 2015, Kesko's responsibility work in other operating countries was promoted systematically and the local companies in each of the countries prepared their own responsibility objectives in support of Kesko's responsibility programme.

Kesko is included in the world's major sustainability indices. For two years in succession, Kesko has been the most sustainable trading sector (Food and Staples Retailing) company in the world on the Global 100 Most Sustainable Corporations in the World list. Kesko ranked fifth in 2015 and 15th in 2016. In November 2015, Kesko was included in CDP's Climate A List for the first time. The list consists of 113 selected companies that are considered to be operating in an exemplary manner with regard to mitigating climate change.

Over the course of 2015, Kesko continued to assess human rights related impacts in accordance with the UN Guiding Principles on Business and Human Rights. As part of the human rights assessment we listened to our stakeholders' views on matters such as how they feel about human rights in sourcing chains and customer situations.

Kesko aims to identify the entire supply chain of products, while also ensuring that the ingredients are responsibly sourced. Work to assess the origin of the ingredients in own brand groceries – Pirkka and K-Menu products – was carried out in 2015.

Kesko's systematic work to mitigate climate change is bearing fruit. As much as 97% of the savings target set in the trading sector energy efficiency agreement for 2016 has already been achieved. The most recent energy saving method is the cooperation started by Kesko's grocery trade, Gasum, Myllyn Paras and Wursti in September: biogas produced from inedible organic waste that is collected from retail stores is utilised as energy in the manufacture of new Pirkka products.

Thanks to Kesko employees, K-retailers and stakeholders

2015 was my first year as Kesko's President and CEO. I have had a chance to meet countless skilled retailers, Kesko people and business partners during the year. What we all share is prioritising the customer and quality in everything we do. I would like to thank all Kesko employees, K-retailers and their staff, our shareholders and our partners for good and fruitful cooperation.

Mikko Helander
President and CEO

KESKO IN BRIEF

Kesko is a Finnish trading sector pioneer. Kesko's operations comprise three divisions and it operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus.

Kesko and K-retailers form a unified K-Group

Kesko's divisions

- Grocery trade
- Home improvement and speciality goods trade
- Car trade

Kesko's headquarters are in Helsinki

The K-Group has more than **1,500** stores, which are visited by **1.3** million customers per day

Local K-retailer entrepreneurs are each responsible for their stores' operations

Kesko operates in eight countries and employs approximately **20,000** people

KEY PERFORMANCE INDICATORS

Finances	2015	2014	2013	2012	2011
Net sales, € million	8,679	9,071	9,315	9,686	9,460
Operating profit excl. non-recurring items, € million	244.5	232.6	238.8	230.0	278.9
Profit before tax, € million	188	145	242	210	282
Earnings per share excl. non-recurring items, basic, €	1.70	1.65	1.68	1.47	1.84
Dividend per share, €	2.50*	1.50	1.40	1.20	1.20
Return on capital employed excl. non-recurring items, %	11.7	9.9	9.8	9.0	13.1
Return on equity excl. non-recurring items, %	8.2	7.6	7.7	6.9	8.8
Cash flow from operating activities, € million	276	304	414	382	216
Capital expenditure, € million	219	194	171	378	425
Equity ratio, %	54.7	54.5	54.5	52.5	53.9

** Proposal to the General Meeting*

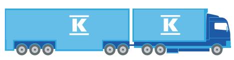
Return on capital employed **11.7%** on a steady growth path

Personnel	2015	2014	2013	2012	2011
Personnel, average	18,955	19,976	19,489	19,747	18,960
Permanent employees, %	91.4	89.3	89.8	89.0	87.4
Full-time employees, %	77.5	74.2	71.9	71.3	71.5
Salaries, fees and social expenses paid, € million	545	614	611	608	571
Supervisory positions held by women, Finland, %	51	54	53	51	51
Training days per employee	1.1	1.2	1.3	0.9	1.7
Sickness absences, days per employee	10.5	10.5	11.2	11.2	10.7

Nearly **17,000** new jobs for young people aged under 30 in 2014–2015

Environment	2015	2014	2013	2012	2011
Scope 1 and 2 emissions, thousand tonnes CO_2e	188	202	191	205	202
Scope 1 and 2 emissions/net sales, tonnes CO_2e/€ million	21.6	22.2	20.5	21.2	21.3
Scope 1 and 2 emissions/avg. number of employees, tonnes CO_2e/person	9.9	10.1	9.8	10.4	10.5
Specific consumption of electricity, Finland, kWh/gross m^2	207	205	209	213	219
Specific consumption of heat energy, Finland, kWh/gross m^2	76	79	83	95	90
Waste recovery rate, Finland, %	99	97	95	93	93

Emissions for 2013 and 2014 have been adjusted for improved accuracy since the previous report



We cut emissions from transportation

thanks to route planning, reverse transportation, two-tier trailers and training in the economical driving style

Supply chain	2015	2014	2013	2012	2011
Goods, materials and services purchased, € million	7,373	8,839	9,037	9,454	9,188
Purchases from suppliers in Finland, % of all purchases	67.2	68.3	68.9	67.9	67.5
Direct purchases from high-risk countries, Finnish companies, % of all purchases	1.2	1.5	1.6	1.3	1.8
BSCI audits/year	187	162	106	67	134
Pirkka Organic products, pcs	134	116	95	99	73
Pirkka Fairtrade products, pcs	40	44	35	39	38

This **new Pirkka Organic product** came to retail stores in autumn 2015

THE K-GROUP'S RETAIL SALES AND STORE NUMBERS BY COUNTRY

	Retail sales, € million	Stores
Finland	8,927	1,353
Sweden	209	20
Norway	664	88
Estonia	136	18
Latvia	90	8
Lithuania	366	20
Russia	311	40
Belarus	116	12

* Percentage of Kesko's net sales

K IN ACTION

K in action	Description
Pirkka and Gasum recycle together	Biogas produced from K-food stores' waste is utilised as energy to manufacture Pirkka products. Cooperation between Kesko and Gasum provides K-stores with a new kind of way to use wastage, so we can contribute to turning Finland into a forerunner in bioeconomy and cleantech.
K-food mobile application helps customers in store and at home	The new K-food mobile application that was launched in October 2015 provides personal benefits and store-specific offers plus a smart shopping list. The application makes customers' daily lives easier in many ways. The application is available for all operating systems.
Little wolves basketball event encouraged children to exercise	A project began at the beginning of 2015 in cooperation between Kesko's grocery trade and the Finnish Basketball Association to promote physical exercise among children. Thousands of Finnish children took part during the year. Cooperation will continue in 2016.
New services complement shopping experience	Starbucks, Posti and DHL expanded their services to K-food stores in 2015. Appealing services offered by business partners make shopping at K-food stores easier, as many things can be taken care of at the same time.
Stores must take all customers' needs into account	Can you get around every part of the store in a wheelchair? How does a visually impaired person handle payment at the checkout? Do security guards follow members of the Romany community who shop in stores? These were some of the issues discussed by the consumer panels organised as part of Kesko's human rights assessment.
Kesko's own lab monitors the quality of Pirkka and K-Menu products	Kesko's product research laboratory monitors the quality of groceries sold by K-food stores. High-level research ensures food safety.
K-maatalous Experimental Farm promotes domestic food production	The K-maatalous Experimental Farm plays a significant role in the development of the Finnish food chain. Many new plants have found their way to our agricultural production and dinner tables thanks to the development and research carried out by the experimental farm.
K-rauta Rus supports children's homes in Russia	K-rauta Russia participates in responsibility work by supporting children's homes and correctional boarding schools in Russia. During workshops in autumn 2015, employees of K-rauta Russia and children made birdhouses and jewellery boxes together.

K-trainee programme – a view to international trade	”A couple of years ago I couldn't have imagined that I would be actively participating in developing Kesko's international business in St. Petersburg,” says K-trainee Leena Fedotov.
Both/and is about more than just the price	Food is not only about price. It is also about quality and experiences. K-retailer entrepreneurship provides strength to local communities and also gives a lot to K-food store customers.
Knowledge of the origins of product ingredients is important	Which part of the world does the product come from? While the question is simple, the answer may be far from that. There are over 2,500 Pirkka products, which contain thousands of ingredients.
Ecotruck enhances efficiency	In early 2015 Keslog, which is responsible for Kesko's grocery trade transportation, introduced a new Ecotruck, which carries twice as much cargo as an ordinary truck. Everything went according to plan during its first year in operation.
K-rauta Express brings building and home improvement store services close to customer flows	The K-rauta Express concept is based on changes in customer behaviour as a result of urbanisation and smaller family sizes, the growth in online sales, the ageing of the population and the decrease of private motoring in certain customer groups.
Dekostudio displays products to interior decoration and furnishing professionals	Dekostudio is a new meeting place for interior decoration and furnishing professionals.
VV-Auto is an ambitious and innovative brand house	VV-Auto has 1.1 million customer relationships in Finland. Cooperation with one of the world's largest car groups ensures varied, global opportunities for development. The brands we represent include Audi, SEAT, Volkswagen, Volkswagen commercial vehicles and MAN. Top brands need top professionals.
K-Myllypuro – a completely new kind of store	A completely new kind of K-food store was opened in Myllypuro, Helsinki in the autumn of 2015. K-Myllypuro does not belong to any of the current K-food store chains — instead, it is the K-Group's test store.
Itäkeskus is built together	A social media mayor, a harvest party and an art wall painted by the young are some of the new ways of including local inhabitants in the construction of the new centre in eastern Helsinki.

BOARD OF DIRECTORS

Members of the Board of Directors

ESA KIISKINEN

Chair of the Board, Chair of the Remuneration Committee

b. 1963, Business College Graduate.

Independence: He is considered by the Board not to be independent of the Company (chain agreement), but to be independent of significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1990.

Main positions of trust: Taaleritehdas 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.

Member of the Board since: 30 March 2009.

Kesko shares held:
As at 31 December 2014: a total of 107,350 A shares held by him and his company.
As at 31 December 2015: a total of 107,350 A shares held by him and his company.

MIKAEL ARO

Deputy Chair of the Board, Deputy Chair of the Audit Committee and the Remuneration Committee

b. 1965, eMBA.

Independence: He is considered by the Board to be independent of the Company and significant shareholders.

Domicile: Tuusula, Finland.

Principal occupation: President and CEO of VR-Group Ltd.

Main employment history: Senior Vice President, Northern Europe, Carlsberg Breweries AS, CEO of Oy Sinebrychoff Ab.

Main positions of trust: Mehiläinen Oy: member of the Board 2016-, Confederation of Finnish Industries (EK): member of the Board 2013-, Suomen Kansallisteatterin Osakeyhtiö: member of the Board 2012-, Service Sector Employers PALTA: member of the Board 2011-, Deputy Chair of the Board 2011-, Varma Mutual Pension Insurance Company: member of the Board 2010-, Nordic Cinema Group: Chair of the Board 2013-2015, Altia Plc: member of the Board 2010-2015, East Office of Finnish Industries Oy: member of the Board 2009-, Deputy Chair of the Board 2015-, the Federation of the Brewing and Soft Drinks Industry: Chair of the Board 2007-2008, the Finnish Food and Drink Industries' Federation (ETL): First Deputy Chair of the Board 2007-2008, Registered Association Finnish-Russian Chamber of Commerce (FRCC): member of the Board 2010-2014, Carlsberg Danmark AS: Chair of the Board 2007-2009, Finnkino Ltd: Chair of the Board 2012-2013, Oy Sinebrychoff Ab: member of the Board 2008-2009.

Member of the Board since: 13 April 2015.

Kesko shares held:
As at 13 April 2015: a total of 1,000 B shares held by him.
As at 31 December 2015: a total of 1,000 B shares held by him.

TOMI KORPISAARI

Member of the Board until 29 February 2016

b. 1968, retailer, Master of Science (Economics).

Independence: He is considered by the Board not to be independent of the Company (chain agreement) or its significant shareholders (the Chair of the Board of a significant company shareholder, the K-Retailers' Association).

Domicile: Hausjärvi, Finland.

Principal occupation: Retailer, building and home improvement and agricultural trade.

Main employment history: K-retailer since 1995.

Main positions of trust: Finnish Commerce Federation: member of the Board 2012-, K-Retailers' Association: Chair of the Board 2012-, Deputy Chair of the Board 2008-2012, member of the Board 2005-2007, Vähittäiskaupan Tilipalvelu VTP Oy: Chair of the Board 2012-, member of the Board 2010-2012, the Foundation for Vocational Training in the Retail Trade: Chair of the Board 2012-, Deputy Chair of the Board 2008-2012, Etelä-Hämeen Osuuspankki: Chair of the Supervisory Board 2014-, Confederation of Finnish Industries (EK): member of the Delegation for Entrepreneurs 2008-, Finnish Family Firms Association: member of the Board 2013-, member of the Delegation of Family Firms 2010-2012, Olavi Korpisaari Oy: member of the Board and Managing Director 2001-, OP-Pohjola Group Central Cooperative: member of the Supervisory Board 2009-2012, Riihimäen Seudun Osuuspankki: Chair of the Supervisory Board 2007-2013, Vähittäiskaupan Takaus Oy: member of the Board 2009-2012, K-instituutti Oy: member of the Board 2011-2012.

Member of the Board since: 16 April 2012.
On 5 February 2016, Tomi Korpisaari announced his resignation from Kesko Corporation's Board of Directors for reasons of health. The resignation took effect on 1 March 2016.

Kesko shares held:
As at 31 December 2014: a total of 87,211 A shares and 500 B shares held by him and his company.
As at 31 December 2015: a total of 87,211 A shares and 500 B shares held by him and his company.

MATTI KYYTSÖNEN

Member of the Audit Committee

b. 1949, Master of Science (Economics).

Independence: He is considered by the Board to be independent of the Company and significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Chair of the Board of Silverback Consulting Oy.

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-, Esperi Care Oy: member of the Board 2008-, Lindström Invest Oy: member of the Board 2009-, KP Tekno Oy: member of the Board 2006-, Port of Helsinki Ltd: member of the Board 2015-, Oy Center-Inn Ab: member of the Board 2007-2012, Kiinteistöpalvelut ry: Chair of the Board 1996-2001, 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.

Member of the Board since: 13 April 2015.

Kesko shares held:
As at 13 April 2015: a total of 185 Kesko B shares held by him.
As at 31 December 2015: a total of 185 Kesko B shares held by him.

ANU NISSINEN

Member of the Remuneration Committee

b. 1963, Master of Science (Economics).

Independence: She is considered by the Board to be independent of the Company and significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Era Content Oy: Chair of the Board.

Main employment history: Sanoma Media Finland Oy: CEO 2011-2013, Sanoma Entertainment Finland: President 2008-2011, Welho/Helsinki Televisio Oy: Managing Director 2004-2008, Helsinki Televisio Oy: Marketing Director 2001-2004, Oy Sinebrychoff Ab: several marketing duties 1990-2000.

Main positions of trust: DNA Ltd: member of the Board 2010-2012, 2014-, F-Secure Corporation: member of the Board 2010-, Siili Solutions Plc: member of the Board 2014-, Viestilehdet Oy: member of the Board 2015-.

Board member since: 13 April 2015.

Kesko shares held:
As at 13 April 2015: No shares.
As at 31 December 2015: No shares.

TONI POKELA

b. 1973, eMBA.

Independence: He is considered by the Board not to be independent of Kesko (chain agreement), but to be independent of significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1997.

Main positions of trust: Pokela Oy Iso Omena: member of the Board and Managing Director 1998-, Iso Omenan Yrittäjäyhdistys ry: Chair of the Board 2003-, Confederation of Finnish Industries (EK): member of the Skilled Workforce Committee 2014-, K-instituutti Oy: Deputy Chair of the Board 2010-2012, Vähittäiskaupan Takaus Oy: member of the Board 2010-2012, K-Retailers' Association: member of the Board 2008-2012, 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:
As at 31 December 2013: a total of 179,400 A shares held by the company controlled by him.
As at 31 December 2014: a total of 179,400 A shares held by the company controlled by him.

KAARINA STÅHLBERG

Chair of the Audit Committee

Member of the Board until 29 February 2016

b. 1966, Master of Laws (Columbia University)

Independence: She is considered by the Board to be independent of the Company and significant shareholders.

Domicile: Kauniainen, Finland.

Principal occupation: Lawyer, self-employed person.

Main employment history: Fortum Corporation: Legal Advisor in nuclear business matters 2014, General Counsel and member of the Executive Management Team 2013-2014, Law firm White & Case: lawyer 2013, Nokia Plc: Vice President, Assistant General Counsel 2005-2012, Vice President, Mobile Phones legal 2004-2005, different supervisory and lawyer duties 1999-2003.

Main positions of trust: Helsinki stock exchange: Chair of the expert working group on reducing the administrative burden of listed companies 2014-, Securities Market Association: member of the Market Practice Board 2013-, Directors' Institute of Finland: member of the Policy Committee 2013-, Helsinki Chamber of Commerce: member of the Board 2010-2013, Governmental working group preparing for the national equity market strategy: member 2011-2012, Advisory Board of Finnish Listed Companies: Chair 2008-2012, Governmental working group preparing for revision of the Finnish Securities Market Act: expert member 2008-2010, Working group for the Finnish Corporate Governance Code: member 2007-2008, 2009-2010.

Member of the Board since: 13 April 2015.
On 15 February 2016, Kaarina Ståhlberg announced her resignation from Kesko Corporation's Board of Directors. The resignation took effect on 1 March 2016.

Kesko shares held:
As at 13 April 2015: No shares.
As at 31 December 2015: No shares.

GROUP MANAGEMENT BOARD

Members of the Group Management Board

MIKKO HELANDER

President and CEO of Kesko Corporation and Chair of the Group Management Board

b. 1960, Master of Science (Technology).

Domicile: Helsinki, Finland.

Other major duties: Confederation of Finnish Industries (EK): member of the Board 2016-, Deputy Chair of the Board 2016-, Finland Chamber of Commerce: member of the Board 2016-, Finnish Commerce Federation: member of the Board 2015-, Deputy Chair of the Board 2015, Ilmarinen Mutual Pension Insurance Company: member of the Board 2015-, Chair of the Board 2016-, Finnish Business and Policy Forum EVA: member of the Supervisory Board 2015-, Finnish Fair Corporation: member of the Board 2015-, East Office of Finnish Industries Oy: member of the Board 2015-, Metsä Fibre Oy: member of the Board 2008-2014, German Pulp and Paper Association (VDP): member of the Board 2013-2014, Myllykoski Paper Oy: Vice Chair of the Board 2007-2012, Finnish Forest Industries Federation: member of the Board 2007-2011.

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, Valmet Corporation: Head of Converting Machinery Division (UK) and member of the company’s Management Board 1999-2003, Vice President for the Calender Business Unit 1997-1999, Head of Operations (Valmet Rotomec S.p.a., Italy) 1994-1997, Head of Project Department at Valmet Järvenpää 1993–1994, Managing Director of Kasten Hövik 1990-1993, Valmet Paper Machinery Inc.: Production Manager at Valmet Järvenpää 1987-1990, Valmet Corporation: Project Engineer 1984-1987.

Member of the Group Management Board since: 1 October 2014.

Kesko shares held:
As at 31 December 2014: 8,791 B shares.
As at 31 December 2015: 8,791 B shares.

JORMA RAUHALA

Senior Vice President for the grocery trade division

b. 1965, Master of Science (Economics).

Domicile: Espoo, Finland

Other major duties: The Finnish Grocery Trade Association: member of the Board 2013-, Chair of the Board 2013-2014, the Association of Finnish Advertisers: member of the Board 2014-.

Employment history: employed by Kesko Ltd since 1992. Senior Vice President for the grocery trade division since 1 January 2015. President of Kesko Food Ltd since 2013. 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:
As at 31 December 2014: 4,661 B shares.
As at 31 December 2015: 8,864 B shares.

TERHO KALLIOKOSKI

Senior Vice President for the home improvement and speciality goods trade division

b. 1961, Master of Science (Economics).

Domicile: Kirkkonummi, Finland.

Other major duties: Helsinki Region Chamber of Commerce: member of the Board 2009-, Deputy Chair of the Board 2012-, East Office of Finnish Industries Oy: Deputy member of the Board 2011-, Eurobuy GmbH: member of the Board 2013-2014, Eurogroup Far East Ltd: member of the Board 2013-2014, the Association of Finnish Advertisers: member of the Board 2005-2013, The Finnish Grocery Trade Association: member of the Board 2006-2013, Deputy Chair of the Board 2006-2007, Chair of the Board 2008-2009 and 2013, the Finnish 4H Federation: member of the Supervisory Board 2009-2012, Association for the Finnish Work: Council member 2006-2009, member of the Board 2010, Finnish Commerce Federation: member of the Board 2006, ECR Finland ry: member of the Board 2006, the Finnish Association of Building Owners and Construction Clients: member of the Board 2002-2003, Oulu Chamber of Commerce: member of the Board 2000-2002, Delegation member 1997-2002.

Employment history: employed by Kesko Ltd since 1985. Senior Vice President for the home improvement and speciality goods trade division since 1 January 2015. President of Rautakesko Ltd since 2013. President of Kesko Food Ltd 2005-2013, Senior Vice President for Kesko Real Estate 2002-2005, District Director of the Northern Finland District (Oulu) 1998-2002, Sales Director of the Supermarket Chain Unit (Oulu) 1996-1997, Retail Services Manager of Grocery Retail Services (Oulu) 1995-1996, Financial Manager of the Northern Finland District (Oulu) 1990-1995, Investment Manager of the Real Estate Department (Helsinki) 1988-1990, Project Planner of the Store Site Office (Helsinki) 1985-1987.

Member of the Group Management Board since: 17 March 2005.

Kesko shares held:
As at 31 December 2014: 15,000 B shares.
As at 31 December 2015: 19,203 B shares.

PEKKA LAHTI

Senior Vice President for the car trade division

b. 1955, Master of Science (Agriculture).

Domicile: Vantaa, Finland.

Other major duties: The Association of Automobile Importers in Finland: member of the Board 2007-2012, 2014-, Chair of the Board 2010-2012, Finnish Car Recycling Ltd: member of the Board 2007-2012, The Finnish Information Centre of Automobile Sector (AUT): member of the Board 2009-2012, Chair of the Board 2010-2012, Finnish Commerce Federation: member of the Board 2010-2012.

Employment history: employed by Kesko Ltd since 1981. Senior Vice President for the car trade division since 1 July 2015. President of VV-Auto Group Oy since 2006. President of Kesko Agro Ltd 2005, Managing Director of Konekesko Ltd 2001-2005, Vice President for Kesko Machinery 2000.

Member of the Group Management Board since: 1 March 2005.

Kesko shares held:
As at 31 December 2014: 7,967 B shares.
As at 31 December 2015: 10,769 B shares.

JUKKA ERLUND

Senior Vice President for finance and accounting, Chief Financial Officer

b. 1974, Master of Science (Economics), eMBA.

Domicile: Helsinki, Finland.

Other major duties: 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-, Luottokunta Oy: member of the Board 2012.

Employment history: employed by Kesko Corporation since 2004. Senior Vice President for Finance and Accounting, 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:
As at 31 December 2014: 4,938 B shares.
As at 31 December 2015: 7,740 B shares.

MATTI METTÄLÄ

Senior Vice President for human resources

b. 1963, Master of Laws.

Domicile: Helsinki, Finland.

Other major duties: Finnish Business & Society ry: member of the Board 2013-2015, Huoltoupseeriyhdistys ry: member of delegation 2013-, Finnish Commerce Federation: member of the Research Committee 2013-, the Foundation for Vocational Training in the Retail Trade: member of the Board 2005-.

Employment history: employed by Kesko Ltd in 1990-2005 and since 2012. Senior Vice President for human resources since 1 January 2015. Senior Vice President for human resources and stakeholder relations 2012-2014. K-Retailers' Association: Managing Director 2005-2012, Rautakesko Ltd: 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:
As at 31 December 2014: 1,480 B shares.
As at 31 December 2015: 4,282 B shares.

ANNE LEPPÄLÄ-NILSSON

Senior Vice President for legal affairs, Group General Counsel

b. 1953, Master of Laws, Master of Science (Economics and Business Administration).

Domicile: Espoo, Finland.

Other major duties: Nasdaq OMX Nordic Ltd: member of the Board 2008-, Independent Retail Europe: member of the Board 2007-, EuroCommerce: member of the Board 2012-2015, European Commission's High Level Group on Retail Competitiveness: member 2013-2015, Finnish Commerce Federation: member of the Legal Committee 1992-, Chair 1992-2001, 2006-, Confederation of Finnish Industries (EK): member of the Legal Affairs Committee 2005-, Chair 2006-2007, Registered Association Finnish-Russian Chamber of Commerce (FRCC): member of the Board 2005-, Deputy Chair 2009-, Helsinki Region Chamber of Commerce: Delegation member 2011-, Securities Market Association: member of the Corporate Governance Code working group 2014-2015, Chair 2007-2008, member of the remuneration working group 2009-2010, member of the Nordic Corporate Governance working group 2007-2010, Finland Chamber of Commerce: member of The Arbitration Institute of the Finland Chamber of Commerce (FAI) 1999-2008, member of the Redemption Committee 2003-2008.

Employment history: Employed by Kesko Corporation since 2001. Senior Vice President for legal affairs, Group General Counsel since 1 January 2015. Group General Counsel, Senior Vice President for legal affairs, risk management and internal audit 2005-2014, General Counsel 2001-2005, Aspo Plc: Vice President, Legal Affairs 1985-2001, Credit Manager 1980-1985.

Member of the Group Management Board since: 1 January 2015.

Kesko shares held:
As at 1 January 2015: 3,971 B shares.
As at 31 December 2015: 5,513 B shares

LAURI PELTOLA

Senior Vice President for corporate responsibility, communications and stakeholder relations, brand and marketing management and development

b. 1963, CCJ.

Domicile: Kirkkonummi, Finland.

Other major duties: Varma Mutual Pension Insurance Company: member of the Supervisory Board 2013-.

Employment history: employed by Kesko Corporation since 2015. Senior Vice President for corporate responsibility, communications and stakeholder relations since 2 March 2015, and also for brand and marketing management and development since 1 January 2016. Stora Enso: Country Senior Executive for Finland 2013-2014 and Senior Vice President, Global Identity 2009-2014, Nordea Plc: Executive Vice President, Group Identity and Communications 2000-2005, 2008-2009, Metsäliitto Group: Communications Director 2005-2008.

Member of the Group Management Board since: 2 March 2015.

Kesko shares held:
As at 2 March 2015: No shares.
As at 31 December 2015: No shares.

ANNI RONKAINEN

Senior Vice President, Chief Digital Officer

b. 1966, Master of Science (Economics).

Domicile: Helsinki, Finland.

Other major duties: Asiakastieto Group Plc: member of the Board 2015-, Nordic Morning Plc: member of the Board 2015-, Sunduka Oy: member of the Board 2015-, 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 since 2015. Chief Digital Officer since 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:
As at 20 April 2015: No shares.
As at 31 December 2015: No shares.


DIVISIONS

DIVISIONS IN BRIEF

Kesko operates in three divisions: the grocery trade, the home improvement and speciality goods trade, and the car trade.

GROCERY TRADE

K-food stores offer their customers both low-priced and high-quality food. The aim is to have the highest-quality food stores in Finland where customers are served by about 900 K-food retailers running their locally tailored stores. Kesko's grocery trade and K-food stores cooperate under an efficient chain business model.

HOME IMPROVEMENT AND SPECIALITY GOODS TRADE

The home improvement and speciality goods trade division provides customers with selections of building and home improvement products, agriculture and machinery products and leisure goods, a highly accessible retail store network, online stores and e-services.

CAR TRADE

VV-Auto is a car company specialised in importing, retailing and providing after-sales service for cars manufactured by Volkswagen Group.

	Grocery trade	Home improvement and speciality goods trade	Car trade
NET SALES 2015	€4,673 million	€3,250 million	€748 million
OPERATING PROFIT EXCL. NON-RECURRING ITEMS	€177.5 million	€63.6 million	€26.1 million
TOTAL NUMBER OF STORES	893	687	9
OPERATING COUNTRIES	Finland, Russia	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus	Finland, Estonia, Latvia

Grocery trade chains and brands

K-Citymarket, K-Supermarket, Pirkka, K-Market, K-Pyoka, Kespro, K-Menu

Home improvement and speciality goods trade chains and brands

K-Rauta, K-Päytä, Rautia, K-Maatalous, Rautakesko Yrityspalvelu, Intersport, Byggmakker, Senukai, OMA, Budget Sport, Kesport, Asko, Sotka, Kookenkä, Konekesko, Yamarin

Car trade brands

Volkswagen, Audi, Seat, MAN

GROCERY TRADE

K-food stores offer their customers both low-priced and high-quality food. The aim is to have the highest-quality food stores in Finland where customers are served by about 900 K-food retailers running their locally tailored stores. Kesko's grocery trade and K-food stores cooperate under an efficient chain business model.

The grocery trade has operations in Finland and Russia. At the end of 2015, it had 8,364 employees. The K-Group (Kesko and K-retailers) is the second largest operator in the Finnish grocery trade with a market share of approximately 33%.

Every day, around 900,000 customers visit K-food stores with high expectations of comprehensive, high-quality selections, ease of shopping, favourable prices and responsibility. Customers and quality are the centre points of all operations of K-food stores and the aim is to have the highest-quality food stores in Finland.

Cooperation between Kesko's grocery trade and K-food retailers is based on chain operations, which ensure customer orientation, business efficiency and the achievement of competitive advantages. Kesko's main functions include centralised sourcing, selection management, logistics, and the development of chain concepts and the store site network. Kesko also agrees on long-term cooperation models with various partner companies. Centralised operations ensure effective competitiveness.

Local K-food retailers tailor their stores to meet the needs of local customers as well as possible. K-retailers are responsible for the product selections, customer service, competence of staff, product quality and profitability of business in their own stores. Listening to the wishes of local customers and making use of customer data, the K-retailers build a selection of products and services that meet customers' needs. K-food retailers complement the chain's common product selection with local food from local producers.

Digital retail services developed together by Kesko and K-food retailers offer customers ideas and inspiration for cooking and easier ways to shop for their groceries. The K-food mobile application, for instance, provides personal benefits and store-specific offers as well as an intelligent shopping list that recommends products that the customer frequently buys, along with nearly 6,000 recipes with instructions. The network of K-food stores' online stores and click and collect services is growing. Customers have the large selections and low prices of their familiar stores also available online.

K IN ACTION: BOTH/AND IS ABOUT MORE THAN JUST THE PRICE

Food is not only about price. It is also about quality and experiences. K-retailer entrepreneurship provides strength to local communities and also gives a lot to K-food store customers.

TUOTTAJALLE KIITOS!

At the beginning of 2015, the K-Group started to build up an increasingly rich Finnish food culture together with its customers and suppliers. K-food retailers across Finland offer Finnish consumers the best of both worlds: low prices combined with quality, freshness, domestic origins and diversity.

One of the most visible actions in these terms was the 'Thank the Producer' operating model. The purpose is to highlight Finnish food production and raise discussion about the welfare of Finnish agriculture. In November and December, K-store customers buying groceries for Christmas had a chance to buy a 'Thank the Producer' pig card for one euro. The proceeds from the sale of the cards were tripled and remitted in full by the K-Group to Finnish pig farmers in cooperation with the Central Union of Agricultural Producers and Forest Owners (MTK) and meat companies.

Another example of the both/and mindset were the local food dates that were organised in six locations in 2015 to help K-retailers and local producers in networking. The events will continue in 2016.

Watch the video.

Competitive advantages in the grocery trade

- Store-specific business idea - tailoring K-food stores according to local customer demand
- The best fresh food departments and widest selections
- K-retailer entrepreneurship guarantees customer-driven operations
- Low-priced and high-quality Pirkka and K-Menu products
- Domestic origins and responsibility – about 80% of the products are Finnish
- A wide choice of digital services that make customers' everyday lives easier and a comprehensive network of online food stores
- Efficient customer dialogue – a million customer feedback responses per year

Chains

K-citymarket

K-citymarkets are modern Finnish hypermarkets, which offer their customers varied and extensive selections of food and home and speciality goods. K-citymarkets are known for their best offers, local selections and food competence.

K-supermarket

K-supermarkets are better than average food stores, which provide both high-quality and low-priced products combined with easy shopping. Their strengths include superior fresh food departments, skilled staff, comprehensive service, the widest selections and Finnish products.

K-market

K-markets are reliable, service-oriented, local neighbourhood stores located near customers. K-markets offer customers a versatile selection of everyday food and local services.

K-ruoka, Russia

The competitive advantages of the K-ruoka food stores, which operate in Russia, include extensive, fresh and high-quality selections. There are nine K-ruoka stores in the St. Petersburg area.

Kespro

Kespro is the leading wholesaler in the Finnish hotel, restaurant and catering (HoReCa) business and acts as a partner for its customer companies and municipalities in Finland. Kespro provides its customers with diverse sourcing solutions as well as delivery and cash&carry services.

Market

In 2015, the Finnish grocery trade market was worth about €16.6 billion (incl. VAT), representing an estimated decrease of about 1% (VAT 0%, Kesko's own estimate).

The Foodservice market (previously HoReCa) is estimated to have slightly decreased in 2015 from the previous year (Kesko's own estimate).

Market shares

Food trade

Market share in Finland: about 33% (Kesko's own estimate)
Competitors: Prisma, S-market and Alepa/Sale (S Group), Valintatalo, Siwa (Suomen Lähikauppa Oy), Lidl, Stockmann and M chain stores

K-citymarket, home and speciality goods

Market share cannot be calculated reliably
Competitors: department stores, hypermarkets, speciality store chains and online stores

Foodservice

Kespro, Finland
The market share is estimated to have increased to about 22% (Kesko's own estimate)
Competitors: Meira Nova, Metro-tukku, Heinon Tukku and Suomen Palvelutukkurit

K IN ACTION: KNOWLEDGE OF THE ORIGINS OF PRODUCT INGREDIENTS IS IMPORTANT

Which part of the world does the product come from? While the question is simple, the answer may be far from that. There are over 2,500 Pirkka products, which contain thousands of ingredients.

Kesko aims to identify the entire supply chain of these products, while also ensuring that the ingredients are responsibly sourced. Work to assess the origin of the ingredients in own brand groceries started in spring 2015.

Sohvi Vähämaa, who was completing her Master's degree studies in business and economics, was given the task of establishing the countries of origin of the ingredients in Kesko's own brands in the grocery trade.

Sohvi began her risk assessment of the ingredients one product group at a time. The origins of the ingredients in some products had already been identified but the situation was less clear for other products and more work was needed.

"Working with one product often takes time, as cereals or biscuits, for instance, may have 20–30 ingredients from all over the world. Cooperation with product managers and suppliers has been great and the missing information about the origins of ingredients has been well complemented," Sohvi says.

By the end of 2015, Sohvi had established the countries of origin of the ingredients in all Pirkka and K-Menu products. In the future, an ingredient survey will be carried out whenever a new product is introduced into the selections.

Special attention is paid to products from high-risk countries, though the quantities imported from these countries are small (1.2% of all Kesko's purchases in 2015).

"The number of ingredients is so large that we will carry out a risk analysis. With the help of the high-risk country tool, we will assess which products contain such ingredients from high-risk countries that may require further assessment. Then we will set out to ensure that the ingredients are responsibly produced in cooperation with the supplier," Sohvi says.

Did you know?

- The K-food mobile application rose to number one on the Finnish App Store's download list in the week of its launch in October 2015. Android and Windows Phone versions of the application are also available. By the beginning of March 2016, as many as 120,000 customers had already downloaded the application.
- Speaking up for Finnish food production is of primary importance to the K-Group, as approximately 80% of the products sold by K-food stores are made in Finland. The aim of the 'Thank the Producer' operating model launched by Kesko in autumn 2015 is to highlight Finnish food production and provoke discussion about the welfare of Finnish agriculture.
- A new kind of K-food store was opened in Myllypuro, Helsinki in November 2015. K-Myllypuro is the K-Group's test store, which does not belong to any of the current K-food store chains. K-Myllypuro boldly experiments with various food store concepts and models. Customers have a chance to decide how the store, its selections and services will develop in the future.

Own brands in 2015

- Number of Pirkka products: 2,551
- Number of Pirkka Organic products: 117
- Number of new Pirkka products launched: 195
- Number of K-Menu products: 291

K IN ACTION: ECOTRUCK ENHANCES EFFICIENCY

In early 2015 Keslog, which is responsible for Kesko's grocery trade transportation, introduced a new Ecotruck, which carries twice as much cargo as an ordinary truck. Everything went according to plan during its first year in operation.

The Ecotruck significantly improves logistics efficiency, being able to carry more than a traditional trailer combination. In Finland, a country with long distances, the transportation of temperature-controlled groceries is challenging.

"The first year went according to plan and we had no setbacks.

And no complaints about the larger-than-normal truck were heard from other people on the road," says **Toni Pelin**, Keslog's Environment and Safety Manager.

Carbon dioxide emissions from transportation are one of the most significant environmental impacts. The large quantity of goods carried by the Ecotruck cuts the total transport distance, thereby also cutting emissions. The Ecotruck may reduce the annual number of transport journeys by as many as 600, which corresponds to 360,000 kilometres between southern and northern Finland.

The Ecotruck is 34 metres long and its full load mass is 90 tonnes. It operates between the central warehouses in Vantaa and the Kempele terminal in the Oulu distribution area.

Read more about efficient logistics fleet.

Strategic focus areas

Strategic objective

K-food stores are refurbished

- Strengthening the quality image of all K-food store chains — emphasis on freshness, Finnish origins and service
- Capital expenditure in the network of neighbourhood stores
- Tailoring each K-food store to meet local customer needs

What we are doing

- Renewing the store concepts and the network of neighbourhood stores, and opening new stores
- Kesko Food has made an agreement to acquire the share capital of Suomen Lähikauppa Oy; the acquisition is expected to be completed in the first half of 2016
- Implementation of a new service station concept
- A test store was opened in Myllypuro, Helsinki, with the aim of developing a completely new kind of grocery trade concept in Finland
- New business partners in connection with K-food stores, such as Starbucks, Posti, DHL, and K-rauta Express

Improving the quality and price image

- Low-priced shopping basket for each customer at every visit to the K-food store
- Improving the quality and service level
- Strengthening customer dialogue
- Improving customer satisfaction

What we are doing:

- The both/and mindset: we offer our customers both low-priced and high-quality food
- Further increasing the selection of own brand products
- Attractive special offers
- Enhancing operations based on customer feedback

Increasing K-food stores' digital services

- Mobile services that are significant to customers and customised marketing
- Increasing online food services and making new solutions accessible to customers

What we are doing:

- Launching the K-food mobile application
- Rewarding customers
- Personalised special offers based on shopping history
- Click and collect services continue to expand in various parts of Finland

Renewing the retailer model • Ensuring that retailer entrepreneurship continues to be profitable and interesting	• Store-specific business ideas respond to local customer demand • Retailers may run several stores
Increasing Kespro's business • Strengthening international cooperation • Strengthening market position further	• Close cooperation with K-food stores • New partnerships and international cooperation
Increasing operations in Russia • In addition to Finland, growth is sought in the Russian market	• Growth and improved profitability in the St. Petersburg area • Based on our good experiences, the implementation of the strategy in Russia continues • Every new investment is considered carefully

STAKEHOLDER ADDRESS: CONSUMERS WANT FINNISH FOOD

Food interests consumers. According to studies, Finnish consumers have strong confidence in national food production. This confidence is justified and is the result of hard work.

There are around 50,000 active farms in Finland. The objective of Finnish food production is to produce high-quality and tasty food. Our northern climate is favourable from the viewpoint of animal and plant health, and farmers annually invest millions of euros to keep agriculture free from salmonella and to improve animal welfare. By global comparisons, requirements concerning the environment and animal welfare are very strict in Finnish food production. Compliance with these requirements is part of producers' corporate responsibility but this comes with costs.

The profitability of agriculture has been very low in recent years. In order to be able to offer domestic food to Finnish consumers in years to come, the profitability of agriculture must be improved. Farmers, who are entrepreneurs on their own farms, are the key operators in this process.

The trading sector plays a strong role in the food chain and has an influence on consumers' behaviour. For its part, the sector is also responsible for the future of the Finnish food chain. The pursuit of low prices alone also leads to poor results from the viewpoint of consumers.

Kesko has set a good example by highlighting the quality and the importance of domestic origin in the discussion about food and by carrying out the 'Thank the Producer' campaign together with producers, thus providing consumers with an opportunity to directly support Finnish producers.

Antti Sahi, MTK Executive Director

Grocery trade in figures

Retail sales and number of stores	Number 2015	Number 2014	Sales (VAT 0%), € million 2015	Sales (VAT 0%), € million 2014
K-citymarket, food	81	81	1,505	1,505
K-citymarket, home and speciality goods	81	82*	575	581
K-supermarket	219	218	1,716	1,725
K-market (incl. service station stores)	476	444	1,189	1,216
K-ruoka, Russia	9	5	106	103
Others*	108	164	122	161
Grocery trade, retail sales			**5,214**	**5,292**
Kespro			779	780
Grocery trade, total	**893**	**913**	**5,993**	**6,072**

** incl. online sales*

Grocery trade, key figures		2015	2014
Net sales	€ million	4,673	4,754
Operating profit	€ million	249.4	216.2
Operating profit excl. non-recurring items	€ million	177.5	223.2
Operating profit excl. non-recurring items as % of net sales	%	3.8	4.7
Capital expenditure	€ million	129	98
Capital employed	€ million	871	1,007
Return on capital employed excl. non-recurring items	%	20.4	22.2
Personnel average		6,420	6,176

Properties		2015	2014
Owned properties, capital	€ million	639	880
Owned properties, area	1,000 m^2	410	586
Leased properties, lease liabilities	€ million	1,906	1,503
Leased properties, area	1,000 m^2	1,405	1,279

HOME IMPROVEMENT AND SPECIALITY GOODS TRADE

The home improvement and speciality goods trade division provides customers with selections of building and home improvement products, agriculture and machinery products and leisure goods, a highly accessible retail store network, online stores and e-services.

The home improvement and speciality goods trade operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. At the end of 2015, the total number of employees was 12,270.

In the building and home improvement trade, Kesko is the market leader in Finland and the fifth largest operator in Europe.

The chains of the building and home improvement trade are K-rauta, Rautia, Byggmakker, Senukai, OMA, Asko and Sotka. Rautakesko B2B Service serves large business customers in the sector. B2B sales already account for over 40% of the K-Group's sales in the building and home improvement trade.

In January 2016, Kesko announced that it had made an agreement to acquire Onninen, a company specialised in the trade of HEPAC and electrical products, thereby strengthening its position in the European building and technical trade. The completion of the acquisition is subject to the approval of the competition authorities.

The first K-rauta Express stores were opened in Helsinki and Espoo in autumn 2015. The new store concept brings building and home improvement store services to city and shopping centres. In addition to tools, the selection focuses on home improvement and decoration products, such as paints and surface materials, and particularly serves the home renovation needs of city dwellers. Customers also have K-rauta's wide product selection available for them to order for delivery to the K-rauta Express store.

Rautakesko B2B Service updated its online services and opened a Dekostudio on Bulevardi, Helsinki in November 2015 especially to serve business customers.

Our own brands, Cello, PROF, FXA and Fiorin, provide customers of building and home improvement stores with reliable and affordable products. Cello, which comprises products for the home and garden, revised its brand look in autumn 2015. The new Cello is livelier, more emotional and more inspiring than before.

The agricultural and machinery trade comprises the operations of K-maatalous and Konekesko. In 2015, we combined the operations of the agricultural and machinery trade in one unit to improve customer experience in Finland and to benefit from synergies in customer relationship. In addition to Finland, Konekesko also operates in the Baltic countries.

The chains in the leisure goods trade are Intersport, Budget Sport and Kookenkä. Intersport Finland Oy is the market leader in the Finnish sports trade with its Intersport and Budget Sport chains and is about to introduce the international The Athlete's Foot chain into Finland.

In addition to a comprehensive store site network, customers have access to multi-channel e-services and several online stores. Customers shopping for leisure goods are served by Intersport.fi, Budgetsport.fi and Kookenka.fi. All K-rauta and Rautia stores in Finland and all K-rauta stores in Sweden, Estonia and Latvia provide a click and collect online store. Various e-services, such as home renovation planning tools, demand calculators and mobile applications, make shopping and transactions easier.

K IN ACTION: K-RAUTA EXPRESS BRINGS BUILDING AND HOME IMPROVEMENT STORE SERVICES CLOSE TO CUSTOMER FLOWS

The K-rauta Express concept is based on changes in customer behaviour as a result of urbanisation and smaller family sizes, the growth in online sales, the ageing of the population and the decrease of private motoring in certain customer groups.

Work on a strategy for the building and home improvement trade resulted in the launch of a new K-rauta Express store concept, which will bring the store services closer to major customer flows in urban centres and shopping malls.

The product and service selection of K-rauta Express stores enable customers to plan and order the renovation of their home on a single visit. The selection focuses on home furnishing and decoration products, paints and tools.

Express stores have collection points for online purchases, as well as premises and a business model for planning services.

"The idea of the K-rauta Express concept is to provide urban customers with quicker, easier shopping. Customers may purchase goods on their way to work or place orders on the internet for collection. We do our utmost to make shopping fun," says **Virpi Viinikainen**, Chain Director for K-rauta.

K-rauta Express stores are always satellite stores for larger K-rauta retailers. This enables the smaller store to leverage the selections, logistics and other operations of a larger K-rauta store.

The first K-rauta Express was opened in the Forum shopping centre in central Helsinki in August 2015 and the second one opened in the Sello shopping centre in Espoo in November. The concept will be tested in these stores, and further development and a decision on its expansion will be made on the basis of this trial. Development work will be based on extensive customer surveys.

Competitive advantages in the home improvement and speciality goods trade

- Chain concepts and service offering based on customer needs
- Serving different customer groups with the same store network
- Comprehensive store network and extensive e-services
- Efficient combination of online retailing and a physical store network
- Click and collect business model
- Skilled customer service in stores and e-channels
- Well-known, reliable store chains and product brands
- Efficient sourcing and logistics
- Internationally uniform business models

Building and home improvement trade chains

K-rauta
The international K-rauta chain offers products and services for building, renovation, yard and garden, interior decoration and furnishing to consumer, project and business customers. There are K-rauta stores in Finland, Sweden, Estonia, Latvia and Russia. All K-rauta stores in Finland are run by retailer entrepreneurs.

Rautia
Rautia serves especially builders, renovators and building professionals with the most extensive building and home improvement store network in Finland. All Rautia stores are run by retailer entrepreneurs.

Byggmakker
Byggmakker is a key building and home improvement trade operator in Norway. Its store network extends throughout the country and B2B customer expertise is extremely strong. Nearly all of the Byggmakker stores operate under a retailer business model.

Senukai
Senukai's stores in Lithuania offer customers wide selections of non-food products with special emphasis on products related to building and living.

OMA
OMA is the largest building and home improvement store chain in Belarus.

Rautakesko B2B Service
Customers of Rautakesko B2B Service include large national and regional construction companies, property maintenance companies, customers from the house building industry and other business customers. The strength of the B2B Service is its wide selections of building and home improvement

products and close cooperation with K-rauta and Rautia store networks through which warehouse deliveries are made.

Asko
Asko is the best-known and most trusted brand in the Finnish furniture and home decoration business. Asko provides quality-conscious customers with a competitive collection and the most active and reliable service in the sector. Asko has stores in Finland and Estonia, and it also runs an online store in Estonia.

Sotka
In addition to its affordable and comprehensive product selection, Sotka is known for providing an easy shopping experience for customers looking for furniture. Sotka has stores and an online store both in Finland and Estonia.

Agricultural and machinery trade chains

K-maatalous
In Finland, agricultural customers are served by a comprehensive network of K-maatalous stores. K-maatalous retailers' customers include agricultural entrepreneurs, machinery contractors, and equestrian professionals and enthusiasts. Many K-maatalous stores operate in connection with Rautia stores.

Konekesko
Konekesko is a machinery trade company that focuses on importing, selling and providing after-sales service for construction, materials handling, environmental and agricultural machinery, and recreational machinery. Konekesko operates in Finland, Estonia, Latvia and Lithuania.

Leisure goods trade chains

Intersport, Intersport.fi
The Intersport chain's stores and online store provide customers with products and equipment for active sports, keeping fit and for leisure activities.

Budget Sport, Budgetsport.fi
Budget Sport stores offer products for physical activities, outdoor sports and leisure easily and affordably. Customers are also served by the diverse Budgetsport.fi online store.

Kookenkä, Kookenka.fi
Kookenkä is Finland's biggest speciality shoe store chain for the whole family. Kookenkä also operates an online store.

Market

The market in the building and home improvement trade by country, along with the change from the previous year (retail trade, VAT 0%)
The total market in the entire operating area of the building and home improvement trade is around €23 billion*
Finland €3.1 billion (-2.9%), (RaSi ry)
Sweden €4.3 billion (12.3%), (HUI)
Norway €4.0 billion (5.5%), (Virke)
Estonia €0.4 billion (7.0%)*
Latvia €0.4 billion (4.0%)*
Lithuania €0.5 billion (2.0%)*
Russia €9.2 billion (-6.0%), (PMR)
Belarus €1.4 billion (14.4%)*

The interior decoration items and furniture trade is worth around €1.5 billion (-0.6%) (Statistics Finland)

The agricultural and machinery trade market, along with the change from the previous year (retail trade, VAT 0%)
The agricultural trade market is worth around €2 billion and decreased from the previous year. In Finland, the total market for Konekesko's product areas is around €1.0 billion and it decreased from the previous year. In Baltic countries, the total market for Konekesko's product areas is around €0.5 billion and it increased from the previous year.*

The speciality goods markets in Finland, along with the change from the previous year (retail trade, VAT 0%)
The sports trade is worth about €0.8 billion (6.6%), (Statistics Finland)
The shoe trade is worth about €0.3 billion (-4.0%), (TMA and Kesko's own estimate)

* Kesko's own estimate

Market shares

Building and home improvement trade
Finland 40% (RaSi ry). Main competitors: STARK, Kodin Terra, S-rauta and Bauhaus
Sweden 5% (HUI and Kesko's own estimate). Main competitors: Bauhaus, Byggmax, Beijer Bygg, Woody Bygghandel and XL Bygg
Norway 17% (Virke and Kesko's own estimate). Main competitors: Monter/Optimera, Maxbo, Coop and XL Bygg
Estonia 24%*. Main competitors: Ehitus ABC, Bauhof, Espak and Bauhaus
Latvia 12%*. Main competitors: Depo DIY and Kursi
Lithuania 30%*. Main competitors: Ermitazas, Moki-Vezi and Lytarga
Northwestern and central Russia 7%* (St. Petersburg and Moscow). Main competitors: Leroy Merlin, OBI, Castorama, Maxidom and STD Petrovich
Belarus 10%*. Main competitors: Novoselkin and Materik

Furniture trade
Asko and Sotka
Finland 23%*
Competitors: furniture stores

Agricultural trade
Finland 27%*.
Main competitors: DLA (Hankkija Oy) Turun Konekeskus/Konefarmi and Raisioagro

Machinery trade
Finland (source: Trafi)
Outboard motors** 45% (Yamaha)
Boats** 21% (Yamarin, Suvi)
Motorcycles** 21% (Yamaha)
Tractors** 9% (Massey Ferguson)
Light < 750 kg transportation trailers 15% (Muuli)

** registered

Baltic countries 20% (Kesko’s own estimate)

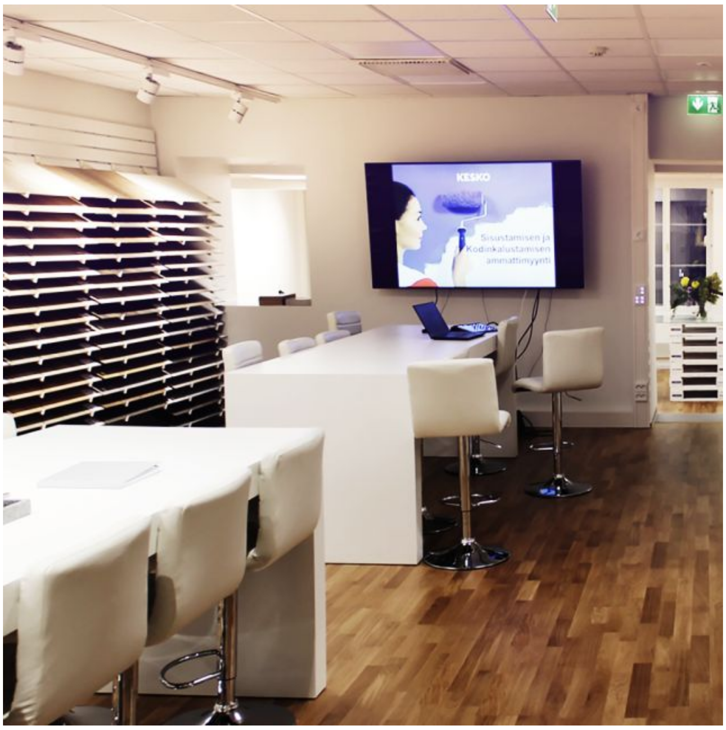
Sports trade
Intersport, Budget Sport and Kesport
Finland 31% (Statistics Finland and Kesko's own estimate)
Competitors: Sportia, Top Sport, Stadium, XXL Sport & Outdoor, department stores and hypermarkets and other speciality sports stores

Shoe trade
Kookenkä and Kenkäexpertti
Finland 10%*
Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores

* Kesko’s own estimate

K IN ACTION: DEKOSTUDIO DISPLAYS PRODUCTS TO INTERIOR DECORATION AND FURNISHING PROFESSIONALS

Dekostudio is a new meeting place for interior decoration and furnishing professionals.



In November 2015, Kesko's building and home improvement trade division opened a meeting place for designers and architects at Bulevardi 46 in Central Helsinki. Dekostudio displays Kesko's building and home improvement trade division's interior decoration and furnishing products.

Dekostudio is intended to support the sales of Rautakesko B2B Service, the division's own brands and K-rauta and Rautia stores to B2B customers. The milieu is appealing to designers and the premises are suitable for both design work and training sessions.

”Dekostudio is a meeting point where we can display our product selection and influence B2B customers’ choice of materials in building projects at an early stage. An urban showroom with good transport links makes interior decoration products easily accessible to designers,” says **Mikko Pasanen**, Vice President responsible for Kesko's building and home improvement trade's sales to business customers.

The look of Dekostudio on Bulevardi differs from a building and home improvement store: its core consists of Kesko's building and home improvement trade's own imports and products from selected business partners. In addition to product displays, the premises are suitable for negotiations, design work and training events.

Kesko opened similar types of premises in Tallinn, Estonia, in February 2016.

Strategic focus areas

Strategic objective	What we are doing
• Growth in Europe to become one of the three largest operators in the building and home improvement trade	• Kesko has announced that it will acquire Onninen, which specialises in the trade of HEPAC and electrical products. Like Kesko, Onninen operates in northern Europe and the Baltic Sea area, which creates an excellent platform for the growth of Kesko’s building and technical trade in Finland and the rest of Europe. The completion of the acquisition is subject to the approval of the competition authorities. • Baltic operations will be centralised into Senukai, the Lithuania-based subsidiary. The arrangement will enable the business in the Baltic countries and Belarus to be managed as a single entity and provide better opportunities for speeding up profitable growth. The arrangement is subject to the approval of the competition authorities.
• In Finland, we strengthen our market position and profitability	• Ever better service to business customers • We develop our digital services • K-rauta Express concept • Click and collect service at all K-rauta and Rautia stores
• In Sweden and Norway, we continue to improve profitability and seek profitable growth	• Click and collect service at all of the 20 K-rauta stores in Sweden • In Norway, nearly all stores are run by retailers

• In Russia, we continue moderate, profitable growth in the St. Petersburg and Moscow areas	• Profitable growth in St. Petersburg and Moscow • Adoption of online store and customer group specific services • Investments in active sales to business customers and project sales
• We provide more extensive services to our B2B and project customers	• We updated the online B2B Service • We opened a Dekostudio to serve B2B customers • The acquisition of Onninen will particularly strengthen our B2B sales. The completion of the acquisition is subject to the approval of the competition authorities.
• We continue to improve the profitability of Asko and Sotka	• We focus on the development of digital and e-services. The Sotka online store opened in 2015 and the Asko online store will open in 2016. • We are working on cooperation between the building and home improvement and the furniture trade to create a competitive advantage for Asko, Sotka, K-rauta and Rautia • Sales grew in 2015, while the costs decreased by over 3%. We will continue enhancement in 2016.
• We improve the efficiency of the agricultural and machinery trade	• Profitability improved in 2015; activities to ensure good development will be continued • We combined the operations of the agricultural and machinery trade in one unit to improve customer experience in Finland and to benefit from synergies in customer work • We seek efficiency in the machinery trade by working in cooperation with the same selected principals in Finland, Estonia, Latvia and Lithuania
• We strengthen the competitiveness in the sports and shoe trade	• The Athlete's Foot chain will come to Finland

Home improvement and speciality goods trade in figures

Retail sales and number of stores	Number		Sales (VAT 0%), € million	
	2015	2014	2015	2014
K-rauta*	45	42	567	560
Rautia*	93	96	427	443
Rautakesko B2B Service			192	187
Asko	34	36	94	91
Sotka	53	50	94	97
Intersport*	60	62	194	195
Budget Sport*	11	12	46	41
Kookenkä*	38	44	32	35
K-maatalous**	80	81	437	463
Konekesko, Finland	1	1	154	150
Others***	75	80	76	97
Finland, total	**490**	**504**	**2,313**	**2,359**
K-rauta, Sweden	20	20	209	197
Byggmakker, Norway	88	82	664	671
Other Nordic countries, total	**108**	**102**	**873**	**868**

Senukai, Lithuania	20	19	328	317
Asko and Sotka, Estonia*	10	10	9	9
K-rauta, Estonia	8	8	87	78
K-rauta, Latvia	8	8	52	53
Konekesko, Estonia			40	35
Konekesko, Latvia			38	41
Konekesko, Lithuania			38	24
Konekesko, Baltic countries, total			**116**	**101**
Baltic countries, total	**46**	**45**	**592**	**558**
K-rauta, Russia	13	13	192	250
Intersport, Russia	18	19	12	15
OMA, Belarus	12	11	116	125
Russia and Belarus, total	**43**	**43**	**320**	**390**
Home improvement and speciality goods trade, outside Finland, total	**197**	**190**	**1,785**	**1,815**
Home improvement and speciality goods trade, total	**687**	**694**	**4,098**	**4,174**

** incl. online sales*

*** in 2015, 45 Rautia stores also operated as K-maatalous stores. In 2014, 46 Rautia stores also operated as K-maatalous stores*

**** the figures include 30 (30) building and home improvement stores, 16 (16) Kenkäexpertti stores, 25 (29) Kesport stores and 4 (5) Musta Pörssi stores*

Home improvement and speciality goods trade, key figures		2015	2014
Net sales	€ million	3,250	3,568
Operating profit	€ million	-57.2	-52.0
Operating profit excl. non-recurring items	€ million	63.6	0.4
Operating profit excl. non-recurring items as % of net sales	%	2.0	0.0
Capital expenditure	€ million	55	72
Capital employed	€ million	823	941
Return on capital employed excl. non-recurring items	%	7.7	0.0
Personnel average		11,269	12,524

Properties		2015	2014
Owned properties, capital	€ million	357	441
Owned properties, area	1,000 m^2	404	474
Leased properties, lease liabilities	€ million	672	754
Leased properties, area	1,000 m^2	1,014	1,168

CAR TRADE

VV-Auto is a car company specialised in importing, retailing and providing after-sales service for cars manufactured by Volkswagen Group.

VV-Auto imports and markets Volkswagen, Audi and SEAT passenger cars, and Volkswagen commercial vehicles in Finland. It also imports and markets SEAT passenger cars in Estonia and Latvia. VV-Auto is also a major car retailer and provides after-sales service at its own outlets in the Greater Helsinki area and Turku. A comprehensive dealer and service network that covers all of Finland serves customers who have passenger cars or commercial vehicles imported by VV-Auto. At the end of 2015, the total number of employees was 783.

The Volkswagen, Audi and SEAT ranges were revised and expanded over the course of 2015. New models launched included the Volkswagen Touran, Passat GTE and Alltrack, and Golf Alltrack, GTD Variant and R Variant, the Audi Q7 and A4, and the SEAT Leon ST Cupra estate. New arrivals in terms of Volkswagen commercial vehicles were the Caddy and the sixth generation Transporter.

Volkswagen broke its own records in 2015 by being the best-selling passenger car and van brand in Finland for the fifth time in succession. Audi was the most registered German premium brand in Finland for the 12th year in succession.

In September 2015, the California Air Resources Board (CARB) and the Environmental Protection Agency (EPA) uncovered software that adjusts nitrogen oxide (NOx) emissions in Volkswagen Group cars with EA 189 series diesel engines. Remedial measures for affected cars in Europe were confirmed in December and the German authority (KBA) has approved them. In Finland, a recall campaign will begin in 2016. Read more at the GRI report.

On 1 January 2016, the operations of Konekesko's MAN business unit were transferred to VV-Auto Group Oy. MAN Truck & Bus Center became a part of VV-Autotalot Oy. MAN Truck & Bus Center has outlets in Espoo, Kouvola, Kuopio, Seinäjoki, Kokkola, Oulu and Rovaniemi. In the market areas of Turku and Pori as well as Tampere, VV-Auto Group's MAN dealer is Suvanto Trucks Oy. The existing MAN brand service network continues to be responsible for after-sales services.

K IN ACTION: VV-AUTO IS AN AMBITIOUS AND INNOVATIVE BRAND HOUSE

VV-Auto has 1.1 million customer relationships in Finland. Cooperation with one of the world's largest car groups ensures varied, global opportunities for development. The brands we represent include Audi, SEAT, Volkswagen, Volkswagen commercial vehicles and MAN. Top brands need top professionals.

Get to know one of our specialists and watch the video.

Competitive advantages in the car trade

- International brands and strong market position
- Versatile multi-channel services, expert staff
- Strong sales and after-sales service network, efficient logistics

Market

- In 2015, 108,812 passenger cars and 11,431 vans were registered for the first time in Finland. The passenger car market grew by 2.4% and the van market by 7.6% from the previous year.
- Volkswagen was the most registered brand in Finland in the registration statistics of both passenger cars and vans. The total number of registrations of vehicles imported by VV-Auto was 22,814.

Market shares

Car trade, Finland

- VV-Auto's market share 19.0% (Volkswagen, Audi and SEAT passenger cars, and Volkswagen commercial vehicles)
- Volkswagen passenger cars 11.9%
- Audi 5.0%
- SEAT 1.6%
- Volkswagen commercial vehicles 25.0%

Did you know?

- The new Audi A4 and the new Volkswagen Touran are the safest cars in their categories. The Euro NCAP consortium awarded both models with a maximum five star rating for adult and child passenger safety, pedestrian protection and innovative, safety-promoting systems assisting the driver.
- The SEAT Leon ST Cupra set a new record at the famous Nürburgring Nordschleife circuit with a time of 7:58.12. The lap time is the fastest of all time achieved by an estate.
- The new sixth-generation Volkswagen Transporter was voted the winner of the international Van of the Year 2016 competition. The jury consisted of journalists who specialise in commercial vehicles and represent 24 European countries.
- The SEAT Mii Ecofuel was named Eco Car of the Year 2015 in Finland, while the Volkswagen Caddy Maxi TGI reached the highest environmental and total scores. Volkswagen Group was the Eco Car Manufacturer of the Year in Finland, beating the other 11 car manufacturers both in terms of quantity and quality. This year, the Eco Car of the Year was selected for the first time by Technology for Life, a NGO that specialises in technology and the environment.

Strategic focus areas

Strategic objective	What we are doing
• We seek closer cooperation with Volkswagen Group	• Developing new service models together with Volkswagen Group
• Maintain the market leadership in the Finnish passenger car and van business	• Increasing the market share of Volkswagen passenger cars and commercial vehicles, Audi and SEAT
• An increase in our sales in the Baltic countries	• Increasing the market share of SEAT in the Baltic countries
• We develop our digital services	• Starting multi-channel sales and customer service

Car trade in figures

Retail sales and number of stores	Number 2015	Number 2014	Sales (VAT 0%), € million 2015	Sales (VAT 0%), € million 2014
VV-Auto, retail outlets	9	10	373	389
VV-Auto, imports			397	398
Car trade, total	**9**	**10**	**770**	**787**

Car trade, key figures		2015	2014
Net sales	€ million	748	766
Operating profit	€ million	26.1	28.9
Operating profit excl. non-recurring items	€ million	26.1	28.9
Operating profit excl. non-recurring items as % of net sales	%	3.5	3.8
Capital expenditure	€ million	16	13
Capital employed	€ million	104	96
Return on capital employed excl. non-recurring items	%	25.2	30.1
Personnel average		780	825

Properties		2015	2014
Owned properties, capital	€ million	60	57
Owned properties, area	1,000 m^2	47	47
Leased properties, lease liabilities	€ million	9	11
Leased properties, area	1,000 m^2	20	20

STORE SITES

The store site network is a strategic competitive factor for the K-Group. It provides opportunities for business operations to develop and sales and customer satisfaction to increase.

The store sites are divided into four categories: strategic properties, standard properties, realisation properties and development properties.

Strategic properties:
- Kesko prefers to own them
- In 2015, strategic properties accounted for 64% of all store sites
- They involve important business interests, such as large retail stores and properties that can be developed into large stores

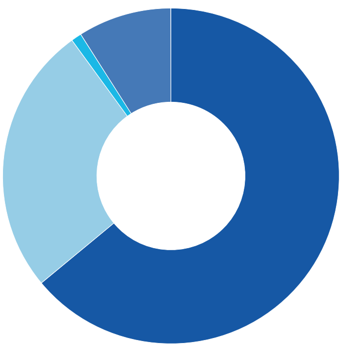
Standard properties:
- Kesko owns them but they can be sold and leased back
- In 2015, standard properties accounted for 26% of all store sites

Realisation properties:
- Premises for which Kesko has no further business use

Development properties:
- Sites and properties in need of further development for their intended use

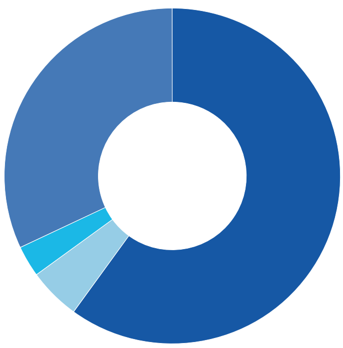
STORE SITES IN FIGURES

Breakdown of owned properties



- Strategic properties **64%**
- Standard properties **26%**
- Realisation properties **1%**
- Development properties **9%**

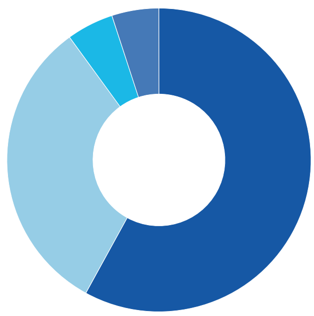
*Owned properties by region**



- Finland **60%**
- Other Nordic countries **5%**
- Baltic countries and Belarus **3%**
- Russia **32%**

** Book value*

*Owned properties by division**



- Grocery trade **58%**
- Home improvement and speciality goods trade **32%**
- Car trade **5%**
- Others **5%**

** Book value*

Capital expenditure

In 2015, Kesko's capital expenditure in store sites totalled €166.7 (142.7) million

In view of Kesko's growth, key capital expenditure comprises:

- Grocery trade properties in the key growth centres in Finland
- Accurately targeted capital expenditure in store sites in the grocery trade and building and home improvement trade in Russia

Kesko makes capital expenditure only in properties needed for its own or supporting business operations.

At the end of 2015, the most important store sites under construction were:

- The K-citymarket shopping centre in Itäkeskus, Helsinki
- K-citymarket in Sastamala, new K-supermarkets in Tampere, Niipperi and Niittykumpu in Espoo, Lappeenranta, Haapajärvi and Lauttasaari, Töölö and Kalasatama in Helsinki
- Two new food stores under construction in St. Petersburg in Russia
- K-rauta stores to Kokkola and Lahti, and a Senukai store to Vilnius

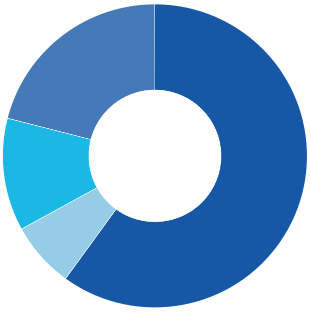
Kesko estimates that its capital expenditure excluding business acquisitions will total approximately €750 million in 2015–2017. In accordance with Kesko's strategy, capital expenditure in the K-supermarket and K-market chains will increase significantly in the next few years. A completely new store concept is being tested in the grocery retailing market.

Kesko's real estate arrangement

Kesko Corporation, AMF Pensionsförsäkring AB and Ilmarinen Mutual Pension Insurance Company set up a joint venture called Ankkurikadun Kiinteistöt Oy in June 2015. The joint venture owns, manages and develops store sites primarily used by Kesko Group.

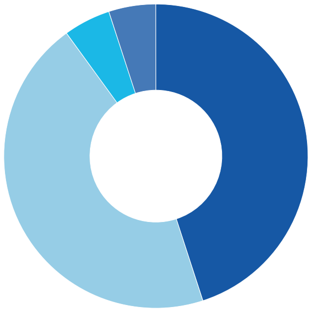
A total of 37 store sites were acquired by Ankkurikadun Kiinteistöt Oy over the course of 2015.

Owned store sites by region, m²



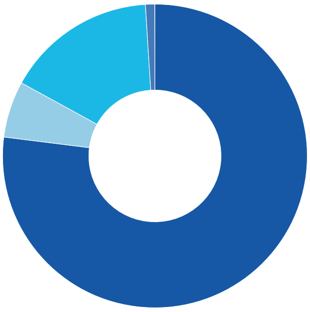
- Finland **60%**
- Other Nordic countries **7%**
- Baltic countries and Belarus **12%**
- Russia **21%**

Owned store sites by division, m²



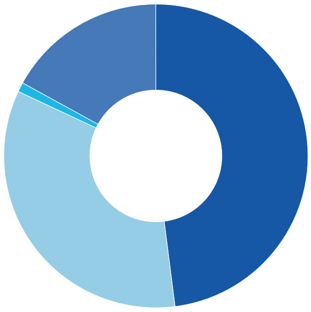
- Grocery trade **45%**
- Home improvement and speciality goods trade **45%**
- Car trade **5%**
- Others **5%**

Leased store sites by region, m²



- Finland **77%**
- Other Nordic countries **6%**
- Baltic countries and Belarus **16%**
- Russia **1%**

Leased store sites by division, m²



- Grocery trade **48%**
- Home improvement and speciality goods trade **34%**
- Car trade **1%**
- Others **17%**

Owned store sites and properties

Book value by region, € million	2015	2014
Finland	662	988
Other Nordic countries	51	82
Baltic countries and Belarus	33	43
Russia	361	317
Total	**1,107**	**1,430**

Area by region, 1,000 m^2	2015	2014
Finland	540	770
Other Nordic countries	66	117
Baltic countries and Belarus	109	113
Russia	191	164
Total	**906**	**1,164**

Book value by division, € million	2015	2014
Grocery trade	639	880
Home improvement and speciality goods trade	357	441
Car trade	60	57
Others	51	52
Total	**1,107**	**1,430**

Area by division, 1,000 m^2	2015	2014
Grocery trade	410	586
Home improvement and speciality goods trade	404	474
Car trade	47	47
Others	45	57
Total	**906**	**1,164**

Leased store sites and properties

Area by region, 1,000 m^2	2015	2014
Finland	2,274	2,328
Other Nordic countries	180	146
Baltic countries and Belarus	470	459
Russia	27	25
Total	**2,951**	**2,958**

Lease liabilities by region, € million	2015	2014
Finland	2,348	2,038
Other Nordic countries	48	42
Baltic countries and Belarus	185	175
Russia	13	20
Total	**2,594**	**2,276**

Lease liabilities, € million	2015	2014
No later than one year	347	343
Later than one year and no later than five years	1,139	1,065
Later than five years	1,108	868
Total	**2,594**	**2,276**

New services at store sites

When designing new grocery stores, the premises needed for online sales are taken into account from the very beginning. In the click and collect business model, a separate storage and packaging area is built in the store for products ordered online. There are parking slots reserved for online customers in the store yard and purchases are paid for at the car when collecting.

K-food stores have long experience in providing postal services and Posti already has service points at about 170 stores. DHL Express and the K-Group started cooperation with the purpose of setting up 250–300 DHL service points at the K-Group's food stores and building and home improvement stores across Finland.

Energy-efficient construction and property maintenance

When a new store site or shopping centre is being planned and built, the starting point is sustainable development and energy efficiency. In maintenance and repairs, the starting point is also lowering life-cycle costs.

Store site projects involve major capital expenditure, the implementation of which requires skilled people, a high-quality network of cooperation and common rules. Kesko has long experience and plenty of competence in the implementation of demanding store site projects.

In order to indicate the high level of requirements, international environmental classification to be carried out by an external assessor is applied for the most significant store site projects.

It is important to keep an eye on the development in the building and energy sector and anticipate changes. Technology is advancing all the time. The rapid development requires expertise to identify when it is the right time to reject the existing technology and move on.

Kesko is participating in the national energy efficiency agreement, in which we are committed to improving our energy consumption by 65 GWh by the end of 2016 through various actions. This amount corresponds to the annual consumption of some 3,200 one-family houses.

By the end of 2015, Kesko had improved its energy consumption by 64 GWh and achieved 97% of its objective.

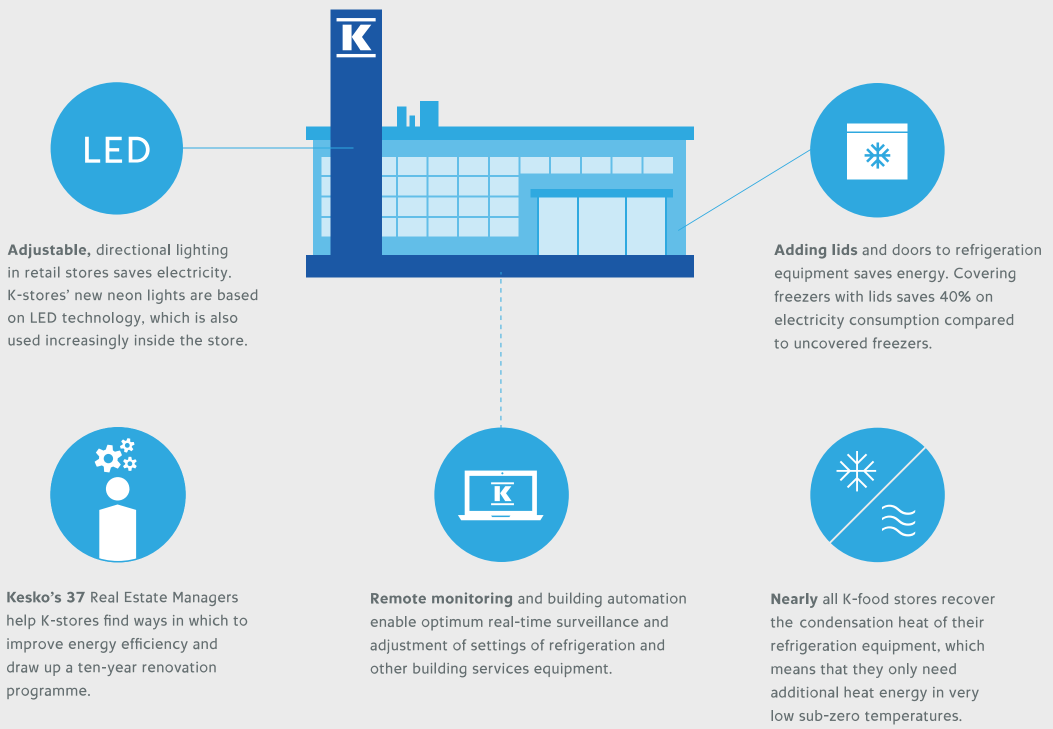
They include:

- Solutions that decrease the consumption of materials and energy during the life cycle of the property
- The lowest life-cycle costs in the trading sector
- Optimum conditions for customers, employees and products

Retail stores achieve significant energy savings with these energy efficient solutions:

- Lids and doors on refrigeration equipment
- Recovery of condensation heat
- Refrigeration equipment that uses carbon dioxide
- Adjustable and directional lighting
- LED technology in neon signs
- Increased use of LED lighting also inside the store

ENERGY SOLUTIONS IN K-STORES



K IN ACTION: K-MYLLYPURO – A COMPLETELY NEW KIND OF STORE

A completely new kind of K-food store was opened in Myllypuro, Helsinki in the autumn of 2015. K-Myllypuro does not belong to any of the current K-food store chains – instead, it is the K-Group’s test store.

In the test store, Kesko, in cooperation with the retailer entrepreneur, will boldly experiment with various food store concepts and models. The test store also takes customer-orientation to a completely new level – customers will decide how the store, its product selections and services develop in the future.

K-Myllypuro is an example of the implementation of the K-Group's strategy and an unprejudiced experimental culture. Agility means that ideas can be rapidly tested in practice. When a new concept is being built, key issues include adapting the store according to the wishes of local customers, which means that the store is being tailored to look how its customers want it to look and to constantly provide them with better service.

Influences were sought for the test store and the most recent retailing trends were gathered from home and across the world. Today, customers particularly appreciate convenient locations and selections of local foods, easy shopping and a wide choice of fresh products, which form the core of the test store.

DIFFERENT STORES FOR DIFFERENT CUSTOMER NEEDS

LOCAL, SERVICE-ORIENTED NEIGHBOURHOOD STORES, SUCH AS K-MARKET

- Total number of K-markets: 476
- Average total sales area: 380 m²
- Average number of products on sale: 5,000

MEDIUM SIZE STORES THAT COMBINE WIDE SELECTIONS AND GOOD SERVICE, SUCH AS K-SUPERMARKET

- Total number of K-supermarkets: 219
- Average total sales area: K-supermarket 1,250 m²
- Average number of products on sale: K-supermarket 10,000

LARGE RETAIL UNITS, SUCH AS K-CITYMARKET OR K-RAUTA

- Total number of K-citymarkets: 81
- Total number of K-rauta stores in Finland, Sweden, Estonia, Latvia and Russia: 93
- Average total sales area: K-citymarket 6,300 m², K-rauta 5,800–9,100 m²
- Average number of products on sale: K-citymarket groceries 18,000, K-rauta even 170,000

K IN ACTION: ITÄKESKUS IS BUILT TOGETHER

A social media mayor, a harvest party and an art wall painted by the young are some of the new ways of including local inhabitants in the construction of the new centre in eastern Helsinki.

Kesko is building a new urban centre in Itäkeskus, Helsinki. The key themes of the centre are food, social life, easy daily life, leisure and wellbeing.

The building project will take several years. The first part, which will house the new K-citymarket, will be completed at the end of 2017. It is estimated that the second part will be completed in 2019.

The new urban centre is being built in the middle of the compact urban structure. Efforts have been made to include local inhabitants in the project at the construction phase. The aim of this involvement is both to maintain interest in the project and create a strong bond between local inhabitants and the new centre even before it is opened.

The most important channel to reach the public is social media, where Anna, the social media mayor of Itäkeskus, comments on the building project with pictures and postings. The aim is to help information about the project spread easily and to keep the tone of the communications personal and friendly.

During the building project, we are also organising events related to the key themes of the new centre. In September, we held a harvest party where customers had the chance to try street food in the yard of the K-citymarket. Local young students of Helsinki Art School painted a food collage on the temporary inner wall of the current K-citymarket store.

Facts of the project

- The first phase of the project will comprise 20,000 m^2 of rental area, which will also house the new K-citymarket. The opening will be in 2017. The total rental area will be 50,000 m^2. The second part of the centre is expected to be completed in 2019.
- The capital expenditure of the first phase totals €100 million. Its employment impact is about 250 person-years over two years.
- When fully completed, the area will form the largest commercial cluster in Northern Europe together with the Itis shopping centre.

GRI REPORT

Kesko 2015


RESPONSIBILITY
MANAGEMENT

RESPONSIBILITY MANAGEMENT IN DAY-TO-DAY ACTIVITIES

Corporate responsibility work at Kesko is integrated into day-to-day activities.

Corporate responsibility work is based on Kesko's value, vision and mission. Corporate responsibility work is guided by Kesko's general corporate responsibility principles, the guide 'Our Responsible Working Principles' and Kesko's purchasing principles.

Kesko's responsibility path

VALUE

The customer and quality – in everything we do

VISION

We are the customer's choice and the quality leader in the European trading sector

MISSION

We create welfare responsibly for all our stakeholders and the whole society

General operating principles guiding responsibility

Kesko's Group Management Board has approved the Group's general principles of corporate responsibility. These principles define the basic economic, social and environmental responsibility promises.

Kesko's commitments to international declarations and conventions are also included in the principles. The most important principles are:

- The UN Universal Declaration of Human Rights and the UN Convention of the Rights of the Child
- The ILO convention on the Fundamental Rights and Principles at Work
- The OECD Guidelines for Multinational Corporations
- The ICC Business Charter for Sustainable Development and principles against corruption and bribery
- The UN Global Compact initiative
- The purchasing principles of the Business Social Compliance Initiative (BSCI)

Kesko has taken account of the ISO 26000 standard as a source document offering guidelines for corporate responsibility.

Kesko uses the GRI (Global Reporting Initiative) G4 guidelines and the IIRC (International Integrated Reporting Council) <IR> Framework as its reporting principles.

WE SUPPORT

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

Corporate responsibility organisation in Kesko

Corporate responsibility at Kesko is integrated into day-to-day activities. The management of each business division is responsible for practical implementation. Kesko's Board of Directors and Group Management Board discuss reporting and key principles. The Group's Corporate Responsibility Unit, assisted by steering groups, is responsible for development, coordination and reporting. The corporate responsibility function is managed by the Senior Vice President responsible for corporate responsibility, communications and stakeholder relations, as well as brand and marketing management and development, who is a member of Kesko's Group Management Board.

Corporate responsibility advisory board

the Vice President for corporate responsibility (Ch.), division representatives, Group representatives

- develops the principles that guide the Group's corporate responsibility
- steers and coordinates practical measures
- sets the objectives for corporate responsibility work and monitors and, as necessary, supports their achievement

Environmental steering group

the Group's Corporate Responsibility Unit (Ch.), divisions' specialist representatives

- develops the Group's environmental management
- promotes the sharing of best practices within the Group
- keeps up with changes in legislation pertaining to environmental responsibility

Steering group for responsible purchasing

the Group's Corporate Responsibility Unit (Ch.), divisions' specialist representatives

- develops the Group's responsible purchasing procedures
- promotes the sharing of best purchasing practices within the Group
- keeps up with changes in legislation pertaining to purchasing and sourcing

Steering group for local responsibility in operating countries

the Vice President for corporate responsibility (Ch.), representatives of local subsidiaries in operating countries (other than Finland)

- steers the implementation of the responsibility programme in the other operating countries
- develops local additions to the responsibility programme
- promotes the sharing of best practices within the Group

Division-specific responsibility steering groups

are, based on the objectives set by the Group-level steering groups, responsible for:

- determining their own responsibility objectives
- implementing them in accordance with the specific characteristics and strategies of their respective divisions

HR management board

the Senior Vice President for HR (Ch.), divisions' representatives, Group representatives

- prepares the Group's HR strategy and common HR policy definitions
- sets the common objectives for the HR function and guides and coordinates the achievement of the objectives of HR operations and practical implementations
- guides the development of HR processes and services and monitors the quality and efficiency of HR processes and services

CORPORATE RESPONSIBILITY STEERING IN KESKO

RESPONSIBILITY PROGRAMME

In 2015, the greatest advances in the responsibility programme included creating the ‘Thank the Producer’ operating model, achieving good progress in the objective of the energy efficiency agreement, continuing the assessment of human rights, assessing the origin of the ingredients of own brand products, initiating cooperation with Gasum on biogas, and publishing online corporate responsibility training.

RESPONSIBLE OPERATOR

Kesko’s operations have an impact on the whole of society. Our responsible working principles guide all our operations.

FOR THE BENEFIT OF THE COMMUNITY

A local approach and K-retailers are the competitive advantages of the K-Group. Together with their partners, Kesko and K-stores are building a better society.

WORKING COMMUNITY

Kesko and K-stores offer varied career and development opportunities in different trading sector jobs. We want to be the most attractive workplace in the trading sector.

RESPONSIBLE PURCHASING AND SALES

Customers must be able to rely on the fact that the products offered by stores are well-researched, safe and sustainably produced.

WELLBEING FOR CUSTOMERS

Kesko and K-stores want to make customers' lives easier, providing them with services that promote health and wellbeing and guide them on the proper use of products.

MITIGATION OF CLIMATE CHANGE

Kesko's operations contribute to mitigating climate change and promote the sustainable use of natural resources.

Responsible operator

We are committed to responsible working principles. Together, we generate economic value added.

**We are committed to responsible working principles.
Together, we generate economic value added.**

- Responsible working principles guide all of our operations
- We follow good corporate governance principles
- We improve financial profitability together
- We develop the multi-channel approach in our store network while listening to customers' expectations

Objective	Progress
All of our personnel act in compliance with our responsible working principles.	**On plan** The guidelines are a material part of the induction of new employees and they will be updated in 2016. From the beginning of 2015, all of Kesko's Russian business companies have had their own anti-corruption policies.

Target	Status
We organise regular training on our responsible working principles.	**On plan** The online training on responsibility, which was published in 2015 and directed to all Kesko employees, describes Our Responsible Working Principles. By the end of 2015, a total of 6,088 employees had completed the training. As part of the ongoing responsibility training, a training event on responsible working principles was organised for the key employees of Kesko's company in Belarus in 2015. On Keskonet, Kesko's intranet, there is a permanent banner on the front page to remind Kesko employees of the guidelines.
Kesko's target for return on capital employed is 14% and the target for return on equity is 12%.	**On plan** In 2015, the return on capital employed excl. non-recurring items was 11.7% and the return on equity excl. non-recurring items was 8.2%.
We offer e-commerce services in all divisions. Comprehensive store-specific product information, prices and availability will be provided online by the end of 2016.	**Started** All K-rauta and Rautia stores in Finland and all K-rauta stores in Sweden, Estonia and Latvia have click and collect online stores. Food stores' click and collect services were expanded across Finland. The K-ruoka mobile application, which provides personal benefits, store-specific offers and a smart shopping list, was published in October. The Sotka online store opened in January 2015 and the Asko online store will open in 2016.

For the benefit of the community

We build a better society together

We build a better society together

- We establish partnerships and contribute to the development of local communities
- We develop our operations in interaction with customers
- Our employees act responsibly in their daily operations

Objective	Progress
We are an attractive partner and a responsible neighbour.	**On plan** K-food stores, K-citymarket Oy (home and speciality goods), K-rauta stores and Rautia stores participated in the Blue and White Footprint campaign. Local Food Dates, which bring local producers and K-retailers together, were organised in six locations. In 2015, Kesko launched the 'Thank the Producer' operating model to highlight the position of producers and increase the appreciation of Finnish production. Kesko participated in the Red Nose Day campaign, the Good Christmas Spirit collection and the Salvation Army's Christmas Kettle collection. K-food stores participated in an international vaccine campaign run by UNICEF and Pampers. Customers returning bottles to K-food stores can enter a raffle. The proceeds are donated to the Eväitä Elämälle aid programme by Save the Children. The Finnish Basketball Association and K-food stores cooperated to organise basketball events for over 10,000 children across Finland.

We include our customers and our personnel in our corporate responsibility work.	On plan
	In 2015, an online course on corporate responsibility intended for all Kesko employees was published in Finnish and English. By the end of 2015, a total of 6,088 employees had completed the training. The Russian-language version will be published in spring 2016. Online courses on responsible purchasing and the responsibility concept have been prepared for Kesko employees and store staff in the grocery, building and home improvement and agricultural trades in Finnish and English. An audit related to the K-responsibility concept was carried out at 44 building and home improvement stores in 2015. Other operating countries prepared their own responsibility objectives to support Kesko's responsibility programme in 2015. Customer expectations are regularly reviewed by conducting various surveys and studies. In autumn 2015, as part of Kesko's human rights assessment, we listened to our stakeholders' views on matters such as how they feel about human rights in customer situations. Kesko and its chains engage in an active dialogue with customers on social media.

We help customers in efficient shopping; online stores, SmartPost, in-store collection.	**On plan** Digital services are developed in all of the divisions. All K-rauta and Rautia stores in Finland and all K-rauta stores in Sweden, Estonia and Latvia run a click and collect online store. Click and collect services by food stores were expanded across Finland. In October, we launched the K-food mobile application, which provides personal benefits, store-specific offers, and a smart shopping list. The Sotka online store opened in January 2015 and the Asko online store will open in 2016. Starbucks, Posti and DHL expanded their services to K-food stores in 2015. DHL Express and the K-Group started cooperation with the purpose of setting up 250–300 DHL service points at the K-Group's food stores and building and home improvement stores across Finland. A total of 137 K-stores have automated SmartPost terminals.
We expand the contract seed production programme trainings; the objective is to train 100% of contract farmers within three years.	**On plan** By the end of 2015, 90% of the seed contract farmers had been trained.
We develop the organic farming programme into a concept.	**On plan** The K-maatalous Experimental Farm cooperates with Nylands Svenska Lantbrukssällskapet in the area of organic varieties. Guidance material has been produced for organic farming, containing information about the chain's offer and varieties available.

Working community

We perform and offer high-quality work

We perform and offer high-quality work

- We have satisfied employees and competent supervisors
- We offer meaningful and diverse jobs and development opportunities
- We are the most attractive workplace in the trading sector
- We offer a safe and healthy working environment

Objective	Progress
We are the best employer in the trading sector in terms of job satisfaction.	**Behind plan** In 2015, the K-Group launched the K-job programme, the purpose of which was to provide those aged under 30 with channels to get a job and grow to become a trading sector professional in Kesko and K-stores. In 2015, we focused on guiding young people in 'Learn and Earn' summer jobs, in short-term work orientation, and summer employees. We invited young people in their first summer jobs across the K-Group to share their experiences and, based on their wishes and feedback, revised our guidelines for both supervisors and summer employees. In the personnel survey carried out at the beginning of 2016, the employee engagement index was 61%. In the Universum Young Professionals 2015 survey, Kesko's ranking was 31.
We conduct a performance and development review annually with every employee.	**On plan** In the personnel survey carried out at the beginning of 2016, 80% of respondents said that they have had a performance and development review during the past 12 months. The response rate of the survey was 85%.

We train our supervisors on a regular basis.	**On plan** In 2015, a wide range of measures were taken to develop supervisors' competence. The emphasis was on the implementation of the K-Group's operating principles, challenging situations faced by supervisors and how to use the personnel survey results to develop the team. The first training programme promoting the K-Group's new management culture, entitled 'K-Way new supervisors', was piloted towards the end of the year. Supervisory training for Kesko people was taken a total of nearly 700 times. Online training modules for supervisors were completed about 3,700 times.
We reduce sickness absences and premature retirement due to disability.	**On plan** Kesko has focused on reducing the number of sickness absences and premature retirements due to disability by means of occupational health service activities, the Let's Talk About Work training for supervisors (more than 1,000 supervisors have been trained during the past five years), work revision, occupational rehabilitation, and the work done by the Work Ability Manager working in the OHS team. The Work Ability Manager's activities support the employee's return to work, while considering various options of how to continue at work. Sickness absences have continued to decrease.

Responsible purchasing and sales

We purchase and sell responsibly and support customers in making sustainable choices

We purchase and sell responsibly and support customers in making sustainable choices

- We provide customers with information and support for responsible buying decisions
- We make responsible actions visible and easy for customers
- We develop our product selections while listening to customers
- We ensure responsibility in the supply chain
- We are accountable for the safety and quality of products

Objective	Progress
We identify the whole of our supply chain and actively promote the social responsibility audits of our suppliers in high-risk countries.	**On plan** In 2015, 107 full audits and 80 re-audits were conducted in suppliers' factories and farms. In 2015, Kesko's suppliers in high-risk countries had 200 factories or farms within the scope of the BSCI process. An assessment of the origin of the ingredients in own brand groceries was carried out over the course of 2015. In the future, an ingredient survey will be carried out whenever a new product is introduced into the selections. Kesko and Plan International Finland, an organisation promoting children's rights, continue their cooperation to improve the responsibility of the Thai fish industry and the position of migrant workers. An agreement on cooperation has been made for 2015—2018. Kesko continued the assessment of human rights impacts in 2015. Kesko published the list of the factories in high-risk countries manufacturing the clothing, accessories, shoes and bags for its own brands or for its own imports on its website in spring 2015.
We add indication of origin to our own brand products.	**On plan** Origins are indicated on our own brand products. In 2014—2015, a major project to change the package labelling of own brand products was carried out in Kesko's grocery trade based on the EU food information regulation.
We offer a wide selection of Pirkka responsible products; 500 Pirkka products meeting a responsibility criterion and 200 Pirkka organic products by 2015.	**Behind plan** In 2015, the Pirkka range included 40 Fairtrade products, 134 Organic products, 41 MSC certified fishes, 17 UTZ certified products.

Target	Status
By 2020, all palm oil in Pirkka products will be responsibly produced (CSPO).	**Behind plan** At the end of 2015, about 20% of the palm oil in Kesko's grocery trade’s and Kespro's products was certified sustainable palm oil.
Social responsibility of the production of Kesko’s grocery trade's own direct imports from high-risk countries is 100% assured by 2015.	**Achieved** At the end of 2015, 100% of such imports were assured. The assessment of the origin of the ingredients in own brand groceries was carried out in 2015. In the future, an ingredient survey will be carried out whenever a new product is introduced into the selections.

Wellbeing for customers

We offer services which promote customers' wellbeing

We offer services which promote customers' wellbeing

- We make life easier for our customers
- We offer healthy products and services which promote wellbeing
- We increase our offer of e-services
- We provide advice to customers in using products

Objective	Progress
Every building and home improvement store has at least one trained Energy Expert or Energy Master and a service cooperation network.	**On plan** Energy Expert service products are part of the chain selection of K-rauta and Rautia stores. Expertise available at retail stores was reinforced by product training in 2015.

All K-food stores will have adopted the K-responsibility concept by 2014.	**Achieved** All K-food stores have adopted the K-responsibility concept. The K-responsibility concept has also been adopted by K-rauta and Rautia stores, and they are audited according to the K-responsibility store criteria. The concept was adopted by K-maatalous stores in autumn 2015 and the audits will start in autumn 2016.
The theme 'Let's do good. Together.' is visible in stores and marketing.	**On plan** The theme 'Let's do good. Together.' is a material part of the communications and marketing of K-food stores and the building and home improvement and agricultural stores.
We train and advise our machinery trade customers in the correct, safe and economical use of machines and devices and in prolonging the service lives of machinery.	**On plan** Customers in the agricultural machinery trade are trained in the use of the machinery they have bought, such as combine harvesters, precision choppers and large tractors.

Mitigation of climate change

We jointly mitigate climate change and promote the sustainable use of natural resources

We jointly mitigate climate change and promote the sustainable use of natural resources

- We reduce our environmental impacts in cooperation with the whole supply chain
- We promote the development towards a low carbon society
- We help our customers reduce their environmental impacts

Objective

We increase cooperation with the supply chain in order to promote the sustainable use of natural resources and the development towards a low carbon society.

Progress

On plan

Kesko participates in the Foreign Trade Association's (FTA) Business Environmental Performance Initiative (BEPI). BEPI helps member companies to manage the environmental issues of global supply chains.

New services provided for customers include charging points for electric and hybrid cars which were built which we started to build on major retail sites in 2015.

We recover the waste generated in our operations to achieve zero landfill waste.	**On plan** In 2015, the waste recovery rate in the grocery trade was 99%, in the home and speciality goods trade 99.4% and in the car trade 99.9%. The waste recovery rate of retail stores in the sphere of the waste management agreement in Southern Finland was around 98%.
We reduce food wastage by 10% by 2020.	**On plan** K-food stores reduce food wastage with the help of electronic forecasting and order systems, efficient logistics, employee training, reducing prices of products approaching their best before dates and optimising packaging properties. Many K-food stores also donate food to charity. In the autumn of 2015, Kesko's grocery trade, Gasum, Myllyn Paras and Wursti started cooperating to enable biogas produced from inedible organic waste to be collected from retail stores and used as energy in the manufacture of new Pirkka products.
We improve our annual energy efficiency by 65 GWh by 2016.	**On plan** By the end of 2015, Kesko had improved its energy consumption by 64 GWh and achieved 97% of its objective.

We reduce the relative carbon dioxide emissions from Keslog's transportation by 10% by 2020.	**On plan** Emissions are reduced by route planning, reverse logistics, two-tier trailers and training in economical driving styles. In March 2015, Keslog started to pilot an extra long Ecotruck on the main logistics route between Vantaa and Oulu.

Other operating countries

OTHER OPERATING COUNTRIES' OWN RESPONSIBILITY OBJECTIVES

In January 2015, we set up a steering group for local responsibility in operating countries to promote responsibility work there. The first duties of the steering group included drawing up such objectives for each of our companies in other operating countries that complement our joint responsibility programme and take local circumstances into account. The first steps of these companies in achieving these objectives are presented below.

K-RAUTA RUSSIA

Objective	Progress
Working community: We perform and offer high-quality work • Our employees are committed to Group strategy, sales targets and the development of customer satisfaction	**On plan** In 2015, strategy workshops were organised for personnel. Customer service training was provided for store employees. The 'We care' community project functioned actively.
For the benefit of the community: We build a better society together • Society values the responsibility work done by K-rauta Russia • Our employees are committed to the responsibility objectives of K-rauta Russia	**On plan** In 2015, K-rauta Russia participated in the Handyman charity project and the joint project with supplier Saint Gobain. Both of the projects were set up to support children's homes. In May and June 2015, K-rauta Russia organised a recycling campaign for plastic flowerpots in its stores. A total of 20,652 pots were collected for recycling.

K-RAUTA ESTONIA AND LATVIA

Objective	Progress
Working community: We perform and offer high-quality work • Competent employees • Training of employees	**Started** Training projects of employees have been discontinued for the present in anticipation of the Senukai arrangement.
Mitigation of climate change: We jointly mitigate climate change and promote the sustainable use of natural resources • We improve the efficiency of transportation • We enhance data management in logistics	**On plan** The efficiency of customer deliveries and related data management is being improved. Logistics route plans and stock management are being optimised.

K-RAUTA SWEDEN

Objective	Progress
Working community: We perform and offer high-quality work • Responsibility induction and online training	**Started** Responsibility induction discussions will be organised with all employees over the course of 2016. Online responsibility training will be built in 2016.
Mitigation of climate change: We jointly mitigate climate change and promote the sustainable use of natural resources • We increase the recycling of materials in stores • We reduce energy consumption in stores	**On plan** In 2015, the recycling rate of materials was 46% (42% in 2014). Energy consumption decreased by 8% in 2015 (15,463 MWh in 2015 compared with 16,778 MWh in 2014). The total reduction in 2013–2015 was 15%.

KONEKESKO LITHUANIA

Objective	Progress
Working community: We perform and offer high-quality work • We organise corporate responsibility training for all employees	**On plan** Online responsibility training has started. Corporate responsibility issues have been included in employee performance assessments. Responsibility communications to employees will be enhanced.
For the benefit of the community: We build a better society together • We participate in organisational activities • We provide students with training opportunities • We participate in charity projects	**On plan** Konekesko, Lithuania is a member of the following organisations: • Lietuvos atsakingo verslo asociacija LAVA, a responsibility organisation of Lithuanian companies • Baltic Institute of Corporate Governance BICG In 2015, training jobs were offered to six students. In 2015, support was given to local youth sports clubs.

KONEKESKO LATVIA

Objective	Progress
Working community: We perform and offer high-quality work • We improve the flow of information between management and employees • We take care of the balance between work and private life 	**On plan** Representatives of employees participate in the meetings of the management board four times a year. Responsibility communications have been enhanced. Monitoring of overtime and unused holiday has been enhanced. Deviations have been taken up.
Responsible purchasing and sales: We purchase and sell responsibly and support customers in making sustainable choices • We develop maintenance services • We develop online services 	**Started** Telephone service of maintenance was introduced in 2015. The system will be developed in 2016. In 2015, online services related on price-lists were developed. In 2016, the work will continue with the development of online services related to technical specifications of machinery and appliances.

KONEKESKO ESTONIA

Objective	Progress
Working community: We perform and offer high-quality work • We focus on performance and development reviews • We organise online responsibility training for supervisors 	**On plan** In 2015, the focus was on performance and development reviews with employees. The objectives set were achieved. Online responsibility training for supervisors started in 2015. The personnel survey's objectives measuring supervisory work were met.
Responsible purchasing and sales: We purchase and sell responsibly and support customers in making sustainable choices • We give our customers guidance on the properties and technical solutions of machinery and equipment 	**On plan** In 2015, the focus was on customer guidance and customer events. The customer satisfaction index exceeded the target (4.1, while the target was 4.0).

K-RUOKA RUSSIA

Objective	Progress
Responsible purchasing and sales: We purchase and sell responsibly and support customers in making sustainable choices • We focus on the quality, freshness and safety of the products	**On plan** Product safety, suppliers' quality control ability and the hygiene and quality level of the stores were monitored according to the own control plan.
Wellbeing for customers: We offer services which promote customers' wellbeing • We take all customer groups into account when making decisions on selections • We promote the offering of healthy foods	**On plan** In 2015, the emphasis was on the selections of fresh fruit and vegetables. The selections of organic, vegetarian and special diet foods were improved. More local foods were offered for consumers. Waste recycling was enhanced.

INDOOR ESTONIA

Objective	Progress
Mitigation of climate change: We jointly mitigate climate change and promote the sustainable use of natural resources • We reduce the amount of landfill waste • We improve segregation and recycling	**Started** The project to develop waste segregation was launched in January 2016.
Responsible purchasing and sales: We purchase and sell responsibly and support customers in making sustainable choices • We harmonise our pricing • We avoid campaigns of excessive length	**Started** The system development project was launched in 2015.

Byggmakker, Norway will work on its objectives over the course of 2016.

RESPONSIBILITY MONITORING AND STEERING

Responsible operator

Management approach	**We are committed to responsible working principles and we together generate economic value added**
Material aspects	• Economic performance • Indirect economic impacts • Anti-corruption • Public policy • Anti-competitive behaviour • Compliance • Grievance mechanisms for impacts on society • Customer privacy
We generate economic value added	At Kesko, economic responsibility refers to the good management of finances, the efficient use of resources, as well as generating stable, long-term economic benefits to the various stakeholders. Kesko's operations generate economic benefits for shareholders, personnel, retailers, suppliers of goods and services and their employees, customers, as well as municipalities and states.
Responsible working principles (Code of Conduct) and reputation management	Different aspects of responsibility, such as ethicality of production and sourcing, fair and equal treatment of employees and environmental protection are increasingly important for customers. Kesko's attitude to bribery and other malpractice is absolutely uncompromising. Responsible working principles are essential for building trust between Kesko, K-stores, our customers and our partners.
Public policy	Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to social development and legislative work. Kesko does not donate funds to political parties.
Customer privacy	Customers' personal data are, for instance, processed in various personal data registers and online stores' customer registers that are collected for the implementation of marketing activities. K-Plus Oy, a Kesko subsidiary, manages and maintains the K-Plussa customer loyalty system, operated by K-chains and K-Plussa partners. Using the information received from the K-Plussa customer loyalty system we can develop and tailor our operations to better suit our customers' needs. Taking care of our customers' privacy is of utmost importance to us.
Objectives	The objectives have been recorded in the responsibility programme.

Policies, working principles and commitments

Accounting policies	Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union.

Corporate Governance principles	Kesko's decision-making and corporate governance are guided by Kesko's values and responsible working principles. 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 and its Committees and the rules and guidelines of NASDAQ OMX Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for Listed Companies that entered into force on 1 October 2010.
Risk management principles	The risk management policy confirmed by the Board of Directors guides risk management in Kesko.
Good trading practices	Kesko's grocery trade and Kespro are committed to good trading practices.
Our responsible working principles	The 'Our responsible working principles' guidelines (Code of Conduct) bind all Kesko employees in all operating countries to act in accordance with shared values and responsible working principles.
Data protection policy	The data protection policy defines how Kesko Group strives for compliance with the law in the processing of personal data and a high level of data protection in all of its operations and operating countries.

Monitoring and control systems; programmes, projects and initiatives

Financial reporting and planning	Kesko's financial reporting and planning are based on Kesko Group's management system. The Group's financial development and achievement of financial objectives are monitored by financial reporting covering the entire Group.
Compliance	Kesko runs compliance programmes to ensure that Kesko employees are familiar with the key laws relating to operations and act in compliance with them. For Kesko, knowledge of and compliance with competition laws is of primary importance. Kesko has a competition law compliance programme, composed of training sessions and an e-learning component available to all Kesko employees. Those whose work is largely related to competition laws are separately obligated to complete the training. The Group Legal Affairs Unit supervises the completion of the training.
Prevention of malpractice	Kesko's Internal Audit pays special attention to the efficiency of controls that prevent malpractice and financial losses. Measures preventing malpractice have included more effective communications, training and guidelines as well as tightened controls. Kesko's Risk Management, Legal Affairs and Internal Audit have organised value discussions in Kesko subsidiaries with the focus anti-bribery work. Through Kesko's intranet, employees in all operating countries, except for Belarus, can give feedback and ask questions concerning operations not only in their own units but also directly to top management. Feedback can be given openly or anonymously. Through the intranet or by e-mail at IA@kesko.fi, employees can also contact Kesko's Internal Audit in confidence. A new channel for reporting suspected malpractice was taken in use in Kesko's Russian subsidiaries. The channel for suspected malpractice is a Russian-language channel through which the partners and employees of Kesko's Russian subsidiaries can report in confidence any suspicions of malpractice in Kesko's Russian subsidiaries.
Risk management	Kesko has a uniform risk assessment and reporting system. 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 the impacts and probability of their materialisation and the level of risk management, taking into account that not all risks can be managed or are

	worth managing. When assessing the impact of materialisation, the impacts on reputation, people's wellbeing and the environment, among other things, are considered in addition to impact in terms of euro. Risk management measures are assigned persons in charge who are responsible for planning, implementing and monitoring the measures. The measures defined are added in action plans and monitoring systems. Kesko's Internal Audit annually assesses the functioning and efficiency of Kesko's risk management system. At the beginning of 2015, Kesko's risk management function took part in an international peer assessment concerning the level of risk management. The results are used to further develop Kesko's risk management.
Privacy protection	Personal data collected for various purposes on the grounds defined in the Finnish Personal Data Act form separate person registers. For example, the customer information of K-Plussa cardholders forms a customer database that is used, with the customer's permission, for managing customer relationships, for customer contacts and marketing purposes of the companies that have joined the K-Plussa system. K-Plussa customers can prohibit the connection of product or product group level information to their identified customer relationship. In compliance with the Personal Data Act, K-Plus Oy's file description is available in Finnish at www.plussa.com. Data controllers ensure that customer information is only used for the purposes specified in the file description. Information on individual customers is secured by issuing instructions to personnel and by using technical systems. Customer data is only disclosed to third parties if required by law. In 2014, Kesko started a data protection programme which consists of training events and an e-learning session. The implementation of the programme is overseen by the Privacy Officer who works under the supervision of the Legal Affairs Unit.
Responsibilities and resources	• Keskos Corporate Governance structure is presented at Kesko's Corporate Governance • Group Legal Affairs Unit • Internal Audit Unit and Risk Management and Strategy Process Unit • K-Plus Oy
Management approach assessment	The management approach is assessed continuously as part of operations. Changes in the operating environment and in Kesko are taken into account by adjusting objectives, operating principles, monitoring systems and resources. Kesko Group's Internal Audit monitors and secures the functioning and efficiency of management, supervision, risk management and corporate governance in Kesko Group.

For the benefit of the community

Management approach	**We build a better society together**
Material aspects	• Purchase practices
A local approach has an effect on the entire society	Retail trade plays an important role in a local community. It serves and employs local people. In addition to its direct employment impact, the retail trade is also a significant indirect employer through its suppliers and business partners. Retailers, supported by Kesko's district organisations, represent local activities. The K-retailer entrepreneur is responsible for his or her store's staff and customer satisfaction. Listening to the wishes of local customers and making use of customer data, K-retailers build a selection of products and services that meet customer needs. We develop our business in interaction with our customers. Kesko purchases the majority of the products it sells from Finland and encourages K-retailers to include locally produced products in their selections. The impact of Finnish products on employment is significant. For example, Pirkka products are produced in nearly 170 companies all over Finland.
Objectives	The objectives have been recorded in the responsibility programme.

Policies, operating principles and commitments

Good trading practices	Kesko's grocery trade and Kespro are committed to good trading practices of the food chain.
Our responsible working principles	Kesko requires that its suppliers and other partners act in compliance with Kesko's values and responsible operating principles. A responsibility clause has been incorporated in all significant new agreements since the beginning of 2013.
Chain business model	The principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's retail chains. In Finland, all food stores, building and home improvement stores and agricultural stores in the K-Group are run by K-retailer entrepreneurs. In the retailer model, through its chain operations Kesko provides a first-class setting for its retailer entrepreneurs to provide the best possible service to their customers. The K-retailer entrepreneur implements the chain concept and is responsible for store management, customer satisfaction, personnel and business profitability.
Stakeholder interaction	In Kesko's operations, social impact on local communities is estimated as part of the development of the store network. The establishment of a new store or the expansion or change of an existing store involves various statutory reports – both at the planning and building permit stages – and hearings of local inhabitants and operators, depending on the extent of the project. Reports take a stand on the impact of the project on the community structure, traffic and employment, among other things.

Monitoring and control systems; programmes, projects and initiatives	
The Blue and White Footprint campaign	K-food stores, K-citymarket Oy (home and speciality goods), K-rauta stores and Rautia stores participated in the Blue and White Footprint campaign of the Association for Finnish Work in 2015. The campaign aimed to increase the sales of Finnish products and consciousness of the positive impacts of buying Finnish work.
Responsibilities and resources	• K-retailers and K-Retailers' Association • Kesko's district organisation • Steering group for responsible purchasing and Kesko's buyers • Division Management Boards
Management approach assessment	The management approach is assessed continuously as part of operations. Changes in the operating environment and in Kesko are taken into account by adjusting objectives, operating principles, monitoring systems and resources.

Working community

Management approach	**We perform and offer high-quality work**
Material aspects	• Employment • Labour/management relations • Occupational health and safety • Training • Diversity and equal opportunity • Equal remuneration • Labour practices grievance mechanisms
Employment and labour/ management relations	We want to be the most attractive workplace in the trading sector, with satisfied employees and competent supervisors. The K-Group offers varied career and personal development opportunities in varied jobs of the trading sector. In restructuring situations, Kesko complies with the local legislation in all of its operating countries. Read more about minimum notification periods in restructuring situations in the GRI report.
Health and safety at work	Kesko and K-stores are responsible for providing employees a safe working environment and appropriate training and guiding for their work.
Development of personnel	Systematic, business-driven development of personnel and management is critical for future success. The major change in the trading sector and the growth of electronic transactions have created the need for new competencies. Other core areas of competence development have included: • sales and service competence • product line specific competitive advantage projects • safety and responsibility • leadership and management.
Diversity and equal opportunity	A pluralist organisation that promotes diversity guarantees equal opportunities, rights and treatment to all. Equality, justice and non-discrimination are important principles which are observed at Kesko throughout the employment relationship. The most suitable person with the most development potential is selected for the job, and applicants are judged according to their competence, skills and accomplishments.
Remuneration	The objective of remuneration in Kesko is to encourage employees to exceed the objectives given and to motivate them to do long-term work in order to meet the goals of Kesko Group and its subsidiaries. Remuneration is fair and is based on principles that are commonly known.
Labour practices grievance mechanisms	Employees can ask questions and give feedback or development proposals on issues related to the operations of Kesko or its subsidiaries anonymously via the Direct Line available on the Keskonet intranet. Answers are published for all to see on Keskonet.
Objectives	The objectives have been recorded in the responsibility programme.

Policies, working principles and commitments	
HR policy	Kesko's HR management is based on Kesko's values and responsible operating practices, which are described in the guide 'Our Responsible Working Principles'. Kesko's HR policy defines key operating principles in the various areas of HR management. The HR strategy defines HR management objectives, critical success factors and key development initiatives.
Diversity commitment	Kesko is a member of Diversity Charter Finland. The operations of Diversity Charter Finland are based on a charter that is signed by all members.

Monitoring and control systems; programmes, projects and initiatives	
Wellbeing at work programme	In the development of wellbeing at work, the objective is to increase job satisfaction and motivation, reduce sickness absence, increase the retirement age and decrease premature pensions, and enhance the employer image. In 2015–2018, the wellbeing at work programme focuses on: • Supporting employees' health and reducing sickness absence • Developing safety at work and strengthening the role of labour protection • Promoting employee engagement, implementing the people principles
Labour protection programme	The personnel's ability to work is protected by creating a safe and supportive working environment. The goal of labour protection is to secure and maintain employees' ability to work and to prevent and avoid occupational injuries, occupational diseases and other physical and mental health hazards arising from work or the working environment.
Employment of disabled people and people with partial work capacity	In 2012, the K-Retailers' Association launched a project called 'Many kinds of performers' in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent model was created to provide work for those with intellectual disabilities. Most of the intellectually disabled who were employed during the project still work at the K-Group. In the Greater Helsinki area, Kesko's Occupational Health Service directs employees to AMI rehabilitation, which promotes mental health. The partial daily allowance can help employees return to work after a sick leave. The support provided by pension insurance companies for occupational rehabilitation has been used to promote return to work.
Youth Guarantee in the K-Group programme	In 2013, Kesko and the K-Retailers' Association launched the Youth Guarantee in the K-Group programme, the aim of which was to offer a job, a work trial or an apprenticeship in the K-Group to 1,000 young people aged under 30 and at risk of social exclusion by the end of 2014. The target group also included young immigrants and young people with disabilities. By the end of 2015, more than 2,500 young people had found employment in the form of a work trial, through wage support and apprenticeship training. Employment of young people and special groups continues as a permanent model. The K-Retailers' Association has a Youth Guarantee coordinator who gives advice to K-retailers and Kesko's supervisors on issues related to the employment and training of young people and special groups, while also acting as a contact person to the authorities and organisations.
Responsibilities and resources	• HR Management Board • Kesko HR • HR Service Centres

	• Each supervisor is responsible for labour protection in his/her area as it is part of the line organisation's normal management and supervisory work.
Management approach assessment	The management approach is assessed continuously as part of operations. Changes in the operating environment and in Kesko are taken into account by adjusting goals, operating principles, monitoring systems and resources. The personnel survey is implemented at 18-month intervals to measure the quality of management. The results of the survey are used when agreeing on development measures that are integrated as part of the yearly action plan and personnel plan. The fulfilment of the measures is monitored.

Responsible purchasing and sales

Management approach	**We purchase and sell responsibly and support our customers in their sustainable choices**
Material aspects	• Products and services • Supplier assessment for labour practices • Labour practices grievance mechanisms • Human rights • Customer health and safety • Product and service labelling • Marketing communications • Compliance
Purchasing from high-risk countries	In its operations, Kesko pays special attention to human rights issues and working conditions in its purchasing chain and, in monitoring these, primarily focuses on suppliers in high-risk countries. In accordance with the BSCI (Business Social Compliance Initiative), these are countries and areas where there is a risk of human rights and workers' rights violations. The classification is based on the World Bank's Worldwide Governance Indicators. High-risk countries typically produce clothing and home textiles, shoes and other leather goods, furniture, carpets, interior decoration items, sports equipment, toys, agricultural products (such as coffee, tea, cocoa, fruit, vegetables, wines) and canned fish, fruit and vegetables. In 2015, direct purchases by Kesko's Finnish companies from suppliers in risk areas totalled €90 million (€131 million in 2014) and accounted for 1.2% (1.5%) of Kesko's total purchases. The most significant high-risk countries in terms of imports are listed at Human rights assessments. Direct imports from high-risk countries accounted for 14.8% (21.1%) of Kesko's total imports into Finland. There are no statistics available on the imports of Kesko's subsidiaries in other countries from high-risk countries. Around 82% (76%) of Kesko's imports into Finland come from EU countries. The figure does no include imports by VV-Auto. In addition to its own direct imports, Kesko also purchases goods produced in high-risk countries from other brand and import companies operating in Finland. There are no reliable statistics available on the countries of origin of these imports. There may also be social risks involved in the manufacture of products imported to Finland through third countries or in the production of their ingredients.
Product safety and product labelling	Kesko and K-Group stores are responsible to the products' end-users for ensuring that the products comply with all the requirements of Finnish and EU legislation, are safe for users and meet quality and other promises. Product labelling and marketing communications comply with legislative requirements and authorities' recommendations. Kesko and K-Group stores want to support customers in making sustainable choices and offer a wide selection of products with responsibility criteria.
Objectives	The objectives have been recorded in the responsibility programme.

Policies, working principles and commitments	
Purchasing principles	Responsible purchasing is guided by Kesko's purchasing principles. The principles are based on national labour protection legislation and corresponding conventions of the International Labour Organization (ILO), which are applied when national legislation does not correspond to the same level.
Policy on chemicals	Kesko's policy on chemicals applies to home textiles, clothing, leather goods, shoes and upholstered furniture. Based on EU and Finnish legislation, it lists the chemicals which are prohibited or the quantity of which is restricted in the products supplied to Kesko. In addition, for substances of very high concern, Kesko sets restrictions that are stricter than those set in legislation.
PVC statement	Kesko reduces its impact on the environment by actively seeking options for PVC plastic, both in the packaging of its own brands and in the products themselves. It has been estimated that the elements and compounds contained in PVC, such as chlorine and phthalates, have significant environmental and health impacts. Therefore, replacing PVC with materials more suitable for recycling is appropriate, particularly in packaging and products with short life spans.
Policy statements	Various product group specific policy statements, such as the palm oil policy, the fish and shellfish statement, the timber policy, and the stand on the sandblasting of jeans, have been prepared to support purchasing operations.
K-responsibility concept	Responsible choices are communicated to customers in stores according to the K-responsibility concept with in-store communications, such as shelf labelling and product labelling. The selection and marketing policies of organic, eco-labelled and Fairtrade certified products are included in K-food stores' chain concepts. The K-responsibility concept was first adopted in K-food stores in 2013. In 2014, it was adopted by K-rauta stores and the introduction to Rautia chain stores started. In 2015, it was adopted by Rautia stores and in the K-maatalous chain.

Monitoring and control systems; programmes, projects and initiatives	
Audits of suppliers in high-risk countries	Kesko requires its suppliers in high-risk countries to have social responsibility certification or audits. Kesko is a member in the European BSCI audit system and is committed to the BSCI Code of Conduct, the content of which is practically the same as Kesko's own purchasing principles. In cooperation with the BSCI, Kesko follows other audit systems in the market and accepts audits based on them, provided that the level of requirements is the same as in the BSCI audit. Below is a table of the certification and audit systems Kesko uses in various product groups. The responsibility of the purchasing chain is also monitored and developed as part of the sourcing cooperation with other European retail chains (Swisstec, ICA, AMS). Kesko has a SUMO (supplier monitoring) database, in which the information on supplier audits, certifications and monitoring visits to suppliers in high-risk countries is saved alongside their respective risk ratings. The information on BSCI audits is also saved in the database maintained by the BSCI and is available to all members. In 2015, Kesko's grocery trade adopted a risk assessment tool, which is used to survey such manufacturers of Kesko's own food brand products' ingredients (so-called 2nd tier) in high-risk countries from which a sustainability report is required.

Audits of Kesko's grocery trade's own brand product manufacturers and producers	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 accepts the following audit procedures: BRC, IFS, ISO/FSSC 22000, SQF1000/2000 and GlobalGAP, IP basic certification for vegetables or IP-Sigill.
Kesko Product Research Unit's laboratory	The Product Research Unit's laboratory monitors the quality of products sold by K-food stores and K-citymarket hypermarkets. 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.
K-responsibility concept audits	The assessment of a store's responsible operations comprises the store's annual self-assessment, the criteria defined in the store's quality system and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko.
Responsibilites and resources	• The Group's Corporate Responsibility Steering Group • The Steering Group for Responsible Purchasing and Kesko's buyers • Kesko's grocery trade's Responsibility Steering Group • Kesko Product Research Unit • Division parent companies' employees responsible for communications and marketing • K-stores
Management approach assessment	The management approach is assessed continuously as part of the operations of the steering groups. Changes in the operating environment and in Kesko are responded to by adjusting objectives, working principles, monitoring systems and resources. Internal Audit conducts audits on responsible sourcing in Kesko companies. The audits evaluate the effectiveness of controls and provide recommendations on how shortcomings can be corrected. The self-control of Kesko's grocery trade and K-food stores is developed on the basis of the results of official inspections, among other things. The Product Research Unit's laboratory is audited annually as required by the SFS-EN ISO/IEC 17025 standard. In addition, its operations are assessed annually with an internal audit and an inspection by the management.

Certification and audit systems related to production and products in high-risk countries used by Kesko

Certification/audit system	Product group	Coverage of criteria	Product label
BSCI (Business Social Compliance Initiative)	All product groups	Social, limited environmental part	No
SA8000	All product groups	Social	No
ETI	All product groups	Social	No
Sedex/SMETA	All product groups	Social, limited environmental part	No
ICS	All product groups	Social	No
ICTI CARE	Toys	Social	No
FSC (Forest Stewardship Council)	Wood products and timber	Social, environmental	Yes
Fairtrade	Agricultural products, incl. cotton	Social, environmental	Yes
Rainforest Alliance	Agricultural products	Social, environmental	Yes
Pro Terra	Agricultural products	Social, environmental	Yes
UTZ Certified	Coffee, cocoa, tea	Social, environmental	Yes
RSPO (Roundtable on Sustainable Palm Oil)	Products containing palm oil	Economic, environmental, social	Yes
WIETA	Wines	Social	Yes
MSC (Marine Stewardship Council)	Caught fish and shellfish	Environmental (sustainable fishing)	Yes
ASC (Aquaculture Stewardship Council)	Farmed fish and shellfish	Social, environmental	Yes
Florverde Sustainable Flowers	Flowers	Social, environmental	Yes
FLA (Fair Labor Association)	Consumer goods	Social	No
FWF (Fair Wear Foundation)	Clothing	Social	No
GOTS (Global Organic Textile Standard)	Textiles, hygiene products (organic)	Social, environmental	Yes
WRAP (Worldwide Responsible Accredited Production)	Textiles, shoes	Social	No

Wellbeing for customers

Management approach	**We offer services that promote customers' wellbeing**
Material aspects	• Customer health and safety
Products and services that promote wellbeing	Kesko and K-stores aim to make their customers' lives easier, providing them with services that promote health and wellbeing and guidance on the proper use of products. Promoting healthy ways of living and eating habits as well as physical activity is central to the K-Group's food and sports stores.
E-commerce and multi-channel services	Customers' needs and consumption behaviour change greatly as new electronic services and, particularly, mobile services become increasingly widespread. Kesko's key strategic objective is to serve customers in all of its divisions by using the opportunities provided by mobile services, online services and digital marketing.
Objectives	The objectives have been recorded in the responsibility programme.

Policies, operating principles and commitments

K-responsibility concept	The K-responsibility concept is used to tell customers about the store's good deeds and to help them make healthy and sustainable choices easily. The K-responsibility concept was first introduced in K-food stores in 2013. The concept was taken into use in K-rauta stores and its launch in Rautia stores started over the course of 2014. It was introduced in Rautia stores and in the K-maatalous chain in 2015.
E-commerce and multi-channel services	The objective of Kesko's digital strategy is that the K-Group will provide the best digital services in 2017. The development of digital services requires major investments in competence development and capital expenditure in technology and logistics systems. Kesko provides online stores and digital services in all of its product lines.

Monitoring and control systems, programmes, projects and initiatives

Product research	Kesko Product Research Unit's laboratory monitors the safety and quality of groceries and home and speciality goods sold by K-food stores and K-citymarket hypermarkets. In addition to the laboratory, the Product Research Unit includes the test kitchen and Kesko Food's consumer service. The test kitchen's duties include sensory evaluations of products and testing their cooking properties. The consumer service provides information on Pirkka products. Customers give feedback about products and ask about various aspects such as product origins, ingredients, their suitability for different kinds of users and instructions for use and preparation.
Recipe service	The home economics teachers in Kesko's grocery trade's marketing unit develop and test hundreds of new food recipes annually. The nutritional contents for about 6,000 recipes found in the K-ruoka.fi recipe service have been calculated to help customers make choices.

K-responsibility concept audits	The assessment of a store's responsible operations comprises the store's annual self-assessment, the criteria defined in the store's quality system and an external responsibility audit based on a defined sample. The auditor reports the results to the store and Kesko.
Customer satisfaction	The service level, recognition level and images 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 the building and home improvement stores.
Responsibilities and resources	• Kesko's divisions • Kesko's Product Research Unit • K-stores
Management approach assessment	The management approach is assessed continuously as part of the operations. Changes in the operating environment and in Kesko are responded to by adjusting objectives, operating principles, monitoring systems and resources.

Mitigation of climate change

Management approach	**We take part in mitigating climate change and promote the sustainable use of natural resources**
Material aspects	• Energy • Water • Biodiversity • Emissions • Wastewater and waste • Environmental assessment of suppliers
Energy consumption	The energy consumption of properties accounts for the major share of the greenhouse gas emissions caused by the K-Group. Constant improvement of the energy efficiency of properties is a main focus area in Kesko's environmental work.
Water	Properties managed by Kesko use municipal water mainly for various cleaning purposes. The most significant impacts on water are related to the supply chains of products to be sold. In 2015, Kesko started a water risk assessment of the supply chains of its private label products.
Biodiversity	Kesko only builds retail stores in areas zoned for business properties, so building does not have significant direct biodiversity impacts. Kesko's largest impacts are indirect and occur in the supply chain of the products sold and in the production of raw materials. Kesko manages these impacts with sourcing policies, materials efficiency and by promoting the circular economy.
Emissions	Kesko's operations generate greenhouse gas emissions mainly from the energy consumption of properties and from logistics. Energy-efficient solutions in properties and the acquisition of low-carbon electricity reduce retail stores' emissions. The grocery trade logistics (Keslog) constantly aims to improve its efficiency in order to reduce emissions.
Waste management	Materials efficiency, recycling of materials and minimising food waste are the key means by which Kesko reduces the amount of waste, promotes the circular economy and achieves the zero landfill waste level.
Environmental assessments of suppliers	The assessment procedures of Kesko's suppliers include environmental criteria.
Objectives	The objectives have been recorded in the responsibility programme.

Policies, working principles and commitments

Environmental and energy policy	The K-Group's environmental and energy policy covers the operations of Kesko Group and the K-Group stores both in Finland and the other operating countries. The K-Group's key business partners are also expected to observe corresponding environmental management principles. Environmental management is part of the K-Group's management system and is based on the ICC Business Charter for Sustainable Development, environmental management standards, as well as requirements set by legislation and the authorities.

Monitoring and control systems, programmes, projects and initiatives	
Environmental work steering	Kesko Group's Corporate Responsibility Advisory Board defines the main policies for environmental work and the target levels for the Group companies, taking account of the environmental impacts of operations and their significance throughout the whole life cycle and supply chain. The division parent companies and subsidiaries specify the main policies of their environmental work into environmental action programmes which support their business operations. The action programmes are monitored and updated annually as part of strategy work.
Environmental systems	At the end of 2015, environmental systems covered 67% of the Kesko companies' net sales in Finland and 55% of the whole Group's net sales. The coverage has been calculated in proportion to retail sales. The logistics operations of Keslog Ltd and Rautakesko Ltd are ISO 14001 certified. VV-Auto Group Oy fulfils the requirements of the ISO 9001 quality system and VV-Autotalot Oy fulfils the requirements of the quality and environmental action programme of the Finnish Central Organisation for Motor Trades and Repairs (AKL). In the food stores and the building and home improvement stores, environmental management is based on the K-responsibility concept. Key environmental issues are also included in the concept measurement of the food store chains. In 2015, the K-responsibility concept was also adopted by the agricultural chain of K-maatalous stores. No certified environmental systems were yet in use in operations in other countries.
Energy consumption monitoring	Kesko's maintenance partners monitor the energy consumption of properties with the help of the EnerKey.com system supplied by Enegia Oy. Enegia reads remotely energy consumption measurement terminals located in properties and records the data in the database by the hour. Also the consumption figures for properties where the data are collected manually are saved in the EnerKey system. The EnerKey programme responds to even minor location-specific changes in consumption and sends an alarm to the person in charge.
Energy efficiency agreement	Kesko has signed the trading sector energy efficiency agreement. In terms of specific energy consumption, the types of properties with the highest energy consumption are K-citymarkets and K-supermarkets, and large wholesale and warehouse buildings. Kesko conducts energy reviews in the properties managed by it on a regular basis.
Water consumption monitoring	Water consumption monitoring is part of real estate consumption monitoring. Kesko's goal is to maintain a high level of water consumption efficiency in all operations.
Biodiversity	In line with Kesko's building and home improvement trade's sourcing statement, the products made of tropical wood must be either FSC or PEFC certified. The K-Group's fish and shellfish statement directs Kesko's grocery trade's and Kespro's own sourcing, as well as K-food retailers' sourcing to safeguard responsible fishing and cultivation of fish. Kesko's grocery trade is a member of the RSPO (Roundtable on Sustainable Palm Oil) and its objective is that by 2020, all palm oil used in Pirkka private label products will be responsibly produced (CSPO). Kesko is a founding member in the Finnish soy commitment group. Kesko has become a member in the RTRS (Roundtable on Responsible Soy) and made a commitment that by 2020, all of the soy in the production chains

	of its private label products is responsibly produced, either RTRS or ProTerra certified soy. The commitment covers both the Finnish production chain and sourcing from other countries. Policy statements
Waste management	Kesko develops recycling systems in cooperation with other operators and promotes waste recycling by developing packaging methods and the use of materials. The generation of waste is prevented by using reusable transport units and by minimising the wastage of products on sale. According to Kesko's business model, retailer entrepreneurs are responsible for waste management in K-stores. Kesko's target is to recover all waste from operations and to achieve the zero waste to landfill level.
Building contracting and maintenance	Kesko's building contracting is based on target conditions and key technical quality factors determined for each business concept and the planning and execution instructions in respect of building services and construction engineering based on them. Kesko measures the efficiency and quality of planning and execution by providing its individual properties with international environmental certificates, such as BREEAM and LEED. In 2015, Kesko's partners in the maintenance and service of properties were Caverion Oy, Ovenia Oy and L&T plc. The environmental systems of Caverion Oy and L&T plc are ISO 14001 certified.
Business Environmental Performance Initiative BEPI	Kesko has joined the Foreign Trade Association's (FTA) Business Environmental Performance Initiative (BEPI). BEPI is aimed at helping member companies in the management of global supply chains and, consequently, increasing the transparency and risk management of their product supply chains.
Responsibilities and resources	• Group Corporate Responsibility Advisory Board • Environmental Steering Group • Store Sites and Real Estate Unit • Keslog Ltd
Management approach assessment	The management approach is assessed continuously as part of the operations. Changes in the operating environment and in Kesko are responded to by adjusting objectives, operating principles, monitoring systems and resources. Audits and reviews of the environmental systems.

Environmental systems at Kesko

Function	Environmental management system	Comment
Keslog's warehousing, terminal and transportation operations	ISO 14001	Certificate revised in 2015.
Rautakesko Ltd's logistics centre	ISO 14001	Certificate revised in 2015.
Real estate service and maintenance operations	ISO 14001, ISO 9001	ISO 14001, ISO 9001: Caverion, L&T ISO 9001: Ovenia
VV-Auto Group Oy	ISO 9001 and AKL's environmental programme	ISO 9001 certificate: VV-Auto Group Oy. Action programme of the Finnish Central Organisation for Motor Trades and Repairs (AKL): VV-Autotalot Oy
K-food stores: 776 K-responsibility stores	K-responsibility concept	Chain requirement for K-citymarket, K-supermarket and K-market stores
K-rauta stores: 41 K-responsibility stores	K-responsibility concept	Total number of stores: 45
Rautia stores: 88 K-responsibility stores (including 4 K-maatalous combination stores)	K-responsibility concept	Total number of stores: 93
K-maatalous stores: 24 K-responsibility stores	K-responsibility concept	Total number of stores: 35

RESPONSIBILITY WORK FOCUSES ON MATERIALITY

The frame of reference for Kesko's vision for corporate responsibility and materiality assessment is Kesko's responsibility programme, megatrends in responsibility, aspects of significance for stakeholders and Kesko's strategic objectives.

Corporate responsibility vision

Kesko's vision for corporate responsibility is: in all areas of responsibility, we are the trading sector pioneer on a global scale. The corporate responsibility vision is also described by key stakeholder groups.

Responsibility programme

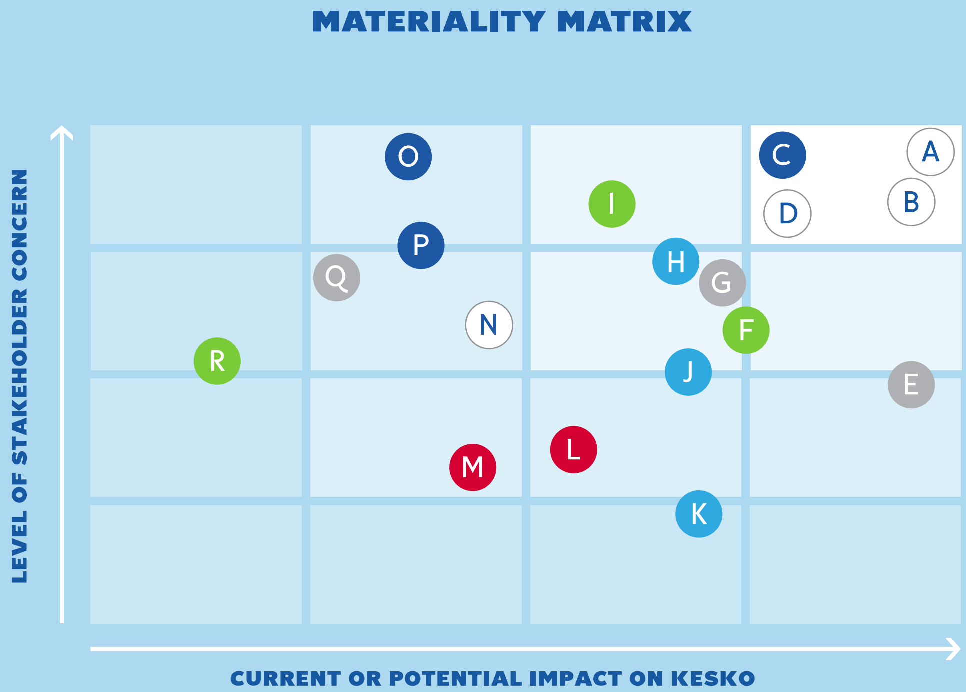
The responsibility programme applies to all of Kesko's divisions and contains short-term and long-term objectives. Each division has prepared its own, division-specific objectives for the sections. The commitments of the programme form its framework, and the individual objectives can be specified annually.

Materiality assessment

The purpose of the materiality assessment of Kesko's responsibility is to identify the key responsibility aspects for Kesko and its stakeholders. The materiality assessment guides Kesko's corporate responsibility and stakeholder work and defines activities for meeting stakeholder expectations.

Kesko's material corporate responsibility aspects are presented in the matrix below, where the vertical axis shows the level of concern for stakeholders and the horizontal axis the current or potential impact on Kesko. The level of concern for stakeholders has been assessed as a whole, which is why the weightings of the various areas by individual stakeholders are not reflected in the matrix.

The materiality assessment was last updated in 2012. In 2013, the material aspects for reporting were defined according to the requirements of the new GRI G4 reporting guidelines. The aspects identified were already included in Kesko's current materiality assessment, and no need was seen to update the materiality matrix.



Responsible operator
- A Financial profitability
- B Good corporate governance and risk management
- D Accessibility and multi-channel approach
- N Shopping safety and security

For the benefit of the community
- L Local approach
- M Sense of community

Working community
- E Personnel's competence development
- G A fair working community
- Q Changing expectations for work-life

Responsible purchasing and sales
- C Product safety and quality
- O Sustainable product selection
- P Human rights and the environmental impacts of production in the purchasing chain

Mitigation of climate change
- F Efficient logistics
- I Energy and resource efficiency
- R Promoting sustainable agriculture

Wellbeing for customers
- H Promoting wellbeing
- J Guiding customers
- K Servitisation of products

Identified material aspects of corporate responsibility

The Group's boundaries

The Group's boundaries include the parent company, Kesko Corporation, its subsidiaries and the subsidiaries owned by other Group companies, which are defined in the notes to the financial statements.

The reporting covers all of Kesko's operations:

- Most economic responsibility indicators are derived from the consolidated financial statements, the preparation and representation of which are governed by IFRS standards.
- The key environmental indicators, such as energy consumption, water consumption, waste and direct greenhouse gas emission from operations, cover the most significant environmental impacts of the parent company, Kesko Corporation, and its subsidiaries in all countries in which they operate, excluding Intersport stores in Russia.
- The HR indicators cover the personnel of the parent company, Kesko Corporation, and its subsidiaries in all operating countries.

Around three quarters of Kesko's employees work in retail stores. The report does not cover the personnel employed by retailer entrepreneurs, unless separately stated in the text. Indicator reporting does not cover contractors or suppliers of goods and services, unless stated otherwise.

Kesko's division parent companies and chains act in close cooperation with retailer entrepreneurs and other partners. The report presents information on K-stores (e.g. energy monitoring) when it is materially related to Kesko's reporting and complements the overall picture of the relations of Kesko and K-retailers with society and other stakeholders.

Any deviations and limitations in the boundary are reported in connection with the indicators in question. If changes have taken place in the indicators, their scope, boundary or measurement methods reported previously, related information is given in connection with the respective indicators.

Defining report content

In 2013, the material aspects for reporting were defined according to the new requirements in the GRI G4 reporting guidelines. Responsibility aspects that had been identified earlier, were discovered in Kesko's operations during the reporting year or were brought up by stakeholders were assessed critically in terms of impact in the value chain and interest by the central stakeholders. In order to identify material aspects, a set of decision criteria was drawn up for use in assessing the materiality of aspects with respect to the entire value chain. A boundary was also defined for each aspect to reflect the material impact of the aspect on Kesko's value chain.

As a result of the analysis, 33 aspects were identified that are material with respect to impact. They are discussed in this report. The related impacts by aspect are described in the management approach. The aspects and related boundaries are listed in the table below. The material aspects were discussed by Kesko's Corporate Responsibility Advisory Board, Group Management Board and Board of Directors.

Material aspects and boundary

GRI aspect (G4–19)	Aspect boundary (G4–20–21)
ECONOMIC IMPACTS	
Economic performance	Kesko Group
Indirect economic impacts	Kesko Group and K-stores
Procurement practices	Kesko Group and K-stores
ENVIRONMENTAL IMPACTS	
Energy	Kesko Group and K-stores
Water	Kesko Group and K-stores
Biodiversity	Kesko Group and suppliers
Emissions	Kesko Group (Scopes 1 and 2), K-stores (Scope 2) and supply chain (Scope 3)
Effluents and waste	Kesko Group
Products and services	Suppliers
Environmental assessment of suppliers	Suppliers. This aspect has been identified as material and reporting is under development.
SOCIAL IMPACTS	
Personnel and working conditions	
Employment	Kesko Group
Labour/management relations	Kesko Group
Occupational health and safety	Kesko Group
Training	Kesko Group
Diversity and equal opportunity	Kesko Group
Equal remuneration	Kesko Group
Supplier assessment for labour practices	Suppliers in high-risk countries
Labour practices grievance mechanisms	Kesko Group, suppliers in high-risk countries. This aspect has been indentified as material and reporting is under development.

Human rights	
Non-discrimination	Kesko Group
Freedom of association and rights of collective bargaining	Kesko Group
Human rights assessments	Kesko Group
Human rights assessments of suppliers	Kesko Group
Grievance mechanisms for issues in human rights	Kesko Group, suppliers in high-risk countries. This aspect has been identified as material and reporting is under development.
Society	
Anti-corruption	Kesko Group
Public policy	Kesko Group
Anti-competitive behaviour	Kesko Group
Compliance	Kesko Group
Grievance mechanisms for impacts on society	Kesko Group. This aspect has been identified as material and reporting is under development.
Product responsibility	
Customer health and safety	Kesko Group – Own brand products and own imports
Product and service labelling	Kesko Group – Own brand products and own imports
Marketing communications	Kesko Group
Customer privacy	Kesko Group, K-Plus Oy
Compliance	Kesko Group

WE LISTEN TO OUR STAKEHOLDERS

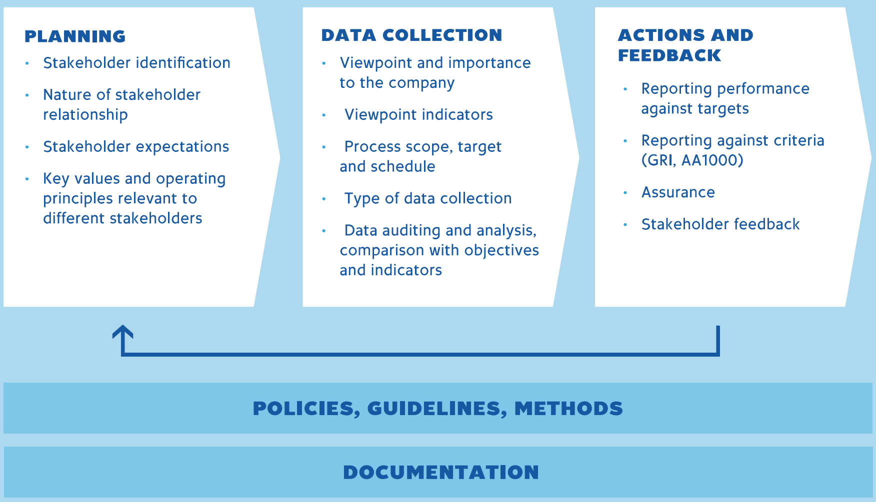
The assessment of Kesko's operations and corporate responsibility performance takes account of the key stakeholders:

- Customers
- Investors and Kesko's owners
- Kesko employees
- Retailers and store staff
- Suppliers and service providers
- The media
- Authorities
- NGOs and other organisations
- Trade unions

The materiality assessment of Kesko's responsibility guides Kesko's corporate responsibility and stakeholder work. Operations in all areas of responsibility are developed in accordance with the expectations of the key stakeholder groups.

The stakeholder assessment is included in Kesko's management system and operating plans. Kesko's corporate responsibility vision is based on taking stakeholders' views into account.

KESKO'S STAKEHOLDER INTERACTION



Various surveys are regularly conducted to identify stakeholder expectations.

In the 2015 survey by TNS Gallup on companies' reputation and responsibility, 500 consumers assessed the K-Group. The strongest factors contributing to the K-Group's reputation were considered to be customer orientation, competent personnel, and delivery and service reliability. Room for improvement was seen in terms of commitment to promoting environmental issues and the transparency of operations.

As part of Kesko's human rights assessment we engaged in dialogue with our stakeholders in autumn 2015 and early 2016:

- TNS Gallup looked into human rights in the K-Group's operations on the basis of small-group discussions and a web survey sent to 567 K-Group customers and 41 specialists
- District coordinators of the Trade Union Solidarity Centre of Finland (SASK) interviewed employees of the factories manufacturing Kesko's own-branded goods in three high-risk countries (India, Bangladesh and the Philippines). The interviews focused on human rights in the factory and the impact of Kesko's operations.

The Senior Vice President, corporate responsibility, communications and stakeholder relations, brand and marketing steering and development, a member of Kesko's Group Management Board, is the head of corporate responsibility. He reports to the Group Management Board about communication with stakeholders on economic, social and environmental responsibility.

Staying aware of stakeholder expectations requires regular dialogue. The following table describes interaction with the key stakeholder groups.

KEY STAKEHOLDERS	STAKEHOLDER INCLUSIVITY AND CHANNELS OF INTERACTION	RESPONSE TO STAKEHOLDER EXPECTATIONS
CUSTOMERS	• Daily customer encounters • Customer service channels • Customer satisfaction surveys • Post-shopping surveys • Interaction via social media channels (Facebook, Twitter, Google+, Pinterest, Instagram, blogs) • Inquiry and service functions on mobile and online services	Responsibility is strongly visible to customers in the K-Group's consumer brands and stores. Customers have to be able to trust in the quality and safety of products and the fact that their responsible choices start when they enter a K-store.
INVESTORS, OWNERS AND ANALYSTS	Investors' and shareholders' questions concerning responsibility have increased in recent years. Kesko replies annually to the inquiries of several institutions making sustainability assessments. Examples of the events: • Annual General Meeting • Investor meetings • Press conferences • Capital Markets Days	Kesko strives to continue and improve its ratings in significant sustainability indices and lists, as they are important neutral evidence of responsible operations. Transparency of reporting and corporate governance principles – as well as ensuring that legislation and responsible working principles are observed – create a solid basis for Kesko's business operations.
EMPLOYEES AND RETAILERS	• Personnel survey • Performance and development reviews • National Works Council meetings • Kesko's intranet: country-specific pages: Keskonet Finland, Sweden, Estonia, Latvia, Russia, and Keskonet Global that is common to all • Available on Keskonet: Direct Line, Mail to the President and CEO, internal audit feedback channels, a discussion column and several blogs • The annual K-Team event for K-retailers, K-store staff, Kesko employees and business partners • 'Our Responsible Working Principles' guide (in all languages of our operating countries) • Value discussions on responsible working principles	Kesko's working community is developing and global. Common working principles and practices provide the basis for our work everywhere. Responsibility is becoming ever more important in creating the employer image. Companies in which job satisfaction is high and that are able to offer versatile jobs and opportunities for career progress are most likely to succeed in attracting and retaining the best employees. K-retailers listen to the wishes of their customers and adapt their selections accordingly. Stores implement responsibility in all of their operations.

SUPPLIERS AND SERVICE PROVIDERS	• More than 21,100 suppliers and service providers, see EC9 • Cooperation according to good trading practices • 'Principles and Practice of Socially Responsible Trading' guide • Business partner meetings, such as Kesko grocery trade's annual partner info event • Audits and training events in high-risk countries	Multi-form networking with suppliers and service providers requires that all parties to the supply chain accept the common values, objectives and working principles. We are together responsible for ensuring that our customers can rely on our expertise, services and the quality and safety of our products.
SOCIETY (THE MEDIA, AUTHORITIES, NGOS AND OTHER ORGANISATIONS, AND TRADE UNIONS)	• Meetings • Media events and inquiries • Activities in organisations • BSCI cooperation internationally and in the national BSCI group • Inquiries by NGOs	Kesko proactively follows all changes in society in close cooperation with its stakeholders. We cooperate and discuss openly with NGOs, authorities and other decision makers.

CONTACT PERSONS

The list gives contact information of the people who primarily provide additional information on different areas of the report.
The list does not include all Kesko employees who have participated in editing the report.
E-mail addresses: firstname.lastname@kesko.fi

Name	Title	Unit
DEVELOPMENT, COORDINATION AND RESPONSIBILITY FOR EDITING THE REPORT:		
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Accounting
Matti Kalervo	Vice President, Corporate Responsibility	Kesko Corporation, Group Corporate Responsibility
Lena Leeve	Financial Communications Officer	Kesko Corporation, Investor Relations
Pirjo Nieminen	Communications Officer	Kesko Corporation, Group Corporate Responsibility
ECONOMIC RESPONSIBILITY:		
Jukka Erlund	Senior Vice President, CFO	Kesko Corporation, Accounting and Finance
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Accounting
Tiina Nyrhi	Corporate Financial Controller	Kesko Corporation, Group Accounting
Riikka Toivonen	Investor Relations Manager	Kesko Corporation, Investor Relations
Lena Leeve	Financial Communications Officer	Kesko Corporation, Investor Relations
Esko Mansikka	Managing Director	Vähittäiskaupan Tilipalvelu VTP Oy
HUMAN RESOURCES RESPONSIBILITY:		
Matti Mettälä	Senior Vice President, Human Resources	Kesko Corporation
Susanna Kukkonen	HRIS Manager	Kesko Corporation, Kesko HR / Common Services
Katriina Ahtee	OHS Director	Kesko Corporation, Kesko HR / Common Services
Mikko Myyryläinen	HR Director	Kesko Corporation, Kesko HR / Common Services

RESPONSIBLE PURCHASING:

Sohvi Vähämaa	Corporate Responsibility Specialist	Kesko Corporation, Group Corporate Responsibility
Johanna Teinilä-Kurvinen	Project Manager	Kesko Food Ltd, Commerce
Leena Takaveräjä	Purchase Manager	Rautakesko Ltd, Commerce Support

PRODUCT SAFETY:

Matti Kalervo	Vice President, Corporate Responsibility and Product Safety	Kesko Corporation, Group Corporate Responsibility
Heta Rautpalo	Product Research Manager	Kesko Food Ltd, Product Research

ENVIRONMENTAL RESPONSIBILITY:

Minna Saari	Environmental Specialist	Kesko Corporation, Group Corporate Responsibility
Timo Jäske	Sustainability Manager	Kesko Food Ltd, Commerce
Jari Suuronen	Technical Building Services Manager	Kesko Food Ltd, Store Sites and Retailer Operations
Toni Pelin	Environmental and Safety Manager	Keslog Ltd, Supply Chain Development
Jesse Mether	Sustainability Manager	Rautakesko Ltd, Commerce Support
Harri Jyränkö	Development Manager	VV-Autotalot Oy

CORPORATE GOVERNANCE, RISK MANAGEMENT AND CORPORATE SECURITY:

Anne Leppälä-Nilsson	Senior Vice President, Group General Counsel	Kesko Corporation, Legal Affairs
Pasi Mäkinen	Chief Audit Executive	Kesko Corporation, Internal Audit
Ismo Riitala	Vice President, Risk Management and Strategy Process	Kesko Corporation, Accounting and Finance
Timo Pajala	Risk Manager	Kesko Corporation, Risk Management
Petri Käyhkö	Security Manager	Kesko Corporation, Risk Management

PRIVACY PROTECTION/CUSTOMER LOYALTY SYSTEM:

Ismo Riitala	Managing Director	K-Plus Oy

GRI-INDEX

GRI G4 content index

Code	GRI content	Location	Omissions	Further information	Global Compact

General Standard Disclosures

Code	GRI content	Location	Omissions	Further information	Global Compact
	Strategy and Analysis				
G4-1	Statement from the President and CEO	Review by the President and CEO			
G4-2	Key impacts, risks and opportunities	Our operating environment, Description of value creation, Opportunities and risks related to the operating environment, We listen to our stakeholders Responsibility programme			
	Organisational Profile				
G4-3	Name of the organisation	Kesko in brief			
G4-4	Primary trademarks/brands, products and services	Kesko in brief, Divisions in brief			
G4-5	Location of the organisation's headquarters	Kesko in brief			
G4-6	Number of operating countries and names of countries where the organisation operates or that are specifically relevant to the sustainability topics covered in the report	Kesko in brief			
G4-7	Nature of ownership and legal form	Kesko in brief Welfare for society			
G4-8	Markets served	Kesko in brief			

Code	GRI content	Location	Omissions	Further information	Global Compact
G4-9	Scale of organisation	Kesko in brief			
G4-10	Total number of employees by employment contract, region and gender	Social impacts/ Employees	No distribution by gender. Information not available. The aim is to report the information in 2016–2018.	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
G4-11	Percentage of total employees covered by collective bargaining agreements	Social impacts/ Human rights			x
G4-12	Organisation's supply chain	Our operating environment, Purchasing practices			
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	Review by the President and CEO, Kesko in brief, Divisions in brief, Divisions, Stock exchange release on 16 March 2015 and 27 May 2015		In 2015, divisional structure was changed. Anttila Oy was divested.	
G4-14	Whether and how the precautionary approach or principle is addressed by the organisation	Our operating environment			
G4-15	Externally developed charters, principles or initiatives to which the organisation subscribes or which it endorses	Responsibility management Responsibility monitoring and steering			
G4-16	Memberships of associations and advocacy organisations	Activities in organisations			

Code	GRI content	Location	Omissions	Further information	Global Compact
	Identified Material Aspects and Boundaries				
G4-17	Entities included in the organisation's consolidated financial statements	Identified material aspects of corporate responsibility			
G4-18	Process of defining the report content	Identified material aspects of corporate responsibility			
G4-19	Material aspects	Identified material aspects of corporate responsibility, Responsibility monitoring and steering			
G4-20	Aspect boundary for each material aspect within the organisation	Identified material aspects of corporate responsibility			
G4-21	Aspect boundary for each material aspect ouside the organisation	Identified material aspects of corporate responsibility			
G4-22	Restatements of information provided in previous reports	Changes reported in connection with relevant performance indicators.			
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	No significant changes.			
	Stakeholder Engagement				
G4-24	List of stakeholder groups engaged in the organisation	We listen to our stakeholders			
G4-25	Basis for identification and selection of stakeholders with whom to engage	We listen to our stakeholders			

Code	GRI content	Location	Omissions	Further information	Global Compact
G4-26	Organisation's approach to stakeholder engagement	We listen to our stakeholders			
G4-27	Key topics and concerns that have been raised through stakeholder engagement	We listen to our stakeholders, Product responsibility/ Marketing communications			
	Report Profile				
G4-28	Reporting period	GRI Report Profile			
G4-29	Date of the most recent previous report	GRI Report Profile			
G4-30	Reporting cycle	GRI Report Profile			
G4-31	Contact point for questions regarding the report of its contents	Contact information			
G4-32	GRI content index	GRI G4 Content Index, GRI Report Profile			
G4-33	Organisation's policy with regard to external assurance	GRI Report profile, Independent Assurance Report			
	Governance *Governance Structure and Composition*				
G4-34	Governance structure of the organisation and committees	Corporate Governance Statement 2015			
G4-35	Delegating authority	Management model			

Code	GRI content	Location	Omissions	Further information	Global Compact
G4-36	Positions with responsibility	Senior Vice President, CFO and Senior Vice President for Corporate Responsibility, Communications and Stakeholder Relations, Brand and Marketing Steering and Development.			
G4-37	Consultation with stakeholders	We listen to our stakeholders, Corporate Governance Statement 2015			
G4-38	Composition of the Board of Directors	Board of Directors, Corporate Governance Statement 2015			
G4-39	Position of the Chair of the Board	Corporate Governance Statement 2015			
G4-40	Selection of the Board	Corporate Governance Statement 2015			
G4-41	Processes to ensure conflicts of interest are avoided	Corporate Governance Statement 2015		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.	
	Board's Role in Setting the Organisation's Purpose, Values and Strategy				
G4-42	Board's role in setting the organisation's purpose, values and strategy	Corporate Governance Statement 2015, Management model			
	Board's Competencies and Performance Evaluation				
G4-44	Board's performance evaluation	Corporate Governance Statement 2015	Only the Board's self-assessment has been reported.		

Code	GRI content	Location	Omissions	Further information	Global Compact
	Board's Role in Risk Management				
G4-45	Board's role in the identification and management of risks	Corporate Governance Statement 2015			
G4-46	Reviewing the effectiveness of risk management	Corporate Governance Statement 2015			
G4-47	Frequency of risk reviews	Corporate Governance Statement 2015			
	Board's Role in Sustainability Reporting				
G4-48	Formal approval of the organisation's sustainability report	Management model			
	Board's Role in Evaluating Economic, Environmental and Social Performance				
G4-49	Communicating critical concerns	We listen to our stakeholders, Corporate Governance Statement 2015			
	Remuneration and Incentives				
G4-51	Remuneration policies for the Board and senior executives	Corporate Governance Statement 2015, Remuneration Statement 2015			
	Ethics and Integrity				
G4-56	Organisation's values, principles and codes	Management model, Responsibility monitoring and steering/ Responsible operator			x

Code	GRI content	Location	Omissions	Further information	Global Compact
G4-58	Reporting concerns about unethical or unlawful behaviour	Responsibility monitoring and steering/ Responsible operator			x

Specific Standard Disclosures

Specific Standard Disclosures are reported regarding aspects identified as material.

	Disclosure on Management Approach				
	Disclosure of management approach (DMA)	Responsibility monitoring and steering, Responsibility programme, Management model			
	Economic Impacts ***Economic Performance***				
G4-EC1	Direct economic value generated and distributed	Economic impacts/ Economic performance			
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Economic impacts/ Economic performance	Monetary evaluations or realisations have not been reported.		x
G4-EC3	Coverage of the organisation's defined benefit plan obligations	Economic impacts/ Economic performance			
G4-EC4	Financial assistance received from government	Economic impacts/ Economic performance			

Code	GRI content	Location	Omissions	Further information	Global Compact
	Indirect Economic Impacts				
G4-EC7	Development and impact of infrastructure investments and services supported	Economic impacts/ Indirect economic impacts			
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Economic impacts/ Indirect economic impacts			
	Procurement Practices				
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Economic impacts/ Procurement practices			
	Environmental Impacts *Energy*				
G4-EN3	Energy consumption within the organisation	Environmental impacts/Energy			x
G4-EN5	Energy intensity	Environmental impacts/Energy			x
G4-EN6	Reduction of energy consumption	Environmental impacts/Energy			x
	Water				
G4-EN8	Total water withdrawal by source	Environmental impacts/Water			x
G4-EN9	Water sources significantly affected by withdrawal of water	Environmental impacts/Water			x
G4-EN10	Percentage and total volume of water recycled and reused	Environmental impacts/Water			x
	Biodiversity				
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Environmental impacts/Bio-diversity			x

Code	GRI content	Location	Omissions	Further information	Global Compact
G4-EN12	Description of significant impacts of actitivies, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Environmental impacts/ Biodiversity			x
G4-EN13	Habitats protected or restored	Environmental impacts/ Biodiversity			x
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Environmental impacts/ Biodiversity			x
	Emissions				
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	Environmental impacts/Emissions			x
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Environmental impacts/Emissions			x
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	Environmental impacts/Emissions			x
G4-EN18	Greenhouse gas (GHG) emissions intensity	Environmental impacts/Emissions			x
G4-EN19	Reduction of greenhouse gas (GHG) emissions	Environmental impacts/Emissions	Review has not been made in CO_2e tonnes.		x
G4-EN21	NO_x , SO_x and other significant air emissions	Environmental impacts/Emissions			x

Code	GRI content	Location	Omissions	Further information	Global Compact
	Effluents and Waste				
G4-EN22	Total water discharge by quality and destination	Environmental impacts/Effluents and waste		Effluents from Kesko's operations are discharged into municipal sewage systems. There is no water discharge referred to by GRI from Kesko's operations.	x
G4-EN23	Total weight of waste by type and disposal method	Environmental impacts/Effluents and waste			x
G4-EN24	Total number and volume of significant spills	Environmental impacts/Effluents and waste			x
	Products and Services				
G4-EN27	Extent of impact mitagation of environmental impacts of products and services	Responsibility programme		GRI indicator is not suitable for Kesko's operations. Information material to Kesko is presented in the strategy report and the responsibility programme.	
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	Environmental impacts/Effluents and waste		GRI indicator is not suitable for Kesko's operations. Information material to Kesko is presented in the strategy report and in EN23.	
	Supplier Environmental Assessment				
G4-EN32	Percentage of new suppliers that were screened using environmental criteria		Information not available. The aim is to report the information in 2016–2018.		x

Code	GRI content	Location	Omissions	Further information	Global Compact
	Social Impacts *Labour Practices and Decent Work* *Employment*				
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Social impacts/ Employees	Turnover rate has not been reported by age group and gender. Information not available. The aim is to report the information in 2016–2018.		x
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant location of operation	Social impacts/ Employees	Benefits exceeding the statutory level have not been reported in detail. Varying practices in different operating countries.		
	Labour/Management Relations				
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Social impacts/ Employees			x
	Occupational Health and Safety				
G4-LA5	Percentage of total workforce represented in formal management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Social impacts/ Employees	Percentage of employees has not been reported. Information not available. The aim is to report the information in 2016.		

Code	GRI content	Location	Omissions	Further information	Global Compact
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Social impacts/ Employees	Reporting does not cover suppliers. Not reported by gender. Information not available. The aim is to report the information in 2016–2018.		
	Training and Education				
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Social impacts/ Employees	Not reported by gender and employee category. Information not available.		x
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Social impacts/ Employees			
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Social impacts/ Employees	Not reported by employee category. Information not available.		x
	Diversity and Equal Opportunity				
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Social impacts/ Employees	Not reported by age group or minority group. Information not available/material. The aim is to report age group information in 2016–2018.		x

Code	GRI content	Location	Omissions	Further information	Global Compact
	Equal Remuneration for Women and Men				
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Social impacts/ Employees	The ratio of basic salary of men and women has not been reported. Information not available. The aim is to report the information in 2016–2018.		x
	Supplier Assessment for Labour Practices				
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	Social impacts/ Human rights	The percentage of suppliers screened has not been separately reported out of new suppliers but out of all suppliers in high-risk countries.		
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	Social impacts/ Human rights			
	Labour Practices Grievance Mechanisms				
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms		The aspect identified as material. Information not available. The aim is to report the information in 2018–2020.		
	Human Rights *Non-discrimination*				
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Social impacts/ Human rights			x

Code	GRI content	Location	Omissions	Further information	Global Compact
	Freedom of Association and Collective Bargaining				
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at a significant risk, and measures taken to support these rights	Social impacts/ Human rights, Responsibility monitoring and steering		Kesko has not identified operations, in which the right to exercise freedom of association and collective bargaining had been violated or at a significant risk.	x
	Human Rights Assessment				
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Social impacts/ Human rights	The Group's human rights assessment will be completed in 2016. Customers, employees, supply chains and immediate operating environment have been identified as key objects of assessment.		x
	Supplier Human Rights Assessment				
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	Social impacts/ Human rights	The percentage of suppliers screened has not been separately reported out of new suppliers but out of all suppliers in high-risk countries.		x
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	Social impacts/ Human rights			x

Code	GRI content	Location	Omissions	Further information	Global Compact
	Human Rights Grievance Mechanisms				
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms		The aspect identified as material. Information not available. Reporting is being developed according to the schedule the BSCI grievance mechanism is developed.		x
	Society *Anti-corruption*				
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Social impacts/ Society	The number and percentage of assessments have not been reported. Risks related to corruption have not been specified in detail.	Risks related to corruption are discussed as part of Kesko's risk management. Key risks are identified and assessed regularly throughout the year.	x
G4-SO4	Communication and training on anti-corruption policies and procedures	Social impacts/ Society	Percentages have not been reported. Information not available.		x
G4-SO5	Confirmed incidents of corruption and actions taken	Social impacts/ Society			x
	Public Policy				
G4-SO6	Total value of political contributions by country and recipient/beneficiary	Social impacts/ Society			x
	Anti-competitive Behaviour				
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Social impacts/ Society			

Code	GRI content	Location	Omissions	Further information	Global Compact
	Compliance				
G4-SO8	Monatery value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Social impacts/ Society			
	Grievance Mechanisms for Impacts on Society				
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms		The aspect identified as material. We monitor the development of the reporting practice.		
	Product Responsibility *Customer Health and Safety*				
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Social impacts/ Product responsibility	Percentages have not been reported. Information is not available.		
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Social impacts/ Product responsibility			

Code	GRI content	Location	Omissions	Further information	Global Compact
	Product and Service Labelling				
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	Social impacts/ Product responsibility			
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	Social impacts/ Product responsibility			
G4-PR5	Results of surveys measuring customer satisfaction	Social impacts/ Product responsibility			
	Marketing Communications				
G4-PR6	Sale of banned or disputed products	Social impacts/ Product responsibility			
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Social impacts/ Product responsibility			
	Customer Privacy				
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Social impacts/ Product responsibility			

Code	GRI content	Location	Omissions	Further information	Global Compact
	Compliance				
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Social impacts/ Product responsibility			

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

PERFORMANCE INDICATORS

ECONOMIC IMPACTS

Economic performance

Indicators: EC1–EC4

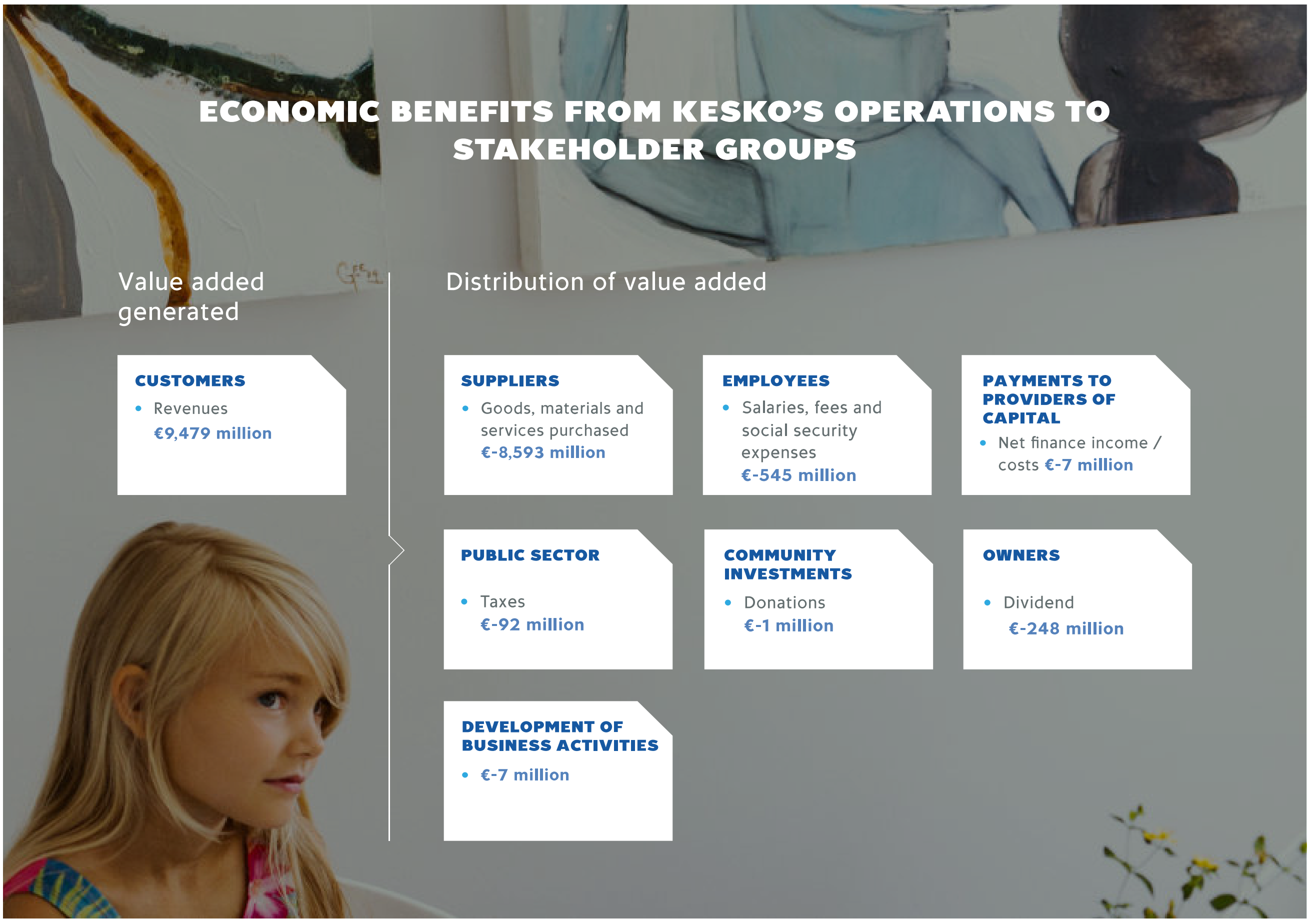
EC1 Direct economic value generated and distributed

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

The following tables show 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 customers and retailers, purchases from suppliers of goods and providers of services, dividends to shareholders, salaries and wages paid to personnel, taxes and capital expenditure.

In March 2015, Kesko sold the department store chain Anttila Oy. Anttila Oy is consolidated into Kesko Group until 16 March 2015.

The consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows can be read in full in the financial statements section.


ECONOMIC BENEFITS FROM KESKO'S OPERATIONS TO STAKEHOLDER GROUPS
Value added generated
Distribution of value added
CUSTOMERS
Revenues €9,479 million
SUPPLIERS
Goods, materials and services purchased €-8,593 million
EMPLOYEES
Salaries, fees and social security expenses €-545 million
PAYMENTS TO PROVIDERS OF CAPITAL
Net finance income / costs €-7 million
PUBLIC SECTOR
Taxes €-92 million
COMMUNITY INVESTMENTS
Donations €-1 million
OWNERS
Dividend €-248 million
DEVELOPMENT OF BUSINESS ACTIVITIES
€-7 million

Economic benefits from Kesko's operations to stakeholder groups

€ million		2015	2014	2013
Customers[1]	Revenues	9,479	9,800	10,050
Value added generated		**9,479**	**9,800**	**10,050**
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-8,593	-8,828	-9,027
Employees	Salaries, fees and social security expenses	-545	-614	-611
Payments to providers of capital	Net finance income/costs	-7	-6	-6
Owners	Dividend	-248[2]	-149	-138
Public sector	Taxes[3]	-92	-54	-82
Community investments	Donations	-1	-1	-1
Development of business operations		-7	147	185

[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*

The division of the economic benefit generated by Kesko and K-retailers to Finnish regions is presented at EC8.

Dividend policy

According to its dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking into account, however, the company's financial position and operating strategy. Kesko's Board of Directors proposes to the General Meeting to be held in April 2016 that a total dividend of €248 million be paid for the year 2015, which would represent 243.8% of earnings per share and 146.7% of earnings per share excluding non-recurring items. In 2015, Kesko distributed a total of €149 million as dividends for the 2014 profit, which represented 154.7% of earnings per share and 91.1% of earnings per share excluding non-recurring items.

Further information on the financial statement's indicators and Kesko shares and shareholders can be found in the financial statements section.

Economic benefits from Kesko's operations by market area in 2015

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Pension and social security expenses	Taxes[1]	Total
Finland	4,956	131	317	71	743	6,218
Other Nordic countries	640	4	37	12	38	731
Baltic countries	252	4	54	4	31	346
Russia and Belarus	300	80	38	11	12	441
Other countries	1,225					1,225
Total	**7,373**	**219**	**447**	**98**	**824**	**8,960**

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

Store network

Kesko operates in the grocery trade, the home improvement and speciality goods trade, and the car trade. Kesko has over 1,500 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus.

The K-food store network is comprehensive and there are K-food stores in nearly all Finnish municipalities (see the table below). The K-food stores are visited by around 900,000 customers every day.

A multi-channel approach is becoming increasingly important in retailing. The growth of e-commerce and electronic services coupled with a comprehensive store site network are a key competitive factor for Kesko.

At the end of 2015, Kesko had over 1,100 independent K-retailer entrepreneurs and 125 other retailer entrepreneurs as partners. Kesko's sales to retailer entrepreneurs accounted for 53.0% of total sales in 2015.

Kesko and K-retailers form the K-Group, whose retail sales (excluding Anttila) totalled around €10.8 billion (VAT 0%) in 2015. The K-Group employs around 40,000 people.

K-food stores in Finnish municipalities (as at 31 Dec. 2015)

Number of K-food stores	Municipalities in 2015	% of all municipalities
10 or more	14	4.4
7–9	9	2.8
5–6	16	5.0
3–4	48	15.1
2	53	16.7
1	130	41.0
0	47	14.8
Municipalities total	**317**	**100.0**

In 2015, Kesko Group employed an average of 18,955 (19,976) people, of whom 8,300 (9,580) in Finland and 10,655 (10,936) outside Finland.

Employee benefit expenses

€ million	2015	2014	2013
Salaries and fees	440	497	495
Social security expenses			
pension costs	55	64	64
social security expenses	43	47	49
Share-based payments	6	6	3
Total	**545**	**614**	**611**

In 2015, foreign operations accounted for €129 million of total salaries and for €27 million of total pension costs and other social security expenses.

Kesko's community investments

€1,000	2015	2014	2013
Non-governmental, environmental and other organisations	555	474	207
Sports (adults)	721	556	575
Youth sports and other youth work	64	244	281
Science, research and education	61	65	32
Culture	32	36	59
Health care	12	11	2
Veteran organisations and national defence	5	4	6
Political parties and organisations	8	5	5
Total	**1,457**	**1,395**	**1,168**

In addition, Veikkaus Oy contributed an estimated revenue of €55-60 million to the Ministry of Education and Culture, generated from the sales of games by Veikkaus points of sale located at K-stores. The calculation is based on the average breakdown of each euro spent on games in 2015. The estimate has been calculated by Veikkaus Oy. The Ministry of Education and Culture distributes the total proceeds to Finnish arts, sports, science and youth work.

EC2 Financial implications and other risks and opportunities for the organisation's activities related to climate change

One of the key objectives of Kesko's responsibility work is mitigating the progress of climate change.

Kesko's operations are surveyed regularly by risk assessments, which also cover changes that may be necessitated by climate change. The Group's risk map, the most significant risks and uncertainties, as well as changes in and management responses to them are discussed by the Kesko Board's Audit Committee when the interim reports and financial statements are handled.

Read more about risk management and control practices.

Climate change presents physical and regulatory risks and opportunities as well as risks and opportunities affecting reputational factors

Physical impact

- Extreme weather phenomena, such as storms and heavy rains, have consequences for the built environment. Physical risks are related to both the physical store network and logistics. Unusual weather patterns can cause interruptions in operations or problems in the availability of products and changes in sales particularly in the home improvement and speciality goods trade.
- Climate change can affect the procurement sources and availability of products both within and outside Europe. Due to drought and desertification, water has become less available in many countries, reducing the productive potential of local economies. Agricultural production will suffer if desertification and rising sea levels reduce the arable land area. Drought or floods may destroy agricultural harvests. Intensifying competition for raw materials may lead to higher prices.
- The availability of energy sources and emission limitations may affect energy prices.
- Accidents and epidemics resulting from natural phenomena can cause damage or business interruptions that cannot be prevented.

Regulation

- Climate change may have an impact in terms of risks involved in regulation, such as various permit procedures, or costs arising from emission pricing and taxation.
- The implementation of the EU and Finnish Government climate and energy policy will affect energy solutions and may increase energy prices, adding to pressures for energy savings and energy self-sufficiency.

Customers

- Customers are paying increasing attention to issues related to climate change. Environmentally friendly products, corporate responsibility communications, retail stores' K-responsibility concept and package labelling can help customers make purchasing decisions that mitigate climate change. Any failures to implement responsible practices in this area may weaken Kesko's reputation.
- The K-maatalous Experimental Farm tests the suitability of crop varieties for the Finnish climate. The aim is to help customers choose optimal varieties and cultivation methods for Finnish conditions, also as the climate changes.
- The Energy Expert concept, which has been deployed in the building and home improvement stores, makes it easy for customers to improve the energy efficiency of their homes.

Opportunities and risks related to climate change are also described in the report's our operating environment / opportunities and risks section.

EC3 Coverage of the organisation's defined benefit plan obligations

The Group operates several pension plans in its different operating countries. In Finland, statutory pension provision for personnel is organised through pension insurance companies and voluntary supplementary pension provision is mainly organised through Kesko Pension Fund's department A. At the end of the year, the number of employees eligible to receive supplementary retirement benefits from department A was 2,763.

The statutory pension provision organised through a pension insurance company is a defined contribution plan. The supplementary pension provision organised by Kesko Pension Fund is a defined benefit plan. As at 31 December 2015, the plan obligation was €266.1 million (€289.3 million in 2014), which is fully covered. Calculated under IFRS, the surplus amount was €176.4 million as at 31 December 2015 (€147.2 million in 2014). Calculated under IFRS (the Pension Fund's insurance premium is based on a defined benefit plan), the Group's total premium represents 12.5% of the amount of salaries (12.8% in 2014). Read more in the financial statements section, note 17.

In the other countries, pensions are arranged in compliance with local legislation, and there are no defined benefit plans, except in Norway. The number of employees eligible to receive supplementary retirement benefits in Norway is immaterial in proportion to the whole Group.

EC4 Financial assistance received from government

In 2015, the Group received financial assistance of €1.0 million from the public sector. This amount mainly consists of assistance received from Finland (€0.6 million) and from Sweden (€0.4 million).

Indirect economic impacts

Indicators: EC7–EC8

EC7 Development and impact of infrastructure investments and services supported

Especially outside growth centres, retail stores can offer community services which may otherwise be scarcely available. In 2015, the following were located in connection with K-food stores:

- around 170 Posti service points
- 17 pharmacy service points
- cashback service at more than 700 stores
- 137 SmartPost automatic parcel pick-up points
- 24 DHL's automatic parcel lockers

For several recent years, Kesko's most significant store site project has been the new shopping centre being built in Itäkeskus, Helsinki. The capital expenditure of the first phase totals €100 million. Its employment impact is about 250 person-years over two years.

The K-Group participated in the village store development project in 2013–2015.

In addition to statutory waste recycling obligations, K-stores provide the following recycling services:

- collection of impregnated wood
- collection of clothing

Waste statistics are presented under EN23 Waste.

Kesko's community investments are presented under EC1 Direct economic value generated and distributed.

EC8 Significant indirect economic impacts, including the extent of impacts

Kesko is a service sector company which has significant indirect impacts related to the production, use and recyclability of products.

Purchases by Kesko and the retailers have economic impacts on the suppliers and service providers, such as an increase in the number of jobs. Furthermore, purchases from local producers affect regional business activities. The salaries, taxes, employee benefit expenses and capital expenditure paid by Kesko and retailers have impacts on regional economic wellbeing.

Kesko operates in eight countries in which it is engaged in both retail and wholesale. It is one of Kesko's principles that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations.

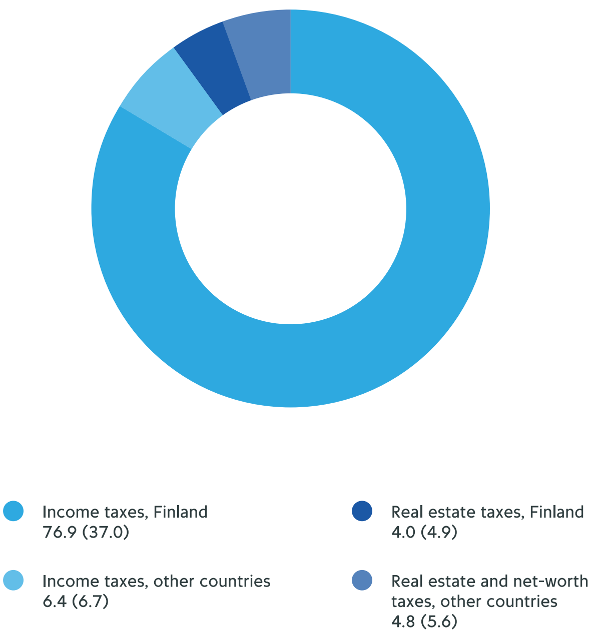
Kesko is a significant tax payer. In 2015, the income taxes paid by Kesko to Finland were €76.9 million and to other countries €6.4 million. The Group's effective tax rate was 37.6%. Kesko paid €4.0 million in real estate taxes and net worth taxes to Finland and €4.8 million to its other operating countries in 2015.

Kesko collects, reports and remits also 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 2015, Kesko remitted value-added taxes in Finland to the amount of €341.0 million, and €45.8 million in other countries. Kesko remits car taxes and excise duties on, for instance, confectionery, alcohol and soft drinks. In 2015, Kesko remitted excise duties in Finland to a total amount of €58.3 million.

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

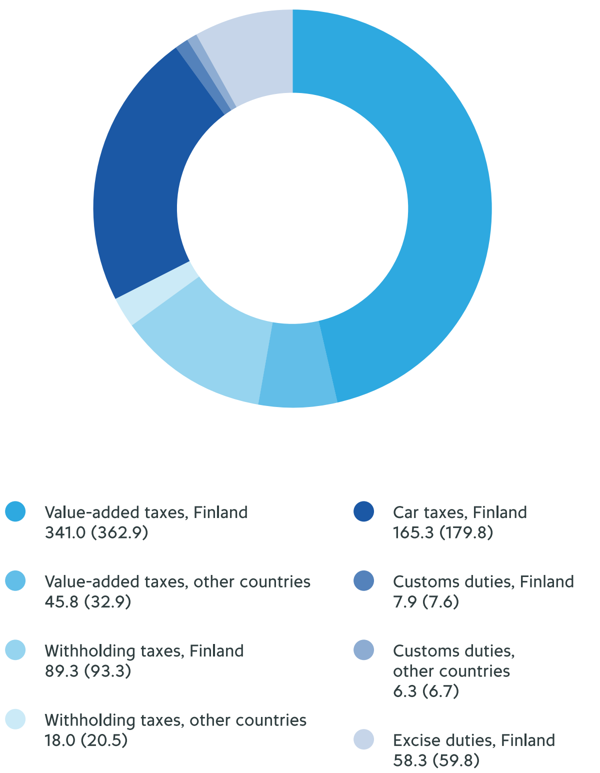
Taxes payable in 2015

€ million

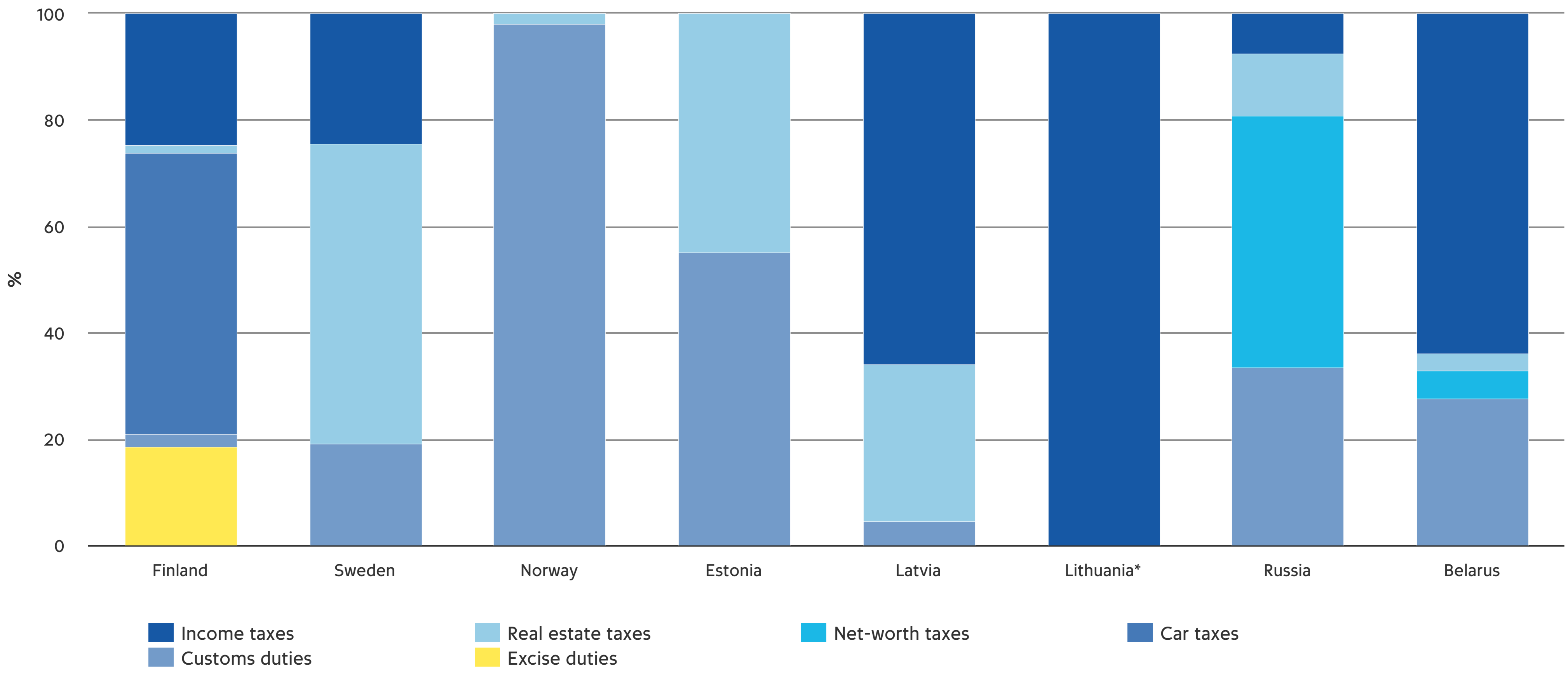


Taxes remitted in 2015

€ million



Taxes by country in 2015



** Incl. only income taxes*

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2015

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	28.5	-	0.1	-	-	-	28.6
Southern Karelia	4.7	14.5	10.5	3.7	11.1	0.6	45.0
Southern Ostrobothnia	240.1	33.5	0.8	4.3	12.4	0.7	291.8
Southern Savo	33.2	14.4	1.7	3.7	11.1	1.3	65.4
Kainuu	5.9	6.9	0.6	1.0	6.4	0.4	21.2
Kanta-Häme	65.8	23.4	4.3	4.0	11.1	0.9	109.5
Central Ostrobothnia	44.0	13.0	2.6	1.4	4.8	0.7	66.6
Central Finland	50.2	24.7	3.9	7.7	18.5	1.7	106.8
Kymenlaakso	45.5	17.6	0.7	4.5	11.1	1.1	80.6
Lapland	13.6	25.6	5.5	4.9	18.0	1.9	69.4
Pirkanmaa	253.1	32.6	6.5	23.8	33.9	2.7	352.6
Ostrobothnia	140.1	11.4	3.6	4.0	8.6	0.8	168.4
Northern Karelia	24.4	26.0	3.3	3.7	11.6	1.4	70.3
Northern Ostrobothnia	104.2	44.5	14.6	14.2	25.6	2.2	205.4
Northern Savo	132.8	36.2	3.0	9.7	20.4	1.4	203.6
Päijät-Häme	126.2	26.3	10.3	8.0	12.0	1.2	184.0
Satakunta	112.1	27.0	2.5	4.2	15.0	0.9	161.7
Uusimaa	2,852.2	162.3	94.3	242.6	116.8	11.4	3,479.6
Varsinais-Suomi	653.0	70.2	10.2	20.4	35.7	3.4	792.9
Total	**4,929.6**	**610.0**	**178.9**	**365.7**	**384.2**	**34.9**	**6,503.4**

[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 85% of K-retailers' total business volume.

Procurement practices

Indicators: EC9

EC9 Proportion of spending on local suppliers

Kesko assesses the economic benefit it generates by reporting its purchases by operating country and the company's country of domicile. Kesko also reports 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, from which purchases were valued at €7.4 billion in 2015.

In 2015, Kesko had around 21,100 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, around 9,800 operated in Finland, around 8,100 in Kesko's other operating countries, and around 3,200 elsewhere.

The 10 largest suppliers accounted for 24.2% (23.5% in 2014) of the Group's purchases of goods, and the 100 largest suppliers for 53.1% (52.2% in 2014). Six out of the 10 largest suppliers were Finnish food industry companies, one import company operating in Finland, one grocery trade company and two German car manufacturers.

The purchases of all Kesko companies from suppliers operating in Finland totalled €4,956 million, accounting for 67.2% (68.3% in 2014) of the Group's total purchases.

The purchases of goods by Kesko Group's Finnish companies totalled €6,104 million. Of these purchases, 80.8% were from suppliers operating in Finland and 19.2% from other countries. It should be noted that because some of the suppliers operating in Finland are import companies, reliable statistics cannot be compiled on the origin of goods supplied by them.

Kesko actively increases the amount of local purchases and encourages K-retailers to include products from near-by producers in their selections. In 2015, K-retailers' direct purchases from Finnish regions totalled €610 million.

In 2014–2015, Kesko and Ruokatieto ry, an association that promotes Finnish food culture, organised Local Food Date (Lähiruokatreffit) events that bring together local food producers and K-retailers. The purpose is networking as well as improving the supply of local products in the K-food stores in the area and thereby supporting Finnish work.

The Blue and White Footprint campaign for Finnish work was launched in early 2014 by the Association for Finnish Work, K-food stores and a great number of Finnish food manufacturers and home and speciality goods companies. The campaign continued in 2015, when the K-rauta and Rautia stores joined the K-food stores in the campaign.

Kesko's purchases by operating country in 2015

	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	9,561	4,930	80.8%	2,088	1,174	19.2%
Sweden	1,049	114	82.7%	156	24	17.3%
Norway	817	374	97.6%	41	9	2.4%
Estonia	882	56	55.5%	299	45	44.5%
Latvia	611	24	34.3%	333	46	65.7%
Lithuania	892	78	30.8%	1,195	176	69.2%
Russia	1,892	229	95.5%	60	11	4.5%
Belarus	1,003	51	62.3%	244	31	37.7%
Total	**16,707**	**5,857**	**79.4%**	**4,416**	**1,516**	**20.6%**

Kesko's purchases by company's and supplier's country of domicile in 2015

Company's country of domicile	Supplier's country of domicile									
€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus	Other countries	Total
Finland	4,930	128	9	39	2	6	0	-	989	6,104
Sweden	7	114	4	0	-	-	-	-	13	138
Norway	0	8	374	0	-	-	-	-	1	383
Estonia	10	1	1	56	5	2	-	-	27	101
Latvia	5	0	0	6	24	2	0	-	33	70
Lithuania	4	1	0	8	19	78	3	2	139	254
Russia	0	-	-	1	-	-	229	-	9	240
Belarus	0	-	-	-	0	2	15	51	14	82
Total	**4,956**	**252**	**388**	**111**	**50**	**90**	**247**	**53**	**1,225**	**7,373**

Capital expenditure

In 2015, Kesko's capital expenditure totalled €219 million (€194 million in 2014), or 2.5% of net sales (2.1% in 2014). Capital expenditure in store sites was €167 million (€143 million in 2014). Capital expenditure in foreign operations accounted for 40.2% (40.5% in 2014) of the total capital expenditure.

In addition to Kesko, K-retailers make capital expenditures in the fixtures of stores used by the K-Group. These figures included, the total capital expenditure in Finland was around €179 million in 2015.

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

ENVIRONMENTAL IMPACTS

Energy

Indicators: EN3, EN5–EN6

EN3 Energy consumption within the organisation

In 2015 Kesko's energy consumption in all operating countries totalled 4,467 TJ. A total of 632 TJ of fuel from non-renewable sources was used for transportation as well as self-produced heat and electricity of properties.

Energy consumption, properties managed by Kesko

Finland	2015	2014	2013
Electricity (MWh)	695,848	754,301	764,387
District heat (MWh)	254,739	292,453	304,158[1]
Total electricity and district heat (MWh)	950,587	1,046,754	1,068,545
Total electricity and heat[2] (TJ)	3,436	3,783	3,866

Other operating countries	2015	2014	2013
Electricity[3] (MWh)	103,038	96,231	91,658
Heat[2] (MWh)	44,196	46,723	39,685
Total electricity and heat (MWh)	147,234	142,954	131,343
Total electricity and heat (TJ)	530	515	473

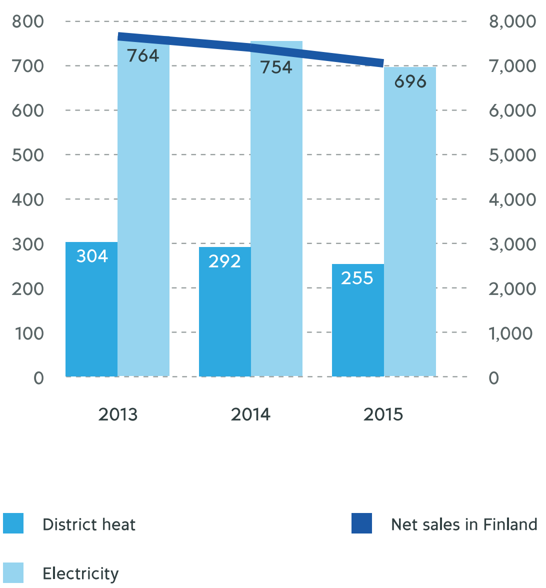
All operating countries	2015	2014	2013
Total electricity and heat (TJ)	3,966	4,298	4,339

[1] *Figure has been adjusted for improved accuracy since the previous report*

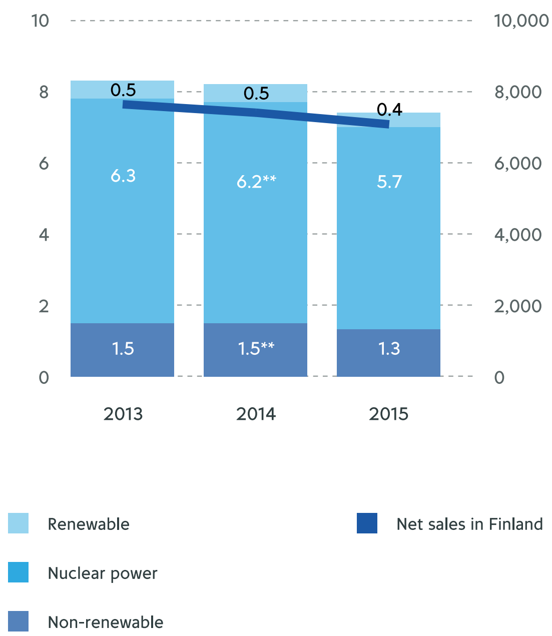
[2] *Includes energy of fuel used for self-produced heat*

[3] *Includes energy of fuel used for self-produced electricity*

Energy consumption in Finland, properties managed by Kesko



Energy profile in Finland, properties managed by Kesko*



* Includes self-produced heat
** Figure adjusted for improved accuracy since the previous report

Energy consumption in properties in Finland

Properties managed by Kesko in Finland include offices, warehouses and approximately 850 K-Group stores.

In 2015, the overall electricity consumption decreased by 7.7%. Significant reasons for the decline include changes in the stock of real estate (mainly the divestment of Anttila) and the decrease in specific consumption of 4.2% of the K-citymarket stores.

According to the Finnish Meteorological Institute, the average temperature of 2015 was again higher than the previous year, and the overall consumption of district heating by Kesko's properties fell by 12.9% from the previous year. The changes in specific consumption of the most significant property categories were between -5% and -18%.

In 2015, the heating energy produced with natural gas and oil at properties in Finland totalled 12.3 TJ (3.4 GWh).

Calculation methods and electricity and heating consumption statistics by property type and changes in properties in Finland are available in the Energy consumption tracking and Environmental profile reports.

Energy consumption in properties in other operating countries

The electricity consumption of the K-food stores in Russia has nearly doubled since the previous year due to the growing number of stores in recent years. During 2014–2015, five new K-food stores were opened in Russia to reach a total of nine stores. Excluding the Russian K-food stores, the electricity consumption of Kesko's properties in the other operating countries decreased by around 10%.

The heating energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (655 MWh) and peat (90 MWh) were also used for heating. In 2015, the self-produced heat totalled 93 TJ (26 GWh). Oil was used at the new K-food stores in Russia for 26 TJ (7 GWh) of electricity production.

Subsidiaries outside of Finland report their fuel and purchased energy consumptions to Kesko and statistics per country are compiled from this data. The heating energy data is not reported for some properties (8%) because it is included in the lease or is not available.

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2015:

- renewable 532 TJ, 7% of total primary energy
- nuclear power 6,049 TJ, 73% of total primary energy
- non-renewable 1,689 TJ, 20% of total primary energy

Fuel consumption of logistics in Finland

The fuel consumed in the grocery trade's (Keslog) own transportation or that under its direct control was 487.2 TJ in 2015. The fuel used was diesel.

Fuel consumption was calculated using data on kilometres driven, volumetric efficiencies and the transportation fleet. In 2015, the total distance driven by Keslog was 31.1 million km (33.4 million km in 2014).

The calculation was made according to the Lipasto calculation system of VTT Technical Research Centre of Finland.

Fuel consumption of logistics in other operating countries

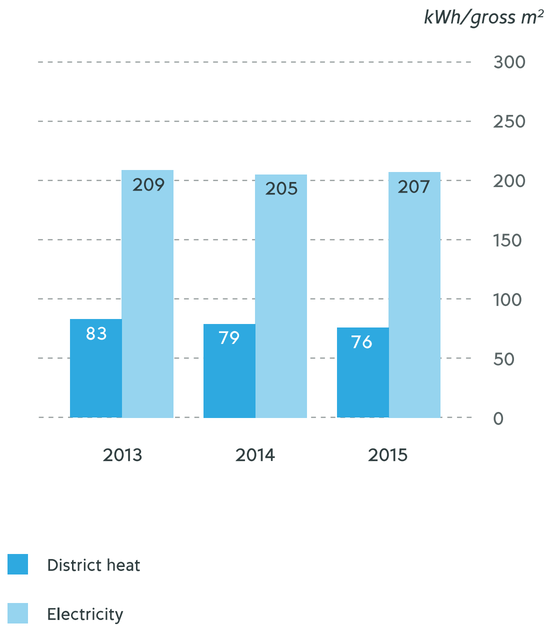
Most of Kesko's subsidiaries have outsourced logistics operations. In 2015, the logistics in Belarus and Estonia consumed 13.5 TJ of fuel (diesel and gasoline).

EN5 Energy intensity

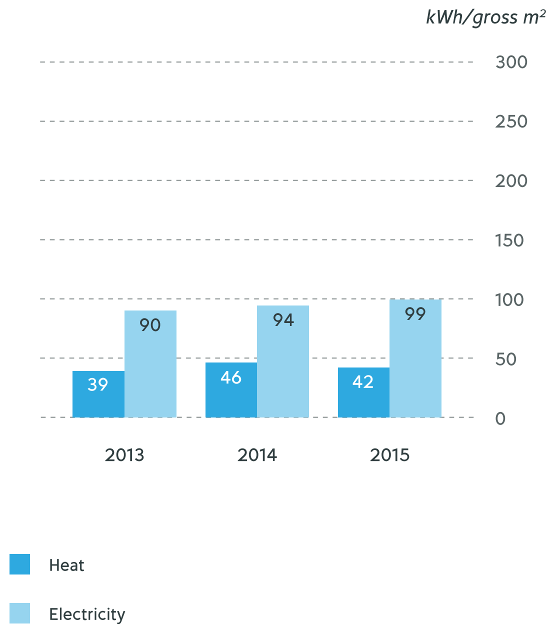
Specific consumptions of energy, properties managed by Kesko

kWh/br-m2	2015	2014	2013
Finland			
Specific consumption of electricity	207	205	209
Specific consumption of district heat	76	79	83
Other operating countries			
Specific consumption of electricity	99	94	90
Specific consumption of heat	42	46	39

Specific consumptions, Finland



Specific consumptions, other operating countries



The cold chain and the need for heated premises in food stores and warehouses require greater amounts of energy in comparison with other retail sectors. The specific consumption of electricity of the other operating countries grows as the number of K-food stores in Russia increases.

The calculation methods for the properties in Finland are available in the [Energy consumption tracking report]. The specific consumptions of properties in the other operating countries are calculated based on the total area of properties (1,043,000 m^2 in 2015).

EN6 Reduction of energy consumption

The K-Group has signed the trading sector energy efficiency agreement and committed to improving its annual energy consumption by 65 GWh by the end of 2016. The agreement is based on the 9% savings target set in the EU Directive on Energy End-Use Efficiency and Energy Services for the period 2008–2016. The agreement covers all of the K-Group's store chains.

By implementing various energy efficiency measures, Kesko has improved its electricity and heating energy consumption by 64 GWh by the end of 2015 and achieved 97% of the savings commitment of the energy-efficiency agreement. A following trading sector agreement for 2017–2025 is under negotiation. Kesko plans to sign the new agreement during 2016 at the invitation of the Federation of Finnish Commerce.

The energy consumption at store sites consists mainly of:

- consumption related to store operations, such as lighting and electrical equipment
- consumption related to the property, such as HVAC equipment and outdoor lighting

Lighting

By February 2016, LED lights are used in the lighting solutions of property development of grocery and home improvement stores. Adjustable, correctly directed LED-lighting can help save up to 50% electricity compared to traditional fluorescent tube and metal halide lighting solutions.

Lids and doors on refrigeration units

In food stores, the consumption of refrigeration systems can account for more than half of the total electricity consumption at small store sites. Lids on freezer chests save 40% of the electricity consumed by uncovered equipment. Doors on dairy and juice cabinets also help save electricity.

Real estate managers

Kesko's 37 Real Estate Managers help K-stores find ways in which to make their energy consumption more efficient. Regular monitoring, technical supervision and comparison of reports from separate properties are used to maintain an optimal level of energy consumption. Real Estate Managers also help stores with long-term planning. Renovation programmes contain estimates of the refurbishment that should be made within 10 years.

Remote monitoring

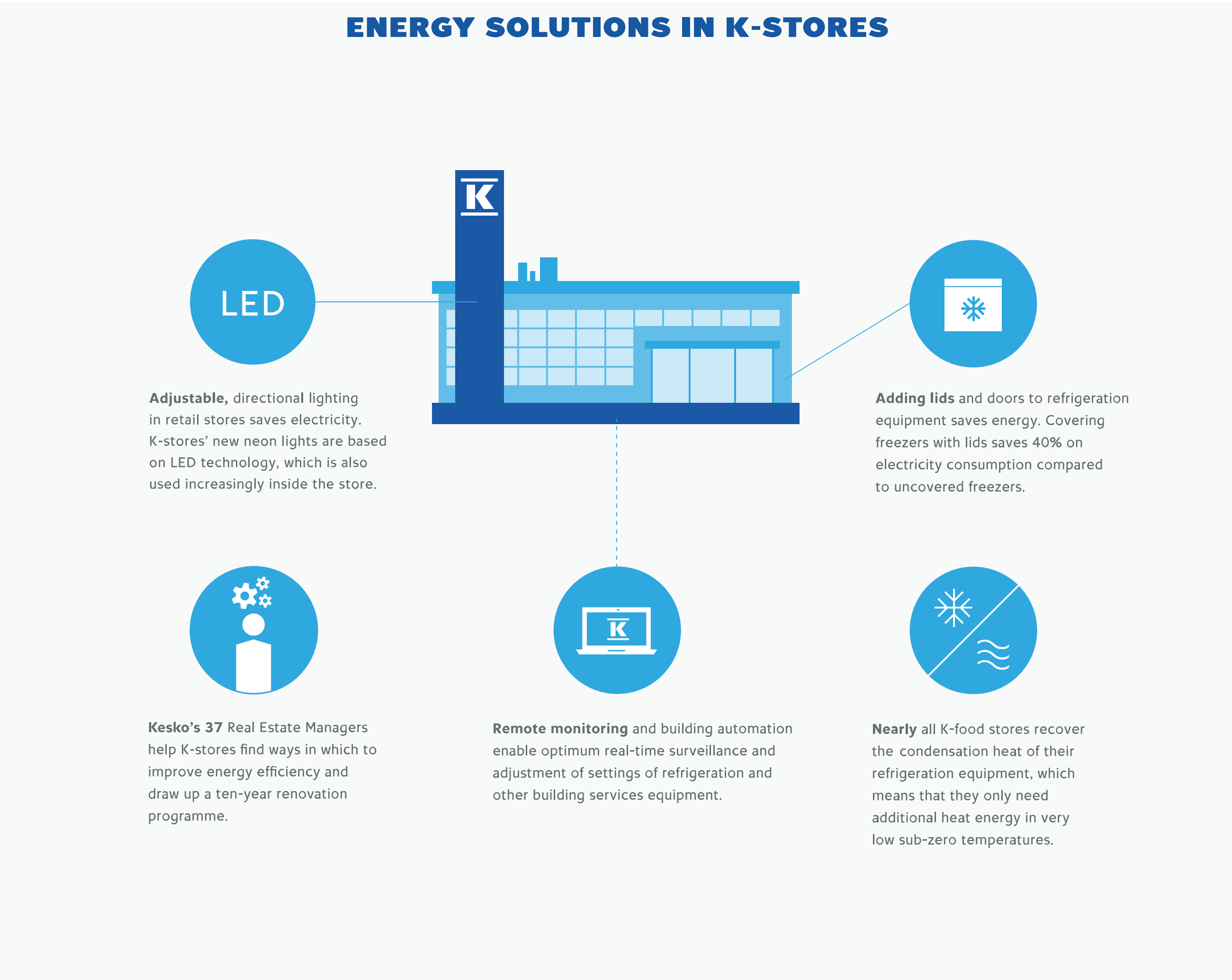
In February 2016, the building automation of 205 Kesko facilities was monitored by a remote energy management centre. The set points of properties and equipment running hours can be changed from the management centre as necessary, which also enables rapid response to disturbances. Setting the correct running times and set points is the easiest and most effective way to improve energy efficiency.

The remote monitoring of refrigeration systems in stores helped save approximately 5.5 GWh of energy in 2015. Remote monitoring enables refrigeration equipment to be adjusted for optimum temperatures and defrosting cycles. In addition, deviations can be responded to immediately.

Condensation heat recovery

Condensation heat from refrigeration equipment is recovered at nearly all K-food stores, which means additional heat energy is needed only during very low sub-zero temperatures.

Increasingly many K-food stores also save energy by using carbon dioxide recovered from industrial processes as the refrigerant in their refrigeration equipment. Carbon dioxide is an environmentally friendly refrigerant. CO_2 refrigeration plants enable the efficient use of condensation energy together with low temperature heating systems. This combination achieves a considerably higher heat energy recovery efficiency compared to the traditional solutions using condensation heat from HFC-refrigeration units.



Information about energy saving efforts by Keslog logistics can be found in the section EN19 Reduction of greenhouse gas (GHG) emissions.

Water

Indicators: EN8–EN10

Finland has abundant water resources. However, due to the large consumption of imported processed goods and the virtual water footprint associated with them, almost half (47.1%) of the water footprint of Finnish consumption falls outside of Finland. Kesko's most significant impacts from water consumption are thus caused by imported products for sale, which originate from areas suffering from water scarcity.

Kesko has initiated a water risk assessment in 2015 for its private label products in order to identify the water basins most affected by water scarcity and contamination issues in its supply chain. The target is to conclude the water risk assessment in 2016 and use the results to plan actions.

EN8 Total water withdrawal by source

Properties managed by Kesko in Finland and in other operating countries use water from municipal water supplies. In addition, a few wells are in use on properties in Estonia, Lithuania and Belarus. The water consumption from these wells accounts for an insignificant part (3%) of total water consumption and is thus reported with the municipal water consumption.

Water consumption by country

m^3	2015	2014	2013
Finland	884,994	935,472	920,414
Sweden	5,627	5,504	9,940
Norway	1,445	1,407	5,527
Estonia	4,954	4,876	6,220
Latvia	10,128	11,297	10,646
Lithuania	38,472	38,903	30,880
Russia	79,755	75,056	53,439
Belarus	43,342	39,741	38,081
Total	**1,068,717**	**1,112,256**	**1,075,147**

Water is mainly used for cleaning purposes in the K-Group's own operations. Maintaining a high level of hygiene is particularly important in food stores and legal requirements for hygiene must be fulfilled. Car wash facilities at Neste Oil K-markets in Finland are big individual consumers of water.

The consumption of water at properties in Finland decreased around 5% in 2015 mainly due to the decreases in the specific water consumptions of the K-citymarket and K-supermarket chains (-3.3% and -6.4%) and the divestment of the Anttila chain. The increase of water consumption in Russia continued with the opening of five more K-food stores during 2014–2015.

Water consumption statistics by property type and changes in properties in Finland are available in the Energy consumption tracking report.

The water consumption data from other countries is compiled from reporting based on water billing or consumption data by each subsidiary. At some stores located in leased properties, water use is included in the lease and not available for reporting (6% of locations in other operating countries). Additionally, data was not available for 2% of properties.

EN9 Water sources significantly affected by withdrawal of water

All properties managed by Kesko use water from municipal water supplies and water sources are not significantly affected by withdrawal of water.

EN10 Percentage and total volume of water recycled and reused

Kesko does not recycle or reuse water. All waste water from operations goes to municipal sewer systems.

Biodiversity

Indicators: EN11–EN14

Kesko's greatest impacts on biodiversity occur throughout the lifecycle of the products on sale. Kesko influences these indirect impacts through its supply chain sourcing policies, which include the fish and shellfish statement, the timber policy, the palm oil policy and the soy policy published in February 2016.

Global food production for a growing population is one of the main threats to biodiversity in the world. Food security can be improved through sustainable and efficient agricultural practices and minimising food waste.

Around 80% of the purchases for K-food stores in Finland are from domestic suppliers, which means maintaining a sustainable and viable Finnish agricultural sector and food production industry is of key importance for Kesko. The K-maatalous chain of agricultural stores has its own Experimental Farm in Hauho, Finland, which researches, tests and develops crop species and sustainable farming methods suitable for conditions in Finland, even as the climate changes. Read more about the Experimental Farm.

Minimising food waste along the entire food production chain from agriculture all the way to the end-consumer reduces stress on biodiversity along with the greenhouse gases related to food waste. Climate change in turn reduces biodiversity especially in areas of increasing desertification. Read more about Kesko's various efforts to reduce greenhouse gas emissions and food waste in the following sections on Effluents and waste and Emissions.

Kesko participates in the Business & Biodiversity Finland programme organised jointly by the Corporate Responsibility Network FIBS and the Ministry of Environment of Finland. In 2015, Kesko participated in the programme's Master Class training course in order to deepen understanding of Kesko's biodiversity impacts and opportunities.

EN11 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas, EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas

Kesko builds store sites only in areas planned by municipalities for business properties.

Kesko does not cause any significant direct impacts on biodiversity. Kesko does not own property or operate in areas adjacent to protected areas or areas of high biodiversity value.

EN13 Habitats protected or restored

Kesko and K-retailers from the Hämeenlinna area are participating in the restoration of the area's major watershed area Lake Vanajavesi as a main partner of the Vanajavesi Centre during 2014–2017. In the summer of 2015, monitors were installed at four K-food stores in the Hämeenlinna area, which show real time water quality data from five measurement sites in the Lake Vanajavesi watershed area.

Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2015, a total of 6,400 tons of contaminated soil was removed from four Kesko sites, which were restored.

The restoration of soil contaminated with oil at a site in Kokkola was executed by permit of the South Ostrobothnia Centre for Economic Development, Transport and the Environment (ELY Centre). The contractor was Ab Tallqvist Infra Oy and Golder Associates acted as the environmental supervisor. Around 54.5 tonnes of contaminated masses were removed from the site. The residual content samples were verified by the Novalab Oy and ALS Laboratory Group laboratories and oil concentrations exceeding the regulatory threshold levels were not found.

The engineering contractor Insinööritoimisto Pohjantekniikka Oy executed a restoration on a property (50,572 m^2) in Sastamala. By permit of the Pirkanmaa ELY Centre, a total of 1,923.4 tonnes of contaminated land and 302 tonnes of oily cement were removed from the restoration site. The site was successfully restored excluding soil located under a building on the property, where heavy hydrocarbon fractions exceeding the higher threshold level remain. According to preliminary plans, the building will be demolished in 2017 and the restoration will then be completed.

By permit of the Central Finland ELY Centre and supervision of Ramboll Finland Oy, a restoration was carried out on a property (17,943 m^2) in Keuruu. The contractors were Louhinta ja porauspalvelu Korhonen Oy and Maansiirto Hämeenniemi Ky. A total of 3,700 tonnes of land classified as contaminated with gasoline and oil was removed. The residual content samples were verified by the Ramboll Analytics Oy laboratory and they fulfilled the restoration target level.

The restoration of a property (2,507 m^2) in Savonlinna was executed by Savonlinnan PR-Urakointi Oy. The job was carried out under the supervision of Ramboll Finland Oy and by permit of the South Savo ELY Centre. A total of 420 tonnes of soil classified as contaminated with oil hydrocarbons was removed. The residual content samples were verified by the SGS Inspection Services Oy laboratories as compliant with threshold levels.

Kesko does not have any protected habitats of its own.

EN14 Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations

No endangered species are directly affected by Kesko's operations.

Emissions

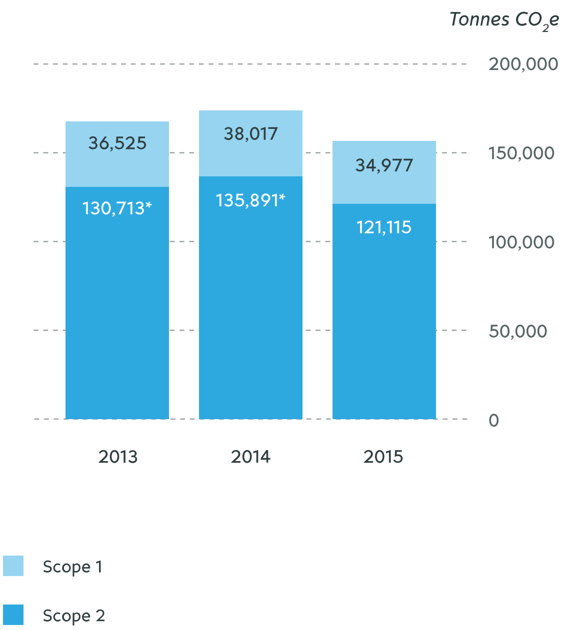
Indicators: EN15–EN19, EN21

Kesko reports direct and indirect (Scope 1 and 2) greenhouse gas (GHG) emissions from its operations according to the GHG Protocol standard.

- Scope 1: GHG emissions caused by fuel consumption for heating and electricity production at properties managed by Kesko and for transportation of goods directly controlled by Kesko
- Scope 2: GHG emissions caused by production of purchased electricity and district heating used by properties managed by Kesko

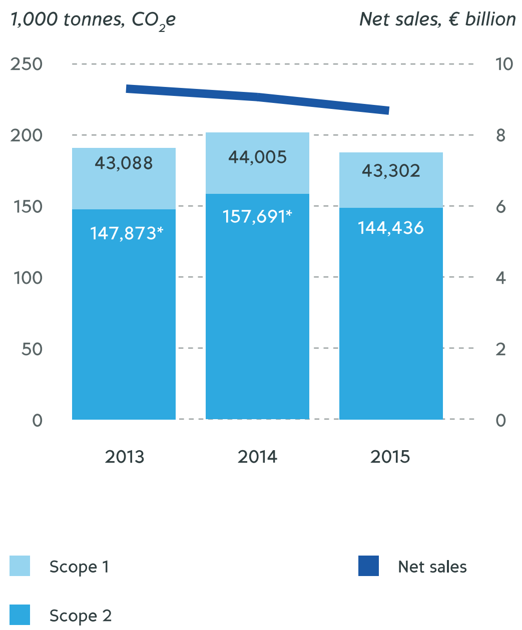
EN15 and EN16 Direct and indirect greenhouse gas (GHG) emissions (Scope 1 and 2)

Scope 1 and 2 emissions, Finland



* Figure adjusted for improved accuracy since the previous report

Scope 1 and 2 emissions, all operating countries



* Figure adjusted for improved accuracy since the previous report

Scope 1 and 2 GHG emissions

Tonnes CO_2e	2015	2014	2013
Direct (Scope 1)	**43,302**	**44,005**	**43,088**
Finland	34,977	38,017	36,525
logistics (Keslog)	34,117	36,915	35,582
self-produced heat (natural gas and oil)	860	1,102	943
Other operating countries	8,325	5,988	6,563
logistics (Belarus and Estonia)	1,115	-	-
self-produced heat and electricity (natural gas, oil, peat and timber[1])	7,210	5,988	6,563
Indirect (Scope 2)	**144,436**	**157,691**	**147,873**
Finland	121,115	135,891	130,713
purchased electricity (market-based)	73,734	81 495[3]	73,836
purchased electricity (location-based)[2]	153,087	165,946	168,168
purchased district heat (location-based)	47,381	54,396[3]	56,878[3]
Other operating countries	23,321	21,800	17,160
purchased electricity (location-based)	18,475	17,362	14,442
purchased district heat (location-based)	4,846	4,438	2,718
Total	**187,738**	**201,696**	**190,961**
Finland, Scope 1 and 2 total	156,092	173,908	167,238
Other operating countries, Scope 1 and 2 total	31,646	27,788	23,723

[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 (about 2%).*

[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. Location-based emissions are calculated with national emission factors and market-based emissions with energy supplier emission factors.*

[3] *Figure has been adjusted for improved accuracy since the previous report*

Scope 1

In 2015, Kesko's Scope 1 emissions in Finland decreased due to reductions in the emissions from logistics and the need for heating. Scope 1 emissions in the other operating countries increased primarily because of the self-produced heat and electricity of the new K-food stores in Russia.

Emissions from logistics in the other operating countries were reported from Belarus and Estonia in 2015. Most of the logistics in the other operating countries are outsourced and are partially reported in the Scope 3 emissions.

The transportation of goods for Kesko's grocery trade in Finland is managed by Keslog and includes its own transportation and that under its direct control. Keslog's emissions were calculated based on data including kilometres driven, volumetric efficiencies, and the transportation fleet using the Lipasto calculation system developed by the VTT Technical Research Centre of Finland. The emissions for logistics operations in Belarus and Estonia were calculated based on fuel consumption.

Scope 2

Kesko's emissions from purchased energy in Finland decreased by 11% in 2015 primarily because of changes in the stock of real estate (the divestment of Anttila) and due to the warm winter, which reduced the need for district heating.

The electricity supplied by Kesko, 438 GWh (469 GWh in 2014), covers around 62% of the total consumption by the properties in Finland. In 2015, the electricity supplied by Kesko was largely carbon-free electricity from Helsingin Energia produced by nuclear power. However, a portion of the electricity was produced with biogas by KSS Energia.

Kesko's emissions from purchased energy in the other operating countries increased by 7%, which was mostly affected by the growing number of K-food stores in Russia.

The calculation principles and more detailed calculations for Scope 1 and 2 emissions attributed to properties managed by Kesko can be found in the Environmental profile reports for Finland and the other operating countries.

EN17 Other indirect greenhouse gas (GHG) emissions (Scope 3)

Scope 3 GHG emissions

Tonnes CO_2e	2015	2014	2013
Upstream			
Purchased goods and services	5,936,000	5,922,000	-
Capital goods (buildings)	18,200	9,900	20,200
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	69,300	76,100	54,900
Transport and distribution of goods	18,300	18,600	26,300
Waste	9,000	10,100	8,500
Business travel	2,700	2,800	3,000
Employee commuting	6,700	7,800	10,800
Downstream			
Customer visits (shopping trips)	154,400	166,100	174,000
Use of sold products	852,900	1,093,900	-
End-of-life treatment of sold products	16,300	28,000	-
Franchises (retailer entrepreneurs)	22,800	27,800	-

The Scope 3 calculation principles can be found in the Kesko Scope 3 Report.

EN18 Greenhouse gas (GHG) emissions intensity

The Scope 1 and 2 greenhouse gas emissions intensity is calculated based on net sales (€8,679 million in 2015) and average number of employees (18,955 in 2015).

Scope 1 and 2 GHG emissions intensity

	2015	2014	2013
Based on net sales (tonnes CO_2e / € million)	21.6	22.2	20.5
Based on average number of employees (tonnes CO_2e / person)	9.9	10.1	9.8

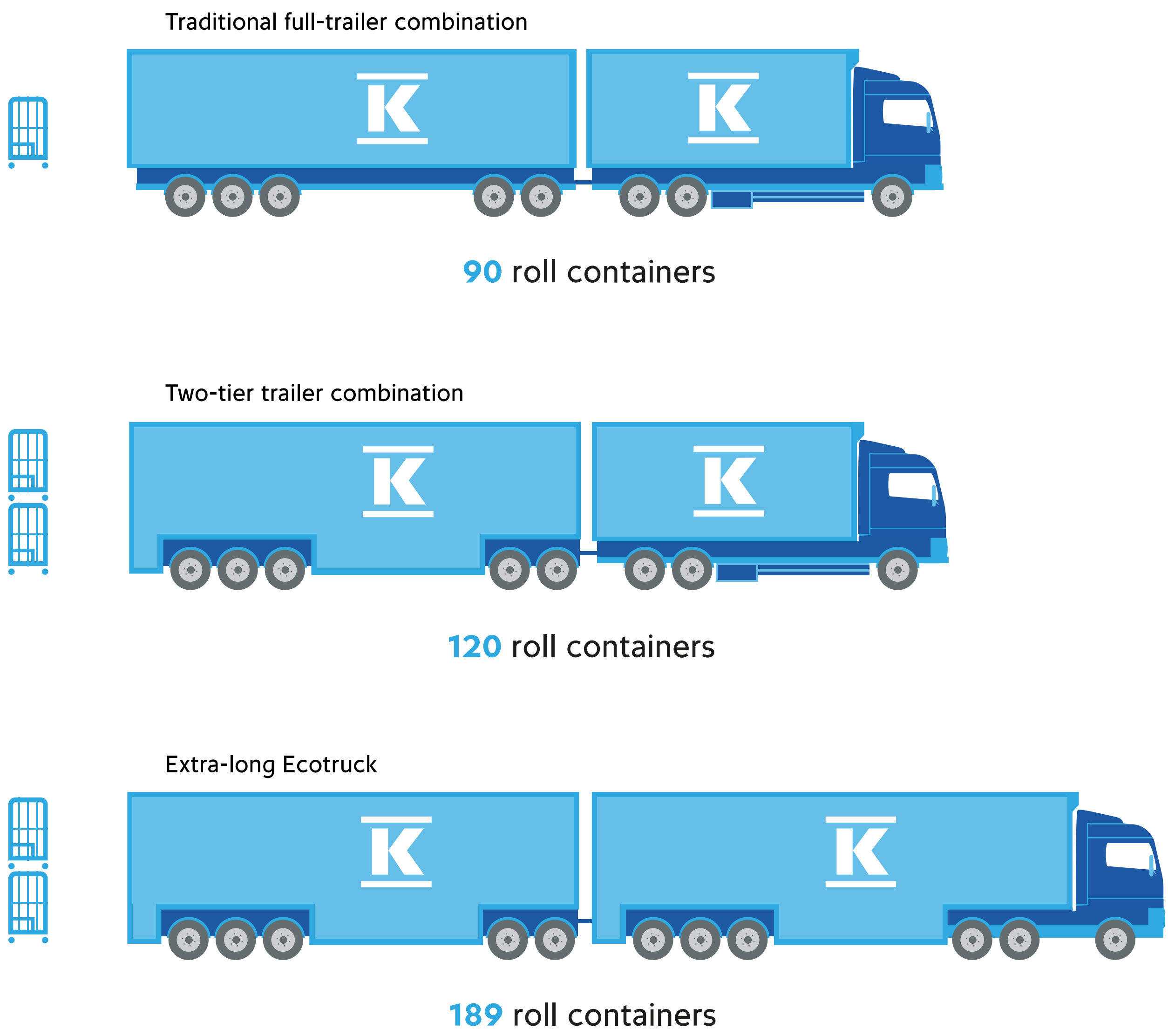
Figures for 2013 and 2014 have been adjusted since the previous report

EN19 Reduction of greenhouse gas (GHG) emissions

In Finland, the grocery trade logistics operations (Keslog) works ambitiously to reduce emissions:

- 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 and recycled bottles and cans on the return route
- Economical driving courses: all of Keslog's more than 500 contract drivers have been trained
- New replacements in the vehicle fleet: nine two-tier trailers and one extra-long Ecotruck in use in long-distance transportation between main warehouses

EFFICIENT LOGISTICS FLEET



The grocery trade logistics operations' (Keslog) target is to reduce CO_2 emissions relative to the net sales index by 10% during 2012–2020 from base year 2011. In 2015 the emissions have decreased by 5.5% due to new solutions in transportation management and fleet.

Actions under the energy efficiency agreement lead to 64 GWh of saved energy by the end of 2015, which corresponds to 14,080 tonnes of CO_2e emissions calculated using the average emission factor for electricity in Finland (220 kg CO_2e/MWh).

Emission reductions in employee commuting and travel

In 2015, the air miles of Kesko employees travelling for business totalled 8.0 million (8.1 million in 2014). Encouraging the use of virtual meetings is one of the ways Kesko endeavours to decrease the amount of air travel. The amount of virtual meetings held via the Microsoft Lync application has increased by 19% since the previous year. In 2015, a total of 47,453 hours of Lync-meetings were held (39,924 hours in 2014). At the end of 2015, the Kesko Group had 26 Videra video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 3,812 hours (4,341 hours in 2014).

At the end of 2015, Kesko had 607 company cars in use in Finland (644 in 2014).

- 12 ethanol-fueled cars (17 in 2014)
- 263 petrol-fueled cars (268 in 2014)
- 330 diesel-fueled cars (358 in 2014)
- 2 natural gas cars (1 in 2014)

Kesko's company car policy recommends low-emission car models and the latest motor technology. Kesko company cars have an emission level below 160 g CO_2/km. In 2015, the average emission level was 127 g CO_2/km (132 g CO_2/km in 2014) and the emissions from company cars totalled 2,367 CO_2 tonnes (2,497 CO_2 tonnes in 2014). This calculation also includes private use of company cars.

EN21 NO_x, SO_x, and other significant air emissions

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2015 caused:

- 214 tonnes of NOx emissions (241 t in 2014)
- 181 tonnes of SO_2 emissions (204 t in 2014)
- 1.5 tonnes of radioactive waste (1.6 t in 2014)

The calculation principles and more detailed calculations are available in the Environmental profile report.

Only CO_2 emissions data is collected on transportation of goods.

Effluents and waste

Indicators: EN22–EN24

Kesko aims to recover all waste from its operations and achieve the zero waste to landfill target.

Reducing food waste

The goal of the Kesko grocery trade division is to minimise the food waste caused by its operations and utilise inevitably accumulated organic waste. Read more about the target in the Responsibility programme.

Food waste is reduced and utilised in this order:

- Food waste reduction measures: electronic forecast and order systems, efficient logistics, employee training, and optimisation of packaging properties
- Price reductions of products approaching their best before dates
- Donating food removed from sale to charity
- Collection of non-edible organic waste for energy production

In 2015, Kesko initiated a cooperation with Gasum in order to utilise the organic waste collected from the southern Finland area K-food stores and warehouse for biogas production to be used as energy in the production of Pirkka products.

Kesko encourages customers to reduce food waste accumulated at home. Kesko and the K-food stores participated in the Food Waste Week organised by the Consumers' Union of Finland in September 2015 by offering information, tips and recipes in customer communications for reducing food waste.

Circulation of materials

Cardboard and plastic bales from approximately 200 K-food stores were centrally directed by Kesko's grocery trade division for industry reuse in 2015. Around 2,600 tons of cardboard and 80 tons of plastic were collected.

K-stores provide recycling points and services on their premises in order to promote an easy and efficient way for households to recycle consumer packages and other items no longer used.

- Around 255 recycling points for consumer packaging (fibre, glass, metal) were located at K-food store sites in February 2016. Plastic was collected at 38 recycling points (11 in 2014). Several of them also accepted wastepaper and discarded clothing.
- All K-food stores accept deposit beverage containers. In 2015, customers returned:
  - 311 million cans
  - 94 million recyclable plastic bottles
  - 26 million recyclable glass bottles
- All K-food stores accept and collect portable batteries and small accumulators for recycling
- The total amount of WEEE collected at K-stores in 2015 was approximately 119 tonnes

Packaging collected by Keslog reverse logistics for recovery and reuse

1,000 pcs	2015	2014	2013
Aluminium cans	96,479	93,107	85,009
PET bottles	61,403	54,296	52,511
Recyclable glass bottles[1]	9,462	9,667	12,508
Reusable crates	17,294	16,501	18,457

¹ Part of the recycling of glass bottles was separated from Keslog reverse logistics in 2014

Impregnated timber and lead-acid accumulators recycled by K-Rauta and Rautia, Finland

Tonnes	2015	2014	2013
Impregnated timber	914	1,003	1,080
Lead-acid accumulators	1.6	4.3	2.4

Batteries and accumulators collected at K-Group stores (Recser), Finland

Tonnes	2015	2014	2013
Batteries and accumulators	210	193	174

Clothing collected through UFF recycling points located at K-store sites

Tonnes	2015	2014	2013
Recycled clothing	2,915	2,507	2,280

EN22 Total water discharge

Waste water from Kesko's operations goes to municipal sewer systems. Water discharge referred to by GRI does not occur from Kesko's operations.

EN23 Waste

Waste in all operating countries

Tonnes	2015	2014	2013
Non-hazardous waste	27,785	30,699	25,422
Recycling/recovery	18,423	19,675	18,113
Landfill	9,362	11,024	7,309
Hazardous waste	1,262	164	275
Recycling/recovery	172	-	-
Hazardous waste treatment	1,090	-	-
Total	**29,047**	30,863	25,697

Waste recovery rates

The waste management statistics in Finland cover mostly warehousing operations, while in the other countries statistics cover mostly store operations. The recovery rate of waste management in Finland increased to 99% in 2015 due to the burning of mixed waste for energy. The recovery rate in the other operating countries was 46% in 2015. The recovery rate includes all waste except waste to landfill.

Kesko offers the southern Finland area the opportunity to participate in a centralised waste management agreement. In 2015, 97 K-food stores, 11 building and home improvement stores and 14 other stores participated in the agreement. The recovery rate of the waste generated in these stores was about 98% (96% in 2014) and the recycling rate was about 67% (67% in 2014).

Waste, Finland

Tonnes	Grocery trade			Home improvement and speciality goods trade[1]			Car trade		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Non-hazardous waste	9,102	9,190	8,687	1,036	2,095	2,503	599	605	655
Recycling/recovery	8,998	8,846	8,296	1,025	2,087	2,333	598	592	618
Landfill	104	344	391	11	8	170	1	13	37
Hazardous waste	8	8	2	959	4.1	2	158	31	35
Recycling/recovery	-	-	-	24	-	-	136	-	-
Hazardous waste treatment	8	-	-	935	-	-	22	-	-
Total	**9,110**	**9,198**	**8,689**	**1,995**	**2,099**	**2,505**	**757**	**636**	**690**
Recovery rate,%	99	96	96	99.4	99.6	93	99.9	98	95

[1] *A small part of the data is based on estimation (2% of the home improvement and speciality goods trade's total waste)*

Waste, Sweden and Norway

Tonnes	Sweden			Norway		
	2015	2014	2013	2015	2014	2013
Non-hazardous waste	2,645	2,788	3,302	633	1,022	1,063
Recycling/recovery	2,420	2,206	2,464	593	1,019	1,057
Landfill	225	582	838	40	3	6
Hazardous waste	61	29	169	15	55	37
Recycling/recovery	4	-	-	-	-	-
Hazardous waste treatment	57	-	-	15	-	-
Total	**2,706**	**2,817**	**3,471**	**648**	**1,077**	**1,100**
Recovery rate,%	92	79	76	94	99	99

Waste, the Baltics, Russia and Belarus

	Estonia			Latvia			Lithuania			Russia[1]			Belarus[1]		
Tonnes	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
Non-hazardous waste	680	631	543	612	545	602	2,605	3,545	2,904	8,303	8,537	4,658	1,570	1,741	505
Recycling/recovery	608	392	193	156	127	183	1,699	2,430	1,793	2,279	1,918	1,138	48	58	38
Landfill	72	239	350	456	418	419	906	1,115	1,111	6,024	6,619	3,520	1,522	1,683	467
Hazardous waste	20	14	11	3	3	2	36	18	16	1	1	1	1	1	0.2
Recycling/recovery	-	-	-	-	-	-	8	-	-	-	-	-	0.1	-	-
Hazardous waste treatment	20	-	-	3	-	-	28	-	-	0.8	-	-	0.9	-	-
Total	**700**	**645**	**554**	**615**	**548**	**603**	**2,641**	**3,563**	**2,920**	**8,304**	**8,538**	**4,659**	**1,571**	**1,742**	**505**
Recovery rate,%	90	63	37	26	24	31	66	69	62	27	22	24	3	3	8

[1] *Data for one location was not available*

EN24 Total number and volume of significant spills

In 2015, no significant oil, fuel, waste, chemical, or other spills occurred. Read more about habitats protected or restored.

SOCIAL IMPACTS

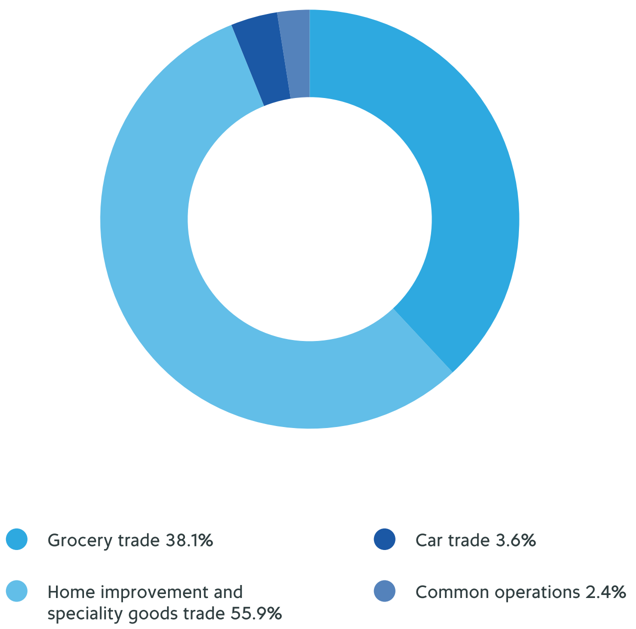
Employees

Indicators: LA1–LA2, LA4–LA6, LA9–LA13

LA1 Employee turnover

In 2015, Kesko had an average of 18,955 (19,976 in 2014) full-time equivalent employees in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. 44% of the employees worked in Finland and 56% in other countries. Around three quarters of all employees worked in retailing.

Distribution of Kesko personnel by division at 31 Dec. 2015, %



Changes in the number of Kesko employees

	2015	2014	2013
Finland at 31 Dec.	10,081	12,180	12,776
Other operating countries at 31 Dec.	11,854	11,614	11,087
Total at 31 Dec.	21,935	23,794	23,863
Finland, average	8,300	9,580	9,805
Other operating countries, average	10,655	10,396	9,683
Total, average	**18,955**	**19,976**	**19,489**

Fixed-term and part-time employments at Kesko

	2015	2014	2013
Fixed-term employees of total personnel at 31 Dec., %			
Finland	**11.5**	13.9	12.9
Companies in other operating countries	**6.1**	7.2	7.0
Whole Group, total	**8.6**	**10.7**	**10.2**
Part-time employees of total personnel at 31 Dec., %			
Finland	**39.4**	43.6	45.4
Companies in other operating countries	**8.1**	7.1	8.0
Whole Group, total	**22.5**	**25.8**	**28.1**

Kesko's personnel statistics for 2015 analysed by operating country

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus
Total number of personnel at 31 Dec.	10,081	815	225	567	470	3,869	3,641	2,267
Average number of personnel in 2015	8,300	785	203	538	478	3,492	3,149	2,010
Number of new employments[1]	3,175	279	54	179	186	2,243	2,137	1,475
- women	1,726	85	14	79	46	2[3]	1,223	758
- men	1,449	194	40	100	140	9[3]	914	717
Number of terminated employments[1]	2,966	208	217	166	209	2,251	1,886	1,419
Terminated by employer, %	4.6	6.7	30.0	4.8	9.1	14.7	11.0	38.0
Total turnover rate, %[2]	20.6	25.5	95.1	20.1	36.2	57.2	51.8	28.1

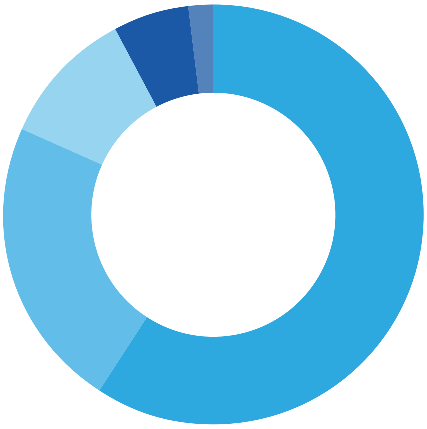
[1] *Including summer employees*

[2] *Excluding summer employees*

[3] *Excluding Senukai, Lithuania*

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.

Recruits, age distribution 2015, %



LA2 Benefits provided to employees

Kesko Group provides its employees in all of its operating countries with employee benefits. In Finland, benefits provided to both permanent as well as fixed-term and part-time employees include

- Occupational health services
- Insurance against occupational injuries and diseases
- Parental leave
- Retirement benefits

In all of the operating countries, Kesko supports its employees' leisure activities in different ways. The Finnish companies, for example, provide vouchers for physical exercise and cultural benefits. Some of the companies operating in Russia, Estonia, Latvia and Lithuania also give financial support to their employees through various life stages, such as when a child is born, during the child's first year at school, in the event of the death of a close relative and in other special situations. Employees are also provided with a diverse range of shopping benefits that apply in K-Group stores and staff shops. A company phone and car are also provided if required for the job.

Bonus payments and share-based payment plan

The performance bonus schemes cover the entire personnel, with the exception of sales assistants and jobs covered by other types of bonus and commission systems. The indicators in the performance bonus scheme include the total performance of Kesko Group and the division, the sales and performance of the employee's own unit and customer satisfaction. The job satisfaction of personnel also contributes to supervisors' bonuses. In spring 2015, around €12.4 million (€12.7 million in 2014) was paid in Finland in bonuses under the 2014 performance bonus schemes, accounting for some 4.0% (3.6% in 2014) of the total payroll.

In 2015, the total amount of bonuses paid — consisting of bonuses, sales commissions and other similar monetary remuneration — was as follows:

- €13.1 million (€13.4 million in 2014) in Finland
- €5.0 million (€6.2 million in 2014) in other operating countries

Kesko Group's management and key people – comprising around 150 people – are covered by a performance-based bonus scheme. The maximum bonus amounts vary depending on the profit impact of the person's job and are equivalent to 3–8 months' salary. Kesko has a share-based payment system for 2014–2016 covering around 150 Kesko management personnel and other named key personnel. The share-based payment system has three vesting periods: the calendar years 2014, 2015 and 2016. A commitment period of three calendar years follows each vesting period. During this period, shares must not be transferred. In February 2016, the Board of Directors decided to grant a total of 140,365 of the company's series B shares to 142 Kesko management personnel and other named key personnel based on the fulfilment of the vesting criteria for the 2015 vesting period in the share-based payment system.

Pensions

In Finland, new pensions were granted to 168 employees (155 in 2014) who retired from Kesko Group. In addition to old-age and disability pensions, this figure also includes employees retiring on part-time pension or partial pension and those receiving cash rehabilitation benefit. Cash rehabilitation benefit is a fixed-term disability pension and the aim is that the employee can eventually be rehabilitated and return to work.

Rehabilitation allowance was granted for vocational retraining or trials for 50 (40 in 2014) employees with an obvious risk of incapacity for work in the next few years. In 2015, the average retirement age of employees was 59 (59 in 2014). In other operating countries, a total of 15 (14 in 2014) employees retired.

LABOUR/MANAGEMENT RELATIONS

LA4 Minimum notice periods regarding operational changes

In all of its operating countries, Kesko complies with local legislation. The key statutes governing restructuring are included in the Act on Co-operation within Undertakings, according to which the employer has to communicate the decisions under consideration on the basis of the negotiations within a reasonable period of time. Minimum notice periods regarding operational changes have not been defined in the trading sector collective agreement.

In Sweden, the statutory minimum notice period in the event of organisational changes is between 8 and 24 weeks depending on the nature of the change. The collective agreement observed in Sweden does not define a minimum notice period for operational changes.

In Norway, there is no minimum notice period in the event of organisational changes. However, legislation and the collective agreement demand that employees be notified of any organisational changes at the earliest possible stage.

In Russia, notifications of operational changes must be made 8.5 weeks before the changes take effect. In the event of major organisational changes that concern more than 20% of the employees, the authorities must also be notified 8–12 weeks in advance. In Estonia and Latvia, the minimum notification period regarding operational changes is 4 weeks. In Belarus, the corresponding notification period is 8 weeks. There are no collective agreements in these countries.

In all of its operating countries, Kesko applies the notice periods specified in local labour legislation. In Finland, the notice period is between two weeks and six months, depending on the duration of the employment relationship. Employees can ask questions, give feedback or development proposals on issues related to the operations of Kesko or its subsidiaries anonymously via the 'Direct Line' available on the Keskonet intranet. Answers are published for all to see on Keskonet. Employees can also send their wishes, comments and proposals directly to the President and CEO through the feedback channel available on Keskonet.

OCCUPATIONAL HEALTH AND SAFETY

LA5 Percentage of total workforce represented in formal health and safety committees

Labour protection activities are arranged separately by each company or place of business in compliance with local legislation. Outside the Nordic countries, labour protection matters are dealt with in workplace committees.

Kesko's HR functions provide occupational safety training for Kesko employees and K-retailers. Different companies also arranged training sessions tailored to their needs.

LA6 Rates of injury, occupational diseases, lost days, absenteeism and work-related fatalities

At Kesko Group, the counselling and guidance of employees, appraisal and prevention of work-related health risks and illnesses, including treatment of serious illnesses, in cooperation with the primary and specialised health care providers are part of the normal operations of the Occupational Health Service.

In Finland, approximately 10,200 (10,500 in 2014) Kesko Group employees were covered by Kesko's in-house Occupational Health Service. In Finland, occupational health services for employees outside the Greater Helsinki area are mainly procured from other service providers. Centralised procurement and target-oriented management enable uniform contents and operating practices in occupational health care. In other countries, occupational health care is arranged according to local practice and legislation. A total of around €3.7 million (€5.2 million in 2014) was spent on occupational health care in Finland in 2015. The Social Insurance Institution of Finland compensated Kesko for around €2.0 million (€2.5 million in 2014) of this amount. In 2015, Kesko's Occupational Health Service spent €359 (€412 in 2014) per covered employee on maintaining employees' working capacity and providing medical care.

Kesko's contribution to occupational health care, Finland

	2015	2014	2013
€/person	359	412	481

Injuries and occupational diseases in Finland

	2015	2014	2013
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	93	124	116
Commuting injuries	35	32	43
Injury rate[1] /million working hours	6	6	6
Average degree of injury severity, days	16.9	17.6	18.3
Suspected occupational diseases	4	11	4
Occupational diseases	0	0	9
Sick days due to occupational injuries, commuting injuries and occupational diseases	2,166	2,751	2,902
Per employee	0.27	0.29	0.30

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 or the following companies: Vähittäiskaupan Takaus Oy, Vähittäiskaupan Tilipalvelu VTP Oy, the Agricultural Foundation of Trade.

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

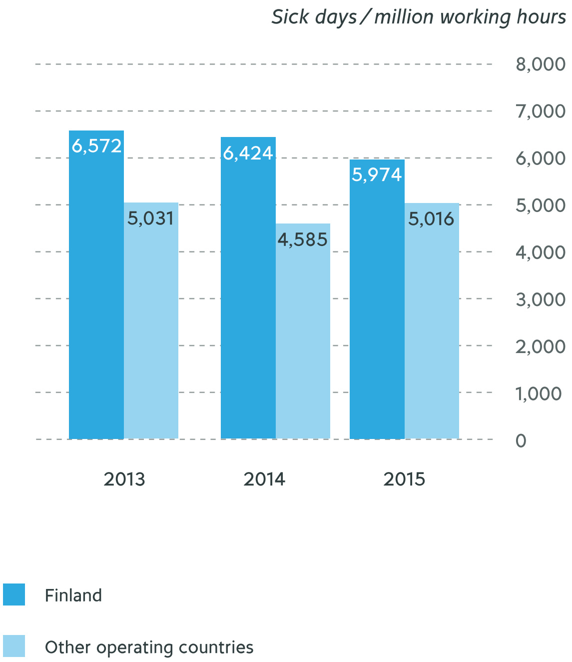
Sickness absences by country in 2015

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus
Total number of sick days	93,510	7,865	2,414	3,537	3,886	35,446	31,548	21,485
Per employee	11.3	10.0	11.9	6.6	8.1	10.2	10.0	10.7
Per million working hours	5,974	5,694	6,755	3,240	4,023	5,025	5,059	5,260

The calculation method: sick days per employee have been calculated on the average number of employees during the year.

Data of Konsoma JLLC, Belarus not included.

Trends in number of sick days



Data for Konsoma JLLC, Belarus not included.

The statistics on injuries in Finland and the analysis of sickness days by country are presented in the above tables. In other countries, there were a total of 45 injuries resulting in sickness absence of more than three days in 2015. In Finland, the corresponding number was 93. In 2015, the sickness absence rate in Finnish companies was 4.4% (4.5% in 2014) of hours worked. Around 77.4% (78% in 2014) of the sickness absences were short-term absences (paid sick days). In other countries, the sickness absence rate was 3.7% (3.7% in 2014). The figures do not include the data for Konsoma JLLC.

TRAINING AND PERSONNEL DEVELOPMENT

LA9 Average hours of training per employee, LA10 programmes for skills management and lifelong learning

Systematic, business-driven development of personnel and management is a critical factor for future success. The sea change in the trading sector and the increase in the number of electronic transactions has created needs for new competencies. The implementation of the strategy in all divisions included a survey of digital competencies as part of performance and development reviews. The first K Digital Academy training programme was developed and implemented for those working in marketing. An online training programme in digital marketing was created for all K-Group employees. Several regional training sessions on social media were organised for retailers.

Other core competence development areas include

- Sales and service competence
- Product line specific competence advantage projects
- Safety and responsibility
- Immediate leadership
- Management

The Master Sales Assistant training, which is intended for all sales assistants in the K-Group, focuses on providing sales and service training. Vocational training and an opportunity to take specialist vocational qualifications are also available to retail store staff.

Specified career paths were created for supervisors and the first training programmes for new supervisors were piloted in the autumn. At the same time, an extensive common training offering was developed for supervisors and specialists for competence development.

In-house job rotation provides an extensive selection of career alternatives. In Finland, there were around 1,800 (1,900 in 2014) internal transfers to new jobs, while the corresponding total figure in other countries was around 2,900 (2,500 in 2014).

In Finland, recruitment in the K-Group is supported by the K-trainee and retailer training programmes. 11 K-trainees graduated from the fifth K-trainee programme, which ended in September 2015. In 2016, the focus will be on digital activities and the programme will be entitled 'K-digital trainee'.

Future K-retailers are trained in the retailer training programmes. Coaching involves online studies and on-the-job training under a mentor retailer, as well as regional and national on-site training periods. Those completing the programme are qualified to start a career as independent K-retailers.

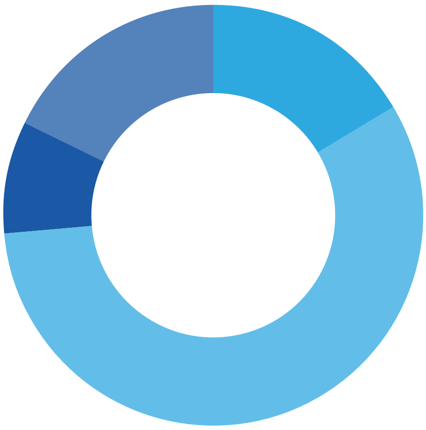
Training days and costs in 2015

	2015	2014	2013
Training days[1]			
Finland	6,891	9,083	9,021
Other countries[2]	14,614	14,285	16,848
Training days per employee[1]			
Finland	0.8	0.9	0.9
Other countries[2]	1.4	1.4	1.7
Training costs, € million			
Finland	2.5	2.9	2.0
Other countries	0.9	0.8	0.9
Training costs per employee, €			
Finland	299	298	205
Other countries	87	80	94

[1] 2015: Excluding Konsoma JLLC, Belarus and OOO Kesko Real Estate, Russia

[2] 2013 and 2014: Excluding Konsoma JLLC, Belarus

Distribution by education at 31 Dec. 2015, %



Byggmakker, Norway and K-rauta, Sweden not included.

LA11 Performance and career development reviews

Performance and development reviews and performance assessment of key personnel are carried out in all Kesko Group companies and operating countries. In the performance and development reviews, the performance of the past period is evaluated and targets are set for the upcoming period, including a discussion on the development of the employee, supervisory work and the working community. Performance and development reviews apply to all employees and in 2015 they were carried out twice: in the spring and in the autumn. The realization of the discussions was asked in the personnel survey that was conducted in the beginning of 2016. The response rate of the survey was 85%. 79% of female and 82% of male employees that answered the survey had their reviews carried out during 2015.

The objective of performance assessment is to support employees' development and encourage them to improve their performance. Uniform evaluation criteria enable systematic assessment of key personnel and management resources and support job rotation between Group companies.

Personnel survey

The personnel survey is one of the key tools in developing internal working practices and the quality of supervisory work. The survey is conducted simultaneously in Kesko Group and some of the K-stores in Finland and other countries. It looks into employee engagement in the organisation, practices that enable good performance, employee wellbeing and satisfaction with the performance of their immediate supervisors and management.

Based on the results, the supervisor and the employee agree on development activities, which are linked to the annual action and HR plan and are monitored. In 2015, all of the divisions focused on implementing the action plans drawn up on the basis of the personnel survey in 2014. The next personnel survey was carried out at the beginning of 2016.

DIVERSITY

LA12 Composition and diversity of governance bodies and employee categories

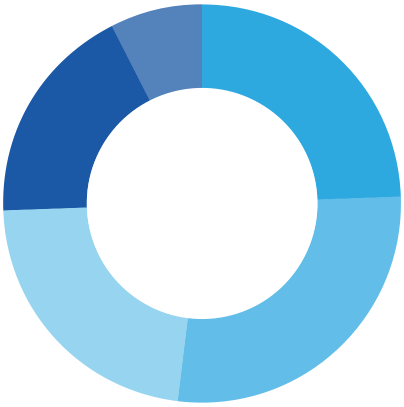
Equality, fairness and non-discrimination are important principles observed at Kesko. Kesko Corporation and its Finnish division parent companies and subsidiaries draw up statutory company-specific HR and equality plans and define objectives for improvement. The plans cover recruitment, career development and training, compensation, and the reconciliation of work and family life.

- Of Kesko Group employees in Finland 55% were female and 45% were male. In other operating countries, the figures were 50% and 50% respectively.
- In Finland, the average age of employees was 36.2 years in 2015. In other countries, the average age of employees varied from 28 to 42 years.
- Lengths of employee careers: under 10 years: 68% and over 10 years: 32% in Finland and 91% and 9% respectively in other countries. Long careers are not rare: 911 employees have worked at Kesko for over 25 years.
- Two of the seven members of Kesko's Board of Directors were women
- Two of the nine members of the Group Management Board were women
- In the subsidiaries engaged in retailing in Finland, the proportion of women in supervisory duties is high: 83% of the department managers in K-citymarket hypermarkets are women
- At the end of 2015, 51% of all supervisors in Finland (54% in 2014) were women and 49% (46% in 2014) were men

In recent years, the K-Group has launched many projects to provide employment to special groups:

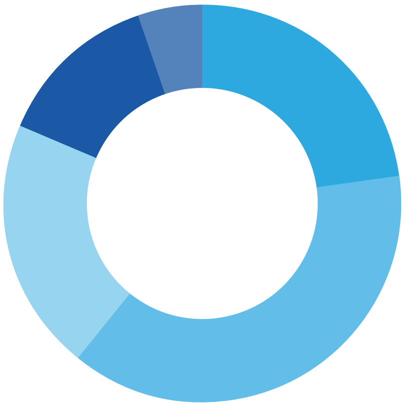
- In 2012, the K-Retailers' Association started a project called 'Many kinds of performers' in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent operating model was created based on this. Most of the disabled people employed during the project still work at the K-Group.
- In 2013, Kesko and the K-Retailers' Association launched the 'Youth Guarantee in the K-Group' programme, which aimed to provide a job, a work trial or an apprenticeship in the K-Group for 1,000 young people threatened by social exclusion by the end of 2014. The target group also included young immigrants and young people with disabilities. By the end of 2015, more than 2,500 young people had found employment in the form of a work trial, through wage support and apprenticeship training.
- Employment of the young and special groups continues as a permanent operating model. The K-Retailers' Association has a Youth Guarantee coordinator, who gives K-retailers and Kesko's supervisors advice related to the employment and training of these groups and acts as a liaison to the authorities and associations.

Age distribution of Kesko personnel in Finland in 2015, %



- Under 26 years 24.6%
- 26–35 years 27.4%
- 36–45 years 22.6%
- 46–55 years 18.0%
- Over 55 years 7.4%

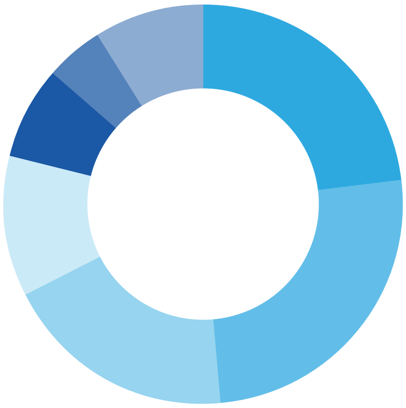
Age distribution of Kesko personnel in other operating countries in 2015, %



- Under 26 years 22.9%
- 26–35 years 38.0%
- 36–45 years 20.7%
- 46–55 years 13.2%
- Over 55 years 5.1%

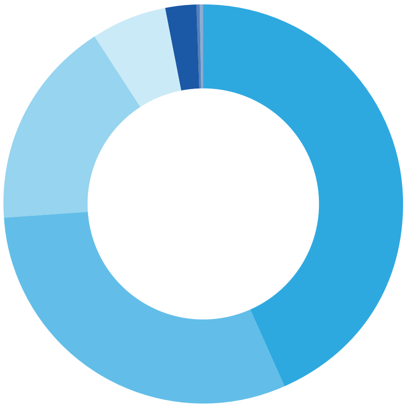
The figures also include those called to work on demand.

Years of service in Finland in 2015, %



- Under 2 years 23.1%
- 2–5 years 25.6%
- 6–10 years 19.0%
- 11–15 years 11.4%
- 16–20 years 7.5%
- 21–25 years 4.8%
- Over 25 years 8.7%

Years of service in other operating countries in 2015, %



- Under 2 years 43.6%
- 2–5 years 30.4%
- 6–10 years 16.8%
- 11–15 years 6.2%
- 16–20 years 2.6%
- 21–25 years 0.3%
- Over 25 years 0.1%

The figures also include those called to work on demand.

EQUALITY OF MEN AND WOMEN

LA13 Ratio of basic salary of men to women

The average annual salary of Kesko employees was €37,478 in Finland, €37,506 in the other Nordic countries, and €9,524 in the Baltic countries, Russia and 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 trading sector labour agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are affected by job-based responsibility bonuses, work experience and the cost-of-living category, which depends on locality. Besides the role and job requirements, the salary of a senior white-collar employee is determined by competence, work experience, performance and results. Because of the diversity of job descriptions, it is not possible to comprehensively compare the salaries between genders at the Group level.

Equality in compensation is considered as part of annual company-specific equality plans. Gender is not a factor in determining pay levels, and no significant differences in comparable jobs have been detected. Company-specific equality plans strive to promote pay equality in jobs where comparisons can be made.

Percentage of women by employee category, Finland

	2015	2014	2013
Top management	20.0	15.6	16.7
Middle management	21.1	18.6	19.8
Supervisors and specialists	46.4	48.2	47.7
Workers and white-collar employees	57.8	61.5	61.9
Total	**55.4**	**58.8**	**59.3**

The figures also include those called to work on demand

Percentage of women by employee category, other countries

	2015	2014	2013
Top management	0.0	0.0	0.0
Middle management	47.7	46.8	48.6
Supervisors and specialists	54.4	54.7	52.6
Workers and white-collar employees	47.8	46.2	48.9
Total	**50.5**	**51.5**	**50.2**

2013: Excluding Senukai, Lithuania and Byggmakker, Norway

2014 and 2015: Excluding Senukai, Lithuania

Human rights

Indicators: HR3–HR4, HR9–HR11, LA14–LA15

NON-DISCRIMINATION

HR3 Total number of incidents of discrimination and corrective actions taken

In 2015, there was one case in the Finnish courts of law in which a company belonging to Kesko Group was sued for compensation on grounds of alleged discrimination. The proceedings will continue in 2016.

FREEDOM OF ASSOCIATION

HR4 Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk

A total of 41.8% (41.8% in 2014) of Kesko Group employees in Finland were members of trade unions, mainly the Service Union United PAM. This statistic includes the employees whose trade union membership fees are deducted at source from pay.

In Norway, the unionisation rate was 23.1% (25.7% in 2014). Statistics on employee unionisation in the other operating countries are not available. In the Baltic countries, Kesko's subsidiaries have workplace committees composed of management and employee representatives.

The National Works Council meets twice a year. The international Group-level European Works Council (EWC) meets once a year.

Collective agreements cover all of Kesko's employees in Sweden and Norway, and around 81% (83%) in Finland. So far, no binding industry-wide collective agreements have been drawn up in the Baltic countries or Russia.

The control of the unionisation of suppliers' employees in high-risk countries and corrective actions are included in the SA8000 and BSCI audits.

HUMAN RIGHTS ASSESSMENTS

HR9 Operations that have been subject to human rights reviews, HR10 Suppliers that were screened using human rights criteria, HR11 Significant negative human rights impacts in the supply chain and actions taken

Work related to the human rights impact assessment in accordance with the UN Guiding Principles on Business and Human Rights continued. In autumn 2015, we engaged in dialogue with our stakeholders, which will continue in spring 2016.

- Consumers. TNS Gallup looked into human rights in the K-Group's operations on the basis of small-group discussions and a web survey sent to 567 K-Group customers and 41 specialists
- Employees in factories in high-risk countries. District coordinators of the Trade Union Solidarity Centre of Finland (SASK) interview employees of the factories manufacturing Kesko's own-branded goods in three high-risk countries (India, Bangladesh and the Philippines). The interviews focus on human rights in the factory and the impact of Kesko's operations.
- Personnel. Employees were able to make themselves heard in two ways: the applicable sections in the personnel survey were made use of and a survey directed to shop stewards was carried out.

The human rights assessment is expected to be completed during the first half of 2016. It will be published on Kesko's website.

In 2014 and 2015, Kesko participated in retail round table discussions organised by the Ministry of Employment and the Economy and the Ministry for Foreign Affairs as part of the national implementation of the UN Guiding Principles on Business and Human Rights. Grocery retail companies, NGOs and authorities presented a common viewpoint on the implementation of the UN Guiding Principles on Business and Human Rights in the sourcing chains of the grocery trade. The viewpoint was published in August 2015. Read more about discussions in the grocery trade. However, discussions about preparing a corresponding recommendation for the textiles and clothing sector were discontinued.

Suppliers in high-risk countries are mainly assessed by BSCI audits. Kesko's BSCI results for 2015 in different areas are presented in a graph in the section on supplier assessment for labour practices. Corrective actions and their monitoring are included in the audit process.

SUPPLIER ASSESSMENT FOR LABOUR PRACTICES

LA14 Percentage of new suppliers that were screened using labour practices criteria, LA15 Significant actual and potential negative impacts for labour practices in supply chain and actions taken

SA8000 certifications and BSCI audits

Kesko mainly uses BSCI auditing and the SA8000 standard for assessing its suppliers in high-risk countries. Kesko also accepts other social responsibility systems, if their criteria correspond to those of BSCI auditing and the audit is conducted by an independent party. These systems are listed in the section entitled 'Responsible monitoring and steering', under 'Responsible purchasing and sales'. Some of Kesko's suppliers are also members of BSCI and promote audits in their own supply chains.

Kesko's most significant high-risk countries of import are listed in the table below.

At the beginning of 2016, of Kesko's suppliers in high-risk countries,

- 16 (14 at the beginning of 2015) had valid SA8000 certification
- 200 (189 at the beginning of 2015) had valid BSCI audits

In 2015, suppliers' factories or farms had

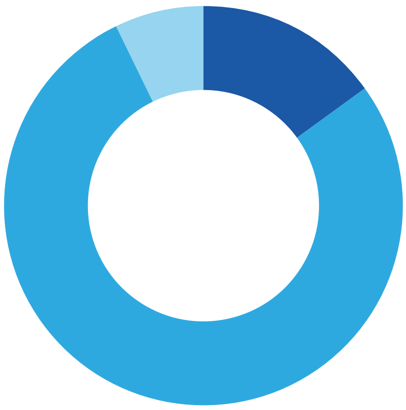
- 107 (88 in 2014) full BSCI audits
- 80 (74 in 2014) BSCI re-audits

49 of the full audits were conducted in accordance with the BSCI 2014 Code of Conduct, while 58 of them were conducted in accordance with the BSCI 2009 Code of Conduct. Seven of the re-audits were conducted in accordance with the BSCI 2014 Code of Conduct, while 73 of them were conducted in accordance with the BSCI 2009 Code of Conduct.

Kesko's principle in high-risk countries is to work only with suppliers that are already included in the sphere of social responsibility audits or that start the process when cooperation begins. Since the beginning of 2016, Kesko's grocery trade requires all of its suppliers in high-risk countries to have been audited. It will not begin working with new suppliers unless they have passed an acceptable audit.

The results of the BSCI audits of Kesko's suppliers' factories for 2015 are presented below. The majority of the deficiencies occurred in management practices, the observance of working time regulations and in matters related to compensation and occupational health and safety. Corrective actions and monitoring are included in the audit process. Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2015, cooperation was not terminated with any supplier on the basis of an audit.

Kesko's BSCI audit results in 2015, full audits

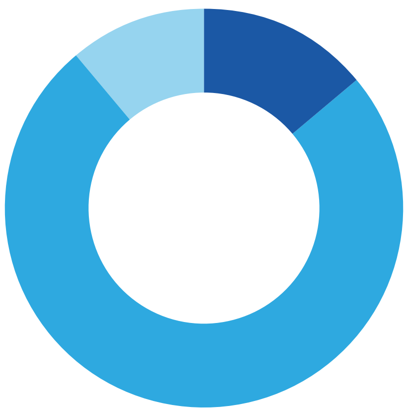


Good 15%

Non-compliant 7%

Improvements needed 78%

Kesko's BSCI audit results in 2015, re-audits



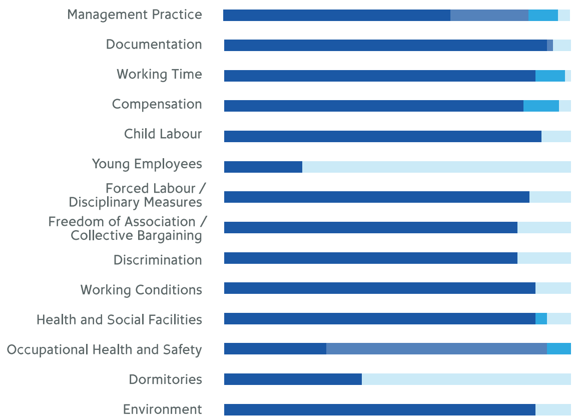
Good 14%

Non-compliant 11%

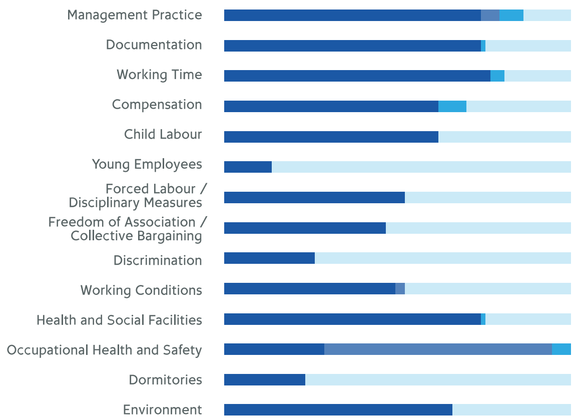
Improvements needed 75%

Kesko's BSCI audit results, distribution in different areas in 2015

Part B, full audits (58)



Part B, re-audits (73)



Good

Non-compliant

Improvements needed

Not applicable

The graphs show the results of the audits made in accordance with the 2009 Code of Conduct

Fairtrade products

Kesko's grocery trade has a comprehensive cooperation agreement with Fairtrade Finland and a licence for Fairtrade products in the Pirkka range. The selections of Fairtrade products at store level are determined by the K-food trade chain concepts.

- In 2015, Kesko's grocery trade had 212 (238 in 2014) Fairtrade products in its selections, of which 40 (44 in 2014) were Pirkka product
- According to the statistics of Fairtrade Finland, Kesko's grocery trade had a total of 168 Fairtrade suppliers (166 in 2014)
- The products sold by Kesko's grocery trade and Kespro generated €481,405 in Fairtrade premium for social development projects

High-risk countries

On 11 May 2015, Kesko published on its website a list of factories that operate in high-risk countries manufacturing clothing, accessories, shoes and bags for Kesko's own brands or making products that are directly imported by Kesko.

Kesko aims to identify the entire supply chain of the products, while also ensuring that the ingredients are responsibly sourced. Work to assess the origin of the ingredients in Kesko's own brands — Pirkka and K-Menu groceries — was carried out over the course of 2015. Out of 1,923 products, 233 contained ingredients which, based on risk assessment, need further clarification about the responsibility of the supplier of the ingredient. The supplier of the product is required to ensure the social responsibility of the supplier of the ingredient. In the future, an ingredient survey will be carried out whenever a new product is introduced into the selections.

Kesko's own direct imports from high-risk countries, 10 largest countries in 2015[1]

Country	Value of imports, € million
China	49.2
India	9.9
Thailand	7.4
Vietnam	6.9
Turkey	6.2
Indonesia	1.8
South Africa	1.5
Bangladesh	1.2
Egypt	1.0
The Philippines	0.9

[1] *CIF, direct imports forwarded by Keslog only, excluding imports by VV-Auto*

Cooperation with Plan

Kesko and Plan International Finland, an organisation promoting children's rights, continue their cooperation to improve the social responsibility of the Thai fish industry and the situation of migrant workers. We have agreed on cooperation for years 2015–2018. With the help of our joint project we aim to improve the working conditions of Cambodian migrant workers and promote the schooling and protection of their children in Thailand.

Another purpose of the cooperation is to improve the transparency of the production chain. We aim to encourage a large number of fish industry firms and NGOs to join in. The government of Thailand also plays a major role in the realisation of the rights of children and migrant workers. Read more about cooperation with Plan.

Society

Indicators: SO3–SO8

ANTI-CORRUPTION

SO3 Total number of operations assessed for risks related to corruption, SO4 Training on anti-corruption policies and procedures, SO5 Confirmed incidents or corruption and actions taken

Risks related to corruption are considered as part of Kesko Group's risk management. Key risks, including those related to corruption, are regularly identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and unit levels in all operating countries. Rankings of Kesko's operating countries in the Corruption Perceptions Index 2015 by Transparency International are presented below.

Kesko's anti-corruption principles are included in the 'Our Responsible Working Principles' guidelines, available on Kesko's website. A separate website with relevant animations is dedicated to responsible operating practices. The guide and the website are available in the languages of all of Kesko's operating countries. The guidelines will be updated in 2016.

In 2015, a new online training programme was adopted to order to refresh employees' knowledge of our responsible working principles. The training is compulsory for all Kesko people and the languages to choose from are Finnish and English. A Russian-language version will be published in 2016.

From the beginning of 2015, all of Kesko's Russian business companies have had their own anti-corruption policies. The new policies take account of the requirements of Russian anti-corruption laws. Kesko's Russian business companies have also introduced anti-fraud (whistleblowing) channels for reporting suspected malpractice. The Russian-language channel is intended for confidential use by the business partners of Kesko subsidiaries and other third parties including personnel for notifying any suspicions of malpractice or unethical conduct in Kesko's Russian subsidiaries.

Kesko arranges annual Value Discussions on responsible working principles in its companies. In 2015, a value discussion event was organised in Kesko's Belarusian company. It focused on issues related to corruption and malpractice. In 2015, one of the focus areas in Kesko's risk management and security function was the prevention of malpractice.

There were individual cases of suspected malpractice in 2015. The Internal Audit assisted in investigating them.

In 2015, Kesko was not informed of any corruption-related lawsuits against any Kesko Group company.

Rankings of Kesko's operating countries in the Transparency Corruption Perceptions Index in 2015

Ranking	Country	Score
2	Finland	90
3	Sweden	89
5	Norway	87
23	Estonia	70
32	Lithuania	61
40	Latvia	55
107	Belarus	32
119	Russia	29

PUBLIC POLICY

SO6 Total value of political contributions

In election years, political parties and candidates are given equal opportunities to arrange campaign events in the yards and entrance halls of K-Group stores. In addition, Kesko may participate in economic and tax policy seminars arranged by political parties, at its discretion and without indicating partiality. Kesko does not make monetary donations to political parties. In 2015, the seminar attendance fees and commercial advertising in party newspapers paid by Kesko totalled €7,646.

Recipients of political contributions

Recipient	Country	Amount, €
Centre Party, newspaper advert	Finland	350
Centre Party, seminar attendance fees	Finland	1,705
National Coalition Party, newspaper adverts	Finland	4,591
National Coalition Party, seminar attendance fee	Finland	500
Social Democratic Party of Finland, newspaper advert	Finland	500

ANTI-COMPETITIVE BEHAVIOUR

SO7 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices, SO8 Fines and other sanctions for non-compliance with laws and regulations

In 2015, there were no legal actions, fines or other sanctions relating to anti-competitive laws and regulations.

Product responsibility

Indicators: PR1–PR9

CUSTOMER HEALTH AND SAFETY

PR1 Product and service categories for which health and safety impacts are assessed for improvement, PR2 Incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products

The activities of the Product Research unit of Kesko's grocery trade include assessing the impacts of products on health and safety.It requires manufacturers of its own brands to have certification that assures international product safety. The standards approved by Kesko's grocery trade include BRC, IFS, ISO/FSSC 22000 and GlobalGAP. In 2015, the total number of certified suppliers was 532 (533 in 2014). This number also includes old audits conducted according to Kesko's grocery trade's own auditing guidelines.

A total of 8,037 (8,864 in 2014) product samples were analysed. Most of them related to the product development of own brands. A total of 2,158 (1,779 in 2014) own control samples were analysed.

When developing own brand products, Kesko's grocery trade pays special attention, in line with its strategy, to the health aspects of the products. Sugar, saturated fat and salt have been reduced in more than 150 Pirkka products. This reformulation was completed in 2013. The health aspects of new Pirkka products are taken into account at the product development stage.

Product Research is also responsible for product recalls, which numbered 124 in 2015 (125 in 2014). Of these, 27 (24 in 2014) were Kesko's grocery trade's own brands; in the other cases, Product Research assisted the manufacturers in recalls. There were three public recalls involving a potential health hazard resulting from product flaws or defects in Kesko's grocery trade's own brand products in 2015 (0 in 2014).

In 2015, there were no lawsuits or fines concerning product health or safety.

Read more about the Product Research laboratory.

PRODUCT AND SERVICE LABELLING

PR3 Product and service information and labelling

The transition period for EC regulation No. 1169/2011 on the provision of food information to consumers ended in December 2014. During the three-year transition period, Kesko's grocery trade updated the labels of around 2,500 own brand products to comply with the requirements of the regulation. Changes continued to be made until spring 2015, which marked the end of the transition period of EC regulation No. 1337/2013, which sets out rules for the indication of the country of origin of certain meats.

The name and location of the manufacturer are indicated on all Finnish Pirkka products and on all K-Menu products. Foreign Pirkka products carry the name of the country of manufacture. In addition to statutory labelling, the country of origin of meat is also indicated in the list of ingredients of Pirkka products that contain meat as one of the main ingredients. The country of origin is indicated on all own brand products of K-citymarket and Kesko's home and speciality goods trade.

In addition to statutory package labelling, voluntary labelling can be added to inform the consumer of matters related to corporate responsibility. Such labelling may include organic labels and eco-labelling, as well as labelling indicating social responsibility. The selection of labelled products is discussed in the strategy report.

The packages of Kesko's own brand chemical products — such as detergents and paints — bear warning labelling in accordance with CLP regulation EC 1272/2008 on the classification, labelling and packaging of chemicals. The final transition period before the regulation entered into force ended on 1 June 2015, but there may still be products on the market with package labelling printed before the end of the transition period.

The own brand products sold by Kesko's grocery trade bear material symbols on their packaging. These symbols help consumers to recycle packaging materials. Chemicals that are hazardous to the environment have warning labelling in accordance with the CLP regulation.

PR4 Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling

Software adjusting NO_x emissions

In September 2015, California Air Resources Board (CARB) and the Environmental Protection Agency (EPA) uncovered software that adjusts nitrogen oxide (NO_x) emissions in Volkswagen Group cars with 2.0 litre diesel engines. The software detects when the car is undergoing testing and the engine control produces nitrogen oxide (NO_x) readings that meet the standards. Thus the emission values conform to the test cycle, while being higher during normal driving conditions when the cycle is not in use.

Later investigation revealed that this software is fitted in EA 189 series 1.2 litre, 1.6 litre and 2.0 litre diesel engines. There are roughly 11 million such cars worldwide. As far as the brands represented by VV-Auto are concerned, the number of such cars in Finland is around 53,000 (including individual imports). The case applies to all of the brands imported by VV-Auto (Audi, SEAT, Volkswagen passenger cars, Volkswagen commercial vehicles).

Volkswagen Group has developed remedial measures for cars (in the EU-28 area) and the German authority (KBA) has approved them. In Finland, a recall campaign will begin in spring 2016, and it will be implemented phase-by-phase in various lots. The 1.2 litre and 2.0 litre diesel engines will get a software update. The 1.6 litre diesel engines will also get a software update and have a "flow rectifier" fitted directly in front of the air mass sensor. These measures will take between half an hour and one hour. The remedial measures will be performed by authorised brand service workshops and can also be performed in connection with a normal service visit. After the measures have been implemented, the cars will fulfil the duly applicable emission standards. The manufacturer also aims to achieve this without any impairment of engine efficiency, fuel consumption or performance.

VV-Auto has informed its customers on the web pages of each brand and sent informative letters/e-mail to the customers concerned. A separate customer service number has also been in use. Dealers have been informed through their internal channel.

The internal review of Volkswagen also aroused suspicion concerning the correctness of the determination of the CO_2 emission value carried out during type approval. Re-measurements revealed that no illegal changes were found in fuel consumption and CO_2 values. Deviations were found in nine Volkswagen passenger model/ gearbox versions (model year 2016). VV-Auto imports five of these model/gearbox versions. Re-measurements will continue by an impartial technical service and the results are expected at the beginning of 2016. If the original values are confirmed, no consequences will follow. If deviations are detected, the values will be corrected as required in accordance with the normal type approval process. The total annual production of these nine models is roughly 36,000 cars, which corresponds to about 0.5% of the overall volume of Volkswagen passenger cars. Volkswagen Group has announced that it will take responsibility for any additional tax consequences resulting from the CO_2 emission case.

All affected cars are technically safe and roadworthy.

Product labelling

On the product labelling of its own brand products and imports, Kesko complies with Finnish law and with EU legislation.

During the year, there were 46 (40 in 2014) product recalls resulting from defective product labelling, 9 (11 in 2014) of which were Kesko's grocery trade's own brands.

PR5 Results of surveys measuring customer satisfaction

The recognition level and images of Kesko's chains are regularly monitored by brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plussa customer loyalty system and the grocery trade's own brand products. Store-level customer satisfaction is measured by customer satisfaction surveys, as well as by using the mystery shopping method in food stores and building and home improvement stores.

The chains have different channels for customer feedback, and Group-level feedback can be given on Kesko's website. All messages received via all the feedback channels are responded to.

During the year, Kesko's grocery trade's Consumer Service, maintained by Product Research, was contacted by customers 19,770 (20,911 in 2014) times. Approximately 80% of these were product complaints.

Results of customer satisfaction surveys in Kesko's divisions

MONITORING CUSTOMER SATISFACTION IN KESKO'S GROCERY TRADE

Kesko's grocery trade surveys and monitors customer satisfaction in all of its chains on a regular basis. Measuring is carried out based on each chain's business needs with the focus on leveraging this information to improve customer experience and satisfaction.

Results are studied at the division, chain, store and question level. Store-specific results and changes are actively monitored, with a special emphasis on leveraging the information at the store level and in the operations of each store.

Recommendation after shopping, customer pulse

The aim is to establish customer experience (willingness to recommend) using a survey sent to customers. The customer will receive the survey on the day after visiting the store. The indicator used is Net Promoter Score, 'a net recommendation index'. The survey enquires how likely the customer is to recommend the store to their friends or acquaintances on a scale of 0–10. Customers answering the survey are also asked to give open-ended feedback on their satisfaction or dissatisfaction.

The survey is in continuous use in the following chains of the grocery trade: K-citymarket, K-supermarket and K-market. The survey is sent to K-food store customers who have an e-mail address in the K-Plussa customer register. The survey is sent to a sample of customers based on specific conditions.

The results are reported monthly on the store and chain levels. The report consists of a numerical summary and open feedback. Feedback is sent to the stores once a week and the contents are analysed on a centralised basis to enhance operations.

As the survey was introduced in late autumn 2015, it is too early to draw any conclusions about the development of the results.

Customer satisfaction survey to K-food store customers

The customer satisfaction survey looks into customer satisfaction with store departments, customer service and other operations. The aim is to help stores develop their operations by listening to customers' opinions and wishes.

The survey was carried out for K-citymarket, K-supermarket, K-market and K-market Neste Oil stores twice in 2015. In spring, some of the stores in the K-extra chain also participated. In autumn, a separate survey was carried out for K-citymarket's home and speciality goods trade. The source of the sample was the K-Plussa customer register. Data was collected in 2015 and, depending on the chain, the survey was either entirely electronic or partly electronic and partly on paper.

After the survey period, the results were reported at the store, chain and division level, and with different background variables. Depending on the set of statements, the results were presented either on a scale of 0–100 or as percentages.

The trend of K-food stores' customer satisfaction was positive in all of the chains in 2015. K-food stores' result of 67.8 in autumn 2015 was the best result in the past two years. Survey results are not comparable with the results achieved before 2013.

MONITORING CUSTOMER SATISFACTION IN KESKO'S HOME IMPROVEMENT AND SPECIALITY GOODS TRADE

Kesko's home improvement and speciality goods trade measures customer satisfaction in all of its operating countries and different chains on a regular basis. Measurements are based on each chain's business requirements with an emphasis on leveraging information on customer interface. In surveys, the focus is shifting towards customer encounters and measuring customer experience at various stages of the shopping path.

The results are studied at the store and chain level. Store-specific results and changes are actively monitored. A special emphasis is leveraging the information at the store level and in the store's own operations.

Recommendation after shopping, customer pulse

The aim is to establish customer experience (willingness to recommend) using a survey sent to the customer immediately after the purchase. The indicator used is Net Promoter Score, 'a net recommendation index'. Customers answering the survey are also asked to give open-ended feedback on their satisfaction or dissatisfaction.

The survey is in continuous use in the following chains of the home improvement and speciality goods trade: K-rauta (Finland), Rautia, Asko, Sotka, Intersport, Budget Sport and Kookenkä. The target group consists of customers who have spent a certain sum, used their K-Plussa card and have their e-mail address in the K-Plussa register.

On the day after shopping, customers receive an e-mail survey in which they are asked about their willingness to recommend the store to their friends and acquaintances. Question: "On a scale of 0–10, if asked, how likely would you be to recommend X to your friends on the basis of your last shopping visit?" Open-ended feedback is also requested with a further question, phrased separately for those who were critical (scores 0–6) and those who were positive (scores 7–10).

Results are reported monthly at store level. The report consists of a numerical summary and open feedback. The feedback is sent to the stores at least twice a month and the contents are analysed on a centralised basis to enhance operations.

The trend in the results of all chains was positive in 2015.

The annual customer satisfaction survey to customers of building and home improvement stores and agricultural stores

The aim of the survey is to find out how the customers of the building and home improvement stores find the store's operations and customer service. The survey helps stores to enhance their operations to better meet customers' needs and wishes.

The survey takes the form of an e-mail enquiry, with the exception of Russia, where customers are interviewed in-store after shopping.

Contents have been defined in cooperation with different operating countries (Finland, Sweden, Norway, Estonia, Latvia, and Russia) and special local features have been taken into account. In 2015, Rautakesko's total satisfaction was 3.9 on a scale of 1–5, which was the same as before. Results varied by country and chain and were between 3.8 and 4.1. The trend in Latvia and Norway was positive in 2015, while in other countries the results remained unchanged or decreased slightly.

Konekesko's customer satisfaction survey for dealers and service shops

Konekesko measures customer satisfaction among dealers and in service shops on a regular basis. The survey is carried out annually in the form of an e-mail enquiry.

The results of each operation are reported separately so that the development of operations can be directed as accurately as possible. In 2015, the results in different operations varied between 3.5 and 4.1 (on a scale of 1–5).

Measuring daily customer satisfaction in stores

Measurement is carried out with the help of a questionnaire device in-store.

Budget Sport acquired devices for all of its stores over the course of 2015. The model was also piloted successfully in other chains.

The customer is asked to answer the following question: “How did we do today?” Customers who did not buy anything are also invited to give a response. All customers who leave their contact information and wish to be contacted should be contacted as soon as possible, within 24 hours at least. Responsible persons in-store analyse customer feedback on a regular basis. They take the action required or make a proposal to the store’s weekly meeting or management team.

CUSTOMER SATISFACTION MONITORED IN KESKO’S CAR TRADE

Survey methods

VV-Auto Group Oy surveys the satisfaction of its end customers for all of the brands it represents – Audi, Volkswagen, Volkswagen commercial vehicles and SEAT – regarding the purchase and service of a new car.

This is done via a telephone interview. Questions about all the brands are, to a great extent, uniform. The questions aim to tackle the sales or service process of the car accurately and in detail. The survey takes about 10 minutes.

There are two types of questions: yes/no questions and questions that describe the level of satisfaction on a scale of very satisfied to not at all satisfied. Customers can also give open-ended feedback.

The targeted numbers of interviews vary according to the size of the dealer. Target levels are:

- Sales: 10 or 20 interviews per month
- Service: 10, 20 or 40 interviews per month

As for SEAT, the survey is carried out in the form of an e-mail enquiry. It is sent to all the customers who have given their e-mail address.

At the end of service visits, customers are also asked to give immediate feedback on their satisfaction with the maintenance and service.

An external research agency analyses the results and reports them via VV-Auto’s secure portal. Customer-specific answers are available only if these customers give their consent to the use of their data.

Based on the results, quality bonuses are paid to dealers.

Results in 2015

Sales: Audi, Volkswagen commercial vehicle and SEAT dealer networks reached the target level. The Volkswagen dealer network fell slightly below the target level.

Service: Audi, Volkswagen and Volkswagen commercial vehicle dealer networks reached the target level. The SEAT dealer network fell slightly below the target level.

Service/immediate feedback: Only the Audi dealer network reached the target level. The results of the others fell clearly below the target levels.

MARKETING COMMUNICATIONS

PR6 Sale of banned or disputed products

During 2015, Kesko's stakeholders raised questions and concerns regarding several products and the conditions under which they are produced.

Thailand

In June 2015, Finnwatch published a follow-up study on the tuna factories in Thailand that manufacture own brand products for the retailing sector. The study summary states that clear improvements have been seen in the working conditions of the factory manufacturing Pirkka tuna but further actions are still needed. The report encourages Kesko to continue cooperation with the factories but includes the reminder that retail chains must constantly ensure that human rights are respected.

In September 2015, Finnwatch published a report on working conditions in the chicken industry of Thailand. According to the report summary, the responsibility requirements of the companies importing chicken from Thailand are often vague and implementation is not supervised. The report states, however, that Kesko's grocery trade carries out human rights assessments when selecting suppliers, includes responsibility requirements in its purchasing agreements and monitors the implementation of the requirements by means of third-party audits. Both of the plants producing chicken meat for Kesko's grocery trade's own brand products are BSCI audited.

Kesko has also actively cooperated with stakeholders in Thailand with the aim of improving conditions in purchasing chains. Examples of cooperation include participation in the ILO's Good Labour Practices buyer reference group and the research project for 2015—2018 with Plan International Finland, an organisation promoting children's rights, to improve social responsibility in the Thai fish industry and the position of migrant workers there.

Israeli settlements

The discussion concerning products produced in Israeli settlements took a new turn in November 2015. The European Commission published an Interpretative Notice to the effect that if the origin of a product must be stated – or if the origin is voluntarily stated – and the product originates from an Israeli settlement, the product label must state that the origin of the product is an Israeli settlement. Kesko's grocery trade has made a policy statement and informed its suppliers that it will not accept fruit and vegetables from Israeli settlements in its selections. Imports by Kesko's other divisions from Israel are small. These divisions verify product origins with their suppliers and, if necessary, comply with the Commission's Interpretative Notice.

Cocoa

There has been a long-felt need in the European cocoa and chocolate industry for an international standard to help in the assurance of social responsibility and traceability of cocoa. The International Organisation for Standardisation (ISO) and the European Committee for

Standardisation (CEN) decided in October 2014 to start preparing a responsibility standard for cocoa. The target timeline for its completion is three years. A monitoring group has been set up in the Finnish Standards Association (SFS) in order to influence the content of the standard. Kesko has a representative in the monitoring group.

Soy

Kesko recommends that its suppliers use responsible RTRS or ProTerra certified soy in the ingredients of soy origin of the grocery trade's private label foods, in the production of products of animal origin and as an ingredient of the animal feed products sold by the agricultural trade. By 2020, only responsible RTRS or ProTerra certified soy will be used in these products.

Kesko is a member of the Round Table on Responsible Soy (RTRS) organisation and is thereby committed to promote responsibility in the production chain of soy on a long-term and target-oriented basis. Both economic, social and environmental considerations must be taken into account in the production of responsible soy.

Kesko is a founding member in the Finnish soy commitment group. The members of the Finnish soy commitment group pledge to ensure that by 2020 all the soy used in the production chain of their private label products will be responsibly produced, and be either RTRS or ProTerra certified soy. The commitment covers both the Finnish production chain and sourcing from other countries.

Wild berries

In December 2014, the Ministry of Employment and the Economy and the Ministry for Foreign Affairs signed a letter of intent on wild berry picking with a number of companies in the berry industry.

The aim of the letter is to improve the legal status of foreign pickers of wild berries and people in related duties as well as their ability to earn sufficient income. A further aim was to provide equal business conditions for all companies in the berry industry. The letter of intent contains 26 jointly agreed entries concerning operating practices. The companies responsible for inviting berry pickers to work in Finland commit themselves to improving the induction and advice provided to their workers. In addition, recruitment costs and other expenses charged to pickers are made more reasonable and the expenses charged are monitored more closely. Stricter quality criteria are also applied to berry pickers' accommodation, washing and catering facilities.

During the harvest season of 2015, Kesko's grocery trade required that all suppliers of wild berries for its own brand products complied with the letter of intent on responsible berry picking.

Fish

A working group that was set up by the Ministry of Agriculture and Forestry completed a national salmon strategy in November 2013. Kesko had a representative in the working group. The objective of the salmon strategy is to support the strengthening of the wild Baltic salmon population in a way that enables professional and recreational fishing to continue. The working group undertook to increase salmon and sea trout stocks with measures extending up to 2020. The government approved the strategy in October 2014. In February 2015, the Ministry of Agriculture and Forestry decided to set up a working group to monitor the implementation of the salmon and sea trout strategy and the fishway strategy. Kesko has a representative in the working group.

The K-Group's salmon selections are formed following the WWF's fish guide and the report by the national salmon strategy working group. The selections of Kesko's grocery trade do not include species on the red list of the WWF's fish guide with the exception of wild Baltic salmon, for which we observe the EU quotas in line with the national salmon strategy.

PR7 Incidents of non-compliance with regulations and voluntary codes concerning marketing communications

Kesko monitors the amendments to legislation and authorities' recommendations related to marketing communications and provides information about them to the staff responsible for marketing in each unit. In 2015, there were no advertisements by Kesko or its subsidiaries submitted for consideration by the Council of Ethics in Advertising nor were there any incidents of non-compliance with legislation or voluntary principles. The consumer ombudsman had one complaint under investigation, according to which Indoor had exceeded the maximum duration of discount sales during the year. No decision has yet been taken in the case.

Sponsorship is guided by Kesko's sponsorship principles.

CUSTOMER PRIVACY

PR8 Complaints regarding breaches of customer privacy and losses of customer data

In 2015, K-Plus Oy did not detect any leaks of information or other personal data breaches. The company received one complaint from a customer regarding the deletion of personal data from K-Plus Oy's customer register. The case resulted in the data protection ombudsman contacting the company. The ombudsman stated that there was no need for an order as referred to in the Personal Data Act because K-Plus Oy had deleted the customer's personal data from its systems.

COMPLIANCE

PR9 Fines for non-compliance with laws and regulations concerning the provision and use of products and services

No significant fines in 2015.

GRI REPORT PROFILE

Reporting follows the GRI G4 guidelines

Since 2000, Kesko has annually reported its corporate responsibility information in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The GRI report of Kesko's integrated annual report is prepared in accordance with GRI G4 guidelines and covers the key areas of economic, social and environmental responsibility. In our operations, we apply the AA1000 AccountAbility Principles (stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders). We have divided the GRI report into three sections: responsibility management, GRI index and performance indicators. The report is available in Finnish and English, and the report is published online only.

The scope of the GRI guidelines that Kesko follows in this report is Core. However, the General Standard Disclosures according to the GRI G4 guidelines are presented in a much wider scope than required by the Core option. Specific Standard Disclosures, that is, the disclosures on management approach and indicators, are made with respect to the material aspects for Kesko. However, indicators are reported in a much wider scope than required by the Core option. A comparison of the contents of the report and the GRI G4 guidelines is given in the GRI index.

Assurance of reporting

An independent third party, PricewaterhouseCoopers Oy, has provided assurance for the performance indicators concerning economic, social and environmental responsibility in the Finnish-language GRI 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 indicators have been used for evaluating performance in fulfilling human rights, labour rights, environment principles and anti-corruption principles.

Report stakeholders

Many stakeholders use the report as their source of information when assessing Kesko's results in various areas of responsibility. The most important target groups of the report include investors, shareholders, analysts and rating agencies, as well as society (the media, authorities, NGOs and other organisations, and trade unions). In the report, we also aim to take into account Kesko's other important stakeholders: retailers, employees, potential employees, suppliers and service providers, and customers.

Reporting period and contact information

This report is about the progress and results of responsibility work in 2015. It includes some information from January to March 2016.

The report for 2014 was published in March 2015, and the report for 2016 will be published in the spring of 2017.

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

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 2015 to 31 December 2015 disclosed on Kesko Corporation's website in the "GRI report" section of "Kesko's annual report 2015" (hereinafter CR Information).

In terms of the Company's GRI G4 reporting and G4 Content Index, the scope of the assurance has covered economic, social and environmental performance indicators listed within the Specific Standard Disclosures as well as General Standard Disclosures G4-10, G4-11 and G4-32.

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 CR Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the G4 Sustainability Reporting Guidelines 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 CR 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 CR 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 CR 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 CR 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 CR 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 CR 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 corporate responsibility aspects as well as assessing the CR Information based on these aspects.
- Analysing references to the Company from the reporting period in online media.
- Visiting the Company's Head Office as well as one site in Finland.
- Interviewing employees responsible for collecting and reporting the CR 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 does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

Furthermore nothing has come to our attention that causes us to believe that Kesko Corporation's CR Information for the reporting period ended 31 December2015 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

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 and stakeholder engagement. The Company's divisions actively collect feedback through many channels. We recommend that Kesko

Corporation develops the group level analysis of stakeholder feedback collected in the divisions in order to develop its corporate responsibility and ensure the benefits of the responsibility work.

- **Materiality:** Kesko Corporation has a process in place to evaluate and determine the materiality of corporate responsibility aspects. During 2015, the Company set up a steering group in order to promote the responsibility work in operating countries. Country specific material aspects were included in Kesko's responsibility programme. We recommend that the Company continues mapping and updating the operating country specific responsibility aspects as well as the development of reporting on these aspects.
- **Responsiveness:** The Company takes its stakeholders' expectations into account in its operations and responds to them through the continuous development of its activities. During 2015, especially the digital services and communications have been expanded and further developed. We recommend that the Company continues the monitoring of responsibility trends and stakeholder expectations in order to be able to respond to them in its business operations also in the future.

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 behaviour.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility 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, March 8 2016

PricewaterhouseCoopers Oy

Sirpa Juutinen	Enel Sintonen
Partner	Senior Manager, Authorised Public Accountant
Sustainability & Climate Change	Assurance Services

AA1000
Licensed Assurance Provider
000-29

FINANCIAL STATEMENTS

Kesko 2015

REPORT BY THE BOARD OF DIRECTORS AND KEY PERFORMANCE INDICATORS

REPORT BY THE BOARD OF DIRECTORS

FINANCIAL PERFORMANCE

Net sales and profit for 2015

The Group's net sales were €8,679 million, which is 4.3% down on the corresponding period of the previous year (€9,071 million). Anttila was included in the Group figures until 16 March 2015. Anttila excluded, net sales performance in local currencies equalled the level of the previous year. The decline in consumers' purchasing power weakened consumer demand in the reporting period in Finland and Russia.

In the grocery trade, the -1.7% net sales performance is partly attributable to the decline in prices. In the home improvement and speciality goods trade, net sales decreased by 8.9%, but increased by 2.3% in local currencies excluding Anttila. In the car trade, net sales decreased by 2.4%. The Group's net sales in Finland decreased by 4.9% and the comparable performance excluding Anttila was -1.7%. In the other countries, net sales decreased by 1.9%, but increased in local currencies excluding Anttila by 7.6%. The weakening of the Russian rouble impacted the net sales performance in euros especially in the home improvement and speciality goods trade. International operations accounted for 18.9% (18.4%) of net sales.

1–12/2015	Net sales € million	Change %	Operating profit* € million	Change € million
Grocery trade	4,673	-1.7	177.5	-45.8
Home imrovement and speciality goods trade	3,250	-8.9	63.6	+63.2
Car trade	748	-2.4	26.1	-2.8
Common operations and eliminations	8	(..)	-22.7	-2.8
Total	**8,679**	**-4.3**	**244.5**	**+11.8**

** Excl. non-recurring items*
(..) Change over 100%

The operating profit excluding non-recurring items was €244.5 million (€232.6 million). In the grocery trade, profitability was good, although the operating profit excluding non-recurring items decreased from the previous year. This was most significantly due to intensified price competition. In the home improvement and speciality goods trade, profitability was improved by the divestment of Anttila in the first part of the year, as well as the good profit performance of the building and home improvement trade especially in Finland, Sweden, Norway and the Baltic countries. In the car trade, profitability remained steadily at a good level. The operating profit includes a €12.7 million operating loss from Anttila, divested in March; the operating loss for the previous year was €63.2 million.

The operating profit was €194.6 million (€151.4 million). The operating profit includes €-49.9 million (€-81.3 million) of non-recurring items. The most significant non-recurring items were the €130 million loss on the divestment of Anttila, the €75.6 million capital gain recorded on a real estate transaction completed in the second quarter of the year and a total of €25.4 million in capital gains on other real estate transactions. Due to Intersport Russia's low volume and unprofitable performance, Kesko plans to withdraw from the Russian sports trade in 2016. Relating to the restructuring of Intersport Russia's operations, a total of €17.2 million of non-recurring impairment charges and provisions were recorded for the fourth quarter. The non-recurring items of the comparative period included a provision for the restructuring of Anttila, and an impairment charge on fixed assets related to the integration of K-citymarket non-food and Anttila, a total of €46.8 million, a €5.2 million restructuring provision related to changes in the retail business of Byggmakker in Norway, costs amounting to €4.2 million from personnel reductions related to the change in Kesko's divisional structure, and a €21.0 million property impairment charge related to the renovation of Kesko's main office building.

The Group's profit before tax was €188.0 million (€145.0 million). The Group's earnings per share were €1.03 (€0.97). The Group's equity per share was €21.82 (€22.05).

The K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales excluding Anttila were €10,818 million, down 1.5% compared to the previous year. The K-Plussa customer loyalty programme gained 63,045 new households in 2015. At the end of December, there were 2.3 million K-Plussa households and 3.6 million K-Plussa cardholders.

Finance

The cash flow from operating activities was €276.4 million (€304.4 million). The cash flow from investing activities was €217.1 million (€-182.1 million) and it included proceeds from the sale of fixed assets in the amount of €432.5 million (€11.2 million), of which the cash inflow from the real estate arrangement completed in June was €403.0 million.

The Group's liquidity remained at an excellent level. At the end of the financial year, liquid assets totalled €887 million (€598 million). Interest-bearing liabilities were €439 million (€499 million) and interest-bearing net debt was €-448 million (€-99 million) at the end of December. The equity ratio was 54.7% (54.5%) at the end of the period.

The Group's net finance costs were €7.1 million (€6.1 million). The finance income for the previous year included interest income on cooperative capital from Suomen Luotto-osuuskunta in the amount of €4.9 million.

Taxes

The Group's taxes were €70.7 million (€36.6 million). The effective tax rate was 37.6% (25.2%) resulting from non-deductible items related to the loss on the divestment of Anttila and the restructuring of Intersport Russia's operations.

Capital expenditure

The Group's capital expenditure totalled €218.5 million (€194.0 million), or 2.5% (2.1%) of net sales. Capital expenditure in store sites was €166.7 million (€142.7 million), in IT €20.4 million (€34.4 million) and other capital expenditure was €31.4 million (€17.0 million). Capital expenditure in foreign operations represented 40.2% (40.5%) of total capital expenditure.

Personnel

The average number of personnel in Kesko Group was 18,955 (19,976) converted into full-time employees. In Finland, the average decrease was 1,280 people, while outside Finland there was an increase of 259 people.

At the end of December 2015, the number of personnel was 21,935 (23,794), of whom 10,081 (12,180) worked in Finland and 11,854 (11,614) outside Finland. Compared to the end of December 2014, there was a decrease of 2,099 people in Finland and an increase of 240 people outside Finland. The decrease in the number of personnel in Finland is attributable to the divestment of Anttila on 16 March 2015.

The Group's employee benefit expenses were €544.8 million, down 11.3% compared to the previous year. The decrease is attributable to the divestment of Anttila on 16 March 2015.

SEGMENTS

New segment structure

The composition of Kesko's divisional structure and segment reporting were changed as of 1 July 2015 to correspond to the new strategy. An agricultural and machinery trade unit was established as part of the home improvement and speciality goods trade division. As of 1 July 2015, Kesko Group's reportable segments are the grocery trade, the home improvement and speciality goods trade and the car trade.

Seasonal nature of operations

The Group's operating activities are affected by seasonal fluctuations. The net sales and 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.

Grocery trade

	1–12/2015	1–12/2014
Net sales, € million	4,673	4,754
Operating profit excl. non-recurring items, € million	177.5	223.2
Operating margin excl. non-recurring items,%	3.8	4.7
Capital expenditure, € million	128.9	98.0

Net sales, € million	1–12/2015	Change,%
Sales to K-food stores	3,162	-2.2
K-citymarket, home and speciality goods	588	-1.0
Kespro	792	+0.3
K-ruoka, Russia	107	+3.1
Others	25	-27.7
Total	**4,673**	**-1.7**

In 2015, the market position of the grocery trade remained stable and its profitability was good. The strengthening of K-food stores' competitiveness in terms of quality and price has progressed in accordance with strategy and after the completion of the acquisition of Suomen Lähikauppa, announced in November, Kesko's neighbourhood retail services will improve significantly.

The net sales of the grocery trade were €4,673 million (€4,754 million), representing a change of -1.7%. The grocery sales of K-food stores in Finland decreased by 1.2% (VAT 0%). In the grocery market in Finland, retail prices are estimated to have changed by approximately -1% compared to the previous year (VAT 0%; Kesko's own estimate based on the Consumer Price Index of Statistics Finland) and the total market (VAT 0%) is estimated to have decreased by approximately 1% (Kesko's own estimate). The decline in the value of the rouble affected the sales of the food stores in Russia in euros. In the local currency, sales increased by 35.4%.

The operating profit excluding non-recurring items of the grocery trade was €177.5 million (€223.2 million). Profitability was good in the grocery trade, although the operating profit excluding non-recurring items decreased from the previous year. This was most significantly due to intensified price competition. Kespro's market share increased and profitability remained at a good level. The operating profit of the grocery trade was €249.4 million (€216.2 million). Non-recurring items, in the amount of €71.9 million (€-7.1 million), include €71.9 million in gains recorded on the sales of properties as the most significant items.

The capital expenditure of the grocery trade was €128.9 million (€98.0 million), of which €117.7 million (€83.2 million) was in store sites.

Home improvement and speciality goods trade

	1–12/2015	1–12/2014
Net sales, € million	3,250	3,568
Operating profit excl. non-recurring items, € million	63.6	0.4
Operating margin excl. non-recurring items,%	2.0	0.0
Capital expenditure, € million	55.3	71.9

Net sales, € million	1–12/2015	Change,%
Building and home improvement trade, Finland	794	+0.3
K-rauta, Sweden	209	+7.7
Byggmakker, Norway	418	-3.0
K-rauta, Estonia	87	+11.2
K-rauta, Latvia	52	-2.0
Senukai, Lithuania	322	+3.2
K-rauta, Russia	192	-23.1
OMA, Belarus	116	-7.5
Intersport, Finland	174	+1.5
Intersport, Russia	12	-17.0
Indoor	179	+1.6
Agricultural and machinery trade	615	-0.4
Others	90	-75.3
Total	**3,250**	**-8.9**

The profitability of the home improvement and speciality goods trade improved significantly in 2015, which was attributable to the good profit performance in the building and home improvement trade and the divestment of the loss-making business of Anttila in March 2015. The market share of the K-Group's building and home improvement trade is estimated to have strengthened especially in Finland. In the building and home improvement trade, growth strengthened especially in the B2B trade.

The net sales of the home improvement and speciality goods trade were €3,250 million (€3,568 million), down 8.9%. Net sales excluding Anttila increased by 2.3% in local currencies.

The net sales of the home improvement and speciality goods trade in Finland were €1,719 million (€2,002 million), a decrease of 14.1%. Anttila excluded, net sales decreased in Finland by 1.0%. The net sales from the foreign operations of the home improvement and speciality goods trade were €1,530 million (€1,566 million), a decrease of

2.3%. In local currencies, the net sales from foreign operations excluding Anttila increased by 5.8%. Foreign operations contributed 47.1% (43.9%) to the net sales of the home improvement and speciality goods trade.

The net sales of the building and home improvement trade were €2,370 million (€2,422 million), a decrease of 2.1%. In local currencies, net sales were up by 2.7%. In respective local currencies, net sales in Sweden grew by 10.8%, in Norway by 3.2% and in Russia by 0.9%.

The net sales of the agricultural and machinery trade were €615 million (€618 million), down 0.4% compared to the previous year. Net sales in Finland were €500 million, a decrease of 4.2%. The net sales from foreign operations were €115 million, an increase of 20.0%. The net sales of the leisure trade were €205 million, an increase of 1.3% in local currencies.

The K-Group's sales of building and home improvement products in Finland decreased by a total of 0.3% and the total market (VAT 0%) is estimated to have fallen by approximately 2.2% (Kesko's own estimate). The retail sales of the K-maatalous chain were €437 million, down 5.5%.

The operating profit excluding non-recurring items of the home improvement and speciality goods trade was €63.6 million (€0.4 million), up €63.2 million compared to the previous year. The €12.7 million (€63.2 million) operating loss of Anttila, divested in March, is included in the profit of the home improvement and speciality goods trade. The operating profit of the home improvement and speciality goods trade, excluding non-recurring items and Anttila, was €76.3 million, up €12.6 million on the previous year. The improved profitability was attributable to a sales increase in foreign currency terms, coupled with implemented cost savings. The results of the building and home improvement trade improved especially in Finland, Sweden, Norway and the Baltic countries. Profitability improved from the previous year also in the furniture trade and the agricultural and machinery trade.

The operating profit of the home improvement and speciality goods trade was €-57.2 (€-52.0 million). Non-recurring items include a €130 million loss on the divestment of Anttila. Due to Intersport Russia’s low volume and unprofitable performance, Kesko plans to withdraw from the Russian sports trade in 2016. Relating to the restructuring of Intersport Russia’s operations, a total of €17.2 million of non-recurring impairment charges and provisions were recorded for the fourth quarter. In addition, the non-recurring items include €28 million in gains recorded on the sales of properties.

The capital expenditure of the home improvement and speciality goods trade totalled €55.3 million (€71.9 million), of which 54.6% (56.8%) was abroad. Capital expenditure in store sites represented 73.7% of total capital expenditure.

Car trade

	1–12/2015	1–12/2014
Net sales, € million	748	766
Operating profit excl. non-recurring items, € million	26.1	28.9
Operating margin excl. non-recurring items,%	3.5	3.8
Capital expenditure, € million	16.0	13.2

Net sales, € million	1–12/2015	Change,%
VV-Auto	748	-2.4

The profitability of the car trade continued at a good level in 2015 and Volkswagen was the market leader in Finland in passenger cars and vans.

The net sales of the car trade were €748 million (€766 million), down 2.4%. The combined market performance of first time registered passenger cars and vans was 2.8% (3.1%). The combined market share of passenger cars and vans imported by VV-Auto was 19.1% (20.7%).

The profitability of the car trade remained at a good level. The operating profit excluding non-recurring items was €26.1 million (€28.9 million).

The operating profit was €26.1 million (€28.9 million).

The capital expenditure of the car trade was €16.0 million (€13.2 million).

Changes in the Group composition

During the reporting period, Kesko Corporation sold its subsidiary Anttila Oy (Stock exchange release on 16 March 2015). As part of the real estate arrangement completed in June, 11 real estate companies were sold.

Shares, securities market and Board authorisations

At the end of December 2015, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. At 31 December 2015, Kesko Corporation held 877,577 own B shares as treasury shares. These treasury shares accounted for 1.29% of the number of B shares, 0.88% of the total number of shares, and 0.23% of votes attached to all shares of the company. The total number of votes attached to all shares was 385,652,815. Each A share carries ten (10) votes and each B share one (1) vote. The company cannot vote with own shares held by it as treasury shares and no dividend is paid on them. At the end of December 2015, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €28.56 at the end of 2014, and €31.12 at the end of 2015, representing an increase of 9.0%. Correspondingly, the price of a B share was €30.18 at the end of 2014, and €32.37 at the end of 2015, representing an increase of 7.3%. The highest A share price during the year was €38.13 and the lowest was €26.94. The highest B share price during the year was €41.04 and the lowest was €28.30. The Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 10.8% and the weighted OMX Helsinki Cap index by 11.7% during the year. The Retail Sector Index was up by 6.4%.

At the end of December 2015, the market

capitalisation of A shares was €988 million, while that of B shares was €2,182 million, excluding the shares held by the parent company. The combined market capitalisation of A and B shares was €3,170 million, an increase of €232 million from the end of 2014. In 2015, a total of 2.4 million (2.0 million) A shares were traded on Nasdaq Helsinki, an increase of 19.4%. The exchange value of A shares was €75 million. The number of B shares traded was 59.4 million (47.3 million), an increase of 25.5%. The exchange value of B shares was €1,994 million. Nasdaq Helsinki accounted for 57% of Kesko A and B share trading in 2015. Kesko shares were also traded on multilateral trading facilities, the most significant of which were BATS Chi-X with 37% and Turquoise with 6% of the trading (source: Fidessa).

On 13 April 2015, the Annual General Meeting approved a share issue authorisation which cancelled the authorisation, identical in substance, granted by the General Meeting of 16 April 2012. In consequence, the Board has the authority, granted by the Annual General Meeting of 13 April 2015 and valid until 30 June 2018, to issue a total maximum of 20,000,000 new B shares. The shares can be issued against payment to be subscribed by shareholders in a directed issue in proportion to their existing holdings of the company shares regardless of whether they hold A or B shares, or, deviating from the shareholder's pre-emptive right, in a directed issue, if there is a weighty financial reason for the company, such as using the shares to develop the company's capital structure and financing possible acquisitions, capital expenditure or other arrangements within the scope of the company's business operations. The amount paid for the shares is recognised in the reserve of invested non-restricted equity. The authorisation also includes the Board's authority to decide on the share subscription price, the right to issue shares for non-cash consideration and the right to make decisions on other matters concerning share issues.

In addition, the Board has the authority, valid until 30 June 2017, to decide on the transfer of a maximum of 1,000,000 own B shares held by the company as treasury shares. On 9 February 2015, the Board decided to grant own B shares held by the company as treasury shares to persons included in the target group of the 2014 vesting period, based on the valid authority to issue treasury shares granted by the Annual General Meeting held on 8 April 2013 and the fulfilment of the vesting criteria of the 2014 vesting period of Kesko's three-year share-based compensation plan. This transfer of a total of 120,022 own B shares was announced in a stock exchange release on 1 April 2015 and 7 April 2015. Based on the 2014–2016 share-based compensation plan decided by the Board, a total maximum of 600,000 own B shares held by the company as treasury shares can be granted within a period of three years based on the fulfilment of the vesting criteria. The Board will separately decide on the vesting criteria and target group for each vesting period. The share-based compensation plan was announced in a stock exchange release on 4 February 2014.

During the financial year, a total of 2,284 shares granted based on share-based compensation plans (the 2011–2013 and the 2014–2016 share-based compensation plans) was returned to the company in accordance with the terms and conditions of the share-based compensation plans. The returns during the reporting period were notified in a stock exchange notification on 23 March 2015, 4 September 2015 and 16 December 2015.

At the end of December 2015, the number of shareholders was 39,529, which is 340 less than at the end of 2014. At the end of December, foreign ownership of all shares was 27%. Foreign ownership of B shares was 39% at the end of December.

Flagging notifications

On 23 December 2015, Kesko Corporation received a notification according to which the total voting rights in respect of shares in Kesko held by K-

Retailers' Association had exceeded 10% on 23 December 2015. The matter was announced in a stock exchange release on 23 December 2015.

Key events during the reporting period

Kesko sold the department store chain Anttila Oy to the German investment fund 4K INVEST for €1 million. The transaction included all assets and liabilities in Anttila Oy. Anttila Oy's approximately 1,500 employees continued in the employment of the company. The date of the transaction was 16 March 2015. (Stock exchange release on 16 March 2015)

Kesko Corporation, the Swedish life insurance company AMF Pensionsförsäkring AB and Ilmarinen Mutual Pension Insurance Company set up a joint venture named Ankkurikadun Kiinteistöt Oy. The joint venture owns, manages and develops store sites acquired for it, primarily in use by Kesko Group. (Stock exchange release on 8 May 2015 and 11 June 2015)

Kesko's Board of Directors decided on the new strategy which is aimed at achieving profitable growth in three strategic areas: the grocery trade, the building and home improvement trade and the car trade. At the same time, financial targets in accordance with Kesko's new strategy were announced. (Stock exchange release on 27 May 2015)

Kesko announced its plan to merge Kesko Food Ltd and Rautakesko Ltd with the Group's parent company as part of the Group structure simplification. Merging the two largest division parent companies in terms of net sales with the Group's parent company is a step forward in implementing the strategy for a more unified Kesko. (Stock exchange release on 22 July 2015)

Kesko agreed to centralise the Baltic operations in its Lithuania-based subsidiary, UAB Senuku Prekybos centras (Senukai). The plan is to implement the integration in such a way that Kesko will sell the shares in its wholly owned companies responsible for the operations of K-rauta stores in Estonia and Latvia to Senukai. The ownership arrangement is planned to be implemented in early 2016. The implementation is subject to the approval of the competition authority. (Stock exchange release on 4 November 2015)

Kesko Corporation's subsidiary Kesko Food Ltd made an agreement to acquire the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. The net sales of Suomen Lähikauppa in 2014 were €999.2 million, it has 643 Siwa and Valintatalo stores and 4,100 employees. The transaction price of the debt-free acquisition, structured as a share purchase, is approximately €60 million. The completion of the acquisition is subject to the approval of the Finnish Competition and Consumer Authority and the fulfilment of the other terms and conditions of the transaction. The handling of the matter and the acquisition are expected to be completed in the first half of 2016. (Stock exchange releases on 18 November 2015)

Voimaosakeyhtiö SF commenced arbitration proceedings in which Voimaosakeyhtiö SF demands that the court of arbitration confirm that Kesko Corporation's group company Kestra Kiinteistöpalvelut Oy is committed to the future financing of Fennovoima Ltd's Hanhikivi nuclear power project. Kestra Kiinteistöpalvelut Oy considers Voimaosakeyhtiö SF's claims to be unfounded. (Stock exchange release on 17 December 2015)

Events after the reporting period

Kesko Corporation made an agreement to acquire Onninen Oy's whole share capital from Onvest Oy. The pro forma net sales of the business to be acquired were €1,438 million and the EBITDA was €39 million for the period from October 2014 until the end of September 2015. The transaction price of the debt-free acquisition, structured as a share purchase, is €369 million. Onninen's steel business and Russian subsidiary are not included in the acquisition. The completion of the acquisition is subject to the approval of the competition authorities and the fulfilment of the other terms and conditions of the transaction. The acquisition is estimated to be completed during the first half of 2016. (Stock exchange release on 12 January 2016)

Resolutions of the 2015 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting, held on 13 April 2015, adopted the financial statements and the consolidated financial statements for 2014 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute a dividend of €1.50 per share as proposed by the Board, or a total amount of €148,715,547.00. The dividend pay date was 22 April 2015. The General Meeting resolved to leave the number of Board members unchanged at seven. The General Meeting resolved to elect retailer, Business College Graduate Esa Kiiskinen, Master of Science in Economics, retailer Tomi Korpisaari, retailer, Secondary School Graduate Toni Pokela, eMBA Mikael Aro (new member), Master of Science in Economics Matti Kyytsönen (new member), Master of Science in Economics Anu Nissinen (new member) and Master of Laws Kaarina Ståhlberg (new member) as Board members for a three-year term expiring at the close of the 2018 Annual General Meeting in accordance with the Articles of Association. In addition, the General Meeting resolved to leave the Board members' fees and the basis for reimbursement of expenses unchanged.

The General Meeting elected the firm of auditors PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor, with APA Mikko Nieminen as the auditor with principal responsibility. The General Meeting also approved the Board's proposals for the Board's authorisation to issue a total maximum of 20,000,000 new B shares until 30 June 2018, and its authorisation to decide on donations of a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2016.

After the Annual General Meeting, Kesko Corporation's Board of Directors held an organisational meeting in which it elected retailer, Business College Graduate Esa Kiiskinen as its Chair and eMBA Mikael Aro as its Deputy Chair. Master of Laws Kaarina Ståhlberg (Ch.), eMBA Mikael Aro (Dep. Ch.) and Master of Science in Economics Matti Kyytsönen were elected to the Board's Audit Committee. Esa Kiiskinen (Ch.), Mikael Aro (Dep. Ch.) and Master of Science in Economics Anu Nissinen were elected to the Board's Remuneration Committee.

The resolutions of Annual General Meeting and the decisions of the Board's organisational meeting were announced in more detail in stock exchange releases on 13 April 2015.

Responsibility

Kesko was the best trading sector company (Food & Staples Retailing) on 'The Global 100 Most Sustainable Corporations' list in 2015 and 2016. In 2015, Kesko placed 5th and in 2016, 15th on the list.

In November 2015, Kesko rose to CDP's Climate A List for the first time. The globally established list consists of 113 selected leading companies considered to be operating in an exemplary manner in the mitigation of climate change.

In 2015, Kesko continued to conduct human rights impact assessments in compliance with the UN's Guiding Principles on Business and Human Rights.

Kesko aims to identify the entire supply chain of products, while also ensuring that the ingredients are responsibly sourced. In 2015, the origin of the ingredients in Pirkka and K-Menu own brand products was assessed.

In February 2015, Plan International, an organisation promoting children's rights, and Kesko launched a joint initiative to improve the sustainability of Thailand's fish industry and the position of migrant workers. The agreement on cooperation was made for the years 2015–2018.

In September 2015, Kesko's grocery trade, Gasum, Myllyn Paras and Wursti entered into cooperation in which biogas produced from inedible biowaste collected from retail stores will be utilised as energy in the manufacture of new Pirkka products.

The Blue and White Footprint campaign of the Association for Finnish Work continued in 2015, when the K-rauta and Rautia stores joined the K-food stores in the campaign. The objective of the campaign is to increase the sales of Finnish products and the awareness of the positive effects of buying Finnish work.

In spring 2015, the K-Group and the Ruokatieto association organised Local Food Dates (Lähiruokatreffit) in six localities in Finland. These events are aimed at providing retailers and local producers an opportunity to network and improve the offering of local products in K-food stores.

In 2015, Kesko created the ‘Thank the Producer’ operating model, which aims to draw attention to the position of producers and increase the appreciation of Finnish production. When buying groceries for Christmas, customers had a chance to buy a ’Thank the Producer’ card. The full proceeds from the sale of the cards were tripled and remitted to Finnish pig farmers in cooperation with the Central Union of Agricultural Producers and Forest Owners (MTK) and meat companies.

K-stores were the main partners of the Finnish Red Nose Day and raised a record amount of €420,000 for the campaign in 2015. For a third time, Kesko and K-stores participated in the Salvation Army's Christmas Kettle Collection to help those in need. K-food stores also participated in the Happy Christmas Spirit collection organised by the Finnish Red Cross and the Mannerheim League for Child Welfare.

Information contained in the notes to the financial statements

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

Kesko publishes the Annual Report for 2015 at www.kesko.fi. The report contains a strategy review, the Report by the Board of Directors and the financial statements for 2015, Kesko’s Corporate Governance Statement and Remuneration Statement and the responsibility reporting indicators (GRI). Assurance for GRI indicators is provided by an independent external party.

Risk management

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

Kesko Group's risks are considered by the Kesko Board's Audit Committee in connection with the quarterly interim reports and the financial statements. The Audit Committee Chair reports on risk management to the Board as part of the Audit Committee's 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.

The following describes the risks and uncertainties assessed as significant.

Significant risks and uncertainties

Continuous decline of purchasing power and demand especially in Finland

The weak outlook for the Finnish economy, increases in taxes and public payments resulting from the indebtedness of the public sector, coupled with increasing unemployment, weaken purchasing power and consumer confidence and may cause a long-term decline in the level of demand. This would have negative repercussions especially on Kesko's home improvement and speciality goods trade and car trade in Finland. In the food trade, price is increasingly important.

Weakening of the Russian economy and operating conditions

The level of uncertainty regarding economic development in Russia is high and political and country risks in Russia have risen. The fall of crude oil prices cuts the revenues of the Russian state. The low exchange rate of the rouble weakens purchasing power, demand and profitability, and strong fluctuations in the exchange rate increases hedging costs. The economic sanctions imposed by the EU and the USA make it difficult to get financing in Russia. Russia's counter-sanctions have impacts especially on food stores' operations and raise the price level in Russia even on a wider scale. Unpredictability of officials and rapid changes in laws and their application, as well as unexpected changes in the operating environment can make business operations more difficult and delay expansion.

Decline in price levels and intensification of price competition in the Finnish food trade

The level of food prices in Finland declined in 2015. As consumers' purchasing power has decreased, competition has become more intense and stores have lowered their prices in order to increase market shares. The decline in price levels and the intensified price competition can weaken the profitability of Kesko's grocery trade and retailers.

Acquisitions in progress

After completion, the acquisitions of Suomen Lähikauppa Oy and Onninen Oy will provide a significant business opportunity for Kesko, but they also entail risks. The takeover and integration of the companies into Kesko will be demanding, long lasting processes and their success will impact on the achievement of the objectives set for sales, profit and synergies.

Strong change in the trading sector caused by digitalisation

E-commerce and online services are becoming increasingly popular in the retail trade, especially in the speciality goods trade. International e-commerce increases price transparency and consumers' alternatives at the same time when making decisions to buy products and services and buying and marketing them become more personalised and increasingly take place online. The achievement of business objectives requires an active approach and strong expertise in the development of online services and online stores that are attractive to customers and the adoption of a multichannel approach with supporting electronic customer communications. The risk is that some of the traditional brick and mortar stores become unprofitable and that the progress of e-commerce and online service development projects is outpaced by competitors, or that competing online stores and online services are found more attractive by customers. In addition, competition can be intensified by companies entering the value chain of trade by introducing new business models. For the food trade, the challenges in the development of e-commerce include the cost effectiveness of logistic models and the suitability of the existing store sites for e-commerce.

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

Retailers' operating conditions

Kesko's chain operations are, contrary to those of most competitors, based on a retailer business model to a significant extent. The competitive advantages of the retailer business model include the retailer's local expertise and ability to rapidly respond to changes in customer needs or competitive situations. Decision-making concerning the development of the chains' operations and the implementation of changes in business operations can, however, be outpaced by competitors. A prolonged decline in the level of demand and sales can weaken the profitability and performance of retailer operations in Finland.

Store sites

With a view to increasing the market share, 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 store properties for years. When the share of e-commerce grows, the market situation changes, or a chain concept proves inefficient there is a risk that a store site becomes unprofitable and operations are discontinued while long-term liabilities remain.

Product safety and supply chain quality

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

Employee competencies and working capacity

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

Suppliers and distribution channels

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

Crime and malpractice

Crimes are increasingly committed through data networks and crime has become more international and professional. A failure, especially if it affects the security of payment transactions and personal information, can cause losses, claims for damages and reputational harm. There is a risk that controls against such crime are not sufficient.

Responsible operating practices and reputation management

Various aspects of corporate responsibility, such as the ethicality of production and purchasing, fair and equal treatment of employees and environmental protection are increasingly important to customers. Any failures of responsibility would result in negative publicity for Kesko. Kesko's challenges in corporate responsibility work include communicating its responsibility principles to suppliers, retailers and customers, and ensuring responsibility in the supply chain.

Compliance with laws and agreements

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

Reporting to the market

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

Risks of damage

Accidents, natural phenomena and epidemics can cause damages or business interruptions that cannot be prevented. There is also the risk that insurance policies do not cover all unexpected accidents and damages.

Future outlook

Estimates of the future outlook for Kesko Group's net sales and operating profit excluding non-recurring items are given for the 12 months following the reporting period (1-12/2016) in comparison with the 12 months preceding the reporting period (1-12/2015).

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, owing to the weak trend in consumers' purchasing power, the trading sector's performance is expected to remain modest in all product lines, which may be complicated further by actions taken to balance the public finances. In the Finnish grocery trade, intense competition is expected to continue. The market for the Finnish building and home improvement trade and car trade is expected to remain weak. With respect to foreign countries, the economic situation and consumers' purchasing power, as well as the outlook in Russia have weakened further. Whereas in Sweden and Norway and the Baltic countries, the market is expected to grow.

Kesko Group's net sales for 2016 are expected to equal the level of the previous year. The operating profit excluding non-recurring items for 2016 is expected to slightly exceed the level of 2015.

The future outlook does not take account of the acquisitions of Suomen Lähikauppa and Onninen, in respect of which estimates will be given in connection with their respective completions.

Proposal for profit distribution

The parent's distributable profits are €1,101,724,265.47, of which the profit for the financial year is €161,817,870.11.

The Board of Directors proposes to the Annual General Meeting to be held on 4 April 2016 that a dividend of €2.50 per share be paid on shares held outside the company at the date of dividend distribution. No dividend is paid on own shares held by the company as treasury shares at the record date of dividend distribution.

At the date of the proposal for distributions of profits, 2 February 2016, a total of 99,142,175 shares were held outside the Company, amounting to a total dividend of €247,855,437.50.

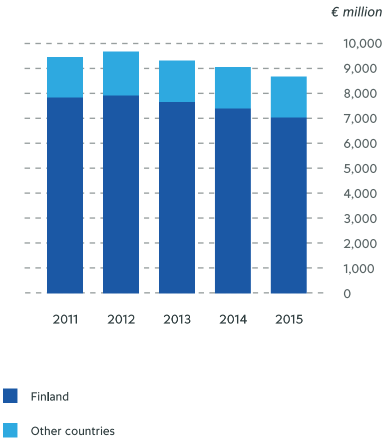
Annual General Meeting

The Board of Directors decided to convene the Annual General Meeting at Messukeskus Helsinki, on 4 April 2016 at 13.00. Kesko Corporation will publish a notice of the General Meeting at a later date.

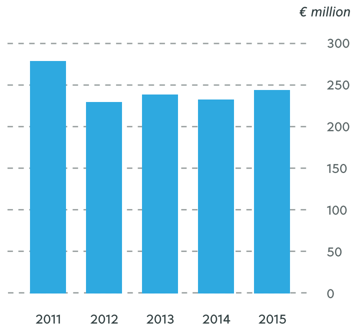
Annual Report 2015 and Corporate Governance Statement

Kesko will publish the Annual Report for 2015 on week 10 on its website at www.kesko.fi. The report contains a strategic review, the Report by the Board of Directors and the financial statements for 2015, the responsibility reporting indicators (GRI), Kesko's Corporate Governance Statement and Remuneration Statement.

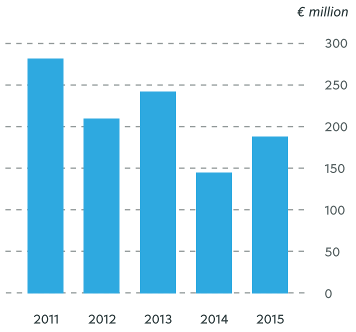
Net sales



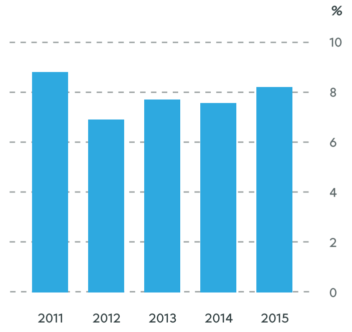
Operating profit excl. non-recurring items



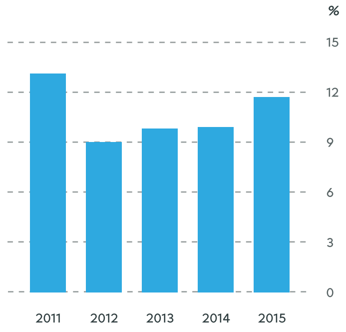
Profit before tax



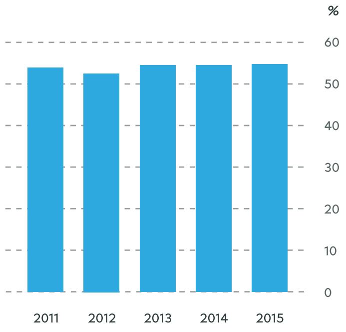
Return on equity excl. non-recurring items



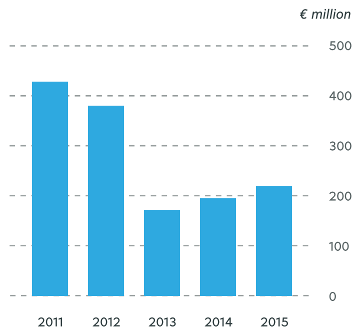
Return on capital employed excl. non-recurring items



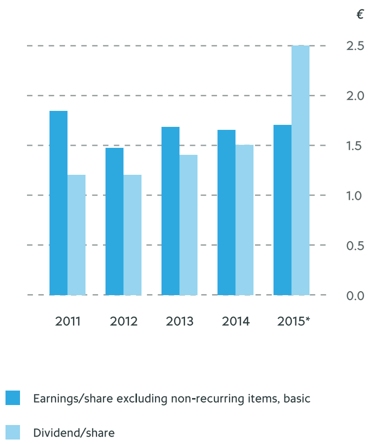
Equity ratio



Capital expenditure

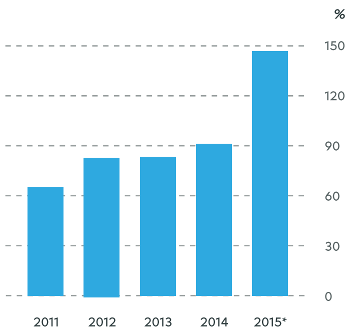


Earnings/share and dividend/share



* Proposal to the General Meeting

Payout ratio excl. non-recurring items



* Proposal to the General Meeting

GROUP'S KEY PERFORMANCE INDICATORS

		2011	2012	2013	2014	2015
Income statement						
Net sales	€ million	9,460	9,686	9,315	9,071	8,679
Change in net sales	%	7.8	2.4	-3.8	-2.6	-4.3
Operating profit excl. non-recurring items	€ million	279	230	239	233	244
Operating profit excl. non-recurring items as percentage of net sales	%	2.9	2.4	2.6	2.6	2.8
Profit for the year (incl. non-controlling interests)	€ million	197	136	185	108	117
Profit for the year as percentage of net sales	%	2.1	1.4	2.0	1.2	1.4
Profitability						
Return on equity	%	8.8	6.0	8.0	4.7	5.2
Return on equity excl. non-recurring items	%	8.8	6.9	7.7	7.6	8.2
Return on capital employed	%	13.2	8.3	10.2	6.4	9.3
Return on capital employed excl. non-recurring items	%	13.1	9.0	9.8	9.9	11.7
Funding and financial position						
Interest-bearing net debt	€ million	32.8	135.3	-126.4	-99.2	-448.1
Gearing	%	1.5	6.0	-5.4	-4.4	-20.0
Equity ratio	%	53.9	52.5	54.5	54.5	54.7
Interest-bearing net debt/EBITDA		0.1	0.4	-0.3	-0.3	-1.4
Other performance indicators						
Capital expenditure	€ million	425	378	171	194	219
Capital expenditure as percentage of net sales	%	4.5	3.9	1.8	2.1	2.5
Cash flow from operating activities	€ million	216	382	414	304	276
Cash flow from investing activities	€ million	-441	-391	-152	-182	217
Personnel, average for the period		18,960	19,747	19,489	19,976	18,955
Personnel, as at 31 Dec.		23,375	24,080	23,863	23,794	21,935

		2011	2012	2013	2014	2015
Share performance indicators						
Earnings/share, diluted	€	1.84	1.26	1.75	0.97	1.03
Earnings/share, basic	€	1.85	1.27	1.75	0.97	1.03
Earnings/share excl. non-recurring items, basic	€	1.84	1.47	1.68	1.65	1.70
Equity/share	€	22.29	22.48	22.96	22.05	21.82
Dividend/share	€	1.20	1.20	1.40	1.50	2.50*
Payout ratio	%	64.9	94.5	79.9	154.7	243.8*
Payout ratio excl. non-recurring items	%	65.3	81.8	83.3	91.1	146.7*
Cash flow from operating activities/share, adjusted	€	2.20	3.88	4.17	3.07	2.79
Price/earnings ratio (P/E), A share, adjusted		13.55	19.30	15.35	29.49	30.35
Price/earnings ratio (P/E), B share, adjusted		14.14	19.60	15.35	31.16	31.57
Effective dividend yield, A share	%	4.8	4.9	5.2	5.3	8.0
Effective dividend yield, B share	%	4.6	4.8	5.2	5.0	7.7
Share price as at 31 Dec.						
A share	€	24.82	24.39	26.80	28.56	31.12
B share	€	25.96	24.77	26.80	30.18	32.37
Average share price						
A share	€	29.20	23.71	24.85	29.06	31.85
B share	€	29.36	22.75	24.11	29.82	33.52
Market capitalisation as at 31 Dec., A share	€ million	788	774	851	906	988
Market capitalisation as at 31 Dec., B share	€ million	1,719	1,644	1,810	2,031	2,182
Turnover						
A share	Million pcs	2	2	1	2	2
B share	Million pcs	63	68	51	47	59
Relative turnover rate						
A share	%	6.6	7.6	3.6	6.3	7.5
B share	%	94.6	102.0	77.0	69.5	87.0
Diluted number of shares as at 31 Dec.	Thousand pcs	98,919	98,472	99,136	99,161	99,114

Yield of A share for the last five financial years	%	-4.6	-4.5	8.5	8.3	2.3
Yield of B share						
For the last five financial years	%	-4.2	-3.7	13.7	10.1	3.0
For the last ten financial years	%	17.1	14.6	13.4	10.2	7.7

** Proposal to the General Meeting*

NET SALES BY SEGMENT

€ million	1–12/2015	1–12/2014	Change,%
Grocery trade, Finland	4,566	4,650	-1.8
Grocery trade, other countries*	107	103	3.2
Grocery trade, total	**4,673**	**4,754**	**-1.7**
- of which intersegment trade	15	34	-54.9
Home improvement and speciality goods trade, Finland	1,719	2,002	-14.1
Home improvement and speciality goods trade, other countries*	1,530	1,566	-2.3
Home improvement and speciality goods trade, total	**3,250**	**3,568**	**-8.9**
- of which intersegment trade	1	0	(..)
Car trade, Finland	748	766	-2.4
Car trade, total	**748**	**766**	**-2.4**
- of which intersegment trade	0	0	-12.4
Common operations and eliminations	8	-18	(..)
Finland, total	**7,042**	**7,401**	**-4.9**
Other countries, total*	**1,637**	**1,669**	**-1.9**
Group total	**8,679**	**9,071**	**-4.3**

** Net sales in countries other than Finland*

(..) Change over 100%

OPERATING PROFIT BY SEGMENT

€ million	1–12/2015	1–12/2014	Change
Grocery trade	249.4	216.2	33.2
Home improvement and speciality goods trade	-57.2	-52.0	-5.2
Car trade	26.1	28.9	-2.8
Common operations and eliminations	-23.7	-41.7	18.0
Group total	**194.6**	**151.4**	**43.2**

OPERATING PROFIT EXCL. NON-RECURRING ITEMS BY SEGMENT

€ million	1–12/2015	1–12/2014	Change
Grocery trade	177.5	223.2	-45.8
Home improvement and speciality goods trade	63.6	0.4	63.2
Car trade	26.1	28.9	-2.8
Common operations and eliminations	-22.7	-20.0	-2.8
Group total	**244.5**	**232.6**	**11.8**

GROUP'S PERFORMANCE INDICATORS BY QUARTER

	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–3/ 2015	4–6/ 2015	7–9/ 2015	10–12/ 2015
Net sales, € million	2,129	2,371	2,304	2,267	2,082	2,227	2,203	2,166
Change in net sales,%	-1.4	-2.1	-2.9	-4.0	-2.2	-6.0	-4.4	-4.4
Operating profit, € million	-13.0	69.4	63.4	31.7	-103.6	175.8	83.1	39.3
Operating margin,%	-0.6	2.9	2.7	1.4	-5.0	7.9	3.8	1.8
Operating profit excl. non-recurring items, € million	19.1	67.6	84.0	61.9	26.5	76.4	82.5	59.1
Operating margin excl. non-recurring items,%	0.9	2.9	3.6	2.7	1.3	3.4	3.7	2.7
Finance income/costs, € million	-1.6	2.2	-1.8	-5.0	-0.3	-4.2	-3.5	0.9
Profit before tax, € million	-14.4	71.4	61.7	26.4	-103.7	172.1	78.8	40.7
Profit before tax,%	-0.7	3.0	2.7	1.2	-5.0	7.7	3.6	1.9
Return on capital employed,%	-2.2	11.5	10.9	5.5	-18.1	31.9	17.6	8.2
Return on capital employed excl. non-recurring items,%	3.2	11.2	14.4	10.7	4.6	13.9	17.5	12.4
Return on equity,%	-2.0	9.4	8.1	3.7	-19.9	28.0	8.9	4.8
Return on equity excl. non-recurring items,%	2.3	9.1	11.3	8.0	3.1	10.6	10.6	9.2
Equity ratio,%	53.2	52.3	54.2	54.5	51.5	52.2	54.2	54.7
Capital expenditure, € million	43.4	55.7	51.7	43.2	51.5	58.6	41.5	66.9
Earnings/share, diluted, €	-0.11	0.51	0.41	0.17	-1.11	1.48	0.43	0.22
Equity/share, €	22.83	21.86	22.25	22.05	21.30	21.21	21.41	21.82

NET SALES BY SEGMENT

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–3/ 2015	4–6/ 2015	7–9/ 2015	10–12/ 2015
Grocery trade	1,102	1,202	1,190	1,260	1,103	1,149	1,171	1,249
Home improvement and speciality goods trade	815	974	942	837	773	883	857	736
Car trade	218	199	175	175	210	190	170	177
Common operations and eliminations	-6	-5	-2	-5	-3	4	4	4
Group total	**2,129**	**2,371**	**2,304**	**2,267**	**2,082**	**2,227**	**2,203**	**2,166**

OPERATING PROFIT BY SEGMENT

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–3/ 2015	4–6/ 2015	7–9/ 2015	10–12/ 2015
Grocery trade	44.3	54.4	58.3	59.1	35.2	115.8	45.0	53.4
Home improvement and speciality goods trade	-64.3	11.9	1.9	-1.5	-144.7	61.5	36.8	-10.9
Car trade	10.1	7.4	6.3	5.2	9.8	6.5	6.0	3.8
Common operations and eliminations	-3.1	-4.4	-3.2	-31.1	-3.9	-8.0	-4.6	-7.1
Group total	**-13.0**	**69.4**	**63.4**	**31.7**	**-103.6**	**175.8**	**83.1**	**39.3**

OPERATING PROFIT EXCL. NON-RECURRING ITEMS BY SEGMENT

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–3/ 2015	4–6/ 2015	7–9/ 2015	10–12/ 2015
Grocery trade	45.4	55.3	60.3	62.2	34.9	43.3	44.8	54.5
Home improvement and speciality goods trade	-33.2	9.3	20.6	3.7	-14.2	34.5	35.8	7.5
Car trade	10.1	7.4	6.3	5.2	9.8	6.5	6.0	3.8
Common operations and eliminations	-3.1	-4.4	-3.2	-9.3	-3.9	-8.0	-4.1	-6.7
Group total	**19.1**	**67.6**	**84.0**	**61.9**	**26.5**	**76.4**	**82.5**	**59.1**

CALCULATION OF PERFORMANCE INDICATORS

PROFITABILITY

Return on equity,%	(Profit/loss before tax − Income tax) x 100 / Shareholders' equity
Return on equity excl. non-recurring items,%	(Profit/loss adjusted for non-recurring items before tax − Income tax adjusted for the tax effect of non-recurring items) x 100 / Shareholders' equity
Return on capital employed,%	Operating profit x 100 / (Non-current assets + Inventories + Receivables + Other current assets − Non-interest-bearing liabilities) for a 12 month average
Return on capital employed excl. non-recurring items,%	Operating profit excluding non-recurring items x 100 / (Non-current assets + Inventories + Receivables + Other current assets − Non-interest-bearing liabilities) for a 12 month average
EBITDA	Operating profit + Depreciation and amortisation + Impairments

FUNDING AND FINANCIAL POSITION

Equity ratio,%	Shareholders' equity x 100 / (Balance sheet total − Prepayments received)
Gearing,%	Interest-bearing net debt x 100 / Shareholders' equity
Interest-bearing net debt	Interest-bearing liabilities − Money market investments − Cash and cash equivalents
Interest-bearing net debt/EBITDA	Interest-bearing net debt / EBITDA

SHARE PERFORMANCE INDICATORS

Earnings/share, diluted	(Profit/loss − Non-controlling interests) / (Average number of shares adjusted for the dilutive effect)
Earnings/share, basic	(Profit/loss − Non-controlling interests) / (Average number of shares)
Earnings/share excl. non-recurring items, basic	(Profit/loss adjusted for non-recurring items − Non-controlling interests) / (Average number of shares)
Equity/share	(Equity attributable to equity holders of the parent) / (Basic number of shares at 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

ANALYSIS OF SHAREHOLDING

ANALYSIS OF SHAREHOLDING BY SHAREHOLDER TYPE AS AT 31 DEC. 2015

All shares	Number of shares, pcs	Percentage of all shares,%
Non-financial corporations and housing corporations	25,429,439	25.42
Financial and insurance corporations	9,334,660	9.33
General government*	6,075,559	6.07
Households	26,198,475	26.19
Non-profit institutions**	5,625,298	5.62
Rest of the world	430,119	0.43
Nominee registered	26,926,202	26.92
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	18,626,977	58.69	18.62
Financial and insurance corporations	4,111,521	12.95	4.11
General government*	401,252	1.26	0.40
Households	6,274,579	19.77	6.27
Non-profit institutions**	1,744,171	5.50	1.74
Rest of the world	7,089	0.02	0.01
Nominee registered	571,418	1.80	0.57
Total	**31,737,007**	**100.00**	**31.73**

B shares	Number of shares, pcs	Percentage of B shares,%	Percentage of all shares,%
Non-financial corporations and housing corporations	6,802,462	9.96	6.80
Financial and insurance corporations	5,223,139	7.65	5.22
General government*	5,674,307	8.31	5.67
Households	19,923,896	29.18	19.92
Non-profit institutions**	3,881,127	5.68	3.88
Rest of the world	423,030	0.62	0.42
Nominee registered	26,354,784	38.60	26.35
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. 2015

All shares Number of shares	Number of shareholders, pcs	Percentage of share-holders,%	Share total, pcs	Percentage of shares,%
1–100	13,069	33.06	726,514	0.73
101–500	14,485	36.64	3,892,042	3.89
501–1,000	5,097	12.89	4,010,131	4.01
1,001–5,000	5,310	13.43	11,659,532	11.66
5,001–10,000	847	2.14	5,989,717	5.99
10,001–50,000	585	1.48	12,103,289	12.10
50,001–100,000	72	0.18	5,175,930	5.17
100,001–500,000	49	0.12	10,590,509	10.59
500,001–999,999,999,999	15	0.04	45,872,088	45.86
Total	**39,529**	**100.00**	**100,019,752**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of holders of A shares,%	A share total, pcs	Percentage of A shares,%
1–100	2,411	32.24	113,345	0.36
101–500	1,830	24.47	476,212	1.50
501–1,000	1,044	13.96	898,276	2.83
1,001–5,000	1,485	19.86	3,638,803	11.47
5,001–10,000	365	4.88	2,569,509	8.10
10,001–50,000	291	3.89	6,236,286	19.65
50,001–100,000	34	0.45	2,372,987	7.48
100,001–500,000	13	0.17	3,197,927	10.08
500,001–999,999,999,999	5	0.07	12,233,662	38.55
Total	**7,478**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of shareholders, pcs	Percentage of holders of B shares,%	B share total, pcs	Percentage of B shares,%
1–100	11,601	33.67	662,809	0.97
101–500	13,515	39.23	3,631,151	5.32
501–1,000	4,317	12.53	3,327,680	4.87
1,001–5,000	4,163	12.08	8,790,755	12.87
5,001–10,000	466	1.35	3,317,282	4.86
10,001–50,000	306	0.89	6,030,024	8.83
50,001–100,000	40	0.12	2,945,034	4.31
100,001–500,000	31	0.09	7,059,569	10.34
500,001–999,999,999,999	11	0.03	32,518,441	47.62
Total	**34,450**	**100.00**	**68,282,745**	**100.00**

10 LARGEST SHAREHOLDERS BY NUMBER OF SHARES HELD AS AT 31 DEC. 2015

		Number of shares, pcs	Percentage of shares,%	Number of votes	Percentage of votes,%
1.	K-Retailers' Association	3,877,707	3.88	38,777,070	10.05
2.	Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
3.	Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
4.	Ilmarinen Mutual Pension Insurance Company	1,970,632	1.97	5,576,320	1.45
5.	Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
6.	Varma Mutual Pension Insurance Company	1,130,986	1.13	1,130,986	0.29
7.	Foundation for Vocational Training in the Retail Trade	1,100,426	1.10	9,633,308	2.50
8.	Oy The English Tearoom Ab	1,000,000	1.00	1,000,000	0.26
9.	The State Pension Fund	950,000	0.95	950,000	0.25
10.	Elo Mutual Pension Insurance Company	896,968	0.90	896,968	0.23

10 LARGEST SHAREHOLDERS BY NUMBER OF VOTES AS AT 31 DEC. 2015

		Number of shares, pcs	Percentage of shares,%	Number of votes	Percentage of votes,%
1.	K-Retailers' Association	3,877,707	3.88	38,777,070	10.05
2.	Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
3.	Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
4.	Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
5.	Foundation for Vocational Training in the Retail Trade	1,100,426	1.10	9,633,308	2.50
6.	Ilmarinen Mutual Pension Insurance Company	1,970,632	1.97	5,576,320	1.45
7.	Heimo Välinen Oy	470,000	0.47	4,700,000	1.22
8.	K-Food Retailers' Club	460,856	0.46	4,608,560	1.20
9.	Food Paradise Oy	389,541	0.39	3,895,410	1.01
10.	T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50

MANAGEMENT'S SHAREHOLDINGS

At the end of December 2015, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 373,961 Kesko Corporation A shares and 10,476 Kesko Corporation B shares, i.e. a total of 384,437 shares, which represents 0.38% of the total number of shares and 0.97% of votes carried by all shares of the Company.

At 31 December 2015, the President and CEO held 8,791 Kesko Corporation B shares, which represented 0.01% of the total number of shares and 0.00% of votes carried by all shares of the Company. At 31 December 2015, the Group Management Board including the President and CEO held 65,162 Kesko Corporation B shares, which represented 0.07% of the total number of shares and 0.02% of votes attached to all shares of the Company.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED INCOME STATEMENT

€ million	Note		1 Jan.–31 Dec. 2015	%	1 Jan.–31 Dec. 2014	%
Net sales		2	**8,678.9**	**100.0**	**9,070.6**	**100.0**
Cost of goods sold			-7,540.4	-86.9	-7,832.3	-86.3
Gross profit			**1,138.5**	13.1	**1,238.3**	13.7
Other operating income	4	5	800.4	9.2	729.3	8.0
Employee benefit expense	6	30	-544.8	-6.3	-614.2	-6.8
Lease expenditure			-407.7	-4.7	-438.4	-4.8
Marketing costs			-221.6	-2.6	-237.1	-2.6
Property and store site maintenance			-105.4	-1.2	-120.1	-1.3
Information system expenses			-78.5	-0.9	-84.6	-0.9
Other operating expenses		4	-249.6	-2.9	-126.7	-1.4
Depreciation, amortisation and impairment	11	12	-136.8	-1.6	-195.1	-2.2
Operating profit			**194.6**	2.2	**151.4**	1.7
Interest income and other finance income		7	10.4	0.1	13.8	0.2
Interest expense and other finance costs		7	-14.2	-0.2	-15.6	-0.2
Foreign exchange differences		7	-3.3	-0.0	-4.4	-0.0
Total finance income and costs		7	-7.1	-0.1	-6.1	-0.1
Investments accounted for using the equity method			0.6	0.0	-0.2	-0.0
Profit before tax			**188.0**	2.2	**145.0**	1.6
Income tax		8	-70.7	-0.8	-36.6	-0.4
Profit for the year			**117.4**	**1.4**	**108.5**	**1.2**

Profit for the year attributable to			
Owners of the parent		101.6	96.0
Non-controlling interests		15.7	12.4
Earnings per share for profit attributable to owners of the parent			
Basic, €	10	1.03	0.97
Diluted, €	10	1.03	0.97

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	**Note**	**1 Jan.–31 Dec. 2015**	**1 Jan.–31 Dec. 2014**
Profit for the year		**117.4**	**108.5**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	9 17	23.0	-19.6
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	9	-17.4	-27.9
Adjustment for hyperinflation	9	-	4.5
Cash flow hedge revaluation	9	-0.0	0.9
Revaluation of available-for-sale financial assets	9	1.1	-3.0
Others	9	-0.3	-0.2
Total comprehensive income for the year, net of tax		**6.4**	**-45.4**
Total comprehensive income for the year		**123.8**	**63.1**
Comprehensive income for the year attributable to			
Owners of the parent		118.9	49.4
Non-controlling interests		4.9	13.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ million	Note			31 Dec. 2015	%	31 Dec. 2014	%
ASSETS							
Non-current assets							
Property, plant and equipment			11	1,282.1		1,624.1	
Intangible assets			12	168.4		177.9	
Equity accounted investments		13	37	99.2		92.2	
Available-for-sale financial assets		23	32	15.3		13.1	
Non-current receivables	14	15	23	62.9		7.1	
Deferred tax assets			16	3.9		4.2	
Pension assets			17	176.4		147.2	
Total non-current assets				**1,808.3**	**43.7**	**2,065.9**	**49.2**
Current assets							
Inventories			18	735.0		776.4	
Interest-bearing receivables		19	23	10.0		11.0	
Trade receivables	19	23	32	581.7		584.2	
Income tax assets		19	23	2.0		24.3	
Other non-interest-bearing receivables		19	23	114.6		137.3	
Financial assets at fair value through profit or loss		23	32	374.2		219.3	
Available-for-sale financial assets	20	23	32	371.7		271.7	
Cash and cash equivalents				141.2		107.0	
Total current assets				**2,330.5**	**56.3**	**2,131.2**	**50.8**
Non-current assets held for sale			21	0.5	0.0	0.5	0.0
Total assets				**4,139.3**	**100.0**	**4,197.7**	**100.0**

€ million	Note	31 Dec. 2015	%	31 Dec. 2014	%
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	22	197.3		197.3	
Share premium	22	197.8		197.8	
Other reserves	22	265.5		265.5	
Currency translation differences	22	-44.6		-37.9	
Revaluation reserve	22	0.2		-0.9	
Retained earnings		1,547.1		1,562.1	
		2,163.4	52.3	**2,183.9**	52.0
Non-controlling interests		**78.6**	1.9	**81.6**	1.9
Total equity		**2,241.9**	54.2	**2,265.5**	54.0
Non-current liabilities					
Interest-bearing non-current liabilities	23 24 32	258.3		319.3	
Non-interest-bearing non-current liabilities	23 32	42.2		10.5	
Deferred tax liabilities	16	71.4		67.4	
Pension obligations	17	0.9		2.0	
Provisions	25	15.6		26.7	
Total non-current liabilities		**388.4**	9.4	**425.9**	10.1
Current liabilities					
Current interest-bearing liabilities	23 32	180.8		179.6	
Trade payables	23 26 32	795.1		794.6	
Other non-interest-bearing liabilities	23 26 32	212.6		217.9	
Income tax liabilities	23 26 32	31.4		9.2	
Accrued liabilities	23 26 32	251.3		262.9	
Provisions	25	37.8		42.1	
Total current liabilities		**1,509.0**	36.5	**1,506.3**	35.9
Total liabilities		**1,897.3**	45.8	**1,932.2**	46.0
Total equity and liabilities		**4,139.3**	**100.0**	**4,197.7**	**100.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

€ million	Note	1 Jan.–31 Dec. 2015	1 Jan.–31 Dec. 2014
Cash flows from operating activities			
Profit before tax		188.0	145.0
Adjustments			
Depreciation according to plan		127.6	150.7
Finance income and costs		7.1	6.1
Other adjustments	31	40.1	63.3
		174.8	**220.1**
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-1.8	31.7
Inventories increase (-)/decrease (+)		-43.9	-6.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		7.0	-20.9
		-38.8	3.9
Interest paid and other finance costs		-17.6	-16.1
Interest received		8.9	13.0
Dividends received		0.1	0.1
Income taxes paid		-38.9	-61.6
Net cash flows from operating activities		**276.4**	**304.4**
Cash flows from investing activities			
Payments for acquisition of equity accounted investments	31	-11.0	0.0
Payments for tangible and intangible assets	31	-203.8	-193.6
Payments for available-for-sale financial assets		-	0.0
Proceeds from sale of subsidiaries, net of cash disposed of	31	-47.3	0.3
Equity repaid by associates and joint ventures		9.5	-
Proceeds from sale of tangible and intangible assets		470.4	10.8
Non-current loan and receivables, increase (-)/decrease (+)		-0.6	0.3
Net cash flows from investing activities		**217.1**	**-182.1**

Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)		-58.6	-44.8
Repayments of finance lease liabilities		-2.8	-1.0
Interest-bearing receivables, increase (-)/decrease (+)		1.8	-0.5
Dividends paid		-156.1	-143.4
Proceeds from issue of shares		-	2.1
Acquisition of treasury shares		-	-16.1
Short-term money market investments, increase (-)/decrease (+)		-269.2	-56.8
Other items		19.3	6.8
Net cash flows from financing activities		**-465.7**	**-253.6**
Change in cash and cash equivalents and current available-for-sale financial assets		**27.8**	**-131.3**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January	31	313.3	453.0
Currency translation difference adjustment and change in value		-7.1	-8.4
Cash and cash equivalents and current available-for-sale financial assets as at 31 December	31	**334.1**	**313.3**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ million	Attributable to owners of the parent							Non-controlling interest	Total equity
	Share capital	Re-serves	Currency trans-lation diffe-rences	Reval-uation reserve	Treasury shares	Retained earnings	Total		
Balance as at 1 January 2015	**197.3**	**463.3**	**-37.9**	**-0.9**	**-31.5**	**1,593.5**	**2,183.9**	**81.6**	**2,265.5**
Share-based payment					4.0		4.0		4.0
Acquisition of treasury shares					-0.1		-0.1		-0.1
Dividends						-148.7	-148.7	-7.3	-156.1
Acquisition of non-controlling interest					0.0	0.1	0.1	-0.6	-0.5
Other changes		0.0	-0.0			5.3	5.3	0.0	5.3
Profit for the year						101.6	101.6	15.7	117.4
Other comprehensive income									
Actuarial gains/losses						28.8	28.8		28.8
Currency translation differences related to a foreign operation		0.0	-6.6				-6.6	-10.8	-17.4
Cash flow hedge revaluation				-0.0			-0.0		-0.0
Revaluation of available-for-sale financial assets				1.4			1.4		1.4
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				-0.3		-5.8	-6.1		-6.1
Total other comprehensive income		0.0	-6.6	1.1		22.7	17.2	-10.8	6.4
Total comprehensive income for the period		0.0	-6.6	1.1	0.0	124.3	118.9	4.9	123.8
Balance as at 31 December 2015	**197.3**	**463.4**	**-44.6**	**0.2**	**-27.5**	**1,574.6**	**2,163.4**	**78.6**	**2,241.9**

€ million	Share capital	Re-serves	Currency trans-lation diffe-rences	Reval-uation reserve	Treasury shares	Retained earnings	Total	Non-control-ling interest	Total equity
	Attributable to owners of the parent								
Balance as at 1 January 2014	**197.3**	**461.2**	**-13.3**	**1.2**	**-17.8**	**1,650.7**	**2,279.4**	**73.1**	**2,352.5**
Shares subscribed for by exercising options		2.1					2.1		2.1
Share-based payment					2.4		2.4	0.0	2.4
Acquisition of treasury shares					-16.1		-16.1		-16.1
Dividends						-138.5	-138.5	-4.9	-143.4
Other changes		0.0	0.4			4.7	5.1	-0.2	4.9
Profit for the year						96.0	96.0	12.4	108.5
Other comprehensive income									
Actuarial gains/losses						-24.6	-24.6		-24.6
Currency translation differences related to a foreign operation		0.0	-25.0				-25.0	-2.8	-27.9
Adjustments for hyperinflation						0.4	0.4	4.1	4.5
Cash flow hedge revaluation				1.1			1.1		1.1
Revaluation of available-for-sale financial assets				-2.9			-2.9		-2.9
Others						-0.2	-0.2		-0.2
Tax related to other comprehensive income				-0.4		4.9	4.5		4.5
Total other comprehensive income		0.0	-25.0	-2.1		-19.4	-46.6	1.2	-45.4
Total comprehensive income for the period		0.0	-25.0	-2.1		76.6	49.4	13.6	63.1
Balance as at 31 December 2014	**197.3**	**463.3**	**-37.9**	**-0.9**	**-31.5**	**1,593.5**	**2,183.9**	**81.6**	**2,265.5**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Basic information about the Company

Kesko is a Finnish listed trading sector company. Kesko has over 1,500 stores engaged in chain operations in the Nordic and Baltic countries, Russia and Belarus.

Kesko Group's reportable segments consist of its business divisions, namely the grocery trade, the home improvement and speciality goods 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 Satamakatu 3, FI-00016 KESKO. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, Satamakatu 3, Helsinki, visiting address Kruunuvuorenkatu 4, Helsinki, and from the internet at www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 2 February 2016.

General information

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2015. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Act and regulations based on it. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

New standards were not adopted during the financial year 2015.

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

Critical accounting estimates and assumptions

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

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

Measurement of assets acquired and liabilities assumed

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

Impairment test

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

Employee benefits

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

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

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

Measurement of inventories

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

Trade receivables

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

Provisions

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

Critical judgements in applying accounting policies

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

Consolidation principles

Subsidiaries

The consolidated financial statements combine the financial statements of Kesko Corporation and subsidiaries controlled by the Group. Control exists when the Group has more than half of the voting rights of a subsidiary or otherwise exerts control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. The existence of potential voting rights has been considered when assessing the existence of control in the case that the instruments entitling to potential control are currently exercisable. Subsidiaries are listed in note 37.

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

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

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

Associates

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

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

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

Joint arrangements

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

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

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

Mutual real estate companies

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

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

Foreign currency items

The consolidated financial statements are presented in euros, which is both the functional currency of the environment in which the Group's parent operates and the presentation currency. On initial recognition, the amounts with respect to the result and financial position of the Group companies located outside the euro zone are recorded in the functional currency of each of their operating environments. The functional currency of the real estate companies operating in Russia, in St. Petersburg and Moscow, has been determined to be the euro, which is why no significant exchange differences are realised from their balance sheets for the Group.

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

The income statements of the Group companies operating outside the euro zone, and whose functional currency is not that of a hyperinflationary economy, have been translated into euros at the average rate of the financial year, and the balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, and the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, and the hedging result of net investments in them are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, translation differences are recognised in the income statement as part of the gains or losses on the disposal.

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

Until the end of 2014, assets and liabilities of operations in countries that have been identified as hyperinflationary economies are restated based on the change in purchasing power prior to foreign currency translation. In 2014, the income statements and balance sheets of these operations were translated into euros at the rate of the balance sheet date. In 2015, the Group did not have operations in countries identified as hyperinflationary economies.

Financial assets

The Group classifies its financial assets into the following categories:

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

- loans and receivables

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Available-for-sale financial assets

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

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

Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities

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

Derivative financial instruments and hedge accounting

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

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

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

Measurement principles

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

Hedging a net investment in foreign operations

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

Embedded derivatives

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

Property, plant and equipment

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

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

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

The most common estimated useful lives are:

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

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

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

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

Intangible assets

Goodwill and trademarks

Goodwill is not amortised but is instead tested for impairment annually and whenever there is an indication of impairment. For testing purposes, goodwill is allocated to the cash generating units.

Goodwill is measured at initial cost and that acquired prior to 1 January 2004, at deemed cost net of impairment. Any negative goodwill is immediately recognised as income. For goodwill, a recognised impairment loss is not reversed.

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

Other intangible assets

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

The estimated useful lives are:

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

Research and development expenses

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

Software

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

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.

Leases

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

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

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

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

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

Inventories

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

Trade receivables

Trade receivables are recognised in the amounts of initial sale. Impairment is recognised when there is objective evidence of impairment loss. The Group has established uniform principles for the determination of impairment of trade receivables based on the time receivables have been overdue. In addition, impairment is 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.

Non-current assets held for sale and discontinued operations

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

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives. In the financial years 2015 and 2014, the Group had no discontinued operations.

Equity

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

Provisions

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

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

Employee benefits

Pension plans

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

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

Share-based payment

Share remuneration

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.

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

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

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

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

Other operating income and expenses

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

Borrowing costs

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

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

Income tax

The taxes 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.

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

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

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

Dividend distribution

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

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

In addition to the standards and interpretations presented in the 2015 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2016 or subsequent financial statements.

IFRS 9 Financial instruments

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

The effective date of the standard is 1 January 2018. The standard has not yet been endorsed for adoption by the EU.

IFRS 15 Revenue from Contracts with Customer

The standard replaces IAS 11, 'Construction contracts' and IAS 18, 'Revenue and related interpretations'. Revenue is recognised when control of goods or services transfers to a customer. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the goods or services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management estimates that the new standard will not have a material impact on the consolidated financial statements.

The effective date of the standard is 1 January 2018. The standard has not yet been endorsed for adoption by the EU.

IFRS 16 Leases

On 13 January 2016, IASB issued a new IFRS standard, IFRS 16 Leases. The standard addresses the definition, recording, measurement and disclosure related to leases. According to the standard, all leases of over 12 months are recognised as assets and liabilities (right-of-use assets). Management estimates that the new standard will have an impact on the Company's income statement, balance sheet and performance indicators.

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

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

Note 2. Segment information

The Group's reportable segments are composed of the Group's divisions, namely the grocery trade, the home improvement and speciality goods trade, and the car trade.

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

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

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

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

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries in Finland and the grocery trade in Russia. In Finland, Kesko Food's operating activities are based on the K-retailer business model and in Russia, Kesko Food itself acts as a retail operator. The retail trade in Finland comprises around 900 K-food stores operated using the K-retailer business model. These stores form the K-citymarket, K-supermarket and K-market grocery retail chains. Kesko Food manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Kesko Food’s subsidiary Kespro Ltd engages in grocery wholesaling in the Finnish hotel, restaurant and catering (HoReCa) business. K-citymarket, home and speciality goods, is a retailer of home and speciality goods in Finland.

Home improvement and speciality goods trade

The home improvement and speciality goods trade comprises the wholesale and B2B sales of the building and home improvement trade in Finland, Sweden, Norway, the Baltic countries, Russia and Belarus, the agricultural and machinery trade in Finland, the machinery trade in the Baltic countries and the leisure goods trade in Finland and Russia. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland. The Group itself is a retail operator in Sweden, Norway, the Baltic countries, Russia and Belarus. The retail store chains are K-rauta, Rautia, K-maatalous, Byggmakker (Norway), Senukai (Lithuania) and OMA (Belarus). The building and home improvement stores serve both consumer and professional customers. The furniture trade chains in Finland and the Baltic countries are Asko and Sotka. Intersport, Budget Sport and Kookenkä are the leisure goods chains. Intersport engages in the sports equipment trade in Finland and Russia. The agricultural and machinery trade comprise the operations of K-maatalous and Konekesko. Konekesko is a service company specialising in the import and trade of construction, environmental, agricultural and recreational machinery.

Car trade

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

Common operations

Common operations comprise Group support functions.

Segment information for 2015

Profit

€ million	Grocery trade	Home improvement and speciality goods trade	Car trade	Common operations	Eliminations	Total
Segment net sales	4,672.9	3,249.8	747.9	129.4		8,799.9
of which inter-segment sales	-15.4	-0.6	-0.4	-104.6		-121.0
Net sales from external customers	**4,657.5**	**3,249.1**	**747.5**	**24.8**		**8,678.9**
Other segment income	607.9	187.6	4.3	14.7		814.5
of which inter-segment sales	-6.1	-10.0	0.0	2.0		-14.1
Other operating income from external customers	**601.9**	**177.6**	**4.3**	**16.7**	**0.0**	**800.4**
Depreciation and amortisation	-69.1	-44.6	-8.0	-5.8	-0.1	-127.6
Impairment	-0.0	-9.2				-9.2
Operating profit	**249.4**	**-57.2**	**26.1**	**-23.7**	**0.0**	**194.6**
Non-recurring items	71.9	-120.8		-0.9	-0.1	-49.9
Operating profit excluding non-recurring items	**177.5**	**63.6**	**26.1**	**-22.8**	**0.1**	**244.5**
Finance income and costs						-7.1
Investments accounted for using the equity method						0.6
Profit before tax						**188.0**

Assets and liabilities

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

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

Segment information for 2014

Profit

€ million	Grocery trade	Home improvement and speciality goods trade	Car trade	Common operations	Eliminations	Total
Segment net sales	4,753.6	3,568.4	766.5	122.9		9,211.4
of which inter-segment sales	-34.1	0.3	-0.4	-106.6		-140.8
Net sales from external customers	**4,719.6**	**3,568.7**	**766.1**	**16.3**		**9,070.6**
Other segment income	556.6	176.0	4.5	8.3		745.4
of which inter-segment sales	-8.1	-9.3		1.3		-16.0
Other operating income from external customers	**548.5**	**166.7**	**4.5**	**9.6**	**0.0**	**729.3**
Depreciation and amortisation	-74.9	-61.3	-8.5	-5.9	-0.0	-150.7
Impairment	-4.3	-19.1		-21.0		-44.4
Operating profit	**216.2**	**-52.0**	**28.9**	**-41.7**	**-0.0**	**151.4**
Non-recurring items	-7.1	-52.4		-21.8		-81.3
Operating profit excluding non-recurring items	**223.2**	**0.4**	**28.9**	**-19.9**	**-0.0**	**232.6**
Finance income and costs						-6.1
Investments accounted for using the equity method						-0.2
Profit before tax						**145.0**

Assets and liabilities

€ million	Grocery trade	Home improvement and speciality goods trade	Car trade	Common operations	Eliminations	Total
Tangible and intangible assets	1,018.1	645.8	75.5	59.9	2.8	1,802.1
Equity accounted investments and other investments	4.7	0.1	0.0	101.1	-0.6	105.3
Pension assets	40.6	16.2		90.4		147.2
Inventories	213.4	452.7	110.6		-0.2	776.4
Trade receivables	286.5	261.6	39.1	13.5	-16.4	584.2
Other non-interest-bearing receivables	51.2	64.7	3.3	57.8	-14.4	162.6
Interest-bearing receivables	8.6	3.6		4.9		17.0
Assets held for sale				0.5		0.5
Assets included in capital employed	**1,623.0**	**1,444.6**	**228.5**	**328.1**	**-28.8**	**3,595.4**
Unallocated items						
Deferred tax assets						4.2
Financial assets at fair value through profit or loss						219.3
Available-for-sale financial assets						271.7
Cash and cash equivalents						107.0
Total assets	**1,623.0**	**1,444.6**	**228.5**	**328.1**	**-28.8**	**4,197.7**
Trade payables	436.4	343.2	21.7	4.7	-11.3	794.6
Other non-interest-bearing liabilities	214.4	172.7	71.6	56.6	-12.8	502.5
Provisions	9.7	29.1	29.8	0.2		68.8
Liabilities included in capital employed	**660.5**	**544.9**	**123.1**	**61.5**	**-24.1**	**1,365.9**
Unallocated items						
Interest-bearing liabilities						498.9
Deferred tax liabilities						67.4
Total liabilities	**660.5**	**544.9**	**123.1**	**61.5**	**-24.1**	**1,932.2**

Total capital employed as at 31 December	**962.6**	**899.7**	**105.4**	**266.6**	**-4.7**	**2,229.5**
Average capital employed	**1,006.6**	**940.9**	**96.3**	**313.9**	**-3.4**	**2,354.2**
Return on capital employed excl. non-recurring items,%	**22.2**	**0.0**	**30.1**			**9.9**
Capital expenditure	**98.0**	**71.9**	**13.2**	**12.2**	**-1.2**	**194.0**
Number of personnel as at 31 December	**8,157**	**14,286**	**823**	**528**		**23,794**
Average number of personnel	**6,176**	**12,524**	**825**	**451**		**19,976**

Group-wide information

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. The grocery trade takes place in Finland and Russia, the car trade in Finland, and the home improvement and speciality goods trade in Finland, Sweden, Norway, the Baltic countries, Russia and Belarus.

Net sales, assets, capital expenditure and personnel are disclosed by location.

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

2014 € million	Finland	Other Nordic countries	Baltic countries	Russia and Belarus	Eliminations	Total
Net sales	7,416.8	625.1	552.8	493.4	-17.5	9,070.6
Assets	2,711.4	212.4	219.8	451.8		3,595.4
Capital expenditure	115.5	6.4	6.2	65.9		194.0
Average number of personnel	9,580	1,124	4,468	4,804		19,976

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

Kesko Group had no income derived from a single customer amounting to more than 10% of Kesko Group's total income.

Note 3. Business acquisitions and assets disposed of

Acquisitions

In 2015 and 2014, Kesko Group did not have acquisitions to be accounted for as business combinations.

On 18 November 2015, Kesko Corporation's subsidiary Kesko Food Ltd made an agreement to acquire the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. The net sales of Suomen Lähikauppa in 2014 were €999.2 million, it has 643 Siwa and Valintatalo stores and 4,100 employees. The transaction price of the debt-free acquisition, structured as a share purchase, is approximately €60 million.

The completion of the acquisition is subject to the approval of the Finnish Competition and Consumer Authority and the fulfilment of the other terms and conditions of the transaction. The handling of the matter and the acquisition are expected to be completed in the first half of 2016.

Disposal of assets

In March 2015, Kesko sold the department store chain Anttila Oy to the German investment fund 4K INVEST at a price of €1 million. The transaction included all assets and liabilities in Anttila Oy. Anttila Oy's approximately 1,500 employees continue in the employment of the company. The date of the transaction was 16 March 2015. A €-130 million non-recurring loss was recorded on the transaction relating to the financing, working capital and fixed assets of Anttila.

In June, Kesko, AMF Pensionsförsäkring and Ilmarinen established a joint real estate investment company. The joint venture owns, manages and develops store sites primarily used by Kesko Group. Kesko sold some of its store sites in both Finland and Sweden to the established joint venture. The fair value of the store sites sold totalled €485 million and a €75.6 million non-recurring gain on the sale was recorded. The cash inflow generated by the arrangement was €403 million.

In addition, Kesko sold four properties to Kesko Pension Fund. A €22.9 million non-recurring gain on the sale was recorded.

In 2014, Kesko Group did not make any significant disposals of assets.

Note 4. Other operating income and other operating expenses

Other operating income

€ million	2015	2014
Income from services	544.3	560.8
Lease income	44.5	42.7
Gains on disposal of tangible and intangible assets	102.7	2.8
Realised gains on derivative contracts and changes in fair value	6.6	15.2
Others	102.3	107.8
Total	**800.4**	**729.3**

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

Other operating income includes €101.0 million (€2.9 million) of non-recurring items. More information on non-recurring items is presented in note 5.

Other operating expenses

€ million	2015	2014
Other operating expenses	-112.2	-123.6
Losses on disposal of tangible assets and shares	-130.6	-0.3
Realised losses on derivative contracts and changes in fair value*	-6.8	-2.8
Total	**-249.6**	**-126.7**

** Includes changes in fair values of embedded derivatives.*

The losses on disposal of tangible assets and shares include a total of €130.3 million (€0.1 million) of non-recurring losses on disposal. More information on non-recurring items is presented in note 5.

Auditors' fees

€ million	2015	2014
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.8	0.9
Tax consultation	0.1	0.1
Other services	0.6	0.3
Total	1.5	1.3
Other audit firms	1.2	0.3

Note 5. Non-recurring items

€ million	2015	2014
Gains on disposal of properties and shares	101.0	2.9
Losses on disposal of properties and shares	-130.3	-0.1
Impairment losses	-9.2	-44.4
Costs of discontinued operating activities and restructurings	-11.3	-39.6
Total	**-49.9**	**-81.3**

Exceptional transactions the outside ordinary course of business are treated as non-recurring items and they have been allocated to segments. The Group identifies gains and losses on disposal of real estate, shares and business operations, impairment charges and significant costs of discontinuing business operations and restructurings as non-recurring items. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement. Impairment charges have been presented within depreciation, amortisation and impairment in the income statement. The non-recurring items for 2015 include a €130 million loss on the divestment of Anttila, and gains on disposal of properties in the amount of €101.0 million. Due to Intersport Russia's low volume and unprofitable performance, Kesko plans to withdraw from the Russian sports trade in 2016. Relating to the restructuring of Intersport Russia's operations, a total of €17.2 million of non-recurring impairment charges and provisions were recorded in the fourth quarter. In 2014, non-recurring items included a restructuring provision recognised for the reduction of the Anttila department store network and an impairment charge on fixed assets related to the integration of K-citymarket non-food with Anttila, to a total of €46.8 million. In addition, the non-recurring items included a restructuring provision of €5.2 million related to changes in the retail business of Byggmakker in Norway, €4.2 million of personnel reduction costs related to the change in Kesko's divisional structure and a €21.0 million impairment charge on property related to the renovation of Kesko's main office building.

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

€ million	2015	2014
Wages and salaries	-440.2	-496.8
Social security costs	-43.2	-47.3
Pension costs	-55.0	-63.7
Defined benefit plans	0.5	1.9
Defined contribution plans	-55.5	-65.6
Share-based payment	-6.4	-6.4
Total	**-544.8**	**-614.2**

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

Remuneration of the Group companies' managing directors and board members

€ million	2015	2014
Salaries of managing directors (incl. fringe benefits)	6.0	6.3
Remuneration of Board members	0.4	0.4
Total	**6.4**	**6.6**

Average number of the Group personnel

	2015	2014
Grocery trade	6,420	6,176
Home improvement and speciality goods trade	11,269	12,524
Car trade	780	825
Common operations	487	451
Total	**18,955**	**19,976**

Note 7. Finance income and costs

€ million	2015	2014
Interest income and other finance income		
Interest income on loans and receivables	7.8	5.4
Interest income on financial assets at fair value through profit or loss	0.8	1.4
Interest income on available-for-sale financial assets	1.6	6.9
Gains on disposal of available-for-sale financial assets	0.1	0.1
Other finance income	0.1	0.0
Total interest income and other finance income	10.4	13.8
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-11.6	-14.2
Losses on disposal of available-for-sale financial assets	-1.1	-0.4
Other finance costs	-1.6	-1.0
Total interest expense and other finance costs	-14.2	-15.6
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-3.3	-4.4
Total exchange differences	-3.3	-4.4
Total finance income and costs	**-7.1**	**-6.1**

The interest expense includes €0.2 million (€0.3 million) of interests on finance leases recognised as expenses for the period. The interest income includes €0.0 million (€0.2 million) of interests on finance leases recognised as income for the period.

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

Exchange differences recognised in the income statement

€ million	2015	2014
Sales	-0.1	-0.1
Other income	6.6	15.2
Purchases	0.2	-1.6
Other expenses	-5.4	-2.8
Finance income and costs	-3.3	-4.4
Total	**-2.1**	**6.3**

Note 8. Income tax

€ million	2015	2014
Current tax	-83.4	-43.8
Tax for prior years	-0.0	6.3
Deferred tax	12.8	1.0
Total	**-70.7**	**-36.6**

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

€ million	2015	2014
Profit before tax	188.0	145.0
Tax at parent's rate 20.0%	-37.6	-29.0
Effect of foreign subsidiaries' different tax rates	3.0	2.7
Effect of tax-free income	2.8	1.2
Effect of expenses not deductible for tax purposes	-32.8	-8.1
Effect of tax losses	-5.7	-6.4
Effect of consolidation	-0.3	-2.5
Tax for prior years	-0.0	6.3
Effect of change in tax rate	0.3	-
Others	-0.4	-0.8
Tax charge	**-70.7**	**-36.6**

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

Note 9. Components of other comprehensive income

Components of other comprehensive income and related tax

€ million	2015 Before tax	Tax charge/ credit	After tax	2014 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	28.8	-5.8	23.0	-24.6	4.9	-19.6
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-17.4		-17.4	-27.9		-27.9
Adjustments for hyperinflation	-		-	4.5		4.5
Cash flow hedge revaluation	-0.0	0.0	-0.0	1.1	-0.2	0.9
Revaluation of available-for-sale financial assets	1.4	-0.3	1.1	-2.9	-0.2	-3.0
Others	-0.3		-0.3	-0.2		-0.2
Total	**12.5**	**-6.1**	**6.4**	**-49.9**	**4.5**	**-45.4**

Hyperinflation

In December 2011, Belarus was identified as a hyperinflationary economy to which hyperinflationary accounting in accordance with IAS 29 was applied. Hyperinflationary accounting requires the presentation of financial statements in the measurement units as at the end of the reporting period irrespective of their statement at original cost or current cost. The amounts recognised in the income statement and balance sheet were restated using the general price index. As a result of the restatement, an amount of €4.5 million including tax was recognised in equity in 2014, of which €0.4 million was attributable to the Group and €4.1 million to the non-controlling interests. The revaluations were made using the Belarusian consumer price index. Hyperinflationary accounting was discontinued in 2015, because the country is no longer a hyperinflationary economy.

Note 10. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the parent's equity holders by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares. Until 30 April 2014, the Group operated a share option scheme with a dilutive effect, which increased the number of shares. The share options had a dilutive effect when their exercise price was lower than the fair value of a share. The dilutive effect was the number of shares which had to be issued without consideration, because the Group could not use the assets received from the exercise of the share options to issue an equal number of shares at fair value. The fair value of a share was based on the average share price during the period.

	2015	2014
Profit for the period attributable to equity holders of the parent, € million	101.6	96.0
Number of shares		
Weighted average number of shares outstanding	99,113,741	99,054,293
Effect of options issued	-	106,375
Diluted weighted average number of shares outstanding	99,113,741	99,160,668
Earnings per share from profit attributable to equity holders of the parent		
Basic, €	1.03	0.97
Diluted, €	1.03	0.97

Note 11. Property, plant and equipment

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

2014 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and construction in progress	Total 2014
Cost						
Cost as at 1 January	416.3	1,502.2	559.6	95.1	30.5	2,603.6
Currency translation differences	-4.7	-17.2	-17.0	-3.8	-0.2	-42.8
Additions	14.9	60.9	35.5	11.8	48.5	171.5
Disposals	-0.5	-49.5	-32.9	-7.0	-0.5	-90.4
Transfers between items		16.6	1.9	1.0	-30.3	-10.8
Cost as at 31 December	426.0	1,513.0	547.0	97.1	48.0	2,631.1
Accumulated depreciation, amortisation and impairment						
Accumulated depreciation, amortisation and impairment charges as at 1 January	-5.2	-513.0	-397.1	-37.0		-952.2
Currency translation differences		4.9	9.5	1.4		15.8
Accumulated depreciation of disposals and transfers		45.8	28.0	6.7		80.5
Depreciation charge for the year and impairments	-6.6	-87.9	-49.0	-7.6		-151.1
Accumulated depreciation, amortisation and impairment charges as at 31 December	-11.7	-550.1	-408.7	-36.5		-1,007.0
Carrying amount as at 1 January	411.1	989.2	162.4	58.1	30.5	1,651.4
Carrying amount as at 31 December	**414.3**	**962.9**	**138.3**	**60.7**	**48.0**	**1,624.1**

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

€ million	2015	2014
Cost	26.8	24.9
Accumulated depreciation	-21.5	-20.3
Carrying amount	**5.3**	**4.6**

Note 12. Intangible assets

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

2014 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2014
Cost					
Cost as at 1 January	148.7	75.6	198.1	22.2	444.6
Currency translation differences	-3.1	-2.7	-4.7		-10.6
Additions			23.6	9.3	32.8
Disposals	-0.4		-25.8	-1.8	-28.0
Transfers between items			22.0	-18.1	3.9
Cost as at 31 December	145.2	72.9	213.2	11.5	442.7
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges as at 1 January	-108.1	-8.4	-139.1		-255.5
Currency translation differences	3.4	0.6	3.4		7.5
Accumulated amortisation of disposals and transfers	0.4		26.9		27.3
Amortisation charge for the year and impairments			-44.1		-44.1
Accumulated amortisation and impairment charges as at 31 December	-104.2	-7.8	-152.9		-264.8
Carrying amount as at 1 January	40.7	67.2	59.0	22.2	189.1
Carrying amount as at 31 December	**41.0**	**65.1**	**60.4**	**11.5**	**177.9**

Other intangible assets include other non-current expenditure, of which €33.4 million (€34.1 million) are software and licence costs.

Goodwill and intangible rights by segment

€ million	Trademarks* 2015	Goodwill 2015	Discount rate (WACC)** 2015	Trademarks* 2014	Goodwill 2014	Discount rate (WACC)** 2014
Home improvement and speciality goods trade						
Byggmakker, Norway	24.5		6.0	26.0		6.0
Rautakesko, Estonia		1.1	6.0		1.1	7.0
Senukai, Lithuania		17.2	7.0		17.2	8.0
K-rauta Rus, Russia		14.6	11.4		14.5	11.5
Indoor, Finland	39.1	4.1	6.0	39.1	4.1	6.0
Machinery trade		3.8	6.0		3.8	6.0
Others		0.2			0.2	
Total	**63.5**	**41.0**		**65.1**	**41.0**	

** Intangible assets with indefinite useful lives*

*** After tax, rate used in impairment testing*

The cash generating units have been identified at a lower level than the reportable segments. The units have been identified by chain/country, and most of them are legal entities.

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

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

Impairment test for goodwill and intangible assets

In impairment testing, the recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by management, covering a period of three years. The key assumptions used for the plans are total market growth and profitability trends, changes in store site network, product and service selection, pricing and movements in operating costs. Cash flows beyond this period have been extrapolated mainly based on 1.0–4.0% (1.0–3.5%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each segment and country and adjusted for tax effect in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. Compared to the previous year, the discount rates fell in the building and home improvement trade in Estonia and Lithuania. The changes were mainly due to the decrease in the general interest rate level and changes in country risks.

Impairment losses

There were no impairment charges recognised on goodwill or intangible rights in the financial years 2015 and 2014.

Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate. The most sensitive to movements in assumptions in the home improvement and speciality goods trade are the brand related to the Byggmakker business in Norway, the goodwill related to the business operations in Russia and the goodwill of the machinery trade. If their residual EBITDA decreased by more than 0.2-0.5 percentage points, an impairment would be recognised. Regarding the other cash generating units, according to management's estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount.

Note 13. Equity accounted investments

€ million	2015	2014
Carrying amount as at 1 January	92.2	87.5
Share of the profit for the financial year	0.2	-0.2
Additions	16.3	5.1
Repaid equity	-9.4	-
Impairments	0.0	-0.3
Carrying amount as at 31 December	**99.2**	**92.2**

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

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

€ million	Assets	Liabilities	Net sales	Profit/loss	Ownership interest,%
2015					
Ankkurikadun Kiinteistöt Oy, Helsinki	670.7	627.3	26.9	10.2	33.3
Kruunuvuoren Satama Oy, Helsinki	261.7	148.5	13.1	7.2	49.0
Valluga-sijoitus Oy, Helsinki	27.3	0.0	-	1.6	46.2
Vähittäiskaupan Takaus Oy, Helsinki	79.3	0.2	1.4	4.5	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.4	1.9	9.3	0.2	30.0
Others	4.4	3.1	0.2	0.0	
Total	**1,050.8**	**781.0**	**51.0**	**23.6**	
2014					
Kruunuvuoren Satama Oy, Helsinki	371.6	248.1	22.0	4.1	49.0
Valluga-sijoitus Oy, Helsinki	25.8	0.0	-	1.6	46.2
Vähittäiskaupan Takaus Oy, Helsinki	74.8	0.2	1.3	5.0	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.0	1.7	10.6	0.4	30.0
Others	4.4	3.1	0.2	0.0	
Total	**483.6**	**253.1**	**34.1**	**11.0**	

Note 14. Non-current receivables

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

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

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

Maturity analysis of non-current receivables as at 31 Dec. 2014

€ million	2016	2017	2018	2019	2020–	Total
Non-interest-bearing non-current receivables	0.6	0.0	0.0	0.0	0.4	1.0
Finance lease receivables	2.2	0.9				3.0
Loans and receivables from associates			1.5			1.5
Other non-current receivables	0.4	0.4	0.3	0.3	0.1	1.5
Total	**3.1**	**1.2**	**1.9**	**0.3**	**0.6**	**7.1**

Note 15. Finance lease receivables

€ million	2015			2014		
	Minimum lease receivables	Unearned finance income	Present value of minimum lease receivables	Minimum lease receivables	Unearned finance income	Present value of minimum lease receivables
Finance lease receivables are due as follows:						
No later than 1 year	2.7	0.0	2.7	5.0	0.1	4.9
Later than 1 year and no later than 5 years	0.3	0.0	0.3	3.0	0.0	3.0
Later than 5 years	-	-	-	-	-	-
Total finance lease receivables	**3.0**	**0.0**	**3.0**	**8.0**	**0.1**	**7.9**

Note 16. Deferred tax

Movements in deferred tax in 2015

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

Balance sheet division of net deferred tax liability

€ million	2015	2014
Deferred tax assets	3.9	4.2
Deferred tax liabilities	71.4	67.4
Total	**67.5**	**63.2**

Other temporary differences within deferred tax assets include €4.3 million of deferred tax assets arising from compliance with the Group's accounting principles and €7.4 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Movements in deferred tax in 2014

€ million	1 Jan. 2014	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2014
Deferred tax assets						
Provisions	10.3	2.9				13.2
Defined benefit pension plans	0.3	0.0				0.3
Tax loss carry-forwards	5.5	9.5		-4.7	-0.2	10.1
Other temporary differences	12.6	6.1	-0.2	-0.5		18.0
Total	28.7	18.6	-0.2	-5.2	-0.2	41.5
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	37.7	16.4				54.1
Fair value allocation	12.6	-0.7		-0.6		11.3
Defined benefit pension plans	34.0	0.4	-4.9			29.5
Other temporary differences	9.5	0.8	0.2	-0.6	0.0	9.8
Total	93.7	16.9	-4.7	-1.2	0.0	104.7
Net deferred tax liability	65.1					63.2

Tax loss carry-forwards

As at 31 December 2015, the Group's unused tax losses carried forward were €219.2 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	2016	2017	2018	2019	2020	2021–	Total
	0.7	7.8	7.0	4.4	3.9	195.4	219.2

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

Note 17. Pension assets

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

As regards foreign subsidiaries, the pension plan operated in Norway is classified as a defined benefit plan. As at 31 December 2015, the net liability in respect of the defined benefit plan in Norway was €0.3 million (€0.6 million). The defined benefit plan in Norway is not included in the tables below, because its impact on the consolidated amounts is insignificant. The pension plans in the other foreign subsidiaries are managed in accordance with local regulations and practices in each country and they are defined contribution plans.

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund's department A. Department A was closed on 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. At the end of 2015, the Pension Fund had 2,763 beneficiaries, of whom 662 were active employees and 2,101 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.7% (97.1%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

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

Kesko Group does not expect to pay contributions to the Pension Fund in 2016.

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

€ million	2015	2014
Present value of defined benefit obligation	-266.1	-289.3
Fair value of plan assets	442.4	436.5
Net assets recognised in the balance sheet	**176.4**	**147.2**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	**147.2**	**170.2**
Income/cost recognised in the income statement	0.5	1.9
Remeasurement	28.8	-24.6
Contributions to plan and plan costs	-0.4	-0.2
As at 31 December	**176.4**	**147.2**

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

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2014	-247.5	417.7	170.2
Current service cost	-4.3		-4.3
Interest cost/income	-8.6	14.7	6.1
	-12.9	**14.7**	**1.9**
Remeasurement			
Return on plan assets		19.2	19.2
Gain/loss from changes in demographic assumptions			
Gain/loss from changes in financial assumptions	-48.4		-48.4
Experience gains/losses	4.5		4.5
	-43.9	**19.2**	**-24.6**
Contributions to plan and plan costs		-0.2	-0.2
Benefit payments	14.9	-14.9	0.0
As at 31 December 2014	**-289.3**	**436.5**	**147.2**

Plan assets were comprised as follows in 2015

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

Plan assets were comprised as follows in 2014

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	90.5	33.5	124.0
Debt instruments	23.7	27.2	50.9
Investment funds	14.3	19.1	33.4
Properties	-	181.1	181.1
United States			
Equity instruments	11.2	-	11.2
Investment funds	26.6	-	26.6
Other countries			
Investment funds	21.7	-	21.7
Total	**188.0**	**260.9**	**448.9**

€ million	2015	2014
Kesko Corporation shares included in fair value	15.7	14.6
Properties leased by Kesko Group included in fair value	186.1	181.1

Principal actuarial assumptions:

	2015	2014
Discount rate	2.30%	2.30%
Salary growth rate	2.20%	2.50%
Inflation	1.70%	2.00%
Pension growth rate	1.90%	2.10%
Average service expectancy, years	10	11

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

	2015	2014
Weighted average duration of pension obligations, years	15	15
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	15.2	15.5
Between 1–10 years	118.6	126.6
Between 10–20 years	111.5	122.7
Between 20–30 years	77.5	88.2
Over 30 years	71.5	84.2
Total	**394.3**	**437.3**

Finnish pension reform

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

The estimated impact of the pension reform on the Group's supplementary defined benefit schemes has been taken into account when calculating the amount of pension obligation in the financial statements of 31 December 2015 in respect of those pension promises on which the reform will impact without a separate decision. Owing to the pension reform, the present value of the defined benefit pension obligation increased by €2 million and the change is included in actuarial gains and losses. In cases where the impacts of the pension reform on the amount of the defined benefit pension obligation require separate decisions to be made, possible impacts are recorded for the financial year in which the decisions are made.

Risks related to pension plan

Asset related risks

The Pension Fund's investment assets comprise properties, shares and equity funds, private equity funds and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually confirmed by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target return on investment activity is 5.0%. The risks involved in investing activity are managed by continuously monitoring market developments and analysing the adequacy of the return and risk potential of the investments. The returns compared to chosen reference indices and the breakdown of investments are reported on a monthly basis. In 2015, the realised return on investing activity was 6.5%.

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 €176.4 million as at 31 December 2015. 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
2015			
Discount rate	0.50%	-6.80%	7.60%
Salary growth rate	0.50%	1.40%	-1.40%
Pension growth rate	0.50%	6.00%	-5.40%
2014			
Discount rate	0.50%	-6.90%	7.80%
Salary growth rate	0.50%	1.40%	-1.40%
Pension growth rate	0.50%	6.00%	-5.40%

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

Note 18. Inventories

€ million	2015	2014
Goods	729.7	770.2
Prepayments	5.3	6.1
Total	735.0	776.4
Write-down of inventories to net realisable value	39.2	50.9

Note 19. Trade and other current receivables

€ million	2015	2014
Interest-bearing receivables		
Finance lease receivables	2.7	4.9
Interest-bearing loans and receivables	7.3	6.1
Total interest-bearing receivables	10.0	11.0
Trade receivables	581.7	584.2
Income tax assets	2.0	24.3
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	19.6	20.9
Prepaid expenses	95.0	116.4
Total other non-interest-bearing receivables	114.6	137.3
Total	**708.3**	**756.8**

A total amount of €3.7 million (€6.0 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 32.

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

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

Note 20. Current available-for-sale financial assets

€ million	2015	2014
Carrying amount as at 1 January	271.7	398.4
Changes	99.8	-126.9
Changes in fair value	0.2	0.3
Carrying amount as at 31 December	**371.7**	**271.7**

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

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

€ million	2015	2014
Land	0.3	0.4
Buildings and real estate shares	0.2	0.2
Total	**0.5**	**0.5**

The assets classified as held for sale did not include liabilities as at 31 December 2015 (31 December 2014).

Note 22. Shareholders' equity

At the end of December 2015, 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 2015, Kesko Corporation's share capital was €197,282,584.

Changes in share capital

	Number of shares						
Share capital	**A**	**B**	**Total**	**Share capital € million**	**Reserve of invested non-restricted equity € million**	**Share premium € million**	**Total € million**
1 January 2014	31,737,007	67,546,702	99,283,709*	197.3	20.6	197.8	415.7
Exercise of share options		187,059	187,059		2.1		2.1
Acquisition of treasury shares		-500,000	-500,000				
Transfer of treasury shares		53,669	53,669				
31 December 2014	31,737,007	67,287,430	99,024,437*	197.3	22.8	197.8	417.8
Transfer of treasury shares		117,738	117,738				
31 December 2015	**31,737,007**	**67,405,168**	**99,142,175***	**197.3**	**22.8**	**197.8**	**417.8**
Number of votes	**317,370,070**	**67,405,168**	**384,775,238**				

** Excluding treasury shares which totalled 877,577 (995,315) at the end of the financial year.*

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 700,000 own B shares (purchase price €23.7 million) in the financial year 2011 and a total of 500,000 own B shares (purchase price €16.1 million) in the financial year 2014. The total prices paid for the shares have been deducted from retained earnings in equity. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. Based on the authorisations to issue own shares and the fulfilment of the vesting criteria of the 2013 vesting period of Kesko's share-based compensation plans, the Board granted a total of 50,520 own shares held by the Company as treasury shares, and based on the fulfilment of the 2014 vesting period, a total of 120,022 own shares held by the Company as treasury shares to the persons included in the target groups of the vesting periods. In addition, Mikko Helander, the Company President and CEO as from 1 January 2015, was granted 8,791 shares held by the Company as treasury shares in December 2014. The transfers of treasury shares were announced in a stock exchange release on 24 March 2014, 25 March 2014, 17 December 2014, 1 April 2015 and 7 April 2015. During the financial year, a total of 2,284 shares already granted were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. At the end of the financial year, the Company held 877,577 own B shares (995,315 B shares) as treasury shares. The €27.5 million (€31.5 million) acquisition cost of these shares has been deducted from retained earnings in equity. Details of the share-based payments are disclosed in note 30.

Dividends

After the balance sheet date, the Board of Directors has proposed that €2.50 per share be distributed as dividends. A dividend of €1.50 per share was distributed on the profit for 2014.

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 sshare premium in cases where options had been granted under the old Limited Liability Companies Act (29 Sept. 1978/734). As at the end of the financial year, the share premium was €197.8 million.

Reserve of invested non-restricted equity

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

Other reserves

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

Currency translation differences

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

Revaluation reserve

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

Result of cash flow hedging

Hedge accounting is applied to hedging electricity price risk. As a result, an amount of €2.6 million (€2.4 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-3.2 million (€-1.0 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €-0.5 million (€1.4 million) before accounting for deferred tax assets.

A fair value change of €0.5 million (€-0.3 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.5 million (€0.6 million) interest expense adjustment for interest rate derivatives was recognised in the income statement.

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

As at 31 December 2015

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

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

As at 31 December 2014

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receiv-ables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			13.1			13.1	13.1
Non-current non-interest-bearing receivables		1.0				1.0	1.0
Non-current interest-bearing receivables		6.1				6.1	6.1
Total non-current financial assets		**7.1**	**13.1**			**20.2**	**20.2**
Current financial assets							
Trade and other non-interest-bearing receivables*		690.0				690.0	690.0
Derivatives	31.5					31.5	31.5
Total trade and other non-interest-bearing receivables*	**31.5**	**690.0**				**721.5**	**721.5**
Interest-bearing receivables		11.0				11.0	11.0
Financial assets at fair value through profit or loss	219.3					219.3	219.3
Available-for-sale financial assets			271.7			271.7	271.7
Total current financial assets	**250.8**	**701.0**	**271.7**			**1,223.5**	**1,223.5**
Carrying amount by category	**250.8**	**708.1**	**284.8**			**1,243.7**	**1,243.7**

Balance, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receiv- ables	Available- for-sale financial assets	Financial liabilities at amortised cost	Derivatives used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				318.5		318.5	336.5
Derivatives					0.8	0.8	0.8
Total non-current interest-bearing liabilities				**318.5**	**0.8**	**319.3**	**337.3**
Non-current non-interest-bearing liabilities				7.4		7.4	7.4
Derivatives					3.1	3.1	3.1
Total non-current non-interest-bearing liabilities				**7.4**	**3.1**	**10.5**	**10.5**
Total non-current financial liabilities				**325.9**	**3.9**	**329.8**	**347.8**
Current financial liabilities							
Current interest-bearing liabilities				179.1		179.1	180.0
Derivatives					0.5	0.5	0.5
Total current interest-bearing liabilities				**179.1**	**0.5**	**179.6**	**180.5**
Trade payables				794.6		794.6	794.6
Other non-interest-bearing liabilities**				175.8		175.8	175.8
Derivatives					2.3	2.3	2.3
Total other non-interest-bearing liabilities**				**175.8**	**2.3**	**178.1**	**178.1**
Accrued expenses*				254.1		254.1	254.1
Derivatives	8.9					8.9	8.9
Total accrued expenses*	**8.9**			**254.1**		**262.9**	**262.9**
Total current financial liabilities	**8.9**			**1,403.6**	**2.8**	**1,415.2**	**1,416.2**
Carrying amount by category	**8.9**			**1,729.5**	**6.7**	**1,745.0**	**1,763.9**

** Excluding €2.0 million (€24.3 million) in income tax receivables and €31.4 million (€9.2 million) in income tax liabilities.*

*** Excluding €38.2 million (€39.8 million) in prepayments received.*

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

Note 24. Finance lease liabilities

€ million	2015			2014		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Minimum lease payments						
Within 1 year	4.7	0.2	4.5	6.6	0.2	6.4
Later than 1 year and no later than 5 years	4.4	0.6	3.7	6.0	0.2	5.8
Later than 5 years	0.2	0.0	0.1	0.3	0.1	0.2
Total lease payments	**9.2**	**0.9**	**8.3**	**12.9**	**0.4**	**12.4**
Expected sub-lease payments			3.0			7.9

The financial lease liabilities mainly comprise store fittings leased by Kesko Food Ltd from a finance company and subleased to chain companies.

Note 25. Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2015	25.1	21.6	22.1	68.8
Foreign exchange effects		-0.0		-0.0
Additional provisions	12.3	10.4	9.7	32.4
Unused amounts reversed	-1.1	-10.1	-6.0	-17.2
Amounts charged against provision	-11.7	-0.6	-3.9	-16.2
Changes in the Group structure	-12.2		-2.2	-14.4
Provisions as at 31 Dec. 2015	12.4	21.3	19.7	53.4
Analysis of total provisions				
Non-current	2.8	10.5	2.3	15.6
Current	9.5	10.8	17.4	37.8

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

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

€ million	2015	2014
Trade payables	795.1	794.6
Other non-interest-bearing liabilities	212.6	217.9
Income tax liabilities	31.4	9.2
Accrued expenses	251.3	262.9
Total current non-interest-bearing liabilities	**1,290.3**	**1,284.7**

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

Note 27. Jointly controlled assets

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

€ million	2015	2014
Non-current assets	38.0	68.8
Current assets	0.7	0.6
Total	38.7	69.4
Non-current liabilities	2.8	3.3
Current liabilities	5.2	12.2
Total	8.1	15.5
Net assets	30.6	53.8
Income	3.5	3.2
Costs	3.9	3.9
Profit	**-0.3**	**-0.7**

Note 28. Commitments

€ million	2015	2014
Collateral given for own commitments		
Pledges	76.2	90.9
Mortgages	23.3	24.3
Guarantees	17.7	14.6
Other commitments and contingent liabilities	34.4	72.2
Collateral given for associates and joint ventures		
Guarantees	-	65.0
Collateral given for others		
Guarantees	0.3	0.4
Other commitments and contingent liabilities	14.2	10.6

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

Note 29. Operating leases

Group as lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2015	2014
Within 1 year	357.8	348.9
Later than 1 year and no later than 5 years	1,154.7	1,073.9
Later than 5 years	1,108.4	868.2
Total	2,620.9	2,291.0
Expected future minimum lease payments under non-cancellable sublease agreements	69.9	40.8
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	372.0	394.4
Sublease income	34.3	24.7

The 2015 income statement includes capital lease payments and maintenance rentals on real estate under operating leases, and other rentals to a total amount of €407.7 million (€438.4 million). Maintenance rentals are not included in minimum lease payments.

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

Group as lessor

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

€ million	2015	2014
Within 1 year	7.8	14.2
Later than 1 year and no later than 5 years	13.0	20.6
Later than 5 years	24.6	7.3
Total	45.4	42.1
Aggregate contingent rents charged to the income statement	1.8	2.0

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

Note 30. Share-based payment

Share-based compensation plan

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

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

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

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

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

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

Share award grant dates and fair values, vesting period 2011			
Grant dates	16 Feb. 2011	27 Apr. 2011	16 May 2011
Grant date fair value of share award, €	31.70	32.25	32.20
Share price at grant date, €	32.40	32.25	32.20
Share-based compensation plan duration			
Vesting period start date			1 Jan. 2011
Vesting period end date			31 Dec. 2011
Commitment period end date			31 Dec. 2014

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

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

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

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

Assumptions applied in determining the fair value of share award	Vesting period 2015	Vesting period 2014	Vesting period 2013	Vesting period 2012	Vesting period 2011
Number of share awards granted, maximum, pcs	262,800	278,400	263,600	257,400	239,000
Changes in the number of shares granted, pcs	-3,600	-2,000	-9,500	-6,575	-13,242
Actual amount of share award, pcs		120,022	50,520	66,331	92,751
Number of plan participants at end of financial year	142	143	134	125	114
Share price at balance sheet date, €	32.37	30.18	26.80	24.77	25.96
Assumed fulfilment of vesting criteria,%	33.3	43.4	20.0	30.0	53.3
Estimated number of share awards returned prior to the end of commitment period,%	5.0	5.0	5.0	5.0	5.0

The impact of the above share-based compensation plans on the Group's profit for 2015 was €-6.3 million (€-5.9 million).

As at 31 December 2015, the amount to be recognised as expense for the financial years 2016–2018 is estimated at a total of €3.9 million. The actual amount may differ from the estimate.

Note 31. Notes related to the statement of cash flows

Capital expenditure and non-cash financing transactions

€ million	2015	2014
Total purchases of fixed assets,	218.5	194.0
of which cash payments	214.8	193.6
Payments arising from prior period investing activities	-4.9	-4.0
Capital expenditure financed with finance lease or other liability	8.6	4.4

Adjustments to cash flows from operating activities

€ million	2015	2014
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-0.6	15.5
Investments accounted for using the equity method	-0.6	0.2
Impairments	9.2	44.4
Credit losses	3.7	6.0
Non-recurring gains on disposal of fixed assets	-102.9	-4.1
Non-recurring losses on disposal of fixed assets	132.7	0.3
Share-based compensation	-0.8	0.3
Defined benefit pensions	-1.3	-1.4
Others	0.6	2.0
Total	**40.1**	**63.3**

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

Net assets of subsidiaries sold

€ million	2015	2014
Tangible and intangible assets	16.5	-
Inventories	71.7	-
Receivables	29.4	-
Cash and cash equivalents	21.5	-
Liabilities	-34.4	-
Provisions	-15.8	-
Net assets total	**89.0**	**-**

Cash and cash equivalents within the statement of cash flows

€ million	2015	2014
Available-for-sale financial assets (maturing in less than 3 months)	192.8	206.3
Cash and cash equivalents	141.2	107.0
Total	**334.1**	**313.3**

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

Note 32. Financial risk management

Financial risk management

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

Foreign exchange risks

Kesko Group conducts business operations in 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 BYR is not a freely convertible currency and hedging the associated exposure to foreign exchange risk is not possible.

Translation risks

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

The functional currency of the real estate companies operating in St. Petersburg and Moscow in Russia has been determined to be the euro, which is why net investments in these companies are not exposed to foreign currency translation risk, and consequently are not included in the translation exposure.

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

Group's translation exposure as at 31 Dec. 2014 € million	NOK	SEK	RUB	LTL	BYR
Net investment	30.0	81.7	54.3	46.0	3.5

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

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

Sensitivity analysis, impact on equity as at 31 Dec. 2014 € million	NOK	SEK	RUB	LTL	BYR
Change +/-10%	3.0	8.2	5.4	4.6	0.3

Transaction risks

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

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

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

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The following table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual foreign exchange risk after hedgings. When forecast amounts are included in the transaction exposure, the most significant differences from the table below are in the USD and RUB exposures. As at 31 December 2015, the exposure with respect to USD was €-10.9 million, and with respect to RUB, it was €-1.9 million.

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

Group's transaction exposure as at 31 Dec. 2014 € million	USD	SEK	NOK	LTL	RUB	BYR
Group's transaction risk	-5.0	29.0	28.1	13.6	11.4	0.4
Hedging derivatives	38.3	-24.5	2.8	0.0	-36.2	0.0
Hedging borrowings	0.0	0.0	-22.1	0.0	0.0	0.0
Open exposure	**33.3**	**4.5**	**8.8**	**13.6**	**-24.8**	**0.4**

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. 2015 € million	USD	SEK	NOK	LTL	RUB	BYR
Change +/-10%	2.8	-0.6	0.5	-	-0.7	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2014 € million	USD	SEK	NOK	LTL	RUB	BYR
Change +/-10%	3.3	0.5	0.9	1.4	-2.5	0.0

Liquidity risk

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

The Group's solvency was excellent throughout the financial year 2015. As at 31 December 2015, liquid assets totalled €887 million (€598 million). Interest-bearing liabilities were €439 million (€499 million) and interest-bearing net debt €-448 million (€-99 million) as at 31 December 2015.

Maturities of financial liabilities and related finance costs as at 31 Dec. 2015 € million	2016	2017	2018	2019	2020–	Total	Balance sheet value
Borrowings from financial institutions	**0.3**	**0.3**	**0.1**	**0.1**	**1.8**	**2.7**	**2.7**
finance costs						0.0	
Private Placement notes (USD)*	**33.1**			**22.0**		**55.1**	**55.1**
finance costs	2.5	1.4	1.4	0.7		6.0	
Bonds			**224.1**			**224.1**	**224.1**
finance costs	6.2	6.2	6.2			18.6	
Pension loans	**2.4**	**2.4**	**2.4**	**1.2**		**8.3**	**8.3**
finance costs	0.5	0.5	0.5	0.3		1.8	
Finance lease liabilities	**4.5**	**1.6**	**1.0**	**0.6**	**0.7**	**8.3**	**8.3**
finance costs	0.1	0.1	0.0	0.0	0.0	0.3	
Payables to K-retailers	**114.5**					**114.5**	**114.5**
finance costs						0.0	
Other interest-bearing liabilities	**26.1**					**26.1**	**26.1**
finance costs						0.0	
Non-current non-interest-bearing liabilities	**0.7**	**10.6**	**1.7**	**0.8**	**28.5**	**42.2**	**42.2**
Current non-interest-bearing liabilities							
Trade payables	**795.1**					**795.1**	**795.1**
Accrued expenses	**282.7**					**282.7**	**282.7**
Other non-interest-bearing liabilities	**212.6**					**212.6**	**212.6**

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

Guarantee maturities are €15.5 million in 2016 and €2.5 million in 2018–2019.

Maturities of financial liabilities and related finance costs as at 31 Dec. 2014 € million	2015	2016	2017	2018	2019-	Total	Balance sheet value
Borrowings from financial institutions	**24.5**	**0.4**	**0.1**	**0.1**	**1.8**	**26.9**	**26.9**
finance costs	1.1	0.0	0.0	0.0	0.0	1.2	
Private Placement notes (USD)*		**29.6**			**19.8**	**49.4**	**50.2**
finance costs	3.1	2.2	1.3	1.3	0.6	8.5	
Bonds				**240.3**		**240.3**	**240.3**
finance costs	6.6	6.7	6.6	6.6		26.6	
Pension loans	**5.8**	**5.8**	**5.8**	**5.8**	**2.9**	**26.3**	**26.1**
finance costs	1.0	0.7	0.5	0.3	0.1	2.5	
Finance lease liabilities	**6.4**	**3.2**	**1.5**	**0.6**	**0.9**	**12.5**	**12.4**
finance costs	0.2	0.1	0.0	0.0	0.0	0.4	
Payables to K-retailers	**119.3**					**119.3**	**119.3**
finance costs						0.0	
Other interest-bearing liabilities	**23.3**					**23.3**	**23.3**
finance costs						0.0	
Non-current non-interest-bearing liabilities	**1.3**	**7.5**	**1.3**	**0.4**	**0.0**	**10.5**	**10.5**
Current non-interest-bearing liabilities							
Trade payables	**794.6**					**794.6**	**794.6**
Accrued expenses	**272.1**					**272.1**	**272.1**
Other non-interest-bearing liabilities	**217.9**					**217.9**	**217.9**

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

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

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €100.0 million (€100.0 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €359 million (€359 million). In addition, in January 2016, the Group companies held a total of €416.3 million available for re-borrowing in a pension insurance company. Part of the pension insurance premiums paid annually by the Group companies are funded and the accumulated funds can be re-borrowed with a term of 1–10 years in accordance with regulations confirmed by the Ministry of Social Affairs and Health. Any amount of borrowing requires the posting of adequate collateral.

Interest rate risk on borrowings and sensitivity analysis

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

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate contracts. The target duration is three years, which is allowed to vary between one and a half and four years. The actual duration during the financial year was 1.9 (2.4) years on average.

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

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

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

The sensitivity analysis for changes in interest rate level in respect of commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2015, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.2 million (€-/+1.7 million), if the interest rate level had risen or fallen by 1 percentage point.

The bond, Private Placement notes and pension loans, €287.5 million in aggregate, have fixed rates, and their effective interest cost was 3.4%. At the end of the financial year, the average rate of variable-interest-rate borrowings from financial institutions, payables to retailers and other interest-bearing liabilities was 0.1%. Most of the borrowings are euro-denominated and the Private Placement notes are USD-denominated.

Financial assets and liabilities recognised at fair value

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and deposits with banks operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on these investments for 2015 was 0.3% (0.8%) and the duration was 0.7 years at the end of the financial year. The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date. The table below analyses financial instruments carried at fair value by valuation method.

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

Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec. 2014			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Money market funds	14.4			14.4
Commercial papers		103.3		103.3
Bank certificates of deposit and deposits		92.2		92.2
Bonds	9.3			9.3
Total	23.7	195.6		219.3
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		31.5		31.5
Derivative financial liabilities		15.5		15.5
Available-for-sale financial assets				
Private equity funds and other shares and interests			13.1	13.1
Commercial papers (maturing in less than 3 months)		98.6		98.6
Bank certificates of deposit and deposits (maturing in less than 3 months)		107.6		107.6
Bonds	65.5			65.5
Total	**65.5**	**206.3**	**13.1**	**284.8**

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

Changes in level 3 instruments € million	2015	2014
Private equity funds and other shares and interests as at 1 January	13.1	16.9
Purchases	3.3	0.6
Refunds received	-2.2	-5.1
Gains and losses through profit or loss	-	0.0
Changes in fair values	1.2	0.6
Private equity funds and other shares and interests as at 31 December	**15.3**	**13.1**

Level 3 includes private equity funds and other shares and interests. These investments have been classified as non-current available-for-sale financial assets. Level 3 financial assets are measured based on computations received from the companies. Gains or losses with income statement impact have not been recorded on these investments for the financial year 2015.

Interest-bearing receivables and sensitivity analysis

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

In the sensitivity analysis of floating rate receivables, average annual balances of invested assets have been used. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/-3.5 million (€+/-3.6 million) and €+/-2.7 million (€+/-1.1 million) on equity at the balance sheet date.

Credit and counterparty risk

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

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

Ageing analysis of trade receivables € million	2015	2014
Trade receivables fully performing	540.7	536.2
1–7 days past due trade receivables	9.9	12.3
8–30 days past due trade receivables	11.4	12.1
31–60 days past due trade receivables	5.2	4.3
over 60 days past due trade receivables	14.4	19.2
Total	**581.7**	**584.2**

Within trade receivables, €331.9 million (€332.9 million) were from chain retailers and €1.9 million (€2.4 million) were credit card receivables. 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 €171.1 million (€160.1 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 €17.2 million (€21.5 million) monitored on a separate allowance account. The original balance sheet value of these trade receivables was €21.9 million (€28.2 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €3.7 million (€6.0 million).

The amount of receivables with renegotiated terms totalled €3.2 million (€2.7 million).

Financial credit risk

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

Commodity risks and their sensitivity analysis

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

At the end of the year, the ineffective portion of derivatives hedging the price risk of electricity was €-2.9 million (€-1.6 million).

As at the balance sheet date, a total quantity of 464,832 MWH (731,976 MWH) of electricity had been purchased with electricity derivatives and 245,520 MWH under fixed price purchase agreements. The 1–12 month hedging level was 66% (87%), the 13–24 month level was 60% (65%), the 25–36 month level was 38% (45%), and the 37–48 month level was 4% (24%).

The sensitivity analysis of electricity derivatives assumed that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by -/+20% from the balance sheet date 31 December 2015, it would contribute €-/+0.7 million (€-/+1.6 million) to the 2016 income statement and €-/+1.1 million (€-/+2.7 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2015 Positive fair value (balance sheet value)	31 Dec. 2015 Negative fair value (balance sheet value)		31 Dec. 2014 Positive fair value (balance sheet value)	31 Dec. 2014 Negative fair value (balance sheet value)
Interest rate derivatives				0.0	-0.5
Foreign currency derivatives	13.3	-1.4	*	31.5	-9.6
Electricity derivatives		-7.2		0.1	-5.4

Notional principal amounts of derivative contracts € million	31 Dec. 2015 Notional principal amount		31 Dec. 2014 Notional principal amount
Interest rate derivatives	100.4	*	101.1
Foreign currency derivatives	287.6	*	378.4
Electricity derivatives	9.4		21.4

** The derivative contracts include interest rate swaps relating to a foreign currency borrowing facility with a gross notional principal amount of €100.4 million and a fair value of €0.0 million (€-0.5 million), and currency swaps with a notional principal amount of €50.2 million and a fair value of €4.9 million (€-0.8 million).*

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €3.2 million.

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

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

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

Cash flows from derivative contracts as at 31 Dec. 2014 € million	2015	2016	2017	2018	2019	2020–	Total
Payables							
Foreign exchange forward contracts outside hedge accounting	325.0						325.0
Net settlement of payables							
Interest rate derivatives	0.0						0.0
Electricity derivatives	2.1	1.6	1.3	0.4	0.0		5.4
Derivatives relating to Private Placement notes*							
Foreign currency derivatives	0.1	0.5	0.0	0.0	0.3		0.9
Receivables							
Foreign exchange forward contracts outside hedge accounting	347.3						347.3
Net settlement of receivables							
Derivatives relating to Private Placement notes*							
Interest rate derivatives	0.4	0.3	0.2	0.2	0.1		1.2

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

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

	Target level	Level achieved in 2015	Level achieved in 2014
Return on capital employed excl. non-recurring items	14%	11.7	9.9
Return on equity excl. non-recurring items	12%	8.2	7.6
Interest-bearing net debt/EBITDA	‹ 2.5	-1.4	-0.3

€ million	2015	2014
Interest-bearing liabilities	439.1	498.9
Liquid assets	887.2	598.0
Interest-bearing net debt	**-448.1**	**-99.2**
EBITDA	331.4	346.5
Interest-bearing net debt/EBITDA	**-1.4**	**-0.3**

Note 33. Related party transactions

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

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

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

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Ankkurikadun Kiinteistöt Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates comprise mainly business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. The pension assets include Kesko Corporation shares with a value of €15.7 million (€14.6 million). Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2015 and 2014, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

	Associates and joint ventures		Board and management		Pension Fund	
Income statement € million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Sales of goods		0.0	59.8	75.6		
Sales of services	3.6	2.6	0.2	0.2	0.3	0.4
Purchases of goods			-13.8	-18.2		
Purchases of services	-0.2	-2.7	0.0	-0.0		
Operating income	0.6	0.6	10.6	11.8	0.0	0.0
Operating costs	-37.0	-17.7	-0.1	0.0	-12.2	-13.0
Finance income	3.1					

Balance sheet € million	Associates and joint ventures 2015	Associates and joint ventures 2014	Board and management 2015	Board and management 2014	Pension Fund 2015	Pension Fund 2014
Current receivables	1.1	0.2	4.3	6.2		
Non-current receivables	57.6	1.5				
Current liabilities	19.2	17.6	2.0	2.0	2.1	0.4

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €4.3 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 €5.0 million (€4.6 million).

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

In June 2015, Kesko sold 34 store sites and two shopping centres in Finland and Sweden to the joint venture, Ankkurikadun Kiinteistöt Oy, it had established with the life insurance company AMF Pensionsförsäkring and Ilmarinen Mutual Pension Insurance Company. In addition, Ankkurikadun Kiinteistöt Oy acquired one shopping centre from Kruunuvuoren Satama Oy and two store sites in Finland from Kesko Pension Fund. The combined fair value of the store sites and shopping centres is €652 million. Kesko Group companies' share of that amount was €485 million. Kesko's non-recurring gain on the sale was €75.6 million and cash inflow was €403 million. Kesko Group companies lease the sold stores sites for their use with 15-year long-term leases and in Sweden, with 10-year long-term leases. At the shopping centres, the Group companies lease premises for their use with 5–15-year leases. Kesko's equity investment in the joint venture is around €67 million, comprising an investment in the company's equity and an equity shareholder loan.

In addition, Kesko sold four properties to Kesko Pension Fund. A €22.9 million non-recurring gain on the sale was recorded.

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

Management's employee benefits

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

Monetary salaries, fees and fringe benefits €1,000		2015	2014
Mikko Helander	President and CEO (since 1 Jan. 2015)	1,018.5	-
Matti Halmesmäki	President and CEO (until 31 Dec. 2014)	-	1,281.3
Group Management Board	other members	2,275.9	2,251.4
Esa Kiiskinen	Board Chair	88.0	85.5
Mikael Aro	Board Deputy Chair (since 13 Apr. 2015)	43.5	-
Tomi Korpisaari	Board member	43.5	41.0
Matti Kyytsönen	Board member (since 13 Apr. 2015)	33.7	-
Anu Nissinen	Board member (since 13 Apr. 2015)	32.2	-
Toni Pokela	Board member	43.5	41.0
Kaarina Ståhlberg	Board member (since 13 Apr. 2015)	35.2	-
Seppo Paatelainen	Board Deputy Chair (until 13 Apr. 2015)	17.0	58.0
Ilpo Kokkila	Board member (until 13 Apr. 2015)	12.3	42.5
Maarit Näkyvä	Board member (until 13 Apr. 2015)	13.2	46.0
Virpi Tuunainen	Board member (until 13 Apr. 2015)	12.3	43.5
Total		**3,524.3**	**3,890.2**

Retirement benefits

The statutory pension provision of the President and CEO and the other members of the Group Management Board is provided through a pension insurance company. Four Group Management Board members are members of Kesko Pension Fund's department A which was closed in 1998, and their supplementary pensions are determined based on its rules and their personal service contracts. Their retirement benefits are based on a defined benefit plan. Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings in accordance with the Employees' Pensions Act (TyEL). The pensionable salary is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last ten (10) years. The supplementary pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €0.8 million and the pension liability was €0.9 million as at 31 December 2015. The pension cost of the President and CEO's statutory pension provision was €0.1 million.

Share awards

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

Termination benefits

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

Shareholdings

As at 31 December 2015, the President and CEO held 8,791 Kesko Corporation B shares, which represent 0.01% of all shares of the Company and 0.00% of votes attached to all shares. As at 31 December 2015, the Group Management Board, including the President and CEO, held 65,162 Kesko Corporation B shares, which represent 0.07% of all shares of the Company and 0.02% of votes carried by all shares.

Note 34. Legal disputes and possible legal proceedings

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

Voimaosakeyhtiö SF has commenced arbitration proceedings in which Voimaosakeyhtiö SF demands that the court of arbitration confirm that Kesko Corporation's group company Kestra Kiinteistöpalvelut Oy would be committed to the future financing of Fennovoima Ltd's Hanhikivi nuclear power project.
Kesko Corporation has announced in a stock exchange release on 27 March 2014 that Kestra Kiinteistöpalvelut Oy would not participate in the future financing of the Fennovoima project due to the related financial, contractual and scheduling uncertainties. Kestra Kiinteistöpalvelut Oy considers Voimaosakeyhtiö SF's claims to be unfounded.

Liite 35. Other notes

Events after the balance sheet date

On 12 January 2016, Kesko Corporation made an agreement to acquire Onninen Oy's whole share capital from Onvest Oy. The pro forma net sales of the business to be acquired were €1,438 million and the EBITDA was €39 million for the period from October 2014 until the end of September 2015. The transaction price of the debt-free acquisition, structured as a share purchase, is €369 million. Onninen's steel business and Russian subsidiary are not included in the acquisition. With the acquisition, Kesko's business in HEPAC and electrical product groups will expand significantly and it will be able to provide better service, especially to contractor customers. In addition, Kesko will gain new customer relationships from infrastructure and industry customer groups.

The transaction will be paid in cash from Kesko's liquid assets and available debt financing reserves. The fair value allocations of the transaction price to net assets are estimated to cause an expense item of around €5 million on the first six months.

The completion of the acquisition is subject to the approval of the competition authorities and the fulfilment of the other terms and conditions of the transaction. The acquisition is estimated to be completed during the first half of 2016.

Note 36. Group composition

Group composition

Kesko Group has 101 (117) subsidiaries. The Group has the majority of voting rights in all companies. Kesko Group's sub-group, Senukai, has a material non-controlling interest (see section Material non-controlling interest).

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

Division	Country of incorporation	Most significant subsidiaries	Number of wholly-owned subsidiaries 2015	Number of wholly-owned subsidiaries 2014	Number of partly-owned subsidiaries 2015	Number of partly-owned subsidiaries 2014
Grocery trade	Finland, Russia	Kesko Food Ltd, K-citymarket Oy, Kespro Ltd	26	28	-	-
Home improvement and speciality goods trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus	Rautakesko Ltd with its subsidiaries Indoor Group Ltd, Intersport Ltd, Konekesko Ltd	49	60	7	7
Car trade	Finland	VV-Auto Group Oy	5	5	-	-
Others	Finland, Estonia		10	11	-	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 37.

Material non-controlling interest

Senukai Group, which is part of Kesko Group, has a material non-controlling interest. The sub-group's parent, UAB Senuku Prekybos, is a subsidiary of Rautakesko Ltd and it is domiciled in Vilnius, Lithuania. Kesko Group's ownership interest in Senukai Group is 50.0% increased by one share (50.0% increased by one share). Kesko Group has the right to nominate the majority of Board members and the Board Chair. The Board controls the company's operational activities and makes decisions on the use of resources. The share of non-controlling interests of the profit of Senukai Group was €15.7 million (€12.4 million) and in equity, the share was €78.6 million (€79.5 million).

Summarised financial information on subsidiary with material non-controlling interest

€ million	Senukai Group 2015	Senukai Group 2014
Current assets	167.3	166.1
Non-current assets	29.6	37.8
Current liabilities	75.1	80.5
Non-current liabilities	0.3	0.2
Net sales	437.0	436.0
Profit/loss	23.1	19.0
Parent company owners' share of profit/loss	7.3	6.6
Non-controlling interests' share of profit/loss	15.7	12.4
Comprehensive income for the period	9.0	21.0
Parent company owners' share of comprehensive income for the period	4.0	7.4
Non-controlling interests' share of comprehensive income for the period	4.9	13.6
Dividends paid to non-controlling interests	5.9	4.9
Net cash generated from operating activities	27.1	15.9
Net cash used in investing activities	-5.1	-13.9
Net cash used in financing activities	-12.7	-6.9

The amounts above are before intra-Group eliminations.

Note 37. Subsidiaries, equity accounted investments and proportionately consolidated mutual real estate companies as at 31 Dec. 2015

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
Indoor Group Ltd	Helsinki	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Johaston Oy	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Kesko Food Ltd	Helsinki	100.00	100.00
Keslog Ltd	Helsinki	100.00	54.95
Kiinteistö Oy Helsingin Satamakatu 3	Helsinki	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
K-instituutti Oy	Helsinki	100.00	100.00
Klintcenter Ab	Maarianhamina	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
K-Plus Oy	Helsinki	100.00	100.00
K-talouspalvelukeskus Oy	Helsinki	100.00	100.00
Musta Pörssi Ltd	Helsinki	100.00	100.00
Plussa OÜ	Tallinn, Estonia	100.00	100.00
Rautakesko Ltd	Helsinki	100.00	100.00
Sincera Oy	Helsinki	100.00	100.00
VV-Auto Group Oy	Helsinki	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest,%	Parent's ownership interest,%
App-Hallinta Oy	Helsinki	100.00	
Bansemko OOO	Moscow, Russia	100.00	
Barker-Littoinen Oy	Espoo	100.00	
Bonus OOO	St. Petersburg, Russia	100.00	
Byggmakker Handel AS	Ski, Norway	100.00	
Daugavkrasts M SIA	Riga, Latvia	100.00	
Fiesta Real Estate AS	Tallinn, Estonia	100.00	
Hasti-Ari AS	Ski, Norway	100.00	
Hauhon Kiinteistö- ja Kauppakeskus Oy	Hämeenlinna	100.00	
Indoor Group AS	Tallinn, Estonia	100.00	
Insofa Oy	Lahti	100.00	
Johaston OOO	Moscow, Russia	100.00	
K-citymarket Oy	Helsinki	100.00	
Keru Kiinteistöt Oy	Helsinki	100.00	
Kesko Food Russia Holding Oy	Helsinki	100.00	
Kesko Food Rus OOO	St. Petersburg, Russia	100.00	
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kespro Ltd	Helsinki	100.00	
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	
KFR Real Estate 1 OOO	St. Petersburg, Russia	100.00	
Kiinteistö Mesta Oy	Helsinki	100.00	
Kiinteistö Oy Furupuro	Vantaa	100.00	
Kiinteistö Oy Hannunhelmi	Helsinki	100.00	
Kiinteistö Oy Helsingin Itäkeskus	Helsinki	100.00	
Kiinteistö Oy Keravan Alikeravantie 77	Helsinki	100.00	
Kiinteistö Oy Kirkkonummen Sundetin kauppakortteli	Kirkkonummi	100.00	
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	
Kiinteistö Oy Kuvernöörintie 8	Helsinki	100.00	
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	

Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta	100.00
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88
Kiinteistö Oy Piispansilta	Espoo	100.00
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00
Kiinteistö Oy Tarkkaiikka	Oulu	100.00
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00
Knuto AS	Ski, Norway	100.00
Konekesko Eesti AS	Tallinn, Estonia	100.00
Konekesko Holding Oy	Helsinki	100.00
Konekesko Latvija SIA	Riga, Latvia	100.00
Konekesko Lietuva UAB	Vilnius, Lithuania	100.00
Konekesko OOO	St. Petersburg, Russia	100.00
Konsoma JLLC	Minsk, Belarus	8.94
K Prof SIA	Riga, Latvia	100.00
K rauta SIA	Riga, Latvia	100.00
K-rauta AB	Stockholm, Sweden	100.00
K-rauta Rus OOO	St. Petersburg, Russia	100.00
K-rauta Russia Holding Oy	Helsinki	100.00
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00
KR Fastigheter AB	Sollentuna, Sweden	100.00
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00
Loimaan maatalous- ja rautakauppa Oy	Helsinki	100.00
Match-Point OOO	St. Petersburg, Russia	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00
Midgard OOO	St. Petersburg, Russia	100.00
Norgros AS	Lilleström, Norway	100.00
OMA OOO	Minsk, Belarus	8.94
Olarin Autokiinteistö Oy	Espoo	100.00
Polo LS SIA	Riga, Latvia	100.00
Rake Bergen AS	Oslo, Norway	100.00
Rake Eiendom AS	Oslo, Norway	100.00

Rautakesko AS	Tallinn, Estonia	100.00	
Rautakesko A/S	Riga, Latvia	100.00	
Romos Holdingas UAB	Kaunas, Lithuania	8.94	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Prekybos Centras UAB	Vilnius, Lithuania	50.00	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	50.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
Springfield OOO	St. Petersburg, Russia	100.00	
Tampereen Länsikeskus Oy	Tampere	100.00	
Tarondi Estate OOO	Moscow, Russia	100.00	
TD-Kiinteistöt Oy	Turku	100.00	
TP Real Estate SIA	Riga, Latvia	100.00	
Trøgstadveien 13 AS	Ski, Norway	100.00	
VV-Autotalot Oy	Helsinki	100.00	

Equity accounted investments

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

Owned by other Group companies	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Eurobuy GmbH	Germany	33.33	
Toomax Asia Ltd	Hong Kong	33.33	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest,%	Parent's ownership interest,%
Asunto Oy Soukan Itäinentorni	Espoo	46.60	19.31
Itäkeskuksen Pysäköintitalo Oy	Helsinki	36.16	36.16
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	84.14	
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Laajasalon Liikekeskus Oy	Helsinki	50.35	
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

PARENT COMPANY'S INCOME STATEMENT

€	1 Jan.–31 Dec. 2015	1 Jan.–31 Dec. 2014
Net sales	**43,091,016.90**	**33,814,541.60**
Other operating income	157,968,731.51	113,647,549.64
Materials and services	-1,753.06	-373.71
Employee benefit expense	-21,213,756.01	-18,424,961.84
Depreciation, amortisation and impairment	-21,156,816.18	-19,097,105.06
Other operating expenses	-206,748,452.39	-91,752,946.51
Operating profit	**-48,061,029.23**	**18,186,704.12**
Finance income and cost	-20,534,327.74	-89,151,921.73
Profit before extraordinary items	**-68,595,356.97**	**-70,965,217.61**
Extraordinary items	289,585,913.15	112,474,513.37
Profit before appropriations and taxes	**220,990,556.18**	**41,509,295.76**
Appropriations	15,486,295.81	2,760,540.83
Profit before taxes	**236,476,851.99**	**44,269,836.59**
Income taxes	-74,658,981.88	-28,000,549.33
Profit for the financial year	**161,817,870.11**	**16,269,287.26**

PARENT COMPANY'S BALANCE SHEET

€	31 Dec. 2015	31 Dec. 2014
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	6,257,340.41	7,574,833.69
Other capitalised long-term expenses	6,786,292.90	9,251,121.45
Prepayments	1,271,305.11	3,582,088.68
	14,314,938.42	20,408,043.82
TANGIBLE ASSETS		
Land and waters	77,868,955.35	93,428,511.78
Buildings	121,044,023.13	187,577,319.92
Machinery and equipment	1,481,275.98	2,623,373.90
Other tangible assets	712,088.96	3,680,895.83
Prepayments and construction in progress	3,900,399.35	470,619.74
	205,006,742.77	287,780,721.17
INVESTMENTS		
Investments in subsidiaries	190,391,107.79	253,990,607.63
Investments in associates	78,255,203.86	76,701,603.69
Other investments	10,373,702.57	9,497,920.18
	279,020,014.22	340,190,131.50
CURRENT ASSETS		
RECEIVABLES		
Long-term		
Receivables from subsidiaries	227,099,825.48	227,250,017.35
Receivables from associates	57,641,471.31	1,660,896.28
Other receivables	2,328,804.39	2,363,643.66
	287,070,101.18	231,274,557.29

Short-term		
Trade receivables	712,242.35	1,354,239.76
Receivables from subsidiaries	839,381,775.07	825,118,144.16
Receivables from associates	910,936.05	1,391.55
Loan receivables	-	2,700,000.00
Other receivables	3,925.16	184.19
Prepayments and accrued income	11,149,444.76	51,877,753.58
	852,158,323.39	881,051,713.24
INVESTMENTS		
Other investments	740,652,092.53	482,187,377.84
CASH AND CASH EQUIVALENTS	**45,391,996.15**	**33,634,690.48**
TOTAL ASSETS	**2,423,614,208.66**	**2,276,527,235.34**

€	31 Dec. 2015	31 Dec. 2014
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium	197,498,010.90	197,498,010.90
Other reserves	266,169,102.95	266,169,102.95
Retained earnings	673,737,292.41	801,720,282.41
Profit for the financial year	161,817,870.11	16,269,287.26
	1,496,504,860.37	1,478,939,267.52
APPROPRIATIONS		
Depreciation reserve	56,903,041.19	72,389,337.00
PROVISIONS		
Other provisions	913,455.00	186,021.75
LIABILITIES		
Non-current		
Bonds	225,005,000.00	241,700,000.00
Private Placement notes	20,083,682.01	50,209,205.02
Other creditors	7,258,654.09	5,284,862.93
	252,347,336.10	297,194,067.95
Current		
Private placement notes	30,125,523.01	-
Loans from financial institutions	-	22,119,000.22
Advances received	52,373.52	21,283.97
Trade payables	6,937,288.22	2,846,816.78
Payables to subsidiaries	510,084,729.57	361,612,226.89
Payables to associates	19,126,189.41	17,522,094.78
Other payables	5,157,547.10	5,308,756.12
Accruals and deferred income	45,461,865.17	18,388,362.36
	616,945,516.00	427,818,541.12
TOTAL LIABILITIES	**2,423,614,208.66**	**2,276,527,235.34**

PARENT COMPANY'S CASH FLOW STATEMENT

€	1 Jan.–31 Dec. 2015	1 Jan.–31 Dec. 2014
Cash flows from operating activities		
Profit before extraordinary items	-68,595,356.97	-70,965,217.61
Adjustments		
Depreciation according to plan	16,361,194.76	19,097,105.06
Finance income and costs	20,534,327.74	89,151,921.73
Other adjustments	55,440,430.67	127,709.81
	23,740,596.20	**37,411,518.99**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	-840,197.26	2,787,041.96
Current non-interest-bearing liabilities, increase (+)/decrease (-)	-4,046,119.66	-16,346,632.07
	-4,886,316.92	-13,559,590.11
Interests paid and other finance costs	-18,027,879.99	-15,703,876.29
Interests received	19,415,447.46	23,800,712.59
Dividends received	3,767,022.20	74,170.00
Income tax paid	-23,473,972.12	-47,972,140.97
	-18,319,382.45	-39,801,134.67
Net cash generated from operating activities	**534,896.83**	**-15,949,205.79**
Cash flows from investing activities		
Purchases of tangible and intangible assets	-9,458,291.76	-15,219,872.13
Receivables, increase (-)/decrease (+)	197,031.14	25,736,916.67
Acquisitions of subsidiaries	-6,986,047.00	-5,971,800.85
Acquisitions of associates	-10,997,500.00	-
Proceeds from sale of subsidiaries, net of cash disposed of	-57,860,016.59	610,000.00
Equity repaid by associates and joint ventures	9,446,399.83	-
Proceeds from disposal of tangible and intangible assets	79,137,019.78	2,621,604.29
Net cash used in investing activities	**3,478,595.40**	**7,776,847.98**

Cash flows from financing actitivites		
Interest-bearing liabilities, increase (+)/decrease (-)	114,337,761.43	-46,214,875.36
Short-term interest-bearing receivables, increase (-)/decrease (+)	-9,107,188.00	20,137,411.98
Short-term money market investments	-269,234,272.08	-56,808,357.03
Dividends paid	-148,715,547.00	-138,484,759.00
Group contributions received and paid	289,585,913.15	112,474,513.37
Increase in reserve of invested non-restricted equity	-	2,148,641.76
Acquisition of treasury shares	-	-16,127,668.29
Other items	21,212,728.94	4,029,026.80
Net cash used in financing activities	**-1,920,603.56**	**-118,846,065.77**
Change in liquid assets	**2,092,888.67**	**-127,018,423.64**
Liquid assets as at 1 January	**232,228,811.87**	**359,247,235.51**
Liquid assets as at 31 December	**234,321,700.54**	**232,228,811.87**

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

Tangible assets

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

Depreciation plan

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

The most common estimated useful lives are:

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

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

Valuation of financial assets

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

Foreign currency items

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

Derivative contracts

Interest rate derivatives

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

Foreign currency derivatives

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

Commodity derivatives

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

Pension plans

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

Provisions

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

Income tax

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

NOTES TO THE INCOME STATEMENT

Note 2. Other operating income

€ million	2015	2014
Gains on sales of real estate and shares	57.7	0.0
Rent income	99.5	113.0
Others	0.7	0.7
Total	**158.0**	**113.6**

Note 3. Average number of personnel

	2015	2014
Kesko Corporation	180	171
Total	**180**	**171**

Note 4. Employee benefit expense

€ million	2015	2014
Wages and salaries	-17.8	-15.9
Social security costs		
Pension costs	-2.6	-1.8
Other social security costs	-0.8	-0.8
Total	**-21.2**	**-18.4**

Salaries and fees to the management

€ million	2015	2014
Managing Director	1.0	1.3
Members of the Board of Directors	0.4	0.4
Total	**1.4**	**1.6**

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	2015	2014
Depreciation according to plan	-16.4	-19.0
Impairment, non-current assets	-4.8	-0.1
Total	**-21.2**	**-19.1**

Note 6. Other operating expenses

€ million	2015	2014
Rent expenses	-51.4	-55.8
Marketing expenses	-3.7	-1.7
Maintenance of real estate and store sites	-5.6	-6.3
Telecommunication expenses	-24.4	-18.6
Other operating expenses	-121.6	-9.4
Total	**-206.7**	**-91.8**

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

Auditors' fees

€ million	2015	2014
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.3	0.2
Tax consultation	0.1	0.1
Other services	0.4	0.1
Total	**0.8**	**0.4**

Note 7. Finance income and costs

€ million	2015	2014
Income from long-term investments		
Dividend income from subsidiaries	3.8	0.1
Gains on disposal of shares	-	0.1
Income from long-term investments, total	**3.8**	**0.2**
Other interest and finance income		
From subsidiaries	15.0	13.9
From others	18.6	48.7
Interest and finance income, total	**33.6**	**62.6**
Impairment of investments held as non-current assets		
Impairment of shares	-26.5	-21.4
Impairment of other investments	-1.1	-77.7
Impairment of investments held as non-current assets, total	**-27.6**	**-99.1**
Interest and other finance costs		
To subsidiaries	-2.7	-3.3
To others	-27.6	-49.5
Interest and finance costs, total	**-30.3**	**-52.8**
Total	**-20.5**	**-89.2**

Note 8. Items included in extraordinary income and expenses

€ million	2015	2014
Group contributions received	306.0	234.0
Group contributions paid	-16.4	-121.5
Total	**289.6**	**112.5**

Note 9. Appropriations

€ million	2015	2014
Difference between depreciation according to plan and depreciation in taxation	15.5	2.8
Total	**15.5**	**2.8**

Note 10. Changes in provisions

€ million	2015	2014
Other changes	0.7	0.1
Total	**0.7**	**0.1**

Note 11. Income taxes

€ million	2015	2014
Income taxes on extraordinary items	-57.9	-22.5
Income taxes on ordinary activities	-16.8	-5.5
Total	**-74.7**	**-28.0**

Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €11.4 million. The amount of other deferred tax liabilities or assets is not material.

NOTES TO THE BALANCE SHEET

Note 12. Intangible assets

€ million	2015	2014
Intangible assets		
Acquisition cost as at 1 January	24.6	39.1
Increases	2.6	8.3
Decreases	-0.2	-24.0
Transfers between items	2.6	1.2
Acquisition cost as at 31 December	29.7	24.6
Accumulated depreciation as at 1 January	-7.8	-28.4
Accumulated depreciation on decreases and transfers	0.1	23.9
Depreciation and amortisations for the financial year	-8.9	-3.3
Accumulated depreciation as at 31 December	-16.7	-7.8
Book value as at 31 December	**13.0**	**16.8**
Prepayments		
Acquisition cost as at 1 January	3.6	4.0
Increases	0.7	3.0
Decreases	-0.4	-2.3
Transfers between items	-2.6	-1.2
Acquisition cost as at 31 December	1.3	3.6
Book value as at 31 December	**1.3**	**3.6**

Note 13. Tangible assets

€ million	2015	2014
Land and waters		
Acquisition cost as at 1 January	93.4	93.4
Increases	1.5	0.0
Decreases	-17.0	-
Acquisition cost as at 31 December	77.9	93.4
Book value as at 31 December	**77.9**	**93.4**
Buildings		
Acquisition cost as at 1 January	365.8	394.2
Increases	0.9	3.0
Decreases	-104.7	-31.4
Transfers between items	0.1	0.0
Acquisition cost as at 31 December	262.1	365.8
Accumulated depreciation as at 1 January	-178.2	-195.4
Accumulated depreciation on decreases and transfers	48.4	31.4
Depreciation for the financial year	-11.2	-14.2
Accumulated depreciation as at 31 December	-141.1	-178.2
Book value as at 31 December	**121.0**	**187.6**
Machinery and equipment		
Acquisition cost as at 1 January	15.6	17.2
Increases	0.2	0.5
Decreases	-4.1	-2.1
Transfers between items	-	0.0
Acquisition cost as at 31 December	11.8	15.6

Accumulated depreciation as at 1 January	-13.0	-14.3
Accumulated depreciation on decreases and transfers	3.2	2.1
Depreciation for the financial year	-0.5	-0.8
Accumulated depreciation as at 31 December	-10.3	-13.0
Book value as at 31 December	**1.5**	**2.6**
Other tangible assets		
Acquisition cost as at 1 January	8.1	14.0
Increases	0.0	0.1
Decreases	-5.2	-6.0
Transfers between items	0.0	0.0
Acquisition cost as at 31 December	3.0	8.1
Accumulated depreciation as at 1 January	-4.4	-9.6
Accumulated depreciation on decreases and transfers	2.7	6.0
Depreciation for the financial year	-0.5	-0.8
Accumulated depreciation as at 31 December	-2.3	-4.4
Book value as at 31 December	**0.7**	**3.7**
Prepayments and construction in progress		
Acquisition cost as at 1 January	0.5	0.3
Increases	3.5	0.2
Decreases	0.0	-
Transfers between items	-0.1	0.0
Acquisition cost as at 31 December	3.9	0.5
Book value as at 31 December	**3.9**	**0.5**

Note 14. Investments

€ million	2015	2014
Investments in subsidiaries		
Acquisition cost as at 1 January	309.9	304.1
Increases	7.6	6.0
Decreases	-72.9	-0.1
Acquisition cost as at 31 December	244.7	309.9
Impairment as at 1 January	-55.9	-34.9
Accumulated impairments on decreases	28.1	-
Impairment for the period	-26.5	-21.0
Impairment as at 31 December	-54.3	-55.9
Book value as at 31 December	**190.4**	**254.0**
Investments in associates		
Acquisition cost as at 1 January	76.7	76.7
Increases	11.0	-
Returned equity	-9.4	-
Book value as at 31 December	**78.3**	**76.7**
Other investments		
Acquisition cost as at 1 January	9.5	10.2
Increases	2.7	0.0
Decreases	-1.8	-0.7
Acquisition cost as at 31 December	10.4	9.5
Book value as at 31 December	**10.4**	**9.5**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2015 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

€ million	2015	2014
Receivables from subsidiaries		
Long-term		
Loan receivables	217.1	217.3
Subordinated loans	10.0	10.0
Long-term, total	**227.1**	**227.3**
Short-term		
Trade receivables	5.6	4.0
Loan receivables	832.7	820.6
Prepayments and accrued income	1.1	0.6
Short-term, total	839.4	825.1
Total	**1,066.5**	**1,052.4**

Kesko Corporation has advanced a subordinated loan to Kiinteistö Mesta Oy to the amount of €10.0 million. The loan advanced to Kiinteistö Mesta Oy will be repaid only if the restricted shareholders' equity and other non-distributable items in the balance sheet confirmed for the debtor's financial year last ended are fully funded after loan repayment. The loan is interest free.

During the financial year 2015, a total impairment of €77.7 million was recognised on the subordinated loans advanced to Anttila Oy and Johaston Oy.

€ million	2015	2014
Receivables from associates and joint ventures		
Long-term		
Loan receivables	57.5	1.5
Other receivables	0.1	0.1
Long-term, total	**57.6**	**1.7**
Short-term receivables	**0.9**	**0.0**
Total	**58.5**	**1.7**

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

€ million	2015	2014
Prepayments and accrued income		
Taxes	0.0	21.4
Others	11.1	30.5
Total	**11.1**	**51.9**

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 2014	197.3	197.5	243.4	20.6	954.8	1,613.6
Increase				2.1		2.1
Dividends					-138.5	-138.5
Treasury shares					-14.4	-14.4
Transfer to donations					-0.2	-0.2
Profit for the year					16.3	16.3
Balance as at 31 December 2014	197.3	197.5	243.4	22.8	818.0	1,478.9
Dividends					-148.7	-148.7
Treasury shares					4.7	4.7
Transfer to donations					-0.3	-0.3
Profit for the year					161.8	161.8
Balance as at 31 December 2015	**197.3**	**197.5**	**243.4**	**22.8**	**835.6**	**1,496.5**

Calculation of distributable profits	2015	2014
Other reserves	266.2	266.2
Retained earnings	673.7	801.7
Profit for the year	161.8	16.3
Total	**1,101.7**	**1,084.2**

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

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

Board's authorisations to acquire and issue own shares

The Board has the authority, granted by the Annual General Meeting of 13 April 2015 and valid until 30 June 2018, to issue a total maximum of 20,000,000 new B shares. In addition, the Board has the authority, granted by the Annual General Meeting of 8 April 2013, to decide on the transfer of a maximum of 1,000,000 own B shares held by the Company as treasury shares. The authorisation is valid until 30 June 2017.

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 700,000 own B shares (purchase price €23.7 million) in the financial year 2011 and a total of 500,000 own B shares (purchase price €16.1 million) in the financial year 2014. The total prices paid for the shares have been deducted from retained earnings in equity. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. Based on the authorisations to issue own shares and the fulfilment of the vesting criteria of the 2013 vesting period of Kesko's share-based compensation plans, the Board granted a total of 50,520 own shares held by the Company as treasury shares, and based on the fulfilment of the 2014 vesting period, a total of 120,022 own shares held by the Company as treasury shares to the persons included in the target groups of the vesting periods. In addition, Mikko Helander, the Company President and CEO as from 1 January 2015, was granted 8,791 shares held by the Company as treasury shares in December 2014. The transfers of treasury shares were announced in a stock exchange release on 24 March 2014, 25 March 2014, 17 December 2014, 1 April 2015 and 7 April 2015. During the financial year, a total of 2,284 shares already granted were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. At the end of the financial year, the Company held 877,577 own B shares (995,315 B shares) as treasury shares. The €28.9 million (€31.5 million) acquisition cost of these shares has been deducted from retained earnings in equity.

Note 17. Appropriations

€ million	2015	2014
Depreciation difference	56.9	72.4
Total	**56.9**	**72.4**

Note 18. Provisions

€ million	2015	2014
Other provisions	0.9	0.2
Total	**0.9**	**0.2**

Note 19. Non-current liabilities

On 10 June 2004, Kesko Corporation issued a Private Placement of USD 120 million in the US. The facility has three tranches with bullet repayments, of which the first tranch (USD 60 million) was due in 2014. The remaining two tranches will be due in 2016 (USD 36 million) and in 2019 (USD 24 million). Kesko has hedged the loan with currency and interest rate swaps, as a result of which the total loan capital is €50.2 million and the fixed capital-weighted average interest rate is 5.3%.

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

Note 20. Current liabilities

€ million	2015	2014
Liabilities to subsidiaries		
Trade payables	0.2	0.1
Other payables	507.3	358.6
Accruals and deferred income	2.6	2.8
Total	510.1	361.6
Liabilities to associates		
Accrued expenses	0.1	0.0
Other payables	19.0	17.5
Total	19.1	17.5
Accruals and deferred income		
Staff costs	3.8	4.1
Others	41.7	14.3
Total	**45.5**	**18.4**

Note 21. Interest-free liabilities

€ million	2015	2014
Current liabilities	57.1	27.1
Non-current liabilities	7.3	5.3
Total	**64.4**	**32.4**

Note 22. Guarantees, liability engagements and other liabilities

€ million	2015	2014
Real estate mortgages		
For subsidiaries	4	4
Pledged shares	28	37
Guarantees		
For subsidiaries	81	87
For associates	-	65
Other liabilities and liability engagements		
For own debt	4	10
Rent liabilities on machinery and fixtures		
Falling due within a year	1	1
Falling due later	1	1
Rent liabilities on real estate		
Falling due within a year	40	47
Falling due later	156	198

€ million	2015	Fair value	2014	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 December				
Interest rate derivatives				
Interest rate swaps	100	-0.0	100	-0.5
Foreign currency derivatives				
Forward and future contracts	252	5.1	333	15.8
Outside the Group	225	5.8	310	17.8
Inside the Group	26	-0.6	23	-2.0
Option agreements				
Bought, inside the Group	0	-0.0	2	-0.0
Written, outside the Group				
Written, inside the Group	1	-0.0	2	-0.0
Currency swaps	50	4.9	50	-0.8
Commodity derivatives				
Electricity derivatives	19	-0.0	43	0.0
Outside the Group	9	-7.2	21	-4.4
Inside the Group	9	7.2	21	4.4

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

€ million	2015	2014
Available-for-sale financial assets	188.9	198.6
Cash and cash equivalents	45.4	33.6
Total	**234.3**	**232.2**

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

SIGNATURES

SIGNATURES

Helsinki, 2 February 2016

Esa Kiiskinen

Mikael Aro

Matti Kyytsönen

Anu Nissinen

Toni Pokela

Kaarina Ståhlberg

Mikko Helander
President and CEO

THE AUDITOR'S NOTE

Our auditor's report has been issued today.

Helsinki, 2 February 2016

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
APA

AUDITOR'S REPORT

(TRANSLATION FROM THE FINNISH ORIGINAL)

TO THE ANNUAL GENERAL MEETING OF KESKO CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Kesko Corporation for the year ended 31 December, 2015. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

OTHER OPINIONS

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

Helsinki, 2 February 2016

PricewaterhouseCoopers Oy

Authorised Public Accountants

Mikko Nieminen

Authorised Public Accountant

INFORMATION FOR SHAREHOLDERS

GENERAL MEETING

Notice is given to the shareholders of Kesko Corporation that the Annual General Meeting will be held at Messukeskus Helsinki's Conference Centre, Messuaukio 1 (Conference Centre entrance), Helsinki, on Monday 4 April 2016 at 13.00 EET. The reception desks for those registered for the meeting will open and voting tickets will be provided starting from 12.00 EET.

Shareholders have the right to participate in the General Meeting if they are registered in the Company's register of shareholders kept by Euroclear Finland Ltd on 21 March 2016. Shareholders whose shares are registered on their personal Finnish book-entry accounts are registered in the Company's register of shareholders.

A shareholder wishing to participate in the General Meeting should register for it no later than 30 March 2016 at 16.00 EET, by which time the registration will have to be received at the Company. The registration can be made either

a) through the website at http://www.kesko.fi/en/investor/General-Meeting/general-meeting-2016/ following the instructions provided there
b) by e-mail to keskoyhtiokokous@kesko.fi
c) by telephone +358 105 323 211 (from Monday to Friday between 9 and 16)
d) by fax +358 105 323 421, or
e) by letter to Kesko Corporation/Group Legal Affairs, Satamakatu 3, FI-00016 Kesko.

The registration will have to be received at the company before the expiry of the registration period. A shareholder may participate in the General Meeting and exercise his/her rights at the meeting by way of proxy representation. The proxy representative of a shareholder will have to produce a dated proxy document, or otherwise in a reliable manner demonstrate his/her right to represent the shareholder. If a shareholder participates in the General Meeting by means of several proxy representatives who represent the shareholder with shares on different securities accounts, the shares with which each proxy representative represents the shareholder are to be identified in connection with the registration. Possible proxy documents are to be delivered in originals to the above address before the end of the registration period.

Holders of nominee registered shares have the right to participate in the General Meeting by virtue of the shares which would entitle them to be registered in the shareholder register kept by Euroclear Finland Ltd on 21 March 2016. In addition, the participation requires that the shareholders are temporarily registered in the Company's shareholder register by virtue of these shares no later than 30 March 2016 at 10.00 EET. With respect to nominee registered shares, this constitutes the registration for the General Meeting.

Holders of nominee registered shares are advised to request instructions for registering in the shareholder register, submitting their proxy documents and participating in the General Meeting from their custodian banks well in advance. The account management organisation of the custodian bank shall request a holder of a nominee registered share wishing to participate in the Annual General Meeting to be registered in the Company's temporary shareholder register no later than the above deadline.

More detailed information on the General Meeting and participation and decision making in it is available on Kesko’s General Meeting website.

The resolutions passed at the General Meeting will be published without delay after the General Meeting as a stock exchange release.

PROPOSAL FOR DIVIDEND

The Board of Directors has decided to propose to the General Meeting that a dividend of €2.50 per share be paid for the year 2015 on the basis of the adopted balance sheet. The proposed dividend is 243.8% of the earnings per share and 146.7% of the earnings per share excluding non-recurring items. In the past five years, the dividend distributed has been an average of 93.6% of the earnings per share excluding non-recurring items. The dividend is paid to shareholders registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the record date for the payment of dividend, 6 April 2016. The registration takes two banking days, which means that the dividends will be paid to those who hold the shares at the close of the date of the General Meeting, 4 April 2016. Consequently, the dividends on shares traded on the date of the General Meeting are paid to the buyer of the shares. According to the Board's proposal, the payment of dividends would begin on 13 April 2016.

DIVIDEND POLICY

According to Kesko Corporation's dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking into account, however, the company's financial position and operating strategy.

BASIC SHARE INFORMATION AS AT 31 DECEMBER 2015

A share

- symbol: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007 pcs
- market capitalisation: €988 million

B share

- symbol: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 68,282,745 pcs
- market capitalisation: €2,182 million

Trading unit of both share series: 1 share
Total share capital: €197,282,584
Total number of shares: 100,019,752 pcs
Total number of votes attached to all shares: 385,652,815
Total market capitalisation: €3,170 million

SHAREHOLDERS

According to the register of Kesko Corporation's shareholders held by Euroclear Finland Ltd, there were 39,529 shareholders at the end of 2015 (39,869 at the end of 2014). The total number of shares registered in a nominee name was 26,926,202, accounting for 26.92% of all shares (27,043,245 and 27.04% respectively at the end of 2014). The number of votes attached to these shares was 32,068,964, or 8.32% of the total number of votes (32,512,014 or 8.43% respectively at the end of 2014)

Read more about largest shareholders.

SHAREHOLDERS' CHANGES OF ADDRESS

Shareholders are kindly asked to notify changes of address to the bank, brokerage firm or other account operator with which they have a book-entry securities account.

FINANCIAL PUBLICATIONS

Kesko's Annual Report for 2015 has been published in electronic format in Finnish and English at http://annualreport2015.kesko.fi. The report contains the strategy report, the Report by Kesko's Board of Directors and the financial statements for 2015, the GRI report, Kesko's Corporate Governance Statement and Remuneration Statement.

Printouts of the financial statements will be available at the General Meeting and copies can be ordered at IR (at) kesko.fi.

The financial statements release and the three interim reports can be read on Kesko's website. Kesko's stock exchange releases and press releases, sent by e-mail, can be ordered at http://www.kesko.fi/en/media/orders/.

Read more about Kesko's annual reports

Read more about Kesko's communications policy

Read more about Kesko's IR policy

Analysts' contact details

CORPORATE GOVERNANCE

Kesko 2015


CORPORATE
GOVERNANCE
STATEMENT 2015
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CORPORATE GOVERNANCE STATEMENT 2015

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 1 February 2016.

This is the separate Corporate Governance Statement, referred to in Recommendation 54 of the Finnish Corporate Governance Code issued by the Securities Market Association effective on 1 October 2010, which refers to 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 http://www.kesko.fi/en/investor/corporate-governance/.

Regulations and Corporate Governance Code observed by Kesko

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 Finnish laws. Kesko Group comprises the parent company, Kesko, and its subsidiaries. The Company is domiciled in Helsinki.

Kesko's decision-making and corporate governance are guided by Kesko's values and responsible operating practices. Decision-making and corporate governance are in compliance 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 ("the Board") and its Committees and the rules and guidelines of Nasdaq Helsinki Ltd.

Kesko applies the Finnish Corporate Governance Code for Listed Companies in force at any given time. This statement has been prepared in compliance with the Finnish Corporate Governance Code 2010 ("Corporate Governance Code"). The Corporate Governance Code 2010 can be read in full at www.cgfinland.fi/files/2012/01/suomen-listayhtioiden-hallinnointikoodi-cg2010.pdf. As provided by the 'Comply or Explain' principle of the Corporate Governance Code, the Company departs from the Corporate Governance Code's recommendation concerning a Board member's term of office.

In autumn 2015, the Securities Market Association published the new Finnish Corporate Governance Code for listed companies, which Kesko adopted as of 1 January 2016. A Corporate Governance Statement in compliance with the new Code will be published in spring 2017. The new Corporate Governance Code can be read at http://cgfinland.fi/en/.

Departure from Recommendation 10 of the Corporate Governance Code (Term of Office of the Board of Directors, Recommendation 6 in the new Corporate Governance Code) and explanation for departure

The term of office of Kesko's Board members departs from the one-year term pursuant to Recommendation 10 (Term of Office of the Board of Directors, Recommendation 6 in the new Corporate Governance Code) 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.

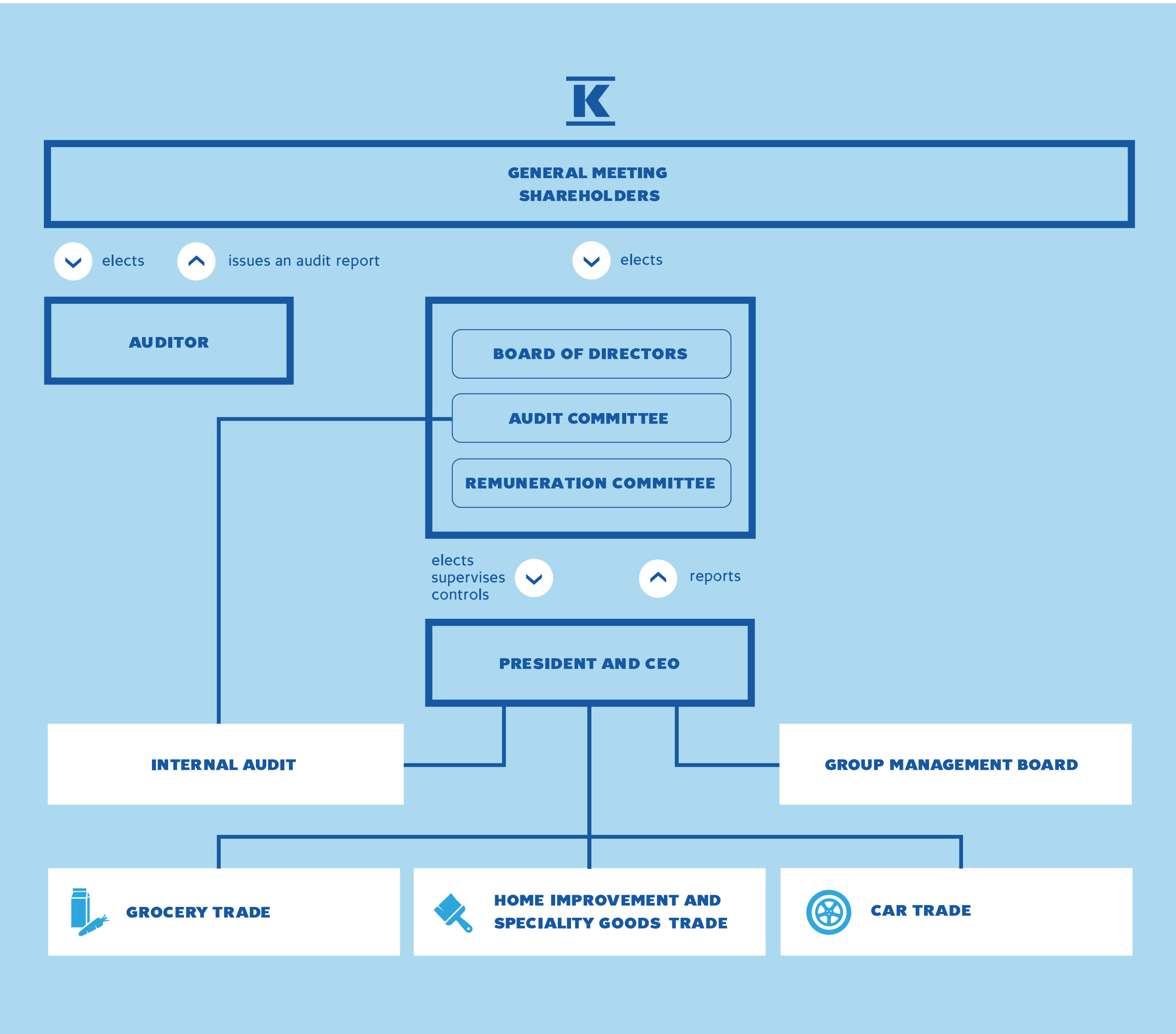
A shareholder which, together with related entities, represents over 10% of votes attached to all Kesko shares, has informed the Company's Board of Directors that it considers the term of office of three (3) years good for the Company's long-term development and has not seen any need to shorten the term stated in the Articles of Association.

Kesko Group's Corporate Governance

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 the 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.

KESKO GROUP'S CORPORATE GOVERNANCE SYSTEM



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 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 distributions 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 the General Meeting. When votes are taken, the proposal for which more than half of the votes were given will normally be the resolution of the General Meeting, as prescribed by the Limited Liability Companies Act.

Shareholders are invited to attend the General Meeting by a Notice of the General Meeting published on the Company's website. 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 at the Company's headquarters and on its website at http://www.kesko.fi/en/. The notice of the meeting and the proposals of the Company's Board of Directors to the General Meeting are also published as stock exchange releases.

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. The minutes of the General Meeting are made available to shareholders at http://www.kesko.fi/en/within two weeks of the General Meeting. The resolutions of the General Meeting are also published in a stock exchange release without delay after the meeting.

BOARD OF DIRECTORS

Term of office, composition and independence

Term of office

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.

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 are no special procedures concerning 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 Chair and the Deputy Chair from among its members for the whole term of office of the Board.

Composition

The Annual General Meeting held on 13 April 2015 resolved that the Board of Directors is composed of seven (7) members, and the General Meeting of 13 April 2015 elected seven (7) members to the Board:

Esa Kiiskinen, b. 1963, Business College Graduate
Chair of the Board
Chair of the Remuneration Committee
Food retailer
Member of the Board since 30 March 2009.

Mikael Aro, b. 1965, eMBA
Deputy Chair of the Board
Deputy Chair of the Audit Committee and the Remuneration Committee
President and CEO of VR-Group Ltd
Member of the Board since 13 April 2015.

Tomi Korpisaari, b. 1968, Master of Science (Economics)
Retailer, building and home improvement and agricultural trade
Member of the Board since 16 April 2012.

Matti Kyytsönen, b. 1949, Master of Science (Economics)
Member of the Audit Committee
Chair of the Board of Silverback Consulting Oy
Member of the Board since 13 April 2015.

Anu Nissinen
b. 1963, Master of Science (Economics)
Member of the Remuneration Committee
Chair of the Board of Era Content Oy
Member of the Board since 13 April 2015.

Toni Pokela, b. 1973, Secondary School Graduate
Food retailer
Board member since 16 April 2012.

Kaarina Ståhlberg
b. 1966, Master of Laws (Columbia University)
Chair of the Audit Committee
Lawyer, self-employed person
Member of the Board since 13 April 2015.

In accordance with the Articles of Association, the term of office of each member of the Board of Directors will expire at the close of the 2018 Annual General Meeting.

Until 13 April 2015, the Board of Directors was composed of **Esa Kiiskinen, Tomi Korpisaari** and **Toni Pokela**, as well as **Seppo Paatelainen** (b. 1944, Master of Science (Agriculture and Forestry), Deputy Chair of the Board, Deputy Chair of the Remuneration Committee and the Audit Committee, member of the Board from 27 March 2006 until 13 April 2015), **Ilpo Kokkila** (b. 1947, Master of Science (Technology), member of the Remuneration Committee, Chair of the Board of SRV Yhtiöt Oyj, member of the Board from 27 March 2006 until 13 April 2015), **Maarit Näkyvä** (b. 1953, Master of Science (Economics), Chair of the

Audit Committee, member of the Board from 1 January 2001 until 13 April 2015) and **Virpi Tuunainen** (b. 1967, Doctor of Science (Economics and Business Administration), member of the Audit Committee, Professor at the Department of Information and Service Economy at Aalto University and Director of Aalto Service Factory, member of the Board from 16 April 2012 until 13 April 2015. The memberships of Paatelainen, Kokkila, Näkyvä and Tuunainen of the Company's Board of Directors ended on 13 April 2015.

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 15 of the Corporate Governance Code (Recommendation 10 of the new Corporate Governance Code).

In 2015, the Board of Directors carried out an independence evaluation on 13 April 2015. Based on that independence evaluation, the Board of Directors considers all its members to be independent of the Company's significant shareholders, and the majority of the members also independent of the Company. A Board member is obliged to provide the Board with necessary information for the evaluation of independence.

The total voting rights in respect of shares in Kesko held by K-Retailers' Association, a significant Company shareholder, exceeded 10% on 23 December 2015. In consequence, Tomi Korpisaari was considered by the Board in its meeting on 11 January 2016 not to be independent of a significant shareholder, because Korpisaari is the Chair of the Board of the K-Retailers' Association.

Board members' independence in 2015

	Independent of the Company	Independent of a significant shareholder
Esa Kiiskinen (Ch.)	No***	Yes
Mikael Aro (Dep. Ch.)*	Yes	Yes
Tomi Korpisaari	No***	Yes****
Matti Kyytsönen*	Yes	Yes
Anu Nissinen*	Yes	Yes
Toni Pokela	No***	Yes
Kaarina Ståhlberg*	Yes	Yes
Ilpo Kokkila**	Yes	Yes
Maarit Näkyvä**	Yes	Yes
Seppo Paatelainen (Dep.Ch.)**	Yes	Yes
Virpi Tuunainen**	Yes	Yes

** As of 13 April 2015*

*** Until 13 April 2015*

**** Each of the companies controlled by Kiiskinen, Korpisaari and Pokela has a chain agreement with a Kesko Group company.*

***** In its meeting on 11 January 2016, the Board of Directors considered Tomi Korpisaari not to be independent of a significant shareholder, because he is the Chair of the Board of a significant Company shareholder, the K-Retailers' Association. The total voting interest of the K-Retailers' Association in the Company exceeded 10% on 23 December 2015.*

Main duties

Kesko's Board of Directors is responsible for the proper organisation the Company's administration, operations, accounting and financial management controls. The Board is also responsible for the supervision and control of the whole Kesko Group. The Board of Directors has confirmed a written charter for the Board of Directors' duties, the matters it deals with, its meeting practice and the decision-making procedure. In accordance with the charter, the Board deals with and makes decisions on matters that are financially, operationally or fundamentally significant to the Group.

According to the charter, the Board of Directors' main duties include:

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and rolling forecast, which includes a capital expenditure plan
- adopting the Group's financial and investment policy
- confirming the Group's risk management policy and considering the Group's most significant risks and uncertainties
- reviewing and adopting the consolidated financial statements, interim reports and related stock exchange releases and the Report by the Board of Directors
- deciding on strategically or financially significant individual capital expenditures, business acquisitions, divestments or arrangements, and commitments
- deciding on management authorisation rules
- deciding on the essential structure and organisation of the Group
- appointing and dismissing the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her compensation and other financial benefits
- deciding on the appointments of the Group Management Board members responsible for lines of business, on their compensation and financial benefits
- deciding on the principles of Kesko's remuneration schemes and monitoring the implementation of the remuneration schemes
- making possible proposals to the General Meeting for share or share-based compensation schemes, and making decisions on granting shares or share options under share or share-based compensation schemes, and on the terms and conditions for granting them
- establishing a dividend policy and being responsible for shareholder value performance
- confirming the Company's values
- reviewing the integrated Kesko's Year report
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies' Act or some other, and for duties prescribed by the Finnish Corporate Governance Code for Listed Companies

Decision-making, operation and meetings

The duty of Kesko's Board of Directors is to promote the interests of Kesko and all of its shareholders. The Board members do not represent the parties in the Company 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 Chair. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

In 2015, the Board held 13 meetings. The Board members' attendance rate at the Board meetings was 100%.

In 2015, the Board of Directors adopted a new strategy for Kesko Group, decided to establish common functions to support the Group's business operations, to strengthen the competitiveness of business operations through closer internal cooperation, and to start the simplification of the

Group's legal structure. For the purpose of improving profitability and competitiveness, the Board of Directors discussed and approved cost saving targets. In respect of strategic issues related to the Group's property ownerships and property management, the Board decided to establish a common real estate investment company jointly with two other investors and to sell properties to this company. The Board also decided on significant business arrangements in line with the Group's confirmed strategy.

As in previous years, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditures, monitored the progress of Group-level projects and approved the interim reports and the financial statements prior to their disclosure.

The Board meetings regularly discuss the review by the President and CEO on key topical issues, as well as the reports by the Chairs of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meetings. The Auditor presents his findings to the Board once a year in connection with the review of the financial statements.

Attendance at meetings by members of the Board and its Committees in 2015

	Board member since	Committee membership	Attendance		
			Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Ch)	2009	Remuneration Committee (Ch.)	13/13		3/3
Mikael Aro (Dep. Ch.)*	2015	Audit Committee (Dep. Ch.)	10/10	4/4	
		Remuneration Committee (Dep. Ch.)			1/1
Tomi Korpisaari	2012		13/13		
Matti Kyytsönen*	2015	Audit Committee	10/10	4/4	
Anu Nissinen*	2015	Remuneration Committee	10/10		1/1
Toni Pokela	2012		13/13		
Kaarina Ståhlberg*	2015	Audit Committee (Ch.)	10/10	4/4	
Ilpo Kokkila**	2006	Remuneration Committee	3/3		1/2
Maarit Näkyvä**	2001	Audit Committee (Ch.)	3/3	1/1	
Seppo Paatelainen (Dep. Ch.)**	2006	Audit Committee (Dep. Ch.)	3/3	1/1	
		Remuneration Committee (Dep. Ch.)			2/2
Virpi Tuunainen**	2012	Audit Committee	3/3	1/1	

** As of 13 April 2015*

*** Until 13 April 2015*

Board's Committees

Kesko has the Board's Audit Committee and Remuneration Committee, both of which are composed of three (3) Board members. At the close of the Annual General meeting, the Board elects the Chairs, the Deputy Chairs and the members of the Committees from among its members for one year at a time.

All members of the Audit Committee are independent of the Company and the Company's significant shareholders. In the election of the Audit Committee members, the competence requirements for Audit Committee members have been taken into account.

All members of the Remuneration Committee are independent of the Company's significant shareholder and its majority is also independent of the Company. In the election of the Remuneration Committee members, the competence requirements for Remuneration Committee members 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 based on the Committees' preparatory work. The Committee Chair reports on the Committee's work at the Board meeting following the Committee's meeting. Minutes of the Committee meetings are submitted for the information of the Board members.

Kesko's Board of Directors has not established any other committees in addition to the Audit and Remuneration Committees. Nor has the General Meeting appointed any committees or boards.

Audit Committee and its operation

The members of the Audit Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2015, are:

- Kaarina Ståhlberg (Ch.)
- Mikael Aro (Deputy Ch.)
- Matti Kyytsönen

According to its charter, the duties of the Audit Committee are:

- monitoring Kesko Group's financial and funding situation and the process of financial statements reporting
- supervising the Company's financial reporting process
- evaluating the efficiency of the Company's internal control, internal audit and risk management systems
- reviewing the Company's Corporate Governance Statement
- approving the operating instructions, annual audit plan, budget and resources of the Company's Internal Audit and reviewing the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the Company's audit firm
- evaluating the non-audit services provided to Kesko by the audit firm and the audit companies belonging to the same chain
- preparing a proposal to the General Meeting for a resolution on the election of the Company's Auditor and communicating with the Company's Auditor

In 2015, the Audit Committee held five (5) meetings, and the members' attendance rate at the meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller, the Chief Audit Executive and the Group General Counsel regularly report 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 his 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 and interim reports and made a recommendation to the Board on the review of the interim reports and the financial statements release. In addition, the Committee reviewed the reports of the Group's external and internal audits, risk management and legal affairs, and the Group's adoption of integrated reporting, the impacts of the pension reform on the Group's reporting, the impacts and risks of the strategic business arrangements, the simplification of the Group structure, as well as the changes required by the revised Corporate Governance Code. The Committee also assessed the Auditor's independence and provision of consultation services to the Group. The Audit Committee prepared and submitted a proposal to Kesko's Annual General Meeting 2015 for the election of the Auditor based on the competitive bidding process for Auditors conducted towards the end of 2014.

Remuneration Committee and its operation

The members of the Remuneration Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2015, are:

- Esa Kiiskinen (Ch.)
- Mikael Aro (Deputy Ch.)
- Anu Nissinen

According to its charter, the duties of the Remuneration Committee are:

- preparing matters pertaining to the compensation and other financial benefits and the managing director's service contract of the President and CEO to the Board
- preparing matters pertaining to the compensation and other financial benefits of the Group Management Board members responsible for lines of business; decisions on the compensation and other financial benefits of the 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 Chair of the Remuneration Committee
- preparing matters pertaining to the appointment of the President and CEO and the Group Management Board members responsible for lines of business, and identification of their successors
- developing remuneration schemes and preparing them to the Company's Board of Directors, including:
- evaluating the remuneration of the President and CEO and the other executives, and ensuring the appropriateness of the remuneration schemes
- preparing possible share or share-based remuneration schemes
- preparing the granting of shares or share options under the share or share-based remuneration schemes, and preparing their terms and conditions
- reviewing the remuneration statement in connection with the financial statements
- answering questions concerning the remuneration statement at the General Meeting. Questions are primarily answered by the Committee Chair
- 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

In 2015, the Remuneration Committee held three (3) meetings and the members' attendance rate at the meetings was 88.9%. The Committee prepared, among other things, proposals to the Board for the vesting criteria and the target group of share awards and for the principles of management's performance bonuses. In addition, the Committee discussed, among other things, the remuneration schemes of management and personnel and the development of the schemes, as well as the impacts of the pension reform and possible needs for change at Kesko Pension Fund arising from it.

President and CEO

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Mikko Helander, Master of Science in Technology. 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 until 31 December 2014, and he has been the Chair 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 about the developments in the Company's business operations and financial situation. He is also responsible for the Company's day-to-day administration and for ensuring that the financial management has been organised in a reliable manner. The President and CEO also chairs the Group Management Board and the subsidiary Boards essential with regard to business operations.

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.

Group Management Board

Kesko Group has a Group Management Board, the Chair 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 policies and procedures. In addition, the Group Management Board discusses the Group's and the division parent companies' business plans, profit performance and matters dealt with by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 18–20 times a year.

Group Management Board's members and their areas of responsibility as at 31 Dec. 2015

	Group Management Board member since	Area of responsibility
Mikko Helander, Chair	1 Oct. 2014	Kesko's President and CEO
Jorma Rauhala, President of Kesko Food Ltd	5 Feb. 2013	Grocery trade
Terho Kalliokoski, President of Rautakesko Ltd	17 Mar. 2005	Home improvement and speciality goods trade
Pekka Lahti, President of VV-Auto Group Oy	1 Mar. 2005	Car trade
Jukka Erlund, Senior Vice President, Chief Financial Officer	1 Nov. 2011	Finance and accounting
Matti Mettälä, Senior Vice President	1 Oct. 2012	Human resources
Anne Leppälä-Nilsson, Senior Vice President, Group General Counsel	1 Jan. 2015	Legal affairs
Lauri Peltola, Senior Vice President	2 Mar. 2015	Corporate responsibility, communications and stakeholder relations
Anni Ronkainen, Senior Vice President	20 Apr. 2015	Chief Digital Officer

Insider administration

Kesko's insider regulations

Kesko complies with the insider rules of Nasdaq Helsinki Ltd. Kesko's Board of Directors has confirmed Kesko's insider guidelines for permanent and project-specific insiders. The contents of the guidelines correspond to the insider rules of Nasdaq Helsinki. Kesko's insider guidelines have been distributed to all insiders.

Kesko's permanent insiders and insider registers

In accordance with the Securities Markets Act, Kesko's permanent public insiders include Kesko's Board members, the President and CEO (managing director), and the audit firm's auditor with principal responsibility for Kesko. Kesko Corporation's Board of Directors has also defined that, in addition to the President and CEO, the other members of the Group Management Board belong to the Company's permanent public insiders. The permanent public insiders and the statutory information about them, about their related parties and about the corporations that are controlled by them, or in which they exercise influence, have been recorded in Kesko's register of public insiders.

Other permanent insiders of Kesko include persons working at any given time in positions defined by the Board of Directors and having access to insider information and who are therefore recorded in the Company's company-specific, non-public insider register. Kesko's company-specific insider register is divided into project registers concerning permanent insiders and possible insider projects and persons participating in their preparation.

The Group's legal affairs function supervises compliance with insider guidelines and maintains the Company's insider registers in cooperation with Euroclear Finland Ltd. At regular intervals, the legal affairs function sends an extract of the information in the insider register to permanent public insiders for checking and reminds permanent insiders about upcoming trading restrictions preceding the publication of financial results and monitors compliance with them and with trading restrictions during possible insider projects.

In 2015, Kesko's permanent insiders were not allowed to acquire or transfer securities issued by the Company and securities or derivative contracts entitling to them during the 21 days preceding the publication of an interim report, and during the 28 days preceding the publication of the financial statements (trading restriction). These publication dates are annually announced in advance in a stock exchange release. It has also been requested that permanent insiders' spouses refrain from trading in Kesko securities or derivative contracts during these trading restriction periods. Furthermore, people involved in possible insider projects, whether included in the insider register or not, are not allowed to trade in Kesko's securities or derivative contracts during an insider project.

As of the beginning of 2016, the duration of permanent insiders’ trading restriction prior to result publications is 30 calendar days.

The legal affairs function annually organises training on insider issues and related matters concerning the disclosure obligation of a listed company within the Group.

DESCRIPTION OF THE MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO THE GROUP'S FINANCIAL REPORTING PROCESS

Group's financial reporting and its internal control

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 within the Group on a monthly basis, and disclosed in interim reports published quarterly. Financial forecasts are prepared for quarterly periods, 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.

KESKO GROUP'S MANAGEMENT MODEL

Roles and responsibilities

Kesko Group's financial reporting and its supervision is organised in three levels. The subsidiaries analyse and report their figures to the respective divisions, which then report the division-specific figures to Group Accounting. Analyses and controls for ensuring the accuracy of reporting are used at each reporting level.

The accuracy of reporting is ensured with automated and manual controls at every reporting level. The implementation of the analyses and controls is supervised on a monthly basis at the company, division and Group level.

Planning and performance reporting

The Group's financial performance and the achievement of financial objectives are monitored through Group-wide financial reporting. Monthly performance reporting includes Group, division and subsidiary 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 forecasts drawn up by the quarter, extending over the following 12 to 15 months. The key financial indicator for growth is sales performance, while those for profitability are operating profit excluding non-recurring items and return on capital employed excluding non-recurring items, monitored monthly in internal reporting. Information on the Group's financial situation is provided in interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Financial planning

Financial planning is carried out at the subsidiary, division and Group level in the form of annual budgeting and a rolling forecast. The forecasts are updated quarterly, and any significant changes are taken into account in the performance forecasts reported monthly.

Performance reporting to the Group's top management

Performance reporting to the Group's top management comprises monthly reports on the subsidiaries', divisions' and the Group's income statements and balance sheet information. Each subsidiary is primarily responsible for the financial reporting and the accuracy of its 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 and the balance sheet are analysed monthly at the company, division and Group level, based on 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. Performance reporting to the top management also includes Group level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting

Public performance reporting comprises interim reports, the financial statements release, annual financial statements and monthly sales reports. The same principles and control methods are applied to both public performance reporting and monthly performance reporting. The Audit Committee reviews the interim report and the financial statements and gives a recommendation on their handling to the Board of Directors. The Board approves the interim report and the financial statements before they are published.

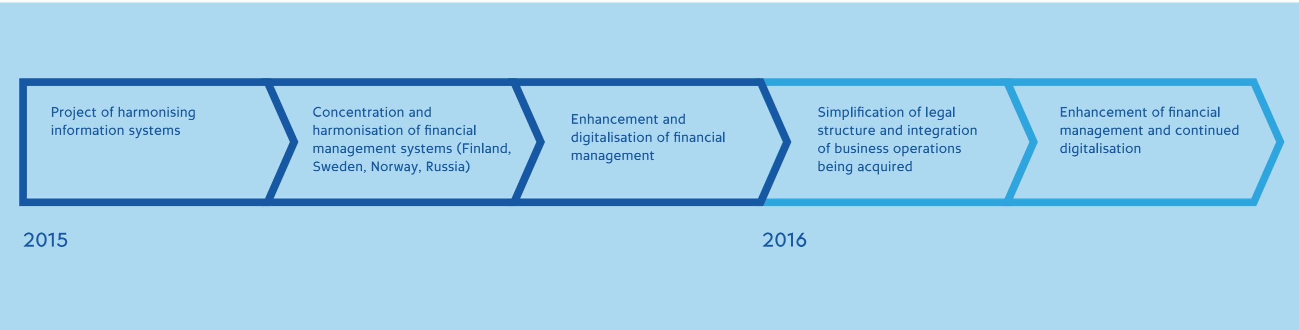
Key actions in 2015

Kesko Group completed the project for harmonising the financial management information system, which serves both the Group companies and the K-Group retailers. In Finland and in Russia, the centralisation of the Group companies' financial management routines in the Shared Services Centre continued. The Group's common financial management information system was introduced in the Norwegian building and home improvement trade company, and improving the efficiency of financial management routines and converting them to electronic format was continued in cooperation with the Group companies.

Kesko Group started planning and implementing the simplification of the Group's legal structure.

Key actions in 2016

In 2016, the simplification of the Group's legal structure will continue, and the focus will be on the integration of the business operations being acquired. In addition, improving the efficiency of the Group companies' financial management and their conversion to electronic format will be continued in both Finland and Russia.



Accounting policies and financial management IT systems

Kesko Group has adopted the International Financial Reporting Standards (IFRS) endorsed by the European Union. The accounting policies applied by the Group are included in the accounting manual, updated as the standards are amended. The manual contains guidelines for separate companies, the parent company, and guidelines for the preparation of the consolidated financial statements.

Kesko Group's financial management information is generated by division-specific enterprise resource planning systems, via a centralised and controlled, shared interface, 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.

Risk management

Kesko's risk management is proactive and an integral part of its management and day-to-day activities. The goal of risk management is to ensure the delivery of customer promises, profit performance, dividend paying capacity, shareholder value, the implementation of responsible operating practices and the continuity of business operations in Kesko Group.

The risk management policy confirmed by Kesko's Board of Directors guides risk management in Kesko Group. The policy defines the goals, principles, organisation and responsibilities of risk management at Kesko Group, as well as its operating practices. In the management of financial risks, the Group's finance policy, confirmed by Kesko's Board of Directors, is observed.

The business division and Group managements are responsible for the implementation of risk management. Each division has appointed a management board member, usually the finance director, to be responsible for coordinating risk management and providing guidelines within the division and for reporting on risk management responses. Kesko's Internal Audit annually evaluates the efficiency of Kesko's risk management system.

Kesko Group applies a business-oriented and comprehensive approach to risk assessment and risk management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and unit level in all operating countries.

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 reputation, the wellbeing of people and the environment are assessed in addition to the impacts in euros.

In connection with the strategy process, the divisions assess the risks and opportunities concerning each strategy period. Near-future risks are identified and assessed in accordance with the rolling planning framework. Risk assessment also covers the risks concerning the divisions' subsidiaries and those related to significant projects.

A division's risk assessment, which includes a risk map, risk management responses, responsible persons and schedules, is reviewed regularly by the division's management board. The common functions also assess the risks concerning their respective areas of responsibility.

Risks and management responses are reported in accordance with Kesko's reporting responsibilities. The divisions report on risks and changes in risks to the Group's risk management function on a quarterly basis. Risks are discussed by the risk reporting team, which includes representatives of the divisions and the common functions. On that basis, the Group's risk management function prepares the Group's risk map, which presents the most significant risks and uncertainties and their management.

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 reviewing the interim reports and the financial statements. The Audit Committee also evaluates the efficiency of Kesko's risk management system. The Audit Committee Chair reports on risk management to the Board as part of the Audit Committee report.

Kesko's Board discusses Kesko Group's most significant risks and uncertainties. The Board reports on the most significant risks and uncertainties to the market in the financial statements and on material changes in them in interim reports.

Risk management responses in 2015

In Kesko's risk management process, the evaluation of the impacts in euros of the materialisation of risks was developed. Kesko participated in an international peer review on the level of risk management. The risk management, legal affairs and internal audit functions continued organising Value Discussions about Kesko's responsible operating practices. During the year, the adoption of online training tools on safety was continued and the purchasing of security services across division boundaries was enhanced. User right management was enhanced and data security was improved in Kesko's various SAP environments. A positive trend continued in terms of damages and there were no major single damages.

Focus areas of risk management in 2016

The risk management function will continue working in close cooperation with division parent companies and the common functions in order to ensure the adoption of responsible operating practices, to prevent malpractice, and to develop risk management related to personal safety, business continuity, data security and data protection. One of the most important focus areas is the risk management related to the ongoing acquisitions. Security operations will focus on expanding the use of electronic tools and e-learning programmes. The data security of SAP and other systems will be developed. Jointly with the divisions, the risk management function will organise crisis exercises and training sessions on security. The aim is to expand Group-level insurance programmes further.

In addition, the response programme for 2016 is aimed at achieving cost efficiency in risk management responses through, for example, centralised purchasing of services and security technology.

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. The tools of internal control include policies and principles, work instructions, manual controls and automatic controls built into information systems, follow-up reports, inspections and audits, among other things.

The objective of internal control in Kesko Group is to ensure the profitability, 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 safeguarding assets, expertise and information.

ROLES AND RESPONSIBILITIES IN KESKO GROUP'S INTERNAL CONTROL

The planning of control measures begins with defining the business objectives and identifying and assessing 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 laws, and for the accuracy of the information used in decision-making and reporting. Control measures are targeted based on risks, and control measures are selected as appropriate so as to keep the risks under control.

The Board of Directors and the President and CEO are responsible for the organisation of internal control. The management of each division, company and unit is responsible for taking care that efficient and effective control procedures are in place. The divisions annually prepare control plans that contain, among other things, the focus areas and development targets of control. Every Kesko employee is obliged to comply with the responsible working principles and report on any grievances to their supervisor.

Kesko's common functions guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective responsibility areas. 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 the 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).

Internal audit

Kesko's internal audit function 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, control, management and governance. The Audit Committee of Kesko's Board of Directors has confirmed Kesko's internal audit function's operating instructions.

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' managements. Meetings with the Auditor are arranged on a regular basis in order to ensure sufficient audit coverage and 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 2015

The key targets of the internal audit operations in 2015 were Kesko's business activities in Russia and related risks. Other focus areas included Kesko's digital services, data security, data protection and related risks. Compliance with Kesko's accounting policies and reporting guidelines was verified and assessed in various audits, with an emphasis on the accuracy of inventory values.

Focus areas of internal audit in 2016

The key focus areas of internal audit operations in 2016 will be the implementation of Kesko's strategies, the ongoing acquisitions, quality programmes, business operations in Russia and related risks, the efficiency of data security and data protection issues.

AUDITING

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland Chamber of Commerce. The Audit Committee submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also evaluates the auditors' operation and services annually. The term of office of the Auditor is the Company's financial year and the Auditor's duties end at the close of the Annual General Meeting following the Auditor's election. As a rule, an audit company belonging to the same chain as the audit firm represented by the Auditor elected by Kesko's General Meeting acts as the Auditor 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 Annual General Meeting 2015 elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the Company's Auditor, with APA Mikko Nieminen as the Auditor with principal responsibility. He is currently the Managing Director of PricewaterhouseCoopers Oy and the auditor responsible for four Finnish listed companies:

- Kesko
- Finnair
- CapMan
- Okmetic

The General Meeting resolved that the auditor's fee is paid and expenses are reimbursed according to an invoice approved by the Company.

Based on applicable law, a person can act as an auditor with principal responsibility for a company for a maximum of seven (7) consecutive years. The law does not restrict the length of an audit firm's term of office. APA Mikko Nieminen has been the auditor with principal responsibility for the Company since 13 April 2015.

Auditors' fees in 2014-2015 (€1,000)

	2015					2014				
	PwC		Other audit firms			PwC		Other audit firms		
	Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies	Total
Auditing	220	564	-	42	826	174	705	-	56	935
Tax consultation	84	14	-	7	105	77	25	1	10	113
IFRS consultation	9	-	-	-	9	4	6	-	-	10
Other services	450	135	354	828	1,767	121	164	28	249	562
Total	**763**	**713**	**354**	**877**	**2,707**	**376**	**899**	**29**	**314**	**1,620**

REMUNERATION STATEMENT 2015

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Kesko complies with the Corporate Governance Code for Listed Companies in force at any given time. This statement has been prepared in compliance with the Finnish Corporate Governance Code 2010 ("Corporate Governance Code"). The Corporate Governance Code 2010 can be read in full at www.cgfinland.fi/files/2012/01/suomen-listayhtioiden-hallinnointikoodi-cg2010.pdf.

In autumn 2015, the Securities Market Association published the new Finnish Corporate Governance Code for listed companies, which Kesko adopted as of 1 January 2016. A Remuneration Statement in compliance with the new Code will be published in spring 2017. The new Corporate Governance Code can be read at http://cgfinland.fi/en/.

Principles of remuneration and the decision-making procedure

The Annual General Meeting decides on the remuneration and other financial benefits of the members of Kesko Corporation's ("Kesko") Board of Directors and its Committees' members annually. The remuneration of the members of the Board and its Committees is paid in cash. The Board members do not have share compensation or share-based compensation schemes. Nor do they participate in the other remuneration schemes or pension plans of the Company.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions on the personal compensation, other financial benefits, the performance bonus system criteria and the performance bonuses paid to 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.

The President and CEO makes decisions on the compensation and other financial benefits of the Group Management Board members other than those responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

The remuneration scheme of the President and CEO and the other members of the Group Management Board consists of a non-variable monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria decided annually (short-term remuneration scheme), a share-based compensation (long-term remuneration scheme) and management's retirement benefits.

The Board of Directors monitors the implementation of the remuneration schemes of the President and CEO and the other Group Management Board members.

REMUNERATION SCHEMES

Performance bonus scheme (short-term remuneration scheme) in 2015

The performance bonuses determined annually are paid after the completion of the annual financial statements by the end of April following the year of determination. Kesko's Board makes decisions on management's performance bonus criteria annually.

The criteria have been the Group's, or each respective division's operating profit excluding non-recurring items, the operating profit before non-recurring items of the executive's area of responsibility, sales and market share indicators and the achievement of personal targets. The performance bonus criteria and their weightings vary depending on the duties of the position.

The maximum performance bonus of Kesko's President and CEO corresponds to his 8 months' monetary salary excluding fringe benefits, and that of the other Group Management Board members, the monetary salary of 4—5 months, depending on the profit impact of their respective positions. The performance bonus of a Group Management Board member is determined based on the monetary salary of the last month of the calendar year, the performance of which is the basis of the bonus.

The fulfilment of the performance and profit criteria and their impact on long-term financial success are monitored and evaluated by Kesko's Board and the Remuneration Committee.

If exceptional events and events with significant impacts 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 of Kesko Corporation’s Board also in individual cases.

At its discretion, the Board may decide not to pay a share award, or decide to recover an award that has already been paid, if the award 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 reasons for assuming that he/she is guilty of such acts.

Share-based compensation plan 2014—2016 (long-term remuneration scheme)

In addition to the performance bonus scheme, Kesko operates the 2014–2016 share-based compensation plan decided by the Company’s Board and intended for the Group's management and certain other key persons.

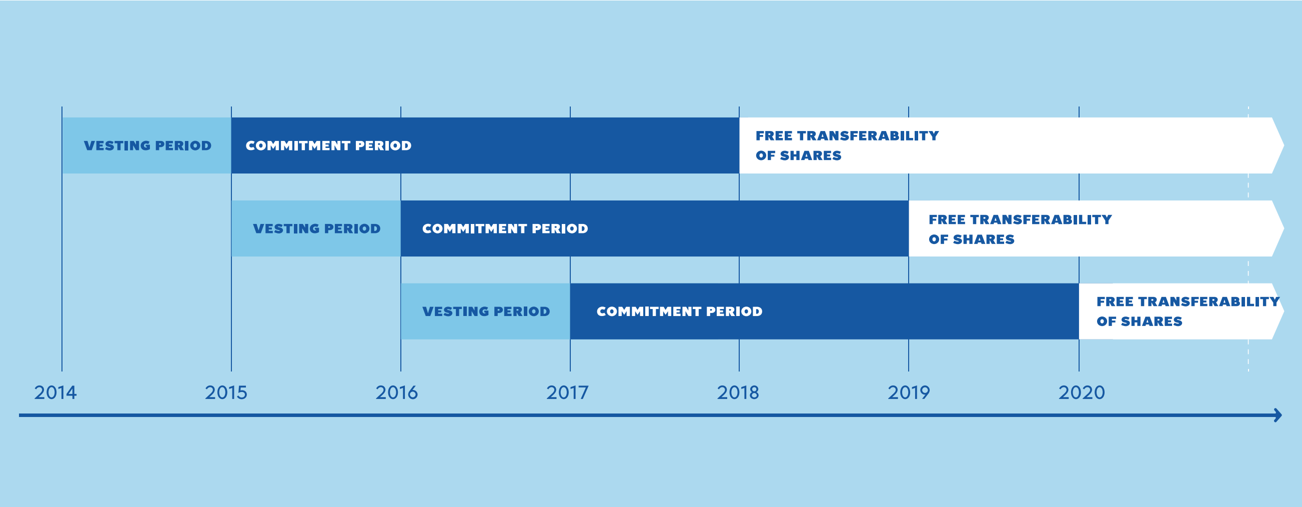
The purpose of the share-based compensation plan is to promote Kesko's business and increase the Company's value by combining the objectives of the shareholders and management personnel. The plan also aims to commit the grantees to Kesko Group and give them the opportunity to receive Company shares upon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

The share-based compensation plan has three vesting periods: the calendar years 2014, 2015 and 2016. Kesko's Board decides the vesting criteria, the target group and the maximum amounts of the share award separately for each vesting period based on the Remuneration Committee's proposal. The final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria are decided by the Board at the beginning of the year following the vesting period. The criteria for the 2015 vesting period were, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, Kesko's basic earnings per share (EPS) excluding non-recurring items and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI index. Under the share-based compensation plan, a total maximum of 600,000 own B shares held by the Company as treasury shares can be granted.

The award possibly paid for a vesting period is paid in Kesko B shares. In addition, a cash component at maximum equalling the value of the shares is paid to cover the taxes and tax-like charges incurred under the award. A commitment period of three calendar years following each vesting period is attached to the shares granted, during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. The commitment period of the 2015 vesting period will end on 31 December 2018. If a person's employment or service relationship terminates prior to the expiry of a commitment period, he or she must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In individual cases, the Board may decide that the grantee can keep the shares under return obligation, or some of them. If the grantee retires during the commitment period, he/she is entitled to keep the shares and other securities already received.

Even if the criteria are met, the Board always has discretion over whether to pay a share award to any given recipient in full, in part or not at all.

KESKO'S SHARE-BASED COMPENSATION PLAN 2014—2016



At its discretion, the Board may decide not to pay a share award, or decide to recover an award that has already been paid, if the award 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 reasons for assuming that he/she is guilty of such acts.

The plan does not contain terms or conditions that would limit the grantees' income from the shares.

SALARIES, REMUNERATION AND OTHER FINANCIAL BENEFITS

Remuneration and other financial benefits of the members of the Board and its Committees

The Annual General Meeting of 13 April 2015 resolved to leave the Kesko Board members' fees unchanged and in 2015, they were as follows:

Annual fees:

- Chair of the Board €80,000,
- Deputy Chair of the Board €50,000 and
- member of the Board €37,000.

In addition, a meeting fee of €500 per meeting is paid for a Board meeting and its Committee's meeting, with the exception that the Chair of a Committee who is not the Chair or the Deputy Chair of the Board is paid €1,000 per Committee meeting.

Daily allowances are paid and travel expenses are reimbursed to the Board and Committee members in accordance with the general travel rules of Kesko.

Annual and meeting fees paid to Board members for Board and Committee work in 2015 (€)*

	Annual fees	Meeting fees			Total
		Board	Audit Committee	Remuneration Committee	
Esa Kiiskinen (Ch.)	80,000	6,500		1,500	88,000
Mikael Aro (Dep. Ch.)***	37,500	4,500	1,500		43,500
Tomi Korpisaari	37,000	6,500			43,500
Matti Kyytsönen***	27,750	4,500	1,500		33,750
Anu Nissinen***	27,750	4,500			32,250
Toni Pokela	37,000	6,500			43,500
Kaarina Ståhlberg***	27,750	4,500	3,000		35,250
Ilpo Kokkila**	9,333	2,000		1,000	12,333
Maarit Näkyvä**	9,250	2,000	2,000		13,250
Seppo Paatelainen**	12,500	2,000	1,000	1,500	17,000
Virpi Tuunainen**	10,333	1,500	500		12,333
Total	**316,166**	**45,000**	**9,500**	**4,000**	**374,666**

** Reported on a cash basis*

*** Board member until 13 April 2015*

**** Board member as of 13 April 2015*

The table includes all members of Kesko's Board of Directors in 2015. The new Board members elected by the General Meeting held on 13 April 2015 are Mikael Aro, Matti Kyytsönen, Anu Nissinen and Kaarina Ståhlberg. At the same General Meeting, the terms of office of Board members Seppo Paatelainen, Ilpo Kokkila, Maarit Näkyvä and Virpi Tuunainen ended.

President and CEO Mikko Helander's salary, remuneration and other financial benefits in 2015

President and CEO Mikko Helander's personal compensation, other financial benefits, performance bonus scheme criteria and performance bonuses paid are decided by Kesko's Board of Directors based on the Remuneration Committee's preparatory work. A written managing director's service contract, approved by the Board, is in force between the Company and the President and CEO. Helander has been the Company's President and CEO and the Chair of the Group Management Board since 1 January 2015.

On 16 December 2014, Kesko Corporation's Board of Directors decided to transfer 8,791 own B shares held by the Company as treasury shares to Mikko Helander, who took office as the Company's President and CEO on 1 January 2015. The share transfer was based on the managing director's service contract signed with Mikko Helander and the transferred shares are part of the agreed total compensation. The Kesko B shares granted to Helander carry a commitment period until 1

October 2016, during which the shares are not allowed to be transferred.

The salaries, fringe benefits and performance bonuses paid to Helander and his other financial benefits in 2014—2015 are presented in the following tables.

Salaries, performance bonuses and fringe benefits in 2014–2015 (€)

	2015	2014
Non-variable monetary salary	856,800	210,000*
Performance bonuses*	140,000**	
Fringe benefits	21,725	5,265*
Total	**1,018,525**	**215,265***

** Employment began on 1 October 2014.*

*** Performance bonus paid based on the previous year's profit.*

Share-based compensation plan 2014–2016

Share award (pcs)	2015	2014
Maximum	21,000	-
Granted	11,214*	-
Commitment period (expiry date)	31 Dec. 2018	-

** The Board's decision in February 2016. Shares granted for the vesting period 2015 will be paid in April 2016 in accordance with the terms and conditions of the plan.*

Retirement benefits

President and CEO Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings in accordance with the Employees' Pensions Act (TyEL). The pensionable salary is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last ten (10) years. The supplementary pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €0.8 million and the pension liability was €0.9 million as at 31 December 2015. The pension cost of the President and CEO's statutory pension provision was €0.1 million.

Health and life insurance

A health insurance and a life insurance have been taken out for Helander.

Period of notice and termination benefit

Helander's period of notice 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 managing director, and the managing director does not retire on an old-age pension or some other pension, the managing director 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.

Group Management Board's salaries, remuneration and other financial benefits

Group Management Board members' salaries, performance bonuses and fringe benefits in 2014–2015 (€)*

	Non-variable monetary salary		Performance bonuses		Fringe benefits		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Mikko Helander, Ch.	856,800	210,000	140,000	0	21,725	5,265	1,018,525	215,265
Group Mmanagement Board**	1,777,640	1,843,260	371,750	286,500	126,478	121,649	2,275,868	2,251,409
Total	**2,634,440**	**2,053,260**	**511,750**	**286,500**	**148,203**	**126,914**	**3,294,393**	**2,466,674**

** Salaries, performance bonuses and fringe benefits are reported on a cash basis. The 2014 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2015 to the salaries and fringe benefits for 2014. The performance bonus for 2015 will be decided and paid in spring 2016.*

*** Excluding President and CEO Helander. Some of the current Group Management Board members took up their posts in 2015.*

Share-based payments to Group Management Board members in 2013–2015 (pcs)

	2015		2014		2013	
	Maximum	To be granted**	Maximum	Granted	Maximum	Granted
Mikko Helander, Ch.	21,000	11,214	-	-	-	-
Group Management Board*	53,000	28,302	48,000	16,812	46,500	9,300
Total	**74,000**	**39,516**	**48,000**	**16,812**	**46,500**	**9,300**

** Excluding President and CEO Helander. Some of the current Group Management Board members took up their posts in 2015.*

*** The Board's decision in February 2016. The shares to be granted for the 2015 vesting period will be paid in March–April 2016 in accordance with the terms and conditions of the plan.*

On 16 December 2014, Kesko Corporation's Board of Directors decided to transfer 8,791 own B shares held by the Company as treasury shares to Mikko Helander, who took office as the Company's President and CEO on 1 January 2015. The share transfer was based on the managing director's service contract signed with Mikko Helander and the transferred shares are part of the agreed total compensation. The Kesko B shares granted to Helander carry a commitment period until 1 October 2016, during which the shares are not allowed to be transferred.

Retirement benefits in 2015

The statutory pension provision of the members of the Group Management Board is provided through a pension insurance company. In 2015, four Group Management Board members were members of Kesko Pension Fund and their supplementary pensions are determined based on its rules and their personal service contracts. Their retirement benefits are based on a defined benefit plan. The retirement benefits of the other Group Management Board members are determined based on the general provisions applicable to employees' pensions in Finland (TyEL, the Employees' Pensions Act). The retirement benefits of President and CEO Helander are reported in more detail in the section concerning him.

Kesko has not paid pension insurance contributions incurred on executives' memberships of Kesko Pension Fund's department A for several years, nor in 2015, as the department's investment earnings covered the payable supplementary pensions and changes in the pension liability.

Group Management Board members' retirement benefits, periods of notice and termination benefits in 2015*

	Old-age pension age (years)	Pension as percentage of pensionable salary (%)	Period of notice	Termination benefit**
Mikko Helander	63	60	6/12 mo***	12-mo salary
Jorma Rauhala	62	66	6 mo	6-mo salary
Terho Kalliokoski	62	66	6 mo	12-mo salary
Pekka Lahti	62	66	6 mo	18-mo salary
Jukka Erlund	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary
Matti Mettälä	62	66	6 mo	12-mo salary
Anne Leppälä-Nilsson	in accordance with TyEL****	in accordance with TyEL****	6 mo	18-mo salary
Lauri Peltola	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary
Anni Ronkainen	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary

** As at 31 December 2015*

*** If given notice by the employer. Termination benefit includes monetary salary and fringe benefits.*

**** The period of notice is twelve (12) months if the managing director's service contract is terminated by the Company and six (6) months if the President and CEO resigns.*

***** TyEL = the Employees' Pensions Act*