KESKO

Kesko's year

2014

KESKO

Kesko's year 2014

Business review

Responsibility in figures

Financial Statements 2014

Comparatives according to the new segment structure

Governance

Kesko in brief

Kesko is the leading Finnish listed trading sector company. Kesko's operations include the grocery trade, the home improvement and speciality goods trade, and the car and machinery trade. Its divisions and chains act in close cooperation with retailer entrepreneurs and other partners.

In 2014, Kesko's net sales totalled €9.1 billion and it employed nearly 20,000 people.

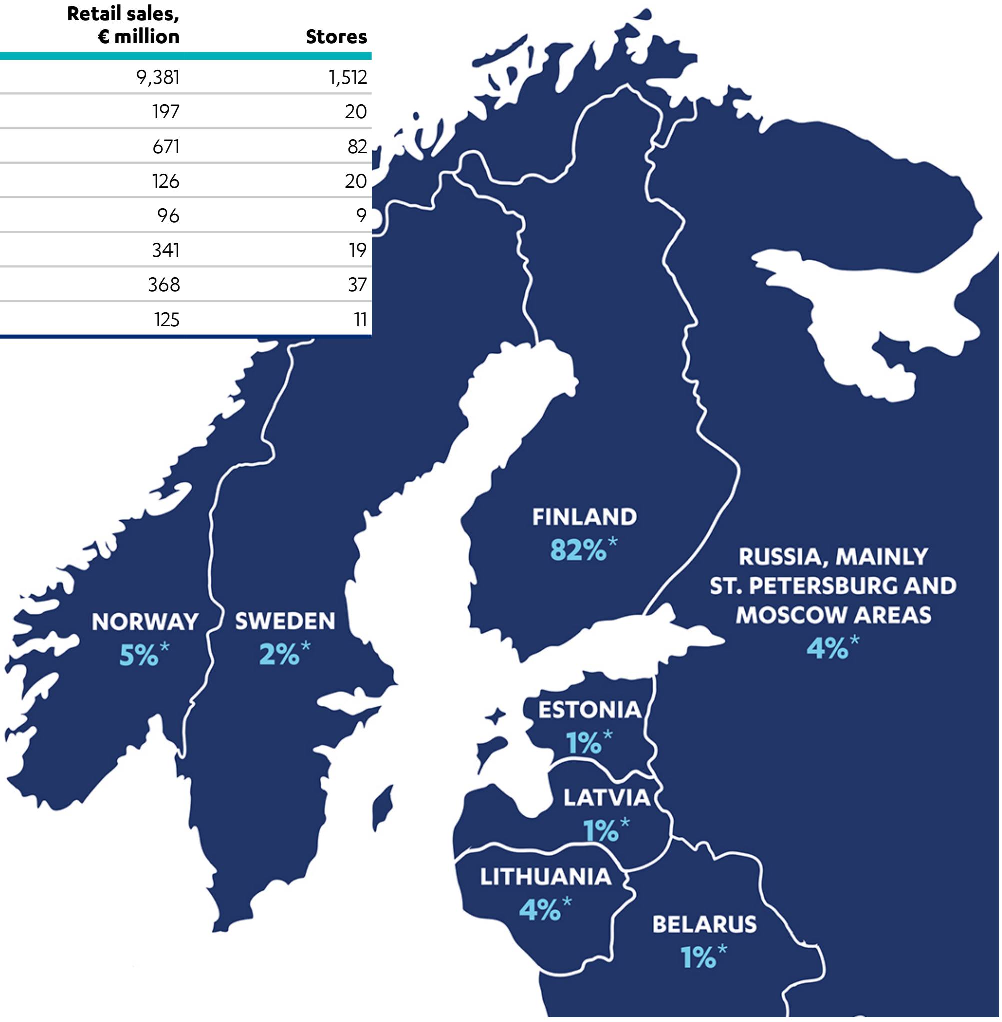
Kesko has about 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus.

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

Together, Kesko and K-retailers form the K-Group, whose retail sales totalled about €11 billion (VAT 0%) in 2014. The K-Group employs a total of around 45,000 people.

The K-Group's retail sales and store numbers by country

	Retail sales, € million	Stores
Finland	9,381	1,512
Sweden	197	20
Norway	671	82
Estonia	126	20
Latvia	96	9
Lithuania	341	19
Russia	368	37
Belarus	125	11



* Percentage of Kesko's net sales

Finland: All divisions
Sweden and Norway: Building and home improvement trade
Estonia, Latvia and Lithuania: Building and home improvement trade, furniture trade and machinery trade
Russia: Mainly St. Petersburg and Moscow areas: Building and home improvement trade, grocery trade and sports trade
Belarus: Building and home improvement trade

Year 2014 in figures

Key performance indicators

Finances	2014	2013	2012	2011	2010
Net sales, € million	9,071	9,315	9,686	9,460	8,777
Operating profit excl. non-recurring items, € million	233	239	230	279	268
Profit before tax, € million	145	242	210	282	312
Earnings per share excl. non-recurring items, basic, €	1.65	1.68	1.47	1.84	1.78
Dividend per share, €	1.50*	1.40	1.20	1.20	1.30
Return on capital employed excl. non-recurring items, %	9.9	9.8	9.0	13.1	14.0
Return on equity excl. non-recurring items, %	7.6	7.7	6.9	8.8	8.7
Cash flow from operating activities, € million	304	414	382	216	438
Capital expenditure, € million	194	171	378	425	325
Equity ratio, %	54.5	54.5	52.5	53.9	53.5
Personnel					
Personnel, average	19,976	19,489	19,747	18,960	18,215
Permanent employees, %	89.3	89.8	89.0	87.4	86.3
Full-time employees, %	74.2	71.9	71.3	71.5	71.3
Salaries, fees and social costs paid, € million	614	611	608	571	521
Supervisory positions held by women, Finland, %	54	53	51	51	-
Training days per employee	1.2	1.3	0.9	1.7	1.6
Sickness absences, days per employee	10.5	11.2	11.2	10.7	12.1
Environment					
CO_2 emissions**, CO_2e, thousand tonnes (properties and own logistics)	206	197	205	202	200
CO_2 emissions/net sales**	22.7	21.1	21.2	21.3	22.8
CO_2 emissions/personnel, average**	10.3	10.1	10.4	10.5	10.8
Specific consumption of electric energy, Finland, kWh/gross m^2	205	209	213	219	224
Specific consumption of heat energy, Finland, kWh/gross m^2	79	83	95	90	110
Waste recovery rate, % (central units and cash&carry outlets in Finland)	97	95	93	93	84
Supply chain					
Goods, materials and services purchased, € million	8,839	9,037	9,454	9,188	8,526
Purchases from suppliers in Finland, % of all purchases	68.3	68.9	67.9	67.5	69.1
Direct purchases from high-risk countries, Finnish companies, % of all purchases	1.5	1.6	1.3	1.8	1.5
BSCI audits/year	162	106	67	134	103
Pirkka Organic products	116	95	99	73	48
Pirkka Fairtrade products	44	35	39	38	37

* Proposal to the AGM

** Includes CO_2 emissions from energy produced by Kesko and from transportation managed by Keslog (Scope 1) and purchased energy (Scope 2).

Board of Directors

Chair

Chair of the Remuneration Committee

Esa Kiiskinen

b. 1963, Business College Graduate.
He is considered by the Board not to be independent of Kesko, but to be independent of its significant shareholders.
Domicile: Helsinki, Finland.
Principal occupation: Food retailer.
Main employment history: K-food retailer since 1990.
Main positions of trust: 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.
Board member since: 30 March 2009.
Kesko shares held:
As at 31 December 2013: a total of 107,350 A shares held by him and his company.
As at 31 December 2014: a total of 107,350 A shares held by him and his company.

Deputy Chair

Deputy Chair of the Audit Committee and the Remuneration Committee

Seppo Paatelainen

b. 1944, Master of Science (Agriculture and Forestry).
He is considered by the Board to be independent of Kesko and its significant shareholders.
Domicile: Suonenjoki, Finland.
Principal occupation: -
Main employment history: Atria Yhtymä Oyj: CEO 1991-2006, Itikka osuuskunta and Itikka Lihabotnia Oy: CEO 1988-1991, Luja-Yhtiöt: Director 1973-1987, Itikka osuuskunta: Production Director 1970-1973.
Main positions of trust: Ilkka-Yhtymä Oyj: Chair of the Board 2007-2014, member of the Board 1994-2007, Alma Media Corporation: Chair of the Board 2011-2013, Deputy Chair of the Board 2009-2010, Seinäjoki Region Business Service Center: Chair of the Board 2009-2012, Finavia Corporation: member of the Board, Chair of the Board 2010-2011, Valga Viro: Chair of the Board 2005-2006, Pit Product (Russia): Chair of the Board 2005-2006, Liha ja Säilyke Oy: Chair of the Board 1998-2006, OKO: member of the Supervisory Board 1997-2006, Lithells AB (Sweden): Chair of the Board 1997-2006, Evijärven Peruna Oy: Chair of the Board

1988-2006, Tapiola: member of the Supervisory Board 1989-2002, Central organisation for Finnish concrete industry: Chair of the Board 1985-1987, Lujabetoni Oy: member of the Board 1982-1991.
Member of the Board since: 27 March 2006.
Kesko shares held:
As at 31 December 2013: a total of 1,000 B shares held by him.
As at 31 December 2014: a total of 1,000 B shares held by him.

Ilpo Kokkila

b. 1947, Master of Science (Technology).
(Member of the Remuneration Committee)
He is considered by the Board to be independent of Kesko and its significant shareholders.
Domicile: Helsinki, Finland.
Principal occupation: SRV Yhtiöt Oyj: Chair of the Board.
Main employment history: SRV Yhtiöt Oyj: Chair of the Board 1987-, Pontos Oy: Chair of the Board 2002-, Perusyhtymä Oy: director 1974-1987, A-Betoni Oy: constructor 1972-1974.
Main positions of trust: Confederation of Finnish Industries EK: Chair of the Board 2013-2014, Registered Association Finnish-Russian Chamber of Commerce (FRCC): Deputy Chair of the Board 2006-2011, Chair of the Board 2012-, JTO School of Management: Chair of the Board 1999-2012, Finland Chamber of Commerce: member of the Board 2002-2006, Council member 2001-2011, Espoo Chamber of Commerce: member of the Board 2001-2003, Deputy Chair of the Board 2001, Chair of the Board 2002-2003.
Member of the Board since: 27 March 2006.
Kesko shares held:
As at 31 December 2013: a total of 16,100 B shares held by him.
As at 31 December 2014: a total of 16,100 B shares held by him.

Tomi Korpisaari

b. 1968, Master of Science (Economics).
He is considered by the Board not to be independent of Kesko, but to be independent of its significant shareholders.
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.
Kesko shares held:
As at 31 December 2013: a total of 87,211 A shares and 500 B shares held by him and his company.
As at 31 December 2014: a total of 87,211 A shares and 500 B shares held by him and his company.

Chair of the Audit Committee

Maarit Näkyvä

b. 1953, Master of Science (Economics).
She is considered by the Board to be independent of Kesko and its significant shareholders.
Domicile: Kirkkonummi, Finland.
Principal occupation: -
Main employment history: Sampo Fund Management: member of the Board 2007-2008, Sampo Bank plc: member of the Board 2001-2008, Executive Vice President 2007-2008, Sampo plc: Executive Vice President 2001-2006, Leonia Bank plc: member of the Board 1998-2000, Merita Fund Management Ltd: President 1996-1997, Merita Bank Ltd.: Director 1995-1996, Unitas Bank Ltd.: Director 1990-1995.
Main positions of trust: Luottokunta: member of the Board 2007-2008, Kiinteistömaailma Oy: Chair of the Board 2004-2008.
Member of the Board since: 1 January 2001.
Kesko shares held:
As at 31 December 2013: a total of 1,000 B shares held by her.
As at 31 December 2014: a total of 1,000 B shares held by her.

Toni Pokela

b. 1973, Secondary School Graduate.
He is considered by the Board not to be independent of Kesko, but to be independent of its 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.

Virpi Tuunainen

b. 1967, Doctor of Science (Economics and Business Administration).
(Member of the Audit Committee)
She is considered by the Board to be independent of Kesko and its significant shareholders.
Domicile: Helsinki, Finland.
Principal occupation: Professor at the Department of Information and Service Economy at Aalto University and Director of Aalto Service Factory.
Main employment history: Helsinki School of Economics: Professor 2004-2009, University of Jyväskylä: Scientific Leader, INFORTE Programme 2008-2011. Since 1995, Visiting Researcher, Visiting Professor and Professor at Finnish and foreign universities and higher education institutions.
Main positions of trust: SFR-Scandinavian Financial Research Ltd: member of the Advisory Board 2000-, Cambridge Service Alliance: member of the Academic Advisory Board 2011-, Council member and Vice President of Publications for Association of Information Systems (AIS) 2013-, KP-Media Oy: member of the Board 2007-2012, Aalto University: Chair of Real-Time Economy Competence Center 2007-2012, First Vice Chair of Tenured Professors Council 2010, Helsinki School of Economics: Head of the GEBSI Graduate School 2001-2009, Deputy Head of the Department of Business Technology 2004-2009.
Member of the Board since: 16 April 2012.
Kesko shares held:
As at 31 December 2013: a total of 500 B shares held by her.
As at 31 December 2014: a total of 500 B shares held by her

Read more: Shares held by permanent insiders

Group Management Board

Members of the Group Management Board as from 1 January 2015

Mikko Helander

b. 1960, Master of Science (Technology).
President and CEO of Kesko Corporation and Chair of the Group Management Board.
Domicile: Hyvinkää, Finland.
Other major duties: Finnish Commerce Federation: member of the Board 2015- and Deputy Chair of the Board 2015-, Ilmarinen Mutual Pension Insurance Company: 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.

Jorma Rauhala

b. 1965, Master of Science (Economics).
Senior Vice President, the grocery trade division.
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 5 February 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 2013: 3,161 B shares.
As at 31 December 2014: 4,661 B shares.

Terho Kalliokoski

b. 1961, Master of Science (Economics).
Senior Vice President, the home improvement and speciality goods trade division.
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 5 February 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 2013: 15,000 B shares.
As at 31 December 2014: 15,000 B shares.

Pekka Lahti

b. 1955, Master of Science (Agriculture).
Senior Vice President, the car and machinery trade division.
Domicile: Vantaa, Finland.
Other major duties: The Association of Automobile Importers in Finland: member of the Board 2007-2012 and 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 and machinery trade division since 1 January 2015. President of VV-Auto Group Oy since 1 February 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 2013: 6,767 B shares.
As at 31 December 2014: 7,967 B shares.

Jukka Erlund

b. 1974, Master of Science (Economics), eMBA.
Senior Vice President, CFO.
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, 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 2013: 3,738 B shares.
As at 31 December 2014: 4,938 B shares.

Matti Mettälä

b. 1963, Master of Laws.
Senior Vice President, human resources.
Domicile: Helsinki, Finland.
Other major duties: Finnish Business & Society ry: member of the Board 2013-, 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 2013: 280 B shares.
As at 31 December 2014: 1,480 B shares.

Anne Leppälä-Nilsson

b. 1953, Master of Laws, Master of Science (Economics and Business Administration).
Senior Vice President, Group General Counsel.
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-, European Commission's High Level Group on Retail Competitiveness: member 2013-, Finnish Commerce Federation: member of the Legal Committee 1992-, Chair 1992-2001 and 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-, 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, 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.

Lauri Peltola

b. 1963, Career Certificate in Journalism.
Senior Vice President, corporate responsibility, communications and stakeholder relations.
Domicile: Kirkkonummi, Finland.
Other major duties: Confederation of Finnish Industries EK: member of the General Assembly 2014, Finnish Forest Industries Federation: member of the Board 2014, 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. 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 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.

Anni Ronkainen

b. 1966, Master of Science (Economics).
Senior Vice President, Chief Digital Officer.
Domicile: Helsinki, Finland.
Other major duties: Institute of Marketing: member of the Board 2010-, the American Chamber of Commerce in Finland (AmCham Finland): member of the Board 2011-, Marketing Executives Group: member of the Board 2009-2011.
Employment history: employed by Kesko since 2015. Chief Digital Officer as from 20 April 2015 at the latest. 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 (at the latest).
Kesko shares held: No shares.

Read more: Shares held by permanent insiders

Until 31 December 2014, the members of the Group Management Board were:

Matti Halmesmäki, Jorma Rauhala, Minna Kurunsaari, Terho Kalliokoski, Pekka Lahti, Arja Talma, Jukka Erlund and Matti Mettälä.

Matti Halmesmäki

b. 1952, Master of Science (Economics), Master of Laws.
Domicile: Helsinki, Finland.
Other major duties: Confederation of Finnish Industries EK: member of the Board 2005-2014 and Deputy Chair of the Board 2005-2011 and 2014, the Finnish Fair Corporation: member of the Board 2005- and Chair of the Board 2014, Finnish Commerce Federation: member of the Board 2005-2014 and Chair of the Board 2012-2013, Ilmarinen Mutual Pension Insurance Company: member of the Board 2010-2014, Foundation for Economic Education: member of the Board 2005-, Finnish Business and Policy Forum EVA: member 2005-2014, the Association for Promoting Voluntary National Defence of Finland: Delegation member 2005-, Savonlinna Opera Festival Patrons' Association, member of the Board of Trustees 2006-2014, East Office of Finnish Industries: member of the Board 2008-2014, Luottokunta: member of the Supervisory Board 2005-2013 and Chair 2007-2010, Helsinki Region Chamber of Commerce: Delegation member 2006-2010, Finland Chamber of Commerce: member of the Board 2006-2010 and 2014, ICC Finland - the Finnish Section of International Chamber of Commerce: member of the Executive Board 2005-2010, the Association for the Finnish Cultural Foundation: member 2005-2010, Varma Mutual Pension Insurance Company: member of the Supervisory Board 2005-2010, Neste Marketing Ltd: Deputy Chair of the Board 1995-1997, Neste Liikennepalvelu Oy: member of the Board and Deputy Chair of the Board 1989-1995.
Employment history: employed by Kesko Ltd since 1980. Kesko Corporation's Managing Director and Kesko Group's President and CEO since 1 March 2005. President of Rautakesko Ltd and Kesko Agro Ltd 2001-2005. Member of Kesko Corporation's Board of Directors 1989-2000. Executive Vice President, Speciality Goods Trade 1997-2000, Managing Director of Tuko Oy 1996-1997, Executive Vice President for the Speciality Goods Division 1995-1996, Executive Vice President for the Agricultural and Builders' Supplies Division 1993-1995, Executive Vice President for finance and accounting 1989-1993, Director of the Accounting and Office Administration Department 1985-1989.
Member of the Group Management Board since: 1 January 2001.
Kesko shares held:
As at 31 December 2013: 2,000 A shares and 31,401 B shares.
As at 31 December 2014: 20,601 B shares.

Minna Kurunsaari

b. 1965, Master of Laws.
Senior Vice President, home and speciality goods trade division.
Domicile: Espoo, Finland.
Other major duties: Pro Luomu ry: Vice Chair 2011-2012, Finfood - Finnish Food Information: member of the Board 2008-2011, the Finnish Grocery Trade Association: member of the Purchasing and Logistics Group 2008-2011.
Employment history: employed by Kesko Ltd since 1995. Senior Vice President for the home and speciality goods trade division since 1 December 2011. Director responsible for Kesko's customer information and e-commerce projects 2011-2013, Vice President for Kesko Food's Commerce 2008-2011, Vice President for the K-supermarket chain 2005-2008, Manager of Rautakesko's Field Operations 2004-2005, Project Director for the home and speciality goods trade and Corporate Counsel 1999-2004, Credit Manager of Kesko Corporation's Credit Office 1998-1999 and Legal Counsel of Vähittäiskaupan Takaus Oy 1995-1998.
Member of the Group Management Board since: 1 December 2011.
Kesko shares held:
As at 31 December 2013: 14,134 B shares.
As at 31 December 2014: 4,534 B shares.

Arja Talma

b. 1962, Master of Science (Economics), eMBA.
Senior Vice President, Store Sites and Investments.
Domicile: Helsinki, Finland.
Other major duties: Sponda Plc: Deputy Chair of the Board 2014-, member of the Board, Chair of the Audit Committee 2007-, Aktia Bank Plc: member of the Board 2013-, Varma Mutual Pension Insurance Company: member of the Supervisory Board 2013-, Association for the Finnish Work: Council member 2012-, Finnish Scout Foundation: member of the Supervisory Board 2010-, Eurobuy GmbH: member of the Board 2012-2013, Eurogroup Far East Ltd: member of the Board 2011-2013, VR-Group Ltd: member of the Board 2006-2012 and Chair of the Audit Committee 2006-2012, Luottokunta: member of the Board 2008-2012, Evia Plc: member of the Board 2006-2007, Suomen Asiakastieto Oy: member of the Board 2005-2006.
Employment history: employed by Kesko Corporation since 2004. Senior Vice President, store sites and investments since 5 February 2013. President of Rautakesko Ltd 2011-2013, Kesko Corporation's Senior Vice President, CFO 2005-2011, Kesko Corporation's Vice President, Corporate Controller 2004-2005. Oy Radiolinja Ab: Executive Vice President, Finance and Administration 2001-2003, KPMG Wideri Oy Ab: APA 1992-2001, partner 2000-2001.
Member of the Group Management Board since: 17 March 2005.
Kesko shares held:
As at 31 December 2013: 10,500 B shares.
As at 31 December 2014: 11,700 B shares.

Review by the President and CEO: Change in our operating environment provides opportunities

The operating environment in the trading sector is undergoing a major change: e-commerce and multi-channel services are changing customers' purchasing behaviour and providing Kesko and K-stores with new opportunities to develop themselves and serve customers.

The fast development of digital services enables customers to shop via multiple channels irrespective of time and place. The growth of e-commerce and e-services combined with a comprehensive store network is a key competitive factor in all the countries where Kesko operates.

The digitalisation of retailing is a strategically important part of Kesko's business development. All our divisions focus on electronic and multi-channel customer service. In spring 2015, Kesko's Group Management Board will be joined by the Chief Digital Officer, who will be responsible for Kesko's business development, digital business environment and marketing.

Kesko's profitability and solvency are strong

The long recession and the weaker employment situation have affected consumers' purchasing power in all lines of business.

In order to improve competitiveness, Kesko changed its divisional structure at the beginning of 2015. Related cooperation negotiations were carried out in autumn 2014.

As a whole, Kesko's financial performance in 2014 was good despite the difficult market situation. In the food trade and the car trade, profit remained good and the building and home improvement trade more than doubled its operating profit. In the home and speciality goods trade, profitability was negatively impacted by Anttila's significant losses.

Kesko's financial position remained very strong. Liquid assets totalled nearly €600 million at the end of the year and the balance sheet was net debt free, which provides an excellent basis for developing the competitiveness of our business operations.

Domestic origins as a competitive advantage

The decline in purchasing power is reflected in consumers' choices and price competition is intense in all product lines. Towards the end of 2014, price competition became tougher in food retailing in Finland, and K-food stores reduced the prices of hundreds of products.

For our customers, price is not the only criterion when they choose where to shop for groceries. K-food stores' competitive advantages will continue to be both superior fresh food departments and competent service, and the widest selections and the availability of Finnish products.

Finnish products and the Blue and White Footprint campaign were visible in K-food stores, as well as Anttila and Kodin1 department stores, during 2014. Finnish origins will continue to be highlighted, as 80% of the products sold in K-food stores are manufactured in Finland. The Blue and White Footprint campaign will continue in 2015, when K-rauta and Rautia stores also join in.

Kesko's operations have an impact on the whole of society

Throughout its 75-year history, Kesko has played an important role in building Finnish society. Kesko directly employs nearly 20,000 people and is a significant taxpayer in Finland.

From the very beginning, the key success factor of Kesko and the K-Group has been K-retailer entrepreneurs, who are strongly present in consumers' daily lives. Together with retailer entrepreneurs, we have a good nationwide store network and we will continue to invest in its development. A successful Finnish retailing sector provides the basis for the success of Finnish food production, thereby ensuring good conditions for Finnish agriculture.

Determined corporate responsibility work brings results

Kesko is included in the world's major sustainability indices, and in 2014 Kesko's ranking further improved in many of them. In January 2015, Kesko rose to fifth place in the list of 'the Global 100 Most Sustainable Corporations in the World'.

Kesko's Corporate Responsibility Report for 2013 was selected as the best in Finland in the 2014 responsibility reporting contest. Kesko was also the choice of NGOs as the best reporting company.

Kesko will continue its long-term corporate responsibility work in accordance with the responsibility programme. During 2015, Kesko's corporate responsibility work in other operating countries will be promoted systematically and our companies in each of the countries will prepare their own objectives that support Kesko's responsibility programme.

Around 1,800 unemployed young adults in the Youth Guarantee target group were employed by K-Group stores during the 'Youth Guarantee in the K-Group' programme. The success of the programme, which started in August 2013 and terminated at the end of 2014, exceeded all expectations, as the final result was almost double the original target of one thousand.

Strategy work underway

Kesko's strategy work started in early 2015 and the new strategy will be published in spring 2015. Kesko will be an increasingly focused and unified operator. Significant measures will be taken in the food trade to strengthen competitiveness. All of the divisions will focus on electronic and multi-channel customer service.

I would like to thank all of Kesko's employees, K-retailers and their staff, our shareholders and our partners for their good and fruitful cooperation. I would like to thank my predecessor, Matti Halmesmäki, for his excellent work for Kesko and the K-Group as the President and CEO and over his long career.

Mikko Helander
President and CEO

Trends in trading sector operating environment

Several megatrends affect Kesko's operating environment.

Changes in population structure

- Decrease in family size
- Ageing of population
- Urbanisation
- Sufficiency of labour

Rapid development of digital services and multi-channel approach

- Ease of shopping
- Access to services 24/7 irrespective of place
- Life cycles of products and services are shorter
- Targeted marketing based on customer databases

Increase in customer expectations and product awareness

- Transparency of selections, prices and availability
- Importance of social media channels: information, exchange of experiences and interaction
- Product origins and responsibility are important selection criteria
- Quality and healthiness of food
- Retailers' own brands increase the diversity of selections
- Supply of customer-oriented services

Mitigation of climate change

- Attention to the environmental impacts of the entire production chain and during the product life cycle
- Improving transportation efficiency and providing energy efficient solutions for stores
- Offering eco-friendly options for customers

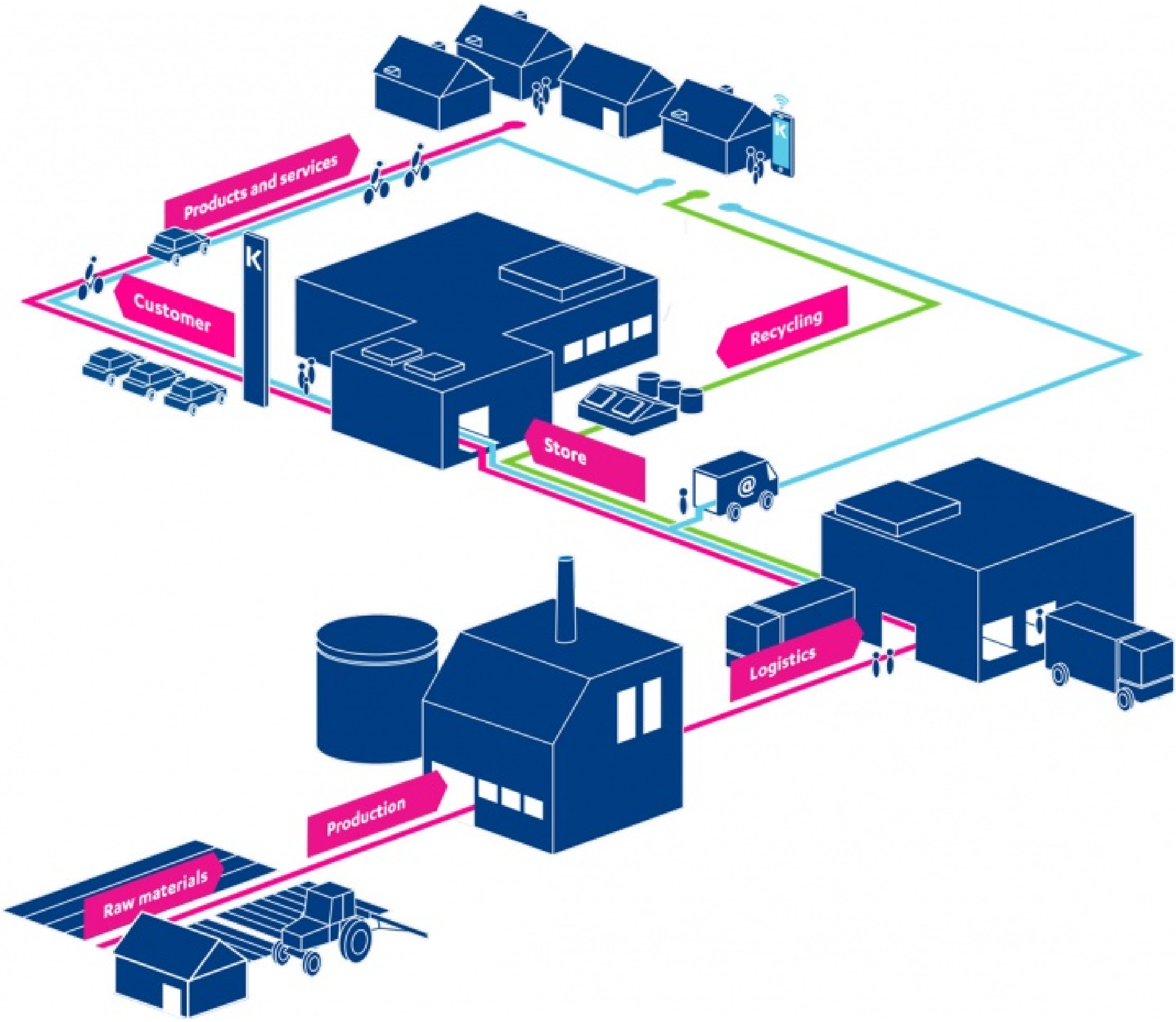
Slow economic growth and consumers' price consciousness

- Decrease in consumer demand
- Low-priced products are preferred for shopping baskets
- Sales of retailers' own brands increase

Requirement for openness and reliability in business operations

- Good corporate governance
- Responsible working principles
- Open communications

Kesko's value chain



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 in consumers' shopping behaviour. E-commerce increases price transparency and consumers' choices. Purchasing and marketing of products and services are more individualised and more often than not, take place on the web.

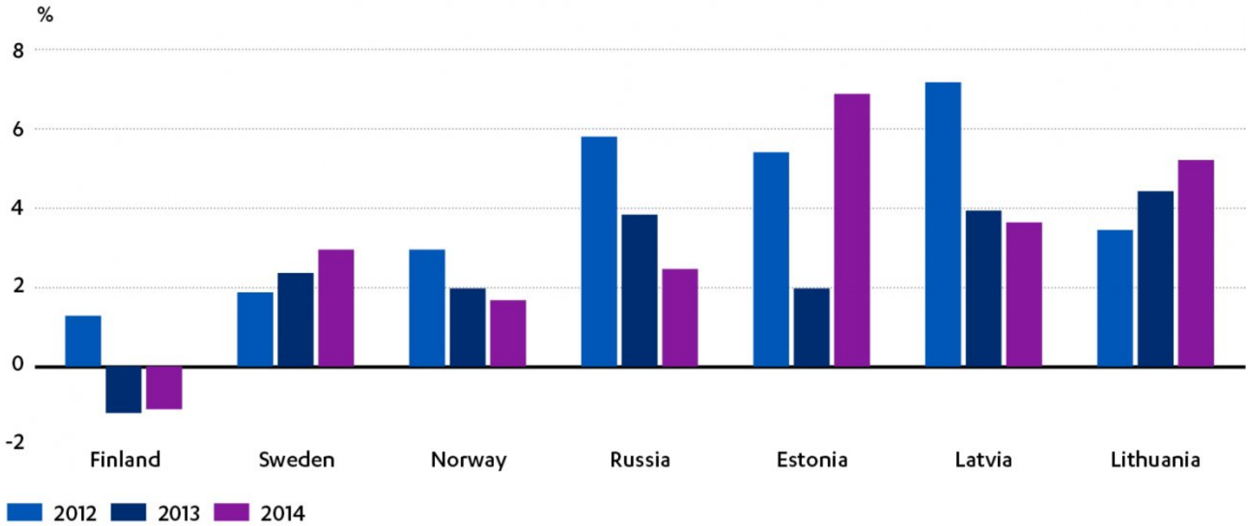
Opportunities	Risks
• E-commerce and digital services coupled with a comprehensive store site network provide a basis for excellent customer service in Kesko's different business operations. • Kesko aims to serve customers as well as possible at different stages of the buying process irrespective of time and place. • The change in the divisional structure begun in 2014 is aimed to offer customers an easier multi-channel shopping experience at physical and online stores. • Kesko develops targeted electronic customer marketing based on buying behaviour and increases online availability of product information for improved customer satisfaction and increased sales.	• Challenges to e-commerce profitability include cost effectiveness of logistics models and the suitability of the existing stores sites for e-commerce logistics. • Continuous and rapid changes in e-commerce and digital services present special challenges to the development of new services. • The acquisition of store sites can be slowed by town planning and permit procedures and the availability and pricing of sites. When the share of e-commerce grows or the market situation changes, there is a risk that the operations of a chain relying on physical stores or those of a store site become unprofitable.

Economic operating environment

Kesko's objective is to achieve profitable growth. Its achievement requires customer-driven operation and good cost efficiency in all of Kesko's business operations. From the perspective of growth, capital expenditure in the grocery trade in growth centres in Finland and Russia, expansion of the building and home improvement store network in Kesko's operating area, as well as the development of e-commerce and online services are essential.

Opportunities	Risks
• The competitive strategy emphasizes customer orientation in selections, quality and service, in addition to competitive prices. • Kesko's strong financial position and net debt-free balance sheet provide excellent possibilities to develop operations. • Kesko sees Russia as an opportunity in the long term and continues to make capital expenditure in Russia.	• The weak outlook for the Finnish economy and increasing unemployment weaken purchasing power and consumer confidence. This has negative repercussions on the purchasing behaviour and demand in all of Kesko's divisions. • Kesko's market performance varies greatly from one country and division to the next. • The level of uncertainty around economic development in Russia is high and political and country risks in Russia have risen significantly during the past year.

Growth of retail market in Kesko's operating countries in 2012–2014



Retail trade, percentage change on previous year, deflated

Source: Eurostat and for Russia Rosstat

Purchasing chains

The transparency and responsibility of purchasing chains have 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 that responsibility is realised in all operations and throughout the supply chain. Product safety management shall also be without gaps and traceable across the whole supply chain.

Opportunities	Risks
• Diversified 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. • Responsibility communications, stores' K-responsibility concept and product labelling can be used to help customers make responsible buying decisions. • Careful and traceable product safety control and quality assurance strengthen customers' confidence in the K-Group.	• Non-compliances in the management of social or environmental responsibility within the supply chain cause human rights violations, environmental damages, financial losses and the loss of customer confidence while negatively impacting the credibility of responsibility communications. • A failure in the product safety management can result in financial losses, the loss of customer confidence or, in the worst case, health hazards to customers.

Impacts of climate change

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

The emissions from the production of electrical and heat energy of properties represent a significant part of Kesko's and the K-Group stores' environmental impacts. 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. Kesko also helps its customers find energy-efficient solutions.

Opportunities	Risks
• Kesko efficiently recovers waste heat, such as condensation heat generated from cooling stores' refrigeration units, for heating using the latest technology. • Kesko 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 the technical solutions become more sophisticated. • Products and services offered by 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.	• Climate change increases the risk of extreme weather phenomena. Extreme phenomena can cause damages or business interruptions which cannot be prevented. There is also the risk that insurances do not cover all unexpected accidents and damages caused by extreme phenomena. • In case energy source policies prove wrong, they may cause unpopularity among customers and financial losses.

CASE: CLICK&COLLECT SERVICE SPEEDS UP SHOPPING

Rautakesko's K-rauta, Rautia, K-maatalous and Byggmakker chains provide their customers with comprehensive electronic services that cover their entire operating area. Such services include store-specific product, price and availability information, electronic design programmes, demand calculators, videos on work instructions and online stores.

The click&collect service was introduced in 2014, making shopping easier and quicker for customers. Over the course of 2015, the service will be extended to include B2B customers and home deliveries. All stores in Rautakesko's chains will have launched an online store by the end of 2015.

Click&collect sales of food will also increase. Customer groups include families with children, consumers seeking easy, convenient everyday shopping, senior citizens and corporate customers.

K-food retailers opened several click&collect online stores across Finland over the course of autumn 2014.

In September 2014, K-supermarket Hämeenkylä in Vantaa launched an online food store that allows customers to place orders online and then collect them from the store. **Tanja and Harri Rinkinen**, who live in Espoo, have good experiences with the service.

”We use the click&collect service of K-supermarket Hämeenkylä at least once a month. Every time it feels great to drive through the crowded yard to the collection point and get the shopping sorted in bags into the car boot in just a few minutes. It feels especially good on holiday eves. Placing orders online is easy and we have our basic shopping list recorded in the service,” say Tanja and Harri Rinkinen.

ADDRESS: GOOD CORPORATE GOVERNANCE IS IMPORTANT

From an investment perspective, Kesko has many of the attributes that we hold high at Solsten. The most important and encompassing attribute relates to sound corporate governance. To us, this means that the elected Board of Directors and management team act in the best interest of the company's shareholder base, including minorities, in order to maximize shareholder value over time.

Good corporate governance is especially important, and likewise difficult to uphold, when a company's operating environment is challenged by both structural and cyclical headwinds. This has been the case for the Finnish retail industry in 2014.

Kesko has of course not been immune to these headwinds, but nevertheless taken a proactive stance to mitigate them. Measures include successful cost cut programs, started as early as 2012, the restructuring of loss-making Anttila, incl. Kodin1 department stores, and the planned reorganization of various divisions. Albeit tough decisions to make, it displays a resiliency and ability to adapt to changing retail conditions. As a result, both margins and return on capital employed have remained stable despite falling sales.

Going forward, we are excited about Kesko's planned divestment of real estate assets which we think will create shareholder value. We also hope that strategic options are being evaluated for Anttila and that countermeasures are taken for Intersport with regards to XXL's aggressive expansion into Finland.

We at Solsten look forward to yet another year of good company transparency and open shareholder dialogue.

Harald Havnen is a partner and an investment analyst at Solsten AS, Norway.

Kesko's strategy

Kesko's strategy work has begun and the new strategy will be published in spring 2015. In the future, Kesko will be a more focused and unified operator. Special focus areas in the strategy work are to strengthen sales and competitiveness, reduce the cost level through revised functions and develop digital trade and services.

Kesko is the second largest operator in the Finnish grocery trade. In the building and home improvement trade, Kesko is the largest operator in Finland and the fifth largest in Europe. Kesko is also the leading operator in the car trade, the sports trade and the furniture trade in the Finnish market.

Kesko's objective is to strengthen the market shares of its business operations and to achieve profitable growth. In the grocery trade, the strengthening of price and quality competitiveness will be continued. From the perspective of growth, key areas of capital expenditure are those made by the grocery trade in the largest growth centres in Finland and the carefully targeted international capital expenditure on store sites for the food trade and the building and home improvement trade. Furthermore, a strong emphasis is placed on the technologies and logistics operating models required for digital trade and services. Further improvement of the cost efficiency of business operations is essential to ensure competitiveness.

Strong dividend paying capacity is important to shareholder value. This is supported in the strategy in which capital expenditure is planned so as to maintain a strong financial position for the Group. Kesko's dividend policy is to distribute at least 50% of the earnings per share excluding non-recurring items, while taking into account the company's financial position and operating strategy.

Digital trade and services

Customers' needs and consumer behaviour are changing radically as new digital services and mobile services in particular are adopted. Customers expect stores to provide inspiring digital services with new experiences, as well as comprehensive, real time information on product selections, product information, prices and availability. A strategic objective is to serve the customers of all divisions via electronic channels as well as possible irrespective of time and place.

The development of digital services requires significant investments in the development of competencies and in technological and logistics systems. Kesko's strategic objective is to achieve significant synergies particularly in the provision of digital services and the development of e-commerce concepts. As of the beginning of 2015, the building and home improvement trade division and the home and speciality goods trade division were combined into the home improvement and speciality goods trade division, which offers customers multi-channel building, interior decoration and home and speciality goods stores and services. The strategy also emphasizes the development of digital services and e-commerce in the grocery trade and digital services for the car and machinery trade.

Exploiting business opportunities in Russia

One of Kesko's key geographic growth areas is Russia. The 140 million Russian consumers offer a food trade market worth around €247 billion, a building and home improvement trade market worth around €16 billion and a sports trade market worth around €7 billion. In the medium term, there is a strong basis for consumer demand in the large Russian middle class and the low unemployment rate, which stood at around 5% at the end of 2014. The development of the Russian national economy slowed from previous years in 2014 and real GDP growth was 0.4%. The near future outlook for the Russian economy remains weak. In 2014, Kesko's total net sales in Russia were €368 million, contributing 4% to the Group's net sales.

Financial objectives

Kesko's financial objectives announced on 5 February 2009:

Objectives	Target level	Realisation in 2013	Realisation in 2014
Net sales growth	Growth faster than the market	Realised**: in Finland, in the furniture trade and the car trade	Realised**: In the building and home improvement trade in Finland, Estonia and Russia; in the car trade and the agricultural trade in Finland.
Return on equity*	12%	7.7%	7.6%
Return on capital employed*	14%	9.8%	9.9%
Interest-bearing net debt/EBITDA	< 3	-0.3	-0.3
Equity ratio	40-50%	54.5%	54.5%

* excluding non-recurring items

** Kesko's own estimate

Responsible operations

Responsibility is part of the everyday work at Kesko and K-stores. It is also essential in order to achieve profitable growth and building confidence between Kesko, K-stores, customers and business partners.

Our responsibility work is based on the guide 'Our Responsible Working Principles' and our responsibility programme. The key strategic objectives of the responsibility programme in all operations include:

- committing to responsible working principles
- building responsibility in society and communities
- looking after the working community
- providing reliable electronic services
- responsibility in purchasing and product safety
- offering services that promote customer wellbeing
- mitigating climate change.

Kesko's responsibility programme

Responsible operator

We are committed to responsible working principles and we together generate economic value added

For the benefit of the community

We build a better society together

Working community

We perform and offer high-quality work

Responsible purchasing and sales

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

Wellbeing for customers

We offer services which promote customers' wellbeing

Mitigation of climate change

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

The objectives and results of the responsibility programme are presented in more detail in section Responsibility in figures.

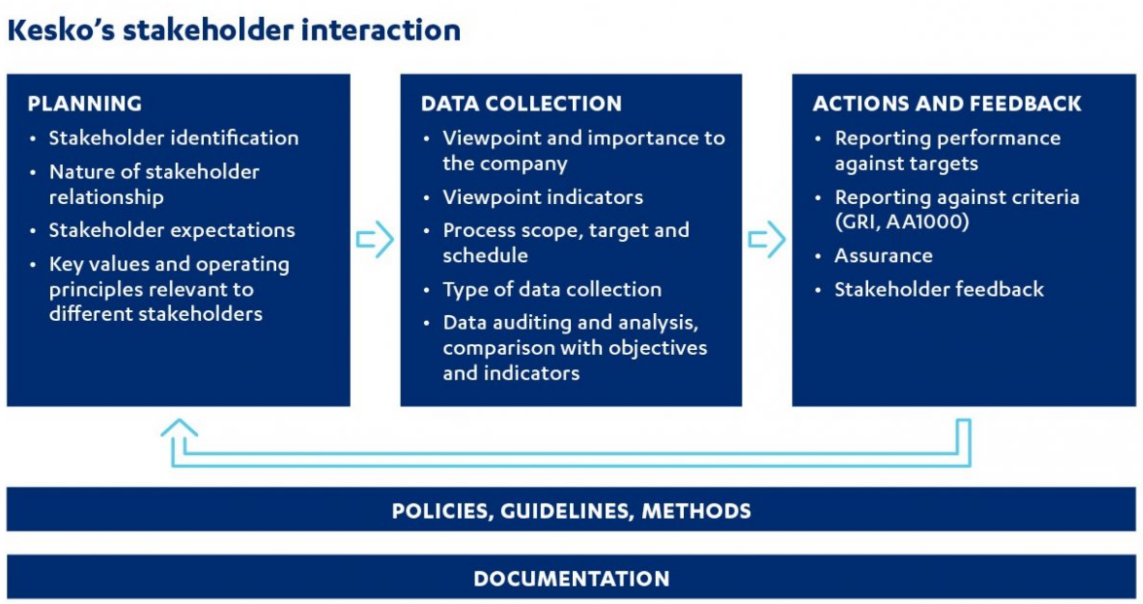
We listen to our stakeholders

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

- Customers
- Investors and Kesko’s owners
- Kesko personnel
- Retailers and employees
- 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.



Various surveys are regularly conducted to identify stakeholder expectations.

- In a 2014 survey by TNS Gallup on companies' reputation and responsibility, 515 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 compliance with ethical principles and the transparency of operations.
- In the VIP2014 survey, conducted by Taloustutkimus Oy, a total of 127 decision makers and influential people assessed the K-Group. The scores given for corporate responsibility and communications improved from the previous year, whereas assessments of the financial situation and competitiveness decreased from the previous year.
- According to a survey conducted by Aula Research Oy in April 2014, Kesko’s reputation among 709 national and local people of influence is good. Kesko’s impact on employment and its regional significance in particular were singled out. On the other hand, the centralisation of the trading sector

and the position of producers were highlighted.
- In autumn 2014, an interview study was conducted to assess stakeholders' views on the key points in Kesko's value creation. Read more in section Description of value creation.
- In 2014, Kesko's Internal Audit conducted a survey on responsible working principles for all Kesko employees in Finland. A total of 93.3% of all respondents were familiar with the Our Responsible Working Principles guidelines.

A revised operating model for stakeholder impact was implemented in 2014. In issues related to regulation in the trading sector, we had active interaction particularly with decision makers and media representatives.

The Senior Vice President, Corporate Responsibility, Communications and Stakeholder Relations, 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) continues to increase and the significance of blogs keeps growing • Inquiry and service functions on mobile and online services	K-stores' customers place the highest expectations on comprehensive selections, ease of shopping, good service and competitive prices. 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, shareholders and analysts	Kesko provides information on issues affecting its share value by issuing stock exchange releases. Nearly 200 investor meetings are held every year. Key topics include strategy, markets, financial objectives and their realisation, and corporate governance. Responsible operating practices are the premise for many investors. Kesko replies annually to the inquiries of several institutions making sustainability assessments. Major annual events: • Annual General Meeting • Publication of financial results • Capital Markets Day	Good financial performance and increasing the shareholder value are the prerequisites for business success of a listed company. 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. Kesko strives to continue and improve its ratings in significant sustainability indices and lists, as they are important neutral evidence of responsible operations.

Employees and retailers	• Daily activities • Induction and training • Personnel survey • Performance and development reviews • National Works Council meetings • Kesko's intranet: Keskonet Global which is common to all and country-specific pages • Internal feedback channels, discussion columns and 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 values, 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 (around 20,000 in all)	• Close cooperation according to good trading practices • Principles and Practice of Socially Responsible Trading guide • Business partner meetings, such as Kesko Food's annual partner info event • Contracts and agreements • 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, including Pro Ethical Trade Finland's inquiry on clothes purchasing in May –June 2014 and Finnwatch's palm oil inquiry in August 2014 and chocolate inquiry in December 2014.	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. Public statements and policies.

Read our stakeholders' addresses:

- Good corporate governance is important by Harald Havnen
- Online stores make everyday life easier for families by Anna Kurikka
- A living wage for all employees across the production chain by Anna Härri
- Retail trade needs highly skilled people by Jari and Liisa Peltonen

Divisions in brief

Kesko's operations include the grocery trade, the home improvement and speciality goods trade, and the car and machinery trade.

Grocery trade

Kesko Food is a key operator in the Finnish grocery trade. K-food retailers, with whom Kesko Food applies the efficient chain business model, are responsible for customer satisfaction at more than 900 K-food stores in Finland.

Net sales:

€4,754 million

Operating profit excl. non-recurring items:

€223.2 million

Total number of stores:

913

Operating countries:

Finland, Russia

Home improvement and speciality goods trade

The home improvement and speciality goods trade division provides customers with the widest selections of products for building and home improvement, leisure and agriculture in Finland and a highly accessible retail store network.

Net sales:

€3,324 million

Operating profit excl. non-recurring items:

€-0.3 million

Total number of stores:

735

Operating countries:

Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus

Car and machinery trade

The car and machinery trade consists of VV-Auto and Konekesko, which represent the leading brands and are responsible for their sales and after-sales services.

Net sales:

€1,011 million

Operating profit excl. non-recurring items:

€29.6 million

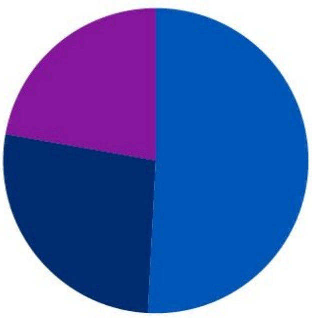
Total number of stores:

11

Operating countries:

Finland, Estonia, Latvia, Lithuania

Kesko's net sales by business model



Retailer entrepreneurs' retailing 51% (51%)
Kesko's own retailing 27% (27%)
B2B sales 22% (22%)

Kesko's business models

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's store chains. In Finland, all food and building and home improvement stores in the K-Group are run by retailer entrepreneurs.

Kesko acts as a retailer in business operations where the competitive advantage is based on having a centrally managed chain concept and large units. Outside Finland, our own retailing is the main business model.

Kesko is also engaged in B2B sales.

Grocery trade

K-food retailers, with whom Kesko Food applies the efficient chain business model, are responsible for customer satisfaction at more than 900 K-food stores in Finland. Kespro is the leading wholesaler in the Finnish HoReCa sector. In 2014, online sales of food and the supply of other e-services to customers increased. At the beginning of 2015, the non-food business of K-citymarkets was integrated into Kesko Food. The new entity, Kesko's grocery trade, offers a more uniform customer experience.

Every day, around 900,000 customers visit K-food stores with high expectations for comprehensive product selections, ease of shopping, favourable prices and responsibility.

Kesko Food's main functions include centralised sourcing, selection management, logistics, and the development of chain concepts and the store site network. Cooperation between Kesko Food and K-food retailers is based on the chain operations defined in the chain agreement, which ensure the customer-orientation of operations, efficiency and the achievement of competitive advantages. The competitiveness of K-food stores and Kesko Food is reinforced by efficient practices and long-term cooperation models with selected partners.

Local K-retailers are responsible for customer service and wide product selections, competence of personnel, 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, for example, with local food from local producers.

Electronic retail services developed together by Kesko Food and K-food retailers offer K-food store customers easier ways to shop. K-food stores' network of online stores continues to grow and new electronic services complement the overall package. K-food retailers have several click&collect online stores across Finland.

Read more: Case Click&collect

Competitive advantages in the grocery trade

- **The best fresh food departments and widest selections**
- **K-retailer entrepreneurship guarantees customer-driven and efficient operations**
- **Low-priced and high-quality Pirkka and K-Menu products**
- **Finnish origins and responsibility**
- **A wide selection of e-services that make customers' daily lives easier**

Strategic emphases

Strategic objective	Achieved in 2014	What next
K-food stores have superior fresh food departments, including the best selections of bread, fruit and vegetables, and service counters.	Fresh food departments were refurbished in nearly all K-food stores during the year.	Stores will continue refurbishing their fresh food departments.
Customers are offered a competitive, reliable and permanently low price level.	The prices of hundreds of products in Kesko Food's selections were cut. The low-priced K-Menu product range was launched.	Maintenance of competitive prices and reaction to changes in the market. Increasing the K-Menu product range.
K-food stores' e-services are developed in order to offer a multi-channel customer experience that exceeds expectations.	K-food stores' web pages were revised in April. Contents were combined under the K-ruoka.fi service, which provides more than 5,770 Pirkka recipes. The shopping list and meal planning services help customers plan their shopping.	The amount of personalised content for customers will increase. Targeted benefits and services in accordance with their shopping history and interests will be offered to identified customers.
Online food shopping services are expanded to serve an increasing number of customers across Finland.	The network of online K-food stores was expanded in various parts of Finland. The click&collect e-commerce concept was launched. K-citymarket's online store expanded to cover all of Greater Helsinki.	K-food stores' click&collect service will expand to highly trafficked junction areas across Finland.

Grocery trade chains

K-citymarket

K-citymarkets offer their customers the widest selections of groceries and home and speciality goods. Their special strengths include diversified service counters for meat, fish and meals.

K-supermarket

K-supermarkets are better than average food stores. Their strengths include excellent service and wide selections, particularly in the fruit and vegetable departments.

K-market

K-markets are reliable, service-oriented, local neighbourhood stores located near customers. The aim is to offer customers a good selection of everyday food and local services.

K-extra

K-extras are neighbourhood stores which focus on personal service and provide customers with daily essentials.

K-ruoka, Russia

The competitive advantages of the K-ruoka chain, which operates in Russia, include fresh, high-quality and extensive selections.

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.

Own brands in 2014

Number of Pirkka products: 2,324
Number of Pirkka Organic products: 116
Number of new Pirkka products launched: 232
Number of K-Menu products: 99

Pirkka greatly expanded the selection of baby foods and supplies, in-store bakery products and gourmet products. The selection of cooking utensils also increased. K-Menu, the K-food stores' new own brand of low-priced foods, was launched in the spring of 2014.

Did you know?

- More than 900 K-food stores provide a comprehensive network for their customers. Approximately half of the Finnish population live within a kilometre of a K-food store.
- K-Menu is K-food stores' new own brand range, which focuses on low prices. The products in the range are good-quality daily essentials. The first products were introduced to K-stores in April 2014.
- Around 80% of the products sold at K-food stores are manufactured in Finland.

Market

The Finnish grocery trade market was worth about €16.7 billion (incl. VAT) in 2014, representing an estimated increase of about 0.5%–1.0% (VAT 0%, Kesko's own estimate). The HoReCa market was worth about €1.9 billion (incl. VAT) in 2014, representing an estimated decrease of about 0.9% (VAT 0%, Finnish Grocery Trade Association).

Market shares

Food trade

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

K-citymarket's home and speciality goods

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

HoReCa

Kespro, Finland
Market share in Finland: 24% (Kesko's own estimate)
Competitors: Meiranova, Metro-tukku, Heinon Tukku, Suomen Palvelutukkurit

Grocery trade in figures

Retail sales and number of stores	Number 2014	Number 2013	Sales (VAT 0%), € million 2014	Sales (VAT 0%), € million 2013
K-citymarket, food	81	80	1,505	1,540
K-citymarket, home and speciality goods*	82	81	581	613
K-supermarket	218	218	1,725	1,723
K-market (incl. service station stores)	444	442	1,216	1,269
K-ruoka, Russia	5	4	103	70
Others*	164	176	161	182
Grocery trade, retail sales			**5,292**	**5,396**
Kespro			780	795
Grocery trade, total	**913**	**921**	**6,072**	**6,191**

* incl. online sales

Grocery trade, key figures		2014	2013
Net sales	€ million	4,754	4,859
Operating profit	€ million	216.2	235.6
Operating profit excl. non-recurring items	€ million	223.2	230.9
Operating profit excl. non-recurring items as % of net sales	%	4.7	4.8
Capital expenditure	€ million	98	101
Capital employed	€ million	1,007	1,069
Return on capital employed excl. non-recurring items	%	22.2	21.6
Personnel average		6,176	5,950

Properties		2014	2013
Owned properties, capital	€ million	880	849
Owned properties, area	1,000 m²	586	556
Leased properties, lease liabilities	€ million	1,503	1,514
Leased properties, area	1,000 m²	1,279	1,281

CASE: SALAD BARS ARE POPULAR

Salad bars gained more popularity in K-food stores over the course of 2014. More than 200 K-food stores already have a salad bar.

Salad bars have challenged traditional lunch options. Customers can combine various ingredients as they choose, creating an easy and healthy lunch or snack.

Special attention has been paid to the quality and freshness of the ingredients. K-food retailers can also order ingredients from local producers.

”The ingredients at the salad bars are mostly Finnish. We aim to use seasonal produce: there may be, for example, asparagus in the spring and strawberries in the summer,” says **Marjut Marjakangas**, Sales Manager from Kesko Food, who has been developing the concept.

“All of the salad bars are unique to the K-retailer and the stores will develop the product selection according to their customers’ wishes. If there is not yet a salad bar in your local K-store, you can contact the retailer and request one.”

CASE: DONATING FOOD REDUCES WASTAGE

One of the objectives of Kesko's responsibility programme is to reduce the food wastage generated by K-food stores by ten per cent by 2020.

As a member of the Finnish Grocery Trade Association (PTY), Kesko Food is committed to a project with the Ministry of the Environment, the Ministry of Employment and the Economy, and Motiva to find ways to further reduce the amount of food and packaging waste generated by retail stores. In 2014, K-food stores again participated in a Wastage Week campaign organised by the Consumers' Union of Finland with the aim of reducing wastage.

A retail store's average wastage in euros is about 1% of net sales.

"We reduce food wastage in K-food stores by using electronic forecasting and order systems, efficient logistics, employee training, markdowns of products approaching their use-by dates and optimising package properties," lists **Timo Jäske**, Kesko's Sustainability Manager.

Several K-retailers also donate food to charities that work with low-income people. For more than fifteen years, retailer **Heimo Välinen** of K-supermarket Seilori in Espoo has given groceries approaching their sell-by dates to volunteers from the parishes of Espoo for further distribution.

"It would seem foolish to throw away usable food when there are people who need it. There are pensioners, low-income, homeless and unemployed people in food queues. There is naturally also the human side to these issues: people are simply hungry. We must all have something to eat," Välinen says.

Home improvement and speciality goods trade

The home improvement and speciality goods trade division that started at the beginning of 2015 provides customers with the widest selections of products for building and home improvement, leisure and agriculture in Finland and a highly accessible retail store network, online stores and e-services. The home improvement and speciality goods trade has operations in eight countries. The division also included Anttila Oy, which was divested on 16 March 2015.

The aim of the new division is to increase competitiveness and improve profitability as a result of concept renovation and combining support functions. All stores of the home improvement and speciality goods trade aim to provide a more uniform customer experience and greater customer satisfaction. The objective is to offer customers an easier multi-channel shopping experience in physical and online stores.

The home improvement and speciality goods trade operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. The total number of employees was around 14,000 at the end of year 2014. Rautakesko is the fifth largest company in the European building and home improvement market.

The division's chains are K-rauta, Rautia, K-maatalous, Byggmakker, Senukai, OMA, Intersport and Budget Sport, Asko and Sotka, Musta Pörssi, and Kookenkä. Rautakesko B2B Service serves large business customers in the building and home improvement trade.

In addition to a comprehensive store site network, customers have access to several online stores and multi-channel e-services. Centralised development of e-services and online stores generates significant synergy benefits for all chains.

The most important online stores include Intersport.fi, Budgetsport.fi and Mustaporssi.fi. Some of the local building and home improvement stores in Finland also operate their own online stores. E-services, such as home renovation planning tools, demand calculators and mobile applications, make shopping and transactions easier for customers.

Our own brands, Cello, PROF and FXA, provide customers of building and home improvement stores with reliable and affordable products.

Competitive advantages in the home improvement and speciality goods trade:

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

Strategic emphases

Strategic objective	Achieved in 2014	What next
Improving sales and profitability in all chains: K-rauta, Rautia, K-maatalous, Byggmakker, Senukai, OMA, Intersport, Budget Sport, Asko, Sotka, Musta Pörssi and Kookenkä.	Comparable retail sales in local currencies increased in all of Rautakesko's foreign chains: K-rauta (Sweden, Estonia, Latvia and Russia), Byggmakker, Senukai and OMA. All Rautakesko's foreign chains also improved profitability. The results of Intersport Finland and Budget Sport, and Asko and Sotka remained at a good level.	Development work for increasing sales and profitability will be continued in all of the chains for instance by concept renovation as part of the new divisional structure.
Enhancing e-commerce and e-services in all chains.	Online stores and new e-services were launched. The building and home improvement trade's click&collect service was opened up. The Intersport.fi online store was launched. More extensive product, price and availability information was added to the web and the selections offered by online stores were expanded.	New online stores will be opened and e-services will be introduced. The building and home improvement trade's click&collect service will be expanded to include home deliveries.
Supporting store processes and seeking uniform core functions in order to improve efficiency and profitability in Rautakesko.	Activities in line with the strategy have been successful and profitability has improved clearly.	The activities that were started to increase efficiency and profitability will be continued across the division. The focus will be on seeking internal synergies.
Implementation of a uniform core selection in Rautakesko.	Harmonisation of selections has proceeded as planned.	Selection management will be developed across the division.

Did you know?

- Intersport Club is Intersport's customer programme. Electronic sport programmes launched by Intersport have become very popular among customers.
- NetAnttila was chosen the best online store in Finland in 2014 in the Digital Leaders in Finland 2014 research.
- Sotka has the largest Facebook community in the Finnish furniture retail business.

Building and home improvement trade

K-rauta

The international K-rauta chain offers products and services for building, renovation, yard and garden, interior decoration and furnishing to consumers and B2B customers. There are K-rauta stores in five countries. 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.

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.

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. Most of the Byggmakker stores operate under a retailer business model.

Senukai

Senukai's stores in Lithuania offer customers almost every product 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 national and large 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 the K-rauta and Rautia networks through which warehouse deliveries are made.

Asko

Asko provides home decorators with a wide range of furniture and interior decoration items combined with reliable service. Asko has stores in Finland and Estonia and also operates an online store in Estonia.

Sotka

Sotka provides its customers with wide and affordable selections of furniture and interior decoration items. Sotka has physical stores and an online store both in Finland and Estonia.

Speciality goods trade

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 in Finland and Russia. The Intersport stores in Russia are mainly located in the St. Petersburg and Moscow areas.

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.

Musta Pörssi, Mustaporssi.fi

The Musta Pörssi online store offers its customers home technology products and related services.

Kookenkä, Kookenka.fi

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

Market

The building and home improvement markets by operating country and their development from the previous year (retail trade, VAT 0%)

The total market in building and home improvement is around €30 billion*
Finland €3.1 billion (-4.2%), (Finnish Hardware Association DIY)
Sweden €3.6 billion (1.7%), (HUI)
Norway €4.1 billion (4.7%), (Virke)
Estonia €0.3 billion (8.0%)*
Latvia €0.4 billion (6.0%)*
Lithuania €0.5 billion (6.0%)*
Russia €16.1 billion (2.5%), (PMR)
Belarus €0.7 billion (0.0%)*

The interior decoration items and furniture trade around €1.5 billion (-2.4%)

The agricultural market in Finland

The agricultural market is about €1.9 billion (0.0%)*

The speciality goods markets in Finland and their development from the previous year (retail trade, VAT 0%)

The sports trade is about €0.8 billion (0%) (Kesko's own estimate and TMA)
The market for home electronics and entertainment products is about €1.8 billion (-2%), (Kotek and Kesko's own estimate)
The shoe trade is about €0.4 billion (-5.2%), (Kesko's own estimate and TMA)

* Kesko's own estimate

Market shares

Building and home improvement trade

Finland 40% (Finnish Hardware Association DIY). Main competitors: Starkki, Kodin Terra, S-rauta, Agrimarket, Bauhaus.
Sweden 6%*. Main competitors: Bauhaus, Byggmax, Beijer Bygg and Hornbach.
Norway 17% (Virke, Kesko's own estimate). Main competitors: Monter/Optimera, Maxbo, Coop and XL Bygg.
Estonia 23%*. Main competitors: Ehitus ABC, Bauhof, Espak and Bauhaus.
Latvia 14%*. Main competitors: Depo DIY and Kursi.

Lithuania 30%*. Main competitors: Ermitazas and Moki-Vezi.
Northwestern and central Russia 7%* (St. Petersburg and Moscow). Main competitors: Leroy Merlin, OBI, Castorama, Maxidom, Metrika.
Belarus 10%*. Main competitors: Novoselkin, Materik.

Agricultural trade

Finland 27%*
Main competitors: DLA/Danish Agro (Agrimarket), Turun Konekeskus/Konefarmi, Raisioagro

Sports trade

Intersport, Budget Sport and Kesport
Finland 33%*
Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality sports stores

Furniture trade

Asko and Sotka
Finland 23%*
Competitors: furniture stores

Home technology trade

Musta Pörssi and Musta Pörssi Partneri
Finland 1%*
Competitors: stores specialising in home technology, hypermarkets and online stores.

Shoe trade

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

* Kesko's own estimate

Home improvement and speciality goods trade in figures

Retail sales and number of stores	Number 2014	Number 2013	Sales (VAT 0%), € million 2014	Sales (VAT 0%), € million 2013
K-rauta*	42	42	560	565
Rautia*	96	99	443	460
Rautakesko B2B Service			187	187
Asko	36	36	91	93
Sotka	50	49	97	102
Anttila department stores*	26	31	218	263
Kodin1 department stores for interior decoration and home goods*	13	13	97	116
Intersport*	62	63	195	212
Budget Sport*	12	11	41	41
Musta Pörssi*	1	6	18	32
Kookenkä*	44	46	35	37
K-maatalous**	81	83	463	460
Others***	79	88	77	78
Finland, total	**542**	**567**	**2,522**	**2,649**
K-rauta, Sweden	20	20	197	207
Byggmakker, Norway	82	91	671	720
Other Nordic countries, total	**102**	**111**	**868**	**927**
K-rauta, Estonia	8	8	78	69
K-rauta, Latvia	8	8	53	52
Senukai, Lithuania	19	18	317	266
Anttila, Baltic countries (NetAnttila)*	3	3	6	6
Asko and Sotka, Estonia*	10	10	9	8
Baltic countries, total	**48**	**47**	**462**	**401**
K-rauta, Russia	13	13	250	272
Intersport, Russia	19	21	15	18
OMA, Belarus	11	10	125	106
Russia and Belarus, total	**43**	**44**	**390**	**396**
Home improvement and speciality goods trade, outside Finland, total	**193**	**202**	**1,720**	**1,724**
Home improvement and speciality goods trade, total	**735**	**769**	**4,242**	**4,373**

* incl. online sales

** in 2014, 46 Rautia stores also operated as K-maatalous stores. In 2013, 47 Rautia stores also operated as K-maatalous stores

*** the figures include 30 building and home improvement stores, 16 Kenkäexpertti stores, 29 Kesport stores and 4 Musta Pörssi Partneri stores

Home improvement and speciality goods trade, key figures		2014	2013
Net sales	€ million	3,324	3,440
Operating profit	€ million	-52.6	-5.3
Operating profit excl. non-recurring items	€ million	-0.3	-10.2
Operating profit excl. non-recurring items as % of net sales	%	0.0	-0.3
Capital expenditure	€ million	71	51
Capital employed	€ million	876	925
Return on capital employed excl. non-recurring items	%	0.0	-1.1
Personnel average		12,105	11,854

Properties		2014	2013
Owned properties, capital	€ million	430	432
Owned properties, area	1,000 m^2	450	448
Leased properties, lease liabilities	€ million	745	821
Leased properties, area	1,000 m^2	1,153	1,191

CASE: RESPONSIBILITY MADE VISIBLE IN BUILDING AND HOME IMPROVEMENT STORES

Rautakesko's K-trainee Mirjana Stenbom coordinates the implementation of the K-responsibility concept in K-rauta Vantaanportti.

K-Group's building and home improvement stores help customers make responsible choices

The new K-responsibility concept was introduced to the K-Group's building and home improvement stores in Finland over the course of 2014. The concept will bring corporate responsibility issues closer to customers. Store staff have been trained to give customers guidance on corporate responsibility, and the principles of responsible purchasing have been defined and introduced. Information about product responsibility is provided to customers with the help of shelf labelling and responsibility boards.

Competence in responsibility is part of good customer service, which has been identified as a competitive advantage of the K-Group's building and home improvement stores.

"Our aim is to give customers as much benefit as possible. In addition to good product choices, customers can get installation and care instructions from us. We can also deliver turnkey solutions. The result is a functional and durable package, made of responsible, high-quality products," says **Jesse Mether**, Rautakesko's Sustainability Manager.

The K-responsibility concept was first introduced in K-food stores in 2013. In 2014, the concept was adopted by K-rauta stores and the introduction to the stores in the Rautia chain started. During 2015, the concept will be introduced to all Rautia stores and in the K-maatalous chain.

See more about responsibility in building and home improvement stores:

Click this link and watch the video http://www.youtube-nocookie.com/embed/_WRsYIFfzLs?hl=en&rel=0.

CASE BYGGMAKKER: DEMANDING TAX EXEMPTIONS FOR ENERGY EFFICIENCY

Global climate change has revitalized the need to upgrade especially older homes to be better prepared against cold winters and more extreme weather in Norway. Rautakesko's subsidiary in Norway, Byggmakker, in close cooperation with environmental organizations and other actors in the building supply industry, has for several years wanted a tax exemption scheme for energy efficiency measures of private houses.

In 2014, Byggmakker created a population survey and asked nearly 2,000 Norwegians what they thought about energy efficiency of homes.

"The purpose with this survey was to show policy-makers in Norway that most people in Norway are concerned and see a great need for energy efficiency of their own homes. We sent the report to nearly 200 key influencers and decision makers, and the report was well received", says Managing Director **Knut Strand Jacobsen** in Byggmakker.

Most popular measures - windows, doors and attics

The report shows that 6 out of 10 homeowners will consider more energy efficiency measures in their own homes, if the government introduces a new tax deduction scheme.

When the respondents were asked what energy efficiency measures that would most appropriate for their own home, if these were tax deductible, replacement of windows came at the top (42%). The further ranking were isolation of the attic (25%), purchase of air-to-air heat pump and replacement of doors (24%), roof insulation (20%) , isolation of floor (19%) and replacement of stove (15%).

Continuing pressure on government

According to Strand Jacobsen, Byggmakker has not given up hope of getting a tax exemption scheme.

"It´s positive that the Norwegian Government has increased the financial support to an existing scheme. The Government has said that they will come back to a more detailed assessment of a tax exemption scheme. We will continue our work to give them good arguments and evidence that such an arrangement is good for consumers, building industry and the climate", says Strand Jacobsen.

Car and machinery trade

The car and machinery trade consists of VV-Auto and Konekesko with their subsidiaries. VV-Auto is a company specialised in importing, retailing and providing after-sales service for cars manufactured by Volkswagen Group. Konekesko offers the products and services of the international machinery brands it represents in Finland and the Baltic countries.

VV-Auto

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.

The Volkswagen, Audi and SEAT ranges expanded considerably over the course of 2014. New models launched included the Volkswagen full-electric e-up! and e-Golf, the Audi A3 Sportback g-tron and e-tron, and the SEAT Leon ST estate. For the fourth time in succession, Volkswagen was the best-selling passenger car brand in Finland. In 2014, Volkswagen was also number one in company registrations and the best-selling van. The best-selling car model in Finland and the most popular Volkswagen passenger car model was the Golf. Audi achieved the best result in its history in 2014 both in terms of market share and the number of cars sold.

Konekesko

Konekesko is a machinery trade company which focuses on the import, sales and after-sales service of construction, materials handling, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, Estonia, Latvia, and Lithuania.

Konekesko's largest business area is agricultural machinery. The main brands in Finland are Massey

Ferguson tractors and Claas combine harvesters. In the Baltic countries, the selection also includes Claas tractors.

Konekesko's sale of recreational machinery is based on close, long-term cooperation with Yamaha Motor Co. Ltd. and on its own strong boat brands Yamarin, Yamarin Cross, Suvi and Palta. The largest dealer network in Finland sells Yamaha recreational machinery. Yamaha has been the market leader in outboards since 1977 and maintained its position. Yamaha is also the market leader for motorcycles in Finland for the fifth year in succession.

In 2014, Konekesko launched five new Yamarin and Suvi boat models. Yamarin is the market leader in Norway, number two in Finland and number three in Sweden.

Konekesko's principal brands in construction and materials handling machinery are Kobelco crawler excavators, Kubota mini excavators, Ponsse forestry machinery and Still forklift trucks. In Finland, Konekesko is also responsible for the sales and after-sales service of MAN trucks, and MAN and Neoplan buses.

Competitive advantages in the car and machinery trade

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

Did you know?

- The new Volkswagen Passat won the esteemed European Car of the Year 2015 award; the selection was made by European car reporters. Car and traffic reporters chose the new Volkswagen Passat as the winner of The Car of the Year in Finland 2015 award; the Passat also won several reader votes.
- The third-generation Audi A3, a compact premium model, won the esteemed World Car of the Year Award.
- The Audi RS 7 concept car drove a lap at the Hockenheim race circuit at track speed without a driver. Audi's driverless run was performed by sending highly accurate GPS signals via a wireless network to the car.
- Konekesko launched an online store for heavy machinery spare parts and supplies in all of its operating countries.
- Yamarin Cross 75 Bow Rider won the European Best of Boats 2014 Competition in the 'Best for Fun' category.

Strategic emphases

Strategic objective	Achieved in 2014	What next
VV-Auto		
The best customer experience in the sector.	Positive development in customer satisfaction and new digital services.	Further development of customer loyalty, customer programmes and multi-channel services.
Sales growth.	Market share: 20.7% (Audi, SEAT, Volkswagen passenger cars and commercial vehicles).	New, more advanced car models.
Efficiency of operations.	Harmonisation and increased efficiency of processes.	Customer programmes and targeted marketing will be increased.
Constant competence development.	Modification of the operations and premises of the service school.	Focus on customer service and training in sales and after-sales service.
Konekesko		
Strengthening own brands (recreational machinery).	Market share: 20.3% (Yamarin + Suvi).	New models.
Maintaining the strong position in the combine harvester trade.	Market share of Claas combine harvesters: 34.2%.	Maintaining the strong position.

Market

- In 2014, 106,236 passenger cars and 10,624 vans were registered for the first time in Finland. The passenger car market increased by 2.7% and the van market by 2.1% 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 24,019.
- The total market for Konekesko's product areas was €1,200 million in Finland and €230 million in the Baltic countries (Kesko's own estimate).

Market shares

Car trade, Finland

- VV-Auto's market share 20.7% (Volkswagen, Audi and SEAT passenger cars, and Volkswagen commercial vehicles)
- Volkswagen passenger cars 12.3%
- Audi 6.0%
- SEAT 1.7%
- Volkswagen commercial vehicles 28.0%

Machinery trade, Finland

- Outboards* 44% (Yamaha)
- Boats* 21% (Yamarin, Suvi)
- Motorcycles* 18.9% (Yamaha)
- Tractors* 10.4% (Massey Ferguson)
- Trucks*, over 6 tonnes, 2.3% (MAN)
- Light transportation trailers < 750 kg 16.8% (Muuli)

* registered

Car and machinery trade in figures

Retail sales and number of stores	Number 2014	Number 2013	Sales (VAT 0%), € million 2014	Sales (VAT 0%), € million 2013
VV-Auto, retail outlets	10	10	389	381
VV-Auto, imports			387	382
Konekesko, Finland	1	1	161	177
Finland, total	**11**	**11**	**936**	**940**
Konekesko, Estonia			35	36
Konekesko, Latvia			41	47
Konekesko, Lithuania			24	37
Konekesko, Baltic countries, total			**101**	**119**
Car and machinery trade, total	**11**	**11**	**1,037**	**1,059**

Car and machinery trade, key figures		2014	2013
Net sales	€ million	1,011	1,037
Operating profit	€ million	29.4	33.9
Operating profit excl. non-recurring items	€ million	29.6	33.9
Operating profit excl. non-recurring items as % of net sales	%	2.9	3.3
Capital expenditure	€ million	14	15
Capital employed	€ million	162	161
Return on capital employed excl. non-recurring items	%	18.3	21.1
Personnel average		1,244	1,252

Properties		2014	2013
Owned properties, capital	€ million	68	67
Owned properties, area	1,000 m²	71	68
Leased properties, lease liabilities	€ million	20	22
Leased properties, area	1,000 m²	35	35

CASE: VV-AUTO GROUP RECYCLES NEARLY 100% OF ITS WASTE

Reducing the amount of waste in stores and warehouses is highly beneficial to the environment. Nearly all of the waste generated by VV-Auto Group Oy is recycled: the waste recovery rate in the group's premises is as high as 99.83%.

”We recycle all waste as a rule. In the car sector, there are many different waste components – timber, metal, batteries, glass, plastic and tyres – for which there is a recycling system available. We dispose of all hazardous waste properly. 100% of all of the used lubricating oil we collect is recycled,” says **Harri Jyränkö**, Development Manager for VV-Autotalot.

VV-Auto Group Oy's German principal, Volkswagen Group, takes responsibility for the environment and makes sure that no unnecessary packaging waste is generated from deliveries. Increasingly often, spare parts and supplies come to Finland in reusable boxes or cages, which are returned empty to the central warehouse in Sweden.

“Many waste components, such as metal, have a high reuse value, which means that correct segregation will benefit us financially. We have a good partnership with our environmental maintenance company and we audit all of our premises annually. Waste transportation has been optimised and is cost-efficient. The waste presses on all of our premises are remotely monitored and they send emptying requests whenever needed,” says Harri Jyränkö.

VV-Auto Oy will participate in the scrapping bonus experiment organised by the Finnish Transport Safety Agency Trafi from 1 July to 31 December 2015. The aim of the experiment is to decrease the average age of the Finnish car stock, which is old by European terms, so as to have more environmentally friendly, safe cars on our roads. In order to receive a scrapping bonus, car owners must take their old cars to an official reception point for scrapping and receive a scrapping certificate to be presented at car dealers. The scrapping bonus will then be deducted directly from the price of a new car.

Store sites

For Kesko, the store site network is a strategic competitive factor which provides opportunities for developing business operations and increasing sales and customer satisfaction. The importance of a multi-channel approach is growing in the retail trade, and the increase in e-commerce and e-services combined with a comprehensive store site network is Kesko’s key competitive factor.

Kesko Group’s strategic store sites are properties that are or can be developed into large retail units. They involve important business interests related to the continuity of management, the flexibility of change and the financial value of the premises. In order to protect such interests, Kesko usually prefers to own these properties.

Standard properties are premises owned by Kesko Group, including large properties, without a significant development need, which can be sold and leased back for the Group's business operations. In 2014, a total of 54% store sites were classified as strategic.

Capital expenditure

In view of Kesko’s growth, key capital expenditure comprises grocery trade properties in the largest growth centres in Finland as well as accurately targeted capital expenditure in food store sites and building and home improvement store sites in Russia. Kesko makes capital expenditure only in properties needed in its own or supporting business operations.

The needs of multi-channel business are taken into account when planning new premises and refurbishing the existing ones. As a result of Kesko's internationalisation, capital expenditure outside Finland has become increasingly important.

Kesko’s real estate arrangement

Kesko's objective is to set up a limited liability company (joint venture) to own and manage mainly Kesko-owned store sites and shopping centres with Kesko as one of its significant investors. If the joint venture is set up, Kesko Group would continue operating on the store sites under long-term leases signed in connection with their sale. The fair value of store sites planned to be sold to the joint venture from Finland and Sweden has been specified at a maximum of around €670 million. The arrangement is expected to be implemented during the first part of 2015. Launching the joint venture depends, in addition to investor interest, on whether it is possible for Kesko to achieve such terms and conditions in the arrangement that are economically justifiable for it, taking the Group's strong financial position into account.

Did you know?

When planning K-supermarket Hollola, which was opened in early 2015, the facilities required by e-commerce were taken into account from the very beginning. Store staff will bring customers' shopping bags directly to their cars. Separate spaces are reserved in the yard for online customers who come to collect and pay for their groceries. The store will have a separate storage and packing area for groceries ordered online. This will ensure the efficiency of service from the perspective of customers and store staff alike.

Kesko is committed to improving energy consumption

Kesko participates in the national energy efficiency agreement, in which we are committed to improving our annual energy consumption by 65 GWh by the end of 2016 through various actions. This amount corresponds to the annual energy consumption of some 3,200 one-family houses. During 2014, Kesko improved its energy consumption by 59 GWh and achieved 90% of the objective.

We are constantly developing new energy efficient solutions for construction and real estate use and briefing retail store staff. To enable improvement in energy efficiency, we use a comprehensive monitoring system of energy consumption and remote monitoring of building automation as a part of our daily maintenance.

In 2014, the combined electricity consumption of all properties was calculated to be 754 GWh, compared with 764 GWh in 2013. Despite the slight increase (0.9%) in the property area, total electricity consumption decreased by 1.3%.

Read more in the Environmental impacts section.

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 the construction of new buildings and the refurbishment of existing ones solutions that decrease the consumption of materials and energy during the life cycle of the property are introduced. Kesko's aim is to achieve the lowest life-cycle costs in the trading sector while also ensuring that optimum conditions are maintained for customers, employees and products. Optimum conditions must be taken into account from planning and construction onwards.

Retail stores' energy efficient solutions, such as lids and doors on refrigeration equipment, recovery of condensation heat, refrigeration equipment that uses carbon dioxide, and adjustable and directional lighting provide considerable energy savings.

All new K-food stores have refrigeration equipment with lids and doors. Chest freezers covered with lids help save 40% more energy than uncovered ones.

The new signs of all K-Group stores use LED lighting. This results in savings of 60–70% compared to traditional neon and fluorescent tube solutions.

K-supermarket Postitalo in the centre of Helsinki

Energy efficiency and environmental issues have been taken into account in K-supermarket Postitalo, which opened in central Helsinki in May 2014. When building the retail store, the regulations were stricter than usual, including those concerning illuminated signs on the front, because the building is listed. The store uses energy-saving LED lighting. Refrigerated equipment is based on carbon dioxide technology and energy-efficient options were chosen for refrigerated counters.

K-supermarket Postitalo, which is open every day of the year, has won praise during its first year in business. In the ranking by the UK-based Kantar Retail research company, K-supermarket Postitalo shared third place out of all retail stores evaluated in 2014. The assessment praised the store's wide range service counters, clean shopping environment and inspirational positioning.

New projects in Itäkeskus and Kivistö

Kesko will build a modern shopping centre on the site of the current K-citymarket in Itäkeskus, eastern Helsinki. In the planning of the new shopping centre special emphasis will be on good accessibility and pleasant outdoor areas. The town plan of the area also enables housing construction.

The new shopping centre will provide customers with a unique shopping experience and companies with new opportunities for multi-channel business. Thanks to technology, enterprises will be able to operate and customers to shop both physically and virtually in the centre.

The first phase of the shopping centre will be completed at the end of 2017. The floor area will be 26,000 square metres and the capital expenditure will be about €100 million.

The urban centre being planned to Kivistö in Vantaa will be the first one in Finland to apply the British 'One Planet Living' concept, which relies on the principles of resource wisdom and sustainable development. Kesko is participating in the initiative and is planning to build a new K-citymarket in the urban centre.

Owned store sites and properties

Book value by region, € million	2014	2013
Finland	988	1,004
Other Nordic countries	82	89
Baltic countries and Belarus	43	39
Russia	317	291
Total	**1,430**	**1,423**

Area by region, 1,000 m²	2014	2013
Finland	770	758
Other Nordic countries	117	121
Baltic countries and Belarus	113	112
Russia	164	143
Total	**1,164**	**1,135**

Book value by division, € million	2014	2013
Grocery trade	880	849
Home improvement and speciality goods trade	430	432
Car and machinery trade	68	67
Others	52	75
Total	**1,430**	**1,423**

Area by division, 1,000 m²	2014	2013
Grocery trade	586	556
Home improvement and speciality goods trade	450	448
Car and machinery trade	71	68
Others	57	63
Total	**1,164**	**1,135**

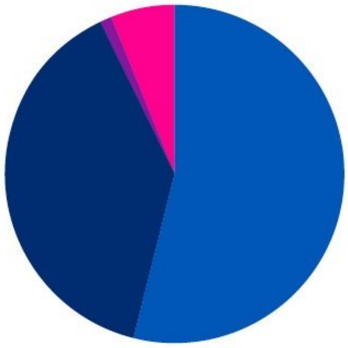
Leased store sites and properties

Area by region, 1,000 m²	2014	2013
Finland	2,328	2,317
Other Nordic countries	146	161
Baltic countries and Belarus	459	456
Russia	25	30
Total	**2,958**	**2,963**

Lease liabilities by region, € million	2014	2013
Finland	2,038	2,154
Other Nordic countries	42	49
Baltic countries and Belarus	175	132
Russia	20	32
Total	**2,276**	**2,368**

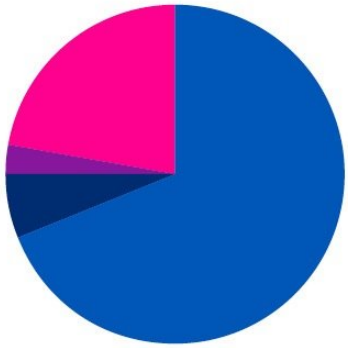
Lease liabilities, € million	2014	2013
No later than one year	343	360
Later than one year and no later than five years	1,065	1,088
Later than five years	868	920
Total	**2,276**	**2,368**

Breakdown of owned properties



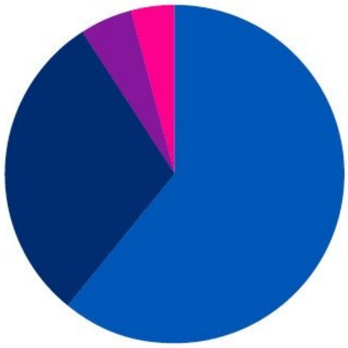
- Strategic properties 54% (53%)
- Standard properties 39% (43%)
- Realisation properties 1% (0%)
- Development properties 6% (4%)

Owned properties by region, book value



- Finland 69% (71%)
- Other Nordic countries 6% (6%)
- Baltic countries and Belarus 3% (3%)
- Russia 22% (20%)

Owned properties by division, book value



- Grocery trade 61% (60%)
- Home improvement and speciality goods trade 30% (30%)
- Car and machinery trade 5% (5%)
- Others 4% (5%)

Description of value creation

Kesko's annual report aims to provide an overall picture of Kesko's ability to create value and combine all information that is material from the perspective of value creation. We complemented Kesko's value creation description in autumn 2014 by conducting a survey of our stakeholders' views on the value created by Kesko. As a result of the survey, the value creation stories and related illustrative animation were prepared for this report.

In August 2014, Kesko made a decision to combine Kesko's annual report and corporate responsibility report into a stakeholder report that makes use of the International <IR> Framework for integrated reporting. The development of integrated reporting commenced with a project examining the factors that affect value creation and the views of the management and stakeholders on value creation. Kesko's first integrated annual report was published in March 2015.

Kesko's operations create value for stakeholders

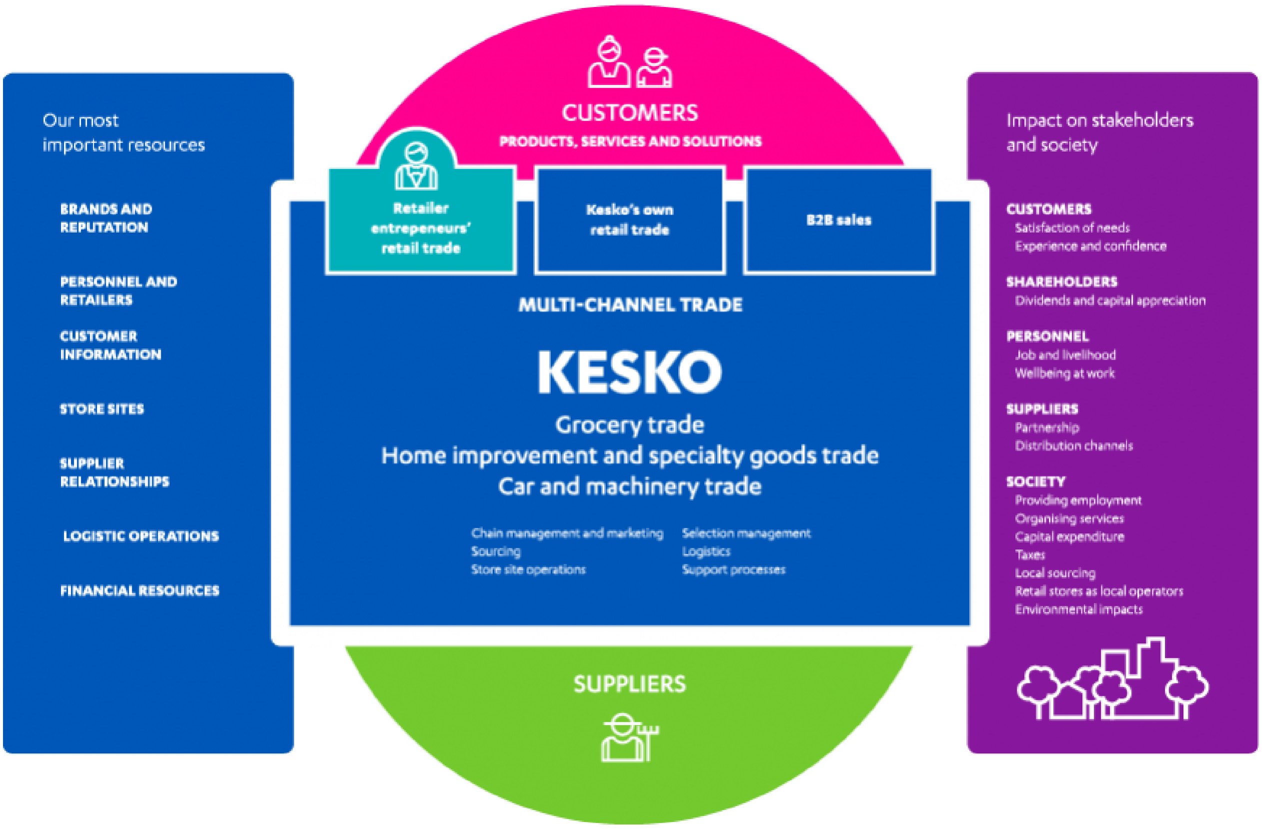
The main role of Kesko and K-stores as trading sector operators is to provide customers with the products and services they need. The products have to be well-researched, safe and responsibly manufactured.

Kesko selects its suppliers carefully and delivers goods to retail stores efficiently and taking environmental impacts into account. At the same time, Kesko provides suppliers with a distribution channel for their products.

Kesko is a listed company with strong solvency and creates shareholder value for its owners. As an employer and taxpayer, Kesko plays a significant role in society.

In addition to Kesko's management, stakeholders' views on value creation were expressed by representatives of investors, analysts, employees, retailers, organisations supervising other parties' interests, suppliers, authorities, research institutes, the media and NGOs during the autumn.

The issues highlighted in stakeholder interviews included customer value, shareholder value and social value. Investors and analysts emphasised the importance of economic value. It was considered that the social value arises from Kesko's significant role in Finnish society and the daily lives of Finnish people, as well as from the positive economic, social and environmental impacts of Kesko.



Kesko's value creation chart illustrates how Kesko's operations create value for its stakeholders and society.

Desciption of value creation and value creation stories

The value creation stories of this report describe the value created by Kesko and Kesko's impact on stakeholders and society.

The interviews reveal that Kesko is considered a strong, local operator that promotes domestic products and services. The key value creation factor mentioned was the success of the retailer business.
Read more: Retail stores as local operators and Impact on society.

The long-term building of shareholder value and financial success were considered another important value creation factor.
Read more: Impact on society and Investor's address.

Stakeholders considered customer value to be incorporated in all of Kesko's value creation activities. For the creation of customer value, good cooperation between Kesko, retailers, suppliers and service providers is important.
Read more: For the benefit of customers.

Kesko is a significant operator, particularly in Finnish society. Kesko creates value for society by providing employment and paying taxes, and through other economic impacts.
Read more: Impact on society.

Supplying products to consumers efficiently, safely, responsibly and reliably is of key importance for Kesko's value creation.
Read more: Product's path.

Competent and healthy employees enable value creation for customers and shareholders. In the interviews, many expectations were voiced for Kesko as a major operator in society and a large employer.
Read more: Employees are our most important asset.

Value creation animation

Besides the value creation stories, we also wanted to illustrate the value created by Kesko in an animation. This animation describes how Kesko creates value across society as a whole.

Click this link and watch the video http://www.youtube-nocookie.com/embed/kY1WiVUWbJA?hl=en&rel=0.

How does Kesko create value?

For the benefit of customers

Kesko and K-stores want to make customers' lives easier, providing them with high-quality services and products that promote wellbeing and offer guidance on how they should be used.

The fast development of digital services enables customers to 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, pick up the items from a store yard on the way home or have them delivered directly to the home in the evening.

K-food stores' own online stores use the click&collect service and/or home deliveries. At the end of February 2015, K-food stores had 14 online stores for groceries. The objective is to have 40 more K-food stores providing the service over the course of 2015.

The click&collect service was introduced in building and home improvement stores in 2014. Over the course of 2015, the service will be extended to include B2B customers and home deliveries.

Read more about food stores' and building and home improvement stores' click&collect service.

Both price and quality are important

The drop in purchasing power is reflected in consumers' choices and price competition is intense in all product lines. In Finland, price competition in food retailing increased in late 2014 and early 2015.

In its 2014 study on Finnish grocery buyers, TNS Gallup asked customers what is the most important selection criterion for them when choosing where to shop. The research showed that the wishes of Finnish consumers are not only related to low prices of individual products. According to the study, the most important factors are location, ease of access to the store and ease of navigation within the store. Customers think that food should be both low-priced and high-quality. Based on this message from consumers, the K-Group has permanently reduced the prices of 400 products.

In early 2015, Kesko commented that price competition must not have an adverse effect on the quality of

Finnish food or the vitality of Finnish food production and industry. The K-Group aims to ensure the wellbeing of the entire food chain and take responsibility for food from field to fork.

In February 2015, Kesko and K-stores launched a campaign to provide healthy, high-quality meals developed and tested by specialists that will feed a family of four for less than 10 euros. More corresponding discussion about the price and quality of food will be seen over the course of 2015.

Click this link and watch the video http://www.youtube-nocookie.com/embed/ilrdYOymoTU?hl=en&rel=0.

Healthy living through proper food and physical exercise

Promoting healthy living and eating habits and physical exercise are key focuses for the K-Group's food and sports stores.

The nutritional contents of about 5,400 recipes on K-ruoka.fi's recipe service have been calculated to help customers in their choices. In 2014, home economics teachers of the K-test kitchen developed more than 400 new recipes, which were published on K-ruoka.fi, in the Pirkka magazine and on the K-RuokaPirkka leaflet.

K-food stores have been training K-food specialists – experts in nutrition and special diets – for five years. By the end of 2014, a total of 765 employees had completed this training.

In the development of the K-Group's own brands, special attention is paid to the healthiness of the products. In recent years, sugar, saturated fat and salt have been reduced from Pirkka products that contained high levels of them. This has been done for nearly 160 Pirkka products. The health aspects of new Pirkka products are taken into account already at the product development stage.

The first customer programme entitled Keveämpi arki (Lighter on weekdays) was available on the K-ruoka.fi website at the beginning of January 2015. The programme consisted of recipes and tips for nine days to promote healthy life and wellbeing. The success exceeded all expectations and more than 22,000 customers registered for the programme.

In Intersport's Sport to the People concept, sport has something for everyone, regardless of age and level of interest. At least twice a year, every Intersport store organises a physical activity event, the aim of which is to promote a healthy lifestyle and encourage customers to be physically active.

Read more: Salad bars are popular

High-quality own brands

Kesko's own Pirkka range combines high quality and low prices. Finnish products are always preferred when selecting items to add to the range, provided that the product meets the quality and price criteria. At the end of 2014, there were 2,324 products in the Pirkka range.

K-Menu, the K-food stores' new own brand, which was launched in spring 2014, is priced to be the most affordable brand in the market. At the end of 2014, there were 99 K-Menu products.

The Cello family of more than 2,000 products is a versatile product range for interior decoration and home improvement purposes and is sold by K-rauta and Rautia stores. Other own brands include PROF and FXA.

Did you know?

Digital technology makes it possible to provide services wherever customers need them. In February 2015, K-market Neulamuikku opened an online store for the people working in the Technopolis business park in Kuopio. The customer can place an order on the online store and a Post vehicle will bring the items to the entrance hall of the building before the end of the working day.

Information about products for customers

Consumers are interested in the origins and properties of the products they buy. Openness in the production chain is important, so that consumers can rely on product contents and package labelling.

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 2014, the Consumer Service was contacted more than 20,900 times.

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. The K-responsibility concept used by K-food stores was adopted by the K-Group's building and home improvement stores in Finland during 2014.

Read more about responsibility in building and home improvement stores.

During 2014, Kesko Food had an extensive modification of the package labelling of its own brand products based on the EU Regulation on the provision of food information to consumers. In the future, packaging will provide consumers with more information on products' nutrition content, ingredients and possible allergens, for instance. Changes will continue until spring 2015, when the transition period of the EU regulation laying down rules for the indication of country of origin for certain meats will end.

More individual marketing

The K-Group's customer loyalty programme, K-Plussa, provides K-Plussa customers with benefits from more than 3,000 places of purchase and over 40 partners. K-Plussa operates at three levels: the customer gets both store-specific and chain-specific benefits as well as joint benefits of the K-Plussa network. More than 3.6 million people in more than 2.3 million households have a K-Plussa card.

The use of customer information and the chains' customer programmes play a key role in the business planning of Kesko and K-stores. The aim is to improve customer satisfaction and increase sales.

In 2014, Kesko introduced a new campaign management tool, for targeted and individual customer communications. The aim is to gradually launch personalised customer relationship marketing more extensively in the K-Group.

Targeted marketing with the help of customer information will increase. Personalised marketing based on the customers' shopping history provides customers with benefits that are more suitable for each individual. After shopping, customers may, for example, receive service messages, customer inquiries or individual offers via the channel they have chosen.

To receive individually tailored benefits, the customer must give permission for e-mail marketing and a product-specific review of purchases, and the customer must have shopped at the store in question. Individual and personalised benefits have been well received by customers.

ADDRESS: ONLINE STORES MAKE EVERYDAY LIFE EASIER FOR FAMILIES

"I mainly buy clothes and shoes online, both for children and myself. The major reason I shop online is the ease of the process. I can take a look at the selection wherever and whenever I choose and it is easy to compare prices between different stores. The goods are delivered to my local post office, store or home, all of which are good options for me.

I think a good online store is intuitive, informative and active. It is easy to use and provides all the information that customers may need on products, deliveries and prices. The selection and special offers change often, the store listens to its customers and is fast to react to their wishes. Free deliveries and returns are also a plus: they make it easy to try a new store.

In my opinion, customer-oriented marketing is a good thing. I don't want to receive email advertising that does not concern me. Instead, I welcome targeted messages with products and special offers intended just for me."

Anna Kurikka lives in Jollas, Helsinki, with her husband and children aged 2 and 5 years.

CASE: SOCIAL MEDIA HAS AN IMPACT

For Kesko, social media provides new opportunities for interaction with consumers. In the spring of 2014, a popular subject on social media was whether, for environmental reasons, retail stores could give up offering thin plastic bags at checkouts. Kesko Food also received feedback from dozens of customers.

The issue was considered from various angles. How would it affect customer service if bags were no longer offered? And how would the decreased use of small bags affect the amount of plastic waste?

”We decided to decrease the active offering of small bags. We want to serve customers well, so we still have bags available at the end of the checkout lines,” says **Timo Jäske**, Kesko Food’s Sustainability Manager.

Kesko Food estimates that this could reduce the amount of plastic waste generated by about one fifth. In the trading sector, plastic waste is generated during various operations. Kesko Food has done years of work to reduce the amount of plastic waste and achieved good results.

Retail stores as local operators

K-retailers are the K-Group's competitive assets, providing a local approach. Retailer entrepreneurs build their selections flexibly according to the needs of the local community and customers. The common selection of the chain is complemented with food bought from local producers. In many localities, retail stores also take care of many services for the public good.

District operations in Finland are headed by Kesko's District Directors, whose most important duties include planning and executing all of the divisions' regional store site projects. Starting from the beginning of 2015, Kesko is strengthening its regional and local operations. Kesko's influence in regions will increase as it strengthens the role of retail store chains.

The retailer business model is flexible

The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's store chains. Competitive edge is gained by combining systematic chain operations with K-retailer operations, which are based on entrepreneurship.

In the retailer business model, Kesko's chain operations provide 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.

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 has proved agile in difficult economic conditions because, as entrepreneurs, retailers can react quickly and efficiently if the situation so requires.

Many retailers are major shareholders in Kesko and so also take responsibility for Kesko's success in a broader sense. Kesko's Board of Directors has three retailer members, one of whom chairs the Board.

At the beginning of 2015:

- Number of K-retailers in Finland: 1,154
- Number of new K-retailers: 48 (30 men and 18 women)
- K-retailers' average age: 46 years (the youngest is 25, while the oldest is 91)

The retailer is present in the local community

All of the K-Group's food, building and home improvement, and agricultural stores in Finland are run by K-retailer entrepreneurs. Most of the K-stores are family businesses, run by a retailer couple.

The network of over 900 K-food stores is comprehensive. Nearly half of the Finnish population lives within one kilometre of a K-food store. The services provided by K-food stores cover nearly all Finnish municipalities and they are visited daily by around 900,000 customers.

K-retailers have local influence: they work in organisations, give lectures at schools and colleges, and organise customer panels and evenings.

Local selections tailored to customers' wishes

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

Local needs are taken into account individually; the product selection in a K-supermarket in an eastern Helsinki suburb with many immigrants can differ significantly from that in a K-supermarket in the countryside of Finland, visited mostly by summer residents.

Finnish products and the Blue and White Footprint campaign were highly visible in K-food stores and Anttila and Kodin1 department stores over the course of 2014.

Around 80% of the products sold at K-food stores are manufactured in Finland. Branded products made by domestic manufacturers are widely available in K-food stores.

There are more than 1,000 Finnish products in the Pirkka range, 400 of which can be identified from the label of origin on the package. Nearly 100% of all fresh products, meat and processed meat, milks and creams in the Pirkka range are of Finnish origin.

In the Pirkka range, there are:

- 238 Hyvää Suomesta (Produce of Finland) products bearing the Swan label
- 47 products with the Seed Leaf label
- 86 Key Flag products

Pirkka products are manufactured by nearly 160 companies across Finland. Their manufacture provides many regional companies with an opportunity to expand their market to cover the entire nation.

Retailers complement the chain's common selection with food bought from local producers. These products include vegetables, root crops and bread. K-retailers' direct purchases from Finnish regions totalled €567 million in 2014.

Village stores as partners for municipalities

Outside growth centres, retail stores can provide several services for the public good that might otherwise be unavailable.

Over the course of 2014, Kesko Food developed postal and parcel service concepts and network in cooperation the Post of Finland and Matkahuolto, a company specializing in bus and coach services, with the aim to serve customers better.

In 2014, K-food stores had:

- 160 postal service outlets and 137 automated parcel terminals
- 17 pharmacy service points
- 8 Matkahuolto service outlets and 4 parcel desks
- more than 700 stores provided cashback service

The municipal development project implemented in 2013–2015 involved 12 village stores and municipalities. Great potential is seen for village stores acting as a partner in providing social and home care services to the ageing population. For example, the store may offer nursing services, renovation services and food services for senior citizens.

Support for local sports clubs

Sponsorship by Kesko and K-stores mainly focuses on providing support for children and young people.

K-Plussa's sponsorship service encourages and supports retailers in their local charity and sponsorship work. In 2014, K-retailers supported 332 sports clubs or teams in Finland.

At the end of 2014, K-food stores and the Finnish Basketball Association signed a cooperation agreement. The Finnish Basketball Association, basketball clubs and local K-food stores organise basketball events and training courses for primary pupils across Finland during 2015. The aim is to promote the wellbeing of children, young people and families and encourage young people to be physically active.

CASE: LOCAL FOOD DATES CONNECT PEOPLE

Finnish origin was one of the main themes of K-food stores in 2014. The aim of the Blue and White Footprint campaign was to promote sales of Finnish products in K-food stores.

With the help of Local Food Dates (Lähiruokatreffit) events organised by Kesko Food and Ruokatieto, an association that promotes Finnish food culture, the supply of local products in K-food stores was increased, which also meant increased support for Finnish work. At the events, local K-food retailers and food entrepreneurs had a chance to meet, network and negotiate with each other about cooperation. Local Food Dates were set up in the towns of Naantali, Oulu, Kuopio, Seinäjoki, Vantaa and Tampere in the summer.

”I got to know several new producers and interesting products. Excellent organic flakes and flours by Riihipuoti from Riihikoski sparked my interest and I will consider including them in our product selection,” said **Sami Toivonen,** retailer of K-supermarket Ukko-Pekka in Naantali. Riihipuoti products were included in the selection of K-supermarket Ukko-Pekka after the event.

K-retailers’ direct purchases from Finnish regions totalled €567 million in 2014.

Local Food Dates will continue with six events to be organised across Finland in spring 2015.

CASE: LET'S CREATE MORE WORK FOR FINLAND – TOGETHER

If every Finn spent 10 euros more per month on Finnish products and services, 10,000 more jobs would be created in Finland in a year.

An extensive campaign in support of Finnish work, entitled the Blue and White Footprint, was launched at the beginning of 2014. The participants are the Association for Finnish Work, K-Group stores (K-citymarkets, K-supermarkets, K-markets, K-extras, Anttila and Kodin1 department stores) and a large number of Finnish food and home and speciality goods manufacturers.

During the first year, the Blue and White Footprint campaign strengthened the importance of Finnish origins when everyday selections are made.

“Finnish consumers have clearly started to consider the origins of the products they buy and are very interested in domestic origins. The phenomenon is particularly visible in groceries: according to a survey conducted in December 2014 as many as 71% of Finns said that they always or in most cases choose a domestic product. When the campaign started in March 2014, the figure was 62%,” says **Tero Lausala,** CEO of the Association for Finnish Work.

The Blue and White Footprint campaign will continue in 2015 and expand to include K-rauta and Rautia stores in addition to K-food stores.

The objective of Kesko Food is to make the Blue and White Footprint seen, felt and heard in all K-food stores over the course of the year.

“Finnish food is increasingly important to our customers, just as the survey results of the Association for Finnish Work show. Nearly 80% of all retail sales of K-food stores consist of Finnish products, which means that customers make their first choice to support Finnish work when they enter a K-store,” says **Ari Akseli,** Kesko Food’s Vice President for Commerce.

Product's path

The customers who enter the K-Group's stores trust that the products available there are responsible choices. Kesko's buyers and Product Research unit work daily to ensure that the products in the stores are high-quality, safe and produced responsibly.

Kesko aims to take care of wellbeing across the entire production chain and take responsibility from field to fork. By the time products end up on store shelves, they have undergone extensive study and research.

Kesko's purchasing principles, the Principles and Practice of Socially Responsible Trading guide, as well as several statements and policies, guide Kesko's responsible purchasing. These principles also provide the basis when Kesko's buyers and Product Research unit start considering adding a new item to the range of own brand products. Environmental impacts are taken into account at the planning stage; unnecessary packaging is avoided and preference is given to recyclable materials.

Products are analysed even before purchasing decisions

Customers' needs and expectations provide the basis when plans are made to add new products to selections. In 2014, Kesko had around 21,800 such suppliers and service providers from whom annual purchases exceeded €1,000. Approximately 10,200 of them operated in Finland, about 8,500 in Kesko's other operating countries and about 3,100 elsewhere.

Kesko has its own Product Research unit, which monitors the safety and quality of groceries and home and speciality goods sold by K-food stores, Anttila department stores, K-citymarkets and Kodin1 department stores for interior decoration and home goods. The unit's laboratory analysed more than 8,860 product samples and conducted over 29,530 analyses in 2014.

Kesko's own Pirkka product range has nearly 500 suppliers. These suppliers and the ingredients they use are carefully screened before being accepted as suppliers of Kesko's own brands. The planning and development of a new Pirkka food product involves close cooperation between the supplier, purchasing unit, product quality managers and the Pirkka test kitchen. Supplier monitoring and competitive tendering, sensory evaluations, laboratory analyses and package label design are some examples of the work done over the months preceding the launch of a new product.

More certified products

One of the objectives of Kesko's responsibility programme is to have 500 products that meet a responsibility criterion in the Pirkka range by 2015. Responsibility criteria include Fairtrade or a corresponding production method, environmental labelling, MSC certification, UTZ certification or CSPO certification for sustainable palm oil. At the end of 2014, there were 44 Pirkka Fairtrade products, 116 Pirkka Organic products, 29 Pirkka MSC certified fishes, 16 Pirkka products with UTZ certification and 13 Pirkka products containing certified sustainable palm oil (CSPO).

In 2014, the products sold by Kesko Food generate a total of €361,682 in Fairtrade premiums for social development projects. Out of this, flowers sold by Kesko Food accounted for €197,727.

Did you know?

All Pirkka coffees and cocoas are either Fairtrade or UTZ certified products. See the video.

Click this link and watch the video http://www.youtube-nocookie.com/embed/quHskeRG4nc?hl=en&rel=0.

Special attention paid to high-risk countries

In its operations, Kesko pays special attention to the human rights issues and working conditions throughout its purchasing chain. In supplier monitoring, the focus is on the countries where the risks of violating 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 (1.5% of all Kesko's purchases in 2014). 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).

The Principles and Practice of Socially Responsible Trading guide has been created to help Kesko's buyers and suppliers with purchases from high-risk countries. The guide provides basic information about Kesko and its purchasing principles. It describes the BSCI process step by step. Online training courses on responsible purchasing practices have been developed to ensure all buyers' competencies in this.

Did you know?

- Rautakesko has a representative in China who is responsible for managing Rautakesko's purchases from Asia.
- Working conditions at Rautakesko's suppliers' factories are assessed with BSCI audits.

Goods are transported efficiently and saving the environment

Goods that come to Kesko’s selections from outside Finland are transported efficiently in containers, mainly by sea or road.

Kesko’s logistics company Keslog Ltd provides logistics services for Kesko Group companies. Keslog carries goods to Finland from over 100 countries and its transportation network covers all of Finland.

In Finland, the kilometres covered by Keslog’s contract drivers’ trucks every day when they take goods to the K-Group’s stores is two times the circumference of the globe. Emissions from transportation are among the most significant environmental impacts of Kesko’s operations. For the purpose of managing environmental impacts and improving the efficiency of operations, Keslog uses a certified environmental system that is based on the ISO 14001 standard.

Keslog aims to cut carbon dioxide emissions from transportation by 10% by 2020. The most important means of cutting emissions include route and load optimisation, driver training, reverse logistics services and efficient fleet solutions, such as two-tier trailers.

In 2014, Keslog picked up around 93 million aluminium beverage cans, 54 million bottles of recyclable plastic and 10 million bottles of recyclable glass from K-food stores and Kespro's customers for further processing and recycling.

Keslog’s central warehouses and terminals recover nearly all their waste, around 98%. For example, 30% of the material used for Pirkka bags made of recycled plastic is derived from plastic covers of goods transported to Kesko Food.

Sea containers that come from Asia to Finland have often been gassed with pesticides. In 2013, Keslog initiated a project with the aim of increasing safety for people handling the containers. The project involved determining the most appropriate gas measurement instrument, acquiring the best protective wear for employees and providing training on correct working methods. Now the gas content of all imported containers is measured and, if necessary, the container is moved for ventilation before unloading begins.

Competent sales people

The sales assistants who meet customers in stores must be well aware of the products' properties and origins and able to instruct customers in their proper use. Sales assistants' product knowledge is increasingly important, as customers often have some information about the product, having read comparisons and other customers' recommendations on the web before entering the store.

K-instituutti has trained retail sales assistants by offering the Master Sales Assistant training for over 50 years. The training provides assistants with extensive, up-to-date information about products and customer service, as well as the chain's strategic focuses and concepts. Every year, more than 10,000 people participate in the Master Sales Assistant training and, in 2014, over 160,000 courses were completed.

Product circulation continues

A product’s path from a factory or a farm to a customer’s shopping basket is often long and consists of many phases. During the process, much is done for the product – in design, manufacture, research, transportation and stores. Each phase provides work for many people who, in addition to getting their livelihood, benefit their communities through the purchases they make and the taxes they pay on their salaries.

Something will be left of each product after use: packaging material, food leftovers or, in the end, a broken appliance. As importers, Kesko and K-stores have an obligation to organise waste management for discarded products. In 2014, there were about 252 eco points at K-food stores for recycling consumer packaging (fibre, glass, metal). Out of these, 11 also received plastic for recycling. Many eco points also receive waste paper and discarded clothing.

Since 2013, consumers have also been able to return their waste electrical and electronic equipment (WEEE) to stores. The store's obligation to accept them depends on its sales area and product selection.

Nearly all Pirkka packages have a material symbol, which makes recycling easier for households.

ADDRESS: A LIVING WAGE FOR ALL EMPLOYEES ACROSS THE PRODUCTION CHAIN

In summer 2014, Pro Ethical Trade Finland (Eetti) conducted a survey on the work of major Finnish clothing companies on respecting human rights across their production chains. The survey, which was published in the autumn, showed that Finnish clothing companies promote the implementation of human rights in their production chains. In order to implement all the basic employment rights in the production countries, such as a salary that is sufficient to ensure a basic standard of living, stronger commitment and enhancement of operating practices are needed.

"Kesko should be committed to ensuring that every employee across the entire production chain is paid a living wage. Through its own practices, Kesko is able to contribute to the implementation of human rights in the production chain.

Kesko is a member of the Business Social Compliance Initiative (BSCI) of retail chains, which is a strong operator in corporate responsibility. Kesko could join a multilateral responsibility system, which would better guarantee the participation of stakeholders, such as trade unions and organisations, in the development of working conditions.

About one fifth of Kesko’s own clothing imports come from high-risk countries where violations of working rights are common. When operating in these countries, it is crucially important that the company has practices for minimising such risks. Kesko is currently conducting a risk assessment of its human rights impacts. The results of the assessment must be imprinted throughout the whole organisation, creating comprehensive actions in order to minimise the risks observed, monitoring the efficiency of the measures taken and providing open information about the results of the survey."

Anna Härri is Campaign Coordinator of Pro Ethical Trade Finland.

CASE: SOCIAL COMPLIANCE MANAGER JOE LIU HELPS CHINESE FACTORIES

Kesko operates a monitoring programme of its own in China and, as necessary, also in India. In 2014, 39 monitoring visits were made to the factories of Kesko's suppliers.

Monitoring is based on BSCI's Code of Conduct and the ultimate aim in every case is to have the factory included in the BSCI audit process. Significant improvements can often be seen during re-audits.

Social Compliance Manager **Joe Liu,** domiciled in Shanghai, monitors factories manufacturing clothes, shoes, bags and home textiles in different parts of China.

"Our factory visit consists of four parts: a tour of the factory, an inspection of documents, an interview with management and an interview with workers. In 2013, we visited a clothing factory at Ningbo whose result in the BSCI audit had been 'non-compliant'. We detected shortcomings in the management systems, workers' rest day arrangement and occupational health and safety matters at the factory. We discussed management system models, working time arrangements and safety practices with the factory management", says Liu.

Joe Liu

In a re-audit a year later, this factory received a better result.

"Today, the factory manager spends a lot of time in training the workers and the factory is tidy and safe. The workers and the supervisor are satisfied and in the 2014 audit, the factory achieved the result 'improvement needed'. The manager told me that they would be continuing improvements aiming at 'good', the best result in a BSCI audit", says Liu.

Employees are our most important asset

Click this link and watch the video http://www.youtube-nocookie.com/embed/DRjXLj7TrPg?hl=en&rel=0.

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 staff competence is increasingly important.

Diverse working community:

- At the end of 2014, Kesko had a total of 23,794 employees in all of the countries where it operates.
- The average age of employees in Finland was 36 years in 2014. In other countries, the average age varied between 27 and 46 years.
- In Finland, women accounted for 58.8% and men for 41.2% of all employees. The corresponding figures in other countries were 51.5% and 48.5% respectively.
- Lengths of employees' careers: under 10 years 68.3% and over 10 years 31.7% in Finland and, respectively, 92.8% and 7.2% in other countries.

More figures on personnel in the GRI section.

Did you know?

Kesko has been a member of Diversity Charter Finland since 2013. Equality, justice and non-discrimination are important principles which are observed in Kesko throughout the employment.

Kesko and the retailer entrepreneurs in its chains – the K-Group – employ around 45,000 people in eight countries. Jobs vary from retail store duties to retailer entrepreneurship and supervisory and specialist jobs in various fields. A job at a store provides a good basis for work in all K-Group jobs – therefore, for example, K-trainees and retailer trainees spend most of their time in retail stores.

Kesko aims to be the most attractive employer in the trading sector. Kesko employees and retailers regularly visit business colleges, polytechnics and universities, as well as recruitment fairs and other events to talk about career opportunities in the K-Group.

Major changes in the sector require new competencies

Changes in the retail operating environment, the long recession, staff reductions and other sectors' appeal have contributed to the fact that the trading sector's reputation in employer surveys has dropped in recent years. In the 2014 Universum Young Professionals survey, Kesko's ranking was 29 (17 in 2013 and 10 in 2012) based on the replies of young business professionals.

Due to the ageing population and changes in the employment structure, the trading sector may face labour shortages in the future. When consumer behaviour and customer needs change, the trading sector must also change in order to continue exceeding customer expectations – both online and in physical stores. Major changes in the sector and the growth of electronic transactions have created a need for new competencies: in the next few years, Kesko and its chains will have a particular need for digital experts and e-commerce professionals.

Kesko's strategy work started in early 2015. All areas of Kesko's operations are examined in the process and personnel is engaged in strategy work. In February 2015, a specific website was opened on Keskonet, the Kesko intranet, encouraging personnel to express their views on how the business of Kesko or their own unit should be developed.

Continuous competence development

Systematic, business-driven employee development is a critical factor for future success. Core areas in competence development include sales and service competence, product line specific projects to provide competitive advantage, immediate supervisory work and leadership, as well as e-commerce and e-services.

Kesko focuses on the development of all of its employees by offering training and diverse career paths, as competent people are needed to overhaul the business. The large size of Kesko group offers opportunities to employees who aim to expand their competencies and move from one job, company or division to another. There were about 1,900 internal transfers in Finland and about 2,500 in other operating countries.

Training on the web

E-learning has become an increasingly popular means of complementing on-site learning and in recent years the focus has been on promoting and developing this option.

Staff responsibility training has increased in recent years. When the K-responsibility concept was adopted, a related web training programme was prepared for food stores and building and home improvement stores. A web training course on responsibility, intended for all employees, was prepared in the autumn of 2014. The course, published in February 2015, is compulsory for all Kesko people and the number of course completions will be monitored.

K-instituutti is responsible for organising the Master Sales Assistant training programme, which is one of the biggest adult training programmes in Finland.

Wellbeing in the working community

Competent, healthy employees create value for Kesko and K-store customers. The targets of increasing wellbeing at work include increasing staff commitment, promoting health, increasing the retirement age and enhancing the employer image, thereby raising labour productivity.

The basic premise of wellbeing at work is that employees work in a safe environment and feel that they know how to do their work. Theme years based on the wellbeing at work programme are organised for employees. The themes of 2014 and 2015 are the development of supervisory work and leadership to promote the commitment of employees and ensure efficient cooperation on occupational health and safety.

Key tools in developing supervisory work include:

- Let's Talk about Work coaching
- Performance Management coaching
- Employee Engagement coaching, and
- A comprehensive e-coaching programme covering different areas of supervisory work, completed in 2014.

Did you know?
Theme years based on the wellbeing at work programmes are organised for employees. See the video.

Click this link and watch the video http://www.youtube-nocookie.com/embed/5Yl5mYGmRvc?hl=en&rel=0.

Personnel survey helps develop operations

The personnel survey is one of the most important tools for developing internal working practices and the quality of the supervisory work.

The personnel survey is conducted simultaneously throughout Kesko Group and at some of the K-stores. The survey measures employees' commitment to the organisation, practices that enable good work performance, employees' wellbeing at work and their satisfaction with the operations of their immediate supervisors and the management.

In the 2014 personnel survey, the response rate was higher than before: 81% (78% in 2013). Employees felt that cooperation with other employees was very good, at 82% (80%). The assessment given to supervisory work improved to 73% (72%). The greatest decrease was seen in the employee engagement index which dropped to 53% (55%).

Supervisors always discuss the results of their personnel surveys with their personnel. Based on the results, development actions are agreed and integrated into an annual action and personnel plan whose implementation is monitored.

Support at different stages of career

Kesko aims to take care of its personnel throughout their careers. Employees' physical activities and cultural hobbies are supported in various ways and, if necessary, employees are directed towards rehabilitation that maintains their working ability.

The Rehabilitation Foundation and Kesko are jointly implementing a project entitled 'Support for working ability and learning at the beginning of career' in 2013–2015. One of the objectives of the project is to identify and increase awareness of learning difficulties.

Work in the K-Group

Every fifth person under 25 who has found work is employed in the trading sector. For many young people, a K-store provides their first experience of working life.

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 jobs are in retail stores but Kesko also regularly employs trainees for various operations.

In summer 2014, the K-Group had around 5,000 summer employees in all, nearly 4,000 of whom worked at K-stores and about 1,000 in Kesko Group.

K-job 2014

The K-job 2014 competition sought the K-Group's best Young Employee of the Year and the Employer of the Young of the Year. The Young Employee of 2014 was **Roope Malinen** from Rautia Malmi in Helsinki and the Employer of the Young of 2014 was the retailer couple **Marjo** and **Jukka Itkonen** from K-citymarket Länsikeskus in Turku. The couple employs 85 food retailing professionals, a quarter of whom are aged under 22.

Did you know?

All employees in Kesko's eight operating countries are committed to working in accordance with Kesko's values and responsible operating principles. The guide 'Our responsible working principles' , which is published in eight languages, is an integral part of new employees' inductions.

K-trainee programme and retailer training

Key methods of training professionals for the retailing sector include the K-trainee programme and retailer training.

- The K-trainee programme is intended for people with a university or polytechnic degree, who are either in the final stages of their studies, have recently graduated or have some work experience. A total of 11 students chosen to participate in the fifth K-trainee programme which was launched in June 2014 and will terminate in August 2015. Out of the 59 K-trainees who have completed one of the four previous K-trainee programmes, 37 worked in specialist and supervisory jobs in Kesko Group at the end of 2014.
- Future retailers are trained through retailer training programmes. A career as a K-retailer provides many opportunities for developing in the vocation and expanding competence. The K-Group organises training for retailers to provide them with concrete tools for issues such as managing finances and human resources. Further training enforces retailers' management skills and provides them with abilities to move to more challenging store sites.

ADDRESS: RETAIL TRADE NEEDS HIGHLY SKILLED PEOPLE

"Permanent employees are valuable for entrepreneurs like us. However, we all need to adapt and modify our work in response to current challenges. In order to adapt, we also need a fresh breeze in our working community.

Therefore, we are particularly pleased that we have several active, young trainees who are interested in retailing whom we employ and introduce to the daily routine of the retail store every year. Various school training periods, apprenticeships and offering employment via the Youth Guarantee provide the employer with opportunities to find motivated future retail professionals. At the same time, we'll have young people on internships or learning their vocation.

Retail competence is generated in workplaces. Competence development tools also play a significant role in vocational learning and further competence development.

We are pleased to be able to participate in projects by which we can contribute to developing the competence of people who have recently started or are planning to start in the sector. Our aim is to have skilled staff as competence is reflected in both better customer service and increased job satisfaction.

It is also rewarding for us to consider the future outlook and pass on the skills and knowledge that we have acquired over the years. The retail trade needs highly skilled people. And skill arises from good induction, training and practical work."

Jari and Liisa Peltonen are the retailers at Rautia Malmi in Helsinki.

CASE: YOUTH GUARANTEE PROVIDES WORK AND A PATH INTO A PROFESSION

Pictured retailer Pia Heinonen and Jesse Matikainen. Photo: Sari Okko.

The aim of 'the Youth Guarantee in the K-Group' programme was to employ 1,000 young people over the course of 2013–2014. By the end of 2014, nearly 1,800 young people had been employed by K-stores and Kesko across Finland.

These excellent results have been achieved by the coordinator, the retailer and the contact person of the Employment and Economic Development Centre working in collaboration. **Johanna Kinnunen**, the coordinator hired by the K-Group for the programme, has acted as a liaison between employers and the Employment and Economic Development Centres. Her main duty has been to help retailers, department store directors and Kesko's supervisors in issues related to employing young people.

Johanna Kinnunen has also visited various people and groups to speak about the Youth Guarantee in the K-Group. For example, representatives of 13 EU member countries met at the seminar relating to the employment of young people in Helsinki in autumn 2014. In her speech, she described the implementation of the Youth Guarantee from a company perspective. The initiative has expanded and has also become a development and influencing programme.

'The Youth Guarantee in the K-Group' programme has also contributed to increasing apprentice training in the K-Group. **Jesse Matikainen** (22) is one of the young people who have been able to start apprentice training thanks to the programme.

"Apprentice training has been really great. I get training, a vocation and pay at the same time," he says at K-supermarket Kaisaniemi.

Though 'the Youth Guarantee in the K-Group' programme is due to end, work towards employing young people in the K-Group will continue. Counselling and guidance will still be provided to retailers and supervisors hiring young people in 2015.

Impact on society

Kesko's operations generate economic benefits for shareholders, personnel, retailers, suppliers and service providers and their employees, customers, as well as municipalities and states. Kesko develops and provides trading sector services, employs people directly and indirectly, and buys, sells and arranges the manufacture of products.

Kesko’s current store network is comprehensive. Kesko’s chain operations comprise about 2,000 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.

Kesko aims to influence the development of its sector by participating in the activities of international and Finnish trading sector organisations.

Read more about Kesko employees’ activities in organisations.

Did you know?

Kesko was formed when four regional wholesaling companies that had been founded by retailers were merged in October 1940. Throughout its 75-year history, Kesko has played an important role in building Finnish society. Over the decades, retail store types have developed along with the development of society; general stores located in the countryside were replaced by self-service stores and, as urbanisation increased, by hypermarkets and chain operations.

Good financial standing 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.

An absolute prerequisite for success in business is financial profitability. The most important value created by the company for shareholders is the generation of economic value added.

Kesko's financial position is very strong. At the end of 2014, Kesko's liquid assets were about €600 million and the balance sheet was net debt-free, which provides an excellent basis for developing the company.

The yield of Kesko's B share has increased by an average of 10% 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.

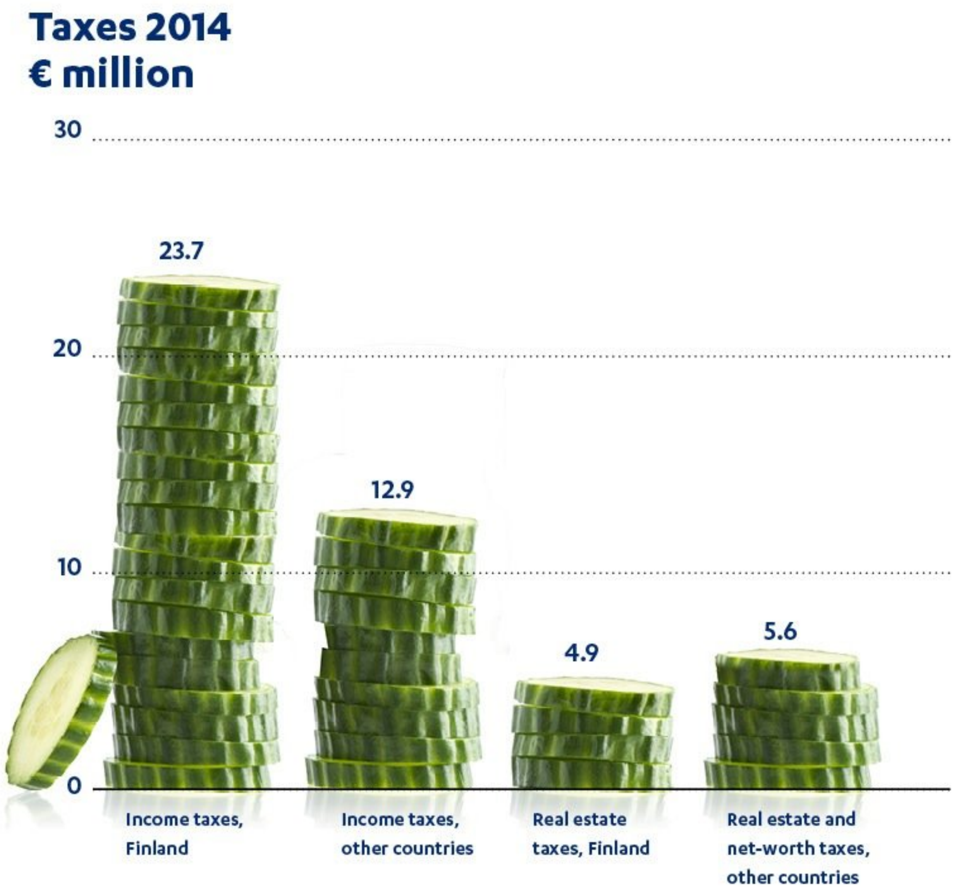
Kesko's dividend policy is to distribute at least 50% of its earnings per share excluding non-recurring items as dividends, taking into account, however, the company's financial position and operating strategy. During the past five years, the dividend distributed has been an average of 79% of the earnings per share excluding non-recurring items.

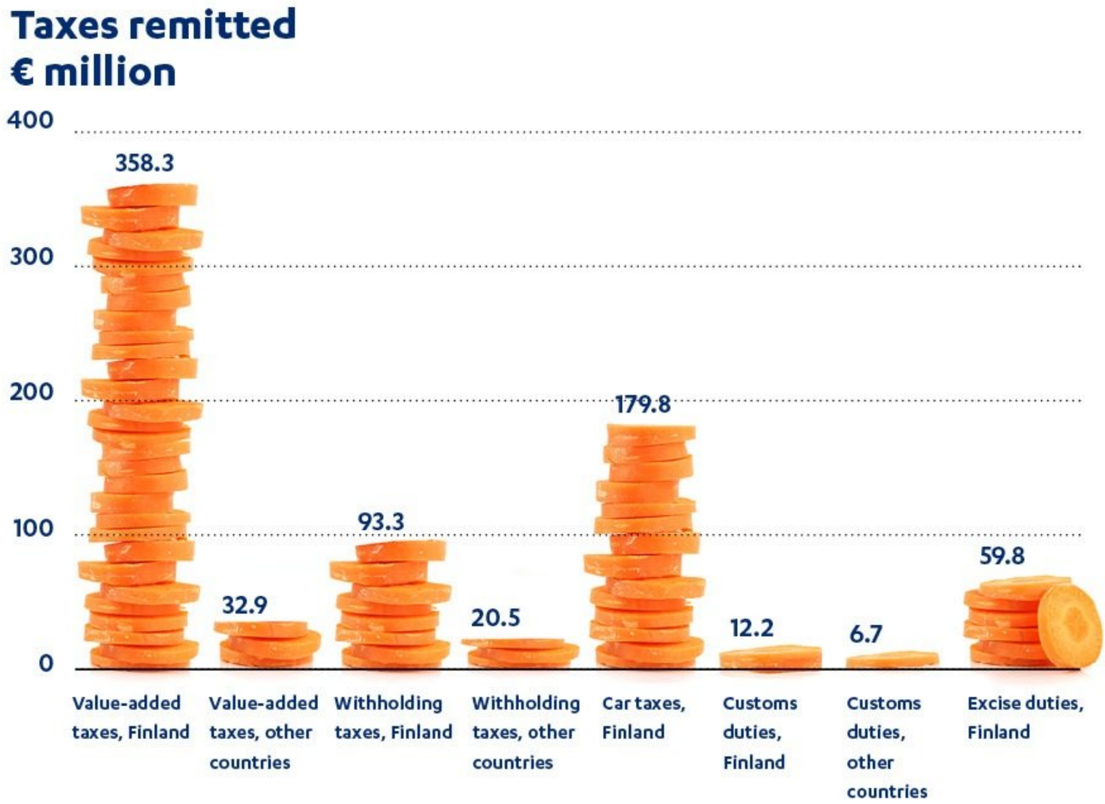
Taxes paid by Kesko benefit society

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.

The impact of the K-Group and its 45,000 employees on the municipal sector is significant. Municipal taxes paid by employees account for a considerable proportion of the municipalities' tax revenue.

In 2014, there were K-food stores in 275 towns and municipalities in Finland. Real estate taxes for the business premises used by Kesko and the K-Group are paid to the municipalities the premises are located in. Some of the income taxes from Kesko's and K-retailers' business are distributed to those municipalities where they operate.





Suppliers are important partners

Most of the economic benefits from Kesko's operations – about 84% of Kesko's net sales – go to suppliers. Kesko's purchases from them totalled €7.6 billion in 2014.

In 2014, Kesko had around 21,800 suppliers and service providers (annual purchases of at least €1,000). Approximately 10,200 of them operate in Finland, about 8,500 in Kesko's other operating countries and about 3,100 elsewhere.

Purchases of domestic products and services generate economic benefit to the country and promote local work. Kesko buys the majority of the products it sells from Finland. In 2014, the purchases of all of Kesko's companies from suppliers operating in Finland were €5,203 million, accounting 68.3% of Kesko Group's all purchases. Direct purchases by K-retailers from Finnish regions totalled €567 million.

Nearly 160 firms across Finland manufacture Pirkka products. This production offers many local companies an opportunity to expand their market to cover all of Finland. Some examples of such firms and products are Pielispakari in Nurmes with their hand-crimped Pirkka Karelian pasties and Ruoveden Herkku with their Pirkka cognac mustard.

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

Kesko creates jobs

At the end of 2014, Kesko had 23,794 employees. In all, Kesko and K-retailers employ around 45,000 people in eight operating countries. In recent years, Kesko has strongly expanded its business in Russia, where operations include the food, building and home improvement, and sports trades. At the end of 2014, Kesko had 3,338 employees in Russia.

Read more: Employees, GRI section

Read more: Employees are our most important asset

Impacts of Kesko's operations in Finnish regions

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2014

Region	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
€ million							
Southern Karelia	5.6	14.9	7.7	5.3	12.0	1.1	**46.6**
Southern Ostrobothnia	255.1	35.3	0.7	5.1	12.3	0.8	**309.4**
Southern Savo	31.6	13.9	1.2	4.3	11.5	1.0	**63.4**
Kainuu	4.7	6.3	1.0	1.4	6.5	0.6	**20.5**
Kanta-Häme	93.9	24.5	0.9	4.4	10.8	0.5	**135.1**
Central Ostrobothnia	43.0	14.8	5.1	1.9	4.5	0.7	**70.0**
Central Finland	52.1	21.5	3.6	9.3	17.8	1.7	**106.0**
Kymenlaakso	44.1	16.9	1.3	6.2	11.7	1.0	**81.2**
Lapland	19.0	25.3	0.9	5.5	17.4	1.8	**69.9**
Pirkanmaa	318.0	28.7	4.9	25.0	32.4	2.6	**411.7**
Ostrobothnia	134.1	8.6	2.2	4.8	8.5	0.6	**158.8**
Northern Karelia	23.8	22.3	0.3	4.2	11.3	1.6	**63.4**
Northern Ostrobothnia	108.0	41.5	6.9	16.1	25.3	2.1	**199.9**
Northern Savo	162.8	30.3	3.4	11.2	19.6	1.4	**228.6**
Päijät-Häme	128.7	32.5	7.1	8.7	12.5	0.7	**190.2**
Satakunta	106.6	27.2	7.5	4.0	15.2	0.9	**161.4**
Uusimaa	2,967.4	147.3	81.4	261.5	114.4	10.1	**3,582.1**
Varsinais-Suomi	652.0	55.0	7.1	23.5	33.0	2.6	**773.3**
Åland	28.6	-	-	-	-	-	**28.6**
Total	**5,179.2**	**566.7**	**143.5**	**402.3**	**376.8**	**31.8**	**6,700.3**

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.

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

Economic benefit generate as excel in the GRI section.

CASE: CHRISTMAS KETTLE HELPS THOSE IN NEED

Translator Taija Mäentaka and Communications Officer Kristiina Seppä from the Group Communications were kettle guards at the largest Christmas kettle in the world at the Helsinki Railway Station.

For the second time, Kesko and K-stores were the main national partner of the Finnish Salvation Army's Christmas kettle collection in 2014. The funds raised will be used to support those in need and acquire vouchers to be used at K-Group stores. Some of the funds will also be used to organise camps and provide regular support throughout the year.

This time, Christmas kettles were highly visible nearby and within K-food stores. There was a kettle at nearly every K-citymarket. Kesko people also volunteered to man the kettle, and representatives of the Group Legal Affairs and the Group Communications units headed to the Christmas kettle at the Helsinki Railway Station.

"People were keen to talk to us, donating money and clothing, linen and children's games. I saw smiles on their faces and hardly any sign of Monday morning rush," says **Saara Helminen,** Kesko's Corporate Counsel, one of the kettle guards.

In 2014, the Finnish Salvation Army donated about 20,000 gift vouchers for K-Group stores. The donation granted from the funds reserved for donations by Kesko's Board of Directors was directed toward the operations of the children's holiday home in Nummela and the reception centre for the homeless on Castréninkatu, Helsinki.

Kesko and K-stores will continue to be the main partner of the Salvation Army's Christmas Kettle collection in 2015.

Other charity campaigns

- K-retailers, who were the main partners in the Red Nose Day collection, raised more than €356,000. The amount could provide reading skills to 35,000 children + video
- Participation in bottle return raffles at K-food stores' bottle return machines was further improved in 2014. Donating money to charity is already possible in 200 K-food stores.
- For each Pampers product sold in the stores in November and December 2014, Procter & Gamble and K-food stores together donated a sum to UNICEF corresponding to six tetanus vaccines.
- Pirkka and K-food stores participated in the Pink Ribbon campaign of the Cancer Society of Finland again in 2014. For every Pink Ribbon bunch of flowers purchased at K-food stores during the campaign, Pirkka donated 20 cents to the Cancer Society.

K-retailers were the main partners in the Red Nose Day collection:

Click this link and watch the video http://www.youtube-nocookie.com/embed/csTTICvJbPk?hl=en&rel=0.

Responsibility management in day-to-day activities

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

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

Values

- We exceed our customers' expectations
- We are the best operator in the trading sector
- We create a good working community
- We bear our corporate responsibility

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 ones of them 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 Code of Conduct 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) Framework as its reporting principles.

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

Corporate Responsibility Advisory Board

Senior Vice President for corporate responsibility, communications and stakeholder relations (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

Vice President for corporate responsibility (Ch.), representatives of local subsidiaries in operating countries (excluding 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

In addition, the Risk Management Steering Group and the HR Management Board support responsibility management and implementation in Kesko with their work.

Corporate responsibility steering in Kesko

Responsibility programme

Responsible operator:

We are committed to responsible working principles and we together generate economic value added

- Responsible working principles guide all 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 Guidelines are a material part of the induction of new employees. In 2014, Kesko's Internal Audit conducted a survey on responsible working principles for all Kesko employees in Finland. A total of 93.3% of all respondents were familiar with the Our Responsible Working Principles guidelines.
We organise regular training on our responsible working principles.	On plan The online training on responsilibity which was prepared in 2014 and is compulsory to all Kesko employees, describes Our Responsible Working Principles. As part of the constant responsibility training, four events on responsible working practices were organised by different divisions in Finland, Latvia, Lithuania and Estonia in 2014. 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 equity is 12% and the target for return on capital employed is 14%.	On plan In 2014, the return on equity excl. non-recurring items was 7.6% and the return on capital employed excl. non-recurring items was 9.9%.

We offer e-commerce services in all divisions during 2014. Comprehensive store-specific product information, prices and availability will be provided online by the end of 2016.	Started All our divisions focus on electronic and multi-channel customer service. The Ruoka.citymarket.fi online store for food expanded to all of the Greater Helsinki area in 2014. The Intersport.fi online store opened in 2014 and the online store of the Sotka chain in January 2015. In spring 2015, Kesko's Group Management Board will be joined by the Chief Digital Officer, who will be responsible for Kesko's business development, digital business environment and marketing.

For the benefit of the community:

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 personnel act responsibly in day-to-day operations.

Objective	Progress
We are an attractive partner and a responsible neighbour.	On plan K-food stores, Anttila and Kodin1 participated in the Blue and White Footprint campaign in 2014, and new participants in 2015 include K-rauta and Rautia stores. In 2014, Local Food Dates were organised in order to increase the supply of local products in K-food stores. Kesko was the national partner of the Salvation Army's Christmas Kettle Collection in 2014. Some of the proceeds of K-food stores' bottle return raffles are directed either to the Mannerheim League for Child Welfare or to the Association of Friends of the University Children's Hospitals every six months. The K-Group participated in the development project of village stores in 2013–2015.
We include our customers and our personnel in our responsibility work.	On plan In 2014, a compulsory online course on responsibility was prepared for all Kesko employees and a compulsory online course on responsible purchasing for the employees in the food trade's commerce. An online course on the K-responsibility concept was drawn up for the building and home improvement store staff. An advisory board was established to promote corporate responsibility work in other countries. During 2015, each company will prepare their own responsibility objectives to support Kesko's responsibility programme. Customer expectations are regularly reviewed by conducting various surveys and studies.

We help customers in efficient shopping; onilne stores, SmartPost, in-store collection.	On plan All of the divisions focus on electronic and multi-channel customer service. K-rauta, Rautia, K-maatalous and Byggmakker provide customers with comprehensive electronic services across their whole area of operations. Many building and home improvement stores and food stores launched click&collect services in 2014. A total of 137 K-food stores have the automated SmartPost terminal.
We expand the contract seed production programme trainings; the objective is to train 100% of the contract farmers within three years.	On plan By the end of 2014, 77% of the seed contract farmers had been trained.
We develop the organic farming programme into a concept.	On plan The K-Group's experimental farm tested plant varieties in the Åland Islands in 2014. The experimental farm is seeking new options to continue organic research with grain varieties in continental Finland.

Working community:

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 the 2014 personnel survey, the employee engagement index was 53%. In the Universum Young Professionals 2014 survey, Kesko's ranking was 29.
We conduct a performance and development review annually with every employee.	On plan In the 2014 personnel survey, 83% of respondents said that they had had a performance and development review during the past 12 months.
We train our supervisors on a regular basis.	On plan Key tools in the development of supervisory work include training courses entitled Let's Talk about Work, Performance Management, Employee Engagement and the extensive online training programme for the various areas of supervisory work, completed in 2014. A total of 2,391 online courses for supervisors were completed in 2014.

We reduce sickness absences and premature disability pensions.	On plan Since the beginning of 2011, about 950 supervisors in Finland have been trained in the Let's Talk about Work model, which is used by nearly all of our companies. In Finland, the sickness absence percentage has decreased by 11% since 2009, while the number of disability pensions has decreased by 37% since 2010. In other countries, the sickness absence percentage has decreased by 10% since 2009.

Responsible purchasing and sales:

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

- We provide customers with information and support in 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 answer 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 2014, 88 full audits and 74 re-audits were conducted in suppliers' factories and farms. In 2014, Kesko's suppliers in high-risk countries had 284 factories or farms within the scope of the BSCI process. Efforts to ensure the sustainability of ingredients imported from high-risk countries continued. Kesko started to assess human rights impacts in 2014.
We add indication of origin to our own brand products.	On plan Origins are indicated on our own brand products. In 2014, a major project of changing package labelling of own brand products was underway at Kesko Food, based on the EU food information regulation. The project will continue until spring 2015, when the transition period of the complementing regulation on the indication of the origin of certain meats ends.
We offer a wide selection of Pirkka responsible products; 500 Pirkka products meeting a responsibility criterion by 2015 and 200 Pirkka organic products by 2015.	Behind plan In 2014, the Pirkka range included 44 Fairtrade products, 116 Organic products, 29 MSC certified fishes, 16 UTZ ertified products and 13 products containing certified sustainable palm oil (CSPO).

By 2020, all palm oil in Pirkka products is responsibly produced (CSPO).	Behind plan At the end of 2014, about 13% of the palm oil in Kesko Food's and Kespro's products was certified sustainable palm oil. Kesko's website includes a list of Pirkka products containing CSPO.
Social responsibility of the production of Kesko Food's own direct imports from high-risk countries is 100% assured by the end of 2015.	On plan At the end of 2014, nearly 100% of such imports was assured.

Wellbeing for customers:

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 In 2014, Energy Expert service products were part of stores' basic selection. Expertise available at retail stores was reinforced with training courses, which were attended by employees from nearly all K-rauta and Rautia stores.
All K-food stores will have adopted the K-responsibility concept by 2014.	Achieved All K-food stores have adopted the K-responsibility concept. In 2014, the concept was adopted by K-rauta stores and the introduction to the stores in the Rautia chain started. During 2015, the concept will be implemented at all Rautia stores and in the K-maatalous chain.
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 grocery trade communications and marketing.
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 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	Progress
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.	Started In late 2014, Kesko joined the Foreign Trade Association's (FTA) Business Environmental Performance Initiative (BEPI). BEPI helps member companies in the management of the environmental issues of global supply chains.
We recover the waste generated in our operations to achieve zero landfill waste.	On plan In 2014, the waste recovery rate of Anttila's logistics centre was 99%, and that of Keslog's central warehouses and terminals 98%. The recovery rate of waste generated in stores was 96% and the recycling rate was 67%. VV-Auto Group's waste recovery rate was nearly 100%.
We reduce food wastage by 10% by 2020.	On plan K-food stores have reduced food wastage with the help of electronic forecast and order systems, efficient logistics, employee training, lowering prices of products approaching their best before dates and by optimising properties of packaging. Many K-food stores also donate food to charity. K-food stores participated in the Consumers' Union of Finland's Wastage Week campaign in 2014.

We improve our annual energy efficiency by 65 GWh by 2016.	On plan During 2014, Kesko improved its energy consumption by 59 GWh and achieved 90% 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 style. In March 2015, Keslog starts to pilot an extra long Ecotruck on the main logistics route between Vantaa and Oulu.

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 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 Food 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 on 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 (at) 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 in euros and probability of their materialisation. 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.
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	• Kesko's Corporate Governance structure is laid out in Kesko's Corporate Governance • The Group Legal Affairs Unit • The Group Internal Audit and Risk Management 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. In January 2015, the risk management function took part in an international self-assessment concerning the level of risk management. The results will be used to further improve Kesko's risk management. Kesko Group's internal audit conducts audits in data protection issues as part of its normal auditing functions.

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 160 companies all over Finland.

Objectives	The objectives have been recorded in the responsibility programme.
Policies, operating principles and commitments	
Good trading practices	Kesko Food and Kespro are committed to good trading practices.
Our responsible working principles	Kesko requires that its suppliers and other partners act in compliance with Kesko's 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), Anttila department stores, Kodin1 department stores for interior decoration and home goods participated in the Blue and White Footprint campaign of the Association for Finnish Work in 2014. The campaign will continue in 2015 when K-rauta and Rautia stores will also join in. The campaign aims 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 reorganisation situations, Kesko complies with the local legislation in all its operating countries. In Finland, the Act on Co-operation within Undertakings determines the key statutes concerning reorganisations.
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. In line with its values, Kesko invests in the development of the working environment and the quality of management with the objective that the employees think highly of their work and employer and are motivated to perform well. In the K-Group, there are many kinds of development paths an employee may follow.
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 employees' job satisfaction and motivation, reducing sickness, increasing the retirement age and enhancing employer image and, in this way, increasing personnel productivity. The wellbeing at work programme focuses on the development of supervisory work and management and on improving the efficiency of cooperation in occupational healthcare and labour protection.
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.
Youth Guarantee in the K-Group programme	Kesko and K-stores participated in the Youth Guarantee programme launched at the beginning of 2013 to promote employment and prevent social exclusion among young people.The aim of the Youth Guarantee in the K-Group programme was to employ 1,000 young people during 2013-2014. By the end of December 2014, nearly 1,800 young people had found employment in K-stores and Kesko across Finland.
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). The project was turned into a permanent working model in 2013. In the Greater Helsinki area, Kesko's Occupational Health Service directs employees to AMI rehabilitation, which promotes mental health. A partial daily allowance can help an employee return to work after sick leave. The support provided by pension insurance companies for occupational rehabilitation has been used to promote return to work.
Responsibilities and resources	• HR Management Board • Kesko HR/Common Services • Division and company 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, to be implemented at about 18 month intervals since 2015, measures 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 2014, direct purchases by Kesko's Finnish companies from suppliers in risk areas totalled €131 million (€123 million in 2013) and accounted for 1.5% (1.6%) 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 21.1% (21.7%) 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, but in 2014 Kesko's purchases analysed by a company's country of domicile and by a supplier's country of domicile also included purchases from high-risk countries at a total value of €367 (€328) million, or 4.2% (4.2%) of Kesko's total purchases. Around 76% (74%) of Kesko's imports into Finland (excluding imports by VV-Auto) come from EU countries. 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.
Sustainability 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 shelf labelling and product labelling, among other things. The selection and marketing policies of organic, eco-labelled and Fairtrade products are included in K-food stores' chain concepts. The K-responsibility concept was first adopted by K-food stores in 2013. During 2014, the concept was adopted by K-rauta stores and the adoption started in Rautia chain stores. During 2015, it will be visible in all Rautia stores and 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. In China and India, Kesko supports its suppliers through monitoring. A local monitoring officer guides and oversees Kesko's suppliers in issues related to terms of employment and working conditions and compliance with environmental and chemical regulations. Kesko's own monitoring principles are based on the BSCI audit requirements. The ultimate aim is to get the factory to apply for a third-party BSCI audit or SA8000 certification. 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 2014, a risk assessment tool was developed with the purpose of better identifying risks across the entire purchasing chain of Kesko's own brands, incuding indirect purchases from high-risk countries. The intention is to first adopt the tool for Kesko Food's purchases, where it has already been piloted.
Audits of Kesko Food's own brand product manufacturers and producers	Kesko Food requires that the manufacturers and producers of its own brand products have an international food safety certification. Kesko Food accepts the following audit procedures: BRC, IFS, ISO 22000, SQF1000/2000 and GlobalGAP (in Finland, the 'Quality Requirements for Vegetables' requirements).
Kesko Product Research Unit's laboratory	The Product Research Unit Laboratory monitors the quality of products sold by K-food stores, Anttila department stores, K-citymarket hypermarkets and Kodin1 department stores for interior decoration and home goods. 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 Food Commerce'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 Food 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 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
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

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 provide customers with optimal service in all of its divisions in electronic channels irrespective of place and time.
Objectives	The objectives have been recorded in the responsibility programme.
Policies, working 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 will be introduced in all Rautia stores and in the K-maatalous chain in 2015.
E-commerce and multi-channel services	The development of electronic services requires major investments in competence development and capital expenditure in technology and logistics. At the beginning of 2015, the building and home improvement division and the home and speciality goods division were combined into the home improvement and speciality goods division which provides customers with multi-channel stores and services in the building, interior decoration and speciality goods trade. Kesko also strongly develops e-services and online sales in the grocery trade, and e-services in the car and machinery trade.
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, Anttila department stores, K-citymarket hypermarkets and Kodin1 department stores for interior decoration and home goods. 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 the Pirkka test kitchen develop and test hundreds of new food recipes annually. The nutritional contents for about 5,400 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 and an external responsibility audit based on a defined sample. The auditor reports the results to the store and Kesko.
Customer satisfaction	The 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	Energy consumption has a significant impact on both the progress of climate change and the costs of the K-Group's operations. The energy consumption of properties accounts for a considerable share of the greenhouse gas emissions caused by the K-Group. Mitigating climate change resulting from energy consumption is one of the focus areas in Kesko's environmental work.
Water	Properties managed by Kesko use municipal water. In the K-Group's own operations, water is used mainly for cleaning.
Biodiversity	Kesko concentrates on diminishing the effects of climate change to preserve biodiversity. Kesko only builds retail stores in areas zoned for business properties, so building does not have significant direct biodiversity impacts. Indirect impacts occur through the products sold.
Emissions	Kesko's logistics company Keslog has long reduced emissions from the K-store supply chain by centralising distribution. New replacements in the vehicle fleet have reduced unit-specific emissions. Key tools in improving logistics efficiency also include the optimisation of transport routes and a high volumetric efficiency. A significant part is also played by efficient reverse logistics. Drivers have been trained in economical driving styles.
Waste management	Preventing the generation of waste, increasing the recovery rate and recycling of materials are the means by which Kesko reduces the amount of waste.
Environmental assessments of suppliers	The assessment procedures of Kesko's procurement practices 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 2014, environmental systems covered 63% of the Kesko companies' net sales in Finland and 53% of the whole Group's net sales. The coverage has been calculated in proportion to retail sales. The logistics operations of Kesko and Anttila are ISO 14001 certified. VV-Auto Group Oy and its subsidiaries fulfil the requirements of environmental programme of Finnish Central Organisation for Motor Trades and Repairs Association and the ISO 9001 quality system. 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. The K-responsibility concept was also taken into use in 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 Energiakolmio Oy. Energiakolmio 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, K-supermarkets, Anttila department stores 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.
Biodiversity	In line with Kesko's sourcing recommendation, the garden furniture made of tropical wood and sold by the K-Group stores is either FSC certified or made of wood species whose cultivation is possible in accordance with the principles of sustainable development. The K-Group's fish and shellfish statement directs Kesko Food's and Kespro's own sourcing, as well as K-food retailers' sourcing to safeguard responsible fishing and cultivation of fish. Palm oil must be produced in a responsible manner, taking account of economic, social and environmental aspects. Kesko Food is a member of the RSPO (Roundtable on Sustainable Palm Oil). Kesko Food's objective is that by 2020, all palm oil used in Pirkka products will be responsibly produced (CSPO). Sustainability 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 wastage management in K-stores.
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 2014, 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	In late 2014, Kesko 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. BEPI provides a practical framework and guidelines for suppliers to improve their environmental activities.

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 2013.
Anttila Oy's logistics centre	ISO 14001	Certificate revised in 2014.
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 14001 and AKL's environmental programme	ISO 14001 certificate: Audi Center Espoo. Action programme of The Finnish Central Organisation for Motor Trades and Repairs (AKL): VV-Autotalot Oy
K-food stores: 845 K-responsibility stores	K-responsibility concept	Chain requirement for K-citymarket, K-supermarket, K-market and K-extra stores
K-rauta stores: 40 K-responsibility stores	K-responsibility concept	Total number of stores: 42
Rautia stores: 88 K-responsibility or K-environmental stores (including combination stores)	K-responsibility concept and K-environmental store concept	Total number of stores: 96
K-maatalous stores: 24 K-environmental stores	K-environmental store concept	Total number of stores: 35

Responsibility work focuses on materiality

Go to: Identified material aspects of corporate responsibility

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 one of the trading sector's pioneers 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, mid-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 details of individual objectives can be specified annually.

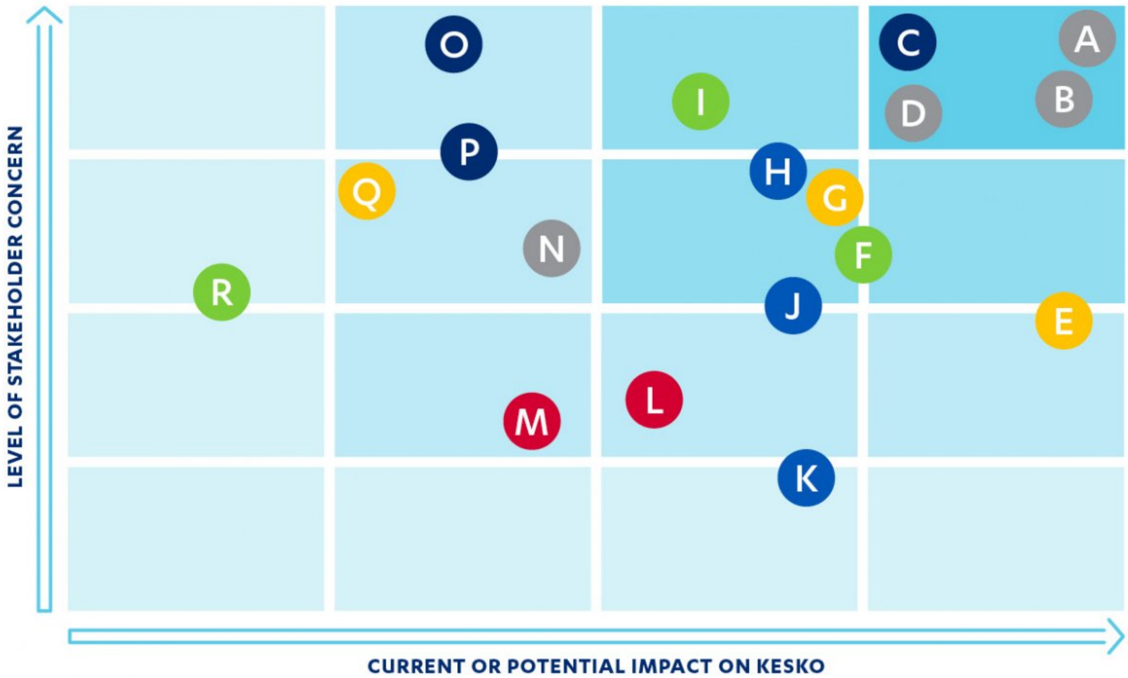
Materiality assessment

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 materiality assessment, and there was no need to update the materiality matrix.

Materiality assessment



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 them and listed in a note to the financial statements. The subsidiaries are listed in a note to the Kesko Group's 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 Kesko Group 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 were set 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 disclosures on 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 identified 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	Suppliers in high-risk countries
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

Contact information

Contacts

The list gives contact information on the personnel 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.

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Name	Title	Unit

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Matti Kalervo	Vice President, Corporate Responsibility	Kesko Corporation, Group Corporate Responsibility
Lena Leeve	Financial Communications Officer	Kesko Corporation, Investor Relations
Pirjo Nieminen (pirjo.j.nieminen (at) kesko.fi)	Communications Officer	Kesko Corporation, Group Corporate Responsibility

ECONOMIC RESPONSIBILITY:

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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
Ari Svensk	Vice President, Human Resources	Kesko Corporation, Kesko HR / Common Services
Janna Anttila	Manager, Wellbeing at Work	Kesko Corporation, Kesko HR / Common Services
Susanna Kukkonen	HRIS Manager	Kesko Corporation, Kesko HR / Common Services

RESPONSIBLE PURCHASING:

Marjut Lovio	Corporate Responsibility Manager	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	Manager, Engineering	Kesko Food Ltd, Store Sites and Retailer Functions
Satu Kuoppamäki	Project Manager	Kesko Food Ltd, Store Sites and Retailer Functions
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, Group Legal Affairs
Pasi Mäkinen	Chief Audit Executive	Kesko Corporation, Group Internal Audit
Timo Pajala	Risk Manager	Kesko Corporation, Group Risk Management
Petri Käyhkö	Security Manager	Kesko Corporation, Group 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	Assurance	Global Compact
General Standard Disclosures						
	Strategy and Analysis					
G4-1	Statement from the President and CEO	Review by the President and CEO				
G4-2	Key impacts, risks and opportunities	Trends in trading sector operating environment, Description of value creation, We listen to our stakeholders, Responsibility programme				
	Organisational Profile					
G4-3	Name of the organisation	Kesko in brief				
G4-4	Primary brands, products and services	Kesko in brief, Divisions in brief				
G4-5	Location of the organisation's headquarters	Kesko in brief				
G4-6	The number of countries where the organisation operates, and names of countries where either the organisation has significant operations 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, Impact on society				
G4-8	Markets served	Kesko in brief				
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 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.	Yes	x
G4-11	Percentage of total employees covered by collective bargaining agreements	Social impacts - Human rights			Yes	x
G4-12	Organisation's supply chain	Trends in trading sector operating environment, Procurement practices				

G4-13	Significant changes during the reporting period regarding the organisation's size, structure , ownership, or its supply chain	No significant changes during the reporting period.				
G4-14	Whether and how the precautionary approach or principle is addressed by the organisation	Trends in trading sector operating environment - Opportunities and risks related to the operating environment				
G4-15	Externally developed charters, principles or initiatives to which the organisation subscribes or which it endorses	Responsibility management in day-to-day activities, Responsibility monitoring and steering				
G4-16	Memberships of associations and advocacy organisations	Activities in organisations				
	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				
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, Stake-holder addresses, 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			Yes	
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 2014				
G4-35	Delegating authority	Responsibility management in day-to-day activities				
G4-36	Positions with responsibility	Senior Vice President, CFO and Senior Vice President, Corporate Responsibility, Communications and Stakeholder Relations				
G4-37	Consultation with stakeholders	We listen to our stakeholders, Corporate Governance Statement 2014				
G4-38	Composition of the Board of Directors	Board of Directors, Corporate Governance Statement 2014				
G4-39	Position of the Chair of the Board	Corporate Governance Statement 2014				
G4-40	Selection of the Board	Corporate Governance Statement 2014, Responsibility management in day-to-day activities				

G4-41	Processes to ensure conflicts of interest are avoided	Corporate Governance Statement 2014		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 2014, Responsibility management in day-to-day activities				
	Board's Competencies and Performance Evaluation					
G4-44	Board's performance evaluation	Corporate Governance Statement 2014	Only the Board's self-assessment has been reported.			
	Board's Role in Risk Management					
G4-45	Board's role in the identification and management of risks	Corporate Governance Statement 2014				
G4-46	Reviewing the effectiveness of risk management	Corporate Governance Statement 2014				
G4-47	Frequency of risk reviews	Corporate Governance Statement 2014				
	Board's Role in Sustainability Reporting					
G4-48	Formal approval of the organisation's sustainability report	Responsibility management in day-to-day activities				
	Board's Role in Evaluating Economic, Environmental and Social Performance					
G4-49	Communicating critical concerns	We listen to our shareholders, Corporate Governance Statement 2014				
	Remuneration and Incentives					
G4-51	Remuneration policies for the Board and senior executives	Corporate Governance Statement 2014, Remuneration Statement 2014				
	Ethics and Integrity					
G4-56	Organisation's values, principles and codes	Responsibility management in day-to-day activities, Responsibility monitoring and steering - Responsible operator				x
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, Responsibility management in day-to-day activities				
	Economic Impacts					
	Economic Performance					
G4-EC1	Direct economic value generated and distributed	Economic impacts – Economic performance			Yes	
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			Yes	
G4-EC4	Financial assistance received from government	Economic impacts – Economic performance, Analysis of shareholding			Yes	
	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			Yes	
	Procurement Practices					
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Economic impacts – Procurement practices			Yes	
	Environmental Impacts					
	Energy					
G4-EN3	Energy consumption within the organisation	Environmental impacts – Energy			Yes	x
G4-EN4	Energy consumption outside the organisation	Environmental impacts – Energy	Only a limited amount of data is collected on energy consumption outside the organisation for EN17 / Scope 3 review.			x
G4-EN5	Energy intensity	Environmental impacts – Energy			Yes	x
G4-EN6	Reduction of energy consumption	Environmental impacts – Energy			Yes	x

G4-EN7	Reductions in energy requirements of products and services	Environmental impacts – Energy	No numerical data on energy requirements of products and services have been reported. As for vehicles sold, average CO_2 emissions are reported.			x
	Water					
G4-EN8	Total water withdrawal by source	Environmental impacts – Water			Yes	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 ares of high biodiversity value outside protected areas	Environmental impacts – Biodiversity				x
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			Yes	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			Yes	x
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Environmental impacts – Emissions			Yes	x
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	Environmental impacts – Emissions			Yes	x
G4-EN18	Greenhouse gas (GHG) emissions intensity	Environmental impacts – Emissions			Yes	x
G4-EN19	Reduction of greenhouse gas (GHG) emissions	Environmental impacts – Emissions	Review has not been made in CO_2e tonnes.		Yes	x
G4-EN20	Emissions of ozone-depleting substances (ODS)	Environmental impacts – Emissions	Review has not been made in CFC-11e tonnes.		Yes	x
G4-EN21	NO_X , SO_X and other significant air emissions	Environmental impacts – Emissions			Yes	x
	Effluents and Waste					
G4-EN22	Total water discharge by quality and destination	Environmental impacts– Effluents and waste		Effluents from Kesko's operations go to municipal water 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			Yes	x
G4-EN24	Total number and volume of significant spills	Environmental impacts– Effluents and waste			Yes	x
	Products and Services					
G4-EN27	Extent of impact mitagation of environmental impacts of products and services	Product's path, Responsibility programme		GRI indicator is not suitable for Kesko's operations. Information material to Kesko is presented in the business review and the responsibility programme.		
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	Product's path, Environmental impacts - Effluents and waste		GRI indicator is not suitable for Kesko's operations. Information material to Kesko is presented in the business review 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 2016–2018.			x
	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	New employees hired have not been reported by age group. Turnover rate has not been reported by age group and gender. Information not available. The aim is to report the information 2016–2018.		Yes	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	Arrangements compliant to legislation. The law does not define minimum notice periods at the precision required by GRI.			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.			
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 2016–2018.		Yes	
	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.		Yes	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			Yes	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Social impacts – Employees	Not reported by gender and employee category. Information not available.		Yes	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 2016–2018.		Yes	x
	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 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.		Yes	
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	Social impacts – Human rights			Yes	
	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 2018–2020.			

	Human Rights					
	Non-discrimination					
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Social impacts – Human rights			Yes	x
	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, Product's path		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.	Yes	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	Not reported by country. Information not available. The aim is to report the information in 2016.			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.		Yes	x
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	Social impacts – Human rights			Yes	x
	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. 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			Yes	x
	Public Policy					
G4-SO6	Total value of political contributions by country and recipient/beneficiary	Social impacts – Society	Not reported by country and recipient/beneficiary.		Yes	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			Yes	
	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			Yes	
	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.		Yes	
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			Yes	
	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	Percentages have not been reported. Information is not available.		Yes	
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			Yes	
G4-PR5	Results of surveys measuring customer satisfaction	Social impacts – Product responsibility	Results of customer satisfaction surveys have not been reported. No Group-level results are available.		Yes	
	Marketing Communications					
G4-PR6	Sale of banned or disputed products	Social impacts – Product responsibility			Yes	
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			Yes	
	Customer Privacy					
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Social impacts – Product responsibility			Yes	
	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			Yes	

Economic impacts

The management approach to economic responsibility, including operating principles and monitoring and control systems, is described in the section on Responsibility management.

INDICATORS

Economic performance

Indicators: EC1–EC4

INDICATORS

Indirect economic impacts

Indicators: EC7–EC8

INDICATORS

Procurement practices

Indicators: EC9

Economic performance

EC1 Direct economic value generated and distributed

Kesko assesses the economic benefits it generates with regard to different stakeholder groups and market areas. Stakeholder welfare in its market areas is important for Kesko and its international trading operations also promote increasing welfare outside its own markets, especially in 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 consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows are presented in full in the Financial statements.

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 Annual General Meeting that a total dividend of €149 million be paid for the year 2014, which represents 91.1% of earnings per share excluding non-recurring items. In 2014, Kesko distributed a total of €138 million as dividends for the 2013 profit, which represented 83.3% of earnings per share excluding non-recurring items.

As at 31 December 2014, foreign ownership of all shares was 27%. Foreign ownership of B shares was 39% as at 31 December 2014.

The price of the liquid B shares increased by 12.6% and that of the less liquid A shares by 6.6%, while the NASDAQ OMX Helsinki All Share Index increased by 5.7%. The B share trading volume fell by 7.8%, but the value increased by 14.0% on the Helsinki stock exchange. The A share trading volume increased by 75.3% and the value by 104.9% from the previous year.

The largest foreign shareholders are from the United States, the United Kingdom, Sweden and Norway (source: BigDough).

Economic benefits from Kesko's operations to stakeholder groups

€ million		**2014**	**2013**	**2012**
Customers[1]	Revenues	9,800	10,050	10,433
Value added generated		9,800	10,050	10,433
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-8,839	-9,037	-9,454
Employees	Salaries, fees and social security costs	-614	-611	-608
Payments to providers of capital	Net finance income/costs	-6	-6	-2
Owners	Dividend	-149[2]	-138	-118
Public sector	Taxes[3]	-37	-58	-75
Community investments	Donations	-1	-1	-1
Development of business activities		154	198	176

[1] Incl. net sales and other operating income

[2] Proposal to the General Meeting

[3] Incl. income tax and changes in deferred taxes

Basic information on Kesko shares and shareholders as at 31 December

	2014	2013	2012
Number of shares (1,000 pcs)	100,020	99,833	98,712
Share capital (€ million)	197	197	197
A shares as percentage of all shares (%)	32	32	32
B shares as percentage of all shares (%)	68	68	68
A shares as percentage of all votes (%)	82	82	83
B shares as percentage of all votes (%)	18	18	17
Market capitalisation of A shares (€ million)	906	851	774
Market capitalisation of B shares (€ million)	2,031	1,810	1,644
Number of shareholders	39,869	42,809	44,554
Earnings per share, diluted (€)	0.97	1.75	1.26
Dividend per share (€)	1.50[1]	1.40	1.20

[1] Proposal to the General Meeting

Economic benefits from Kesko's operations by market area in 2014

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Pension and social security expenses	Taxes[1]	Total
Finland	5,203	115	360	80	732	**6,491**
Other Nordic countries	639	6	44	14	33	**737**
Baltic countries	253	6	54	4	26	**344**
Russia and Belarus	342	66	45	13	20	**485**
Other countries	1,185					**1,185**
Total	**7,623**	**194**	**503**	**111**	**810**	**9,242**

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

10 largest shareholders by number of shares held (A and B series) as at 31 December 2014

	Percentage of shares, %	Percentage of votes, %
K-Retailers' Association	3.74	9.70
Vähittäiskaupan Takaus Oy	3.49	7.04
Kruunuvuoren Satama Oy	3.44	8.92
Ilmarinen Mutual Pension Insurance Company	1.88	1.19
Valluga-sijoitus Oy	1.34	3.48
Elo Mutual Pension Insurance Company	1.19	0.31
Varma Mutual Pension Insurance Company	1.13	0.29
Foundation for Vocational Training in the Retail Trade	1.06	2.39
Oy The English Tearoom Ab	1.00	0.26
Kesko Corporation	1.00	0.26

Store network

The K-Group's store network is diverse: more online stores are being opened to complement the network of around 2,000 physical stores. The K-Group has a comprehensive network of over 900 K-food stores. The grocery trade services cover nearly all municipalities in Finland and K-food stores are visited by around 900,000 customers every day. Kesko also has a large number of B2B customers. Outside Finland, Kesko engages in the food trade, the building and home improvement trade, the machinery trade and the sports trade. At the end of 2014, Kesko had 1,030 independent K-retailer entrepreneurs and, in addition, 147 other retailer entrepreneurs as partners. Kesko's sales to retailer entrepreneurs accounted for 51% of total sales in 2014.

Kesko and K-retailers form the K-Group, whose retail sales totalled €11.3 billion (VAT 0%) in 2014. The K-Group employs approximately 45,000 people.

Employee benefit expenses

€ million	2014	2013	2012
Salaries and fees	497	495	503
Social security expenses			
pension costs	64	64	52
social security costs	47	49	49
Share-based payments	6	3	3
Total	**614**	**611**	**608**

In 2014, foreign operations accounted for €143 million of total salaries.

In 2014, foreign operations accounted for €31 million of total pension costs and other social security expenses.

Kesko's community investments

€1,000	2014	2013	2012
Non-governmental, environmental and other organisations	474	207	109
Science, research and education	65	32	86
Culture	36	59	51
Sports (adults)	556	575	470
Health care	11	2	0
Youth sports and other youth work	244	281	125
Veteran organisations and national defense	4	6	15
Political parties and organisations	5	5	4
Total	**1,395**	**1,168**	**860**

In addition, Veikkaus Oy contributed an estimated revenue of €55-60 million to the Ministry of Education and Culture, generated from 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 2014. 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.

K-food stores in Finnish municipalities (as at 31 December 2014)

Number of K-food stores	Municipalities in 2014	% of all municipalities
10 or more	15	4.7
7–9	9	2.8
5–6	18	5.6
3–4	48	15.0
2	53	16.6
1	132	41.3
0	45	14.1
Municipalities, total	**320**	**100.0**

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

Key objectives of Kesko's responsibility work include mitigating the progress of climate change.

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

More detailed information about risk management and control practices at www.kesko.fi.

Climate change presents physical and regulatory risks and opportunities as well as risks and opportunities affecting reputation 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 also destroy agricultural harvests.
- 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 emissions trading and taxation.
- The implementation of the EU and Finnish Government climate and energy policy will affect future energy solutions and may increase energy prices, adding to pressures for energy savings.

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.
- K-maatalous' cultivation programme tests the suitability of plant varieties for the Finnish climate. The aim is to help customers choose the best varieties and cultivation methods for Finnish conditions.
- 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

Kesko Group operates several pension plans in its various 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 486. The statutory pensions organised through pension insurance companies are defined contribution plans. The supplementary pension provision organised by Kesko Pension Fund is a defined benefit plan. As at 31 December 2014, the plan obligation was €289.3 million (€247.5 million in 2013), which is fully covered. In accordance with IFRS, the surplus amount was €147.2 million as at 31 December 2014 (€170.2 million in 2013). Calculated in compliance with IFRS (Pension Fund's insurance premium is based on a defined benefit plan), the Group's total premium represents 12.8% of the amount of salaries (12.9% in 2013). Read more in the Financial Statement, Note 17.

In the other countries, retirement benefits 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 2014, the Group received financial assistance of €1.4 million from the Finnish government. No significant financial assistance has been received from other governments.

Indirect economic impacts

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.

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 2014, the following were located in connection with K-food stores:

- 160 postal sales outlets and 137 parcel points
- 17 pharmacy service points
- 8 Matkahuolto outlets and 4 parcel points
- Cashback service at more than 700 stores

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 in more detail under EC1 Direct economic value generated and distributed.

Kesko's community investments

	2014	2013	2012
€ 1,000	1,395	1,168	860

EC8 Significant indirect economic impacts, including the extent of impacts

Kesko is a service sector company which, in addition to its own direct impacts, has indirect impacts related to the production, use and recyclability of products, which play a significant part of the whole.

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, social security expenses and capital expenditure paid by Kesko and its retailers have impacts on regional economic wellbeing.

Kesko is a significant tax payer. In 2014, the income taxes paid by Kesko to Finland were €23.7 million and to other countries €12.9 million. The Group's effective tax rate was 25.2%. Kesko paid €4.9 million in real estate to Finland, and €5.6 million in real estate and net-worth taxes to its other operating countries in 2014.

Kesko also collects, reports and remits indirect taxes. Indirect taxes include, for example, value-added tax and excise taxes. Value-added tax is a consumption tax paid by the end consumers of goods and services – in other words, households. Kesko remits value-added taxes to tax recipients in its capacity as a company selling goods and services. In 2014, Kesko remitted value-added taxes to Finland in the amount of €358.3 million, and €32.9 million to other countries. As for excise tax, it is a consumption tax collected from the manufacturer, producer, importer or wholesaler of certain products and remitted to tax recipients. Excise tax is included in the product price, which makes it payable by the consumer. Kesko remits excise taxes on products such as confectionery, alcohol and soft drinks. In 2014, Kesko remitted excise taxes to Finland in a total amount of €59.8 million.

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

Taxes

€ million	2014	2013	2012
Income taxes, Finland	23.7	51.7	69.4
Income taxes, other countries	12.9	5.9	5.3
Real estate taxes, Finland	4.9	4.4	3.8
Real estate and net-worth taxes, other countries	5.6	5.8	4.2

Taxes remitted

€ million	2014	2013	2012
Value-added taxes, Finland	358.3	377.6	319.8
Value-added taxes, other countries	32.9	42.9	42.0
Withholding taxes, Finland	93.3	92.2	91.7
Withholding taxes, other countries	20.5	22.8	23.1
Car taxes, Finland	179.8	178.3	[1]
Customs duties, Finland	12.2	13.0	[1]
Customs duties, other countries	6.7	6.8	[1]
Excise duties, Finland	59.8	71.0	[1]

[1] Information not available

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2014

Region	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
€ million							
Southern Karelia	5.6	14.9	7.7	5.3	12.0	1.1	**46.6**
Southern Ostrobothnia	255.1	35.3	0.7	5.1	12.3	0.8	**309.4**
Southern Savo	31.6	13.9	1.2	4.3	11.5	1.0	**63.4**
Kainuu	4.7	6.3	1.0	1.4	6.5	0.6	**20.5**
Kanta-Häme	93.9	24.5	0.9	4.4	10.8	0.5	**135.1**
Central Ostrobothnia	43.0	14.8	5.1	1.9	4.5	0.7	**70.0**
Central Finland	52.1	21.5	3.6	9.3	17.8	1.7	**106.0**
Kymenlaakso	44.1	16.9	1.3	6.2	11.7	1.0	**81.2**
Lapland	19.0	25.3	0.9	5.5	17.4	1.8	**69.9**
Pirkanmaa	318.0	28.7	4.9	25.0	32.4	2.6	**411.7**
Ostrobothnia	134.1	8.6	2.2	4.8	8.5	0.6	**158.8**
Northern Karelia	23.8	22.3	0.3	4.2	11.3	1.6	**63.4**
Northern Ostrobothnia	108.0	41.5	6.9	16.1	25.3	2.1	**199.9**
Northern Savo	162.8	30.3	3.4	11.2	19.6	1.4	**228.6**
Päijät-Häme	128.7	32.5	7.1	8.7	12.5	0.7	**190.2**
Satakunta	106.6	27.2	7.5	4.0	15.2	0.9	**161.4**
Uusimaa	2,967.4	147.3	81.4	261.5	114.4	10.1	**3,582.1**
Varsinais-Suomi	652.0	55.0	7.1	23.5	33.0	2.6	**773.3**
Åland	28.6	-	-	-	-	-	**28.6**
Total	**5,179.2**	**566.7**	**143.5**	**402.3**	**376.8**	**31.8**	**6,700.3**

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.

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

Procurement practices

EC9 Proportion of spending on local suppliers

Kesko assesses the economic benefits 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 benefits generated by Kesko's operations – approximately 84% of Kesko's net sales – flow to suppliers of goods, from which purchases were valued at €7.6 billion in 2014.

In 2014, Kesko had around 21,800 suppliers and service providers from whom purchases were valued at over €1,000 during the year. Of these, around 10,200 operated in Finland, around 8,500 in Kesko's other operating countries, and around 3,100 elsewhere.

The 10 largest suppliers accounted for 23.5% (23.6% in 2013) of the Group's purchases of goods, and the 100 largest suppliers for 52.2% (52.0% in 2013). Six out of the 10 largest suppliers were Finnish food industry companies, one import company operating in Finland, one a grocery trade company and two German car manufacturers.

The purchases of all Kesko companies from suppliers of goods operating in Finland totalled €5,203 million, accounting for 68.3% (68.9% in 2013) of the Group's total purchases.

The purchases of goods by Kesko Group's Finnish companies totalled €6,330 million. Of these purchases, 81.8% were from suppliers operating in Finland and 18.2% 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 2014, K-retailers' direct purchases from Finnish regions totalled €567 million.

Capital expenditure

In 2014, Kesko's capital expenditure totalled €194 million (€171 million in 2013), or 2.1% of net sales (1.8% in 2013). Capital expenditure in store sites was €143 million (€125 million in 2013). Capital expenditure in foreign operations accounted for 40.5% (41.3% in 2013) of the total capital expenditure.

In addition to Kesko, K-retailers annually make capital expenditures in the fixtures of stores used by the K-Group. When these figures are included, the total capital expenditure in Finland was around €143 million in 2014.

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.

Kesko's purchases by operating country in 2014

	Suppliers of goods and services in operating country[1]	Purchases from suppliers of goods[2]		Suppliers of goods and services in other countries[1]	Purchases from suppliers of goods[2]	
	number	€ million	%	number	€ million	%
Finland	10,052	5,179	81.8	2,052	1,151	18.2
Sweden	858	111	84.8	100	20	15.2
Norway	940	377	97.5	31	10	2.5
Estonia	774	49	54.5	203	41	45.5
Latvia	694	28	37.9	238	47	62.1
Lithuania	826	79	32.5	1,191	165	67.5
Russia	2,156	263	95.9	57	11	4.1
Belarus	1,222	57	62.6	385	34	37.4
Total	**17,522**	**6,144**	**80.6**	**4,257**	**1,479**	**19.4**

[1] Suppliers of goods and services

[2] Suppliers of goods

Kesko's purchases by company's and supplier's country of domicile in 2014

	Supplier's country of domicile									
Company's country of domicile	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus	Other countries	Total
€ million										
Finland	5,179	132	8	37	3	8	0	0	962	**6,330**
Sweden	4	111	3	0	0	0	0	0	12	**131**
Norway	0	6	377	0	0	0	0	0	3	**386**
Estonia	12	1	0	49	5	2	0	0	21	**90**
Latvia	3	0	0	7	28	2	0	0	34	**75**
Lithuania	4	1	0	8	20	79	3	2	128	**245**
Russia	0	0	0	1	0	0	263	0	10	**275**
Belarus	1	0	0	0	0	2	17	57	15	**92**
Total	**5,203**	**251**	**389**	**104**	**57**	**92**	**283**	**59**	**1,185**	**7,623**

Environmental impacts

At the end of 2014, the environmental systems covered:

- 63% of the net sales of Group companies in Finland
- 53% of the net sales of the whole Group

The coverage has been calculated in proportion to retail sales. Environmental systems are not yet used for operations in the other operating countries.

INDICATORS

Energy

Indicators: EN3–EN7

INDICATORS

Water

Indicators: EN8–EN10

INDICATORS

Biodiversity

Indicators: EN11–EN14

INDICATORS

Emissions

Indicators: EN15–EN21

INDICATORS

Effluents and waste

Indicators: EN22–EN24

The K-Group's environmental and energy policy is available on the Kesko website.

Energy

Energy consumption

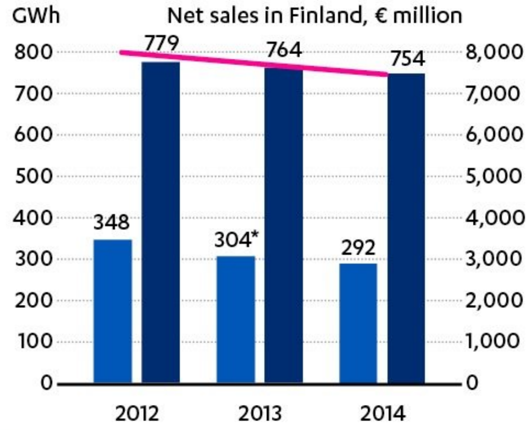
Finland	2014	2013	2012
Electricity (MWh)	754,301	764,387	778,961
Heat (MWh)	292,453	304,141 [1]	347,643
Total electricity and heat (MWh)	1,046,754	1,068,528	1,126,604
Water (m³)	935,472	920,414	893,803

Other operating countries			
Electricity (MWh)	96,231	91,658	88,367
Heat (MWh)	46,723	39,685	38,308
Total electricity and heat (MWh)	142,954	131,343	126,675
Water (m³)	176,784	154,733	127,658

All operating countries			
Total electricity (MWh)	850,532	856,045	867,328
Total heat (MWh)	339,176	343,826	385,951
Total electricity and heat (MWh)	1,189,708	1,199,871	1,253,279
Total water (m³)	1,112,256	1,075,147	1,021,461

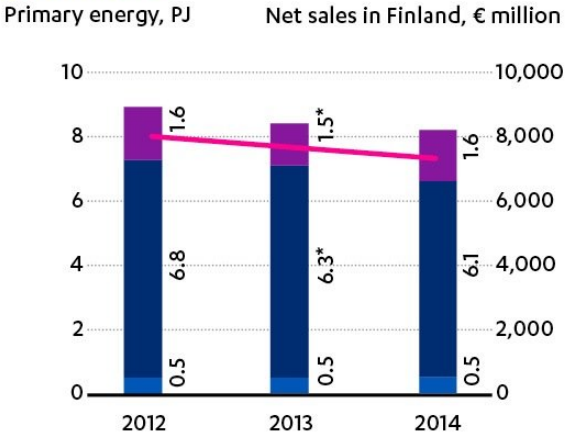
[1] Figure adjusted for improved accuracy since the previous report

Total energy consumption in properties managed by Kesko in Finland



* more specific figure was obtained after the previous report was published

Profile for energy consumed in properties managed by Kesko in Finland



* more specific figure was obtained after the previous report was published

EN3 Energy consumption within the organisation and EN5 Energy intensity

Consumption of electric and heating energy in Kesko's office and warehouse properties and the K-Group stores in 2014:

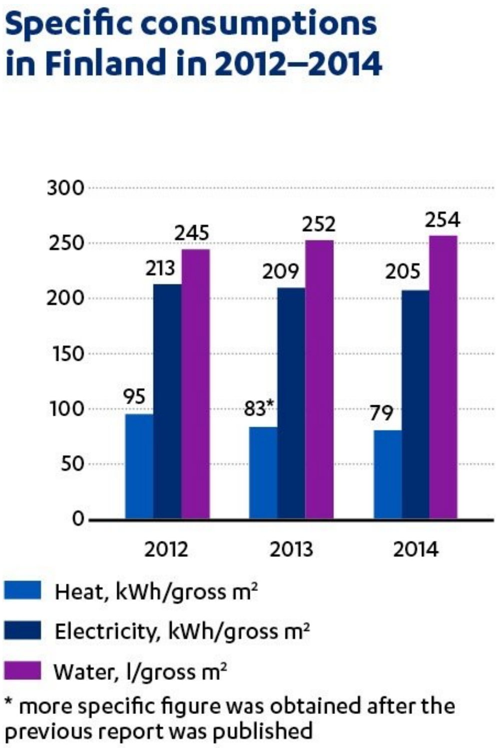
- In Finland: 3,768 TJ (1,047 GWh)
- In other operating countries: 515 TJ (143 GWh)

Consumption of fuel (diesel oil) in Kesko's (Keslog / Kesko Food and Anttila) own transport of goods or in transport under its direct control in 2014:

- In Finland: 527 TJ (146 GWh)
- No figures available for other operating countries

Kesko's total energy consumption within the organisation in 2014 was 4,810 TJ.

Energy consumption in real estate in Finland



Energy consumption in properties managed by Kesko in 2014:

- Total consumption of electricity: 754 GWh (764 GWh in 2013)
- Specific consumption of electricity: 205 kWh/gross m² (209 kWh/gross m² in 2013)
- Total consumption of heating energy: 292 GWh (304 GWh in 2013, figure adjusted for improved accuracy since the previous report)
- Specific consumption of heating energy: 79 kWh/gross m² (83 kWh/gross m² in 2013, figure adjusted for improved accuracy since the previous report)

The K-Group is a signatory of the trading sector energy efficiency agreement. Read more about our actions related to reducing electricity and heating energy in section EN6. It must be noted that according to the statistics of the Finnish Meteorological Institute, the average temperature of 2014 was higher than the previous year, although the average temperature of 2013 was also 1–2 °C higher than the long-term average.

Energy consumption is monitored in some properties using multi-energy monitoring and in some properties by monitoring the consumption of electricity. Multi-energy monitoring includes accounting for the consumption of electricity, heating energy and water. The total area of the properties covered by multi-energy monitoring is 2,647,129 m². This corresponds to 72% of all properties. The total area of properties that are monitored for electricity consumption only is 496,162 m², which corresponds to 13% of all properties.

Specific consumption rates for all property types were determined on the basis of monitoring data. The energy consumption of properties outside the scope of monitoring activities was then also calculated using these specific consumption rates. Electricity and heating energy consumption statistics by property type and changes in properties in Finland are available in the report by Energiakolmio.

Energy consumption in real estate in other operating countries

Energy consumption in real estate managed by Kesko in 2014:

- Total consumption of electricity: 96 GWh (92 GWh in 2013)
- Specific consumption of electricity: 94 kWh/gross m^2 (90 kWh/gross m^2 in 2013)
- Total consumption of heating energy: 47 GWh (40 GWh in 2013)
- Specific consumption of heating energy: 46 kWh/gross m^2 (39 kWh/gross m^2 in 2013)

The increases in the total and specific consumptions of electricity and heating energy since the previous year can be attributed to the four K-food stores that opened in Russia in 2013 and 2014. The cold chain and the need for heated premises in grocery stores and food warehouses require greater amounts of energy in comparison with other retail sectors. The specific consumptions in foreign operations are, however, smaller on average than in Finland, because food retailing still accounts for a small proportion of business operations.

Some of the heating energy was self-produced. Heat is mainly produced using non-renewable energy types: gas and oil. In Belarus, timber (516 MWh) and peat (105 MWh) were also used for heating. In 2014, self-produced heat totalled 29 GWh.

Self-produced electricity was no longer used at K-food Russia stores in 2014.

In 2014, the total area of subsidiaries' properties in other operating countries was 1,024,000 m^2.

Fuel consumption of transport of goods in Finland – Calculation

Fuel consumption was calculated using data on kilometres driven, volumetric efficiencies and the transportation fleet. In 2014, the total distance driven by Keslog was 33.4 million kilometres (32.2 million km in 2013).

The calculation was made in accordance with the Lipasto calculation system of VTT Technical Research Centre of Finland.

EN4 Energy consumption outside of the organisation

The consumption of energy purchased by retailers is included in the EN3 indicator.

Only a limited amount of data on energy consumption outside of the organisation is collected for Scope 3 reporting (EN17 Other indirect greenhouse gas emissions).

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 store chains that belong to the K-Group.

During 2014, Kesko improved its energy consumption by 59 GWh with the implemention of varying energy-saving activities, which means that 90% of the savings commitment of the energy-efficiency agreement was achieved. Plans are underway for a continuation of the energy-efficiency agreement after 2016. Kesko has committed to negotiate a new agreement with the other trading sector companies that will begin in 2017.

The energy consumption at store sites consists of:

- consumption related to store operations, such as lighting and electrical equipment
- consumption related to the property, such as HVAC equipment and outdoor lighting

In food stores, the consumption of refrigeration systems can account for more than half of the total electricity consumption at small store sites. K-food stores have installed a total length of over eight kilometres of lids and doors on freezer equipment. Lids on freezer chests save 40% of the electrical energy consumed by uncovered equipment. Installing doors on dairy and juice cabinets also helps grocery stores save electricity.

The remote monitoring of refrigeration systems in stores helped save approximately 4.1 GWh of energy in 2014. Remote monitoring enables refrigeration equipment to be adjusted for optimum temperatures and defrosting cycles. In addition, deviations can be responded to immediately. 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.

When Kesko builds new stores or shopping centres, the lifecycle energy and material efficiencies of the buildings are considered already during the planning phase. For example, the Veturi shopping centre, which opened in 2013, uses a geothermal heating and cooling system that generates around half of the centre's heating and cooling energy. This solution generates an annual energy saving of 1.9 GWh.

The Kodin1 department store for interior decoration and home goods in Raisio, which opened in 2013, is the first passive retail store building in the Nordic countries. Eco-efficient activities reduce the consumption of heating energy by about 60% and the consumption of electricity by about 50% compared with a traditional department store. Modern building automation saves energy by adjusting the lighting and air conditioning according to the movement of people and the time of day at Veturi and Raisio.

In February 2015, the building automation of 167 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 responses to disturbances. Setting the correct running times and set points is the easiest and most effective way to improve energy efficiency. The average specific heat energy consumption of remote controlled properties was 11% lower compared to non-remote controlled properties. The specific electrical energy consumption of remote controlled properties was 2.8% lower than non-remote controlled properties.

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. The renovation programme contains estimates of the refurbishment that should be made within 10 years.

LED technology is used in the illuminated signs of all new stores. The resulting savings compared to ordinary neon and fluorescent tube solutions are 60–70%. LED technology is also used to light outdoor areas at K-supermarket Jalasjärvi and the Veturi shopping centre, for example.

Information about energy savings in Keslog's logistics is in the section EN19 Reduction of greenhouse gas (GHG) emissions.

EN7 Reductions in energy requirements of products and services

Rautakesko's Energy Expert service concept is available at K-rauta and Rautia stores. The concept involves a range of solutions for higher energy efficiency in homes, which a sales assistant familiar with building services can use to find the best solution for the customer. The Energy Expert concept also includes an optional installation service provided by K-rauta and Rautia stores. In 2014, the expertise available at stores was reinforced with training courses, which were attended by employees from almost all of the K-rauta and Rautia stores.

In 2014, the CO_2 emissions of passenger cars registered for the first time in Finland were 128.40 g/km (130.0 g/km in 2013). Of the car brands imported by Kesko last year, the average CO_2 emissions of Volkswagen passenger cars, for example, were 118.00 g/km (123.63 g/km in 2013). The Volkswagen Group is committed to reducing the average CO_2emissions of its entire range to 95 g/km in Europe by 2020.

In 2014, Volkswagen launched two battery electric vehicles with zero emissions on the Finnish market, the e-Golf and e-up! models. In addition, the cars brands imported by Kesko included three hybrid models: the Jetta and Golf GTE by Volkswagen and the Audi A3 Sportback e-tron.

Water

EN8 Total water withdrawal by source

Finland has abundant water resources. Due to the virtual water footprint associated with the import of processed goods, around half of the water footprint of Finnish consumption falls outside of Finland (source: www.waterfootprint.org), which means that Kesko's most significant impacts from water consumption are caused through the products on sale.

Properties managed by Kesko in Finland and in other operating countries use water from municipal water supplies. Exceptions are one well on a property of Konekesko Eesti and two wells used by UAB Senukai in Lithuania.

In the K-Group's own operations, water is mainly used for cleaning. Maintaining a high level of hygiene is particularly important in food stores. General requirements for hygiene concerning food stores are described in the Finnish Food Act and the decree on premises selling food.

In Russia, three K-food stores opened during 2013 and one in 2014, causing water consumption to rise 72% in 2014. The purchase and repair of used machinery at Konekesko Lithuania has grown in 2014 leading to a water use increase of 69% due to washing of used machinery before repair. Car wash facilities at Neste Oil K-markets in Finland are big individual consumers of water.

Water consumption at properties managed by the K-Group in 2014:

- In Finland: 935,472 m^3 (920,414 m^3 in 2013)
- In the other operating countries: 176,784 m^3 (154,733 m^3 in 2013)

Water consumption statistics by property type and changes in properties in Finland are available in the report by Energiakolmio.

EN9 Water sources significantly affected by withdrawal of water

All properties managed by Kesko use water from municipal water supplies. Exceptions are one well on a property of Konekesko Eesti and two wells used by UAB Senukai in Lithuania. Significant water withdrawal from water sources does not occur.

EN10 Percentage and total volume of water recycled and reused

Kesko does not recycle or reuse water. All wastewater from operations goes to municipal sewer systems.

Biodiversity

EN11 Operational sites owned and managed in areas of high biodiversity value, and EN12 Description of significant impacts of activities on biodiversity in protected areas and areas of high biodiversity value

Kesko builds store sites only in areas planned 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. Indirect impacts occur through products on sale. Read more about our Statements and Policies regarding products on the Kesko website.

Kesko participates in the Business & Biodiversity Finland programme organised jointly by the Corporate Responsibility Network FIBS and the Ministry of Environment of Finland. The programme, initiated in 2014, offers companies information and tools for managing their own environmental impacts, risks and opportunities. The goal of the programme is to increase awareness of the significance of biodiversity in business operations.

EN13 Habitats protected or restored

Kesko does not have any protected or restored habitats.

Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2014, contaminated soil was found at two sites in Savonlinna and Espoo from which a total of 552 tonnes of contaminated soil was removed.

The restoration at Savonlinna was carried out by Ramboll Finland Oy with permission of the South Savo Centre for Economic Development, Transport and the Environment (ELY Centre). The residual content samples were verified at SGS Inspection Services laboratories for compliance with regulatory threshold levels.

At the Espoo site, VV-Auto Group Oy restored the contamined land under technical supervision from Insinööritoimisto Pohjatekniikka Oy. The Espoo Environment Department acted as the supervising authority and the residual content samples were verified by Novalab Oy laboratories as compliant with regulatory threshold levels.

The contaminated soil was successfully removed from both sites and follow-up actions are not required at either site.

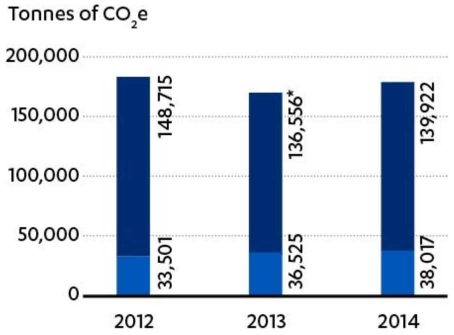
EN14 Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations

No endangered species are directly affected by Kesko's operations. Indirect impacts occur through products on sale. Read more about our Statements and Policies regarding products on the Kesko website.

Emissions

Kesko reports direct and indirect greenhouse gas emissions from its operations using the GHG Protocol.

Climate change impacts under GHG protocol, Scope 1 and Scope 2, Finland



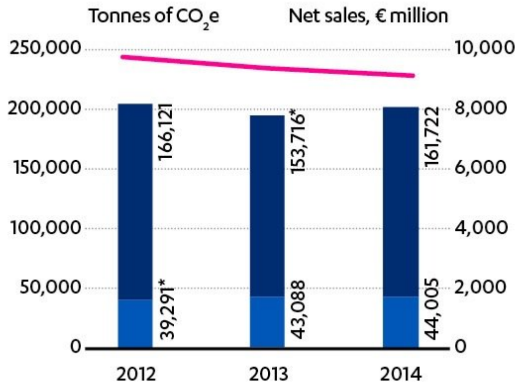
Scope 1, own energy production as well as own transportation and that controlled by Keslog

Scope 2, purchased energy

Own energy production in 2012 is partly included in Scope 2 figures.

* more specific figure was obtained after the previous report was published

Climate change impacts under GHG protocol, Scope 1 and Scope 2, all operating countries



Scope 1, own energy production as well as own transportation and that controlled by Keslog

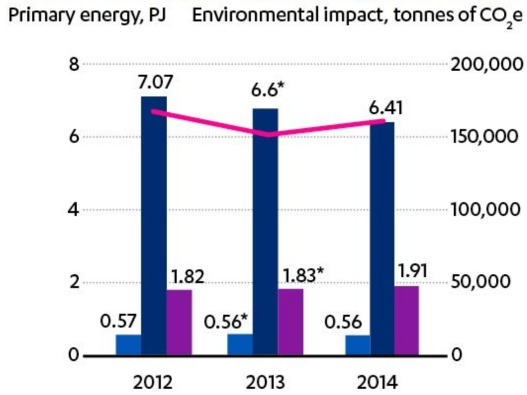
Scope 2, purchased energy

Net sales, all operating countries

Own energy production in Finland in 2012 is partly included in Scope 2 figures.

* more specific figure was obtained after the previous report was published

Profile and environmental impact of energy purchased and consumed by the K-Group, all operating countries



Renewable

Nuclear power

Non-renewable

Climate change

* more specific figure was obtained after the previous report was published

EN15 Direct greenhouse gas (GHG) emissions (Scope 1)

Direct greenhouse gas emissions produced by Kesko's operations in 2014 include:

- Own transport of goods and transport directly controlled by Kesko in Finland (Keslog): 36,915 tonnes of CO_2e (35,582 tonnes of CO_2e in 2013)
- Heating in Finland (properties managed by Kesko; oil and natural gas): 1,102 tonnes of CO_2e (943 tonnes of CO_2e in 2013)
- Total own transport of goods and transport directly controlled by Kesko and heating in Finland: 38,017 tonnes CO_2e (36,525 tonnes CO_2e in 2013)
- Data on transport of goods in the other operating countries is not available
- Heating in the other operating countries (oil, gas, peat and timber[1]): 5,988 tonnes of CO_2e (6,563 tonnes of CO_2e in 2013)

In Finland, the logistics for Kesko Food and Anttila is managed by Keslog. The emission values of Keslog's own transport of goods and transport under its direct control were calculated based on data including kilometres driven, volumetric efficiencies and the transportation fleet. The calculations were made using the Lipasto system developed by VTT Technical Research Centre of Finland.

The calculation principles and more detailed calculations for heating are available in the reports by Energiakolmio:

- Finland
- Other operating countries

[1] The biogenous CO_2 emission figure of the timber used for heating one facility in Belarus has been reported in the Scope 1 total emission figures of the other operating countries, because its proportion of the total fuel quantity is insignificant (about 2%).

EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2)

Indirect greenhouse gas emissions caused by energy consumption by properties managed by Kesko in 2014:

- Electricity purchased in Finland: 79,795 tonnes of CO_2e (73,836 tonnes of CO_2e in 2013; figure adjusted for improved accuracy since the previous report)
- District heat purchased in Finland: 60,127 tonnes of CO_2e (62,720 tonnes of CO_2e in 2013; figure adjusted for improved accuracy since the previous report)
- Total electricity and district heat purchased in Finland: 139,922 tonnes of CO_2e (136,556 tonnes of CO_2e in 2013; figure adjusted for improved accuracy since the previous report)
- Electricity purchased in the other operating countries: 17,362 tonnes of CO_2e (14,442 tonnes of CO_2e in 2013)
- District heat purchased in the other operating countries: 4,438 tonnes of CO_2e (2,718 tonnes of CO_2e in 2013)
- Total electricity and district heat purchased in the other operating countries: 21,800 tonnes of CO_2e (17,160 tonnes of CO_2e in 2013)

The electricity supplied by Kesko, 469 GWh (501 GWh in 2013), covers 62.2% of the total consumption of Kesko's properties in Finland. The electricity supplied by Kesko was largely carbon-free electricity from Helsingin Energia produced by nuclear power. However, a portion of the electricity was carbon-free electricity produced with biogas by KSS Energia. Consequently, the carbon dioxide emissions from the electricity purchased by Kesko were zero in 2014.

The calculation principles and more detailed calculations are available in the reports by Energiakolmio:

- Finland
- Other operating countries

EN17 Other indirect greenhouse gas (GHG) emissions (Scope 3)

Scope 3 categories

Tonnes of CO_2e	2014	2013
Upstream		
Purchased goods and services	5,922,000	-
Capital goods (buildings)	9,900	20,200
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	76,100	54,900
Transport and distribution of goods [1]	18,600	26,300
Waste	10,100	8,500
Business travel [2] [3]	2,800	3,000
Employee commuting [2]	7,800	10,800
Downstream		
Customer visits (shopping trips) [2]	166,100	174,000
Use of sold products	1,093,900	-
End-of-life treatment of sold products	28,000	-
Franchises [2]	27,800	-

[1] Calculation includes distribution of goods in Finland and, to a limited extent, transportation of imports (car trade and building and home improvement trade)

[2] Only calculated for operations in Finland

[3] Calculation includes travel (by air, sea, rail, and road) and hotel accommodations

No information on kilometres driven or any emission calculations are available for transport of imports. Goods were transported from other European countries by truck, semi-trailer and container. Containers were the only form of transport for imports from outside of Europe.

Transport of goods by subsidiaries in other countries is divided between a larger number of logistics companies than in Finland. Some manufacturers transport their products directly to stores. The transport statistics are incomplete and emissions have not been calculated for 2014. The development of collecting transport statistics for the other operating countries will continue in order to report emissions for 2015.

The greenhouse gases are reported in CO_2-equivalents; more information on the calculation principles can be found in the Scope 3 GHG Inventory Report.

EN18 Greenhouse gas (GHG) emissions intensity

Emissions intensity ratio (Scope 1 and 2) calculated based on net sales in 2014 (€9,071 million):

22.7 tonnes of CO_2e/€ million (21.1 tonnes of CO_2e/€ million in 2013; figure adjusted for improved accuracy since the previous report)

Emissions intensity ratio (Scope 1 and 2) calculated based on the average number of employees in 2014 (19,976 full-time employees):

10.3 tonnes of CO_2e/person (10.1 tonnes of CO_2e/person in 2013; figure adjusted for improved accuracy since the previous report)

The greenhouse gases are reported in CO_2-equivalents; more information on the calculation methods can be found in the reports by Energiakolmio, see EN15 or EN16 above.

EN19 Reduction of greenhouse gas (GHG) emissions

Keslog has worked ambitiously to reduce emissions from the K-store supply chain by centralising distribution. New replacements in the vehicle fleet have reduced unit-specific emissions. Key tools in improving logistics efficiency also include the optimisation of transport routes and a high volumetric efficiency. Efficient reverse logistics also play a significant part through the collection of purchase loads, carrier trays, pallets, roller cages and recycling components, such as cardboard, bottles or cans, on the return route.

All of Keslog's contract drivers, who number more than 500, have been trained in economical driving courses. In February 2015, a total of nine two-tier trailers were in use for long distance transport between main warehouses. Starting in March 2015, Keslog will be piloting an extra-long two-tier trailer on its main Vantaa-Oulu logistics route. This Ecotruck improves logistics efficiency significantly compared to a traditional full-trailer combination vehicle because it can hold twice as many roller cages. The Ecotruck will be the first of its kind in food transport in Finland and has been granted a temporary special operating permit by the Finnish Transport Safety Agency (Trafi).

In 2014, the air miles of Kesko employees travelling on business totalled 8.1 million (7.8 million in 2013). Encouraging the use of virtual meetings is one way Kesko endeavours to decrease the amount of air travel. The number of virtual meetings held via employees' own computers (Microsoft Lync) has almost doubled since the previous year. In 2014, a total of 39,924 hours of Lync-meetings were held (21,901 hours in 2013). At the end of 2014, the Kesko Group had 28 Videra video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 4,341 hours (5,483 hours in 2013).

At the end of 2014, Kesko had 644 company cars in use in Finland (642 in 2013).

- 17 ethanol-fuelled cars (14 in 2013)
- 268 petrol-fuelled cars (272 in 2013)
- 358 diesel-fuelled cars (355 in 2013)
- 1 natural gas car (1 in 2013)

Kesko's company car policy recommends an emission level below 160 g CO_2/km. In 2014, the average emission level was 132 g CO_2/km (137 g CO_2/km in 2013) and the emissions from company cars totalled 2,497 CO_2 tonnes (2,569 CO_2 tonnes in 2013). This calculation also includes private use of company cars.

EN20 Emissions of ozone-depleting substances (ODS)

The building services equipment in properties managed by Kesko contains approximately 16 tonnes of refrigerants. Refrigerants are added because of leaks in the equipment. Kesko monitors the use of refrigerants by compiling refill data from its maintenance partners. In 2014, around 747 kilograms of refrigerants were added.

HFC substances, such as R404, are the most frequently used refrigerant in K-food stores. New K-food stores use R744 technology, in which the carbon dioxide used as a refrigerant is 100% recovered from industrial processes. Refrigeration units also make use of the gas temperature in the carbon dioxide process – higher than that generated in the traditional refrigeration process – by building an efficient heat recovery system for heating service water and the incoming air of the air-conditioning system.

HCFC chlorofluorohydrocarbon refrigerants, such as R22, were used at around 20 stores at the end of 2014. Refrigeration equipment that uses HCFC is technologically outdated. The use of HCFC substances in the maintenance of equipment is banned after 2014. Therefore, HCFC substances will be replaced with other permitted refrigeration substances or new equipment will be installed whenever maintenance is necessary.

CFCs are no longer used in K-food store refrigeration equipment.

The leading refrigerants in Keslog's warehouses are NH_3 (ammonia) and R404a.

EN21 NOx, SOx, and other significant air emissions

In 2014, from electric and heat energy used in properties managed by Kesko:

- The acidifying emissions of nitrogen oxide emissions (NOx) were 239 tonnes (236 tonnes in 2013)
- The acidifying emissions of sulphur dioxide (SO_2) were 202 tonnes (200 tonnes in 2013, figure adjusted for improved accuracy since the previous report)
- The ethylene emissions producing lower atmosphere ozone (C_2H_4e) were 9 tonnes (9 tonnes in 2013)
- The quantity of radioactive waste from electricity produced by using nuclear power was 1.4 tonnes (1.5 tonnes in 2013, figure adjusted for improved accuracy since the previous report).

The calculation principles and more detailed calculations are available in the report by Energiakolmio.

Only CO_2 emissions data is collected on transport of goods and business travel.

Effluents and waste

EN22 Total water discharge

Wastewater 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 management statistics on operations in Finland

	Kesko Food (logistics)			Kespro			Anttila (logistics centre)			Rautakesko			Car and machinery trade		
Tonnes	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Waste for recovery	7,762	7,048	7,473	1,076	1,239	849	378	413	542	1,679	1,869	640	589	618	734
WEEE for recycling	7	9	1	0.5	-	2	30	51	71	-	-	-	3	0.3	5
Landfill waste [1]	156	152	291	188	239	328	4	4	4	4	166	102	13	37	41
Hazardous waste [2]	8	2	4	-	0.2	1	0.1	0.7	-	4	0.8	-	31	35	149
Total	**7,933**	**7,211**	**7,769**	**1,265**	**1,478**	**1,180**	**412**	**469**	**617**	**1,687**	**2,036**	**742**	**636**	**690**	**929**
Recovery rate, % [3]	98	98	96	85	84	72	99	99	99	99	92	86	98	95	96

[1] Waste not suitable for recovery

[2] Hazardous waste is disposed through hazardous waste treatment or recycling

[3] Composted organic waste and hazardous waste are included in the recovery rate

Waste management statistics for Sweden and Norway

	Sweden			Norway		
Tonnes	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Waste for recovery	2,206	2,464	1,998	1,019	1,057	1,199
Landfill waste	582	838	727	3	6	11
Hazardous waste [1]	29	169	164	55	37	45
Total	**2,817**	**3,471**	**2,889**	**1,077**	**1,100**	**1,255**
Recovery rate, % [2]	79	76	75	99	99	99

[1] Hazardous waste is disposed through hazardous waste treatment or recycling

[2] Composted organic waste and hazardous waste are included in the recovery rate

Waste management statistics for the Baltics, Russia and Belarus

	Estonia			Latvia			Lithuania			Russia			Belarus		
Tonnes	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Waste for recovery	392	193	387	127	183	153	2,430	1,793	2,304	1,918	1,138	438	58	38	40
Landfill waste	239	350	176	418	419	464	1,115	1,111	938	6,619	3,520	2,109	1,683	467	290
Hazardous waste [1]	14	11	10	3	2	2	18	16	22	0.6	1	1	1	0.2	0
Total	**645**	**554**	**573**	**548**	**603**	**619**	**3,563**	**2,920**	**3,264**	**8,538**	**4,659**	**2,548**	**1,742**	**505**	**330**
Recovery rate, % [2]	63	37	69	24	31	25	69	62	71	22	24	17	3	8	12

[1] Hazardous waste is disposed through hazardous waste treatment or recycling

[2] Composted organic waste and hazardous waste are included in the recovery rate

In 2014, the total weight of hazardous waste in all operating countries was 164 tons and non-hazardous waste 30,699 tons.

The recovery rate of waste management in Finland was 97% and in the other operating countries 44% in 2014. Almost all of VV Auto Group's waste is recycled or recovered, 99.83%. Read more in the Car and machinery trade section. The waste management statistics in Finland cover mostly warehousing operations, while in the other countries statistics cover mostly store operations.

In 2014, Kesko Food's centralised waste management agreement included around 110 K-stores. The recovery rate of the waste generated in stores was about 96% (90% in 2013) and the recycling rate was about 67%. The incineration of mixed waste for energy has increased the recovery rate considerably. In addition, cardboard and plastic bales from approximately 165 K-food stores were centrally directed by Kesko Food for industry reuse in 2014.

Recycling services available at K-food stores are helpful in the daily lives of customers and provide an efficient way to increase household recycling of items no longer used and consumer packaging waste.

In 2014, around 252 recycling points for consumer packaging (fibre, glass, metal) were located at K-food store sites. Eleven of these included collection of plastic for recycling. Several of them also accepted wastepaper and discarded clothing.

All K-food stores accepted deposit beverage containers. In 2014, customers returned:

- 320 million cans
- 96 million recyclable plastic bottles
- 27 million recyclable glass bottles

All K-food stores accepted portable batteries and small accumulators for recycling by customers.

The obligation to accept waste electrical and electronic equipment (WEEE) depends on a store's sales area, its product selection and on the size of the equipment. When buying a new product, customers can return large equipment (over 25 cm) to all stores that sell corresponding products. Small equipment (under 25 cm) can be returned to large grocery stores of over 1,000 m² and to speciality stores of over 200 m² without requiring the customer to buy a new product. The total amount of WEEE collected at stores in Finland was around 900 tonnes. K-stores' share of this was approximately 170 tonnes, which is 19%.

Packaging delivered by Kesko Food's reverse logistics (Keslog) for recovery and reuse

1,000 pcs	2014	2013	2012
Aluminium cans	93,107	85,009	95,252
PET bottles	54,296	52,511	53,453
Recyclable glass bottles [1]	9,667	12,508	6,606
Reusable crates	16,501	18,457	12,097

[1] Part of the recycling of glass bottles was separated from Keslog reverse logistics.

Impregnated timber and lead-acid accumulators recycled by the building and home improvement trade (K-rauta and Rautia), Finland

Tonnes	2014	2013	2012
Impregnated timber	1,003	1,080	891
Lead-acid accumulators	4.3	2.4	4.0

Batteries and accumulators (RECSER) collected at K-Group stores, Finland

Tonnes	2014	2013	2012
Batteries and accumulators	193	174	152

Clothing collected through UFF recycling points located at K-store sites

Tonnes	2014	2013	2012
Recycling of clothes	2,507	2,280	1,736

EN24 Total number and volume of significant spills

In 2014, no significant oil, fuel, waste, chemical or other spills occurred. See also EN13.

Social impacts

The approach to social responsibility management, including the operating principles and monitoring and control systems, is described in the section entitled 'Responsibility management'.

INDICATORS

Employees

Indicators: LA1–LA2, LA4–LA6, LA9–LA13

INDICATORS

Human rights

Indicators: HR3–HR4, HR9–HR11, LA14–LA15

INDICATORS

Society

Indicators: SO3–SO8

INDICATORS

Product responsibility

Indicators: PR1–PR9

Employees

LA1 Employee turnover

In 2014, Kesko had an average of 19,976 (19,489 in 2013) full-time equivalent employees in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. Of the employees 48% worked in Finland and 52% in other countries. Around three quarters of all employees worked in retailing.

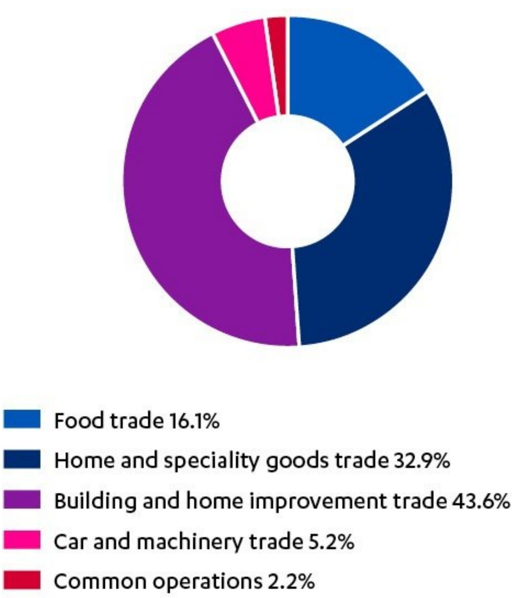
In 2014, Kesko Group recruited 3,711 (4,417 in 2013) new employees in Finland, while 3,820 (4,095 in 2013) left the Group in Finland.

In other countries, the Group recruited 6,478 employees (6,330 in 2013), while 6,163 employees (5,964 in 2013) left the Group. The most common reason for employment relationships being terminated in Finland was expiring fixed-term contracts, which explained about 55% (53% in 2013) of departures. In other countries, the most common reason – for 58% (61% in 2013) – of departures was the employee’s resignation.

In Finland, 6.4% (245) of the terminated employment relationships and 20.5% (1,262) in other countries were terminated by the employer for financial or production-related reasons, or due to the employer's operational reorganisation, or for other reasons based on the Employment Contracts Act. The corresponding figures in 2013 were 6.8% (278) and 23.3% (1,389), respectively.

In 2014, Kesko Group companies had seven employment disputes ongoing in different courts in Finland. One ruling was given in favour of the employer and one in favour of the employee. Five employment disputes are pending. In Kesko's other operating countries, there were two employment disputes ongoing, one of which was settled and one is still pending.

Distribution of Kesko personnel by division at 31 Dec. 2014, %



Changes in the number of Kesko employees

	2014	2013	2012
Finland at 31 Dec.	12,180	12,776	13,278
Other operating countries at 31 Dec.	11,614	11,087	10,802
Total at 31 Dec.	23,794	23,863	24,080
Finland, average	9,580	9,805	10,231
Other operating countries, average	10,396	9,683	9,515
Total, average	**19,976**	**19,489**	**19,747**

Fixed-term and part-time employments at Kesko

	2014	2013	2012
Fixed-term employees of total personnel at 31 Dec., %			
Finland	13.9	12.9	14.7
Companies in other operating countries	7.2	7.0	8.0
Whole Group, total	**10.7**	**10.2**	**11.0**
Part-time employees of total personnel at 31 Dec., %			
Finland	43.6	45.4	45.4
Companies in other operating countries	7.1	8.0	8.4
Whole Group, total	**25.8**	**28.1**	**28.7**

Kesko's personnel statistics for 2014 analysed by operating country

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus
Total number of personnel at 31 Dec.	12,180	767	331	575	494	3,898	3,338	2,211
Average number of personnel in 2014	9,580	814	310	535	479	3,455	2,854	1,950
Number of new employments [1]	3,711	226	72	182	176	2,226	1,956	1,640
- women [2]	1,575	86	11	38	44	0 [3]	897	350
- men [2]	1,181	140	58	70	95	8 [3]	1,053	592
Number of terminated employments [1]	3,820	347	232	172	162	2,073	1,785	1,392
Terminated by employer, %	6.4	17.9	31.9	8.1	27.2	15.1	17.0	32.3
Total turnover rate, % [2]	23.5	45.2	69.2	17.0	25.3	51.3	53.3	31.4

[1] Including summer employees
[2] Excluding summer employees
[3] Excluding Senukai, Lithuania

LA2 Benefits provided to employees

Kesko Group provides its employees in all its countries of operation 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 and retirement benefits.

Group companies in Finland honour their employees on various special days. If, for instance, an employee's 50th or 60th birthday falls on a workday, it will be a paid day off. Kesko also supports leisure activities in Finnish companies through the Kesko Staff Club. The purpose of the Club is to create a good team spirit and promote sport, cultural and recreational activities. Some of the companies operating in Estonia and Latvia 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, and in the event of the death of a close relative. 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

In spring 2014, around €12.7 million (€10.5 million in 2013) was paid in Finland in bonuses under the 2013 performance bonus schemes, accounting for some 3.6% (3.0% in 2013) of the total payroll. 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. In 2014, the amount of different bonuses paid in operations in Finland was €13.4 million (€11.1 million in 2013) consisting of bonuses, sales commissions and other similar monetary remuneration.

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 2014, the companies outside Finland paid €6.2 million in bonuses and other remuneration, accounting for 4.3% of the payroll. The corresponding figure for 2013 was €2.9 million, accounting for 2.1% of the payroll.

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 145 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 2015, the Board decided to grant a total of 120,022 of the company’s series B shares to 146 Kesko management personnel and other named key personnel based on the fulfilment of the vesting criteria for the 2014 vesting period in the share-based payment system.

Pensions

In Finland, new pensions were granted to 155 employees (162 in 2013) 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. Rehabilitation allowance was granted for vocational retraining or trials for 40 (26 in 2013) employees with an obvious risk of incapacity for work in the next few years.

The number of disability pensions has remained low since the turn of the century. In this period, the Occupational Health Service has focused on actions targeted at maintaining employees' working capacity. In 2014, the average retirement age of employees was 59 (59 in 2013). In the other operating countries, a total of 14 (19 in 2013) 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 bargaining agreement.

Kesko Group has a company-specific shop steward system in place in all of its largest subsidiaries in Finland. Keslog Ltd has site-specific shop stewards, whereas Anttila Oy and K-citymarket Oy also have store-specific shop stewards.

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.

K-instituutti provides occupational safety training for Kesko employees and K-retailers. Different Group 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 10,500 (9,500 in 2013) 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 €5.2 million (€5.0 million in 2013) was spent on occupational health care in Finland in 2014. The Social Insurance Institution of Finland compensated Kesko for around €2.5 million (€2.4 million in 2013) of this amount. In 2014, Kesko's Occupational Health Service spent €412 (€481 in 2013) per covered employee on maintaining employees' working capacity and providing medical care.

Kesko's contribution to occupational health care, Finland

	2014	2013	2012
€/person	412	481	479

The expertise of the Occupational Health Service is widely used by Kesko's retail companies to develop workplace ergonomics. In this context, ergonomics is a broad concept, including chemical and physical, motion-related and psychosocial factors.

Occupational health care interviews involving the employee, the supervisor and a representative of the Occupational Health Service are part of basic operations in occupational health care. These negotiations can be conducted when an employee's working capacity appears to have decreased, vocational rehabilitation is being planned, the absence rate is high, employees have work-related strain or there is a conflict in the working community. The objective is early intervention in situations threatening the individual's working capacity.

Injuries and occupational diseases in Finland

	2014	2013	2012
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	124	116	143
Commuting injuries	32	43	53
Injury rate/million working hours [1]	6	6	7
Average degree of injury severity, days	17.6	18.3	20.7
Suspected occupational diseases	11	4	2
Occupational diseases	0	9	0
Sick days due to injuries and occupational diseases	2,751	2,902	4,056
per employee	0.29	0.30	0.40

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

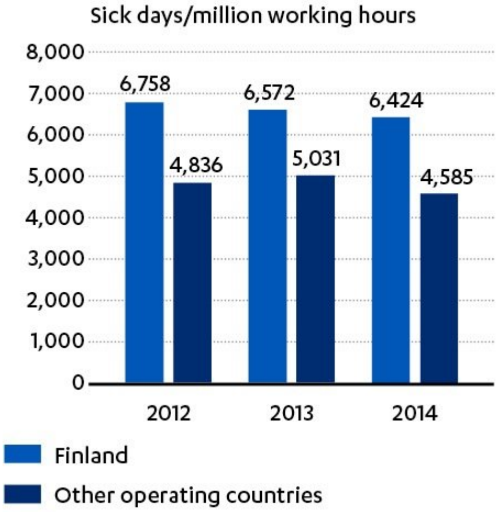
Sickness absences by country in 2014

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus
Total number of sick days	116,066	7,714	3,173	3,253	5,383	24,435	28,759	21,844
per employee	12.1	9.5	10.2	6.1	11.2	7.1	10.1	11.2
per million working hours	6,424	5,385	5,821	2,997	5,568	3,501	5,089	5,513

The calculation method: Sick days per employee have been calculated on the average number of employees during the year.

2014 data of Konsoma JLLC, Belarus not included.

Trend 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 46 injuries resulting in sickness absence of more than three days in 2014. In Finland, the corresponding number was 124.

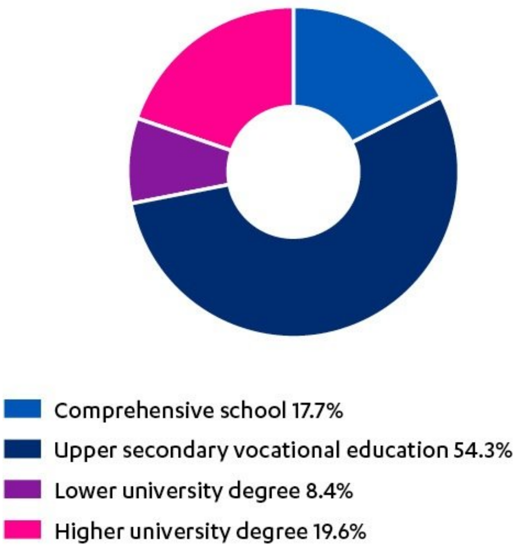
In 2014, the sickness absence rate in Finnish companies was 4.5% (4.6% in 2013) of hours worked. Around 78% (79% in 2013) of the sickness absences were short-term absences (paid sick days). In other countries, the sickness absence rate was 3.7% (4.0% in 2013). The figures do not include the data for Konsoma JLLC.

Training and personnel development

LA9 Average hours of training per employee, and LA10 Programmes for skills management and lifelong learning

K-instituutti is in charge of planning, providing and sourcing training services for the K-Group in Finland. In 2014, a total of 37,118 (30,247 in 2013) K-Group employees, including the store staff employed by retailers and the employees who completed online courses, received training at K-instituutti.

Distribution by education at 31 Dec. 2014, %



Byggmakker, Norway and K-rauta, Sweden not included.

Systematic, business-driven development of personnel and management is a critical factor for future success. Core competence development areas include sales and service competence, product line specific competence advantage projects, immediate leadership and management, as well as e-commerce and services. IT and language courses also play an important role in the continuous competence development process.

In 2014, approximately 1,100 Kesko employees participated in training courses organised by Kesko HR / Common Services and targeted for all of the employees. More than half of all participants attended courses in management and immediate supervisory work. The participants in the Personal Development Programmes for potential future management and the Leadership Development Programme consisted of international groups.

Since 2011, Kesko has been implementing a wellbeing at work programme aimed at enhancing employees' job satisfaction and working capacity and lowering the total costs of wellbeing at work.

The K-instituutti training provider is responsible for carrying out the Master Sales Assistant training, one of Finland's largest adult training programmes. Access to the Master Sales Assistant training programme via the training portal allows everyone to study according to their own schedule and choose the most interesting and useful online courses from among of all Kesko Group's e-learning material. The objective is to continuously develop the service attitude, sales skills and product knowledge of sales assistants in cooperation with suppliers. The Master Sales Assistant training programme was also offered in about 100 business colleges and polytechnics. In 2014, about 167,500 online courses in the Master Sales Assistant training programme were completed by employees of K-stores, while the corresponding figure for business college and polytechnic students was about 53,000.

Over the course of 2014, the common learning environment in online training, managed by K-instituutti, was expanded to other operating countries in cooperation with Rautakesko. In Latvia, Russia, Estonia and Sweden, there were a total of nearly 2,400 students, who have completed more than 14,000 online courses. The implementation in various operating countries will also continue with other divisions in 2015.

Regional and store-specific training courses provided by K-instituutti in Finland had about 2,100 students in 2014. The vocational and specialist vocational qualification training programmes organised by K-instituutti had 560 students (539 in 2013), of whom 185 (223 in 2013) completed the qualification.

In-house job rotation provides an extensive selection of career alternatives. In Finland, there were around 1,900 (1,500 in 2013) internal transfers to new jobs, while the corresponding total figure in other countries was around 2,500 (3,000 in 2013).

In Finland, recruitment in the K-Group is supported by the K-trainee and retailer training programmes. The fifth K-trainee programme was launched in June 2014 and the content was made increasingly flexible: in addition to newly graduated young people, applicants may also include those about to finish their studies and those with some work experience. Out of 340 applicants, 11 were selected for the K-trainee programme.

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. Find out more about the K-trainee and retailer coaching programmes on the Kesko website.

Training days and costs in 2014

	2014	2013	2012
Training days			
Finland	9,083	9,021	9,498
Other countries [1,2]	14,285	16,848	7,819
Training days per employee			
Finland	0.9	0.9	0.9
Other countries [1,2]	1.4	1.7	0.8
Training costs, € million			
Finland	2.9	2.0	2.6
Other countries	0.8	0.9	1.2
Training costs per employee, €			
Finland	298	205	255
Other countries	80	94	121

Training days excluding eLearning.

[1] 2012: Excluding Byggmakker, Norway and Konsoma JLLC, Belarus

[2] 2013 and 2014: Excluding Konsoma JLLC, Belarus

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. In 2014, 86% (85% in 2013) of the Group’s employees in Finland and 76% (76% in 2013) of those in other countries participated in reviews. Of those who had had a review, 74% were satisfied with it.

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.

In 2014, the response rate was higher than before: 81% (78% in 2013). Employees felt that cooperation with other employees was very good: 82% (80%). The assessment given for supervisory work improved to 73% (72%).

The greatest decline was in the employee engagement index, which dropped to 53% (55%).

Supervisors always discuss the results of the survey with their personnel. Based on the results, they agree on development activities, which are linked to the annual action and HR plan and are monitored. After the results for 2014 had been obtained, two Employee Engagement training courses were organised for a total of 100 representatives of Kesko's management, focusing on how to make improvements in this area.

Personnel survey

	Finland		Sweden		Norway		Estonia		Latvia		Lithuania		Russia	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Employee commitment	50%	54%	42%	49%	51%	48%	63%	56%	59%	56%	75%	79%	63%	58%
Performance enablement	68%	69%	51%	54%	72%	70%	71%	68%	70%	69%	82%	83%	81%	75%
Supervisory work	70%	70%	61%	60%	66%	70%	73%	71%	78%	79%	75%	80%	85%	83%
Wellbeing at work	58%	60%	37%	45%	68%	69%	72%	69%	69%	68%	81%	83%	69%	65%

Diversity

LA12 composition and diversity of governance bodies and employee categories

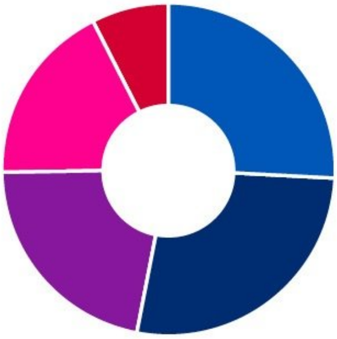
In 2014, the average age of personnel in Finland was 36.0 (35.2 in 2013). In other countries, the average age varies from 27 (25 in 2013) to 46 (44 in 2013).

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.

In addition to gender equality, employees' experiences of equality have been monitored as part of the personnel survey by following the equal treatment of people in different age groups or with different cultural backgrounds. The survey looks into the equal treatment of employees regardless of their age, race, working ability, religion or sexual orientation. In 2014, 74% of the respondents felt that all employees are treated equally.

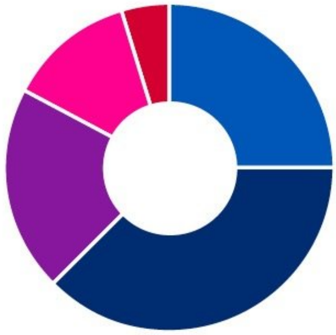
At year-end, 59% (59% in 2013) of Kesko Group employees in Finland were female and 41% (41% in 2013) were male. In foreign companies, the figures were 52% and 48% (50% and 50% in 2013) respectively.

Age distribution of Kesko personnel in Finland in 2014, %



- Under 26 years 25.9%
- 26–35 years 27.2%
- 36–45 years 21.6%
- 46–55 years 17.8%
- Over 55 years 7.5%

Age distribution of Kesko personnel in the other operating countries in 2014, %

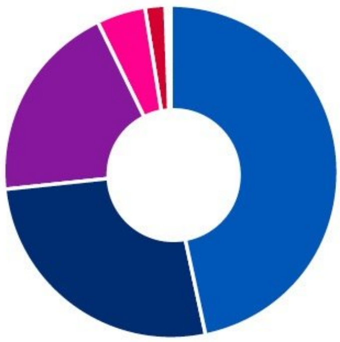


- Under 26 years 25.0%
- 26–35 years 37.5%
- 36–45 years 20.3%
- 46–55 years 12.6%
- Over 55 years 4.5%

Years of service in Finland in 2014, %

- Under 2 years 24.5%
- 2–5 years 25.6%
- 6–10 years 18.2%
- 11–15 years 10.8%
- 16–20 years 7.2%
- 21–25 years 5.5%
- Over 25 years 8.2%

Years of service in the other operating countries in 2014, %



- Under 2 years 46.9%
- 2–5 years 26.6%
- 6–10 years 19.3%
- 11–15 years 4.8%
- 16–20 years 2.1%
- 21–25 years 0.1%
- Over 25 years 0.2%

In 2014, two of the seven members of Kesko's Board of Directors and two of the eight members of the Group Management Board were women. In 2015, the Group Management Board has nine members, two of whom are women. In the retailing subsidiaries in Finland, women hold a significant percentage of the supervisory positions. Of K-citymarket home and speciality goods' department managers, 83% (84% in 2013) are women and 75% (75% in 2013) of Anttila department stores' department managers are women. In Finland, 54% (53% in 2013) of all supervisory positions were held by women and 46% (47% in 2013) by men at the end of 2014.

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). In 2013, a permanent operations model was created based on the project.

Since August 2013, Kesko has implemented the 'Youth Guarantee in the K-Group' programme, which aimed to employ at least 1,000 young people by the end of 2014. All expectations were exceeded and K-stores and Kesko Group had employed 1,800 young people by the end of 2014.

Equality of men and women

LA13 Ratio of basic salary of men to women

The average annual salary of Kesko employees was €36,930 in Finland, €39,418 in the other Nordic countries, and €10,649 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

	2014	2013	2012
Top management	15.6	16.7	24.4
Middle management	18.6	19.8	17.1
Supervisors and specialists	48.2	47.7	46.6
Workers and white-collar employees	61.5	61.9	63.0
Total	**58.8**	**59.3**	**59.9**

Percentage of women by employee category, other countries

	2014	2013	2012
Top management	0.0	0.0	0.0
Middle management	46.8	48.6	46.0
Supervisors and specialists	54.7	52.6	47.0
Workers and white-collar employees	46.2	48.9	48.1
Total	**51.5**	**50.2**	**47.7**

2012 and 2013: Excluding Senukai, Lithuania and Byggmakker, Norway

2014: Excluding Senukai, Lithuania

Human rights

Non-discrimination

HR3 Total number of incidents of discrimination and corrective actions taken

In 2014, 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 2015.

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% (41.4% in 2013) of Kesko Group employees in Finland were members of trade unions, mainly the Service Union United PAM. The statistics include the employees whose trade union membership fees are deducted at source from pay.

In Norway, the unionisation rate was 25.7% (22.1% in 2013). 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 83% (84% in 2013) in Finland. So far, no binding industry-wide collective bargaining 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

In 2014, Kesko initiated a human rights impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights.

Kesko also participated in retail round table discussions with businesses, labour market organisations and NGOs organised by the Ministry of Employment and the Economy and the Ministry for Foreign Affairs as part of the national implementation of the UN's Guiding Principles on Business and Human Rights. These discussions aim to build a dialogue between different stakeholders, identify the material risks associated with each sector and find a sufficient level of risk management and compliance with the due diligence principle. The round table discussions will continue in 2015.

Suppliers in high-risk countries are mainly assessed by BSCI audits. Kesko's BSCI results for 2014 in different areas are presented in a diagram (see 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 Responsibility monitoring and steering, at Responsible purchasing and sales. Kesko's most significant high-risk countries of import are listed in the table below.

Of Kesko's suppliers in high-risk countries at the beginning of 2015

- 14 had SA8000 certification (15 at the beginning of 2014)
- 284 were included in BSCI audits (254 at the beginning of 2014)

In 2014, suppliers' factories or farms had

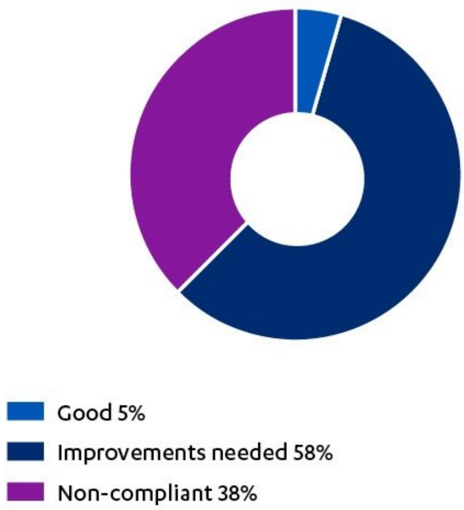
- 88 full BSCI audits (81 in 2013)
- 74 BSCI re-audits (25 in 2013)
- 39 monitoring visits (53 in 2013)

Some of Kesko's suppliers are members of BSCI and promote audits in their own supply chains. Kesko's principle is to cooperate only with suppliers which are already included in the BSCI auditing process or start the process at the beginning of the cooperation.

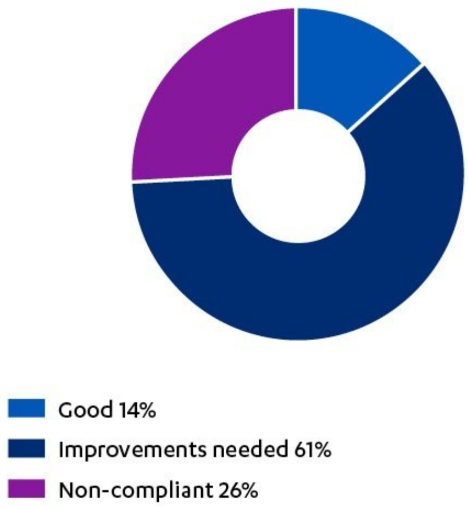
The results of the BSCI audits of Kesko's suppliers' factories for 2014 are presented below. Most deficiencies occur in the observance of working time regulations, in compensation and occupational health and safety matters. Experiences gained from monitoring work in China and India are similar. Corrective actions and their monitoring are included in the audit and monitoring process.

Kesko does not terminate cooperation with a supplier which undertakes to resolve the grievances specified in the audit report. In 2014, cooperation was not terminated with any supplier on the basis of an audit.

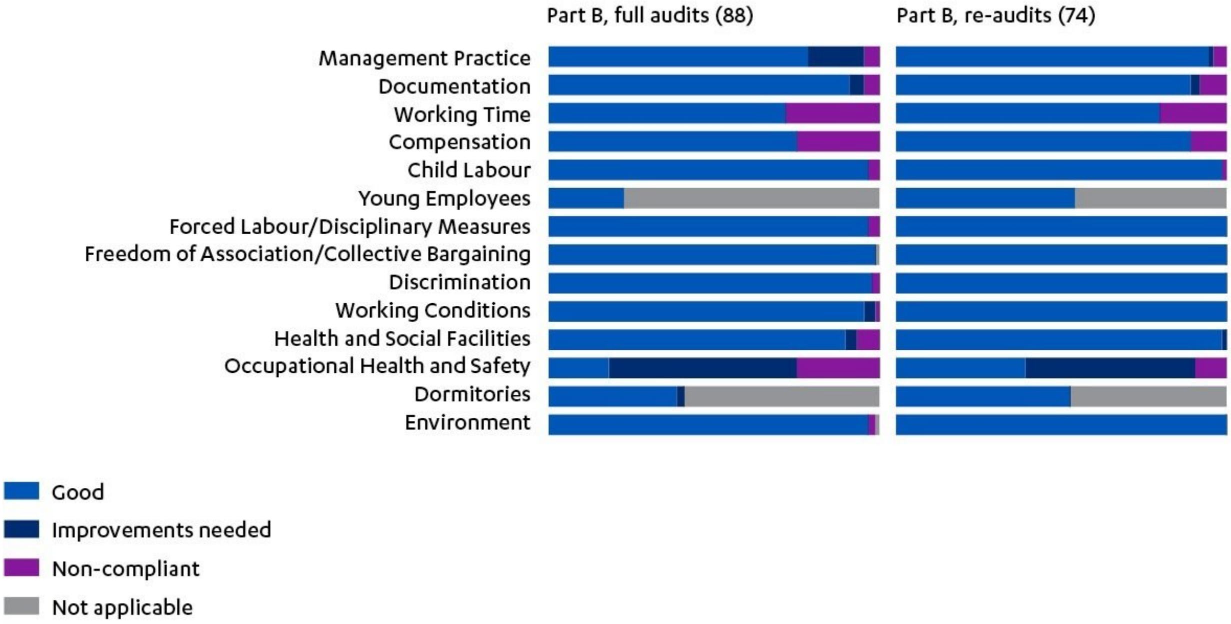
Kesko's BSCI audit results in 2014, full audits



Kesko's BSCI audit results in 2014, re-audits



Kesko's BSCI audit results, distribution in different areas in 2014



Fairtrade products

Kesko Food 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 2014, Kesko Food had more than 230 Fairtrade products in its selections, of which 44 (35 in 2013) were Pirkka products.
- According to the statistics of Fairtrade Finland, Kesko Food had a total of 166 Fairtrade suppliers (175 in 2013).
- The products sold by Kesko Food generated over €360,000 in Fairtrade premium for social development projects.

The figure for 2013 includes only those Pirkka Fairtrade products which were included in the selections at the end of the year, and the figure for 2014 includes all Pirkka Fairtrade products which were included in the selections during the year.

SA8000 and Fairtrade certifications and BSCI audits included, nearly 90% of Kesko's direct suppliers in high-risk countries have at least one of their factories or farms included in social assessments. The acceptance of other approved procedures adds to the coverage.

Kesko's own direct imports from high-risk countries, 10 largest countries in 2014 [1]

Country	Value of imports, € million
China	74.0
India	13.7
Turkey	9.0
Vietnam	8.5
Thailand	6.6
Bangladesh	4.5
Brazil	2.7
Indonesia	1.4
Argentina	1.3
Philippines	1.2

[1] Direct imports forwarded by Keslog only, excluding imports by VV-Auto.

Society

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 2014 by Transparency International are presented below.

Kesko's anti-corruption principles are included in the 'Our Responsible Working Principles' guidelines, which is available on the Kesko website. The website includes animations related to responsible operating practices. The guide and the website are available in the languages of all of Kesko's operating countries. In 2015, responsible working principles will be highlighted by introducing a new e-learning programme called 'Kesko's responsibility'. This programme will first be implemented in Kesko's operations in Finland. The training is compulsory for all Kesko employees and participation will be monitored. The aim is to roll out the training in the other operating countries at a later date.

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 the 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, as well as 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 2014, four Value Discussions were organised for different divisions in Finland, Latvia, Lithuania and Estonia. They focused on issues related to corruption and malpractice. In 2014, one of the focus areas of Kesko's internal audit was the audit of malpractice risks.

In 2014, 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 2014

Ranking	Country	Score
3	Finland	89
4	Sweden	87
5	Norway	86
26	Estonia	69
39	Lithuania	58
43	Latvia	55
119	Belarus	31
136	Russia	27

Public policy

SO6 Total value of political contributions

In election years, political parties and candidates are given equal opportunities to arrange campaign events in K-Group stores' yards and entrance halls. 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 2014, the seminar attendance fees and commercial advertising in party newspapers paid by Kesko totalled approximately €5,000.

Anti-competitive behaviour

SO7 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices, and SO8 Fines and other sanctions for non-compliance with laws and regulations

In 2014, Kesko was not informed of any legal actions for anti-competitive behaviour or significant fines or other sanctions for non-compliance with laws and regulations.

Product responsibility

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 Kesko Food's Product Research include assessing the impacts of products on health and safety. In 2014, Product Research audited 26 suppliers (20 in 2013), of which 14 (11 in 2013) were Finnish. These audited companies were manufacturers of Kesko Food's own brands, and the audits were conducted in compliance with Kesko Food's own audit guidelines.

A total of 8,864 (9,460 in 2013) product samples were analysed. Most of them related to the product development of own brands. A total of 1,779 (1,625 in 2013) own control samples were analysed.

When developing own brand products, Kesko Food pays special attention, in line with its strategy, to the health aspects of the products. Sugar, saturated fat and salt have been reduced from nearly 160 Pirkka products that contained high levels of them. This so-called reformulation was completed in 2013. The health aspects of new Pirkka products are taken into account already at the product development stage.

Product Research is also responsible for product recalls, which numbered 125 in 2014 (127 in 2013). Of these, 24 (35 in 2013) were Kesko Food's own brands; in the other cases, Product Research assisted the manufacturers in recalls. There were no public recalls involving a potential health hazard resulting from product flaws or defects in Kesko Food's own brand products (6 in 2013).

In November 2014, the problem with MRSA (the "hospital super bug") in European pork became a topic in public discussion. MRSA bacteria were also found in one lot of K-Menu bacon cubes. The lot was recalled immediately. Kesko Food's Product Research Unit included MRSA monitoring in its own control programme.

In 2014, there were no lawsuits or fines concerning product health or safety.

Product and service labelling

PR3 Product and service information and labelling, and PR4 Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling

Kesko complies with Finnish law and with EU legislation on the product labelling of its own brand products and imports.

The transition period for the EU regulation No. 1169/2011 on the provision of food information to consumers ended in December 2014. During the three-year transition period, Kesko Food updated the labels of around 2,500 own brand products to comply with the requirements of the regulation. Changes will continue to be made until spring 2015, when the transition period of the EU regulation No. 1337/2013 laying down rules for the indication of country of origin for certain meats will end.

In addition to statutory package labelling, voluntary labelling can be added to inform the consumer of the product's responsibility aspects. Such labelling may include organic and eco-labelling, as well as labelling indicating social responsibility. Labelling is discussed in the section Responsibility monitoring and steering at Responsible purchasing and sales. The selection of labelled products is discussed in the section Business review.

The name and location of the manufacturer are indicated on all Finnish Pirkka products. Foreign Pirkka products carry the name of the country of manufacture. The country of origin of meat is indicated in the list of ingredients on those Pirkka products that have meat as one of the main ingredients. The country of origin is indicated on all own brand products of K-citymarket, Anttila and Rautakesko as their selections are updated.

There were 40 (27 in 2013) product recalls resulting from defective product labelling, 11 (6 in 2013) of which were Kesko Food'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 programme 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 the food trade and the building and home improvement trade.

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 Food's Consumer Service, maintained by Product Research, was contacted by customers 20,911 (23,074 in 2013) times. Approximately 80% of these were product complaints.

Marketing communications

PR6 Sale of banned or disputed products

During 2014, Kesko's stakeholders raised questions and concerns regarding several products and the conditions under which they are produced.

In January 2014, Finnwatch published a follow-up report on private label products. The report indicates that the grievances revealed in 2013 on Thai pineapple juice and tuna factories have not been resolved in all respects. The survey also revealed grievances in a new pineapple juice factory. A BSCI audit was conducted in the factory at the end of March 2014. Part of the audit results supported the Finnwatch report findings.

In 2013, Kesko Food added an item on assuring the sustainability of ingredients to purchase agreements. From the beginning of 2014, all Kesko companies have attached the BSCI Code of Conduct to all purchasing agreements.

Kesko has actively cooperated with stakeholders in Thailand with the aim of improving conditions in purchasing chains. Examples of cooperation include participation in ILO's Good Labour Practices buyer reference group, and research cooperation with Plan, an international development organisation promoting children's rights, launched at the beginning of 2015.

In autumn 2014, Pro Ethical Trade Finland (Eetti) published a survey on the responsibility of Finnish clothing companies. The survey focused on the payment of living wages at suppliers' factories. Read more in the stakeholder address. Kesko was thanked for its monitoring work and for starting a human rights impact assessment in compliance with the UN Guiding Principles on Business and Human Rights.

The discussion concerning products produced in Israeli settlements continued. Kesko Food has made a policy statement and informed its suppliers that it will not accept fruit and vegetables from Israeli settlements in its selections. The origin of a product can be seen on labelling in stores and on the product. Imports by Kesko's other divisions from Israel are small, but these divisions also actively discuss issues of product origins with suppliers.

There has been a long-felt need in the European cocoa and chocolate industry for an international standard to help in the assurance of 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. Read more on the Kesko website.

In spring 2014, Kesko joined WWF's soy programme, which aims to reduce the environmental impacts of soy production in South America. Kesko Food recommends that manufacturers of own brand products use responsible soy.

The working conditions of wild berry pickers who come to Finland from other countries and their ability to earn sufficient income were discussed during the berry season in particular. The berry companies of the Wild

Organic Products Industries' Association have developed a self-regulation mechanism to ensure the availability of berries for processing and to take care of the pickers in a responsible manner. The self-regulation mechanism consists of principles that must be followed by businesses that invite wild berry pickers to come to Finland. The business advises pickers on the general rules and provides them with information about berry crop forecasts, picking areas and accommodation alternatives.

Already in spring 2012, Kesko Food recommended that its suppliers comply with the berry picking guidelines prepared by the Finnish Food and Drink Industries' Federation (ETL) and the Ministry for Foreign Affairs. In 2014, all of Kesko Food's suppliers of wild berries were committed to compliance with wild berry picking principles following the self-regulation mechanism. Read more on the Kesko website.

In 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 berry industry companies. The agreement is a continuation of earlier development actions. The agreement took effect immediately, meaning that it will apply to the 2015 picking season.

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 which enables professional and recreational fishing to continue. The working group undertook to increase salmon and seatrout stocks with measures extending up to 2020. The publication of the strategy in spring 2014 provoked discussion about the adequacy of measures. 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 seatrout strategy and the fishway strategy. Kesko has a representative in the working group.

The K-Group's fish and shellfish selections are formed following WWF's fish guide and the report by the national salmon strategy working group. Kesko Food's selections do not include species on the red list of 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 2014, 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. Sponsorship is guided by Kesko's sponsorship principles.

Customer privacy

PR8 Complaints regarding breaches of customer privacy and losses of customer data

In 2014, K-Plus Oy did not detect any leaks of information or other personal data breaches. Neither did the company receive complaints from customers or the data protection authorities.

Compliance

PR9 Fines for non-compliance with laws and regulations concerning the provision and use of products and services

No fines in 2014.

GRI report profile

GRI G4 guidelines applied to the report

Since 2000, Kesko has annually reported on its corporate responsibility in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The Responsibility in figures section 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: corporate responsibility management, GRI index and indicators. The report is available in Finnish and English, and the report is published online only. The scope of the GRI guidelines that Kesko uses 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 on corporate responsibility information disclosed in Kesko's Integrated Annual Report 2014 and indicated as assured in the GRI G4 index, as well as other corporate responsibility information disclosed in the report and agreed to be assured, for the reporting period 2014. The congruence between responsibility information presented in the Finnish and English versions has been checked. The assurance also comprised the application of the AA1000 AccountAbility Principles in Kesko. 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

Kesko's reporting is comprehensive, and 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, personnel, 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 2014. It includes some information from January to March 2015. The report for 2013 was published in April 2014, and the report for 2015 will be published in the spring of 2016. Further information on the topics covered in the report can be obtained from Kesko's contact people.

Independent 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 corporate responsibility information disclosed in Kesko Corporation's online report "Kesko's Integrated Annual Report 2014" and indicated as assured in the Company's GRI Index 2014, as well as other corporate responsibility information disclosed in the online report and agreed to be assured, for the reporting period 1 January 2014 to 31 December 2014 (hereinafter CR Information).

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

Management's responsibility

The Management of Kesko Corporation is responsible for preparing the 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 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 conclusion on the CR Information and on the Company's adherence to the AA1000 AccountAbility Principles based on our work performed. 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.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the CR Information has not been prepared, in all material respects, in accordance with the Reporting criteria.

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 aspects of corporate responsibility 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 Norway.
- 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.

Conclusion

Based on our work described in this report, 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 has not been 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.

Observations and recommendations

Based on our work described in this report, 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.

- **Regarding Inclusivity:** Kesko Corporation has processes in place for stakeholder inclusivity, collection of feedback and stakeholder engagement. We recommend that the Company continues to systemise the stakeholder dialogue and pays specific attention to the possibilities for increasingly utilising social media as a channel for stakeholder dialogue.
- **Regarding Materiality:** Kesko Corporation has a systematic process in place to evaluate and determine the materiality of corporate responsibility aspects. We recommend that the Company continues the execution of its responsibility programme based on its materiality assessment and pays specific attention to the concretisation of division specific targets and the communication of the progress against targets.
- **Regarding Responsiveness:** Kesko Corporation has processes in place for responding to stakeholder expectations. We recommend that the Company further invests in sharing best practices and information within and amongst divisions.

Practitioner's independence and qualifications

We comply with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the IESBA (the International Ethics Standards Board for Accountants).

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 knowledge of the retail sector, to undertake this assurance engagement.

Helsinki, 17 March 2015

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

Maj-Lis Steiner
Director, Authorised Public Accountant
Assurance Services

AA1000
Licensed Assurance Provider
000-29

Report by the Board of Directors

Financial performance

Net sales and profit for 2014

The Group's net sales were €9,071 million, which is 2.6% down on the previous year (€9,315 million). The general economic situation and consumer demand remained weak especially in Finland. In the food trade, net sales decreased by 1.6%, in the home and speciality goods trade by 9.6% and in the machinery trade by 12.6%. In the building and home improvement trade, net sales in euros were at the previous year's level, net sales in local currencies increased by 3.6%. In the car trade, net sales increased by 1.5%. The Group's net sales in Finland decreased by 3.4% and in the other countries, net sales increased by 0.9% and by 8.2% in local currencies. The weakening of the Russian rouble impacted net sales performance in euros especially in the building and home improvement trade. International operations accounted for 18.4% (17.8%) of net sales.

1–12/2014	Net sales € million	Change %	Operating profit* € million	Change € million
Food trade	4,316	-1.6	202.4	-0.8
Home and speciality goods trade	1,316	-9.6	-37.4	-29.0
Building and home improvement trade	2,598	-0.4	57.7	+32.0
Car and machinery trade	1,011	-2.5	29.6	-4.3
Common operations and eliminations	-171	-0.8	-19.7	-4.0
Total	**9,071**	**-2.6**	**232.6**	**-6.2**

* Excl. non-recurring items

The operating profit excluding non-recurring items was €232.6 million (€238.8 million). Despite the decline in net sales, profitability remained at a good level due to significant cost savings. The profitability of the building and home improvement trade improved markedly and remained at a good level in the food trade and in the car and machinery trade. Profit was negatively impacted by the sales decrease of the home and speciality goods trade and especially by Anttila's loss-making business. Operating expenses excluding non-recurring items decreased by €25.5 million (1.4%).

Operating profit was €151.4 million (€248.4 million). The operating profit includes €-81.3 million (€9.6 million) of non-recurring items. The non-recurring items include 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, a total of €46.8 million. In addition, the non-recurring items include 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. The non-recurring items for the comparative period included €9.4 million of gains on the disposal of properties.

The Group's profit before tax was €145.0 million (€242.3 million).

The Group's earnings per share were €0.97 (€1.75). The Group's equity per share was €22.05 (€22.96).

The K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales (VAT 0%) were €11,305 million, down 2.4% compared to the previous year. The K-Plussa customer loyalty programme gained 68,568 new households in 2014. At the end of 2014, there were 2.3 million K-Plussa households and 3.6 million K-Plussa cardholders.

Finance

The cash flow from operating activities was €304.4 million (€413.8 million). The cash flow from investing activities was €-182.1 million (€-152.0 million) including €11.2 million (€21.8 million) of proceeds from the sale of fixed assets.

The Group's liquidity remained at an excellent level. At the end of the year, liquid assets totalled €598 million (€681 million). Interest-bearing liabilities were €499 million (€554 million) and interest-bearing net debt were €-99 million (€-126 million) at the end of 2014. Equity ratio was 54.5% (54.5%).

The Group's net finance costs were €6.1 million (€5.8 million). They include interest income on cooperative capital from Suomen Luotto-osuuskunta in the amount of €4.9 million (€5.7 million).

Taxes

The Group's taxes were €36.6 million (€57.7 million). The effective tax rate was 25.2% (23.8%). The tax rate of the comparative period was affected by the reduction of the corporate tax rate to 20%, effective from 1 January 2014 in Finland, which is why deferred taxes of €14 million were recognised as income in the consolidated income statement. The impact of the tax rate change on the tax rate of year 2013 was 5.6 percentage points.

Capital expenditure

The Group's capital expenditure totalled €194.0 million (€171.5 million), or 2.1% (1.8%) of net sales. Capital expenditure in store sites was €142.7 million (€125.5 million), in IT €34.4 million (€22.9 million) and other capital expenditure was €17.0 million (€23.2 million). Capital expenditure in foreign operations represented 40.5% (41.3%) of total capital expenditure.

Kesko’s strategy work progresses

Kesko’s strategy work has been started and the strategy will be ready during spring 2015. In the future, Kesko will be a more focused and unified operator. Special focus areas in the strategy work are to strengthen sales and competitiveness, reduce the cost level through revised functions and develop digital trade and services.

Kesko changed its divisional structure and seeks more competitive multi-channel home and speciality goods trade

Kesko revised the Group's divisional structure by integrating K-citymarket Oy, the non-food part of the K-citymarket chain in the home and speciality goods division, into Kesko Food Ltd. Kesko's food trade division was changed to the grocery trade division. The separate divisions of the building and home improvement trade and the home and speciality goods trade were combined into the home improvement and speciality goods trade division.

As from 1 January 2015, Kesko Group's reportable segments are the grocery trade, the home improvement and speciality goods trade, and the car and machinery trade. Kesko publishes comparatives according to the new reporting structure on a separate release on 10 February 2015.

The change in the divisional structure is aimed to provide a uniform customer experience and improve customer satisfaction in all of the divisions' chain stores. The objective is to enable customers to have an easier multi-channel shopping experience at physical and online stores, as well as to increase competitiveness and improve profitability.

Cooperation negotiations about changes planned in Kesko's home and speciality goods trade, building and home improvement trade and food trade were started on 7 October 2014 in Kesko's home and speciality goods trade companies and building and home improvement trade companies in Finland and in Kesko Food Ltd, Kesko Corporation and K-Plus Oy. The negotiations were completed on 24 November 2014. A total of approximately 2,800 people were included in the negotiations and the combined reduction need in the companies was estimated at a maximum of 230 full-time equivalents. As a result of the negotiations, the total need for reductions in personnel was confirmed at 193 full-time equivalents. The reductions also include possible pension plans and terminations of fixed-term employments.

Improving Anttila's profitability

In order to improve Anttila's profitability, a decision was made in March to close eight Anttila department stores operating in leased premises and four Kodin1 department stores and to implement enhancement measures in the central units of Anttila Oy and K-citymarket Oy. By the end of 2014, six Anttila department stores had been closed. In addition to the renewal of Anttila's operating activities aimed at improving profitability, the option of selling Anttila Oy is also investigated.

Kesko continues preparations for real estate arrangement

The intention is to sell some of the store sites Kesko owns to a joint venture to be set up. The arrangement is expected to be implemented during the first part of 2015.

Kesko's objective is to set up a limited liability company (a joint venture) to own and manage mainly Kesko-owned store sites and shopping centres with Kesko as one of its significant investors. If the joint venture is set up, Kesko Group would continue operating on the store sites under long-term leases. The fair value of store sites planned to be sold to the joint venture in Finland and Sweden has been specified at a maximum of around €670 million.

Launching the joint venture depends, in addition to investor interest, on whether it is possible for Kesko to achieve such terms and conditions in the arrangement that are economically justifiable for it, taking the Group's strong financial position into account.

If implemented, the sale of store sites is estimated to generate a significant non-recurring profit, the amount of which will be specified as the examination progresses.

Personnel

The average number of employees in Kesko Group was 19,976 (19,489) converted into full-time employees. In Finland, the average decrease was 225 people, while outside Finland, there was an increase of 713 people.

At the end of 2014, the number of employees was 23,794 (23,863), of whom 12,180 (12,776) worked in Finland and 11,614 (11,087) outside Finland. Compared to the end of 2013, there was a decrease of 596 people in Finland and an increase of 527 people outside Finland.

The Group's employee benefit expense was €614 million, showing a 0.5% increase compared to the previous year.

Segment information

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.

Food trade

	1–12/2014	1–12/2013
Net sales, € million	4,316	4,387
Operating profit excl. non-recurring items, € million	202.4	203.3
Operating margin excl. non-recurring items, %	4.7	4.6
Capital expenditure, € million	91.4	91.6

Net sales, € million	**1–12/2014**	**Change, %**
Sales to K-food stores	3,233	-2.9
Kespro	789	-1.7
K-ruoka, Russia	103	+46.7
Others	191	+3.6
Total	**4,316**	**-1.6**

In the food trade, the net sales were €4,316 million (€4,387 million), down 1.6%. The grocery sales of K-food stores in Finland decreased by 1.9% (VAT 0%). In the grocery market, retail prices are estimated to have changed by some +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 grown by some 0.5–1% compared to the previous year (Kesko's own estimate). The rise of consumer prices in the grocery trade stopped during the financial year. Kespro's market position and profitability remained at a good level. The performance of sales in roubles and profitability of the food stores in Russia were as planned despite the slowdown of the Russian economy and the weakening of the rouble.

The operating profit excluding non-recurring items of the food trade was €202.4 million (€203.3 million), or €0.8 million down on the previous year. Profitability remained at an excellent level due to savings achieved from enhanced operations. Operating profit was €196.0 million (€208.0 million). Non-recurring items were €-6.5 million (€+4.8 million).

The capital expenditure of the food trade was €91.4 million (€91.6 million), of which €81.5 million (€80.5 million) in store sites.

Home and speciality goods trade

	1–12/2014	1–12/2013
Net sales, € million	1,316	1,457
Operating profit excl. non-recurring items, € million	-37.4	-8.3
Operating margin excl. non-recurring items, %	-2.8	-0.6
Capital expenditure, € million	17.4	23.1

Net sales, € million	**1–12/2014**	**Change, %**
K-citymarket, home and speciality goods	593	-5.5
Anttila	324	-17.0
Intersport, Finland	171	-10.0
Intersport, Russia	15	-17.6
Indoor	176	-3.3
Musta Pörssi	20	-33.1
Kenkäkesko	20	-5.6
Total	**1,316**	**-9.6**

In the home and speciality goods trade, the net sales were €1,316 million (€1,457 million), down 9.6%. Consumer demand in the home and speciality goods trade continued to weaken. Sales declined especially in the Anttila and Kodin1 department stores. Six Anttila department stores were closed during the financial year. Musta Pörssi concentrates on e-commerce in accordance with its strategy and its sales performance was impacted by the discontinuation of the store site network. The decline in Intersport Russia's sales in euro terms was impacted by the weakening of the Russian rouble. Investments in e-commerce were continued in all chains.

The operating profit excluding non-recurring items of the home and speciality goods trade was €-37.4 million (€-8.3 million), down €29.0 million compared to the previous year. The performance was especially impacted by the loss increased by the decline in Anttila's sales. The profits of K-citymarket non-food, Intersport Finland and Indoor remained at a good level despite sales decline.

The operating profit of the home and speciality goods trade was €-85.0 million (€-2.1 million). The most significant non-recurring expenses included in the total of €47.6 million are the 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.

The capital expenditure of the home and speciality goods trade was €17.4 million (€23.1 million).

Building and home improvement trade

	1–12/2014	1–12/2013
Net sales, € million	2,598	2,607
Operating profit excl. non-recurring items, € million	57.7	25.7
Operating margin excl. non-recurring items, %	2.2	1.0
Capital expenditure, € million	60.0	37.8

Net sales, € million	1–12/2014	Change, %
Rautakesko, Finland	1,157	-1.3
K-rauta, Sweden	194	-5.3
Byggmakker, Norway	431	-8.4
K-rauta, Estonia	78	+14.0
K-rauta, Latvia	53	+2.7
Senukai, Lithuania	312	+18.6
K-rauta, Russia	250	-8.2
OMA, Belarus	125	+17.8
Total	**2,598**	**-0.4**

In the building and home improvement trade, the net sales were €2,598 million (€2,607 million), down 0.4%. In terms of local currencies, the net sales growth in the building and home improvement trade was 3.6%.

In Finland, the net sales were €1,157 million (€1,173 million), a decrease of 1.3%. The building and home improvement products contributed €785 million to the net sales in Finland, a decrease of 1.4%. The agricultural supplies trade contributed €372 million to the net sales, down 1.3%.

The retail sales of the K-rauta and Rautia chains in Finland were down by 2.1% to €1,003 million (VAT 0%). The sales of Rautakesko B2B Service were at the previous year's level. The K-Group's sales of building and home improvement products in Finland decreased by a total of 1.8% and the total market (VAT 0%) is estimated to have fallen by some 4.2% (Kesko's own estimate). The retail sales of the K-maatalous chain were €463 million (VAT 0%), up 0.6%.

The net sales from the foreign operations of the building and home improvement trade were €1,441 million (€1,435 million), an increase of 0.4%. In terms of local currencies, the net sales from foreign operations increased by 7.7%. In Sweden and Norway, net sales in local currencies were at the previous year's level. In Russia, net sales in roubles increased by 10.5%. Foreign operations contributed 55.5% (55.0%) to the net sales of the building and home improvement trade.

The operating profit excluding non-recurring items of the building and home improvement trade was €57.7 million (€25.7 million), up €32.0 million compared to the previous year. Due to a sales increase in foreign currency terms, coupled with growth of sales margin and cost savings, the profit performance was clearly positive. Profit from foreign operations improved. The operating profit of the building and home improvement trade was €52.4 million (€24.8 million). Non-recurring items include a restructuring provision of €5.2 million related to changes in the retail business of Byggmakker in Norway.

The capital expenditure of the building and home improvement trade totalled €60.0 million (€37.8 million), of which 67.0% (44.1%) was abroad. Capital expenditure in store sites represented 83.4% of total capital expenditure.

Car and machinery trade

	1–12/2014	1–12/2013
Net sales, € million	1,011	1,037
Operating profit excl. non-recurring items, € million	29.6	33.9
Operating margin excl. non-recurring items, %	2.9	3.3
Capital expenditure, € million	14.3	15.1

Net sales, € million	**1–12/2014**	**Change, %**
VV-Auto	756	+1.5
Konekesko	256	-12.6
Total	**1,011**	**-2.5**

In the car and machinery trade, the net sales were €1,011 million (€1,037 million), down 2.5%.

VV-Auto’s net sales were €756 million (€745 million), an increase of 1.5%. The combined market performance of first time registered passenger cars and vans was +3.1%.

The combined market share of passenger cars and vans imported by VV-Auto was 20.7% (20.6%). Volkswagen was the market leader in passenger cars and vans.

Konekesko's net sales were €256 million (€293 million), down 12.6% compared to the previous year. Net sales in Finland were €161 million, down 9.4%. The net sales from Konekesko’s foreign operations were €96 million, down 17.1%. The net sales decline was especially impacted by the weak market performance of the agricultural machinery trade in Finland and the Baltic countries.

The operating profit excluding non-recurring items of the car and machinery trade was €29.6 million (€33.9 million), down €4.3 million compared to the previous year. The adjustment of costs and inventories has been implemented as planned. Profitability in the car trade remained at a good level despite the weakened market situation.

The operating profit was €29.4 million (€33.9 million).

The capital expenditure of the car and machinery trade was €14.3 million (€15.1 million).

Changes in the Group composition

No significant changes took place in the Group composition during the financial year.

Shares, securities market and Board authorisations

At the end of 2014, 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 2014, Kesko Corporation held 995,315 own B shares as treasury shares. These treasury shares accounted for 1.46% of the number of B shares, 1.00% of the total number of shares, and 0.26% of votes carried by all shares of the Company. The total number of votes carried by 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 the Company as treasury shares and no dividend is paid on them. At the end of 2014, Kesko Corporation's share capital was €197,282,584. During the financial year, the number of B shares was increased three times to account for the shares subscribed for with the options based on the 2007 option scheme. The increases were made on 10 February 2014 (85,067 B shares), 30 April 2014 (62,778 B shares) and 4 June 2014 (39,214 B shares) and announced in stock exchange notification on the same days. The shares subscribed for were listed for public trading on Nasdaq Helsinki (Helsinki Stock Exchange) with the old B shares on 11 February 2014, 2 May 2014 and 5 June 2014. The subscription price of €2,148,641.76 received by the Company was recorded in the Company's reserve of invested non-restricted equity.

The price of a Kesko A share quoted on Nasdaq Helsinki was €26.80 at the end of 2013, and €28.56 at the end of 2014, representing an increase of 6.6%. Correspondingly, the price of a B share was €26.80 at the end of 2013, and €30.18 at the end of 2014, representing an increase of 12.6%. The highest A share price was €32.31 and the lowest was €24.60. The highest B share price was €33.33 and the lowest was €25.10. In 2014, the Nasdaq Helsinki All-Share index (OMX Helsinki) was up 5.7% and the weighted OMX Helsinki Cap index 5.7%. The Retail Sector Index was down 1.4%.

At the end of 2014, the market capitalisation of A shares was €906 million, while that of B shares was €2,031 million, excluding the shares held by the parent company. The combined market capitalisation of A and B shares was €2,937 million, an increase of €276 million from the end of 2013. In 2014, a total of 2.0 (1.1) million A shares were traded on Nasdaq Helsinki, an increase of 75.3%. The exchange value of A shares was €58 million. The number of B shares traded was 47.3 million (51.3 million), a decrease of 7.8%. The exchange value of B shares was €1,412 million. Nasdaq Helsinki accounted for 66% of Kesko A and B share trading in 2014. Kesko shares were also traded on multilateral trading facilities, the most significant of which were BATS Chi-X with 27% and Turquoise with 7% of the trading (source: Fidessa).

The Company operated the 2007 option scheme for management and other key personnel, under which the share subscription period of 2007C share options ran from 1 April 2012 to 30 April 2014 (subscription period has expired). The share options were included on the official list of the Helsinki stock exchange from the beginning of the share subscription periods. A total of 94,859 2007C share options were traded during the reporting period at a total value of €1,688,524. The option scheme and the share subscription periods of the 2007A, 2007B and 2007C share options under the option scheme and their trading on the official list have expired.

The Board has the authority, granted by the Annual General Meeting of 16 April 2012 and valid until 30 June 2015, to issue a total maximum of 20,000,000 new B shares. The shares can be issued against payment for subscription by shareholders in a directed issue in proportion to their existing holdings of the Company shares regardless of whether they consist of 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 against non-cash consideration and the right to make decisions on other matters concerning share issuances.

In addition, the Board had the authority, granted by the Annual General Meeting of 8 April 2013 and valid until 30 September 2014, to decide on the acquisition of a maximum of 500,000 own B shares. Kesko's Board of Directors made the decision in February 2014 to start acquiring own B shares. The decision to start the acquisition was announced in a stock exchange release on 4 February 2014 and acquisition was started on 18 February 2014. The maximum of 500,000 own B shares the Board was authorised to acquire was purchased by 31 March 2014, and the authorisation is thus fully used. Each purchase of own shares was announced in a stock exchange release at the end of the day on which the purchase was made. As at 31 December 2014, Kesko held a total of 995,315 own B shares as treasury shares. In addition, the Board has the authority, valid until 30 June 2017, to decide on the issuance of a maximum of 1,000,000 own B shares held as treasury shares by the Company.

On 4 February 2014, the Board decided to grant own B shares held by the Company as treasury shares to persons included in the target group of the 2013 vesting period, based on the authority to issue own shares granted by the Annual General Meeting held on 8 April 2013, and the fulfilment of the vesting criteria of the 2013 vesting period of Kesko's three-year share-based compensation plan. The issuance of a total of 50,520 own B shares, referred to above, was announced in a stock exchange release on 24 March 2014 and on 25 March 2014. A total of 5,642 shares granted based on the fulfilment of the vesting criteria of the 2011–2013 vesting periods were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. The shares returned during the reporting period were announced in a stock exchange notification on 7 February 2014, 23 May 2014 and 25 July 2014. 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, the Company's President and CEO as from 1 January 2015. The share transfer is based on the managing director's service contract signed with Mikko Helander. The transfer was announced in a stock exchange release on 16 December 2014 and on 17 December 2014. Further information on the Board's authorisations is available at www.kesko.fi.

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.

At the end of 2014, he number of shareholders was 39,869, which is 2,940 less than at the end of 2013. At the end of December, foreign ownership of all shares was 27%. At the end of December, foreign ownership of B shares was 39%.

Flagging notifications

Kesko Corporation did not receive flagging notifications during the financial year.

Key events during the financial year

Two new members were appointed to Kesko's Group Management Board. CCJ Lauri Peltola, 51, was appointed Senior Vice President for corporate responsibility, communications and stakeholder relations and a Group Management Board member. He will take office on 2 March 2015 at the latest. Kesko's General Counsel, Senior Vice President Anne Leppälä-Nilsson, 61, LL.M., B.Sc. (Econ.), was appointed a Group Management Board member. As from 1 January 2015, Kesko's Group Management Board members are: Mikko Helander, Chair; Jorma Rauhala, the grocery trade; Terho Kalliokoski, the home improvement and speciality goods trade; Pekka Lahti, the car and machinery trade; Jukka Erlund, accounting and finance, CFO; Matti Mettälä, human resources; and Anne Leppälä-Nilsson, legal affairs. (Stock exchange release on 16 December 2014)

Kesko continues the preparation of a real estate arrangement. The intention is to sell some of the store sites it owns to a joint venture to be set up instead of a real estate investment trust planned earlier. The arrangement is expected to be implemented during the first part of 2015. The fair value of store sites planned to be sold to the joint venture in Finland and Sweden has been specified at a maximum of around €670 million. (Stock exchange release on 29 November 2013 and 28 November 2014)

Kesko revised the Group's divisional structure by integrating K-citymarket Oy, the non-food part of the K-citymarket chain in the home and speciality goods division, into Kesko Food Ltd. Kesko's food trade division was changed to the grocery trade division. The separate divisions of the building and home improvement trade and the home and speciality goods trade were combined into the home improvement and speciality goods trade division. As from 1 January 2015, Kesko Group's reportable segments are the grocery trade, the home improvement and speciality goods trade, and the car and machinery trade. (Stock exchange release on 24 September 2014, 7 October 2014 and 27 November 2014)

Cooperation negotiations about changes planned in Kesko's home and speciality goods trade, building and home improvement trade and food trade were started on 7 October 2014 in Kesko's home and speciality goods trade companies and building and home improvement trade companies in Finland and in Kesko Food Ltd, Kesko Corporation and K-Plus Oy. The negotiations were completed on 24 November 2014. A total of approximately 2,800 people were included in the negotiations and the combined reduction need in the companies was estimated at a maximum of 230 full-time equivalents. As a result of the negotiations, the total need for reductions in personnel was confirmed at 193 full-time equivalents. The reductions also include possible pension plans and terminations of fixed-term employments.
(Stock exchange release on 24 September 2014, 7 October 2014 and 27 November 2014)

Kesko Corporation's Board of Directors appointed Mikko Helander, M.Sc. (Tech.), as Kesko Corporation's Managing Director and Kesko Group's President and Chief Executive Officer as from 1 January 2015. Mikko Helander, b. 1960, joined Kesko as the Executive Vice President and Member of the Group Management Board on 1 October 2014 and took office as the President and CEO on 1 January 2015. As from 1 January 2015, President and CEO Matti Halmesmäki will continue in advisory and special assignments to be agreed with the Board of Directors until 31 May 2015 when he will retire.
(Stock exchange release on 28 May 2014 and 19 September 2014)

As a result of the cooperation negotiations conducted in order to improve Anttila's profitability, a decision was made to close eight Anttila department stores operating in leased premises. These department stores have a total of around 210 employees. In addition, the workforce in other Anttila department stores is reduced by 25 full-time equivalents. Cooperation negotiations were also started in the Kodin1 chain and after their completion, a decision was made to close four Kodin1 department stores in the Kodin1 department store chain. Cooperation negotiations were also started in the central units of Anttila Oy and K-citymarket Oy.
(Stock exchange release on 31 March 2014)

Kestra Kiinteistöpalvelut Oy, a subsidiary of Kesko Corporation, announced that it will not participate in the future financing of Fennovoima Ltd's Hanhikivi 1 nuclear power project due to the related financial, contractual and schedule uncertainties. (Stock exchange release on 27 March 2014)

Events after the financial year

Anni Ronkainen, 48, M.Sc. (Econ.), has been appointed Kesko's Chief Digital Officer, responsible for business development, digital business environment and marketing, and a member of the Group Management Board. She will join Kesko Corporation on 20 April 2015 at the latest. (Stock exchange release on 26 January 2015)

Resolutions of the 2014 Annual General Meeting and decisions of the Board’s organisational meeting

Kesko Corporation's Annual General Meeting, held on 7 April 2014, adopted the financial statements for 2013 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved, as proposed by the Board, to distribute €1.40 per share as dividends, or a total of €138,484,759.00. The dividend pay date was 17 April 2014. The General Meeting resolved that the number of Board members be unchanged at seven. In addition, the General Meeting resolved to leave the Board members' fees and the basis for reimbursement of expenses unchanged. The term of office of each of the seven (7) Board members elected by the Annual General Meeting on 16 April 2012, namely Esa Kiiskinen (Ch.), Seppo Paatelainen (Deputy Ch.), Ilpo Kokkila, Tomi Korpisaari, Maarit Näkyvä, Toni Pokela and Virpi Tuunainen, will expire at the close of the 2015 Annual General Meeting in accordance with Kesko’s Articles of Association.

The General Meeting elected PricewaterhouseCoopers Oy as the Company's Auditor, with APA Johan Kronberg as the Auditor with principal responsibility. The General Meeting also approved the Board's proposal that it be authorised to decide on donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2015.

The organisational meeting of the Company’s Board of Directors, held after the Annual General Meeting, decided to keep the compositions of the Audit Committee and the Remuneration Committee unchanged.

The resolutions of the Annual General Meeting and the decisions of the Board's organisational meeting were announced in more detail in stock exchange releases on 7 April 2014.

Responsibility

In January, Kesko was again included on 'The Global 100 Most Sustainable Corporations in the World' list.

In RobecoSAM's Sustainability Yearbook 2014, published in January, Kesko received the Silver Class distinction in the Food & Staples Retailing Industry category.

In March, Kesko and K-stores took part in the global Earth Hour 2014 event by turning off the illuminated signs in their properties and stores.

Kesko gave out more than 16,000 Pirkka Fairtrade roses to mothers at the Mother's Day celebration in Helsinki and in maternity wards across Finland.

For the 27th time, Kesko's Board awarded scholarships to talented young athletes and art students. The total amount of the scholarships awarded in May was €42,000.

Kesko granted Fair Play scholarships to 3,000 young people ending their primary education as rewards for exemplary promotion of peace and tolerance at school.

In September, Kesko was included in the Dow Jones Sustainability Indices DJSI World and DJSI Europe for the 12th time. Kesko obtained its highest scores in risk and crisis management, codes of conduct and supply chain management.

The target of the Youth Guarantee in the K-Group programme, to employ 1,000 young people by the end of 2014, was achieved more thans six months ahead of the deadline. By the end of August, 1,500 young people had found employment in Kesko and K-stores with the help of the Youth Guarantee.

The Rehabilitation Foundation and Kesko are implementing a joint project for supporting working ability and learning at the beginning of career. One of its aims is to identify learning difficulties and increase awareness of them.

K-food stores introduced a bottle return raffle from which proceeds are directed to the Mannerheim League for Child Welfare or the Association of Friends of the University Children's hospitals every six months. The objective is to extend the raffle to some 260 K-food stores this year.

In October, Kesko was included in the Nordic Climate Disclosure Leadership Index in a fourth consecutive year. Kesko improved its score to 99/100 points. In the FTSE4Good Index, Kesko’s overall score assessment was 99/100.

Kesko's Corporate Responsibility Report 2013 was chosen as Finland's best in the 2014 Sustainability Reporting Award Finland Competition. Kesko's report was ranked the best also by non-governmental organisations.

K-stores were the main partners in the Finnish Red Nose Day campaign organised by the Nose Day Foundation and raised over €353,000 during the campaign. The funds raised will be used to support long-term development cooperation projects aimed to promote children’s rights in developing countries in several ways.

Kesko and K-stores were the national partner of the Salvation Army’s Christmas Kettle collection and they also participated in the Christmas Spirit collection.

Information contained in the notes to the financial statements

Information on the Group’s personnel is disclosed in note 6.
Information on options, shares under options and voting rights is disclosed in note 30.
Related party transactions are disclosed in note 33.

Kesko will publish an Integrated Annual Report for 2014. The report contains a business review, the Report by the Board of Directors and the financial statements for 2014, the responsibility reporting indicators (GRI), Kesko’s Corporate Governance Statement and Remuneration Statement. 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 confirmed 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, which is 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 risk map is 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 report. The Kesko Board considers Kesko Group's most significant risks and uncertainties and their management responses, and assesses the efficiency and performance of risk management at least once a year. 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

The geopolitical situation, 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 the home improvement and speciality goods trade and the car and machinery trade in Finland. In the food trade, price is increasingly important.

The level of uncertainty around economic development in Russia is high and political and country risks in Russia have risen significantly. The fall of crude oil prices cuts the revenues of the Russian state. The decline in the rouble's exchange rate weakens purchasing power, demand and profitability, and 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. Corruption, unpredictability of officials and rapid changes in laws and their application, as well as unexpected changes in the operating environment make business operations more difficult and, if continued, will delay or, at worst, prevent expansion.

E-commerce and online services are becoming increasingly popular in the retail trade, especially in the home technology, sports and other speciality goods trade. International e-commerce increases price transparency and consumers' alternatives at the same time when buying and marketing of products and services become more personalised and increasingly take place online. Buying decisions are often made based on information available on the web. The risk is that the progress of e-commerce and e-service development projects is outpaced by competitors, or that competing online stores and e-services are found more attractive by customers. 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.

In the retail trade, it is essential to succeed in the development of concepts so that they meet the needs and preferences of local customers. The change in the trading sector and customers’ purchasing behaviour requires continuous renewal. The growth of e-commerce has cut the sales of the department store trade and there has been a failure to renew Anttila’s concept and selections fast enough. The sales and profitability of the building and home improvement stores in Sweden and Intersport stores in Russia have failed to reach the targets. In the Finnish food trade, it is increasingly challenging to meet the market share targets as price competition increases.

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.

Finnish competition legislation has been amended to the effect that, unlike in the rest of the EU area, the prohibition of abuse of dominant market position can be applied to companies whose national market share in the groceries retail markets exceeds 30%. According to the law, Kesko Food is in a dominant market position. Special obligations have been imposed on a company in a dominant market position which can weaken the trading sector's competitive opportunities to serve customers and operate efficiently. The implications of dominant market position are partly open to interpretation. An erroneous interpretation may result in monetary penalties, liability for damages and a weakened reputation.

The trading sector is characterised by increasingly complicated and long supply chains and a higher dependency on information systems, data communications and external service providers. Failures in information systems and the transfer of payments, or in other parts of the supply chain, can cause significant losses in sales and weaken customer satisfaction.

With the view of 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.

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.

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. A growing need for special competencies increases the dependency on individual expertise and key person risk.

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

Crimes are increasingly committed through data networks and crime has become more international and professional. A failure especially in the security of payment transactions and protection of personal information can cause losses, claims for damages and reputational harm. There is a risk that controls against such crime are not sufficient.

Various aspects of corporate responsibility, such as ethicality of production and the supply chain, fair and equal treatment of employees and environmental protection are increasingly important to customers. Possible failures of responsibility would result in negative publicity for Kesko. Kesko's challenges in responsibility work include communicating its responsibility principles to customers, suppliers and retailers, and ensuring responsibility in the supply chain.

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

Kesko's objective is to produce and publish reliable and timely information. If some 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.

Accidents, natural phenomena and epidemics can cause damages or business interruptions which cannot be prevented. There is also the risk that insurance policies do not cover all unexpected accidents and damages.

Other risks and uncertainties related to profit performance are described in the Group's future outlook.

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 (1–12/2015) in comparison with the 12 months preceding the reporting period (1–12/2014).

The general economic situation and the expected trend in consumer demand vary in Kesko’s different operating countries. In Finland, demand in the trading sector is expected to be weak also in the current year and the competitive situation is expected to tighten further, especially in the grocery trade and the home and speciality goods trade. In Sweden and Norway and in the Baltic countries, the growth in demand in the trading sector is expected to continue. In Russia, the economic situation and consumers’ purchasing power will weaken.

Kesko Group's net sales for 2015 are expected to equal the level of 2014. Operating profit excluding non-recurring items for 2015 is expected to equal or fall slightly short of the level of 2014.

Proposal for profit distribution

The parent's distributable profits are €1,084,158,672.62, of which the profit for the financial year is €16,269,287.26.

The Board of Directors proposes to the Annual General Meeting to be held on 13 April 2015 that a dividend of €1.50 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, 9 February 2015, a total of 99,024,437 shares were held outside the Company, amounting to a total dividend of €148,536,655.50.

Annual General Meeting

The Board of Directors decided to convene the Annual General Meeting at Messukeskus Helsinki, on 13 April 2015 at 13.00. Kesko Corporation will publish a notice of the General Meeting at a later date.

Annual Report 2014 and Corporate Governance Statement

Kesko will publish an Integrated Annual Report for 2014. The report contains a business review, the Report by the Board of Directors and the financial statements for 2014, the responsibility reporting indicators (GRI), Kesko's Corporate Governance Statement and Remuneration Statement.

Group's key performance indicators

		2010	2011	2012	2013	2014
Income statement						
Net sales	€ million	8,777	9,460	9,686	9,315	9,071
Change in net sales	%	3.9	7.8	2.4	-3.8	-2.6
Operating profit excl. non-recurring items	€ million	268	279	230	239	233
Operating profit excl. non-recurring items as percentage of net sales	%	3.1	2.9	2.4	2.6	2.6
Profit for the year (incl. non-controlling interests)	€ million	216	197	136	185	108
Profit for the year as percentage of net sales	%	2.5	2.1	1.4	2.0	1.2
Profitability						
Return on equity	%	10.1	8.8	6.0	8.0	4.7
Return on equity excl. non-recurring items	%	8.7	8.8	6.9	7.7	7.6
Return on capital employed	%	16.0	13.2	8.3	10.2	6.4
Return on capital employed excl. non-recurring items	%	14.0	13.1	9.0	9.8	9.9
Funding and financial position						
Interest-bearing net debt	€ million	-370.5	32.8	135.3	-126.4	-99.2
Gearing	%	-16.8	1.5	6.0	-5.4	-4.4
Equity ratio	%	53.5	53.9	52.5	54.5	54.5
Interest-bearing net debt/EBITDA		-0.9	0.1	0.4	-0.3	-0.3
Other performance indicators						
Capital expenditure	€ million	325	425	378	171	194
Capital expenditure as percentage of net sales	%	3.7	4.5	3.9	1.8	2.1
Cash flow from operating activities	€ million	438	216	382	414	304
Cash flow from investing activities	€ million	-240	-441	-391	-152	-182
Personnel, average for the period		18,215	18,960	19,747	19,489	19,976
Personnel, as at 31 Dec.		22,124	23,375	24,080	23,863	23,794

		2010	2011	2012	2013	2014
Share performance indicators						
Earnings/share, diluted	€	2.06	1.84	1.26	1.75	0.97
Earnings/share, basic	€	2.08	1.85	1.27	1.75	0.97
Earnings/share excl. non-recurring items, basic	€	1.78	1.84	1.47	1.68	1.65
Equity/share	€	21.81	22.29	22.48	22.96	22.05
Dividend/share	€	1.30	1.20	1.20	1.40	1.50*
Payout ratio	%	62.6	64.9	94.5	79.9	154.7*
Payout ratio excl. non-recurring items	%	72.9	65.3	81.8	83.3	91.1*
Cash flow from operating activities/share, adjusted	€	4.45	2.20	3.88	4.17	3.07
Price/earnings ratio (P/E), A share, adjusted		16.82	13.55	19.30	15.35	29.49
Price/earnings ratio (P/E), B share, adjusted		16.93	14.14	19.60	15.35	31.16
Effective dividend yield, A share	%	3.7	4.8	4.9	5.2	5.3*
Effective dividend yield, B share	%	3.7	4.6	4.8	5.2	5.0*
Share price as at 31 Dec.						
A share	€	34.70	24.82	24.39	26.80	28.56
B share	€	34.93	25.96	24.77	26.80	30.18
Average share price						
A share	€	30.42	29.20	23.71	24.85	29.06
B share	€	29.83	29.36	22.75	24.11	29.82
Market capitalisation as at 31 Dec., A share	€ million	1,101	788	774	851	906
Market capitalisation as at 31 Dec., B share	€ million	2,337	1,719	1,644	1,810	2,031
Turnover						
A share	Million pcs	4	2	2	1	2
B share	Million pcs	53	63	68	51	47
Relative turnover rate						
A share	%	13.8	6.6	7.6	3.6	6.3
B share	%	78.8	94.6	102.0	77.0	69.5
Diluted number of shares as at 31 Dec.	Thousand pcs	99,121	98,919	98,472	99,136	99,161
Yield of A share for the last financial years	%	11.9	-4.6	-4.5	8.5	8.3
Yield of B share						
For the last five financial years	%	12.7	-4.2	-3.7	13.7	10.1
For the last ten financial years	%	21.3	17.1	14.6	13.4	10.2

* Proposal to the General Meeting

Net sales by segment

€ million	1–12/2014	1–12/2013	Change, %
Food trade Finland	4,213	4,316	-2.4
Food trade other countries*	103	71	46.7
Food trade total	**4,316**	**4,387**	**-1.6**
- of which inter-segment sales	173	172	0.4
Home and speciality goods trade Finland	1,287	1,424	-9.6
Home and speciality goods trade other countries*	29	33	-10.8
Home and speciality goods trade total	**1,316**	**1,457**	**-9.6**
- of which inter-segment sales	15	17	-12.6
Building and home improvement trade Finland	1,157	1,173	-1.3
Building and home improvement trade other countries*	1,441	1,435	0.4
Building and home improvement trade total	**2,598**	**2,607**	**-0.4**
- of which inter-segment sales	-1	-1	-18.1
Car and machinery trade Finland	916	921	-0.6
Car and machinery trade other countries*	96	116	-17.5
Car and machinery trade total	**1,011**	**1,037**	**-2.5**
- of which inter-segment sales	1	1	-34.4
Common operations and eliminations	-171	-173	-0.8
Finland total	**7,401**	**7,661**	**-3.4**
Other countries total*	**1,669**	**1,654**	**0.9**
Group total	**9,071**	**9,315**	**-2.6**

* Net sales in countries other than Finland

Operating profit by segment

€ million	1–12/2014	1–12/2013	Change
Food trade	196.0	208.0	-12.0
Home and speciality goods trade	-85.0	-2.1	-82.9
Building and home improvement trade	52.4	24.8	27.6
Car and machinery trade	29.4	33.9	-4.5
Common operations and eliminations	-41.5	-16.3	-25.2
Group total	**151.4**	**248.4**	**-97.1**

Operating profit excl. non-recurring items by segment

€ million	1–12/2014	1–12/2013	Change
Food trade	202.4	203.3	-0.8
Home and speciality goods trade	-37.4	-8.3	-29.0
Building and home improvement trade	57.7	25.7	32.0
Car and machinery trade	29.6	33.9	-4.3
Common operations and eliminations	-19.7	-15.8	-4.0
Group total	**232.6**	**238.8**	**-6.2**

Group's performance indicators by quarter

	1–3/ 2013	4–6/ 2013	7–9/ 2013	10–12/ 2013	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014
Net sales, € million	2,159	2,420	2,374	2,362	2,129	2,371	2,304	2,267
Change in net sales, %	-6.9	-1.6	-3.1	-3.9	-1.4	-2.1	-2.9	-4.0
Operating profit, € million	19.2	77.0	84.1	68.0	-13.0	69.4	63.4	31.7
Operating margin, %	0.9	3.2	3.5	2.9	-0.6	2.9	2.7	1.4
Operating profit excl. non-recurring items, € million	18.6	69.8	83.6	66.8	19.1	67.6	84.0	61.9
Operating margin excl. non-recurring items, %	0.9	2.9	3.5	2.8	0.9	2.9	3.6	2.7
Finance income/costs, € million	-3.3	0.4	-2.6	-0.4	-1.6	2.2	-1.8	-5.0
Profit before tax, € million	15.8	77.2	81.5	67.9	-14.4	71.4	61.7	26.4
Profit before tax, %	0.7	3.2	3.4	2.9	-0.7	3.0	2.7	1.2
Return on capital employed, %	3.1	12.3	14.2	11.5	-2.2	11.5	10.9	5.5
Return on capital employed excl. non-recurring items, %	3.0	11.1	14.1	11.3	3.2	11.2	14.4	10.7
Return on equity, %	1.9	9.5	10.2	10.8	-2.0	9.4	8.1	3.7
Return on equity excl. non-recurring items, %	1.8	8.6	10.1	10.6	2.3	9.1	11.3	8.0
Equity ratio, %	51.7	50.5	52.9	54.5	53.2	52.3	54.2	54.5
Capital expenditure, € million	41.5	48.1	35.4	46.6	43.4	55.7	51.7	43.2
Earnings/share, diluted, €	0.11	0.50	0.53	0.60	-0.11	0.51	0.41	0.17
Equity/share, €	22.62	21.79	22.39	22.96	22.83	21.86	22.25	22.05

Net sales by segment

€ million	1–3/ 2013	4–6/ 2013	7–9/ 2013	10–12/ 2013	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014
Food trade	1,045	1,099	1,095	1,148	1,007	1,106	1,085	1,119
Home and speciality goods trade	345	322	351	439	312	288	323	393
Building and home improvement trade	562	740	710	596	581	736	696	585
Car and machinery trade	249	301	260	226	272	283	240	216
Common operations and eliminations	-42	-41	-43	-46	-44	-42	-40	-45
Group total	**2,159**	**2,420**	**2,374**	**2,362**	**2,129**	**2,371**	**2,304**	**2,267**

Operating profit by segment

€ million	1–3/ 2013	4–6/ 2013	7–9/ 2013	10–12/ 2013	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014
Food trade	48.2	55.1	56.5	48.3	45.4	52.0	54.4	44.2
Home and speciality goods trade	-17.7	-5.6	-2.1	23.3	-54.5	-17.6	-20.0	7.1
Building and home improvement trade	-16.1	18.0	23.9	-1.0	-9.7	28.6	23.5	10.1
Car and machinery trade	7.8	13.0	9.8	3.3	8.2	10.9	8.7	1.6
Common operations and eliminations	-3.0	-3.4	-4.0	-5.9	-2.5	-4.5	-3.2	-31.3
Group total	**19.2**	**77.0**	**84.1**	**68.0**	**-13.0**	**69.4**	**63.4**	**31.7**

Operating profit excl. non-recurring items by segment

€ million	1–3/ 2013	4–6/ 2013	7–9/ 2013	10–12/ 2013	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014
Food trade	48.2	50.8	56.0	48.3	46.5	52.9	56.3	46.7
Home and speciality goods trade	-17.8	-10.0	-2.2	21.6	-22.7	-18.3	-7.4	11.0
Building and home improvement trade	-16.6	19.5	23.9	-1.1	-10.4	26.6	29.6	11.9
Car and machinery trade	7.8	13.0	9.8	3.3	8.2	10.9	8.7	1.8
Common operations and eliminations	-3.0	-3.4	-4.0	-5.4	-2.5	-4.5	-3.2	-9.5
Group total	**18.6**	**69.8**	**83.6**	**66.8**	**19.1**	**67.6**	**84.0**	**61.9**

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
Yields 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. 2014

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	25,928,104	25.92
Financial and insurance corporations	8,224,194	8.22
General government*	5,871,859	5.87
Households	26,999,554	26.99
Non-profit institutions**	5,723,641	5.72
Rest of the world	229,155	0.23
Nominee registered	27,043,245	27.04
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	18,729,759	59.02	18.73
Financial and insurance corporations	4,069,348	12.82	4.07
General government*	301,502	0.95	0.30
Households	6,350,372	20.01	6.35
Non-profit institutions**	1,672,326	5.27	1.67
Rest of the world	6,059	0.02	0.01
Nominee registered	607,641	1.91	0.61
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	7,198,345	10.54	7.20
Financial and insurance corporations	4,154,846	6.08	4.15
General government*	5,570,357	8.16	5.57
Households	20,649,182	30.24	20.65
Non-profit institutions**	4,051,315	5.93	4.05
Rest of the world	223,096	0.33	0.22
Nominee registered	26,435,604	38.71	26.43
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. 2014

All shares Number of shares	Number of share-holders, pcs	Percentage of share-holders, %	Share total, pcs	Percentage of shares, %
1–100	12,820	32.16	722,450	0.72
101–500	14,778	37.07	3,995,989	4.00
501–1,000	5,205	13.06	4,101,827	4.10
1,001–5,000	5,453	13.68	12,049,088	12.05
5,001–10,000	873	2.19	6,190,300	6.19
10,001–50,000	606	1.52	12,475,179	12.47
50,001–100,000	78	0.20	5,588,455	5.59
100,001–500,000	40	0.10	8,655,794	8.65
500,001–999,999,999,999	16	0.04	46,240,670	46.23
Total	**39,869**	**100.00**	**100,019,752**	**100.00**

A shares Number of shares	Number of share-holders, pcs	Percentage of holders of A shares, %	A share total, pcs	Percentage of A shares, %
1–100	2,251	31.04	107,517	0.34
101–500	1,732	23.88	449,627	1.42
501–1,000	1,018	14.04	872,430	2.75
1,001–5,000	1,529	21.08	3,756,736	11.84
5,001–10,000	375	5.17	2,627,458	8.28
10,001–50,000	294	4.05	6,289,719	19.82
50,001–100,000	36	0.50	2,539,911	8.00
100,001–500,000	12	0.17	3,037,018	9.57
500,001–999,999,999,999	5	0.07	12,056,591	37.99
Total	**7,252**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of share-holders, pcs	Percentage of holders of B shares, %	B share total, pcs	Percentage of B shares, %
1–100	11,486	32.79	663,239	0.97
101–500	13,898	39.68	3,758,156	5.50
501–1,000	4,472	12.77	3,462,549	5.07
1,001–5,000	4,284	12.23	9,092,838	13.32
5,001–10,000	490	1.40	3,501,019	5.13
10,001–50,000	320	0.91	6,341,226	9.29
50,001–100,000	44	0.13	3,233,716	4.74
100,001–500,000	22	0.06	5,568,154	8.15
500,001–999,999,999,999	11	0.03	32,661,848	47.83
Total	**35,027**	**100.00**	**68,282,745**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2014

	Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1. K-Retailers' Association	3,741,696	3.74	37,416,960	9.70
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	1,878,708	1.88	4,584,396	1.19
5. Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
6. Elo Mutual Pension Insurance Company	1,192,968	1.19	1,192,968	0.31
7. Varma Mutual Pension Insurance Company	1,130,986	1.13	1,130,986	0.29
8. Foundation for Vocational Training in the Retail Trade	1,059,366	1.06	9,222,708	2.39
9. Oy The English Tearoom Ab	1,000,000	1.00	1,000,000	0.26
10. Kesko Corporation	995,315	1.00	995,315	0.26

10 largest shareholders by number of votes as at 31 Dec. 2014

	Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1. K-Retailers' Association	3,741,696	3.74	37,416,960	9.70
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	1,059,366	1.06	9,222,708	2.39
6. Ilmarinen Mutual Pension Insurance Company	1,878,708	1.88	4,584,396	1.19
7. K-Food Retailers' Club	443,603	0.44	4,436,030	1.15
8. Heimo Välinen Oy	440,000	0.44	4,400,000	1.14
9. Food Paradise Oy	389,541	0.39	3,895,410	1.01
10. A. Toivakka Oy	211,450	0.21	1,934,500	0.50

Management's shareholdings

At the end of December 2014, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 373,961 Kesko Corporation A shares and 39,701 Kesko Corporation B shares, i.e. a total of 413,662 shares, which represents 0.41% of the total number of shares and 0.98% of votes carried by all shares of the Company.

At 31 December 2014, the President and CEO held 20,601 Kesko Corporation B shares, which represented 0.02% of the total number of shares and 0.01% of votes carried by all shares of the Company. At 31 December 2014, the Group Management Board including the President and CEO held 79,672 Kesko Corporation B shares, which represented 0.08% of the total number of shares and 0.02% of votes carried by all shares of the Company.

Consolidated financial statements (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2014	%	1 Jan.–31 Dec. 2013	%
Net sales	2	**9,070.6**	100.0	**9,315.2**	100.0
Cost of goods sold		-7,832.3	-86.3	-8,033.8	-86.2
Gross profit		**1,238.3**	13.7	**1,281.4**	13.8
Other operating income	4 5	729.3	8.0	734.3	7.9
Employee benefit expense	6 30	-614.2	-6.8	-611.1	-6.6
Lease expenditure		-438.4	-4.8	-421.7	-4.5
Marketing costs		-237.1	-2.6	-240.7	-2.6
Property and store site maintenance		-120.1	-1.3	-128.4	-1.4
Information system expenses		-84.6	-0.9	-81.0	-0.9
Other operating expenses	4	-126.7	-1.4	-131.4	-1.4
Depreciation, amortisation and impairment	11 12	-195.1	-2.2	-153.0	-1.6
Operating profit		**151.4**	1.7	**248.4**	2.7
Interest income and other finance income	7	13.8	0.2	20.3	0.2
Interest expense and other finance costs	7	-15.6	-0.2	-20.4	-0.2
Foreign exchange differences	7	-4.4	0.0	-5.7	-0.1
Total finance income and costs	7	-6.1	-0.1	-5.8	-0.1
Investments accounted for using the equity method		-0.2	0.0	-0.3	0.0
Profit before tax		**145.0**	1.6	**242.3**	2.6
Income tax	8	-36.6	-0.4	-57.7	-0.6
Profit for the year		**108.5**	1.2	**184.6**	2.0
Profit for the year attributable to					
Owners of the parent		96.0		173.1	
Non-controlling interests		12.4		11.5	
Earnings per share for profit attributable to owners of the parent					
Basic, €	10	0.97		1.75	
Diluted, €	10	0.97		1.75	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2014	1 Jan.–31 Dec. 2013
Profit for the year		**108.5**	**184.6**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	9 17	-19.6	12.2
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	9	-27.9	-13.9
Adjustment for hyperinflation	9	4.5	2.8
Cash flow hedge revaluation	9	0.9	-3.8
Revaluation of available-for-sale financial assets	9	-3.0	-4.9
Others	9	-0.2	-0.2
Total comprehensive income for the year, net of tax		**-45.4**	**-7.7**
Total comprehensive income for the year		**63.1**	**176.9**
Comprehensive income for the year attributable to			
Owners of the parent		49.4	165.9
Non-controlling interests		13.6	11.0

Consolidated statement of financial position

€ million	Note	31 Dec. 2014	%	31 Dec. 2013	%
ASSETS					
Non-current assets					
Property, plant and equipment	11	1,624.1		1,651.4	
Intangible assets	12	177.9		189.1	
Equity accounted investments	13 35	92.2		87.5	
Available-for-sale financial assets	23 32	13.1		16.9	
Non-current receivables	14 15 23	7.1		12.5	
Deferred tax assets	16	4.2		3.0	
Pension assets	17	147.2		170.2	
Total non-current assets		**2,065.9**	49.2	**2,130.5**	48.8
Current assets					
Inventories	18	776.4		797.5	
Interest-bearing receivables	19 23	11.0		11.8	
Trade receivables	19 23 32	584.2		616.7	
Income tax assets	19 23	24.3		2.2	
Other non-interest-bearing receivables	19 23	137.3		121.6	
Financial assets at fair value through profit or loss	32	219.3		170.7	
Available-for-sale financial assets	20 32	271.7		398.4	
Cash and cash equivalents		107.0		111.8	
Total current assets		2,131.2	50.8	2,230.6	51.1
Non-current assets held for sale	21	0.5	0.0	0.5	0.0
Total assets		**4,197.7**	100.0	**4,361.7**	100.0

€ million	Note	31 Dec. 2014	%	31 Dec. 2013	%
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		263.4	
Currency translation differences	22	-37.9		-13.3	
Revaluation reserve	22	-0.9		1.2	
Retained earnings		1,562.1		1,632.9	
		2,183.9	52.0	**2,279.4**	52.3
Non-controlling interests		**81.6**	1.9	**73.1**	1.7
Total equity		**2,265.5**	54.0	**2,352.5**	53.9
Non-current liabilities					
Interest-bearing non-current liabilities	23 24 32	319.3		355.1	
Non-interest-bearing non-current liabilities	23 32	10.5		9.9	
Deferred tax liabilities	16	67.4		68.1	
Pension obligations	17	2.0		1.8	
Provisions	25	26.7		17.4	
Total non-current liabilities		**425.9**	10.1	**452.3**	10.4
Current liabilities					
Current interest-bearing liabilities	23	179.6		199.3	
Trade payables	23 26	794.6		825.4	
Other non-interest-bearing liabilities	23 26	217.9		234.9	
Income tax liabilities	23 26	9.2		10.7	
Accrued liabilities	23 26	262.9		248.9	
Provisions	25	42.1		37.7	
Total current liabilities		**1,506.3**	35.9	**1,556.9**	35.7
Total liabilities		**1,932.2**	46.0	**2,009.2**	46.1
Total equity and liabilities		**4,197.7**	100.0	**4,361.7**	100.0

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2014	1 Jan.–31 Dec. 2013
Cash flows from operating activities			
Profit before tax		145.0	242.3
Adjustments			
Depreciation according to plan		150.7	151.6
Finance income and costs		6.1	5.8
Other adjustments	31	63.3	8.2
		220.1	165.6
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		31.7	89.1
Inventories increase (-)/decrease (+)		-6.9	2.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-20.9	-1.3
		3.9	90.7
Interest paid and other finance costs		-16.1	-21.8
Interest received		13.0	14.5
Dividends received		0.1	0.1
Income tax paid		-61.6	-77.5
Net cash generated from operating activities		**304.4**	**413.8**
Cash flows from investing activities			
Acquisition of associate		0.0	-0.1
Purchases of tangible and intangible assets		-193.6	-173.2
Purchases of available-for-sale financial assets		0.0	-0.7
Sale of subsidiary, net of cash disposed of		0.3	-
Proceeds from disposal of tangible and intangible assets		10.8	21.8
Non-current loan and receivables, increase (-)/decrease (+)		0.3	0.2
Net cash used in investing activities		**-182.1**	**-152.0**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)		-44.8	-46.8
Repayments of finance lease liabilities		-1.0	-0.5
Interest-bearing receivables, increase (-)/decrease (+)		-0.5	77.6
Dividends paid		-143.4	-122.4
Proceeds from issuance of shares		2.1	19.6
Purchase of treasury shares		-16.1	-
Short-term money market investments, increase (-)/decrease (+)		-56.8	-90.6
Other items		6.8	4.6
Net cash used in financing activities		**-253.6**	**-158.6**
Change in cash and cash equivalents and current available-for-sale financial assets		**-131.3**	**103.2**
Cash and cash equivalents and current available-for-sale financial assets as at 1 Jan.	31	453.0	351.9
Currency translation difference adjustment and change in value		-8.4	-2.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 Dec.	31	**313.3**	**453.0**

Consolidated statement of changes in equity

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of the parent								
Balance as at 1 January 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 with options		2.1					2.1		**2.1**
Share-based payment					2.4		2.4	0.0	**2.4**
Purchase 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**

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of the parent								
Balance as at 1 January 2013	**197.3**	**441.6**	**-2.1**	**9.9**	**-19.4**	**1,578.3**	**2,205.5**	**66.6**	**2,272.1**
Shares subscribed for with options		19.6					19.6		**19.6**
Share-based payment					1.6		1.6	0.0	**1.6**
Purchase of treasury shares							-		**-**
Dividends						-117.9	-117.9	-4.5	**-122.4**
Other changes		0.0	-0.3			5.0	4.7		**4.7**
Profit for the year						173.1	173.1	11.5	**184.6**
Other comprehensive income									
Actuarial gains/losses						14.6	14.6		**14.6**
Currency translation differences related to a foreign operation		0.0	-10.8				-10.8	-3.1	**-13.9**
Adjustments for hyperinflation						0.3	0.3	2.6	**2.8**
Cash flow hedge revaluation				-4.7			-4.7		**-4.7**
Revaluation of available-for-sale financial assets				-4.7			-4.7		**-4.7**
Others						-0.2	-0.2		**-0.2**
Tax related to other comprehensive income				0.8		-2.4	-1.6		**-1.6**
Total other comprehensive income		0.0	-10.8	-8.7		12.3	-7.2	-0.5	**-7.7**
Total comprehensive income for the period		0.0	-10.8	-8.7		185.4	165.9	11.0	**176.9**
Balance as at 31 December 2013	**197.3**	**461.2**	**-13.3**	**1.2**	**-17.8**	**1,650.7**	**2,279.4**	**73.1**	**2,352.5**

Further information on share capital and reserves is disclosed in note 22, on components of other comprehensive income in note 9 and on option schemes 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 leading provider of trading sector services and a highly valued listed company. Kesko has about 2,000 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 food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery 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 9 February 2015.

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 2014. 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 Standards and regulations based on them. 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.

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.

With effect from 1 January 2014, the Group has adopted the following new and revised standards:

IFRS 10 Consolidated Financial Statements

The standard establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. The standard defines the principle of control, sets out how to apply the principle of control and establishes control as the basis for consolidation. The standard also provides the accounting requirements for the preparation of consolidated financial statements. The new standard has not had an impact on the preparation of the consolidated financial statements.

IFRS 11 Joint Arrangements

The new standard changes the accounting for joint arrangements to the effect that, instead of legal form, the emphasis is placed on the rights and obligations arising from the arrangement. There are two types of joint arrangements: joint operations and joint ventures. The parties to a joint operation (i.e. joint operators) have rights to the assets, and obligations for the liabilities relating to the arrangement. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation. The parties to a joint venture (i.e. joint venturers) have rights to the net assets of the arrangement and they shall recognise their interest in a joint venture as an investment and account for that investment using the equity method. Proportionate consolidation of joint ventures is no longer allowed. The new standard has not had an impact on the consolidation of joint ventures.

IFRS 12 Disclosure of Interests in Other Entities

The standard provides disclosure requirements for all types of interests. It applies to joint arrangements, associates, special purpose investment vehicles and other unrecognised vehicles. The amendment has had an impact on the information presented in the notes.

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 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 50% 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 36.

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 gains 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. When 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

A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements are arrangements in which sharing of 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. When the Group's share of losses in 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 36.

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.

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. The income statements and balance sheets of these operations have been translated into euros at the rate of the balance sheet date.

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 assets were acquired.

Regular way purchases or sales of financial assets are recognised using settlement date accounting. Financial assets are classified as non-current if they have a maturity date greater 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 reporting date, 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 a financial asset exceeds its 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 Group companies, used as cash floats in stores, or amounts being transferred to the respective companies.

Financial liabilities

Financial liabilities have initially been recognised at fair value, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method. Arrangement fees paid on the establishment of loan facilities and financial liabilities are amortised over the period of the facility to which it relates. Financial liabilities having maturities greater 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 subsequently 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 a replaced asset is derecognised. 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 remuneration 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 recognized as finance costs and a decrease in the liability. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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

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

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

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less direct costs necessary to make the sale. The cost is primarily assigned by using the weighted average cost formula. The cost of certain categories of inventory is assigned by 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 2014 and 2013, 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-based compensation

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

The Company's Board of Directors has granted a share-based compensation plan for management under which an award in B series shares and an amount in cash is paid upon fulfilling the plan objectives. 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. 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.

Options

Share options are measured at fair value at the grant date and expensed on a straight-line basis over the commitment period. The corresponding amount is recognised in retained earnings. The expenditure determined at the option grant date is based on the Group's estimate of the number of options expected to vest at the end of the commitment period. The Group updates the estimate of the final number of options at each balance sheet date. Changes in estimates are recorded in the income statement. The fair value of options has been calculated using the Black–Scholes option pricing model. The Group has not had share options since 30 April 2014.

When share options are exercised, the proceeds received from share subscriptions, adjusted for possible transaction costs, are recognised in shareholders' equity. Proceeds from share subscriptions based on options granted prior to the entry into force of the new Limited Liability Companies Act (1 Sep. 2006) have been recorded in shareholders' equity and share premium, in accordance with the rules of the plans. The proceeds from share subscriptions based on option plans decided after the new Limited Liability Companies Act came into force and are recorded in shareholders' equity and the reserve of invested non-restricted equity, in accordance with the rules of the plans.

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 sales. Sales adjustment items include loyalty award credits relating to the K-Plussa customer loyalty programme, which are recognised at fair value 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. Revenue from the sale 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, revenue from the sale 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. Gains and losses on the disposal of property, plant and equipment are recorded in other operating income and expenses. Other operating income and expenses also include realised and unrealised gains and losses from derivatives used for hedging foreign currency risks associated with commercial transactions.

Borrowing costs

The Group has not capitalised interest costs, because the Group does not have qualifying assets.

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

Income tax

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

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

Deferred tax has been determined using 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 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 2014 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2015 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 classification depends on the business model for managing financial instruments 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 assesses that the new standard will have a minor impact on the recognition and measurement of financial assets.

IFRS 15 Revenue from Contracts with Customer

The standard replaces IAS 11, 'Construction contracts,' IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 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 assesses that the new standard will not have a material impact on the consolidated financial statements.

Management estimates that the other 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 food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade. As from 1 January 2015, the segments are composed of the grocery trade, the home improvement and speciality goods trade, and the car and machinery trade divisions.

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 and speciality goods trade, the building and home improvement trade, and the car and machinery trade. Sales between segments are charged at prevailing market rates.

The Group Management Board assesses the segment performances based on operating profit, operating profit adjusted for non-recurring items, and return on capital employed. Exceptional transactions outside 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 items which 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 available-for-sale assets. 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 derived 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.

Food trade

The food 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, K-market and K-extra retail chains of the food trade. 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 sourcing, 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.

Home and speciality goods trade

The home and speciality goods trade comprises K-citymarket's home and speciality goods, Anttila and Kodin Ykkönen, Intersport and Budget Sport, Asko and Sotka, Musta Pörssi and Kookenkä. In addition to around 400 stores, the chains also serve customers online. Intersport engages in the sports equipment trade in Finland and Russia. Kesko's home and speciality goods trade offers customers products and services related to clothing, home, sports, leisure, home technology, entertainment, as well as interior decoration and furniture.

Building and home improvement trade

The building and home improvement trade comprises Rautakesko’s wholesale and B2B sales in the building and home improvement and agricultural trade in Finland, and the building and home improvement trade in Sweden, Norway, the Baltic countries, Russia and Belarus. Rautakesko is responsible for the chains’ concepts, marketing, sourcing and logistics services and the store site network in all operating countries and retailer resources in Finland. Rautakesko 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). Rautakesko’s building and home improvement stores serve both consumer and professional customers.

Car and machinery trade

The car and machinery trade comprises the business operations of VV-Auto and Konekesko. VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services at its own retail outlets. Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland and the Baltic countries.

Common operations

Common operations comprise Group support functions.

Segment information for 2014

Profit

€ million	Food trade	Home and speciality goods trade	Building and home improve-ment trade	Car and machi-nery trade	Common operations	Elimi-nations	Total
Segment net sales	4,316.3	1,316.2	2,598.2	1,011.4	122.9		9,365.0
of which inter-segment sales	-172.7	-14.9	0.6	-0.7	-106.6		-294.4
Net sales from external customers	**4,143.6**	**1,301.3**	**2,598.7**	**1,010.7**	**16.3**		**9,070.6**
Other segment income	626.2	68.2	119.1	6.0	8.3		827.8
of which inter-segment income	-84.8	-7.9	-6.9	-0.2	1.3		-98.4
Other operating income from external customers	**541.4**	**60.3**	**112.2**	**5.8**	**9.6**	**0.0**	**729.3**
Depreciation and amortisation	-61.6	-29.0	-43.6	-10.7	-5.9	0.0	-150.7
Impairment	-4.3	-17.2	-1.9	-	-21.0		-44.4
Operating profit	**196.0**	**-85.0**	**52.4**	**29.4**	**-41.7**	**0.2**	**151.4**
Non-recurring items	-6.5	-47.6	-5.3	-0.2	-21.8		-81.3
Operating profit excluding non-recurring items	**202.4**	**-37.4**	**57.7**	**29.6**	**-19.9**	**0.2**	**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	Food trade	Home and speciality goods trade	Building and home improve-ment trade	Car and machi-nery trade	Common operations	Elimi-nations	Total
Tangible and intangible assets	836.5	276.5	533.8	92.7	59.9	2.7	1,802.1
Equity accounted investments and other investments	4.7	0.1	0.1	0.0	101.1	-0.6	105.3
Pension assets	31.4	9.2	10.6	5.6	90.4	-	147.2
Inventories	107.4	226.9	256.1	186.9	-	-1.0	776.4
Trade receivables	287.0	79.6	177.1	54.4	13.5	-27.4	584.2
Other non-interest-bearing receivables	50.6	27.1	51.6	4.6	57.8	-29.1	162.6
Interest-bearing receivables	9.0	1.5	2.0	0.1	4.9	-0.4	17.0
Assets held for sale					0.5		0.5
Assets included in capital employed	**1,326.7**	**620.8**	**1,031.3**	**344.5**	**328.1**	**-55.8**	**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	**1,326.7**	**620.8**	**1,031.3**	**344.5**	**328.1**	**-55.8**	**4,197.7**
Trade payables	405.2	107.8	244.0	53.7	4.7	-20.8	794.6
Other non-interest-bearing liabilities	150.7	141.5	101.1	81.6	56.6	-29.0	502.5
Provisions	9.0	22.2	5.9	31.5	0.2		68.8
Liabilities included in capital employed	**564.9**	**271.5**	**351.0**	**166.8**	**61.5**	**-49.8**	**1,365.9**
Unallocated items							
Interest-bearing liabilities							498.9
Deferred tax liabilities							67.4
Total liabilities	**564.9**	**271.5**	**351.0**	**166.8**	**61.5**	**-49.8**	**1,932.2**
Total capital employed as at 31 Dec.	**761.8**	**349.3**	**680.2**	**177.7**	**266.6**	**-6.0**	**2,229.5**
Average capital employed	**772.1**	**395.2**	**716.0**	**161.7**	**313.9**	**-4.6**	**2,354.2**
Return on capital employed excl. non-recurring items, %	**26.2**	**-9.5**	**8.1**	**18.3**			**9.9**
Capital expenditure	**91.4**	**17.4**	**60.0**	**14.3**	**12.2**	**-1.2**	**194.0**
Number of personnel as at 31 Dec.	**3,833**	**7,817**	**10,375**	**1,241**	**528**		**23,794**
Average number of personnel	**3,444**	**5,480**	**9,357**	**1,244**	**451**		**19,976**

Segment information for 2013

Profit

€ million	Food trade	Home and speciality goods trade	Building and home improve-ment trade	Car and machi-nery trade	Common operations	Elimi-nations	Total
Segment net sales	4,386.9	1,456.5	2,607.5	1,037.2	123.9		9,612.0
of which inter-segment sales	-172.0	-17.1	0.7	-1.0	-107.4		-296.8
Net sales from external customers	**4,214.9**	**1,439.4**	**2,608.2**	**1,036.2**	**16.5**		**9,315.2**
Other segment income	630.1	76.8	110.1	5.9	6.5		829.4
of which inter-segment income	-83.2	-6.8	-4.8	-0.1	0.4	-0.4	-95.1
Other operating income from external customers	**546.8**	**70.0**	**105.3**	**5.7**	**6.9**	**-0.4**	**734.3**
Depreciation and amortisation	-62.6	-26.7	-46.3	-11.5	-4.5	0.0	-151.6
Impairment			-1.4				-1.4
Operating profit	**208.0**	**-2.1**	**24.8**	**33.9**	**-15.1**	**-1.2**	**248.4**
Non-recurring items	4.8	6.2	-0.9	-	0.4	-1.0	9.6
Operating profit excluding non-recurring items	**203.3**	**-8.3**	**25.7**	**33.9**	**-15.5**	**-0.3**	**238.8**
Finance income and costs							-5.8
Investments accounted for using the equity method							-0.3
Profit before tax							**242.3**

Assets and liabilities

€ million	Food trade	Home and speciality goods trade	Building and home improve-ment trade	Car and machi-nery trade	Common operations	Elimi-nations	Total
Tangible and intangible assets	813.4	306.2	544.0	97.2	77.5	2.2	1,840.4
Equity accounted investments and other investments	4.6	0.1	0.3	0.0	100.1	-0.6	104.4
Pension assets	31.7	8.9	10.7	5.5	113.3		170.2
Inventories	106.6	241.4	262.5	188.0	-	-1.1	797.5
Trade receivables	309.8	99.0	175.4	56.8	13.4	-37.6	616.7
Other non-interest-bearing receivables	53.5	28.3	48.9	4.9	38.3	-49.3	124.7
Interest-bearing receivables	16.1	2.2	2.6	0.1	3.0	-0.7	23.3
Assets held for sale					0.5		0.5
Assets included in capital employed	**1,335.9**	**686.1**	**1,044.5**	**352.5**	**346.1**	**-87.2**	**3,677.9**
Unallocated items							
Deferred tax assets							3.0
Financial assets at fair value through profit or loss							170.7
Available-for-sale financial assets							398.4
Cash and cash equivalents							111.8
Total assets	**1,335.9**	**686.1**	**1,044.5**	**352.5**	**346.1**	**-87.2**	**4,361.7**
Trade payables	423.9	131.0	245.1	53.3	4.3	-32.1	825.4
Other non-interest-bearing liabilities	148.9	188.7	92.0	87.7	40.7	-51.9	506.2
Provisions	8.7	9.7	7.5	29.2	0.0		55.1
Liabilities included in capital employed	**581.5**	**329.4**	**344.6**	**170.2**	**45.0**	**-84.0**	**1,386.7**
Unallocated items							
Interest-bearing liabilities							554.4
Deferred tax liabilities							68.1
Total liabilities	**581.5**	**329.4**	**344.6**	**170.2**	**45.0**	**-84.0**	**2,009.2**
Total capital employed as at 31 Dec.	**754.4**	**356.7**	**699.9**	**182.3**	**301.1**	**-3.2**	**2,291.1**
Average capital employed	**821.0**	**445.3**	**732.2**	**161.0**	**286.3**	**-8.2**	**2,437.6**
Return on capital employed excl. non-recurring items, %	**24.8**	**-1.9**	**3.5**	**21.1**			**9.8**
Capital expenditure	**91.6**	**23.1**	**37.8**	**15.1**	**4.5**	**-0.6**	**171.5**
Number of personnel as at 31 Dec.	**3,570**	**8,483**	**10,066**	**1,261**	**483**		**23,863**
Average number of personnel	**3,143**	**5,751**	**8,910**	**1,252**	**433**		**19,489**

Group-wide information

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. The food trade and the home and speciality goods trade mainly take place in Finland and Russia, the car and machinery trade in Finland and the Baltic countries, and the building and home improvement trade in Finland, Sweden, Norway, the Baltic countries, Russia and Belarus.

Net sales, assets, capital expenditure and personnel are disclosed by location.

2014

€ million	Finland	Other Nordic countries	Baltic countries	Russia and Belarus	Elimi-nations	Total
Net sales	7,416.8	625.1	552.8	493.4	-17.5	9,070.6
Assets	2,726.4	212.4	219.8	436.8		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

2013

€ million	Finland	Other Nordic countries	Baltic countries	Russia and Belarus	Elimi-nations	Total
Net sales	7,678.4	675.5	511.9	467.9	-18.5	9,315.2
Assets	2,802.7	236.6	204.9	433.7		3,677.9
Capital expenditure	100.7	2.6	4.3	63.9		171.5
Average number of personnel	9,805	1,153	4,206	4,325		19,489

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

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 2014 and 2013, Kesko Group did not have acquisitions to be accounted for as business combinations.

Disposal of assets

In 2014 and 2013, Kesko Group did not make any significant disposals of assets.

Note 4. Other operating income and other operating expenses

Other operating income

€ million	2014	2013
Income from services	560.8	570.4
Lease income	42.7	43.6
Gains on the disposal of tangible and intangible assets	2.8	10.7
Realised gains on derivative contracts and changes in fair value	15.2	2.7
Others	107.8	106.9
Total	729.3	734.3

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

Other operating income includes €2.9 million (€9.4 million) of non-recurring items.

Other operating expenses

€ million	2014	2013
Other operating expenses	-123.6	-128.8
Losses on disposal of tangible assets	-0.3	-0.6
Realised losses on derivative contracts and changes in fair value*	-2.8	-2.0
Total	-126.7	-131.4

* Includes changes in fair values of embedded derivatives.

The losses on disposal of tangible assets include a total of €0.1 million (€0.4 million) of non-recurring losses on disposals.

Auditors' fees

€ million	2014	2013
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.9	0.9
Tax consultation	0.1	0.0
Other services	0.3	0.2
Total	1.3	1.1
Other audit firms	0.3	0.2

Note 5. Non-recurring items

€ million	2014	2013
Gains on disposal of real estate and shares	2.9	9.4
Losses on disposal of real estate and shares	-0.1	-0.4
Impairment losses	-44.4	-1.4
Costs of discontinued operating activities and restructurings	-39.6	2.0
Total	-81.3	9.6

Exceptional transactions 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, impairments and significant costs of discontinuing business operations and restructurings as non-recurring items. Gains on disposals have been presented within other operating income, and losses on disposals within other operating expenses in the income statement. Impairments have been presented within depreciation, amortisation and impairment in the income statement. The non-recurring items for 2014 include 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, a total of €46.8 million. In addition, the non-recurring items include 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	2014	2013
Wages and salaries	-496.8	-495.3
Social security costs	-47.3	-49.3
Pension costs	-63.7	-63.8
Defined benefit plans	1.9	2.6
Defined contribution plans	-65.6	-66.4
Share-based payment	-6.4	-2.8
Total	-614.2	-611.1

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	2014	2013
Salaries of managing directors (incl. fringe benefits)	6.3	6.2
Remuneration of Board members	0.4	0.4
Total	6.6	6.5

Average number of the Group personnel

	2014	2013
Food trade	3,444	3,143
Home and speciality goods trade	5,480	5,751
Building and home improvement trade	9,357	8,910
Car and machinery trade	1,244	1,252
Others	451	433
Total	19,976	19,489

Note 7. Finance income and costs

€ million	2014	2013
Interest income and other finance income		
Interest income on loans and receivables	5.4	11.8
Interest income on financial assets at fair value through income statement	1.4	0.9
Interest income on available-for-sale financial assets	6.9	7.5
Gains on disposal of available-for-sale financial assets	0.1	0.0
Other finance income	0.0	0.0
Total interest income and other finance income	13.8	20.3
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-14.2	-18.5
Losses on disposal of available-for-sale financial assets	-0.4	-0.5
Other finance costs	-1.0	-1.5
Total interest expense and other finance costs	-15.6	-20.4
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-4.4	-5.7
Total exchange differences	-4.4	-5.7
Total finance income and costs	**-6.1**	**-5.8**

The interest expense includes €0.3 million (€2.7 million) of interests on finance leases recognised as expenses for the period. The interest income includes €0.2 million (€2.4 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	2014	2013
Sales	-0.1	-0.1
Other income	15.2	2.1
Purchases	-1.6	-1.1
Other expenses	-2.8	-2.0
Finance income and costs	-4.4	-5.7
Total	6.3	-6.7

Note 8. Income tax

€ million	2014	2013
Current tax	-43.8	-71.8
Tax for prior years	6.3	-0.5
Deferred tax	1.0	14.6
Total	-36.6	-57.7

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

€ million	2014	2013
Profit before tax	145.0	242.3
Tax at parent's rate 20.0% (24.5%)	-29.0	-59.4
Effect of foreign subsidiaries' different tax rates	2.7	2.8
Effect of tax-free income	1.2	1.1
Effect of expenses not deductible for tax purposes	-8.1	-3.7
Effect of tax losses	-6.4	-9.3
Effect of consolidation	-2.5	-1.7
Tax for prior years	6.3	-0.5
Effect of change in tax rate	-	13.6
Others	-0.8	-0.5
Tax charge	-36.6	-57.7

The change in tax rate, which entered into force on 1 January 2014 in Finland and Norway, had a €13.6 million effect on deferred tax for the financial year 2013.

Note 9. Components of other comprehensive income

Components of other comprehensive income and related tax

€ million	2014 Before tax	2014 Tax charge/ credit	2014 After tax	2013 Before tax	2013 Tax charge/ credit	2013 After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-24.6	4.9	-19.6	14.6	-2.4	12.2
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-27.9		-27.9	-13.9		-13.9
Adjustments for hyperinflation	4.5		4.5	2.8		2.8
Cash flow hedge revaluation	1.1	-0.2	0.9	-4.7	0.9	-3.8
Revaluation of available-for-sale financial assets	-2.9	-0.2	-3.0	-4.7	-0.2	-4.9
Others	-0.2		-0.2	-0.2		-0.2
Total	-49.9	4.5	-45.4	-6.1	-1.6	-7.7

Hyperinflation

In December 2011, Belarus was identified as a hyperinflationary economy to which accounting in accordance with IAS 29 shall be 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 2014 income statement and balance sheet have been restated using the general price index. As a result of the restatement, an amount of €4.5million (€2.8 million) including tax was recognised in equity, of which €0.4 million (€0.3 million) is attributable to the Group and €4.1 million (€2.6 million) to the non-controlling interest. The revaluations have been made using the Belarusian consumer price index.

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 is 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.

	2014	2013
Profit for the period attributable to equity holders of the parent, € million	96.0	173.1
Number of shares		
Weighted average number of shares outstanding	99,054,293	98,719,435
Effect of options issued	106,375	416,470
Diluted weighted average number of shares outstanding	99,160,668	99,135,905
Earnings per share from profit attributable to equity holders of the parent		
Basic, €	0.97	1.75
Diluted, €	0.97	1.75

Note 11. Property, plant and equipment

2014 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and construction in progress	Total 2014
Cost						
Cost as at 1 Jan. 2014	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 Dec. 2014	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 Jan. 2014	-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 Dec. 2014	-11.7	-550.1	-408.7	-36.5		-1,007.0
Carrying amount as at 1 Jan. 2014	411.1	989.2	162.4	58.1	30.5	1,651.4
Carrying amount as at 31 Dec. 2014	**414.3**	**962.9**	**138.3**	**60.7**	**48.0**	**1,624.1**

2013 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and construction in progress	Total 2013
Cost						
Cost as at 1 Jan. 2013	401.9	1,461.4	569.2	87.6	68.7	2,588.7
Currency translation differences	-2.9	-10.3	-8.1	-1.5	-0.7	-23.5
Additions	13.5	61.0	46.7	7.8	22.5	151.5
Disposals	-4.2	-55.7	-46.4	-2.9	-0.6	-109.9
Transfers between items	8.0	45.8	-1.7	4.1	-59.4	-3.2
Cost as at 31 Dec. 2013	416.3	1,502.2	559.6	95.1	30.5	2,603.6
Accumulated depreciation, amortisation and impairment						
Accumulated depreciation, amortisation and impairment charges as at 1 Jan. 2013	-4.8	-484.8	-388.4	-32.9		-911.0
Currency translation differences		2.5	5.0	0.5		8.1
Accumulated depreciation of disposals and transfers		40.4	38.9	2.7		82.0
Depreciation charge for the year and impairments	-0.3	-71.0	-52.7	-7.3		-131.4
Accumulated depreciation, amortisation and impairment charges as at 31 Dec. 2013	-5.2	-513.0	-397.1	-37.0		-952.2
Carrying amount as at 1 Jan. 2013	397.1	976.5	180.8	54.7	68.7	1,677.8
Carrying amount as at 31 Dec. 2013	**411.1**	**989.2**	**162.4**	**58.1**	**30.5**	**1,651.4**

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

€ million	2014	2013
Cost	24.9	23.5
Accumulated depreciation	-20.3	-19.0
Carrying amount	4.6	4.5

Note 12. Intangible assets

2014 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2014
Cost					
Cost as at 1 Jan. 2014	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 Dec. 2014	145.2	72.9	213.2	11.5	442.7
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges as at 1 Jan. 2014	-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 Dec. 2014	-104.2	-7.8	-152.9		-264.8
Carrying amount as at 1 Jan. 2014	40.7	67.2	59.0	22.2	189.1
Carrying amount as at 31 Dec. 2014	**41.0**	**65.1**	**60.4**	**11.5**	**177.9**

2013 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2013
Cost					
Cost as at 1 Jan. 2013	154.9	80.7	193.2	9.9	438.6
Currency translation differences	-6.1	-5.1	-5.6		-16.8
Additions			8.4	14.6	23.0
Disposals			-2.2		-2.2
Transfers between items			4.3	-2.3	2.0
Cost as at 31 Dec. 2013	148.7	75.6	198.1	22.2	444.6
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges as at 1 Jan. 2013	-114.3	-9.6	-122.6		-246.6
Currency translation differences	6.2	1.2	4.5		11.9
Accumulated amortisation of disposals and transfers			0.7		0.8
Amortisation charge for the year and impairments			-21.6		-21.6
Accumulated amortisation and impairment charges as at 31 Dec. 2013	-108.1	-8.4	-139.1		-255.5
Carrying amount as at 1 Jan. 2013	40.5	71.1	70.6	9.9	192.1
Carrying amount as at 31 Dec. 2013	**40.7**	**67.2**	**59.0**	**22.2**	**189.1**

Other intangible assets include other long-term costs, of which €34.1 million (€30.1 million) are software and licence costs.

Goodwill and intangible rights by segment

€ million	Trademarks* 2014	Goodwill 2014	Discount rate (WACC)** 2014	Trademarks* 2013	Goodwill 2013	Discount rate (WACC)** 2013
Building and home improvement trade						
Byggmakker, Norway	26.0		6.0%	28.1		7.0%
Rautakesko, Estonia		1.1	7.0%		1.1	8.0%
Senukai, Lithuania		17.2	8.0%		17.2	10.0%
K-rauta Rus, Russia		14.5	14.0%		14.2	13.0%
Home and speciality goods trade						
Indoor, Finland	39.1	4.1	6.0%	39.1	4.1	6.0%
Car and machinery trade						
Machinery trade		3.8	6.0%		3.8	7.0%
Others		0.2			0.2	
Total	65.1	41.0		67.2	40.7	

* Intangible assets with indefinite useful lives

** After tax, rate used in impairment testing

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 purchased 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 1.0–3.5% (1.5–3.5%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the WACC, specified for each segment and country after tax, which is adjusted by 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 rate fell in all cash-generating units, except for the home and speciality goods trade in Finland and the building and home improvement trade in Russia. The changes were mainly due to the decline in the general level of interest rates and changes in country risks.

Impairment losses

There were no impairment charges recognised on goodwill or intangible assets in the financial years 2014 and 2013.

Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate.

A one percentage point rise in the discount rate would not cause an impairment of any cash generating unit.

The most sensitive to movements in assumptions is the brand related to the Byggmakker business of the building and home improvement trade in Norway. If its residual EBITDA decreased by more than 0.4 percentage points, an impairment would be recognised. Regarding 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	2014	2013
Carrying amount as at 1 January	87.5	83.0
Share of the profit for the year	-0.2	-0.3
Additions	5.1	4.8
Impairments	-0.3	-
Carrying amount as at 31 December	92.2	87.5

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, %
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	
2013					
Kruunuvuoren Satama Oy, Helsinki	380.2	260.8	21.9	2.6	49.0
Valluga-sijoitus Oy, Helsinki	24.1	-	-	1.3	46.2
Vähittäiskaupan Takaus Oy, Helsinki	69.8	0.2	1.2	5.8	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	6.9	2.0	11.0	0.4	30.0
Others	5.2	3.6	2.0	0.0	
Total	486.3	266.6	36.1	10.1	

Note 14. Non-current receivables

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

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

Maturity analysis of non-current receivables as at 31 Dec. 2013

€ million	2015	2016	2017	2018	2019–	Total
Non-interest-bearing non-current receivables	0.5	0.0			0.5	1.0
Finance lease receivables	2.0	2.0	2.0	2.0		8.1
Loans and receivables from associates				1.5		1.5
Other non-current receivables	0.4	0.4	0.4	0.3	0.5	1.9
Total	2.8	2.4	2.4	3.9	0.9	12.5

Note 15. Finance lease receivables

€ million	2014 Minimum lease receivables	2014 Unearned finance income	2014 Present value of minimum lease receivables	2013 Minimum lease receivables	2013 Unearned finance income	2013 Present value of minimum lease receivables
Finance lease receivables are due as follows:						
No later than 1 year	5.0	0.1	4.9	6.9	0.7	6.2
Later than 1 year and no later than 5 years	3.0	0.0	3.0	8.3	0.2	8.1
Later than 5 years	-	-	-	-	-	-
Total finance lease receivables	**8.0**	**0.1**	**7.9**	**15.2**	**0.9**	**14.3**

Note 16. Deferred tax

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	41.6
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	32.6	16.4				49.1
Fair value allocation	17.6	-0.7		-0.6		16.3
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

Balance sheet division of net deferred tax liability

€ million	2014	2013
Deferred tax assets	4.2	3.0
Deferred tax liabilities	67.4	68.1
Total	63.2	65.1

'Other temporary differences' within tax assets includes €2.3 million of deferred tax assets arising from compliance with the Group's accounting principles and €7.5 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.'

Movements in deferred tax in 2013:

€ million	1 Jan. 2013	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2013
Deferred tax assets						
Provisions	13.2	-2.9				10.3
Defined benefit pension plans	0.3	-0.1				0.3
Tax loss carry-forwards	5.0	1.3		-0.9		5.5
Other temporary differences	12.5	-0.3	0.7	-0.3		12.6
Total	31.1	-2.0	0.7	-1.2		28.7
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	39.4	-6.8				32.6
Fair value allocation	16.8	2.0		-1.2		17.6
Defined benefit pension plans	37.7	-6.0	2.4			34.0
Other temporary differences	15.5	-5.9	-0.1	-0.1	0.0	9.5
Total	109.4	-16.7	2.3	-1.3	0.0	93.7
Net deferred tax liability	78.3					65.1

Tax loss carry-forwards

As at 31 December 2014, the Group's unused tax losses carried forward were €185.8 million, for which deferred tax assets have not been recognised, because at the balance sheet date, the realisation of the related tax benefit through future taxable profits is not probable.

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

€ million	2015	2016	2017	2018	2019	2020–	Total
	0.2	7.0	7.8	8.4	3.2	159.2	185.8

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

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 plan operated in Norway is classified as a defined benefit plan. As at 31 December 2014, the net liability in respect of the defined benefit plan in Norway was €0.6 million (€0.4 million). The defined benefit plan in Norway is not included in the tables below, because its impact on the consolidated amounts is insignificant. 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 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 are granted an old-age pension when they are between 60 and 65 years of age. 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 provision. 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 Pension Fund. At the end of 2014, Pension Fund had 2,591 beneficiaries, of whom 486 were active employees and 2,105 were retired employees. Kesko Group's contribution to Pension Fund's obligation was 97.1% (97.2%). The notes present Kesko Group's interest in Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

In addition to its rules, Pension Fund's operations are governed by the Employee Benefit Funds Act, 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 2015.

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

€ million	2014	2013
Present value of defined benefit obligation	-289.3	-247.5
Fair value of plan assets	436.5	417.7
Net assets recognised in the balance sheet	**147.2**	**170.2**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	**170.2**	**153.8**
Income/cost recognised in the income statement	1.9	2.6
Remeasurement	-24.6	14.6
Contributions to plan and plan costs	-0.2	-0.9
As at 31 December	**147.2**	**170.2**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 Jan. 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 Dec. 2014	**-289.3**	**436.5**	**147.2**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 Jan. 2013	-243.1	397.0	153.9
Current service cost	-2.9		-2.9
Interest cost/income	-8.5	14.0	5.5
	-11.4	**14.0**	**2.6**
Remeasurement			
Return on plan assets		22.4	22.4
Gain/loss from changes in demographic assumptions	-5.5		-5.5
Gain/loss from changes in financial assumptions			
Experience gains/losses	-2.4		-2.4
	-7.8	**22.4**	**14.6**
Contributions to plan and plan costs	0.0	-0.9	-0.9
Benefit payments	14.8	-14.8	0.0
As at 31 Dec. 2013	**-247.5**	**417.7**	**170.2**

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**

Plan assets were comprised as follows in 2013

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	89.7	38.9	128.6
Debt instruments	6.9	38.7	45.6
Investment funds	12.5	16.6	29.1
Properties	-	179.0	179.0
United States			
Equity instruments	10.8	-	10.8
Investment funds	16.3	-	16.3
Other countries			
Investment funds	19.9	-	19.9
Total	**156.1**	**273.2**	**429.3**

	2014	2013
Kesko Corporation shares included in fair value	14.6	13.0
Properties leased by Kesko Group included in fair value	181.1	179.0

Principal actuarial assumptions:	2014	2013
Discount rate	2.30%	3.60%
Salary growth rate	2.50%	2.50%
Inflation	2.00%	2.00%
Pension growth rate	2.10%	2.10%
Average service expectancy	11	12

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

	2014	2013
Weighted average duration of pension obligations, years	15	13
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	15.5	15.7
Between 1–10 years	126.6	128.3
Between 10–20 years	122.7	125.7
Between 20–30 years	88.2	91.7
Over 30 years	84.2	88.3
Total	**437.3**	**449.7**

Risks related to the pension plan

Asset related risks

Pension Fund's investment assets comprise properties, shares and equity funds, private equity funds and both long-term and short-term money market investments. Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually confirmed by 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 Pension Fund's obligation expenses and costs so that contributions need not be charged to the members. The long-term target yield on the investments is 6.3%. The risks involved in investing activity are managed by continuously monitoring market developments and, whenever necessary, 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 2014, the realised return on investing activity was 8.6%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €147.2 million as at 31 December 2014. Local rules concerning 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 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. If the level of interest rates falls, the present value of the defined benefit obligation rises. Because 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	Decrease
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%
2013			
Discount rate	0.50%	-6.10%	6.90%
Salary growth rate	0.50%	1.30%	-1.20%
Pension growth rate	0.50%	5.30%	-4.90%

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

Note 18. Inventories

€ million	2014	2013
Goods	770.2	793.9
Prepayments	6.1	3.5
Total	776.4	797.5
Write-down of inventories to net realisable value	50.9	48.1

Note 19. Trade and other current receivables

€ million	2014	2013
Interest-bearing receivables		
Finance lease receivables	4.9	6.2
Interest-bearing loans and receivables	6.1	5.6
Total interest-bearing receivables	11.0	11.8
Trade receivables	584.2	616.7
Income tax assets	24.3	2.2
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	20.9	24.2
Prepayments and accruals	116.4	97.4
Total other non-interest-bearing receivables	137.3	121.6
Total	756.8	752.3

A total amount of €6.0 million (€7.0 million) of trade receivables has been recognised within credit losses in the income statement. Credit risk is described in more detail in note 32.

Prepayments and accruals mainly comprise accrued 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	2014	2013
Carrying amount as at 1 January	398.4	249.0
Changes	-126.9	149.1
Changes in fair value	0.3	0.3
Carrying amount as at 31 December	271.7	398.4

The available-for-sale financial assets include short-term 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	2014	2013
Land	0.4	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 2014 (31 December 2013).

Note 22. Shareholders' equity

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Reserve of invested non-restricted equity € million	Share premium € million	Total € million
1 January 2013	31,737,007	66,366,742	98,103,749	197.3	1.1	197.8	396.1
Exercise of share options		1,120,353	1,120,353		19.6		19.6
Transfer of treasury shares		59,607	59,607				
31 December 2013	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**
Number of votes	**317,370,070**	**67,287,430**	**384,657,500**				

* Excluding treasury shares which totalled 995,315 (548,984) at the end of the financial year.

During the financial year, the number of B shares was increased three times corresponding to share subscriptions made with the options of the 2007 option scheme. The increases were made on 10 February 2014 (85,067 B shares, €1,041,220), 30 April 2014 (62,778 B shares, €682,342) and 4 June 2014 (39,214 B shares, €425,080). The subscribed shares were included on the main list of the Helsinki stock exchange for public trading with the old B shares on 11 February 2014, 2 May 2014 and 5 June 2014. The combined subscription price of €2,148,642 received by the Company for the shares was recorded in the Company's reserve of invested non-restricted equity.

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. One A share carries ten (10) votes and one B share one (1) vote.

An analysis of share-based payment is given in note 30.

Treasury shares

Authorised by the General Meeting, the Board 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 authority to issue own shares and the fulfilment of the vesting criteria of the 2011 vesting period of Kesko's share-based compensation plans, the Board granted a total of 92,751 own shares held by the Company as treasury shares, based on the fulfilment of the vesting criteria of the 2012 vesting period, a total of 66,331 own shares held by the Company as treasury shares, and based on the fulfilment of the vesting criteria of the 2013 vesting period, a total of 50,520 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 were announced in a stock exchange release on 12 April 2012, 5 April 2013, 24 March 2014, 25 March 2014 and 17 December 2014. After the vesting periods, a total of 5,642 shares already granted have been 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 995,315 own B shares (548,984 B shares) as treasury shares. The €31.5 million (€17.8 million) acquisition cost of these shares has been deducted from retained earnings in equity.

Dividends

After the balance sheet date, the Board has proposed that €1.50 per share be distributed as dividends. A dividend of €1.40 per share was distributed on the profit for 2013.

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

Reserve of invested non-restricted equity

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

Other reserves

Other reserves, a total of €242.8 million, have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves in 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 for hedging electricity price risk. As a result, an amount of €2.4 million (€-1.2 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-1.0 million (€-5.0 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €1.4 million (€-3.8 million) before accounting for deferred tax assets.

A fair value change of €-0.3 million (€-1.0 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.6 million (€0.8 million) interest expense adjustment for interest rate derivatives has been recognised in the income statement.

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

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		714.3					
Derivatives	31.5					745.8	745.8
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**	**725.3**	**271.7**			**1,247.8**	**1,247.8**
Carrying amount by category	**250.8**	**732.4**	**284.8**			**1,268.0**	**1,268.0**

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						**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						**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
Trade payables				794.6		794.6	794.6
Other non-interest-bearing liabilities				171.5		171.5	171.5
Derivatives					2.3	2.3	2.3
Total other non-interest-bearing liabilities						**173.8**	**173.8**
Accrued expenses				263.3		263.3	263.3
Derivatives	8.9					8.9	8.9
Total accrued expenses						**272.1**	**272.1**
Total current financial liabilities	**8.9**			**1,408.4**	**2.8**	**1,420.1**	**1,421.0**
Carrying amount by category	**8.9**			**1,734.3**	**6.7**	**1,749.8**	**1,768.7**

As at 31 December 2013

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			16.9			16.9	16.9
Non-current non-interest-bearing receivables		1.0				1.0	1.0
Non-current interest-bearing receivables		11.5				11.5	11.5
Total non-current financial assets		**12.5**	**16.9**			**29.4**	**29.4**
Current financial assets							
Trade and other non-interest-bearing receivables		737.3					
Derivatives	3.2					740.5	740.5
Interest-bearing receivables		11.8				11.8	11.8
Financial assets at fair value through profit or loss	170.7					170.7	170.7
Available-for-sale financial assets			398.4			398.4	398.4
Total current financial assets	**173.9**	**749.1**	**398.4**			**1,321.4**	**1,321.4**
Carrying amount by category	**173.9**	**761.6**	**415.3**			**1,350.7**	**1,350.7**

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				348.4		348.4	350.2
Derivatives					6.7	6.7	6.7
Total non-current interest-bearing liabilities						**355.1**	**356.9**
Non-current non-interest-bearing liabilities				6.2		6.2	6.2
Derivatives					3.7	3.7	3.7
Total non-current non-interest-bearing liabilities						**9.9**	**9.9**
Total non-current financial liabilities				**354.6**	**10.4**	**365.0**	**366.8**
Current financial liabilities							
Current interest-bearing liabilities				192.6		192.6	187.3
Derivatives					6.7	6.7	6.7
Trade payables				825.3		825.3	825.3
Other non-interest-bearing liabilities				180.5		180.5	180.5
Derivatives					3.1	3.1	3.1
Total other non-interest-bearing liabilities						**183.6**	**183.6**
Accrued expenses				257.1		257.1	257.1
Derivatives	2.2					2.2	2.2
Total accrued expenses						**259.3**	**259.3**
Total current financial liabilities	**2.2**			**1,455.5**	**9.8**	**1,467.5**	**1,462.2**
Carrying amount by category	**2.2**			**1,810.2**	**20.2**	**1,832.6**	**1,829.1**

The fair values of borrowings have been calculated based on the present value of future cash flows using the 0.2%–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	2014 Minimum lease payments	2014 Future finance charges	2014 Present value of minimum lease payments	2013 Minimum lease payments	2013 Future finance charges	2013 Present value of minimum lease payments
Minimum lease payments						
No later than 1 year	6.6	0.2	6.4	8.4	0.8	7.6
Later than 1 year and no later than 5 years	6.0	0.2	5.8	11.1	0.4	10.7
Later than 5 years	0.3	0.1	0.2	0.6	0.1	0.5
Total lease payments	**12.9**	**0.4**	**12.4**	**20.0**	**1.2**	**18.8**
Expected sublease rentals			**7.9**			**14.3**

The financial lease liabilities mainly comprise store fittings leased by Kesko Food Ltd from finance companies and subleased to chain companies.

Note 25. Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2014	17.3	22.6	15.2	55.1
Foreign exchange effects	0.0	0.0	0.0	0.0
Additional provisions	19.3	1.4	9.6	30.4
Unused amounts reversed	-4.5	-1.7	-0.6	-6.9
Amounts charged against provision	-7.1	-0.7	-1.9	-9.8
Provisions as at 31 Dec. 2014	25.1	21.6	22.2	68.8
Analysis of total provisions				
Non-current	13.1	10.6	3.0	26.7
Current	12.0	11.0	19.1	42.1

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	2014	2013
Trade payables	794.6	825.4
Other non-interest-bearing liabilities	217.9	234.9
Income tax liabilities	9.2	10.7
Accrued expenses	262.9	248.9
Total current non-interest-bearing liabilities	1,284.7	1,319.9

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

Note 27. Jointly controlled assets

These figures represent the Group's interests in jointly controlled assets and liabilities and income and profit included in the consolidated statement of financial position and income statement. The jointly controlled assets comprise mutual real estate companies.

€ million	2014	2013
Non-current assets	68.8	63.2
Current assets	0.6	0.3
Total	69.4	63.5
Non-current liabilities	3.3	3.6
Current liabilities	12.2	12.7
Total	15.5	16.3
Net assets	53.8	47.2
Income	3.2	3.0
Costs	3.9	3.3
Profit	-0.7	-0.4

Note 28. Commitments

€ million	2014	2013
Collateral given for own commitments		
Pledges	90.9	86.8
Mortgages	24.3	14.5
Guarantees	14.6	14.6
Other commitments and contingent liabilities	72.2	81.7
Collateral given for associates and joint ventures		
Guarantees	65.0	65.0
Collateral given for others		
Guarantees	0.4	0.3
Other commitments and contingent liabilities	10.6	10.2

The financial 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	2014	2013
No later than 1 year	348.9	371.4
Later than 1 year and no later than 5 years	1,073.9	1,102.1
Later than 5 years	868.2	920.2
Total	2,291.0	2,393.7
Expected future minimum lease payments under non-cancellable sublease agreements	40.8	45.3
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	394.4	402.2
Sublease income	24.7	21.9

The 2014 income statement includes capital and maintenance rentals on real estate under operating leases, and other rentals in a total amount of €438.4 million (€421.7 million). Maintenance rentals are not included in minimum lease payments.

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

Group as lessor

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

€ million	2014	2013
No later than 1 year	14.2	15.1
Later than 1 year and no later than 5 years	20.6	23.9
Later than 5 years	7.3	9.3
Total	42.1	48.2
Aggregate contingent rents charged to the income statement	2.0	2.5

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 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 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 and 2014 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 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

Assumptions applied in determining the fair value of share award	Vesting period 2014	Vesting period 2013	Vesting period 2012	Vesting period 2011
Number of share awards granted, maximum, pcs	278,400	263,600	257,400	239,000
Changes in the number of shares granted, pcs	-2,000	-9,500	-6,575	-13,242
Actual amount of share award, pcs	-	50,520	66,331	92,751
Number of plan participants at end of financial year	157	142	131	114
Share price at balance sheet date, €	30.18	26.80	24.77	25.96
Assumed fulfilment of vesting criteria, %	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

The impact of the above share-based compensation plans on the Group's profit for 2014 was €-5.9 million (€-2.8 million).

As at 31 December 2014, the amount to be recognised as expense for financial years 2015–2017 is estimated at a total of €3.6 million. The actual amount may differ from the estimate.

Options

The Group has operated share option schemes as part of management's incentive and commitment system. An option gave its holder the right to subscribe for Kesko Corporation B shares at the price and during the period specified in the terms and conditions of the option scheme. The options were forfeited if the employee left the Company before the end of the commitment period attached to the options, unless, in individual cases, the Board decided that the option recipient could keep all or some of his/her options.

2007 option scheme

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 options for no consideration to the management of Kesko Group, other key personnel, and a subsidiary wholly owned by Kesko Corporation. The Company had a weighty financial reason for granting the options because they were intended to be part of Kesko's share-based incentive system. Each option entitled its holder to subscribe for one new Kesko Corporation B share. In addition, the option scheme included an obligation placed by Kesko Board to grantees to buy Company shares for permanent ownership for the value of 25% of the proceeds from the sale of options. The options were marked with the symbols 2007A, 2007B and 2007C in units of 1,000,000 options each. The option scheme expired in the financial year 2014.

The options were exercisable as follows:

- 2007A 1 April 2010–30 April 2012 (subscription period has expired)
- 2007B 1 April 2011–30 April 2013 (subscription period has expired)
- 2007C 1 April 2012–30 April 2014 (subscription period has expired)

The original price of a share subscribed for with option 2007A was the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), with option 2007B, between 1 April and 30 April 2008 (€26.57), and with option 2007C, between 1 April and 30 April 2009 (€16.84). The prices of shares subscribed for with options were reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets. After the distribution of dividends for 2013, the price of a B share subscribed for with option 2007C was €10.84.

Share options in financial year 1 Jan.–31 Dec. 2014

Principal terms of the plans	2007 SHARE OPTIONS
Grant date	26 March 2007
Instrument	share option
Target group	management, other key persons
	2007C
Original number of options, pcs	1,000,000
Number of shares per option, pcs	1
Original exercise price	€16.84
Dividend adjustment	Yes
Exercise price at 31 Dec. 2011	€14.64
Exercise price at 31 Dec. 2012	€13.44
Exercise price at 31 Dec. 2013	€12.24
Fair value at grant date	
27 May 2009: 2007C	€20.12
13 Sep. 2010: 2007C	€32.57
First allocation, date	1 Apr. 2012
Expiry date	expired

Movements in the number of share options and their related exercise prices

	2014	Weighted average exercise price 2014	2013	Weighted average exercise price 2013
Options outstanding at beginning of period	193,559	€12.24	655,032	€12.24
Options available for grant at beginning of period	284,300	€12.24	284,300	€12.24
Options exercised during period	187,059	€10.84	461,473	-
Options expired during period	290,800	-	-	-
Options outstanding at end of period	0	-	193,559	€12.24
Options exercisable at end of period	0	-	477,859	€12.24
Average price weighted by grant date trading volume	€30.60		€24.45	
Kesko B share price at end of grant year				
2009	€23.08		€23.08	
2010	€34.93		€34.93	

The options did not have an impact on the Group's income statement for the financial year 2014 or 2013.

Note 31. Notes related to the statement of cash flows

Capital expenditure and non-cash financing transactions

€ million	2014	2013
Total purchases of fixed assets,	194.0	171.5
of which cash payments	193.6	174.4
Payments arising from prior period investing activities	-4.0	-4.2
Investments in assets held for rental to customers	0.0	-6.0
Capital expenditure financed with finance lease or other liability	4.4	7.3

Adjustments to cash flows from operating activities

€ million	2014	2013
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	15.5	-4.9
Investments accounted for using the equity method	0.2	0.3
Impairments	44.4	1.4
Credit losses	6.0	7.0
Non-recurring gains on disposal of fixed assets	-4.1	-10.9
Non-recurring losses on disposal of fixed assets	0.3	0.6
Share-based compensation	0.3	0.5
Defined benefit pensions	-1.4	-2.3
Others	2.0	16.5
Total	63.3	8.2

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 non-cash nature.

Cash and cash equivalents within the statement of cash flows

€ million	2014	2013
Available-for-sale financial assets (maturing in less than 3 months)	206.3	341.3
Cash and cash equivalents	107.0	111.8
Total	313.3	453.0

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

Note 32. Financial risk management

Financial risk management

With respect to financial risk management, the Group observes a uniform financing policy that has been approved by the Company Board. Compliance with this policy and developments in the Group's financial situation are monitored by the Board's Audit Committee. 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 are obtained through the parent company, and 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 operates 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's assets are exposed to foreign currency translation risks relating to net investments in subsidiaries outside the euro zone. This balance sheet exposure has not been hedged. The hedge is 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, Russian rouble, Lithuanian litas and Norwegian krone. On 1 January 2015, Lithuania adopted the euro as its official currency, and therefore translation risk no longer exists. 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. 2014

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Net investment	-	30.0	81.7	54.3	46.0	3.5

Group's translation exposure as at 31 Dec. 2013

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Net investment	39.1	32.0	82.3	69.6	43.7	2.9

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

Sensitivity analysis, effect on equity as at 31 Dec. 2014

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Change +/-10%	-	3.0	8.2	5.4	4.6	0.3

Sensitivity analysis, effect on equity as at 31 Dec. 2013

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Change +/-10%	3.9	3.2	8.2	7.0	4.4	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 Group Treasury on a monthly basis.

In the main, the subsidiaries hedge their risk exposures with 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 LTL exposures. As at 31 December 2014, the exposure with respect to USD was €-10.5 million, and with respect to RUB, it was €0.5 million. On 1 January 2015, Lithuania adopted the euro as its official currency, and therefore transaction risk no longer exists.

Group's transaction exposure as at 31 Dec. 2014

€ million	USD	SEK	NOK	LVL	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

Group's transaction exposure as at 31 Dec. 2013

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Group's transaction risk	-1.9	37.4	43.7	6.0	4.9	25.6	-0.1
Hedging derivatives	40.8	-37.8	-14.4	0.0	-11.6	-40.1	0.0
Hedging borrowings	0.0	0.0	-23.9	0.0	0.0	0.0	0.0
Open exposure	38.9	-0.4	5.4	6.0	-6.7	-14.5	-0.1

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. 2014

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Change +/-10%	3.3	0.5	0.9	-	1.4	-2.5	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2013

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Change +/-10%	3.9	0.0	0.5	0.6	-0.7	-1.5	0.0

Liquidity risk

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

The Group's solvency was excellent throughout the financial year 2014. As at 31 December 2014, liquid assets totalled €598 million (€681 million). Interest-bearing liabilities were €499 million (€554 million) and interest-bearing net debt €-99 million (€-126 million) as at 31 December 2014.

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**	**1.7**	**1.3**	**0.4**	**0.0**	**4.7**	**4.7**
Current non-interest-bearing liabilities							
Trade payables	**794.6**					**794.6**	**794.6**
Accrued expenses	**260.1**					**260.1**	**260.1**
Other non-interest-bearing liabilities	**173.8**					**173.8**	**173.8**

* 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 (€100.3 million).

Guarantee maturities are €76.4 million in 2015 and €3.4 million in 2018–2019.

Maturities of financial liabilities and related finance costs as at 31 Dec. 2013

€ million	2014	2015	2016	2017	2018–	Total	Balance sheet value
Borrowings from financial institutions	**0.6**	**24.4**	**0.2**	**0.1**	**1.9**	**27.3**	**27.3**
finance costs	1.1	1.1	0.0	0.0	0.1	2.3	
Private Placement notes (USD)*	**43.5**		**26.1**		**17.4**	**87.0**	**100.3**
finance costs	4.1	2.8	1.9	1.1	1.7	11.6	
Bonds					**242.7**	**242.7**	**241.0**
finance costs	6.7	6.7	6.7	6.7	6.7	33.4	
Pension loans	**5.8**	**5.8**	**5.8**	**5.8**	**8.7**	**32.1**	**31.9**
finance costs	1.2	1.0	0.7	0.5	0.3	3.8	
Finance lease liabilities	**7.6**	**2.8**	**2.7**	**2.6**	**3.2**	**18.9**	**18.8**
finance costs	0.8	0.1	0.1	0.1	0.1	1.1	
Payables to K-retailers	**113.4**					**113.4**	**113.4**
finance costs						0.0	
Other interest-bearing liabilities	**21.6**					**21.6**	**21.6**
finance costs						0.0	
Non-current non-interest-bearing liabilities	**4.1**	**3.0**	**1.4**	**0.9**	**0.2**	**9.7**	**9.7**
Current non-interest-bearing liabilities							
Trade payables	**825.3**					**825.3**	**825.3**
Accrued expenses	**245.4**					**245.4**	**245.4**
Other non-interest-bearing liabilities	**183.6**					**183.6**	**183.9**

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 subsequent 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 2015, the Group companies held a total of €437.7 million available for re-borrowing from 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 collateral.

Interest rate risk on borrowings and sensitivity analysis

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

The interest rate risk is centrally managed by 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 2.4 (2.8) years on average.

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon interest at 2.75% and 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.

A sensitivity analysis for commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2014, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.7million (€-/+1.9 million), if the interest rate level had risen or fallen by 1 percentage point.

The bond, Private Placement notes and some of the borrowings from financial institutions, €338.8 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 0.2%. Most of the borrowings are euro-denominated, the Private Placement notes are USD-denominated, and the borrowings from financial institutions include NOK-denominated borrowings totalling €22.1 million (€23.9 million).

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 with a weaker credit rating. The return on these investments for 2014 was 0.8% (0.7%) and the duration was 0.6 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 as presented below. The table below analyses financial instruments carried at fair value, by valuation method.

Fair value hierarchy of financial assets and liabilities

	Fair value as at 31 Dec. 2014			
€ million	**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
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
Certificates of deposit and deposits (maturing in less than 3 months)		107.6		107.6
Bonds and corporate bond funds	65.5			65.5
Total	65.5	206.3	13.1	284.8

Fair value hierarchy of financial assets and liabilities

	Fair value as at 31 Dec. 2013			
€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Money market funds	14.1			14.1
Commercial papers		66.3		66.3
Certificates of deposit and deposits		90.3		90.3
Total	14.1	156.5		170.7
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		3.2		3.2
Derivative financial liabilities		22.4		22.4
Available-for-sale financial assets				
Private equity funds and other shares and interests			16.9	16.9
Commercial papers (maturing in less than 3 months)		105.9		105.9
Certificates of deposit and deposits (maturing in less than 3 months)		235.4		235.4
Bonds	57.1			57.1
Total	57.1	341.3	16.9	415.3

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

Changes in level 3 instruments

€ million	**2014**	**2013**
Private equity funds and other shares and interests as at 1 January	16.9	22.3
Purchases	0.6	1.2
Refunds received	-5.1	-7.3
Changes in fair values	0.6	0.7
Private equity funds and other shares and interests as at 31 December	13.1	16.9

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 Group Treasury. The risks and actual returns of investments are monitored regularly.

Concerning floating rate receivables, average annual balances of invested assets have been used in the sensitivity analysis. 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 €+/-3.6 million (€+/-3.6 million) and €+/-1.1 million (€+/-0.5 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	2014	2013
Trade receivables fully performing	523.1	571.4
1–7 days past due trade receivables	12.3	15.9
8–30 days past due trade receivables	12.1	10.4
31–60 days past due trade receivables	4.3	3.5
over 60 days past due trade receivables	19.2	15.5
Total	571.1	616.7

Within trade receivables, €332.9 million (€350.6 million) were from chain retailers and €2.4 million (€7.7 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-retail company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the aggregate value of countersecurities was €160.1 million (€157.6 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge in a total of €21.5 million (€18.3 million) monitored on a separate allowance account. The original balance sheet value of these trade recaivables was €28.2 million (€24.9 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €6.0 million (€7.0 million).

The amount of receivables with renegotiated terms totalled €2.7 million (€5.0 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 credit quality. 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 €-1.6 million (€-1.6 million).

As at the balance sheet date, a total quantity of 731,976 MWH (1,183,152 MWH) of electricity had been purchased with electricity derivatives and 254,280 MWH under fixed price purchase agreements. The 1–12 month hedging level was 87% (89%), the 13–24 month level was 65% (65%), the 25–36 month level was 45% (38%), the 37–48 month level was 24% (25%) and the 49–60 month rate was 0% (8%).

The sensitivity analysis for 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 2014, it would contribute €-/+1.6 million (€-/+2.2 million) to the 2015 income statement and €-/+2.7 million (€-/+3.9 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts

€ million	31 Dec. 2014 Positive fair value (balance sheet value)	31 Dec. 2014 Negative fair value (balance sheet value)	31 Dec. 2013 Positive fair value (balance sheet value)	31 Dec. 2013 Negative fair value (balance sheet value)
Interest rate derivatives	0.0	-0.5	0.0	-0.2
Foreign currency derivatives	31.5	-9.6 *	3.2	-15.3 *
Electricity derivatives	0.1	-5.4	0.0	-6.8

Notional principal amounts of derivative contracts

€ million	31 Dec. 2014 Notional principal amount	31 Dec. 2013 Notional principal amount
Interest rate derivatives	101.1 *	202.2 *
Foreign currency derivatives	378.4 *	411.1 *
Electricity derivatives	21.4	31.3

* 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 €-0.5 million (€-0.2 million), and currency swaps with a notional principal amount of €50.2 million and a fair value of €-0.8 million (€-13.4 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 was exceeded only once with one bank at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €11.9 million.

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

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	0.0	0.0	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

* 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 (€100.3 million) relating to this credit facility.

Cash flows from derivative contracts as at 31 Dec. 2013

€ million	2014	2015	2016	2017	2018	2019–	Total
Payables							
Foreign exchange forward contracts outside hedge accounting	310.1						310.1
Net settlement of payables							
Interest rate derivatives	0.0	0.0	0.0	0.0	0.0		0.0
Electricity derivatives	2.8	1.7	1.1	0.9	0.2		6.8
Derivatives relating to Private Placement notes*							
Foreign currency derivatives	7.3	0.4	4.3	0.2	2.9	0.1	15.2
Receivables							
Foreign exchange forward contracts outside hedge accounting	311.2						311.2
Net settlement of receivables							
Derivatives relating to Private Placement notes*							
Interest rate derivatives	0.7	0.4	0.3	0.2	0.2	0.1	1.8

Capital structure management

Kesko Group's objectives when managing capital 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 targets for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market situations, enabling the implementation of capital expenditure programmes based on the Group's strategy, and maintaining the shareholder value. Target rates have been set for the indicators 'equity ratio' and '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 rates. 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 4 February 2009, the Board approved, as a part of the Group's medium term targets, the following values for the indicators 'equity ratio' and 'interest-bearing net debt/EBITDA' :

	Target level	Level achieved in 2014	Level achieved in 2013
Equity ratio	40–50%	54.5%	54.5%
Interest-bearing net debt/EBITDA	< 3	-0.3	-0.3

€ million	2014	2013
Shareholders' equity	2,265.5	2,352.5
Balance sheet total	4,197.7	4,361.7
- Prepayments received	39.8	46.6
Total	4,157.9	4,315.1
Equity ratio	**54.5%**	**54.5%**
Interest-bearing liabilities	498.9	554.4
Liquid assets	598.0	680.8
Interest-bearing net debt	-99.2	-126.4
EBITDA	346.5	401.4
Interest-bearing net debt/EBITDA	**-0.3**	**-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 36).

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

Some members of the Kesko Board act as 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 associate consolidated using the equity method, Kruunuvuoren Satama Oy, owns properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates comprise mainly business property companies which have leased their premises and real estate 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 in the amount of €14.6 million (€13.0 million). Real estate and premises owned by Pension Fund have been leased to Kesko Group.

During the financial years 2014 and 2013, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement

	Associates and joint ventures		Board and management		Pension Fund	
€ million	2014	2013	2014	2013	2014	2013
Sales of goods	0.0	0.0	75.6	79.2		
Sales of services	2.6	3.0	0.2	0.0	0.4	0.4
Purchases of goods			-18.2	-15.4		
Purchases of services	-2.7	-3.4	0.0	0.0		
Operating income	0.6	0.8	11.8	11.8	0.0	0.1
Operating costs	-17.7	-17.5	0.0	0.0	-13.0	-12.8

During the financial year 2013, the Group sold the business of Porvoon maatalouskauppa to a company controlled by a retailer member of the Kesko Corporation Board at a price of €0.4 million.

Balance sheet

€ million	Associates and joint ventures 2014	2013	Board and management 2014	2013	Pension Fund 2014	2013
Current receivables	0.2	0.1	6.2	5.9		0.0
Non-current receivables	1.5	1.5				
Current liabilities	17.6	16.1	2.0	2.9	0.4	0.3

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by Board members were €6.2 million (€5.9 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the countersecurity from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the countersecurity was valued at €4.6 million (€4.3 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 for the amount of actual annual purchases and the quality of operations.

Kesko Group's joint venture, Kruunuvuoren Satama Oy, and its subsidiary have borrowings from external providers of finance, which are secured on mortgages on properties owned by the companies. Kesko has issued a conditional guarantee for the €65 million bank borrowing of the subsidiary of Kruunuvuoren Satama Oy.

In addition, Kesko has non-current receivables from a real estate associate in 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 for employee services paid to them is shown below:

Monetary salaries, fees and fringe benefits

€1,000		2014	2013
Matti Halmesmäki	President and CEO	1,281.3	1,282.6
Group Management Board	other members	2,251.4	2,113.8
Esa Kiiskinen	Board Chair	85.5	87.5
Seppo Paatelainen	Board Deputy Chair	58.0	60.0
Ilpo Kokkila	Board member	42.5	44.0
Tomi Korpisaari	Board member	41.0	42.5
Maarit Näkyvä	Board member	46.0	47.5
Toni Pokela	Board member	41.0	42.5
Virpi Tuunainen	Board member	43.5	44.0
Total		3,890.2	3,764.4

In the agreement to terminate the managing director's service contract signed with Matti Halmesmäki, who left his position as the President and CEO on 31 December 2014, it was agreed that his performance bonus for 2014 totals €576,000, and that his incentive and performance bonus paid for 2015 will total €288,000.

Retirement benefits

The statutory pension provision of the President and CEO and the other members of the Group Management Board is provided through a pension insurance company. The President and CEO and five 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 defined benefit plans. During the financial years 2014 and 2013, no cash flow based contribution payments incurred under the President and CEO's supplementary pension plan. The IFRS pension cost calculated on an accrual basis was positive by €0.1 million due to surplus. The pension cost incurred from the President and CEO's statutory pension provision was €0.2 million.

Share awards

The following share awards were granted to the Management Board members: under the 2011 plan 22,213 shares (maximum was 51,300 shares), under the 2012 plan 15,113 shares (maximum was 56,600 shares) and under the 2013 plan 13,500 shares (maximum was 67,500). The maximum under the 2014 plan is 69,000 shares. In addition, the taxes and tax-like charges incurred from the awards 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 for the period of notice, fringe benefits and a separate non-recurring termination payment determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination benefit and share options granted, or income from them are not part of the executive's salary and they are not included in the determination of the salary for the period of notice, termination payment 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 benefits.

Shareholdings

As at 31 December 2014, the President and CEO held 20,601 Kesko Corporation B shares, which represent 0.02% of the total number of shares and 0.01% of votes carried by all shares of the Company. As at 31 December 2014, the Group Management Board, including the President and CEO, held 79,672 Kesko Corporation B shares, which represent 0.08% of the total number of shares and 0.02% of votes carried by all shares of the Company.

Mikko Helander, President and CEO as from 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 took place on 17 December 2014. 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 partly covering the remuneration of his service contract preceding Kesko. The transfer is without consideration and, like the share-based compensation plan operated at Kesko, its purpose is to promote Kesko's business and increase Kesko's value by combining the objectives of the shareholders and the recipient of the shares. A commitment period expiring on 1 October 2016 is attached to the shares granted, during which the shares must not be transferred. The value of the transferred shares at the date of transfer, 17 December 2014, was €260,741.06. In addition, taxes and other statutory charges for the share transfer incurred by the recipient of the shares, in a total amount of €419,394.80, have been paid in cash. It has been agreed that Mikko Helander's old-age pension age is 63 and that the amount of his old-age pension is 60% of 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 10 years. The supplementary pension is based on a defined benefit plan and as at 31 December 2014, the pension obligation was €52,461.

Note 34. Other notes

Events after the balance sheet date

As from 1 January 2015, Kesko revised the Group's divisional structure by integrating K-citymarket Oy, the non-food part of the K-citymarket chain in the home and speciality goods division, into Kesko Food Ltd. Kesko's food trade division was changed to the grocery trade division. The divisions of the building and home improvement trade and the home and speciality goods trade, separate up to 31 December 2014, were combined into the home improvement and speciality goods trade division. As from 1 January 2015, Kesko Group's reportable segments are the grocery trade, the home improvement and and speciality goods trade, and the car and machinery trade.

Kesko Corporation's Board of Directors appointed Mikko Helander, Master of Science in Technology, as Kesko Corporation's Managing Director and Kesko Group's President and Chief Executive Officer as from 1 January 2015. Mikko Helander joined Kesko as the Executive Vice President and Member of the Group Management Board on 1 October 2014 and took office as the President and CEO on 1 January 2015.

Anni Ronkainen, 48, M.Sc. (Econ.), has been appointed Kesko's Chief Digital Officer, responsible for business development, digital business environment and marketing, and a member of the Group Management Board. She will join Kesko Corporation on 20 April 2015 at the latest.

Note 35. Group composition

Group composition

Kesko Group has 117 (119) 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 2014	Number of wholly-owned subsidiaries 2013	Number of partly owned subsidiaries 2014	Number of partly owned subsidiaries 2013
Food trade	Finland, Russia	Kesko Food Ltd	28	26	-	-
Home and speciality goods trade	Finland, Estonia, Russia	K-citymarket Oy, Anttila Oy	13	13	-	-
Building and home improvement trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus	Rautakesko Ltd	39	45	7	8
Car and machinery trade	Finland, Estonia, Latvia, Lithuania, Russia	VV-Auto Group Oy, Konekesko Ltd	13	13	-	-
Others	Finland, Estonia		11	9	1	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 36.

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 guides 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 €12.4 million (€11.5 million) and in equity, the share was €79.5 million (€71.0 million).

Summarised financial information on subsidiaries with material non-controlling interests

€ million	Senukai Group 2014	2013
Current assets	166.1	157.9
Non-current assets	37.8	27.3
Current liabilities	80.5	73.9
Non-current liabilities	0.2	0.2
Net sales	436.0	368.5
Profit/loss	19.0	16.8
Parent company owners' share of profit/loss	6.6	5.3
Non-controlling interests' share of profit/loss	12.4	11.5
Comprehensive income for the period	21.0	17.0
Parent company owners' share of comprehensive income for the period	7.4	6.0
Non-controlling interests' share of comprehensive income for the period	13.6	11.0
Dividends paid to non-controlling interests	4.9	4.5
Net cash generated from operating activities	15.9	17.9
Net cash used in investing activities	-13.9	-5.8
Net cash used in financing activities	-6.9	-7.6

The amounts above are before intra-Group eliminations.

Note 36. Subsidiaries, equity accounted investments and proportionately consolidated mutual real estate companies as at 31 Dec. 2014

INTERESTS IN GROUP COMPANIES

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkurikadun Kiinteistöt Oy	Helsinki	100.00	100.00
Ankaregatans Fastigheter AB	Stockholm, Sweden	100.00	100.00
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Anttila 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	72.00	72.00
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	51.02
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, %
Antti SIA	Riga, Latvia	100.00	
Anttila AS	Viljandi, Estonia	100.00	
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	
Ikosen OÜ	Tallinn, Estonia	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 Kankaanpään Liikekeskus	Kankaanpää	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 Lahden Karisma	Helsinki	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88
Kiinteistö Oy Mäntyharjun Liiketori	Mäntyharju	100.00
Kiinteistö Oy Pajalantie 19	Järvenpää	100.00
Kiinteistö Oy Piispansilta	Espoo	100.00
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00
Kiinteistö Oy Tampuri	Helsinki	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 Eskilstuna AB	Sollentuna, Sweden	100.00
KR Fastigheter i Halmstad 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 Norrbotten AB	Sollentuna, Sweden	100.00
KR Fastigheter i Sundsvall AB	Sollentuna, Sweden	100.00
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00
KR Fastigheter i Umeå AB	Sollentuna, Sweden	100.00
KR Fastigheter i Uppland AB	Sollentuna, Sweden	100.00
Limingan Portti 1 Oy	Liminka	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
Suomenojan Kauppakeskus Oy	Espoo	100.00
Tampereen Länsikeskus Oy	Tampere	100.00
Tarondi Estate OOO	Moscow, Russia	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, %
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	
Eurogroup Far East Ltd	Hong Kong	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	50.53	
Malmintorin Pysäköintitalo Oy	Helsinki	99.91	
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	

Parent company's financial statements (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2014	1 Jan.–31 Dec. 2013
Net sales	**33,814,541.60**	**33,996,581.83**
Other operating income	113,647,549.64	116,325,776.56
Materials and services	-373.71	1,006.64
Employee benefit expense	-18,424,961.84	-16,906,928.53
Depreciation, amortisation and impairment	-19,097,105.06	-18,336,576.80
Other operating expenses	-91,752,946.51	-91,739,380.63
Operating profit	**18,186,704.12**	**23,340,479.07**
Financial income and expenses	-89,151,921.73	1,652,336.37
Profit before extraordinary items	**-70,965,217.61**	**24,992,815.44**
Extraordinary items	112,474,513.37	201,265,788.19
Profit before appropriations and taxes	**41,509,295.76**	**226,258,603.63**
Appropriations	2,760,540.83	3,018,761.67
Profit before taxes	**44,269,836.59**	**229,277,365.30**
Income taxes	-28,000,549.33	-54,621,961.59
Profit for the financial year	**16,269,287.26**	**174,655,403.71**

Parent company's balance sheet

€	31 Dec. 2014	31 Dec. 2013
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	7,574,833.69	790,204.76
Other capitalised long-term expenses	9,251,121.45	9,853,807.57
Advance payments	3,582,088.68	4,028,388.56
	20,408,043.82	14,672,400.89
TANGIBLE ASSETS		
Land and waters	93,428,511.78	93,426,111.78
Buildings	187,577,319.92	198,786,092.33
Machinery and equipment	2,623,373.90	2,906,294.00
Other tangible assets	3,680,895.83	4,370,842.38
Advance payments and construction in progress	470,619.74	283,552.63
	287,780,721.17	299,772,893.12
INVESTMENTS		
Holdings in subsidiaries	253,990,607.63	269,137,901.02
Associates	76,701,603.69	76,701,603.69
Other investments	9,497,920.18	10,235,133.24
	340,190,131.50	356,074,637.95
CURRENT ASSETS		
RECEIVABLES		
Long-term		
Receivables from subsidiaries	227,250,017.35	305,761,762.45
Receivables from associates	1,660,896.28	1,672,896.28
Other receivables	2,363,643.66	2,276,815.23
	231,274,557.29	309,711,473.96
Short-term		
Trade receivables	1,354,239.76	1,305,513.46
Receivables from subsidiaries	825,118,144.16	872,444,217.96
Receivables from associates	1,391.55	41,363.80
Loan receivables	2,700,000.00	1,030,000.00
Other receivables	184.19	96,695.11
Prepayments and accrued income	51,877,753.58	8,005,650.64
	881,051,713.24	882,923,440.97
INVESTMENTS		
Other investments	482,187,377.84	553,261,839.37
CASH AND CASH EQUIVALENTS	33,634,690.48	33,189,359.79
TOTAL ASSETS	**2,276,527,235.34**	**2,449,606,046.05**

€	31 Dec. 2014	31 Dec. 2013
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	264,020,461.19
Retained earnings	801,720,282.41	780,125,854.98
Profit for the financial year	16,269,287.26	174,655,403.71
	1,478,939,267.52	1,613,582,314.78
APPROPRIATIONS		
Depreciation reserve	72,389,337.00	75,149,877.83
PROVISIONS		
Other provisions	186,021.75	43,882.01
LIABILITIES		
Non-current		
Bonds	241,700,000.00	242,700,000.00
Private Placement notes	50,209,205.02	50,209,205.02
Loans from financial institutions	-	23,914,863.09
Other creditors	5,284,862.93	194,130.57
	297,194,067.95	317,018,198.68
Current		
Private placement notes	-	50,209,205.02
Loans from financial institutions	22,119,000.22	-
Advances received	21,283.97	20,069.60
Trade payables	2,846,816.78	3,073,023.17
Payables to subsidiaries	361,612,226.89	359,926,963.69
Payables to associates	17,522,094.78	16,047,817.11
Other payables	5,308,756.12	4,634,775.93
Accruals and deferred income	18,388,362.36	9,899,918.23
	427,818,541.12	443,811,772.75
TOTAL LIABILITIES	**2,276,527,235.34**	**2,449,606,046.05**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2014	1 Jan.–31 Dec. 2013
Cash flows from operating activities		
Profit before extraordinary items	-70,965,217.61	24,992,815.44
Adjustments		
Depreciation according to plan	19,097,105.06	18,336,576.80
Finance income and costs	89,151,921.73	-1,652,336.37
Other adjustments	127,709.81	-591,050.24
	37,411,518.99	**41,086,005.63**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	2,787,041.96	6,601,921.75
Current non-interest-bearing liabilities, increase (+)/decrease (-)	-16,346,632.07	-11,297,808.81
	-13,559,590.11	-4,695,887.06
Interests paid and other finance costs	-15,703,876.29	-16,798,861.09
Interests received	23,800,712.59	22,354,282.28
Dividends received	74,170.00	398,681.20
Income tax paid	-47,972,140.97	-54,828,279.70
	-39,801,134.67	-48,874,177.31
Net cash generated from operating activities	**-15,949,205.79**	**-12,484,058.74**
Cash flows from investing activities		
Purchases of tangible and intangible assets	-15,219,872.13	-6,185,423.71
Receivables, increase (-)/decrease (+)	25,736,916.67	-5,442,771.13
Acquisition of subsidiaries	-5,971,800.85	-7,702,748.00
Acquisition of associate	610,000.00	-
Proceeds from other investments	-	10,854.20
Proceeds from disposal of tangible and intangible assets	2,621,604.29	1,009,830.75
Net cash used in investing activities	**7,776,847.98**	**-18,310,257.89**
Cash flows from financing actitivites		
Interest-bearing liabilities, increase (+)/decrease (-)	-46,214,875.36	137,827,376.93
Short-term interest-bearing receivables, increase (+)/decrease (-)	20,137,411.98	-35,145,367.14
Short-term money market investments, increase (+)/decrease (-)	-56,808,357.03	-90,628,595.47
Dividends paid	-138,484,759.00	-117,891,130.30
Group contributions received and paid	112,474,513.37	201,265,788.19
Increase in reserve of invested non-restricted equity	2,148,641.76	19,554,663.12
Acquisition of treasury shares	-16,127,668.29	-
Other items	4,029,026.80	238,818.82
Net cash used in financing activities	**-118,846,065.77**	**115,221,554.15**
Change in liquid assets	**-127,018,423.64**	**84,427,237.52**
Liquid assets as at 1 January	**359,247,235.51**	**274,819,997.99**
Liquid assets as at 31 December	**232,228,811.87**	**359,247,235.51**

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.

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.

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 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 interets 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 made with a bank, and enters into corresponding internal hedge with the subsidiary. 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 expenses. Unrealised gains and losses on contracts hedging future purchases are not recognised in profit or loss.

Pension plans

Personnel's statutory pension security is organised through a pension insurance company and the voluntary supplementary pension security 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 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	2014	2013
Gains on sales of real estate and shares	0.0	0.0
Rent income	113.0	115.2
Others	0.7	1.1
Total	113.6	116.3

Note 3. Average number of personnel

	2014	2013
Kesko Corporation	171	183
Total	171	183

Note 4. Employee benefit expense

€ million	2014	2013
Wages and salaries	-15.9	-14.4
Social security costs		
Pension costs	-1.8	-1.8
Other social security costs	-0.8	-0.7
Total	-18.4	-16.9

Salaries and fees to the management

€ million	2014	2013
Managing Director	1.3	1.3
Board members	0.4	0.4
Total	1.6	1.7

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

Note 5. Depreciation, amortisation and impairment

€ million	2014	2013
Depreciation according to plan	-19.0	-18.3
Impairment, non-current assets	-0.1	-
Total	-19.1	-18.3

Note 6. Other operating expenses

€ million	2014	2013
Rent expenses	-55.8	-56.6
Marketing expenses	-1.7	-1.5
Maintenance of real estate and store sites	-6.3	-6.3
Information system expenses	-18.6	-19.8
Other operating expenses	-9.4	-7.6
Total	-91.8	-91.7

Auditors' fees

€ million	2014	2013
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.2	0.1
Tax consultation	0.1	0.0
Other services	0.1	0.1
Total	0.4	0.2

Note 7. Finance income and costs

€ million	2014	2013
Income from long-term investments		
Dividend income from subsidiaries	0.1	0.4
Gains on disposal of shares	0.1	0.0
Income from long-term investments, total	0.2	0.4
Other interest and finance income		
From subsidiaries	13.9	14.5
From others	48.7	16.7
Interest and finance income, total	62.6	31.2
Impairment of investments held as non-current assets		
Impairment of shares	-21.4	0.0
Impairment of other investments	-77.7	-0.5
Impairment of investments held as non-current assets, total	-99.1	-0.5
Interest and other finance costs		
To subsidiaries	-3.3	-2.3
To others	-49.5	-27.2
Interest and finance costs, total	-52.8	-29.5
Total	-89.2	1.7

Note 8. Items included in extraordinary income and expenses

€ million	2014	2013
Group contributions received	234.0	269.8
Group contributions paid	-121.5	-68.6
Total	112.5	201.3

Note 9. Appropriations

€ million	2014	2013
Difference between depreciation according to plan and depreciation in taxation	2.8	3.0
Total	2.8	3.0

Note 10. Changes in provisions

€ million	2014	2013
Other changes	0.1	-0.1
Total	0.1	-0.1

Note 11. Income taxes

€ million	2014	2013
Income taxes on extraordinary items	-22.5	-49.3
Income taxes on ordinary activities	-5.5	-5.3
Total	-28.0	-54.6

Deferred taxes

Deferred tax liabilities and assets have not been included in the balance sheet. The amounts are not significant.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2014	2013
Intangible assets		
Acquisition cost as at 1 January	39.1	37.6
Increases	8.3	1.2
Decreases	-24.0	-
Transfers between items	1.2	0.3
Acquisition cost as at 31 December	24.6	39.1
Accumulated depreciation as at 1 January	-28.4	-26.5
Accumulated depreciation on decreases and transfers	23.9	-
Depreciation for the financial year	-3.3	-1.9
Accumulated depreciation as at 31 December	-7.8	-28.4
Book value as at 31 December	16.8	10.6
Advance payments		
Acquisition cost as at 1 January	4.0	1.2
Increases	3.0	3.1
Decreases	-2.3	-
Transfers between items	-1.2	-0.3
Acquisition cost as at 31 December	3.6	4.0
Book value as at 31 December	3.6	4.0

Note 13. Tangible assets

€ million	2014	2013
Land and waters		
Acquisition cost as at 1 January	93.4	93.8
Increases	0.0	0.5
Decreases	-	-0.9
Acquisition cost as at 31 December	93.4	93.4
Book value as at 31 December	93.4	93.4
Buildings		
Acquisition cost as at 1 January	394.2	392.6
Increases	3.0	1.4
Decreases	-31.4	-
Transfers between items	0.0	0.2
Acquisition cost as at 31 December	365.8	394.2
Accumulated depreciation as at 1 January	-195.4	-180.9
Accumulated depreciation on decreases and transfers	31.4	-
Depreciation for the financial year	-14.2	-14.5
Accumulated depreciation as at 31 December	-178.2	-195.4
Book value as at 31 December	187.6	198.8
Machinery and equipment		
Acquisition cost as at 1 January	17.2	17.1
Increases	0.5	0.1
Decreases	-2.1	-
Transfers between items	0.0	0.0
Acquisition cost as at 31 December	15.6	17.2
Accumulated depreciation as at 1 January	-14.3	-13.4
Accumulated depreciation on decreases and transfers	2.1	-
Depreciation for the financial year	-0.8	-0.9
Accumulated depreciation as at 31 December	-13.0	-14.3
Book value as at 31 December	2.6	2.9

Other tangible assets		
Acquisition cost as at 1 January	14.0	14.0
Increases	0.1	-
Decreases	-6.0	-
Transfers between items	0.0	0.0
Acquisition cost as at 31 December	8.1	14.0
Accumulated depreciation as at 1 January	-9.6	-8.6
Accumulated depreciation on decreases and transfers	6.0	-
Depreciation for the financial year	-0.8	-1.0
Accumulated depreciation as at 31 December	-4.4	-9.6
Book value as at 31 December	3.7	4.4
Advance payments and construction in progress		
Acquisition cost as at 1 January	0.3	0.8
Increases	0.2	0.0
Decreases	-	-0.2
Transfers between items	0	-0.3
Acquisition cost as at 31 December	0.5	0.3
Book value as at 31 December	0.5	0.3

Note 14. Investments

€ million	2014	2013
Holdings in subsidiaries		
Acquisition cost as at 1 January	304.1	296.5
Increases	6.0	7.7
Decreases	-0.1	-0.2
Acquisition cost as at 31 December	309.9	304.1
Impairment as at 1 Jan.	-34.9	-34.9
Impairment for the period	-21.0	-
Impairment as at 31 Dec.	-55.9	-34.9
Book value as at 31 Dec.	254.0	234.3
Associates and joint ventures		
Acquisition cost as at 1 January	76.7	76.7
Book value as at 31 December	76.7	76.7
Other investments		
Acquisition cost as at 1 January	10.2	11.8
Increases	0.0	-
Decreases	-0.7	-1.6
Acquisition cost as at 31 December	9.5	10.2
Book value as at 31 December	9.5	10.2

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2014 is given in the notes to the consolidated financial statements.

Note 15. Receivables

€ million	2014	2013
Receivables from subsidiaries		
Long-term		
Loan receivables	217.3	263.1
Subordinated loans	10.0	42.7
Long-term, total	227.3	305.8
Short-term		
Trade receivables	4.0	3.6
Loan receivables	820.6	842.2
Subordinated loans	-	25.0
Prepayments and accrued income	0.6	1.7
Short-term, total	825.1	872.4
Total	1,052.4	1,178.2

Kesko Corporation has advanced subordinated loan to Kiinteistö Mesta Oy, in the amount €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, a total impairment of €77.7 million was recognised on the subordinated loans to Anttila Oy and Johaston Oy.

€ million	2014	2013
Receivables from associates and joint ventures		
Long-term		
Loan receivables	1.5	1.5
Other receivables	0.1	0.1
Long-term, total	1.7	1.7
Short-term receivables	0.0	0.0
Total	1.7	1.7

€ million	2014	2013
Prepayments and accrued income		
Taxes	21.4	1.4
Others	30.5	6.6
Total	51.9	8.0

Note 16. Shareholders' equity

€ million	Share capital	Share premium	Contingency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2013	197.3	197.5	243.4	1.1	896.7	1,536.0
Increase				19.6	0.0	19.6
Dividends					-117.9	-117.9
Treasury shares					1.5	1.5
Transfer to donations					-0.2	-0.2
Profit for the year					174.7	174.7
Balance as at 31 December 2013	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**

During the reporting period, the number of B shares was increased three times to account for the shares subscribed for with the options based on the 2007 option scheme. The increases were made on 10 February 2014 (85,067 B shares, €1,041,220), 30 April 2014 (62,778 B shares, €682,342) and 4 June 2014 (39,214 B shares,€ 425,080). The shares subscribed for were listed for public trading onthe official list of NASDAQ OMX Helsinki with the old B shares on 11 February 2014, 2 May 2014 and 5 June 2014. The total subscription price of €2,148,641.76 received by the company was recorded in the company's reserve of invested non-restricted equity.

Calculation of distributable profits	2014	2013
Other reserves	266.2	264.0
Retained earnings	801.7	780.1
Profit for the year	16.3	174.7
Total	1,084.2	1,218.8

Breakdown of the parent's share capital	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 16 April 2012 and valid until 30 June 2015, to issue a maximum of 20,000,000 new B shares. In addition, the Board had the authority, granted by the Annual General Meeting of 4 April 2011, to decide on the acquisition of a maximum 500,000 own B shares of the company. The authority was exercised in full during the financial year. The Board also has the authority, granted by the Annual General Meeting of 8 April 2013, to decide on the issuance a maximum of 1,000,000 own B shares held by the company as treasury shares. The authority will expire on 30 June 2017.

Treasury shares

Authorised by the General Meeting, the Board acquired a total of 700,000 own B shares (acquisition price €23.7 million) in the financial year 2011 and a total of 500,000 own B shares (acquisition price €16.1 million) in the financial year 2014. The total prices paid for the shares have been deducted from retained earnings. The shares are held by the company as treasury shares and the company's Board has the authority to issue them. Based on its authority to issue own shares and the fulfilment of the vesting criteria of the 2011 vesting period of Kesko's share-based compensation plans, the Board granted a total of 92,751 own shares, based on the fulfilment of the vesting criteria of the 2012 vesting period a total of 66,331 own shares, and based of the fulfilment of the vesting criteria of the 2013 vesting period, and a total of 50,520 own shares to persons included in the target groups of the vesting periods. In addition in December 2014, 8,791 shares held by the company as treasury shares were transferred to Mikko Helander, who started as the company's President and CEO on 1 January 2015. These transactions were announced in a stock exchange release on 12 April 2012, 5 April 2013, 24 March 2014, 25 March 2014 and 16 December 2014. After the vesting periods, a total of 5,642 shares already granted have been 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 995,315 own B shares (548,984 B shares) as treasury shares. Their acquisition cost, €31.5 million (€17.8 million), has been deducted from retained earnings.

Options

The Group operated share option plans as part of management's incentive and commitment plan. Each option gave its holder the right to subscribe for one Kesko Corporation B share at the price and during the period specified in the terms and conditions of the option plan. The options were forfeited if the person left the company before the end of the commitment period, unless, in an individual case, the Board decided that the option recipient could keep all or some of the options under offering obligation.

2007 option scheme

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 options for no consideration to the management of Kesko Group, other key personnel, and a subsidiary wholly owned by Kesko Corporation. The Company had a weighty financial reason for granting the options because they are intended to be part of Kesko's share-based incentive system. Each option entitled its holder to subscribe for one new Kesko Corporation B share. In addition, the option scheme included an obligation to buy company shares for permanent ownership for the value of 25% of the proceeds from the sale of options. The options were marked with the symbols 2007A, 2007B and 2007C in units of 1,000,000 options each. The option scheme expired during the financial year 2014.

The options were exercisable as follows:

- 2007A 1 April 2010–30 April 2012 (exercise period has expired)
- 2007B 1 April 2011–30 April 2013 (exercise period has expired)
- 2007C 1 April 2012–30 April 2014 (exercise period has expired)

The original price of a share subscribed for with option 2007A was the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), with option 2007B, between 1 April and 30 April 2008 (€26.57), and with option 2007C, between 1 April and 30 April 2009 (€16.84). The prices of shares subscribed for with options were reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets. After the distribution of dividends for 2013, the price of a B share subscribed for with option 2007C was €10.84.

Note 17. Appropriations

€ million	2014	2013
Depreciation difference	72.4	75.1
Total	72.4	75.1

Note 18. Provisions

€ million	2014	2013
Other provisions	0.2	0.0
Total	0.2	0.0

Note 19. Non-current liabilities

€ million	2014	2013
Liabilities due later than within five years		
Private Placement notes	-	20.1
Total	-	20.1

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	2014	2013
Liabilities to subsidiaries		
Trade payables	0.1	0.1
Other payables	358.6	359.1
Accruals and deferred income	2.8	0.7
Total	361.6	359.9
Liabilities to associates and joint ventures		
Trade payables	-	0.0
Accrued expenses	0.0	0.2
Other payables	17.5	15.8
Total	17.5	16.0
Accruals and deferred income		
Staff costs	4.1	3.4
Others	14.3	6.5
Total	18.4	9.9

Note 21. Interest-free liabilities

€ million	2014	2013
Current liabilities	27.1	16.7
Non-current liabilities	5.3	0.2
Total	32.4	16.9

Note 22. Guarantees, liability engagements and other liabilities

€ million	2014	2013
Real estate mortgages		
For own debt	-	6
For subsidiaries	4	4
Pledged shares	37	42
Guarantees		
For subsidiaries	87	41
For associates and joint ventures	65	65
Other liabilities and liability engagements		
For own debt	10	11
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	47	47
Falling due later	198	230

€ million	2014	Fair value	2013	Fair value
Liabilities arising from				
derivative instruments				
Values of underlying instruments as at 31 December				
Interest rate derivatives				
Interest rate swaps	100	-0.5	201	-0.2
Foreign currency derivatives				
Forward and future contracts				
Outside the Group	310	17.8	296	1.2
Inside the Group	23	-2.0	23	0.5
Option agreements				
Bought, inside the Group	2	0.0	0	0.0
Written, outside the Group			1	0.0
Written, inside the Group	2	0.0	1	0.0
Currency swaps	50	-0.8	100	-13.4
Commodity derivatives				
Electricity derivatives				
Outside the Group	21	-4.4	31	-6.8
Inside the Group	21	5.4	31	6.8

Note 23. Cash and cash equivalents within the statement of cash flows

€ million	2014	2013
Available-for-sale financial assets	198.6	326.1
Cash and cash equivalents	33.6	33.2
Total	**232.2**	**359.2**

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, 9 February 2015

Esa Kiiskinen	Seppo Paatelainen	
Ilpo Kokkila	Tomi Korpisaari	Maarit Näkyvä
Toni Pokela	Virpi Tuunainen	Mikko Helander President and CEO

The Auditor's Note

Our auditor's report has been issued today.
Helsinki, 9 February 2015

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
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, 2014. 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, 9 February 2014

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountant

Kesko Group's comparatives according to the new segment structure for the period 1 Jan. 2014–31 Dec. 2014

Kesko Group's segments as from 1 January 2015

The Group's divisions, namely the grocery trade, the home improvement and speciality goods trade and the car and machinery trade, have been identified as Kesko Group's reportable segments as from 1 January 2015 (stock exchange release on 27 November 2014).

The grocery trade comprises the food trade operated in Finland based on the K-retailer business model, K-citymarket's home and speciality goods trade, K-food stores in Russia and Kespro Ltd's wholesale trade of groceries.

The chains of the home improvement and speciality goods trade are K-rauta, Rautia, K-maatalous, Byggmakker, Senukai, OMA, Anttila, NetAnttila and Kodin Ykkönen, Intersport and Budget Sport, Asko and Sotka, Musta Pörssi as well as Kookenkä. The home improvement and speciality goods trade has operations in eight countries.

The car and machinery trade comprises VV-Auto and Konekesko.

Net sales by segment

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–12/ 2014
Grocery trade	1,102	1,202	1,190	1,260	4,754
Home improvement and speciality goods trade	761	890	877	796	3,324
Car and machinery trade	272	283	240	216	1,011
Common operations and eliminations	-6	-5	-3	-5	-19
Group total	**2,129**	**2,371**	**2,304**	**2,267**	**9,071**

Operating profit by segment

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–12/ 2014
Grocery trade	44.3	54.4	58.3	59.1	216.2
Home improvement and speciality goods trade	-62.5	8.4	-0.5	2.0	-52.6
Car and machinery trade	8.2	10.9	8.7	1.6	29.4
Common operations and eliminations	-3.1	-4.4	-3.1	-31.0	-41.6
Group total	**-13.0**	**69.4**	**63.4**	**31.7**	**151.4**

Operating profit excl. non-recurring items by segment

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–12/ 2014
Grocery trade	45.4	55.3	60.3	62.2	223.2
Home improvement and speciality goods trade	-31.4	5.8	18.2	7.1	-0.3
Car and machinery trade	8.2	10.9	8.7	1.8	29.6
Common operations and eliminations	-3.1	-4.4	-3.1	-9.3	-19.9
Group total	**19.1**	**67.6**	**84.0**	**61.9**	**232.6**

Operating margin excl. non-recurring items by segment

%	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–12/ 2014
Grocery trade	4.1	4.6	5.1	4.9	4.7
Home improvement and speciality goods trade	-4.1	0.6	2.1	0.9	0.0
Car and machinery trade	3.0	3.8	3.6	0.8	2.9
Group total	**0.9**	**2.9**	**3.6**	**2.7**	**2.6**

Capital employed by segment, cumulative average

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–12/ 2014
Grocery trade	1,019	1,034	1,005	984	1,007
Home improvement and speciality goods trade	869	888	879	866	876
Car and machinery trade	169	165	145	167	162
Common operations and eliminations	317	320	304	305	310
Group total	**2,375**	**2,407**	**2,332**	**2,323**	**2,354**

Return on capital employed excl. non-recurring items by segment

%	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–12/ 2014
Grocery trade	17.8	21.4	24.0	25.3	22.2
Home improvement and speciality goods trade	-14.5	2.6	8.3	3.3	0.0
Car and machinery trade	19.5	26.4	24.0	4.3	18.3
Group total	**3.2**	**11.2**	**14.4**	**10.7**	**9.9**

Capital expenditure

€ million	1–3/ 2014	4–6/ 2014	7–9/ 2014	10–12/ 2014	1–12/ 2014
Grocery trade	20	31	27	21	98
Home improvement and speciality goods trade	14	17	20	20	71
Car and machinery trade	3	7	2	3	14
Common operations and eliminations	7	1	3	0	11
Group total	**43**	**56**	**52**	**43**	**194**

Personnel average

	1–3/ 2014	1–6/ 2014	1–9/ 2014	1–12/ 2014
Grocery trade	5,979	6,151	6,192	6,176
Home improvement and speciality goods trade	11,991	12,103	12,141	12,105
Car and machinery trade	1,228	1,250	1,253	1,244
Common operations and eliminations	417	432	438	451
Group total	**19,616**	**19,935**	**20,024**	**19,976**

Information for investors

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 13 April 2015 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 30 March 2015 (General Meeting record date). 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 8 April 2015 at 16.00 EET. The registration can be made either

a) through the website at www.kesko.fi/yhtiokokous following the instructions provided there,

b) by e-mail to keskoyhtiokokous (at) kesko.fi,

c) by telephone +358 105 323 211 (from Monday to Friday between 9 and 16),

d) by telefax +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 30 March 2015. In addition, the participation requires that the shareholders are temporarily registered in the company's shareholder register by virtue of these shareholdings no later than 8 April 2015 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, participation in it and its decision-making is available on Kesko’s General Meeting pages.

The resolutions of the General Meeting will be published without delay after the General Meeting in a stock exchange release.

Dividend proposal

The Board has decided to propose to the General Meeting that a dividend of €1.50 per share be paid for the year 2014 on the basis of the adopted balance sheet. The proposed dividend represents 154.7% of earnings per share and 91.1% of earnings per share excluding non-recurring items. In the five previous years, 78.9% of earnings per share excluding non-recurring items, on average, have been distributed as dividends. The dividend will be 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, 15 April 2015. 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, 13 April 2015. Consequently, the dividends on shares traded on the date of the General Meeting are paid to the buyer of the shares. As proposed by the Board, the payment of dividends will begin on 22 April 2015.

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.

Read more: Kesko's financial objectives

Basic share information as at 31 December 2014

A share

- symbol: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007 pcs
- market capitalisation: €906 million

B share

- symbol: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 68,282,745 pcs
- market capitalisation: €2,031 million

Trading unit of both share series: 1 share.
Total share capital: €197,282,584.
Total number of shares: 100,019,752 pcs.
Voting rights carried by all shares: 385,652,815.
Total market capitalisation: €2,937 million.

Shareholders

According to the register of Kesko Corporation's shareholders held by Euroclear Finland Ltd, there were 39,869 shareholders at the end of 2014 (42,809 at the end of 2013). The total number of shares registered in a nominee name was 27,043,245, accounting for 27.04% of all shares (24,178,324 and 24.22% respectively at the end of 2013). These shares carried 32,512,014 votes, or 8.43% of the total voting rights (27,839,614 or 7.22% respectively at the end of 2013).

Read more: Largest shareholders

Changes of address

Shareholders should 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 integrated Annual Report for 2014 has been published in Finnish and English at kesko2014.kesko.fi. The report contains a business review, the Report by Kesko's Board of Directors and the financial statements for 2014, the responsibility indicators (GRI), Kesko's Corporate Governance Statement and Remuneration Statement. Printed report summaries of the report and printouts of the financial statements are available at the General Meeting. Printed 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 www.kesko.fi/en/media/orders/.

Read more: Annual Reports

Communications

Communications policy and principles

The duty of Kesko's communications is to promote the business activities of the Group and its business partners by taking the initiative in providing stakeholders with correct information on the Group's objectives and operations. The general principles followed in Kesko's communications are reliability, openness and fastness. No comments are made on the company's confidential or unfinished business transactions, or on competitors' affairs.

The primary objective of communications is to describe what added value Kesko and its partners generate to consumers and other customers.

Contacts in communcations

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E-mail: viestinta (at) kesko.fi

Investor relations

In line with its investor relations strategy, Kesko continually produces correct and up-to-date information for the markets as a basis for the formation of Kesko Corporation share prices. The aim is to make Kesko's activities better known and to increase the transparency of investor information and, thereby the attractiveness of Kesko as an investment.

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its website in Finnish and English.

Kesko holds briefings for analysts and the media at the time of publishing financial information or other significant news, and a Capital Markets Day for analysts and institutional investors on various themes once a year.

Kesko observes a silent period of at least three weeks before publishing its results releases. At other times, enquiries of analysts and investors are answered by phone or e-mail, or by arranging meetings.

Investor relations contacts

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Corporate Governance Statement 2014

This Corporate Governance Statement has been discussed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 9 February 2015.

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/financial-statements-and-reports/.

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. The Company complies with the Finnish Corporate Governance Code for Listed Companies 2010 ("Corporate Governance Code"). The Corporate Governance Code can be read in full at www.cgfinland.fi. 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.

Departure from Recommendation 10 of the Corporate Governance Code (Term of the Board members) and explanation for departure

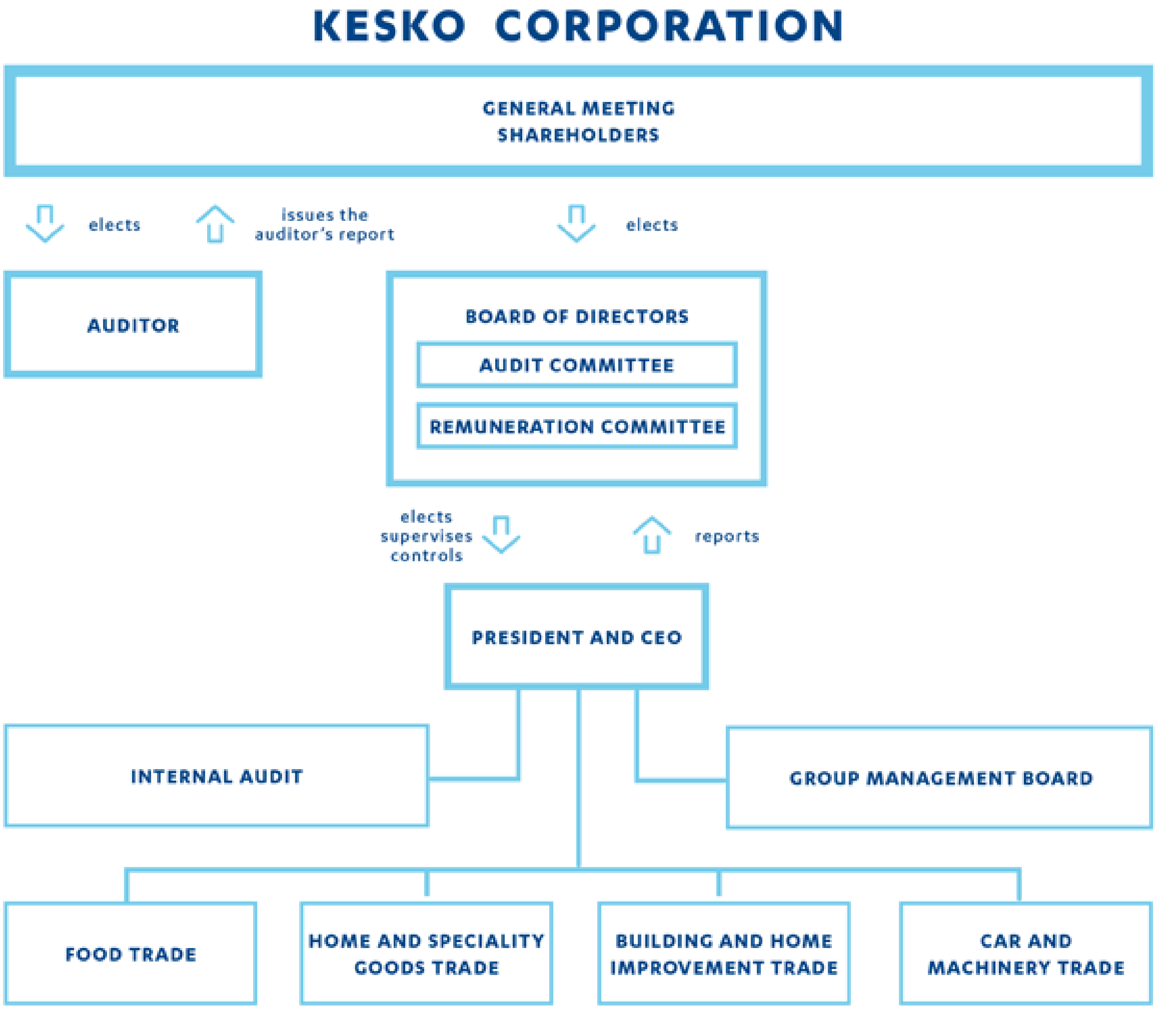
The term of Kesko's Board members departs from the one-year term of Recommendation 10 (Term of the Board members) of the Corporate Governance Code. The term of the Company's Board is determined in accordance with the Company's Articles of Association. The General Meeting passes resolutions on amendments concerning the Articles of Association. According to the Company's Articles of Association, the term 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 who, together with related entities, represents over 10% of votes attached to all Kesko shares, has informed the Company's Board that it considers the term 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 System

The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting.

At the Annual General Meeting, the Company's shareholders elect the Company's Board of Directors and 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.



The above chart describes Kesko's Corporate Governance System in 2014. As from the beginning of 2015, Kesko's divisions are the grocery trade, the home improvement and speciality goods trade and the car and machinery trade.

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 competence 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 they carry. 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 the Notice of the General Meeting published on the Company's website. The notice of the meeting and other General Meeting documents, including the Board's proposals to the General Meeting, are made available to shareholders no later than three weeks prior to the General Meeting at the Company's main office and on its website at www.kesko.fi. The notice of the meeting and the proposals of the Company's Board to the General Meeting are also published as stock exchange releases.

The Company aims for all of Kesko's Board members, 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 www.kesko.fi within two weeks of the General Meeting. The resolutions of the General Meeting are also published in a stock exchange release immediately after the meeting.

Board of Directors

Term, composition and independence

Term

According to the Articles of Association, the term 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 the Board.

Composition

The Annual General Meetings held on 16 April 2012, 8 April 2013 and 7 April 2014 resolved that the Board is composed of seven (7) members, and the General Meeting of 16 April 2012 elected seven (7) members to the Board.

The Board of Directors elected by Kesko's Annual General meeting of 16 April 2012 has seven (7) members:

Esa Kiiskinen, b. 1963, Business College Graduate
Chair of the Board, Chair of the Remuneration Committee
Food retailer
Board member since 30 March 2009.

Seppo Paatelainen, b. 1944, Master of Science (Agriculture & Forestry)
Deputy Chair of the Board, Deputy Chair of the Remuneration Committee and the Audit Committee
Board member since 27 March 2006.

Ilpo Kokkila, b. 1947, Master of Science (Technology)
Member of the Remuneration Committee
Chair of the Board of SRV Group Plc
Board member since 27 March 2006.

Tomi Korpisaari, b. 1968, Master of Science (Economics)
Retailer, building and home improvement and agricultural trade
Board member since 16 April 2012.

Maarit Näkyvä, b. 1953, Master of Science (Economics)
Chair of the Audit Committee
Board member since 1 January 2001.

Toni Pokela, b. 1973, Secondary School Graduate
Food retailer
Board member since 16 April 2012.

Virpi Tuunainen, b. 1967, Doctor of Science in Economics
Member of the Audit Committee
Professor at the Department of Information and Service Economy at Aalto University and Director of Aalto Service Factory
Board member since 16 April 2012.

In accordance with the Articles of Association, the term of each Board member will expire at the close of the 2015 Annual General Meeting.

Independence

All of Kesko's Board members 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. Based on the latest independence evaluation carried out on 7 April 2014, the Board considers the 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 his or her independence.

Board members' independence in 2014

	Independent of the Company	Independent of significant shareholder
Esa Kiiskinen (Ch.)	No*	Yes
Seppo Paatelainen (Dep. Ch.)	Yes	Yes
Ilpo Kokkila	Yes	Yes
Tomi Korpisaari	No*	Yes
Maarit Näkyvä	Yes	Yes
Toni Pokela	No*	Yes
Virpi Tuunainen	Yes	Yes

*Each of the companies controlled by Kiiskinen, Korpisaari and Pokela has a chain agreement with a Kesko Group company.

Primary duties

Kesko's Board of Directors ensures that the Company's administration, operations, accounting and financial management controls are in place. The Board is also responsible for the supervision and control of the entire Kesko Group. The Board has confirmed a written charter for its duties, the matters it deals with, meeting practice and the decision-making procedure. In accordance with the charter, the Board deals with and makes decisions on all matters that are financially, operationally or fundamentally significant to the Group.

According to its charter, the Board's primary duties include:

- deciding on the Group's strategy and confirming strategies for the divisions
- confirming the Group's rolling plan, which includes the capital expenditure plan
- approving 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, disposals 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 Corporate Responsibility Report in 2014 (in 2015, the Board will review the integrated Kesko's Year 2014 report)

- being responsible for the other statutory duties prescribed to the Board by the Limited Liability Companies' Act or some other, and for duties prescribed by the Finnish Corporate Governance Code.

Decision-making, operations and meetings

The duty of Kesko's Board is to promote the best 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 2014, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 98.57%.

In its strategy work in 2014, the Board focused especially on the strategies of the Group's food trade, the building and home improvement trade and the sports trade and their implementation in Russia, and monitored the development of the general situation in Russia. The Board continued to discuss strategic issues concerning the Group's property ownerships and property management. The Board selected a new President and CEO for the Company, decided on changing the Group structure, approved the new composition of the Group Management Board and changes in the areas of responsibility of the members of the Group Management Board and monitored the competitiveness of the department store trade and the food trade, among other things. 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 interim reports and the financial statements prior to their disclosure during the year.

The Board meetings regularly discuss a review by the President and CEO on major topical issues, as well as 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 2014

	Board member since	Committee membership	Attendance Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Ch.)	2009	Remuneration Committee (Ch.)	10/10		5/5
Seppo Paatelainen (Dep. Ch.)	2006	Audit Committee (Dep. Ch.)	10/10	5/5	
		Remuneration Committee (Dep. Ch.)			5/5
Ilpo Kokkila	2006	Remuneration Committee	10/10		5/5
Tomi Korpisaari	2012		10/10		
Maarit Näkyvä	2001	Audit Committee (Ch.)	10/10	5/5	
Toni Pokela	2012		10/10		
Virpi Tuunainen	2012	Audit Committee	9/10	4/5	

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 its significant shareholders. In the election of the Audit Committee members, the qualification 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 the majority is also independent of the Company. In the election of the Remuneration Committee members, the qualification 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 define 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 Committee's 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 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 operations

The members of the Audit Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2014, are:

- Maarit Näkyvä (Ch.)
- Seppo Paatelainen (Deputy Ch.)
- Virpi Tuunainen

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 handling 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 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 keeping in contact with the Company's Auditor.

In 2014, the Audit Committee held five (5) meetings, and the members' average attendance rate at the meetings was 93.33%. At the Committee meetings, the Group's CFO, the Group Controller, the Chief Audit Executive and the General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on Kesko Group's funding situation, 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 handling the interim reports and the financial statements release. In addition, the Committee reviewed the Group's external and internal audit, risk management and legal affairs reports. The Committee monitored, among other things, investigations and the discussion between the authorities concerning the amendment to the Competition Act’s definition of dominant position. The Committee approved the Group’s data protection policy. The Committee also evaluated 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 2014 for the election of the Auditor. Towards the end of 2014, the Audit Committee conducted a competitive bidding process for Auditors and based on its result, has prepared a proposal to Kesko's Annual General Meeting 2015 for the election of the Auditor.

Remuneration Committee and its operations

The members of the Remuneration Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2014, are:

- Esa Kiiskinen (Ch.)
- Seppo Paatelainen (Deputy Ch.)
- Ilpo Kokkila

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 and preparing remuneration schemes 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 remunerations schemes

    - preparing possible share or share-based remuneration schemes

    - preparing the granting of shares or share options under 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 2014, the Remuneration Committee held five (5) actual meetings and the members' average attendance rate at the meetings was 100%. The Committee prepared a proposal to the Board for the election of a new President and CEO for the Company and for that purpose, the Committee met several times outside the actual meetings. The Committee also prepared 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 the results from studies and surveys on the Group employees' job satisfaction, wellbeing at work, sickness absences, management resources and compensation.

President and CEO

Kesko has a managing director who is the President and CEO. Matti Halmesmäki, b. 1952, Master of Science in Economics, Master of Laws, was Kesko's President and CEO as from 1 March 2005. His term ended on 31 December 2014. Halmesmäki was a member of the Group Management Board during the period 1 January 2001 to 31 December 2014 and the Chair of the Group Management Board during the period 1 March 2005 to 31 December 2014.

Mikko Helander, b. 1960, Master of Science in Technology, was appointed Halmesmäki's successor. Helander became a member of the Group Management Board and Kesko's Executive Vice President on 1 October 2014. As from 1 January 2015, Helander is Kesko's President and CEO and the Chair of the Group Management Board.

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 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 management and that the financial affairs are handled 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. The Board has made the decisions on 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

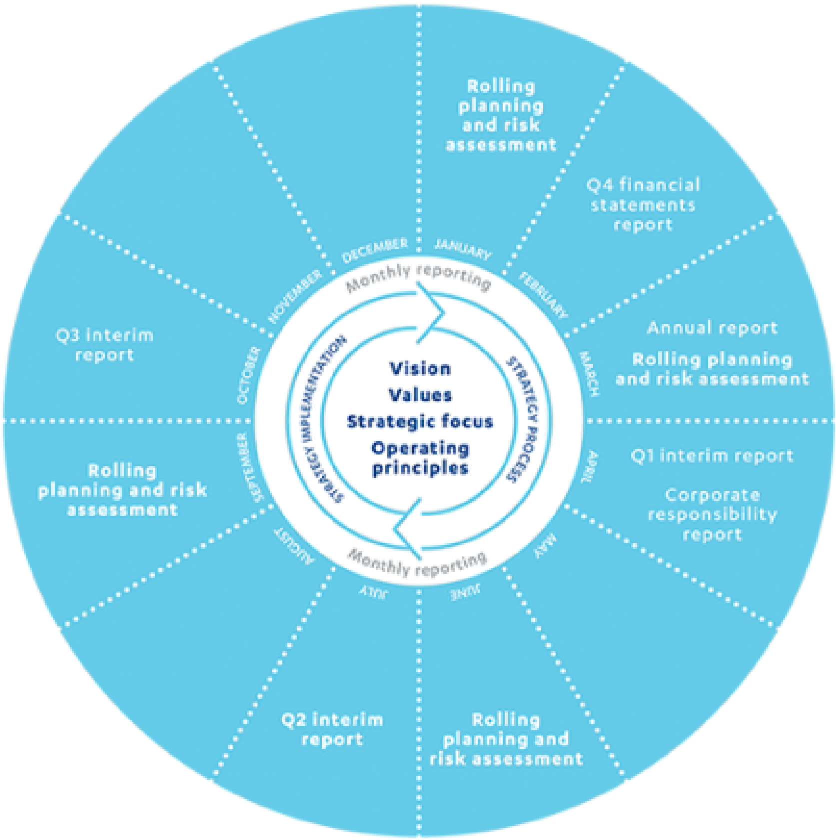
Kesko Group has a Group Management Board, the Chair of which is Kesko's President and CEO. The Group Management Board has no authority based on legislation or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level policies and procedures. 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 12—14 times a year.

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 system

Kesko's financial reporting and planning are based on Kesko Group's management system. The Group units' financial results are reported and analysed within the Group on a monthly basis, and disclosed in interim reports published quarterly. Financial plans 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.



The management system described above includes the Annual Report published in March 2014 and the Corporate Responsibility Report published in April 2014. In 2015, Kesko will publish a single integrated report, Kesko's Year 2014, in March.

Roles and responsibilities

Kesko Group's financial reporting and its control 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 by using 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 in Group-wide financial reporting. Monthly performance reporting includes Group, division and subsidiary specific results, changes compared to the previous year, comparison with financial plans, and forecasts for the next 12 months. The Group's short-term financial planning is based on plans drawn up by the quarter, extending for 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 the return on capital employed excluding non-recurring items, monitored in monthly internal reporting. Information on the Group's financial situation is communicated 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 takes place at the subsidiary, division and Group level as rolling plans. The plans 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

The performance reporting to the Group’s top management comprises monthly reports on the subsidiaries’, divisions’ and the Group's income statements and balance sheets. 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 the documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available, enables real-time responses to possible flaws. The performance reports provided to the top management also include 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, financial statements, the Report by the Board of Directors and monthly sales reports. The same principles and control methods are applied to public performance reporting as to monthly performance reporting. The Audit Committee reviews the interim report and the financial statements and gives a recommendation on their handling to the Board. The Board approves the interim report and the financial statements before they are published.

Key actions in 2014

Kesko Group continued the project for harmonising the financial management information systems, which serves both the Group companies and the K-Group's retailers. In Finland, the centralisation of the Group companies’ financial management routines in the Shared Services Centre continued, and in Russia, the Shared Services Centre’s operations were established, with financial management services provided to all Russian Group companies. The Group’s shared information system for financial management was introduced in the building and home improvement trade companies in Sweden, Estonia and Latvia. In addition, improving the efficiency of financial management routines and converting them to electronic format was continued in cooperation with the Group companies.

Key actions in 2015

In 2015, the information system project for the service of the K-Group will be continued and introduced in Norway, for example. In addition, improving the efficiency of the Group companies’ financial management and conversion to electronic format in both Finland and Russia will continue.

Accounting policies and financial management IT systems

Kesko Group has adopted the International Financial Reporting Standards (IFRSs) 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 common 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 management and day-to-day activities. The objective 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, 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 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 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 their impacts in euros and 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 or the division parent company's Board. The Group functions also assess the risks concerning their 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 Group 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 handling the interim reports and the financial statements. The Audit Committee's 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 their management responses, and assesses the efficiency and effectiveness of risk management. The most significant risks and uncertainties are reported to the market by the Board in the financial statements, and material changes in them in interim reports.

Risk management responses in 2014

Kesko Group's risk management process is established and no significant changes took place in it in 2014. As in previous years, the risk management, legal affairs and internal audit functions organised value discussions on Kesko's responsible working principles in Kesko's subsidiaries. Because of the changed situation, special attention was paid to risk management in Russia. During the year, the adoption of e-learning tools for safety was continued in Kesko's Finnish operations and the purchasing of security services across division boundaries was enhanced. The project for enhanced user right management was continued 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 2015

The risk management function will continue working in close cooperation with division parent companies and the Group functions in order to ensure the adoption of, for example, responsible operating practices, to prevent malpractice, and to develop risk management related to personal safety, business continuity, information security and data protection. Security operations will focus on ensuring the security of online stores and expanding the use of e-learning programmes and electronic tools. The project to develop SAP user rights management will be continued and the SAP system level data security will be developed. Jointly with the divisions, the risk management function will organise crisis exercises and training sessions on safety and security.

The response programme for 2015 continues to emphasise the cost efficiency of risk management responses, for which purpose centralised purchasing of services and security technology is aimed. In addition, the efficiency of risk management in the new divisional structure will be ensured.

Internal control

Internal control is an integral part of management and 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 IT 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 within Kesko Group, compliance with laws and agreements and Kesko’s values and operating principles, as well as the security of assets, expertise and information.

The planning of control measures begins with defining business objectives and identifying and analysing risks that pose a threat to the objectives. The definition of objectives and the assessment of risks should take account of not only operational objectives, but also requirements related to operations’ conformity to law and to 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 and the President and CEO are responsible for the organisation of internal control. The management of every 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, for example, the focus areas and development targets of control. Every Kesko employee is obliged to comply with the responsible working principles and report on any problems to their supervisor.

Kesko's Group units 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 and assists management and the Kesko companies in the development of the internal control system. The Audit Committee of Kesko’s Board 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 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 competencies. Audits can also make use of the competence and work contribution of Kesko Group's other specialists.

The internal audit function cooperates with the Group's risk management function and participates in the work of the Risk Management Steering Group. The internal audit function assesses the efficiency of Kesko's risk management system annually.

Internal audit operations in 2014

The key target of internal audit in 2014 were Kesko's business operations in Russia and related risks. Other focus areas included the ongoing extensive business and IT projects, responsibility of purchasing, store site operations, data security, compliance, as well as malpractice risks. In the information system audit, special attention was paid to the progress and management of ongoing projects. 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 2015

The key focus areas of internal audit operations in 2015 will be the business operations in Russia and related risks, Kesko's online services, as well as the efficiency of data security, data protection and related risks. Other focus areas include the ongoing business and IT projects, as well as the efficiency of operations.

Auditor

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 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 2014 elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the Company's Auditor, with APA Johan Kronberg as the Auditor with principal responsibility. Kronberg has acted as the Auditor with principal responsibility for Kesko since 31 March 2008. Kronberg has been the Board Chair of PricewaterhouseCoopers Oy since 2013 and he is currently the Auditor with principal responsibility for two Finnish listed companies. In addition, Johan Kronberg was the Managing Director of PricewaterhouseCoopers Oy in 2003—2007 and previously, he has been the Auditor responsible for several Finnish listed companies. The General Meeting resolved that the Auditor's fee is paid and expenses are reimbursed according to invoice approved by the Company.

Auditors' fees in 2013—2014 (€1,000)

	2014					2013				
	PwC		Other audit firms		Total	PwC		Other audit firms		Total
	Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies		Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies	
Auditing	174	705	-	56	935	115	741	0	71	927
Tax consultation	77	25	1	10	113	8	40	4	3	55
IFRS consultation	4	6	-	-	10	3	3	3	0	9
Other services	121	164	28	249	562	58	92	102	16	268
Total	**376**	**899**	**29**	**314**	**1,620**	**184**	**876**	**109**	**90**	**1,258**

Remuneration statement 2014

Remuneration schemes

Remuneration of the Board and its Committees

The Annual General Meeting decides on the remuneration and other financial benefits of the members of Kesko Corporation's ("Kesko") Board and its Committees' members annually. The remuneration of the members of the Board and its Committees is paid in cash. The Board members have no share compensation or share-based compensation schemes. Nor do they participate in the other remuneration or pension schemes of the Company.

Remuneration of the President and the CEO and the other executives

Principles of remuneration and the decision-making process

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. In addition, Mikko Helander has a separate health and a life insurance. Helander's health insurance, life insurance and the shares granted to him on 17 December 2014 as part of the total compensation agreed upon in his managing director's service contract are reported in more detail in the section on him. In addition, the Company has operated the 2007 option scheme under which options have not been granted since 2010. The last share subscription period under the scheme (2007C options) expired on 30 April 2014.

Based on the Remuneration Committee's preparatory work, Kesko's Board 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. For the other Group Management Board members, Kesko's Board makes decisions on the performance bonus principles. The Board also monitors the implementation of the remuneration scheme.

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.

Performance bonus scheme (short-term remuneration scheme) in 2014

Kesko operates a management's performance bonus scheme. In addition to the Group Management Board, approximately 140 people in Kesko Group's management participate in the performance bonus scheme. 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 profit before non-recurring items and tax (weighting 20—40%), the return on capital employed (%) of the executive's area of responsibility, operating profit excluding non-recurring items and net sales performance, customer and personnel indicators (weighting 20—40%), the attainment of personal targets, and a component based on the supervisor's overall evaluation (30—40%). 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.

According to the rules of the performance bonus scheme, the period of service or comparable activity in a Group company shall have lasted continuously for at least six calendar months during the calendar year for which the bonus is paid. If the employment relationship or service contract of a performance bonus scheme participant terminates before the date of payment, his or her right to receive the bonus is cancelled. This is with the exception of the termination of the employment relationship or service contract due to retirement in cases when retirement takes place during the period between the turn of the year and the actual bonus payment date. In that case the right to receive the performance bonus remains, provided that the other performance bonus criteria are fulfilled. 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 requires, the application, target setting and payment rules of the performance bonus scheme can be changed in individual cases by a decision of Kesko Corporation’s Board.

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 intended for the Group's management and certain other key persons, decided by the Company’s Board.

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 2014 vesting period were, with equal weightings, as were the criteria for the 2013 vesting period, 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 B shares held by the Company as treasury share 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 2014 vesting period will end on 31 December 2017. 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 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.

The plan does not contain terms or conditions that would limit the grantees' income from the shares.

Period of notice and termination benefit

If given notice by the Company, the President and CEO and the other Group Management Board members are entitled to a monetary salary for the period of notice, fringe benefits and a separate lump sum termination benefit determined on the basis of the executive's monetary salary and fringe benefits. The termination benefit as well as any granted options or shares, or income from them are not part of the executive's salary and they are not included in the determination of the salary for the period of notice, termination benefit or, in case of retirement, pensionable salary. If an executive resigns, he/she is only entitled to a salary for the period of notice including fringe benefits. When a service contract terminates due to retirement, the executive is paid a pension based on his/her service contract without other benefits.

Retirement benefits in 2014

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. In 2014, President and CEO Halmesmäki and five Group Management Board members were 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 supplementary pensions are based on a defined retirement benefit plan. The pensions of Erlund and Talma were determined based on the general provisions applicable to employees' pensions in Finland (TyEL, the Employees' Pensions Act). The retirement benefits of Halmesmäki and Helander are reported in more detail in the section on them.

Kesko has not paid pension insurance contributions incurred on executives' memberships of Kesko Pension Fund's department A for several years, nor in 2014 when the department's investment earnings covered the payable supplementary pensions and changes in the pension liability.

Salaries, fees and other financial benefits

Remuneration and other financial benefits of the members of the Board and its Committees

The Annual General Meeting adopts resolutions on the remuneration and other financial benefits of the members of Kesko's Board and its Committees annually. The remuneration of the members of the Board and its Committees is paid in cash. The Board members have no share compensation or share-based compensation schemes. Nor do they participate in the other remuneration or pension schemes of the Company.

The Annual General Meeting of 7 April 2014 resolved to leave the Kesko Board members' fees unchanged and in 2014 they were as follows:

Annual fees:

• Board Chair €80,000,

• Board Deputy Chair €50,000 and

• Board member €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 (€)*

		Meeting fees	Audit	Remuneration	
	Annual fees	Board	Committee	Committee	Total
Esa Kiiskinen (Ch.)	80,000	4,000		1,500	85,500
Seppo Paatelainen (Dep. Ch.)	50,000	4,000	2,500	1,500	58,000
Ilpo Kokkila	37,000	4,000		1,500	42,500
Tomi Korpisaari	37,000	4,000			41,000
Maarit Näkyvä	37,000	4,000	5,000		46,000
Toni Pokela	37,000	4,000			41,000
Virpi Tuunainen	37,000	4,000	2,500		43,500
Total	315,000	28,000	10,000	4,500	357,500

* The fees are reported on cash basis.

President and CEO Matti Halmesmäki's salary, fees and other financial benefits in 2014

President and CEO Matti Halmesmäki's personal compensation, other financial benefits, performance bonus scheme criteria and performance bonuses paid are decided by Kesko's Board, based on the Remuneration Committee's preparatory work. A written managing director's service contract, approved by the Board, was in force between the Company and the President and CEO, in addition to which a contract to terminate his managing director's service contract has been signed with him. President and CEO Halmesmäki's duties as the President and CEO ended on 31 December 2014 and as from 1 January 2015, he continues in the Board's special assignments until 31 May 2015 when he will retire on an old age pension.

The salaries, fringe benefits and performance bonuses paid to President and CEO Halmesmäki and his other financial benefits in 2012—2014 are presented in the following tables.

Salaries, performance bonuses and fringe benefits in 2012—2014 (€)

	2014	2013	2012
Non-variable monetary salary	898,560	909,840	865,300
Performance bonuses*	360,000**	350,000**	309,000**
Fringe benefits	22,740	22,740	22,023
Total	1,281,300	1,282,580	1,196,323

* In the contract signed with Halmesmäki to terminate his managing director's service contract it is agreed that the total performance bonus to be paid to him for 2014 is €576,000 and will be paid in March 2015. In the termination contract it is agreed that the total incentive and performance bonus to be paid for 2015 is €288,000 and will be paid in May 2015.

**Performance bonus paid based on the profit for the previous year.

Period of notice and termination benefit

According to the original managing director's service contract, if given notice by the Company, the managing director was entitled, in addition to a monetary salary for the 12-month period of notice, to a separate lump sum termination benefit corresponding to his 12-months' monetary salary and fringe benefits (a total of 24 x termination month's monetary salary + fringe benefits). If Halmesmäki had resigned, he would have been entitled to a salary for the 6-month period of notice. In 2014, a contract terminating the managing director's service contract was signed with Halmesmäki according to which his duties as the President and CEO ended on 31 December 2014 and as from 1 January 2015, he continues in the Board's special assignments until 31 May 2015 when he will retire on an old age pension. According to the termination contract, Halmesmäki will not be paid separately the salary or termination benefit for the period of notice referred to above.

Share-based payments

Share-based compensation plan

Share award (pcs)	2014	2013	2012
Maximum	21,000	21,000	21,000
Granted	9,807*	4,200	5,607
Commitment period (until)	31.12.2017	31.12.2016	31.12.2015

* The Board's decision in February 2015. The shares granted for the vesting period 2014 will be paid in April 2015 in accordance with the terms and conditions of the plan.

In addition, a cash component will be paid to cover the taxes and tax-like charges incurred from the award.

Commitment period attached to share awards

A commitment period of three calendar years following each vesting period is attached to the share award consisting of Kesko B shares during which the shares must not be transferred. In the contract terminating Halmesmäki's managing director's service contract it is agreed that Halmesmäki can keep the share awards granted to him, but they are subject to a transfer restriction for a period corresponding to the commitment period.

Share options

As at 31 December 2014, Halmesmäki held no share options.

Retirement benefits

Halmesmäki's statutory pension provision is provided through a pension insurance company. In addition, Halmesmäki is a member of Kesko Pension Fund's department A which was closed in 1998, and his supplementary pension is determined based on its rules and his managing director's service contract. In 2011, the term of Halmesmäki's managing director's service contract was extended until he is 63 and retires on an old age pension. Halmesmäki's duties as the President and CEO ended on 31 December 2014 and as from 1 January 2015, he continues in the Board's special assignments until 31 May 2015 when he will retire on an old age pension. At retirement, his pension will be 66% of his pensionable salary, which is determined taking account of his non-variable monetary salary, performance bonuses and fringe benefits for the last 10 years. The supplementary pension is based on a defined benefit plan. During the financial years 2014 and 2013, no cash flow based contribution payments incurred under Halmesmäki's supplementary pension plan. The IFRS pension cost calculated on an accrual basis was positive by €0.1 million due to surplus. The pension cost incurred from Halmesmäki's statutory pension provision was €0.2 million.

Remuneration of President and CEO Mikko Helander in 2015

The Board appointed Mikko Helander, Master of Science in Technology, as the Company's new President and CEO as from 1 January 2015. Helander's personal compensation, other financial benefits, the performance bonus scheme criteria and performance bonuses are decided by Kesko's Board on the basis of the Remuneration Committee's preparatory work.

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 he 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.

Share-based awards

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 took place on 17 December 2014. 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 partly covering the remuneration of his service contract preceding Kesko. The transfer is without consideration and, like the share-based compensation plan operated at Kesko, its purpose is to promote Kesko's business and increase Kesko's value by combining the objectives of the shareholders and the recipient of the shares. The value of the transferred shares at the date of transfer, 17 December 2014, was €260,741.06. In addition, taxes and other statutory charges for the share transfer incurred by the recipient of the shares, in a total amount of €419,394.80, have been paid in cash.

Share award transfer restriction

The Kesko B shares granted to Helander on 17 December 2014 carry a commitment period until 1 October 2016, during which the shares are not allowed to be transferred.

Retirement benefits and insurances

Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of the earnings he has received during the ten (10) calendar years preceding his retirement in accordance with the Employees' Pensions Act (TyEL).

In addition, the Company has taken out a health insurance for Helander to cover both general practitioner and specialist expenses arising from the examination and treatment of illnesses or injuries caused by accidents, as well as a life insurance.

Group Management Board members' salaries, fees and other financial benefits in 2014

Based on the Remuneration Committee's preparatory work, Kesko's Board makes decisions on the personal compensation, other financial benefits, the performance bonus scheme criteria and the performance bonuses paid to the President and CEO and the Group Management Board members responsible for lines of business. For the other Group Management Board members, Kesko's Board 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.

Group Management Board members and areas of responsibility in 2014

	Group Management Board member since	Area of responsibility
Matti Halmesmäki, Ch.*	1 Jan. 2001	Kesko's President and CEO
Mikko Helander**	1 Oct. 2014	Kesko's Executive Vice President
Jorma Rauhala, President of Kesko Food Ltd***	5 Feb. 2013	Food trade and Kesko's store site operations in Russia
Minna Kurunsaari, Senior Vice President, home and speciality goods trade	1 Dec. 2011	Home and speciality goods trade
Terho Kalliokoski, President of Rautakesko Ltd****	17 Mar. 2005	Building and home improvement trade
Pekka Lahti, President of VV-Auto Group Oy	1 Mar. 2005	Car and machinery trade
Arja Talma, Senior Vice President	17 Mar. 2005	Store sites and investments
Jukka Erlund, Senior Vice President, CFO of Kesko	1 Nov. 2011	Finance and accounting, IT management, financial services
Matti Mettälä, Senior Vice President	1 Oct. 2012	Human resources and stakeholder relations

* President and CEO Halmesmäki's duties as the President and CEO ended on 31 December 2014 and continue in special assignments until 31 May 2015 when he will retire on an old age pension.

** Helander joined Kesko as Executive Vice President and Member of the Group Management Board on 1 October 2014. Since 1 January 2015, he has been Kesko's President and CEO and the Chair of the Group Management Board.

*** Until 31 December 2014, Rauhala's areas of responsibility were the food trade and Kesko's Russian store site operations. As from 1 January 2015, Rauhala's area of responsibility is Kesko's grocery trade.

**** Until 31 December 2014, Kalliokoski's area of responsibility was the building and home improvement trade. As from 1 January 2015, Kalliokoski's area of responsibility is Kesko's home improvement and speciality goods trade.

The salaries, fringe benefits and performance bonuses, as well as other financial benefits paid to the Group Management Board in 2013—2014 are presented in the following tables.

Group Management Board members' salaries, performance bonuses and fringe benefits in 2013—2014 (€)*

	Non-variable monetary salary		Performance bonuses		Fringe benefits		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Matti Halmesmäki, Ch.	898,560	909,840	360,000	350,000	22,740	22,740	1,281,300	1,282,580
Group Management Board**	1,843,260	1,671,384	286,500	323,550	121,649	118,896	2,251,409	2,113,830
Total	2,741,820	2,581,224	646,500	673,550	144,389	141,636	3,532,709	3,396,410

* Salaries, performance bonuses and fringe benefits are reported on cash basis. The 2013 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2014 to the salaries and fringe benefits for 2013. The performance bonus for 2014 will be decided and paid in spring 2015.

** Excluding President and CEO Halmesmäki.

Share-based payments to Group Management Board members in 2012—2014 (pcs)

	2014		2013		2012	
	Maximum	To be granted**	Maximum	Granted	Maximum	Granted
Matti Halmesmäki, Ch.	21,000	9,807	21,000	4,200	21,000	5,607
Group Management Board*	48,000	16,812	46,500	9,300	35,600	9,506
Total	69,000	26,619	67,500	13,500	56,600	15,113

* Excluding President and CEO Halmesmäki and Helander. The amounts reported for the Group Management Board reflect the situation in February following each vesting period. In accordance with Helander's managing director's service contract, he was granted a total of 8,791 Kesko B shares held by the Company as treasury shares on 17 December 2014. The Kesko B shares awarded to Helander on 17 December 2014 carry a commitment period until 1 October 2016, during which the shares are not allowed to be transferred. The share transfer is based on the managing director's service contract signed with Helander and the transferred shares are part of the agreed total compensation partly covering the remuneration of his service contract preceding Kesko.

** The Board's decision in February 2015. The shares to be granted for the 2014 vesting period will be granted by the end of April 2015 in accordance with the terms and conditions of the plan.

Commitment period attached to share awards

A commitment period of three calendar years following each vesting period is attached to the share award during which the shares must not be assigned, pledged or otherwise 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. The vesting and commitment periods are described in the table below.

Vesting period	2014	2013	2012
Vesting period expiry date	31 Dec. 2017	31 Dec. 2016	31 Dec. 2015

As at 31 December 2014, the members of the Group Management Board (including Halmesmäki) held no share options.

Group Management Board members' retirement benefits, periods of notice and termination benefits in 2014

	Old age pension age (years)	Pension as percentage of pensionable salary (%)	Period of notice	Termination benefit
Matti Halmesmäki, Ch.*	63	66	6/12 mo***	12-mo salary
Mikko Helander**	63	60	6/12 mo***	12-mo salary
Jorma Rauhala	62	66	6 mo	6-mo salary
Minna Kurunsaari	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
Arja Talma	based on TyEL****	based on TyEL****	6 mo	12-mo salary
Jukka Erlund	based on TyEL****	based on TyEL****	6 mo	6-mo salary
Matti Mettälä	62	66	6 mo	12-mo salary

* Halmesmäki's duties as the President and CEO ended on 31 December 2014 and continue in special assignments until 31 May 2015 when he will retire on an old age pension.

** Helander joined Kesko as Executive Vice President and member of the Group Management Board on 1 October 2014. Since 1 January 2015, he has been Kesko's President and CEO and the Chair of the Group Management Board.

*** 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.

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. Halmesmäki and five Group Management Board members were 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 pensions are based on a defined retirement benefit plan.

Group Management Board members' areas of responsibility and financial benefits in 2015

Based on the Remuneration Committee's preparatory work, Kesko's Board 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. For the other Group Management Board members, Kesko's Board 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.

Group Management Board members and areas of responsibility in 2015*

	Group Management Board member since	Area of responsibility
Mikko Helander, Ch.**	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 and machinery trade
Jukka Erlund, Senior Vice President, CFO of Kesko	1 Nov. 2011	Finance and accounting
Matti Mettälä, Senior Vice President	1 Oct. 2012	Human resources
Anne Leppälä-Nilsson, Senior Vice President	1 Jan. 2015	Legal affairs
Lauri Peltola, Senior Vice President	2 Mar. 2015	Corporate responsibility, communications and stakeholder relations

* Anni Ronkainen was appointed Kesko's Chief Digital Officer, responsible for business development, digital business environment and marketing, and a member of the Group Management Board. She will join Kesko Corporation on 20 April 2015 at the latest.

** Helander joined Kesko as Executive Vice President and member of the Group Management Board on 1 October 2014. Since 1 January 2015, he has been Kesko's President and CEO and the Chair of the Group Management Board.

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, Ch.*	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	based on TyEL***	based on TyEL***	6 mo	6-mo salary
Matti Mettälä	62	66	6 mo	12-mo salary
Anne Leppälä-Nilsson	based on TyEL***	based on TyEL***	6 mo	18-mo salary
Lauri Peltola	based on TyEL***	based on TyEL***	6 mo	6-mo salary

* Helander joined Kesko as Executive Vice President and member of the Group Management Board on 1 October 2014. Since 1 January 2015, he has been Kesko's President and CEO and the Chair of the Group Management Board.

** 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.

If given notice by the Company, a Group Management Board member is paid a salary for a 6—12-months' period of notice, a separate lump sum termination benefit corresponding to his/her 6—18-months' non-variable monetary salary and fringe benefits (a total of 12—24 x the monetary salary + fringe benefits for the month of notice). If he/she resigns, he/she is entitled to the salary for the period of notice.

The statutory pension provision of the members of the Group Management Board is provided through a pension insurance company. Except for four members (Helander, Erlund, Leppälä-Nilsson and Peltola), the Group Management Board members are (in 2015) 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 supplementary pensions are based on a defined retirement benefit plan. The remuneration and benefits of Helander are reported in more detail in the section "Remuneration of President and CEO Mikko Helander in 2015".