Strategy report

Kesko's Annual Report 2016
Kesko in brief

Kesko is a Finnish trading sector pioneer. We operate in the grocery trade, the building and technical trade and the car trade. Our divisions and chains act in close cooperation with retailer entrepreneurs and other partners. We have over 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus and Poland.

- Kesko and K-retailers form K Group, the pro forma retail sales of which were €13.2 billion (VAT 0%) in 2016
- K Group is the third largest retail operator in Northern Europe
- K Group employs around 45,000 people
- Kesko is a listed company and its shares are listed on Nasdaq Helsinki
- Kesko’s domicile and main premises are in Helsinki
- Kesko is the world’s most sustainable trading sector company (The Global 100 Most Sustainable Corporations in the World)
Kesko's business models

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko’s chains.

B2B trade is a significant and growing part of Kesko’s business operations. In 2016, its net sales were €3.0 billion, accounting for some 30% of Kesko’s net sales.

Outside Finland, we mainly engage in own retailing and B2B trade.

Divisions in brief

Grocery trade
In Finland, nearly 1,500 K-food stores offer their customer high-quality and affordable food. K-food stores have around 1.2 million customers every day. K food retailers listen to their customers’ wishes and customise their stores’ services according to local customer demand. The customer and quality are at the centre of everything that K-food stores do – our aim is to offer the most inspiring food stores in the market, along with supporting digital services.

Building and technical trade
The building and technical trade division offers its B2C and B2B customers comprehensive selections of building and home improvement products, as well as electrical and HEPAC products, the most comprehensive store network in Northern Europe, online stores and digital services. The division also includes the operations of the furniture trade, the agricultural and machinery trade, and the leisure goods trade.

Car trade
VV-Auto is a company specialising in importing, retailing and providing after-sales service for vehicles manufactured by Volkswagen Group. VV-Auto also develops advanced service concepts for the car trade. VV-Auto is the market leader in Finland.
**Group key figures**

**Net sales 2016**

- **Grocery trade**
  - Net sales 2016: € 5,236 million
  - Comparable operating profit: € 175.9 million
  - Operating countries: Finland
  - Number of stores: approx. 1,450

- **Building and technical trade**
  - Net sales 2016: € 4,100 million
  - Comparable operating profit: € 97.9 million
  - Operating countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus
  - Number of stores: approx. 770

- **Car trade**
  - Net sales 2016: € 849 million
  - Comparable operating profit: € 29.5 million
  - Operating countries: Finland, Estonia and Latvia
  - Number of stores: 18.8%
## Kesko’s key performance indicators

### Finances

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<tbody>
<tr>
<td>Net sales, € million</td>
<td>10,180</td>
<td>8,679</td>
<td>9,071</td>
<td>9,315</td>
<td>9,686</td>
</tr>
<tr>
<td>Comparable operating profit, € million</td>
<td>272.9</td>
<td>244.5</td>
<td>232.6</td>
<td>238.8</td>
<td>230.0</td>
</tr>
<tr>
<td>Comparable profit before tax, € million</td>
<td>271</td>
<td>238</td>
<td>226</td>
<td>233</td>
<td>228</td>
</tr>
<tr>
<td>Comparable earnings per share, basic, €</td>
<td>2.01</td>
<td>1.70</td>
<td>1.65</td>
<td>1.68</td>
<td>1.47</td>
</tr>
<tr>
<td>Dividend per share, €</td>
<td>2.00*</td>
<td>2.50</td>
<td>1.50</td>
<td>1.40</td>
<td>1.20</td>
</tr>
<tr>
<td>Comparable return on capital employed, %</td>
<td>11.9</td>
<td>11.7</td>
<td>9.9</td>
<td>9.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Comparable return on equity, %</td>
<td>9.8</td>
<td>8.2</td>
<td>7.6</td>
<td>7.7</td>
<td>6.9</td>
</tr>
<tr>
<td>Cash flow from operating activities, € million</td>
<td>170</td>
<td>276</td>
<td>304</td>
<td>414</td>
<td>382</td>
</tr>
<tr>
<td>Capital expenditure, € million</td>
<td>743</td>
<td>219</td>
<td>194</td>
<td>171</td>
<td>378</td>
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* Proposal to the General Meeting

### Personnel

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<tbody>
<tr>
<td>Personnel, average</td>
<td>22,476</td>
<td>18,955</td>
<td>19,976</td>
<td>19,489</td>
<td>19,747</td>
</tr>
<tr>
<td>Permanent employees, %</td>
<td>90.8</td>
<td>91.4</td>
<td>89.3</td>
<td>89.8</td>
<td>89.0</td>
</tr>
<tr>
<td>Full-time employees, %</td>
<td>73.3</td>
<td>77.5</td>
<td>74.2</td>
<td>71.9</td>
<td>71.3</td>
</tr>
<tr>
<td>Salaries, fees and social expenses paid, € million</td>
<td>723</td>
<td>545</td>
<td>614</td>
<td>611</td>
<td>608</td>
</tr>
<tr>
<td>Supervisory positions held by women, Finland, %</td>
<td>46</td>
<td>51</td>
<td>54</td>
<td>53</td>
<td>51</td>
</tr>
<tr>
<td>Training days per employee</td>
<td>0.8</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Sickness absences, days per employee</td>
<td>11.1</td>
<td>10.5</td>
<td>10.5</td>
<td>11.2</td>
<td>11.2</td>
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As many as 3,100 people have already completed the K Code of Conduct eLearning programme offered in nine languages.
The reporting boundary for Scope 2 emissions has changed for 2016.

### Environment

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<tbody>
<tr>
<td>Scope 1 and 2 emissions, thousand tonnes CO₂e</td>
<td>125</td>
<td>188</td>
<td>202</td>
<td>191</td>
<td>205</td>
</tr>
<tr>
<td>Scope 1 and 2 emissions/net sales, tonnes CO₂e/€ million</td>
<td>12.3</td>
<td>21.6</td>
<td>22.2</td>
<td>20.5</td>
<td>21.2</td>
</tr>
<tr>
<td>Scope 1 and 2 emissions/avg. number of employees, tonnes CO₂e/person</td>
<td>5.6</td>
<td>9.9</td>
<td>10.1</td>
<td>9.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Specific consumption of electricity, Finland, kWh/gross m²</td>
<td>204</td>
<td>207</td>
<td>205</td>
<td>209</td>
<td>213</td>
</tr>
<tr>
<td>Specific consumption of heat energy, Finland, kWh/gross m²</td>
<td>79</td>
<td>76</td>
<td>79</td>
<td>83</td>
<td>95</td>
</tr>
<tr>
<td>Waste recovery rate, Finland, %</td>
<td>99</td>
<td>99</td>
<td>97</td>
<td>95</td>
<td>93</td>
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### Supply chain

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<tbody>
<tr>
<td>Goods, materials and services purchased, € million</td>
<td>9,839</td>
<td>8,593</td>
<td>8,839</td>
<td>9,037</td>
<td>9,454</td>
</tr>
<tr>
<td>Purchases from suppliers in Finland, % of all purchases</td>
<td>65.9</td>
<td>67.2</td>
<td>68.3</td>
<td>68.9</td>
<td>67.9</td>
</tr>
<tr>
<td>Direct purchases from high-risk countries, Finnish companies, % of all purchases</td>
<td>1</td>
<td>1.2</td>
<td>1.5</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>BSCI audits/year</td>
<td>270</td>
<td>187</td>
<td>162</td>
<td>106</td>
<td>67</td>
</tr>
<tr>
<td>Pirkka Organic products, pcs</td>
<td>118</td>
<td>134</td>
<td>116</td>
<td>95</td>
<td>99</td>
</tr>
<tr>
<td>Pirkka Fairtrade products, pcs</td>
<td>36</td>
<td>40</td>
<td>44</td>
<td>35</td>
<td>39</td>
</tr>
</tbody>
</table>

By summer 2017, there will be as many as 16 solar power plants on the rooftops of K Group stores. The new investments will make K Group Finland’s biggest producer and user of solar power.

K-retailers' total purchases from Finnish regions were €602 million in 2016.
Review by the President and CEO

The modernising K Group is stronger than ever

For us at K Group, 2016 was a year of strategy implementation and renewal. The most significant events in terms of our growth strategy were the acquisitions of Suomen Lähikauppa and Onninen. Our strategic objective in all divisions is to strengthen the customer experience for consumers and businesses, both in-store and in digital channels.

- In 2016, net sales returned to significant growth and profitability improved
- Comparable return on capital employed rose to 11.9%
- K Group is one of Finland’s biggest employers and taxpayers

Every person is different and every K-food store is different

Our focal area in the grocery trade is modernising and expanding K Group’s neighbourhood store network. We aim to improve the availability, quality and price-competitiveness of neighbourhood store services as these qualities are valued by Finnish consumers. Thanks to the acquisition of Suomen Lähikauppa, K Group offers Finland’s most comprehensive and service oriented neighbourhood store network.

The integration of Siwas and Valintatalos into the K-Market network will continue in 2017, and all of the stores will be transferred to K-retailers by 2018. At least 400 Siwas and Valintatalos will become K-Markets. Footfall and sales have increased significantly in the stores that have already been converted into K-Markets. In some of the Siwas and Valintatalos, it was necessary for us to investigate whether it is possible for the operations to continue as part of the K-Market network in a profitable way. As a result of cooperation negotiations, the retail operations of 51 Siwas and Valintatalos will be discontinued.

We will modernise all of the K-Citymarkets by the end of 2018. Our aim is to create 81 different K-Citymarkets with product selections and services that reflect their customer bases.

"We aim to improve the availability, quality and price-competitiveness of neighbourhood store services as these qualities are valued by Finnish consumers.”

The grocery chains have been modernised in a genuinely customer-oriented way. Our aim is to offer our customers the most inspiring stores in the grocery trade. For us, there is no such thing as an average customer, as each customer, place and encounter is different. That is why every K-food store is different and is tailored to the demands and profiles of local customers.

We will sharpen our focus on the Finnish grocery trade. We sold our grocery trade business in Russia to Lenta, a Russian company, in November 2016. Expanding the business would have required considerable additional capital expenditure.
**Business customers are accounting for a growing proportion of the building and technical trade**

Kesko operates in the building and technical trade in nine countries and is the fifth largest operator in the European building and home improvement trade market. Our strategic objective is profitable growth and a further reinforcement of our position in Europe.

The acquisition of Onninen, a company specialising in HEPAC and electrical products, was completed in June 2016 and will reinforce B2B sales in particular. Onninen and Kesko represent a unique combination in the building and technical trade, offering business customers in the construction sector the most diverse selection of products and services on the market. Approximately 65% of sales in the building and technical trade come from business customers.

Consumers are becoming less likely to carry out projects related to building and renovation themselves. Building and renovation are becoming more technical and are increasingly the domain of professionals. As the population ages and becomes wealthier, more services are used. Responding to this market shift is one of our key strategic objectives. The K-Rauta Remonttimestari service is a good example of new services in this area: it helps consumer customers to successfully carry out renovations in areas such as kitchens, from planning all the way to completion.

**Electric and hybrid vehicles enter the car ranges**

VV-Auto is the market leader in Finland. At the end of 2016, we expanded our collaboration with Volkswagen Group by acquiring the right to represent and import Porsche vehicles. Adding Porsche to the selection will increase sales and improve the profitability of the car trade.

Volkswagen Group will launch 30 new fully electric vehicles by 2025, and various hybrid versions are constantly introduced to product ranges. We believe that sales of electric cars may account for 20–25% of all passenger car sales in Finland within 10 years.

We already offer an extensive network of free-to-use charging points for electric cars for customers of K-stores. All of K Group's new construction and renovation projects on store sites either include the construction of a vehicle charging point or are earmarked to include a future charging point.

**Competitive advantage through digital services and utilisation of customer data**

The internet and globalisation are breaking down barriers in trading methods, between lines of business, in people's mobility and in customers' mindsets. The border-free world introduced by digitalisation and the shift in distribution channels gives rise to entirely new opportunities for trading. The traditional boundaries between customer segments are becoming blurred, leading to a need for increasingly personalised and more diverse solutions.

In all divisions, our objective is to offer K Group's customers the best digital services. The smart functionalities of the K-Ruoka mobile application makes it easier to plan a shopping list and visit a store. We are developing a shared online store solution for the building and home improvement trade's and Onninen's B2B customers. An entirely new online store for used cars – Caara.fi – operates online without traditional showrooms.

"The border-free world introduced by digitalisation and the shift in distribution channels gives rise to entirely new opportunities for trading.”

K Group's strategic focal area – a personal approach – will also play an instrumental role in developing our marketing. In 2016, we expanded K Group's targeted marketing using customer data and began carrying out programmatic marketing relying on our own team of experts. By utilising our own customer data and digital technologies, we will develop more customer-oriented marketing and lay the foundations for marketing in the future.

The digital revolution requires new expertise and, in 2016, we recruited dozens of new professionals to develop mobile services, analytics, process automation and modern online store solutions.
We aim to be a frontrunner in corporate responsibility

Responsible business activities are crucial in achieving good and sustainable financial results. All of our operations are built on trust between Kesko, the K Group stores, our customers and partners. Corporate responsibility manifests itself in our everyday activities and our stakeholders require this of us.

We operate in several countries and purchase goods from suppliers all over the world, so our operations are subject to several international conventions and recommendations. In November 2016, we published the website 'UN Sustainable Development Goals and Kesko' to explain how we are promoting the 17 UN Sustainable Development Goals. We carried out a human rights impact assessment in compliance with the UN’s Guiding Principles on Business and Human Rights, and we published a human rights commitment in September.

Our long-term inclusion in sustainability indices provides impartial evidence of our responsible operations and facilitates investment decisions. Kesko ranked 25th in the Global 100 Most Sustainable Corporations in the World list published in January 2017. In autumn 2016, Kesko was awarded a grade of A– in CDP’s Climate Change Disclosure survey.

Since the beginning of 2017, all electricity purchased by Kesko in Finland is renewable. By purchasing renewable electricity we promote the production of renewable energy and support the objectives of K Group’s climate work. We purchase renewable electricity that has the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, we will take the approach in our electricity purchasing that focuses on Finnish bioenergy.

We have spent a long time investigating the opportunities for utilising forms of renewable energy in our store site projects. Finland’s largest property-specific solar power plant was completed in June 2016 on the rooftop of K-Citymarket Tammisto. We will significantly increase our use of solar energy, and 16 solar power plants will be in use on the rooftops of K Group stores by summer 2017. Thanks to the new investments, K Group will become Finland’s largest generator and user of solar energy.

I would like to thank the personnel, K-retailers and our stakeholders

2016 was a busy year of modernisation for us. Kesko and the K-stores will work increasingly strongly as a unified K Group. This will enable us to offer our customers even better services and operate efficiently – For shopping to be fun.

I wish to extend my warmest thanks to all Kesko employees, K-retailers and their staff, our shareholders and our business partners for their good cooperation.

Mikko Helander
President and CEO

”It is of the utmost importance to ensure that the principles of corporate responsibility are fulfilled every day in all of our operations and all of the countries where we operate.”
Why you should invest in Kesko

“In 2016, Kesko’s net sales returned to significant growth and profitability improved. The return on capital employed also improved in comparison with the previous year.”

Jukka Erlund, EVP, CFO

“Kesko seems to be firmly back on the front foot and our recent meeting with the Company in Helsinki confirmed that the business has strong momentum at the moment with management actions delivering good results. The Company meets our focus on change investment process and scores well on our proprietary quantitative screen which helps us scour the European investment universe for potentially interesting ideas that are going through some kind of change and where there is the potential for a valid non-consensus view.”

Andrew Paisley, Investment Director, European Smaller Companies, Standard Life Investments Ltd.

Six reasons for investing in Kesko

Strong market position in Finland and abroad
- Market share of the grocery trade estimated at 37–38% in Finland following the acquisition of Suomen Lähi kauppa
- Market share of the building and technical trade around 40% in Finland, strong market position in Norway, the Baltic countries and Belarus
- Kesko operates in the building and technical trade in nine countries and is the fifth largest operator in the European building and home improvement trade market

Growth strategy
- Growth of the grocery trade in Finland
- Growth and expansion of the building and technical trade in Europe
- Growth of the car trade, particularly in Finland
- Strong progress was made on implementing the strategy thanks to the acquisitions completed in 2016
- Best customer experience in the trading sector in all channels

High dividend paying capacity
- Kesko distributes at least 50% of its comparable earnings per share as dividends while taking into account the Company’s financial position and operating strategy
- A dividend of €2.0 per share is proposed to be paid for 2016, which would represent an average rate of 99.5% on the comparable earnings per share, and the effective dividend yield of B share would be 4.2%
- Dividends for the last five years were paid at the average rate of 93.6% on the comparable earnings per share, and the average effective dividend yield of B share was 5.5%

Recognised responsibility work
- Kesko is included in numerous sustainability indices and listings, such as CDP’s Climate A- level, FTSE4Good, STOXX Global ESG Leaders indices and the Global 100 Most Sustainable Corporations in the World list
- The corporate responsibility programme applies to all of Kesko’s divisions and contains both short- and long-term objectives

Strong, stable financial performance and financial position
- Enables investing in growth and long-term business development
- Equity ratio of 48.6% and gearing of 5.8% (2016)
- The acquisitions are expected to generate significant synergies in the near future

Competitive advantage from retailer entrepreneurship
- We combine systematic chain operations with retailer operations based on entrepreneurship
- K-retailers tailor their product selections and services to meet the needs of local customers while listening to their wishes
- In 2016 Kesko had 1,088 K-retailer entrepreneurs as partners
- In 2016 approximately half of Kesko’s net sales were generated by the retailer-entrepreneur business model
Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking however the company’s financial position and operating strategy into account.

* Proposal to the Annual General Meeting
Our operating environment

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

Trends affecting K Group's operations

International operators challenge local companies

• Intensifying price competition
• Global supply
• Affordable products are preferred for the shopping basket
• Sales of own brands are increasing

What we are doing

• We focus on a more limited number of businesses
• We differentiate ourselves from the competition with quality and selections
• We operate with even greater efficiency and quality
• We continuously expand the selection of affordable and high-quality own brand products

Global megatrends

GLOBAL ECONOMY
DIGITAL REVOLUTION
URBANISATION, SINGLE-PERSON HOUSEHOLDS AND POPULATION AGEING
CLIMATE CHANGE
CORPORATE RESPONSIBILITY
Consumers' knowledge and power has increased

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

What we are doing

- We make clear customer promises and deliver on them – service, quality, price
- Marketing and offering will become personalised
- We provide comprehensive information about products, prices and availability in all channels

Digital store and services

- Ease of shopping
- 24/7 availability of services irrespective of place
- Mobile access plays an important role
- Targeted marketing based on customer data

What we are doing

- We offer an even better customer experience by making use of the possibilities of mobile services, online services and digital marketing
- We target the offering making it personalised
- The K-Plussa system is digitalised
- We build the best mobile services

Individual customer behaviour

- Ageing population
- Increase in the number of single-person households
- Urbanisation
- Increase in cultural diversity

What we are doing

- We create new concepts and retailer models
- We take local conditions into consideration in stores’ operations and service offerings
- We invest especially in the renewal of neighbourhood retail services
- We make more extensive use of customer data

Corporate responsibility as well as strong brands and identity are preconditions for success

- Good corporate governance
- Responsible operating principles
- Climate change and circular economy
- Transparency of purchasing chains
- Open dialogue with stakeholders
- Responsible investment

What we are doing

- We take care that corporate responsibility is realised in all our operations
- We promote the use and production of renewable energy
- We develop innovative circular economy solutions jointly with partners
- We make efforts to ensure responsibility in the supply chain
- We strengthen our corporate identity and core brands
- We make corporate responsibility visible in stores and marketing
K Group's value chain

We take account of the stages and impacts of our value chain

We operate sustainably and responsibly at all stages of our value chain. In addition to its direct impacts, our value chain generates significant indirect impacts.

Raw materials
Sustainable environment
- We promote the sustainable use of natural resources
- Our soy, palm oil, plastic and other policy statements guide our responsible sourcing

Purchasing chain
Responsibility across purchasing chains
- We support local production
- We are accountable for the safety and quality of products
- We ensure the responsibility of production in high-risk countries

Logistics
Efficient logistics
- We have customer oriented logistics models
- We reduce emissions with an efficient transportation fleet and optimization of logistics

Multichannel trade
Easy shopping instore and online
- K Group is a significant employer: 45,000 employees
- We have nearly 25,000 suppliers
- Our comprehensive store network is near customers
- We develop digital services that make customers’ lives easier

Products and services
We put the customer first
- Every K-store is different, because every customer is different
- We make use of customer data and offer personalized benefits and services to our customers
- We build sustainable partnerships with our business customers

Circular economy
We promote circular economy
- Waste from our own operations is recovered
- We develop innovative circular economy solutions
- We provide extensive recycling services to K-store customers
Opportunities and risks related to the operating environment

Importance of multi-channel approach

In line with our strategy, we aim to offer customers the best multi-channel shopping experience in the trading sector.

<table>
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<tr>
<th>Opportunities</th>
<th>Risks</th>
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<tr>
<td>• E-commerce and digital services coupled with a comprehensive store site network provide a basis for excellent customer service in K Group.</td>
<td>• Challenges to e-commerce profitability include: the cost-efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online sales.</td>
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<tr>
<td>• Our aim is to serve customers as well as possible at different stages of the buying process irrespective of time and place in physical stores, online or using their combination.</td>
<td>• Continuous changes in e-commerce and digital services present special challenges to the rapid development of new services and their integration into existing systems.</td>
</tr>
<tr>
<td>• In order to improve customer satisfaction and increase sales, we develop personalised customer marketing based on shopping behaviour and increase the availability of online information about products, prices and availability.</td>
<td>• With the growth of e-commerce or changes in market situation, there is a risk that the operations of a chain relying on physical stores or a store site become unprofitable.</td>
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Economic operating environment

Our three strategic growth areas are: the grocery trade, the building and technical trade, and the car trade. From the perspective of growth, key objectives include increasing our market share in the Finnish grocery trade, increasing the building and home improvement trade in Europe, strengthening market leadership in the Finnish car trade, and developing digital services and multi-channel trade.

Opportunities
- Our strategy emphasises customer orientation and quality in all operations in addition to competitive prices.
- In the building and technical trade, the B2B trade grows clearly faster than B2C trade.
- The acquisition of Onninen creates a unique entity for Kesko in the B2B trade.
- Our strong financial position provides excellent opportunities to develop operations.

Risks
- Continuing outlook for slow growth in the Finnish economy, the indebtedness of the public sector may have a negative impact on the development of purchasing power.
- In the grocery trade, price is increasingly important.
- Modest development of the Russian economy.
- In the building sector, cyclical fluctuations may be strong.
- Kesko’s market performance varies greatly from one country and division to another.

* Retail trade excluding motor vehicles, change %, deflated figures
(Source: Eurostat, PMR for Russia)
Purchasing chains

Transparency and responsibility in purchasing chains has become increasingly important. It is necessary to provide customers with increasingly detailed information on the origins and manufacturing methods of products. We take care to ensure that all operations and the whole supply chain are responsible. Product safety management must be flawless and traceable across the entire supply chain.

### Opportunities

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

- We can help customers make responsible purchasing decisions by means of corporate responsibility communications, the stores’ K-responsibility concept and product labelling.

- We strengthen customer confidence in K Group through careful and traceable product safety control and quality assurance.

### Risks

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

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

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

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

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Risks</th>
</tr>
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<tbody>
<tr>
<td>• We efficiently recover waste heat, such as condensation heat generated by store refrigeration units, for heating using the latest technology.</td>
<td>• Climate change will increase the risk of extreme weather phenomena.</td>
</tr>
<tr>
<td>• We also actively examine the use of renewable energy sources. Among other things, the use of soil and water as heat and cold storages, as well as the use of solar energy, will increasingly be potential alternatives as technical solutions become more sophisticated.</td>
<td>• Extreme phenomena may cause damage or business interruptions that cannot be prevented or covered with insurances.</td>
</tr>
<tr>
<td>• Products and services that enhance energy efficiency in homes and are available at the building and home improvement stores make it easy for customers to improve the energy efficiency of their homes and to find solutions that support sustainable development.</td>
<td>• If our energy source policies prove wrong, they may lead to unpopularity among customers, owners and investors, and cause financial losses.</td>
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</tbody>
</table>
K in Action: Management by information provides stores with competitive advantage

K Group is one of the trading sector's pioneers in collecting and utilising customer data. Retailers are using an application that supports store management and offers a tool for targeted marketing. For customers, utilisation of data will lead to personal, interactive and multi-channel service.

It is important for retailers to monitor the wishes of their customers, the development of sales and trends in the trading sector. When the business is busy, it has often been challenging to search and analyse data quickly and, in several cases, some data has remained completely unused.

“We wanted to get all of the data into a form that is easier for retailers to take in and use. We developed an entirely new visual reporting tool to enable retailers to see the information about customers, market areas and competitors that is relevant to their own stores. A clearer reporting entity makes it essentially easier for a store to manage by information,” says Minna Vakkilainen, VP, Head of Customer Data in the K Digital unit.

Easier to use data has reinforced the understanding that stores, areas, competitive situations and customers are different. That is why every K-store is different – tailored to the demands and profiles of local customers.

**Targeted email marketing**

Easy, fruitful marketing based on data plays a key role in the everyday work of digitalising stores.

The targeted marketing service, Kampanjatiski, is an application that enables retailers to quickly and cost-efficiently make store-specific email marketing based on K-Plussa customer data.

K-food retailers see the application as a great opportunity to do marketing.

“It is positive that I can do marketing whenever I want. Retailers need to be agile and make decisions quickly. Kampanjatiski enables us to react quickly,” says Jouni Ekholm, retailer at K-Supermarket Mustapekka.

In addition to the Kampanjatiski application for retailers, K Group’s other forms of marketing are increasingly transitioning towards the use of customer data.

“In 2016, we expanded K Group’s targeted marketing using customer data and began carrying out programmatic marketing relying on our own team of experts. By utilising our own customer data and digital technologies, we are developing more customer-oriented marketing and laying the foundations for future marketing,” Vakkilainen says.

**Utilising customer data to provide more personal customer service**

Customers expect stores to provide a new form of personalised and interactive service. They want to get a wider range of service in return for the information that they give to companies. However, this does not necessarily mean that customers are only looking for special offers. It is also important to offer service, information and inspiration.

We create marketing based on customer data to offer the best customer experience in the trading sector. We communicate to customers at the right time, using the right media and with exactly the right content for each customer.

“By utilising internet browsing data, we can help customers who are planning renovations to get through the various phases of the renovation by offering them relevant content in different channels, telling them about the renovation services offered by K-Rauta and providing interior decoration tips,” says Mari Huuki, Marketing Analyst for the building and technical trade.

Read more:
K-Plussa is changing K-food mobile application (in Finnish)
Our strategy

The core of Kesko’s strategy is profitable growth in three strategic areas: the grocery trade, the building and technical trade, and the car trade. We differentiate ourselves from the competition with quality and customer orientation.

Kesko and K-stores are working increasingly strongly as a unified K Group, so we can offer our customers even better services and operate efficiently. Our strategic objective is to strengthen the customer experience for consumers and companies both in stores and in digital channels. We modernise the chain concepts, build the best digital services in the trading sector and reform the K-Plussa customer loyalty system.

Our strategic objective is to strengthen the customer experience for consumers and companies both in stores and in digital channels.

In the grocery trade, our strategic objective is good profitability and a stronger market share in Finland. We want to offer the most inspiring food stores and digital services in the market. The growth strategy is underpinned by the acquisition of Suomen Lähikauppa completed in early 2016. In consequence of the acquisition, at least 400 Valintatalo and Siwa stores will be renewed into K-Markets by spring 2017. In addition, the current approximately 400 K-Market chain stores and 60 Neste K stations will be modernised by the end of 2017. We will carry out a modernisation of the K-Citymarket chain by the end of 2018 and create 81 different stores with product selections and services that reflect their customer bases. We are refining the K-Supermarket concept and expanding the network with new store sites. In addition, we are strengthening our digital approach and improving the level of quality and service in K-food stores, and renewing the marketing model. We disposed of the Russian grocery trade towards the end of 2016.

In the car trade, Kesko is the market leader in Finland, and our objective is to increase our market share in the car trade, particularly in Finland. We are actively developing new business models and improving the multi-channel customer experience. Towards the end of the year, we acquired the rights to represent and import Porsche vehicles in Finland.

In addition, we are developing Kesko’s other businesses, which include the furniture trade, the sports trade, the agricultural trade, the machinery trade and the shoe trade, with the aim of increasing their value.

To ensure competitiveness and improve profitability, we have realised savings of €50 million in fixed costs. We estimate that the acquisitions will generate over €30 million in synergies at the EBITDA level from 2018 onwards and over €60 million from 2020 onwards.

In 2015 and 2016, we made capital expenditure of €500 million in business operations, excluding acquisitions. As of 2018, we estimate that the annual capital expenditure will be less than €200 million.

Kesko operates in the building and technical trade in nine countries and is the fifth largest operator in the European building and home improvement trade market. The strategic objective is growth and a stronger position in Europe. The acquisition of Onninen, a company specialising in HEPAC and electrical products, in the first half of 2016 will significantly support this. The combination of Onninen and Kesko’s building and home improvement trade has enabled us to create a unique B2B trade entity on the market. We are making major developments in digital services and e-commerce. In Finland, K-Rauta and Rautia stores will be combined under the renewed K-Rauta brand. The brand renewal in other operating countries will take place in phases.
Strategy implementation is progressing

Strategic objectives

- Growth in grocery trade
- Growth and expansion of the building and technical trade in Europe
- Growth of the car trade, particularly in Finland
- The best customer experience in the trading sector in all channels
- A single, unified Kesko, seeking synergies and efficient common functions
Our financial objectives

Return on capital employed, target: 14%
We will reach this target by focusing on strategic growth areas, growing cost-efficiently and by improving capital efficiency.

Return on equity, target: 12%
We will allocate capital so as to realise the best possible return and increase shareholder value.

Interest-bearing net debt/EBITDA, target: less than 2.5
We will maintain a strong financial position as well as safeguard our dividend capacity and the opportunities to implement strategic projects.

Financial objectives

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Target level</th>
<th>Realisation in 2016</th>
<th>Realisation in 2015</th>
<th>Realisation in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on capital employed*</td>
<td>14%</td>
<td>11.9%</td>
<td>11.7%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Return on equity*</td>
<td>12%</td>
<td>9.8%</td>
<td>8.2%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Interest-bearing net debt/EBITDA</td>
<td>&lt; 2.5</td>
<td>0.4</td>
<td>-1.4</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

Kesko’s dividend policy: Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking into account, however, the Company’s financial position and operating strategy.

* Comparable
The foundation of our operations

**Value**
The customer and quality - in everything we do

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

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

One unified K

1. A strong brand and identity at the consumer interface
2. Efficient common functions
3. Customer relationships across divisional borders

Operating principles

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

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

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

**I show the path**
Through constant development and renewal, the K Group gains a clear direction in serving customers ever better. In the K Group, everyone knows their role and has the agility to respond to changing conditions.
**K in Action: K Code of Conduct unites personnel in nine operating countries**

Since October 2016, the K Code of Conduct has established itself as the name of the operating principles shared by all members of the Kesko personnel in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus.

In 2016, we updated the former guide entitled Our Responsible Working Principles. An employee survey had revealed a need to clarify and update the guidelines and to prepare separate guidelines for business partners.

"It was important to bring the guidelines up to date also because during the year thousands of new employees have joined us as a result of the acquisitions of Suomen Lähikauppa and Onninen. With the update, we also wanted to emphasise management’s commitment to the shared K Code of Conduct and to improve the everyday presence of the guidelines. The K Code of Conduct includes a link to the SpeakUp reporting channel, which operates in nine languages and makes it easier to report suspected or actual violations of the shared operating principles confidentially," says Kesko EVP, Group General Counsel, **Anne Leppälä-Nilsson**.

**Ambassadors convey the message**

We have prepared an eLearning package for the entire personnel to facilitate the adoption of the K Code of Conduct. By the end of 2016, a total of 3,159 people had already completed the eLearning programme.

We appointed K Code of Conduct ambassadors from among the personnel in all divisions and operating countries to assist in the deployment.

"These roughly 20 ambassadors act as messengers, information channels and contacts both with respect to their own organisations and the K Code of Conduct steering group. It’s been great to see how eagerly they have embarked on their assignment to deliver the message," says Leppälä-Nilsson.
Continuous monitoring ensures commitment

For the K Code of Conduct to be constantly upheld, we pay special attention to the monitoring in the following ways:

• We monitor the completion rates of the K Code of Conduct eLearning programme and, if necessary, remind related target groups of the completion.

• We update all new and renewed employment contracts to include a clause about the requirement for personnel to familiarise themselves and comply with the K Code of Conduct.

• As of 2017, we oblige the entire personnel to annually acknowledge their compliance with the K Code of Conduct guidelines.

• We add a K Code of Conduct contract clause to agreements signed by Kesko Group companies under which the Group companies purchase products or services from parties outside the Group.

• We draw up an annual plan with quarterly actions promoting the awareness of the K Code of Conduct.

• The K Code of Conduct Steering Group convenes at least every six months and checks whether the guidelines are up to date, plans trainings, and monitors and reports the training completion rate.

Watch the video >

The K Code of Conduct contains 12 principles illustrated with clear examples.
Stakeholder address:
The K Digital Trainee programme led to interesting career opportunities

Five skilled and keen trainees were selected to join the first K Digital Trainee programme. The six-month programme was a real success and the trainees now have permanent jobs developing digital services in different parts of K Group.

I started working as a digital trainee with Katri, Hilla, Hanna-Reeta and Joonas in May 2016. During the trainee period, we were placed in the K Digital unit and in all Kesko divisions, namely the grocery trade, the building and technical trade, and the car trade. We were not, however, confined by the boundaries of the designated unit and we often crossed them in our work. In our tasks, we got to know Kesko from the store floor to strategic work perspectives. We mostly worked on various development projects and also actively took part in the development of working practices and the company culture.

Besides skills, the characteristics that were valued in the selection of trainees to the K Digital Trainee programme were courage, self-initiative and open-mindedness. We were expected to question the current operating models and encourage everyone around us towards a new approach. We all were included in projects which recent graduates can typically only dream about. It was great to see that we were put in charge without hesitation, and as we met expectations, we were given more and more interesting and challenging tasks. In addition, the trainee programme included group coaching sessions, excursions to partner companies and the “Grande Finale”: a study trip to London.

Kesko HR was in charge of the trainee team and organising the programme. The K Digital Trainee Programme was part of the Finland’s Mentors project, through which Kesko makes a contribution by employing recently graduated young people. We gained a good overall idea of K Group and got to create networks within and outside the organisation.

Besides the support from Kesko’s Chief Digital Officer Anni Ronkainen, our daily work was guided by personal tutors and mentors nominated to boost personal development.

The six-month period was a real success and fortunately for all parties, we got permanent jobs in different parts of the organisation. Now our boldness and open-mindedness are combined with the knowledge and skills gained during the trainee period. We have got off to a good start in our common journey towards the best digital services.

Niina Tuikka

Watch the video >
How we create value

Our operations are based on stable finances, professional and committed people throughout our value chain, and a strong and consistent K brand. We are a major local operator, and our activities affect all aspects of society. We create value for all our stakeholders: customers, personnel, shareholders, retailers, suppliers of goods and providers of services, municipalities and nations.
Kesko’s operations are based on professional and committed people throughout our value chain, a stable financial position and a strong, unified K-brand. Efficient and responsible use of resources ensure the success of business operations.

- 45,000 people work at the K Group,
- 20,000 of whom at Kesko
- 1,100 retailer entrepreneurs at K-stores
- Around 48% of the personnel are in Finland and 52% are in the other operating countries

We create value for everyone who operates with the K Group, from suppliers and personnel to shareholders and people who shop at our stores.

- €248 million in dividends
- €575 million in salaries
- 24,600 suppliers, of which
  - 11,900 are in Finland
- €8.6 billion in purchases

The key functions, such as efficient logistics, responsible purchasing and digital services, provide the K-store and Kesko personnel with the best conditions to do their jobs well. We offer our customers high-quality products and the best service at stores and in digital channels alike. The K Group value, ‘The customer and quality – in everything we do’, is visible across our business operations.

- Over 2,000 different stores of different sizes, several online stores and digital services
- 9 operating countries
- 1.6 million customers per day

We are a significant local operator and the impacts from our operations extend throughout society. When we do our work right, we create wellbeing everywhere around us.

- €743 million in capital expenditure
- €49 million in income taxes
- €602 million in retailers’ direct purchases
- 66% of Kesko’s purchases from Finland
- 19% from the other operating countries
- Services in connection with stores
For our stakeholders, the most important areas where we create value are customer value, owner value and social value.

Customer value

- Our main duty is to offer our customers the products and services they need. Our products are well researched, safe and responsibly manufactured. We create new services to make our customers’ everyday lives easier and make them available in multiple channels.
- Our agile retailer business model is our competitive advantage.
- A personal approach and an inspiring customer experience are our strengths. Because every person is different, every K-food store is also different.
- B2B customers are becoming increasingly important in the building and technical trade. Building and renovation are becoming more technical and are increasingly the domain of professionals.

K brand to the next level

Building a new, strong K consumer brand has been an important part of our strategy work. In 2016, we moved to a new level in building the K brand as we launched an extensive chain brand renewal under the K umbrella brand.

First, we launched a new chain brand and chain identity in the K-Market chain. Next, we moved on to K-Rauta and K-Citymarket. During the spring of 2017, we will modernize the fourth chain brand, K-Supermarket.

Responsibility, inspiration and individual attention to every customer are the key aspects of the new K brand. Just as our every customer is different, so is each of our stores, tailored for its customers. For shopping to be fun.

K-retailers are our competitive advantage

In 2016, 45% of Kesko’s net sales came from the retailer business model. There are 1,088 K-retailer entrepreneurs operating in Finland, 841 of them as K-food retailers, 147 as retailers in the building and home improvement trade and/or agricultural trade, and 100 as specialist retailers. The number of K-food retailers will grow in the near future as at least 400 Siwas and Valintatalos converted to K-Markets will be placed under the control of retailer entrepreneurs over the next two years.

K-retailer entrepreneurs are responsible for customer satisfaction, product selections, pricing, personnel and business profitability in their stores. K-retailer entrepreneurs tailor the product selections and services around the needs of local customers and listen to their wishes.

Find out more about K-retailers

Own brand products

Own brand products play a key role in K-stores’ diverse product selections. Our own brands enable us to offer more affordable shopping baskets and high-quality products that suit various life situations.

The Pirkka product range contains nearly 2,600 products that combine high quality with affordability. When new products are selected for inclusion in the Pirkka range, Finnish products always take precedence, providing that the product meets the quality and price criteria.

Products in the Pirkka range with responsibility labels in 2016:
- Pirkka products with the Swan label: 65
- Pirkka products with the Hyvää Suomesta (Produce of Finland) label: 247
- Pirkka Fairtrade products: 36
- Pirkka Organic products: 118
- Pirkka MSC-certified fish products: 37
- Pirkka products with the UTZ label: 32
The asset of the K-Menu range is affordability. K-Menu products are high-quality, basic everyday foods whose price is the most important criterion for consumers.

The own brands of the building and home improvement trade – Cello, PROF, FXA and Fiorin – provide customers with reliable and affordable products for home and garden, as well as tools for building and renovation. Among Onninen's own brands, Onnline offers electrical, HEPAC and refrigeration products for B2B customers. The electrical and HVAC products under the OPAL brand are primarily designed for B2C customers.

Find out more about products with responsibility labels
Find out more about Pirkka and K-Menu products
Find out more about Cello products

Product development and product research

Product research laboratory
Kesko's product research laboratory controls the quality of the grocery products sold by K-food stores. High-level analyses ensure the safety of foodstuffs.

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

The product research laboratory analysed 7,770 product samples and conducted 17,176 analyses in 2016.

All new own brand products – Pirkka and K-Menu range products – are analysed thoroughly several times. Each new product to be included in the range goes through a multi-stage survey which consists of lab analyses and sensory evaluations.

K-maatalous Experimental Farm
The K-maatalous Experimental Farm in Hauho invests in development and research work on plant varieties to promote sustainable cultivation methods and better Finnish food production.

The research conducted on the farm aims to provide K-maatalous retailers and farmers with tested solutions for making productive product choices and optimising their harvests.

The K-maatalous Experimental Farm made a Baltic Sea Commitment to the Baltic Sea Action Group (BSAG) in June 2016. The experimental farm's commitment focuses on developing measurement practices and devices to determine the growth conditions and nutrients in soil.

Read more about Product Research
Read more about the K-maatalous Experimental Farm

Responsible purchasing

Our purchasing activities are guided by the following:
• Kesko's purchasing principles
• The Principles and Practice of Socially Responsible Trading guide
• Corporate responsibility policy statements

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

Special attention is paid to human rights issues and working conditions in the purchasing chain. When suppliers are monitored, the focus is on the countries where the risks of violations of these rights are the greatest. Special attention is paid to working conditions at factories in high-risk countries, though the quantities imported from these countries are small (1% of all Kesko's purchases in 2016).

International assessment systems, BSCI auditing and SA8000 certification, are used for supplier audits in high-risk countries.

Read more about responsible purchasing
Owner value

- Kesko is a financially sound listed company
- Good dividend capacity
- A responsible investment

Our financial position is very strong. As a result of acquisitions, our net sales increased by 17.3%, the comparable operating profit was €273 million and the return on capital employed rose to 11.9% in 2016. At the end of 2016, Kesko had liquid assets of approximately €391 million and a balance sheet total of €4.4 billion. A strong and stable profit and financial position enable investment in growth and long-term business development. We expect acquisitions to generate significant synergies in the near future.

We distribute at least 50% of our comparable earnings per share as dividends while taking into account the Company’s financial position and operating strategy. A dividend of €2.0 per share is proposed to be paid for 2016, which would represent an average rate of 99.5% on the comparable earnings per share. We have paid dividends every year but one (1967) since we were listed in 1960. In 2016, the price of a Kesko B share rose to 46.7%, while the closing price was €47.48.

Corporate responsibility plays an increasingly important role in investment decisions

Responsible business is crucial for the achievement of good and sustainable financial results. All of our operations are built on trust between Kesko, the K Group stores, our customers and business partners. Corporate responsibility manifests itself in our everyday work and our stakeholders require this of us.

Besides financial factors, investors are increasingly taking account of aspects related to the environment, social responsibility and corporate governance (ESG) when they make investment decisions.

Our long-term inclusion in sustainability indices provides independent evidence of our responsible operations and facilitates investment decisions. On the 2017 Global 100 Most Sustainable Corporations in the World list, Kesko ranked 25th and at the same time, as the world’s most responsible trading sector company.

Find out more about Kesko as an investment
Find out more about corporate responsibility
Social value

- We are a significant employer, taxpayer and service provider, and our operations create welfare for society as a whole.
- We select our business partners with care and we require them to operate responsibly.

We create jobs

At the end of 2016, the number of Kesko personnel was 22,476. K Group – Kesko and the K-retailers – employ approximately 45,000 people in total. Roles range from jobs at a store to retailer entrepreneurship as well as expert positions and supervisory positions in various fields.

We offer a wide range of career and development opportunities in different roles in the trading sector. As the operating environment and customer requirements in the trading sector change, continuous competence development for personnel takes on an increasingly important role.

The core areas of competence development are management culture and supervisory work, sales and service skills, product line specific competitive advantage projects, e-commerce and services.

The ongoing digital revolution requires new skills. In 2016, we recruited dozens of new professionals to develop mobile services, analytics, process automation and modern online store solutions. We also arranged a six-month K Digital Trainee programme, and the five trainees who completed it are now permanent employees developing digital services in various parts of K Group.

Suppliers are important partners

Most of the economic benefits generated by Kesko's operations – approximately 84% of Kesko's net sales – flow to suppliers, from which purchases were valued at €8.6 billion in 2016.

Kesko had approximately 24,600 suppliers and service providers (from which we made purchases of at least €1,000) in 2016. Approximately 11,900 of these were based in Finland, approximately 10,200 were in Kesko's other operating countries, and approximately 2,500 were based elsewhere.

We select our business partners with care and we also require them to have responsible operating practices. The business partners' version of the K Code of Conduct is appended to new and renewed agreements.

Purchasing Finnish products and services creates economic benefits for Kesko's home country and promotes local work.

In 2016, the purchases of all Kesko companies from suppliers operating in Finland totalled €5,661 million, accounting for 65.9% of the Group's total purchases. K-retailers' direct purchases from Finnish regions totalled €602 million.

Pirkka products are manufactured by nearly 120 companies across Finland. Their manufacture, or the inclusion of a manufacturer's own product in Kesko's grocery trade selections, provides many regional companies with an opportunity to expand their market to cover the entire country.

The taxes we pay 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 tax and excise duties.

Our principle is always to pay taxes on operating income and assets to the respective operating country in compliance with local laws and regulations.

K Group and its around 45,000 employees have a substantial impact on the municipal sector. Municipal taxes paid by our personnel account for a considerable proportion of municipalities' tax revenue.

In 2016, there were K-food stores in 280 municipalities in Finland. Real estate taxes on the business premises used by Kesko and K Group are paid to the municipalities in which the premises are located. Part of the income taxes from Kesko's and K-retailers' entrepreneurial activities are distributed to those municipalities where the activities take place.

Read more about taxes
K in Action: Putting shopping in new kind of circular economy bags instead of plastic bags

K Group is committed to reducing the consumption of plastic bags. The latest alternative for a plastic bag is the Pirkka ESSI circular economy bag, made from plastic packaging recycled by households.

Plastic bags cause problems when they end up in water bodies and elsewhere in the natural environment. A particular concern in K Group’s operating environment is the littering of the Baltic Sea and large lake bodies.

The aim of the EU packaging directive (94/62/EC, 2015/720/EU) is to keep the annual consumption level at a maximum of 40 plastic bags per person by 2025. K Group is committed to promoting the achievement of this target. In 2016, some 55 plastic bags were consumed per person in Finland.

Circular economy bags made of household plastic packaging waste

As from January 2017, we offer K-food store customers new kind of circular economy bags, made from packaging plastics recycled by customers, as alternatives to shopping bags.

There are 396 Rinki eco take-back points in connection with K-stores, 160 of which accept plastic packaging plastics.

The Pirkka ESSI circular economy bag, manufactured by Amerplast Oy, is the first Finnish plastic bag made from recycled plastics from households. It promotes the circular economy, because after use, it can be recycled again through the Rinki eco take-back points for use as a raw material for new circular economy bags.

At least 45% of the recycled plastic used as a raw material for the Pirkka ESSI circular bag economy consists of plastic packaging waste from households. At least 45% of used recycled plastic comes from industry. As such, circular economy bags considerably reduce the use of virgin raw material consumption and greenhouse emissions.

Read more about Pirkka ESSI circular economy bag

Read more about Kesko’s plastic policy statement
Read about the actions aimed to reduce plastics

Plastic bags cause problems when they end up in water bodies and elsewhere in the natural environment. A particular concern in Kesko’s operating environment is the littering of the Baltic Sea and large lake bodies. Kesko is committed to the EU’s objective to reduce consumption of plastic bags to 40 bags per capita by 2025.

Kesko provides alternatives for plastic bags in its selections: reusable bags, cotton bags and jute bags, as well as paper bags and recycled plastic bags. At the beginning of 2017, Pirkka ESSI recycled bag was added to the choice. Kesko aims to increase alternative carrier bags’ and cardboard boxes’ share of sales to 10% by 2025.

Nearly all of Kesko’s own brand product packages have recycling identification codes. The missing codes will be added to the packages of own brand products within 2017.

The chlorine, stabilisers and phthalates contained in PVC are estimated to cause significant environmental and health impacts. Packaging material containing PVC in Kesko’s own brands’ products will be replaced with an alternative material by the end of 2016.

In order to protect waterways, Kesko will discontinue the use of plastic microbeads in all of its own brands’ cosmetic products during 2017.

As from the beginning of 2017 retail plastic bags will be subject to a charge at all K Group food stores, building and home improvement stores, agricultural stores and machinery stores, as well as furniture stores.

Thin small plastic bags will no longer be on display at the checkout line. They will be handed out on request for covering products that may leak.

In its procurement and distribution logistics, Kesko uses reusable plastic containers, which reduces the quantity of cardboard packaging waste by around 4,000 tons per year.

The operations of the food and building and home improvement stores are guided by the K-responsibility concept. One of its main themes is taking care of the environment. As for its e-commerce, Kesko recognizes its responsibility as a producer by taking care of the collection of plastic and other packaging materials and by paying the producer responsibility fees for its packaging.
Between 2014–2016, we carried out a human rights impact assessment in accordance with the UN Guiding Principles on Business and Human Rights. The extensive work was worth the effort because it gave us lots of useful information which will help us improve the transparency of our supply chain, the dialogue with our personnel and our customer service even further.

What is it about?

• The UN Guiding Principles on Business and Human Rights, which were launched in 2011, have become the global standard that guides corporate responsibility related to human rights.

K in Action: Human rights assessment helps improve the company’s operations and supply chain transparency

The principles oblige businesses to respect human rights in all their operations. Businesses must assess the human rights impacts and risks of their operations, create systems for avoiding risks, and establish processes for any corrective measures.

Our human rights assessment in a nutshell

• During the extensive assessment, we listened to the views of customers, personnel and factory workers in high-risk countries on how human rights are realised in K Group’s operations.

• Dialogue with customers affirmed our view that for customers, the right to health, children's right to special protection, and non-discrimination are the key human rights that we must ensure.

• The results of surveys at factories in high-risk countries (China, India, Bangladesh and the Philippines) were largely congruent with those in the BSCI and SA8000 reports. Employment relationships were found to be fragile and omissions were detected in working hours and overtime pay, among other things.

We respect all internationally recognised human rights

• According to the UN Guiding Principles on Business and Human Rights, the management of responsible businesses must make a public statement of commitment to human rights.

• We published our human rights commitment in September 2016. In it we state that we respect all internationally recognised human rights and expect our business partners to do the same. We listen to our stakeholders’ views on human rights and take them into account when developing our operations.

• Respecting human rights is one of the 12 principles of the K Code of Conduct.

What next?

• The human rights assessment gave us lots of useful information which will help us improve the transparency of our supply chain, the dialogue with our personnel and our customer service even further.

• We are obliged to take responsibility for human rights in the supply chain of our products, especially in high-risk countries.

We have forwarded the information obtained from the high-risk country surveys of our human rights assessment to the BSCI organisation for use in the development of audit procedures.

• We ensure that all our operating models are built to take account of the respect for human rights in all our operations.

• We communicate about human rights matters to our personnel and stakeholders through different channels.

• We review our human rights assessment every three years and update it on our website.

Find out more about our human rights assessment:

• Identified salient human rights impacts and assessment of related risks

• Survey of stakeholder views

• Monitoring and corrective actions

• Statement of commitment on human rights
Stakeholder's address: Kesko promotes human rights

Kesko has done concrete work to promote the rights of workers in developing countries in collaboration with the Trade Union Solidarity Centre of Finland (SASK) since 2006. The work conducted with Kesko's subcontractors began with a training project in Vietnam, where the objective was to improve the corporate responsibility of 13 subcontracting companies in matters required for BSCI certification, including labour protection and interaction between the employer and employees.

A follow-up study was conducted in 2016 among the original business partners. The purpose of the study was to find out how permanent the results of the training project were several years after the project had ended. The results were a positive surprise: the majority of the better practices implemented as part of the project were still in use, and almost all of the companies that were studied had continued to improve working conditions after the project ended.

In 2016, Kesko and SASK worked together also to evaluate how well certain suppliers met their targets for corporate responsibility certification in relation to working conditions in four high-risk countries in Asia. Employees were asked to give their perspectives on the practical realisation of matters corresponding to the BSCI certificate. The results showed that the companies have improved their operations in matters required for certification in many regards. However, almost all of the studied companies had major deficiencies in questions related to the position of employees, such as wages and overtime.

By studying the actual effects of the certifications that Kesko requires in developing countries, Kesko has demonstrated a pioneering approach and commitment specifically to human rights – not just to certificates that strive to improve such rights. Kesko has also delivered the results of the study to the BSCI certification organisation to enable it to develop the monitoring of certificates specifically in the areas in which deficiencies were detected. If BSCI succeeds in rectifying its deficiencies as a result of this work, it will make a significant contribution to improving the living conditions of employees working for thousands of suppliers.

Kesko's human rights commitment and the stated level for guaranteeing the human rights of employees in value chains can act as an example to other commercial operators in Finland and particularly to Kesko's own commercial partners. Kesko is undeniably one of Finland's leading companies implementing the UN's Guiding Principles on Business and Human Rights, and an agent for the realisation of principles related to human rights, even though the company's network of subcontractors is very large and extends to several high-risk countries.

The Trade Union Solidarity Centre of Finland (SASK) would like to thank Kesko for its cooperation so far and is keen to continue this work. SASK is an expert organisation established by the Finnish labour movement whose aim is to improve the conditions of workers in developing countries by supporting local labour movements and boosting their competences.

Janne Ronkainen, Executive Director, Trade Union Solidarity Centre of Finland (SASK)
In 2016, Kesko’s grocery trade made a significantly bigger contribution to the Pink Ribbon campaign than before. A total of €262,187 of the Pirkka Pink Ribbon products sold at K-food stores and the ribbon brooches sold at K-Citymarkets and K-Supermarkets in October was donated to the Finnish cancer foundation Syöpäsäätiö. The year before, the amount was €21,000.

"We succeeded in exceeding the campaign target with flying colours, for which I wish to thank the K-food store customers”, says Vice President for Commerce Ari Akseli of Kesko’s grocery trade division.

During the Pink Ribbon campaign weeks, from 26 September to 30 October 2016, a total of 61,619 Pink Ribbon brooches were sold at K-Citymarkets and K-Supermarkets. K-food stores, Valintatalos and Siwas sold Pirkka range campaign products, the most popular of which were baby plum tomatoes, Fairtrade roses and raspberries. In addition, the K-Citymarket chain donated ribbon brooches to its entire personnel, a total of 10,000 people.

"We are able to, for example, ensure the counselling service operations of the foundation for a whole year with the sum donated by Kesko. We have several nurses specialising in cancer counselling to provide support and information without charge to people ill with cancer and their families,” says Sakari Karjalainen, Secretary General of Syöpäsäätiö.
Divisions

Grocery trade

Every person is different. That is why every K-food store is different. K-food retailers listen to their customers' wishes and customise their stores' services according to local customer demand. The customer and quality are at the centre of everything that K-food stores do – our aim is to offer the most inspiring food stores in the market, along with supporting digital services.

"Our strategic objective is to provide the most inspiring stores and digital services of the market. We strengthen the quality image of K-stores and renew our store concepts."

Jorma Rauhala, EVP, President of the grocery trade division

Every day, approximately 1.2 million customers visit K Group's food stores. K-food retailers are responsible for customer satisfaction at K-food stores, and Kesko's grocery trade works with these retailers under the chain business model. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K. K-food stores are the world's most sustainable companies in their sector. Further strengths include superior fresh food departments, professional service, diverse and high-quality selections, Finnish products and the own brand Pirkka.

K Group offers Finland's most comprehensive network of the most service-oriented neighbourhood stores.

The acquisition of Suomen Lähikauppa, completed in April 2016, enables K Group to offer Finland's most comprehensive network of the most service-oriented neighbourhood stores. All Siwas and Valintatalos will become K-Markets by spring 2017, and will gradually be transferred to K-retailers by the end of 2018. The K-Supermarket chain will also expand. In 2016 and 2017, we will establish almost 30 entirely new stores, and more than 20 stores will be completely renewed.

We are updating our entire hypermarket concept and we will revamp all K-Citymarkets by the end of 2018. The aim is to create 81 different K-Citymarkets with product selections and services that reflect their customer bases. By the end of 2016, 23 stores had been updated.

In accordance with its strategy, Kesko is focusing on the Finnish grocery trade. The company sold its grocery trade businesses in Russia to Lenta, a Russian grocery trade operator, in November 2016.

K-food retailers are tasked with tailoring their stores to take local customer needs into consideration to the maximum possible extent.

Kesko had 10,338 personnel working in the grocery trade at the end of 2016. K Group (Kesko and the K-retailers) is the second largest operator in Finland’s grocery trade with a market share of approximately 37–38% (Kesko's own estimate after the acquisition of Suomen Lähikauppa).

Collaboration between Kesko's grocery trade and K-food retailers is based on chain operations, which ensures customer orientation, business efficiency and the achievement of competitive advantages. Kesko's key operations are centralised purchasing, selection management, logistics, and developing chain concepts and the store site network. Kesko also agrees upon long-term
collaboration models with different partner companies. Centralised operations guarantee efficient competitiveness.

K-food retailers are tasked with tailoring their stores to take local customer needs into consideration to the maximum possible extent. K-retailers look after the selections, customer service, personnel competence, product quality and business profitability of their stores. K-retailers tailor their product selections and services according to the needs of local customers by listening to their wishes and making use of customer data obtained from the Plussa customer loyalty programme. K-food retailers complement the common product selection in their chains by adding products such as those available from local producers.

Digital services provide customers with more personalised benefits from K-food stores and local store-specific offers.

Digital services developed jointly by Kesko and K-food retailers offer customers ideas and inspiration for cooking, as well as easier ways to shop for food. Digital services provide customers with more personalised benefits from K-food stores and local store-specific offers. The K-food mobile app offers a smart shopping list that recommends products that the customer frequently buys. It also includes thousands of recipes.

Almost 100 K-food stores around Finland are offering online food stores that operate locally, as well as click and collect services. Customers have access to the extensive selection of products and inexpensive prices of the familiar store also online. Self-service checkouts have already been installed in dozens of K-food stores around Finland to make the daily lives of time-pressed customers easier.

Competitive advantages of the grocery trade

- The most inspiring stores in the market
- Tailoring every K-food store to meet local customer demand
- Finland’s most extensive network of neighbourhood store services and additional services
- The best fresh food departments and widest selections – also in local food
- K-retailer entrepreneurship guarantees quality and customer orientation
- Affordable and high-quality Pirkka and K-Menu products
- Finnish origin and responsibility – approximately 80% of the product selections are Finnish
- A wide range of digital services to make customers’ everyday lives easier and a comprehensive network of online food stores
- Effective customer dialogue – feedback from up to a million customers every year
### Strategic focus areas

<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>What we are doing</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-food stores are modernising</td>
<td>• Emphasis on freshness, Finnish origins, extensive selections and service&lt;br&gt;• Every K-store has a K-retailer who tailors the store to meet the local customer needs&lt;br&gt;• Capital expenditure in the network of neighbourhood stores. As a result of the acquisition of Suomen Lähikauppa, all Siwas and Valintatalos will be converted into K-Markets in spring 2017, and will gradually be transferred to retailers by the end of 2018&lt;br&gt;• The almost 70 service stations run by Neste and Kesko will be renewed and become Neste K service stations by the end of 2017. The objective is to build up a network of approximately 100 Neste K stations&lt;br&gt;• All of the stores in the K-Citymarket chain will be modernised by the end of 2018&lt;br&gt;• New services and partners in connection with K-food stores, such as Starbucks, Posti, DHL, self-service checkouts, online food stores</td>
</tr>
<tr>
<td>The customer and quality – in everything we do</td>
<td>• Strengthening customer dialogue&lt;br&gt;• Improving customer satisfaction&lt;br&gt;• Attractive, personalised offers</td>
</tr>
<tr>
<td>Digital customer experience</td>
<td>• More effective utilisation of customer data&lt;br&gt;• Mobile services that are valuable to customers and targeted marketing&lt;br&gt;• Increasing online sales of food and making new solutions available to customers. Click and collect services expanded further to all parts of Finland&lt;br&gt;• Renewed Plussa customer loyalty system: Personalised special offers based on shopping history</td>
</tr>
<tr>
<td>Retailers ensure quality</td>
<td>• Ensuring that retailer entrepreneurship continues to be profitable and interesting. Retailers may run several stores in the future&lt;br&gt;• Every K is different – building the selection according to local customer demand&lt;br&gt;• Highlighting local food and products from small producers in selections</td>
</tr>
<tr>
<td>Increasing Kespro's business</td>
<td>• Strengthening international cooperation and new partnerships&lt;br&gt;• Further strengthening of market position&lt;br&gt;• Close cooperation with K-food stores</td>
</tr>
</tbody>
</table>
**Chains**

**K-Citymarket**

K-Citymarket is a modern hypermarket that offers its customers diverse, extensive selections of food, as well as home and speciality goods. K-Citymarket is well known for its best offers, wide selections and food expertise.

**K-Supermarket**

The mission of K-Supermarket undergoing modernisation is to inspire Finnish people to eat better – K-Supermarket is the number one choice for customers who are passionate about food. The strengths of K-Supermarket lie in quality, providing new food ideas, an extensive and up-to-date selection, local products, and superior customer service.

**K-Market**

K-Market is a personal, service-oriented, genuinely local neighbourhood store near its customers – a village store for the modern age. K-Market offers customers diverse selections of food and local services to conveniently suit their everyday lives.

**Neste K**

The Neste K stations will be revamped to become food oriented and welcoming service stations. Customers will be offered high-quality, personalised service station services quickly and conveniently. The aim is to build a network of 100 revamped Neste K stations.

**Kespro**

Kespro is Finland’s leading provider of Foodservice services (formerly known as HoReCa) and a wholesaler. Kespro acts as a partner for its customer companies and municipalities in Finland and offers its customers a diverse range of procurement solutions, as well as delivery and collection services.

**Markets**

In 2016, the Finnish grocery trade market was worth approximately €16.8 billion (incl. VAT), representing an estimated rise of approximately 1% (Kesko’s own estimate). The market as a whole has experienced a cautious growth, influenced by factors such as the liberalisation of opening hours for food stores. In recent years, the Finnish grocery market has been characterised by fierce price competition.

**Market shares**

**Food trade**

The market share in Finland is approximately 37–38% (Kesko’s own estimate). Competitors: Prisma, S-market and Alepa/Sale (S Group), Lidl, Stockmann, Tokmanni and M-chain shops.

**K-Citymarket’s home and speciality goods**

Market share cannot be reliably calculated. Competitors: department stores, hypermarkets, discounters, specialist chains and online stores.

**Foodservice**

**Kespro, Finland**

The market share is estimated to have strengthened to approximately 43% (Kesko’s own estimate). Competitors: Meira Nova, Metro-tukku, Heinon Tukku, Suomen Palvelutukkurit.
Did you know?

- As Siwas and Valintatalos became K Group food stores, the network of K Group’s neighbour-
  hood stores became the most comprehensive and service oriented in Finland. The footfall and
  sales of the new K-Markets have increased significantly. The stores’ price levels have fallen by
  over 20% in some cases.

- The Pirkka product range celebrated its 30th anniversary in September 2016. Own brands
  account for a fifth of all retail sales in K-food stores. Especially fruit and vegetables are po-
  pular Pirkka products. Customers have made special requests for products related to special
  dietary requirements to be included in the Pirkka range.

- The K-Food Awards, launched in 2016, awarded prizes for the best innovations in the food
  world, the most interesting people and the most talked-about phenomena.

- Kesko and the Swedish ICA began working together on procurement via ICA Global Sourcing
  (IGS) in Kesko’s home and speciality goods trade. Customers of K-food stores will notice this
  collaboration in terms of a wider range of home and speciality goods, new international bran-
  ded products and more affordable prices.

### Own brands in 2016

<table>
<thead>
<tr>
<th>Pirkka products</th>
<th>Pirkka Parhaat products</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,593 (including Pirkka Parhaat)</td>
<td>203</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pirkka Organic products:</th>
<th>New Pirkka products launched</th>
</tr>
</thead>
<tbody>
<tr>
<td>118</td>
<td>66</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>K-Menu products:</th>
</tr>
</thead>
<tbody>
<tr>
<td>313</td>
</tr>
</tbody>
</table>
## Grocery trade in figures

<table>
<thead>
<tr>
<th>Retail sales and number of stores</th>
<th>Number</th>
<th>Sales (VAT 0%), € million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>K-Citymarket, food</td>
<td>80</td>
<td>1,505</td>
</tr>
<tr>
<td>K-Citymarket, home and speciality goods</td>
<td>80</td>
<td>575</td>
</tr>
<tr>
<td>K-Supermarket</td>
<td>228</td>
<td>1,764</td>
</tr>
<tr>
<td>K-Market**</td>
<td>638</td>
<td>1,208</td>
</tr>
<tr>
<td>Neste K</td>
<td>70</td>
<td>112</td>
</tr>
<tr>
<td>Valintatalo and Siwa**</td>
<td>340</td>
<td>453</td>
</tr>
<tr>
<td>K-ruoka, Russia</td>
<td>-</td>
<td>104</td>
</tr>
<tr>
<td>Others*</td>
<td>92</td>
<td>59</td>
</tr>
<tr>
<td><strong>Grocery trade, retail sales</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,448</td>
<td>5,777</td>
</tr>
<tr>
<td>Kespro</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Grocery trade, total</strong></td>
<td>1,448</td>
<td>6,566</td>
</tr>
</tbody>
</table>

* Incl. online sales  
** Number of Suomen Lähikauppa’s stores was 563

## Grocery trade, key figures

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>€ million</td>
<td>5,236</td>
</tr>
<tr>
<td>Operating profit</td>
<td>€ million</td>
<td>93.0</td>
</tr>
<tr>
<td>Comparable, operating profit</td>
<td>€ million</td>
<td>175.9</td>
</tr>
<tr>
<td>Comparable operating profit as percentage of net sales</td>
<td>%</td>
<td>3.4</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>€ million</td>
<td>238</td>
</tr>
<tr>
<td>Capital employed, average</td>
<td>€ million</td>
<td>828</td>
</tr>
<tr>
<td>Comparable return on capital employed</td>
<td>%</td>
<td>21.3</td>
</tr>
<tr>
<td>Personnel average</td>
<td></td>
<td>8,200</td>
</tr>
</tbody>
</table>

## Properties

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned properties, capital</td>
<td>€ million</td>
<td>524</td>
</tr>
<tr>
<td>Owned properties, area</td>
<td>1,000 m²</td>
<td>377</td>
</tr>
<tr>
<td>Leased properties, lease liabilities</td>
<td>€ million</td>
<td>2,101</td>
</tr>
<tr>
<td>Leased properties, area</td>
<td>1,000 m²</td>
<td>1,684</td>
</tr>
</tbody>
</table>
Speaking on behalf of Finnish food production is of primary importance to us at K Group. The purpose of the operating model introduced in 2015 is to highlight Finnish food production and provoke discussions about the welfare of Finnish agriculture.

The operating model provides customers with an easy way to support Finnish food producers. K-food stores sell 12 Pirkka ‘Thank the Producer’ products for which K Group pays extra support directly to producers. The extra support, ranging from 3 to 30 cents, i.e. some 5%, depending on the product, is included in the product price. In 2016, the product range expanded from Finnish meat products to also include milks.

“As a responsible operator, our duty is to take care of the welfare of the entire food chain. Finnish customers want to buy Finnish food. The ‘Thank the Producer’ product initiative is one way to make sure that Finnish production remains vital”, says Executive Vice President Jorma Rauhala, President of Kesko’s grocery trade division.
The sales of vegetarian foods have seen a strong growth in K-food stores over the last few years. As the demand grows, K Group stores want to have vegetarian food products more easily and visibly on display. To that effect, they have introduced vegetarian cabinets that bring plant-based protein products together in one place.

By the end of 2016, more than 100 K-food stores had been fitted with vegetarian display cabinets and the number is growing. The cabinets have been very well received by customers.

New vegetarian products are examined and actively included in K-food stores’ selections. A lot of new plant-based protein products have been introduced to the market. The areas of highest demand for vegetarian products are Helsinki, Turku and Tampere. The growth in the consumption of vegetarian products can be clearly seen also in student cities.

"The publicity raised by Pulled Oats has increased the popularity of other plant-based protein products too. The simultaneous health boom has clearly impacted their demand", says Vice President for Commerce Ari Akseli of Kesko’s grocery trade division.

K in Action:
K-food stores introduced vegetarian display cabinets
In the spirit of the circular economy, K-food store customers had the opportunity to donate the fat arising from their roasted Christmas hams to the Kinkkutemppu campaign.

In our responsibility programme, we are committed to reducing and recovering the waste from our operations. We take active measures aimed at enhancing recycling in order to identify new methods to adopt circular economy.

The fat that was collected was used for making renewable diesel, and the profits were donated to the Hope ry and IceHearts charities. There was a total of 42 collection points in 18 localities, mainly in connection with K-food stores.

Customers took the fat from their Christmas ham to a Kinkkutemppu collection point. An estimated 40,000 households took part in the campaign and some 12,000 kg of fat was collected. A car could drive about 150,000 km, or four times around the globe on the amount of diesel manufactured from it.

In addition to K Group, the Chemical Industry Federation of Finland, Neste, Lassila & Tikanoja, Finnish Packaging Recycling RINKI, the Finnish Water Utilities Association, Honkajoki, the Rural Women’s Advisory Organisation and Finnish Environmental Industries (YTP) were involved in the campaign.
The panel of experts that selects Pirkka products always takes into account the nutritional characteristics of products. We pay special attention to the fat, sugar and salt content, as our own brand products are our way of pointing customers towards healthier choices. In spring 2017, we will launch Pirkka Little Wolf oatmeal rolls with a reduced salt content, as we did not want to make a high-sodium product for the target group, children and young people.

“Pirkka Little Wolf oatmeal rolls are linked to our cooperation with the Finnish Basketball Association, and the target group is children and young people. That is why we decided to take this product back to the R&D team for an extra round of development, because a lot of salt is hidden in our food anyway. This is something that we can influence when we develop Pirkka products,” says Kesko’s Product Research Manager, Heta Rautpalo.

Products are usually assessed by a panel of product development experts but, in this case, the winners of K-Supermarket’s Pirkka bread competition were invited round the table to evaluate the development samples of Pirkka Little Wolf oatmeal rolls.

The panellists evaluated the appearance of the presented candidates on the basis of patterning, the baked surface and colour. They also evaluated the structure in terms of the consistency, crispness and crumbliness, and – most importantly – they assessed the flavour.

However, when the nutritional information on the rolls was being reviewed, it came to light that the salt content of the winning product would surpass the threshold for being categorised as high in sodium. Although one of the biggest contributors to the flavour of bread is the salt content, there was no desire to deliberately make high-sodium products for children and young people. The panel decided to task the product manager with requesting that the manufacturer provide one more sample containing no more than 1.1% of salt.

The new samples of the Pirkka Little Wolf oatmeal rolls, which have a salt content below the threshold for high-sodium products, will undergo a sensory evaluation at the K-test kitchen before approval is granted for launch in the form of a pre-baked frozen product in spring 2017.

“The collaboration between the Finnish Basketball Association and K-food stores emphasises nutrition. Our Pirkka brand enables us to tell everyone in the country about the importance of the diet of active youngsters or about good lunches to pack in the training bag – the introduction of this roll is an effort in this direction,” says Heta Rautpalo.
Building and technical trade

Kesko's building and technical trade division offers its consumer and business customers comprehensive selections of building and home improvement products, as well as electrical and HEPAC products, the most comprehensive store network in Northern Europe, online stores and digital services. The division also includes business operations of the furniture trade, the agricultural and machinery trade, and the leisure goods trade.

“Our strategic objective is growth and a strengthened market position in Europe. We are strongly developing our digital services and taking advantage of synergies for the benefit of our customers.”

Terho Kalliokoski, EVP, President of the building and technical trade division

The building and technical trade has operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus. At the end of 2016, the division had 15,630 personnel.

In the building and technical trade, Kesko is the market leader in Finland and the building and home improvement trade, the fifth biggest operator in Europe. The acquisition of Onninen, completed in June 2016, makes Kesko a significant operator on the Northern European technical wholesale market. The unique combination of the building and technical trade enables us to offer business customers in the building sector the most diverse entity of products and related services on the market.

Approximately 65% of sales in the building and technical trade come from B2B customers. The building and home improvement trade operations in the Baltic countries and Belarus were centralised at Kesko Senukai as the result of an arrangement carried out in April 2016, enabling them to be managed as a single entity. Kesko Senukai is the clear market leader in the region, and major growth potential is foreseeable in its business.

The building of the new K-Rauta chain began in June when the decision was taken to combine the K-Rauta and Rautia chains to form Finland’s largest building and home improvement trade chain and also to update the K-Rauta brand. The K-Rauta brand will be revamped in all of the operating countries in phases.

The own brands of the building and home improvement trade – Cello, PROF, FXA and Fiorin – offer customers reliable and inexpensive home and garden products, as well as building and renovation tools. Among Onninen’s own brands, Onnline offers electrical, HEPAC and refrigeration products for B2B customers. The electrical and HVAC products under the OPAL brand are primarily designed for B2C customers.

In addition to online stores, the furniture trade chains Asko and Sotka serve their customers with 86 physical stores in Finland and 10 in Estonia.

In addition to online stores, the extensive network of store sites, all of the leisure goods chains have their own websites and online stores, which are constantly increasing in importance in the retail trade.
## Strategic focus areas

<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>What we are doing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growing into an increasingly significant operator in Europe, with the Nordic and the Baltic countries as the most natural growth areas. Improving profitability and organic growth are the priority areas</td>
<td>• The acquisition of Onninen creates an excellent platform for the profitable growth of Kesko’s building and technical trade in Finland and the rest of Europe. To accelerate the implementation of the strategy, the building and technical trade was organised in four business units: business to business customers B2B, business to consumer customers B2C, international operations and Finland, all of which are supported by the common functions.</td>
</tr>
<tr>
<td>• Providing better service to the common customers in the building and technical trade and exploiting potential synergies</td>
<td>• We serve our common customers with an expanded product selection and easier shopping. We exploit synergies especially in sourcing, logistics, store sites and ICT solutions.</td>
</tr>
<tr>
<td>• Continuing profitable growth in the Baltic countries and Belarus targeting €1 billion in terms of net sales in the next few years</td>
<td>• The Kesko Senukai entity enables efficient management. The plans include modernising the entire store network and converting it into the K-Senukai concept in the Baltic countries, as well as €100 million of capital expenditure in new stores by 2020. The stores in Riga and Tallinn are ready for the modernisation work to begin.</td>
</tr>
<tr>
<td>• In Finland, we will strengthen our market position and profitability</td>
<td>• We combine the K-Rauta and Rautia chains into a single new K-Rauta chain with a new brand image</td>
</tr>
<tr>
<td></td>
<td>• New K-Rauta.fi</td>
</tr>
<tr>
<td></td>
<td>• We expand the Onninen Express network</td>
</tr>
<tr>
<td></td>
<td>• A common online store solution for the B2B customers of the building and home improvement trade and Onninen</td>
</tr>
<tr>
<td></td>
<td>• We develop services for renovation customers, e.g. the Renovation Master concept</td>
</tr>
<tr>
<td>• In Sweden and Norway, we will continue to improve profitability and seek profitable growth</td>
<td>• We build a country-specific business entity for the building and technical trade between Onninen and the building and home improvement store chains</td>
</tr>
<tr>
<td>• Increasing the value of the furniture trade, the sports trade, the agricultural trade, the machinery trade and the shoe trade</td>
<td>• We increase the value of business operations, develop the competitiveness of chains and leverage synergies</td>
</tr>
</tbody>
</table>
Competitive advantages of the building and technical trade

- Chain concepts and service entities based on customer needs
- Ability to serve different customer groups from the same store network
- Comprehensive store network and extensive electronic services
- Efficient combination of online stores and traditional store network
- Professional customer service in-store and in electronic channels
- Well known, reliable store chains and product brands
- Efficient procurement and logistics
- Internationally harmonised operating models

Chains of the building and technical trade

**K-Rauta**

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

**Byggmakker**

Byggmakker is one of the leading operators in the building and home improvement trade in Norway. It offers a store network covering the entire country and very strong B2B expertise. Nearly all Byggmakker stores operate on the retailer business model.

**K-Senukai**

K-Senukai’s stores offer extensive non-food product selections to their customers in Lithuania, with a focus on products related to building and living. The K-Rauta stores in Latvia and Estonia will also be refurbished under the K-Senukai concept by 2020.

**OMA**

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

**Rautakesko B2B Service**

The customers of Rautakesko B2B Service are national and large regional building firms, property maintenance companies, the housing industry and other business customers. The strengths of B2B Service are the extensive selections of building and home improvement products and close collaboration with the K-Rauta store network, through which all of the warehouse deliveries take place.

**Onninen**

Onninen Express chain’s stores serve business customers. Onninen delivers products and service packages to contractors, industry, infrastructure building and retail dealers. The stores’ selection includes HVAC, electrical and refrigeration products as well as other technical products. Customers can collect products for their daily needs from the Onninen Express stores’ selection. They can also order products from the warehouse selection for collection from the store. In all, there are around 140 Onninen Express stores and Onninen points of sale Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Russia.

The Elfin chain operations include around 190 independent electrical contractors with which Onninen collaborates across Finland.

The Hanakat chain is a retail network comprising around 80 independent HEPAC entrepreneurs in Finland.

The Elfag chain is one of Norway’s biggest electrical contractor chains including around 150 business members.
Chains of the agricultural and machinery trade

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.

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

Chains of the leisure goods trade

Intersport, Intersport.fi
Intersport is Finland’s market leader in the sports trade. Together with retailer entrepreneurs, it employs almost 1,000 people in 57 stores and one online store. The chain’s success is based on extensive selections of sports and leisure products, good service, high-quality products, diverse maintenance services and on providing an expert shopping experience, both in-store and online.

Budget Sport, Budgetsport.fi
There are ten Budget Sport stores in different parts of Finland. The stores aim to provide their customers with sports trade products more quickly, easily and inexpensively than their competitors. A diverse online store complements the customer experience.

The Athlete’s Foot, theathletesfoot.fi
The Athlete’s Foot is a retailer of sporty leisure footwear, trainers and clothing. The chain represents the world’s best known sports goods brands and models, and it aims to promote its customers’ passion for sport and bring a touch of style into their lives.

Kookenkä, Kookena.fi
Kookenkä is Finland’s largest shoe store chain for the whole family. The chain’s 37 stores and online store cover the entire country.
Chains of the furniture trade

Asko
Asko is the best known and most trusted Finnish furniture and interior decoration brand. Asko provides quality-conscious customers with a competitive collection and the most active and reliable service in the sector. Asko has stores and online stores in Finland and Estonia.

Sotka
Sotka is a Finnish provider of furniture and a home decoration company full of pleasant surprises. It offers solutions suited to the changing needs of its customers. Sotka has stores and an online store in Finland and Estonia.

Markets

The building and home improvement trade market by country, along with the change from the previous year (retail trade, VAT 0%)
The total market in the entire operating area of the building and home improvement trade is worth around €22 billion*  
Finland €3.1 billion (1.5%), (RaSi ry, Finnish Hardware Association, DIY)  
Sweden €4.2 billion (4.4%), (HUI)  
Norway €4.0 billion (4.8%), (Virke)  
Estonia €0.4 billion (8.1%)*  
Latvia €0.4 billion (1.9%)*  
Lithuania €0.5 billion (2.6%)*  
Russia €8.3 billion (1%)*  
Belarus €1.1 billion (10%)*

Markets

The agricultural and machinery trade market, along with the change from the previous year (retail trade, VAT 0%)
The agricultural trade market is worth around €1.9 billion and decreased slightly from the previous year. In Finland, the total market for Konekesko’s product areas is around €0.9 billion and it decreased slightly from the previous year. In the Baltic countries, the total market for Konekesko’s product areas is around €0.6 billion and it increased clearly from the previous year.*

The leisure goods market in Finland, along with the change from the previous year (retail trade, VAT 0%)
The sports trade is worth around €0.9 billion (3.6%), (Statistics Finland)  
The shoe trade is worth around €0.3 billion (2.3%), (Textile and Fashion Suppliers and Retailers Finland TMA and Kesko’s own estimate)

The furniture trade market in Finland, along with the change from the previous year (retail trade, VAT 0%)
The interior decoration items and furniture trade is worth around €1.5 billion (1.8%) (Statistics Finland)
Market shares

Building and home improvement trade

Finland 41% (RaSi ry, Finnish Hardware Association, DIY). Main competitors: STARK, S Group and Bauhaus

Sweden 5% (HUI and Kesko's own estimate). Main competitors: Woody, XL Bygg, Beijer and Bauhaus

Norway 16% (Virke and Kesko’s own estimate). Main competitors: Optimera/Monter, Mestergrupper, Coop and Maxbo

Estonia 24%. Main competitors: Ehitus ABC, Bauhov, Espak and Bauhaus

Latvia 11%. Main competitors: Depo DIY and Kursi

Lithuania 30%. Main competitors: Ermitazas, Moki-Vezi and Lytarga

Russia 2%. Main competitors: Leroy Merlin, OBI, Castorama, Maxidom and Petrovich

Belarus 10%. Main competitors: Mile, Materik and Praktik

Onninen

Finland 37% (STK, LVI-TEK). Main competitors: LVI Dahl, Ahlsell, SLO and Rexel

Sweden 6% (SEG, RGF). Main competitors: Ahlsell, Dahl, Elektroskandia ja Rexel

Norway 20% (EFO). Main competitors: Elektroskandia, Solar and Ahlsell

Poland 5%. Main competitors: TIM, Sonepar, Grodno, Bims, Tadmar (Saint-Gobain) and Grudnik

Estonia 13%. Main competitors: FEB (Ahlsell), SLO and W.E.G (Würth)

Latvia 4%. Main competitors: Sanistal, EVA-SAT and SLO

Lithuania 4%. Main competitors: Sanistal, Dahlgera (Dahl) and Elektrobalt (Würth)

Agricultural trade

Finland 27%. Main competitors: Danish Agro (Hankkija Oy), Turun Konekeskus and Raisioagro

Machinery trade

Finland (source: Trafi)

Outboard motors** 45% (Yamaha)

Boats** 23% (Yamarin, Suvi)

Motorcycles** 23% (Yamaha)

Tractors** 10% (Massey Ferguson)

Light < 750 kg transportation trailers 15% (Muuli)

Baltic countries 19% (Kesko’s own estimate)

Sports trade

Intersport, Budget Sport, The Athlete’s Foot and Kesper

Shoe trade

Kookennä and Kenkäexpertti

Finland 10%. Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores

Furniture trade

Asko and Sotka

Finland 23%. Competitors: IKEA, JYSK, Masku and Isku

* Kesko’s own estimate ** To be registered
### Building and technical trade in figures

<table>
<thead>
<tr>
<th>Retail sales and number of stores</th>
<th>Number</th>
<th>Sales (VAT 0%), € million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>K-Rauta*</td>
<td>46</td>
<td>45</td>
</tr>
<tr>
<td>Rautia*</td>
<td>93</td>
<td>93</td>
</tr>
<tr>
<td>Rautakesko B2B Service</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Onninen, Finland</td>
<td>50</td>
<td>-</td>
</tr>
<tr>
<td>Asko*</td>
<td>35</td>
<td>34</td>
</tr>
<tr>
<td>Sotka*</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Intersport*</td>
<td>58</td>
<td>60</td>
</tr>
<tr>
<td>Budget Sport*</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>The Athlete’s Foot</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Kookenka</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>K-maatalous**</td>
<td>78</td>
<td>80</td>
</tr>
<tr>
<td>Konekesko, Finland</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Others***</td>
<td>34</td>
<td>45</td>
</tr>
<tr>
<td>Finland, total</td>
<td>499</td>
<td>460</td>
</tr>
<tr>
<td>K-Rauta, Sweden</td>
<td>20</td>
<td>20</td>
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<tr>
<td>Onninen, Sweden</td>
<td>17</td>
<td></td>
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<tr>
<td>Byggmakker, Norway</td>
<td>80</td>
<td>88</td>
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<tr>
<td>Onninen, Norway</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Other Nordic countries, total</td>
<td>143</td>
<td>108</td>
</tr>
</tbody>
</table>

* In 2016, 39 Rautia stores also operated as K-maatalous stores. In 2015, 45 Rautia stores also operated as K-maatalous stores.

** The figures include 11 (16) Kenkäexpertti stores, 23 (25) Kesport stores and 3 Athlete’s foot stores. In 2015 figures included 4 Musta Pörssi stores.

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### Retail sales and number of stores

<table>
<thead>
<tr>
<th>Retail sales and number of stores</th>
<th>Number</th>
<th>Sales (VAT 0%), € million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>K-Senukai, Lithuania</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Asko and Sotka, Estonia*</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>K-Rauta, Estonia</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>K-Rauta and K-Senukai, Latvia</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Onninen, Baltic countries</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Konekesko, Estonia</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Konekesko, Latvia</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Konekesko, Lithuania</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Baltic countries, total</td>
<td>65</td>
<td>46</td>
</tr>
<tr>
<td>K-Rauta, Russia</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Onninen, Russia</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>OMA, Belarus</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Onninen, Poland</td>
<td>36</td>
<td>-</td>
</tr>
<tr>
<td>Intersport, Russia</td>
<td>-</td>
<td>18</td>
</tr>
<tr>
<td>Russia, Belarus and Poland total</td>
<td>65</td>
<td>43</td>
</tr>
<tr>
<td>Building and technical trade, outside Finland, total</td>
<td>273</td>
<td>197</td>
</tr>
</tbody>
</table>

* Incl. online sales

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* * Building and technical trade, total | 772 | 657 | 5,028 | 4,112
### Building and technical trade, key figures

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2015</th>
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<tr>
<td>Net sales</td>
<td>€ million</td>
<td>4,100</td>
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<tr>
<td>Operating profit</td>
<td>€ million</td>
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<tr>
<td>Comparable operating profit</td>
<td>€ million</td>
<td>97.9</td>
</tr>
<tr>
<td>Comparable operating profit as percentage of net sales</td>
<td>%</td>
<td>2.4</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>€ million</td>
<td>452</td>
</tr>
<tr>
<td>Capital employed, average</td>
<td>€ million</td>
<td>1,000</td>
</tr>
<tr>
<td>Comparable return on capital employed</td>
<td>%</td>
<td>9.8</td>
</tr>
<tr>
<td>Personnel average</td>
<td></td>
<td>12,744</td>
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</table>

### Properties

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned properties, capital</td>
<td>€ million</td>
<td>342</td>
</tr>
<tr>
<td>Owned properties, area</td>
<td>1,000 m²</td>
<td>421</td>
</tr>
<tr>
<td>Leased properties, lease liabilities</td>
<td>€ million</td>
<td>791</td>
</tr>
<tr>
<td>Leased properties, area</td>
<td>1,000 m²</td>
<td>1,251</td>
</tr>
</tbody>
</table>
Consumers today are less often doing building and renovation projects themselves. Instead they outsource the projects to professionals. The reasons are many: building and renovation are getting more and more technical, in addition to increased regulation. And as societies age and become wealthier, services are used more. K-Rauta’s surveys reveal that customers may have doubts about renovation – they are unsure about the costs and what it involves in practice. The K-Rauta Renovation Master service concept provides the solution.

The K-Rauta Renovation Master helps the consumer customer succeed in their renovation projects from planning to completion. During autumn 2016, this multichannel service concept was tested in kitchen renovations at two K-Rauta stores and content related to kitchen renovation and inspiring planning programmes were provided online.

The service concept has been designed to help customers with renovation projects. Its current offering includes Cello kitchens on a turnkey basis.

The digital services have been integrated into the customer’s journey from web to store.

Customers interested in kitchen renovation can get information online on, for example, what a kitchen renovation project involves and the things to take into account at the planning stage. The web content offers a comprehensive package of information for anyone dreaming of a kitchen renovation.

The kitchen salesperson acts as the Renovation Master in the customer’s kitchen renovation project, which means taking care that the project advances according to plan, and communicating with the customer and the contractor.

"The first experiences of the pilots are encouraging. I’m convinced that we will be able to improve the satisfaction of renovation customers and we aim to provide an excellent renovation experience. The K-Rauta Renovation Master concept will be deployed and developed further in 2017, allowing us to offer our customers solutions for the renovation of all room spaces," says Sari Hujanen, Development Director of Consumer and project customer sales development, building and technical trade division.
Stakeholder address:
Long-established cooperation between Caverion and Onninen is based on high-quality operations and competitiveness

Cooperation between Caverion and Onninen dates back decades and continues today. Caverion’s purchasing needs range from large, extended orders to small, daily purchases. Onninen was chosen as partner on the basis of their competitiveness and high quality operation.

Caverion designs, builds, operates and maintains user-friendly and energy-efficient technical solutions for properties and industry. In my job as a Purchasing Manager I’m responsible for purchases for building sites and maintenance targets in Finland. A fleet of over 800 service vans and 4,600 employees in different parts of the country are indicators of the scope of our operations.

Depending on the project at hand, our purchasing needs vary, ranging from large, extended orders to small, daily purchases from business partners.

We use the services of Onninen’s Contractors Unit and Industry Unit and the Onninen Express stores. We have operations all over Finland and the fact that we are able to source products locally is a great advantage; we make hundreds of collections from Onninen Express stores every day. It is important to us that our partner has a comprehensive network with an extensive offering of goods. In addition to local operations, we have another level of collaboration: Onninen’s sales unit for large-scale customers serves Caverion’s centralized decision-making. Our organisations work well together.

Process efficiency is important to us. Caverion receives 400,000 invoices a year, which is why ordering goods from our business partners must be easy, invoice information must be accurate and invoices must be sent in a way that suits us.

Reliability, competitiveness and an extensive operating network are important criteria when we choose our business partners. We chose Onninen on the basis of their competitiveness and high-quality operations and we have been very satisfied.

Onninen was our main business partner in 2016. The roots of both of our companies go back more than 100 years and our cooperation started decades ago. The fact that Onninen is now part of Kesko Group makes Onninen even more attractive to us and strengthens our opportunities for collaboration even further. We are confident that the acquisition has expanded Onninen’s service selection and operating network.

Pekka Björkman, Purchasing Manager, Caverion
**K in Action: Onninen Norway offers solutions for welfare technology**

As the population ages, technology must be able to respond to the challenges faced by the elderly. How can people live safely and longer in their own homes despite illness and old age? How can this be supported? Onninen Norway wanted to respond to the challenges we face in our society today and to enquiries of its customers and suppliers and see what they could do about this.

“Welfare technology offers solutions that allow people to live safely and longer in their homes,” says Ann-Katrin Pedersen, Marketing Manager at Onninen Norway. “We can offer a wide range of solutions which contains both surveillance and alarm systems, sensors and management systems for both heating and lighting. These solutions are meant to make people feel safer at home and free up time for caretakers and employees, by simplifying processes and practical tasks. Welfare technology will give more time to care, conversation and human contact,” she adds.

Onninen Norway offers solutions to companies and municipalities. The end customer base includes the public sector and private consumers, all served by Onninen’s business customers. Solutions for welfare technology are available for all Onninen’s customers via the company’s online shop onnshop.no. Consumer customers are served through elfag.no. Onninen works in cooperation with Elfag, which is one of the largest chains of electrical contractors in Norway.

Solutions within welfare technology are under development and being improved constantly, so that customers can easily find the solutions they need. Onninen Norway’s head office in Oslo includes a showroom where welfare technology products and solutions within a smart house are demonstrated. The showroom is open for all Onninen business customers and their customers.

“In fact, we have already offered these products and solutions for a long time. Now, we have added new solutions and combinations to our assortment, so that end customers can easily find what they need. We want to be involved in the development of welfare technology,” Pedersen says.

Did you know?

Onninen is one of the leading suppliers and service providers for technical building contractors, industry, infrastructure building and retail dealer customers in the Baltic Sea area and Scandinavia. The selection covers heating, plumbing and energy solutions, bathroom and kitchen products, ventilation products, cooling and refrigeration products for air-conditioning, electrical installation accessories, lighting, cables and wiring accessories, products for civil engineering, process piping and steel and metal products, power transmission products and lubricants, tools, fasteners, products for personal protection and telecommunications products. The selection consists of over 500,000 products and varies according to country. In all, there are around 140 Onninen Express stores and Onninen points of sale in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Russia.

Read more about Onninen >>
A tool rental service named "Liiteri" enabled city dwellers to rent selected K-Rauta tools online, and collect them from a 24-hour service point set up in the Teurastamo area in Helsinki or order environmentally friendly PiggyBaggy home delivery. The results of the trial demonstrate that there is a demand for rental services.

K-Rauta was a partner in a trial targeted at urban home-improvers able to rent high-quality battery-powered Ryobi tools and Kärcher cleaning devices and machines online using the Liiteri.net service and collect them from the Liiteri service point, which is open 24 hours a day in Helsinki’s Teurastamo area, which has good public transport links.

The circular economy thinking is based on a model where materials and value circulate, and added value is created through services and by utilising technology. In Finland and elsewhere, cleantech and the circular economy have traditionally focused more on optimising industrial processes and less on developing solutions for consumers.

K-Rauta wanted to carry out a trial to learn how it could better offer overall solutions for its customers’ everyday lives.

“At K-Rauta, we have traditionally thought that our job is to sell as many new machines and devices as possible. But perhaps not all of our customers want to buy all of the tools they need for their home improvement projects. They may not have space to store tools, and they may not have much need for the tools when the renovation is finished. Being able to rent tools may provide the necessary spark to get a home-improvement project going, and we at K-Rauta can play a role in helping to plan renovations and selling materials. It has been interesting to see that this type of rental service interests people,” says Virpi Viinikainen, Kesko’s Vice President for B2C trade in the building and technical trade.

VTT Technical Research Centre of Finland Ltd conducted an interview survey related to the trial, revealing that saving space and money are considered the most important reasons for using the service. It was considered worthwhile to rent tools that are not used frequently. Product availability was seen as a challenge, while the rental price, collection and return were considered limiting factors.

“The trial was a success and consumers took an open-minded and enthusiastic approach to testing an entirely new circular economy service entity. The result was enabled by the successful social communication of the partners involved in the trial. It was encouraging that good feedback was provided for the usability experience in the very first phase, even though it had still not been fine-tuned,” says Harri Paloheimo, CEO of CoReorient.

“The results are also interesting from K-Rauta’s point of view, and they show that there is a demand for rental services, at least in urban environments. We will evaluate our own service development on the basis of the results we have obtained. The trial was definitely a positive thing,” says Viinikainen.

Liiteri conducted a successful crowdfunding campaign to continue the Liiteri point at Teurastamo. K-Rauta will continue to act as the corporate financier of the next phase of the trial at the Teurastamo Liiteri service point. With the help of the successful crowdfunding campaign, CoReorient, the company that provides the Liiteri service, has set itself the target of developing Liiteri’s usability, offering and content in 2017. The operations will continue in the Teurastamo and Kalasatama areas of Helsinki. In addition, Liiteri will be expanded and modernised within the scope of the available resources. Negotiations are underway to commence operations also in other cities. Depending on the case at hand, the implementation will be based on Liiteri smart containers or located in existing premises.

The Liiteri point in the Teurastamo area was realised by the IT start-up CoReorient Oy in collaboration with VTT, SYKE and the University of Helsinki’s Tekes-financed AARRE research project, as well as the commercial partners involved in the trial.
Car trade

VV-Auto is a company specialising in importing, retailing and providing after-sales service for vehicles manufactured by Volkswagen Group, which also develops advanced service concepts for the automotive sector. VV-Auto is the market leader in Finland.

“We are the market leader in Finland and our objective is to increase our market share. We develop the multi-channel customer experience and expand our service business.”

Johan Friman, EVP, President of the car trade division (as of 1 January 2017)

VV-Auto imports and markets Volkswagen, Audi, SEAT and Porsche passenger cars, and Volkswagen commercial vehicles in Finland. It also imports and markets SEAT vehicles in Estonia and Latvia. VV-Auto also imports MAN lorries and MAN and Neoplan buses into Finland. In addition to importing, VV-Auto is also a major vehicle retailer, offering after-sales service at its own outlets in Greater Helsinki and Turku. VV-Auto’s passenger car, commercial vehicle and lorry customers are served by a comprehensive dealer and servicing network throughout Finland. In addition to its traditional business, VV-Auto develops various service concepts and multi-channel services for the car trade. Examples of this include online stores, mobile apps and online systems for booking servicing, as well as Caara.fi – an entirely new online store for used cars, which operates solely online.

In addition to its traditional business, VV-Auto develops various service concepts and multi-channel services for the car trade.

In 2016, the Volkswagen, Audi and SEAT ranges were updated and diversified. New models introduced to the market included the Volkswagen Tiguan, the Audi A4 allroad, A5 Coupé and Sportback, Q2, Q5, Q7 e-tron, SQ7 and TT RS Coupé and Roadster, and the SEAT Ateca. An updated version of the Volkswagen Amarok, a commercial vehicle with a new V6 engine, was introduced to the market. Volkswagen commercial vehicles also introduced a completely redesigned Volkswagen Crafter, which will hit the Finnish market in 2017. Volkswagen had another record-breaking year – in 2016, it was Finland’s most popular car brand in terms of sales for the sixth consecutive year. For the 13th consecutive year, more Audis were registered in Finland than any other premium German car brand.

In 2016, Volkswagen’s recall and repairs of type EA 189 diesel cars progressed in 2016 at the planned rate. By the end of the year, a software update was available for approximately 50,000 cars and 25% of these were repaired in 2016. The required updates to the controller device were available for all 2.0, 1.6 and 1.2 litre diesel engines. Due to the large number of different engine controller devices, updates were not made on all models at the same time. All of the corrective measures were approved by the German authority (KBA) before they were implemented. After the corrective measures, the cars meet all of the requirements of the EU5 emissions standard. The corrective measures do not affect the car’s fuel consumption, engine power, CO2 emissions, driving behaviour or acoustics.

The Porsche acquisition brings one of the world’s most highly regarded car brands to K Group.

At the end of 2016, VV-Auto acquired the entire share capital of Oy Autocarrera Ab, a company engaged in importing and retailing Porsche. The price of the acquisition, structured as a share purchase, was approximately €27 million. The transaction will lead to an expansion of VV-Auto’s collaboration with Volkswagen AG. Adding Porsche to the selection will increase sales and improve the profitability of the car trade. The Porsche acquisition brings one of the world’s most highly regarded car brands to K Group, and the selection expands to encompass new models and new customer groups. Porsche is also making major investments in its hybrid and electric car range.

The Porsche acquisition brings one of the world’s most highly regarded car brands to K Group.

In addition to its traditional business, VV-Auto develops various service concepts and multi-channel services for the car trade.
Strategic focus areas

<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>What we are doing</th>
</tr>
</thead>
</table>
| Developing VV-Auto’s business in collaboration with Volkswagen Group | • Integrating the MAN business into VV-Auto and developing the market share  
• Increasing the market share of SEAT  
• Strengthening the market position of Volkswagen  
• Acquiring Porsche representation by buying Oy AutoCarrera Ab |
| Expanding the service business | • Launching the Caara.fi online store for used cars and increasing sales  
• Launching innovative service businesses  
• Expanding the sales of after-sales service |
| Developing a multi-channel customer experience | • Developing mobile apps, online services and online sales |

Competitive advantages of the car trade

• International brands and strong market position  
• Diverse multichannel services, professional personnel  
• Strong sales and after-sales service network, efficient logistics

Brands

Markets

In 2016, there were 118,991 first registrations of passenger cars, 13,523 of vans and 3,330 of lorries in Finland. The passenger car market grew by 9.3%, the van market by 18.3% and the lorry market by 23.0% from the previous year.

According to statistics, Volkswagen was the most registered passenger car brand. The total number of registrations of vehicles imported by VV-Auto was 24,685 (excluding motorhomes and Porsches). A total of 131 Porsches and 139 MAN trucks were registered.

Market shares

Car trade, Finland

• VV-Auto’s market share 18.8% (Volkswagen, Audi and SEAT passenger cars, total of Volkswagen commercial vehicles, excluding campers and motorhomes)  
• Volkswagen passenger cars 11.2%  
• Audi 5.2%  
• SEAT 2.0%  
• Porsche 0.1%  
• Volkswagen commercial vehicles 22.8%  
• MAN trucks 4.2%
Did you know?

- The world’s best Audi servicing is in Finland. The team of Audi Center Airport Finland won the world championship in the area of servicing focusing on customer service. This year, 71 teams from 36 countries made it into the Audi Twin Cup finals.

- Volkswagen Tiguan was rated the safest car in its class in Europe in Euro NCAP’s crash safety rating. Special acknowledgement was given to its first class safety features, for example, body structure optimised for safety, a very good combination of safety belts, seats and airbags, coupled with innovative systems to assist the driver.

- The new Volkswagen Crafter was voted international Van of the Year 2017. The panel of judges consisted of journalists representing 24 European countries and specialising in commercial vehicles.

- The new SEAT Ateca won the European AUTOBEST 2017 competition and was voted “the Best Car to buy in Europe in 2017”. The Seat Ateca was also a candidate for Car of the Year in Finland 2017 and placed second.

Car trade in figures

<table>
<thead>
<tr>
<th>Retail sales and number of stores</th>
<th>Number</th>
<th>Sales (VAT 0%), € million</th>
</tr>
</thead>
<tbody>
<tr>
<td>VV-Auto, retail outlets</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>VV-Auto, imports</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AutoCarrera</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Car trade, total</td>
<td>13</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Car trade, key figures</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>€ million</td>
<td>849</td>
</tr>
<tr>
<td>Operating profit</td>
<td>€ million</td>
<td>28.9</td>
</tr>
<tr>
<td>Comparable operating profit</td>
<td>€ million</td>
<td>29.5</td>
</tr>
<tr>
<td>Comparable operating profit as percentage of net sales</td>
<td>%</td>
<td>3.5</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>€ million</td>
<td>41</td>
</tr>
<tr>
<td>Capital employed, average</td>
<td>€ million</td>
<td>124</td>
</tr>
<tr>
<td>Comparable return on capital employed</td>
<td>%</td>
<td>23.8</td>
</tr>
<tr>
<td>Personnel average</td>
<td></td>
<td>780</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Properties</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned properties, capital</td>
<td>€ million</td>
<td>56</td>
</tr>
<tr>
<td>Owned properties, area</td>
<td>1,000 m²</td>
<td>47</td>
</tr>
<tr>
<td>Leased properties, lease liabilities</td>
<td>€ million</td>
<td>11</td>
</tr>
<tr>
<td>Leased properties, area</td>
<td>1,000 m²</td>
<td>23</td>
</tr>
</tbody>
</table>
**K in Action: Caara – an entirely new online store for used cars**

We want to make it as easy as possible to buy a car. Caara.fi is a convenient and reliable way for consumers to buy used cars, and the best thing is that everything can be handled without getting up from the sofa. The service has especially attracted the attention of busy consumers and families who are not always able to visit car dealership showrooms.

In 2016, VV-Auto’s retail trade opened Caara, an entirely new online store for used cars. Caara.fi is an online-only car store that has no traditional showrooms.

We aim to make it as easy as possible to buy a car. We also want to be involved in developing digital services for the car sector. Caara will enable us to change the customer experience with a fresh lifestyle approach where the customer’s digital purchasing transactions are constantly improved. For consumers, Caara is an easy, hassle-free and reliable way to buy a used car online. Customers value the service’s ease of use. The service has especially attracted the attention of busy consumers and families who are not always able to visit car dealership showrooms.

The online store can be visited every day at any time, and customers can purchase cars in the comfort of their own homes. Caara’s salespersons can provide help using a chat service if required. Customers can find suitable cars by searching by price, fuel or purpose of use. All of the cars have undergone vehicle inspections so the buyer receives the most detailed, diverse and reliable information available to support a purchase decision. We also offer our customers a Caara warranty (12 months or 20,000 kilometres) and a 14-day right of return, as well as flexible Caara financing solutions. The extent of the service is exemplified by the fact that every brand of car is available on Caara.

Purchased cars are either delivered to the customer’s home or to an agreed handover location. In Greater Helsinki, customers can also take a test drive, and the part-exchange value of the customer’s existing car can be assessed at the same time. Customers can also send pictures and details of their existing car’s history to enable the car to be assessed.

Buying a car has never been so easy! Whatever you need a car for – [www.caara.fi](http://www.caara.fi).
Store sites and properties

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

Different stores for different customer needs

1 K-Markets, Siwas and Valintatalos
   • Total number of K-Markets: 638 (excluding service stations)
   • Average total sales area: 370 m²
   • Average number of products on sale: 5,000

2 K-Supermarkets
   • Total number of K-Supermarkets: 228
   • Average total sales area: 1,270 m²
   • Average number of products on sale: 11,000

3 K-Citymarkets, K-Rautas, Byggmakkers, Onninen Express and K-Senukai stores
   • Total number of K-Citymarkets: 80
   • Average total sales area: K-Citymarket 6,300 m²
   • Average number of products on sale: K-Citymarket groceries 18,000
   • Total number of K-Rautas in Finland, Sweden, Estonia, Latvia and Russia: 94
   • Total number of Byggmakkers in Norway: 80
   • Total number of K-Senukai stores in Lithuania: 22 and in Latvia: 1
   • Total number of Onninen Express and Mega Express in Finland, Sweden, Norway, Poland, Estonia, Latvia and Lithuania: approximately 120
   • Average total sales area: K-Rauta 5,800–9,100 m², Byggmakker 3,700 m², K-Senukai approximately 8,000 m², Onninen Express 1,245 m²
   • Average number of products on sale: K-Rauta as many as 170,000, Byggmakker 14,000, K-Senukai even 60,000, Onninen Express even 22,000
Versatile services at store sites

The customers of K Group stores are served also in online stores. We take e-commerce requirements into account at the construction phase of new store sites. In the click and collect operating model, a separate in-store storage and packing area is reserved for products ordered online. Specific parking spaces in the food store yard are dedicated to collection customers and the shopping is paid in connection with collection at the car.

In 2016, there were 396 Rinki eco take-back points in connection with K-food stores intended for consumer packaging recycling and 160 of them also accepted plastics. Several eco points also accepted wastepaper and discarded clothes. All K-food stores accepted deposit beverage containers.

Key local services available at K-food stores included over 325 Posti service points, over 560 Matkahuolto parcel pick-up points, over 25 DHL service points, over 140 Posti automatic parcel pick-up points and over 1,000 K-food stores provided a cash withdrawal service. We offer an extensive network of electric car charging points free of charge. The ‘Liiteri’ trial tested K-Rauta’s tool rental service.

Energy efficient construction and property maintenance

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

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

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

The following store sites have or will have the BREEAM environmental rating:

- K-kampus, Kesko’s main office building planned to be built in Kalasatama, Helsinki
- The new shopping centres, each to include a K-Supermarket, being built in Suurpelto, Espoo and Laajasalo, Helsinki

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

Kesko participates in the 2017–2025 action plan of the commerce sector’s Energy Efficiency Agreement. In accordance with the agreement, we are committed to reducing our energy consumption by 7.5% through various saving measures. All K Group store chains are included in the agreement.

The measures include:

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

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

- Remote monitoring and building automation
- Lids and doors on refrigeration equipment
- Recovery of condensation heat
- Refrigeration equipment that uses carbon dioxide
- Adjustable and directional lighting
- LED lights in neon signs
- Increased use of LED lighting also inside the store
- Solar power plants on store rooftops

Kesko’s around 40 Real Estate Managers help K-stores find ways in which to make their energy consumption more efficient and prepare a 5–6-year renovation programmes.
**K in Action:**
**Solar power from K-store rooftops**

K Group increases the use of solar power. Finland’s largest property specific solar power plant is located on the rooftop of K-Citymarket Tammisto in Vantaa. By summer 2017, as many as 16 solar power plants will be operating in connection with K-stores. The new investments will make K Group Finland’s biggest producer and user of solar power.
The store sites are divided into four categories: strategic properties, standard properties, realisation properties and development properties.

**Strategic properties:**
- Kesko prefers to own them
- In 2016, strategic properties accounted for 64% (64%) of all store sites
- They involve important business interests, such as large retail stores and properties that can be developed into large stores

**Standard properties:**
- Kesko owns them but they can be sold and leased back
- In 2016, standard properties accounted for 28% (26%) of all store sites

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

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

**Capital expenditure in store sites**
In 2016, Kesko’s total capital expenditure in store sites was €216.7 (166.7) million.

In view of our growth, key capital expenditure included:
- In the grocery trade, increasing and modernising the K-Market network, and expanding the K-Supermarket network
- In the building and technical trade, the K-Rauta network is modernised in all operating countries

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

At the end of 2016, the most significant store sites under construction were:
- K-Citymarket and the urban centre Easton in Helsinki, and K-Citymarket in Sastamala
- New K-Supermarkets being built in Tampere and Ilmajoki, and in Niittykumpu, Espoonlahti, as well as Suurpelto in Espoo and Kalasatama and Pasila in Helsinki
- K-Rauta in Savonlinna and in St. Petersburg, Russia

For several upcoming years, Kesko’s most significant store site project will be the new shopping centre, Easton Helsinki, being built in Itäkeskus, Helsinki. The capital expenditure of the first phase is valued at €100 million. Its employment impact is about 250 person-years for a period of two years. The first part of Easton Helsinki will open to customers in autumn 2017. The next part is estimated to be completed in 2019. The capital expenditure of the whole complex is valued at over €200 million.
In 2015–2016, our total capital expenditure in business operations, acquisitions excluded, was €500 million. From 2018 onwards, we estimate the annual capital expenditure to remain below €200 million. The strategic objectives are to achieve growth in the Finnish grocery trade, the building and technical trade and the car trade.
## Owned store sites and properties

<table>
<thead>
<tr>
<th>Book value by region, € million</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>688</td>
<td>662</td>
</tr>
<tr>
<td>Other Nordic countries</td>
<td>48</td>
<td>51</td>
</tr>
<tr>
<td>Baltic countries and Belarus</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Russia</td>
<td>168</td>
<td>361</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>937</td>
<td>1,107</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area by region, 1,000 m²</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>547</td>
<td>540</td>
</tr>
<tr>
<td>Other Nordic countries</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>Baltic countries and Belarus</td>
<td>105</td>
<td>109</td>
</tr>
<tr>
<td>Russia</td>
<td>137</td>
<td>191</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>854</td>
<td>906</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Book value by division, € million</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery trade</td>
<td>524</td>
<td>639</td>
</tr>
<tr>
<td>Building and technical trade</td>
<td>342</td>
<td>357</td>
</tr>
<tr>
<td>Car trade</td>
<td>56</td>
<td>60</td>
</tr>
<tr>
<td>Others</td>
<td>15</td>
<td>51</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>937</td>
<td>1,107</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area by division, 1,000 m²</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery trade</td>
<td>377</td>
<td>410</td>
</tr>
<tr>
<td>Building and technical trade</td>
<td>421</td>
<td>404</td>
</tr>
<tr>
<td>Car trade</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Others</td>
<td>9</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>854</td>
<td>906</td>
</tr>
</tbody>
</table>

## Leased store sites and properties

<table>
<thead>
<tr>
<th>Area by region, 1,000 m²</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>2,682</td>
<td>2,274</td>
</tr>
<tr>
<td>Other Nordic countries</td>
<td>222</td>
<td>180</td>
</tr>
<tr>
<td>Baltic countries and Belarus</td>
<td>555</td>
<td>470</td>
</tr>
<tr>
<td>Poland</td>
<td>60</td>
<td>-</td>
</tr>
<tr>
<td>Russia</td>
<td>8</td>
<td>27</td>
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<tr>
<td><strong>Total</strong></td>
<td>3,527</td>
<td>2,951</td>
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</table>

<table>
<thead>
<tr>
<th>Lease liabilities by region, € million</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>2,698</td>
<td>2,348</td>
</tr>
<tr>
<td>Other Nordic countries</td>
<td>92</td>
<td>48</td>
</tr>
<tr>
<td>Baltic countries and Belarus</td>
<td>199</td>
<td>185</td>
</tr>
<tr>
<td>Poland</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Russia</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,996</td>
<td>2,594</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Lease liabilities, € million</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>No later than one year</td>
<td>400</td>
<td>347</td>
</tr>
<tr>
<td>Later than one year and no later than five years</td>
<td>1,326</td>
<td>1,159</td>
</tr>
<tr>
<td>Later than five years</td>
<td>1,269</td>
<td>1,108</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,996</td>
<td>2,594</td>
</tr>
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</table>