KESKO ANNUAL REPORT 2023

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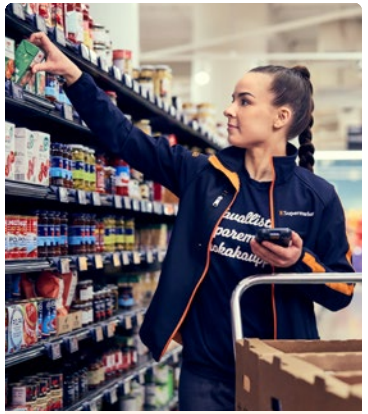
Kesko's 2023 Annual Report comprises five sections. It details the progress made in Kesko's strategy, sustainability work and financial performance, with comprehensive performance indicators.

KESKO'S DIRECTION



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

+ Read more

SUSTAINABILITY REPORT

The Sustainability report details the objectives and progress made in our sustainability work, and provides key indicators in accordance with GRI standards.

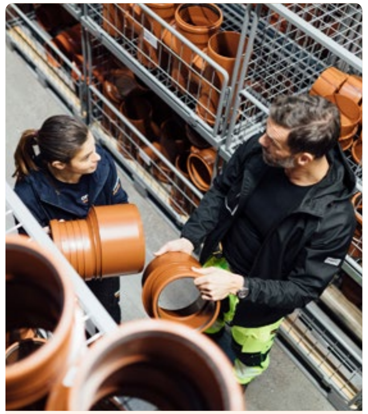
+ Read more

FINANCIAL REVIEW

The Financial review comprises the Report by the Board of Directors, the Group's key performance indicators, and the financial statements and Auditor's Report for 2023.

+ Read more

CORPORATE GOVERNANCE



The section comprises Kesko's Corporate Governance Statement, the Remuneration Report for Governing Bodies, and details on the members of Kesko's Board of Directors and Group Management Board.

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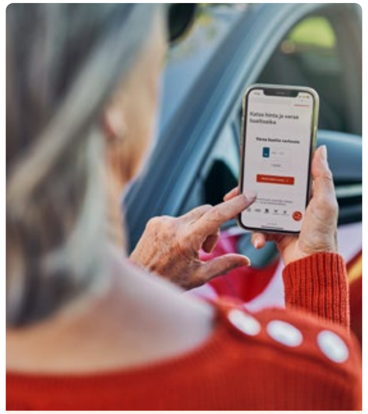
DATA BALANCE SHEET



The Data balance sheet describes Kesko's innovative, responsible data-driven value creation for customers, businesses, and stakeholders.

+ Read more

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

+ Read more in this Annual Report

→ Read more on our website

KESKO'S DIRECTION

2023

KESKO'S DIRECTION

KESKO IN BRIEF

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

Kesko has around 1.800 stores engaged in business operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Denmark*. By combining online sales and digital services with our extensive store network, we enable a seamless customer experience in all channels.

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

Kesko and K-retailers together form K Group**, which is the biggest trading sector operator in Finland and one of the biggest in Northern Europe. K Group's retail sales in 2023 totalled some €16 billion. Kesko and K-retailers combined employ 39,000 people, and overall K Group** employs some 45,000 people.

Sustainability is a core part of Kesko's strategy. We promote sustainability in the whole value chain, from production to customer choices. The focus areas of our sustainability strategy are climate and nature, value chain, people, and good governance. We create value extensively for the whole society.

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

Biggest trading sector operator in Finland, one of the biggest in Northern Europe

Profitable growth strategy, 3 divisions, some 1,800 stores in 8 countries, extensive digital services

One of the most sustainable companies in the world since 2005 (Global 100)

Strong financial position with good dividend capacity

Market cap €7.1 billion (31 Dec. 2023), over 105,000 shareholders

* Kesko announced in August 2023 it would acquire the Danish builders' merchant Davidsen. The deal was approved by EU authorities in January 2024.
** Kesko Senukai, a joint venture that engages in building and home improvement trade in the Baltics and Belarus, is part of K Group.

2023 IN FIGURES

- Net sales in January-December totalled €11,783.8 million (€11,809.0 million); reported net sales were flat year-on-year, while in comparable terms net sales down by 0.8%
- Comparable operating profit totalled €712.0 million (€815.1 million)
- A good result from all divisions
- Cash flow from operating activities totalled €1,049.5 million (€915.2 million)
- Comparable earnings per share €1.28 (€1.54); reported earnings per share €1.25 (€1.53)
- The Board proposes a dividend of €1.02 per share, to be paid in four instalments
- Over 105,000 shareholders on 31 December 2023

Read more in the Business section

- Grocery trade €6,351.6 million
- Building and technical trade €4,193.2 million
- Car trade €1,262.3 million

- Grocery trade €444.8 million
- Building and technical trade €212.5 million
- Car trade €82.6 million

Key figures	1–12/2023	1–12/2022	1–12/2021	1–12/2020	1–12/2020
Net sales, € million	11,783.8	11,809.0	11,300.2	10,669.2	10,720.3
Operating profit, € million*	712.0	815.1	775.5	567.8	461.6
Operating margin, %*	6.0	6.9	6.9	5.3	4.3
Earnings/share, basic, €*	1.28	1.54	1.43	0.97	0.74
Capital expenditure, € million	678.9	449.2	276.6	398.4	686.1
Return on capital employed, %*	13.4	16.9	17.2	12.0	9.6

* Comparable figures

KEY EVENTS IN 2023

Growth through acquisitions

We continued acquisitions in line with our growth strategy in 2023. In January, we acquired Elektroskandia Norge AS. In August, we agreed to acquire Davidsen, one of Denmark's biggest builders' merchants, thus expanding our operations to Denmark and strengthening our market position in Northern Europe.

Investments in store site network

We continue to update and strengthen our network of grocery store sites in Finland. In new store openings, our focus is on growth centres, and we plan to open several new K-Citymarket hypermarkets in upcoming years.

Shareholder's K-Plussa

Kesko combined its customer loyalty scheme and private share ownership in a unique way in Finland, offering its K-Plussa loyalty customers with shareholdings in Kesko an alternative route to K Group's 'Best Customer' benefits.

We encourage our biggest suppliers to set science-based short-term emission reduction targets by the end of 2026.

Kesko ranked as the most sustainable grocery trade company in Europe in 2023 on the Global 100 listing

Kesko included in Dow Jones Sustainability Indices

For a second consecutive year, Kesko was ranked the best company in its sector (Consumer Staples Distribution & Retail) in Europe in the Dow Jones Sustainability Indices the DJSI World and the DJSI Europe. In the global DJSI World, Kesko ranked fourth highest in its sector.

Aiming for net-zero emission in value chain

We committed to setting new long-term emission reduction targets, according to which we aim to reduce emissions in our whole value chain to net zero by the year 2050. This will require even tighter collaboration with suppliers to reduce emissions throughout the value chain, from manufacturing all the way to store selections and product use.

Changes in Group management

Kesko's Board announced in December the appointment of Jorma Rauhala as the managing director of Kesko and President and CEO of Kesko Group as of 1 February 2024. Mikko Helander had previously announced his intention to retire in 2024. Rauhala has acted as President of Kesko's building and technical trade division and Deputy CEO. In May, Sami Kiiski was appointed as the new President of Kesko's car trade division and a member of Group Management Board.

DIVISIONS IN BRIEF

Grocery trade

K Group is the second biggest grocery trade operator in Finland. Some 900 independent K-retailers ensure good customer experiences for 1.2 million daily customers at K Group's 1,200 grocery stores. Over 700 of the stores also offer online grocery services, also with fast deliveries in collaboration with Wolt. Our grocery store chains are K-Citymarket, K-Supermarket, K-Market and Neste K. Kespro is the leading foodservice wholesale provider in Finland.

	2023	2022
Net sales, € million	6,351.6	6,124.7
Operating profit, comparable, € million	444.8	460.4
Operating margin, comparable, %	7.0	7.5
Return on capital employed, comparable, %	17.4	19.6
Capital expenditure, € million	303.7	257.6
Personnel, average	6,257	6,288

+ More about the division and its key events in 2023

Building and technical trade

The building and technical trade division operates in 8 countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Denmark*. In the Baltics and Belarus, building and home improvement trade operations are handled by the joint venture Kesko Senukai. The division has some 500 stores and offers extensive online services via its chains: Onninen serves technical trade customers, while K-Rauta, Byggmakker and K-Bygg and Davidsen serve professional builders and consumers.

* Davidsen acquistion in Denmark was completed in January 2024.

	2023	2022
Net sales, € million	4,193.2	4,591.1
Operating profit, comparable, € million	212.5	323.8
Operating margin, comparable, %	5.1	7.1
Return on capital employed, comparable, %	11.4	19.1
Capital expenditure, € million	273.0	108.2
Personnel, average	6,073	5,871

+ More about the division and its key events in 2023

Car trade

K-Auto is a leading operator in Finnish car trade. The division's operations comprise the import and sales of new cars, used car sales, extensive servicing, repairs and other services, and K-Lataus EV charging. As of spring 2023, the division has also housed sports trade. K-Auto has over 1.3 million customers, served by some 1,300 professionals. The brands imported and sold by K-Auto are Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen Commercial Vehicles in Finland, and SEAT and CUPRA in the Baltics.

	2023	2022
Net sales, € million	1,262.3	1,124.8
Operating profit, comparable, € million	82.6	64.3
Operating margin, comparable, %	6.5	5.7
Return on capital employed, comparable, %	15.8	14.7
Capital expenditure, € million	80.3	45.1
Personnel, average	1,531	1,519

+ More about the division and its key events in 2023

REVIEW BY THE PRESIDENT AND CEO

ALL KESKO DIVISIONS GENERATED GOOD RESULTS IN 2023

We have managed to raise the sales and profitability of Kesko Group to a new level over the past decade. Our profit ability is based on successful strategic choices, and consequently growth in sales. At the core of Kesko's growth strategy is profitable growth in three selected divisions: grocery trade, building and technical trade, and car trade. Our strategic objective is to improve the customer experience for B2B customers and consumers in both our physical stores and digital channels. The constant improvement of customer experience, further development of digital services, and sustainability and corporate responsibility are central to our strategy.

Our comparable operating profit in 2023 totalled €712.0 million, which is a good result in a weak cycle. Our net sales totalled €11,783.8 million. Kesko's growth strategy and its successful execution in all three divisions have managed to yield results also in a more challenging operating environment. We have also been successful in managing costs. Our cash flow from operating activities exceeded €1 billion, and we continued strategic investments in growth in 2023.

One of the highlights of 2023 was Kesko's expansion to Denmark. In August, we agreed to acquire Davidsen Koncernen A/S, one of the leading operators in Danish building and home improvement trade. As the transaction was completed in January 2024, our operations will expand to Denmark and we will gain a solid foothold on the local building materials market. Our objective is to continue to take part in the consolidation of B2B building and technical trade in Northern Europe, and to be among the top operators not only in Finland and Norway, but also in Sweden and Denmark. In technical trade, we also stress growth in Poland and the Baltics.

Successful strategy execution has yielded results also in a more challenging operating environment.

The operating environment in 2023 challenged companies especially through accelerated inflation and rising interest rates. Kesko is in good shape to generate profits. We have a good strategy that concentrates on our strengths. We react quickly to changes in our operating environment, and have been able to constantly improve efficiency. Kesko has a strong balance sheet that enables investments in growth also in this economy.

Strategy execution yields results

The global impacts of the offensive war Russia initiated in Ukraine in 2022 continued to be felt in e.g. the energy and commodities markets in 2023. Food prices increased especially in the first year-half, interest rates rose, and energy costs were high. All this impacted consumer purchasing power and corporations' willingness to invest. In the latter half of the year inflation and the rise in interest rates settled and wage increases helped underpin purchasing power, but the weakening of the economy cast a shadow on employment.

Kesko is a unique trading sector operator which, thanks to the right strategic choices, can navigate also through rapidly changing operating conditions. In our annual strategy review process in the spring, we examined the effectiveness of our existing growth strategy in the changed operating environment, and decided to continue its implementation in all three divisions.

Over the years, companies have assumed a bigger role in finding solutions to global sustainability challenges. In Kesko's sustainability strategy, we have set clear sustainability targets for the operations of the company and its three divisions. The focus areas of the strategy are climate and nature, value chain, people, and good governance. In 2023, we committed to the NetZero Standard, which is the most ambitious of the science-based emission reduction standards by the Science Based Targets initiative (SBTi) so far. We aim to reduce emissions in our whole value chain to net zero by the year 2050.

In addition to a common strategy, operating as 'one unified K' means seamless cooperation with retailers and across Kesko divisions. Customer-orientation drives everything we do. We want to maintain and strengthen our reliable K brand, and to provide even better service to our customers. Customer trust towards K Group is good and we are among the most reputable companies in Finland.

Interest towards Kesko has risen significantly among Finnish private investors in recent years. In 2023, the number of Kesko shareholders grew by more than 27% and exceeded 105,000, which is among the highest figures of companies listed on the Helsinki stock exchange. As interest has risen especially among Finnish households, Kesko's stock today can be considered the people's choice.

All three divisions managed a good result in a challenging market

In the grocery trade division, sales grew in both the grocery store business and the foodservice business. The good performance was based on our strong position in all areas of Finnish food trade. Kespro's performance in 2023 was particularly strong. Improved purchasing power and slowing inflation have begun to have a positive impact on the market. Demand for premium products recovered in the second year-half. Campaigns and other marketing efforts strengthened our customer flows and sales. Tight price competition continued in Finnish grocery trade. Net sales for the division totalled € 6,351.6 million, up by 3.7%, and the comparable operating profit amounted to €444.8 million.

In the building and technical trade division, profitability remained good even though it declined year-on-year as construction activity and cycle weakened. Construction activity declined in all our operating countries due to inflation and rising interest rates. In the longer term, however, the outlook for building and technical trade is positive. Urbanisation, repair and infrastructure investment debt, infrastructure projects and the green transition sustain construction across cycles. The division's net sales totalled €4,193.2 million, down by 8.7%, and its comparable operating profit amounted to €212.5 million.

In the car trade division, the strong transformation of our operations has led to improved profitability. Sales grew in all car trade business areas. Sales in sports trade decreased. New car deliveries grew clearly on the comparison period, and sales of used cars and services also increased markedly. Kesko's car trade division today is a leading operator in the sales of electric vehicles in Finland. The division's net sales totalled €1,262.3 million, up by 13.9% in comparable terms, while the comparable operating profit totalled €82.6 million.

Kesko has engaged in sustainability work with a long-term focus.

Work towards success continues

I have had the privilege of leading Kesko for over nine years. When I started, Kesko was a very different type of company, which engaged in multiple businesses in Finland, B2C building and home improvement trade in Sweden and the Baltics, and both grocery trade and building and home improvement trade in Russia. Kesko's profitability stood below 3%. My first action was to establish a new strategy for the company, and this is the strategy we have continued to execute ever since.

We have divested non-core operations totalling more than €1 billion, and invested over €4 billion in growth. Exiting the unprofitable department store operations, speciality goods trade, and Russia were among our most notable divestments. Our most significant acquisitions have been Suomen Lähikauppa – Finland's fourth biggest grocery trade company – in 2015, and our entry to technical trade via Onninen. When I became the President and CEO, B2C trade accounted for over 70% of sales in the building and technical trade division – today 80% of sales come from B2B trade, thanks to our conscious shift in focus towards the growing B2B segment. We have strengthened our B2B operations further by acquiring sector companies especially in Norway and Sweden, and recently in Denmark, too.

In addition to revamping our business portfolio, we have invested heavily in digital capabilities and data utilisation, and made customer experience, sustainability and working as "one unified K" our strategic focus areas.

As a trading sector company, we have a unique opportunity and a duty to enable sustainable lifestyles for our customers. Sustainability is a central part of Kesko's strategy, and we have engaged in sustainability work for decades. Kesko's long-standing work for sustainability and corporate responsibility brings results that gather international recognition. Kesko is the only company in the world to have made the Global 100 listing of the most sustainable companies in the world every year since the list was first established in 2005, and again we are ranked as the best in our sector globally. In the Dow Jones Sustainability Indices and the Global 100 listing Kesko ranks among the best trading sector companies in the world.

Kesko today is a very efficient trading sector operator. Our good success acts as strong proof of the effectiveness of our strategy, which yields results also in a changing operating environment. Throughout the history of Kesko and K Group, our strength has been our ability to quickly adapt to our surroundings as necessary. Efficiency and sales growth in core businesses have enabled good performance in profitability. Our good ability to generate profits and our strong financial position enable investments and good dividend capacity. Kesko's Board of Directors proposes to the 2024 Annual General Meeting that a dividend of €1.02 per share be paid for 2023. A key objective for a listed company is to generate value for its shareholders. Over the past ten years, our total shareholder return – including the dividend suggested now – is approximately €8.3 billion.

My successor Jorma Rauhala will be heading a strong and modern international trading sector company that is set to continue to grow profitably also in years and decades to come. Kesko's success has been built together. As I now retire, I want to express my gratitude to all our customers, shareholders, the people of K Group, and our partners for their trust and collaboration over these past nine years.

Mikko Helander
President and CEO

Mikko Helander, who served as Kesko's President and CEO since 2015, retired in January 2023. Jorma Rauhala was appointed as the President and CEO from 1 February 2024 onwards.

STRATEGY AND OPERATING ENVIRONMENT

2023

STRATEGY AND OBJECTIVES

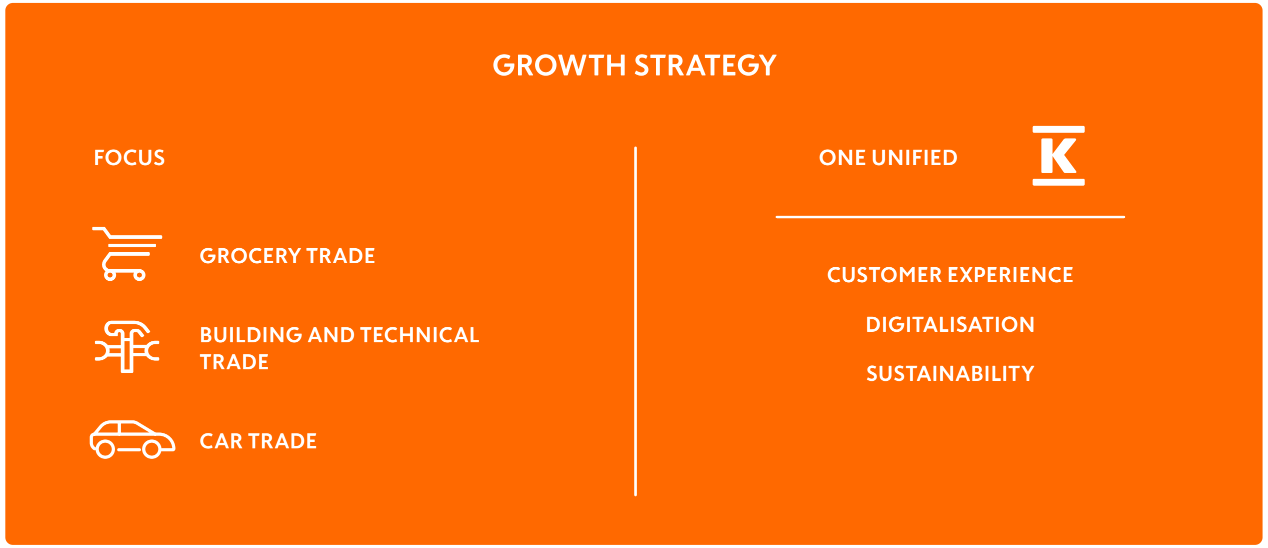
Kesko's strategy focuses on profitable growth in three selected divisions: grocery trade, building and technical trade, and car trade. Our key strategic themes include the constant improvement of customer experiences, further development of digital services, and sustainability.

Kesko has a growth strategy that has proven effective: it seeks profitable growth through focus and transformation. The trading sector and our operating environment are changing rapidly. For an agile and constantly evolving operator, this poses opportunities. The results we have achieved so far act as strong proof that we have made the right strategic choices and that our strategy works also in a rapidly changing market.

Grocery trade, building and technical trade, and car trade are all businesses in which Kesko has good market positions and the strongest capabilities, and they offer the best potential for long-term development. We use quality and customer experience to differentiate ourselves from the competition in both our stores and digital services.

Digitalisation and customer experience are two complementary central themes in Kesko's strategy. Kesko's key objectives in utilising digitalisation are to enable the best possible customer experience and to increase the efficiency of our operations and consequently our cost-efficiency. Data is central to all our operations, and we seek to create value in various ways for our customers with business processes that utilise data, analytics, AI and automation.

We continue our strategy execution



K-Plussa is the most extensive and versatile customer loyalty programme in Finland. The number of Finnish households belonging to the K-Plussa loyalty scheme and using the K-Plussa network totalled 2.5 million at the end of December 2023, with 3.3 million active customers.

'One unified K' is how we operate. K Group, which at its core comprises Kesko and independent retailer entrepreneurs in Finland, today operates in eight countries. The retailer entrepreneurs lend Kesko a significant competitive advantage, and we employ the retailer business model whenever it gives us a competitive edge. We want to maintain and strengthen our reliable K brand, and to provide even better service to our customers. In addition to a common strategy, operating as 'One unified K' means seamless cooperation with retailers and across business divisions to achieve synergies.

Sustainability is one of the key focus areas for Kesko's strategy. Our vision is to enable sustainable choices for our customers by promoting changes throughout our value chain. In our sustainability strategy, we commit to ambitious sustainability work with set targets. The four focus areas of the sustainability strategy are climate and nature, value chain, people, and good governance. All three business divisions encourage their customers to make sustainable choices – with food, construction or mobility.

With climate and nature, Kesko focuses on reducing emissions from its own operations and in the whole value chain. We have committed to setting long-term science-based emission reduction targets, and to cut emissions in our whole value chain to net zero by 2050. We also encourage our suppliers to set their own emission reduction targets. We strive to prevent the loss of biodiversity in our own operations and value chain. We support sustainable choices by our customers by offering sustainable products and services. With people, Kesko focuses on employee safety and wellbeing and on fostering diversity, equity and inclusion among its personnel, setting tangible targets for promoting these aspects in 2023.

We have begun preparations for the new EU Corporate Sustainability Reporting Directive (CSRD). As of 2024, we will report on sustainability within the CSRD framework.

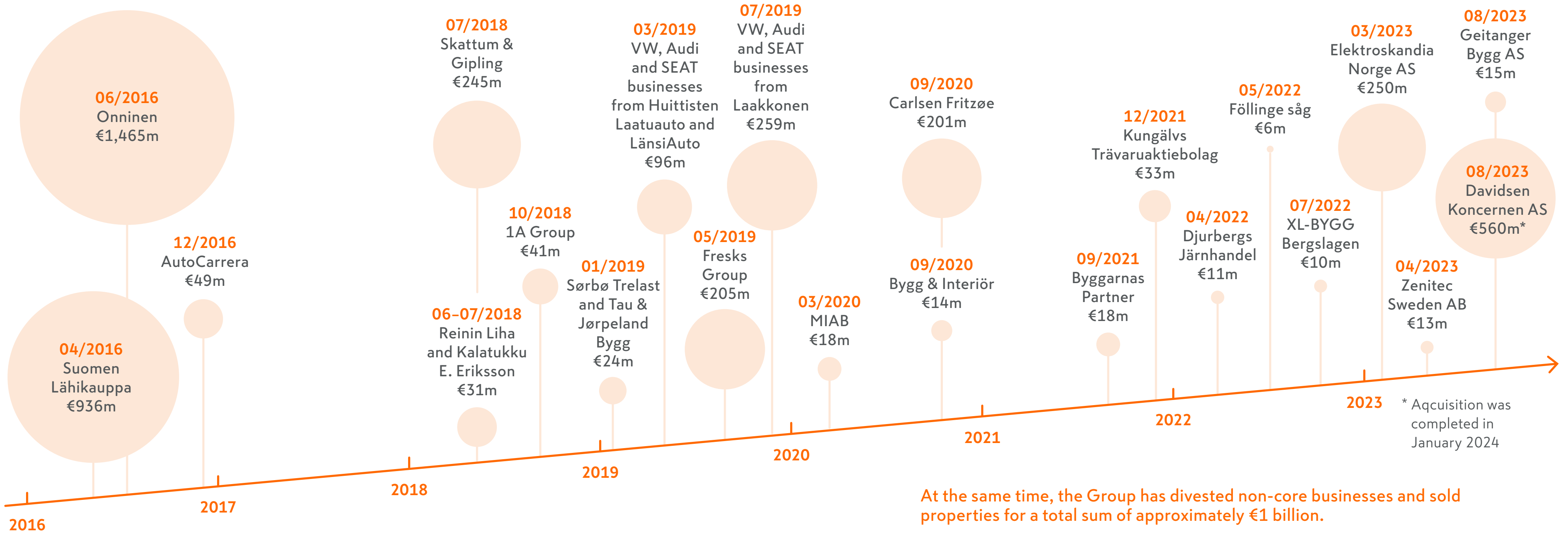
To measure our progress in sustainability, we refer to sustainability indices and assessments such as the Dow Jones Sustainability Indices, MSCI ESG, Sustainalytics and CDP.

In grocery trade, Kesko strives to maintain its position as Finland's most customer-oriented and profitable grocery retailer both in physical stores and online. The division's growth strategy is based on store-specific business ideas, extensive utilisation of data, and strong digital capabilities, combined with efficient processes. We respond quickly to changes in our operating environment. Online grocery operations support sales in our physical stores. Our strategic investments in new stores and updates to existing ones in all grocery store chains, and store-specific business ideas tailored to each location and customer base strengthen K Group's sales and customer satisfaction. Independent K-retailer entrepreneurs are responsible for the business ideas, and ensure customer focus in the most extensive grocery store network in Finland.

In the foodservice business, our aim is to further grow Kespro's sales and market position. Kespro's competitive advantages include its extensive high-quality selections and wide network as well as reliable digital services and services tailored to customers.

Trends in operating environment such as urbanisation and ageing population, individuality in customer behaviour and growing importance of sustainability support high-quality grocery trade.

Acquisitions as part of Kesko's growth strategy



At the same time, the Group has divested non-core businesses and sold properties for a total sum of approximately €1 billion.

Figures either net sales or sales figures published in connection with the acquisition.

In building and technical trade, Kesko continues to strengthen its leading position in Northern Europe. The division serves B2B customers in technical trade, and B2B and B2C customers in building and home improvement trade. B2B trade now accounts for over 80% of the division's sales. The division's growth strategy is implemented with a country focus, seeking growth both organically and via acquisitions. Each of our operating countries has its own business-specific, customer-focused strategy. We seek synergies both within and between the countries.

Building and renovation are becoming more technical and are increasingly outsourced to professionals. The green transition, need to improve energy efficiency, and urbanisation support the division's growth regardless of construction cycles. The need for renovation building is also growing in Northern Europe. Our recent acquisitions and expansion to Denmark strengthen our position in the growing B2B segment.

New digital services and online sales are a significant part of the customer journey and more efficient operations. For B2B customers, good digital services primarily mean efficient order channels. Some 30% of Onninen's sales now come from digital channels.

In car trade, Kesko aims to offer the best customer experience on the market and to strengthen its market position in both new and used cars, and services. The division's growth strategy is based on a strong partnership with the world's leading car manufacturer the Volkswagen Group and Porsche, more extensive utilisation of digitalisation, improved operational efficiency, and growing the sales of used cars and services. Our objective is to improve customer satisfaction and strengthen profitability and market position in all businesses. The sales of electric cars and rechargeable hybrids in particular will continue to grow in upcoming years. We support this trend with our extensive range and by expanding our K-Lataus EV charging network.

FINANCIAL TARGETS

Central to achieving financial targets is business growth, constant improvement in cost efficiency, and efficient capital allocation.

Kesko's growth strategy has proven effective and our strong profitability shows that the growth strategy and its successful execution in all three divisions have managed to yield results also in a more challenging operating environment. Our cost-efficiency continued to improve further thanks to efficiency improvement measures implemented. We were also able to significantly improve inventory and working capital turnover in 2023.

We will continue growth strategy execution in all three business divisions, focusing on constant improvement of customer experiences, further development of digital services, and sustainability. In future acquisitions, we will aim for economies of scale and improved competitiveness especially in building and technical trade.

Financial indicators

Kesko's medium-term financial targets were last updated in spring 2021, and in 2021 and 2022 we achieved the targets. In 2023 we achieved the targets for comparable operating margin and interest-bearing net debt / EBITDA, but fell slightly short of the target for comparable return on capital employed.

Indicator	Target	Level achieved in 2023	Level achieved in 2022	Level achieved in 2021
Comparable operating margin, %	Over 6.0	6.0	6.9	6.9
Comparable return on capital employed, %	Over 14.5	13.4	16.9	17.2
Interest-bearing net debt / EBITDA, excluding IFRS 16 impact	At maximum 2.5	0.7	0.2	0.0

Earnings per share (EPS)

€1.28

Dividend*

€1.02 per share

*proposal to the Annual General Meeting

Read more about Kesko's outlook

TRENDS IMPACTING OUR OPERATING ENVIRONMENT

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

MEGATRENDS

Globalisation: growing importance of supply chain security and risk management

- Heightened geopolitical situation and consequent tensions and crises
- Growing importance of supply chains, reliable partners and transparency
- Market consolidation

Continued population change: urbanisation and ageing population

- People continue to move to cities, change in population structure
- Urbanisation impacts living, consumption habits and mobility
- Regional division changes the need for services

Growing importance of data and benefits of digitalisation

- Need to secure responsible use of data throughout the value chain
- Quality data, AI and analytics lending a competitive advantage
- Robotics improving operational efficiency

Continued growing importance of sustainability in business

- Emission reductions throughout the value chain, use of emissions-free energy
- Addressing impacts on biodiversity, preventing loss of biodiversity
- Impact of growing sustainability regulation on operations
- Promoting good governance and preventing corruption

CHANGING CONSUMER TRENDS

Individuality in customer behaviour

- Rapid changes in purchasing and consumption habits and individualisation
- Customers value convenience and speed
- Growing importance of recommendations and offers based on the customer's purchasing behaviour

Constant adjustment of selections

- Emphasis on price grows if purchasing power weakens
- Interest towards sustainable products and wellbeing impacting selections
- Growing appreciation for food produced locally

Multichannel sales

- Sales through digital channels growing
- Using customer insight to offer a seamless, high-quality customer experience
- Services that utilise customer data and AI, targeted marketing

CHANGES IN OUR OPERATING ENVIRONMENT IN 2023

In 2023, Russia's offensive war in Ukraine and global geopolitical tensions continued to impact Kesko's operating environment. Especially in the early parts of the year, accelerated inflation and rising interest rates led to a rise in costs and diminished consumer purchasing power. Fluctuations in the availability and price of energy also continued. Economic uncertainties weakened consumer confidence and impacted purchase decisions. Our keys to dealing with the weaker economy included ensuring price competitiveness, efficient cash flow management, accelerating inventory turnover, and measures to adjust costs and prevent credit losses.

GROCERY TRADE

Impact on business

- Economic uncertainty and diminished purchasing power impacted customers' consumption decisions.
- Consumers were more price conscious, and campaigns increasingly important.
- Customers also valued quality, and demand for premium products recovered in the second year-half.
- Consumers considered restaurant visits more carefully.

Actions

- Ensuring competitiveness in both B2C and B2B trade.
- Utilising customer data in personalised marketing, and further strengthening digital services.
- Managing rising costs, improving operational efficiency.

Outlook for 2024

- B2C trade and the foodservice market are expected to remain stable despite tightened price competition, and inflation is expected to slow down in 2024.
- Profitability is estimated to remain good also in 2024.

BUILDING AND TECHNICAL TRADE

Impact on business

- The rise in interest rates and construction costs and economic uncertainty caused a heavy contraction in construction activity, especially in new housing construction.
- In technical trade, demand for products related to the green transition – especially solar panels – declined compared to the year before.
- Companies cut down on investments and consumers saw their purchasing power decline.
- Activity in renovation building decreased less than activity in new construction throughout the division.

Actions

- Managing rising costs, ensuring inventory turnover, and improving operational efficiency.
- Strengthening the share of renovation building, over 50% of the division's sales.
- Utilising opportunities in M&A.
- Strengthening geographical scope, expansion to the significant Danish building and home improvement market.

Outlook for 2024

- The market is expected to continue to decline in 2024. The economic cycle will have the biggest impact on new residential building, while the decline in other building construction, renovation building and infrastructure construction is expected to be smaller. The cycle is expected to turn in 2025.
- Profitability is estimated to fall short of the 2023 level, but to still remain at a reasonably good level.

CAR TRADE

Impact on business

- New car availability improved on the year before, and was reflected in strong sales and profit.
- General economic uncertainty decreased new car sales and orders were below normal levels, demand shifted towards used cars.

Actions

- A more balanced structure for the business: new cars, used cars, services.
- Strengthening used car sales and services to better serve the whole value chain.
- Continued implementation of transformation and efficiency improvement measures to strengthen profitability.
- Strong brands and interesting new car models supporting sales growth.

Outlook for 2024

- New car sales are expected to fall short of the 2023 level.
- Sales of used cars and services are expected to grow.
- Profitability in car trade is estimated to still remain good in 2024, but to fall short of the 2023 level.

OPPORTUNITIES AND RISKS IN OUR OPERATING ENVIRONMENT

RISK	IMPACT	MANAGEMENT	OPPORTUNITIES
Economic operating environment • Prolonged Inflation, high interest rates, and low employment have an impact on consumer purchasing power and companies' willingness to invest.	• In grocery trade, product prices have an emphasised impact on consumer purchase decisions. • In building and technical trade, construction and renovation projects are being postponed, which impacts sales and inventory management. • In car trade, customers may postpone purchases.	• Strengthening our competitive advantage by ensuring competitive prices, quality, and customer orientation. • Securing cash flow through increased operational efficiency on a wide scale. • Adjusting operating costs to business.	• Utilising the business agility and competitive advantages enabled by retailer entrepreneurs. • Utilising Kesko's strong financial position for growth opportunities, acquisitions and business development. • Utilising business opportunities related to the green transition, especially in building and technical trade.
Digital services and data-driven management • Tightening competition over skilled experts. • Increasing regulation concerning digitalisation and the collection and use of data. • Cybercrime.	• Digital service development could slow down because skilled experts cannot be hired or retained. • EU regulation may limit the collection and use of data that would be significant for business and customer service purposes, or lead to considerable additional costs. • Cyber threats directed at digital services and information systems increase risks related to business continuity and customer data management.	• Developing factors that impact K Group's employer image, ensuring the availability and retention of skilled personnel. • Actively monitoring and impacting the preparation of legislation affecting the sector at EU level. • Constantly monitoring threats to information security and proactively developing information security. • Providing extensive training to personnel. • Requiring a high level of information security from critical service providers.	• Using customer data and research to develop more personalised customer experiences and store-specific business ideas. • Offering a seamless customer experience in all channels by utilising artificial intelligence, data analytics, and service design. • Combining online sales and digital services with our comprehensive store network to enable excellent customer service in K Group.
Geopolitical situation • Growing tensions in security policy as a result of increased geopolitical tensions, and the possible expansion of the war in Ukraine.	• If escalated, heightened military and economic competition between superpowers could have a significant impact on Kesko's operating environment, supply chain continuity, and product availability.	• Preparing for potential heightening of global tensions and disruptions in supply chains by ensuring our contingency plans and crisis management systems are up to date.	• Business opportunities related to reconstruction efforts.

RISK	IMPACT	MANAGEMENT	OPPORTUNITIES
Sustainable purchasing and human rights • Irregularities in the management of social or environmental responsibility in our purchasing chain. • Failure in managing product safety or in supply chain quality assurance.	• Irregularities in the management of social or environmental responsibility in the purchasing chain could result in human rights violations, environmental damage, financial losses, or loss of stakeholder trust. • A failure in product safety control or in the quality assurance of the supply chain could result the loss of customer trust, or, in the worst case, a health hazard to customers.	• Conducting extensive, systematic supplier audits in high-risk countries to ensure responsibility and sustainability. • Promoting sustainability and responsibility throughout the supply chain. • Using sustainability policies to guide the sourcing of products containing raw materials identified as critical from a social or environmental responsibility perspective. • Ensuring and systematically monitoring product safety in purchasing.	• Responsible and sustainable procurement of products and services allows Kesko to impact progress and execution of social and environmental responsibility in companies in its supply chains. • Efforts to improve supply chain responsibility and product safety will increase stakeholder trust.
Climate change • Climate measures will globally stay at their current level, resulting in a failure to mitigate climate change (IPCC RCP 6.0).	• In the longer term, the risk would have severe impacts, as humanity would not have been able to do enough to solve the climate crisis on a global scale. • The impacts of global warming on global production areas, supply, quality and price could become critical factors for Kesko in terms of supply chain continuity and product availability.	• Kesko's strategy work assesses and takes into account the likelihood of potential physical occurrences, and reviews efficient adjustment measures. • Physical risks impact, in particular, infrastructure, Kesko's properties and other assets, and potentially logistics: preparing for the impacts of climate change in future investments is very important.	• Kesko can offer its customers products that support the green transition, and sustainable solutions for reducing climate impacts, for improving the energy efficiency of buildings, and for reducing food waste. • The impact of climate change on global production chains enables the export of clean, high-quality Finnish food to new markets in collaboration with the food industry.

EMERGING RISKS			
Loss of biodiversity • In the long term, continued loss of biodiversity will significantly hamper the cultivation of edible crops and food production, thus weakening product availability and quality.	• Risks to biodiversity impacting our operations and value chains include loss of species, water shortage, increase in pests and diseases, and pollinator decline, which through crops has a direct impact on food production and product availability.	• Promoting the sustainable use of natural resources in our own operations with the help of circular economy and minimising food waste. • Actively taking part in nature restauration via various projects, offsetting the impact our projects have on biodiversity. • Creating selections where the products and their packaging put minimal strain on biodiversity throughout their life cycle.	• Enabling sustainable and healthy lifestyles for our customers by promoting the sustainable use of natural resources and by building sustainable selections that take biodiversity into account.
Extreme weather conditions • Extreme weather conditions caused by climate change (increase in storms, wind, heat periods and rain) could potentially impact Kesko's business and value chain, especially in the long term.	• Extreme weather conditions could lead to e.g. powerful storms with high winds, rain and sudden floods, and prolonged heat periods during the summer. This would have direct impacts on agriculture and food production, and consequently on the availability, price and quality of products. • Global supply chains and transport routes could change considerably, which would impact Kesko's operations.	• Preparing for global changes in prices, suppliers, availability and quality resulting from the climate crisis important for business continuity.	• The building and technical trade division in particular can offer solutions that help customers prepare for extreme weather conditions.

BUSINESS

2023

KESKO'S BUSINESS MODEL

Kesko's business model comprises Kesko's own retailing and B2B trade, and the chain business model.

In Finland, the biggest business model is the chain business model, in which independent K-retailers run retail stores in Kesko's chains, namely the grocery store chains, and the K-Rauta and Intersport chains. Some 46% of Kesko's net sales come from sales to retailers.

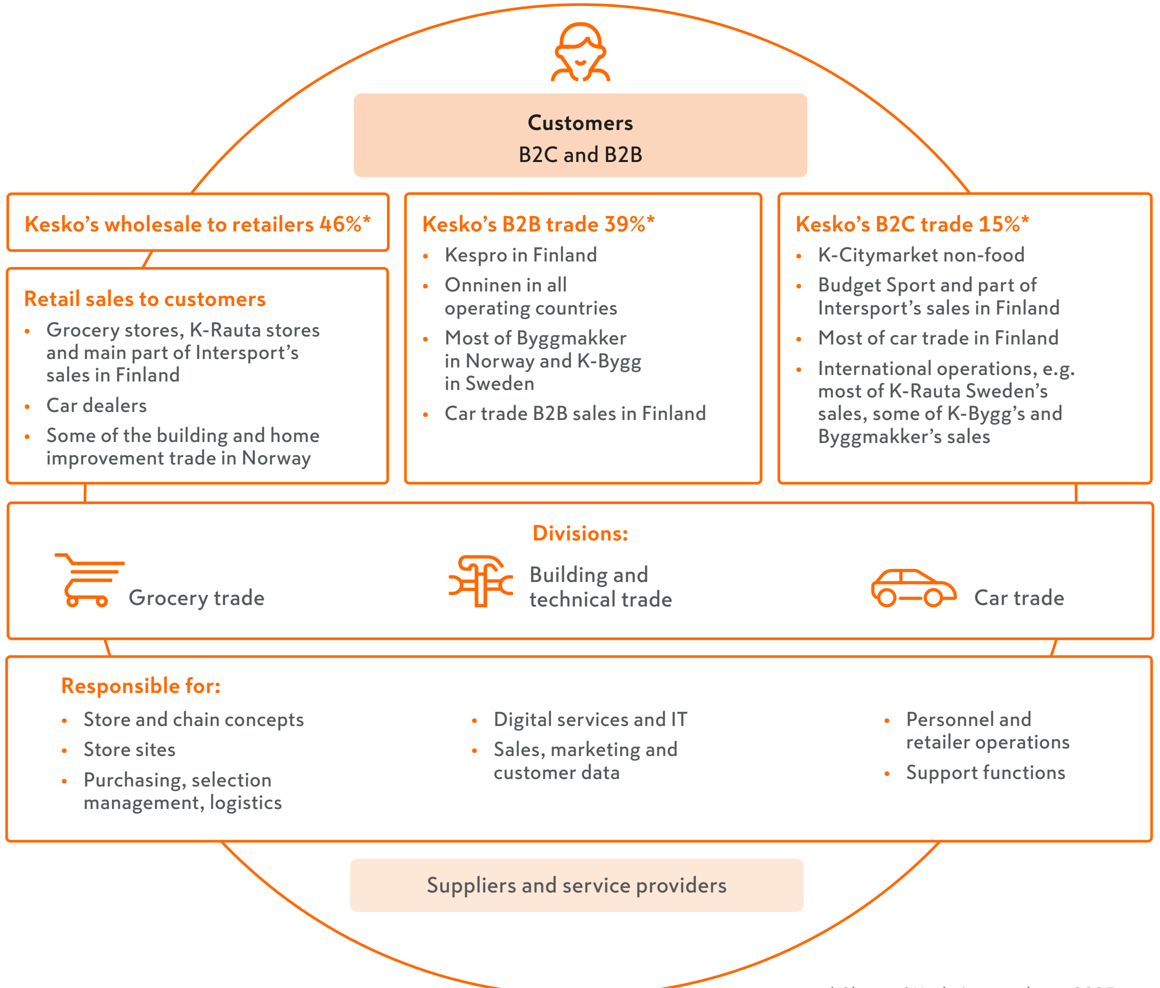
Kesko's own retailing and B2B trade account for some 54% of net sales. In Finland, Kesko's own retailing and B2B trade comprise e.g. car trade, Kespro, Onninen, non-food sales at K-Citymarket hypermarkets, and part of the Intersport sales and Budget Sport. B2B trade in particular is a strongly growing part of Kesko's business operations. Outside Finland, Kesko mainly engages in own retailing and B2B trade.

Net sales from international operations totalled some €2.1 billion, or 18%, of Kesko's net sales in 2023. Kesko operates in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Denmark*. In addition, K Group operates in Belarus via a joint venture.

The constant improvement of customer experiences and further development of digital services are at the heart of our growth strategy. We use quality and customer experience to differentiate ourselves from the competition in both our stores and digital services.

* Acquisition in Denmark was completed in January 2024.

Kesko's business model



* Share of Kesko's net sales in 2023

K-RETAILER OPERATIONS IN FINLAND

In Finland, Kesko's principal business model is the chain business model, in which independent entrepreneurs – usually referred to as K-retailers – operate retail stores in Kesko's chains. These include the grocery store chains and the K-Rauta and Intersport chains. In total, there are some 1,100 retailers managing nearly 1,500 stores. Outside Finland, Kesko mainly engages in own retailing and B2B trade.

The cooperation between K-retailers and Kesko is based on equality and desire to develop operations together. The aim is to improve competitiveness and customer satisfaction with lower costs and consistent high quality. The respective rights and duties of Kesko and the K-retailers are determined in a chain agreement. Combining systematic chain operations and K-retailer entrepreneurship under one unified 'K' brand lends us a competitive advantage.

Kesko is responsible for the continuous development of the operating model and store concepts, for steering chain operations, and for purchasing products included in chain selections. Kesko is also responsible for the store site network and for obtaining new store sites. Kesko either owns or leases the store sites and is responsible for developing them.

Kesko engages in long-standing cooperation with partners such as suppliers and logistics operators. International sourcing cooperation and private labels such as Pirkka and K-Menu play a significant role in ensuring that the selections offered to customers are versatile and competitively priced.

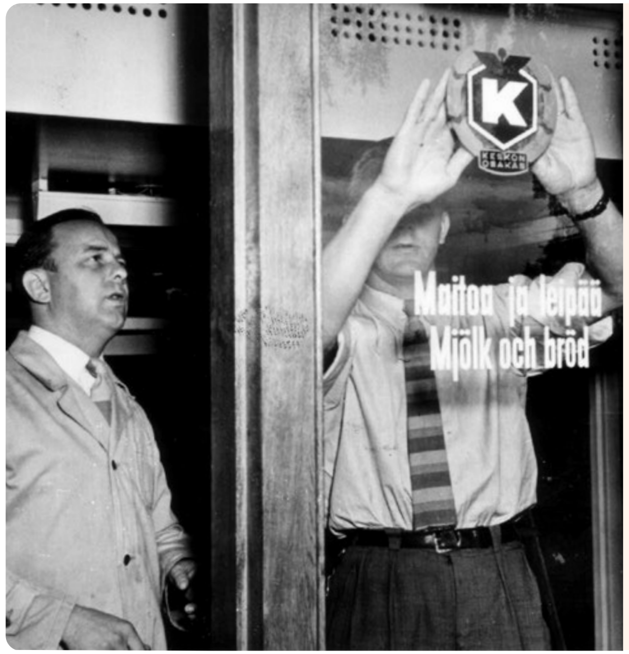
Kesko and K-retailers: roles

The retailers pay a net sales-based chain fee and a sales margin-based store site fee to Kesko. Store site fees account for approximately half of the fees paid by retailers to Kesko. Other cost-based fees include those related to e.g. marketing, logistics and IT.

K-retailers are responsible for the business operations of their store, their store-specific business ideas, customer satisfaction, store personnel and sales and profit. Retailers establish their own store-specific business ideas based on customer insight and K Group customer data, in order to offer their customers the best services and selections. The multi-store model, in which one retailer can have multiple stores, creates synergies in e.g. management, personnel resourcing, and product selections. Each K Group store is part of its larger community and society, and the retailer entrepreneurs work with various stakeholders.

K-retailers typically have a university or college degree, or education in business. The personality, values and attitudes of a retailer candidate are also important. The first step towards becoming a retailer is a year-long trainee programme, which consists of practical training under the guidance of a retailer mentor, online studies, and on-the-job learning and in-store training. After completing the programme, the trainees are ready to start their career as a K-retailer entrepreneur. Kesko aims to offer each candidate who has finished the training a store that is the best fit for all parties. In 2023, 50 new K-retailers launched their career.

All K-retailers are members of K-Retailers' Association, which guards their shared interests and develops K-retailer operations. The association also coordinates the commercial collaboration between the retailers and Kesko, and offers e.g. legal advice, training and events to its members. K-Retailers' Association with its related parties is the biggest shareholder in Kesko, and controls 7.5% of the shares and 19.5% of the votes in the company. Many individual K-retailers are also significant Kesko shareholders.



A BRIEF HISTORY OF KESKO

Kesko came to being in 1940, when four Finnish regional wholesale companies founded by retailers joined forces. Operations began in early 1941. The K-retailer group was formed to support the retailers who held shares in Kesko in their business and in purchasing goods and to provide a platform for collaboration. Soon began the active building of the K-store network, with joint advertising efforts. Over the decades, Kesko's operations have changed and evolved. In the 1950s, Kesko began developing speciality stores, primarily hardware stores. The 1960s saw the rise of self-service stores, while the first K-Citymarket hypermarket store opened in 1971. The operations and organisation saw a major upheaval in the 1990s with the introduction of new store types and more chain-focused operations. Kesko was first listed on the Helsinki stock exchange in 1960 in an effort to expand the ownership base. At the time, Kesko had some 5,700 employees. By the end of 2023, the number of employees had risen to 17,800, while the number of shareholders stood above 105,000.

Image: Kesko archives

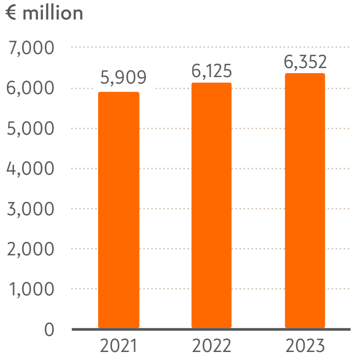
+ More information on the store site and chain fees paid by the retailers in Notes 2.1 and 2.4 to the financial statements

→ More on K-Retailers' Association

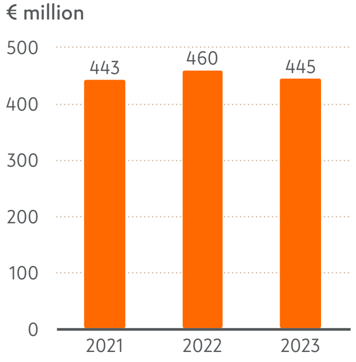
CUSTOMER FLOWS STRENGTHENED IN ALL GROCERY TRADE BUSINESSES

Sales for the grocery trade division grew in both the grocery store and the foodservice business. Performance was particularly strong in Kespro. In the grocery stores, we increased campaigns and focus on price competitiveness and price image as food prices grew. Despite the importance of price, demand for premium products began to recover in the latter half of the year. Customer flows in our stores grew. Sales growth, better efficiency per square metre, and increasingly efficient processes supported our good profitability.

Net sales



Operating profit



Comparable figures.

“The importance of price was emphasised in 2023 as food price inflation accelerated, especially in the early parts of the year. We shifted focus more towards private labels and affordable alternatives, and continued active campaigns to strengthen price image. Our digital marketing and personalised offers based on the customer's previous purchases in part proved a huge success. Restaurant activity remained high also in 2023, as reflected in Kespro's good demand and strong performance.

Ari Akseli
President, grocery trade division

Our strong position in Finnish food trade yields good results

In the grocery trade division, Kesko's goal is to be the most customer-oriented and profitable food trade operator in Finnish B2C and B2B trade, and the market leader in online grocery trade. The growth strategy is based on store-specific business ideas, data and customer insight driven decision-making and strong digital capabilities, as well as efficient processes.

In the foodservice business, our aim is to further strengthen our market position by offering the best selection in the business and a comprehensive service concept. Kespro's business model is based on strong partnerships with the customers, with both Kespro and the customers benefiting from business development.

Our strong position in both B2C and B2B trade creates important strategic synergies in purchasing, logistics, common operations and IT investments.

In 2023, net sales and sales continued to grow in both the grocery store business and the foodservice business. In the grocery stores, campaigns and other marketing efforts saw customer flows and sales increase, although K Group's market share decreased slightly. Kespro's sales grew forcefully and outperformed the market. Profitability in grocery trade was dampened by the impact rising prices had on consumer behaviour as well as the growing share of campaign sales year-on-year. Profitability was also weakened by the rise in costs related to inflation.

Strategy focus heavily on customer experience and managing price image

We introduce new products and services to our grocery stores based on customer data and local preferences.

The rise in food prices, which began in 2022, accelerated in early 2023, affecting consumer behaviour. Price continued to be a big factor for consumers, but demand for premium products recovered somewhat in the second year-half.

In 2023, we continued to focus on store-specific business ideas and differentiation, as well as on improving our price competitiveness and price image.

When it comes to managing price image, our private labels – K-Menu and Pirkka – play a key role alongside campaigns and offers. The private labels accounted for over 20% of retail sales in grocery trade. The Pirkka range offers a good price-to-quality ratio, and its products have been successful in many comparisons and competitions. It also enables many smaller producers to get their products on store shelves across the country. At the end of 2023, there were in total some 2,600 Pirkka products: of these, some 330 were Pirkka Parhaat premium products and nearly 200 Pirkka Luomu organic products. The lowest price point K-Menu range comprises some 200 products. In addition to price image, we will continue to focus on sustainable high-quality selections that set us apart, easy shopping, and individuality.

Growing customer flows and good sales and customer satisfaction figures in all our grocery store chains and online are proof that our strategic choices have been correct. The NPS figure for customer satisfaction for all K Group grocery stores was 68, while the NPS for online grocery was 79.

Notable investments in store sites

During the year, we invested €251.2 million in our store site network. We will continue to update existing stores and will open several new grocery stores in Finnish growth centres

K-RUOKA APP USER NUMBERS SURGED IN 2023

The number of active weekly users for K Group's K-Ruoka mobile application rose from 200,000 at the start of the year to over 580,000, making it the most popular app of its kind in Finland. K-Ruoka offers its users personalised MyPlussa offers based on the user's purchase history, as well as weekly mobile offers with discounts as high as 40%.

In addition to personal offers, the app gives users access to other offers and benefits, paperless receipts, a product search function, and inspiration in the form of recipes, games and product launches.

in upcoming years. In line with our growth strategy, we will be investing some €200–250 million annually in developing our network of store sites.

Sales of Kesko's K-Citymarket hypermarket stores in particular have been growing considerably, and the hypermarkets have a crucial impact on the profitability and market share of Kesko's grocery store business. Over the next few years, we will build new K-Citymarket stores in Helsinki, Vantaa, Lahti, Kuopio and Lempäälä near Tampere. We also acquired the Espoontori shopping centre in Espoo, and plan to build a big store there. We will also be updating 13 K-Citymarket stores in 2024.

Capacity grew in online grocery

Online grocery sales have risen to a new level in recent years. Our retailer business model has enabled us to increase online service capacity further. In our view, combining physical stores with online services is an effective way to do business. At the end of the year, over 730 K Group grocery stores offered online services. Online grocery sales in 2023 grew by 5.7% and totalled around €249 million (€236 million, incl. VAT). Online accounted for some 3.2% of the division's sales. Some 70% of online orders are home deliveries, which remains the most popular order type. Click & collect has also grown in popularity, and the new K-Nouto concept is available at 178 stores. Customer satisfaction for the K-Nouto service is very high: 81 for personal service and 84 for locker collection.

The in-store automation-assisted collection system for online grocery orders in K-Citymarket Ruoholahti in Helsinki has enabled faster delivers, higher volumes and a better customer experience in the delivery area.

The fastest growing area in online grocery is the express delivery concept we offer together with Wolt. At the end of 2023, some 300 K Group grocery stores around Finland offered express deliveries, covering a range of as many as 5,000 grocery store products, which may be delivered to the customer's store in just 15 minutes. On average, the delivery takes 34 minutes. The products are delivered from K-Market stores. In 2023, the service was also introduced in a couple of K-Supermarket stores. Express deliveries play a significant role in the overall growth of online grocery and especially sales for the K-Market chain.

K-retailer entrepreneurs as our competitive advantage

Kesko's grocery store business relies heavily on retailer entrepreneurs. There are in total some 900 K-retailers in grocery trade. K-retailers handle selections, quality, customer service, staff and competencies, and business performance in their stores, based on individual store-specific business ideas. Data-driven management is a central part of store operations, and we utilise customer data in supporting the retailers in defining their store-specific business ideas. Innovative executions of these business ideas have also gained international attention: in November, the international grocery trade research and training organisation IGD chose K-Citymarket Länsikeskus as its "Store of the month". K-retailers have long led innovation in Finnish grocery trade.

Kespro creates services based on customer insight

Kespro is Kesko's own business, and the leading foodservice wholesale company in Finland. Kespro accounts for 18% of Kesko's grocery trade business, with net sales of €1,154.9 million and an operating profit of €75.0 million. Kespro's customers include restaurants, hotels, cafes, service stations, public institutions, K Group stores and retailers. Kespro's competitive advantages include its extensive high-quality selections, wide network, and reliable digital and personal services.

Kespro has the biggest online store in the business in Finland, and some 70% of sales come from digital channels. The selections include strong own brands, which account for some 50% of sales. Some 70% of Kespro's sales come from lunch restaurants, employee cafeterias, and public entities. The Kespronet online service is tailored to each customer, displaying customer-specific selections, prices, delivery times and options.

Kespro has 13 cash-and-carry outlets across Finland and an online wholesale store. Kespro's concepts include Foodsteri, a modern development and training kitchen that can be found in Helsinki, Lahti and Oulu. Kespro also includes speciality fish and meat wholesalers Kalatukku E. Eriksson and Reinin Liha.

BUSINESS ENVIRONMENT

- Price competition increasing
- Polarisation and significant changes in population structure
- Increased importance of hybrid consumption and individuality
- Blending the roles of stores and restaurants: trends in eating out and popularity of takeaway meals
- Accelerating evolution of digitalisation and AI, seamless customer experience combining digital and physical
- Responsibility and sustainability required from operations and concepts
- Climate change and environmental awareness emphasised

STRATEGIC OBJECTIVES

- Strengthening our price competitiveness and price image
- Constantly updating store-specific business ideas to match the operating environment
- The best multichannel customer experience
- Leading quality and selection image and differentiation
- Decision-making based on data and customer insight
- Enabling sustainable choices for customers
- The best selection and service in the foodservice business
- The most attractive partner and business platform

Our strategic objective is to maintain our position as the most customer-oriented and profitable grocery retailer in Finland, and the market leader in online grocery.

PROGRESS IN SUSTAINABILITY STRATEGY IMPLEMENTATION

In Kesko's sustainability strategy, we commit to engaging in ambitious, target-driven sustainability work. In addition to the shared sustainability strategy, each Kesko division has its own particular focus areas for sustainability efforts.

In grocery trade, our sustainability focus in 2023 was on reducing food waste, creating new circular economy products, and supporting healthier choices by our customers.

Choices that benefit health and the climate

Kesko wants to facilitate choices that promote customer wellbeing and sustainable consumption. One of the goals stated in our health roadmap is to encourage Finns to eat at least 500 grams of vegetables a day by 2026. We are reducing the amount of added salt, sugar and saturated fat in our Pirkka products, and growing the selection of sustainable products.

K-Ruoka app supports more sustainable choices

In 2023, we added a new wellbeing feature to the K-Ruoka app: it calculates a nutrition index based on the user's purchases, comparing the purchase data to national nutritional recommendations. The feature suggests nutritional goals that can guide the user to, for example, increase the intake of vegetables or reduce the amount of added sugar.

Products that help combat food waste

One of our main objectives with regard to circular economy is halving food waste by 2030. We are constantly looking for ways to better manage food waste in our value chain. One important way is developing products that utilise food waste, such as the 'Hyvis' soup that uses bell peppers from Kesko's central warehouse that are edible but cannot be sold in stores because of e.g. bruising.

Market

In 2023, the Finnish grocery retail market totalled some €23 billion (incl. VAT), representing a growth of some 6.0% (Finnish Grocery Trade Association's statistics). Strong rise in food prices grew the whole grocery trade market in euro terms. Strong food price inflation decreased volumes, but grew sales in euro terms. Consumer purchase behaviour emphasises price, often favouring more affordable alternatives. Price competition in the Finnish grocery trade market has intensified further due to the rise in prices. Online grocery sales have continued to grow.

Market shares

GROCERY TRADE

Kesko's market share in Finland was 34.3% (Kesko's own estimate based on Nielsen's comparison group which includes discount stores and service stations as well as grocery stores). K Group is the second biggest operator in Finnish grocery trade. Our market share decreased in 2023 due to the changes in our operating environment and competitors establishing more new stores.

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

The market share for K-Citymarket's home and speciality goods (non-food) cannot be reliably calculated.

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

Grocery trade in figures

Key figures	2023	2022
Net sales, € million	6,351.6	6,124.7
Operating profit, comparable, € million	444.8	460.4
Operating margin, comparable	7.0	7.5
Return on capital employed, comparable, %	17.4	19.6
Capital expenditure, € million	303.7	257.6
Personnel, average	6,257	6,288

Properties	2023	2022
Owned properties, capital, € million	1,097	943
Owned properties, area, 1,000 m2	656	598
Leased properties, area, 1,000 m2	1,411	1,434

	Number of stores		Retail and B2B sales, 0% VAT, € million	
K Group's grocery trade	**2023**	**2022**	**2023**	**Change, %**
K Food stores	1,208	1,220	6,657.8	3.1
K-Citymarket, non-food	81	81	618.5	1.8
Kespro	-	-	1,186.0	11.2
Grocery trade, total	**1,208**	**1,220**	**8,462.4**	**4.1**

In 2023 there were 81 K-Citymarket, 251 K-Supermarket, 747 K-Market stores and 65 Neste K service stations and 64 other stores. In addition, 729 K-food stores offer online grocery sales services. Kespro has 13 cash & carry outlets and an online outlet.

KESPRO FOODSERVICE

Kespro is the market leader in foodservice wholesale in Finland. Kespro's market share is estimated to have strengthened in 2023 to 47.9% (in the Finnish Grocery Trade Association's foodservice wholesale peer group).

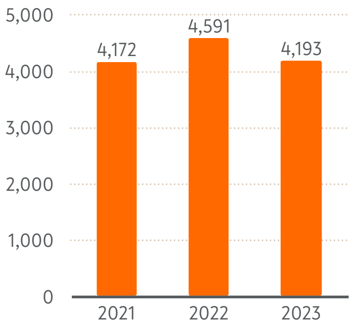
In 2023, the post-pandemic normalisation of restaurants, events and travel saw the foodservice business grow. However, weakened purchasing power had some negative impacts on the business, and more people working from home impacted lunch sales in particular.

Competitors: Meira Nova, Metro-tukku, Valio Aimo, Suomen Palvelutukkurit

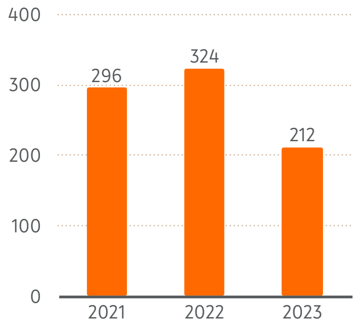
A GOOD PERFORMANCE IN A CHALLENGING MARKET IN BUILDING AND TECHNICAL TRADE

Profitability in the building and technical trade division remained at a good level even though it decreased year-to-year as construction activity weakened considerably. Construction activity declined in all our operating countries due to inflation and rising interest rates. In the long term, outlook for the division is, however, positive. Urbanisation, repair and investment debt, infrastructure projects and the green transition sustain construction activity. Our strategic objective is to gain an even stronger position in Northern Europe, especially in B2B trade.

Net sales



Operating profit



Comparable figures, excluding sports trade.

> Growing building and technical trade, and especially B2B trade, in Northern Europe is an important part of Kesko's growth strategy. The current market offers great opportunities for a strong operator like Kesko. In 2023, we acquired the technical trade operator Elektroskandia in Norway, and in early 2024, finalised the acquisition of the Danish building and home improvement trade chain Davidsen. We also carried out smaller acquisitions in Sweden and Norway.

Jorma Rauhala
President, building and technical trade division,
Kesko Group's President and CEO a of 1 February 2024

Construction activity weakened

Kesko continues to strengthen its leading position in building and technical trade in Northern Europe through executing country-specific strategies.

The business is divided into technical trade and building and home improvement trade. In 2023, demand for both decreased in all operating countries as construction volumes declined. Net sales decreased by 8.7% to €4,193.2 million. The division's comparable operating margin was 5.1%. Of the net sales, 50% came from outside Finland. Profitability remained good despite the weakened market.

Net sales for technical trade totalled €2,344.7 million, and operating profit decreased in all operating countries apart from Norway. Technical trade, i.e. Onninen, is 100% directed at professionals: technical contractors, industry, infrastructure builders, and retailers. Onninen's business is Kesko's own retailing.

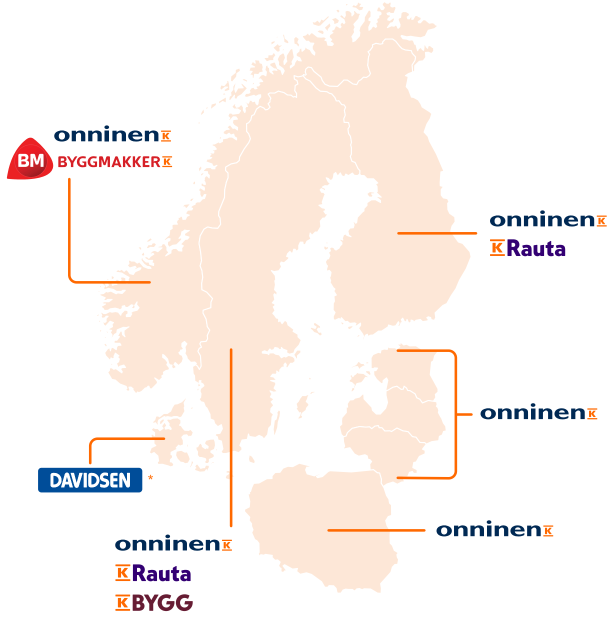
Combined, B2B customers in technical trade and building and home improvement trade accounted for over 80% of the division's sales. Sales in B2B trade decreased as especially new building construction activity weakened during the year. Decline in renovation building was less pronounced, and renovation building accounted for over half of the division's sales. A considerable share of the decrease in sales was attributable to solar power products, which saw a significant sales uptick in the comparison period due to a rapid rise in electricity prices.

Net sales for building and home improvement trade totalled €1,912.1 million, comparable operating profit decreased. Building and home improvement trade serves both B2B customers (two-thirds of retail sales) and consumers (one-third). Kesko's building and home improvement chains are K-Rauta, K-Bygg and Byggmakker. In the Baltics and Belarus, building and home improvement trade operations are handled by the joint venture Kesko Senukai. The K-Rauta stores in Finland are run by K-retailer entrepreneurs.

The key to our strategy execution is to address the differing needs of our three customer segments: B2B customers in technical trade, and B2B and B2C customers in building and home improvement trade. We strive to offer a seamless customer experience in all channels. We actively seek synergies within and between our operating countries, for example, in purchasing and concept, digital service and own brand development.

We continued acquisitions in line with our strategy in 2023. In August, we announced the acquisition of one of Denmark's leading building and home improvement trade operators Davidsen Koncernen A/S. The deal was completed on 31 January 2024. We will thus be expanding our operations to Denmark, and gaining a solid foothold on the local building and home improvement trade market. In spring 2023, we completed the acquisition of Elektroskandia Norge AS, strengthening Onninen's leading position on the Norwegian electrical wholesale market. We also acquired the builders' merchant Geitanger Bygg AS in Norway, and the Swedish solar power system wholesaler Zenitec Sweden AB. We continue to see growth potential especially in B2B trade in Scandinavia.

Building and technical trade



Business units excluding Kesko Senukai
* Acquisition completed 1/2024

K-Rauta's and Onninen's positions strong in Finland

K-Rauta Finland's market share continued to strengthen and stood at 49% despite a decline in sales. Profitability remained at a good level. The chain aims to be the best locally, and combines store-specific business ideas with the efficiency and competitiveness of chain operations. We continued to update K-Rauta stores and to further strengthen the multichannel customer experience. Proactive sales work and sales management continue to be crucial.

K-Rauta stores serve both B2B customers and consumers – the share of the former is bigger. In addition to physical stores, the chain offers the K-Rauta Pro online service for professionals and the K-Rauta.fi online service for consumers.

Onninen is the market leader in Finnish technical trade, with a market share of 45%. Net sales in 2023 totalled €1,234.0 million, and profitability stood at a good level. Onninen sales decreased compared to the exceptionally strong figures of 2022, which were boosted by a surge in demand for green transition products – especially solar power products – due to a rapid rise in electricity prices. Technical trade is by nature a high-volume business, in which efficient logistics, an extensive store network, and effective electronic order channels and skilled sales staff play a key role. Digital sales have become significantly more important, and now account for over 30% of Onninen's sales in Finland.

Continuing the execution of country-specific strategies in Sweden and Norway

Norway is Kesko's second biggest operating country with retail sales of some €1.5 billion. In Norway, 2023 was a good year, especially for Onninen, which was supported by the Elekroskandia acquisition. Onninen's net sales in Norway totalled €517.5 million, up by 49%. In Norway, Onninen only focuses on the electricity product categories: the Elektroskandia acquisition made Onninen the market leader in electrical wholesale with a market share of over 40%. Onninen Norway offers the best digital services in the business, and has achieved excellent results with proactive sales and sales management. Net sales and profitability for Byggmakker decreased as construction activity weakened. Byggmakker's strength lies its extensive store network combined with good digital services.

In Sweden, Onninen serves technical trade customers in infrastructure construction, while K-Bygg serves mainly B2B customers and K-Rauta both B2B customers and consumers. Building and home improvement trade net sales decreased in Sweden in both B2B and B2C trade. The net sales for K-Bygg and K-Rauta Sweden totalled €429.8 million. In August we announced that we would concentrate Swedish building and home improvement trade operations under the K-Bygg chain, and increasingly focus on serving building professionals alongside consumers. Swedish K-Rauta stores will either be converted into K-Bygg stores or closed by the end of 2024. In technical trade, we mainly operate in Sweden in the growing infrastructure business and the water and sewage business. Onninen is particularly strong in e.g. product categories related to wind farms. Following

the acquisition of Zenitec in March 2023, we operate more prominently also in solar power systems. The good position obtained in Sweden offers us a strong foundation for future growth. In the long term, we expect both Sweden and Norway to continue to offer significant growth opportunities.

Construction activity weakened in Poland and the Baltics

Onninen's sales and profitability decreased in Poland, Estonia, Latvia and Lithuania. Demand in the B2B segment declined as construction activity weakened compared to the strong year before. Onninen Poland is strong in digital services. Of the Baltics, the biggest business and most extensive Onninen Express store network are found in Estonia.

The share of result of the Kesko Senukai joint venture, which focuses on B2C trade, totalled €19 million, and decreased year-on-year.

Building and technical trade in figures

Key figures	2023	2022
Net sales, € million	**4,193.2**	**4,591.1**
Building and home improvement trade	1,912.1	2,377.2
Technical trade	2,344.7	2,286.2
Operating profit, comparable, € million	**212.5**	**323.8**
Building and home improvement trade	65.0	127.5
Technical trade	128.5	173.7
Kesko Senukai	19.0	20.9
Operating margin, comparable, %	**5.1**	**7.1**
Building and home improvement trade	3.4	5.4
Technical trade	5.5	7.6
Return on capital employed, comparable, %	11.4	19.1
Capital expenditure, € million	273.0	108.2
Personnel, average	6,073	5,871

Properties	2023	2022
Owned properties, capital, € million	181	175
Owned properties, area, 1,000 m²	242	252
Leased properties, area, 1,000 m²	852	883

	Number of stores		Retail and B2B sales, 0% VAT, € million	
K Group building and technical trade	**2023**	**2022**	**2023**	**Change, %***
K-Rauta, Finland	122	123	1,114.9	-12.9
K-Rauta B2B Service, Finland	-	-	256.3	-22.8
Technical trade, Finland	58	57	1,207.8	-6.3
Finland total	**180**	**180**	**2,579.0**	**-11.1**
K-Rauta, Sweden	17	17	149.9	-21.0
K-Bygg, Sweden	50	50	284.8	-25.5
Technical trade, Sweden	5	5	133.7	-14.2
Byggmakker, Norway	90	89	656.3	-21.3
Technical trade, Norway	29	19	594.5	-9.9
Technical trade, Baltia	18	18	129.1	-1.2
Technical trade, Poland	33	36	336.8	-3.8
Other countries, total	**242**	**234**	**2,285.2**	**-15.4**
Kesko Senukai	61	60	1,176.9	-3.6
Building and technical trade, total	**483**	**474**	**6,041.1**	**-11.5**

In addition, building and technical trade stores offer e-commerce services to their customers.
Three Onninen stores in Finland operate on the same store premises with K-Rauta.
* The change, % compared to the year before has been calculated to illustrate a situation in which the acquisitions and divestments had been completed on 1 January 2022. In 2022, the most significant acquisitions included Seljord Elektriske AS in Norway on 1 June 2022 and in Sweden Kungälvs Trävaruaktiebolag on 11 March, Föllinge Såg AB and Djurbergs Järnhandel Aktiebolag on 1 September, and XL-BYGG Bergslagen AB on 1 October. In 2023, the most significant acquisitions were Elektroskandia Norge AS on 1 March and Geitanger Bygg AS on 2 October in Norway, and Zenitec Sweden AB on 5 April 2023 in Sweden.

BUSINESS ENVIRONMENT IN NORTHERN EUROPE

- Market consolidation
- Growing need for renovation and infrastructure investment debt
- Green transition and energy-efficiency requirements growing the market
- Outsourcing construction to professionals
- Technology and digital becoming increasingly important for the customer journey

STRATEGIC OBJECTIVES

- Our strategic objective is to gain an even stronger position in building and technical trade in Northern Europe, especially in B2B trade
- Country focus with country-specific strategic actions, serving three customer segments according to their specific needs
- Proactive sales work and sales management
- Improving the digital customer experience
- Utilising synergies within and between countries
- Organic growth and profitability improvement, targeted acquisitions
- Measures to meet our ambitious sustainability goals

Our strategic objective is to gain an even stronger position in building and technical trade in Northern Europe, especially in B2B trade.

PROGRESS IN SUSTAINABILITY STRATEGY IMPLEMENTATION

In Kesko's sustainability strategy, we commit to engaging in ambitious, target-driven sustainability work. In addition to the shared sustainability strategy, each Kesko division has its own particular focus areas for sustainability efforts.

In building and technical trade, 2023 was a year in which we challenged our suppliers to set emission reduction targets. We also facilitated sustainable choices by identifying products in our selections that meet strict sustainability criteria.

Sustainable products in K-Rauta and Onninen
K-Rauta and Onninen want to help their customers easily find and choose more sustainable products, which is why we have reviewed our selections to identify products that meet strict sustainability criteria. Products we have classified as more sustainable meet criteria that is based on researched and assured data, legislation, official environmental labels and various certificates.

So far, we have reviewed 100,000 products, of which over 12,000 have been given one or more of the following sustainability classifications: 'energy-efficient', 'water-saving', 'healthy building', 'more sustainably produced', and 'circular economy'.

As of early 2024, the sustainability labelling will be presented alongside other product information in the K-Rauta.fi and Onninen.fi online stores. This is part of our long-term efforts to develop a more sustainable product selection.

Markets

Outlook and activity for the building and technical trade division weakened markedly in 2023 due to inflation and rising interest rates. New residential building – which accounts for some 20–30% of the total construction market depending on the country – declined particularly significantly. The decline was softer for other forms of construction, such as renovation building. B2C trade declined less than B2B trade.

However, in the long term, the total construction market is supported by renovation building, construction related to energy efficiency and the green transition, urbanisation and changes in population structure in Northern Europe. Building and construction becoming increasingly technical, tightening requirements, and growing infrastructure investment debt will also support construction.

The total market for our current building and technical trade business in our market areas was some €32 billion in 2023.

Growth potential via acquisitions

The Northern European market continues to offer good possibilities for growth also in the form of acquisitions. The building and technical trade markets are fragmented in many of our Northern European operating countries, and thus there is excellent potential to continue active sector consolidation. Currently our market shares are still relatively low in e.g. Sweden and Poland, which means excellent potential for continued growth also via acquisitions in line with our strategy. Denmark also holds further potential for us in both building and home improvement trade and technical trade.

Data based on Kesko's estimates.

Markets

Markets by country, market performance in 2023 compared to the year before (retail 0 % VAT), and main competitors.

	Market area	Market size and growth	Market share	Main competitors
Building and home improvement trade	Finland	€2.8 billion (-18%), (RaSi ry*)	49%	Stark Finland, S Group, RTV, Bauhaus
	Sweden (K-Bygg)	€6.1 billion (-14.5%), (Byggmaterialhandlarna and Kesko's estimate)	7%	Beijer, XL-Bygg, Optimera, Woody, Bauhaus, Byggmax, Derome, Bygghemma
	Norway	€5.5 billion (-10.4%), (Virke)	13%	Optimera, Mestergruppen, Coop, Maxbo
Technical trade	Finland	€2.6 billion (-7.5%), (STK, Talteka)	45%	Dahl, Ahlsell, SLO, Rexel
	Sweden (Onninen and MIAB)	€1.1 billion (-2.4%), (SEG Infra, RGF Water and sewage)	10%	Dahl, Ahlsell, Elektroskandia, Rexel
	Norway	€1.6 billion (+4.2%), (Virke electrotechnical trade)	41%	Solar, Ahlsell, Berggård Amundsen, Sonepar, Elektroimportøren
	Poland	€6.0 billion (-11.5%)**	5%	GC Group (BIMs, Hydrosolar, HTI) Grudnik, Tadmar, Würth/TIM, Kaczmarek, Alfa Elektro, Grodno
	Estonia	€0.6 billion (-8.3%)**	11%	FEB (Ahlsell), SLO, W.E.G (Würth)
	Latvia	€0.5 billion (+0.4%)**	5%	Sanistal, EVA-SAT, SLO
	Lithuania	€1.0 billion (+0.2%)**	3%	Sanistal, Dahlgera, Elektrobalt (Würth), SLO

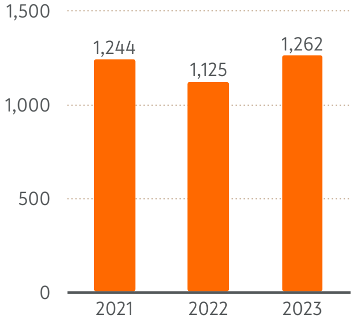
* Members of RaSi ry are BHG Group, Stark Finland, Hankkija Oy, Hartman Rauta Oy, Laattapiste Oy, Maalarimestarien Oy, S Group, Värimiehet Oy and Väritukku Oy. In addition the statistics include Puumerkki Oy and RTV-Yhtymä Oy. ** Kesko's estimate

A YEAR OF STRONG GROWTH IN CAR TRADE

In 2023, we continued to execute our strategy in car trade in a rapidly changing operating environment. Our main objective is to offer the best customer experience in the business, and to strengthen our market position in the whole value chain. Our net sales increased thanks to growth in new car deliveries and used car sales, while services also grew markedly. Profitability in car trade was record high.

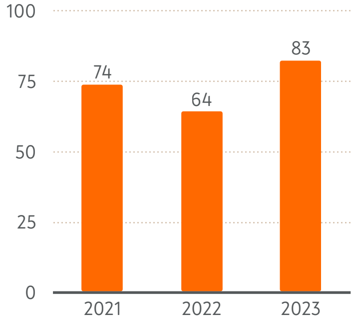
Net sales

€ million

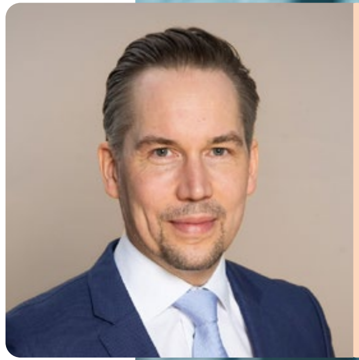


Operating profit

€ million



Comparable figures, including sports trade.



"Our market is undergoing a transformation. We continued the execution of our customer-oriented strategy. Our profitability rose to a record level thanks to strong sales and efficiency improvement measures. Electric vehicles and digital services are gaining speed, and K-Auto is the leading provider for these in Finland.

Sami Kiiski
President, car trade division

Net sales for the car trade division increased by 12.2.% in 2023, and totalled €1,262.3 million. The strong growth in net sales is proof of our good position in the car trade market. Net sales and operating profit grew in all three car trade business areas: new cars, used cars, and services. Our improved profitability in car trade is at a very good level also when compared to international peers.

CONSTANTLY UPDATED RANGE

The brands represented by K-Auto offer a constantly updated, increasingly electric range, which serves to strengthen our competitiveness. Demand for all-electric cars and rechargeable hybrids grew. New models introduced to the Finnish market in 2023 included the all-electric Volkswagen ID.7. Updated models included the Volkswagen ID.3 and Audi Q8 e-tron model versions and the rechargeable hybrids Porsche Cayenne E-Hybrid and Volkswagen Touareg eHybrid. The commercial vehicles range introduced the new generation pickup Volkswagen Amarok.

The car trade market is changing rapidly. To ensure success also going forward, our focus will be – in line with our strategy – on improving customer experiences, strengthening profitability, utilising digitalisation, and ensuring sustainability, while utilising synergies as part of 'One unified K'. In particular, accelerating the multichannel sales of used cars and car-related services, and our close collaboration with Volkswagen Group and Porsche, will act as cornerstones for growth.

All K-Auto business areas in profit

General economic uncertainty had an impact on consumer purchase behaviour in 2023 also in car trade. First registrations of new cars increased by some 6.2% in Finland. K-Auto's share of first registrations of new cars (passenger cars and vans) was 15.1%. New car deliveries grew considerably on 2022, as availability improved. The order book for new cars stayed at a good level, but demand and orders were clearly below normal levels. Consumer interest towards electric vehicles decreased slightly due to high inflation and uncertainties related to electricity prices, but relative to other powertrain options, their demand grew. We strongly believe that demand will grow in upcoming years. Our strong brands and interesting new models will continue to support sales growth going forward. New car sales accounted for some 54% of K-Auto's net sales.

K-Auto's used car sales grew significantly, and our market share grew. Profitability also improved thanks to sales growth and more efficient operations. K-Auto's used car purchases are made by its own purchasing unit that operates internationally. Our market share in used cars grew significantly during the year. The market in Finland is still fragmented. Used car sales accounted for some 27% of K-Auto's net sales.

The service business comprises servicing, damage repairs, spare parts, and K-Lataus. In 2023, service sales grew and profitability was at a good level. Profitability improved thanks to higher servicing volumes and better productivity. During the year, we launched an online store for tyres, which together with physical stores supports customer satisfaction and brings additional sales. In our K-Lataus EV charging network, sales grew strongly, and the amount of sold electricity doubled. The charging stations at K Group store locations create synergies. Services accounted for some 19% of K-Auto's net sales. Our leasing fleet comprises some 4,900 cars.

Our strategic goal is to grow in all car trade business areas – new cars, used cars, and services. We believe that as the market normalises, all our businesses have plenty of growth potential and possibilities for new operating models. Our strong position in all stages of the value chain is a competitive advantage.

Sports trade

Kesko's sports trade has been part of the car trade division as of 1 April 2023, having previously been reported under building and technical trade. Sales of Intersport and Budget Sport decreased by 15.1.% as consumer demand weakened, but proftablity remained at a good level. Kesko is the market leader in Finnish sports trade.

Technological and digital development accelerating

There is an accelerating transformation ongoing in the automotive sector, driving and mobility. New forms of mobility demand constant development of operating models, services and technologies. Our strategic partners Volkswagen Group and Porsche have stated they will invest heavily in developing EV technologies and car digitalisation in upcoming years.

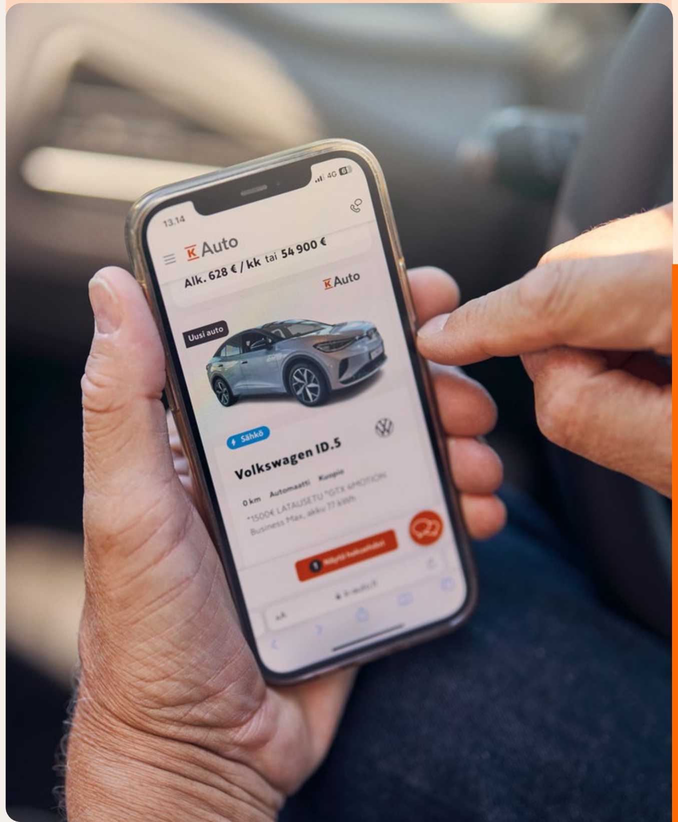
Car sales are becoming increasingly digital, and in line with our strategy, we aim to be the Finnish forerunner in digital services and operating models in car trade. We are constantly developing and updating our services in all our business areas. In 2023, we focused especially on the development of multichannel services, and customer numbers on our digital platforms grew. The role of the chat function in used car sales is particularly important. We are constantly developing analytics tools, and use digital tools also to manage inventories and selections. Automation and robotics are used extensively to improve operational efficiency. We actively seek synergies with Kesko's other divisions, and utilise shared customer data to offer digital services and a better customer experience.

Interest toward electric cars growing

The powertrain transformation and economic uncertainty impacted the car trade market in 2023. Demand for all-electric cars slowed down as overall demand declined, but relative to cars with other powertrains, electric car registrations increased. We believe that the electrification trend will continue strong, and demand will grow in upcoming years. All-electric cars represented by Kesko accounted for 18.6% of total all-electric car first registrations in Finland (passenger cars and vans). There was also demand for used electric cars. Thanks to our extensive selection of brands and new models, we are able to offer customers a wide and versatile range of cars of all powertrains.

BUSINESS ENVIRONMENT

- New distribution models bring significant reductions in total delivered cost
- Electrification continues, consumers uncertain about powertrain options
- Continued disruptions in supply chains
- Digitalisation increases efficiency, causes major changes in purchase behaviour
- New competition arriving in Europe
- Economic uncertainty impacting demand



STRATEGIC OBJECTIVES

- The best customer experience in the business
- Digitalisation and a multichannel approach
- Commercial efficiency and profitable growth
- Growing used car sales
- Utilising synergies within the whole K Group
- Close collaboration with Volkswagen Group and Porsche

Our strategic objective is to be the leading operator in the car sector value chain in Finland.

PROGRESS IN SUSTAINABILITY STRATEGY IMPLEMENTATION

In Kesko's sustainability strategy, we commit to engaging in ambitious, target-driven sustainability work. In addition to the shared sustainability strategy, each Kesko division has its own particular focus areas for sustainability efforts.

In 2023, Kesko's car trade promoted cleaner transport by offering cars with lower emissions and by determinedly developing its K-Lataus EV charging network.

Competitive advantage from our EV charging network

In 2023, we continued to expand the K-Lataus EV charging network first launched in 2018. K-Lataus is one the most extensive EV charging networks in Finland and serves drivers across the country. At the end of 2023, K-Lataus hosted over 1,500 charging points at some 300 stations. Electricity sold doubled during the year. K-Lataus has nearly 160,000 private and corporate customers, and charging was up by some 90%. All electricity at K-Lataus stations is renewable energy, generated with Finnish wind power.

Promoting e-mobility and lower emissions

Electric cars account for as much as 44% of the first registrations of passenger cars imported by K-Auto; including rechargeable hybrids, the figure is 61%. Our target is to increase the amount of new electric or hybrid cars sold. We also want to decrease car emissions among our personnel by 50% by 2025 from the current level.

Moreover, we want to raise the recycling level of waste. In 2022, the rate was 76%: by 2025, we target a recycling rate of 98%.

Market

In 2023, there were 87,508 first registrations of passenger cars and 11,023 of vans in Finland. The passenger car market grew by 7.1% compared to the year before, while the market for vans decreased by 1.5%.

In 2023, slightly over one-third (33.8%) of first-registrations of passenger cars in Finland were fully electric cars, and slightly over one-fifth (20.7%) rechargable hybrids.

The total number of first registrations of passenger cars and vans imported by K-Auto was 14,677 (excluding motorhomes).

Market shares

K-Auto's market share of first registrations in Finland was 15.1% (Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen commercial vehicles, excluding motorhomes).

- Volkswagen passenger cars 8.9%
- Audi 4.1%
- SEAT and CUPRA 1.1%
- Porsche and Bentley 0.3%
- Volkswagen vans 20.8%

Registration data source: Netwheeels/Traficom

Sports trade

The Finnish sports trade market in 2023 totalled some €1.3 billion (-3.8%) (Fashion and Sports Commerce association). Kesko's sports trade (Intersport and Budget Sport) held a market share of some 24%.
Competitors: XXL, Stadium, hypermarkets, and online stores.

Car trade in figures

Key figures	2023	2022
Net sales, € million	1,262.3	1,124.8
Car trade	1,078.6	910.9
Sports trade	183.9	214.0
Operating profit, comparable, € million	82.6	64.3
Car trade	73.1	48.4
Sports trade	9.5	16.0
Operating margin, comparable, %	6.5	5.7
Car trade	6.8	5.3
Sports trade	5.1	7.5
Return on capital employed, comparable, %	15.8	14.7
Capital expenditure, € million	80.3	45.1
Personnel, average	1,531	1,519

Properties	2023	2022
Owned properties, capital, € million	42	44
Owned properties, area, 1,000 m²	53	50
Leased properties, area, 1,000 m²	163	96

	Number of stores		Retail and B2B sales, 0% VAT, € million	
K Group car trade	**2023**	**2022**	**2023**	**Change, %**
Car trade	49	46	1,085.2	18.1
Sports trade	62	62	261.3	-4.9
Car trade division, total	**111**	**108**	**1,346.4**	**12.8**

On 31 December 2023, Intersport had 52 and Budget Sport had 10 stores in Finland.

INVESTORS

2023

REASONS TO INVEST IN KESKO

Interest towards Kesko as an investment has grown in recent years. In 2023, the number of registered Finnish shareholders rose above 100,000 for the first time ever. Kesko's ownership is diversified, and evenly distributed between Finnish institutions, international investors, and Finnish households.

Effective strategy for profitable growth

Kesko's growth strategy centres on profitable growth in three selected business divisions: grocery trade, building and technical trade, and car trade. Continuous improvement of customer experiences, further development of digital services, and corporate responsibility and sustainability are central themes for us strategically. We seek growth both organically and via acquisitions, and make significant investments in developing the network of grocery store sites in Finland and in growing the building and technical trade business in Northern Europe. We operate as 'One unified K' and maximise synergies between operations. We also continue to systematically improve productivity and cost efficiency through automation and process renewal.

Strong position in multiple markets

Kesko is a leading trading sector operator in Northern Europe. In Finland, it is the leading sector operator as well as the market leader in building and technical trade. Finland accounts for some 80% of total net sales. In the other Nordic countries and the Baltics, Kesko is among the biggest operators in various customer segments. Our objective is to grow our market shares in our different operations, and to be among the top two operators in all our businesses to ensure economies of scale.

"Kesko is a growing and profitable Northern European trading sector company that strives to strengthen its cash flow and dividend capacity with a long-term focus. Thanks to our customer-focused growth strategy and its consistent execution, we are able to produce a good profit also in a weaker market, as seen in 2023.

Jukka Erlund
EVP, Chief Financial Officer

Ability to increase shareholder value

Kesko's good dividend capacity is based on the strong and steady ability of its operations to generate cash flow. We aim for a steadily growing, attractive dividend yield. Kesko has paid dividends uninterrupted every year since 1968, and over the past five years, our annual dividend yield has averaged 4.5%. Growth in shareholder value is based on making and executing successful strategic choices, as well as on efficient allocation of capital.

Internationally recognised sustainability efforts

Kesko is recognised by various notable sustainability indices and assessments, including the Dow Jones Sustainability indices the DJSI World and DJSI Europe, CDP, MSCI ESG Ratings, and Sustainalytics. In 2023, Kesko was ranked the best company in its sector (Consumer Staples Distribution & Retail) in Europe in the DJSI World and the DJSI Europe. In the global DJSI World, Kesko ranked fourth highest in its sector. In January 2024, Kesko ranked highest in its sector (Consumer Staples) in the 'Global 100 Most Sustainable Corporations in the World' listing. In the MSCI ESG Ratings, Kesko received the highest AAA rating (scale: AAA-CCC).

INVESTOR INFORMATION

Kesko's shares are listed on Nasdaq Helsinki. Kesko has two share series, A and B, with the respective trading symbols KESKOA and KESKOB. The B share has higher trading volumes and liquidity. The share series differ only in terms of the number of votes they carry: each A share carries 10 votes and each B share 1 vote. Both shares entitle the holder to the same dividend. Both share series are traded independently on the stock exchange, with independent pricing. Shares of different series cannot be directly exchanged with one another. At the end of December 2023, the combined market capitalisation of Kesko's shares was €7,143 million, down by €1,018 million from the end of 2022.

Shareholders

Kesko's ownership is diversified. The biggest shareholder is K-Retailers' Association. In total, K-Retailers' Association and corporations under the control of the association held 7.5% of shares and controlled 19.5% of votes in Kesko.

Nominee-registered and international shareholders controlled 33.9% of Kesko's shares at the end of 2023. Finnish institutions and funds held 40.6% of all shares, and Finnish households 25.5%.

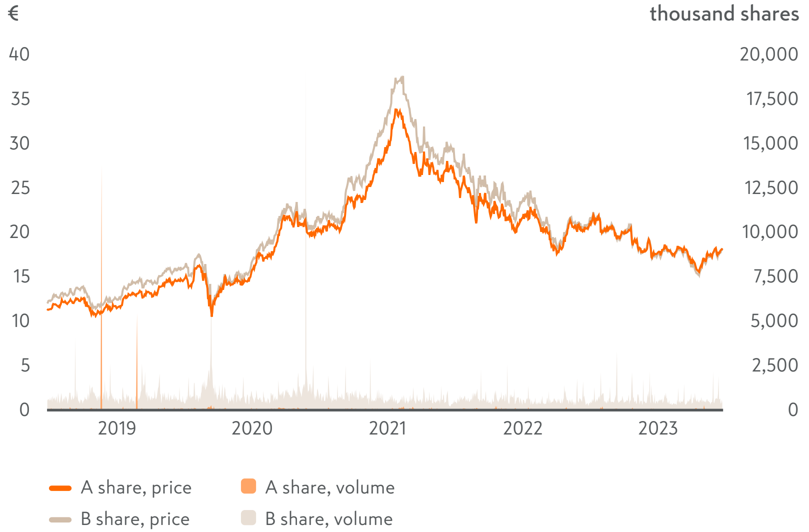
At the end of 2023, Kesko had over 105,500 shareholders – the number grew by more than 22,500 during the year.

More information on Kesko's largest shareholders

Ownership structure (shares)

31 Dec. 2023

Share prices and trading volumes 2019–2023



10 largest shareholders by votes 31 Dec. 2023

	Shareholders	% of shares	Total number of votes	% of votes
1.	K-retailers´ Association	5.27	210,704,220	13.66
2.	Ilmarinen Mutual Pension Insurance Company	3.65	142,163,499	9.22
3.	Vähittäiskaupan Takaus Oy	3.30	131,950,080	8.55
4.	Vähittäiskaupan Ammattikasvatussäätiö	1.37	54,775,730	3.55
5.	K-ruokakauppiasyhdistys ry	0.62	24,863,070	1.61
6.	Heimo Välinen Oy	0.57	22,800,000	1.48
7.	Food Paradise Oy	0.39	15,641,640	1.01
8.	Elo Mutual Pension Insurance Company	1.53	9,753,250	0.63
9.	Pokela Oy Iso Omena	0.20	7,926,000	0.51
10.	T.A.T. Invest Oy	0.20	7,726,400	0.50

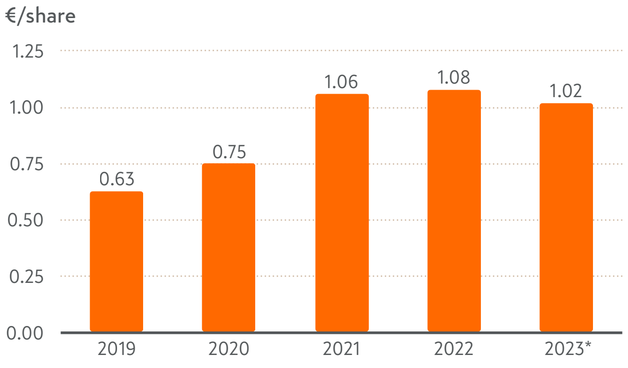
Annual General Meeting

Kesko will hold its Annual General Meeting at K-Kampus in Helsinki, address Työpajankatu 12, on Tuesday, 26 March 2024, starting at 13.00 EET. Participants must register for the Annual General Meeting beforehand. A shareholder in the register of shareholders wishing to participate must register by 18 March 2024 at 16.00 EET at the latest, by which time the registration will have to have been received by the company. The Notice of Annual General Meeting was published on 30 January 2024. More information at kesko.fi/agm.

Dividends

Kesko's Board proposes to the Annual General Meeting on 26 March 2024 that a dividend of €1.02 per share, a total of €405,724,901.22 be paid for the year 2023 based on the adopted balance sheet, and that the dividend be paid in four instalments as follows:

Dividend history 2019–2023



*Proposal to the Annual General Meeting

- The first instalment of €0.26/share would be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the record date 28 March 2024. The Board proposes that the dividend instalment pay date be 9 April 2024.
- Second instalment of €0.25/share: record date 16 July 2024, proposed pay date 23 July 2024.
- Third instalment of €0.26/share: record date 15 October 2024, proposed pay date 22 October 2024.
- Fourth instalment of €0.25/share: record date 14 January 2025, proposed pay date 21 January 2025.

Investor relations

The objective of Kesko's Investor Relations is to support the appropriate valuation of Kesko's shares by continuously and consistently communicating all essential information on the company equally to all market participants. We want to serve both retail and institutional investors and analysts covering the company in Finland and elsewhere. Investor relations contact details can be found at: kesko.fi/investor.

In addition to share and company information, Kesko's investor webpages provide other topical information to those interested in Kesko as an investment, such as blog posts.

Kesko's investor webpages have also received outside recognition: in 2023, they were ranked the best among Finnish large caps by the Finnish Foundation for Share Promotion, which also named Kesko's Vice President of Investor Relations Hanna Jaakkola as the 2023 IRO of the Year based on public vote. We strive for dialogue with retail investors also on social media channels and investment-related discussion forums, where we participate in discussions within the parameters of Kesko's disclosure policy.

INTERIM REPORT PUBLICATION DATES IN 2024:

- 1–3/2024 interim report: 25 April 2024
- 1–6/2024 half-year financial report: 23 July 2024
- 1–9/2024 interim report: 30 October 2024

KESKO'S DIVIDEND POLICY

In the long-term, Kesko aims to distribute a steadily growing dividend of some 60–100% of its comparable earnings per share, taking into account the company's financial position and strategy.

Additional investor information can be found on our investor webpages

STORE SITES AND PROPERTIES

The store site network is a strategic competitive factor for K Group. It enables the development of business operations as well as the improvement of sales and customer satisfaction, and supports online sales.

in line with its growth strategy Kesko continues to grow and update its network of especially grocery store sites by opening new K-Citymarket hypermarket stores in growth centres. We will also renovate and update 13 K-Citymarket stores in 2024.
Our capital expenditure in store sites in 1–12/2023 totalled €286 million (1–12/2022: €268 million, 1–12/2021: €129 million).

Our store sites are divided into four categories: strategic properties, basic properties, development properties, and realisation properties.

Strategic properties:
- Significant properties for business operations, for example, properties that are or can be developed into large retail units. Properties Kesko wants to own.
- Strategic properties in 12/2023: 55% (12/2022: 59% and 12/2021: 62%)

Basic properties:
- Properties Kesko owns, but could sell and then lease back.
- Basic properties in 12/2023: 21% (12/2022: 27% and 12/2021: 27%)

Development properties:
- Plots and properties that require development to fit their planned purpose.
- Development properties in 12/2023: 22% (12/2022: 14% and 12/2021: 11%).

Realisation properties:
- Properties Kesko no longer has use for.
- Realisation properties in 12/2023: 2% (12/2022: 0% and 12/2021: 0%).

Read more about Kesko's properties

Owned store sites and properties by region

Book value by region, € million	2023	%	2022	%
Finland	1,460	95.9%	1,183	94.9%
Other Nordic countries	47	3.1%	48	3.9%
Baltic countries	-	-	-	-
Poland	16	1.1%	15	1.2%
Total	**1,523**	**100.0%**	**1,246**	**100.0%**

Area by region, 1,000 m²	2023	%	2022	%
Finland	922	89.2%	863	88.5%
Other Nordic countries	87	8.4%	87	8.9%
Baltic countries	-	-	-	-
Poland	25	2.4%	25	2.6%
Total	**1,034**	**100.0%**	**975**	**100.0%**

Leased store sites and properties

Area by region, 1,000 m²	2023	%	2022	%
Finland	2,210	77.0%	2,232	78.4%
Other Nordic countries	584	20.3%	538	18.9%
Baltic countries	43	1.5%	41	1.4%
Poland	34	1.2%	35	1.2%
Total	**2,871**	**100.0%**	**2,846**	**100.0%**

Properties by division illustrated on pages 30, 34 and 41.

SUSTAINABILITY REPORT

2023

SUSTAINABILITY REPORT

SUSTAINABILITY STRATEGY

Sustainability is one of the key focus areas in Kesko's strategy. Our sustainability vision is to enable sustainable choices for our customers by driving change throughout the value chain. The focus areas in our sustainability strategy include climate and nature, value chain, our people and good governance. All three divisions support their customers in making sustainable choices, whether it be a question of food, housing or transportation.

Sustainability strategy 2022–2024

The sustainability strategy covers Kesko's three divisions and has a holistic approach to sustainability. The strategy is based on the materiality assessment updated in the spring of 2021, where our stakeholders shared their views concerning the key sustainability topics for Kesko and its stakeholders. We have reviewed our strategy based on the UN Sustainable Development Goals, and have identified the most material SDG goals and our impact on them.

In our sustainability strategy, we commit to ambitious and goal-oriented sustainability work. The four focus areas of the strategy are climate and nature, value chain, our people, and good governance. Our goal is to enable sustainable choices for customers and drive change throughout the value chain from production to consumption. The key targets and indicators of the strategy are presented in the table on the next page.

The sustainability strategy is promoted in all divisions

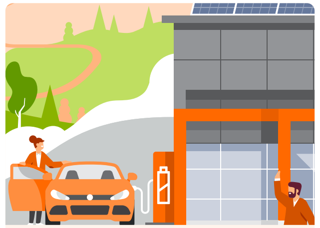
We are committed to setting long-term science-based emissions reductions targets and to reducing emissions from the entire value chain to net zero by 2050. We encourage suppliers to set their own emissions targets. Our goal is to prevent nature loss in our own operations and value chain. We support our customers' sustainable choices through sustainable products and services. Responsibility for people means promoting the safety, wellbeing and diversity of personnel and equity in the working community. In 2023, we set concrete targets to promote diversity and equity.

We will strengthen the sustainability competence of the entire K Group, and to serve this purpose, we have developed an online sustainability training programme for our personnel. Over 6,000 people have completed the training so far. An increasing number of Kesko's personnel have sustainability targets as criteria for their performance bonus.

> In 2023, we continued to implement our sustainability strategy. Our customers and other stakeholders continue to place ever higher expectations on our sustainability. Increasing regulation also makes us work even harder in terms of sustainability.
>
> **Riikka Joukio**
> Executive Vice President, Sustainability and Public Affairs

Sustainability strategy focus areas

VISION: We enable sustainable choices for our customers and drive change throughout the value chain.



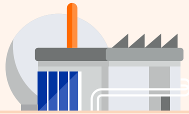
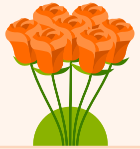
CLIMATE AND NATURE

VALUE CHAIN

OUR PEOPLE

GOOD GOVERNANCE

Key sustainability targets and indicators

THEME	TARGET	INDICATORS	2022	2023	FURTHER INFORMATION
Climate	Achieve carbon neutrality in 2025 and make own operations emission-free by the end of 2030.	Carbon dioxide emissions (tCO_2e)	**75,500** tCO_2e	**77,900** tCO_2e	The carbon dioxide emissions from Kesko's own operations (Scope 1 and 2) in 2023 totalled 77,947 CO_2e. The increase in emissions mainly arises from the increase in district heat consumption and increased emissions from district heat consumption.
	Require 67% of our suppliers by spend to have science-based emissions reductions targets by the end of 2026.	% of suppliers	**27.7%**	**32.0%**	Kesko monitors the target primarily via the CDP Climate Change Questionnaire. In 2023, 32.0% of Kesko's suppliers (by spend) have set science-based emissions reductions targets.
Value chain 	Ensure social responsibility in the production of directly imported goods from high-risk countries by assuring them 100% with appropriate audits by 2024.	% of audits	**91.5%**	**97.0%**	In 2023, 97.0% of the production facilities for Kesko's direct imports from high-risk countries were audited. Kesko's grocery trade and building and technical trade require all of their new direct suppliers in high-risk countries to have approved audits when cooperation is initiated.
Sustainable products 	Increase the share of sustainable products in net sales by 2024.	% of sustainable products in net sales	**39%*** Grocery trade **-** Building and technical trade **21%** Car trade	**40%** Grocery trade **18%** Building and technical trade **31%** Car trade	We have made our own classification of products in each division that are sustainable from a climate and/or biodiversity perspective. Our own classification of sustainable products complements the turnover reported in accordance with the EU Taxonomy. Building and technical trade has identified sustainable products from their ranges, receiving one or more of the labels: Energy efficiency, Water saving, Healthy building, More sustainably produced and Circular economy. *excl. Kespro's sales data
Our people 	Conduct actions to support our people's health, wellbeing and capabilities by the end of 2024.	Wellbeing index	**81***	**81***	In addition to a personnel survey, we measure perceived personnel wellbeing with the 'Our People' sustainability survey. The next results for the Wellbeing index are obtained once the personnel survey is completed in spring 2024. In 2023, Kesko approved new DEI (Diversity, Equity and Inclusion) targets, which address management gender distribution, equal pay and the perceived realisation of equity among Kesko personnel. *on a scale of 0 to 100, 'Our People 2022' survey

In addition to the common sustainability strategy, each division has its own focus areas in sustainability work based on the division's business. During the year, the grocery trade has focused on reducing food waste, creating new circular economy products and supporting customers' healthy choices. In the building and technical trade, suppliers have been challenged to set emissions reductions targets, and sustainable choices have been made easier by identifying products in the selection that meet strict sustainability criteria. In the car trade, cleaner transport has been promoted through a lower-emission vehicle stock and the strong development of the K Charge network.

We have started plans for our reporting under the new Corporate Sustainability Reporting Directive (CSRD). Reporting in its current form will end, and our sustainability report for 2024 will be in line with the new reporting framework.

Impacts of our operations arise from the value chain – emissions as an example

EMISSIONS FROM PRODUCTION OF PRODUCTS SOLD

10,745,800 tCO_2e

The most significant emissions are generated during the production of the products we sell. We challenge our suppliers and the whole value chain to reduce emissions.

EMISSIONS FROM KESKO'S OWN OPERATIONS

77,900 tCO_2e

Emissions are mainly related to the fuel consumption of transportation and logistics (53%) and consumption of district heat (36%). In addition to these, emissions are generated by the emissions of refrigerant leakages (4%), self-produced energy (4%), and consumption of electricity purchased (3%).

Emissions from own operations correspond to the annual emissions of some 10,120 Finns.*

* The carbon footprint of an average Finn is 7.7 tCO_2e per year (source: Ministry of the Environment, Climate Annual Report 2023).

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

539,900 tCO_2e

All our divisions offer customers solutions for reducing climate impacts. We encourage our customers to make sustainable choices.

CLIMATE AND NATURE

2023

SUSTAINABILITY IN ACTION

We minimise impacts on climate and nature

We respect planetary boundaries by minimising negative and maximising positive impacts on climate and nature.

The greenhouse gas emissions from our own operations in 2023 totalled

77,900

tCO_2e

OUR TARGETS:

- We commit to setting long-term emissions reductions targets and to reduce emissions in the whole value chain to net zero by the year 2050.
- We encourage our suppliers and service providers to set science-based emissions reductions targets by the end of 2026.
- We reduce emissions from the use of sold products by the end of 2026.
- We create a biodiversity roadmap and set goals for our biodiversity impacts in our own operations and the value chain.
- We introduce sustainable packaging for our own brand products by the end of 2025.
- We halve our food waste by 2030.

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

15 LIFE ON LAND

AMBITIOUS EMISSIONS TARGETS

We have set short-term science-based emissions reductions targets by 2030. In addition to minimising emissions from our own operations, we are also challenging other parties in our value chain to set ambitious emissions reductions targets as part of our goal of net zero by 2050.

EMISSIONS	SCIENCE-BASED TARGETS	MEASURES

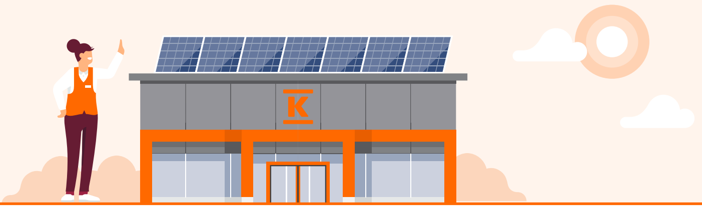
Scope 1: Direct GHG emissions from own operations

Scope 2: Indirect GHG emissions from energy consumption

1.5°C:

90%

emissions reductions of absolute emissions from own operations by the end of 2030 (tCO_2e compared to 2020).



Purchased electricity: Increasing the purchase of zero-emission electricity.
Self-generated energy: Minimising emissions by reducing the use of oil and natural gas.
Energy-efficiency: Improving energy efficiency and utilising waste heat.
Transports: Increasing the number of electric vehicles.
Refrigerants: Renewing refrigeration systems to be more energy-efficient and into systems that use natural refrigerants.

Scope 3: Indirect GHG emissions from value chain

1.5°C:

17%

emissions reductions of absolute emissions from the use of sold products by the end of 2026 (tCO_2e compared to 2020).

1.5°C:

67%

of suppliers and service providers by spend will have science-based emissions reductions targets by the end of 2026.

We are moving towards our 2050 net-zero targets by establishing a roadmap and reviewing new measures needed.

During the first phase, we expand our current measures: **suppliers are encouraged to set their own science-based emissions targets, and the share of sustainable products in selections is increased.**

98%

of Scope 3 emissions is generated from the production, use and end-of-life treatment of the products sold.

Net-Zero:

We commit to setting new long-term emissions reductions targets and to reduce emissions in the whole value chain to net zero by the year 2050.

2050

Science-based emissions reductions targets

We are committed to mitigating climate change by setting short-term science-based emissions reductions targets. Our targets have been approved by the Science Based Targets initiative (SBTi).

Kesko's short-term SBT targets:

- Kesko is committed to reducing its absolute Scope 1 and 2 GHG emissions from its own operations by 90% by 2030 from the 2020 baseline.
- Kesko is committed to ensuring that 67% of its suppliers and service providers by spend will have science-based targets by 2026.
- Kesko is also committed to reducing its absolute Scope 3 GHG emissions from the use of sold products by 17% by 2026 from the 2020 baseline.

In 2023, the absolute emissions (Scope 1 and 2) from our own operations were 10.8% higher than the 2020 baseline. The most significant factors behind the increased emissions are the expansion of operations in other countries as a result of acquisitions, the increase in emissions caused by the consumption of purchased electricity in other operating countries as a result of significant changes in emission factors and the increase in emissions from transport as a result of higher total transport distances in Finland. In addition, during the mild winter season in 2019–2020, consumption of district heating was considerable less than normally.

We monitor the setting of science-based emissions targets by suppliers and service providers mainly through CDP's Climate Change questionnaire, to which we encourage our largest suppliers to respond. Measured by spend in euros, 32.0% of our suppliers have already set short-term science-based emissions reductions targets.

In 2023, the absolute emissions from the use of products sold decreased by 76.8% compared to the 2020 baseline. Significant reductions of emissions is due to updated and specified calculation, which reduces comparability between the years.

In the autumn of 2023, we committed to setting new long-term emissions reductions targets and to reduce our emissions across the value chain in line with the SBTi's NetZero standard. We will also seek SBTi approval for our new net zero targets.

In the autumn of 2023, we committed to setting net zero targets.

In 2017, Kesko was the first company in Finland to set science-based emissions reductions targets approved by the SBTi. In November 2021, the SBTi approved our updated emissions reductions targets through which we are committed to limiting global warming to 1.5 degrees.

Minimising emissions from our own operations

In addition to science-based emissions targets, we have set a carbon neutrality target for emissions from our own operations. We aim to achieve carbon neutrality in our own operations in 2025 and zero emissions by the end of 2030. During 2025–2030, we will offset the emissions generated, and will continue to decrease emissions towards zero by the end of 2030.

We promote the achievement of our ambitious emissions targets by, for example, increasing the purchase of zero-emission electricity, reducing emissions from self-generated energy by reducing the use of natural gas and oil, improving energy efficiency and utilising waste heat, and increasing the number of electric vehicles in logistics.

Climate-related opportunities and risks

We have assessed our risks and opportunities related to climate change in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD) framework in 2022. For more information about the risks and opportunities of climate change for Kesko's operations, see 'Kesko's direction' in the annual report and on our website.

→ Read more about Kesko's commitment to the net zero standard

+ Read more about minimising emissions from our own operations

EMISSIONS AND ENERGY USE IN OUR OWN OPERATIONS

The most significant climate impacts of Kesko's own operations arise from transports and logistics operations as well as from the consumption of district heat. Our target is to minimise emissions from our own operations.

Minimising emissions from our own operations

We have set short-term science-based reductions targets for emissions from our own operations (Scope 1 and 2). More information about our SBT targets is available under 'Ambitious emissions targets'.

In addition to science-based emissions targets, we have set a carbon neutrality target for K Group (Carbon Neutral K). It aims to minimise emissions from our own operations, achieve carbon neutrality in 2025 by offsetting emissions generated during 2025–2030 and continue emissions reductions efforts towards zero emissions by the end of 2030.

Direct GHG emissions from our own operations and indirect GHG emissions (Scope 1 and 2) from our energy consumption

In 2023, Kesko's direct emissions from its own operations (Scope 1) and indirect emissions from energy consumption (Scope 2) were 77,947 tCO_2e in total, which is 3.2% more than in the previous year.

The increase in emissions mainly arises from an increase in district heat consumption and increased emissions from district heat consumption. In 2023, Kesko's district heat consumption increased by 8.4% and emissions from district heat consumption increased by 13.9% compared with the previous year. District heat consumption increased because of factors such as real estate transactions, the inclusion of previously hidden consumption in consumption monitoring, changes in heating methods in properties and switched off heat recycling systems from December 2022 to March 2023 for electricity-saving reasons.

In 2023, of the emissions of our own operations, 53.2% were caused by the fuel consumption of transportation and logistics, and 36.2% by the consumption of district heat. In addition, emissions were caused by refrigerant leakages (3.9%), fuels used in the self-production of energy (3.7%) and the consumption of purchased electricity (3.0%).

We report direct and indirect (Scope 1 and 2) greenhouse gas emissions from our own operations in accordance with the GHG Protocol standard. More detailed information about the calculation of emissions can be found in a separate supplement: Kesko's Greenhouse Gas Inventory Report 2023.

Kesko's energy strategy

Our energy strategy aimed to achieve a 10% increase in energy efficiency by the end of 2023 from the 2015 baseline. This target corresponded to around 105 GWh in energy-saving measures implemented between 2018 and 2023. The target was exceeded, as the energy-saving measures implemented during that time totalled 115 GWh.

An updated target for our energy strategy up to 2030 is currently under preparation.

Energy consumption

In 2023, our total energy consumption in all of our operating countries was 712.1 GWh. The energy consumption of properties was 77.9% of the total consumption, and the energy consumption of transportation and logistics was 22.1% (energy consumption of fuels used). The share of renewable energy sources from the total energy consumption was 24.8%.

At the end of 2023, the properties managed by Kesko in Finland included offices, warehouses and 1,196 store sites. These have a total floor area of 3,846,600 m^2. In terms of energy consumption, the most significant properties are the K-food stores.

ELECTRICITY CONSUMPTION

In 2023, Kesko's electricity consumption in Finland was 279.0 GWh. This includes purchased electricity and self-produced electricity. Of Kesko's electricity consumption,

Direct and indirect greenhouse gas emissions (Scope 1 and 2)

tonnes CO_2e	2023	2022	Baseline 2020
Direct greenhouse gas emissions total (Scope 1)	47,385	47,681	38,413
Finland			
Transportation and logistics	40,475	41,721	34,850
Self-produced heat	1,818	1,483	2,419
Refrigerant leakages	3,020	2,371	-
Other operating countries			
Transportation and logistics	1,006	1,216	292
Self-produced electricity and heat[1]	1,066	891	852
Indirect greenhouse gas emissions total (Scope 2)[2]	30,562	27,824	31,940
Finland			
Purchased electricity (market-based)	0	0	0
Purchased electricity (location-based)[3]	127,616	50,646	77,884
District heat (market-based)	27,756	24,372	-
District heat (location-based)	34,459	35,601	28,002
District cooling (location-based)	0	0	-
Other operating countries			
Purchased electricity (market-based)	2,328	2,948	-
Purchased electricity (location-based)	13,570	12,044	3,232
District heat (location-based)	478	505	706

[1] Latvia reported self-produced heat more extensively starting from 2023; not comparable to the previous years.
[2] Following the GHG Protocol standard, the market-based and location-based emission figures are reported for Scope 2 emissions. The market-based emission figures are used primarily for the emission totals.
[3] Starting in 2023, the location-based emissions of purchased electricity have been calculated using the emission factor of residual distribution instead of average emission factor of electricity production; not comparable to the previous years.

Scope 1 and 2 emissions intensities

	2023	2022	Baseline 2020
Based on net sales, tonnes CO2e/€ million	6.6	6.4	6.6
Based on average number of employees, tonnes CO2e/person	5.3	5.2	5.0

5.3% is estimated consumption calculated based on floor area, which also includes those properties managed by Kesko whose consumption figures are not included in metered monitoring.

The purchased electricity consumed by Kesko in Finland is 100% carbon-free by guarantees of origin. Of the electricity, 88.2% is generated by nuclear power and 11.8% by wind power. In addition, we generated 8.2 GWh of solar electricity during 2023.

We reported Kesko's electricity consumption for the first time in 2023. Due to technical reasons of reporting in previous years, we have reported the electricity purchased and consumed by Kesko. In other words, in addition to Kesko's own consumption, the figure has included the electricity supplied to, for example, K-retailer entrepreneurs and tenants by Kesko's subsidiary Ankkuri-Energia Oy.

Nitrogen oxides, sulphur oxides, and other significant emissions

tonnes	2023	2022	2021
Electricity and heat in properties[1]			
NOx	97.0	89.3	82.5
SO_2	85.7	76.9	72.9
Radioactive waste[2]	0.14	0.25	0
Logistics[3]			
NOx	27.1	28.3	10.3
SO_2	0.07	0.07	0.12

[1] Boundary: Finland
[2] Due to the changes in reporting method of electricity consumption in 2023 amount of radioactive waste is not comparable to the previous years.
[3] Boundary: Kesko Logistics

In 2022, Kesko's electricity consumption in Finland calculated using this updated calculation method was 289.8 GWh. In 2023, we consumed 3.8% less electricity than in the previous year.

In 2023, in other operating countries, our consumption of purchased electricity was 33.7 GWh, which is 4.2% less than the previous year. Electricity was also produced with solar panels and a generator, 0.05 GWh in total.

CONSUMPTION OF HEATING AND COOLING

In 2023, we consumed 218.1 GWh of district heat in the properties we manage, which is 8.4% more than the previous year. The standardised, or weather-adjusted, district heat consumption was 216.9 GWh, which is 1.2% more than the previous year.

Consumption increased because of new sites included in consumption monitoring as a result of real estate transactions, changes in heating methods or the inclusion of previously hidden consumption in consumption monitoring, and switched off heat recycling systems from December 2022 to March 2023 for electricity-saving reasons.

The district heating consumption figure covers about 93% (based on floor area) of the properties managed by Kesko where heating is partly or fully provided by means of district heating.

In addition to district heating, we produced 7.4 GWh of heat in Finland with oil and natural gas in 2023, which is 14.0% more than in the previous year. In reality, the number of properties with oil and natural gas heating has decreased, and in many properties the main heating method has changed from oil and natural gas to district heating and other forms of heating. The reported consumption figure for oil and natural gas in 2022 is therefore likely to have been incomplete. In 2023, weather-adjusted oil and natural gas consumption was 7.2 GWh.

In 2023, we consumed 3.3 GWh of district cooling in Finland, which is 54.5% more than in the previous year.

In 2023, in other operating countries, our consumption of district heat was 8.2 GWh, which is 5.4% more than in the previous year. In addition, a total of 5.3 GWh of heat was produced with natural gas, oil, biodiesel and propane, which is 21.1% more than in the previous year. The increase is largely explained by an increase in Latvia's natural gas consumption figure, as natural gas consumption was included in the monitoring as a result of a change of property.

ENERGY CONSUMPTION OF TRANSPORTATION AND LOGISTICS

In Finland and other operating countries, fuel consumption includes road transportation and logistics operations such as forklifts and wheel loaders.

In 2023, the calculated energy consumption of transportation and logistics in Finland was 152.8 GWh (550.7 TJ), which is 4.0% less than in the previous year. The fuels used in transportation and logistics were fossil diesel, biodiesel and light fuel oil.

In 2023, the calculated energy consumption of transportation and logistics in other operating countries was 4.3 GWh (15.5 TJ), which is 17.3% less than in the previous year. The fuels used were fossil diesel, biodiesel, petrol and gas.

Measures to achieve the targets

During 2023, we implemented a number of measures to achieve our emissions reductions targets and improve our energy efficiency.

INGENIOUS HEAT RECYCLING SYSTEM

The ingenious heat recycling system used in K-food stores is one of the most important means of reducing consumption of heating energy and the related emissions. It combines a low-emission refrigeration system, a heat pump and the recovery systems needed for recycling energy. The system uses the condensation heat generated as a by-product of refrigeration for heating the premises.

Our aim is to install the heat recycling system in all K-food stores that are due for renewal by the end of 2030. In 2023, the system was installed in 13 K-food stores.

WE MINIMISE THE USE OF NATURAL GAS AND OIL

During 2023, five of our properties in Finland abandoned natural gas heating and four abandoned oil heating. Our aim is to minimise the use of oil and natural gas for heating.

EMISSIONS REDUCTIONS IN OUR OWN LOGISTICS

In Kesko's own logistics, we invested in seven new biogas trucks, optimised transport routes and volumetric efficiency, and provided our contract drivers with training.

Energy consumption

	2023	2022	2021
Total energy consumption[1], GWh	712.1	998.2	1,001.7
Share of renewable energy sources[2], %	24.8	-	-
Finland			
Electricity, %	39.2	57.8	55.7
District heating, %	30.6	20.1	22.8
District cooling, %	0.5	0.2	-
Self-produced heat, %	1.0	0.6	1.1
Transportation and logistics, %	21.5	15.9	15.2
Other operating countries			
Purchased electricity, %	4.7	3.5	3.6
District heat, %	1.1	0.8	0.9
Self-produced electricity and heat, %	0.8	0.4	0.6
Transportation and logistics, %	0.6	0.5	0.2

[1] Updated calculation method starting in 2023 for Finland's electricity consumption; the total consumption figure and percentages are not comparable to the previous years.
[2] The share of renewable energy sources includes energy with Guarantees of Origin (GOs), the shares of renewable energy sources according to the residual mixes, self-produced energy by solar panels, and biofuels.

Specific consumptions of energy

kWh/m² gross area	2023	2022	2021
Specific consumption of electricity[1]	186	204	208
Specific consumption of district heating[1]	79	89	99

[1] Boundary: properties in Finland managed by Kesko

REFRIGERATION SYSTEM RENEWAL

We minimised emissions from refrigerant leakages by renewing the refrigeration systems into systems that use natural refrigerants. We also prevented refrigerant leakages through annual maintenance of the refrigeration systems.

CARBON-NEUTRAL FOOD STORE MODEL

In 2019, together with Natural Resources Institute Finland (Luke), we developed a model that enables a grocery store to become carbon neutral. By the end of 2023, the carbon-neutral food store model had been adopted by 26 K-food stores, two Kespro cash-and-carry outlets, the Kalatukku E. Eriksson fish wholesaler and three warehouses. The operating model identifies the most significant climate impacts of a store or property for effective emissions reductions measures.

ENERGY-EFFICIENT LOGISTICS CENTRE

Our largest ever construction project, the Onnela logistics centre in Hyvinkää, Finland, continued in 2023. For example, a solar power plant will be built on the site to provide the logistics centre with energy. Geothermal heating will be the building's main form of heating. The logistics centre will be completed in phases between 2025 and 2030. It will replace several separate properties with a single energy-efficient distribution centre.

LONG-TERM EMISSIONS REDUCTIONS TARGETS

In the longer term, the most important ways to achieve ambitious emissions reductions targets include increasing the purchase of zero-emission electricity, reducing emissions from self-generated energy by decreasing the use of natural gas and oil, improving energy efficiency and using waste heat, increasing the use of electric vehicles in logistics, and turning refrigeration systems into energy-efficient systems that use natural refrigerants.

Certified environmental management systems

Kesko Logistics, K Group B2B sales and Onninen's operations in all operating countries, excluding Poland, have a certified environmental management system (ISO 14001).

The WWF Green Office environmental management system is in use at our K-Kampus head office in Kalasatama, Helsinki. It is a tool for environmental management and for reducing emissions and using natural resources sensibly in workplaces. One of the concrete Green Office measures taken during the year was a WEEE (waste electrical and electronic equipment) collection campaign at K-Kampus in November. The aim of the campaign was to raise awareness of the importance of WEEE collection among the members of the K-Kampus community and challenge them to collect WEEE at home and bring it to the collection point on the campus. The collected WEEE was submitted for recycling through the Elker producer community.

VALUE CHAIN EMISSIONS

The most significant climate impacts in our value chain are generated during the lifecycle of the products sold by us. These impacts are generated during the primary production of raw materials, the manufacture of products, packaging, transport and product use, for example. We encourage our suppliers and service providers to set ambitious emissions targets and guide our customers to make sustainable choices.

Indirect GHG emissions from the value chain (Scope 3)

In 2023, other indirect greenhouse gas emissions (Scope 3) from our value chain totalled 11,553,600 tCO_2e, which is 45.7% more than in the previous year.

We updated the calculation to increase the accuracy of the figures reported for 2023. The most significant changes were related to the categories of purchased goods and services, use of sold products and end-of-life treatment of sold products, where we revised the calculation of emissions from the building and technical trade and the grocery trade, shifting from euro-based calculation to calculation based on product weights. This is a significant change that gives a more accurate picture of the emissions generated in our value chain. However, it significantly reduces comparability with the 2020 baseline.

By far the most significant part of Kesko's other indirect emissions is generated during the life cycle of the products we buy and sell: their production, use and end-of-life treatment. Together, these account for almost 98% of our Scope 3 emissions.

Other indirect greenhouse gas emissions (Scope 3)

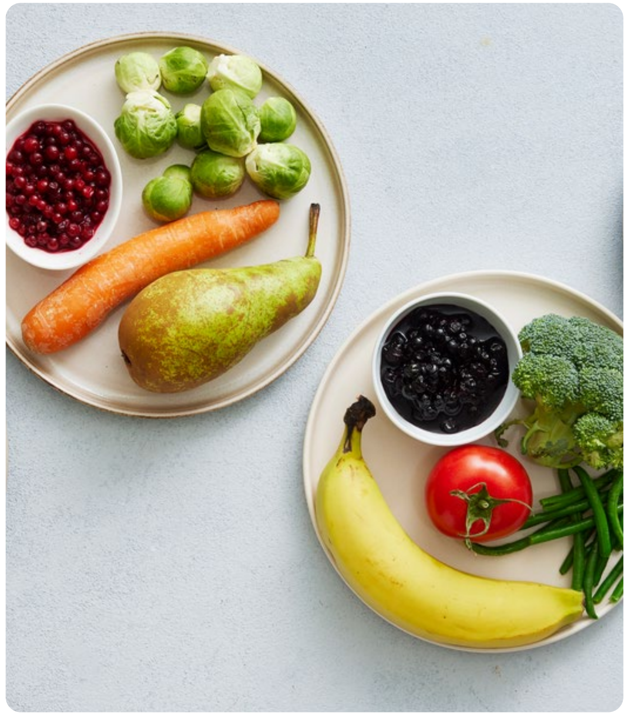
tonnes CO2e	2023	2022	Baseline 2020
Other indirect greenhouse gas emissions total (Scope 3)[1 4]	11,553,600	7,929,200	9,652,800
Upstream			
Purchased goods and services[1 2 3 4]	10,745,800	6,129,500	7,258,000
Capital goods (buildings)[1]	27,700	10,500	5,500
Indirect emissions of purchased energy (other than Scope 1 and 2)[1]	8,300	18,300	12,100
Transport and distribution of goods	8,700	7,900	10,800
Waste	6,400	6,900	6,000
Business travel[4 5]	1,400	1,200	900
Employee commuting[5]	10,800	11,100	11,500
Downstream			
Shopping commutes by customers[5]	92,000	137,800	80,600
Use of sold products[1 3]	476,900	1,153,900	2,053,000
End-of-life treatment of sold products[1 3 4]	63,000	338,500	154,900
K-retailer entrepreneurs[5]	112,600	113,600	59,500

[1] Updated calculation method in 2023; not comparable to the previous years.
[2] K-retailer entrepreneurs' own product purchases are also partially included in the calculation of the grocery trade division.
[3] Calculation boundary: Kespro, sports trade, and K-Bygg and retail trade of Byggmakker of the building and technical trade division are excluded.
[4] Corrected figure from 2022.
[5] Boundary: Finland

We report other indirect greenhouse gas emissions (Scope 3) from our operations in accordance with the GHG Protocol standard. More detailed information about the calculation of emissions can be found in a separate supplement: Kesko's Greenhouse Gas Inventory Report 2023.

We encourage operators in our value chain to take ambitious climate action

We participate in the CDP Supply Chain programme. CDP is a non-profit environmental organisation that annually collects information about actions taken by individual companies to combat and adapt to climate change.



One of Kesko's Science Based Targets (SBT) is that 67% of our suppliers and service providers by spend will have set science-based emissions reductions targets by the end of 2026. We monitor progress towards this target mainly through the CDP Climate Change survey, to which we encourage our major suppliers to respond. Measured by spend in euros, 32.0% of our suppliers have set short-term science-based emissions reductions targets.

More information about our SBT targets is available under 'Ambitious emissions targets'.

Climate impacts of sold products

Our greatest indirect emissions by far are caused by the manufacture of products for sale and in the use phase of the products. These emissions can be mitigated by offering selections of lower-emission products and by encouraging customers to make more sustainable choices in terms of the climate.

Living, food and transportation are the most significant causes of GHG emissions in private consumption. All our divisions have the opportunity and, as significant operators, also the obligation, to offer solutions to our customers for reducing their climate impact.

SUSTAINABLE PRODUCTS

We define sustainable products as products that have a significantly smaller impact on the climate or biodiversity than comparable products or that are important for adapting to climate change or preventing the loss of biodiversity. More information about our sustainable products is available under 'Value chain' and on our website.

Of our suppliers,

32%

have set science-based emissions reductions targets.

CLIMATE IMPACTS OF FOOD CHOICES

Households can decrease the climate impact of their food choices by reducing the consumption of animal-based products and by minimising food waste created at home.

Vegan and plant-based products are covered by our definition of sustainable products, and increasing their share of our sales is one of the targets of our sustainability strategy.

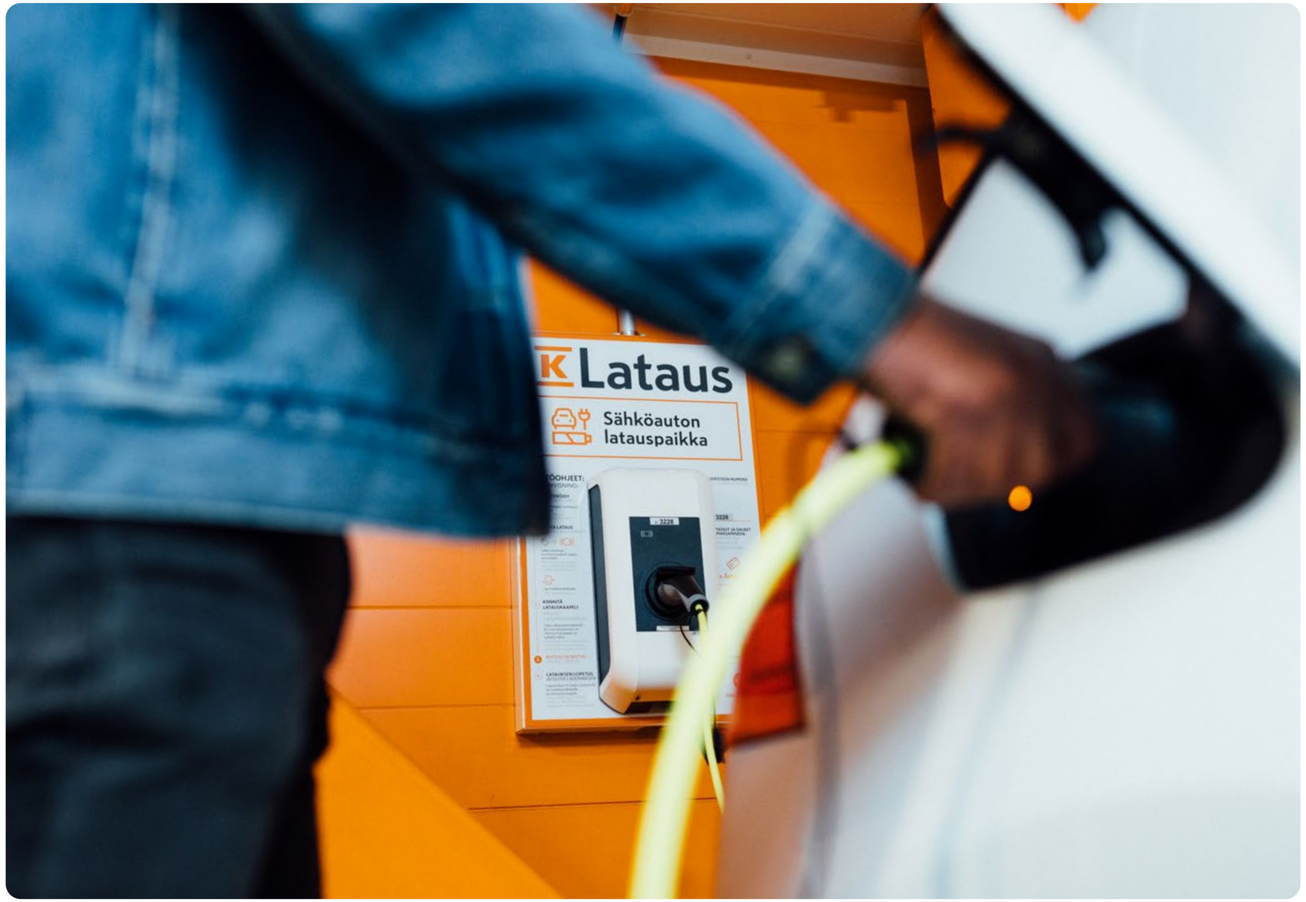
Our health target is to encourage our customers to eat half a kilo of fruit and vegetables per day. When the amount of fruit and vegetables increases, the proportional climate impact of the shopping basket is reduced.

K-Ruoka.fi and the K-Ruoka app provide our customers with concrete tips for their everyday choices and for increasing the consumption of fruit and vegetables, as well as useful recipes for minimising food waste. The K-Ruoka app also provides tips and recipes related to waste ingredients, which can be searched by the names of ingredients that are about to expire in the consumer's cupboard.

The K-Ruoka app also includes a carbon footprint calculator, which provides information about the carbon footprint of the customer's shopping basket. The emission factors of the K-Ruoka carbon footprint calculator were updated to reflect the latest research in cooperation with the Natural Resources Institute Finland during 2023.

HOUSING SOLUTIONS AND REDUCTION OF THE CLIMATE IMPACTS OF HOMES

The building and technical trade offers customers a comprehensive range of products and solutions that promote a more environmentally friendly lifestyle and help to reduce emissions.



Customers are offered a choice of products and product ranges that have been proven to be more environmentally friendly and promote more energy-efficient and healthier living.

For example, switching to LED lighting, choosing water-saving taps and showers and replacing window seals improve energy efficiency at home and reduce the electricity bill. Choosing certified timber guarantees the responsible and sustainable origin of the wood.

ELECTRIC CARS ARE INCREASINGLY POPULAR

The K Charge network serves electric car drivers nationwide and is one of the largest networks in Finland. At the end of 2023, the K Charge network consisted of around 300 stations and more than 1,500 charging points. The amount of electricity sold doubled during the year. The electricity provided at all K Charge stations is renewable energy produced with Finnish wind power.

The average carbon dioxide emissions resulting from the use of new passenger cars sold by K-Auto in 2023 was 61.8 gCO_2 per kilometre, which is over 31% less than the year before. The decrease in emissions is explained in particular by the increase in the number of first registrations of fully electric cars.

BIODIVERSITY

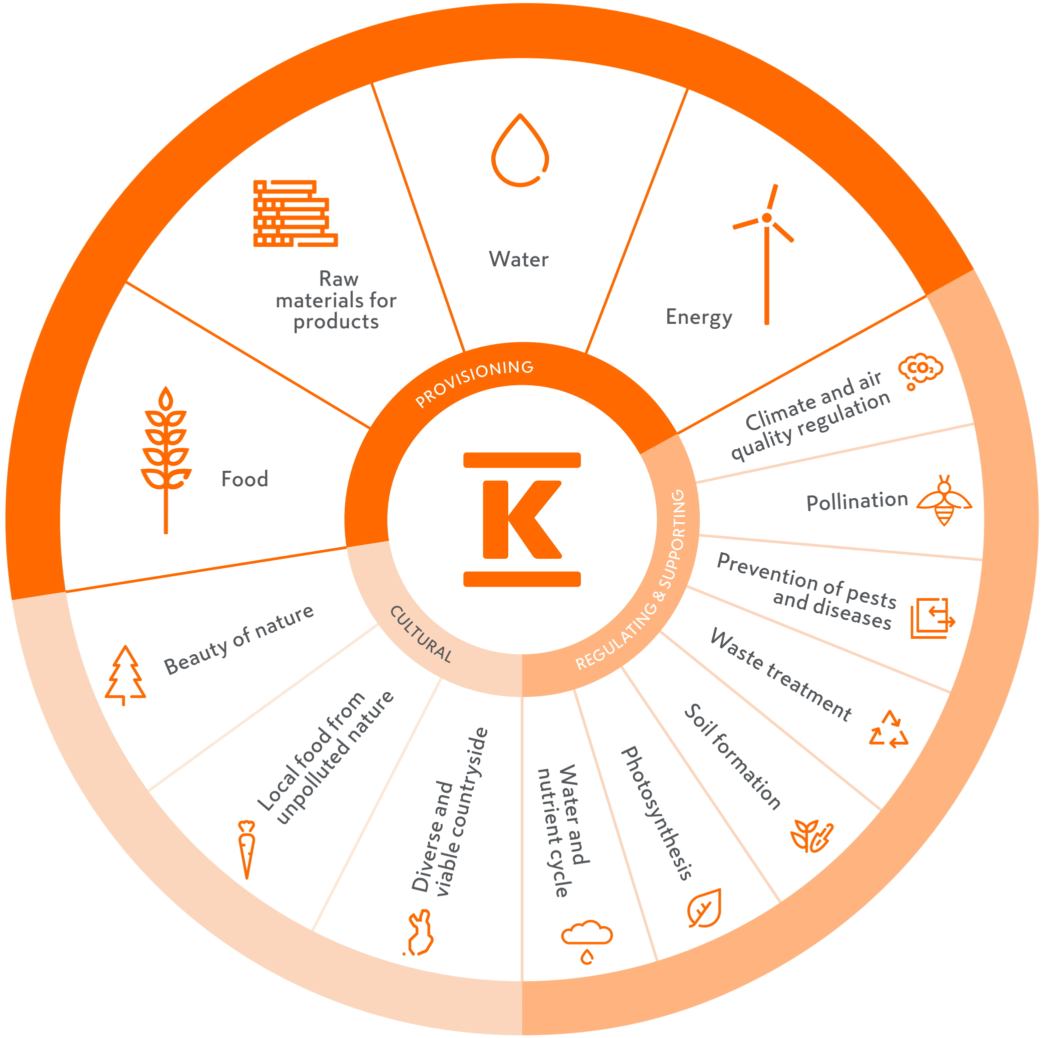
Along with climate change, biodiversity loss is a major global threat. Mitigating the loss of biodiversity and climate change call for largely similar measures: our lifestyles and consumption habits must become more sustainable.

Kesko's goal is to prevent biodiversity loss in both our own operations and the value chain. In the autumn of 2023, we started to prepare a biodiversity roadmap. As part of the roadmap, we will set targets for the biodiversity impacts of our own operations and the value chain.

Natural ecosystem services we depend on

We have carried out an ecosystem services review to identify the ecosystem services provided by nature which we depend on and where we can have an impact. These ecosystem services are divided into provisioning services, regulating & supporting services, and cultural services. Provisioning services are commodities produced by the ecosystem. Regulating and supporting services are ecosystem processes that life on earth is based on. Nature also provides non-material benefits, which are called cultural services.

Ecosystem services K Group depends on



Biodiversity in Kesko's construction projects

In all our construction projects and store maintenance projects, we are looking into practical measures that are most significant in terms of preserving and increasing biodiversity.

We build stores and other properties only on sites planned by municipalities for business properties. Surveys of contaminated land are made annually in conjunction with construction work and real estate transactions. In 2023, the land at two of our locations in Finland was decontaminated based on a survey of contamination and the need for decontamination.

The most significant impacts on biodiversity arise from the supply chains.

We are taking biodiversity into account in our largest ever construction project, the Onnela logistics centre, which is being built in Hyvinkää, Finland. The natural values of the construction area have been identified, and we are looking for a suitable way to offset for the loss of natural values on the site.

Biodiversity in supply chains

Like our climate impacts, our most significant impacts on biodiversity also arise from the supply chains of our products, from primary production in particular.

We observe our sustainability policies for sourcing to prevent negative impacts on biodiversity in our supply chains. Critical raw materials include fish and shellfish, timber, palm oil, soy, cocoa, coffee, tea and cotton. Cotton production consumes a lot of water, for example. In the production of coffee, cocoa, soy, palm oil and timber and paper products, the creation of new farmland results in deforestation and threatens biodiversity.

By the end of 2023, the fish counters of 88 K-food stores had been awarded the MSC and ASC traceability certificates which promote sustainable fishing and aquaculture. Kespro and its subsidiary Kalatukku E. Eriksson have also been awarded the MSC and ASC traceability certificates.

Every K-food store follows K Group's fish and shellfish policy, which has been in effect since 2008. Policy is based on WWF Finland's Seafood Guide.

→ Read more about biodiversity

WATER

Water is essential for all life. Clean, fresh water plays a vital role in maintaining biodiversity, offering a habitat for countless species. Fresh water is also an essential ecosystem service for us.

Kesko's goal is to prevent biodiversity loss in both our own operations and the value chain. In the autumn of 2023, we started to prepare a biodiversity roadmap. As part of the roadmap, we will set targets for the biodiversity impacts of our own operations and the value chain. Water and water risks are also essential aspects of the roadmap.

Water consumption in our operations

The properties we manage use water from municipal water supplies in all operating countries. Waste water from our operations goes to municipal sewer systems.

In Finland, our water consumption was 724,112 cubic metres in 2023, which is 0.3% less than in the previous year. The water consumption figure covers around 76% of the sites managed by Kesko in Finland, based on area.

In other operating countries, water consumption totalled 17,167 cubic metres. The figure does not include consumption figures for Sweden. In other operating countries, excluding Sweden, water consumption decreased by 3.5% year-on-year.

Water consumption

	2023	2022	2021
Total water consumption[1], m^3	741,279	751,768	825,080
Finland, %	97.7	96.7	96.6
Other operating countries[1], %	2.3	3.3	3.4

[1] Consumption figures of Sweden is omitted from the 2023 consumption figures. Consumption figures of Poland from 2022 was corrected.

Water risks in the supply chains

Our most significant impacts on water consumption arise from the products' supply chains through the products we sell, particularly products that originate from areas suffering from water scarcity or contamination. Almost half (47%) of the water footprint of Finnish consumption arises outside Finland through the supply chains of the products we consume.

All of the own brand fruits and vegetables we import to Finland are GLOBALG.A.P. certified. The criteria for GLOBALG.A.P. (Good Agricultural Practice) certification also include a requirement on good water management. In addition, Kesko's sustainability policies and the grocery trade's certifications for sustainable products include criteria for water consumption and the minimisation of water risks. For example, the BCI certification for cotton production, the GOTS certification for textile production and the Fairtrade certification include criteria related to sustainable water use.

USE OF RESOURCES AND THE CIRCULAR ECONOMY

The circular economy is one of the key factors in both mitigating climate change and stopping biodiversity loss. The promotion of the circular economy is a strategic choice for us and one of the cornerstones of our sustainability work. The targets set in Kesko's packaging and plastics policies aim to reduce the use of packaging and plastic and improve the recyclability of packaging. We also provide our customers with a diverse range of recycling services and are increasing the recycling rate of waste generated by our own operations.

Developing circular economy solutions

We are actively developing solutions in cooperation with our partners to utilise production side streams and food waste.

In 2023, we started working with Touchpoint and Rester to recycle workwear discarded by K Group. The collection of clothes is based on reverse logistics between stores and the central warehouse. Textiles are recycled into fibre at Rester's textile recycling plant in Paimio, and opportunities for the further use of the resulting fibre raw material are sought in our own operations.

We started to recycle workwear discarded.

We continued our circular economy cooperation with Berner, which started in 2022. Coffee grounds from Neste K service stations are collected and used as raw material for Pirkka Kaffe plant soil and plant nutrients. A total of 100 tonnes of coffee grounds were collected in 2023. In total, around 170 tonnes of coffee grounds were collected in 2022–2023.

We are also actively seeking solutions to minimise food waste by means of the circular economy. More information on can be found under 'Food waste'.

Progress made towards packaging targets

Product packaging plays an important role in protecting the product, providing product information and communicating the use of the product and the brand. In food products in particular, the role of product packaging is important, as appropriately packaged products remain safe and edible for longer, which in turn reduces waste.

Together with our suppliers and partners, we are constantly seeking new solutions for finding easily recyclable and reusable packaging. In product packaging, we favour renewable materials such as paperboard, paper, cardboard and plastics made from renewable materials.

In our packaging and plastics policies, we have set the following targets:

- Our target is to reduce the amount of plastic contained in packaging by 20% by the end of 2025 compared with the baseline in 2019.
- We are aiming for all of our packaging to be recyclable or reusable by the end of 2025.

Our plastics reduction target is part of the Ellen MacArthur Foundation and the UN's New Plastics Economy Global Commitment, which aims to reduce the unnecessary consumption of plastic.

In 2023, we reduced plastic in the packaging of our own brand products by 29 tonnes. This corresponds to 27.6 million Pirkka recycled plastic bags. Compared with the 2019 baseline, we have reduced plastic in our own packaging by 11.7%.

In 2023, we made changes to the packaging of a total of 93 own brand products in compliance with our packaging and plastics policies.

In addition to the targets set in our policies, the grocery trade has set more detailed targets for sustainable packaging development work in its own packaging strategy.

For example, our goal is to add written sorting instructions in plain language on own brand product packaging to make it easier for customers to sort waste.

Own brands' packaging materials of grocery trade

tonnes	2023	2022	2021
Packaging materials total	13,791	14,483	14,994
Wood and paper fibre	5,762	5,664	6,130
Plastics	4,635	5,221	5,488
Glass	1,763	1,764	1,869
Metal	1,631	1,834	1,507

Centralised collection service and efficient reverse logistics

In 2023, a total of 4,160 tonnes of cardboard and 136 tonnes of plastic was directed through Kesko Logistics' central collection service for recycling. Our waste management partner picks up the collected waste from our terminals and our central warehouse for further processing.

We are increasing the efficiency of our own transportation by including, for example, returned beverage packs and transport support equipment in reverse transportation.

Kesko Logistics' reverse logistics

1,000 pcs	2023	2022	2021
Deposit aluminium cans	93,237	95,433	102,418
Deposit PET bottles	66,805	68,288	71,683
Deposit glass bottles	6,801	7,135	6,521
Reusable crates	20,910	20,862	21,360

Promoting the circular economy

We offer all K-food stores and building and home improvement stores in Finland the opportunity to participate in the national centralised waste management framework agreement (Circular Economy Agreement). The aim of the agreement is to prevent waste, enhance recycling and promote the circular economy. At the end of 2023, a total of 876 K Group stores and locations were covered by the Circular Economy Agreement. The recycling rate of waste generated at these locations was 76%.

At the beginning of 2023, due to the new Waste Act, waste management companies started offering separate sorting of plastic packaging waste from stores. We started to implement the separate collection of plastic packaging at K-food stores, K-Rauta and Onninen stores. Separate collection of plastic packaging is the most significant improvement in waste recycling in K Group since the introduction of cardboard waste collection in the 1990s. Thanks to the improved collection of new plastic packaging fractions and clear plastic film, a total of 17% more plastic waste was collected than in the previous year. Before the separate collection of plastic packaging, the material was sorted into energy waste for incineration.

K Group's grocery trade division adheres to the food industry's material efficiency commitment, where our goal is to reduce food waste and achieve a 4% increase in the waste recycling rate in our own operations and at the K-food stores by the end of 2026 compared with 2019, when the recycling rate was 74%. At the end of 2023, the recycling rate at food stores covered by the agreement was 79%.

Kesko is involved in several voluntary Green Deal agreements. We were the first company in the retail sector to join the Construction Plastics Green Deal agreement. The agreement aims is to promote the circular economy of plastics by reducing the use of plastic and promoting the recycling of plastic in the construction industry. We have also joined the SUP Green Deal, which aims at reducing the consumption of portion packaging. Under this agreement, we are reducing the amount of single-use plastics in portion packaging in the grocery trade and developing new packaging solutions with our partners. We are also involved in the Reusify research project, which explores the potential of a reusable takeaway food packaging system in Finland.

Enabling sorting for our customers

Our customers have the opportunity to use the Rinki eco take-back points located by our stores in Finland for sorting their waste generated at home. At the end of 2023, there

were a total of 398 Rinki eco take-back points located by our stores where our customers could sort cardboard, glass and metal. In addition, plastic packaging was collected at 318 eco take-back points. In total, 16,413 tonnes of waste was sorted through the eco take-back points in 2023.

Packages and items returned by customers to our recycling points in Finland

	2023	2022	2021
Deposit aluminium cans, million pcs	449	436	438
Deposit PET bottles, million pcs	200	193	186
Deposit glass bottles, million pcs	29	32	36
Batteries and accumulators[1], tonnes	334	488	479
Waste electric and electronic equipment, tonnes	147	176	186

[1] More accurate calculation method in 2023; not comparable to the previous years.

In addition to the Rinki eco take-back points, our customers can return beverage containers, batteries and accumulators, waste electric and electronic equipment, and discarded clothing and textiles to the sorting points located in connection with our stores.

Waste generated and its recycling rates

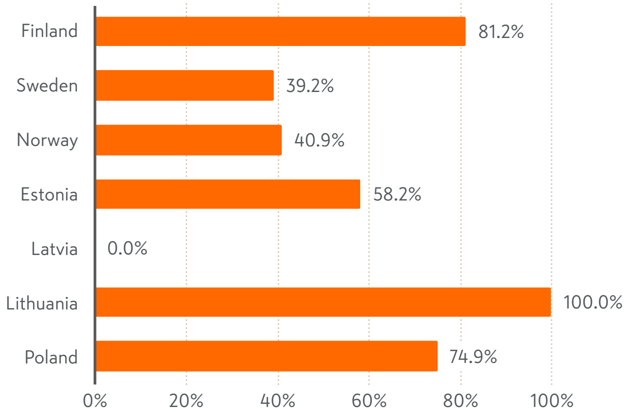
Our target is to minimise the waste generated by our operations and to sort the waste we generate as well as possible.

In 2023, a total of 23,328 tonnes of waste was generated in our operations in all our operating countries. More than 64% of the waste generated was conventional waste that is prepared for reuse or recycled. A total of 13,745 tonnes of waste was generated in our operations in Finland. This is 6.5% less than in the previous year. The recycling rate of the waste generated in Finland was more than 81%.

In other operating countries, a total of 9,583 tonnes of waste was generated, which is 11.6% more than in the previous year. The increase was mainly caused by a higher volume of conventional waste in several operating countries.

We are reporting waste figures for 2023 with a more detailed breakdown than before, separating waste diverted from disposal from waste directed to disposal. Waste diverted from disposal is prepared for reuse or recycled, and waste directed to disposal is incinerated for energy, disposed of in a landfill site or treated in another way.

Waste recycling rate by country in 2023



Waste

			2023	2022	2021
Waste total, tonnes			23,328	23,290	24,269
Finland					
	Conventional waste[1], %	Preparation for reuse / recycling	46.3	60.7	61.7
		Incineration with energy recovery	10.6		
		Landfilling / other disposal operations	<0.1	0.0	0.3
	Hazardous waste[1], %	Recycling	1.5	2.1	2.1
		Incineration with energy recovery	0.4		
		Landfilling / other disposal operations	<0.1	0.2	0.1
Other operating countries					
	Conventional waste[1], %	Preparation for reuse / recycling	17.7	27.5	28.6
		Incineration with energy recovery	17.7		
		Landfilling / other disposal operations	2.6	3.2	2.7
	Hazardous waste[1], %	Recycling	1.3	5.5	4.0
		Incineration with energy recovery	1.1		
		Landfilling / other disposal operations	0.7	0.7	0.6

[1] More accurate reporting method in 2023.

FOOD WASTE

We are committed to halving our food waste by 2030 from the 2019 baseline. Our intermediate target is to achieve a 25% reduction in food waste by the end of 2025. By the end of 2023, the relative food waste generated at K-food stores had decreased by 20% and at Kespro's cash-and-carry outlets by 29% from the 2019 baseline. In other words, the intermediate target was achieved two years ahead of schedule at Kespro's cash-and-carry outlets.

Food waste prevention

Our primary means of preventing food waste include selection management at K-food stores and Kespro's cash-and-carry outlets, as well as forecasting and material requirements planning. In practice, this means having the right amount of products that customers want in the right place at the right time. The most important decisions in terms of waste prevention are made at the selection management stage.

Prevention of waste in K-food stores

As a product's 'best before' or 'use by' date approaches, K-food stores can sell the product at a discount. Such products are marked with a red discount label. Based on the number of products, the best-selling red label products are bread, ready meals, meat and meat products as well as puddings, yoghurts and other dairy products. In 2023, the sales of red label products at K-food stores increased by 12% on the previous year.

The 'Still Good' food waste shelves, bread waste bags and fruit and vegetable waste boxes, which have been introduced in many stores, have also become very popular and have contributed to reducing food waste in stores.

Our consistent measures have been particularly successful in reducing the amount of food ending up as waste at stores. In 2023, the amount of inedible food waste from K-food stores that ended up as waste decreased by 22% from the previous year.

K-food stores donate edible food products they can no longer sell to local charities, which then distribute the products as food aid to those in need.

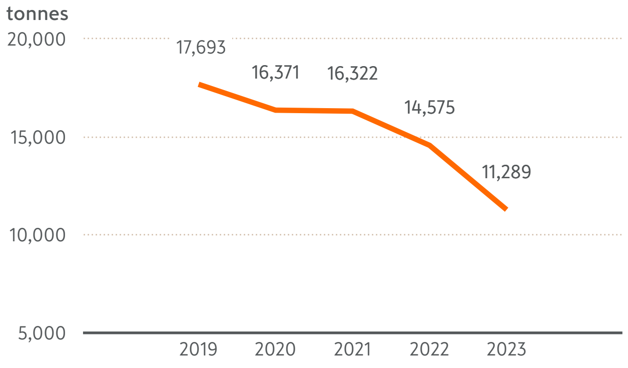
To reduce waste, stores have also developed their own innovative food waste products from brown bananas, for example.

K Group food waste hierarchy

Food waste hierarchy figures

	2023	2022	2021
Red label products sold, million pcs	47	42	37
Utilisation of non-sellable fruits and vegetables from the central warehouse, kg	~17,000	~9,300	~38,300
Donations to food aid, change from the previous year, %	-5.6	+3.8	+2.3
Biowaste to biogas production: number of stores involved in the collection, pcs	752	636	~400

Ineditable food waste in K-food stores



Prevention of waste at the central warehouse

At times, waste is generated in the warehousing operations of fruit and vegetables. Fruit and vegetable products may be damaged on their way to the warehouse, and some of them fail to meet the required standards because of their appearance. These kinds of edible yet non-sellable fruit and vegetable products are excellent ingredients for soups, for example.

In 2023, the vegan Hyvis sweet pepper and lentil soup was launched alongside the Hyvis tomato and cheese soup. The ingredients of the Hyvis sweet pepper and lentil soup include waste sweet peppers from Kesko's central warehouse. In November 2023, the soup was selected as the winner of the Food and Beverage category in the Most Sustainable Product in Finland competition.

In 2023, more than 17,000 kg of waste fruit and vegetables was utilised in our own circular economy products.

Reducing food waste at Kespro's cash-and-carry outlets

In 2023, the food waste percentage – or the share of average purchase price sales that ends up as food waste – was 1.0% at Kespro's 13 cash-and-carry outlets. The ambitious target per outlet is 0.8%. For example, the Vaasa outlet achieved a waste percentage of 0.7%. In Vaasa, the year-on-year improvement was impressive: 0.6 percentage points.

Around 40% of all the food waste recorded by the cash-and-carry outlets is donated to food aid, which means the proportion of food waste that actually ends up being disposed of is only around 0.6%.

Some of the key measures to reduce food waste are data-driven sales prediction and discount shelves for products being removed from the selection or nearing their expiry date. Systematic monitoring of waste data, monthly highlighting of successes and active communication related to waste have also been identified as effective ways to minimise waste.

Biogas from food waste

In cooperation with Gasum, we use inedible food waste to produce biogas, which is used as energy in the production of new Pirkka products such as ice creams and Karelian pasties. The operating model involves two manufacturers of Pirkka products, 752 K-food stores, Kespro's cash-and-carry outlets and the Kesko Logistics central warehouse.

In 2023, a total of 5,176 tonnes of organic waste was used to produce 3,860 MWh of biogas. This saved emissions by 769 tCO_2 compared with natural gas and by 964 tCO_2 compared with light fuel oil (emissions factors: Statistics Finland, Fuel Classification 2023). The amount of bio-waste recycled decreased by 14% from the previous year, thanks to a reduction in food waste.

The amount of inedible food waste from K-food stores that ended up as waste decreased by

22%

from the previous year.

VALUE CHAIN

2023

SUSTAINABILITY IN ACTION

We challenge our suppliers and encourage our customers

We challenge our suppliers and encourage our customers to make sustainable choices throughout the value chain

97.0%

of direct suppliers in risk countries audited

OUR TARGETS:

- 100% of direct suppliers in risk countries audited for social responsibility by 2024
- We extend climate and environmental audits
- We increase the share of sustainable products in net sales
- We support sustainable choices with selections, data and customer communication
- We strengthen the Finnish food chain and security of supply

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

15 LIFE ON LAND

PURCHASES FROM FINLAND AND OTHER COUNTRIES

The majority of purchases are from Finnish suppliers

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

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

Most of the economic benefit generated by Kesko's operations – around 83% of Kesko's net sales – flows to suppliers. In 2023, our purchases from suppliers were valued at €9.8 billion (2022: €10.1 billion). The purchases of all Kesko companies from suppliers operating in Finland totalled €6.6 billion, or 67.4% of the Group's total purchases (2022: €6.7 billion, or 66.3%). The purchases of all Kesko companies from suppliers in Kesko's other operating countries totalled €1.8 billion, or 18.3% (2022: €1.9 billion, or 19.0%).

In 2023, Kesko had around 22,900 suppliers from whom purchases were valued at a minimum of €1,000 during the year. Around 9,000 of these operated in Finland, around 11,500 in Kesko's other operating countries, and around 2,300 elsewhere.

The ten largest suppliers accounted for 21.9% (2022: 20.1%) of the Group's purchases of goods, and the 100 largest suppliers for 50.2% (2022: 47.0%). Of the ten largest suppliers, seven were Finnish food industry companies, two were import companies operating in Finland and one was German car manufacturers.

The purchases of goods by Kesko Group's Finnish companies totalled €8.2 billion (2022: €8.4 billion). Of these purchases, 79.9% (2022: 79.6%) were from suppliers operating in Finland and 20.1% (2022: 20.4%) from suppliers operating in other countries. Some of the suppliers operating in Finland are import companies, and reliable statistics cannot be compiled on the origin of goods supplied by them.

We support Finnish work and production

Finnish food producers play a key role in K Group's grocery trade: nearly 80% of all the food sold by K-food stores is of Finnish origin. We also work to promote the success of Finnish small food producers and accelerate the journey of local products to store shelves. K-food stores are important trading partners for small producers, as local K-retailers can buy products directly from the producers for their store selections.

During 2023, we continued to work to strengthen the sales of, and increase the appreciation of, Finnish food.

Kesko's purchases by operating country in 2023

	Suppliers of goods in operating country	Purchases from suppliers of goods		Suppliers of goods in operating country	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	9,058	6,589	79.9	2,227	1,660	20.1
Sweden	3,468	339	90.1	209	37	9.9
Norway	4,364	772	94.8	324	42	5.2
Estonia	561	24	45.2	298	30	54.8
Latvia	425	10	53.8	222	9	46.2
Lithuania	414	10	44.0	179	13	56.0
Poland	1,071	260	96.2	66	10	3.8
Total	**19,361**	**8,005**	**81.6**	**3,525**	**1,801**	**18.4**

We actively participated in the joint activities of the entire food chain, where our goal is to contribute to securing and strengthening the prerequisites for the future of Finnish food and the food chain.

Finnish products are always primarily selected for our own Pirkka range, provided that the quality and price criteria are met. Pirkka product groups that are 100% Finnish include milks and milk drinks, fresh meat products and eggs, for example. Pirkka is an important employer in Finland: of the Pirkka products, more than 1,000 are manufactured in Finland, and they are manufactured in more than 200 companies across the country. Pirkka offers many small companies in Finland an opportunity to have their products sold nationwide and to increase their production in a controlled manner.

The ‘Thank the Producer’ operating model is one of the ways in which we support Finnish agriculture. Under the operating model, the consumer price may be slightly higher for the products, which partly enables K Group to pay an additional payment to the producers. The additional sum is paid directly to the producers. In 2023, the operating model involved 32 partners and 112 products. In 2015–2023, products sold under the ‘Thank the Producer’ model accrued more than €9 million in additional money for farmers.

In recent years, we have made the path of local food to store shelves smoother through Local Food Date events held across Finland. Organised by K Group and Finfood – Finnish Food Information, these events bring together K-retailers and small food producers. In 2023, we organised three Local Food Date events in which a total of 91 producers and 177 retail trade representatives participated.

The new service developed by K Group streamlines cooperation between K-retailers and small producers: small producers can submit their products to be considered by selection decision-makers at more than 1,200 K-food stores, and entering into agreements is easier when K-retailers can easily find interesting local products in one place.

Kespro's small-scale producer cooperation model provides Kespro's customers with the opportunity to support regional food production, entrepreneurship and employment. The small-scale producer model provides restaurants with more detailed information on the origin of the product and allows direct contact with the producer. The cooperation model already involves 180 Finnish small-scale producers. Included are, for example, cattle farms and slaughterhouses, fishing companies, cheese manufacturers, vegetable producers, small breweries, mills and bakeries.

GLOBAL SUPPLY CHAINS

Suppliers' social responsibility assessment

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

In 2023, direct purchases from suppliers in risk countries totalled €115 million (2022: €156 million) and accounted for approximately 1.2% (2022: 1.6%) of Kesko's total purchases. The 2022 figures concern direct purchases in Finland; no statistics were available on direct imports from risk countries in terms of Kesko's other operating countries for 2022.

Kesko is a member of amfori, an association promoting sustainable trade, and takes part in amfori BSCI (amfori Business Social Compliance Initiative). Amfori BSCI promotes the management of social responsibility in global supply chains. Kesko is committed to promoting compliance with the amfori BSCI Code of Conduct in its supply chain. In accordance with Group guidelines, an amfori BSCI Code of Conduct contract clause must be added to supplier agreements.

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

Social responsibility audits and certifications of suppliers in high-risk countries

Social responsibility assessment system	1 Jan. 2024, total	1 Jan. 2023, total	1 Jan. 2022, total	1 Jan. 2021, total	1 Jan. 2020, total
amfori BSCI	326	345	238	339	347
Smeta	197	77	195	115	177
Siza	84	66	147	59	100
SA8000	18	13	12	16	15
Fairtrade	33	8	31	29	28
Rainforest Alliance	22	2	28	20	22
Fair for Life	5	0	6	2	4
For Life	0	0	3	14	10
ICA Social Audit	0	1	2	12	22
ICS	3	1	-	-	-
ICTI	9	6	6	6	8
MPS-Socially Qualified	6	-	-	-	-
WRAP	1	1	2	1	0
Total	**704**	**520**	**670**	**613**	**733**

Social responsibility audits and certifications are used to assess the safety of working conditions in production, the salaries and working hours of employees and their rights of

amfori
Trade with purpose

Member of amfori, the leading global business association for sustainable trade.
For more information visit www.amfori.org.

freedom of association and collective bargaining. The use of child or forced labour is strictly forbidden.

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

In 2023, 97.0% (2022: 91.5%) of Kesko's direct suppliers in risk countries had been audited for social responsibility. The figures concern direct purchases in Finland.

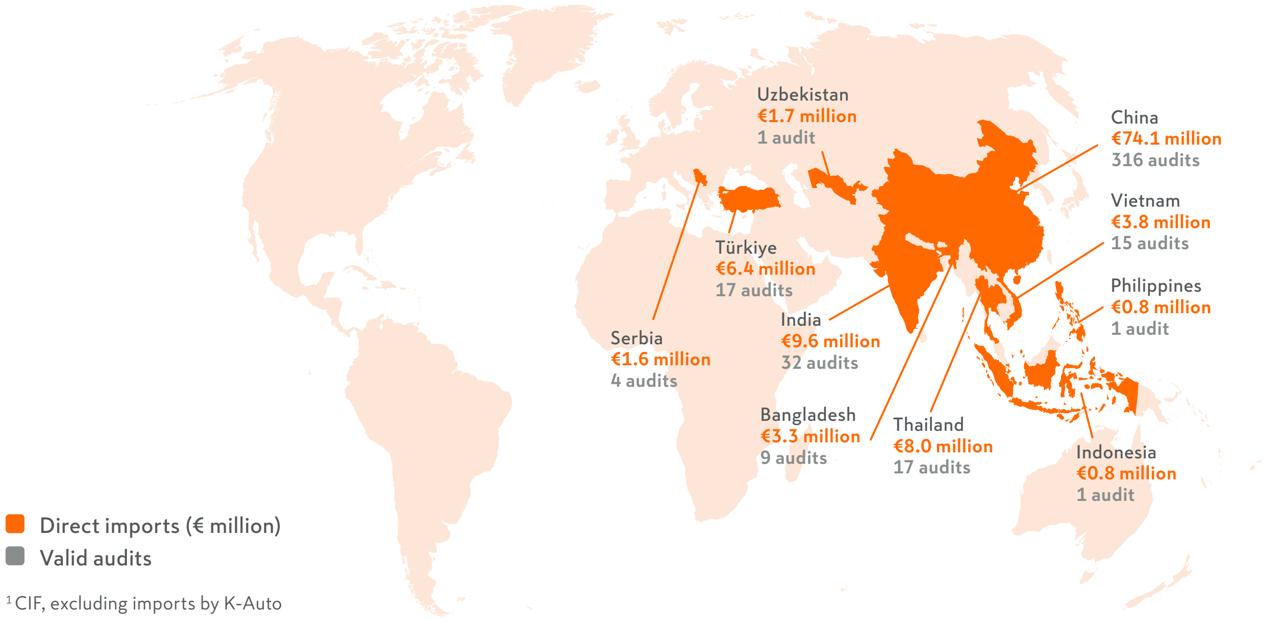
Kesko's suppliers in risk countries had a total of 704 (2022: 520) valid social responsibility audits. Some of Kesko's suppliers are also members of amfori and thus promote amfori BSCI audits in their own supply chains.

RESULTS OF AMFORI BSCI AUDITS

In 2023, a total of 181 (2022: 219) of the factories or plantations of Kesko's suppliers underwent full amfori BSCI audits. In addition, 126 (2022: 125) suppliers' factories or plantations underwent amfori BSCI follow-up audits.

The results of the 2023 amfori BSCI audits of Kesko's suppliers' factories and plantations are presented on page 77. The majority of the deficiencies were related to compliance with working time regulations and to social management systems at factories. Corrective measures

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



[1] CIF, excluding imports by K-Auto

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

Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2023, we were forced to terminate cooperation with 10 (2022: 11) factories because a consensus could not be reached with the factories regarding necessary corrective measures.

amfori BSCI audit results by area in 2023

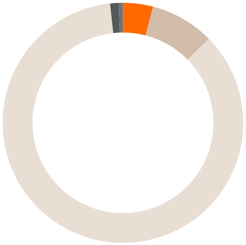
Full audits	A Outstanding	B Good	C Acceptable	D Insufficient	E Unacceptable
Social Management System and Cascade Effect	4%	2%	75%	18%	1%
Workers' Involvement and Protection	51%	37%	11%		1%
The Rights of Freedom of Association and Collective Bargaining	98%		1%		1%
No Discrimination, Violence or Harassment	95%	2%	2%		1%
Fair Remuneration	38%	52%	9%		1%
Decent Working Hours	13%		3%	83%	1%
Occupational Health and Safety	84%	11%	1%	2%	2%
No Child Labour	98%			1%	1%
Special Protection of Young Workers	99%			1%	
No Precarious Employment	98%	1%		1%	
No Bonded, Forced Labour or Human Trafficking	99%				1%
Protection of the Environment	86%	11%	2%	1%	
Ethical Business Behaviour	95%	5%			

Follow-up audits	A Outstanding	B Good	C Acceptable	D Insufficient	E Unacceptable
Social Management System and Cascade Effect	2%	3%	83%	12%	
Workers' Involvement and Protection	64%	26%	7%	2%	1%
The Rights of Freedom of Association and Collective Bargaining	99%	1%			
No Discrimination, Violence or Harassment	98%		2%		
Fair Remuneration	39%	56%	4%		1%
Decent Working Hours	7%		3%	89%	1%
Occupational Health and Safety	83%	14%	1%	1%	1%
No Child Labour	99%	1%			
Special Protection of Young Workers	100%				
No Precarious Employment	99%		1%		
No Bonded, Forced Labour or Human Trafficking	99%				1%
Protection of the Environment	88%	11%	1%		
Ethical Business Behaviour	96%	2%	2%		

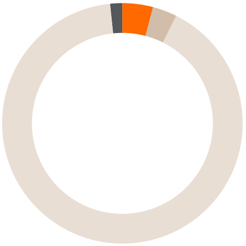
More–less

A Outstanding
B Good
C Acceptable
D Insufficient
E Unacceptable

amfori BSCI results in 2023, full audits



amfori BSCI results in 2023, follow-up audits



If the supplier underwent more than one amfori BSCI audit during 2023, the results of the latest audit only are presented.

INTERNATIONAL ACCORD

Kesko is a signatory of the International Accord for Health and Safety in the Textile and Garment Industry, which is continuing the work of the Bangladesh Accord to improve electricity, fire and building safety at garment and textile factories in Bangladesh. The International Accord improves occupational health and safety at garment and textile factories in Bangladesh more extensively than its predecessor.

Kesko requires the ready-made garment factories in Bangladesh that produce clothing for K-Citymarket's mywear brand and home textiles for its myhome brand to be included in the International Accord process. In 2023, all 8 textile factories in Bangladesh producing for K-Citymarket's mywear and myhome brands were included in the International Accord process. Factories are inspected regularly, and the process of remediating detected deficiencies is monitored. In 2023, 21 factory inspections were made at the factories producing for the mywear and myhome brands. Training is also organised for the workers at the factories.

FAIRTRADE PREMIUMS HELP TO DEVELOP LOCAL COMMUNITIES

Kesko's grocery trade selections have included Fairtrade products since 1999. In 2023, the retail selection of Kesko's grocery trade included 282 (2022: 292) Fairtrade products, of which 20 (2022: 23) were Pirkka products. Kespro's foodservice selection had a total of 64 (2022: 77) Fairtrade products, of which 2 (2022: 3) were Kespro's Menu products.

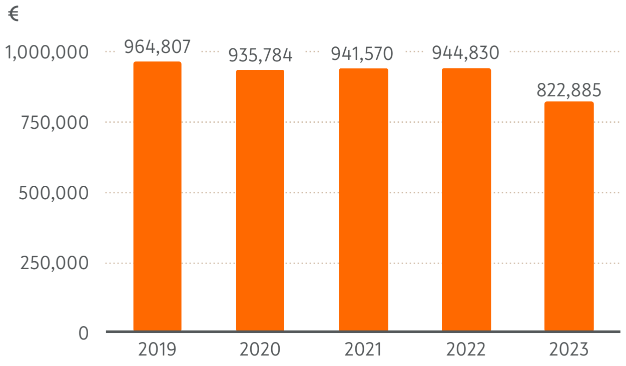
Farmers are paid a guaranteed price and a Fairtrade premium for the products. Fairtrade premiums have been used to build day-care centres, schools and healthcare centres for local communities, as well as housing for workers, for example. In 2009–2023, a total of more than €9.1 million was generated as Fairtrade premiums for social development projects in local communities from Fairtrade products sold by K-food stores and Kespro. In 2023, a total Fairtrade premium of €822,885 was generated by products sold by K-food stores and Kespro (2022: €944,830).

The products generating the largest Fairtrade premiums were Fairtrade flowers, bananas and coffee.

Fairtrade audits ensure that working conditions, labour rights, Fairtrade premiums and environmental considerations, among other aspects, are in line with the Fairtrade criteria. Fairtrade aims to ensure that both farmers and workers earn living income and wage. This means that their income covers all the basic needs of their family, and a little is also left over for a rainy day.

On the Tracing Our Products website, we provide information about the origin of Pirkka Fairtrade roses and Pirkka Luomu Fairtrade bananas and their journey to the shelves of K-stores.

Fairtrade premium generated by products sold by K Group grocery stores and Kespro



OWN BRAND PRODUCTS WITH SUSTAINABILITY LABELLING

The grocery trade's Pirkka and K-Menu ranges:

- **483** (2022: 467) Hyvää Suomesta (Produce of Finland) products
- **283** (274) products with the Key Flag symbol
- **180** (205) organic products
- **92** (82) Seed leaf label products
- **157** (125) Nordic Swan label products
- **20** (23) Fairtrade products
- **92** (93) Rainforest Alliance certified products
- **61** (55) MSC certified products
- **18** (22) ASC certified products
- **23** (-) Dolphin Safe certified products
- **12** (12) products with the Finnish allergy label (Allergiatunnus)
- **9** (6) EU Ecolabel products
- **84** (19) products with the Heart Symbol

Kespro's Menu range:

- **149** (125) Hyvää Suomesta (Produce of Finland) products
- **38** (31) products with the Key Flag symbol
- **11** (12) organic products
- **25** (28) Seed leaf label products
- **10** (28) Nordic Swan label products
- **2** (3) Fairtrade products
- **14** (14) Rainforest Alliance certified products
- **20** (29) MSC certified products
- **7** (8) ASC certified products
- **4** (9) Dolphin Safe certified products
- **1** (1) products with the Finnish allergy label (Allergiatunnus)
- **36** (36) products with the Heart Symbol

The building and technical trade's Cello, Prof, FXA, GOODIY and Onnline ranges:

- **660** (815[1]) products with the Key Flag symbol
- **33** (30[1]) Nordic Swan label products
- **106** (105[1]) products with the Finnish allergy label (Allergiatunnus)
- **254** (128[1]) M1 certified products

[1] Corrected figure for 2022

Suppliers' environmental assessment

K Group's most significant climate impacts are caused by emissions from its own operations as well as emissions from the value chain of the products. We participate in the CDP Supply Chain programme and through this encourage our suppliers to reduce their emissions. Read more about the CDP Supply Chain programme in the 'Climate and nature' section.

We participate in the amfori BEPI programme, which aims to develop the environmental management of suppliers in risk countries. In 2023, amfori BEPI risk assessments were carried out on 54 (2022: 11) of our suppliers in risk countries.

In 2023, KOPO (Kesko Onninen Purchasing Office), the purchasing office of the building and technical trade division in Shanghai, carried out an audit on 72 (2022: 30) suppliers with a focus on environmental management and the ISO 14001 environmental system. At the end of 2023, 79 (2022: 66) suppliers had a valid ISO 14001 certification.

Suppliers' sustainability training

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

The following training sessions were organised for our suppliers in 2023:

- Together with CDP, we organised training on the CDP Supply Chain programme for our suppliers. In the training, the suppliers were given practical tips on how to respond to the CDP Climate Change Questionnaire. 75 participants took part in the training.
- As part of the IGS purchasing cooperation, IGS organised six training sessions for suppliers in risk countries. The sessions dealt with the sustainability work of IGS sourcing, the ICA Audit process, and suppliers' obligations and best practices in resolving social responsibility issues. A total of 49 Kesko suppliers took part in the training.

In 2023, Kesko's 21 suppliers located in risk countries participated in the training organised by amfori. The training topics included the amfori BSCI and BEPI process, BSCI system revision, continuous improvement, and employees' fair remuneration and working hours. Training data was available from January to October in 2023.

Promoting transparency in supply chains

We guide the sourcing of products containing raw materials that have been identified as being critical from a social and environmental responsibility perspective through our twelve sustainability policies.

To improve the transparency of our supply chains, we provide information about the origin of our products and their journey to the shelves of K-stores on our Tracing Our Products website. We select products that involve social and environmental responsibility challenges in the sustainable production of raw materials and whose purchasing is steered by sustainability policies.

We publish a list of manufacturers of clothes, shoes, bags and home textiles of our own brands and own imports located in risk countries, the addresses of the factories and the number of employees annually on our website.

WE MADE THE CANNED PINEAPPLE PRODUCTION CHAIN MORE TRANSPARENT TO CUSTOMERS

In the autumn of 2023, we made the journey of Pirkka and K-Menu canned pineapple to store shelves more transparent on the Tracing Our Products website. Our customers can access information about the origin of our products through the QR codes on the packaging. In this way, more information about the product is easily available at the time of purchase and use.

On the website, we explain the value chain of canned pineapple from plantation to store. The pineapples for Pirkka and K-Menu canned pineapples are grown in Thailand, one of the world's largest producers and exporters of pineapples. The production chain begins with pineapple cultivation and harvesting and continues with the transport of the fruit to the factory where it is processed and canned. We also provide information about the six-week journey of canned pineapple from Thailand to Finland by sea and land transport. Supplier and factory information for Pirkka and K-Menu canned pineapple is available on the website.

Explore the Tracing Our Products website

SUSTAINABILITY POLICIES

Through our sustainability policies, we guide the sourcing of products containing raw materials that have been identified as being critical in terms of social and environmental responsibility. Human rights, climate and biodiversity challenges have been identified with these raw materials.

NO DEFORESTATION POLICY

Kesko commits to purchasing raw materials that pose a particular concern in terms of deforestation only when they are sustainably produced. Our operations are guided by our timber and paper policy, palm oil policy, soy policy, cocoa policy, coffee and tea policy and the timelines specified within them.

PALM OIL POLICY

The palm oil in our own brand groceries is 100% sustainably produced.

SOY POLICY

The ingredients of soy origin in our own brand food products and the soy fodder used in the production of products of animal origin are 100% sustainably produced and RTRS, ProTerra, Donau Soja/Europe Soya or Fairtrade certified.

TIMBER AND PAPER POLICY

By 2025, the timber and paper products in Kesko's product range will be 100% of sustainable origin: FSC or PEFC certified, of certified origin, or made from recycled materials. In the grocery trade, the policy applies to Kesko's own brand products. In the building and technical trade, the policy applies to all timber delivered by Kesko.

COFFEE AND TEA POLICY

Kesko's own brand coffees are 100% and teas 99% of more sustainable origin, meaning that the sustainability of their primary production has been certified.

COCOA POLICY

All the cocoa used in Kesko's own brand cocoa drinks, chocolate confectionery products and chocolate baking products is 100% of sustainable origin. The cocoa used in other own brand products containing cocoa will be 100% of sustainable origin by the end of 2025.

COTTON POLICY

Kesko has made the commitment that all of the cotton used in its own clothing and home textile brands will be certified organic cotton, recycled cotton, Better Cotton or Fairtrade cotton by the end of 2025. Our own brand clothing and home textiles include K-Citymarket's mywear clothes and myhome home textiles, Pirkka socks and K-Rauta's PROF workwear and Cello interior textiles.

PLASTICS POLICY

By the end of 2025, all the packaging used in our own brand products will be recyclable or reusable. Our goal is to reduce the amount of plastic contained in the packaging of our own brand products by 20% by the end of 2025.

PACKAGING POLICY

We avoid using excess packaging material and reduce the use of plastic in our packaging. Our packaging must be recyclable or reusable. We favour renewable packaging materials: paperboard, paper, cardboard and bio-based plastics. In our wood-based packages, we favour solutions of sustainable origin (FSC or PEFC certified) or recyclable materials.

FISH AND SHELLFISH POLICY

Our selections do not include such species on the red list of WWF Finland's Seafood Guide that do not have MSC or ASC certification. When making decisions concerning selections, we favour sustainable stocks of fish and MSC and ASC certified suppliers.

ANIMAL WELFARE POLICY

When making decisions concerning selections, we take the wellbeing of farmed animals into account. From the start of 2026, we will no longer accept eggs from furnished cages into Kesko's selections.

→ Read more about the progress of the sustainability policies

HUMAN RIGHTS COMMITMENT AND ASSESSMENT

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

In 2016, we published our statement of commitment on human rights and impact assessment in compliance with the UN Guiding Principles on Business and Human Rights. The human rights assessment is reviewed every three years by the sustainability management group, with the latest review conducted in the autumn of 2022.

Respect for fundamental human rights is at the core of Kesko's K Code of Conduct. Our uncompromising zero tolerance policy towards human rights violations requires us to continuously monitor compliance with the K Code of Conduct in our own operations and in those of our partner network. We require every Kesko business partner to commit to complying with the K Code of Conduct. We instruct our personnel and other stakeholders to report any violations they detect. Kesko's SpeakUp channel can also be used to submit reports anonymously. We provide our employees with K Code of Conduct online training, which includes information about respecting human rights.

Kesko is a member of the Centre for Child Rights and Business, a Chinese organisation promoting children's rights.

As part of our human rights assessment, we have conducted broad surveys into the realisation of human rights in our supply chain. The results of the surveys are available on our website.

In 2023, we participated in the UN Global Compact's Business & Human Rights Accelerator programme which aimed to help companies identify human rights impacts in their business and progress from impact identification to concrete action. In our own work, we focused on third-party service providers in the building and technical trade.

Regular training sessions in responsible purchasing organised for those working in purchasing operations deal with the implementation of human rights in global supply chains. The training sessions discuss, among other aspects, Kesko's sustainability policies that guide sourcing, the assurance process in purchasing from risk countries and the amfori BSCI Code of Conduct principles. In 2023, we organised a training session in responsible purchasing for Kespro employees working in purchasing and two training sessions in the building and technical trade. In 2023, we also introduced an online sustainability training programme for all personnel in which responsible purchasing processes are discussed.

HUMAN RIGHTS ISSUES IN FINLAND

We expect all of our business partners to adhere to the K Code of Conduct for business partners, which guides responsible business practices regardless of the operating country.

In 2020, we initiated audits of retail service providers in Finland. The social responsibility of these providers – including cleaning companies and sushi shop owners – is monitored through third-party audits.

In 2023, we engaged in acute discussions with suppliers regarding human rights risks related to the business of picking wild berries in Finland and demanded corrections to their business processes. Additionally, we held broader discussions on potential solutions with various parties in the value chain.

SUSTAINABLE PRODUCTS

Kesko reports on its environmentally sustainable operations in accordance with the criteria defined in the EU Taxonomy in the Report by the Board of Directors.

Our own classification of sustainable products on this page complements the turnover KPI in accordance with the EU Taxonomy. The car trade division's leasing business and sales of used cars are currently Kesko's economic activities generating net sales within the EU Taxonomy scope. The net sales of the leasing business is not Taxonomy-aligned. Regarding used cars, the Taxonomy alignment was not assessed in 2023; the assessment will be made in 2024. In our own specification of sustainable products, for the car trade division, we present the net sales from vehicles with emissions less than 50 g CO_2/km as part of our net sales from sustainable products. This includes net sales from the sale of new vehicles and lease income from the leasing business. As the sale of goods by the grocery trade and the building and technical trade are not activities that are within the Taxonomy scope, this specification is based on our own definition of sustainable products.

In the grocery trade, we define sustainable products as those which have a significantly smaller impact on the climate or biodiversity than comparable products or which are important for mitigating climate change or preventing the loss of biodiversity.

At K-Rauta and Onninen, we define sustainable products as those that promote energy saving, green transition, values of nature or safe living and working. Furthermore, the definition includes products with qualities meeting the criteria based on researched and verified data, official environmental labels and certificates.

Sustainable products

GROCERY TRADE

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

Percentage of sustainable products of grocery trade's net sales in 2023:

40%
(2022*: 39%)

*excl. Kespro's sales data 2022

BUILDING AND TECHNICAL TRADE

- Energy saving
- Green transition
- Values of nature
- Safe housing and working
- Verified or certified product information

Percentage of sustainable products of building and technical trade's net sales in 2023:

18%
(2022: information not available)

CAR TRADE

- Sales and leasing service of vehicles with zero and less than 50 g CO_2 emissions

Percentage of sustainable products of car trade's net sales in 2023:

31%
(2022: 21%)

Read more about sustainable products

NUTRITION AND PRODUCT SAFETY

We care for the health and safety of our customers

Our Quality and Product Development Unit is responsible for assessing the impacts of products on health and safety. Manufacturers of our own brand food products must have international certifications that assure product safety. The standards we approve include BRC, IFS, FSSC 22000 and GlobalGAP. In 2023, the total number of certified suppliers was 737 (2022: 696).

We analysed 7,776 (2022: 6,712) product samples. Over 4,000 of the samples were related to the product development of our own brands. In 2023, we extended the analysis of own control samples. We analysed 3,453 (2022: 2,970) of our own control samples.

The product safety risk assessment of own brand products in the building and technical trade was updated in 2023. The assessment covers all product categories which include own brand products.

K GROUP HEALTH AND NUTRITION PROGRAMME

We published the K Group health and nutrition programme in January 2023. The goal of the programme is to make healthier food choices as easy as possible for the customer using three clear and measurable targets:

1 Finns eat half a kilo of vegetables a day
The goal is that those people who buy most of their groceries from K-food stores will eat half a kilo of vegetables a day by 2026. At the end of 2023, the result was 0.41 kg/day. Consumers are encouraged to add vegetables to their diet with the help of, for example, K-Hyvinvointi service, which is part of the K-Ruoka app. The K-Ruoka app supports consumers to purchase groceries that meet the nutritional recommendations.

2 Decreasing the consumption of salt, sugar and saturated fat
The amount of added salt, sugar and saturated fat in Pirkka products will be reduced by the end of 2025. The goal of making the nutritional content healthier through reformulation is to reduce the amount of sugar by 200,000 kg (2023: reduction 109,319 kg), the amount of salt by 50,000 kg (2023: 16,846 kg) and the amount of saturated fat by 50,000 kg (2023: 37,269 kg).

3 Heart Symbol
Healthier food choices will be made easier by adding the Heart Symbol to at least 200 products from K Group's own brands by the end of 2024. By the end of 2023, Heart Symbols were added to 85 own brand products.

MORE PLANT-BASED PRODUCTS

We actively develop our selection of plant-based products. Vegetable protein products are part of every chain selection in our grocery store chain.

In the stores, vegetable protein products are located on veggie shelves to help as many customers as possible to find them easily. The veggie shelves can be recognised in the stores from their green taping and 'Vege' texts.

The Pirkka, Pirkka Parhaat and K-Menu ranges, which are K Group's own brands, include a wide selection of 100% plant-based products, and we are constantly developing this selection. There are already some 180 fully vegan Pirkka, Pirkka Parhaat and K-Menu products.

The customers of K-food stores can monitor their consumption of red meat, fruit and vegetables, for example, in the data-based K-Hyvinvointi service. They can compare their own data with the national nutritional recommendations. The service also enables users to measure the domestic origin and climate impact of their food shopping.

We offer our customers a broad selection of recipes on the K-Ruoka.fi website, with more than two thousand plant-based and vegan recipes. These, as all the other K-Ruoka.fi recipes, show the nutritional contents of the recipes.

WE MONITOR PRODUCT SAFETY

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

In 2023, we made 148 product recalls in the grocery trade (2022: 178). Of these, 33 concerned our own brand products (2022: 31). In other cases, our Quality and Development Unit assisted the product manufacturers in the recall. If a defect or error in a product may have health impacts, a public recall is carried out. In 2023, this happened 2 times for our own brand products (2022: 2).

In the building and technical trade division, no own brand product recalls were made in 2023 (2022: 1).

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

In 2023, a total of 33 recall campaigns were launched for brands represented by K-Auto (Volkswagen passenger cars

SWEET PEPPERS WASTED ARE USED AS SOUP INGREDIENTS

One of our main objectives with regard to circular economy is halving food waste by 2030. We are constantly looking for ways to better manage food waste in our value chain. One important way is developing products that utilise food waste.

The 'Hyvis' soup uses sweet peppers from Kesko's central warehouse that are edible but cannot be sold in stores because of e.g. bruising. However, they are still excellent ingredients for soups.

The vegan Hyvis sweet pepper and lentil soup has been granted the Heart Symbol that indicates the product is a healthier choice within its product group: the soup contains a moderate amount of fat and a low amount of salt. The soup is made in Kuopio and has been awarded with the Key Flag that shows the product has been made in Finland.

Hyvis sweet pepper and lentil soup was selected the winner of the Food and Beverage category in the Most Sustainable Product in Finland competition.

and commercial vehicles, Audi, SEAT, CUPRA, Porsche, Bentley and MAN) (2022: 34).

There were no legal proceedings, fines, warnings or breaches of voluntary requirements associated with product safety or health in Kesko in 2023.

Marketing communications and product information

PACKAGE LABELLING HELPS CONSUMERS IN MAKING SUSTAINABLE CHOICES

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

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

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

In 2023, we continued to add written recycling instructions on the packaging of Pirkka, Pirkka Parhaat and K-Menu products. These instructions will be added to all packaging to make it easier for consumers to sort their packaging waste correctly.

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

FAULTY PRODUCT LABELLING

If a product has faulty labelling, we will withdraw it from sales. In 2023, there were 2 product recalls of Kesko's own brand products resulting from defective product labelling (2022: 7).

There were no legal proceedings, fines, warnings or breaches of voluntary requirements associated with product labelling in 2023.

WE OBSERVE GOOD MARKETING MANNERS

In 2023, no advertising carried out by Kesko or its subsidiaries was subject to processing by the Council of Ethics in Advertising, and there were no violations of marketing laws.

SUSTAINABLE PRODUCT LABEL IN USE AT KESPRO

Kespro makes it easier for its customers to make sustainable choices by marking the background information of its products with the Sustainable Product label if the product has been manufactured sustainably.

Kespro defines a product as a Sustainable product when it is:

- A product in line with Kesko's sustainability policies that guide our sourcing
- A product with sustainability certification and labelling
- A circular economy product
- An 'Offset carbon footprint' product
- A plant-based product which can replace animal-based products such as meat and dairy products

RESPONSIBLE SALES OF ALCOHOL AND TOBACCO

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

We verify the age of all customers who purchase alcohol or tobacco and appear younger than 30. In this way, we aim to ensure that no alcohol or tobacco is sold to minors. In 2023, our cashiers verified the age of 7,025,333 (2022: 2,861,155) customers purchasing alcohol and 4,277,035 (2022: 1,403,175) customers purchasing tobacco. Based on these checks, we had to decline 13,500 alcohol purchases (2022: 15,680) and 5,990 tobacco purchases (2022: 8,592).

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

OUR PEOPLE

2023

SUSTAINABILITY IN ACTION

We support the wellbeing and success of our people

We foster diversity and inclusion, and offer equal opportunities for both current and future employees.

The result of the wellbeing index

81

(scale 0–100)

OUR TARGETS:

- We support the health, wellbeing and success of our employees
- Our ultimate target is zero injuries
- We carry out our diversity and inclusion programme
- We aim for equal pay
- We promote gender equality

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

WORKING AT KESKO

Our professional and committed personnel are the foundation of our operations. Kesko and K-retailers offer hundreds of different jobs in stores and warehouses and in expert positions at offices in the three divisions across eight countries (2023: seven). More than 70 % of Kesko employees work in Finland.

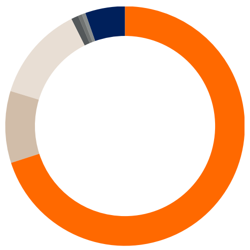
Our People is one of the key focus areas of our sustainability strategy. Responsibility for people means promoting the safety, wellbeing and diversity of personnel and equity in the working community. In 2023, we set concrete targets to promote diversity and equity.

The wellbeing and work capacity, satisfaction, motivation and competence of our employees are key resources for us, helping us maintain our competitiveness in the current and future environment.

Changes in the number of Kesko employees

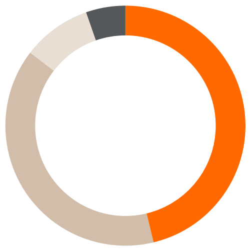
	2023	2022	2021
Finland on 31 Dec.	12,384	12,665	12,442
Other operating countries on 31 Dec.	5,318	5,176	4,960
Total on 31 Dec.	**17,702**	**17,841**	**17,402**
Finland, average	10,314	10,372	10,114
Other operating countries, average	4,451	4,261	4,119
Total, average	**14,766**	**14,633**	**14,232**

Personnel by country at 31 Dec. 2023, %



- Finland 70.02% (12,384 people)
- Sweden 9.70% (1,716 people)
- Norway 12.89% (2,280 people)
- Estonia 0.98% (173 people)
- Latvia 0.53% (94 people)
- Lithuania 0.50% (89 people)
- Poland 5.38% (951 people)

Distribution of Kesko personnel by division at 31 Dec. 2023*, %



- Grocery trade 46.23% (8,184 people)
- Building and technical trade 39.17% (6,934 people)
- Car trade 9.27% (1,641 people)
- Common operations 5.33% (943 people)

* All operating countries

Years of service in 2023*, %

- under 2 years 27.59% (4,877 people)
- 2–5 years 25.44% (4,497 people)
- 6–10 years 13.97% (2,469 people)
- 11–15 years 10.87% (1,922 people)
- 16–20 years 8.74% (1,544 people)
- 21–25 years 5.44% (961 people)
- over 25 years 7.95% (1,406 people)

* All operating countries

Kesko's personnel statistics for 2023 analysed by operating country

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland
Total number of personnel at 31 Dec.	12,384	1,716	2,280	173	94	89	951
women	5,984	488	550	48	32	22	236
men	6,392	1,228	1,730	125	62	67	715
other/unknown	8	0	0	0	0	0	0
Average number of personnel in 2023	10,314	1,440	1,727	171	96	90	912
Average age	38.2	40.0	41.5	41.3	40.2	40.7	40.0
Number of new employments[1]	3,333	465	373	24	20	18	212
women	1,692	149	88	8	6	0	48
men	1,633	316	285	16	14	18	164
other/unknown	8	0	0	0	0	0	0
Number of terminated employments[1]	3,589	583	438	20	20	17	161
women	1,829	175	102	8	3	3	33
men	1,759	408	336	12	17	14	128
other/unknown	1	0	0	0	0	0	0
Percentage of new employments[1]							
women	50.8	32.0	23.6	33.3	30.0	0.0	22.6
men	49.0	68.0	76.4	66.7	70.0	100.0	77.4
other/unknown	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Percentage of terminated employments[1]							
women	51.0	30.0	23.3	40.0	15.0	17.6	20.5
men	49.0	70.0	76.7	60.0	85.0	82.4	79.5
other/unknown	0.03	0	0	0	0	0	0
Terminated by employer, %	3.7	6.5	5.3	4.8	85.0	17.6	11.2
Total turnover rate, %[2]	16.3	33.3	19.1	10.4	21.3	19.1	13.1

[1] Including summer employees
[2] Excluding summer employees
When calculating the number of terminated employments, each employee is included only once, whereas one person may have several new employments included in the total number.

DIVERSITY, EQUITY AND INCLUSION

The sustainability strategy sets diversity, equity and inclusion (DEI) as one of the themes in the Our People focus area. We want to promote the diversity of personnel and increase the experience of equity and inclusion. This increases Kesko's attractiveness as an employer and promotes the wellbeing of the workplace community. During 2023, Kesko participated in the Target Gender Equality programme of the UN Global Compact initiative to increase understanding of promoting equality.

In the spring of 2023, Kesko's Group Management Board and Board of Directors set concrete diversity and equity targets. We aim to increase the proportion of women in the Group's and its divisions' management boards to 33% by 2030. Our aim is also to ensure that we do not have any unfounded differences in pay. The targets are presented in the table on this page.

We work to raise awareness of diversity issues throughout the organisation. As one of the practical measures, we have added a DEI section to the Leader@K training programme for new managers. More than 800 Kesko employees have completed the diversity and inclusion online course for the entire personnel. The course was introduced in early 2023. At the end of 2023, we introduced a similar course for the stores. This course also deals with the equal treatment of customers.

Kesko's diversity, equity and inclusion (DEI) targets

TOPIC / KPI	TARGET	REFERENCE LEVEL (2022)	2023
Diversity and inclusion index	> 85 (on a scale 0–100)	86 (on a scale 0–100)	
Gender ratio	33% of underrepresented gender in the Group Management Board by 2030	Group Management Board: 25.0% women	28.6%
	33% of underrepresented gender in the division management teams by 2030	Division management teams: 23.3% women	22.5%
	Positive trend in all management levels	Top management: 23.9% women	28.4%
		Middle management: 38.9% women	36.1%
Gender pay equity	Zero unfounded pay differences Continue measuring gender pay gap	As a whole, women's salary was 98% of men's salary for comparable jobs	98.0%
Diversity and inclusion programme	Will be prepared in 2023		Prepared

We increased diversity in the workplace community by employing Ukrainian workers in logistics, for example. During the year, English has been more widely used in logistics, which enables more diverse employment in the future. We have also organised internal discussion sessions where employees have given their suggestions on how to promote inclusion.

We regularly measure how the personnel perceives that the workplace community values diversity. In the most recent measurement in 2022, the result of the diversity and inclusion index was 86 (on a scale of 0–100). The next measurement will take place in the spring of 2024.

In accordance with the diversity policy of Kesko's Board of Directors, Kesko seeks to have a balanced representation of genders on the Board of Directors. At the end of 2023, women accounted for two out of the seven members of the Board of Directors.

Zero tolerance for discrimination

Equality, fairness, non-discrimination and equity are important principles that are observed at Kesko. Kesko Corporation and its subsidiaries in Finland draw up statutory company-specific HR, training, equality and non-discrimination plans and determine goals for improvement. Kesko has established an Employee Equality and Diversity Group in accordance with its non-discrimination plan, which deals with matters related to non-discrimination and equality within the Group. The Employee Equality and Diversity Group includes representatives of the employer, personnel and occupational safety and health administration. No cases of discrimination were reported to us in 2023.

Preferred employer

In 2023, K Group ranked 7th in the Universum Ideal Employer Ranking survey of professionals (2022: 7th). In the Universum Ideal Employer Ranking survey of students, we improved our position and placed 12th (2022: 13th). We were the most attractive employer for students in the retail sector.

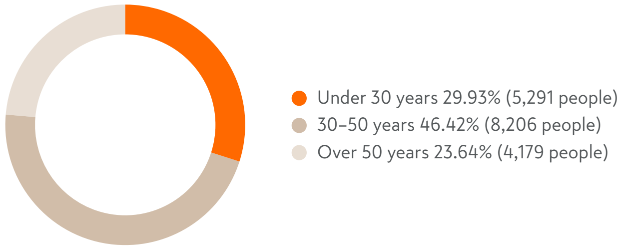
In T-Media's Reputation & Trust survey, K Group's reputation among the general population remained at the previous year's level and was 3.53 in 2023 (2022: 3.58).

Internal job rotation offers opportunities for a diverse range of career choices. A total of 1,920 internal transfers

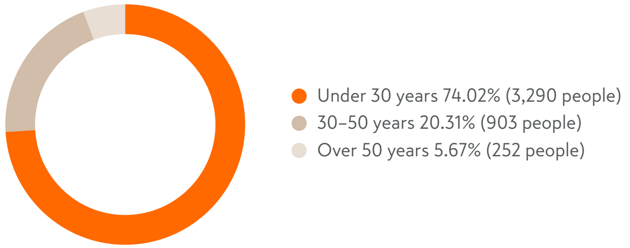
Personnel by gender, %

	2023			2022		
	Women	Men	Other/ Unknown	Women	Men	Other/ Unknown
Gender division by employment type, %						
Full-time	21.1	45.1	0.01	20.8	44.2	-
Part-time	18.7	7.9	0.03	19.4	9.1	-
Non-guaranteed hours employees	1.8	5.3	0.05	1.7	4.7	-
Permanent	42.6	57.4	0.02	42.9	57.1	-
Fixed-term	35.9	64.0	0.03	36.5	63.5	-
Managers	37.8	62.2	0.0	37.8	62.2	-
Gender division by personnel group, %						
Top management	28.4	71.6	0.0	23.9	76.1	-
Middle management	36.1	63.9	0.0	38.9	61.1	-
Managers and specialists	42.2	57.8	0.0	42.8	57.2	-
Workers and white-collar employees	41.6	58.3	0.1	41.9	58.1	-
Total	41.6	58.3	0.1	41.9	58.1	-

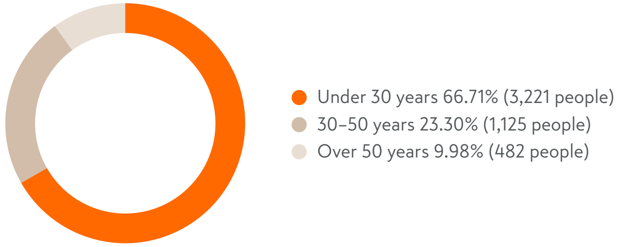
Age distribution of Kesko personnel in 2023*, %



Recruits, age distribution in 2023*, %



Terminated employments, age distribution in 2023*, %



* All operating countries

were made in Finland in 2023 (2022: 1,953) and 552 in the other operating countries (2022: 1,206).

In 2023, we introduced a new recruitment system aiming at improving the applicant experience, in particular. The first applicant experience measurement score was 3.32 (on a scale of 1–5).

In 2023, we continued to participate in the Security Through Work project run by the Confederation of Finnish Industries EK, with the aim of helping refugees from Ukraine find employment in Finland. Good experiences have been gained from using English as the working language, so we made it easier to use English as a working language in logistics in 2023. Our K-Citymarkets continued their training programme for non-Finnish speakers in cooperation with Careeria in the Helsinki metropolitan area and with Tredu in the Tampere Region.

We offer comprehensive personnel benefits

We offer our personnel more extensive than statutory occupational healthcare services, retirement benefits, a wide range of shopping benefits at K Group stores and the staff store, as well as the possibility for private car leasing for employees. In all our operating countries, we support our employees' leisure activities in different ways. The Finnish companies provide benefits for physical exercise, cultural activities, commuting and wellbeing services.

Parental leave

	2023	2022
Number of employees who are entitled to parental leaves	17,350	17,410
Women	7,263	7,383
Men	10,079	10,027
Other/Unknown	8	-
Number of employees who have taken parental leave	735	658
Women	417	485
Men	318	173
Other/Unknown	0	-
Number of employees who have returned to work after parental leave	659	476
Women	367	344
Men	292	132
Other/Unknown	0	-
Number of employees who have returned to work after parental leave and are still working after 12 months	588	402
Women	335	243
Men	253	159
Other/Unknown	0	-

Both the permanent and temporary personnel in Finland have statutory insurance against occupational injuries, commuting injuries and occupational diseases.

In all our operating countries, our personnel are entitled to family leave (maternity, paternity, parental and childcare leave). The Finnish laws on family leave also cover diverse families and allow parents to share parental allowance equally. Parental allowance is paid for a total of 320 working days, which are divided equally in families with two parents. The pregnant parent is also entitled to pregnancy allowance for 40 working days.

Parents are entitled to take partial care leave until the end of their child's second year of school. A parent on partial care leave works six hours per day and 30 hours a week. If a child aged under 10 falls ill suddenly, the parent is entitled to take a maximum of four days off work, of which a maximum of three calendar days are paid. It is also possible to take a temporary unpaid leave of absence from work to care for a family member or close relative.

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

PENSIONS

In Finland, all Kesko personnel are covered by statutory pension security. In 2023, new pensions were granted to 127 (2022: 167) people in Finland. Of these, 34 were disability pensions (2022: 27), of which 16 (2022: 11) were partial disability pensions. The rehabilitation subsidy is a form of fixed-term disability pension granted with the aim of rehabilitating the employee to allow them to return to work. Rehabilitation subsidies were granted for the purpose of retraining or work trials to 27 people (2022: 37) who were at a clear risk of incapacity for work within a few years. The average retirement age of employees in 2023 was 62.0 (2022: 62.7). The average retirement age for old-age was 63.6 (2022: (63.6) and the age for disability pension was 55.6 (2022: 56.8). In the other operating countries, 40 (2022: 22) employees retired.

PERFORMANCE BONUSES AND SHARE PLANS

The entire personnel of Kesko in Finland are covered by one of the various performance bonus schemes. The criteria for the performance bonus scheme include,

Fixed-term and part-time employments at Kesko in the end of the year, number

	2023			2022		
	Women	Men	Other/ Unknown	Women	Men	Other/ Unknown
Fixed-term employees of total personnel	**923**	**1,646**	**5**	**995**	**1,731**	**-**
Finland	673	955	5	748	5,497	-
Other operating countries	250	691	0	247	666	-
Permanent employees of total personnel	**6,437**	**8,673**	**3**	**6,482**	**8,618**	**-**
Finland	5,311	5,437	3	5,385	5,467	-
Other operating countries	1,126	3,236	0	1,097	3,151	-
Part-time employees of total personnel	**3,314**	**1,401**	**6**	**3,435**	**1,551**	**-**
Finland	3,083	931	6	3,157	985	-
Other operating countries	231	470	0	278	566	-
Full-time employees of total personnel	**3,734**	**7,972**	**2**	**3,710**	**7,881**	**-**
Finland	2,718	4,877	2	2,760	4,959	-
Other operating countries	1,006	3,095	0	950	2,922	-
Non-guaranteed hours employees of total personnel	**322**	**946**	**0**	**301**	**842**	**-**
Finland	183	584	0	216	588	-
Other operating countries	139	362	0	85	254	-

for example, the Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on the role, personal performance bonus targets may also be set, related to, for example, sustainability.

In the spring of 2023, around €30.0 million was paid in Finland in bonuses under the 2023 performance bonus schemes (2022: €26.2 million), accounting for around 5.2% (2022: 4.5%) of the total payroll. In 2023, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland: €30.6 million (2022: €26.9 million)
- In the other operating countries: €4.7 million (2022: €7.1 million)

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

Kesko has a personnel fund in Finland, in which the personnel can deposit their performance bonuses in full or in instalments. The personnel fund is based on the Act on Personnel Funds. The above-mentioned performance bonus amounts include the performance bonuses deposited by personnel in the fund.

Kesko has a share-based compensation plan for around 217 members of management and other specified key personnel.

→ Read more in the Remuneration Report

WELLBEING AND WORK CAPACITY

With proactive management of personnel wellbeing and work capacity, we ensure our employees' work capacity and functional capacity, manage sickness absences and prevent workplace injuries and retirement due to disability. We systematically monitor key indicators and trends, setting goals based on them and taking measures in accordance with the set goals. Wellbeing and occupational safety is one of the themes of the Our People focus area in our sustainability strategy.

Personnel survey as a development tool

The personnel survey is one of the key tools for improving practices and managerial work and one way of listening to the views of the personnel. The most recent K Voices personnel survey was carried out in 2021. The K Voices personnel survey scheduled for 2023 was partly postponed until early 2024. K Voices was carried out in accordance with the original schedule in Sweden and Norway and in K-Citymarket department stores in Finland in the autumn of 2023. The K-Citymarket department stores achieved a record high response rate of 90%, and the results were generally positive. For department stores, the wellbeing index score was 84 (on a scale 0–100). Group-wide results will become available in the spring of 2024, when the survey will be carried out in other parts of the Group.

In addition to the personnel survey, we use the Our People sustainability survey to measure the achievement of the sustainability strategy goals related to employee wellbeing, diversity and inclusion. The most recent Our People survey was carried out in 2022, and the Group's wellbeing index score was 81 (on a scale of 0–100).

We promote our personnel's health, safety and wellbeing.

We continued to support our employees' mental and physical wellbeing in different ways, including through digital health coaching sessions, wellbeing coaching sessions and various online mental wellbeing services. We continued to carry out coaching trainings related to mental wellbeing for managers in cooperation with Onninen, Intersport and Mieli Mental Health Finland. We started a pilot in grocery trade logistics that uses the low-threshold service of a social sector expert to support employees' overall life management. We also strengthened the sense of community in the units through various events, such as a wellbeing theme. Work in accordance with the hybrid work model continued, but with updated guidelines, we prepared to increase the amount of on-site work by the beginning of 2024 at the latest. By increasing the amount of on-site work, we aim to create a stronger sense of community and support employees' wellbeing and work capacity. We support change through training for managers, management videos and updated guidelines.

Employees' occupational health and safety

Kesko's occupational health and safety principles are set out in the K Code of Conduct and Kesko's HR policy. Employees' wellbeing and safety at work are also guided by principles common to all our operating countries.

The main points of the wellbeing at work management system are based on legal conformity requirements in different operating countries, observation and minimisation of occupational safety risks and training of employees, and on systematic reporting and analysis of near miss situations and accidents at work. We aim to continuously improve the health and occupational safety of our personnel in a holistic way. Kesko has set goals for the development of personnel wellbeing and occupational safety, and we review the results quarterly with the business units and make improvements accordingly.

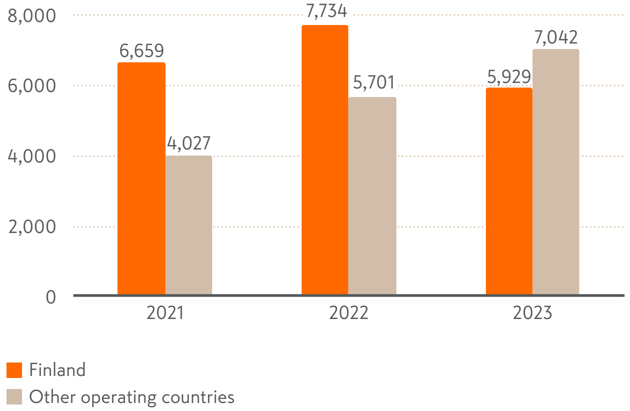
Occupational safety management is based on systematic risk assessment and on mitigation measures specific to each division. We use the ISO 14001 standard and in Finland partly the ISO 45001 standard. We continuously assess and develop our practices based on risk assessments, internal occupational safety audits, accident reports and occupational health data

There are various cooperation forums in Kesko's countries of operation, and all countries of operation have their own occupational safety and health cooperation practices. For example, in Finland, employee representatives regularly influence occupational health and safety matters through a group-level trustee group, an occupational safety group and business-specific occupational safety and health committees. In addition, Kesko has a regular management group practice by industry, which also extensively reviews personnel-related topics.

Our occupational safety and health programme was drawn up in cooperation between the employer, the occupational safety and health administration and the occupational healthcare provider. It includes measures to prevent, reduce and eliminate accidents, occupational diseases and physical and mental stress that is harmful to health at work and arising from working conditions. The most significant occupational safety risks are related to sudden physical stress, the use of

Trend in number of sick days

Sick days/million working hours



Injuries and occupational diseases

	2023				2022			
	Men, Finland	Women, Finland	Total	Other operating countries	Men, Finland	Women, Finland	Total	Other operating countries
Fatal injuries	0	0	0	0	0	0	0	0
Occupational injuries, excl. commuting injuries	88	45	133	31	92	46	138	117
Commuting injuries	28	21	49	3	34	43	77	3
Injury rate[1] /million working hours			6.65	3.64			6.57	3.68
Average degree of injury severity, days			15.53				14.97	
Suspected occupational diseases	3	0	3		3	0	3	0
Occupational diseases	0	0	0		0	0	0	0
Sick days due to occupational injuries, commuting injuries and occupational diseases	1,603	1,224	2,827		1,806	1,412	3,218	
Per employee			**0.28**				**0.32**	

The calculation method: small injuries, i.e. those leading to absence of less than three days, are not included in the figures. Statistics do not include contractors.
[1] Excl. small injuries and commuting injuries, calculated with actual working hours

Sickness absences by country in 2023

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland
Total number of sick days	**115,340**	**17,473**	**25,772**	**1,308**	**564**	**373**	**12,105**
Per employee	11.2	10.1	28.3	7.7	5.9	4.1	2.7
Per million working hours	5,929	6,894	8,478	3,769	2,910	2,054	6,380

The calculation method: sick days per employee have been calculated on the average number of employees during the year roll containers and machinery, and slips and trips on the way to and from work and during work. To increase employees' knowledge of their occupational safety responsibilities, 65.2% of our personnel in Finland completed occupational safety responsibility training in 2023. In logistics, particular attention has been paid to induction and work orientation to prevent risks. In Finland, we have adopted an occupational safety management model based on the ISO 14001 standard, taking into account the needs of different operating environments. We require contractors and service providers to report occupational injuries to Kesko.

Occupational safety cooperation is carried out in accordance with the legislative requirements in different countries. In Finland, there has been an occupational safety and health cooperation group for many years, with representatives from the different divisions. In terms of occupational safety, the occupational healthcare provider assesses the health risks caused by work by taking into account the health risks and exposure at work. We continuously evaluate potential work-related risks and prevent harmful impacts on health.

We assess the effectiveness of occupational healthcare operations by monitoring access to treatment, the sickness absence rate and costs, the distribution of diagnoses and indicators of occupational diseases, injuries and disability pension risks. We survey customer satisfaction in various ways several times a year. We use the data and reports in our work capacity management system when managing sickness absences.

Information security is of utmost importance in all of our operations, and it is controlled regularly. The occupational healthcare provider has its own patient information system, which is separate from other information systems at Kesko. To secure data protection, we carry out occupational health log data inspections regularly, and no anomalies have been detected. In healthcare, the level of data protection is the highest possible, and the law requires the information in patient documents to remain confidential.

In 2023, the total number of sickness absences declined, primarily because of changes in societal attitudes and restrictions related to the coronavirus pandemic and other respiratory infections. Sickness absences related to respiratory infections decreased significantly from 2022. In addition, some business operations developed ways to manage sickness absences in cooperation with the occupational healthcare. In 2023, the sickness absence rate in the Group companies in Finland was 4.3% of hours worked (2022: 5.4%). Around 80.0% (2022: 79.8%) of sickness absences were paid short-term absences. In the other countries, the sickness absence rate was 5.4% (2022: 5.3%). Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables below. In the other countries (excluding Sweden), a total of 31 lost-time injuries (sickness absences of more than three days) took place in 2023 (2022: 19). The corresponding figure in Finland was 133 (2022: 138).

When renewing agreements in Finland, we have requested that the contractors and service providers have survey, statistics and reporting processes for occupational safety injuries in use. Also, they must notify Kesko of any occupational safety injuries requiring first aid without delay. In 2023, 7 occupational injuries were reported.

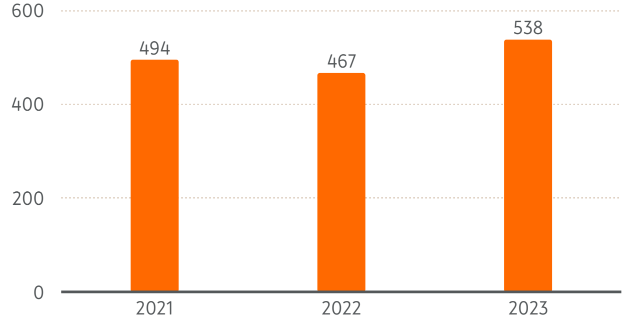
Occupational health and work capacity management

Kesko provides comprehensive occupational health services for all of its employees, and as entrepreneurs, retailers arrange the corresponding occupational health services for their own employees. In Finland, Kesko Occupational Health provides services for employees in the Helsinki metropolitan area and purchases occupational healthcare services from one service provider for employees elsewhere in Finland. In 2023, a total of 12,117 (2022: 12,101) Kesko Group employees in Finland were covered by occupational healthcare services. A total of around €6.5 million (2022: €5.7 million) was spent on occupational health in Finland.

To maintain health and work capacity, Kesko's employees in Finland are entitled to statutory occupational healthcare as well as medical examinations and specialist consultations needed for their treatment through Kesko Occupational Health Care. Kesko's occupational health action plan has been discussed in cooperation with occupational safety

Kesko's contribution to occupational health care, Finland

€/person



and health representatives and is available to all employees on the intranet. Kesko's personnel have the opportunity to provide continuous feedback on occupational health, and a customer survey is conducted every year for the purpose of occupational healthcare planning. In addition to occupational health physicians, our service contract includes specialist consultations, the services of an occupational health psychologist, occupational health nurse and occupational physiotherapist, low-threshold mental health services, and extensive laboratory and imaging services prescribed by occupational health physicians. The employer, the employees and the occupational healthcare provider work together to maintain employees' work capacity and prevent occupational diseases and injuries. We also promote the health and safety of the working environment, ensure the health and working and functional capacity of employees at different stages of their careers, and promote the activities of the workplace community. In 2023, the strategic focus areas in occupational health cooperation were ensuring work capacity, solving work capacity problems and supporting managerial work. Kesko's future occupational health strategy was thoroughly planned by studying the healthcare operating environment, particularly through workshops with HR, business management interviews and a customer satisfaction survey.

In occupational healthcare, the priority is on preventive measures and early identification of risks in terms of the employee's health and work capacity. In terms of occupational safety, the occupational healthcare provider continuously assesses the health risks caused by work by taking into account the health risks and exposure factors at work.

To maintain employees' work capacity and to prevent their incapacity for work, Kesko uses the multi-professional expertise of occupational healthcare professionals, work capacity specialists, occupational rehabilitation offered by a pension insurance company and work training services provided by third parties. We have designed a work capacity management governance model, further specified the roles of different parties in work capacity management, and started work capacity management training for our HR Business Partners in Finland. Work capacity management is supported by systematic joint meetings with the business areas where we discuss the key indicators, conclusions and further measures concerning sickness absences, occupational injuries and work capacity risks. The managers participated actively in work capacity training during the year.

We continued to apply the New Job and the New Direction operating models in Finland to help people with partial work capacity to continue in working life. The New Job operating model is applied to situations where an employee's work capacity is permanently reduced compared with the requirements of their current job, and the employee is no longer capable of returning to his/her former job. The operating model provides a low-threshold model for internal recruitment and supplements vocational rehabilitation supported by earnings-related pension providers. In 2023, a total of 26 people were involved in the New Job operating model, of whom more than 40% found a solution to continue in working life. The New Direction operating model was also used. The New Direction operating model aims to find employees jobs that suit their work capacity with a new employer either directly or through retraining.

ENABLING SUCCESS

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

Key areas of competence development in K Group are:

- Leadership and management
- Interaction and self-management skills
- Data, analytics and AI
- Training for store personnel: sales, customer interaction, service and product competences

We offer managers a wide range of training programmes which support daily managerial work on topics such as performance management, a coaching approach to managerial work, change leadership, interaction skills, remuneration and employment law. We focus on continuous performance management and day-to-day managerial work in particular, and support these through various training programmes.

In 2023, we continued the Leader@K coaching programme for new managers, in which each new manager is provided with an overall understanding of their role and with support for developing their key competences. We also strengthened our offering for managers through training in a coaching approach to leadership and in addressing issues.

In 2023, we strengthened our employees' sustainability skills through the Sustainability in Action online training programme, which covers our sustainability work extensively. Over 6,000 people have completed the training programme so far.

Store personnel are provided with a broad selection of professional training courses in a virtual learning environment, including chain- and department-specific coaching, e-learning content and opportunities to complete vocational degrees. We also continued to provide workplace instruction training for store personnel. This training has been running for several years. Workplace instructors work in stores extensively to support learning and offer guidance covering everything from the induction of new employees to acting as the workplace instructor in training leading to qualifications.

Performance and development reviews and performance evaluation

Target setting, performance and development reviews and performance evaluation are carried out in all operating countries. Our employees are given feedback on their performance and development opportunities in annual reviews. These reviews also provide the employees with an opportunity to give feedback on managerial work.

Performance and development reviews are a systematic part of our performance management model. In 2023, around 91% (2022: 86%) of our employees discussed their goals and development with their manager.

Training hours and costs

	2023	2022	2021
Training hours			
Workers, office workers[1]	41,494	26,676	20,740
Managers/specialists[1]	27,621	25,361	27,151
Management[1]	1,732	2,251	1,518
Kesko Group	80,667	73,151	96,445
women[1]	30,398	20,431	21,488
men[1]	37,796	33,856	19,680
other/unknown	18	-	-
Training hours per employee			
Workers, office workers[1]	2.9	1.8	1.5
Managers/specialists[1]	9.0	8.2	9.1
Management[1]	6.8	9.0	6.6
Kesko Group	4.6	4.1	5.5
women[1]	4.1	2.7	2.9
men[1]	3.7	3.3	2.0
other/unknown	2.3	-	-
Training costs, € million	1.7	2.4	2.4
Training costs per employee, €	115	166	170
Distribution by education, %			
Comprehensive school	3.8	1.8	4.9
Upper secondary vocational school	64.6	66.4	65.1
Lower university degree	15.1	15.4	15.0
Upper university degree	16.5	16.4	15.0

[1] eLearning not included

By personnel group, 89% of workers and office employees, 97% of managers and specialists and 96% of management discussed their goals and development with their managers.In performance and development reviews, we discuss the employee's wellbeing, competencies and motivation, career aspirations and the quality and development of managerial work and the entire workplace community. In addition, a personal development plan is drawn up for the employee.

The purpose of performance reviews is to provide feedback on the person's performance during the previous year, support their development and encourage them to improve their performance. If their performance does not meet expectations, we will support the employee's progress through a separate process. Consistent criteria ensure a fair assessment of performance and competencies for all employees.

We promote the realisation of pay equity

The average annual salary of Kesko employees was €43,697 in Finland, €39,651 in Sweden, €53,521 in Norway, €28,117 in Estonia, €24,721 in Latvia, €31,269 in Lithuania and €20,861 in Poland. As Kesko Group engages in various types of operations, the average salary is not a good indicator of the salary level or structure.

The wage groups and scales specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality.

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

The job evaluation system enables the comparison of salaries in comparable jobs. In jobs evaluated based on the system, in higher and middle management jobs women's salary is 99% of men's salary for comparable jobs, and 95% with manager and specialists positions. As a whole, women's salary is 98% of men's salary for comparable jobs.

Equity in remuneration is considered as part of annual company-specific equality plans. No significant differences between comparable jobs have been detected. Equality plans strive to promote pay equity between genders in jobs where comparisons can be made.

Freedom of association is an important value

Employees' freedom of association is a central characteristic of a welfare society. Kesko respects its personnel's freedom of association. The freedom of association or the right to collective bargaining is not seen to be at risk in Kesko's operating countries.

The freedom of association is also supported by EWC (European Work Council) activities in cooperation with the Service Union United PAM. Due to the coronavirus pandemic, no international meetings were held in 2020–2022.

Out of our total personnel, 77.1% are covered by collective agreements. So far, no binding industry-wide collective agreements have been drawn up in the Baltic countries and Poland.

In Finland, working time is regulated by the Working Time Act and collective agreements. In compliance with the Working Time Act, the regular working time must not exceed eight hours per day or 40 hours per week.

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

Periods of notice and restructuring situations

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

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

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

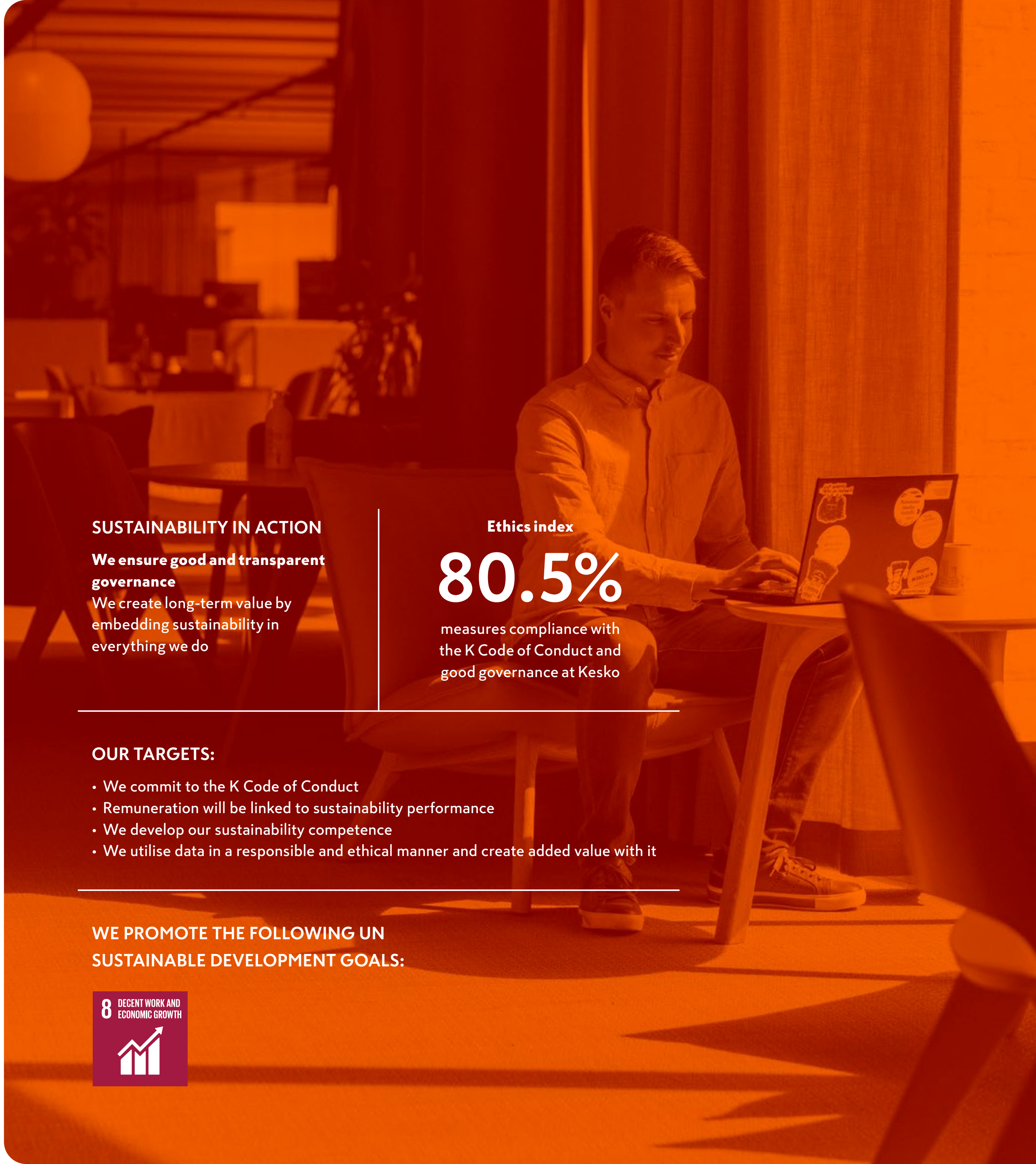
No specific minimum notice period for organisational changes is defined in Norway, but both legislation and the collective agreement stipulate that personnel must be informed of organisational changes at the earliest opportunity.

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

In Poland, the notice period with permanent and temporary employment relationships varies from two weeks to three months, depending on the duration of employment. The same periods of notice also apply to restructuring situations.

GOOD GOVERNANCE

2023



SUSTAINABILITY IN ACTION

We ensure good and transparent governance
We create long-term value by embedding sustainability in everything we do

Ethics index

80.5%

measures compliance with the K Code of Conduct and good governance at Kesko

OUR TARGETS:

- We commit to the K Code of Conduct
- Remuneration will be linked to sustainability performance
- We develop our sustainability competence
- We utilise data in a responsible and ethical manner and create added value with it

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

8 DECENT WORK AND ECONOMIC GROWTH

SUSTAINABILITY MANAGEMENT

Sustainability is a core part of Kesko's strategy. Sustainability work is guided by Kesko's sustainability policy, sustainability strategy and K Code of Conduct guidelines. We are committed to several international declarations and conventions, the most important of which are:

- The UN Universal Declaration of Human Rights and UN Convention on the Rights of the Child
- The OECD guidelines for Multinational Corporations
- The ILO convention on the Fundamental Rights and Principles at Work
- The UN Global Compact initiative
- The UN Sustainable Development Goals (SDGs)

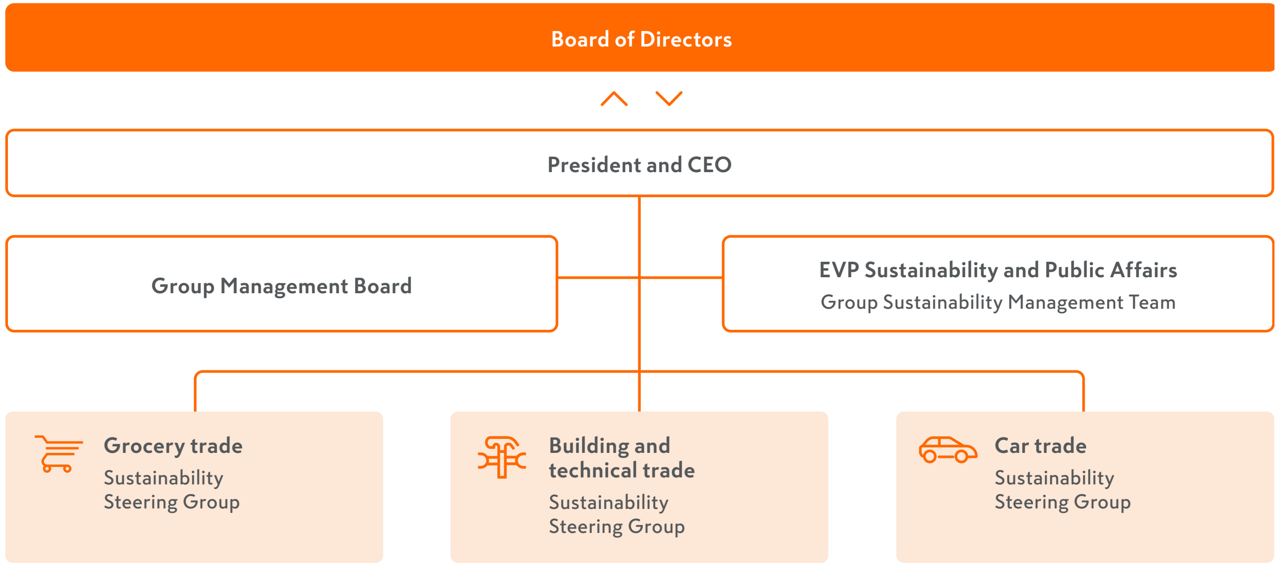
At the highest level, sustainability management is carried out by Kesko's Board of Directors and President and CEO. The Board approves the sustainability strategy and the strategic targets and monitors the progress of the strategy on an annual basis. Kesko's President and CEO has overall responsibility for the implementation of the sustainability strategy and for achieving the common objectives. The Group Management Board approves the new sustainability policies and discusses sustainability in its meetings on a regular basis.

Sustainability work is led by Kesko's Executive Vice President of Sustainability and Public Affairs who is a member of the Group Management Board and reports directly to the President and CEO. She is responsible for the content of the sustainability strategy, monitoring its progress and supporting the implementation of the strategy in each division. The Executive Vice President of Sustainability and Public Affairs is responsible for stakeholder relationships at the Group level. She chairs the Group Sustainability Management Team which has representatives from the divisions and from the common operations.

The task of the Group Sustainability Management Team is to promote any matters recorded in the sustainability strategy, monitor the progress of the strategy, coordinate Group level initiatives and to share best practices.

The divisions are responsible for preparing sustainability strategies that are specific to their division and business and for implementing them under the sustainability strategy that covers all the divisions. The divisions are also responsible for ensuring the progress of the strategy and for reaching their own goals. In the divisions, sustainability work is steered in sustainability steering groups.

Sustainability management model



STAKEHOLDER ENGAGEMENT

Knowing what our stakeholders expect of us and fulfilling these expectations calls for frequent and open interaction between different stakeholders. We engage in open and active dialogue with our stakeholders. We observe Kesko's disclosure policy to ensure the appropriate disclosure of information.

The feedback we receive from customers helps us meet their expectations and develop our service and selections. We use personnel and pulse surveys to systematically listen to the experiences of our personnel and to measure the quality of leadership.

As part of our human rights assessment we listen to the views of our stakeholders on the realisation of human rights in our operations. We respect the personnel's freedom of association. The control of the association of suppliers' employees in risk countries and corrective actions are included in social responsibility audits.

We are actively participating in the activities of both national and international trading and business organisations. In our stakeholder and lobbying activities we are preparing for the establishment of a statutory transparency register which will enter into effect in 2024. The purpose of the transparency register is to increase the transparency of the stakeholder work of the Finnish parliament, government, ministeries and companies.

KEY STAKEHOLDERS	CHANNELS FOR INTERACTION	KEY SUSTAINABILITY TOPICS
Customers	• Daily customer encounters • Customer service channels and • applications • Customer surveys • K-Kylä customer community • Social media	• Origin of products • Finnish production • Sustainable supply chains • Climate impacts of products • Health and nutrition • Store as an employer
Investors, shareholders, analysts and other representatives of capital markets	• General Meeting • Financial reporting • Press conferences • Investor websites, social media channels and other digital channels • Investor and analyst meetings • Surveys and assessments • Personal dialogue	• Climate change and emissions reductions • Biodiversity • Remuneration and other corporate governance • Personnel and other social responsibility themes • Application of the EU taxonomy • Supply chains • Food waste
Kesko's personnel, K-retailers and store staff	• Daily interaction • Personnel survey, Pulse surveys and performance and development reviews • Retailer events and meetings • K Group's K-Team day • Electronic communication channels and Kehittyvä kauppa (Developing Retail) trade magazine • K Code of Conduct • SpeakUp reporting channel	• Workplaces • Wellbeing of the personnel • Occupational health and safety • Diversity, equity and inclusion
Other key stakeholders (suppliers and service providers, media, authorities, non-governmental and other organisations)	• Meetings with suppliers and partner events • Media events and enquiries • Activities in organisations • Enquiries from NGOs	• Origin of products • Employees' working conditions • Vitality of Finnish food production • Circular economy • Packaging and plastic • Food waste • Climate impacts of food

ETHICS AND COMPLIANCE

Ethical business conduct and compliance in Kesko Group is ensured by following the K Compliance operating model and K Code of Conduct approved by Kesko's Board of Directors. The Kesko Compliance & Ethics function manages the actions that are in compliance with the K Compliance operating model and reports its operations to Kesko's President and CEO and the Audit Committee of the Board of Directors.

Putting the K Compliance operating model into practice is supported by the K Compliance programmes approved by Kesko's President and CEO. In 2023, Kesko's K Compliance programmes included data protection, competition law and a trade sanctions and export control programme, as well as anti-bribery and anti-corruption.

In 2023, the focus areas in ensuring compliant and ethical business conduct were training the personnel and performing compliance audits in accordance with to the annual plan. More than 1,400 people participated in targeted training sessions, and employees also completed more than 12,500 online training sessions on compliance.

In 2023, we reported twice to the Audit Committee on K Compliance activities. In addition, compliance activities were reported in the divisions' management groups and in country organisations. In 2023, all K Compliance programmes achieved their key goals. Since 2021, reports have also been presented to the Audit Committee on the development of the degree of maturity of Kesko's K Compliance operating model. The key goals set for 2023 were achieved, and the target levels for 2024 were approved.

The compliance and ethics of Kesko's business operations are implemented in everyday work by emphasising the role of managers in particular. In accordance with our sustainability strategy, we ensure good and transparent governance. In the case of suspected misconduct, we instruct our employees to first report it to their own manager or to the unit responsible for the matter. If this is not possible for some reason, any suspected misconduct can be reported to the Kesko SpeakUp channel, which is a confidential reporting channel open to anyone. Reporting can also be done anonymously. Maintaining the channel is a central part of Kesko's K Compliance operating model.

The Whistleblower Act entered into force in Finland in 2023, and Kesko launched an internal information campaign about the SpeakUp channel in all its Finnish locations and in Norway and Sweden. A local reporting channel was introduced in Latvia in accordance with the local legislation.

In 2023, a total of 78 (2022: 37) reports were submitted through the SpeakUp channel, of which 67 (2022: 31) required investigative measures. The reports were related to the operations of Kesko, K-stores or Kesko's subcontractors. No incidents of serious misconduct were identified based on the reports submitted in 2023. The largest proportion (52%) of reports was related to HR issues. In addition, reports were submitted on unethical operations and harassment, for example. No misuse of the reporting channel was observed.

The K Code of Conduct that covers the entire personnel and Kesko's business partners serves as a basis for the K Compliance operating model. The K Code of Conduct was revised during 2023, approved by Kesko Corporation's Board of Directors on 29 January 2024, and entered into force on 1 March 2024. The revised K Code of Conduct is common to the entire K Group and will also replace the responsible business principles for K-retailers. The K Code of Conduct for business partners was also revised and is common to the entire K Group.

All Kesko personnel members are requested annually to confirm their commitment to compliance with the K Code of Conduct. A revised process was introduced in 2023. In addition to collecting the annual confirmation, the revised process also includes a discussion between each employee and their manager on the application of the K Code of Conduct in practice.

The proportion of Kesko's personnel who submitted the annual confirmation was 80.5%.

Prevention of corruption and bribery

The prevention of corruption and bribery is one of the focus areas of Kesko's compliance operations. This work is carried out within the K Compliance programme. The measures taken in 2023 included, for example, developing anti-bribery and anti-corruption instructions and providing training on them, as well as performing risk assessments on a regular basis. Revised, more detailed instructions concerning anti-corruption, anti-bribery and hospitality will be introduced in 2024.

Kesko's K Code of Conduct includes anti-bribery and anti-corruption guidelines, which are complemented by more detailed instructions as necessary. Training on the guidelines will be provided in the Welcome to K Group events targeted at new Kesko employees. Guidelines on gifts and hospitality, for example, are discussed at the event. In addition, every Kesko employee must complete two K Code of Conduct online courses which include guidelines on the prevention of corruption and bribery.

With the consistent guidelines and training, we ensure that everyone at Kesko has the same view about the anti-bribery and anti-corruption principles and modes of operation that guide our everyday work. The anti-bribery and anti-corruption instructions published in the languages of all our operating countries are the same for all Kesko employees.

All Kesko's business partners are required to commit to Kesko's K Code of Conduct for business partners, and through this to zero tolerance towards bribery.

Kesko Group's zero tolerance towards bribery and corruption is described in the K Code of Conduct sections 'We do not offer or accept bribes', 'We comply with the Kesko policies on hospitality and gifts' and 'We avoid conflicts of interest'.

Kesko's Compliance & Ethics function, Legal Affairs unit and K Code of Conduct ambassadors representing various country organisations and units provide personnel with support in questions related to the application of the K Code of Conduct.

In anti-corruption activities, the key themes for us have been identified to concern offering and accepting gifts and hospitality, accepting and providing sponsorship and donations, understanding and avoiding conflicts of interest, and the rules for lobbying. We do not offer or accept bribes or facilitation payments, or anything other than ordinary and transparent hospitality that is of low value in any stage of our supply chain or in any other operations. We do not make monetary donations to political parties.

In 2023, no corruption-related lawsuits against any Kesko Group company came to our knowledge. No observations of breaches of anti-bribery and anti-corruption rules in Kesko were reported through the SpeakUp channel either in 2023.

Complaints received concerning breach of customer privacy

In May 2023, the Data Protection Ombudsman issued a decision regarding Kesko, in which it considered the retention period of purchase data of loyal customers based on the duration of the customer relationship to be in violation of the data protection regulation. The Ombudsman issued a reprimand to Kesko, as well as an order to define purpose-specific retention periods for purchase data and to delete purchase data that exceeds the retention period. The GDPR does not specify exact data retention periods, but the retention period is tied to the purposes for which the data are used and the data controller's assessment of how long the data is necessary to fulfill each purpose of use. The retention period of purchase data tied to the duration of customer relationship was based on our own assessment of the necessity of the data and the benefit to loyal customers. As a result of the official decision and the subsequent dialogue between Kesko and the Ombudsman, Kesko defined new retention periods for loyal customer data with precise and easy-to-understand retention periods.

The total number of leaks and losses related to customer data was 440. Cases have mainly concerned single or very few data subjects. For example, a paper document containing limited customer data (name+contact details+some additional customer data) has disappeared in postal services. In most cases we have evaluated that the personal data breach is unlikely to result in a risk to the rights and freedoms of natural persons. No thefts of customer data have been discovered

ECONOMIC VALUE CREATION

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

We pay steady dividends

Kesko has over 105,000 shareholders. In the long term, Kesko aims to distribute a steadily growing dividend of around 60–100% of its comparable earnings per share, taking into account the company's financial position and strategy. Read more about Kesko's dividend policy in the 'Kesko's direction' section.

Our capital expenditure impacts the whole of society

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

Kesko's capital expenditure in 2023 totalled €678.9 million (2022: €449.2 million). The store site network is a strategic competitive factor for K Group. In 2023, capital expenditure on store sites totalled €286.5 million (2022: €268.1 million). Read more about Kesko's capital expenditure in the Report by the Board of Directors. In addition to Kesko, K-retailers invest in store fixtures, for example.

Economic benefits from Kesko's operations to stakeholders

€ million		2023	2022	2021
Customers[1]	Revenues	12,759	12,808	12,258
Value added generated		**12,759**	**12,808**	**12,258**
Distribution of value added:				
Suppliers and service providers	Goods, materials and services purchased	-11,095	-11,044	-10,556
Employees	Salaries, fees and social security expenses	-787	-786	-764
Payments to providers of capital	Net finance income/costs	-84	-56	-68
Owners	Dividend	-406[2]	-430	-421
Public sector	Taxes[3]	-126	-153	-143
Community investments	Donations	-4	-5	-4
Development of business operations		257	334	301

[1] Incl. net sales and other operating income
[2] Proposal to the General Meeting
[3] Incl. income taxes, real estate taxes and net worth taxes

Economic benefits from Kesko's operations by market area in 2023

€ million	Net sales	Purchases[1]	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes[2]
Finland	9,706	6,612	523	458	98	1,019
Other Nordic countries	1,612	1,369	152	150	44	129
Baltic countries and Poland	129	426	1	29	6	43
Other countries	337	1,400	3	1	0	0
Total	**11,784**	**9,807**	**679**	**638**	**149**	**1,191**

[1] Purchases based on the home country of the supplier.
[2] Taxes include taxes remitted and paid by Kesko i.e. income taxes, real estate taxes, value-added taxes, excise duties, car taxes, customs duties, net-worth taxes, withholding taxes, social security contributions and statuory pension insurance premiums collected from employee as well as taxes remitted on dividends paid by Kesko. Social security contributions and statuory insurance premiums paid by the employer are presented on column Social security expenses.

Financial assistance from the public sector

In 2023, Kesko received €3.0 million in financial assistance from the public sector. The amount consists mainly of assistance received in Finland (€2.1 million) and Sweden (€0.8 million). Most of the public sector assistance received in Finland is for projects related to the development of digital services and the improvement of energy efficiency.

Donations, sponsoring and charity

We sponsor nationwide projects in Finland that are connected to the everyday lives of children and young people, promote quality of living and sustainability, and bring joy to as many people as possible. Socially responsible behaviour is a key factor in the choice of partners.

Kesko may award donations to non-profit organisations from donated funds granted by the General Meeting. The Board of Directors decides on the recipients of the donations. In 2023, Kesko’s donations mainly focused on supporting low-income families with children in Finland, helping children in Ukraine, supporting Finland’s national defence and supporting children’s sports activities.

K Group is main partner of the Football Association of Finland (FAF) in 2021–2024 and involved in its activities both at the national team level and in work with junior players. K-food stores and the Finnish Basketball Association have a multi-year cooperation with the basketball youth national teams and the children and youth teams of the Finnish Basketball Association.

The K Group is involved in cooperation with Yrityskylä. Yrityskylä is a learning module on working life, the economy, entrepreneurship and society for 6th graders in comprehensive schools.

Kesko's community investments

€1,000	2023	2022	2021
Non-governmental, environmental and other organisations	251	434	142
Sports (adults)	2,346	2,546	1,936
Youth sports and other youth work	369	451	486
Science, research and education	23	11	43
Culture	354	454	119
Health	937	1,077	1,057
Veteran organisations and national defence	111	17	51
Total	**4,392**	**4,990**	**3,834**

In 2022 and 2023, K Group and the Mannerheim League for Child Welfare worked in cooperation to gather more than €264,000 in funds to support Ukrainians in Finland by means of selling Ukraine bows.

An extensive store network and additional services to customers

Kesko has around 1,800 stores engaged in chain operations in eight (2023: seven) countries. In Finland, Kesko’s principal business model is the chain business model, in which independent K-retailers operate retail stores in Kesko’s chains. These include the grocery store chains, the K-Rauta chain and the Intersport chain. There are around 1,100 K-retailers in Finland. Outside Finland, Kesko mainly engages in own retailing and the B2B trade. Read more in the ‘Kesko’s direction’ section.

Together, Kesko and K-retailers form K Group, whose retail and B2B sales totalled €15.9 billion in 2023 (VAT 0%). K Group has an extensive store network in Finland. Read more on Kesko’s website.

There is a K-food store in most municipalities in Finland. There are around 1,200 K-food stores in Finland. Every day, around 1.2 million customers visit K-food stores. Outside growth centres in particular, stores can offer services which may otherwise be scarcely available.

In 2023, the following additional services were available at K Group stores:

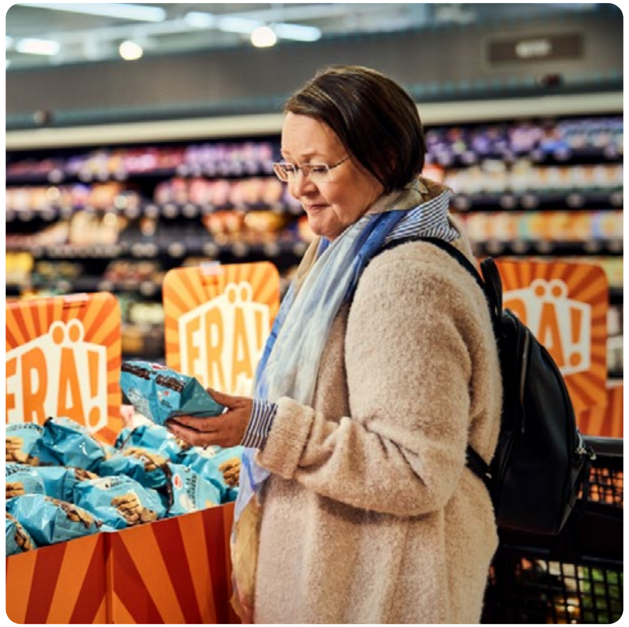
- Cashback services at all K-food stores
- Postal service points of the Finnish Posti are available at more than 450 K-food stores. In addition to the Posti service points, most K-food stores also offer parcel and postal services (Matkahuolto, PostNord, Schenker, UPS, parcel lockers). Parcel and postal services are available at 1,027 K-food stores.
- Charging points for electric cars at some 300 store locations, in total over 1,500 charging points
- Some 400 Rinki eco take-back points

→ Read more about sponsoring and donations

We are a significant taxpayer

Kesko reports its tax data in compliance with the GRI 207 standard. Kesko's Tax Policy describes the key principles applied in the management of taxes as well as the tax governance model and responsibilities. The tax policy covers all types of taxes and duties and concerns business areas, common operations and Group companies in all of Kesko's operating countries. Kesko's tax policy was reviewed in February 2023, whereby the wording for principles concerning transfer pricing, tax structures and operating in so called tax havens was clarified. No major changes in the tax management principles have taken place in 2023.

Kesko has during 2023 prepared for the global minimum tax regime based on OECD's Pillar Two. The Pillar Two legislation was enacted in 2023 in several jurisdictions in which Kesko Group operates, including Finland where the Group's parent company is a tax resident. The legislation will be effective for the financial year beginning on 1 January 2024. Kesko Group has performed an assessment of the potential exposure to Pillar Two income taxes. This assessment is based on the recent information available regarding the financial performance of the entities in Kesko Group. Kesko expects that exposure, if any, of Pillar Two to income taxes would be minimal.



Erroneous tax law interpretations or non-compliance may expose Kesko to tax disputes and may negatively impact the business and reputation. Regular tax audits may lead to reassessment of taxes, interest and penalties. The Group's tax positions are regularly reviewed to identify items subject to interpretation. Uncertain positions that are assessed unlikely to be accepted are provided for in tax accounting. The Group's balance sheet on 31 December 2023 does not contain provisions for uncertain tax positions.

In 2023, Kesko participated in public policy advocacy on tax through representation associations such as the Confederation of Finnish Industries (EK), the Finnish Commerce Federation and the Central Chamber of Commerce. In Sweden and Norway, Kesko is a member of trading industry associations Svensk Handel in Sweden and the Enterprise Federation of Norway (Virke). Stakeholder cooperation and engagement is discussed in more detail in the Stakeholder engagement section of this report. No tax related concerns have come up in stakeholder cooperation or in the materiality assessment.

Kesko's significant Group companies in all operating countries are subject to statutory audits, and Auditor's reports are issued. The Auditor's report concerning Kesko Corporation's separate financial statements and consolidated financial statements can be found in the Financial review section. The taxes included in accounting and financial statements are subject to audits in each country in accordance with the local legislation on audits. In addition, in some countries, such as Norway, the auditor issues a separate report on the company's tax return. Assurance of the information given in the Sustainability section of Kesko's Annual Report is discussed in this report in sections Reporting principles and the Independent Limited Assurance Report.

COUNTRY-SPECIFIC TAX INFORMATION

During the financial year 2023, Kesko has had operations and personnel in seven countries where it engages in both retail and wholesale trade. In addition, Kesko has a subsidiary in China which produces services for the Group related to purchasing operations. Kesko's long-dormant subsidiary in Kazakhstan was de-registered at the end of 2022. In addition to the operating countries of Group companies, in 2023 Kesko has been liable to pay taxes in Armenia in relation to an export project and in Germany in relation to a temporary working arrangement which ended in 2023. Due to the limited nature of the operations in Armenia and Germany, only information on paid and remitted taxes is reported. Kesko Group companies are listed in the Financial review section in Note 5.1 to the consolidated financial statements.

In 2023, Kesko's income taxes in Finland totalled €104.4 million and in other countries €10.0 million. The Group's effective tax rate was 19.2%. The Group's income tax is discussed in the Financial review section in Note 2.7 to the consolidated financial statements.

In addition to income taxes, Kesko pays real estate and property taxes, customs duties, car taxes and excise duties, and employer's social security contributions and statutory pension insurance premiums. Kesko collects and remits value-added taxes, withholding taxes and employee's social security contributions and statutory pension insurance premiums. Kesko remits excise duties on confectionery, alcohol and soft drinks, for example. In addition, withholding taxes and taxes at source are collected in Finland from the dividends paid by Kesko.

Arm's length interest, based on a currency-specific reference rate and a company-specific margin, is charged for the Group's internal debt financing.

Holdings in associates impact the effective tax rate and cash tax rate of Finnish operations. The share of their net profit corresponding to Kesko's ownership is consolidated using the equity method, while the taxes paid by associates are not included in Kesko Group's tax expense or cash taxes. In 2023, the profit from Finland included a profit of €21.0 million from associates and joint ventures.

The Swedish subsidiaries of the Group have a significant amount of tax losses. In the 31 December 2023 consolidated financial statements, the Group has recognised €10.2 million deferred tax asset (tax income) on previously unrecognized tax losses carried forward by the Swedish Group companies, based on estimated utilisation of the tax losses over a limited time period. In addition, the Swedish Group companies still have a significant amount of unrecognised tax losses. In Norway, the difference between the cash tax rate and effective tax rate arises from the timing of tax payments (taxes of a financial year are fully paid during the following financial year).

Estonian and Latvian tax systems do not impose tax on corporate profits, but on profits distributed during the period. Deferred tax on undistributed earnings is recognised if a decision on the distribution of earnings is probable in the near future. In the 31 December 2023 consolidated financial statements, deferred tax liability has been recognised on undistributed earnings of Estonian subsidiaries. The Estonian accrued taxes and cash taxes relate to dividend distributions. In Latvia, cash taxes relate to a dividend distributed in prior year.

Taxes paid and remitted by country 2023

€ million	Profit before taxes	Income taxes[1]	Value-added taxes	Withholding taxes on salaries	Social security contributions and statutory pension insurance premiums[2]	Real estate and property taxes[3]	Car taxes	Customs duties	Excise duties	Withholding taxes on dividends
Finland	599.9	104.4	567.1	114.8	124.5	10.1	45.0	6.0	80.2	53.4
Sweden	-16.0	0.7	34.7	15.2	21.9	1.6	-	0.1	0.0	-
Norway	13.8	4.2	45.9	26.6	18.7	0.2	-	0.0	-	-
Estonia	5.8	3.2	8.0	1.3	1.9	-	-	0.1	-	-
Latvia	-1.2	0.0	3.0	0.4	0.9	-	-	-	-	-
Lithuania	0.6	0.0	4.7	0.6	0.8	0.0	-	0.0	-	-
Poland	10.5	1.9	12.8	1.6	7.8	0.2	-	0.4	-	-
China	0.1	0.0	0.0	0.0	0.2	-	-	-	-	-
Armenia	-	-	-0.5	-	-	-	-	-	-	-
Germany	0.1	0.0	-	0.7	0.0	-	-	-	-	-
Total	**613.5**	**114.4**	**675.7**	**161.4**	**176.6**	**12,0**	**45.0**	**6.6**	**80.2**	**53.4**

Reported figures are based on IFRS reporting and may differ from the local financial statements and taxation.
[1] Income taxes include income taxes booked to income statement, deferred taxes excluded.
[2] Social security contributions and statutory pension insurance premiums include those paid by the employer and collected from the employee.
[3] Real estate taxes include the real estate taxes for both owned and rented properties.

Country-specific information 2023

€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	China
Personnel 31 Dec 2023[1]	9,568	1,321	1,729	170	94	85	937	15
Salaries	450.7	57.1	92.4	4.8	2.4	2.8	19.0	0.6
External net sales	9,705.6	555.0	1,057,4	69.5	27.2	32.2	336.8	-
Group internal net sales[2]	8.3	0.1	0.0	1.4	0.1	0.3	0.1	-
Profit before taxes	599.9	-16.0	13.8	5.8	-1.2	0.6	10.5	0.1
Tangible assets	1,955.5	43.0	32.1	1.0	0.4	0.5	23.1	0.0
Inventories	742.2	108.6	162.1	19.9	6.1	6.8	38.2	-
Group internal interest-bearing debt	42.7	66.3	54.6	0.9	6.2	2.1	-	-
Income taxes paid	86.6	6.6	10.4	2.4	0.1	0.3	1.9	0.0
Accrued income taxes[3]	104.4	0.7	4.2	3.2	0.0	0.0	1.9	0.0
Effective cash tax rate	14.4%	-41.2%	75.5%	41.6%	-10.9%	50,2%	18.0%	4.5%

Reported figures are based on IFRS reporting and may differ from the local financial statements and taxation.
[1] Full-time equivalent of active employees (FTE).
[2] Group internal net sales include only cross-boarder net sales. The Group internal net sales do not include charges from Group services.
[3] Accrued income taxes include income tax recorded in the income statement, excluding deferred taxes.

Country-by-country tax rate reconciliation 2023

€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	China
Profit before taxes	599.9	-16.0	13.8	5.8	-1.2	0.6	10.5	0.1
Local tax rate	20.0%	20.6%	22.0%	20.0%	20.0%	15.0%	19.0%	5.0%
Tax at local tax rate	-120.0	3.3	-3.0	-1.2	0.2	-0.1	-2.0	-0.0
Effect of tax-free income	0.3	0.1	0.1	-	-	0.0	-	-
Effect of expenses not deductible for tax purposes	-0.9	-0.3	-0.7	-	-	-0.0	-0.1	-
Effect of unrecognised deferred taxes	-0.1	-0.5	0.0	-3.3	-0.2	0.0	0.0	-
Effect of consolidation of share of results of associates and joint ventures	4.2	-	-	-	-	-	-	-
Prior year taxes and adjustment/revaluation of deferred taxes	-0.7	11.1	0.2	-4.0	-	-	-0.1	-
Others	-0.3	-0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0
Tax charge	**-117.5**	**13.7**	**-3.4**	**-8.4**	**-0.0**	**-0.1**	**-2.2**	**-0.0**
Effective tax rate	19.6%	85.7%	24.5%	146.3%	-0.2%	16.6%	21.4%	5.7%

Reported figures are based on IFRS reporting and may differ from those stated in local financial statements and taxation.
[1] The presentation of country-by-country tax rate reconciliation differs from the Group reconciliation in the 2023 consolidated financial statements for Estonia and Latvia. In the country-by-country reconciliation, the theoretical tax in Estonia and Latvia has been calculated at the local tax rate applied to profit distribution, while in the Group reconciliation, taxes on profit distribution are not taken into account when calculating theoretical tax. The corresponding impact in the country-bycountry tax rate reconciliation is shown on the line "Effect of unrecognised deferred taxes".

RESPONSIBLE USE OF DATA

Kesko's key objectives of data use are improving customer experience, constant development of business and profitable growth, and increasing operational efficiency. High-quality data and services produced using this data create value for customers, retailers, partners and business operations as a whole.

Data responsibility at Kesko is always based on protecting the individual's data and using it sustainably and transparently in business operations. The data is used to create positive impacts for stakeholders and society. In the use of data and artificial intelligence, we follow ethical principles, which are available on Kesko's website.

We process personal data carefully, securely and in compliance with the applicable rules and regulations. K Group uses customer data for the benefit of the customer: for example, special offers, product recommendations and targeted communications are always based on the customer's preferences.

Sustainability benefits for the customer and the retailer

We use data to help customers make sustainable choices. In the grocery trade, customers can make purchase decisions that benefit the environment, Finnish food production and their own wellbeing by using the K-Ruoka app and the K Hyvinvointi service.

The K-Hyvinvointi service generates visualised shopping data to the customer to help them with daily choices. In cooperation with a nutritional therapist, we have developed a model that compares the customer's purchase data with the national nutrition recommendations and calculates a nutrition index for the customer. The service also suggests nutrition targets, which guide the customer to increase their vegetable consumption or reduce the amount of added sugar, for example. The Finnish Innovation Fund Sitra included the service in its 2023 list of Most Interesting Data Economy Solutions.

The carbon footprint calculator in the K-Ruoka app enables customers to study the climate impact of their purchases as a whole and by product category. It is also possible to set a target for reducing your personal carbon footprint. Onninen helps B2B customers by offering a logistics carbon footprint report, which provides information about emissions generated by Onninen's domestic transport and transport packaging. Kespro's customers can examine their purchases of raw materials in terms of the degree of Finnish origin and sustainability labelling. It is also possible to examine the carbon footprint at product group level.

Data helps K-retailers in their sustainable business operations. The data is used to build a store-specific business idea based on customer, business and market insight generated using analytics. Based on this data, products and services that are best suited to each store's local customer base are suggested to be included in the K-food stores' selections. Food waste will decrease when the ordered amounts are optimised in accordance with the circulation speed.

Data and artificial intelligence are also used in K Group's other sustainability work. They are used for improving the energy efficiency of properties and store fixtures and for optimising goods flows as well as logistics and delivery routes.

ONNINEN PROVIDES ITS CUSTOMERS DATA ON THE LOGISTCS CARBON FOOTPRINT

We create value for Onninen's customers through data. The customers have requested for concrete means to track the carbon footprint of the products. Since summer 2023, Onninen's customers have had access to the logistics carbon footprint via the Onninen online store, giving details on the emissions from Onninen's transport and transport packaging in Finland. With the help of the carbon footprint report, the customers can better report on their own emissions and develop their operations through the data received.

SUSTAINABILITY REPORTING

2023

REPORTING PRINCIPLES

Reporting principles in accordance with the GRI standards

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

Kesko takes account of the IIRC (International Integrated Reporting Council) Framework in its annual reporting. Kesko applies in its operations the AA1000 AccountAbility Principles: stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders. Kesko has taken account of the ISO 26000 standard as a source document providing guidelines for corporate responsibility.

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

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

Assurance of reporting

An independent third party, Deloitte Oy, has provided assurance for the Topic-specific Disclosures on economic, social and environmental responsibility presented in the GRI index in the Finnish language Sustainability report of the Annual Report. The congruence between sustainability information presented in the Finnish and English versions has been checked. The conclusions by Deloitte Oy are detailed in the assurance report. The assurance is commissioned by the operative management of Kesko Corporation.

Global Compact reporting

In 2023, Kesko's progress on the 10 principles of the Global Compact initiative is reported on the new UN Global Compact Communication of Progress Digital Platform.

Report stakeholders

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

Reporting period

This report discusses the progress and results of our sustainability work in 2023. It also includes some information from January and February 2024. The report for 2022 was published in March 2023. The report for 2024 will be published in the spring of 2025. It will follow the reporting format of the EU Corporate Sustainability Reporting Directive 2022/2464.

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

WE SUPPORT UN GLOBAL COMPACT

GRI INDEX

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
GRI 2 GENERAL DISCLOSURES						**2021**
2-1	Organizational details	5				
2-2	Entities included in the organization's sustainability reporting			Kesko Corporation (Finland) and the companies of the building and technical trade located in Sweden, Norway, the Baltic countries and Poland, as well as the companies of the car trade in the Baltic countries.		
2-3	Reporting period, frequency and contact point	112, Contacts				
2-4	Restatements of information			No significant changes. Changes reported in connection with topic-specific information.		
2-5	External assurance	121–122				
2-6	Activities, value chain and other business relationships	5, 23				
2-7	Employees	87–92		There are no significant seasonal fluctuations in the number of employees.		
2-8	Workers who are not employees	95		There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work.		
2-9	Governance structure and composition	248				
2-10	Nomination and selection of the highest governance body	248–249				
2-11	Chair of the highest governance body	248				
2-12	Role of the highest governance body in overseeing the management of impacts	252–253				
2-13	Delegation of responsibility for managing impacts	Executive Vice President, Sustainability and Public Affairs		EVP, Sustainability and Public Affairs is a member of Group Managment Board		
2-14	Role of the highest governance body in sustainability reporting	252				
2-15	Conflicts of interest	248–257		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.		
2-16	Communication of critical concerns	261				
2-18	Evaluation of the performance of the highest governance body	253				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
2-19	Remuneration policies	275–281				
2-20	Process to determine remuneration	275–281				
2-22	Statement on sustainable development strategy	9–11				
2-23	Policy commitments	Sustainability policy, K Code of Conduct, Statement of commitment on human rights and impact assessment				
2-24	Embedding policy commitments	103–104, Statement of commitment on human rights and impact assessment				
2-25	Processes to remediate negative impacts	103–104				
2-26	Mechanisms for seeking advice and raising concerns	103–104, K Code of Conduct				
2-27	Compliance with laws and regulations			We are not aware of any significant breaches which according to the standard definition would have resulted in fines paid during the reporting period.	x	
2-28	Membership associations	Activities in organisations				
2-29	Approach to stakeholder engagement	102				
2-30	Collective bargaining agreements	99				
GRI 3 MATERIAL TOPICS						2021
3-1	Process to determine material topics	Materiality assessment				
3-2	List of material topics	Materiality assessment				
3-3	Management of material topics	Management of material topics				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
TOPIC-SPECIFIC CONTENT						
Topic-specific content is reported regarding aspects identified as material.						
ECONOMIC IMPACTS						
201	**Economic performance**					2016
201-1	Direct economic value generated and distributed	105			x	
201-2	Financial implications and other risks and opportunities due to climate change	21	Monetary evaluations or realisations have not been reported for risks and opportunities.	TCFD Report	x	
201-4	Financial assistance received from government	106			x	
203	**Indirect economic impacts**					2016
203-1	Infrastructure investments and servies supported	105–106			x	
204	**Procurement practices**					2016
204-1	Proportion of spending on local suppliers	73–74, 105	Purchases from suppliers are reported on the basis of the supplier's location. Some of the suppliers operating in Finland are import companies, and reliable statistics cannot be compiled on the origin of goods supplied by them.		x	
205	**Anti-corruption**					2016
205-1	Operations assessed for risks related to corruption	103–104		Risks related to corruption are discussed as part of Kesko's risk managament. Key risks are identified and assessed regularly throughout the year.	x	
205-2	Communication and training about anticorruption policies and procedures	103–104	Data for discl. a-e not reported. Percentages not reported by personnel group or geographical region.		x	
205-3	Confirmed incidents of corruption and actions taken	103–104			x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
206	**Anti-competitive behaviour**					2016
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices			No new authority rulings or legal actions regarding anticompetitive behaviour, anti-trust, and monopoly practices were reported in 2023. In 2022 The Finnish Competition and Consumer Authority proposed a penalty payment to Onninen on a suspected violation of competition law in 2009–2016. Onninen denies the claims and proceedings in Market Court are ongoing. Kesko Corporation is not suspected of participation in the alleged infringement. Kesko has published a release on the matter on 8 September 2022	x	
207	**Taxes**					2019
207-1	Approach to tax	107, Kesko's tax policy			x	
207-2	Tax governance, control and risk management	107, Kesko's tax policy			x	
207-3	Stakeholder engagement and management concerns related to tax	107, Kesko's tax policy			x	
207-4	Country-by-country reporting	107–108			x	
ENVIRONMENTAL IMPACTS						
301	**Materials**					2016
301-3	Reclaimed products and their packaging materials	68–69	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.	Part of the information is reported in accordance with standard 306-2.	x	
302	**Energy**					2016
302-1	Energy consumption within the organisation	56–60	In some real estates situated in leased properties the heat consumption is included in the rent or the consumption figure is not available and the heat consumption is not reported. The district heating consumption figure covers about 93% (based on floor area) of the properties managed by Kesko where heating is partly or fully provided by means of district heating.	Kesko's Greenhouse Gas Inventory Report 2023 The energy consumption data from other countries is compiled from fuel and purchased energy consumption data reported by subsidiaries.	x	
302-3	Energy intensity	59			x	
302-4	Reduction of energy consumption	59–60			x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
303	**Water and effluents**					2018
303-1	Interactions with water as a shared resource	66			x	
303-5	Water consumption	66	In some real estates situated in leased properties the water consumption is included in the rent or the consumption figure is not available and the water consumption is not reported.	Kesko's Greenhouse Gas Inventory Report 2023 The water consumption data from other countries is compiled from water billing or consumption data reported by subsidiaries.	x	
304	**Biodiversity**					2016
304-2	Significant impacts of activities, products, and services on biodiversity	64–65			x	
304-3	Habitats protected or restored			Kesko does not have any protected habitats of its own.		
305	**Emissions**					2016
305-1	Direct (Scope 1) GHG emissions	57		Kesko's Greenhouse Gas Inventory Report 2023	x	
305-2	Energy indirect (Scope 2) GHG emissions	57		Kesko's Greenhouse Gas Inventory Report 2023	x	
305-3	Other indirect (Scope 3) GHG emissions	61	K-retailer entrepreneurs' own product purchases are also partially included in the calculation of the grocery trade division. Calculation boundary: Kespro, sports trade, and K-Bygg and retail trade of Byggmakker of the building and technical trade division are excluded.	Kesko's Greenhouse Gas Inventory Report 2023	x	
305-4	GHG emissions intensity	57			x	
305-5	Reduction of GHG emissions	56–63			x	
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	57		Kesko's Greenhouse Gas Inventory Report 2023	x	
306	**Waste**					2020
306-2	Management of significant waste-related impacts	67–69			x	
306-3	Waste generated	69			x	
306-4	Waste diverted from disposal	70–71	Classification of disc. a excluded. Disc. b-e not reported.	Food waste reported.	x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
308	**Supplier environmental assessment**					2016
308-1	Supplier environmental assessment	79	Not reported by percentage.			
SOCIAL IMPACTS						
401	**Employment**					2016
401-1	New employee hires and employee turnover	88	In new employee hires, not reported regional ratio.		x	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	91–92, Benefits and rewards	Personnel benefits exceeding the statutory level not reported in detail and not by employment types. Practices vary in different operating countries. Extent of employment benefits reported for Finland only.		x	
401-3	Parental leaves	91–92	Data for disc. e not reported.		x	
402	**Labour/Management relations**					2016
402-1	Minimum notice periods regarding operational changes	99	Arrangements compliant to egislation. Legislation does not define minimum notice periods at the precision required by GRI.		x	
403	**Occupational health and safety**					2018
403-1	Occupational health and safety management system	93–96	Data for disc. a.i., a.ii and b not reported.		x	
403-2	Hazard identification, risk assessment, and incident invcestigation	93–96	Data for disc. a.i, b, c and d not reported.		x	
403-3	Occupational health services	93–96	Data for disc. a not reported.		x	
403-4	Worker participation, consultation, and communication on occupational health and safety	93–96			x	
403-5	Worker training on occupational health and safety	93–96			x	
403-6	Promotion of worker health	93–96			x	
403-9	Work-related injuries	93–96	Not reported by injury type or the number of working hours by workers. Not reported by hired labour and contractors. Data for disc. a.v. not reported.		x	
403-10	Work-related ill health	93–96	Not reported by occupational disease. Not reported by hired labour and contractors. Data for disc. c not reported.		x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
404	**Training and education**					2016
404-1	Average hours of training per year per employee	97			x	
404-2	Programmes for upgrading employee skills and transition assistance programmes	97–98	Data for disc. b not reported.		x	
404-3	Percentage of employees receiving regular performance and career development reviews	97–98	Not reported by gender.		x	
405	**Diversity and equal opportunity**					2016
405-1	Diversity of governance bodies and employees	89–90	Age distribution data for disc. a not reported.		x	
405-2	Ratio of basic salary and remuneration of women to men	98	Data related to equal pay not reported by country.		x	
406	**Non-discrimination**					2016
406-1	Incidents of discrimination and corrective actions taken	90			x	
407	**Freedom of association and collective bargaining**					2016
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	99			x	
414	**Supplier social assessment**					2016
414-1	New suppliers that were screened using social criteria	75–78	The percentage of new suppliers has not been separately screened out of all direct suppliers in high-risk countries.		x	
414-2	Negative social impacts in the supply chain and actions taken	75–78	Percentage of suppliers with whom we ceased to cooperate not reported.		x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	EXTERNALLY ASSURED	STANDARD VERSION
415	**Public policy**					2016
415-1	Political contributions	104			x	
416	**Customer health and safety**					2016
416-1	Assessment of the health and safety impacts of product and service categories	83–85	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.		x	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	85			x	
417	**Marketing and labelling**					2016
417-1	Requirements for product and service information and labelling	85	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations. Data for disc. a.iii. not reported.		x	
417-2	Incidents of non-compliance information and labelling	85			x	
417-3	Incidents of non-compliance concerning marketing communications	85			x	
418	**Customer privacy**					2016
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	104			x	

INDEPENDENT LIMITED ASSURANCE REPORT

Translated from Finnish original

To the Management of Kesko Oyj

SCOPE

We have been engaged to provide a limited assurance on the selected GRI disclosures presented on Kesko Oyj's (business identity code 0109862-8) "Sustainability Report" for the reporting period of January 1, 2023 to December 31, 2023. The assured information is presented on the "Sustainability Report's" GRI Content Index pages. (Hereafter Sustainability Reporting).

RESPONSIBILITIES OF THE MANAGEMENT

The Management of Kesko Oyj is responsible for the preparation of the Sustainability Report in accordance with the GRI Sustainability Reporting Standards of the Global Reporting Initiative (hereinafter also the Reporting criteria). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Sustainability Report that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate criteria and making estimates that are reasonable in the circumstances.

ASSURANCE PROVIDER'S RESPONSIBILITIES

Our responsibility is to perform a limited assurance engagement and to provide an independent conclusion on the Sustainability Reporting based on our engagement. We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) and its terms have been agreed with Kesko Oyj. ISAE 3000 standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Sustainability Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria. The nature, timing and scope of the limited assurance procedures are based on professional judgement, including an assessment of material misstatement due to fraud or error. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

We have maintained our independence and confirm that we have complied with the ethical requirements set by the International Ethics Standards Board for Accountants, IESBA. We have applied International Standard on Quality Management, ISQM 1.

DESCRIPTION OF THE MEASURES TAKEN

As the methods of obtaining evidence are more limited in a limited assurance than in a reasonable assurance, an assurance obtained is more limited than in a reasonable assurance. We have designed and performed procedures to obtain sufficient and appropriate evidence for limited assurance and to provide a basis for our conclusion, therefore we do not obtain all the evidence, which is required in reasonable assurance. While we consider the design of internal controls when determining the nature and scope of our assurance procedures, our limited assurance engagement is not included the testing of the operating effectiveness of internal controls. Our procedures did not include control testing or performing procedures related to combining and calculating data within IT systems.

The limited assurance engagement consists of inquiries of individuals who are responsible for preparing Sustainability Reporting and related information, as well as for carrying out analytical and other procedures.

THE PROCEDURES INCLUDED:

Among other things, we have carried out the following procedures in the assignment:

- Interviewing senior management of the Company;
- Conducting interviews with employees, at the group level and subsidiary level, responsible for the collection and reporting of the Sustainability Information, as well as the personnel in different organisation levels and business areas.
- Performing sample-based testing procedures to verify to what extent these documents and data support the information included in the Sustainability Information and evaluating whether the information presented in the Sustainability Information is in line with our overall knowledge of corporate sustainability at Kesko;
- Performing analytical review procedures, recalculating and testing data on a sample basis to assess the reasonability of the presented Sustainability Information;

- Visiting the Company's Head Office;
- Conducting an interview with Company's subsidiary Onninen;
- Assessing that the Sustainability Information has been prepared in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative

CONCLUSION

Based on procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Kesko Oyj's Sustainability Reporting for the reporting period ended 31 December 2023 is not properly prepared, in all material respects, in accordance with the Reporting criteria.

Helsinki, February 27, 2024

Deloitte Oy
Audit firm

Jukka Vattulainen	**Anu Servo**
Authorized Public Accountant	Authorized Public Accountant

FINANCIAL REVIEW

2023

FINANCIAL REVIEW

This PDF report has been published voluntarily. Kesko has published the Report by the Board of Directors and the consolidated financial statements as an XHTML document in accordance with the European Single Electronic Format (ESEF) reporting requirements. The ESEF version is the official version of the report.

This report is a translation of the Finnish original.

REPORT BY THE BOARD OF DIRECTORS

2023

REPORT BY THE BOARD OF DIRECTORS

Kesko has operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland, with some 1,800 stores engaged in chain operations.

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for approximately 46% of Kesko's net sales in 2023. At the end of 2023, Kesko had nearly 1,100 independent K-retailer entrepreneurs as partners. Kesko also engages in its own retailing, which accounted for some 15% of net sales. B2B trade is a significant and growing part of Kesko's business operations, and it accounted for approximately 39% of Kesko's net sales.

Outside Finland, Kesko mainly engages in its own retailing and B2B trade. Net sales for international operations totalled €2,078 million, and accounted for 18% of Kesko's total net sales.

Together, Kesko and K-retailers form K Group, whose retail sales (preliminary) totalled some €15.8 billion (0% VAT) in 2023.

Operating environment

Identified megatrends impacting K Group's operations include globalisation and related supply chain security and the growing importance of risk management, continued population change and urbanisation, the growing importance of data and possibilities enabled by digitalisation, and the emphasised importance of sustainability. Themes emphasised in customer and consumer trends include individual customer behaviour, the need to constantly adjust selections to customer needs, and multichannel shopping. Key opportunities and risks in our operating environment are related to developments in our economic operating environment, digital services and data-driven management, the geopolitical situation, sustainable purchasing and human rights, and climate change. Emerging risks include the loss of biodiversity and extreme weather phenomena. Risks are described in more detail in the 'Significant risks and uncertainties' section of this Report by the Board of Directors.

Outlook and guidance for 2024

Kesko Group's profit guidance is given for the year 2024, in comparison with the year 2023. Kesko's operating environment is estimated to remain challenging in 2024. Kesko's net sales and operating profit are estimated to remain at a good level in 2024 despite the challenges in the company's operating environment. Kesko estimates that its comparable operating profit in 2024 will be in the range of €620–720 million.

The profit guidance is based on an estimate of a relatively short recession in Kesko's operating countries. Key uncertainties impacting Kesko's outlook are developments in inflation and interest rate levels, and geopolitical crises and tensions.

In grocery trade, B2C trade and the foodservice market are expected to remain stable despite tightened price competition, and inflation is expected to slow down in 2024. Profitability in grocery trade is estimated to remain good also in 2024.

In building and technical trade, the market is expected to continue to decline in 2024. The economic cycle will have the biggest impact on new residential building, while the decline in other building construction, renovation building and infrastructure construction is expected to be smaller. The cycle is expected to turn in 2025. Profitability in building and technical trade is estimated to fall short of the 2023 level, but to still remain at a reasonably good level in 2024.

In car trade, new car sales are expected to fall short of the 2023 level. Sales of used cars and services are expected to grow. Profitability in car trade is estimated to still remain good in 2024, but to fall short of the 2023 level.

Financial performance

Net sales and profit 2023

1–12/2023	Net sales, € million	Change %	Change, comparable, %	Operating profit, comparable € million	Change, € million
Grocery trade	6,351.6	+3.7	+3.7	444.8	-15.6
Building and home improvement trade	1,912.1	-19.6	-16.1	65.0	-62.5
Technical trade	2,344.7	+2.6	-4.8	128.5	-45.2
Kesko Senukai	-	-	-	19.0	-1.9
Building and technical trade total	4,193.2	-8.7	-10.5	212.5	-111.4
Car trade	1,262.3	+12.2	+13.9	82.6	+18.2
Common functions and eliminations	-23.3	-	-	-27.8	+5.7
Total	**11,783.8**	**-0.2**	**-0.8**	**712.0**	**-103.0**

Group net sales decreased by 0.2%. In comparable terms, net sales decreased by 0.8%. Net sales increased in comparable terms by 1.3% in Finland, and decreased by 9.8% in the other Kesko operating countries. The comparable change % has been calculated in local currencies and excluding the impact of acquisitions and divestments completed.

Net sales for the grocery trade division grew by 3.7%. Sales to K Group grocery store chains grew by 2.7%. Net sales for Kespro's foodservice business grew by 10.9%. Without Covid-19 restrictions, consumption was relatively more geared towards foodservice than retail than in the comparison period.

Net sales for the building and technical trade division decreased by 8.7%, or by 10.5% in comparable terms. Net sales for technical trade increased by 2.6%, but decreased by 4.8% in comparable terms. Net sales for building and home improvement trade decreased by 16.1% in comparable terms. Net sales in building and home improvement trade decreased in all operating countries, impacted by a weaker construction market year-on-year.

In the car trade division, net sales increased by 12.2%, or by 13.9% in comparable terms. Net sales grew in all car trade segments. Net sales for sports trade decreased.

The Group's comparable operating profit totalled €712.0 million, a decrease of €103.0 million. The comparable operating profit for the grocery trade division decreased by €15.6 million, weakened by campaigns and other marketing efforts as well as increased real estate costs. The division's profitability was improved by the sales growth and good profitability of Kespro's foodservice business. The comparable operating profit for the building and technical trade division decreased by €111.4 million. The comparable operating profit decreased in all operating countries primarily as a result of the decrease in net sales. In addition to the decrease in net sales, profitability for technical trade was impacted by Elektroskandia, where profitability was below that of the rest of the business, burdened by a €2.0 million expense recorded for the allocation of fair value of inventories. In Finland, profitability for Onninen and building and home improvement trade remained good. The share of result from Kesko Senukai had a €1.9 million negative impact on the division's comparable operating profit year-on-year. The comparable operating profit for the car trade division increased by €18.2 million. The comparable operating profit increased in the car trade segments by €24.7 million thanks to net sales growth and transformation and efficiency improvement measures. In sports trade, comparable operating profit decreased.

Items affecting comparability, € million	1–12/2023	1–12/2022
Comparable operating profit	**712.0**	**815.1**
Items affecting comparability		
+gains on disposal	+0.4	+0,0
-losses on disposal	-1.0	-0.1
+/-structural arrangements	-16.1	+1.6
Total items affecting comparability	-16.7	+1.5
Operating profit	**695.4**	**816.5**

The most significant items affecting comparability were related to the reorganisation of the K-Rauta chain in Sweden, in which the Swedish building and home improvement trade operations will be concentrated in the K-Bygg chain, and to acquisitions.

K Group's (Kesko and the chain stores) retail and B2B sales (0% VAT) totalled €15,850.0 million, representing a decrease of 1.8%. During the 12-month period that ended in December 2023, the number of Finnish households belonging to the K-Plussa loyalty scheme and using the Plussa network totalled 2.5 million, with 3.3 million customers using their K-Plussa card.

Net finance costs, income tax and earnings per share

Net finance costs, income tax and earnings per share	1–12/2023	1–12/2022
Net finance costs, € million	-83.9	-56.0
Interests on lease liabilities, € million	-73.4	-68.4
Profit before tax, comparable, € million	630.4	763.2
Profit before tax, € million	613.5	761.1
Income tax, € million	-118.0	-151.2
Earnings per share, comparable, €	1.28	1.54
Earnings per share, €	1.25	1.53
Equity per share, €	6.93	6.90

The growth in Group net finance costs was impacted by the increase in interest-bearing net debt and rise in interest rate levels. In the comparison period, net finance costs were reduced by a positive change in the fair value of interest rate derivatives. The share of result of associates was €2.1 million (€0.6 million).

The Group's effective tax rate was 19.2% (19.9%).

The Group's earnings per share and comparable earnings per share decreased compared to the year before.

Cash flow and financial position

Cash flow, € million	1–12/2023	1–12/2022
Cash flow from operating activities	1,049.5	915.2
Cash flow from investing activities	-590.2	-344.3
Cash flow from financing activities	-492.2	-604.7

Financial position	31 Dec. 2023	31 Dec. 2022
Liquid assets, € million	227.3	314.1
Interest-bearing liabilities, € million	2,787.0	2,418.3
Lease liabilities, € million	1,997.9	1,920.1
Interest-bearing net debt excl. lease liabilities, € million	561.9	184.1
Interest-bearing net debt/ EBITDA, excl. IFRS 16 impact	0.7	0.2
Gearing, %	92.8	76.7
Equity ratio, %	35.8	36.9

The Group's cash flow from operating activities totalled €1,049.5 million (€915.2 million).

The Group's cash flow from investing activities totalled €-590.2 million (€-344.3 million). Cash flow from investing activities included a positive item of €54.3 million (€36.8 million) from the redemption of money market funds, included in the Group's liquid assets.

The Group's net debt excluding lease liabilities increased due to investments in store sites and logistics, and acquisitions.

Capital expenditure

Capital expenditure, € million	1–12/2023	1–12/2022
Store sites	286.5	268.1
Acquisitions	141.1	50.1
IT	25.0	41.8
Other investments	226.3	89.2
Total	**678.9**	**449.2**

Capital expenditure in store sites increased by €18.4 million on the comparison period. In the comparison period, capital expenditure in store sites included the property of K-Citymarket Turtola in Tampere, €40.3 million: the ownership of the property was transferred to the Group as a result of a return of surplus assets by Kesko Pension Fund in March 2022. The investment did not have a cash flow impact.

Other capital expenditure included an investment of €90.1 million in the construction of Onninen and K-Auto's shared logistics centre in Hyvinkää, Finland. The construction project is expected to be completed in 2025.

Capital expenditure included the acquisition of Elektroskandia Norge AS in Norway, completed on 1 March 2023, the acquisition of Zenitec Sweden AB in Sweden, completed on 5 April 2023, and the acquisition of Geitanger Bygg AS in Norway, completed on 2 October 2023. Capital expenditure in the comparison period included the acquisitions of the Swedish Kungälvs Trävaruaktiebolag, Föllinge Såg AB, Djurbergs Järnhandel Aktiebolag and XL-BYGG Bergslagen AB, and the Norwegian Seljord Elektriske AS.

Segments

New segment structure

Kesko changed its division structure and segment reporting as of 1 April 2023. Sports trade is now part of the car trade division, while it previously was part of the building and technical trade division. Data concerning the comparison periods have been adjusted to correspond to the new segment structure.

Grocery trade

	1–12/2023	1–12/2022
Net sales, € million	6,351.6	6,124.7
Operating profit, comparable, € million	444.8	460.4
Operating margin, comparable, %	7.0	7.5
Return on capital employed, comparable, %	17.4	19.6
Capital expenditure, € million	303.7	257.6
Personnel, average	6,257	6,288

Net sales for the grocery trade division totalled €6,351.6 million (€6,124.7 million), an increase of 3.7%. Sales to K Group grocery store chains grew by 2.7%. Net sales for Kespro's foodservice business grew by 10.9%. Without Covid-19 restrictions, consumption was relatively more geared towards foodservice than retail than in the comparison period.

The total retail grocery market in Finland (incl. VAT) is estimated to have grown by approximately 6.0% (Finnish Grocery Trade Association PTY), and retail prices are estimated to have risen by some 9.0% (incl. VAT, Kesko's own estimate). K Group's grocery sales grew by 3.2% (incl. VAT). New store openings by competitors are estimated to have continued to impact market shares in 2023, but to a lesser extent than in 2022. Online grocery sales grew by 5.7%, and accounted for approximately 3.2% of K Group's grocery sales (incl. VAT). Online grocery sales have risen clearly above pre-pandemic levels. All K Group grocery store chains offer online grocery sales services. The number of K Group stores offering online grocery services was 729 at the end of the reporting period, up by 110 year-on-year. The total market for the foodservice business is estimated to have grown by 6.7% (Finnish Grocery Trade Association PTY). Kespro's market share is estimated to have continued to grow in 2023. The popularity of eating out is expected to be growing trend.

Net sales, € million	1–12/2023	1–12/2022	Change, %	Change, %, comparable
Sales to K-food stores	4,484.0	4,367.4	+2,7	+2,7
K-Citymarket, non-food	615.5	605.1	+1,7	+1,7
Kespro	1,154.9	1,041.3	+10,9	+10,9
Others	97.3	110.8	-12,1	-12,1
Total	**6,351.6**	**6,124.7**	**+3,7**	**+3,7**

The comparable operating profit for the grocery trade division totalled €444.8 million (€460.4 million), down by €15.6 million, weakened by campaigns and other marketing efforts as well as increased real estate costs. Profitability was improved by sales growth and good profitability in Kespro's foodservice business. Kespro's comparable operating profit totalled €75.0 million (€59.2 million). Operating profit for the grocery trade division totalled €443.6 million (€461.5 million). Items affecting comparability totalled €-1.3 million (€1.1 million).

Capital expenditure for the grocery trade division totalled €303.7 million (€257.6 million). Capital expenditure in store sites totalled €251.2 million (€230.5 million).

Building and technical trade

	1–12/2023	1–12/2022
Net sales, € million	4,193.2	4,591.1
Building and home improvement trade	1,912.1	2,377.2
Technical trade	2,344.7	2,286.2
Operating profit, comparable, € million	212.5	323.8
Building and home improvement trade	65.0	127.5
Technical trade	128.5	173.7
Kesko Senukai	19.0	20.9
Operating margin, comparable, %	5.1	7.1
Building and home improvement trade	3.4	5.4
Technical trade	5.5	7.6
Return on capital employed, comparable, %	11.4	19.1
Capital expenditure, € million	273.0	108.2
Personnel, average	6,073	5,871

Net sales for the building and technical trade division decreased by 8.7%, or by 10.5% in comparable terms. Net sales for technical trade increased by 2.6%, but decreased by 4.8% in comparable terms. Net sales for technical trade grew in Norway, underpinned by the Elektroskandia AS acquisition, but decreased in other operating countries. Net sales for building and home improvement trade decreased by 16.1% in comparable terms: net sales decreased in all operating countries, impacted by a weaker construction market year-on-year. Net sales development in euro terms was increased by the strengthening of the Polish zloty against the euro, and decreased by the weakening of the Swedish krona and the Norwegian krone against the euro.

In Finland, net sales for the building and technical trade division totalled €2,115.0 million (€2,382.3 million), down by 11.2%. Net sales from international operations totalled €2,078.2 million (€2,208.8 million), down by 5.9%, or by 9.8% in comparable terms.

The comparable operating profit for the building and technical trade division totalled €212.5 million (€323.8 million), down by €111.4 million. The comparable operating profit decreased in all operating countries primarily as a result of the decrease in net sales. In addition to the decrease in net sales, profitability for technical trade was impacted by Elektroskandia, where profitability was below that of the rest of the business, burdened by a €2.0 million expense recorded for the allocation of fair value of inventories. In Finland, profitability for Onninen and building and home improvement trade remained good. The share of result from Kesko Senukai had a €1.9 million negative impact on the division's comparable operating profit year-on-year.

Operating profit for the building and technical trade division totalled €201.9 million (€324.8 million). Items affecting comparability totalled €-10.5 million (€0.9 million). The most significant items affecting comparability were related to the reorganisation of the K-Rauta chain in Sweden, in which the Swedish building and home improvement trade operations will be concentrated in the K-Bygg chain, and to acquisitions.

Capital expenditure for the building and technical trade division totalled €273.0 million (€108.2 million). Capital expenditure included an investment of €90.1 million in the construction of Onninen and K-Auto's shared logistics centre in Hyvinkää, Finland. The construction project is expected to be completed in 2025. Capital also expenditure included the acquisition of Elektroskandia Norge AS in Norway, completed on 1 March 2023, the acquisition of Zenitec Sweden AB in Sweden, completed on 5 April 2023, and the acquisition of Geitanger Bygg AS in Norway, completed on 2 October 2023. Capital expenditure in comparison period included the acquisitions of the Swedish Kungälvs Trävaruaktiebolag, Föllinge Såg AB, Djurbergs Järnhandel Aktiebolag and XL-BYGG Bergslagen AB, and the Norwegian Seljord Elektriske AS.

Net sales, € million	1–12/2023	1–12/2022	Change, %	Change, %, comparable
Building and home improvement trade, Finland	937.6	1,126.7	-16.8	-16.8
K-Rauta, Sweden	149.8	189.1	-20.8	-14.5
K-Bygg, Sweden	280.0	352.8	-20.6	-19.7
Byggmakker, Norway	547.6	711.4	-23.0	-13.4
Building and home improvement trade, total	1,912.1	2,377.2	-19.6	-16.1
Technical trade, Finland	1,234.0	1,319.0	-6.4	-6.4
Technical trade, Sweden	132.8	147.0	-9.7	-10.7
Technical trade, Norway	517.5	346.5	+49.3	+4.3
Technical trade, Baltics	129.1	130.8	-1.3	-1.3
Technical trade, Poland	336.9	349.2	-3.5	-6.5
Technical trade, total	**2,344.7**	**2,286.2**	**+2.6**	**-4.8**
Total	**4,193.2**	**4,591.1**	**-8.7**	**-10.5**

Car trade

	1–12/2023	1–12/2022
Net sales, € million	1,262.3	1,124.8
Car trade	1,078.6	910.9
Sports trade	183.9	214.0
Operating profit, comparable, € million	82.6	64.3
Car trade	73.1	48.4
Sports trade	9.5	16.0
Operating margin, comparable, %	6.5	5.7
Car trade	6.8	5.3
Sports trade	5.1	7.5
Return on capital employed, comparable, %	15.8	14.7
Capital expenditure, € million	80.3	45.1
Personnel, average	1,531	1,519

Net sales for the car trade division increased by 12.2%, or by 13.9% in comparable terms. Net sales grew in all car trade segments. Net sales for sports trade decreased by 14.1%.

The combined market performance of first registrations of passenger cars and vans was +6.2%. The combined market share of the Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen vans imported by the car trade division was 15.1% (14.1%).

The comparable operating profit for the car trade division totalled €82.6 million (€64.3 million). The comparable operating profit increased in the car trade segments by €24.7 million thanks to net sales growth and transformation and efficiency improvement measures. In sports trade, comparable operating profit decreased due to the decline in net sales.

Operating profit for the car trade division totalled €82.4 million (€63.9 million). Items affecting comparability totalled €-0.1 million (€-0.4 million).

Capital expenditure for the car trade division totalled €80.3 million (€45.1 million).

Net sales, € million	1–12/2023	1–12/2022	Change, %	Change, %, comparable
Car trade	1,078.6	910.9	+18,4	+20,7
Sports trade	183.9	214.0	-14,1	-14,1
Total	**1,262.3**	**1,124.8**	**+12,2**	**+13,9**

Changes in Group composition

Kesko acquired Kungälvs Trävaruaktiebolag in Sweden on 1 March 2022, Seljord Elektriske AS in Norway on 1 June 2022, Föllinge Såg AB and Djurbergs Järnhandel Aktiebolag in Sweden on 1 September 2022, and XL-BYGG Bergslagen AB in Sweden on 1 October 2022. During the financial year, subsidiary mergers were carried out in Finland, Sweden and Norway in an effort to streamline Group structure.

Main objectives and results achieved in sustainability

Financial value creation

Kesko's operations create value and generate economic benefits for various stakeholders in Kesko's operating countries and markets. Key stakeholders include shareholders, customers, personnel, retailers, suppliers and service providers, and the society. Kesko promotes the growth of wellbeing throughout its supply chain, also in developing countries.

The most important cash flows comprise revenue from sales of goods and services to customers and retailers, purchases from suppliers of goods and services, dividends paid to shareholders, salaries and wages paid to personnel, taxes, and capital expenditure. Kesko employs 17,702 people and in 2023 paid €629.8 million in wages. In 2023, income taxes paid by Kesko in Finland totalled €104.3 million, and in other countries €10.0 million. Kesko also pays real estate and property taxes, and collects, reports and remits indirect taxes, such as value added tax and excise duties. Kesko's investments have a positive financial impact on e.g. operators in the construction sector and furniture, equipment and data system providers. Kesko's capital expenditure in 2023 totalled €678.9 million. At the end of 2023, Kesko had 105,550 registered shareholders, and dividends distributed for the year 2022 totalled €430 million.

Kesko's business model is described at the beginning of this Report by the Board of Directors. Risks related to climate change, social and employee issues, human rights, and the prevention of corruption and bribery are described in the 'Significant risks and uncertainties' section of the report.

Operating principles, key commitments and policies

Kesko's operations are based on its value "The customer and quality – in everything we do", and its vision and mission. Key Group-level policies that guide operations include the governance policy, human resources policy, sustainability policy, risk management policy, disclosure policy, data protection policy, information security policy, and tax policy.

Kesko is committed to promoting the UN's Sustainable Development Goals (SDGs) in its operations. For Kesko and its stakeholders, the main goals are Responsible consumption, Climate action, Life on land, Gender equality, and Decent work and economic growth.

Kesko first published a statement of commitment on human rights and impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights in 2016. Kesko reviews the commitment and impact assessment every three years, most recently in the autumn of 2022.

Sustainability strategy 2022–2024

Sustainability is one of the key focus areas in Kesko's strategy. Sustainability work is guided by Kesko's sustainability policy, sustainability strategy, and the K Code of Conduct. The Board of Directors of Kesko Corporation approved a sustainability strategy for the company in March 2022. The strategy is based on the extensive materiality assessment updated in 2021, in which stakeholders were asked to provide their views on key sustainability themes for Kesko and its stakeholders.

The sustainability strategy sets sustainability targets for Kesko and its business divisions. The four focus areas of the sustainability strategy are climate and nature, value chain, people, and good governance. The sustainability vision is to enable sustainable choices for customers and drive change throughout the value chain.

Sustainability reporting and sustainability indices

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

Kesko is listed on several sustainability indices, the most significant of which are the Dow Jones Sustainability Indices the DJSI World and DJSI Europe, CDP, MSCI ESG Ratings, and Sustainalytics.

In December 2023, Kesko was ranked the best European company in its sector (Consumer Staples Distribution & Retail) in the Dow Jones Sustainability Indices the DJSI World and the DJSI Europe. In the global DJSI World, Kesko ranked fourth in its sector.

In December 2023, Kesko received a rating of AAA (scale AAA-CCC) in the MSCI ESG Ratings assessment. MSCI ESG Research gives MSCI ESG sustainability ratings to listed and certain private companies. The ratings are based on industry-specific ESG risks and how well corporations are managing them compared to their peers.

In January 2024, Kesko ranked 29th overall (74th in 2023) on the Global 100 list of the Most Sustainable Corporations in the World, and the highest among companies in its sector (Consumer Staples). Kesko is the only company in the world to have been included in the Global 100 list every year since the list was first established in 2005.

Climate and nature

In accordance with its sustainability strategy, Kesko concentrates on reducing carbon dioxide emissions from its own operations and its whole value chain. Central to Kesko's climate and nature efforts are also the company's impacts on biodiversity and in terms of circular economy, especially responsible packaging and reduction of food waste.

Emissions from Kesko's own operations

Kesko aims for its own operations to be carbon neutral by 2025, and free of emissions by the end of 2030. In between 2025 and 2030, Kesko will offset its remaining emissions and will continue to reduce emissions towards zero by the end of 2030.

In Kesko's own operations, emissions (Scope 1 and 2) mostly come from fuel consumption in transport and logistics operations, and the consumption of district heat. In addition, emissions arise from Kesko's own generation of electricity and heat, refrigerant leaks, and the consumption of purchased electricity. Emissions from Kesko's own operations are estimated to account for 1% of the total value chain carbon dioxide emissions.

Kesko promotes the achievement of emissions targets by, for example, increasing the purchase of emissions-free electricity, reducing the use of natural gas and oil to decrease emissions from self-generated energy, improving energy efficiency, utilising waste heat, and increasing electric transport vehicles in logistics.

The electricity consumed by Kesko in Finland is free of carbon dioxide emissions, and for the most part generated using nuclear and wind power. In Finland, Kesko's electricity consumption in Q4/2022–Q3/2023 totalled 278 GWh. The consumption of heat and cooling energy totalled 214 GWh. In Kesko's other operating countries, electricity consumption totalled 33 GWh and heat consumption 12 GWh. Kesko's consumption of electricity and heating and cooling energy in all operating countries in total amounted to 537 GWh in Q4/2022–Q3/2023.

Emissions from value chain

Kesko is committed to mitigating climate change by setting science-based short-term emission reduction targets. The short-term targets validated by the Science Based Targets initiative (SBTi) are as follows:

- Kesko has committed to reducing absolute scope 1 and 2 GHG emissions by 90% by the end of 2030 from a 2020 base year.
- Kesko has committed to 67% of its suppliers (by spend, covering purchased goods and services) setting science-based emission reduction targets by the end of 2026.
- Kesko has also committed to reducing absolute scope 3 GHG emissions from the use of sold products by 17% by the end of 2026 from a 2020 base year.

In autumn 2023, Kesko committed to setting new long-term emission reduction targets and to reducing emissions throughout its value chain in accordance with the NetZero Standard of the Science Based Targets initiative. Kesko is seeking SBTi validation also for its new net-zero target.

In Kesko's value chain, the most significant climate impacts are generated during the lifecycle of products sold: in primary production of raw materials, product manufacture, packaging, transport, and product use. Kesko encourages its suppliers of goods and services to reduce their emissions and supports customers in making more sustainable consumption choices.

Biodiversity

Kesko aims to prevent the loss of biodiversity in both its own operations and its value chain. In autumn 2023, Kesko initiated preparations for a biodiversity roadmap. As part of the roadmap, Kesko is setting targets for the biodiversity impacts of its own operations and value chain.

Circular economy

Kesko is strengthening circular economy operating models with the objective that by the end of 2025, all packaging used in Kesko's private label products will be either recyclable or reusable. Kesko also aims to halve the amount of food waste by 2030.

Climate-related opportunities and risks

In 2022, Kesko examined climate change-related risks and opportunities in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. The impacts of climate change are twofold:

- The impacts of climate change on Kesko are related to increasing regulation and extreme weather phenomena.
- The impacts of Kesko's operations on the climate are related to the lifecycle impact of products and services sold, and Kesko's energy solutions and emissions.

Opportunities

In addition to emissions from own operations, the biggest climate impact in the trading sector comes from emissions from the value chain of products. In addition to its own operations, Kesko extends emission reduction targets to its whole value chain.

All Kesko divisions can offer customers solutions that help them reduce their climate impact, as living, food and mobility are the biggest sources of greenhouse gases in private consumption.

Risks

The most significant risk is that climate action on a global scale stays at the current level, attempts to mitigate climate change fail, and as a result, extreme weather phenomena, such as powerful storms and extended periods of high temperatures in the summer, will increase. The impact of global warming on Finnish and global production areas and consequently on product availability, quality and prices could become critical factors for supply chain continuity and product availability.

Key targets	Indicators	Results in 2023
Achieving carbon neutrality in 2025 and making Kesko's own operations emissions-free by the end of 2030.	Carbon dioxide emissions (tCO_2e)	Kesko's own (scope 1 and 2) carbon dioxide emissions in Q4/2022–Q3/2023 totalled 75,138 tCO_2e.
Having 67% of Kesko's suppliers (by spend) set science-based emission reduction targets by the end of 2026.	% of suppliers	Kesko monitors progress mainly via CDP's Climate Change Questionnaire. In 2023, 32.0% of Kesko's suppliers (by spend) had set science-based emission reduction targets.

Value chain

Kesko is developing sustainability and responsibility in its value chain by, for example, supporting customers' sustainable choices and increasing supply chain audits. The sustainability and transparency of supply chains is one of the focus areas for Kesko's sustainability work.

Human rights and sustainable purchasing

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

Kesko has 12 sustainability policies to guide the sourcing of products containing raw materials identified as critical from a social and environmental responsibility perspective.

In its purchasing chains, Kesko pays special attention to human rights issues and working conditions in high-risk countries. Kesko utilises international social responsibility assessment systems for supplier audits in high-risk countries, primarily amfori BSCI auditing. Kesko is a member of amfori and participates in the amfori Business Social Compliance Initiative (amfori BSCI). Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits, or that start the process when the cooperation begins. The audits focus on e.g. the observance of working time regulations, management practices at factories, and occupational health and safety of the workers.

Kesko takes part in the International Accord for Health and Safety in the Textile and Garment Industry to promote occupational health and safety in textile factories in Bangladesh. Kesko is also a member of the Center for Child Rights and Business, an organisation that promotes children's rights in China.

Product safety

Kesko and K Group stores together with suppliers are responsible to the products' end-users for ensuring that the products comply with all the requirements of EU legislation and local legislation in Kesko's operating countries, are safe for users, and meet quality promises. All food product operations have a self-control system in place as required by law.

The Quality and Product Development unit in Kesko's grocery trade division requires the manufacturers of Kesko's own brand food products to have international certifications that assure product safety. The laboratory of the Quality and Product Development unit monitors the safety and quality of own brand products and own imports in grocery trade. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

Key targets	Indicators	Results in 2023
Ensuring the social responsibility of our own direct imports from high-risk countries by having 100% of the production facilities audited by 2024	Audited production facilities, %	97.0%

People

Responsibility for people for Kesko means, in particular, ensuring the wellbeing and safety of personnel, and fostering diversity, equity and inclusion.

Kesko's HR management is guided by its human resources policy, the K Code of Conduct, sustainability strategy, and common operating principles. Kesko's human resources policy is based on the company's mission, vision, strategy, value and responsible operating and management principles. The purpose of the human resources policy is to ensure that skilled and committed employees who are familiar with both their personal goals and Kesko's direction form a foundation for the achievement of good and sustainable financial results. Kesko respects internationally recognised human rights and complies with the ILO fundamental principles.

Personnel	1–12/2023	1–12/2022
Women	5,868	5,914
Men	8,877	8,699
Other/unknown	20	20
Average number of personnel converted into full-time employees	**14,766**	**14,633**

	31 Dec. 2023	31 Dec. 2022
Personnel at the end of the reporting period		
Women	7,360	7,477
Men	10,319	10,349
Other/unknown	23	15
Finland	12,384	12,665
Other countries	5,318	5,176
Total	**17,702**	**17,841**

Diversity in the workplace

In the sustainability strategy, key themes in the 'People' focus area include diversity, equity and inclusion (DEI). In 2023, Kesko set DEI targets for increasing the share of women in management positions, for equal pay, and for measuring employee views on the realisation of equity. In accordance with its non-discrimination plan, Kesko has established a group comprising representatives of the employer, personnel and the labour protection function, to handle matters related to non-discrimination and equality within the Group. Combatting discrimination is at the core of the group's activities. The group reviews matters related to e.g. recruitment, career development and training, remuneration, and the reconciliation of work and family life.

Employee wellbeing and success

Proactive management of employee wellbeing and working capacity has been used in an effort to ensure the working capacity and functioning of employees, to keep sickness absences under control, and to prevent work-related accidents and premature retirement due to disability. Focus on mental wellbeing has continued to be particularly central.

Personnel surveys are used to obtain personnel insight to develop operations and managerial work. The Group-wide K Voices survey was conducted in late 2023 and early 2024.

To ensure the execution of Kesko's strategy, the Group employs performance and competence management models. Performance management comprises target setting, continuous performance management, and performance evaluation. Competence management is used to ensure that employees have the necessary competencies to achieve targets and execute strategy. Competence development takes place via training, development processes, and extensive on-the-job learning. Recruitments are based on strategy and need, an approved resourcing plan, and identified change projects. In recruitments, Kesko is committed to equality, non-discrimination and selection based on factors that predict success at a position.

Key targets	Indicators	Results in 2023
Tangible actions to promote employee health, wellbeing and capabilities by the end of 2024	Wellbeing index Diversity & inclusion index	81 (scale of 0 to 100, Our people 2022 survey) 86 (scale of 0 to 100, Our people 2022 survey)

Good governance

Key elements of good governance include compliance with the K Code of Conduct, increasingly linking sustainability to management remuneration, and strengthening the sustainability competencies of the whole personnel.

Compliance

To ensure compliance in Kesko Group's operations, Kesko implements the K Compliance operating model confirmed by its Board of Directors, based on the K Code of Conduct that applies to the whole Group and all partners. Kesko's Compliance & Ethics function manages measures in accordance with the K Compliance operating model, and reports to Kesko's President and CEO and the Board's Audit Committee.

The practical implementation of the K Compliance operating model is supported by the K Compliance programmes confirmed by Kesko's President and CEO, which cover data protection, competition law, anti-corruption and anti-bribery, and trading sanctions and monitoring exports. The systematic implementation of the programmes ensures Kesko's compliance with operating principles, legislation, and other requirements. In 2023, the focus areas for Kesko's K Compliance operations included training personnel and conducting compliance audits in accordance with the annual plan. Over 1,400 people participated in targeted training, and employees completed over 12,500 online compliance training sessions.

Kesko's SpeakUp is a confidential reporting channel open to anyone. Maintaining the channel is a central part of Kesko's K Compliance operations. The channel is meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to managers or other persons in charge at Kesko. The channel may also be used to report suspected violations of securities market regulations. In 2023, a total of 78 reports were received through the channel, of which 67 required investigative actions. No misuse of the channel was detected. In December 2023, the channel was officially updated to cover the whole K Group.

The Audit Committee of the Board of Directors monitors the implementation of the K Compliance operating model as well as Group-level compliance risks. The Audit Committee also monitors the overall development of K Compliance operations.

Emphasis in compliance operations is driven by the identification of compliance risks related to Kesko's strategy and business operations. The Compliance & Ethics function and the businesses regularly review and prioritise risks, with the support of the risk management function. In the assessment of compliance risks, there is an emphasis on requirements the breach of which could have significant negative consequences, for example, human rights violations or serious legal, financial and reputational risks.

Prevention of corruption and bribery

The prevention of corruption and bribery is one of the focus areas of Kesko's compliance operations.

Kesko Group's absolute zero tolerance towards bribery and corruption is described in the K Code of Conduct, which contains instructions on anti-bribery and anti-corruption. Where necessary, these are complemented with more detailed instructions. Each employee must complete two online trainings on the K Code of Conduct, which include instructions on the prevention of corruption and bribery.

Common instructions and training ensure that everyone at Kesko has the same understanding of the anti-corruption and anti-bribery principles and practices that guide their daily work. The anti-corruption and anti-bribery instructions have been published in the languages of all Kesko operating countries, and the same instructions apply to all employees. All Kesko partners are required to commit to compliance with the K Code of Conduct partner version – and consequently to zero tolerance towards bribery.

Reports received through Kesko's SpeakUp channel in 2023 did not contain observations or suspicions of breaches of instructions on anti-corruption and anti-bribery in Kesko Group.

Key targets	Indicators	Results in 2023
Strong commitment to the K Code of Conduct from all Kesko Group personnel.	The "Ethics index", which comprises the rate of employees completing the annual confirmation of commitment to the K Code of Conduct, and two questions in the regularly conducted personnel survey concerning actions in compliance with the K Code of Conduct in everyday work and the reporting of violations	79.3% (K Voices 2021, K Code of Conduct annual confirmation in 2022)

All Kesko Group personnel members are asked annually to confirm their commitment to compliance with the K Code of Conduct.

An updated K Code of Conduct (both the personnel and the partner versions) will be published in all operating country languages in spring 2024.

Sustainability criteria for share-based commitment and incentive plans for Kesko management

As part of the sustainability strategy, Kesko's Board of Directors has set sustainability-related criteria for Kesko's share-based commitment and incentive plans (Performance Share Plans, PSP), namely the PSP 2022–2025 and the PSP 2023–2026. In addition to financial indicators, the share award plan includes targets linked to emission reductions and international sustainability indices and assessments. The sustainability targets concern years 2022 and 2023.

Financing linked to sustainability targets

Kesko has drawn down five bilateral loans, which combined total €650 million. The interest margin of these loans accounts for Kesko's sustainability targets for its carbon footprint and food waste, and in the value chain, emission reduction targets set by Kesko's direct suppliers of goods and services.

New EU Corporate Sustainability Reporting Directive (CSRD)

The Directive (EU) 2022/2464 of the European Parliament and of the Council (issued on 14 December 2022) will replace the Non-Financial Reporting Directive (NFRD). Large listed companies are required to report under the new sustainability reporting directive from the 2024 financial year onwards. The first reports will be published in 2025 as part of the Report by the Board of Directors to be published for 2024. As a large listed company, Kesko will be among the first corporations to report on sustainability based on the requirements of the new Legislation.

Companies subject to the reporting requirement must report on sustainability themes in accordance with the European Sustainability Reporting Standards (ESRS). The European Commission adopted the standards on 31 July 2023. The standards comprise a wide range of sustainability themes related to the environment, social responsibility, and governance. There are in total 12 standards, two of which are mandatory for all companies and relate to general information regarding reporting requirements and the application of the standards, as well as general disclosure on e.g. sustainability management, strategy, business model and value chain. The remaining 10 standards concern sustainability themes related to environment, social, and governance. An essential part of the new requirements is conducting a materiality assessment to determine the scope of the company's reporting based on the sustainability matters that are material to the company and its business model. In the materiality assessment, the company assesses the impact its actions have on people and the environment, as well as the risks and opportunities for the company arising from social and environmental factors.

The objective of the new legislation is to provide a uniform framework for companies to disclose information on sustainability and to provide information of higher quality and reliability for investors and other stakeholders. Going forward, sustainability information will be reported as part of the Report by the Board of Directors, which the Board approves when approving the financial statements. The assurance of the sustainability information reported will also become mandatory.

In 2023, Kesko began preparations for the implementation of the requirements posed by the new directive. Kesko will be applying the requirements of the European Sustainability Reporting Standards (ESRS) in its sustainability reporting as of 2024. A central part of the preparation process has been conducting the double materiality assessment required by the ESRS to determine the reporting requirements material for Kesko. A draft of Kesko's double materiality assessment and its impact on the content of the upcoming CSRD-compliant sustainability report have been analysed to identify further measures in preparing for the implementation of the new reporting requirements. In addition, preliminary drafts have been presented to business and Group management and the Board's Audit Committee.

EU Taxonomy

Kesko's reporting on EU Taxonomy complies with Regulation (EU) 2020/852 of the European Parliament and of the Council (18 June 2020). The EU Taxonomy is a classification system for sustainable financing, designed to help companies and investors assess whether an economic activity can be considered environmentally sustainable. The Taxonomy defines a set of criteria for a business activity that enables companies to assess to what extent the company's activities support the attainment of environmental and climate objectives.

Companies that are required to publish non-financial information under the Non-Financial Reporting Directive (NFRD) shall disclose information on how and to what extent their activities can be deemed environmentally sustainable in the manner referred to in the EU Taxonomy based on six climate and environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Activities related to the first two objectives – climate change mitigation and climate change adaptation – were reported in stages in 2021 and 2022 based on the technical screening criteria established for them. In 2021, the reporting requirement covered Taxonomy-eligible activities. In 2022, reporting expanded to cover the share of Taxonomy-eligible activities that can be classified as Taxonomy-aligned sustainable activities.

Economic activities and the technical screening criteria related to the other four environmental objectives were published in 2023. As with the first two environmental objectives, for the first year, the reporting requirement covers information on Taxonomy-eligible activities, and will expand in 2024 to cover Taxonomy-aligned activities. Key performance indicators are presented for Taxonomy-eligible activities and Taxonomy-aligned activities. These indicators are the proportion of the company's net sales (turnover), capital expenditure (CapEx), and operating expenditure (OpEx) as defined in the Taxonomy.

Currently, the Taxonomy does not specifically mention activities that are typical of the trading sector, meaning that trading sector companies report on Taxonomy-eligible activities if they engage in them. It is likely that the Taxonomy will include an expanding number of activities, and that assessment criteria will be established consequently also for the trading sector and possibly for its different product segments.

Taxonomy-eligible activities and assessing Taxonomy alignment

Kesko has identified the car leasing operations and sales of used cars in its car trade division and the owning, leasing and construction of properties for own business needs as Taxonomy-eligible activities in its operations. Of these, the used car business in the car trade division is one of the activities related to the circular economy (sale of second-hand goods), which was included in Taxonomy-eligible activities in 2023.

With each Taxonomy-eligible activity, Kesko has assessed its Taxonomy alignment. Taxonomy alignment has been determined by assessing whether an activity significantly contributes to at least one of the climate and environmental objectives. The assessment of Taxonomy alignment is made based on the technical screening criteria applied for each activity. In addition to meeting said criteria, Kesko has confirmed that the activity does not cause significant harm to the other climate and environmental objectives referred to in the Taxonomy Regulation, using the separate DNSH ('Does Not Significantly Harm') criteria, and that minimum safeguards under the Taxonomy Regulation are met.

Kesko has examined the implementation of minimum safeguards in relation to human rights, corruption and bribery, fair competition, and taxation. The aforementioned areas of minimum safeguards and related Kesko operating instructions and measures are described in more detail in this report in the sections 'Human rights and sustainable purchasing', 'Compliance' and 'Prevention of corruption and bribery'. Based on its review, Kesko assesses that minimum safeguards are in place in Kesko's operations.

The following table presents the activities identified by Kesko as Taxonomy-eligible, and Kesko's assessments of their Taxonomy alignment. Kesko does not have Taxonomy activities related to gas or nuclear power.

Taxonomy activity		Activity description	Performance indicators		Assessment of Taxonomy alignment
			Turnover	CapEx	
CCM 6.5	Transport by motorbikes, passenger cars and light commercial vehicles	Purchase, financing, renting, leasing and operation of vehicles designated as category M1, N1 or L. The activity includes leasing operations in the car trade division.	√	√	In 2022, Kesko presented some of the net sales and CapEx of the car leasing business as Taxonomy-aligned. In 2023, Kesko continued to examine the technical screening criteria for the activity. The activity includes as part of the 'does not significantly harm' criteria the requirement that vehicle tyres must comply with the best possible external rolling noise class. As information on the external rolling noise class of the vehicle tyres is not available, it is not possible to determine the Taxonomy alignment of the vehicles. The data for 2022 has been adjusted accordingly, and Kesko does not report the vehicles as Taxonomy-aligned.
CCM 7.1	Construction of new buildings	The construction of buildings for residential and non-residential use. The activity includes building projects developed by Kesko for its own use. These are mainly new store and logistics properties.		√	An energy-efficiency value (E-value) is determined during the planning stage of a new building construction project, which must be at least 10% lower than the nationally set threshold. An assessment of a building's Taxonomy alignment is made during the planning stage. The realisation of the E-value is confirmed when the building is completed.
CCM 7.2	Renovation of existing buildings	Extensive repairs to existing buildings. Extensive repairs in properties owned by Kesko and in leased properties where Kesko is responsible for basic repairs.		√	Building renovations comply with the requirements applied to major renovations. Projects have not been deemed Taxonomy-aligned, as the 'do no significant harm' criteria for Taxonomy alignment related to activity 7.2 have not been met.
CCM 7.3	Installation, maintenance and repair of energy efficiency equipment	Individual renovation measures related to energy efficiency equipment, such as adding insulation to parts of existing buildings, energy efficient replacements for external doors and windows, installing energy efficient light sources, and the installation, maintenance, repair and replacement of ventilation equipment with efficient technologies. The activity mainly includes the above-mentioned renovation measures in Kesko store sites where Kesko is the lessee.		√	Capital expenditure in energy efficiency mainly includes capital expenditure in LED lighting in properties where Kesko is a lessee. In order to meet the substantial contribution criteria for activity 7.3, a light source must be in the top two energy categories. The LED lighting used in Kesko's projects does not meet the Taxonomy alignment criteria.
CCM 7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings	The installation, maintenance and repair of charging stations for electric vehicles in buildings and parking spaces attached to buildings. The activity covers Kesko's K-Lataus stations in Finland and charging stations installed at store sites in Kesko's other operating countries.		√	The installation of charging stations for electric vehicles does not include separate substantial contribution criteria. All capital expenditure related to the activity is classified as Taxonomy-aligned.
CCM 7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	The installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings. The activity covers the above-described capital expenditure in properties where Kesko is a lessee.		√	The activity concerning the installation of instruments and devices for measuring, regulation and controlling energy performance of buildings does not include separate substantial contribution criteria when the activity consists of individual measures listed in the Taxonomy regulation. All capital expenditure related to the activity are classified as Taxonomy-aligned.

Taxonomy activity		Activity description	Performance indicators: Turnover	Performance indicators: CapEx	Assessment of Taxonomy alignment
CCM 7.7	Acquisition and ownership of buildings	Buying real estate and exercising ownership of that real estate. The activity includes properties acquired during the reporting period, and the amounts of right-of-use assets recognised in the balance sheet based on lease agreements for properties. Moreover, capital expenditure in properties owned by Kesko in line with the above-mentioned activities 7.3 and 7.5 and activity 7.6 'Installation, maintenance and repair of renewable energy technologies' have been included in activity 7.7 'Acquisition and ownership of buildings'.		√	For buildings built after 2020, the assessment of Taxonomy alignment has been made based on the climate change mitigation substantial contribution criteria of activity 7.1. 'Construction of new buildings'. A building built during or before 2020 must have at least a category A energy certificate, or the building must be in the top 15% in the region in terms of primary energy demand. The assessment method is mainly applied to leased properties.
CE 5.4	Sale of second-hand goods	The sale of second-hand goods that have been used for their intended purpose before by a customer. In Kesko, the sale of second-hand goods includes the used car business in the car trade division.	√		The sale of second-hand goods is one of the circular economy activities. Activities and related technical screening criteria were published for circular economy in 2023. In the first year, the reporting requirement covers Taxonomy-eligible activities, and Taxonomy alignment will be assessed in upcoming years.

Kesko's Taxonomy-eligible turnover comprises the car leasing business and sales of used cars to customers in the car trade division. In 2022, vehicles were identified in the car leasing business that were presented as Taxonomy-aligned based on the criteria for climate change mitigation. To meet the criteria, vehicles must have zero or low (lower than 50 g CO_2/km) emissions. To qualify as Taxonomy-aligned, the vehicles also must do no harm to the attainment of the other climate and environmental objectives. In 2022, turnover reported as Taxonomy-aligned accounted for 0.0%, or €4.3 million, of total Group net sales. Vehicles reported as Taxonomy-aligned accounted for 1.1%, or €8.3 million, of the total Group CapEx. In 2023, Kesko continued to examine the DNSH criteria for the car leasing business in particular. The criteria for pollution prevention and control includes the requirement that vehicle tyres must comply with the best possible external rolling noise class. The technical documentation for the vehicles available to Kesko does not contain information on the external rolling noise class of the vehicle tyres, and therefore all Taxonomy criteria for taxonomy-alignment cannot be determined. In its 2023 reporting, Kesko has adjusted comparison data for 2022, and does not present a portion of the turnover and CapEx for the car leasing business as Taxonomy-aligned.

Kesko owns and leases properties in all operating countries for business purposes. The Group uses some 1,500 owned or leased retail, logistics and office properties. Capital expenditure in real estate accounted for 59.5% (63.9%) of the Group's gross capital expenditure in 2023. Properties are a source of emissions (Scope 1) from the Group's own operations, and improving the energy efficiency of properties and transitioning to the use of emissions-free and renewable energy reduce the climate impact from own operations. The Taxonomy technical screening criteria related to owning, constructing and renovating buildings have been taken into account in Kesko's internal instructions used when planning and executing investment projects.

Real estate operations are not a primary business for Kesko, and therefore there are alternative ways to apply Taxonomy activities and technical screening criteria. In 2022, Kesko presented also construction projects for new buildings as part of the Taxonomy activity 7.7 Acquisition and ownership of buildings. In the 2023 reporting, Kesko makes a change and presents new construction projects in which Kesko acts as a developer and makes decisions regarding construction details, under the Taxonomy activity 7.1 Construction of new buildings. With this change, Kesko follows the construction sector practice for reporting new construction projects. In addition, classification has been specified with regard to other real estate operations compared to 2022, and comparison data for 2022 have been adjusted accordingly.

The Group's Taxonomy-eligible capital expenditure includes investments in new store sites and logistics properties, investments in building improvement measures, and investments in lighting, machinery and equipment to improve the energy efficiency of buildings, and automation for measuring and monitoring energy efficiency. In addition, Taxonomy-eligible CapEx includes charging equipment for electric vehicles and investments in vehicles for the leasing operations of the car trade division. Land areas are not classified as Taxonomy-eligible CapEx.

EU Taxonomy performance indicators

Kesko presents the performance indicators for turnover, capital expenditure (CapEx) and operating expenditure (OpEx) in accordance with the tables determined for non-financial undertakings in the Taxonomy Regulation. The tables for the performance indicators show the proportion of turnover, capital expenditure and operating expenditure derived from economic activities in line with the Taxonomy.

Performance indicator accounting policy

Turnover

When calculating the performance indicator for turnover, Kesko applies the same IFRS accounting principles as it does in the consolidated financial statements. The accounting principles for revenue recognition are presented in Note 2.1 of the consolidated financial statements. The net sales figure used in calculating the turnover performance indicator is the Kesko Group net sales presented in the income statement. The Taxonomy-eligible turnover is the share of total Group net sales that comes from Taxonomy-eligible activities. In Kesko's business operations, car leasing operations and used car sales in the car trade division have been identified as Taxonomy-eligible activities that generate net sales. Kesko's primary operations which generate net sales are the sales of products and services to customers and retailers. Product sales are currently not a Taxonomy-eligible activity, with the exception of used car sales.

Capital expenditure (CapEx)

Capital expenditure (CapEx) as defined in the Taxonomy Regulation includes additions to tangible and intangible assets during the financial year, before depreciation, amortisation and any re-measurements. Capital expenditure also includes additions to tangible and intangible assets resulting from business combinations. In accordance with the Taxonomy Regulation, Kesko includes in its CapEx calculation investments in tangible and intangible assets and the aggregate sum of additions to the right-of-use assets recognised in the balance sheet based on lease agreements. Goodwill recorded in acquisitions is not included in the Taxonomy CapEx definition. Additions to property, plant and equipment are presented in Note 3.2, additions to intangible assets in Note 3.3, and additions to right-of-use assets related to leases in Note 3.4 of the consolidated financial statements.

The Taxonomy definition of CapEx differs from the definition of the 'capital expenditure' performance indicator reported by Kesko. In Kesko's definition, the performance indicator includes investments in tangible and intangible assets and subsidiary shares. The indicator does not include additions to right-of-use assets related to leases recognised in the balance sheet. Group capital expenditure in 2023 totalled €678.9 million (€449.2 million). The following table details the capital expenditure items used to calculate the Taxonomy CapEx indicator.

Capital expenditure under EU Taxonomy (CapEx), € million	**2023**	**2022**
Property, plant and equipment - Additions (Note 3.2)	511.2	370.0
Property, plant and equipment - Acquisitions (Note 3.2)	3.7	1.6
Intangible assets - Additions (Note 3.3)	21.9	28.6
Intangible assets - Acquisitions excluding goodwill (Note 3.3)	16.4	3.9
Right-of-use assets - Additions (Note 3.4)	437.3	354.6
Right-of-use assets - Acquisitions (Note 3.4)	15.7	15.6
EU Taxonomy CapEx, total	**1,006.1**	**774.4**

Operating expenditure (OpEx)

Operating expenditure (OpEx) as defined in the Taxonomy Regulation includes direct non-capitalised costs that relate to research and development, building renovation measures, maintenance and repair, and any other direct expenditure relating to the servicing of assets of property, plant and equipment by the undertaking or a third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities 2023

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	Turnover	Proportion of turnover, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) turnover, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%		
Of which Enabling		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%	E	
Of which Transitional		0.0	0.0%	0.0%												Y	0.0%		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	24.9	0.2%	EL	EL	N/EL	N/EL	N/EL	N/EL								0.2%		
Sale of second-hand goods	CE 5.4	287.4	2.4%	N/EL	N/EL	N/EL	N/EL	EL	N/EL										
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		312.3	2.6%	0.2%	0.0%	0.0%	0.0%	2.4%	0.0%								0.2%		
A. Turnover of Taxonomy eligible activities (A.1+A.2)		312.3	2.6%	0.2%	0.0%	0.0%	0.0%	2.4%	0.0%								0.2%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities		11,471.5	97.4%																
Total		11,783.8	100%																

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities 2023

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	CapEx	Proportion of CapEx, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) CapEx, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
Construction of new buildings	CCM 7.1 CCA 7.1 CE 3.1	86.2	8.6%	Y	N	N/EL	N/EL	N	N/EL		Y	Y	Y	Y	Y	Y	1.9%		
Installation, maintenance and repair of charging stations for electric vehicles in buildings	CCM 7.4 CCA 7.4	5.2	0.5%	Y	N	N/EL	N/EL	N/EL	N/EL		Y					Y	0.8%	E	
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	CCM 7.5 CCA 7.5	0.9	0.1%	Y	N	N/EL	N/EL	N/EL	N/EL		Y					Y	0.1%	E	
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	18.8	1.9%	Y	N	N/EL	N/EL	N/EL	N/EL		Y					Y	12.7%		
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		111.1	11.0%	11.0%	0.0%	0.0%	0.0%	0.0%	0.0%		Y	Y	Y	Y	Y	Y	15.6%		
Of which Enabling		6.0	0.6%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%								1.0%	E	
Of which Transitional		0.0	0.0%	0.0%													0.0%		T

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	CapEx	Proportion of CapEx, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) CapEx, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	45.8	4.5%	EL	EL	N/EL	N/EL	N/EL	N/EL								3.8%		
Construction of new buildings	CCM 7.1 CCA 7.1 CE 3.1	46.5	4.6%	EL	EL	N/EL	N/EL	EL	N/EL								5.9%		
Renovation of existing buildings	CCM 7.2 CCA 7.2 CE 3.2	103.1	10.2%	EL	EL	N/EL	N/EL	EL	N/EL								10.3%		
Installation, maintenance and repair of energy efficiency equipment	CCM 7.3 CCA 7.3	6.0	0.6%	EL	EL	N/EL	N/EL	N/EL	N/EL								0.6%		
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	484.9	48.2%	EL	EL	N/EL	N/EL	N/EL	N/EL								37.9%		
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		686.2	68.2%	68.2%	0.0%	0.0%	0.0%	0.0%	0.0%								58.5%		
A. CapEx of Taxonomy eligible activities (A.1+A.2)		797.3	79.2%	79.2%	0.0%	0.0%	0.0%	0.0%	0.0%								74.1%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of Taxonomy-non-eligible activities		208.9	20.8%																
Total		1,006.1	100%																

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities 2023

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	OpEx	Proportion of OpEx, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) OpEx, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%		
Of which Enabling		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%	E	
Of which Transitional		0.0	0.0%	0.0%												Y	0.0%		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	1.8	3.2%	EL	EL	N/EL	N/EL	N/EL	N/EL								2.6%		
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	54.0	96.8%	EL	EL	N/EL	N/EL	N/EL	N/EL								97.4%		
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		55.8	100%	100%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								100%		
A. OpEx of Taxonomy eligible activities (A.1+A.2)		55.8	100%	100%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								100%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of Taxonomy-non-eligible activities		0.0	0.0%																
Total		55.8	100%																

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

In Kesko Group's income statement, operating expenditure as defined in the Taxonomy Regulation is included under 'Other operating expenses', which are presented in Note 2.5 of the consolidated financial statements. Operating expenditure under the Taxonomy Regulation in Kesko Group is in particular related to expenses for the use, maintenance and repair of properties – which in the financial statements are included in 'Property and store site maintenance expenses' – the total sum of which was €185.1 million (€181.5 million) in 2023. In addition to property maintenance and repair costs, the figure includes expenses related to e.g. heating, electricity and water consumption, and waste management, which are not included in the Taxonomy definition of operating expenditure. In addition, Taxonomy-eligible expenses include expenses for servicing of the leasing car fleet. In Kesko's business model, operating expenditure is not material in the transition to more sustainable activities, but instead, building renovation measures, such as those related to improving energy efficiency, are capital expenditure by nature.

Key events during the financial year

Kesko announced on 30 January 2023 that it would acquire the Norwegian technical trade company Elektroskandia Norge AS from Rexel Group. The acquisition strengthens Onninen's position in technical trade in Norway. Elektroskandia Norge AS had net sales of some €250 million in 2022 and it employs some 270 people. The company has 13 stores and sales offices and a highly automated distribution centre. The transaction was completed on 1 March 2023. (Investor news releases 30.1.2023 and 2.3.2023)

Kesko published its 2022 Annual Report, including a strategy review, the Report by the Board of Directors and financial statements for 2022, the Corporate Governance Statement, the Remuneration Report for Governing Bodies, and a sustainability report, on 6 March 2023 on its website at **www.kesko.fi**. (Stock exchange release 6.3.2023)

Kesko announced it would be combining its customer loyalty scheme and share ownership in a new way with Shareholder's K-Plussa, which offers Finnish loyalty customers with shareholdings in Kesko an alternative way to access K Group's 'Best Customer' benefits. Shareholder's K-Plussa is available to Plussa loyalty customers in Finland with registered annual personal purchases from K Group stores of at least €3,000 for the past year and holdings of at least 100 shares in Kesko. (Investor news release 30.3.2023)

Kesko Corporation's Annual General Meeting was held on 30 March 2023 at Messukeskus in Helsinki. The Annual General Meeting adopted the 2022 financial statements and resolved to distribute a dividend of €1.08 per share. The Annual General Meeting discharged the Board members and the Managing Director from liability, approved the Remuneration Report for Governing Bodies, made resolutions concerning the Board members' remuneration, elected the firm of authorised public accountants Deloitte Oy as the company's Auditor, resolved to change the term of office of Board members from three years to one year, and authorised the Board to decide on the repurchase of the company's own shares, on the issuance of shares, and on donations for charitable purposes. Read more in the section: Resolutions of the 2023 Annual General Meeting. (Stock exchange releases 2.2.2023 and 30.3.2023)

Sami Kiiski, M. Sc. (Economics and Business), 47, was appointed as the new President of Kesko's car trade division and a member of Group Management Board, as the previous division President Matti Virtanen retired. Sami Kiiski had acted as Senior Vice President in charge of Kesko's leisure trade since 2020. He is also a member of the Board of Management of Intersport International Corporation. The changes came to effect on 1 June 2023. Kesko also changed its Group structure, and sports trade became part of the car trade division. Prior to this, sports trade had been part of the building and technical trade division. The segment structure in Kesko's financial reporting has depicted the changes in Group structure as of 1 April 2023. Kesko published comparison figures for the new segment structure for 2022 and for the first quarter of 2023 on 25 May 2023. (Stock exchange releases 31.3.2023 and 25.5.2023)

Kesko agreed to acquire Davidsen Koncernen A/S, a leading builders' merchant in Denmark, thus expanding Kesko's operations to Denmark and strengthening its market position in Northern Europe. The Davidsen family will maintain a 10% minority holding in the company. The completion of the acquisition is subject to EU Commission's merger approval and the fulfilment of certain other conditions. The transaction is expected to be completed in the first quarter of 2024 at the latest. (Investor news release 23.8.2023)

Kesko announced that it will concentrate its building and home improvement trade operations in Sweden under the K-Bygg chain, and that it will increasingly focus on serving building professionals alongside consumers. K-Rauta stores in Sweden will either be converted into K-Bygg stores or closed. Kesko's building and home improvement trade operations in Sweden will be concentrated under one brand by the end of 2024. (Investor news release 29.8.2023)

Kesko's Board of Directors appointed Jorma Rauhala as the managing director of Kesko Corporation and President and CEO of Kesko Group as of 1 February 2024, after Mikko Helander announced his intentions to retire in 2024. Rauhala currently acts as President of Kesko's building and technical trade division and Deputy CEO. (Stock exchange releases on 8.12.2023 and 19.12.2023)

Events after the financial year

Kesko announced in August 2023 it would expand its operations to Denmark by acquiring 90% of Davidsen Koncernen A/S. In January 2024, the EU Commission approved the acquisition, and it is expected to be completed by the end of January 2024.

Kesko is set to withdraw from operating the Neste K service stations. Kesko is currently responsible for the grocery trade operations and additional services at Neste K stations. Kesko plans to withdraw from operating 64 Neste K service stations by the end of 2024. The stations will continue as a service offered by Neste. Kesko's motive is that role of grocery trade at service stations has diminished. (Investor news release 23.1.2024)

Resolutions of the 2023 Annual General Meeting

The Annual General Meeting of Kesko Corporation held on 30 March 2023 adopted the company's financial statements for 2022. The Annual General Meeting resolved to distribute a dividend of €1.08 per share on shares held outside the company, paid in four instalments of €0.27 per share. The record date of the first dividend instalment was 3 April 2023 and the pay date 12 April 2023. The record date of the second dividend instalment was 21 June 2023 and the pay date 28 June 2023. The record date of the third dividend instalment was 12 September 2023 and the pay date 19 September 2023. The record date of the fourth dividend instalment was 12 December 2023 and the pay date 19 December 2023. The Board was authorised to decide, if necessary, on new dividend payment record dates and pay dates for the second, third and/or fourth instalments, if the rules and statutes of the Finnish book-entry system changed or otherwise so required. The remaining distributable assets remain in equity.

The resolutions of the Annual General Meeting were communicated in more detail in a stock exchange release on 30 March 2023.

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in Note 2.5.

Financial risks are presented in Note 4.3 and information on financial instruments measured at fair value is disclosed in Note 4.5.

Related party transactions are disclosed in Note 5.2.

Information on disputes and legal and authority proceedings is disclosed in Note 5.4.

Risk management

Risk management at Kesko is proactive and an integral part of day-to-day management to assess and manage business-related opportunities and risks.

Kesko's divisions and common operations are responsible for identifying, assessing, handling and managing risks related to their operations, and they report on risks, risk management responses and the results of those responses to the Group risk management function. Members of the Group Management Board are responsible for the effective and efficient implementation of internal control and risk management in their respective areas of responsibility.

A risk management function independent of businesses is responsible for providing a framework and guidance for internal control and risk management and supports, coordinates and supervises risk management implementation in Kesko Group. The Chief Audit and Risk Officer reports functionally to the Chair of the Audit Committee and administratively to Kesko's President and CEO on matters related to internal audit, and to the Group's Chief Financial Officer on matters related to risk management. The Risk Management Steering Group headed by the Chief Financial Officer is responsible for establishing the Group's overview of the risk situation. The President and CEO is responsible for the effectiveness and efficiency of the Group's risk management, and approves Group risk reports before they are reviewed by the Board of Directors. Kesko's Board of Directors monitors and assesses the effectiveness of risk management and supervises the assessment of risks related to the company's strategy and operations and their management, aided by the Audit Committee.

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

Significant risks and uncertainties

Weakened demand due to inflation, rising interest rates and economic downturn

Inflation, rising interest rates, weakened employment, and economic uncertainty have an impact on consumer purchasing power and companies' willingness to invest. In grocery trade, product price has an emphasised impact on consumer purchase decisions, while customers in car trade may postpone their purchases. In building and technical trade, construction and renovation projects may be postponed, which would impact sales and inventory management.

Geopolitical risks

Growing tensions in security policy as a result of the war in Ukraine and other military conflicts, as well as the potential expansion of the conflicts and tightened military and economic competition between superpowers could have a significant impact on Kesko's operating environment, supply chain continuity, and product availability.

Cybercrime

Growing, professional cybercrime has resulted in higher risk on business continuity and loss of critical information. Targets of cyber-attacks may include, for example, data systems critical for business continuity or personal data. Cyber-attacks may result in business disruptions, loss of customer trust, or fines imposed by authorities.

Compliance with laws and agreements

Changes in legislation and authority regulations could necessitate significant changes and result in additional costs. Compliance with laws and agreements is an important part of Kesko's corporate responsibility. Non-compliance can result in fines, claims for damages and other financial losses, as well as loss of trust and reputation.

Climate change

Delays in actions aimed at mitigating climate change and an increase in extreme weather phenomena can impact product availability and cause disturbances in logistics and the store site network. The impacts of Kesko's operations on the climate, in turn, are related to Kesko's energy solutions and emissions, and the lifecycle impact of products and services sold in the whole supply chain.

Product safety

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

Store sites and properties

Good store sites are a key competitive factor for business growth and profitability. The acquisition of store sites can be delayed by town planning and permit procedures and the availability and pricing of sites. Considerable amounts of capital or lease liabilities are tied up in properties for years. As a result of urbanisation, changes in the market situation, growing significance of e-commerce, or a chain concept proving inefficient, there is a risk that a store site or a property becomes unprofitable, and operations are discontinued while long-term liabilities remain.

Responsible operating practices and reputation management

Various aspects of corporate responsibility, such as ensuring responsibility in the purchasing chain of products, fair and equal treatment of employees, the prevention of corruption, and environmental protection, are increasingly important to customers. Any failures in corporate responsibility and sustainability could result in negative publicity for Kesko and cause operational and financial damage.

Reporting to the market

In its investor communication and financial reporting, Kesko follows the disclosure policy approved by Kesko's Board of Directors. Kesko's objective is to produce and publish reliable and timely information. Disclosure follows the principle of providing all market participants information in a timely manner and non-selectively to form the basis for the price formation of Kesko's financial instruments such as shares. Should the information published by Kesko prove incorrect, or should communications fail to meet regulations in other respects, it could result in losing investor and other stakeholder trust and in possible sanctions. Significant business arrangements, tight disclosure schedules and the dependency on information systems create challenges for the accuracy of financial information.

Risks of damage

Accidents, natural phenomena and epidemics can cause significant damage to people, property or business. In addition, risks of damage may cause business disruptions that cannot be prevented.

Proposal for profit distribution

The Board of Directors of Kesko Corporation proposes to the Annual General Meeting to be held on 26 March 2024 that a dividend of €1.02 per share be paid for the year 2023 based on the adopted balance sheet on shares held outside the company at the date of dividend distribution. The remaining distributable assets will remain in equity. The Board proposes that the dividend be paid in four instalments.

The first instalment of €0.26 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 28 March 2024. The Board proposes that the dividend instalment pay date be 9 April 2024.

The second instalment of €0.25 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 16 July 2024. The Board proposes that the dividend instalment pay date be 23 July 2024.

The third instalment of €0.26 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 15 October 2024. The Board proposes that the dividend instalment pay date be 22 October 2024.

The fourth instalment of €0.25 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 14 January 2025. The Board proposes that the dividend instalment pay date be 21 January 2025.

The Board proposes it be authorised to decide, if necessary, on new dividend payment record dates and pay dates for the second, third and/or fourth instalments, if the rules and statutes of the Finnish book-entry system change or otherwise so require.

As at the date of the proposal for the distribution of profit, 29 January 2024, a total of 397,769,511 shares were held outside the company, and the corresponding total amount of dividends is €405,724,901.22.

The distributable assets of Kesko Corporation total €1,584,703,413.17, of which profit for the financial year is €509,617,838.22.

Annual General Meeting

The Board of Directors decided that Kesko's Annual General Meeting will be held on 26 March 2024 at 1.00 pm (EET).

Shares and securities markets

At the end of December 2023, the total number of shares in Kesko Corporation was 400,079,008, of which 126,948,028 or 31.7%, were A shares, and 273,130,980 or 68.3%, were B shares. On 31 December 2023, Kesko Corporation held 2,309,497 of its own B shares as treasury shares.

These treasury shares accounted for 0.85% of the total number of B shares, 0.58% of the total number of shares, and 0.15% of the votes attached to all shares in the company. The total number of votes attached to all shares was 1,542,611,260. Each A share carries ten (10) votes and each B share one (1) vote. The company cannot vote with own shares held by it as treasury shares and no dividend is paid on such shares. At the end of 2023, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €20.35 at the end of 2022, and €18.02 at the end of 2023, representing a decrease of 11.4%. Meanwhile, the price of a Kesko B share was €20.62 at the end of 2022, and €17.93 at the end of 2023, representing a decrease of 13.0%. In 2023, the highest price for an A share was €21.95 and the lowest €15.26., while the highest price for a B share was €22.20 and the lowest €15.02. The Nasdaq Helsinki All-Share index (OMX Helsinki) was down by 6.6% and the weighted OMX Helsinki Cap index by 5.0% in 2023. The Retail Sector Index was up by 43.4%.

The market capitalisation of Kesko's A shares was €2,288 million at the end of 2023, while the market capitalisation of Kesko's B shares was €4,856 million, excluding the shares held by the parent company as treasury shares. The combined market capitalisation of the A and B shares was €7,143 million, down by €1,018 million from the end of 2022.

In 2023, a total of 5.6 million A shares were traded on Nasdaq Helsinki. The exchange value of the A shares was €102.9 million. Meanwhile, 142.9 million B shares were traded, for an exchange value of €2,642.3 million. Nasdaq Helsinki accounted for over 95% of the trading on Kesko's A and B shares. Kesko shares were also traded on multilateral trading facilities, the most significant of which was Turquoise (source: Euroland).

At the end of December 2023, the number of registered shareholders was 105,550, the highest figure in the company's history. At the end of the year, foreign ownership of all shares was 33.9%, and foreign ownership of B shares 48.8%. Foreign ownership decreased by 4.6 percentage points during the year.

Share performance and turnover

		2021	2022	2023
Share price as at 31 Dec.				
A share	€	27.15	20.35	18.02
B share	€	29.34	20.62	17.93
Average share price				
A share	€	26.73	21.89	18.47
B share	€	27.73	23.11	18.49
Market capitalisation as at 31 Dec., A share	€ million	3,446.6	2,583.4	2,287.6
Market capitalisation as at 31 Dec., B share	€ million	7,926.6	5,577.9	4,855.8
Turnover				
A share	Million pcs	8*	7*	6*
B share	Million pcs	165*	144*	143*
Relative turnover rate				
A share	%	6.8	5.8	4.4
B share	%	58.6	52.2	52.3
Diluted average number of shares	Thousand pcs	397,033	397,383	397,706

* Calculated with post-split number of shares

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2023

All shares	Number of shares, pcs	Percentage of all shares, %
Nominee-registered and non-Finnish holders	135,649,101	33.91
Households	102,021,401	25.50
Non-financial corporations and housing corporations	95,122,697	23.78
General government*	32,203,941	8.05
Non-profit institutions serving households**	21,446,218	5.36
Financial and insurance corporations	13,635,650	3.41
Total	**400,079,008**	**100.00**

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	74,746,304	58.88	18.68
Households	24,027,471	18.93	6.01
General government*	14,582,761	11.49	3.64
Non-profit institutions serving households**	10,903,798	8.59	2.73
Nominee-registered and non-Finnish holders	2,244,036	1.77	0.56
Financial and insurance corporations	443,658	0.35	0.11
Total	**126,948,028**	**100.00**	**31.73**

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Nominee-registered and non-Finnish holders	133,405,065	48.84	33.34
Households	77,993,930	28.56	19.49
Non-financial corporations and housing corporations	20,376,393	7.46	5.09
General government*	17,621,180	6.45	4.40
Financial and insurance corporations	13,191,992	4.83	3.30
Non-profit institutions serving households**	10,542,420	3.86	2.64
Total	**273,130,980**	**100.00**	**68.27**

* General government, for example, municipalities, the provincial administration of Åland, authorised pension providers and social security funds
** Non-profit institutions, for example, foundations awarding scholarships, organisations safeguarding certain interests and various charitable associations

Analysis of shareholding by number of shares held as at 31 Dec. 2023

All shares Number of shares	Number of shareholders, pcs	Percentage of shareholders, %	Share total, pcs	Percentage of shares, %
1–100	46,076	43.65	1,838,579	0.46
101–500	30,202	28.61	7,803,480	1.95
501–1,000	10,128	9.60	7,610,210	1.90
1,001–5,000	13,853	13.12	31,906,513	7.98
5,001–10,000	2,613	2.48	18,505,252	4.63
10,001–50,000	2,225	2.11	45,246,761	11.31
50,001–100,000	229	0.22	16,100,182	4.02
100,001–500,000	184	0.17	37,429,831	9.36
500,001–	40	0.04	233,638,200	58.40
Total	**105,550**	**100.00**	**400,079,008**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A shareholders, %	A share total, pcs	Percentage of A shares, %
1–100	15,659	55.57	552,749	0.44
101–500	6,389	22.67	1,582,170	1.25
501–1,000	1,649	5.85	1,230,172	0.97
1,001–5,000	2,597	9.22	6,791,973	5.35
5,001–10,000	771	2.74	5,550,835	4.37
10,001–50,000	873	3.10	18,051,913	14.22
50,001–100,000	127	0.45	9,112,355	7.18
100,001–500,000	102	0.36	19,782,502	15.58
500,001–	12	0.04	64,293,359	50.65
Total	**28,179**	**100.00**	**126,948,028**	**100.00**

B shares Number of shares	Number of shareholders, pcs	Percentage of B shareholders, %	B share total, pcs	Percentage of B shares, %
1–100	33,675	40.29	1,403,256	0.51
101–500	25,354	30.34	6,652,851	2.44
501–1,000	9,031	10.81	6,805,904	2.49
1,001–5,000	11,931	14.27	26,835,212	9.83
5,001–10,000	1,988	2.38	14,060,646	5.15
10,001–50,000	1,383	1.65	26,938,643	9.86
50,001–100,000	105	0.13	7,218,621	2.64
100,001–500,000	88	0.11	18,166,965	6.65
500,001–	25	0.03	165,048,882	60.43
Total	**83,580**	**100.00**	**273,130,980**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2023

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	21,070,422	5.27	210,704,220	13.66
2.	Ilmarinen Mutual Pension Insurance Company	14,606,643	3.65	142,163,499	9.22
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Elo Mutual Pension Insurance	6,101,725	1.53	9,753,250	0.63
5.	Varma Mutual Pension Insurance Company	5,978,944	1.49	5,978,944	0.39
6.	Foundation for Vocational Training in the Retail Trade	5,477,573	1.37	54,775,730	3.55
7.	The State Pension Fund	3,400,000	0.85	3,400,000	0.22
8.	K-Food Retailers' Club	2,486,307	0.62	24,863,070	1.61
9.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
10.	Oy The English Tearoom Ab	2,000,000	0.50	2,000,000	0.13

Table above includes registered shareholders. The table does not contain shares held by Kesko Corporation, amounting to 2,309,497 on 31 December 2023.

10 largest shareholders by number of votes as at 31 Dec. 2023

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	21,070,422	5.27	210,704,220	13.66
2.	Ilmarinen Mutual Pension Insurance Company	14,606,643	3.65	142,163,499	9.22
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Foundation for Vocational Training in the Retail Trade	5,477,573	1.37	54,775,730	3.55
5.	K-Food Retailers' Club	2,486,307	0.62	24,863,070	1.61
6.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
7.	Food Paradise Oy	1,564,164	0.39	15,641,640	1.01
8.	Elo Mutual Pension Insurance	6,101,725	1.53	9,753,250	0.63
9.	Pokela Oy Iso Omena	792,600	0.20	7,926,000	0.51
10.	T.A.T. Invest Oy	792,080	0.20	7,726,400	0.50

Management's shareholdings

At the end of December 2023, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 1,396,510 Kesko Corporation A shares and 577,898 Kesko Corporation B shares, i.e. a total of 1,970,619 shares, which represents 0.49% of the total number of shares and 0.94% of votes carried by all shares of the Company.

At 31 December 2023, the President and CEO held 5,000 Kesko Corporation A shares and 431,385 B shares, which represented 0.11% of the total number of shares and 0.03% of votes carried by all shares of the Company. At 31 December 2023, the Group Management Board including the President and CEO held 7,824 Kesko Corporation A shares and 1,129,797 Kesko Corporation B shares, which represented 0.28% of the total number of shares and 0.08% of votes carried by all shares of the Company.

Board authorisations

Kesko has a share-based commitment and incentive scheme. To implement the scheme, Kesko's Board of Directors may decide, within share issue authorisations granted by the company's General Meeting, to transfer Kesko B shares held by the company as treasury shares. In 2023, Kesko Corporation transferred 304,864 Kesko B shares held as treasury shares to members of management and other key persons in the company. Kesko issued related stock exchange releases on 15 March 2023 and 2 May 2023. Kesko issued a stock exchange release on 2 February 2023 regarding the most recent share-based commitment and incentive plans. Kesko Corporation also transferred a total of 6,000 of its own B shares held by the company as treasury shares to the members of Kesko's Board of Directors as part of the Board members' annual remuneration, and issued a related stock exchange release on 2 May 2023.

Kesko's Annual General Meeting of 30 March 2023 authorised the Board to decide on the issuance of a maximum of 33,000,000 new B series shares or B shares held by the company as treasury shares, and on the repurchase of a maximum of 16,000,000 of the company's own B shares. The authorisations are valid until 30 June 2024. The authorisations were communicated in a stock exchange release on 30 March 2023.

Group's key performance indicators

		2021	2022	2023
Income statement				
Net sales	€ million	11,300.2	11,809.0	11,783.8
Change in net sales	%	5.9	4.5	-0.2
Change in net sales, comparable	%	8.2	4.4	-0.8
Operating profit, comparable	€ million	775.5	815.1	712.0
Operating margin, comparable	%	6.9	6.9	6.0
Operating profit	€ million	775.2	816.5	695.4
Operating margin	%	6.9	6.9	5.9
Profit for the year	€ million	571.8	609.9	495.6
Profit for the year as percentage of net sales	%	5.1	5.2	4.2
Profitability				
Return on equity, group	%	24.2	23.1	18.0
Return on equity, comparable, group	%	24.1	23.2	18.5
Return on capital employed	%	17.2	17.0	13.1
Return on capital employed, comparable	%	17.2	16.9	13.4
Funding and financial position				
Interest-bearing net debt, group	€ million	1,907.3	2,104.2	2,559.8
Interest-bearing net debt excluding lease liabilities	€ million	-21.3	184.1	561.9
Gearing, group	%	75.4	76.7	92.8
Equity ratio, group	%	36.6	36.9	35.8
Interest-bearing net debt/EBITDA excluding the impact of IFRS 16, group		0.0	0.2	0.7

		2021	2022	2023
Other performance indicators				
Capital expenditure	€ million	276.6	449.2	678.9
Capital expenditure as percentage of net sales	%	2.4	3.8	5.8
Cash flow from operating activities	€ million	1,152.0	915.2	1,049.5
Cash flow from investing activities	€ million	-292.3	-344.3	-590.2
Average number of personnel converted into full-time employees		14,232	14,633	14,766
Personnel at 31 Dec.		17,402	17,841	17,702

		2021	2022	2023
Share performance indicators				
Earnings/share, basic and diluted	€	1.44	1.53	1.25
Earnings/share, comparable, basic		1.43	1.54	1.28
Equity/share	€	6.37	6.90	6.93
Dividend/share*	€	1.06	1.08	1.02
Payout ratio	%	74.3	70.4	81.9
Payout ratio, comparable	%	74.7	70.1	79.7
Cash flow from operating activities/share	€	2.90	2.30	2.64
Price/earnings ratio (P/E), A share		19.04	13.26	14.46
Price/earnings ratio (P/E), B share		20.57	13.44	14.39
Effective dividend yield, A share	%	3.9	5.3	5.7
Effective dividend yield, B share	%	3.6	5.2	5.7

* Proposal to the General Meeting

Calculation of performance indicators

Kesko uses alternative performance measures to reflect business performance and profitability. These indicators should be examined together with the IFRS-compliant performance indicators.

Change in comparable net sales is used to reflect changes in the Group's business volume between periods. The indicator reflects the change in net sales excluding the impact of acquisitions and divestments, in local currencies. The comparable net sales have been calculated by including in the net sales the business operations that have been part of Kesko Group in both the financial year as well as the comparison year. Other structural arrangements related to acquisitions and divestments have been adjusted in the same manner as acquisitions.

Performance indicators reflecting comparable profit and profitability are used to improve the comparability of operational performance between periods. Gains and losses on disposal of real estate, shares and business operations, impairment charges and significant restructuring costs are identified as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement.

Alternative performance measures that have been adjusted for the impact of IFRS 16 are used to monitor the achievement of certain financial targets. The EBITDA excluding the impact of IFRS 16 corresponds to EBITDA before the adoption of IFRS 16, and the interest-bearing net debt excluding lease liabilities correspond to interestbearing net debt before the adoption of the standard. These restated indicators are included as components in the Group's financial target "interest-bearing net debt excluding lease liabilities divided by EBITDA excluding the impact of IFRS 16".

In addition, the financial performance indicators required by the Decree of the Ministry of Finance on obligation of securities issuers to disclose periodic information have been presented as alternative performance measures. The management uses these indicators to monitor and analyse business performance, profitability and financial position.

Profitability

Operating profit, comparable	Operating profit +/– items affecting comparability
Items affecting comparability	– gains on disposal + losses on disposal + impairment charges +/– structural arrangements
Return on equity, %	(Profit/loss before tax − Income tax) x 100 ―――――――― Shareholders' equity, average of the beginning and end of the financial year
Return on equity, comparable, %	(Profit/loss adjusted for items affecting comparability before tax − Income tax adjusted for the tax effect of the items affecting comparability) x 100 ―――――――― Shareholders' equity, average of the beginning and end of the financial year
Return on capital employed, %	Operating profit x 100 ―――――――― (Non–current assets + Inventories + Receivables + Other current assets – Non–interest–bearing liabilities) on average for 12 months
Return on capital employed, comparable, %	Comparable operating profit x 100 ―――――――― (Non–current assets + Inventories + Receivables + Other current assets – Non–interest–bearing liabilities) on average for 12 months
EBITDA	Operating profit + Depreciation and amortisation + Impairment charges
EBITDA excluding the impact of IFRS 16	EBITDA – rents from lease agreements

Funding, capital expenditure and financial position

Equity ratio, %	$\frac{\text{Shareholders' equity x 100}}{\text{(Balance sheet total – Advances received)}}$
Gearing, %	$\frac{\text{Interest-bearing net debt x 100}}{\text{Shareholders' equity}}$
Interest-bearing net debt	Interest-bearing liabilities + Lease liabilities – Other current financial assets – Cash and cash equivalents
Interest-bearing net debt excluding lease liabilities	Interest-bearing net debt – Lease Liabilities
Capital expenditure	Performance indicator includes investments in tangible and intangible assets, subsidiary shares, shares in associates and joint ventures and other shares. Additions of right-of-use assets for leases in the consolidated statement of financial position are not capital expenditure. Redemption of a leased property (right-of-use asset) is reported as capital expenditure.
Interest-bearing net debt excluding lease liabilities / EBITDA excluding the impact of IFRS 16	Interest-bearing net debt excluding lease liabilities / EBITDA excluding the impact of IFRS 16

Share performance indicators

Earnings/share, diluted	$\frac{\text{Net profit/loss – Share of non-controlling interests of net profit/loss}}{\text{Average number of shares adjusted for the dilutive effect}}$
Earnings/share, basic	$\frac{\text{Net profit/loss – Share of non-controlling interests of net profit/loss}}{\text{Average number of shares}}$
Earnings/share, basic, comparable	$\frac{\text{Net profit/loss adjusted for items affecting comparability – Share of non-controlling interests of net profit/loss adjusted for items affecting comparability}}{\text{Average number of shares}}$
Equity/share	$\frac{\text{Equity attributable to equity holders of the parent}}{\text{Basic number of shares at the balance sheet date}}$
Payout ratio, %	$\frac{\text{(Dividend/share) x 100}}{\text{(Earnings/share)}}$
Price/earnings ratio (P/E)	$\frac{\text{Share price at balance sheet date}}{\text{(Earnings/share)}}$
Effective dividend yield, %	$\frac{\text{(Dividend/share) x 100}}{\text{Share price at balance sheet date}}$
Market capitalisation	Share price at balance sheet date x Number of shares
Cash flow from operating activities/share	$\frac{\text{Cash flow from operating activities}}{\text{Average number of shares}}$
Yield of A share and B share	Change in share price + Annual dividend yield

Reconciliation of alternative performance measures to IFRS financial statements

€ million	1–12/2023	1–12/2022
Items affecting comparability		
Gains on disposal	0.4	0.0
Losses on disposal	-1.0	-0.1
Structural arrangements	-16.1	1.6
Items in operating profit affecting comparability	**-16.7**	**1.5**
Items in financial items affecting comparability	-0.2	-3.6
Items in income taxes affecting comparability	3.1	-0.0
Total items affecting comparability	**-13.7**	**-2.2**
Items in EBITDA affecting comparability	**-12.8**	**-0.1**
Operating profit, comparable		
Operating profit	695.4	816.5
Net of		
Items in operating profit affecting comparability	-16.7	1.5
Operating profit, comparable	**712.0**	**815.1**
EBITDA		
Operating profit	695.4	816.5
Plus		
Depreciation and impairment charges	184.0	169.0
Depreciation and impairment charges for right-of-use assets	353.2	322.1
EBITDA	**1,232.5**	**1,307.7**
EBITDA, comparable		
EBITDA	1,232.5	1,307.7
Net of		
Items in EBITDA affecting comparability	-12.8	-0.1
EBITDA, comparable	**1,245.3**	**1,307.8**

€ million	1–12/2023	1–12/2022
Profit before tax, comparable		
Profit before tax	613.5	761.1
Net of		
Items in operating profit affecting comparability	-16.7	1.5
Items in financial items affecting comparability	-0.2	-3.6
Profit before tax, comparable	**630.4**	**763.2**
Net profit, comparable		
Comparable profit before tax	630.4	763.2
Net of		
Income tax	118.0	151.2
Items in income taxes affecting comparability	3.1	-0.0
Net profit, comparable	**509.3**	**612.0**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	509.3	612.0
Net profit attributable to owners of the parent, comparable	**509.3**	**612.0**
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	509.3	612.0
Average number of shares, basic, 1,000 pcs	397,706	397,383
Earnings/share, comparable, €	**1.28**	**1.54**
Return on capital employed, %		
Operating profit	695.4	816.5
Capital employed, average	5,313.3	4,811.9
Return on capital employed, %	**13.1**	**17.0**
Return on capital employed, comparable, %		
Operating profit, comparable	712.0	815.1
Capital employed, average	5,313.3	4,811.9
Return on capital employed, comparable, %	**13.4**	**16.9**

€ million	1–12/2023	1–12/2022
Group		
Return on equity, %		
Net profit	495.6	609.9
Equity, average	2,750.3	2,635.8
Return on equity, %	**18.0**	**23.1**
Return on equity, comparable, %		
Net profit, comparable	509.3	612.0
Equity, average	2,750.3	2,635.8
Return on equity, comparable, %	**18.5**	**23.2**
Equity ratio, %		
Shareholders' equity	2,758.4	2,742.2
Total assets	7,754.3	7,474.0
Advances received	56.7	46.9
Equity ratio, %	**35.8**	**36.9**

FINANCIAL STATEMENTS

2023

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net sales	2.1	**11,783.8**	**11,809.0**
Material and services	2.3	-10,035.0	-10,304.5
Change in inventory		-72.0	237.0
Other operating income	2.4	975.2	998.7
Employee benefit expenses	2.5	-786.6	-785.8
Depreciation, amortisation and impairment charges	3.2 3.3	-184.0	-169.0
Depreciation and impairment charges for right-of-use assets	3.4	-353.2	-322.1
Other operating expenses	2.5	-651.8	-670.2
Share of result of joint ventures		19.0	23.5
Operating profit		**695.4**	**816.5**
Interest income and other finance income	4.4	16.9	13.0
Interest expense and other finance costs	4.4	-26.3	2.9
Interest expense for lease liabilities	4.4	-73.4	-68.4
Foreign exchange differences	4.4	-1.1	-3.5
Total finance income and costs	4.4	-83.9	-56.0
Share of result of associates		2.1	0.6
Profit before tax		**613.5**	**761.1**
Income tax	2.7	-118.0	-151.2
Net profit for the year		**495.6**	**609.9**
Net profit for the year attributable to			
Owners of the parent		495.6	609.9
Earnings per share for net profit attributable to owners of the parent			
Basic and diluted, Group total, €	2.8	1.25	1.53

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net profit for the year		**495.6**	**609.9**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	2.7 3.7	-5.5	30.6
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	2.7	-19.5	-41.9
Share of other comprehensive income of associates and joint ventures	2.7	-1.8	-0.5
Cash flow hedge revaluation	2.7	-31.0	26.2
Total comprehensive income for the year, net of tax		**-57.9**	**14.3**
Total comprehensive income for the year		**437.7**	**624.2**
Comprehensive income for the year attributable to			
Owners of the parent		437.7	624.2

Consolidated statement of financial position

€ million	Note	31 Dec. 2023	31 Dec. 2022
ASSETS			
Non-current assets			
Property, plant and equipment	3.2	2,055.6	1,745.5
Goodwill	3.3	663.7	588.9
Intangible assets	3.3	211.4	190.2
Right-of-use assets	3.4	1,816.9	1,737.6
Shares in associates and joint ventures	3.8 5.1	232.8	231.9
Other investments	4.3 4.5	14.0	13.2
Non-current receivables	4.3 4.5	71.4	90.8
Deferred tax assets	2.7	13.7	2.2
Pension assets	3.7	79.6	86.9
Total non-current assets		**5,159.1**	**4,687.2**
Current assets			
Inventories	3.5	1,083.9	1,115.4
Interest-bearing receivables	3.6 4.5	4.3	4.4
Trade receivables	3.6 4.3 4.5	970.5	969.3
Income tax assets	3.6	6.6	21.9
Other non-interest-bearing receivables	3.6 4.5	302.6	361.2
Other financial assets	4.3 4.5	15.4	68.6
Cash and cash equivalents	4.5	211.9	245.5
Total current assets		**2,595.2**	**2,786.4**
Non-current assets classified as held for sale		-	0.5
Total assets		**7,754.3**	**7,474.0**

€ million	Note	31 Dec. 2023	31 Dec. 2022
EQUITY AND LIABILITIES			
Share capital	4.2	197.3	197.3
Share premium	4.2	197.8	197.8
Other reserves	4.2	266.9	266.9
Currency translation differences	4.2	-71.7	-52.2
Revaluation reserve	4.2	4.3	35.3
Retained earnings		2,163.9	2,097.1
Total equity		**2,758.4**	**2,742.2**
Non-current liabilities			
Interest-bearing non-current liabilities	4.3 4.5 4.6	690.7	245.5
Lease liabilities	4.5 4.6	1,647.2	1,592.0
Non-interest-bearing non-current liabilities	4.3 4.5	24.5	24.3
Deferred tax liabilities	2.7	70.9	63.2
Provisions	3.9	6.9	10.3
Total non-current liabilities		**2,440.2**	**1,935.3**
Current liabilities			
Current interest-bearing liabilities	4.3 4.5 4.6	98.5	252.6
Lease liabilities	4.5 4.6	350.6	328.1
Trade payables	4.3 4.5	1,418.3	1,499.4
Other non-interest-bearing liabilities	4.3 4.5	250.0	242.4
Income tax liabilities	4.5	11.2	19.4
Accrued liabilities	4.3 4.5	415.1	442.6
Provisions	3.9	12.0	11.9
Total current liabilities		**2,555.7**	**2,796.5**
Total liabilities		**4,995.9**	**4,731.8**
Total equity and liabilities		**7,754.3**	**7,474.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from operating activities			
Profit before tax		613.5	761.1
Adjustments			
Depreciation according to plan		184.0	169.0
Depreciation and impairment for right-of-use assets		353.2	322.1
Finance income and costs		10.5	-12.4
Interest expense for lease liabilities		73.4	68.4
Other adjustments	2.9	-10.8	-20.2
		610.3	527.0
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		69.3	-107.2
Inventories, increase (-)/decrease (+)		58.3	-225.8
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-137.1	163.7
		-9.5	-169.3
Interest paid and other finance costs		-24.9	-5.4
Interest paid on lease liabilities		-73.4	-68.4
Interest received		15.0	10.5
Dividends received		2.4	1.3
Dividends and capital repayments received from associated companies and joint ventures		24.4	33.1
Income taxes paid		-108.3	-174.7
Net cash flows from operating activities, total		**1,049.5**	**915.2**

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.1	-140.1	-45.3
Payments for property, plant, equipment and intangible assets	2.9	-539.2	-352.4
Proceeds from sale of subsidiaries and businesses, net cash deducted		9.9	2.2
Proceeds from sale of property, plant, equipment and intangible assets		24.8	14.0
Proceeds from sale of other investments		0.1	0.4
Loan receivables and other financial assets, increase (-)/decrease (+)		54.3	36.8
Net cash flows from investing activities, total		**-590.2**	**-344.3**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	4.1	283.4	132.6
Repayments for lease liabilities	3.4 4.1	-354.3	-332.7
Interest-bearing receivables, increase (-)/decrease (+)	4.1	2.2	2.1
Dividends paid		-430.3	-406.7
Other items		6.8	0.0
Net cash flows from financing activities, total		**-492.2**	**-604.7**
Change in cash and cash equivalents		**-32.9**	**-33.8**
Cash and cash equivalents as at 1 January	4.5	245.5	279.8
Currency translation difference adjustment and change in value		-0.7	-0.5
Cash and cash equivalents assets as at 31 December	4.5	**211.9**	**245.5**

Consolidated statement of changes in equity

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total equity
Balance as at 1 January 2023	**197.3**	**464.7**	**-52.2**	**35.3**	**-28.1**	**2,125.2**	**2,742.2**
Share-based payments					1.4		1.4
Dividends						-429.6	-429.6
Other changes		-0.0	-0.0			6.7	6.7
Transactions with owners, total		-0.0	-0.0		1.4	-422.8	-421.5
Comprehensive income							
Net profit for the year						495.6	495.6
Actuarial gains/losses						-5.5	-5.5
Currency translation differences related to a foreign operation			-19.5			-	-19.5
Share of other comprehensive income of associates and joint ventures				-		-1.8	-1.8
Cash flow hedge revaluation				-31.0		-	-31.0
Total comprehensive income for the year, net of tax			-19.5	-31.0		-7.3	-57.9
Total comprehensive income for the period			-19.5	-31.0		488.2	437.7
Balance as at 31 December 2023	**197.3**	**464.7**	**-71.7**	**4.3**	**-26.7**	**2,190.6**	**2,758.4**
Balance as at 1 January 2022	**197.3**	**464.7**	**-10.2**	**9.1**	**-30.3**	**1,898.9**	**2,529.5**
Share-based payments					2.1		2.1
Dividends						-421.3	-421.3
Other changes		-0.0	-			7.7	7.7
Transactions with owners, total		-0.0	-		2.1	-413.6	-411.4
Comprehensive income							
Net profit for the year						609.9	609.9
Actuarial gains/losses						30.6	30.6
Currency translation differences related to a foreign operation			-41.9			-	-41.9
Share of other comprehensive income of associates and joint ventures				-		-0.5	-0.5
Cash flow hedge revaluation				26.2		-	26.2
Total comprehensive income for the year, net of tax			-41.9	26.2		30.0	14.3
Total comprehensive income for the period			-41.9	26.2		639.9	624.2
Balance as at 31 December 2022	**197.3**	**464.7**	**-52.2**	**35.3**	**-28.1**	**2,125.2**	**2,742.2**

Further information on share capital and reserves is disclosed in Note 4.2 and on share-award plans in Note 5.3. Deferred tax related to components of other comprehensive income is presented in Note 2.7.

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The notes to the consolidated financial statements have been grouped into sections based on their subject. The basis of preparation is described as part of this note, while the accounting policies directly related to a specific note are presented as part of the note in question. The notes contain the relevant financial information as well as a description of the accounting policies and key estimates and judgements applied for the topics of the individual note.

1.1 Basic information about the Company

Kesko is a Finnish listed trading sector company. Kesko has approximately 1,800 stores engaged in chain operations in the Nordic and Baltic countries and Poland.

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

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The Company's business ID is 0109862-8, it is domiciled in Helsinki, Finland and it's registered address is PO Box 1, FI-00016 KESKO, Finland. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, visiting address Työpajankatu 12, Helsinki, Finland and from the internet at www.kesko.fi/en.

These consolidated financial statements were authorised for issue by the Board of Directors on 29 January 2024.

Kesko has issued an XHTML financial review complying with the ESEF requirements on Kesko's website. The Audit firm Deloitte Oy has provided to company an independent auditor's reasonable assurance report in accordance with ISAE 3000 (Revised) on Kesko's ESEF Financial Statements.

1.2 Basis of preparation

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2023. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Act and regulations based on it. The Group has applied new and amended standards that became effective in the financial year that began on 1 January 2023. The improvements and amendments to existing standards did not have an impact on the consolidated financial statements. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

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

1.3 Critical accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with international accounting standards requires the use of certain estimates and assumptions about the future that affect the reported amounts of assets and liabilities, contingent liabilities, and income and expense. The actual results may differ from these estimates and assumptions.

The impact of climate risks has been assessed on the Group's business operations and the consolidated financial statements. Climate change related risks on Kesko are assessed based on selected climate scenarios. Kesko Group has not identified any business operations subject to material climate risks in terms of business continuity or valuation of asset items. Kesko owns and manages via leases a substantial number of properties in all its operating countries. Individual asset items may be subject to risks of damage or investment needs due to, for example, extreme weather phenomena.

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

The critical accounting estimates and assumptions used in the preparation of consolidated financial statements are further described in the corresponding notes.

- Income tax (Note 2.7)
- Acquisitions (Note 3.1)
- Intangible assets (Note 3.3)
- Leases (Note 3.4)
- Inventories (Note 3.5)
- Trade and other current receivables (Note 3.6)
- Pension assets (Note 3.7)
- Provisions (Note 3.9)

1.4 Critical judgements in applying accounting policies

The Group's management uses its judgement in the adoption and application of accounting policies in the financial statements. The management has exercised its judgement in the application of accounting policies in the income statement with regard to the presentation of income (Note 2.1), the existence of control over subsidiaries (Note 1.5), measuring receivables, determining provisions for restructuring, and measuring assets and liabilities recognised in the balance sheet based on lease agreements (Note 3.4).

1.5 Consolidation principles

Subsidiaries

The consolidated financial statements combine the financial statements of Kesko Corporation and subsidiaries controlled by the Group. Control exists when the Group has more than half of the voting rights of a subsidiary or otherwise exercises control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. The existence of potential voting rights has been considered when assessing the existence of control in the case that the instruments entitling to potential control are currently exercisable. Subsidiaries are listed in Note 5.1.

Mutual shareholding is eliminated by using the acquisition cost method. The cost of assets acquired is determined on the basis of the fair value of the acquired assets as at the acquisition date, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction. The identifiable assets, liabilities and contingent liabilities acquired are measured at the fair value at the acquisition date, gross of non-controlling interest.

Intragroup transactions, receivables and payables, unrealised profits and internal distributions of profits are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss is due to the impairment of an asset. Non-controlling interest in the profit for the period is disclosed in the income statement and the amount of equity attributable to the non-controlling interests is disclosed separately in equity.

The Group accounts for its real estate company acquisitions as acquisitions of assets.

Associates

Associates are companies over which the Group has significant influence but not control. In Kesko Group, significant influence accompanies a shareholding or agreement of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost.

The Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from associates are deducted from the Group's result and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised.

Joint agreements

Joint agreements are arrangements in which the sharing of joint control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint agreement whereby the parties that have joint control of the agreement have rights to the net assets of the agreement. Investments in joint ventures are accounted for using the equity method, and on initial recognition, they are recognised at cost.

The Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from joint ventures are deducted from the Group's result and the cost of the shares. An investment in a joint venture includes the goodwill generated by the acquisition. Goodwill is not amortised.

Mutual real estate companies are consolidated as common functions on a line-by-line basis in proportion to ownership. The Group's share of mutual real estate companies' loans and reserves is accounted for separately in the consolidation.

Associates and joint ventures and proportionately consolidated mutual real estate companies are listed in Note 5.1.

Foreign currency items

The consolidated financial statements are presented in euros, which is both the functional currency of the environment in which the Group's parent operates and the presentation currency. On initial recognition, the amounts with respect to the result and financial position of the Group companies located outside the euro zone are recorded in the functional currency of each of their operating environments.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currency are translated into euros using the closing rate. Exchange rate gains and losses on foreign currency transactions as well as receivables and liabilities denominated in foreign currency are recognised in the income statement, with the exception of monetary items that form a part of a net investment in a foreign operation and loans designated as hedges for foreign net investments and regarded as effective. These exchange differences are recognised in equity and their changes are presented in other comprehensive income. The exchange differences are presented in the income statement on disposal of the foreign operation or settlement of the hedges. The Group has currently no loans designated as hedges for foreign net investments. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign exchange forward contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in finance income and costs.

The income statements of the Group companies operating outside the euro zone have been translated into euros at the average rate of the financial year, and their balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, exchange differences arising from monetary items that form a part of a net investment in a foreign operation and the hedging results of net investments are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, translation differences are recognised in the income statement as part of the gains or losses on the disposal.

Goodwill arising on the acquisition of foreign operations and the fair value adjustments of assets and liabilities made upon their acquisition are treated as assets and liabilities of these foreign operations and translated into euros at the closing rate.

1.6 Discontinued operations and non-current assets classified as held for sale and related liabilities

Non-current assets (or a disposal group) are classified as held for sale if their carrying amount will be recovered principally through the disposal of the assets and the sale is highly probable. If their carrying amount will be recovered principally through their disposal rather than through their continuing use, they are measured at the lower rate of the carrying amount and fair value net of costs to sell.

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives. The Group did not have any discontinued operations in the 2023 and 2022 financial years.

1.7 New IFRS standards and IFRIC interpretations and the impact of new and updated standards

Amendment to IAS 12 Income Taxes

Kesko Group has adopted International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) upon their release on 23 May 2023. Kesko has applied the exception from deferred tax accounting in relation to top-up tax.

Pillar Two legislation was enacted in 2023 in several jurisdictions in which Kesko Group operates, including Finland where the Group's parent company is a tax resident.

The legislation will be effective for the financial year beginning on 1 January 2024.

Kesko Group has performed an assessment of the potential exposure to Pillar Two income taxes. This assessment is based on the recent information available regarding the financial performance of the entities in Kesko Group. Kesko expects that exposure, if any, of Pillar Two to income taxes would be minimal.

Other annual improvements or amendments to existing standards that become effective for annual periods beginning on or after 1 January 2024 are not estimated to have a material impact on the consolidated financial statements.

2. FINANCIAL RESULTS

2.1 Revenue recognition

Accounting policies

In the consolidated income statement, net sales comprise the sales of goods, services and energy based on customer agreements. The share of sales of services and energy of total net sales is not significant. The Group sells products to retailers and other business customers and engages in own retailing. Income from sales of goods and services is recognised when the customer obtains control of the goods or services. Customers obtain control when they have the ability to direct the use of and obtain the benefits from the goods or services. As a rule, income from sales of goods can be recognised at the time of transfer. Income from services is recognised as the service is being performed. Sales to retailers and business customers are based on invoicing. Sales to consumers are mainly in cash or by credit card.

When calculating net sales, sales revenue is adjusted for indirect taxes, sales adjustment items and the exchange differences of foreign-currency-denominated sales. In businesses in Finland that are part of the K-Plussa customer loyalty scheme, sales adjustment items include loyalty award credits, recognised as part of sales transactions. Income from corresponding sales is recognised when the award credits are redeemed or expire. Contract liability is recognised in the balance sheet. Loyalty award credits affect the net sales of those businesses that grant K-Plussa customer loyalty award credits in Finland and engage in retailing.

Other operating income includes income other than that associated with the sale of goods or services based on customer agreements, such as lease income, store site and chain fees charged from retailers, and various other service fees and commissions. Fees charged from retailer entrepreneurs are based on a partnership agreement (chain agreement) based on which the retailers engage in business in line with the chain's operating models and objectives. Store site fees and chain fees vary depending on the growth and profitability of the retailer's business operations under the chain agreement. Chain marketing fees and data system fees are cost-based charges. More detailed information on other operating income is presented in Note 2.4.

Other operating income also includes gains on the disposal of property, plant and equipment and intangible assets as well as gains on disposal of businesses and realised and unrealised gains on derivatives used for hedging foreign currency risks associated with commercial transactions.

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

2.2 Segment information

Accounting Policies

The Group's reportable segments are composed of the Group's divisions, namely the grocery trade, the building and technical trade, and the car trade.

Division information is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, responsible for allocating resources to the divisions, has been identified as the Group Management Board. The reportable operating segments derive their net sales from the grocery trade, the building and technical trade, and the car trade. Sales between divisions are charged at prevailing market rates.

The Group Management Board uses alternative performance measures alongside the IFRS financial statements indicators in the Group's results reporting. The Group Management Board assesses the divisions' performances based on operating profit, comparable operating profit, and comparable return on capital employed. Results reporting to management corresponds to the accounting policies of the consolidated financial statements apart from items affecting comparability. Finance income and costs are not allocated to the divisions as the Group's cash and cash equivalents and financial liabilities are managed by the Group Treasury. Changes in the fair values of intra-Group foreign exchange forward contracts entered into and realised gains and losses are reported as part of other operating income and expenses to the extent that they hedge the divisions' foreign exchange risk.

The assets and liabilities of a division's capital employed consist of operating items that can be justifiably allocated to the divisions. The assets of capital employed comprise property, plant and equipment and intangible assets, right-of-use assets related to leases, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables, and assets held for sale. The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions. Capital employed does not include deferred tax assets and liabilities, financial assets at fair value through profit or loss with the exception of fair value of foreign exchange forward contracts recognised in the balance sheet, cash and cash equivalents, or interest-bearing liabilities.

The same revenue recognition policies apply to segment information as to the consolidated financial statements and consolidated statement of financial position. The revenue recognition policies are presented in Note 2.1.

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 and B2B trade. Kesko manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 46% (46%) of the Group's net sales in 2023. B2B trade accounted for 39% (40%) of the Group's net sales in 2023. Kesko's own retailing accounted for 15% (14%) of the Group's net sales. The management views that these categories depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

New segments structure

Kesko changed its division structure and segment reporting as of 1 April 2023. Sports trade is now part of the car trade division, while it previously was part of the building and technical trade division. Data concerning the comparison periods have been adjusted to correspond to the new segment structure.

Grocery trade

The grocery trade division comprises the wholesale and B2B trade of groceries and the retailing of home and speciality goods in Finland. There are approximately 1,200 K-food stores operated by K-retailers in Finland. These stores form the K-Citymarket, K-Supermarket, K-Market and Neste K grocery retail chains. Kespro is a foodservice provider and wholesaler in Finland. For the part of K-Citymarket's home and speciality goods trade Kesko operates as a retailer in Finland.

Building and technical trade

The building and technical trade division operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries and Poland. In building and home improvement trade, Kesko operates with the K-retailer business model in Finland, and as a retail operator in Sweden and Norway. The retail store chains are K-Rauta (Finland and Sweden), K-Bygg (Sweden) and Byggmakker (Norway). In 2023, Kesko decided to concentrate its building and home improvement trade operations in Sweden under the K-Bygg chain. The building and home improvement stores serve both consumers and business customers. Technical trade provides HEPAC and electrical products and services to business customers. Technical trade has around 140 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

Car trade

The car trade division comprises the business operations of new cars, used cars, services and leasing. The new cars business includes the import, marketing and retail of Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and of Volkswagen commercial vehicles in Finland, and the import of SEAT and CUPRA passenger cars in the Baltics. The used car business includes the purchase of used cars from Finland and elsewhere and the retail of the cars in Finland. The service business includes repair and maintenance services, spare parts sales and accessories services in Finland. The leasing business provides car leasing services for both private and corporate customers. Services provided by the car trade division also include the K-Lataus charging network for electric vehicles. In 2023, Kesko completed the divestment of its MAN business (trucks and buses).

Sports trade is included in the car trade division, and comprises in Finland the Intersport and Budget Sport chains.

Common functions

Common functions comprise Group support functions.

Segment information 2023

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	6,351.6	4,193.2	1,262.3	-0.0	11,807.1
of which intersegment sales	-16.5	0.9	-7.4	-0.3	-23.3
Net sales from external customers	**6,335.1**	**4,194.1**	**1,254.9**	**-0.3**	**11,783.8**
Change in net sales in local currency excluding acquisitions and disposals, %	3.7	-10.5	13.9	-	-0.8
Change in net sales, %	3.7	-8.7	12.2	-	-0.2
Other division income	803.6	135.8	29.3	10.6	979.3
of which intersegment income	-0.4	-1.8	0.1	-2.0	-4.1
Other operating income from external customers	**803.2**	**133.9**	**29.4**	**8.7**	**975.2**
Depreciation and amortisation	-93.6	-30.8	-28.6	-31.0	-184.0
Depreciation and impairment charges for right-of-use assets	-232.0	-91.9	-22.8	-6.4	-353.2
Share of result of joint ventures		19.0			19.0
Operating profit	**443.6**	**201.9**	**82.4**	**-32.6**	**695.4**
Items affecting comparability	-1.3	-10.5	-0.1	-4.8	-16.7
Comparable operating profit	**444.8**	**212.5**	**82.6**	**-27.8**	**712.0**
Finance income and costs					-83.9
Share of result of associates					2.1
Profit before tax					**613.5**

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Property, plant, equipment and intangible assets	1,534.9	1,035.5	265.7	96.4	-1.8	2,930.7
Right-of-use assets	1,233.1	441.4	81.1	61.2		1,816.9
Interests in associates and joint ventures and other investments	5.5	155.7	0.1	86.2	-0.6	246.8
Pension assets	18.6	4.9		56.0		79.6
Inventories	271.9	578.2	233.8			1,083.9
Trade receivables	389.8	509.9	71.2	2.1	-2.5	970.5
Other non-interest-bearing receivables	80.3	189.2	28.1	35.9	-15.6	318.0
Interest-bearing receivables	1.7	0.0		65.3		66.9
Assets included in capital employed	**3,535.9**	**2,914.9**	**680.0**	**403.1**	**-20.6**	**7,513.3**
Unallocated items						
Deferred tax assets						13.7
Other financial assets						15.4
Cash and cash equivalents						211.9
Total assets	**3,535.9**	**2,914.9**	**680.0**	**403.1**	**-20.6**	**7,754.3**

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Trade payables	620.4	717.7	55.4	26.5	-1.7	1,418.3
Other non-interest-bearing liabilities	295.0	242.2	96.6	47.3	-16.6	664.5
Provisions	0.2	5.2	13.2	0.4		18.9
Liabilities included in capital employed	**915.5**	**965.0**	**165.2**	**74.2**	**-18.3**	**2,101.7**
Unallocated items						
Interest-bearing liabilities						789.2
Lease liabilities						1,997.9
Other non-interest-bearing liabilities						36.3
Deferred tax liabilities						70.9
Total liabilities	**915.5**	**965.0**	**165.2**	**74.2**	**-18.3**	**4,995.9**
Total capital employed as at 31 December	**2,620.4**	**1,949.8**	**514.7**	**329.0**	**-2.3**	**5,411.6**
Average capital employed	**2,555.4**	**1,865.1**	**523.6**	**371.5**	**-2.3**	**5,313.3**
Return on capital employed, %, comparable	**17.4**	**11.4**	**15.8**			**13.4**
Number of personnel as at 31 December	**8,184**	**6,934**	**1,641**	**943**		**17,702**
Average number of personnel converted into full-time employees	**6,257**	**6,073**	**1,531**	**905**		**14,766**

Segment information 2022

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	6,124.7	4,591.1	1,124.8	-0.0	11,840.6
of which intersegment sales	-23.3	-0.6	-7.5	-0.3	-31.6
Net sales from external customers	**6,101.4**	**4,590.6**	**1,117.3**	**-0.3**	**11,809.0**
Change in net sales in local currency excluding acquisitions and disposals, %	3.6	9.7	-9.2	-	4.4
Change in net sales, %	3.6	10.0	-9.6	-	4.5
Other division income	789.0	153.0	35.9	28.8	1,006.6
of which intersegment income	-0.1	-2.9	-0.2	-4.6	-7.9
Other operating income from external customers	**788.9**	**150.1**	**35.6**	**24.1**	**998.7**
Depreciation and amortisation	-84.4	-27.8	-27.2	-29.7	-169.0
Depreciation and impairment charges for right-of-use assets	-213.7	-80.7	-21.8	-5.9	-322.1
Share of result of joint ventures		23.5			23.5
Operating profit	**461.5**	**324.8**	**63.9**	**-33.6**	**816.5**
Items affecting comparability	1.1	0.9	-0.4	-0.1	1.5
Comparable operating profit	**460.4**	**323.8**	**64.3**	**-33.5**	**815.1**
Finance income and costs					-56.0
Share of result of associates					0.6
Profit before tax					**761.1**

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Property, plant, equipment and intangible assets	1,333.6	842.2	245.3	105.1	-1.6	2,524.6
Right-of-use assets	1,189.3	402.9	83.2	62.1		1,737.6
Interests in associates and joint ventures and other investments	4.3	160.4	0.1	81.0	-0.6	245.2
Pension assets	19.6	4.5		62.8		86.9
Inventories	270.3	611.7	233.4			1,115.4
Trade receivables	369.2	517.7	84.5	2.9	-5.1	969.3
Other non-interest-bearing receivables	121.6	223.9	22.8	73.7	-33.0	409.0
Interest-bearing receivables	0.8			68.6		69.4
Non-current assets classified as held for sale				0.5		0.5
Assets included in capital employed	**3,308.7**	**2,763.3**	**669.4**	**456.7**	**-40.3**	**7,157.7**
Unallocated items						
Deferred tax assets						2.2
Other financial assets						68.6
Cash and cash equivalents						245.5
Total assets	**3,308.7**	**2,763.3**	**669.4**	**456.7**	**-40.3**	**7,474.0**

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Trade payables	596.7	794.1	79.0	32.3	-2.6	1,499.4
Other non-interest-bearing liabilities	294.7	278.3	97.7	55.8	-35.4	691.1
Provisions	0.8	2.2	19.1	0.2		22.2
Liabilities included in capital employed	**892.2**	**1,074.5**	**195.8**	**88.3**	**-38.1**	**2,212.7**
Unallocated items						
Interest-bearing liabilities						498.2
Lease liabilities						1,920.1
Other non-interest-bearing liabilities						37.6
Deferred tax liabilities						63.2
Total liabilities	**892.2**	**1,074.5**	**195.8**	**88.3**	**-38.1**	**4,731.8**
Total capital employed as at 31 December	**2,416.5**	**1,688.8**	**473.6**	**368.4**	**-2.2**	**4,945.0**
Average capital employed	**2,353.6**	**1,693.5**	**438.2**	**328.9**	**-2.2**	**4,811.9**
Return on capital employed, %, comparable	**19.6**	**19.1**	**14.7**			**16.9**
Number of personnel as at 31 December	**8,316**	**6,863**	**1,661**	**1,001**		**17,841**
Average number of personnel converted into full-time employees	**6,288**	**5,871**	**1,519**	**955**		**14,633**

Alternative performance measures in segment reporting

Kesko uses alternative performance measures in internal reporting of business performance and profitability to the highest operational decision-making body, i.e. the Group Management Board. The alternative performance measures should be examined together with the IFRS performance indicators.

Change in comparable net sales is used to reflect changes in the Group's business volume between periods. The indicator reflects the change in net sales excluding the impact of acquisitions and divestments, in local currencies. The comparable net sales have been calculated by including in the net sales the business operations that have been part of Kesko Group in both the reporting period as well as the comparison period. Other structural arrangements related to acquisitions and divestments have been adjusted in the same manner as acquisitions.

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability. Performance indicators reflecting comparable profit and profitability are used to improve the comparability of operational performance between periods. Gains and losses on the disposal of real estate, shares and business operations, impairments and significant restructurings are identified as items affecting comparability. Gains on disposals are presented in the income statement within other operating income, and losses on disposals within other operating expenses. Impairment charges and significant profit and loss items related to changes in lease agreements are presented in the income statement under depreciation, amortisation and impairment charges.

Alternative performance measures that have been adjusted for the impact of IFRS 16 are used to illustrate continuity in business profitability and financial position and the achievement of certain financial targets. The EBITDA excluding the impact of IFRS 16 corresponds to EBITDA before the adoption of IFRS 16, and the interest bearing net debt excluding lease liabilities correspond to interest-bearing net debt before the adoption of the standard. These restated indicators are included as components in the Group's financial targets' performance indicators. The indicator is presented in Note 4.1 Capital management.

Items affecting comparability € million

€ million	2023	2022
Gains on disposal	+0,4	+0,0
Losses on disposal	-1.0	-0.1
Structural arrangements	-16.1	+1,6
Items in operating profit affecting comparability, total	**-16.7**	**+1,5**

Items related to structural arrangements are presented on the following lines in the consolidated income statement: other operating income (€+0.8 million), change in inventory (€-1.0 million), employee benefit expenses (€-7.5 million), depreciation, amortisation and impairment charges (€-0.5 million), depreciation and impairment charges for right-of-use assets (€-3.4 million) and other operating expenses (€-5.1 million).

In 2022 items related to structural arrangements are presented on the following lines in the consolidated income statement: employee benefit expenses (€-1.1 million), depreciation and impairment charges for right-of-use assets (€+1.6 million), other operating expenses (€-1.6 million) and share of result of joint ventures (€+2.6 million).

Reconciliation of alternative performance measures to IFRS financial statements

€ million	2023	2022
Operating profit, comparable		
Operating profit	695.4	816.5
Net of		
Items in operating profit affecting comparability	-16.7	1.5
Operating profit, comparable	**712.0**	**815.1**
Return on capital employed, comparable, %		
Operating profit, comparable	712.0	815.1
Capital employed, average	5,313.3	4,811.9
Return on capital employed, comparable, %	**13.4**	**16.9**
Comparable change in net sales		
Net sales, building and technical trade	4,193.2	4,591.1
Foreign exchange effects	172.4	
Effect of acquisitions and divestments	-258.5	
Change in net sales, comparable, %	-10.5	9.7
Net sales, Group	11,783.8	11,809.0
Foreign exchange effects	172.4	
Effect of acquisitions and divestments	-258.5	-5.3
Change in net sales, comparable, %	-0.8	4.4

Calculation of performance indicators

Operating profit, comparable
Operating profit +/– items affecting comparability

Return on capital employed, comparable, %
Comparable operating profit x 100
(Property, plant and equipment + Goodwill + Intangible assets + Right-of-use assets + Shares in associates and joint ventures + Financial assets at fair value through profit or loss + Non-current receivables + Pension assets + Inventories + Trade receivables + Income tax assets + Other non-interest-bearing receivables + Non-current assets classified as held for sale - Non-interest-bearing non-current liabilities - Pension obligations - Provisions - Trade payables - Other non-interest bearing liabilities - Income tax liabilities - Accrued liabilities - Liabilities related to available-for-sale non-current assets) on average for the reporting period

Geographical information

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland. The grocery trade operates in Finland. The building and technical trade operates in Finland, Sweden, Norway, the Baltic countries and Poland, and the car trade operates in Finland. Net sales, assets, capital expenditure and personnel are presented by location.

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

Kesko Group does not have net sales derived from a single customer, which exceeds 10% of Kesko Group's total net sales.

2023 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	9,714.0	1,612.5	129.1	336.9	-8.7	11,783.8
Assets included in capital employed	5,733.1	1,417.5	211.3	151.4		7,513.3
Average number of personnel converted into full-time employees	10,314	3,167	357	927		14,766

2022 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	9,610.7	1,729.3	130.8	349.2	-10.9	11,809.0
Assets included in capital employed	5,492.6	1,294.5	216.0	154.6		7,157.7
Average number of personnel converted into full-time employees	10,372	3,036	337	888		14,633

2.3 Material and services

€ million	2023	2022
Material and services	-9,814.8	-10,088.5
External services	-220.2	-216.0
Total	**-10,035.0**	**-10,304.5**

2.4 Other operating income

Revenue recognition, including the definition of income reported under other operating income, is presented in Note 2.1.

€ million	2023	2022
Income from services	780.3	773.7
Lease income	46.1	44.0
Gains on disposal of property, plant, equipment and intangible assets	1.6	0.7
Gains on disposal of businesses	-	0.0
Realised gains on derivative contracts and changes in fair value	1.4	16.1
Others	145.9	164.3
Total	**975.2**	**998.7**

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

More information on lease income is provided in Note 3.4.

2.5 Operating expenses

Accounting policies

Other operating expenses include expenses other than the cost of goods sold, such as employee benefit expenses, marketing costs, property and store site maintenance costs, information system expenses, and lease payments recognised in the income statement on leases classified as short-term leases or leased assets classified as of low value. Other operating expenses also include losses on the disposal of property, plant and equipment and intangible assets, losses on disposal of business operations as well as realised and unrealised losses on derivatives used for hedging foreign currency risks associated with commercial transactions.

Employee benefit expenses

€ million	2023	2022
Salaries and fees	-629.8	-626.0
Social security costs	-58.4	-58.8
Pension costs		
Defined benefit plans	-1.2	-4.1
Defined contribution plans	-89.2	-86.2
Share-based payment	-8.1	-10.6
Total	**-786.6**	**-785.8**

Information on the defined benefit plans is presented in Note 3.7. Information on the employee benefits of the Group's management personnel and other related party transactions are presented in Note 5.2, and information on share-based compensation in Note 5.3.

Average number of the Group personnel

	2023	2022
Grocery trade	6,257	6,288
Building and technical trade	6,073	5,871
Car trade	1,531	1,519
Common functions	905	955
Total, Group	**14,766**	**14,633**

Average number of the Group personnel by segment is calculated as full-time equivalent employees.

Other operating expenses

€ million	2023	2022
Marketing costs	-208.5	-210.2
Property and store site maintenance expenses	-185.1	-181.5
ICT expenses	-111.9	-117.6
Lease payments in the income statement	-7.7	-7.4
Losses on disposal of property, plant, equipment and intangible assets	-1.1	-0.4
Realised losses on derivative contracts and changes in fair value	-1.7	-11.1
Other operating expenses	-135.8	-142.0
Total	**-651.8**	**-670.2**

Lease payments in the income statement consist of payments for short-term leases and payments for leases of low-value assets as well as variable lease payments. Property and store site maintenance expenses also include maintenance expenses for leased properties. More information on lease expenditure is provided in Note 3.4.

Auditors' fees

€ million	2023	2022
Audit	-1.2	-1.2
Tax consultation	-0.0	-0.0
Other services	-0.2	-0.1
Total	**-1.4**	**-1.3**

Kesko Corporation's Auditor is Deloitte Oy. A statutory audit fee of €0.1 million is paid to an audit firm outside of Deloitte-group.

2.6 Foreign exchange differences recognised in operating profit

€ million	2023	2022
Net sales	-0.2	-0.0
Other operating income	1.4	16.1
Material and services	-1.0	1.2
Other operating expenses	-1.7	-11.1
Total	**-1.4**	**6.1**

2.7 Income tax

Accounting policies

The taxes recognised in the consolidated income statement include the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes have been calculated from the taxable income of each company determined by local jurisdiction. The tax impact of items recognised in other comprehensive income has been recognised correspondingly in other comprehensive income.

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases and carrying amounts of assets and liabilities and for unused tax losses. Deferred tax liability has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognised unless a distribution of earnings is probable, causing tax implications.

Deferred tax has been determined using the tax rates enacted at the balance sheet date, and as the rates changed, at the known new rate. A deferred income tax asset is recognised to the extent that it is probable that it can be utilised against future taxable income. The Group's deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

The most significant temporary differences arise from leases, defined benefit pension plans, property, plant and equipment (depreciation difference), provisions and measurements at fair value of asset items in connection with acquisitions.

Group's tax positions are assessed regularly to identify situations requiring interpretation. If an interpretation taken by the Group is deemed unlikely to be approved, a provision is made in accounting of income taxes. An uncertain tax position may affect taxes for the financial year or deferred taxes or both.

€ million	2023	2022
Current tax	-113.9	-141.5
Tax for prior years	-0.5	-0.9
Change in deferred taxes	-3.6	-8.8
Total	**-118.0**	**-151.2**

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

€ million	2023	2022
Profit before tax	613.5	761.1
Tax at parent's rate 20.0%	-122.7	-152.2
Effect of foreign subsidiaries' different tax rates	-3.5	-2.8
Effect of tax-free income	0.4	0.3
Effect of expenses not deductible for tax purposes	-2.0	-1.2
Effect of unrecognised deferred tax assets	-0.6	0.1
Effect of consolidation of share of result of associates and joint ventures	4.2	4.8
Tax for prior years	-0.5	-0.9
Adjustment and revaluation of deferred tax for previous years	7.0	0.6
Others	-0.3	0.1
Tax charge	**-118.0**	**-151.2**
Effective tax rate	**19.2%**	**19.9%**

Balance sheet division of net deferred tax assets (liabilities)

€ million	2023	2022
Deferred tax assets	13.7	2.2
Deferred tax liabilities	70.9	63.2
Total	**-57.2**	**-61.0**

Movements in deferred tax in 2023

€ million	1 Jan. 2023	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2023
Deferred tax assets						
Leases	37.1	-0.1	-	-0.1	-	36.8
Provisions	8.9	-1.6	-	-0.1	-0.1	7.1
Defined benefit pension plans	0.0	0.4	-	-	-	0.5
Tax loss carry-forwards	0.1	9.9	-	0.3	0.1	10.5
Other temporary differences	12.9	1.7	0.3	0.0	0.4	15.3
Total	59.0	10.3	0.3	0.2	0.4	70.2
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	62.0	8.0	-	-	0.0	70.0
Fair value allocation	28.1	1.5	-	-0.7	2.8	31.7
Defined benefit pension plans	17.2	-0.0	-1.4	-	-	15.8
Other temporary differences	12.8	4.5	-7.5	-0.0	0.1	9.9
Total	120.0	13.9	-8.8	-0.7	2.9	127.3
Net deferred tax asset (+)/ liability (-)	-61.0					-57.2

Movements in deferred tax in 2022

€ million	1 Jan. 2022	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2022
Deferred tax assets						
Leases	39.2	-1.9	-	-0.2	-	37.1
Provisions	10.4	-1.3	-	-0.2	-0.1	8.9
Defined benefit pension plans	0.1	-0.0	-	-	-	0.0
Tax loss carry-forwards	0.5	-0.4	-	-	-	0.1
Other temporary differences	13.5	-0.7	0.1	-0.1	0.1	12.9
Total	63.7	-4.3	0.1	-0.5	0.0	59.0
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	49.4	12.3	-	-	0.3	62.0
Fair value allocation	28.4	-0.9	-	-0.6	1.1	28.1
Defined benefit pension plans	18.9	-9.4	7.6	-	-	17.2
Other temporary differences	3.7	2.5	6.7	-0.0	-0.0	12.8
Total	100.5	4.5	14.3	-0.6	1.4	120.0
Net deferred tax asset	-36.8					-61.0

Deferred tax related to components of other comprehensive income

€ million	2023 Before tax	Tax charge/ credit	After tax	2022 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-6.9	1.4	-5.5	38.2	-7.6	30.6
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-19.5		-19.5	-41.9		-41.9
Share of other comprehensive income of associates and joint ventures	-1.8		-1.8	-0.5		-0.5
Cash flow hedge revaluation	-38.8	7.8	-31.0	32.8	-6.6	26.2
Total	**-67.0**	**9.1**	**-57.9**	**28.6**	**-14.2**	**14.3**

Tax loss carry-forwards

In the 31 December 2023 consolidated financial statements, the Group has recognised €10.2 million deferred tax asset on tax losses carried forward by the Swedish Group companies. The profitability of the Swedish operations has significantly improved due to reorganisation of loss-making operations, and acquisitions. Considering the uncertainties related to the overall economy, the recognised tax asset is based on estimated utilisation of the tax losses over a limited time period. In Sweden tax losses may be carried forward indefinitely. As at 31 December 2023, the Group still had €149.2 million of unused tax losses for which deferred tax assets have not been recognised.

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

€ million	2024	2025	2026	2027	2028	2029–	Total
	-	-	-	-	-	149.2	149.2

2.8 Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing the net profit for the period attributable to the parent's equity holders by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares.

	2023	2022
Net profit for the period attributable to equity holders of the parent, € million	495.6	609.9
Number of shares		
Weighted average number of shares outstanding	397,705,620	397,383,187
Diluted weighted average number of shares outstanding	397,705,620	397,383,187
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, Group total, €	1.25	1.53

2.9 Additional details related to the statement of cash flows

Adjustments to cash flows from operating activities

€ million	2023	2022
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-2.4	-7.5
Share of results of associates and joint ventures	-21.0	-24.1
Credit losses	5.1	4.0
Gains on disposal of property, plant, equipment and intangible assets and business operations	-1.6	3.5
Losses on disposal of property, plant, equipment and intangible assets and business operations	5.5	0.4
Share-based compensation	-2.3	-9.2
Defined benefit pensions	0.5	5.5
Others	5.5	7.3
Total	**-10.8**	**-20.2**

The group 'Others' within the adjustments to cash flows from operating activities includes the adjustment of unrealised foreign exchange gains and losses on purchases and sales, and the adjustment of other transactions of a non-cash nature.

Capital expenditure and non-cash financing activities

€ million	2023	2022
Total acquisitions of property, plant, equipment and intangible assets	550.0	399.1
Total acquisitions of subsidiaries and investments in associates and other investments	129.0	50.1
Total capital expenditure	**678.9**	**449.2**
of which cash payments	643.5	386.4
Loans relating to acquired companies and cash and cash equivalents	40.3	19.9
Payments arising from prior period investing activities	-39.0	-21.9
Capital expenditure financed with liabilities	34.2	24.4
Pension Fund return of surplus assets	-	40.3
Total	**678.9**	**449.2**

3. CAPITAL EMPLOYED

3.1. Acquisitions

Accounting policies

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

Critical accounting estimates and assumptions

The measurement of intangible assets is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

Acquisitions in 2023

Acquisitions in Sweden

Zenitec Sweden AB

Kesko's Swedish subsidiary Kesko AB acquired Zenitec Sweden AB, a solar power system wholesaler, on 5 April 2023. The consideration paid for the acquisitions totalled €4.9 million. The acquisition expands the selection, expertise and customer base in technical trade in Sweden's fast growing renewable energy market.

The fair value of the assets acquired for Kesko Group amounted to €6.0 million and the fair value of the liabilities assumed to €4.6 million. The fair value of the intangible assets acquired at the date of acquisitions totalled €0.6 million. The goodwill arising from the acquisition is not tax deductible. The consolidated income statement includes minor acquisition-related costs under "Other operating expenses", presented as items affecting comparability. The impact of the acquired businesses to the Group's net sales and operating profit was minor.

Acquisitions in Norway

Elektroskandia Norge AS

Kesko's subsidiary Onninen acquired Elektroskandia Norge AS, a Norwegian technical trade operator, on 1 March 2023. The consideration paid was €120.8 million. The acquisition strengthens Kesko's position in Norwegian technical trade, and further increases its growing role in advancing the green transition.

The fair value of the assets acquired for Kesko Group amounted to €121.6 million and the fair value of the liabilities assumed to €85.4 million. The fair value of intangible assets acquired at the date of acquisition totalled €15.6 million. The goodwill arising from the acquisition, €84.7 million, represents the synergies that are expected to be realised in sales, procurement, selections, and logistics as well as in efficiency of operations. The goodwill arising from the acquisition is not tax deductible. The consolidated income statement includes minor acquisition-related costs under "Other operating expenses", presented as items affecting comparability.

Geitanger Bygg AS

Kesko's Norwegian subsidiary Byggmakker Handel AS acquired Norwegian building and home improvement trade operator Geitanger Bygg AS on 2 October 2023. The consideration paid was €8.0 million.

The fair value of the assets acquired for Kesko Group amounted to €9.6 million and the fair value of the liabilities assumed to €3.1 million. The fair value of the intangible assets acquired at the date of acquisition totalled €0.6 million. The goodwill arising from the acquisition is not tax deductible. The consolidated income statement includes minor acquisition-related costs under "Other operating expenses", presented as items affecting comparability. The impact of the acquired business to the Group's net sales and operating profit was minor.

The following table provides a summary of the consideration paid, the values of assets acquired and liabilities assumed by Kesko Group at the date of acquisition, and the cash flow impact of the acquisitions.

	2023		
€ million	Zenitec Sweden AB	Elektroskandia Norge AS	Geitanger Bygg AS
Acquisition price	4.9	120.8	8.0
Fair values of assets acquired and liabilities assumed at the date of acquisition			
Intangible assets	0.6	15.6	0.6
Property, plant, equipment, right-of-use assets and investments	0.3	15.1	1.8
Inventories	2.8	38.6	3.0
Receivables	2.3	45.8	1.9
Deferred tax asset	-	1.3	-
Cash and cash equivalents	-0.0	5.3	2.4
Total assets	**6.0**	**121.6**	**9.6**
Trade payables, other payables, provisions, lease liabilities	4.5	81.6	2.9
Deferred tax liability	0.1	3.8	0.2
Total liabilities	**4.6**	**85.4**	**3.1**
Net assets acquired, total	**1.4**	**36.2**	**6.5**
Goodwill	**3.5**	**84.7**	**1.5**
Cash flow impact of acquisition			
Consideration paid	-4.9	-120.8	-8.0
Cash and cash equivalents acquired	-0.0	5.3	2.4
Cash flow impact of acquisition	**-5.0**	**-115.5**	**-5.6**

Acquisitions in 2022

Acquisitions in Sweden

Kesko's Swedish subsidiary Fresks Försäljning AB acquired Kungälvs Trävaruaktiebolag, a company that serves professional builders, on 1 March 2022, Djurbergs Järnhandel Aktiebolag and Föllinge Såg AB on 1 September 2022, and XL-BYGG Bergslagen AB on 1 October 2022. The consideration paid for the acquisitions totalled €38.3 million. The acquisitions complete Kesko's growing K-Bygg chain for professional builders.

The fair value of the assets acquired for Kesko Group amounted to €43.1 million and the fair value of the liabilities assumed to €23.8 million. The fair value of the intangible assets acquired at the date of acquisitions totalled €4.0 million.

Acquisitions in Norway

Kesko's Norwegian subsidiary Byggmakker CF AS acquired the Norwegian Seljord Elektriske AS on 1 June 2022. The consideration paid was €12.5 million.

The fair value of the assets acquired for Kesko Group amounted to €9.2 million and the fair value of the liabilities assumed to €4.0 million. The fair value of the intangible assets acquired at the date of acquisition totalled €1.1 million.

	2022	
€ million	**Acquisitions in Sweden**	**Acquisitions in Norway**
Acquisition price	38.3	12.5
Fair values of assets acquired and liabilities assumed at the date of acquisition"		
Intangible assets	4.0	1.1
Property, plant, equipment, right-of-use assets and investments	14.5	2.5
Inventories	10.2	2.8
Receivables	8.5	1.4
Deferred tax asset	0.0	0.1
Cash and cash equivalents	5.9	1.3
Total assets	**43.1**	**9.2**
Trade payables, other payables, provisions, lease liabilities	22.2	3.7
Deferred tax liability	1.6	0.3
Total liabilities	**23.8**	**4.0**
Net assets acquired, total	**19.3**	**5.2**
Goodwill	**19.0**	**7.3**
Cash flow impact of acquisition		
Consideration paid	-38.3	-12.5
Cash and cash equivalents acquired	5.9	1.3
Cash flow impact of acquisition	**-32.4**	**-11.2**

3.2 Property, plant and equipment

Accounting policies

Property, plant and equipment mainly comprise land, buildings, machinery and equipment. Property, plant and equipment are carried at cost less any accumulated depreciation and possible impairment charges. The property, plant and equipment of acquired subsidiaries are measured at fair value at the date of acquisition.

Subsequent costs relating to items of property, plant and equipment are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. The machinery and equipment of buildings are treated as separate assets and any significant expenditure related to their replacement is capitalised. All other repair, service and maintenance expenditures of items of property, plant and equipment are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method over their estimated useful lives. Land is not depreciated.

The most common estimated useful lives are:
- Buildings 10–33 years
- Components of buildings 8–10 years
- Machinery and equipment 3–8 years
- Cars and transport equipment 5 years

The residual values and useful lives of property, plant and equipment are reviewed at least at the end of each financial year. If the estimates of useful life and the expected pattern of economic benefits are different from previous estimates, the change in the estimate is accounted for.

Gains and losses on disposals of property, plant and equipment are recognised in the income statement and stated as other operating income and expenses.

The Group has not capitalised interest costs incurred as part of the acquisition of assets, because the Group does not have qualifying assets.

2023 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2023
Cost						
Cost as at 1 January	352.5	1,647.8	665.8	33.4	113.8	2,813.3
Exchange differences	-0.7	0.0	-1.3	0.3	0.2	-1.5
Additions	38.8	173.7	100.1	2.0	196.6	511.2
Acquisitions	-	1.5	1.9	-	0.3	3.7
Deductions	-1.0	-1.5	-74.9	-0.9	-2.0	-80.3
Transfers between items	1.6	44.8	9.0	2.6	-76.6	-18.7
Cost as at 31 December	391.2	1,866.2	700.6	37.4	232.3	3,227.7
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-7.3	-658.5	-380.5	-21.6		-1,067.8
Exchange differences	0.1	0.2	0.9	-0.1		1.1
Accumulated depreciation on deductions	0.3	-3.1	43.1	0.9		41.2
Accumulated depreciation on transfers	-	1.5	-0.6	-1.0		0.0
Depreciation and impairment charges for the year	-0.3	-80.8	-63.3	-2.1		-146.5
Accumulated depreciation and impairment charges as at 31 December	-7.2	-740.7	-400.3	-23.9		-1,172.0
Carrying amount as at 1 January	345.3	989.3	285.3	11.8	113.8	1,745.5
Carrying amount as at 31 December	**384.1**	**1,125.5**	**300.3**	**13.5**	**232.3**	**2,055.6**

2022 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2022
Cost						
Cost as at 1 January	317.6	1,474.0	642.5	37.6	51.8	2,523.5
Exchange differences	-1.7	-4.3	-5.1	-0.6	-0.1	-11.7
Additions	35.5	148.5	79.6	1.7	104.8	370.0
Acquisitions	-	0.6	1.0	-	0.0	1.6
Deductions	-0.1	-3.0	-63.1	-0.8	-1.7	-68.8
Transfers between items	1.2	31.9	11.0	-4.5	-41.1	-1.4
Cost as at 31 December	352.5	1,647.8	665.8	33.4	113.8	2,813.3
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-7.3	-588.9	-367.5	-22.3		-985.9
Exchange differences	0.1	2.1	3.5	0.4		6.2
Accumulated depreciation on deductions	-	2.2	46.0	1.0		49.2
Accumulated depreciation on transfers	-	0.2	-1.0	1.0		0.2
Depreciation and impairment charges for the year	-0.0	-74.2	-61.5	-1.7		-137.5
Accumulated depreciation and impairment charges as at 31 December	-7.3	-658.5	-380.5	-21.6		-1,067.8
Carrying amount as at 1 January	310.3	885.1	275.0	15.3	51.8	1,537.6
Carrying amount as at 31 December	**345.3**	**989.3**	**285.3**	**11.8**	**113.8**	**1,745.5**

3.3 Intangible assets

Accounting policies

Goodwill and trademarks

Goodwill is not amortised but is instead tested for impairment whenever there is an indication of impairment, and at least annually. For testing purposes, goodwill is allocated to the cash generating units. Goodwill is measured at initial cost. Any negative goodwill is immediately recognised as income. For goodwill, a recognised impairment loss is not reversed.

Intangible assets with indefinite useful lives are not amortised. They are tested for impairment whenever there is an indication of impairment, and at least annually. Costs for intangible assets with finite useful lives are initially measured at cost and amortised over the useful life of the assets. The intangible assets with indefinite useful lives include trademarks capitalised upon acquisitions, recognised at their fair values at the acquisition date.

Other intangible assets

The intangible assets with finite useful lives are initially measured at cost and amortised over their useful lives. Such intangible assets include software licences, customer relationships and licences measured at the fair value at the date of acquisition, and leasehold interests that are amortised during their probable lease terms.

The estimated useful lives are:

- Software and licences 3–5 years
- Customer and supplier relationships 5–10 years

Research and development expenses

The costs of research and development activities have been expensed as incurred, because the Group does not have development costs eligible for capitalisation. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Software

Costs directly attributable to the development of new software are capitalised as part of the software cost. On the balance sheet, software is included in intangible assets and its cost is amortised over the useful life of the software. Costs associated with maintaining the software are recognised as an expense as incurred.

Impairment of non-financial assets

At each balance sheet date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives is assessed every year whether or not there is an indication of impairment. In addition, an impairment test is performed whenever there is an indication of impairment.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Often, it is not possible to estimate the recoverable amount for an individual asset. Then, as in the case of goodwill, the recoverable amount is determined for the cash generating unit to which the goodwill or asset belongs.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed, if the revaluation shows an increase in the recoverable amount. However, the reversal of an impairment loss of an asset should not exceed the carrying amount of the asset without impairment loss recognition. For goodwill, a recognised impairment loss is not reversed under any circumstances.

Critical accounting estimates and assumptions

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

2023 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2023
Cost					
Cost as at 1 January	635.1	96.1	249.4	9.1	989.7
Exchange differences	-15.0	-2.0	-3.1	-	-20.1
Additions	-	0.0	19.7	2.2	21.9
Acquisitions	90.0	2.0	14.3	-	106.4
Deductions	-	-	-10.0	-0.0	-10.0
Transfers between items	-	-0.1	28.0	-7.2	20.7
Cost as at 31 December	710.1	96.0	298.2	4.2	1,108.5
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-46.2	-9.3	-155.1		-210.6
Exchange differences	-0.2	0.5	2.2		2.5
Accumulated amortisation and impairment charges on disposals		-	14.5		14.5
Accumulated amortisation and impairment on transfers		0.0	-2.1		-2.1
Amortisation and impairment charges for the year	-	-1.3	-36.6		-37.8
Accumulated amortisation and impairment charges as at 31 December	-46.4	-10.0	-177.0		-233.5
Carrying amount as at 1 January	588.9	86.8	94.2	9.1	779.1
Carrying amount as at 31 December	**663.7**	**86.0**	**121.2**	**4.2**	**875.1**

2022 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2022
Cost					
Cost as at 1 January	634.9	97.0	258.8	12.6	1,003.2
Exchange differences	-25.9	-1.7	-3.6	-	-31.2
Additions	0.0	0.1	21.1	7.3	28.6
Acquisitions	26.1	0.7	3.2	-	30.0
Deductions	0.0	-	-42.4	-0.1	-42.5
Transfers between items	-	-	12.2	-10.7	1.5
Cost as at 31 December	635.1	96.1	249.4	9.1	989.7
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-46.1	-8.8	-169.4		-224.3
Exchange differences	-0.1	0.5	2.6		2.9
Accumulated amortisation and impairment charges on disposals		-	42.5		42.5
Accumulated amortisation on transfers	-	-	-0.2		-0.2
Amortisation and impairment charges for the year	-	-1.0	-30.6		-31.6
Accumulated amortisation and impairment charges as at 31 December		-9.3	-155.1		-210.6
Carrying amount as at 1 January	588.8	88.2	89.3	12.6	779.0
Carrying amount as at 31 December	**588.9**	**86.8**	**94.2**	**9.1**	**779.1**

Other intangible assets include software and licences amounting to €55.0 million (€52.9 million).

Impairment testing

Goodwill is allocated to cash-generating units (CGUs) for impairment testing purposes. The cash-generating units have been identified at maximum at the level of reportable segments. The following table presents the allocation of goodwill and trademarks to cash-generating units. The trademarks presented in the table are assessed to have indefinite useful lives.

€ million	Trademarks 2023	Goodwill 2023	Trademarks 2022	Goodwill 2022
Grocery trade				
Grocery trade, chain operations	-	76.1	-	76.1
Grocery trade, Kespro	5.3	2.0	5.3	2.0
Building and technical trade				
Technical trade	58.3	152.2	58.3	66.0
Byggmakker, Norway	20.8	199.3	22.3	211.5
K-Bygg, Sweden	-	191.0	-	190.3
Car trade	-	43.1	-	43.1
Total	**84.4**	**663.7**	**85.9**	**588.9**

Goodwill is tested for impairment whenever there is indication of impairment, and at least annually. Impairment tests have been carried out during the fourth quarter of 2023 for goodwill and trademarks with indefinite useful lives. Trademarks with indefinite useful lives are part of assets acquired in connection with business combinations.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of three years. The plans are based on external sources concerning projections for total market growth, weighted with the cash-generating unit's own business' share of the market in question. The key variable used in determining the forecast cash flows is the development in profitability based on plans approved by management. The development in profitability is influenced by growth predictions, changes in products and services selection and pricing, changes in store site network and development of operating expenses.

The average compound annual growth rate for the forecast period was 2.3–6.6% and the EBITDA ratio range 6.7–13.0%. Cash flows after the forecast period are estimated based on a 0.5–2.0% growth projection, taking into account country-specific differences.

The key variables in impairment testing are the terminal growth rate, discount rate and EBITDA margin-%. The following table presents the pre-tax discount rate and terminal growth rate-% for each cash-generating unit.

€ million	Pre-tax discount rate 2023	Terminal growth rate 2023	Pre-tax discount rate 2022	Terminal growth rate 2022
Grocery trade				
Grocery trade, chain operations	6.8%	0.5%	6.8%	0.5%
Grocery trade, Kespro	6.5%	1.5%	6.5%	1.5%
Building and technical trade				
Technical trade	7.6%	2.0%	7.8%	2.0%
Byggmakker, Norway	7.2%	2.0%	7.2%	2.0%
K-Bygg, Sweden	7.1%	2.0%	7.1%	2.0%
Car trade	7.2%	1.5%	7.2%	1.5%

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each division and country and adjusted for tax effect in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks.

In the impairment testing carried out in 2023 the recoverable amount exceeded the carrying amount in all cash-generating units. There were no impairment charges recognised on goodwill or intangible rights in the financial years 2023 and 2022.

Sensitivity analysis

According to management estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount. The most sensitive to movements in assumptions is the goodwill impairment test for K-Bygg. For the K-Bygg impairment test a foreseeable change in the key variables would not result in impairment of goodwill.

K-Bygg's net sales in 2023 totalled €280.0 million. During the forecast period, the range for change in K-Bygg's net sales is 3.3–31.4%, which is affected by the opening of new stores. By the end of the forecast period, K-Bygg's EBITDA margin is expected to have grown by 2.2 percentage points from the EBITDA margin achieved in 2023. In K-Bygg's impairment test, the recoverable amount exceeded the carrying amount of the assets tested by €67.8 million. Impairment would be recognised if the post-forecast period EBITDA margin would decrease by more than 0.9 percentage points, if the post-forecast period growth percentage would be below 1.0%, or if the pre-tax discount rate was above 8.1%.

3.4 Leases

Accounting policies

Group as a lessee

The Group leases properties, machinery and equipment for use in its business operations. At inception of a contract the Group determines whether the contract is, or contains, a lease. A contract is deemed as a lease if the contract gives the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date of the lease the Group recognises a right-of-use asset and a lease liability except for leases of low-value assets and for leases for which the lease term is 12 months or less, for which the Group applies the practical expedient of the standard. Lease payments for the short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term. The Group separates the non-lease components, such as service components, and expenses them as they incur.

Lease liability is recognised at the commencement date of the lease and measured at the present value of the future lease payments payable during the lease term. The lease payments are discounted using the interest rate implicit in the lease, if readily available. The interest rate implicit in the lease is not available for all leases. In such cases, the incremental borrowing rate is used, which comprises the reference rate, credit spread for the incremental borrowing, and a potential country and currency risk premium. At the commencement date of the lease, the measurement of the lease liability includes fixed lease payments, variable lease payments that depend on an index or a rate, potential residual value guarantees, and the price of a purchase option if it is reasonably certain the option will be exercised. Payments of penalties for terminating the lease are also included in the measurement of the lease liability if the lease term reflects the option to terminate the lease.

Lease liability is subsequently remeasured when there is a change in lease term due to reassessment of an option to continue or terminate the lease, or when there is a change in future lease payments due to changes of an index or a rate. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset. If the reduction in lease liability exceeds the right-of-use asset, the difference is recognised in profit or loss.

Right-of-use asset is measured at cost at the commencement date of the lease. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability. In addition, the cost comprises any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred and an estimate of costs to be incurred to restore the asset. Subsequently the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted with any remeasurement of the lease liability. The right-of-use asset is depreciated from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

If the use of a leased asset is discontinued or a sublease is made to the lease at a lower rate, the lease contract becomes loss-making and an impairment is recognised to the corresponding right-of-use asset.

In sale and leaseback transactions, the parties assess whether the transfer of the asset satisfies the requirements of IFRS 15 for a sale. If the transfer is accounted for as a sale, the right-of-use asset recognised in the balance sheet will be measured by the portion of the carrying amount of the original asset that corresponds to the value of the right to use that remains with the seller. Only the portion of the sales proceeds of the asset corresponding to the rights transferred to the buyer is presented as sales gain or loss. If the consideration for the sale of the asset or payments for the lease do not equal the fair value, the difference is recognised as an adjustment to the asset's sales proceeds. Any below-market terms are accounted for as a prepayment of lease payments, and any above-market terms are accounted for as financial liability. If the requirements for a sale are not satisfied, the Group will continue to recognise the transferred asset in its balance sheet, and will present the transfer proceeds as financial liability.

Critical accounting estimates and assumptions

When recognising leases in the balance sheet, assessments must be made concerning the lease term, use of extension options and the discount rate used. When assessing the lease term of a new lease, extension options are not acknowledged until a commitment has been made to use the extension option. The assessments may differ from the actualised future lease terms and conditions.

Right-of-use assets

The Group leases for its business operations facilities required for retail and for the logistics operations serving retail. The Group's lease contracts are typically fixed term and in line with local market practices. Some of the leases for the properties contain extension options. The Group also leases machinery and equipment used in its business operations, such as vehicles, logistics machinery and equipment, and equipment for recycling waste at stores and logistics operations. The Group has classified office machinery and equipment as low-value assets, and lease payments for them are recognised as an expense in the income statement.

2023 € million	Land and buildings	Machinery and equipment	Total
Carrying amount as at 1 January	1,718.9	18.6	1,737.6
Additions	431.0	6.2	437.3
Acquisitions	14.8	0.9	15.7
Depreciation	-339.3	-8.0	-347.3
Impairment charges	-5.9	-	-5.9
Deductions	-10.2	-0.4	-10.6
Exchange differences	-9.5	-0.3	-9.8
Carrying amount as at 31 December	1,799.9	17.0	1,816.9

2022 € million	Land and buildings	Machinery and equipment	Total
Carrying amount as at 1 January	1,717.2	17.9	1,735.0
Additions	346.6	8.0	354.6
Acquisitions	14.7	0.9	15.6
Depreciation	-313.8	-7.5	-321.3
Impairment charges	-2.4	-	-2.4
Deductions	-30.0	-0.0	-30.1
Exchange differences	-13.3	-0.6	-13.9
Carrying amount as at 31 December	1,718.9	18.6	1,737.6

The lease commitments for leases not commenced on 31 December 2023 to which the Group is committed totalled €233.2 million (€102.4 million).

Lease expenditure

€ million	2023	2022
Operating profit		
Depreciation and impairment charges on right-of-use assets	-353.2	-322.1
Lease payments for short-term leases	-3.2	-3.0
Lease payments for low-value assets	-3.6	-3.4
Variable lease payments	-1.0	-1.0
Financial expenses		
Interest expense for lease liabilities	-73.4	-68.4
Total	**-434.3**	**-397.9**

Maturity of lease liabilities and related finance costs are detailed in Note 4.3.

Cash flow from leases

€ million	2023	2022
Interest expense for lease liabilities	-73.4	-68.4
Repayments of lease liabilities	-354.3	-332.7
Lease payments in the income statement	-7.7	-7.4
Total	**-435.4**	**-408.5**

Accounting policies

Group as a lessor

In lessor accounting leases are classified as operating leases or finance leases. The Group assesses at the commencement date of a lease whether it is classified as an operating lease or a finance lease. Leases where the risks and rewards incidental to ownership are transferred to the lessee are classified as finance lease agreements. At the commencement date of the lease, the lessor recognises in the balance sheet a finance lease receivable that corresponds to the net investment in the lease. Lease income for operating leases is recognised in the income statement on a straight-line basis over the lease term.

Kesko leases premises to entrepreneurs other than K-retailers to ensure that the combination of services at a store site supports Kesko's overall profit generation. Such premises typically include so-called store entrance shops at large retail outlets. Kesko has store entrance shops both in its own properties and in leased properties. The entrance shops in leased properties include a sublease agreement where Kesko has the head lease. The entrance shop leases are classified as operating leases. The business premises owned or leased by Kesko and used by K-retailers to conduct chain operations are provided to the retailers under chain agreements, and are not treated as leases. The treatment of income based on chain agreements is detailed in Note 2.1. K Auto Leasing practices leasing operations of vehicles. Vehicle lease contracts are classified as operating leases.

Lease income

€ million	2023	2022
Lease income for operating leases	68.5	63.6

3.5 Inventories

Accounting policies

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less direct costs necessary to make the sale. The cost is determined using weighted average costs. The cost of finished goods comprises all costs of purchase including freight. The cost of self-constructed goods comprises all costs of conversion including direct costs and allocations of variable and fixed production overheads. The cost excludes borrowing costs.

Critical accounting estimates and assumptions

The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records a write-down as necessary. Such reviews require assessments of future demand for products. Possible changes in these estimates may cause changes in inventory measurement in future periods.

€ million	2023	2022
Goods	1,078.4	1,113.0
Prepayments	5.5	2.3
Total	**1,083.9**	**1,115.4**
Write-down of inventories to net realisable value	72.3	56.7

3.6 Trade and other current receivables

Accounting policies

Trade receivables and other current receivables are recognised in the amounts of the initial receivable. According to the IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, Group companies have been classified into risk categories on the basis of their business model and realised historical credit losses. In addition, impairment is recognised, if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Impairment is recognised as an expense in other operating expenses. If an amount previously written off is subsequently settled, it is recognised as a reduction of other operating expenses.

Critical accounting estimates and assumptions

The Group companies apply a uniform practice to measuring receivables past due. Possible changes in customers' solvency may cause changes in the measurement of trade receivables in future periods.

€ million	2023	2022
Interest-bearing receivables		
Interest-bearing loans and receivables	4.3	4.4
Total interest-bearing receivables	4.3	4.4
Trade receivables	970.5	969.3
Income tax assets	6.6	21.9
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	44.6	80.2
Prepaid expenses and deferred income	258.0	281.0
Total other non-interest-bearing receivables	302.6	361.2
Total	**1,284.0**	**1,356.9**

Prepaid expenses mainly relate to purchases. The fair values of current trade and loan receivables, and those of current interest-bearing receivables are estimated to equal the carrying amounts due to their short maturities.

Ageing analysis of trade receivables

Business entities are responsible for managing the credit risk associated with amounts due from customers. Terms and conditions of credit sale and collateral requirements as well as decision-making authorisations for credit facilities have been determined for managing credit risk within businesses. Credit control identifies customers with risk and ensures that credit decisions are based on up-to-date information on a customer's solvency and any changes in solvency are considered. The economic uncertainty is taken into account when estimating expected credit losses in connection with measurement of trade receivables. The Group's trade receivables are from a large number of individual customers, and receivables do not contain significant risk concentrations. The seasonality of businesses impacts the amount of trade receivables in the consolidated statement of financial position. The amount of credit losses remained moderate despite the economic uncertainty.

€ million	2023	2022
Trade receivables not due	875.8	886.7
1–7 days past due trade receivables	58.0	38.1
8–30 days past due trade receivables	14.7	23.6
31–60 days past due trade receivables	4.7	4.1
Over 60 days past due trade receivables	17.1	16.8
Total	**970.5**	**969.3**

In Finland the key part of the business is done in cooperation with retailers and within trade receivables, €382.7 million (€395.6 million) were from chain retailers. The collateral for retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the counter security from the K-retailer's company and its entrepreneur to Vähittäiskaupan Takaus Oy. At the end of the financial year, the aggregate value of counter securities was €199.5 million (€238.6 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €24.4 million (€19.4 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €5.1 million (€4.0 million).

The amount of trade receivables with renegotiated terms totalled €1.4 million (€2.3 million).

3.7 Pension assets

Accounting policies

The Group operates both defined contribution pension plans and defined benefit pension plans. The contributions payable under defined contribution plans are recognised as expenses in the income statement for the period to which the payments relate. In defined contribution plans, the Group does not have a legal or constructive obligation to pay further contributions, in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, the Group may incur obligations or assets after the payment of the contribution. The pension obligation represents the present value of future cash flows from the benefits payable. The present value of pension obligations has been calculated using the projected unit credit method. Pension costs are expensed during employees' service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligation is the market yield of high-quality corporate bonds. Their maturity substantially corresponds to the maturity of the pension liability. The assets corresponding to the pension obligation of the retirement benefit plan are carried at fair values at the balance sheet date. Actuarial gains and losses are recognised in comprehensive income in the income statement.

Critical accounting estimates and assumptions

Items relating to employee benefits are calculated using several factors that require the application of judgement. Pension calculations under defined benefit plans in compliance with IAS 19 are based on, among others, the following factors that rely on management estimates:

- discount rate used in calculating pension expenses and obligations and net finance cost for the period
- future salary increase
- employee service life.

Changes in these assumptions can significantly impact the amounts of pension obligation and future pension expenses. In addition, a significant part of the pension plan assets is invested in real estate and shares, whose value adjustments impact the recognised amount of pension assets.

The Group operates several pension plans in different operating countries. In Finland, the statutory pension provision of personnel is provided through pension insurance companies and the voluntary supplementary pension provision is mainly provided through Kesko Pension Fund. The statutory pension provision provided through pension insurance companies is a defined contribution plan. Defined benefit plans comprise mainly supplementary pension provision provided through Kesko Pension Fund.

Pension plans in foreign subsidiaries are managed in accordance with local regulations and practices, and they are mainly defined contribution plans.

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund. New members have not been included in the Pension Fund after 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. The Pension Fund had 2,072 beneficiaries, of whom 259 were active employees and 1,813 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.4% (96.4%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

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

Kesko Pension Fund did not charge contributions from its members during this or the previous financial year. In 2022 Kesko Pension Fund paid €42.9 million in total in return of surplus assets to Finnish Group companies. The return of surplus assets included the property of K-Citymarket in Turtola in Tampere, €40.3 million.

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

€ million	2023	2022
Present value of defined benefit obligation	-241.0	-225.2
Fair value of plan assets	320.3	312.1
Net assets recognised in the balance sheet	**79.6**	**86.9**
Movement in the net assets recognised in the balance sheet		
As at 1 January	**86.9**	**94.7**
Income/cost recognised in the income statement	-1.2	-4.1
Remeasurement	-6.8	38.3
Return of surplus assets	0.0	-42.9
Contributions to plan and plan costs	0.3	1.0
As at 31 December	**79.6**	**86.9**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2023	-225.2	312.1	86.9
Current service cost	-2.3		-2.3
Gains or losses on settlement	-1.5		-1.5
Interest cost/income	-7.7	10.9	3.2
Plan costs		-0.5	-0.5
	-11.6	**10.4**	**-1.2**
Remeasurement			
Return on plan assets		11.4	11.4
Gain/loss from changes in financial assumptions	-15.1		-15.1
Experience gains/losses	-3.2		-3.2
	-18.3	**11.4**	**-6.8**
Contributions to plan		0.3	0.3
Benefit payments	14.0	-14.0	-
As at 31 December 2023	**-241.0**	**320.3**	**79.6**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2022	-282.2	376.9	94.7
Current service cost	-4.0		-4.0
Gains or losses on settlement	-0.3		-0.3
Interest cost/income	-2.5	3.1	0.6
Plan costs		-0.5	-0.5
	-6.8	**2.6**	**-4.1**
Remeasurement			
Return on plan assets		-12.1	-12.1
Gain/loss from changes in financial assumptions	58.5		58.5
Experience gains/losses	-8.0		-8.0
	50.5	**-12.1**	**38.3**
Contributions to plan and plan costs		1.0	1.0
Return of surplus assets		-42.9	-42.9
Benefit payments	13.3	-13.3	0.0
As at 31 December 2022	**-225.2**	**312.1**	**86.9**

Plan assets were comprised as follows in 2023

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments		28.5	28.5
Debt instruments	57.4	3.2	60.6
Investment funds	72.9	15.9	88.8
Properties		85.5	85.5
United States			
Investment funds	51.2		51.2
Other countries			
Investment funds	16.9		16.9
Total	**198.5**	**133.1**	**331.6**

Plan assets were comprised as follows in 2022

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments		29.2	29.2
Debt instruments	49.8	20.4	70.2
Investment funds	56.1	15.1	71.2
Properties		86.9	86.9
United States			
Investment funds	47.2		47.2
Other countries			
Investment funds	18.5		18.5
Total	**171.6**	**151.6**	**323.2**

€ million	2023	2022
Kesko Corporation shares included in fair value	-	-
Properties leased by Kesko Group included in fair value	85.5	86.9

Principal actuarial assumptions

	2023	2022
Discount rate	3.02%	3.56%
Salary growth rate	2.96%	2.97%
Inflation	2.48%	2.49%
Pension growth rate	2.67%	2.68%
Average service expectancy, years	5	5

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

	2023	2022
Weighted average duration of pension obligations, years	12	12
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	15.4	15.4
Between 1–10 years	121.4	120.5
Between 10–20 years	109.2	110.2
Between 20–30 years	75.6	76.9
Over 30 years	55.5	59.4
Total	**377.0**	**382.3**

Risks related to pension plan

Asset related risks

The Pension Fund's investments comprise properties, equity index funds, private equity funds, unlisted shares and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually approved by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target return on investment activity is 5.0%. The risks involved in investment activity are managed by continuously monitoring market developments and analysing the adequacy of the return and risk potential of the investments. The returns compared to chosen reference indices and the breakdown of investments are reported on a monthly basis. In 2023, the realised return on investing activity was 7.9%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined pension obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €82.1 million as at 31 December 2023. Local rules concerning the Pension Fund may also create a contribution obligation in situations in which the IAS 19 obligation is fully covered. In such a case, the amount of contributions charged increases the amount of pension assets according to IAS 19.

Obligation related risks

In addition to the general level of interest rates, the defined benefit obligation may be impacted by changes in the statutory pension provision, future salary increases, index-based pension increases and changes in life expectancy. The pension promise made to the Fund's beneficiaries is tied to the amount of pensionable salary and it is a lifelong benefit. The total pension amount consists of the statutory pension and the supplementary pension provided by the Fund. Salary increases will increase the future pension amount. If changes in statutory pension provision, such as an increase in the retirement age or reduction of pension provision, were compensated to pensioners by the supplementary pension, the changes would increase the defined benefit obligation. The amount of future pensions is adjusted annually with an index-based increase in accordance with the terms and conditions of the plan. The extension of life expectancy will result in an increase in plan obligation.

Changes in the general level of interest rates and the market yield of high-quality bonds have an impact on the present value of the defined benefit obligation. When the level of interest rates falls, the present value of the defined benefit obligation rises. Because the Pension Fund's investment assets are invested and their return targets are set for long terms, changes in the annual return on investments do not necessarily correlate in the short term with changes in the discount rate applied to the defined benefit obligation.

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented in the following table.

Actuarial assumption	Change in assumption	Impact on defined benefit obligation, increase	Impact on defined benefit obligation, decrease
2023			
Discount rate	0.50%	-5.87%	6.52%
Salary growth rate	0.50%	0.74%	-0.56%
Pension growth rate	0.50%	5.60%	-5.10%
2022			
Discount rate	0.50%	-5.70%	6.33%
Salary growth rate	0.50%	0.72%	-0.70%
Pension growth rate	0.50%	5.30%	-4.90%

The impacts of sensitivity analysis have been calculated so that the impact of a change in the assumption is calculated while assuming that all other assumptions are constant. In practice, this is unlikely to occur, and changes in some of the assumptions may correlate with each other. The sensitivity of the defined benefit obligation has been calculated using the same method as when calculating the pension obligation recognised within the statement of financial position.

3.8 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are treated as equity-accounted investments. The shares in associates and joint ventures are not quoted on the market. Associates and joint ventures are listed in Note 5.1. Related party information is presented in Note 5.2.

Significant joint ventures

The Group has a significant joint venture, UAB Kesko Senukai Lithuania. Kesko Senukai Group engages in building and home improvement trade in Lithuania, Estonia, Latvia and Belarus. The Group's parent company, UAB Kesko Senukai Lithuania, is a limited liability company registered in Lithuania. Kesko Group has a 50.0% holding in Kesko Senukai Group.

UAB KS Holding is a limited liability company registered in Lithuania that engages in real estate development and real estate rental. Its operations are closely related to the operations of Kesko Senukai Group. Kesko Group's holding in KS Holding Group is 50.0%.

Summary of financials of significant joint ventures, € million	31 Dec. 2023	31 Dec. 2022
Current assets	413.9	427.4
Non-current assets	426.8	422.1
Current liabilities	301.0	285.8
Non-current liabilities	292.9	296.2
The above-mentioned balance sheet items contain the following items:		
Cash and cash equivalents	69.7	72.8
Current interest-bearing liabilities	47.1	39.8
Non-current interest-bearing liabilities	292.8	296.1

	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net sales	1,174.9	1,224.3
Net profit attributable to owners of the parent	37.9	47.1
Comprehensive income for the year attributable to owners of the parent	34.3	48.2
Group share of profit for the year	19.0	23.5
Share of result of the joint venture consolidated in the consolidated financial statements	19.0	23.5
Share of other comprehensive income of the joint venture consolidated in the consolidated financial statements	17.1	24.1
The above-mentioned income statement items contain the following items:		
Depreciation, amortisation and impairment	-53.9	-49.3
Interest income	1.1	0.6
Interest expense	-11.9	-12.3
Income tax	-4.7	-7.9
Dividends and repayment of capital received from joint ventures	-21.7	-33.0

Reconciliation for balance sheet value of joint ventures, € million	2023	2022
Net assets of joint ventures	246.7	267.6
Minority interest in net assets	22.0	34.0
Group interest in net assets	112.6	117.2
Goodwill	19.2	19.2
Fair value allocations	15.0	15.0
Balance sheet value of joint ventures	146.8	151.3

Significant associates

Mercada Oy is a limited liability company registered in Finland, which operates in real estate investment. Mercada owns, manages and develops retail sites mainly used by Kesko Group in Finland. Kesko Corporation's holding in Mercada is 33.3%. Mercada's three shareholders have equal stakes in the company.

Summary of financials of a significant associate, € million	2023	2022
Current assets	22.1	27.7
Non-current assets	506.7	516.3
Current liabilities	11.1	11.4
Non-current liabilities	477.6	488.5
Equity attributable to equity holders of the parent	40.1	44.1
Net sales	51.8	48.7
Net profit for the year	-4.1	10.5
Comprehensive income for the year, total	-4.2	9.6

Reconciliation for balance sheet value of an associate, € million	2023	2022
Net assets of the associate	40.1	44.1
Group interest in net assets	13.4	14.7
Balance sheet value of the associate	13.4	14.7

Other associates

Summary of financials of other associates, € million	2023	2022
Group share of profit for the year	2.8	-3.5
Group share of comprehensive income for the year	2.8	-3.5
Balance sheet value of associates in the consolidated statement of financial position	72.7	65.9

The table presents the associates Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy, which sell services to Kesko and retail companies of K-retailers.

3.9 Provisions

Accounting policies

A provision is recognised when the Group has a present legal or constructive obligation as the result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. Provision amounts are reviewed on each balance sheet date and adjusted to reflect the current best estimate. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised.

A warranty provision is recognised when a product covered by warranty provisions is sold. The provision amount is based on historical experience about the level of warranty expenses.

Critical accounting estimates and assumptions

The existence of criteria for recognising provisions and the amounts of provisions are determined based on estimates of the existence and amount of the obligation. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation.

€ million	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2023	7.9	14.3	22.2
Foreign exchange effects	-0.0	0.1	0.1
Additional provisions	4.3	6.8	11.0
Unused amounts reversed	-3.4	-1.5	-4.9
Amounts charged against provision	-2.1	-7.3	-9.4
Provisions as at 31 Dec. 2023	6.6	12.3	18.9
Analysis of total provisions			
Non-current	2.7	4.3	6.9
Current	3.9	8.1	12.0

The biggest items in other provisions are costs related to care plans of vehicles and machines sold by Group companies, real estate costs for empty store sites, and restructuring costs. The average duration for care plans is 3–4 years.

4. CAPITAL STRUCTURE AND FINANCIAL RISKS

4.1 Capital management

Kesko Group's objectives in capital management include target rates set for the Group's solvency and liquidity. The Group's capital structure (equity-to-debt ratio) is managed at Group level. The targets for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market situations, enabling the implementation of Group strategy, and increasing shareholder value. The targets have been set for the performance indicator 'interest-bearing net debt/EBITDA'. Some of the Group's interest-bearing liabilities include covenants, whose terms and conditions have been taken into account in the above target rate. The Group does not have a credit rating from any external credit rating institution.

Target levels for Kesko Group's performance indicators are approved by the Board of Directors of Kesko Corporation. The Board confirmed an updated version of the company's strategy and new medium-term financial targets for the company on 27 May 2021. The new medium-term financial targets for profitability are a comparable operating margin of over 6.0% (previously 5.5%) and a comparable return on capital employed of over 14.5% (previously 12.5%). As for financial position, the Group continues to target a maximum interest-bearing net debt/EBITDA of 2.5, excluding the impact of IFRS 16.

€ million	**2023**	**2022**
Interest-bearing liabilities and lease liabilities in the consolidated statement of financial position	2,787.0	2,418.3
- Lease liabilities	1,997.9	1,920.1
- Other current financial assets	15.4	68.6
- Cash and cash equivalents	211.9	245.5
Interest-bearing net debt excluding lease liabilities	**561.9**	**184.1**
Operating profit	695.4	816.5
+ depreciation, amortisation and impairment	184.0	169.0
+ depreciation and impairment charges for right-of-use-assets	353.2	322.1
- lease payments for right-of-use-assets	430.7	399.1
EBITDA excluding the impact of IFRS 16	**801.8**	**908.5**
Interest bearing net debt/EBITDA excluding the impact of IFRS 16	**0.7**	**0.2**

Reconciliation of net debt

The Group determines net debt by deducting the Group's liquid assets, which comprise cash and cash equivalents and other current financial assets, from interest-bearing short-term and long term-liabilities.

The Group had liquid assets of €227.3 million (€314.1 million) on 31 December 2023. Interest-bearing liabilities on 31 December 2023 totalled €2,787.0 million (€2,418.3 million), of which lease liabilities accounted for €1,997.9 million (€1,920.1 million). Interest-bearing net debt totalled €2,559.8 million (€2,104.2 million), and interest-bearing net debt excluding lease liabilities totalled €561.9 million (€184.1 million).

€ million	**2023**	**2022**
Financial assets at amortised cost (maturing in less than 3 months)	3.3	17.0
Cash and cash equivalents	208.6	228.5
Other current financial assets	15.4	68.6
Borrowings - repayable within one year (including overdraft)	-98.5	-252.6
Lease liabilities - repayable within one year	-350.6	-328.1
Borrowings - repayable after one year	-690.7	-245.5
Lease liabilities - repayable after one year	-1,647.2	-1,592.0
Cash and debt, net	**-2,559.8**	**-2,104.2**

€ million	Carrying amount as at 1 Jan. 2023	Cash flows	Business acquisitions and divestments	Net changes of lease liabilities	Foreign exchange adjustments	Carrying amount as at 31 Dec. 2023
Lease liabilities due within 1 year	-328.1	354.3	-3.4	-374.8	1.4	-350.6
Lease liabilities due after 1 year	-1,592.0		-12.1	-51.6	8.4	-1,647.2
Borrowings due within 1 year	-252.6	154.2	-		0.0	-98.5
Borrowings due after 1 year	-245.5	-445.2	-		-	-690.7
Other current financial assets	68.6	-53.2	-		-	15.4
Cash and overdraft	228.5	-28.1	8.2		-0.1	208.6
Financial assets at amortised cost	17.0	-13.7	-		-	3.3
Net debt	**-2,104.2**	**-31.7**	**-7.3**	**-426.4**	**9.8**	**-2,559.8**

€ million	Carrying amount as at 1 Jan. 2022	Cash flows	Business acquisitions and divestments	Net changes of lease liabilities	Foreign exchange adjustments	Carrying amount as at 31 Dec. 2022
Lease liabilities due within 1 year	-317.9	332.7	-1.6	-343.8	2.5	-328.1
Lease liabilities due after 1 year	-1,610.7		-12.3	19.0	11.9	-1,592.0
Borrowings due within 1 year	-160.1	-92.5	-		0.0	-252.6
Borrowings due after 1 year	-206.4	-39.1	-0.0		-0.0	-245.5
Other current financial assets	107.9	-39.3	-		-	68.6
Cash and overdraft	197.9	23.5	7.4		-0.3	228.5
Financial assets at amortised cost	32.0	-15.0	-		-	17.0
Financial assets at fair value through profit or loss	50.0	-50.0	-		-	-
Net debt	**-1,907.3**	**120.2**	**-6.4**	**-324.8**	**14.1**	**-2,104.2**

4.2 Shareholders' equity

Accounting policies

The Group classifies the instruments it has issued either in equity or in financial liabilities based on their nature. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Expenses related to the issuance or acquisition of equity instruments are presented as an allowance for equity. If Kesko Corporation acquires equity instruments of its own, their cost is deducted from equity.

The dividend proposed by the Board of Directors to the General Meeting has not been deducted from equity. Instead, dividends are recognised on the basis of the resolution by the General Meeting.

Change in share numbers and equity reserves

	Number of shares						
Share capital	**A**	**B**	**Total**	**Share capital € million**	**Reserve of invested non-restricted equity € million**	**Share premium € million**	**Total € million**
1 January 2022	126,948,028	270,162,316*	397,110,344*	197.3	197.8	266.9	662.0
Transfer of treasury shares		348,303	348,303				
31 December 2022	126,948,028	270,510,619*	397,458,647*	197.3	197.8	266.9	662.0
Transfer of treasury shares		310,864	310,864				
31 December 2023	**126,948,028**	**270,821,483***	**397,769,511***	**197.3**	**197.8**	**266.9**	**662.0**
Number of votes	**1,269,480,280**	**270,821,483**	**1,540,301,763**				

* Excluding treasury shares, which totalled 2,309,497 (2,620,361) at the end of the financial year.

Treasury shares

On 31 December 2023, the company held a total of 2,309,497 of its own B-shares that had been acquired based on the Board authorisation granted by the General Meeting in the financial years 2018 and 2014. The current number of shares acquired in the year 2018 totals 2,000,000 and the number of shares acquired in 2014 309,497. The share numbers correspond to numbers calculated after the share split carried out in 2020. The shares are held by the company as treasury shares and the Board has the right to issue them. The €24.4 million cost of shares for the B shares acquired in the 2018 financial year and held by the company and the €2.4 million cost of shares for the B shares acquired in 2014 have been deducted from retained earnings in equity. The Board has the authorisation granted by the Annual General Meeting on 30 March 2023 to decide on the issuance of a maximum of 33,000,000 B series shares and to decide on the repurchase of a maximum of 16,000,000 Kesko B shares. The authorisation is valid until 30 June 2024. Information on share-based payments has been given in Note 5.3.

	pcs
B shares held by the Company as at 31 Dec. 2022	**2,620,361**
Transfer, share-based compensation plan	-310,864
Returned during the period	-
B shares held by the Company as at 31 Dec. 2023	**2,309,497**

Dividends

After the balance sheet date, the Board of Directors proposed the distribution of a dividend of €1.02 per share. The dividend distributed for the profit for 2022 was €1.08 per share.

Equity and reserves

Equity consists of share capital, share premium, reserve of invested non-restricted equity, other reserves, revaluation reserve, currency translation differences and retained earnings net of treasury shares.

Share premium

The amount exceeding the par value of share received by the Company in connection with share subscriptions was recorded in the share premium in cases where options had been granted under the old Limited Liability Companies Act (29 Sept. 1978/734). As at the end of the financial year, the share premium was €197.8 million.

Reserve of invested non-restricted equity

The reserve of invested non-restricted equity, €24.1 million, includes the other equity-related investments and share subscription prices to the extent not designated to be included in share capital.

Other reserves

Other reserves, a total of €242.7 million, have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves to a total amount of €242.3 million at the end of the financial year.

Currency translation differences

Currency translation differences arise from the translation of foreign operations' financial statements. Exchange differences arising from monetary items that form a part of a net investment in a foreign operation or exchange differences from loans designated as hedges for foreign net investments and regarded as effective, are also included in currency translation differences. The change in currency translation differences is stated within comprehensive income.

Revaluation reserve

The revaluation reserve includes the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied. Cash flow hedges include electricity derivatives. The change in the reserve is stated within comprehensive income. The result of cash flow hedging has been presented in Note 4.3 Financial risks.

4.3 Financial risks

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

Foreign exchange risks

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

The Group companies' financial resources are arranged in their functional currencies. The parent company bears the ensuing foreign exchange risk and hedges the risk exposure using derivatives or borrowings denominated in the relevant foreign currencies.

Translation risks

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

Group's translation exposure as at 31 Dec. 2023 € million	NOK	SEK	PLN
Net investment	487.2	297.5	85.2

Group's translation exposure as at 31 Dec. 2022 € million	NOK	SEK	PLN
Net investment	381.6	263.4	71.0

The following table shows how a 10% weakening or strengthening of the functional currencies of Group companies against the euro would affect the Group's equity.

Sensitivity analysis, impact on equity as at 31 Dec. 2023 € million	NOK	SEK	PLN
Weakening 10%	-44.3	-27.0	-7.7
Strengthening 10%	54.1	33.1	9.5

Sensitivity analysis, impact on equity as at 31 Dec. 2022 € million	NOK	SEK	PLN
Weakening 10%	-34.7	-23.9	-6.5
Strengthening 10%	42.4	29.3	7.9

Transaction risks

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

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

As a rule, the Group does not apply hedge accounting in accordance with IFRS 9 to hedge the transaction risk relating to purchases and sales. In initial measurement, derivative instruments are recognised at fair value and subsequently in the financial statements, they are remeasured at fair value. The change in fair value of foreign currency derivatives used for hedging purchases and sales is recognised in other operating income or expenses.

Insofar as the Group applies hedge accounting to hedge purchases, the valuation of derivatives is recognised in the revaluation reserve of equity. When a derivative matures, it is treated similarly to the hedged item.

Group's transaction exposure as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Group's transaction risk	-2.9	57.5	51.7	-11.6
Hedging derivatives	17.2	-47.3	-42.3	5.1
Open exposure	14.3	10.2	9.5	-6.6

Group's transaction exposure as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Group's transaction risk	-1.2	74.9	23.7	11.9
Hedging derivatives	23.4	-56.2	-20.9	-10.7
Open exposure	22.3	18.7	2.8	1.2

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The table above presents transaction exposure excluding future cash flows. It does not include the Group's actual foreign exchange risk after hedging. When forecast amounts are included in the transaction exposure, the most significant difference to the table is in the USD exposures. As at 31 December 2023, the exposure with respect to USD was €-5.5 million.

A sensitivity analysis of the transaction exposure shows the impact on profit or loss of a +/-10% exchange rate change in intra-Group receivables and liabilities denominated in foreign currencies and foreign currency derivatives and borrowings used for hedging.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Change +10%	-1.3	-0.9	-0.9	0.6
Change -10%	1.6	1.1	1.1	-0.7

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Change +10%	-2.0	-1.7	-0.3	-0.1
Change -10%	2.5	2.1	0.3	0.1

Liquidity risk

Liquidity risk management aims to maintain sufficient liquid assets and credit facilities in order to ensure the ongoing availability of sufficient financial resources for the Group's operating activities.

Liquid assets comprise cash and cash equivalents in the balance sheet, financial assets at amortised cost, and current financial assets at fair value through profit or loss. Changes in these balance sheet items are presented in the consolidated statement of cash flows under change in cash and cash equivalents for cash and cash equivalents, and in cash flow from investing activities for other financial assets.

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and banks deposits operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on these investments in 2023 was 6.0% (-1.1%) and the duration 1.1 years at the end of the financial year. The maximum credit risk is the fair value of these investments on the balance sheet at the balance sheet date.

Interest-bearing net debt reconciliation is presented in Note 4.1.

Payables to K-retailers consist of two types of interest-bearing liabilities by Kesko to K-retailers: retailers' prepayments to Kesko and Kesko's chain rebate liabilities to retailers.

Kesko has drawn down five bilateral loans, which combined total €650 million. The interest margin of these loans accounts for Kesko's sustainability targets for its carbon footprint and food waste, and in the value chain, emission reduction targets set by Kesko's direct suppliers of goods and services.

At the balance sheet date, the total equivalent of undrawn committed credit facilities was €300 million (€300 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €546 million (€506 million).

	31 Dec. 2023				31 Dec. 2022			
€ million	<1 year	1–5 years	>5 years	Total	<1 year	1–5 years	>5 years	Total
Maturities of financial liabilities and related finance costs								
Borrowings from financial institutions	**0.2**	**650.6**	**0.8**	**651.6**	**0.2**	**200.6**	**0.9**	**201.7**
finance costs	29.6	17.3	0.1	47.0	4.5	9.2	0.1	13.9
Pension loans	**12.0**	**32.3**	**-**	**44.3**	**12.0**	**38.6**	**5.7**	**56.3**
finance costs	0.6	0.9	-	1.5	0.8	1.4	0.1	2.2
Lease liabilities	**350.6**	**1,064.2**	**583.0**	**1,997.9**	**328.1**	**1,012.4**	**579.7**	**1,920.1**
finance costs	69.6	164.5	68.4	302.5	61.6	144.2	52.1	257.9
Payables to K-retailers	**64.5**	**-**	**-**	**64.5**	**82.1**	**-**	**-**	**82.1**
finance costs	-	-	-	-	0.2	-	-	0.2
Other interest-bearing liabilities	**21.7**	**7.9**	**0.0**	**29.6**	**158.3**	**-**	**0.0**	**158.3**
finance costs	0.1	0.4	-	0.5	1.3	-	-	1.3
Non-current non-interest-bearing liabilities	**0.6**	**3.9**	**19.7**	**24.1**	**1.0**	**2.6**	**20.5**	**24.1**
Current non-interest-bearing liabilities								
Trade payables	**1,418.3**			**1,418.3**	**1,499.4**			**1,499.4**
Accrued expenses	**415.1**			**415.1**	**442.6**			**442.6**
Other non-interest-bearing liabilities	**193.4**			**193.4**	**195.5**			**195.5**

Financial liabilities in the balance sheet include €3.9 million (€1.2 million) in items related to derivatives, of which €2.3 million will mature within the next 12 months.

More information on leases is presented in Note 3.4.

	31 Dec. 2023				31 Dec. 2022			
€ million	<1 year	1–5 years	>5 years	Total	<1 year	1–5 years	>5 years	Total
Cash flows of derivatives								
Payables								
Foreign currency derivatives	125.1	-	-	125.1	140.9	-	-	140.9
Interest rate derivatives	3.9	4.8	-	8.7	1.0	3.0	-	4.0
of which derivatives under hedge accounting	3.0	2.9	-	5.9				
Electricity derivatives	0.5	1.3	-	1.9	0.6	0.1	-	0.7
Receivables								
Foreign currency derivatives	123.5	-	-	123.5	142.8	-	-	142.8
Interest rate derivatives	9.4	7.0	-	16.3	3.3	8.2	-	11.5
of which derivatives under hedge accounting	3.6	2.1	-	5.6				
Electricity derivatives	5.3	2.2	0.0	7.5	29.3	15.5	-	44.8

Interest rate risk on borrowings and sensitivity analysis

Changes in the interest rate level have an impact on the Group's interest expense. The policy for hedging interest rate risk is aimed at balancing the effects of changes in the interest rate level on profit or loss for different financial periods. Hedge accounting can be applied for interest rate derivatives according to Kesko Treasury policy.

Hedge accounting is applied to hedging the interest rate risk of specifically determined Kesko Corporation loans. Interest rate swaps with the same maturity as the loan have been used for hedging. Thus the hedging of the interest rate risk of the loan is 67%. During the financial year, no ineffectiveness was recorded in the income statement for the hedging of the loan in question.

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate derivative contracts. The target duration is between 1 and 4 years. The actual duration during the financial year was 1.1 (1.7) years on average.

The sensitivity analysis calculated at the balance sheet date of 31 December 2023, the effect of variable rate borrowings on the pre-tax profit would have been €-/+4.1 million (€-/+1.1 million), if the interest rate level had risen or fallen by 1 percentage point.

Pension loans, €44.3 million in total, have fixed rates, and their effective interest cost was 1.4%. Other borrowings from financial institutions have variable interest rates. At the end of the financial year, the average rate of these borrowings, payables to retailers, and other interest-bearing liabilities was 4.2%.

Credit and counterparty risk

Financial instruments involve the risk of non-performance by counterparties. Credit risk is managed with agreements with financially sound Finnish and foreign banks, financial institutes and brokers, within the counterparty risks limits set in the treasury policy. Financial assets are also invested in money market funds and the bonds, commercial papers and certificates of deposit issued by conservatively selected companies and banks. The limits are reviewed regularly depending on the market situation.

Further information about credit and counterparty risk of trade receivables can be found in Note 3.6.

Supply chain financing arrangements

The Group has established a supply chain financing scheme with three banks. Trade payables in the consolidated statement of financial position on 31 December 2023 totalled €1,418.2 million, of which €354.6 million were liabilities related to open purchase accounts covered by the schemes. In supply chain financing, the supplier utilises the buyer's credit rating when selling its receivables to a financing institution. Once the buyer approves the purchase accounts, the bank pays them to the supplier without a right of recourse, meaning the supplier has quick access to the cash flows related to trade receivables. The Group does not pay commission to the banks for the supply chain financing, and the payment terms do not materially deviate from the payment terms applied with suppliers. Open purchase accounts covered by the scheme are presented under trade payables on the Group balance sheet. The impact of these trade payables can be seen in cash flow from operating activities as change in working capital.

Current interest-bearing receivables and sensitivity analysis

The objective is to invest liquidity consisting of financial assets in the money markets using efficient combinations of return and risk. At regular intervals, the Group's management approves the investment instruments and limits for each counterparty among those analysed by the Group Treasury. The risks and actual returns on investments are monitored regularly.

Financial assets at amortised cost € million	2023	2022
Carrying amount as at 1 January	38.7	52.7
Changes	-23.3	-14.1
Carrying amount as at 31 December	**15.4**	**38.7**

The financial assets at amortised costs include investments in commercial papers, certificates of deposits and other interest rate instruments.

In the sensitivity analysis of floating rate receivables, balances of invested assets at balance sheet date have been used. The receivables include customer financing receivables, other interest-bearing receivables, and within investments money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/-1.5 million (€+/-1.8 million).

Maturity of non-current receivables

Maturity analysis of non-current receivables as at 31 Dec. 2023 € million	2025	2026	2027	2028	2029–	Total
Non-interest-bearing non-current receivables	1.9	2.5	3.5	0.2	0.6	8.8
Loans and receivables from associates and joint ventures	3.4	0.5	1.5	-	56.0	61.4
Other non-current receivables	1.1	0.0	0.0	0.0	0.0	1.3
Total	**6.4**	**3.0**	**5.1**	**0.2**	**56.6**	**71.4**

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

Maturity analysis of non-current receivables as at 31 Dec. 2022 € million	2024	2025	2026	2027	2028–	Total
Non-interest-bearing non-current receivables	9.8	5.2	4.2	5.9	0.7	25.9
Loans and receivables from associates and joint ventures	3.4	3.4	0.5	1.5	56.0	64.7
Other non-current receivables	0.2	-	-	-	-	0.2
Total	**13.4**	**8.6**	**4.7**	**7.4**	**56.7**	**90.8**

Commodity risks and their sensitivity analysis

The Group uses electricity derivatives for the purpose of balancing out energy costs. The electricity price risk is assessed for five-year periods. The changes in the fair values of derivatives hedging the price of electricity supplied during the financial year are recognised within adjustments to purchases. Hedge accounting is applied to contracts hedging future purchases. Hedge accounting is applied in accordance with IFRS 9 to hedge the risk component. The effective portion of the change in the value of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under Revaluation of cash flow hedge.

Result of cash flow hedging

As a result of hedge accounting for interest-bearing loans, a change in fair value of €-0.3 million has been recorded in the revaluation reserve before accounting for deferred tax. In addition, a €0.3 million adjustment for interest expenses has been recorded in the income statement for these interest rate derivatives.

As a result of hedge accounting applied to electricity, an amount of €11.5 million (€34.8 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-27.0 million (€67.7 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €5.7 million (€44.2 million) before accounting for deferred tax.

As at the balance sheet date, a total quantity of 881,560 MWH (810,336 MWH) of electricity had been purchased with electricity derivatives and 9,802,890 MWH (1,196,839 MWH) under fixed price purchase agreements. The 1–12 month hedging level for system price was 79% (89%), the 13–24 month level was 66% (73%), the 25–36 month level was 41% (56%), the 37–48 month level was 27% (22%), and the 49–60 month level was 27% (19%).

The sensitivity analysis of electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by -/+20% from the balance sheet date 31 December 2023, it would contribute €-/+3.3 million (€-/+8.5 million) to the 2024 income statement and €-/+4.6 million (€-/+5.6 million) to equity. The impact has been calculated before taxes.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2023 Positive fair value (balance sheet value)	31 Dec. 2023 Negative fair value (balance sheet value)	31 Dec. 2022 Positive fair value (balance sheet value)	31 Dec. 2022 Negative fair value (balance sheet value)
Interest rate derivatives	14.8	-8.5	12.2	-0.1
Foreign currency derivatives	0.2	-1.8	2.4	-0.6
Electricity derivatives	7.5	-1.9	44.8	-0.7

Notional principal amounts of derivative contracts € million	31 Dec. 2023	31 Dec. 2022
Interest rate derivatives	530.0	330.0
Foreign currency derivatives	125.3	141.7
Electricity derivatives	39.4	69.7

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all bank counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €0.8 million.

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

4.4 Finance income and costs

€ million	2023	2022
Interest income and other finance income		
Income on investments at amortised cost	0.6	1.0
Interest income on loans and receivables	13.4	9.7
Income on investments at fair value through profit or loss	0.6	1.0
Other finance income	2.4	1.3
Total interest income and other finance income	16.9	13.0
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-24.9	-4.0
Losses on investments at amortised cost	1.2	-2.2
Losses on investments at fair value through profit or loss	-0.3	-3.5
Other finance costs	-2.2	12.7
Total interest expense and other finance costs	-26.3	2.9
Interest expense for lease liabilities	-73.4	-68.4
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-1.1	-3.5
Total exchange differences	-1.1	-3.5
Total finance income and costs	**-83.9**	**-56.0**

Interest expenses and other finance costs in comparison year include positive change in fair value of interest rate derivatives.

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

The Group classifies financial assets into three groups in accordance with IFRS 9. Financial assets are classified either as instruments measured at amortised cost, or as instruments measured at fair value through profit or loss or in other comprehensive income, depending on the business model targets and cash flows based on agreements.

Regular way purchases or sales of financial assets are recognised on settlement date. Financial assets are classified as non-current, if they have a maturity of more than 12 months after the balance sheet date. If financial assets are expected to be settled within 12 months, they are classified as current.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred from the Group, and when the risks and rewards of ownership have been transferred from the Group.

Financial assets at amortised cost and financial assets at fair value are only invested in counterparties deemed creditworthy. The impairment model for expected credit losses in line with the standard requires credit losses to be recognised with a forward-looking approach. As for other financial assets, lacking historical credit losses, counterparty risk is monitored actively and credit losses are recognised if risk is observed.

Financial assets at amortised cost

Financial assets at amortised cost consist of assets that are to be held to maturity and whose cash flows consist solely of payments of principal and interest. Financial assets at amortised cost also include trade receivables and other receivables.

Financial assets at fair value

Financial assets at fair value in other comprehensive income comprise derivatives that meet the hedge accounting criteria. Financial assets that do not meet the criteria of the other groups are classified as financial assets measured at fair value through profit or loss.

Level 1 instruments are traded in active markets and their fair values are directly based on quoted market prices. The fair values of level 2 instruments are derived from market data. The fair value of level 3 instruments is not based on observable market data (inputs not observable).

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with banks as well as liquid funds measured at amortised cost which are invested in instruments with maturities of less than three months from acquisition. Investments in money market funds recognised at fair value through profit or loss, for which liquidity is assessed as very good, are also classified as cash and cash equivalents. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of the group companies, used as cash floats in stores, or amounts being transferred to the respective companies.

Financial liabilities

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

Derivative financial instruments and hedge accounting

When derivative contracts are entered into, they are recognised at fair value and in the financial statements, they are re-measured at their fair value. The recognition of changes in the fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting or not and, if so, on the hedged item. When entered into, derivative contracts are treated either as fair value hedges of receivables or liabilities, or in the case of interest rate risk and electricity price risk, as cash flow hedges, as hedges of net investments in a foreign entity, or as derivative contracts that do not meet the hedge accounting criteria. If the hedge accounting criteria are not met, the results of instruments hedging a commercial foreign exchange risk are recognised in profit or loss within other operating income or expenses. Concerning derivatives hedging financial transactions, the amount to be recognised in the income statement is included in financial items.

When a hedging arrangement is entered into, the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedge relationship is tested regularly and the effective portion is recognised, according to the nature of the hedged item, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation reserve. The ineffective portion is recognised, according to its nature, either in financial items or other operating income and expenses.

Hedge accounting is discontinued when the hedging instrument expires or is sold, or when the contract is terminated or exercised. Any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction has occurred.

Measurement principles

The fair value of forward rate agreements is determined by reference to the market prices at the balance sheet date. The fair value of interest rate swaps is calculated on the basis of the present value of future cash flows, using the market prices at the balance sheet date. The fair value of foreign exchange forward contracts is determined by measuring the forward contracts at the forward rate at the balance sheet date. Currency options are measured using the counterparty's price quotation, but the Group also verifies the price by applying the Black–Scholes method. Electricity derivatives are measured at fair value using the market quotations at the balance sheet date.

Hedging a net investment in foreign operations

During the financial year, the Group has not hedged net investments in foreign operations. If a hedge is initiated, the Group applies hedge accounting in accordance with IFRS 9 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the hedging instruments are recognised in profit or loss.

As at 31 December 2023

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
Other investments	14.0		-	14.0	14.0			14.0
Non-current receivables		64.1		64.1	64.1			
Non-current receivables, derivatives	5.6		1.7	7.3	7.3		7.3	
Current financial assets								
Trade receivables		970.5		970.5	970.5			
Other receivables		299.9		299.9	299.9			
Other receivables, derivatives	1.2		5.8	7.0	7.0		7.0	
Other financial assets	-	15.4	-	15.4	15.5		-	
Cash and cash equivalents	-	211.9	-	211.9	211.9		-	
Total financial assets	**20.8**	**1,561.7**	**7.5**	**1,590.1**	**1,590.2**		**14.3**	**14.0**

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial liabilities								
Non-current interest-bearing liabilities		690.7		690.7	691.0			
Non-current lease liabilities		1,647.2		1,647.2	1,647.2			
Non-current non-interest-bearing liabilities		22.6		22.6	22.6			
Non-current non-interest-bearing liabilities, derivatives	-		1.6	1.6	1.6		1.6	
Current financial liabilities								
Current interest-bearing liabilities		98.5		98.5	98.1			
Current lease liabilities		350.6		350.6	350.6			
Trade payables		1,418.3		1,418.3	1,418.3			
Other non-interest-bearing liabilities		606.1		606.1	606.1			
Other non-interest-bearing liabilities, derivatives	1.8		0.6	2.3	2.3		2.3	
Total financial liabilities	**1.8**	**4,834.0**	**2.1**	**4,837.8**	**4,837.8**		**3.9**	

As at 31 December 2022

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
Other investments	13.2		-	13.2	13.2			13.2
Non-current receivables		66.0		66.0	66.0			
Non-current receivables, derivatives	12.1		12.8	24.9	24.9		24.9	
Current financial assets								
Trade receivables		969.3		969.3	969.3			
Other receivables		331.2		331.2	331.2			
Other receivables, derivatives	2.4		32.1	34.4	34.4		34.4	
Other financial assets	29.9	38.7	-	68.6	68.6		29.9	
Cash and cash equivalents	-	245.5	-	245.5	245.5		-	
Total financial assets	**57.6**	**1,650.6**	**44.8**	**1,753.1**	**1,753.1**		**89.2**	**13.2**

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial liabilities								
Non-current interest-bearing liabilities		245.5		245.5	243.4			
Non-current lease liabilities		1,592.0		1,592.0	1,592.0			
Non-current non-interest-bearing liabilities		24.1		24.1	24.1			
Non-current non-interest-bearing liabilities, derivatives	-		-	-	-		-	
Current financial liabilities								
Current interest-bearing liabilities		252.6		252.6	252.2			
Current lease liabilities		328.1		328.1	328.1			
Trade payables		1,499.4		1,499.4	1,499.4			
Other non-interest-bearing liabilities		636.9		636.9	636.9			
Other non-interest-bearing liabilities, derivatives	0.6		0.7	1.2	1.2		1.2	
Total financial liabilities	**0.6**	**4,578.7**	**0.7**	**4,579.9**	**4,577.3**		**1.2**	

In addition to cash on hand and deposits with banks, cash and cash equivalents include liquid assets measured at amortised cost due in less than three months from acquisition of €3.3 million (€17.0 million).

Non-current receivables from associates and joint ventures contain the shareholder loan granted to Mercada Oy and the financing loans granted to UAB Kesko Senukai.

Deferred tax assets, income tax receivables, deferred tax liabilities and income tax liabilities are not classified as financial assets or financial liabilities and are not included in the table above. Prepayments received of €56.7 million (€46.9 million) are not classified as financial liabilities and are not included in the table above in other non-interest-bearing liabilities.

The fair values of borrowings have been calculated based on the present value of future cash flows using the 2.4%–3.9% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity structure of non-current borrowings has been presented in Note 4.3.

Changes in level 3 instruments **€ million**	**2023**	**2022**
Private equity funds and other shares and interests as at 1 January	13.2	15.5
Purchases	1.3	0.3
Gains and losses through profit or loss	-0.5	-0.4
Changes in fair value	0.0	-2.2
Private equity funds and other shares and interests as at 31 December	**14.0**	**13.2**

Level 3 includes private equity funds and other shares and interests. These investments have been classified as financial assets at fair value through profit or loss. Level 3 financial assets are measured based on computations received from the companies. A loss of €0.5 million has been recorded on these investments for the financial year 2023.

4.6 Commitments and contingencies

€ million	**2023**	**2022**
Collateral given for own commitments		
Pledges	9.0	9.0
Mortgages	181.2	179.6
Guarantees	60.0	61.6
Other commitments and contingent liabilities	64.0	58.4
Collateral given for others		
Guarantees	-	-
Other commitments and contingent liabilities	-	-

The guarantees given do not include guarantees related to the items presented within liabilities in the consolidated statement of financial position or as a lease liability in Note 3.4.

Guarantee maturities are €2.2 million in 2024 and €57.9 million in 2025–2028.

Leases not commenced yet but to which the Group is committed at the balance sheet date 31 December 2023 are presented in Note 3.4.

5. OTHER

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

Subsidiaries

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki, Finland	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi, Finland	100.00	100.00
Asunto Oy Porvoon Taiteilija	Porvoo, Finland	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Intersport Finland Oy	Helsinki, Finland	100.00	100.00
Jyväscool Oy	Jyväskylä, Finland	100.00	100.00
JK-Kiinteistöt Oy	Hyvinkää, Finland	100.00	100.00
Kalatukku E. Eriksson Oy	Helsinki, Finland	100.00	100.00
K Auto Oy	Helsinki, Finland	100.00	100.00
Keskinäinen Kiinteistö Oy Malmin Kankirauta	Helsinki, Finland	100.00	100.00
Keskinäinen Kiinteistö Oy Voisalmentie 9 Lappeenranta	Helsinki, Finland	100.00	100.00
Kesko AB	Stockholm, Sweden	100.00	100.00
Kesko Export Oy	Helsinki, Finland	100.00	100.00
Kiinteistöosakeyhtiö Varkauden Kauppakatu 29	Varkaus, Finland	52.29	52.29
Kiinteistö Oy Espoontori	Espoo, Finland	66.60	66.60
Kiinteistö Oy Espoon Asemakuja 2	Espoo, Finland	100.00	100.00
Kiinteistö Oy Espoon Asematori	Espoo, Finland	54.10	54.10
Kiinteistö Oy Eteläkoivulan Kauppakeskus	Pori, Finland	78.45	78.45
Kiinteistö Oy Helsingin Itäkeskus	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Hiukkavaaran Kauppa	Oulu, Finland	100.00	100.00

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Hyvinkään Onnela	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Kittilän Säästökulma	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Kuopion Tulliportinkatu 33	Kuopio, Finland	100.00	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Mariannen Liiketila	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Pontsonkulma	Helsinki, Finland	94.60	94.60
Kiinteistö Oy Riistaveden Keskustie 15	Helsinki, Finland	79.50	79.50
Kiinteistö Oy Sarviniitynkatu 4	Kerava, Finland	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Tarkkaiikka	Oulu, Finland	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki, Finland	100.00	100.00
Klintcenter Ab	Mariehamn, Åland	100.00	100.00
Kompass Invest Oy	Kemiönsaari, Finland	100.00	100.00
K-Market Oy	Helsinki, Finland	100.00	100.00
Koskelan Ostokeskus Oy	Oulu, Finland	58.64	29.32
ML 84 Dormant Oy	Helsinki, Finland	100.00	100.00
Onninen Oy	Helsinki, Finland	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
Reinin Liha Oy	Helsinki, Finland	100.00	100.00
Tampereen Länsikeskus Oy	Tampere, Finland	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Arn Eiendom AS	Vefsn, Norway	100.00	
Djurbergs Järnhandel Aktiebolag	Östersund, Sweden	100.00	
Elektroskandia Norge AS	Langhus, Norway	100.00	
Espoontorin Pysäköintitalo Oy	Espoo, Finland	68.80	
Geitanger Bygg AS	Bergen, Norway	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
Högsbo Trä Aktiebolag	Västra Frölunda, Sweden	100.00	
K Auto AC Oy	Helsinki, Finland	100.00	
K Auto PC Oy	Helsinki, Finland	100.00	
K Auto Leasing Oy	Helsinki, Finland	100.00	
K Auto Retail Oy	Helsinki, Finland	100.00	
Kesko Onninen International Trading Co., Ltd	Shanghai, China	100.00	
K rauta SIA	Riga, Latvia	100.00	
Kestra Kiinteistöpalvelut Oy	Helsinki, Finland	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2–4	Kokkola, Finland	64.78	
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta, Finland	57.12	
Kiinteistö Oy Vantaan Simonsampo	Vantaa, Finland	100.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
K-Bygg Bergslagen AB	Sollentuna, Sweden	100.00	
K-Bygg Försäljning AB	Segeltorp, Sweden	100.00	
K-Bygg Sverige AB	Östersund, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
K-Rauta Holding Finland Oy	Helsinki, Finland	100.00	
Kungälvs Trävaruaktiebolag	Kungälv, Sweden	100.00	
Mark & Infra i Sverige AB	Täby, Sweden	100.00	
Olarin Autokiinteistö Oy	Espoo, Finland	100.00	
Onninen AS	Skedsmo, Norway	100.00	
Onninen AS	Tallinn, Estonia	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Warsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Peltosaaren Liikekeskus Oy	Riihimäki, Finland	59.67	
Profelco Oy	Vantaa, Finland	100.00	
Rake Bergen AS	Oppegård, Norway	100.00	
Sport1 Flokkmann Mosjøen AS	Mosjøen, Norway	100.00	
Sørbø AS	Skedsmokorset, Norway	100.00	
Sörred's Byggvaruhus AB	Göteborg, Sweden	100.00	
Tau & Jørpeland Eiendom	Jørpeland, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
Zenitec Sweden AB	Hästvdeda, Sweden	100.00	
Övik Låsteknik AB	Örnsköldsvik, Sweden	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli, Finland	50.00	50.00
Kesko Senukai Lithuania UAB	Vilnius, Lithuania	50.00	50.00
Kiinteistö Oy Itäaukio	Lahti, Finland	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala, Finland	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu, Finland	22.77	22.77
Mercada Oy	Helsinki, Finland	33.33	33.33
Vähittäiskaupan Takaus Oy	Helsinki, Finland	42.84	42.84
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki, Finland	30.00	30.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
EDISON Data AS	Oslo, Norway	40.00	
Proffsenteret AS	Ringerike, Norway	34.11	
KS Holding UAB	Vilnius, Lithuania	50.01	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo, Finland	46.22	46.22
Asunto Oy Helsingin Strorken	Helsinki, Finland	25.42	25.42
Asunto Oy Kajaanin Louhikatu 2	Kajaani, Finland	42.96	42.96
Asunto Oy Naantalin Tullinkulma	Naantali, Finland	24.45	
Asunto Oy Soukan Itäinentorni	Espoo, Finland	46.60	46.60
Asunto-Oy Punkalaitumen Pankkitalo	Punkalaidun, Finland	33.82	
Itäkeskuksen Pysäköintitalo Oy	Helsinki, Finland	36.16	36.16
Kiinteistö Oy Iso Roobertinkatu 20–22	Helsinki, Finland	25.64	25.64
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti, Finland	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere, Finland	34.54	
Kiinteistö Oy Taidetehtaanparkki	Porvoo, Finland	24.06	24.06
Kiinteistö Oy Ulvilan Hansa	Ulvila, Finland	43.47	43.47
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa, Finland	27.81	27.81
Lapin Tehdastalo Oy	Tampere, Finland	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki, Finland	39.20	39.20
Raksilan Paikoitus Oy	Oulu, Finland	33.33	33.33
Talo Oy Kalevanpuisto	Kuopio, Finland	47.60	47.60
Voisalmen Ostoskeskus Oy	Lappeenranta, Finland	50.00	

5.2 Related party transactions

The Group's related parties include its management (the Board of Directors, President and CEO and the Group Management Board) and the companies controlled by them, their family members and companies controlled by the family members, Kesko's subsidiaries, associates and joint ventures, and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in Note 5.1.

The related party transactions disclosed consist of such transactions carried out with related parties that are not eliminated in the consolidated financial statements.

Some members of the Kesko Board are K-retailers. The Group companies sell goods and services to companies controlled by them. Goods and services have been sold to and purchased from related parties on normal market terms and conditions and at market prices.

Kesko reports Kesko Senukai Group and KS Holding Group that are part of Kesko's building and technical trade segment, as joint ventures using the equity method.

The associated company consolidated using the equity method, Mercada Oy, owns properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates mainly comprise business property companies. Mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. At the end of 2023 or 2022, the pension assets did not include Kesko Corporation shares. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2023 and 2022, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement	Associates and joint ventures		Board and management		Pension Fund	
€ million	2023	2022	2023	2022	2023	2022
Sales of goods	7.2	9.9	87.8	88.2		
Sales of services	4.7	5.2	0.9	1.0	0.0	0.2
Purchases of goods	0.0	-0.6	-10.7	-13.1		
Purchases of services	0.0	-0.1	0.0	0.0		
Other operating income	0.8	0.8	19.1	19.1	-	-
Other operating costs	-4.4	-3.9	-0.0	-0.0	-0.1	-0.2
Finance income	6.1	6.0	-	-		
Finance expenses	-0.2	-0.3	-	-	-0.2	

Balance sheet	Associates and joint ventures		Board and management		Pension Fund	
€ million	2023	2022	2023	2022	2023	2022
Current receivables	9.9	25.8	7.6	7.2	-	0.0
Non-current receivables	61.4	64.7	-		-	
Current liabilities	5.8	10.1	3.8	2.3	2.8	4.8

Items related to leases	Associates and joint ventures		Board and management		Pension Fund	
€ million	2023	2022	2023	2022	2023	2022
Cash flow from leases	38.7	35.9	-	-	6.0	6.2
Lease liabilities	222.7	231.9	-	-	40.5	41.7

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €7.6 million (€7.2 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the counter security from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the counter security was valued at €10.6 million (€12.0 million).

Non-current receivables from associates and joint ventures contain the shareholder loan granted to Mercada Oy and the financing loans granted to UAB Kesko Senukai Lithuania. Current receivables contain €3.4 million of the current portion of these loans. Other current liabilities include, for example, chain rebate payables to companies controlled by the Kesko Board members. Chain rebates are paid retrospectively based on criteria related to the amount of actual annual purchases and the quality of operations.

During the financial year 2022, Kesko Pension Fund paid in total €42.9 million in return of surplus assets to Finnish Group companies. The return of surplus assets included the property of K-Citymarket Turtola in Tampere, €40.3 million. The ownership of the property was transferred to Kesko Corporation.

The Group joint ventures UAB Kesko Senukai Lithuania and UAB KS Holding distributed in total €21.7 million as dividends and equity repayments to Kesko Group companies in the 2023 financial year. The Group associate Vähittäiskaupan Takaus Oy distributed €2.6 million as dividend to Kesko Corporation in the 2023 financial year.

Management's employee benefits

The top management comprises the Board of Directors and the Group Management Board. The compensation paid to them for their employee services consists of the following items:

Monetary salaries, fees, fringe benefits and share-based compensation €1,000		2023	2022
Mikko Helander	President and CEO	3,370.1	4,866.4
Group Management Board	other members	8,232.9	9,801.4
Esa Kiiskinen	Board Chairman	114.6	117.0
Peter Fagernäs	Board Deputy Chairman	70.2	71.4
Jannica Fagerholm	Board member	74.4	75.6
Piia Karhu	Board member	55.9	57.1
Jussi Perälä	Board member	52.9	54.1
Toni Pokela	Board member	52.9	54.1
Timo Ritakallio	Board member	57.7	58.9
Total		**12,081.6**	**15,156.0**

Approximately 30% of the annual fees for Board members was paid in shares in the Company and the remaining fee amount was paid in cash. The members of the Board of Directors were granted 6,000 Kesko Corporation B shares in 2023. The figures in the table are presented as payment-based. Remunerations to be paid in the later years are not included in the figures.

Retirement benefits

The statutory pension provision for the President and CEO and other members of the Group Management Board is provided through a pension insurance company. Three Group Management Board members are provided with a supplementary pension based on a defined benefit plan in line with the rules of Kesko Pension Fund and personal service contracts. Four Group Management Board members are provided with a defined contribution supplementary pension. President and CEO Mikko Helander's old-age pension based on a defined benefit plan accrued until 30 June 2023. The amount of the defined benefit based old-age pension is 60% of the pensionable earnings for the final 10 years in accordance with the Employees' Pensions Act (TyEL). The President and CEO's supplementary pension is based on a defined contribution plan as of 1 July 2023. The cost of the defined benefit supplementary pension for the period, calculated on an accrual basis, was €0.6 million (€1.3 million) and the related pension asset in the balance sheet was €0.1 million (€0.9 million). Payment to the defined contribution pension plan, in effect as of 1 July 2023, was €0.5 million. The pension cost of the President and CEO's statutory pension provision, calculated on an accrual basis, was €0.3 million (€0.3 million).

Share awards

During the 2023 reporting period, members of the Group Management Board were granted 238,500 shares based on the PSP 2021–2024, while the maximum number of shares to be granted was 318,000. The number of shares represents gross earnings, from which withholding tax and transfer tax are deducted. During the 2022 reporting period, members of the Group Management Board were granted 371,397 shares based on the PSP 2020–2023. The number of shares represents gross earnings, from which withholding tax and transfer tax are deducted.

Termination benefits

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

Shareholdings

At 31 December 2023, the President and CEO held 5,000 Kesko Corporation A shares and 431,385 Kesko Corporation B shares, which represented 0.11% of the total number of shares and 0.03% of votes carried by all shares of the Company. At 31 December 2023, the Group Management Board, including the President and CEO, held 7,824 Kesko Corporation A shares and 1,129,797 Kesko Corporation B shares, which represented 0.28% of the total number of shares and 0.08% of votes carried by all shares of the Company.

5.3 Share-based compensation

Accounting policies

The costs relating to share-based payments are recorded in the income statement and the corresponding liability for share-based payments settled in cash is recognised in the balance sheet. For equity-settled share-based payment transactions, an increase corresponding to the expensed amount is recorded in equity.

The Company's Board of Directors has granted a share-based compensation plan to management under which an award consisting of B series shares and an amount in cash is paid upon fulfilling the plan's terms. The fair value of the award paid in shares is the value of the share at the grant date and it is recognised as an expense on a straight-line basis over the vesting and commitment period of the plan. The expensed amount is based on the Group's estimate of the amount of award payable in shares at the end of the vesting period. The effects of non-market conditions are not included in the fair value of the awards. Instead, they are accounted for in the assumptions of the number of shares expected to vest at the end of the vesting period. A cash component is paid to cover the taxes and tax-like charges incurred under the award. The cash component is recognised as an expense during the vesting period. Changes in estimates are recorded in the income statement.

As of 1.1.2018 cash-settled share-based payments for which the employer shall deduct, on behalf of the employee, from the share award such number of shares which covers taxes and tax-like charges paid in cash, shall be classified in their entirety as equity-settled share-based payments.

Share-based commitment and incentive scheme

The purpose of the share-based compensation schemes is to promote Kesko's business and increase the Company's value by aligning the objectives of the shareholders and executives. The schemes also aim to commit the grantees to Kesko Group and give them the opportunity to receive Company shares upon fulfilling the objectives set in the share-based compensation plan.

The impact of the share-based compensation plans on the Group's profit for 2023 was €-8.1 million (€-10.6 million).

As at 31 December 2023, the amount to be recognised as expense for the financial years 2024–2026 is estimated at a total of €8.6 million. The actual amount may differ from the estimate.

The performance Share Plan (PSP)

PSP plan is a share-award plan that consists of individual annually commencing share plans, each with a two-year performance period and a two-year commitment period following the payment of the potential share award. Kesko's Board decides annually whether to initiate a new plan. During the commitment period, the shares cannot be pledged or transferred, but the other rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Group's tax free sales (%), Kesko Group's comparable return on capital employed (ROCE, %) and the absolute total shareholder return (TSR, %) of a Kesko B share are the performance criteria for the PSPs initiated during 2020–2021. In addition, the target measuring Kesko's sustainability, is included as the performance criteria for the PSP plan initiated from 2022 onwards.

Assumptions for share award calculations	PSP 2023–2026	PSP 2022–2025	PSP 2021–2024	PSP 2020–2023
Grant dates	1.2.2023	2.2.2022	2.2.2021	4.2.2020
Grant date fair value of share award, €	20.56	27.71	21.01	14.85
Share price at grant date, €	21.64	28.77	21.76	15.48
Shares transferred in	2025	2024	2023	2022
Number of share awards granted, maximum, pcs*	651,430	517,350	646,970	842,850
Changes in the number of shares granted, pcs	-121,890	-31,725	-100,950	-116,200
Actual amount of share award, pcs*	-	-	409,515	655,729
Number of plan participants at end of financial year	59	60	49	46
Share price at balance sheet date, €	17.93	20.62	29.34	21.04
Fulfilment of performance criteria, %	-	-	75.0	90.0
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5	2.5

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

The performance-based share award plan Key Personnel Share Plan (KPSP) and Restricted Share Pool (RSP)

KPSP plan consists of individual annually commencing share plans, each with a one-year performance period and a two-year commitment period. Kesko's Board decides annually whether to initiate a new plan. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. The performance criteria for the KPSP comprise indicators related to Kesko's profitability and the profitability, growth and capital efficiency of the participant's area of responsibility, and Kesko's share performance.

RSP is a secondary share plan for special situations, to be decided upon separately. The plan consists of annually commencing individual share plans that each have a three-year commitment period, after which the potentially promised share awards for an individual plan will be paid to the participants, provided that their employment or service relationship with Kesko Group continues until the payment of the awards. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares.

Assumptions for share award calculations	KPSP and RSP 2023	KPSP and RSP 2022	KPSP and RSP 2021	KPSP and RSP 2020
Grant dates	1.2.2023	2.2.2022	2.2.2021	4.2.2020
Grant date fair value of share award, €	20.56	27.71	21.01	14.85
Share price at grant date, €	21.64	28.77	21.76	15.48
Shares transferred in	2026	2025	2024	2023
Number of share awards granted, maximum, pcs*	293,850	214,980	256,769	291,700
Changes in the number of shares granted, pcs	-8,500	-14,610	-23,612	-54,370
Actual amount of share award, pcs*	-	88,246	191,450	209,320
Number of plan participants at end of financial year	161	139	126	83
Share price at balance sheet date, €	17.93	20.62	29.34	21.04
Fulfilment of performance criteria, %	-	21.9	89.3	82.0
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5	2.5

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

5.4 Legal disputes and possible legal proceedings

Group companies act as plaintiffs, defendants or parties to certain legal proceedings, disputes or investigations related to the Group's business operations. Although according to Kesko's management's estimate, the outcome of pending disputes and legal and authority proceedings is unlikely to have any material impact on the Group's financial position, the outcome of disputes and legal and authority proceedings is difficult to predict.

Investigation by the Finnish Competition and Consumer Authority regarding Onninen Oy – The Finnish Competition and Consumer Authority has been investigating Kesko Group company Onninen's suspected violation of competition law for almost 10 years, and finally decided on 8 September 2022 to take the matter to the Market Court. The investigation has concerned a wide range of companies operating in the HPAC infra plastic pipe product market in Finland. The FCCA proposes a penalty payment of €16 million for Onninen for the alleged infringement. The suspected violation concerns almost in its entirety a period of time before Kesko acquired the capital stock of Onninen from Onvest Oy on 1 June 2016. Consequences resulting to Onninen from the investigation were addressed in the acquisition terms and conditions. Onninen denies the FCCA claims of suspected violation of competition law as unfounded. Kesko is not suspected of participation in the alleged infringement.

Legal proceedings concerning UAB Kesko Senukai Lithuania – Kesko has disclosed, for example in its financial statements 2022, that it was party to an arbitration and a legal proceeding concerning the shareholder agreement of Kesko's joint venture UAB Kesko Senukai Lithuania and the disagreements concerning the management and development of the company and its subsidiary. The other parties to these legal proceedings have included, for example, the minority shareholders of UAB Kesko Senukai Lithuania. The arbitration process ended during 2023 and the judgement given is final. In the legal proceeding concerning the annulation and reversal of the arbitral award issued in 2022, the District Court of Helsinki gave its decision in 2023. The opposing parties have appealed the District Court decision to the Helsinki Court of Appeal, where the matter is pending.

5.5 Events after the balance sheet date

Kesko announced in August 2023 it would expand its operations to Denmark by acquiring 90% of Davidsen Koncernen A/S. In January 2024, the EU Commission approved the acquisition, and it is expected to be completed by the end of January 2024.

Kesko is set to withdraw from operating the Neste K service stations. Kesko is currently responsible for the grocery trade operations and additional services at Neste K stations. Kesko plans to withdraw from operating 64 Neste K service stations by the end of 2024. The stations will continue as a service offered by Neste. Kesko's motive is that role of grocery trade at service stations has diminished.

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net sales	**6,662,223,788.54**	**6,620,483,911.52**
Other operating income	898,211,500.06	896,343,273.82
Materials and services	-5,893,409,138.14	-5,922,332,251.39
Change in inventory	-23,008,211.48	57,389,050.87
Employee benefit expenses	-384,770,788.96	-348,288,605.22
Depreciation, amortisation and impairment	-113,486,865.95	-102,891,749.91
Other operating expenses	-754,854,973.67	-741,397,846.78
Operating profit	**390,905,310.40**	**459,305,782.91**
Finance income and costs	160,251,693.28	63,839,871.87
Profit before appropriations and taxes	**551,157,003.68**	**523,145,654.78**
Appropriations		
Change in depreciation reserve	-23,549,009.97	-28,327,302.66
Group contribution	64,919,581.06	-3,441,910.30
Profit before taxes	**592,527,574.77**	**491,376,441.82**
Income taxes	-82,909,736.55	-82,450,821.94
Profit for the financial year	**509,617,838.22**	**408,925,619.88**

Parent company's balance sheet

€	31 Dec. 2023	31 Dec. 2022
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	5,125,872.64	5,467,058.98
Other intangible assets	219,153,791.56	196,023,659.20
Prepayments	4,150,302.51	8,843,638.88
	228,429,966.71	210,334,357.06
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	277,174,152.62	247,306,198.38
Leasehold interests and connection fees	7,289,059.93	6,656,847.26
Buildings		
Owned	658,740,908.91	556,902,410.32
Machinery and equipment	88,443,233.36	97,574,724.25
Other tangible assets	6,341,067.34	6,489,657.89
Prepayments and construction in progress	113,022,536.55	87,473,806.60
	1,151,010,958.71	1,002,403,644.70
INVESTMENTS		
Investments in subsidiaries	1,281,768,095.60	1,080,275,454.12
Investments in associates	121,462,239.85	113,989,719.85
Other investments	24,693,492.49	23,741,379.16
	1,427,923,827.94	1,218,006,553.13
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	302,380,900.60	325,389,112.08
	302,380,900.60	325,389,112.08

€	31 Dec. 2023	31 Dec. 2022
RECEIVABLES		
Long-term		
Receivables from subsidiaries	34,933,925.92	80,431,580.19
Receivables from associates	61,386,166.16	64,758,166.16
Loan receivables	1,071,723.22	198,289.59
Other receivables	10,320,055.51	10,120,166.55
	107,711,870.81	155,508,202.49
Short-term		
Trade receivables	401,544,346.37	408,603,965.96
Receivables from subsidiaries	419,460,312.16	458,263,141.09
Receivables from associates	9,491,959.99	25,277,501.01
Loan receivables	276,310.07	415,425.56
Other receivables	12,647,229.78	7,034,007.06
Prepayments and accrued income	89,145,137.15	122,462,451.29
	932,565,295.52	1,022,056,491.97
OTHER FINANCIAL ASSETS	-	35,826,114.02
CASH AND CASH EQUIVALENTS	200,012,586.12	229,888,894.55
TOTAL ASSETS	**4,350,035,406.41**	**4,199,413,370.00**

€	31 Dec. 2023	31 Dec. 2022
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium	197,498,010.90	197,498,010.90
Reserve of invested non-restricted equity	22,753,307.40	22,753,307.40
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	808,916,472.00	823,451,129.66
Profit for the financial year	509,617,838.22	408,925,619.88
	1,979,484,008.07	1,893,326,447.39
APPROPRIATIONS		
Depreciation reserve	206,658,990.11	183,109,980.14
PROVISIONS		
Provisions	2,017,574.84	2,238,581.83
LIABILITIES		
Non-current		
Loans from financial institutes	650,000,000.00	200,000,000.00
Pension loans	32,349,000.00	44,343,000.00
Other creditors	19,001,617.22	10,372,880.37
	701,350,617.22	254,715,880.37
Current		
Pension loans	11,994,000.00	11,994,000.00
Advances received	31,541,172.75	26,638,337.94
Trade payables	739,185,366.57	745,126,341.50
Payables to subsidiaries	262,814,413.54	516,685,528.79
Payables to associates	5,728,650.62	5,621,438.75
Other payables	183,827,426.62	328,588,060.01
Accruals and deferred income	225,433,186.07	231,368,773.28
	1,460,524,216.17	1,866,022,480.27
TOTAL LIABILITIES	**4,350,035,406.41**	**4,199,413,370.00**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from operating activities		
Profit before appropriations	551,153,503.68	523,145,654.78
Adjustments		
Depreciation according to plan	113,486,865.95	102,891,749.91
Finance income and costs	-160,251,693.28	-63,839,871.87
Other adjustments	-7,413,552.15	-51,392,533.62
	496,975,124.20	**510,804,999.20**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	27,535,297.96	-38,448,516.52
Inventories increase (-)/decrease (+)	23,008,211.48	-57,389,050.87
Current non-interest-bearing liabilities, increase (+)/decrease (-)	-19,265,630.51	56,750,795.21
	31,277,878.93	-39,086,772.18
Interests paid and other finance costs	-44,423,936.93	-14,410,293.32
Interests received	34,714,965.24	16,608,267.52
Dividends received	168,684,828.28	66,587,990.30
Income tax paid	-58,598,511.77	-110,101,405.44
	100,377,344.82	-41,315,440.94
Net cash generated from operating activities	**628,630,347.95**	**430,402,786.08**
Cash flows from investing activities		
Purchases of property, plant, equipment and intangible assets	-416,858,310.90	-268,739,614.55
Acquisitions of subsidiaries	-96,464,969.71	-27,133,141.86
Sales of subsidiaries, net of cash	-	5,987,807.94
Investments in other investments	-	-1,000.00
Proceeds from other investments	71,393.23	363,780.00
Proceeds from disposal of property, plant, equipment and intangible assets	364,804.87	135,466.99
Long-term receivables, increase (-)/decrease (+)	48,113,571.58	11,569,386.96
Other financial assets, increase (-)/decrease (+)	35,826,114.02	38,945,717.30
Net cash used in investing activities	**-428,947,396.91**	**-238,871,597.22**

€	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	86,878,735.01	226,769,185.97
Dividends paid	34,350,288.54	-44,199,882.78
Group contributions received and paid	-430,315,181.18	-406,670,233.05
Other items	64,919,581.06	-3,441,910.30
Net cash used in financing activities	14,600,317.10	-3,394,705.32
Net cash used in financing activities	**-229,566,259.47**	**-230,937,545.48**
Change in cash and cash equivalents	**-29,876,308.43**	**-39,406,356.62**
Cash and cash equivalents as at 1 Jan.	**229,888,894.55**	**269,250,914.39**
Impairment of financial assets at fair value through profit or loss	-	44,336.78
Cash and cash equivalents as at 31 Dec.	**200,012,586.12**	**229,888,894.55**

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

Non-current assets

Intangible assets

Intangible assets are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Other capitalised expenditure	5–10 years
IT software and licences	3–5 years

Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of property, plant and equipment over their estimated useful lives.

The most common estimated useful lives are:

Buildings	10–33 years
Fixtures and fittings	8 years
Machinery and equipment	25% reducing balance method, from 1st January 2023 8 years
Warehouse automation equipment	10 years
Transportation fleet	5 years
IT equipment	3–8 years
Other tangible assets	5–14 years

Leasehold interests are depreciated during their likely lease period. Land and connection fees have not been depreciated. The total of depreciation according to plan and the change in depreciation reserve comply with the Finnish Business Tax Act. The change in depreciation reserve has been treated as appropriations.

Valuation of inventories

Inventories are stated, using the moving-average cost method, at lower of direct purchase cost, replacement cost and probable selling price.

Valuation of financial assets

Marketable securities have been valued at the lower of cost and net realisable value.

Foreign currency items

Foreign currency transactions have been recorded in euros using the rate of exchange at the date of transaction. Foreign currency receivables and payables have been translated into euros using the rate of exchange at the balance sheet date. If a receivable or a payable is tied to a fixed rate of exchange, it has been used for translation. Exchange rate differences have been recognised in profit or loss.

Derivative contracts

Interest rate derivatives

Interest rate derivatives are used to modify the durations of borrowings. The target duration is between 1 and 4 years. Cash flows arising from interest rate derivatives are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, outstanding interest rate forward contracts, interest rate future contracts, interest rate option contracts and interest rate swap contracts are stated at fair value, but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign currency derivatives

Foreign currency derivatives are used for hedging against translation and transaction risks. Foreign currency derivatives are used for hedging against commercial foreign exchange risk. Foreign exchange forward contracts are valued using the forward exchange rate of the balance sheet date. The exchange differences arising from outstanding derivative contracts are reported in financial items and adjustment items of sales and purchases. If a derivative has been used for hedging a foreign-currency-denominated asset, the change in value has been recognised against that of the asset item. The premiums of option contracts are included in the balance sheet accruals until they expire, or if a value change at the balance sheet date so requires, recognition in profit or loss.

Commodity derivatives

Ankkuri-Energia Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko Corporation is an external counterparty in electricity derivatives with a bank, and enters into corresponding internal hedge with Ankkuri-Energia Oy. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 5-year time span. With respect to derivatives hedging the price of electricity supplied during the financial year, change in fair value is recognised at Kesko under finance income and cost. Unrealised gains and losses on contracts hedging future purchases are not recognised in profit or loss.

Pension plans

Personnel's statutory pension provision is organised through pension insurance companies and the voluntary supplementary pension provision is mainly organised through Kesko Pension Fund. Pension costs are recognised as expense in the income statement.

Provisions

Provisions stated in the balance sheet include items committed to under agreements or otherwise but not yet realised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group's business operations, as well as losses resulting from renting the premises to third parties, are included in provisions.

Income tax

Income tax includes the income tax payments for the period calculated based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

Notes to the income statement

Note 2. Net sales by division

€ million	2023	2022
Grocery trade	5,724.6	5,493.9
Building and home improvement trade	937.7	1,126.6
Others	0.0	0.0
Total	**6,662.2**	**6,620.5**

Note 3. Material and services

€ million	2023	2022
Material and services	-5,782.8	-5,811.6
Change in inventory	-23.0	57.4
External services	-110.6	-110.7
Total	**-5,916.4**	**-5,864.9**

Note 4. Other operating income

€ million	2023	2022
Gains on sales of real estate and shares	0.2	0.0
Rent income	99.4	90.9
Fees for services	580.6	576.7
Profits from mergers	26.1	28.4
Others	192.0	200.3
Total	**898.2**	**896.3**

Note 5. Employee benefit expenses

€ million	2023	2022
Salaries and fees	-316.5	-322.4
Social security costs		
Pension costs	-56.7	-13.8
Other social security costs	-11.5	-12.1
Total	**-384.8**	**-348.3**

The 2022 pension costs include a €40.3 million return of surplus assets by Kesko Pension Fund.

The average number of personnel at Kesko Corporation was 7,402 (7,308) people.

Salaries and fees to the management

€ million	2023	2022
Managing Director	3.4	4.9
Members of the Board of Directors	0.5	0.5
Total	**3.8**	**5.4**

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

Note 6. Depreciation, amortisation and impairment

€ million	2023	2022
Depreciation according to plan	-113.0	-102.2
Impairment, non-current assets	-0.5	-0.7
Total	**-113.5**	**-102.9**

Note 7. Other operating expenses

€ million	2023	2022
Rent expenses	-350.6	-327.9
Marketing expenses	-152.7	-152.0
Maintenance of real estate and store sites	-102.8	-105.6
Losses on disposals of non-current assets	-0.0	0.0
ICT expenses	-78.0	-87.7
Losses from mergers	-11.8	-6.8
Other operating expenses	-58.9	-61.5
Total	**-754.9**	**-741.4**

Auditors' fees

€ million	2023	2022
Audit firm Deloitte		
Audit	0.4	0.4
Tax consultation	-	0.0
Other services	0.2	0.1
Total	**0.5**	**0.5**

Note 8. Finance income and costs

€ million	2023	2022
Income from long-term investments		
Dividend income from subsidiaries	146.7	39.5
Dividend income from associates	19.6	26.9
Dividend income from others	2.3	0.1
Gains on disposal of shares	-	0.0
Gains on sales of investments	0.4	0.0
Income from long-term investments, total	**169.0**	**66.6**
Other interest and finance income		
From subsidiaries	24.0	8.9
From others	21.9	22.9
Interest and finance income, total	**45.9**	**31.8**
Impairment of investments held as non-current assets		
Impairment of shares	-	0.3
Changes in fair value	0.1	0.0
Impairment and changes in fair value of investments held as non-current assets, total	**0.1**	**0.3**
Interest and other finance costs		
To subsidiaries	-20.5	-11.4
To others	-34.2	-23.5
Interest and finance costs, total	**-54.7**	**-34.9**
Total	**160.2**	**63.8**

Note 9. Appropriations

€ million	2023	2022
Difference between depreciation according to plan and depreciation in taxation	-23.5	-28.3
Group contributions received	88.9	36.9
Group contributions paid	-24.0	-40.4
Total	**41.4**	**-31.8**

As of the 2020 financial year, an increased 50% depreciation on machinery and equipment and similar fixed assets acquired has been made in compliance with the Finnish Business Tax Act.

Note 10. Changes in provisions

€ million	2023	2022
Other changes	-0.2	0.2
Total	**-0.2**	**0.2**

Note 11. Income taxes

€ million	2023	2022
Income taxes on group contributions	-13.0	0.7
Income taxes on ordinary activities	-69.8	-82.5
Taxes for prior years	-0.1	-0.6
Total	**-82.9**	**-82.5**

Note 12. Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €41.3 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 13. Intangible assets

€ million	2023	2022
Intangible rights		
Acquisition cost as at 1 Jan.	16.5	16.3
Increases	1.3	1.1
Decreases	-1.0	-2.8
Transfers between items	0.0	1.9
Acquisition cost as at 31 Dec.	16.9	16.5
Accumulated depreciation as at 1 Jan.	-11.1	-12.3
Accumulated depreciation on decreases and transfers	1.0	2.8
Depreciation and amortisations for the financial year	-1.7	-1.6
Accumulated depreciation as at 31 Dec.	-11.8	-11.1
Book value as at 31 Dec.	**5.1**	**5.5**
Other intangible assets		
Acquisition cost as at 1 Jan.	405.2	369.9
Increases	49.9	48.9
Decreases	-5.8	-31.1
Transfers between items	19.1	17.5
Acquisition cost as at 31 Dec.	468.4	405.2
Accumulated depreciation as at 1 Jan.	-209.2	-197.7
Accumulated depreciation on decreases and transfers	5.8	31.1
Depreciation and amortisations for the financial year	-45.9	-42.6
Accumulated depreciation as at 31 Dec.	-249.2	-209.2
Book value as at 31 Dec.	**219.2**	**196.0**
Prepayments		
Acquisition cost as at 1 Jan.	8.8	12.6
Increases	2.5	7.0
Decreases	-0.0	-0.1
Transfers between items	-7.2	-10.7
Acquisition cost as at 31 Dec.	4.2	8.8
Book value as at 31 Dec.	**4.2**	**8.8**

Note 14. Property, plant and equipment

€ million	2023	2022
Land and waters, owned		
Acquisition cost as at 1 Jan.	247.3	224.3
Increases	27.3	20.1
Transferred in mergers	1.9	2.4
Decreases	-0.1	-
Transfers between items	0.8	0.5
Acquisition cost as at 31 Dec.	277.2	247.3
Book value as at 31 Dec.	**277.2**	**247.3**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	7.1	1.6
Increases	0.4	5.5
Transferred in mergers	0.1	-
Transfers between items	0.2	0.0
Acquisition cost as at 31 Dec.	7.8	7.1
Accumulated depreciation as at 1 Jan.	-0.5	-0.4
Depreciation for the financial year	-0.0	0.0
Accumulated depreciation as at 31 Dec.	-0.5	-0.5
Book value as at 31 Dec.	**7.3**	**6.7**
Buildings		
Acquisition cost as at 1 Jan.	942.5	821.1
Increases	84.8	88.2
Transferred in mergers	8.7	13.9
Decreases	-	-0.4
Transfers between items	48.2	19.7
Acquisition cost as at 31 Dec.	1,084.3	942.5
Accumulated depreciation as at 1 Jan.	-385.6	-352.3
Transferred in mergers	-2.0	-3.3
Accumulated depreciation on decreases and transfers	0.0	0.0
Depreciation for the financial year	-37.9	-30.1
Accumulated depreciation as at 31 Dec.	-425.5	-385.6
Book value as at 31 Dec.	**658.7**	**556.9**

€ million	2023	2022
Machinery and equipment		
Acquisition cost as at 1 Jan.	311.1	295.1
Increases	14.8	32.0
Transferred in mergers	0.1	0.0
Decreases	-17.8	-19.6
Transfers between items	3.0	3.6
Acquisition cost as at 31 Dec.	311.2	311.1
Accumulated depreciation as at 1 Jan.	-213.5	-206.1
Transferred in mergers	-0.1	0.0
Accumulated depreciation on decreases and transfers	17.1	19.2
Depreciation for the financial year	-26.3	-26.6
Accumulated depreciation as at 31 Dec.	-222.7	-213.5
Book value as at 31 Dec.	**88.4**	**97.6**
Other tangible assets		
Acquisition cost as at 1 Jan.	23.3	21.2
Increases	0.4	1.2
Transferred in mergers	0.1	-
Transfers between items	0.7	1.0
Acquisition cost as at 31 Dec.	24.4	23.3
Accumulated depreciation as at 1 Jan.	-16.8	-15.6
Transferred in mergers	-0.1	-
Depreciation for the financial year	-1.2	-1.2
Accumulated depreciation as at 31 Dec.	-18.1	-16.8
Book value as at 31 Dec.	**6.3**	**6.5**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	87.5	45.7
Increases	92.1	76.4
Decreases	-1.6	-1.0
Transfers between items	-64.9	-33.6
Acquisition cost as at 31 Dec.	113.0	87.5
Book value as at 31 Dec.	**113.0**	**87.5**

Note 15. Investments

€ million	2023	2022
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	1,093.9	1,080.5
Increases	229.2	42.5
Decreases	-27.7	-29.1
Acquisition cost as at 31 Dec.	1,295.4	1,093.9
Impairment as at 1 Jan.	-13.6	-27.7
Accumulated impairments on decreases	-	14.1
Impairment as at 31 Dec.	-13.6	-13.6
Book value as at 31 Dec.	**1,281.8**	**1,080.3**
Investments in associates		
Acquisition cost as at 1 Jan.	114.0	111.7
Increases	7.5	2.3
Book value as at 31 Dec.	**121.5**	**114.0**
Other investments		
Acquisition cost as at 1 Jan.	23.7	15.2
Increases	1.0	8.5
Transferred in mergers	0.0	-
Decreases	-0.1	-0.0
Transfers between items	0.1	0.0
Acquisition cost as at 31 Dec.	24.7	23.7
Book value as at 31 Dec.	**24.7**	**23.7**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2023 is presented in the notes to the consolidated financial statements.

Note 16. Receivables

Receivables from subsidiaries

€ million	2023	2022
Long-term receivables		
Loan receivables	34.9	80.4
Long-term receivables, total	**34.9**	**80.4**
Short-term receivables		
Trade receivables	10.3	9.9
Loan receivables	380.0	418.9
Prepayments and accrued income	29.2	29.5
Short-term receivables, total	**419.5**	**458.3**
Total	**454.4**	**538.7**

Receivables from associates and joint ventures

€ million	2023	2022
Long-term receivables		
Loan receivables	61.4	64.7
Other receivables	0.0	0.0
Long-term receivables, total	**61.4**	**64.8**
Short-term receivables		
Accrued income	1.0	21.7
Other receivables	8.5	3.6
Short-term receivables, total	**9.5**	**25.3**
Total	**70.9**	**90.0**

Kesko Corporation has advanced a long-term loan to its associated company, Mercada Oy, in the amount of €56.0 million and to its joint venture, UAB Kesko Senukai, in the amount of €3.8 million.

Prepayments and accrued income

€ million	2023	2022
Taxes	-	20.9
Fees for services	5.5	6.0
Employee benefit expenses	6.6	7.6
Purchases	31.1	34.1
Others	45.9	53.8
Total	**89.1**	**122.5**

Note 17. Shareholders' equity

€ million	Share capital	Share premium	Contin-gency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2022	197.3	197.5	243.4	22.8	1,236.0	1,897.0
Dividends					-421.3	-421.3
Treasury shares					8.7	8.7
Profit for the year					408.9	408.9
Balance as at 31 December 2022	197.3	197.5	243.4	22.8	1,232.4	1,893.3
Dividends					-429.6	-429.6
Treasury shares					6.1	6.1
Profit for the year					509.6	509.6
Balance as at 31 December 2023	**197.3**	**197.5**	**243.4**	**22.8**	**1,318.5**	**1,979.5**

Restricted equity	2023	2022
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2023	2022
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,318.5	1,232.4
Total	**1,584.7**	**1,498.5**

Calculation of distributable profits	2023	2022
Other reserves	266.2	266.2
Retained earnings	808.9	823.5
Profit for the year	509.6	408.9
Total	**1,584.7**	**1,498.5**

On 31 December 2023, Kesko's distributable assets totalled €1,584,703,413.17.

Breakdown of parent company shares	Pcs
A shares	126,948,028
B shares	273,130,980
Total	**400,079,008**

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

Board's authorisations to acquire and issue own shares

Authorised by the General Meeting, the Board acquired a total of 500,000 of the Company's own B shares during the 2018 financial year. The Board also acquired a total of 1,200,000 of the Company's own B shares during the financial years 2011 and 2014. The shares are held by the Company as treasury shares and the Board is entitled to transfer them. The acquisition cost of the B shares held by the Company and acquired during the 2018 financial year was €24.4 million, and the acquisition cost of shares acquired during the 2011 and 2014 financial years was €23.5 million. These costs have been deducted from retained earnings in equity. The Board has an authorisation, granted by the Annual General Meeting of 30 March 2023 and valid until 30 June 2024, to issue a maximum of 33,000,000 B shares and acquire a maximum of 16,000,000 B shares.

Treasury shares

On 2 May 2023, Kesko Corporation transferred a total of 6,000 of its own B shares (KESKOB) held by the Company as treasury shares to the members of Kesko's Board of Directors. The transfer was based on the resolution made by the Annual General Meeting on 30 March 2023 to pay a portion of the Board members' annual fees in Kesko B shares.

	Shares
Own B shares held by the Company as at 31 Dec. 2022	**2,620,361**
Transferred, share-based compensation scheme	-304,864
Transferred, Board of Directors	-6,000
Returned during the financial year	-
Own B shares held by the Company as at 31 Dec. 2023	**2,309,497**

Note 18. Provisions

€ million	2023	2022
Provisions for leases	1.4	1.7
Other provisions	0.6	0.5
Total	**2.0**	**2.2**

Note 19. Non-current liabilities

Kesko has drawn down five bilateral loans, which combined total €650 million. The interest margin of these loans accounts for Kesko's sustainability targets for its carbon footprint and food waste, and in the value chain, emission reduction targets set by Kesko's direct suppliers of goods and services.

Note 20. Current liabilities

€ million	2023	2022
Liabilities to subsidiaries		
Trade payables	7.6	6.8
Other payables	11.4	25.1
Accruals and deferred income	243.7	484.9
Total	**262.8**	**516.7**
Liabilities to associates		
Trade payables	0.0	0.1
Accruals and deferred income	0.0	0.0
Other payables	5.6	5.5
Total	**5.7**	**5.6**
Accruals and deferred income		
Employee benefit expenses	108.5	111.7
Accruals and deferred income from purchases	20.0	25.2
Taxes	4.2	0.8
Transaction prices	0.4	0.0
Fees for services	16.9	17.8
Others	75.5	75.9
Total	**225.4**	**231.4**

Note 21. Non-interest-bearing liabilities

€ million	2023	2022
Current liabilities	1,141.4	1,157.4
Total	**1,141.4**	**1,157.4**

Note 22. Guarantees, commitments and contingencies

€ million	2023	2022
Real estate mortgages		
For own debt	162.1	159.8
For subsidiaries	0.7	0.7
Pledged shares	9.0	9.5
Guarantees		
For own debt	0.5	0.5
For subsidiaries	70.9	70.9
Other liabilities and liability engagements		
For own debt	49.4	40.5
Rent liabilities on machinery and fixtures		
Due within a year	7.1	6.5
Due later	7.0	6.3
Rent liabilities on real estate		
Due within a year	306.6	256.2
Due later	1,597.9	1,254.5

Foreign currency risks

The result of the Company's operating activities is affected by the amount of working capital financing granted by the Company to its foreign subsidiaries and in part also, in its capacity as the Group's parent company, the subsidiaries' hedgings against their parent.

The foreign currency exposure is hedged using foreign currency derivatives in accordance with the confirmed foreign currency risk policy. The fair value of foreign currency derivatives is calculated by measuring them based on quoted market prices at the balance sheet date.

The measurement of derivatives is based on direct market data, in other words, they are classified at level 2. The maximum credit risk of these derivatives corresponds to their fair value at the balance sheet date.

The results of derivatives are recognised in financial items.

Company's transaction exposure as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Transaction risk	-4.8	58.4	54.4	-11.2
Hedging derivatives	17.2	-47.3	-42.3	5.1
Exposure	**12.4**	**11.1**	**12.1**	**-6.1**

Company's transaction exposure as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Transaction risk	-5.5	75.2	26.6	10.8
Hedging derivatives	23.4	-56.2	-20.9	-10.7
Exposure	**17.9**	**19.0**	**5.6**	**0.1**

The sensitivity analysis of transaction exposure shows the profit impact of a +/-10% exchange rate change on the Company's foreign currency denominated acquisitions and hedging foreign currency derivatives.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Change +10%	-1.1	-1.0	-1.1	0.6
Change -10%	1.4	1.2	1.3	-0.7

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Change +10%	-1.6	-1.7	-0.5	0
Change -10%	2.0	2.1	0.6	0

Derivatives

Fair values of derivative contracts € million	31 Dec. 2023 Positive fair value (balance sheet value)	31 Dec. 2023 Negative fair value (balance sheet value)	31 Dec. 2022 Positive fair value (balance sheet value)	31 Dec. 2022 Negative fair value (balance sheet value)
Currency derivatives	0.4	-1.8	2.6	-0.7
Interest rate derivatives	14.8	-8.5	12.2	-0.1

Notional amounts of derivative contracts € million	31 Dec. 2023 Notional amount	31 Dec. 2022 Notional amount
Currency derivatives	133.0	153.3
Interest rate derivatives	530.0	330.0

All currency derivatives mature in 2024. Interest rate derivatives mature in 2024, 2025, 2026 and 2027.

€ million	2023	Fair value	2022	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives				
Interest rate swaps	530	6.3	330	12.1
Foreign currency derivatives				
Forward and future contracts	133	-1.3	153	1.9
Outside the Group	125	-1.6	142	1.8
Inside the Group	8	0.2	12	0.1
Commodity derivatives				
Electricity derivatives	79	-	139	-
Outside the Group	39	5.7	70	44.2
Inside the Group	39	-5.7	70	-44.2

Note 23. Cash and cash equivalents within the statement of cash flows

€ million	2023	2022
Financial assets at fair value through profit or loss	-	0.0
Available-for-sale financial assets	3.3	17.0
Cash and cash equivalents	196.7	212.9
Total	**200.0**	**229.9**

In the statement of cash flows, cash and cash equivalents include those recognised in the balance sheet and portions of available-for-sale financial assets with maturities of less than three months from acquisition and also financial assets at fair value through profit and loss.

Note 24. Related parties

Kesko Corporation's related parties include the company's management (the Board of Directors, President and CEO and the Group Management Board) and the companies controlled by them, their family members and companies controlled by the family members, the Group's subsidiaries, associates and joint ventures, and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 5.2).

Some members of the Kesko Board are K-retailers. Kesko Corporation sells goods and services to companies controlled by them. Goods and services have been sold to related parties on normal market terms and conditions and at market prices.

SIGNATURES

Signatures for financial statements and report by the Board of Directors

Helsinki, 29. January 2024

Esa Kiiskinen	Peter Fagernäs	
Jannica Fagerholm	Piia Karhu	Jussi Perälä
Toni Pokela	Timo Ritakallio	Mikko Helander President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 29 January 2024

Deloitte Oy

Jukka Vattulainen
APA

AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Kesko Oyj

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Kesko Oyj (business identity code 0109862-8) for the year ended 31 December, 2023 The financial statements comprise the consolidated income statement, statement of comprehensive income, financial position, statement of cash flows, statement of changes in equity and notes, including material information in the accounting policies, as well as the parent company's income statement, balance sheet, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU,
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014.

The non-audit services that we have provided have been disclosed in note 2.5 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Refer to accounting policies for the consolidated financial statements and note 2.1. Consolidated Net Sales of Kesko Oyj amounted to EUR 11,783.8 million (EUR 11,809.0 million). Kesko operates in grocery trade, building and technical trade, and car trade through wide sales- and retail network. Consolidated net sales comprise the sale of goods, services and energy from contracts with customers. The share of the of service and energy sales in total net sales is not significant. The Group sells products to retailers and other retail dealers and engages in own retailing. Net sales is a key business and economic indicator and consists of a significant volume of transactions. For this reason, the functionality of information system controls is emphasised in revenue recognition. A significant part of the Kesko Group's net sales is automatically recognised in accounting through IT systems based on the fulfilment of the sales performance obligation. Revenue recognition due to its significance require specific attention both from the accounting and the auditing perspective.	We have evaluated the IT systems related to revenue recognition by testing access and change management controls. We also evaluated process level controls by performing walkthroughs of each significant class of revenue transactions, assessed the design of key controls and tested the operating effectiveness of those controls. We have analyzed the revenue transactions recorded to net sales to identify entries originating from automated processes and entries from manual journals, and to focus our audit procedures to transactions estimated as higher risk transactions. Our audit procedures to ensure appropriateness of revenue recognition for sales transaction population recorded to net sales have consisted among others, performing comprehensive data analytics based substantive audit procedures together with sample based test of details. We have made a focused risk assessment for addressing fraud risk relating to revenue recognition, and identified manual journal entries by applying data analytics. Based on our revenue related risk assessment, we have focused our substantive audit procedures for the transactions identified to ensure the appropriateness and accuracy.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of Goodwill and trademarks Refer to Note 3.3 in the consolidated financial statements of Kesko Oyj. Consolidated statement of financial position includes goodwill of EUR 663.7 million (EUR 588.9 million). In addition, consolidated statement of financial position includes EUR 86.0 million (EUR 86.8 million) Trademarks. Goodwill is subject to management's annual impairment test. As a result of management's goodwill impairment test, no impairment was identified. Goodwill impairment testing requires substantial management judgment over the projected future business performance, cash flows and applied discount rate. Note 3.3 in the Consolidated financial statements describes key assumptions used by management and sensitivity analysis for the impairment tests approved by the Board.	As part of our audit procedures we have assessed the impairment testing calculations prepared by management and approved by the board, and assessed key controls over impairment testing for each cash generating unit. The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. Estimated cash flows used in these calculations are based on three-year financial plans approved by management. The key assumptions used for the plans are total market growth and profitability trends, changes in store network, product and service selection, pricing and movements in operating costs. We have assessed the key assumptions used by management in the Goodwill impairment tests: • comparing the growth and profitability estimates to historical performance. • comparing the estimates with the latest approved budgets and strategic plans. • comparing applied discount rates to external sources. • testing the mathematical accuracy of the impairment calculations We have also assessed the related disclosure information.

We have no key audit matters to report with respect to our audit of the parent company financial statements. There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.

Responsibilities of the Board of Directors and the President and CEO for the financial statements

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

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

Auditor's responsibilities in the audit of financial statements

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

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

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Kesko's Annual General Meeting on 28th of April 2020, and our appointment represents a total period of uninterrupted engagement of 4 years.

Other information

The Board of Directors and the President and CEO are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

We support that the financial statements and consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of profit shown on the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO of the parent company should be discharged from liability from the financial period audited by us.

Helsinki, 29 January, 2024

Deloitte Oy
Audit Firm

Jukka Vattulainen
Authorised Public Accountant (KHT)

INDEPENDENT AUDITOR'S REPORT ON THE ESEF CONSOLIDATED FINANCIAL STATEMENTS OF KESKO OYJ (Translation of the Finnish original)

To the Board of Directors of Kesko Oyj

We have performed a reasonable assurance engagement on whether the iXBRL tagging of the consolidated financial statements in the ESEF consolidated financial statements (743700OX6 HSVMCAHPB95-2023-12-31_FI.zip) of Kesko Oyj (0109862-8) for the financial year 1.1.-31.12.2023 has been prepared in accordance with the requirements of Article 4 of Commission Delegated Regulation (EU) 2018/815 (ESEF RTS).

Responsibilities of the Board of Directors a nd the Managing Director

The Board of Directors and Managing Director are responsible for the preparation of the report of the Board of Directors and financial statements (ESEF financial statements) that comply with the requirements of ESEF RTS. This responsibility includes:

- preparation of ESEF financial statements in XHTML format in accordance with Article 3 of ESEF RTS
- tagging the consolidated financial statements' primary statements, disclosures and identifying information in the ESEF financial statements with iXBRL tags in accordance with Article 4 of ESEF RTS, and
- ensuring consistency between ESEF financial statements and audited financial statements.

The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of ESEF financial statements in accordance with the requirements of ESEF RTS.

Auditor's Independence and Quality Control

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to the engagement we have performed, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The auditor applies International Standard on Quality Management 1 and, accordingly, an audit firm shall design, implement and maintain a system of quality control including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Auditor's Responsibilities

In accordance with the engagement letter, we express an opinion on whether the tagging of the consolidated financial statements in the ESEF financial statements has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS. We conducted a reasonable assurance engagement in accordance with International Standard on Assurance Engagements ISAE 3000.

The engagement includes procedures to obtain evidence on:

- whether the tagging of the consolidated financial statement's primary statements in the ESEF financial statements has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS
- whether the tagging of the consolidated financial statements' disclosures and identifying information in the ESEF financial statements has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS, and
- whether the ESEF financial statements are consistent with the audited financial statements.

The nature, timing and extent of the procedures selected depend on the auditor's judgment. This includes the assessment of risk of material departures from the requirements set out in ESEF RTS, whether due to fraud or error.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the tagging of the consolidated financial statements in the ESEF financial statements (743700OX6HSVMCAHPB95-2023-12-31_FI.zip) of Kesko Oyj for the financial year 1.1.-31.12.2023 has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS.

Our audit opinion on the consolidated financial statements of Kesko Oyj for the financial year 1.1.-31.12.2023 has been expressed in our auditor's report dated 29.1.2024. In this report, we do not express an audit opinion or any other assurance conclusion on the consolidated financial statements.

Helsinki, 29 January, 2024

Deloitte Oy
Audit Firm

Jukka Vattulainen
APA

CORPORATE GOVERNANCE

2023

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

2023

INTRODUCTION

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Finnish Securities Market Association and effective as of 1 January 2020. Kesko Corporation issues the statement separately from the Report by the Board of Directors. The statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 29 January 2024. This statement and the other information to be disclosed in accordance with the Corporate Governance Code, as well as the Company's financial statements, the Report by the Board of Directors, and the Auditor's Report are available on Kesko's website at kesko.fi/en/investor.

Kesko Corporation ("Kesko" or "the Company") is a Finnish limited liability company in which the duties and responsibilities of management bodies are defined according to the regulations observed in Finland. The parent company Kesko and its subsidiaries form Kesko Group. The Company is domiciled in Helsinki.

In addition to the Corporate Governance Code, Kesko's decision-making and corporate governance comply with e.g. the Finnish Limited Liability Companies Act, other laws and regulations concerning publicly quoted companies in Finland, Kesko's Articles of Association, the charters of Kesko's Board of Directors and its Committees, the Company's policies and other internal guidelines, and the rules and guidelines of the European Securities and Markets Authority, the Finnish Financial Supervisory Authority, and Nasdaq Helsinki Ltd.

Corporate Governance Codes Kesko complies with and departures from them

Corporate Governance Code Kesko commits to complying with	The Corporate Governance Code issued by the Finnish Securities Market Association and effective as of 1 January 2020
Website where the Corporate Governance Code is publicly available	https://www.cgfinland.fi/en/
Corporate Governance Code recommendations from which the company departs Explanation of and grounds for the departure • Grounds for the departure • Decision-making concerning the departure • When the company plans to adopt the recommendation (in case of temporary departure) • Where applicable, a description of the measure taken instead of compliance and an explanation of how that measure achieves the underlying objective of the specific recommendation or of the code as a whole, or a clarification of how it contributes to good corporate governance of the company	Recommendation 6 (Term of Office of the Board of Directors) In 2023, the term of office of Kesko's Board of Directors departed from the one-year term pursuant to Recommendation 6 (Term of Office of the Board of Directors) of the Corporate Governance Code. Up until the 2024 Annual General Meeting, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. The Annual General Meeting on 30 March 2023 resolved to amend the Company's Articles of Association so that as of the 2024 Annual General Meeting, the term of office for a Board member will be one (1) year, starting at the closing of the General Meeting that elects the Board member and expiring at the close of the next Annual General Meeting to follow.

DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE

Kesko Group's Corporate Governance system

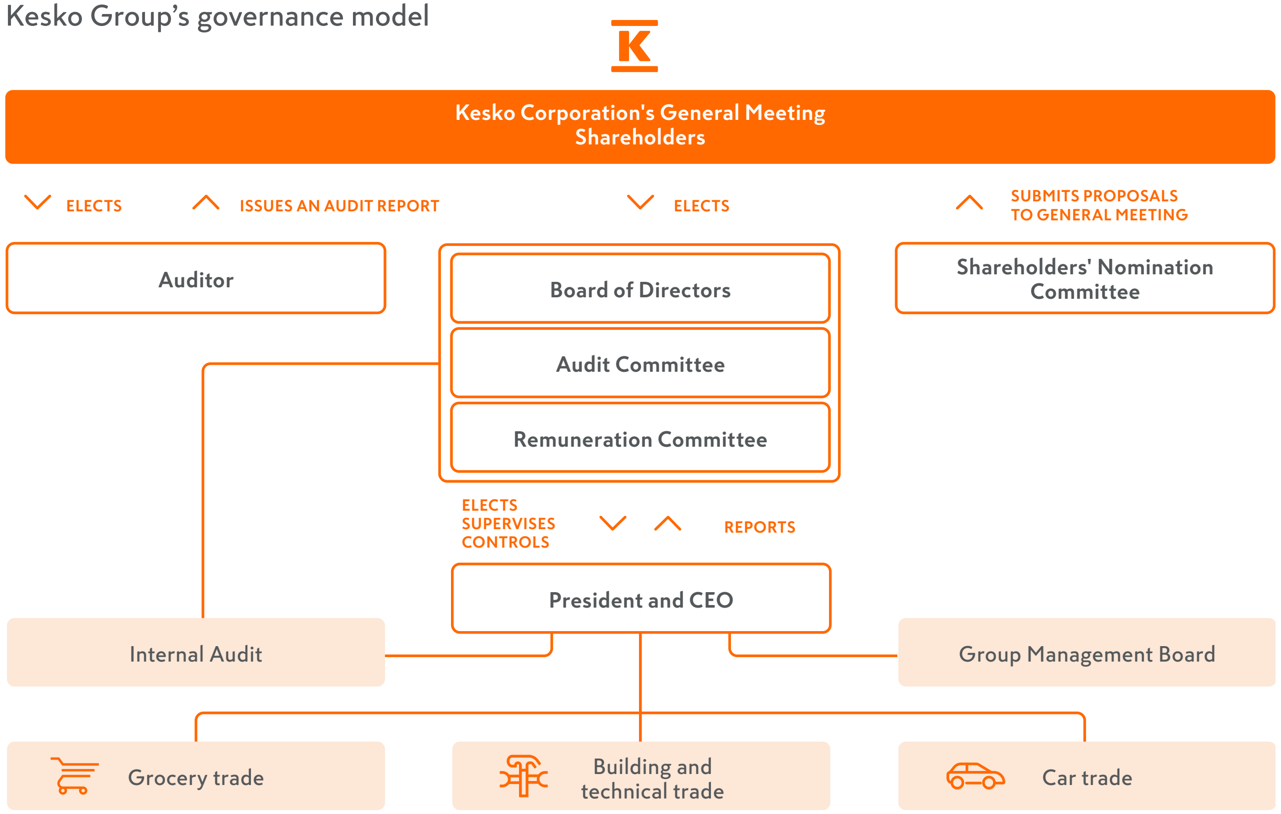
Kesko uses a so-called one-tier governance model. The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting. At the Annual General Meeting, the Company's shareholders elect the Company's Board of Directors and Auditor. The Shareholders' Nomination Committee submits proposals to the General Meeting regarding the number, election and remuneration of Board members. The Auditor plays an important role as a controlling body elected by the shareholders.

Kesko's Board of Directors is responsible for the Company's administration and its proper organisation. The Board has an Audit Committee and a Remuneration Committee, which prepare matters related to e.g. the Company's financial reporting, control, and remuneration.

The Board of Directors appoints the Company's managing director, who at Kesko is referred to as the President and CEO. Kesko's Group Management Board supports the work of the President and CEO.

Internal audit is responsible for the Company's independent auditing, and reports to both the President and CEO and the Board's Audit Committee.

Kesko Group's governance model



General Meeting

The Annual General Meeting is held annually by the end of June, on a date designated by the Company's Board of Directors. The most significant matters falling within the decision-making power of the Annual General Meeting include the election of the Board members and the Auditor, the adoption of the financial statements, the resolution on discharging the Board members and the Managing Director from liability, and the resolution on the distribution of the Company's assets, such as distribution of profit. An Extraordinary General Meeting shall be convened if the Board of Directors deems it necessary. In addition, the Auditor or shareholders holding in total one-tenth of all shares may demand an Extraordinary General Meeting to be held for a specific matter. Shareholders are invited to attend a General Meeting by a Notice of the General Meeting published on the Company's website. The Notice of the General Meeting is also published as a stock exchange release. The Notice and other General Meeting documents, including the Board of Directors' proposals to the General Meeting, are made available to shareholders no later than three weeks prior to the General Meeting on the Company's website at kesko.fi.

The Company has share series A and B, which differ with respect to the number of votes attached to the shares. An A share carries ten (10) votes and a B share carries one (1) vote at a General Meeting. When votes are taken, the proposal for which more than half of the votes were given will primarily be the resolution of the General Meeting, as prescribed by the Finnish Limited Liability Companies Act. However, pursuant to the Act, certain resolutions – such as resolutions to amend the Company's Articles of Association and resolutions concerning directed share issues – require a qualified majority of two-thirds of the votes cast and shares represented at the meeting. The Limited Liability Companies Act provides that specific shareholders or all shareholders must consent to a resolution limiting the rights arising from shares or increasing the obligations of shareholders.

The Company aims for all members of Kesko's Board of Directors, the President and CEO, and the Auditor to be present at the Annual General Meeting. General Meeting Minutes are made available to shareholders on Kesko's website at kesko.fi within two weeks of the General Meeting. General Meeting resolutions are published without delay after the meeting in a stock exchange release.

Kesko's Annual General Meeting was held on 30 March 2023 in Helsinki. The Company's Board of Directors, President and CEO and other members of the Group Management Board, as well as the auditor with principal authority were present at the meeting. The Annual General Meeting adopted the 2022 financial statements and resolved to distribute a dividend of €1.08 per share. The Annual General Meeting discharged the Board members and the Managing Director from liability, approved the Remuneration Report for Governing Bodies, made resolutions concerning the Board members' remuneration, elected the firm of authorised public accountants Deloitte Oy as the company's Auditor, resolved to change the term of office of Board members from three years to one year, and authorised the Board to decide on the repurchase of the company's own shares, on the issuance of shares, and on donations for charitable purposes. The resolutions were communicated in a stock exchange release on the day of the General Meeting.

Shareholders' Nomination Committee

SELECTION PROCESS AND DUTIES OF THE SHAREHOLDERS' NOMINATION COMMITTEE

Kesko's 2020 Annual General Meeting resolved to establish a Shareholders' Nomination Committee for Kesko and confirmed rules of procedure for the Committee. The Nomination Committee is a governing body of Kesko shareholders, and has three members. Two members are appointed by Kesko's biggest shareholders, and the third member is the Chair of Kesko's Board of Directors. The right of nomination of members representing the shareholders belongs to those two shareholders whose share of votes conferred by all shares in Kesko is the largest according to the register of shareholders maintained by Euroclear Finland Ltd on 1 September preceding the Annual General Meeting. The term of office for the members of the Shareholders' Nomination Committee ends when new Committee members are appointed. The Nomination Committee members do not receive fees for their membership. Their travel expenses are reimbursed in accordance with the general travel rules of Kesko.
The main duty of the Nomination Committee is to ensure that the Board of Directors and its members have the expertise, knowhow and experience adequate for Kesko's needs, and to prepare reasoned proposals for this purpose to the General Meeting. In accordance with its rules of procedure, the Nomination Committee's duties are

- to prepare and present a proposal for the remuneration of the members of the Board of Directors to the General Meeting,
- to prepare and present a proposal for the number of members of the Board of Directors to the General Meeting,
- to prepare and present a proposal for members of the Board of Directors to the General Meeting,
- to answer the questions asked by shareholders at the General Meeting concerning the proposals made by the Nomination Committee, and
- to look for candidates to replace members of the Board of Directors.

The Nomination Committee submits proposals to the General Meeting on the matters listed as duties of the Nomination Committee which, on the grounds of the Limited Liability Companies Act and Kesko's Articles of Association, are on the General Meeting agenda.

The Nomination Committee is established for the time being, until decided otherwise by the General Meeting. The Nomination Committee rules of procedure are available on Kesko's website at https://www.kesko.fi/en/investor/corporate-governance/shareholders-nomination-committee/.

COMPOSITION AND ACTIONS OF THE SHAREHOLDERS' NOMINATION COMMITTEE IN 2023

The members of Kesko's Shareholders' Nomination Committee in the 2023–2024 term of office are

- Toni Pokela, retailer, appointed by K-Retailers' Association,
- Jouko Pölönen, President and CEO, appointed by Ilmarinen Mutual Pension Insurance Company, and
- Esa Kiiskinen, Chair of Kesko's Board of Directors

In its organisational meeting on 20 September 2023, the Committee elected Toni Pokela as its Chair. The Committee members and Chair were the same also in the 2023–2023 term of office.

Details regarding Toni Pokela and Esa Kiiskinen can be found in this CG Statement's section concerning Kesko's Board of Directors. Jouko Pölönen (born 1970, MA (Econ.), eMBA) is the President and CEO of Ilmarinen Mutual Pension Insurance Company.

The Shareholders' Nomination Committee convened twice in 2023, and the members attended all meetings. The Nomination Committee proposed no changes to the remuneration of Board members to Kesko's 2023 Annual General Meeting. The Nomination Committee did not submit a proposal regarding the number of Board members or Board composition, as the 2021 Annual General Meeting elected Board members for a term of office that expires at the close of the 2024 Annual General Meeting.

The Shareholders' Nomination Committee proposes to Kesko's 2024 Annual General Meeting that seven members be elected to the Board of Directors. The Nomination Committee proposes that the following persons be re-elected as Board members: Esa Kiiskinen, retailer, business college graduate, kauppaneuvos; Peter Fagernäs, Master of Laws; Jannica Fagerholm, M.Sc. Economics; Piia Karhu, Doctor of Science, Economics and Business Administration; Jussi Perälä, retailer, business college graduate; Timo Ritakallio, Doctor of Science (Technology), LL.M., MBA. The Nomination Committee proposes that retailer Pauli Jaakola, EMBA be elected as a new member of the Board. Of the current Board members, Toni Pokela has stated he is not available for re-election.

The Shareholders' Nomination Committee also proposes that the annual fees of Board members be raised by approximately five (5) percent, and that other remuneration of Board members and the reimbursement of their expenses remain unchanged. The proposal regarding the remuneration of Board members and the reimbursement of their expenses in 2024–2025 is as follows:

- Board Chair, an annual fee of €107,000
- Board Deputy Chair, an annual fee of €66,000
- Board member, an annual fee of €50,000
- Board member who is the Chair of the Audit Committee, an annual fee of €66,000
- A meeting fee of €600/meeting for a Board meeting and its Committee's meeting. A meeting fee of €1,200/Board meeting for the Board Chair. However, a meeting fee of €1,200/Committee meeting is to be paid to a Committee Chair who is not the Chair or Deputy Chair of the Board. The meeting fees are to be paid in cash.
- Daily allowances and the reimbursements of travel expenses are to be paid to the Board members in accordance with the general travel rules of Kesko.

It is proposed that the aforementioned annual fees be made in Kesko Corporation's B shares and in cash, with approximately 30% of the remuneration paid in shares and the remaining amount paid in cash. The company will acquire the shares from the market or transfer shares held by the company as treasury shares in the name and on behalf of the Board members. The company is responsible for the costs arising from the acquisition of the shares. The shares are to be acquired or transferred to the Board members on the first working day to follow the publication of the interim report for the first quarter of 2024, or on first date enabled by applicable legislation. A Board member cannot transfer shares obtained in this manner until either three years have passed from the day the member has received the shares or their membership on the Board has ended, whichever comes first.

The Nomination Committee proposals were published as stock exchange releases on 1 February 2023 with regard to the proposals to the 2023 Annual General Meeting, and on 26 January 2024 with regard to the proposals to the 2024 Annual General Meeting.

Board of Directors

THE NUMBER AND TERM OF BOARD MEMBERS

According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. The General Meeting decides the number of Board members, elects all Board members, and decides on the Board members' remuneration. The Shareholders' Nomination Committee submits proposals concerning the above matters to the General Meeting. The Board elects the Chair and the Deputy Chair from amongst its members.

Up until the 2024 Annual General Meeting, the term of office of a Kesko Board member has been three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd)

Annual General Meeting after the election. The Annual General Meeting of 30 March 2023 resolved to amend the Company's Articles of Association. Consequently, as of the 2024 Annual General Meeting, the term of office for a Board member shall be one (1) year, starting with the General Meeting that elects the Board member and expiring at the close of the next Annual General Meeting to follow.

BOARD COMPOSITION IN 2023 AND SHAREHOLDINGS

In 2023, the Board members were those elected by the Annual General Meeting of 12 April 2021: Esa Kiiskinen (Chair), Peter Fagernäs (Deputy Chair), Jannica Fagerholm, Piia Karhu, Jussi Perälä, Toni Pokela and Timo Ritakallio. The term of office of the Board members will expire at the close of the 2024 Annual General Meeting.

The Board's 2023 composition and shareholdings on 31 December 2023 are depicted in the table below.

INDEPENDENCE

The Board evaluates the independence of its members on a regular basis in accordance with Recommendation 10 of the Corporate Governance Code. A Board member is obliged to provide the Board with necessary information for the evaluation of independence. All members of Kesko's Board of Directors are non-executive directors.

The Board carried out its annual independence evaluation at its meeting on 27 April 2023. Based on the independence evaluations, the Board considers the majority of Board members to be independent of the Company. Esa Kiiskinen, Jussi Perälä and Toni Pokela are not considered independent of the Company, as they each control a company that has a chain agreement with Kesko. All Board members apart from Toni Pokela were evaluated to be independent of Kesko's significant shareholders. Pokela is the Chairman of the Board of Kesko's significant shareholder K-Retailers' Association. The Board and Committee compositions meet the independence requirements of the Corporate Governance Code.

The independence of each Board member is presented in the following table.

Board composition in 2023 and shareholdings on 31 December 2023

Name	Year of birth	Education	Principal occupation	Board member since	Committee member	Kesko shares held on 31 Dec. 2023
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	459,910 A shares held by him and entities controlled by him and 11,121 B shares held by him and entities controlled by him
Peter Fagernäs (Deputy Chair)	1952	Master of Laws	Chairman of the Board, Hermitage & Co Oy	2018	Remuneration Committee (Deputy Chair)	4,000 A shares held by him 14,709 B shares held by him
Jannica Fagerholm	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	10,709 B shares held by her
Piia Karhu	1976	Doctor, Business Administration	President, Metals, Metso Corporation	2018	Audit Committee	5,046 B shares held by her
Jussi Perälä	1970	Business College Graduate	Building and home improvement retailer	2021		133,000 A shares held by him and entities controlled by him 97,433 B shares held by him and entities controlled by him
Toni Pokela	1973	eMBA	Food retailer	2012		792,600 A shares held by entities controlled by him 5,706 B shares held by him
Timo Ritakallio	1962	Doctor of Science (Technology), Master´s degree in law (LL.M.), MBA	President and Group CEO, OP Financial Group	2021	Audit Committee (Deputy Chair) Remuneration Committee	2,000 A shares held by him 1,789 B shares held by him

Board members' independence in 2023

	Independent of the company	Independent of a significant shareholder
Esa Kiiskinen (Chair)	No*	Yes
Peter Fagernäs (Deputy Chair)	Yes	Yes
Jannica Fagerholm	Yes	Yes
Piia Karhu	Yes	Yes
Jussi Perälä	No*	Yes
Toni Pokela	No*	No**
Timo Ritakallio	Yes	Yes

*Companies controlled by Kiiskinen, Perälä and Pokela each have a chain agreement with Kesko Corporation.
** Pokela is the Chairman of the Board of Kesko´s significant shareholder K-Retailers´ Association.

DESCRIPTION OF THE OPERATIONS OF THE BOARD OF DIRECTORS AND THE MAIN CONTENTS OF ITS CHARTER

Kesko's Board of Directors is responsible for the Company's corporate governance and for the proper organisation of its operations. The Board is responsible for the appropriate arrangement of the control of Kesko's accounts and finances. The Board of Directors has confirmed a written charter of the Board of Directors' duties, principles of operation, meeting practices and decision-making procedures.

In accordance with the charter, the Board reviews and makes decisions on matters that are financially, operationally or fundamentally significant to the Group. According to the charter, the Board of Directors' duties include:

Strategic and financial matters

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and forecast update, including a capital expenditure plan
- reviewing the Group's most significant risks and uncertainties
- deciding on strategically or financially significant individual investments, acquisitions, divestments or arrangements, and commitments
- confirming Kesko's values
- approving Group policies, such as the treasury and investment policy and risk management policy
- establishing a dividend policy and being responsible for shareholder value performance

Organisation and personnel matters

- appointing and discharging the Company's President and CEO, approving their managing director's service contract, and deciding on their remuneration and other financial benefits, and making corresponding decisions for the Deputy CEO
- deciding on the appointments of the Group Management Board members responsible for lines of business, their remuneration and financial benefits
- deciding on the essential structure and organisation of the Group
- ensuring the proper operation and supervision of the management system
- deciding on management authorisation rules
- deciding on the principles of Kesko's commitment and incentive schemes, the terms and conditions and distribution of shares or options under the remuneration policy in force, and monitoring the results of the schemes

Reporting matters

- reviewing and adopting the Group's financial statements, half-year financial reports, and interim reports and related stock exchange releases and the Report by the Board of Directors
- reviewing Kesko's Annual Report as necessary

Other duties

- submitting Board proposals to the General Meeting on matters such as dividend distribution, Auditor, and authorisations to issue and acquire shares
- approving the Board's principles concerning diversity
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies Act or other, and for duties prescribed by the Corporate Governance Code.

In 2024, the duties and charters of the Board of Directors and its Committees will be updated to correspond to the requirements of changes in regulation related to sustainability reporting. New legislation concerning sustainability reporting shall apply to Kesko as of the financial year 2024.

Kesko's Board of Directors has a duty to promote the best interest of Kesko and all its shareholders. The Board members do not represent the interests of the parties that have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between that person (including entities over which the person exercises control) and the Company. When a vote is taken, the Board's decision will be the opinion of the majority and if a vote results in a tie, the decision will be the opinion supported by the Board Chair. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

BOARD OF DIRECTORS' OPERATIONS IN 2023

In 2023, the Board held 9 meetings. Board meetings regularly discuss a review by the President and CEO on key topical issues, as well as reports by the Chairs of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meetings. The Auditor presents their findings to the Board once a year in connection with the review of financial statements.

The Board appointed Jorma Rauhala as the managing director of Kesko Corporation and President and CEO of Kesko Group as of 1 February 2024 as Mikko Helander retires (stock exchange releases issued on 19 December 2023 and 8 December 2023).

In 2023, the Board continued to focus on general economic developments, the war in Ukraine and geopolitical tensions, and evaluated the impact of these factors on the sales and profit of Kesko and K Group. Due to the changes in the operating environment, the Board paid particular attention to e.g. cyber security and ensuring business continuity.

As in previous years, in 2023, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditure, monitored the progress of Group-level projects, and approved the interim reports, the half-year financial report and the financial statements as well as the Report by the Board of Directors prior to their publication.

In 2023, the Board made decisions regarding, among other things, updates to the strategy, the expansion of Kesko's operations to Denmark through the acquisition of one of the country's leading building and home improvement trade operators Davidsen Koncernen A/S, and setting new long-term climate targets. The Board also reviewed, among other things, the matter of concentrating Kesko's building and home improvement trade operations in Sweden under the K-Bygg chain. In addition, the Board decided on the use of the donation funds approved by the Annual General Meeting, on the establishment of new share plans for compensation purposes and the principles for performance bonuses in 2024, and approved the updated versions of the Group's tax, treasury and governance policies. The Board appointed Sami Kiiski (M. Sc., Economics and Business) as the new President of Kesko's car trade division and a member of Group Management Board as of 1 June 2023 (stock exchange release issued on 31 March 2023).

In addition to the Audit Committee, the whole Board of Directors focused in particular on legislative changes related to sustainability reporting. The Board received training on the new EU Corporate Sustainability Reporting Directive (CSRD), which shall be applied as of the 2024 financial year, arranged by the Company's Auditor Deloitte Oy.

The Board carried out a self-assessment regarding Board operations and working practices. The assessment was conducted via discussions between the Board's Chair and each Board member based on a predetermined discussion agenda, utilising the assessment results of an external assessor from 2022. Among other things, Board members assessed the Company's strategy, the working practices and composition of the Board and its Committees and development measures, the performance of the Board Chair, Board members and Company management, reporting, risk management and succession planning for Company management. Moreover, the self-assessment concerned e.g. the economy, utilisation of digitalisation, sustainability issues and Board competence requirements and their impact on Kesko's strategy and leadership. The Board reviewed a summary of the assessment discussions at its December meeting. In addition to the summary, each Board member received personal feedback. A summary of the assessment results was also provided to the Shareholders' Nomination Committee.

Attendance at meetings by members of the Board and its Committees in 2023

		Attendance		
	Committee membership	**Board**	**Audit Committee**	**Remuneration Committee**
Esa Kiiskinen (Chair)	Remuneration Committee (Chair)	9/9		3/3
Peter Fagernäs (Deputy Chair)	Remuneration Committee (Deputy Chair)	9/9		3/3
Jannica Fagerholm	Audit Committee (Chair)	9/9	5/5	
Piia Karhu	Audit Committee	9/9	5/5	
Jussi Perälä		9/9		
Toni Pokela		9/9		
Timo Ritakallio	Audit Committee (Deputy Chair) Remuneration Committee	9/9	5/5	3/3

BOARD DIVERSITY POLICY

Diversity is an essential component in Kesko's success, the achievement of Kesko's strategic objectives and good governance at Kesko. The principles regarding Board diversity are included in the diversity policy approved by Kesko's Board of Directors. The policy describes the objectives in the achievement of diversity in the operations and composition of the Board of Directors.

The diversity policy is applied in the presented form to the Board that operated in 2023. The amendment to the Company's Articles of Association, resolved by the 2023 Annual General Meeting, regarding a 1-year term of office for Board members, shall apply to Board members elected by the 2024 Annual General Meeting.

❞ Board size and election of its members

According to the Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. A sufficient number of Board members promotes the diversity of Board composition, as the areas of expertise and competence of the Board members are mutually complementary and the Board's independence requirements are satisfied.

The Board members are elected by majority votes at the General Meeting. The Board elects the Chairperson and the Deputy Chairperson from among its members for the whole term of office of the Board. In the preparation of a proposal for the Board composition, Kesko applies the practice in which a Shareholders' Nomination Committee prepares proposals to the General Meeting concerning Board members' fees and, as necessary, for the number of Board members and for the Board members.

Planning the Board composition

The composition of Kesko's Board of Directors shall support Kesko's current and future business operations. The Board members are appointed on their merits. Essential features in the Board diversified composition are that the Board members' educational and cultural backgrounds, experience and professional competences for example in the social, business and cultural conditions of the markets in which Kesko operates in as well as the nationality, country of origin, age and gender distribution support Kesko's business objectives and enable efficient Board work from Kesko's point of view. The Board members shall also be able to devote a sufficient amount of time to Board work. Board members are recommended to hold Board memberships or high level positions in no more than four other publicly listed companies.

Kesko aims to achieve a balanced gender distribution in the composition of its Board of Directors. The composition of the Board shall reflect experience in both national and international business operations. The educational background of the Board members shall represent multiple disciplines and diversity. In addition, Kesko's Board shall include members with strong experience in the trading sector and in-depth knowledge of the retailer business. ❞

The policy is available on Kesko's website at https://www.kesko.fi/en/investor/corporate-governance/board-of-directors/diversity-policy/. The Shareholders' Nomination Committee must take the diversity policy into account when preparing proposals for Board members to the Annual General Meeting.

DIVERSITY POLICY IMPLEMENTATION IN 2023

The educational backgrounds and experience and professional competencies of the Board members elected by the 2021 Annual General Meeting represent multiple disciplines and diversity. Several Board members have experience in the trading sector and the principal occupation of two of the seven Board members is acting as a K Group grocery retailer, while one is a K Group building and home improvement retailer. Several Board members also have experience in international business operations. Two of the seven Board members are women, in other words, the proportion of the gender with the smaller representation on the Board is approximately 29%. The age of the Board members varies from 47 to 71 years (see the table "Board composition and shareholdings" for detailed personal data).

BOARD COMMITTEES

Kesko's Board of Directors has established an Audit Committee and a Remuneration Committee to support the Board's work and prepare matters the Board is responsible for. Each Committee is composed of three (3) Board members. At the close of the 2021 Annual General Meeting, which elected the Board members, the Board elected the Committee Chairs, Deputy Chairs, and members from amongst its members.

All members of both Committees are independent of the Company's significant shareholders. All members of the Audit Committee are also independent of the Company. The majority of the members of the Remuneration Committee are independent of the Company. In the election of committee members, the competence requirements for the members of the Committee in question have been taken into account.

The Committees have no independent decision-making power. Instead, the Board makes decisions on matters based on the Committees' preparatory work. The Board has confirmed written charters for the Committees detailing the Committees' duties and operating principles. Each Committee Chair reports on the Committee's work at the Board meeting following a Committee meeting. Minutes of the Committee meetings are submitted for information to the Board members. The actions and working practices of the Committees are assessed annually in conjunction with the Board evaluation.

Audit Committee

The Board's organisational meeting, held after the 2021 Annual General Meeting, elected the following Board members as Audit Committee members:

- Jannica Fagerholm (Chair)
- Timo Ritakallio (Deputy Chair)
- Piia Karhu

In accordance with its charter, the Audit Committee:

- monitors Kesko Group's (Kesko) financial position and funding
- monitors and assesses Kesko's financial reporting system, including the process for financial statements reporting
- monitors and assesses the effectiveness of Kesko's internal control, internal audit, and risk management systems
- approves the operating instructions for the Company's internal audit and annually assesses the need for changes, approves the annual audit plan, budget and resources and related material changes, and reviews reports submitted to the Committee
- monitors the statutory auditing of the Company and the Group
- discusses matters that emerge in connection with auditing and in relation to the Committee's duties with the Company's Auditor when necessary, and otherwise handles contacts with the Auditor
- reviews the Auditor's Report and possible audit minutes and reports presented by the Auditor to the Committee
- monitors and evaluates the independence of the Company's Auditor and, in particular, the non-audit services provided to Kesko by the Auditor and its network audit companies
- prepares the election of the Company's statutory Auditor and recommends an Auditor
- monitors and assesses how agreements and other legal acts between the Company and its related parties meet the requirements of ordinary course of business and arm's-length terms
- prepares recommendations to the Board regarding the review of interim reports, the half-year financial report, and the financial statements
- reviews the Company's Corporate Governance Statement and non-financial report
- prepares and reviews other tasks given by the Board to the Committee

In 2023, the Audit Committee held five meetings. The attendance rate of the Committee members at the meetings was 100%. The Group's Chief Financial Officer, the Group Controller, the Chief Audit and Risk Officer, and the Group General Counsel regularly reported on their areas of responsibility to the Committee at the meetings. The Auditor is present at the Committee meetings and presents their audit plan and report to the Audit Committee.

During the year, the Committee reviewed reports on the Group's financial situation, including the financial statements release, the half-year financial report and the interim reports and updated forecasts, and made a recommendation to the Board on the review of the reports and the financial statements release. The Committee reviewed reports on the Group's external and internal audits, risk management, cyber security and compliance, the report on related party transactions, and the Corporate Governance Statement. The Committee also reviewed reports related to the Company's financing, taxation, requirements of EU taxonomy, and insurance. In terms of risk management, the Audit Committee concentrated in particular on the challenging operating environment, the inflation trend, other general economic developments, the availability and price of energy, cyber security, as well as business risks related to these. The Audit Committee approved the Group internal audit plan, personnel resources and budget for 2024. The Committee also reviewed the results of goodwill impairment testing. The Committee monitored and assessed the Auditor's independence and the additional services provided by the Auditor and other auditing firms to Kesko.

A significant new agenda item for the Audit Committee were the regular reviews regarding the implementation of the EU Corporate Sustainability Reporting Directive (CSRD) at Kesko. The regulation shall apply to Kesko as of the 2024 financial year. In 2023, measures related to the implementation of the sustainability reporting, the progress made in relation to them, and the risks related to the implementation were reviewed in four of the Audit Committee's five meetings. The members of the Audit Committee took part in the sustainability reporting training organised for the whole Board.

The actions of the Audit Committee were assessed as part of the evaluation of Kesko's Board work.

Remuneration Committee

The Board's organisational meeting, held after the 2021 Annual General Meeting, elected the following Board members as Remuneration Committee members:

- Esa Kiiskinen (Chair)
- Peter Fagernäs (Deputy Chair)
- Timo Ritakallio

In accordance with its charter, the Remuneration Committee:

- prepares the Company's Remuneration Policy and Remuneration Report for Governing Bodies
- presents the remuneration policy and report at the General Meeting and responds to related questions
- monitors the implementation of the remuneration policy presented to the General Meeting and ensures that the remuneration of the Company's governing bodies is conducted within the remuneration policy presented to the General Meeting
- conducts preparatory work for the remuneration and other financial benefits for the Company's President and CEO and Deputy CEO and for their service contracts
- conducts preparatory work for the remuneration and other financial benefits for Group Management Board members responsible for lines of business; decisions on the remuneration and financial benefits for Group Management Board members other than those responsible for lines of business are made by the President and CEO within the limits set by the Remuneration Committee Chair
- conducts preparatory work pertaining to the appointment of a President and CEO, Deputy CEO, and Group Management Board members responsible for lines of business, and to identifying their potential successors
- conducts preparatory and development work on matters pertaining to remuneration schemes, including
  - evaluating the remuneration for the President and CEO, Deputy CEO, and other management, and ensuring the appropriateness of the Company's remuneration schemes
  - preparing potential share or share-based compensation schemes
  - preparing the distribution and terms and conditions of shares or options under any share or share-based compensation schemes the General Meeting may have decided on
  - preparing the principles for the performance and result criteria of the compensation schemes, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success
- prepares and reviews other tasks given by the Board to the Committee

In 2023, the Remuneration Committee held three meetings. The attendance rate of Committee members at the meetings was 100%. The Committee prepared, among other things, proposals to the Board for Kesko's Remuneration Report for the Governing Bodies, Kesko's 2023–2026 share-award plans, the performance criteria and target values and the target group for share awards, the principles of Group performance bonuses for 2024, as well as for the performance bonuses to be paid for 2022 to the President and CEO and Group Management Board members responsible for lines of business. The Committee also prepared a proposal for the Board for the appointment of Sami Kiiski (M. Sc., Economics and Business), as the new President of Kesko's car trade division and member of Group Management Board. The Committee monitored and evaluated the implementation of management total remuneration. The actions of the Remuneration Committee were assessed as part of the evaluation of Kesko's Board work.

Managing Director (President and CEO) and their duties

Kesko's managing director is referred to as the President and CEO. Mikko Helander (born 1960, M.Sc. Technology) became Kesko's President and CEO on 1 January 2015. Helander was also a member of the Group Management Board and Kesko's Executive Vice President during the period between 1 October 2014 and 31 December 2014, and acted as the Chair of the Group Management Board as of 1 January 2015. The Board of Directors appointed Jorma Rauhala as the managing director of Kesko Corporation and President and CEO of Kesko Group as of 1 February 2024 as President and CEO Mikko Helander retires (stock exchange releases issued on 19 December 2023 and 8 December 2023). Jorma Rauhala (born 1965, Master of Science, Econ.) has acted as Deputy CEO since 2017.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors, and to report to the Board the developments in the Company's business operations and financial situation. The President and CEO is also responsible for organising the Company's day-to-day governance, and for the Company's accounting complying with legislation, and financial matters being organised in a reliable manner. The President and CEO also chairs the Group Management Board.

The President and CEO is appointed by the Board of Directors. The Board has decided the terms and conditions of the President and CEO's service contract. A written managing director's service contract, approved by the Board, has been made between the Company and the President and CEO.

Group Management Board

Kesko Group has a Group Management Board, the Chair of which is Kesko's President and CEO. The Group Management Board does not have any powers under law or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level policies and procedures. In addition, the Group Management Board discusses, among other things, the Group's and the division companies' business plans, profit performance, and matters reviewed by Kesko's Board of Directors, the preparation of which it also participates in. The Group Management Board typically meets 14–18 times a year. In 2023, the Group Management Board met 21 times.

Group Management Board 2023

	Group Management Board member since	Area of responsibility	Kesko shares held on 31 Dec. 2023
Mikko Helander, President and CEO	1.10.2014	Kesko's President and CEO	5,000 A shares, 431,385 B shares
Jorma Rauhala, President, building and technical trade, Deputy CEO	5.2.2013	Building and technical trade	228,691 B-shares
Ari Akseli, President, grocery trade division	15.11.2017	Grocery trade	1,824 A shares, 122,670 B shares
Sami Kiiski, President, car trade division and K Auto Oy; director in charge of Kesko's sports trade and Managing Director of Intersport Finland Oy	1.6.2023	Car trade	11,932 B shares
Jukka Erlund, Executive Vice President, Chief Financial Officer	1.11.2011	Finance, IT, risk management and M&A	177,527 B shares
Riikka Joukio, Executive Vice President	12.4.2021	Sustainability and Public Affairs	10,678 B shares
Matti Mettälä, Executive Vice President	1.10.2012	HR	1,000 A shares, 114,888 B shares
Karoliina Partanen, Executive Vice President	1.10.2020	Communications, Branding and Stakeholder Relations	32,026 B shares
Matti Virtanen, President of K Auto Oy*	9.4.2021	Car trade	-

*Matti Virtanen's Group Management Board membership ended on 31 May 2023.

DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE FEATURES OF RISK MANAGEMENT SYSTEMS

Group financial reporting

KESKO'S MANAGEMENT MODEL

Kesko's financial reporting and planning are based on Kesko Group's management model. The financial results of the Group's units are reported and analysed internally within the Group on a monthly basis and disclosed quarterly in interim reports, the half-year financial report, and the financial statements release. Financial forecasts are updated quarterly, in addition to which significant changes are taken into account in the monthly reported performance forecast. The strategies and related long-term financial plans of the Group and its units are updated annually.

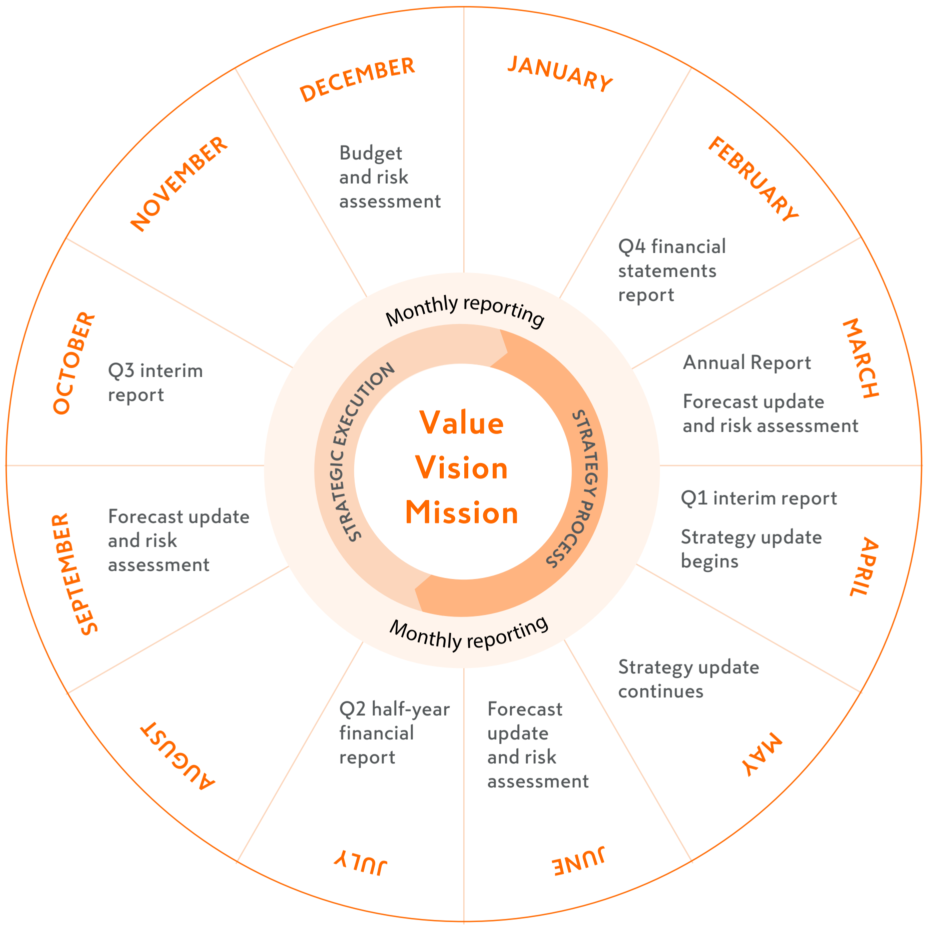
ROLES AND RESPONSIBILITIES

Kesko Group's financial reporting and its supervision are organised on three levels. The businesses analyse and report their figures to the divisions, which then report the division-specific figures to Group level. Analysis and control points for ensuring the accuracy of reporting are used on each of the three reporting levels.

PLANNING AND PERFORMANCE REPORTING

The Group's financial development and achievement of financial targets are monitored by financial reporting covering the entire Group. Monthly performance reporting includes actual Group, division and business specific results, changes compared to the

Kesko Group's management model



previous year, comparison with forecasts, and forecasts for the ongoing financial year. The Group's short-term financial planning is based on annual budgeting and quarterly updated forecasts extending to the end of the ongoing financial year. The key financial indicators are sales performance for growth, comparable operating profit, comparable operating margin, and comparable return on capital employed for profitability, and free cash flow for cash flow, monitored through monthly internal reporting. Information on the Group's financial situation is provided in interim reports, the half-year financial report, and the financial statements release. The Group's sales figures are published monthly.

PERFORMANCE REPORTING TO GROUP TOP MANAGEMENT

Performance reporting to the Group's top management comprises monthly reports on the Group's, divisions', businesses' and subsidiaries' sales, profits, capital employed and cash flows, as well as on the Group's financial items, cash flow, and balance sheet position. Each business is primarily responsible for the financial reporting and the accuracy of the figures. The controlling function of each division analyses the whole division's figures for which the division's financial management is responsible. The Group is responsible for the whole Group's figures. Key income statement, capital employed and balance sheet items are analysed monthly at business, division and Group level, based on an agreed division of duties. This makes real-time information on the financial situation constantly available and enables real-time responses to possible issues.

PUBLIC PERFORMANCE REPORTING

Public performance reporting comprises interim reports, the half-year financial report, the financial statements release, the annual financial statements, and monthly sales reports. The same accounting principles and control methods are applied to public performance reporting as to monthly performance reporting. The Audit Committee reviews the interim report, the half-year financial report, and the financial statements and gives a recommendation on their review to the Board of Directors. The Board approves the interim report, the half-year financial report, and the financial statements before they are published.

KEY ACTIONS IN 2023

In 2023, the harmonisation and automation of financial administration processes and the documentation of key controls continued according to plans. The concentration of basic finance processes to the service centre located in Finland continued in those companies outside Finland where common Group financial information systems were adopted. Processes and reporting were automated and developed based on business needs. The implementation project for the EU Corporate Sustainability Reporting Directive (CSRD) was initiated by mapping out the materiality of sustainability themes included in the directive for Kesko Group, and by comparing the CSRD content requirements to the existing sustainability report.

KEY ACTIONS IN 2024

Key actions in Kesko's Group-level overall financial reporting in 2024 will be the practical implementation of the requirements of the EU Corporate Sustainability Reporting Directive (CSRD) and preparations for the publication of the first CSRD-compliant sustainability report as part of the Report by the Board of Directors. The harmonisation and automation of financial administration processes and reporting will continue with a business focus.

ACCOUNTING POLICIES AND FINANCIAL ADMINISTRATION IT SYSTEMS

Kesko Group complies with the International Financial Reporting Standards (IFRS) approved for adoption by the European Union. The accounting policies adopted by the Group have been compiled in an accounting manual, which is updated as standards and interpretations are amended. The manual contains instructions for Group companies and for preparing the consolidated financial statements. Kesko Group's financial administration information is generated from division and company specific enterprise resource planning systems and basic finance systems into the Group's centralised consolidation system to generate the Group's key financial reports. The key systems used to generate financial information have been certified and secured with back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

Internal control

CONTROL ENVIRONMENT

Internal control is an integral part of management and involves Kesko's Board of Directors, management and personnel. The objective is to ensure Kesko can achieve its targets. Efficient internal control ensures that deviations from objectives can be prevented or detected as early as possible so that corrective measures can be taken. Internal control tools include policies, principles and instructions, approvals, access rights and system and manual controls, reconciliations, monitoring reports, inspections and control self-assessments.

The objective of internal control in Kesko Group is to ensure the efficiency, productivity, continuity and freedom from disruptions of operations, compliance with laws, regulations and agreements and Kesko's values and operating principles, the reliability of financial and operational reporting both externally and internally, as well as the safeguarding of assets, information and expertise.

RISK ASSESSMENT AND CONTROL ACTIVITIES

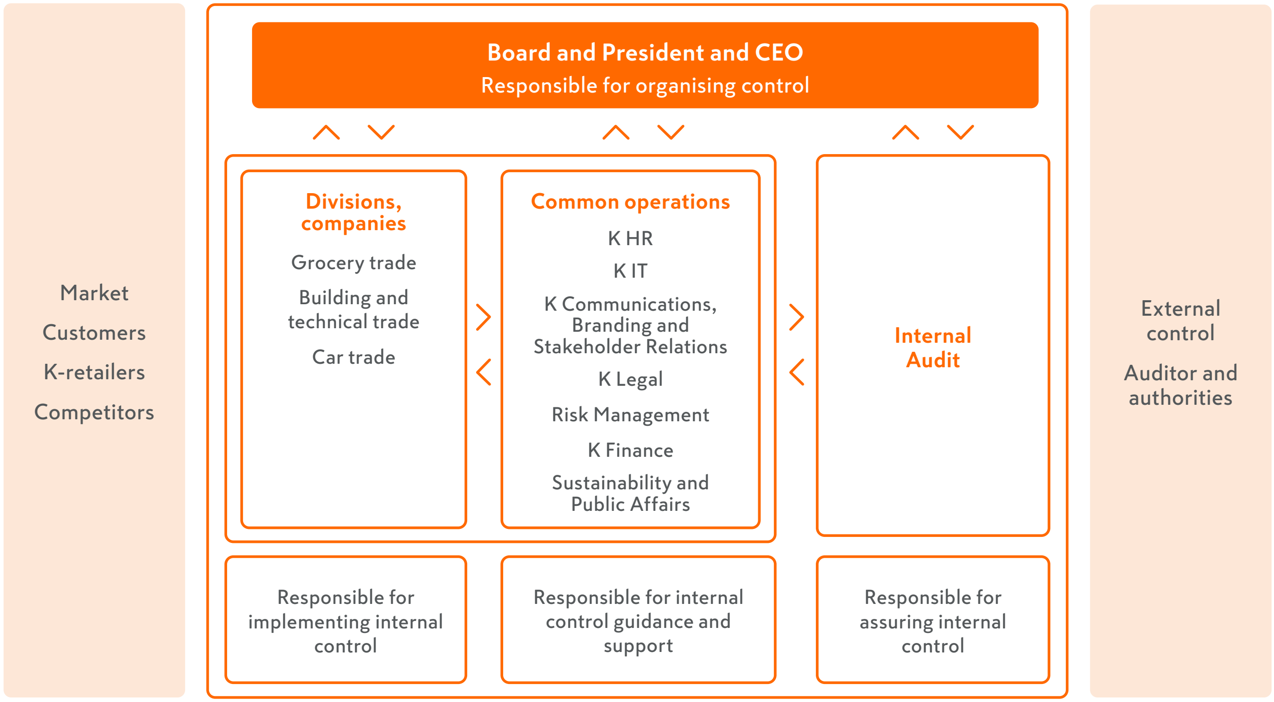
The objective of Kesko's control activities is to ensure, among other things, the efficiency, continuity and compliance of operations, the reliability of financial reporting, and the safeguarding of assets and information. Internal control is efficient when it is continuous, integrated as part of operations, and ensures sufficiently that business targets are met. For the internal control system to remain efficient, it is important that management identifies the risks related to achieving targets and that control activities are targeted based on risk. The objective of control activities is to achieve an acceptable level for identified risks. Kesko's risk assessment process is described in more detail in the section on risk management.

Kesko's Board has approved Kesko's internal control policy, which is based on internationally widely accepted good control principles (COSO) and Kesko's document management model, which comprises policies, principles and instructions that must be complied with throughout Kesko Group.

COMMUNICATION

Efficient communication supports the achievement of internal control objectives. Policies, principles and instructions have been made available to personnel, and regular training is arranged on internal control. Kesko Group's internal audit reports on internal control effectiveness to the President and CEO and the Audit Committee of Kesko Corporation's Board of Directors. Close cooperation and good communication between different lines of defence also support clear division of responsibilities with regard to control measures.

Roles and responsibilities in Kesko Group's internal control



MONITORING

The Board of Directors and the President and CEO are responsible for organising internal control. The management of each division, company and unit is responsible for developing, implementing and maintaining an efficient and functional internal control system in their respective area of responsibility. The management is responsible for extending control also to outsourced services. The objective of monitoring is also to identify potential changes in the operating environment and processes, seen to impact the control measures required.

Kesko's common operations guide and support the divisions, companies and units with Group-level policies, principles and instructions pertaining to their respective areas of responsibility. Kesko Group's internal audit function assesses and verifies the effectiveness and efficiency of Kesko's internal control, reports on it to the President and CEO and the Audit Committee of Kesko Corporations' Board of Directors, and assists management and Kesko's units in the development of the internal control system.

REPORTING SUSPECTED BREACHES

Everyone working at Kesko is obliged to comply with the K Code of Conduct and Kesko's policies, principles and work-related instructions, and to report any issues they identify to their manager. People can also use the SpeakUp channel to report suspected breaches of law or internal misconduct. The head of Kesko Group's Compliance & Ethics function and the Compliance & Ethics Officer working in the function review reports received via the SpeakUp channel when they are to be investigated by Kesko. Some investigations may necessitate the contribution of Group internal audit, other experts, or the authorities.

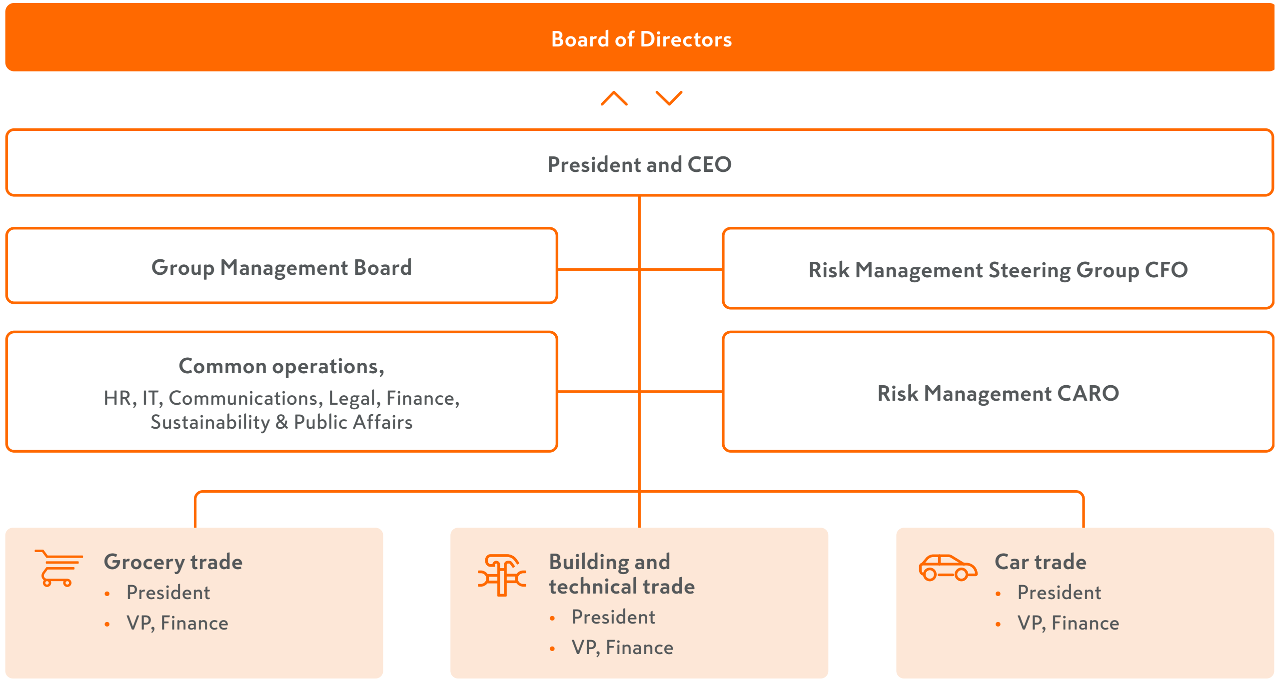
Risk management

Kesko's risk management is proactive and an integral part of day-to-day management. Risk management in Kesko Group is guided by the risk management policy approved by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. In the management of financial risks, the Group's treasury policy, confirmed by Kesko's Board of Directors, is observed.

RISK MANAGEMENT STEERING MODEL AND RESPONSIBILITIES

Kesko's business divisions are responsible for implementing risk management in their respective areas of responsibility, for identifying, assessing, handling and managing risks related to their operations, and they report on risks, risk management responses and the results of those responses to the risk management function. Common operations are responsible for Group-level policies, principles and

Risk management steering model



instructions and for implementing risk management in their respective areas of responsibility. A risk management function independent of businesses is responsible for providing a framework and guidance for internal control and risk management, and it supports, coordinates and supervises risk management implementation in Kesko Group. Members of the Group Management Board are responsible for the effective and efficient implementation of internal control and risk management in their respective areas of responsibility. The Risk Management Steering Group headed by the Chief Financial Officer is responsible for establishing the Group's overview of the risk situation.

The Chief Audit and Risk Officer reports functionally to the Chair of the Audit Committee and administratively to Kesko's President and CEO on matters related to internal audit, and to the Group's Chief Financial Officer on matters related to risk management.

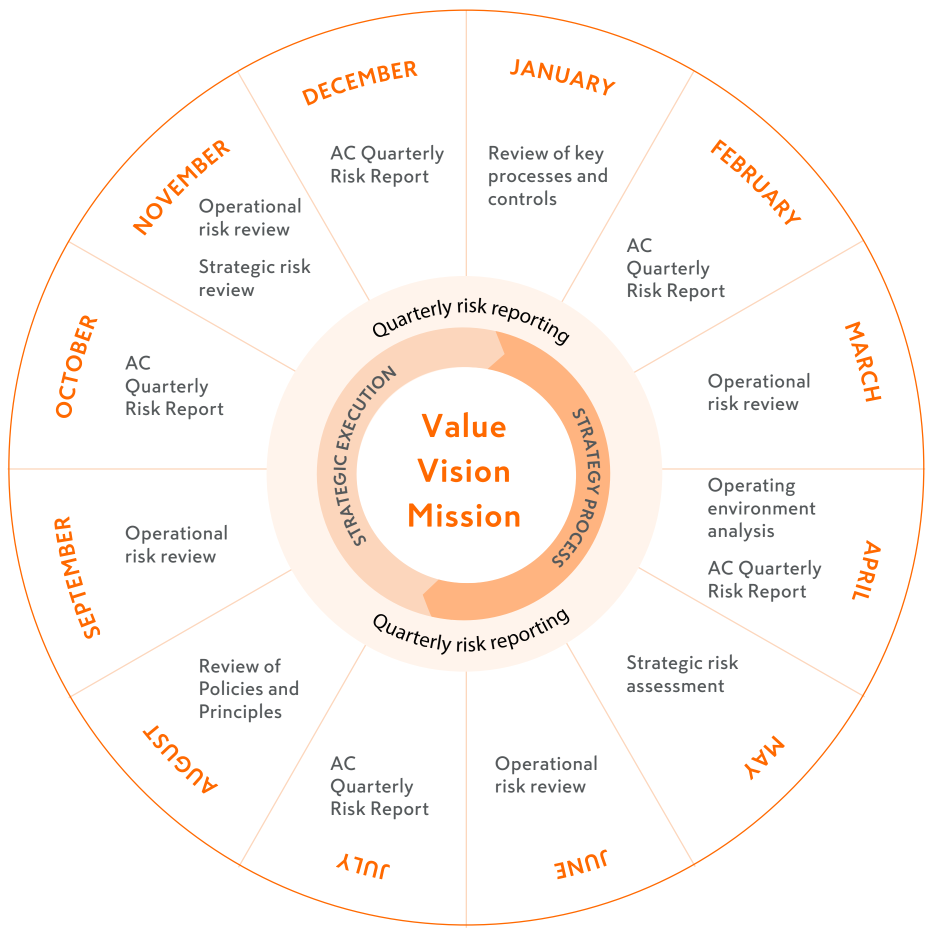
The President and CEO is responsible for the effectiveness and efficiency of the Group's risk management, and approves Group risk reports before they are reviewed by the Board of Directors. Kesko's Board of Directors monitors and assesses the effectiveness of risk management and supervises the assessment of risks related to the Company's strategy and operations and their management, supported by the Audit Committee.

RISK MANAGEMENT PROCESS

Kesko's risk management process is based on the Group's management model and follows the schedule for financial reporting. Kesko employs uniform risk assessment and reporting models. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised by assessing their impacts in euros in case of realisation, and by the likelihood of their realisation. When assessing the impact of a risk, the impacts on e.g. reputation, the wellbeing of people, and the environment are taken into account in addition to the impact in euros.

Risk identification and assessment play a key role in Kesko's strategy work and operational planning. In addition, risk assessments are made on significant projects related to significant investments, business arrangements, or

Risk management annual cycle



changes in operations. The risk assessments of business divisions and common operations, including a risk map, risk management responses and indicators, responsible persons and schedules, are reviewed regularly by the management of the respective business divisions or common operations.

The assessment of strategic and emerging risks and opportunities is part of Kesko's strategy process and is based on the assessment of changes in the operating environment and risks related to strategic business objectives. The impact and likelihood of strategic risks and the effectiveness of risk management responses and controls are assessed not only for the strategy period but also in the medium term (3–5 years), and in the long term (over 5 years) for emerging risks. The assessment of strategic and emerging risks is carried out annually in April-May and updated in October-November.

The assessment of operational and financial risks is based on systematic and continuous assessment of risks in the divisions and common operations. The impact and likelihood of new and already identified operational and financial risks and the effectiveness of risk management responses and controls are assessed in the short term (1–2 years). The assessment of operational and financial risks is carried out quarterly.

Risks and risk management responses are reported in accordance with Kesko's reporting responsibilities. The business divisions and common operations report on risks and changes in them to Group risk management. The risks are reviewed, and significant risks are consolidated by the Risk Management Steering Group in a Group risk report, which is reviewed and approved by the President and CEO.

The Group's most significant risks and uncertainties, as well as material changes in and management responses to them, are reported to Kesko Board's Audit Committee in accordance with the annual risk management schedule. The Audit Committee reviews the risks and assesses the efficiency of Kesko's risk management system. The Audit Committee Chair reports on risk management to the Board as part of Audit Committee reporting.

Kesko's Board of Directors reviews Kesko Group's most significant risks and uncertainties. The most significant risks and uncertainties are reported to the market by the Board in the Report by the Board of Directors, and any material changes in them in the half-year financial report and the interim reports.

A review regarding the need to amend risk management key processes and controls and policies and principles is conducted annually in accordance with the annual risk management schedule. Amendments to the risk management policy are approved by Kesko's Board of Directors before they take effect.

RISK MANAGEMENT IMPLEMENTATION IN 2023

Risk management continued to monitor the impacts of the war in Ukraine and the energy crisis, and to coordinate related risk management responses. A special focus in risk management was on estimating the impacts of a weakening of the overall economy on the operating environment and business operations. In addition, the assessment of the financial impact of climate risks in grocery trade was deepened, and the continuity management steering model and responsibilities were clarified, while contingency plans were made for scenarios regarding potential changes in the security situation of the operating environment.

The reporting of risks and topical issues related to areas of risk management to the Board's Audit Committee continued and was further developed. In addition to the Group risk report, Audit Committee in its meetings reviewed, among other things, topical issues related to cyber security and continuity management.

RISK MANAGEMENT FOCUS AREAS IN 2024

Risk management will continue to focus especially on the constant assessment of risks related to the overall economy, and on determining and monitoring efficient management measures. In addition, focus will be on ensuring the functioning of risk management processes related to cyber and sustainability risks, and their integration into the Group overall risk management process. In continuity management, focus areas will continue to be monitoring and preparing for potential geopolitical risks.

OTHER INFORMATION TO BE PROVIDED IN THE CG STATEMENT

Internal audit

Kesko's internal audit is responsible for the Group's independent evaluation and assurance function required of a listed company, which systematically examines and verifies the efficiency of risk management, management, control and governance. The Audit Committee of Kesko's Board of Directors has approved the operating instructions for Kesko's internal audit function.

The internal audit function operates under Kesko's President and CEO and the Audit Committee, and it reports on its findings and recommendations to the Audit Committee, the President and CEO, the management of the audited operation, and the external auditor. Internal audit covers all Kesko's divisions, companies and functions. Auditing is based on risk assessments, as well as risk management and control discussions conducted with the management of the Group and the divisions. Regular meetings are arranged with the external auditor to ensure sufficient audit coverage and to eliminate overlapping operations.

An internal audit plan is prepared annually, and it is approved by the President and CEO and the Audit Committee. If needed, the audit plan is modified on a risk basis. If necessary, the internal audit function acquires external services for additional resources or for conducting audit operations requiring particular expertise. Internal audit can also make use of the expertise and work contribution of Kesko Group's other specialists.

The Chief Audit and Risk Officer reports functionally to the Chair of the Audit Committee, and administratively to Kesko's President and CEO on matters related to internal audit, and to the Group's Chief Financial Officer on matters related to risk management.

INTERNAL AUDIT IN 2023

The main focus areas for internal audit in 2023 were cyber security, IT supply chain management, credit management processes, inventories, indirect purchasing, customer and vendor bonuses, processes of the shared services centre, and Treasury operations.

FOCUS AREAS FOR INTERNAL AUDIT IN 2024

The main focus areas for internal audit in 2024 will be store site investments, acquisitions and their integration, targeted audits for key projects, retailer operations, inventory and credit management processes, cyber security, identity and access management, vendor bonuses, and processes of the shared services centre.

Related party transactions

In accordance with the Corporate Governance Code, Kesko's Board of Directors has determined the principles for monitoring and evaluating related party transactions complied within the Group. The principles determine Kesko's related parties, and a list of related parties is maintained. The principles identify business operations that are part of ordinary course of business and implemented under arms-length terms. These include chain agreements in the K-chain operations used to join retailers to Kesko's retail chains, such as the K-Citymarket, K-Supermarket, K-Market and K-Rauta chains, and the terms and conditions of sales for K-chain commerce and services. Kesko has made chain agreements also with companies controlled by Board members engaged in retailer operations. Like other chain agreements, these are part of Kesko's ordinary course of business. The agreements are made at the same organisational level following the same principles as other similar chain agreements. The Board makes decisions on agreements and other legal acts that are not part of Kesko's ordinary course of business or are not implemented under arms-length terms. The matter and related decision-making are prepared with care utilising, for example, external evaluations. Decision-making complies with the conflict of interest provisions of the Finnish Limited Liability Companies Act. Related party transactions and information concerning the monitoring of related party transactions are reported to Kesko's Audit Committee, and the supervision of related party transactions is part of Kesko Group's internal control. Kesko regularly reports related party transactions as part of its financial reporting, and publishes related party transactions in a manner determined by regulations. Kesko Group's related party transactions are reported in note 5.2 to the consolidated financial statements.

Insider administration

INSIDER REGULATIONS

Kesko complies with the EU and Finnish insider regulations, the insider guidelines of Nasdaq Helsinki Ltd, and the complementary insider instructions confirmed by Kesko.

MANAGERS AND MANAGEMENT TRANSACTIONS

Kesko has determined that 'managers' (persons discharging managerial responsibilities) in Kesko, as referred to in the EU Market Abuse Regulation (MAR), comprise the members of Kesko Corporation's Board of Directors, and the President and CEO and other members of the Group Management Board. The managers and their related parties are obliged to inform Kesko and the Finnish Financial Supervisory Authority of transactions they make with Kesko's financial instruments, such as shares. Transactions by the managers and their related parties are disclosed in accordance with MAR.

CLOSED PERIOD

A closed period of 30 calendar days before the publication of interim reports, the half-year financial report, and the financial statements release is applied to persons discharging managerial responsibilities at Kesko. The Company has imposed a corresponding 30-day closed period also on persons involved in the preparation, drafting or publication of Kesko's interim reports, the half-year financial report, and the financial statements. During the closed period, the persons are prohibited from trading on Kesko's shares and other financial instruments.

INSIDER PROJECTS

A project-specific insider list of persons involved is established for projects involving insider information. Persons on the list cannot trade in financial instruments in Kesko during the project.

REPORTING BREACHES

Kesko has a confidential channel for reporting suspected violations of securities markets regulations. The channel is maintained by an external company independent of Kesko Group. Within Kesko Group, the Compliance & Ethics function is responsible for the channel, for conducting investigations, and for taking further action.

DUTIES

Insider management at Kesko is concentrated in Legal Affairs. Kesko's Legal Affairs

- provides information, instructions, training and advice on insider matters internally,
- develops insider administration,
- monitors regulatory changes concerning insider matters,
- is responsible for insider lists, the list of persons discharging managerial responsibilities and related parties, and other insider administration-related procedures,
- participates in internal investigation of concerns and suspected breaches related to insider matters, and
- monitors compliance with insider guidelines together with Kesko's internal audit.

Auditing

According to Kesko's Articles of Association, Kesko's Auditor shall be an Authorised Public Accountants Organisation which shall designate an Authorised Public Accountant as the auditor with principal responsibility. The Audit Committee conducts preparatory work for the election of the Company's Auditor, and recommends an Auditor. The Board submits a proposal to the Annual General Meeting for the Company's Auditor. The Auditor's term of office is the financial year during which the Auditor is elected, and the Auditor's term continues until the close of the next Annual General Meeting to follow.

The Annual General Meeting of 2023 elected the firm of authorised public accountants Deloitte Oy as the Company's Auditor, with APA Jukka Vattulainen as the auditor with principal responsibility. The Annual General Meeting resolved that the Auditor's fee and the reimbursement of the Auditor's expenses be paid according to an invoice approved by the Company.

Auditor's fees in 2022–2023 (€1,000)

	2023			2022		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	335	903	1,238	399	782	1,181
Tax consultation	0	6	6	0	6	6
IFRS consultation	0	0	0	0	0	0
Other services	157	2	159	130	0	130
Total	**492**	**911**	**1,403**	**529**	**788**	**1,317**

BOARD OF DIRECTORS

Esa Kiiskinen

Chair, Chair of the Remuneration Committee

b. 1963, Kauppaneuvos (an honorary title granted by the President of the Republic of Finland), Business College Graduate

Independence: He is considered not to be independent of the Company (entity controlled by him has a chain agreement with a Kesko Group company) but to be independent of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1990.

Main positions of trust: Saija ja Esa Kiiskinen Oy: Chair of the Board 1995–.

Board member since: 30 March 2009.

Kesko shares held:
- 31 December 2022: 459,200 A shares held by him and entities controlled by him and 9,380 B shares held by him.
- 31 December 2023: 459,910 A shares held by him and entities controlled by him and 11,121 B shares held by him and entities controlled by him.

Peter Fagernäs

Deputy Chair, Deputy Chair of the Remuneration Committee

b. 1952, Master of Laws

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

Domicile: Helsinki, Finland.

Principal occupation: Chairman of the Board.

Main employment history: Hermitage & Co Oy: Chairman of the Board 2003–2023, Pohjola Group Plc: Chairman of the Board 2001–2003, Conventum Ltd: CEO 1996–1999 and Chairman of the Board 1999–2002, Merita Bank Ltd: member of management board 1995–1996, Prospectus Ltd: CEO 1993–1995, Kansallis-Osake-Pankki: 1977–1993.

Main positions of trust: Oy Hermitage Ab: Chairman of the Board 2003–, Taaleri Plc: Chairman of the Board 2007–2020, Amanda Capital Plc: member of the Board 2007–2011, Winpak Ltd: member of the Board 2006–2011, Fortum Corporation: Chairman of the Board 2004–2009.

Board member since: 11 April 2018.

Kesko shares held:
- 31 December 2022: 4,000 A shares and 13,805 B shares held by him.
- 31 December 2023: 4,000 A shares and 14,709 B shares held by him.

Jannica Fagerholm

Chair of the Audit Committee

b. 1961,
Master of Science (Economics)

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

Domicile: Helsinki, Finland.

Principal occupation: Managing Director.

Main employment history: Signe and Ane Gyllenberg Foundation: Managing Director 2010–; SEB Gyllenberg Private Bank: Managing Director 1999–2010; Handelsbanken Liv Finland: Country Director 1998–1999.

Main positions of trust: Mandatum plc: Vice Chair of the Board 2023–; Sampo plc: member of the Board 2013–; Solidium Oy, member of the Board 2019–, Kelonia Ab, member of the Board 2010–; Veritas Pension Insurance, member of the Supervisory Board 2010–; The Society of Swedish Literature in Finland, member of the Board 2015–, member of the Financial Board 2001–2015; Eira Hospital Ltd: member of the Board 2010–; Föreningen Stiftelser och Fonder (Säätiöt ja rahastot ry): member of the Board 2015–2021, Chair of the Board 2022–2023, Hanken School of Economics: member of the Board 2008–2022, Chair of the Board 2019–2021; Teleste Corporation: member of the Board 2013–2020; Aktia Abp: member of the Board 2012–2013; Partiosäätiö foundation: member of the Board 1997–2013.

Board member since: 4 April 2016.

Kesko shares held:
- 31 December 2022: 9,805 B shares held by her.
- 31 December 2023: 10,709 B shares held by her.

Piia Karhu

Member of the Audit Committee

b. 1976,
Doctor, Business Administration

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

Domicile: Kauniainen, Finland.

Principal occupation: President.

Main employment history: Metso: President, Metals 2022–, SVP Business Development 2020–2022; Finnair Plc: Senior Vice President, Customer Experience and member of the Executive Board 2016–2020. Various leadership positions at Finnair Plc since 2013. Previously worked as a management consultant for 12 years at Ernst & Young and Capgemini.

Main positions of trust: -

Board member since: 11 April 2018.

Kesko shares held:
- 31 December 2022: 4,364 B shares held by her.
- 31 December 2023: 5,046 B shares held by her.

Jussi Perälä

b. 1970,
retailer, Business College Graduate

Independence: He is considered not to be independent of the Company (entity controlled by Perälä has a chain agreement with a Kesko Group company), but to be independent of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Retailer, J & M Perälä Oy.

Main employment history: Retailer: K-Rauta Oulunkylä 2014– and K-Rauta Procenter Pasila 2020–, K-Rauta Palokka Jyväskylä 2010–2014, Rautia-maatalous Vasarakatu Jyväskylä 2003–2010, K-Rauta Kangasniemi 1998–2008, K-Rauta Laukaa 1997–2013, Rautia Joutsa 1997–2012, K-Rauta Toivakka 1997–2005.

Main positions of trust: K-Retailers' Association: Vice Chairman of the Board 2016–2021, Board member 2009–2014, K-rautakauppiasyhdistys: Board member 2008, Vice Chairman of the Board 2009–2014, Vähittäiskaupan Takaus Oy: Board member 2018–2021, Vähittäiskaupan Tilipalvelu Oy: Chair of the Board 2020–2021, Board member 2017–2020, Finnish Hardware Association: Board member 2009–2011 and 2016–2021, Rautia Chain Board: Chairman 2008, member 2001–2007, K-Rauta planning group: 2011–2014.

Board member since: 12 April 2021.

Kesko shares held:
- 31 December 2022: 133,000 A shares and 96,751 B shares held by him and entities controlled by him.
- 31 December 2023: 133,000 A shares and 97,433 B shares held by him and entities controlled by him.

Toni Pokela

b. 1973,
retailer, EMBA

Independence: He is considered not to be independent of the Company (entity controlled by him has a chain agreement with a Kesko Group company) and of significant shareholders (Chair of the Board of a significant Company shareholder, the K-Retailers' Association).

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1997.

Main positions of trust: Chamber of Commerce: member of the Board 2021–; Finnish Commerce Federation: member of the Board 2017–; Finnish Tennis Federation: Chair of the Board 2017–, member of the Board 2014–2016; K-Retailers' Association: Chair of the Board 2016–, member of the Board 2008–2012; Pokela Oy Iso Omena: member of the Board and Managing Director 1998–; Iso Omenan Yrittäjäyhdistys ry: Chair of the Board 2003–; Foundation for Vocational Training in the Retail Trade: Chair of the Board 2016–; Confederation of Finnish Industries EK: member of the Skilled Workforce Committee 2014–2016, member of the Delegation for Entrepreneurs 2017–; K-instituutti Oy: Deputy Chair of the Board 2010–2012; Vähittäiskaupan Takaus Oy: member of the Board 2010–2012; K-Food Retailers' Club: Chair of the Board 2010–2012; Deputy Chair 2008–2010; Finnish Grocery Trade Association: member of the Board 2010–2011.

Board member since: 16 April 2012.

Kesko shares held:
- 31 December 2022: 757,600 A shares held by entities controlled by him and 5,024 B shares held by him.
- 31 December 2023: 792,600 A shares held by entities controlled by him and 5,706 B shares held by him.

Timo Ritakallio

Deputy Chair of the Audit Committee, Member of the Remuneration Committee

b. 1962,
Doctor of Science (Technology),
Master´s degree in law (LL.M.), MBA

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

Domicile: Helsinki, Finland.

Principal occupation: President and Group Chief Executive Officer.

Main employment history: OP Financial Group: President and Group Chief Executive Officer 2018–, Ilmarinen Mutual Pension Insurance Company: President and CEO 2015–2018, Deputy Chief Executive Officer 2008–2015, Pohjola Bank Group: Deputy Executive Officer and Vice Chairman of the Executive Committee 2006–2008, OKO Bank: Deputy Chief Executive Officer and Member of the Executive Board 2001–2005, OKO Bank: Executive Vice President and Member of the Executive Board 1997–2001, Opstock Securities Ltd: Managing Director 1993–1997, Uudenkaupungin Seudun Osuuspankki: Managing Director 1991–1993.

Main positions of trust: Finance Finland, FFI: Chairman of the Board of Directors 2020–2021, Deputy Chairman of the Board of Directors 2022–, Member of the Board of Directors 2017–2019, Confederation of Finnish Industries EK: Member of the Board of Directors 2020–2021, Finnish Chamber of Commerce: Member of the Board of Directors 2019–, Chairman of the Board 2022–, OP Corporate Bank plc: Chairman of the Board of Directors 2018–, Pohjola Insurance Ltd: Chairman of the Board of Directors 2018–, The Finnish Olympic Committee: Chairman of the Board of Directors 2016–2020, Outotec Oyj: Vice Chairman of the Board of Directors 2013–2019, Technopolis Oyj: Member of the Board of Directors 2008–2015, Nasdaq OMX Nordic Inc: Member of the Board of Directors 2003–2011, SSH Communication Security Oyj: Member of the Board of Directors 2003–2009.

Board member since: 12 April 2021.

Kesko shares held:
- 31 December 2022: 2,000 A shares and 1,107 B shares held by him.
- 31 December 2023: 2,000 A shares and 1,789 B shares held by him.

GROUP MANAGEMENT BOARD

Mikko Helander

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

b. 1960,
Vuorineuvos (an honorary title granted by the President of the Republic of Finland), Master of Science (Technology), Doctor honoris causa (Dr. h. c.), Economic Sciences

Other major duties: Confederation of Finnish Industries EK: member of the Board 2016–, Deputy Chair of the Board 2016, 2019–2021; Finnish Commerce Federation: member of the Board 2015–, Chair of the Board 2018–2019, Deputy Chair of the Board 2015, 2021–2022; China Office of Finnish Industries Oy: member of the Board and working committee 2022–; Ilmarinen Mutual Pension Insurance Company: member of the Board 2015 and Chair of the Board 2016–2019; Stora Enso Oyj: member of the Board 2019–2022; Finland Chamber of Commerce: member of the Board 2016–2020; Finnish Business and Policy Forum EVA: member 2015–; Rajamme Vartijain Säätiö: member of the Board 2019–2021, Chair of the Board 2020–2021.

Employment history: employed by Kesko Corporation since 2014. Kesko Corporation's Managing Director and Kesko Group's President and CEO since 1 January 2015. Kesko Corporation's Executive Vice President 2014. Metsä Board Corporation: Chief Executive Officer 2006–2014; Metsä Tissue Corporation: Chief Executive Officer 2003–2006; Various management positions at Valmet Corporation between 1985–1990 and 1993–2003; Managing Director of Kasten Hövik 1990–1993.

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

Kesko shares held:
- 31 December 2022: 5,000 A shares, 385,786 B shares.
- 31 December 2023: 5,000 A shares, 431,385 B shares.

Jorma Rauhala

President, building and technical trade, Deputy CEO

b. 1965,
Master of Science (Economics)

Other major duties: European DIY Retail Association (EDRA): Member of the Board 2019–; Haaga-Helia University of Applied Sciences Ltd: Chair of the Board 2021–; The Finnish Grocery Trade Association: Chair of the Board 2017 (until 20.11.2017) and 2013–2014; member of the Board 2013–2016; the Association of Finnish Advertisers: member of the Board 2014–2017 (until 24.11.2017).

Employment history: employed by Kesko Corporation since 1992. President of Kesko's building and technical trade since 15 November 2017. Senior Vice President, grocery trade division 2015–2017. President of Kesko Food Ltd 2013–2017. Vice President for the K-citymarket chain's food trade 2012–2013; Managing Director of Kespro Ltd 2007–2012; Purchasing Director of Kespro Ltd 2003–2007.

Member of the Group Management Board since: 5 February 2013.

Kesko shares held:
31 December 2022: 205,178 B-shares.
31 December 2023: 228,691 B-shares.

Ari Akseli

President, grocery trade

b. 1972,
Master of Science (Economics)

Other major duties: The Finnish Grocery Trade Association: Member of the Board 2019–, Deputy Chair of the Board 2023–, Chair of the Board 2021–2022 and 2017–2018; Varma Mutual Pension Insurance Company: member of the Supervisory Board 2021–; AMS Advisor Board: member 2013–2019; IGS Advisor Board: member 2016–; Ruokatieto: Vice Chairman of the Board 2016–2019, member of the Board 2013–2015; Association for Finnish Work: member of the Executive Committee 2014–2019.

Employment history: Employed by Kesko Corporation since 1995. President of Kesko's grocery trade division since 15 November 2017. Vice President for Commerce, Kesko's grocery trade 2013–2017; President, Anttila Oy 2010–2013; President, K-citymarket Oy 2008–2013.

Member of the Group Management Board since: 15 November 2017.

Kesko shares held:
- 31 December 2022: 1,824 A shares, 105,476 B shares.
- 31 December 2023: 1,824 A shares, 122,670 B shares.

Sami Kiiski

President, car trade division

b. 1976,
Master of Science (Economics)

Other major duties: Member of the Board of Association of Automobile Industry in Finland since 2023; member of the Board of the Finnish Central Organisation for Motor Trades and Repairs (AKL) since 2023; member of the Board of Intersport International Corporation (IIC) since 2022; member of the Board of the Fashion and Sports Commerce Association since 2020–2023; member of the Board of the Sport Retail and Wholesale Association (UVT) 2014–2019.

Employment history: Employed by Kesko Corporation since 2020. President of Kesko's car trade division since 1 June 2023; Director in charge of Kesko's sports trade and CEO of Intersport Finland Oy since 2020; CEO of Halti Oy 2015–2020; Executive Vice President of Sultrade Oy 2014–2015 and International Sales Director 2009–2014; head of leisure trade business at Solifer Group 2007–2009.

Member of the Group Management Board since: 1 June 2023.

Kesko shares held:
- 1 June 2023: 11,932 B shares.
- 31 December 2023: 11,932 B shares.

Jukka Erlund

Executive Vice President, CFO

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

Other major duties: Ilmarinen Mutual Pension Insurance Company: member of the Board 2021–; Finnair Plc: member of the Board 2019–; Finnish Commerce Federation: Chair of the Tax and Economic Policy Committee 2011–; Confederation of Finnish Industries EK: member of the Economy and Tax Committee 2012–; Suomen Luotto-osuuskunta: member of the Board 2012–.

Employment history: Employed by Kesko Corporation since 2004. Senior Vice President, CFO since 1 November 2011. Kesko Food Ltd's Vice President for Finance 2010–2011; Kesko Corporation's Vice President, Corporate Controller 2007–2010; Kesko Corporation's Corporate Business Controller 2004–2007.

Member of the Group Management Board since: 1 November 2011.

Kesko shares held:
- 31 December 2022: 160,427 B shares.
- 31 December 2023: 177,527 B shares.

Riikka Joukio

Executive Vice President, Sustainability and Public Affairs

b. 1965,
Master of Science (Technology), eMBA

Other major duties: EuroCommerce: Board member 2023–; Natural Resources Institute Finland (Luke): Board member 2024–, PEFC International: Board Vice Chair, Board member 2014–2022; Climate Leadership Coalition (CLC): Deputy Member of the Board 9/2021–; Keskuskauppakamari: Elinkeino- ja ilmastovaliokunta 2022–; Encore Ympäristöpalvelut Oy: Board member 2018–2021; Puunjalostusinsinöörit ry - Forest Products Engineers: Board Chair, Board member 2014–2021; UNA Europa: advisory board member 2020–2023.

Employment history: Employed by Kesko Corporation since 12 April 2021. Metsä Group: SVP, Climate and Circular Economy 2020–2021; Metsä Tissue: SVP, Greaseproof papers and Consumer Nordics 2018–2019; Metsä Group: SVP, Sustainability and Corporate Affairs 2010–2018; Metsä Board Consumer Packaging: VP, Marketing 2004–2010; M-real Consumer Packaging: Assistant VP, technical sales and marketing 1999–2004; several technical positions at Metsä-Serla 1998–1999.

Member of the Group Management Board since: 12 April 2021.

Kesko shares held:
- 31 December 2022: 4,153 B shares.
- 31 December 2023: 10,678 B shares.

Matti Mettälä

Executive Vice President, Human Resources

s. 1963,
Master of Laws

Other major duties: Employment Fund: member of the Supervisory Board 2018–; Foundation for Vocational Training in the Retail Trade: member of the Board 2005–.

Employment history: Employed by Kesko Corporation 1990–2005 and since 2012. Executive Vice President, Human Resources 12 April 2021–. Executive Vice President, Human Resources, Corporate Responsibility and Regional Relations 2018–2021. Senior Vice President, Human Resources 2015–2017. Senior Vice President, Human Resources and Stakeholder Relations 2012–2014. K-retailers' Association: Managing Director 2005–2012; Kesko Hardware and Builders' Supplies: Vice President for Finance 2002–2005; Rautakesko Ltd: Development Director 2001–2002; Builders' and Agricultural Supplies Division: Project Manager 1999–2000; Kesko Hardware and Builders' Supplies: Vice President for the Rautia chain 1998–1999; Builders' and Agricultural Supplies Division: Retail Services Manager 1996–1998; Vähittäiskaupan Takaus Oy: Retail Services Manager 1994–1996; Kesko Ltd's Credit Department: Credit Manager 1991–1992; Kesko Ltd's Credit Department: Legal Counsel 1990–1991.

Member of the Group Management Board since: 1 October 2012.

Kesko shares held:
- 31 December 2022: 1,000 A shares, 104,631 B shares.
- 31 December 2023: 1,000 A shares, 114,888 B shares.

Karoliina Partanen

Executive Vice President, Communications

s. 1977,
Master of Political Science

Areas of responsibility: Communications, Brand and Stakeholder Relations.

Employment history: Employed by Kesko Corporation since 2015. Kesko Corporation's Executive Vice President, Communications 2017–. Kesko grocery trade, Vice President, Communications 2015–2017. Metso Corporation: Vice President, Global Brand and Marketing 2013–2015; Vice President, Marketing and Communications 2009–2013; Communications Manager 2005–2009. Pohjoisranta Burson-Marsteller Oy: Communications Consultant 2000–2005.

Member of the Group Management Board since: 1 October 2020.

Kesko shares held:
- 31 December 2022: 25,182 B shares.
- 31 December 2023: 32,026 B shares.

REMUNERATION REPORT

2023

INTRODUCTION

This is the remuneration report for governing bodies applied within Kesko Corporation ("Kesko") which complies with legislation and the Finnish Securities Market Association's Corporate Governance Code that entered into force on 1 January 2020. This remuneration report concerns the reporting on remuneration of the members of Kesko's Board of Directors as well as the President and CEO and the Deputy CEO of Kesko in 2023. The remuneration report is based on the remuneration policy for Kesko's governing bodies reviewed by the Annual General Meeting of 28 April 2020. Said Annual General Meeting resolved in favour of the proposed remuneration policy.

The Remuneration Committee of Kesko's Board of Directors prepared this remuneration report, and the Board approved it in its meeting on 29 January 2024. Kesko's auditor, Deloitte Oy, has audited this remuneration report to confirm that it contains the information referred to in the Ministry of Finance Decree on the remuneration policy and remuneration report of a share issuer (608/2019). This remuneration report will be reviewed by Kesko's 2024 Annual General Meeting. Kesko's Annual General Meeting on 30 March 2023 approved the Remuneration Report for Governing Bodies for 2022. The General Meeting resolution concerning the Remuneration Report is advisory in nature. No questions concerning the remuneration report were presented to the General Meeting.

This remuneration report is available on Kesko's website at www.kesko.fi/en/investor/corporate-governance/

Fees paid and operating profit for the past five years

Role	2019	2020	2021	2022	2023
Board Chair	109,000	118,000	119,900	117,000	114,600
Board Deputy Chair	67,000	70,500	74,900	71,400	70,200
Other Board members, average	56,100	59,300	61,160	59,960	58,760
President and CEO Mikko Helander	2,633,100	2,997,382	4,381,783	4,866,364	3,370,070
Deputy CEO Jorma Rauhala	1,088,999	1,269,791	2,123,288	2,345,080	1,539,455
Employee, Finland	40,578	41,127	42,974	43,236	43,697
Net sales, € million	**10,720**	**10,669**	**11,300**	**11,809**	**11,784**
Operating profit, comparable, € million	**461**	**568**	**776**	**815**	**712**
Return on capital employed, comparable, %	**9.6**	**12.0**	**17.2**	**16.9**	**13.4**
Total shareholder return (TSR, %) of a Kesko B share	**38.74**	**37.36**	**43.08**	**-26.05**	**-7.77**

The remuneration for the Board Chair, Deputy Chair and other members includes annual and meeting fees. The remuneration for the President and CEO and the Deputy CEO comprises their fixed annual salary, car and mobile phone benefits, and variable components, namely performance bonuses and share awards. The employee salary is the average annual salary and fees (personnel expenses as presented in the financial statements divided by the number of full-time employees in Finland). The figures in the above table are presented as payment-based. Remunerations to be paid in the later years are not included in the figures.

In accordance with the remuneration policy, the Remuneration Committee of Kesko's Board of Directors supervises the policy's implementation and ensures that the remuneration of the Company's governing bodies takes place within the limits of the policy presented to the General Meeting. In the 2023 financial year, the remuneration of Kesko's Board members, President and CEO, and Deputy CEO was in line with the remuneration policy approved by the 2020 Annual General Meeting. No fees already paid have been clawed back.

In line with what is presented in Kesko's remuneration policy, the aim of remuneration is to align the objectives of the shareholders and the members of the Company's Board, the President and CEO, and the Deputy CEO in order to increase the value of the Company and to execute its business strategy in the long term. As a result, remuneration promotes the Company's long-term financial success.

Kesko's business has grown steadily over the past five years. The good business performance and profitability are also reflected in the remuneration for the President and CEO and the Deputy CEO. Changes to their total remuneration are mostly due to changes in their realised performance bonuses and share awards.

BOARD OF DIRECTORS' REMUNERATION

In accordance with Kesko's remuneration policy for governing bodies, the Annual General Meeting of 30 March 2023 made resolutions regarding the Board members' remuneration and the basis for reimbursement of their expenses. Kesko's Shareholders' Nomination Committee had submitted a proposal on the matter to the General Meeting.

The annual and meeting fees determined by the General Meeting for the members of the Board of Directors are presented in the following tables. In accordance with the General Meeting resolution, the annual fees were paid in Kesko Corporation's B shares and cash, with approximately 30% of the fees paid in shares. After the transfer of shares, the remaining fee amount was paid in cash. The Company transferred treasury shares held by the Company to the Board members on 2 May 2023. A Board member cannot transfer shares until either three years have passed from the day the member received the shares or their membership on the Board has ended, whichever comes first.

RESOLUTION OF THE 2023 ANNUAL GENERAL MEETING ON THE ANNUAL AND MEETING FEES OF BOARD MEMBERS

Annual fees to Board members (€)

	2023
Chair	102,000
Deputy Chair	63,000
Member	47,500
Board member who is the Audit Committee Chair	63,000

Board meeting fees / meeting (€)

	2023
Board meeting	
Chair	1,200
Member	600
Committee meeting	
Committee Chair who is not the Chair or Deputy Chair of the Board	1,200
Member	600

Annual and meeting fees paid to Board members for Board and Committee work in 2023 (€)

		Meeting fees				
	Annual fee	Board of Directors	Audit Committee	Remuneration Committee	Remuneration, total	Number of B shares transferred as annual fees*
Esa Kiiskinen (Chair)	102,000	10,800		1,800	114,600	1,464
Peter Fagernäs (Deputy Chair)	63,000	5,400		1,800	70,200	904
Jannica Fagerholm	63,000	5,400	6,000		74,400	904
Piia Karhu	47,500	5,400	3,000		55,900	682
Jussi Perälä	47,500	5,400			52,900	682
Toni Pokela	47,500	5,400			52,900	682
Timo Ritakallio	47,500	5,400	3,000	1,800	57,700	682
Total	418,000	43,200	12,000	5,400	478,600	6,000

* Kesko's treasury shares were transferred on 2 May 2023. The average share price on the transfer date was €18.59.

In addition, Kesko's Board members were paid reimbursements for their expenses in accordance with the resolution of the 2023 Annual General Meeting.

There are no share compensation schemes for Board members nor do they participate in Kesko's remuneration schemes or pension plans.

REMUNERATION FOR THE PRESIDENT AND CEO AND THE DEPUTY CEO

The Company's managing director, referred to as the President and CEO, was Mikko Helander throughout the 2023 financial year. Jorma Rauhala, whose principal position is President of the building and technical trade division, served as Deputy CEO throughout the 2023 financial year.

Kesko's Board of Directors decided on the remuneration for the President and CEO and the Deputy CEO based on a proposal prepared by the Remuneration Committee. The remuneration for the President and CEO and the Deputy CEO has consisted of a fixed monetary salary (a monthly salary), a short-term incentive scheme (a performance bonus) and a long-term commitment and incentive scheme (share award), and other financial benefits such as car and mobile phone benefits and a supplementary pension. A health insurance, life insurance and leisure travel insurance policies have been taken out for the President and CEO. The President and CEO and the Deputy CEO have leisure accident insurance and they are provided with an employer-subsidised benefit for cultural activities and physical exercise.

The remuneration for Kesko's President and CEO and Deputy CEO has been compared with the remuneration levels and practices of similar companies. Based on the comparisons, it was decided that the President and CEO and Deputy CEO will be remunerated for 2023 within the limits provided for by Kesko's remuneration policy. The base salaries of Kesko's President and CEO and Deputy CEO were not raised in 2023.

Fees paid and falling due

In 2023, the President and CEO and the Deputy CEO were paid the salaries, bonuses, fringe benefits and retirement benefits presented in the table.

The performance bonus to be paid to the President and CEO for 2023 will be €525,000, and the performance bonus to be paid to the Deputy CEO €78,120. In accordance with Kesko's performance bonus rules, the performance bonuses will be paid on the final day of April at the latest. Moreover, the President and CEO will be paid share awards totalling 37,143 shares (gross) in spring 2024 based on the 2022 and 2023 performance under the PSP 2022–2025. The Deputy CEO will be paid share awards totalling 18,675 shares (gross) in spring 2024 based on the 2022 and 2023 performance under the PSP 2022–2025.

Salaries, bonuses, fringe benefits and pension benefits for the President and CEO and Deputy CEO (€)

Description	President and CEO	Deputy CEO
Fixed monetary salary*	945,000	433,571
Performance bonus	787,500	271,250
Share awards**	1,611,564	809,854
Car and mobile phone benefits	26,006	24,780
Total	3,370,070	1,539,455
Supplementary pension plan***	749,889	***

* Includes holiday pay and holiday bonus.
** The euro value of the share awards has been calculated using the trade-weighted average share price on the date of assignment, 15 March 2023. The euro amounts of the share awards are gross amounts, from which the applicable withholding and asset transfer taxes have been deducted, and the remaining net amount has been paid in shares. The gross number of Kesko B shares transferred to the President and CEO in 2023 was 81,638 shares, and the net amount 40,819 shares. The gross number of Kesko B shares transferred to the Deputy CEO in 2023 was 41,025 shares, and the net amount 20,513 shares.
*** The Deputy CEO is a member of Kesko Pension Fund and his pension is determined in accordance with the rules of the pension fund. No contributions were made to the Deputy CEO's supplementary pension in 2023.

Relative proportions of fixed and variable remuneration

The President and CEO was paid a total of €2,399,064 in performance bonuses and share awards in 2023, representing 71% of his total remuneration. The Deputy CEO was paid a total of €1,081,104 in performance bonuses and share awards, representing 70% of his total remuneration.

The maximum performance bonus amount for 2022 and 2023 was 100% of the President and CEO's annual salary and 67% of the Deputy CEO's annual salary. In 2023, the performance bonus paid to the President and CEO for 2022 amounted to €787,500, which is equivalent to 87.5% of his annual salary. The performance bonus paid to the Deputy CEO amounted to €271,250, which is equivalent to 64.6% of his annual salary.

The gross share award paid to the President and CEO amounted to €1,611,564, which is equivalent to some 179% of his annual salary. The gross share award paid to the Deputy CEO amounted to €809,854, which is equivalent to some 193% of his annual salary.

Share awards

Share awards to the President and CEO and the Deputy CEO are presented in the following table. Under the Performance Share Plan (PSP) 2021–2024, shares were transferred in the spring of 2023 based on the performance indicators for 2021 and 2022. Under the Performance Share Plan (PSP) 2022–2025, shares will be transferred in the spring of 2024 based on the performance indicators for 2022 and 2023.

A two-year performance period is followed by a two-year commitment period. During the commitment period, the shares cannot be pledged or transferred, but the other rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of the commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In individual cases, the Board may decide that the grantee may keep some or all of the shares under the return obligation. If the grantee retires during the commitment period, the grantee is entitled to keep the shares and other securities already received.

The President and CEO and the Deputy CEO are required to hold a number of Kesko shares equivalent to at least four times their gross annual salary, so as to ensure that the interests of the Company's management and shareholders are aligned. The requirement concerning the shareholding in Kesko is met by both the President and CEO and the Deputy CEO.

Information on the actual share awards granted is presented in the following table.

Share award plans for the President and CEO and Deputy CEO

	PSP 2022–2025	PSP 2021–2024
Performance period	2022–2023	2021–2022
Actual earnings, performance period average	41.50%	75.00%
Performance period end date	31.12.2023	31.12.2022
Year the shares are transferred	2024	2023
Share price on the date of assignment, €	*	19.74
Commitment period end date	10.2.2026	10.2.2025
President and CEO, maximum share allocation**	89,500	108,850
President and CEO, value of maximum share allocation at the grant date, € ***	2,467,515	2,345,718
President and CEO, actual number shares**	37,143	81,638
President and CEO, total value of share award, €	*	1,611,564
Deputy CEO, maximum share allocation**	45,000	54,700
Deputy CEO, value of maximum share allocation at the grant date, € ***	1,240,650	1,178,785
Deputy CEO, actual number shares**	18,675	41,025
Deputy CEO, total value of share award, €	*	809,854

* The share price and total value of share award to be confirmed on the date of assignment in spring 2024.
** The stated number of shares represents the gross amount, from which the applicable withholding and asset transfer taxes are deducted. The remaining net amount is paid to the participants in shares.
*** In January 2021, the average share price was €21.55. In January 2022, the average share price was €27.57.

The criteria for Kesko's performance-based share award plan were Kesko's return on capital employed (ROCE, %), Kesko's sales development, the total shareholder return of a Kesko B share, and the sustainability target. The following table depicts changes in these in 2021, 2022 and 2023.

The share award paid in 2023 was paid based on the actual average of the indicators presented in the table for 2021 and 2022. The share award to be paid in 2024 will be paid based on the actual average of the indicators presented in the table for 2022 and 2023.

Performance Share Plan (PSP) indicators and levels achieved

	2023		2022		2021	
	Weight	Level achieved	Weight	Level achieved	Weight	Level achieved
Absolute total shareholder return (TSR) of a Kesko B share	40%	20%	40%	0%	40%	100%
Kesko's return on capital employed (ROCE)	40%	30%	40%	80%	40%	100%
Kesko's sales development	10%	30%	10%	80%	20%	100%
Sustainability target*	10%	100%	10%	100%		-
Total level achieved		33%		50%		100%

* The sustainability target has been a criterion for Kesko's PSP since 2022. It comprises emission reductions and targets linked to international sustainability indices and assessments. (In addition to the share award plan, in 2023 the members of the divisional management teams and the persons reporting to them had the target of the corporate sustainability strategy as one of the performance bonus criteria. Sustainability targets have also been set for a large number of key persons covered by the performance bonus scheme, based on their role).

Performance bonuses

The performance bonuses paid in 2023 were earned in 2022, and the performance bonuses to be paid in 2024 were earned in 2023. The key performance bonus indicators for the President and CEO in 2022 and 2023 were Kesko's total shareholder return (TSR, %) operating profit (EBIT), return on capital employed (ROCE %), and sales development. The key performance bonus indicators for the Deputy CEO in 2022 and 2023 were the operating profit (EBIT) for Kesko, and the EBIT, return on capital employed (ROCE %), and sales development for the building and technical trade division. Remuneration for the President and CEO and the Deputy CEO was also based on their overall performance. The indicators and levels achieved by the President and CEO and the Deputy CEO are presented in the table on the following page.

Supplementary pensions

President and CEO Mikko Helander accrued old-age pension based on a defined benefit plan until 30 June 2023. The amount of his old-age pension is 60% of his pensionable earnings in accordance with the Employees Pensions Act (TyEL) for the ten (10) years preceding his retirement. Supplementary pension based on a defined contribution plan accumulated for the President and CEO from 1 July 2023 onwards. As stated in a stock exchange release issued on 8 December 2023, Helander will retire from the Company in 2024.

Old-age pension for the Deputy CEO begins at the age of 63. The Deputy CEO is a member of the Kesko Pension Fund. The amount of his old-age pension is 66% of his pensionable earnings for the ten (10) years preceding his retirement in accordance with the Employees Pensions Act (TyEL). The pension is based on a defined benefit plan.

Performance bonus targets and levels achieved in 2022 and 2023 by the President and CEO and Deputy CEO

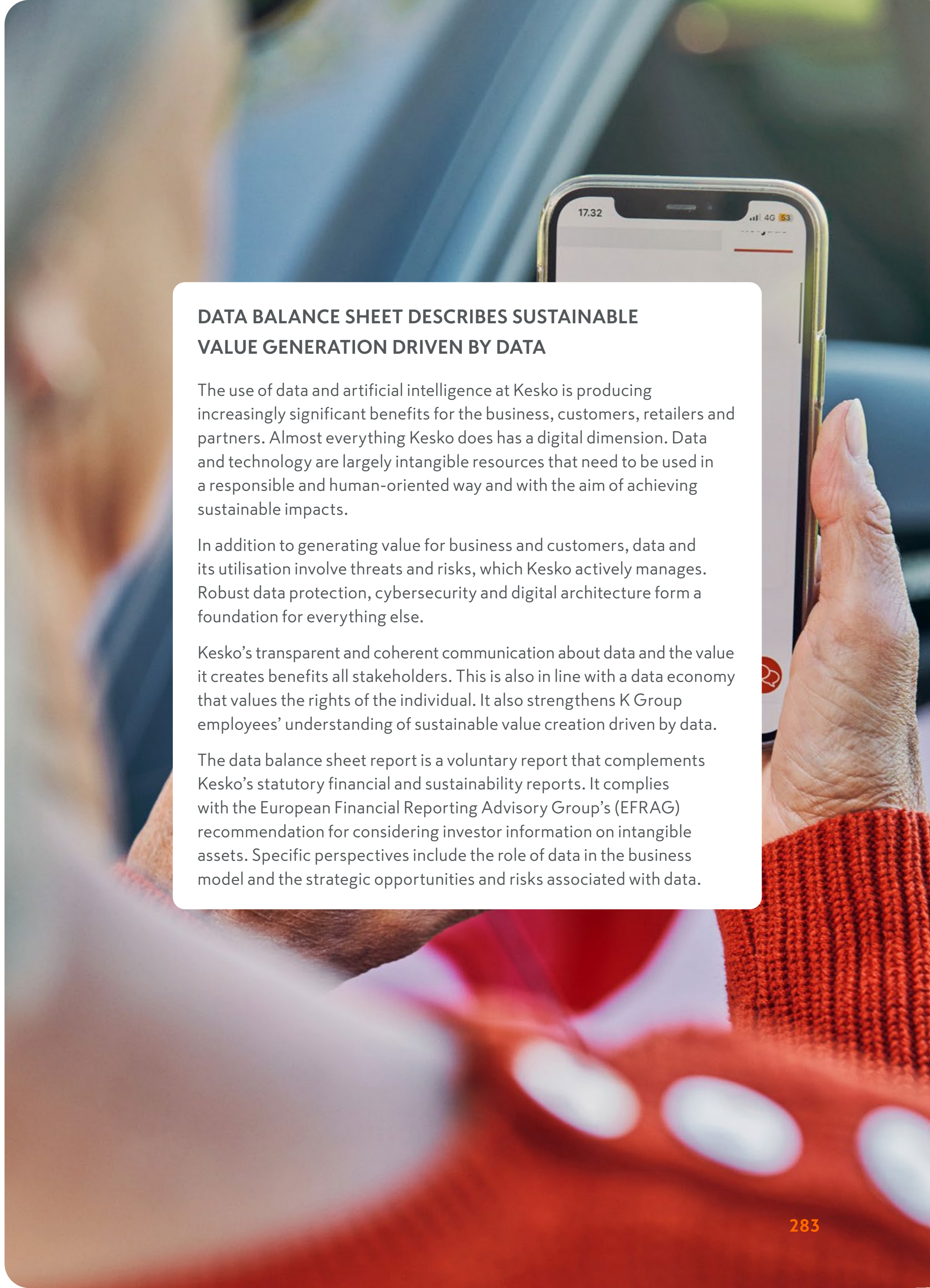
President and CEO	Targets		Level achieved	Total assessment on a scale of 0 to 100	Payment year
STI 2022	Financial targets for Kesko and K Group	Targets related to the Company's financial performance: • Kesko's EBIT • Kesko's ROCE % • Sales development	The Group's operating profit was at the maximum level of the target table and the return on capital and sales development were above the target level. In the Board's assessment, the overall performance of the President and CEO was very good in relation to the objectives set for him with regard to strategy execution, and the objectives were achieved above the target level.	87.5	2023
	Personal targets	Targets related to strategy execution have been set for the President and CEO. The targets comprise 11 areas, which the Board has taken into account in the total assessment of the President and CEO.			
STI 2023	Financial targets for Kesko and K Group	Targets related to the Company's financial performance: • Kesko's EBIT • Kesko's ROCE, % • TSR • Sales development	The Group's operating profit, return on capital and sales development were below the target level. Despite the weakened market situation, the Group's result was at a good level. Cash flow from operating activities strengthened thanks to improved working capital management. According to the Board's assessment, the President and CEO's overall performance was good in terms of key operational objectives, including the successful execution of the growth strategy, development of the business portfolio and business growth through acquisitions and organically, growth in digital trading, development of the corporate and employer image, and development of sustainability work and success in key sustainability indices.	58.3	2024
	Personal targets	Targets related to strategy execution have been set for the President and CEO. The targets comprise 13 areas, which the Board has taken into account in the total assessment of the President and CEO.			

Deputy CEO	Targets		Weight	Level achieved	Total assessment on a scale of 0 to 100	Payment year
STI 2022	Financial performance for Kesko and the building and technical trade division	Financial targets for Kesko and the building and technical trade division: • Kesko's EBIT • Division EBIT • Division ROCE % • Division sales development	 20% 30% 15% 15%	The Group's operating profit, operating profit by division, return on capital and sales performance were at the maximum level. According to the Board's assessment, the overall performance of the Deputy CEO was at the maximum level.	96.9	2023
	Personal targets	Targets related to strategy execution have been set for the Deputy CEO and President of the building and technical trade division, which are taken into account in the total assessment.	20%			
STI 2023	Financial performance for Kesko and the building and technical trade division	Financial targets for Kesko and the building and technical trade division: • Kesko's EBIT • Division EBIT • Division ROCE % • Division sales development	 20% 30% 15% 15%	The Group's operating profit was below the target level. The division's operating profit, return on capital and sales performance were below the minimum level of the target table. Despite the sharp downturn in the construction market, the division achieved a good operating profit of over 5% and gained market share in its main business areas. According to the Board's assessment, the Deputy CEO's overall performance was very good in terms of key operational objectives, including the implementation of the division's growth strategy and market share growth, both organically and through acquisitions, the successful integration of acquired businesses, growing digital commerce and e-commerce, and implementing the sustainability strategy in all countries and businesses.	18.6	2024
	Personal targets	Targets related to strategy execution have been set for the Deputy CEO and President of the building and technical trade division, which are taken into account in the total assessment.	20%			

DATA BALANCE SHEET

2023

DATA BALANCE SHEET



DATA BALANCE SHEET DESCRIBES SUSTAINABLE VALUE GENERATION DRIVEN BY DATA

The use of data and artificial intelligence at Kesko is producing increasingly significant benefits for the business, customers, retailers and partners. Almost everything Kesko does has a digital dimension. Data and technology are largely intangible resources that need to be used in a responsible and human-oriented way and with the aim of achieving sustainable impacts.

In addition to generating value for business and customers, data and its utilisation involve threats and risks, which Kesko actively manages. Robust data protection, cybersecurity and digital architecture form a foundation for everything else.

Kesko's transparent and coherent communication about data and the value it creates benefits all stakeholders. This is also in line with a data economy that values the rights of the individual. It also strengthens K Group employees' understanding of sustainable value creation driven by data.

The data balance sheet report is a voluntary report that complements Kesko's statutory financial and sustainability reports. It complies with the European Financial Reporting Advisory Group's (EFRAG) recommendation for considering investor information on intangible assets. Specific perspectives include the role of data in the business model and the strategic opportunities and risks associated with data.

DATA AT THE CORE OF KESKO

2023

DATA LENDS KESKO A SUSTAINABLE COMPETITIVE ADVANTAGE

The continuous improvement of customer experiences, pioneering of digital services, and sustainability are at the core of Kesko's strategy. Kesko's objective is to be a forerunner in the sustainable utilisation of data in the trading sector.

Kesko utilises data, analytics and technology with the aim of delivering the best customer experience, achieving higher profitability and sales, and creating more efficient processes. Comprehensive risk management, compliance and high levels of information and cybersecurity provide a strong foundation for the value creation.

In 2023, all Kesko divisions managed a good result. Kesko's strong profitability is proof that the company's growth strategy and its successful execution in all divisions generate results also in a more challenging operating environment.

Kesko is a forerunner in the use of data in the trading sector. This competitive advantage is based on a combination of the best talent, deep customer insight, extensive use of digital applications, superior functionality and risk management. Investment in technology is a key element in building competitive advantage, and some €25 million was allocated to these investments in 2023. Our focus on new digital services, infrastructure renewals, analytics and AI capabilities, and robotics provide us with a competitive advantage. We actively and successfully recruit new data and technology experts.

The intangible value of Kesko's growing knowledge capital is equivalent to its financial, technological, human and relationship capital. Data and its utilisation is a key part of Kesko's business model and a source of value. Data capabilities are managed and developed in a target-oriented way with the help of people, technologies, services, processes and data itself.

Data is used to create the best customer experience, everyday benefits, experiences and wellbeing, and to help retailers and partners to differentiate themselves and to be relevant. In B2B relationships, data is used to boost operational efficiency, to offer and deliver the right products and services to meet customer needs, and to support success with high-quality data and customer insight.

The unused and unfolding potential of data inspires us to continue on this journey boldly and in an innovative way, without forgetting responsibility. For Kesko, data responsibility means that the data is used to create sustainable value, not only for the business operations, but also for customers, retailers and other stakeholders. Data and technology are used with due regard for stakeholder expectations and regulatory requirements. Data and technology risks are managed proactively and there is robust protection for personal data. Ethical principles and responsibility are observed in the utilisation of data and artificial intelligence.

STRATEGIC POLICIES

Kesko manages data and its utilisation in a balanced way. Decision-making based on data and in-depth market and customer insight promotes Kesko's strategic priorities. Instead of focusing on the quantity of data, we focus on its quality, usefulness and value creation potential for Kesko and its customers and stakeholders.

Kesko has extensive experience especially in using customer and market data, product data and operational data, as well as in data-driven management. Applications based on data sciences and business and data analytics continue to offer new opportunities all the time. The deployment of new technologies, use cases and data sources also involves risks and new requirements which we seek to identify and manage as part of our development and risk management processes.

Value creation is based on a strong data foundation that generates value in one or more ways. Data plays a key role in the continuous improvement of the efficiency and productivity of our business operations. It also offers unique competitive advantage for Kesko and its businesses, in particular through strong analytical customer insight. The security and data and technology, and compliance with regulations in the use and management of data is ensured in all situations.

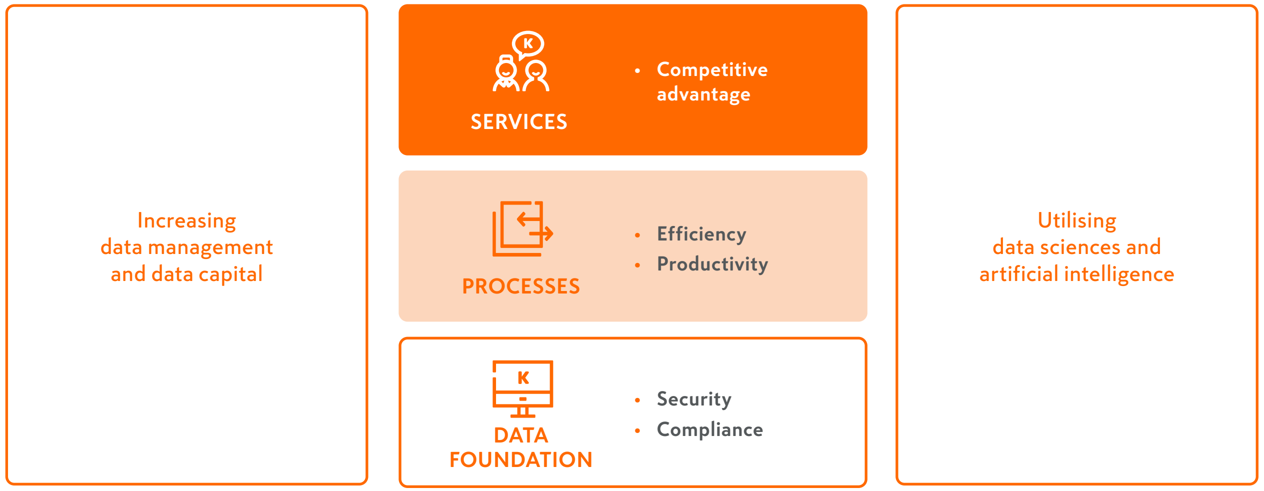
Strong data foundation

A data foundation built up and optimised over the long-term offers efficiency, productivity and competitive advantage. Kesko meets the needs of its customers and business with growing and highly interoperable data capital and its active use in business. Utilisation of the data foundation is based on strong operating models for information security, data protection and risk management. Our management and use of personal and customer data comply with EU-level regulations.

The update of the K-Plussa customer information system in 2022 was one of the most significant updates of the grocery trade data foundation in Kesko's history.

The successful update has improved the availability, pooling and flow of data and the quality, security and efficiency of processes. The databank and data architectures that were updated at the same time helped Kesko's business operations to rise to a whole new level in the use and provision of data. The roll-out of the latest analytical applications, intelligent automation, and data storage, processing and push technologies advanced in 2023.

Levels of data strategy at Kesko



Extensive portfolio of analytical applications

The value of Kesko's data capital is based on its high utilisation rate that can be continuously increased. The growing use of data sciences and artificial intelligence applications efficiently and innovatively generates new value. The data culture is strengthened by focusing on developing data use cases in a business-focused, responsible way that responds to real customer needs.

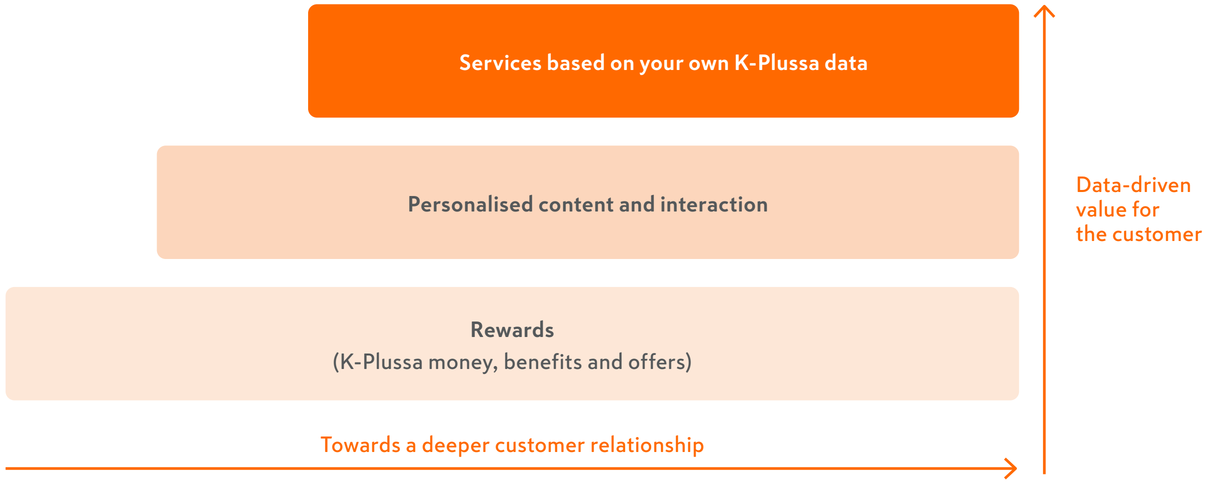
Analytical capabilities are creating new opportunities and their role is growing all the time. Kesko uses both off-the-shelf and self-developed AI applications, depending on the use case. Smart automation and AI applications create new types of value and strengthen the company's opportunities to develop new services and respond to changes in the operating environment. Kesko has an AI competence centre that supports the application owners and developers of each business function in the utilisation of analytics.

High data utilisation rate

The value of data increases in use. Kesko's goal is to double the utilisation rate of data capital to 50 per cent by 2025 from the estimated rate of 25 per cent in 2021. This requires continuous improvement of the quality, interoperability and accessibility of data, the development of new services and the continuous improvement of existing data-driven services. The use of these services generates new data capital, which helps us understand the potential of data and the needs of its users, for example, the stores or everyday customers, in an increasingly multifaceted way.

Kesko is developing its digital architecture to create new opportunities for using data more diversely and increasingly in real time. Ecosystems and partnerships will also be emphasised. For example, the new K Data platform, with its applications and interfaces, provides new value creation opportunities not only for Kesko but also for its partners.

Data enables an even more personalised K-Plussa customer relationship



Data and data sharing deepen the customer relationship

K-Plussa is the largest and most versatile loyalty programme in Finland that offers customers personalised rewards. The programme has been developed together with customers since 1997. K-Plussa aims to offer not only rewards and monetary benefits, but also increasingly personalised benefits, content and services that make everyday life easier, provide inspiration and support choices that meet customer's personal goals. This has helped Kesko build strong, long-term relationships with its K-Plussa members that go far deeper than other, simpler loyalty programmes and apps that offer rewards merely based on purchase volumes.

Kesko wants to create real value for its K-Plussa customers from the data it collects. The customer data accrued enables a deep understanding of customers and their world, and the development of increasingly interesting and useful services. By understanding its customers as individuals, families and communities, Kesko offers not only personal benefits and rewards, but also everyday convenience and individual wellbeing. Purchase data collected over a long period of time also allows customers to view very long-term trends in their daily lives.

X 2

Our goal is to double our data utilisation rate by 2025

CASE

K Group helps customers change the world and increase their personal wellbeing

Kesko gives its customers the opportunity to change the world and increase their wellbeing with every purchase. For a long time, K-Ruoka has been helping K-Plussa customers make more responsible and healthier purchase choices for a long time.

Back in 2019 we introduced the K-Ostokset service, which allows users to analyse their grocery purchases and track the carbon footprint of the purchases and how much of them were produced locally in Finland. The service has also helped customers track the sugar, salt, vegetable, fish and red meat content of their purchases.

In 2023, this service was taken to an entirely new level with the launch of the new K-Hyvinvointi wellbeing service, introduced as a new feature in the K-Ruoka app.

K-Hyvinvointi supports comprehensive personal wellbeing for app users, focusing on nutritional health. The feature combines data on purchases registered using a K-Plussa card with background information provided by the user, then tells the user to what extent their grocery purchases mirror national nutritional recommendations. This lays the foundation for seeking healthier grocery choices. The feature allows its users to set objectives based on national nutritional recommendations and then track progress made in achieving those objectives in the app. It also offers recommendations on products and recipes to help the user along the way.

With its vast amounts of customer data, selections and a network built around food provide, Kesko has the opportunity to address customer needs in an increasingly comprehensive way. The vast amount of data on the customer purchases combined with background information and expert recommendations create a foundation that can be used to guide customers towards healthier choices.

STRONG COMBINATION OF DATA AND TECHNOLOGICAL CAPABILITIES

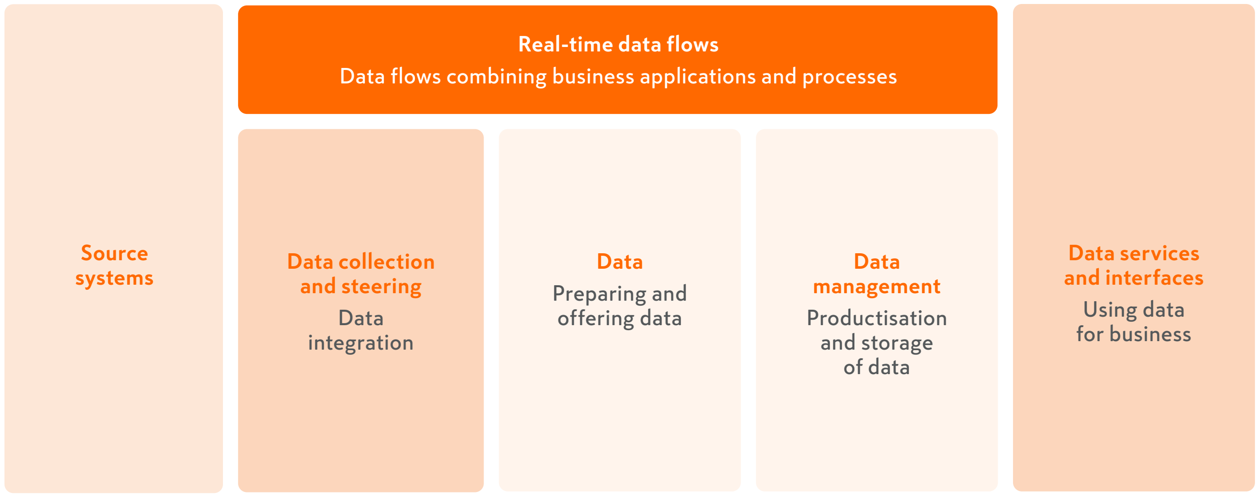
Kesko develops its data and technology from a business perspective, to move forward its strategy.

The specialised nature of the operating models and core systems of Kesko's various businesses means that the digital architecture is distributed, which in turn means that it is possible to develop specific digital capabilities for grocery trade, building and technical trade, and car trade and the Group efficiently and in line with the needs of each business.

The digital architecture consists of a high-quality data foundation, efficient processes for data assembly, pooling and processing, and business applications, processes and services. Kesko aims to considerably scale up its data management, utilisation and distribution capabilities. The creation of new earnings models requires an open and flexible architecture and compatibility between the current and future technologies.

K-Data is a modular cloud-based data and technology platform that was further developed, and its use increased considerably during 2023. It provides a platform for Kesko's different business segments to develop new and update existing data sources, processes and use cases. The potential offered by the 2022 update of the K-Plussa customer information system and the renewal of the databank and analytics platform were put to use for the first time in 2023. For example, in grocery trade, several new features and updated applications were introduced to customers, K-retailers and suppliers.

Overview of the K-Data platform



Data governance ensures the use of data in business

The potential and usability of data in value creation depends on its overall quality and availability. Kesko manages its extensive data capital based on the perspectives of impact, usability, availability, accuracy and freshness.

Clear roles, operating models and responsibilities create the framework for data governance. In addition to enabling the use of data in business our data governance practices ensure that all data is processed carefully, securely and in compliance with regulations.

In 2023, Kesko made progress in developing data governance and ownership model in grocery trade. The ownership and governance model of data sets and the data entities they contain ensures the overall quality of the data to meet both current and future business needs.

Ownership involves not only strategic business alignment, but also a deep understanding of data and the potential and limitations of use of data and the dependencies.

At Kesko, data owners understand how data creates value

Data cataloguing, management of metadata and the data management system are described and implemented in more detail than before. The synergistic management of different data sets reinforces value creation and enables the development of new use cases based on the foundation of strong data capital. More and more applications integrate multiple data sources for value creation.

AI applications offer efficiency and competitive advantage

The potential of artificial intelligence and analytical capabilities is utilised extensively. Kesko uses a wide range of AI technologies and applications based on its own data science and AI development, as well as the best off-the-shelf solutions from reliable suppliers.

The purpose of self-developed AI solutions is to deliver differentiating benefits to customers and business, almost always based on individual customer data and one or more specific data sources. Alongside this, off-the-shelf AI applications that are widely available on the market are also used to support operational efficiency and optimisation, as well as management, customer insight and decision-making.

Centralised AI and analytics functions collaborate with teams in each business division. This combination of centralised and business-specific resources ensures that the approach remains very business-driven and scalable but also agile enough to allow rapid development and launch of new applications and features for customers and other stakeholders using different services.

Kesko's data science and analytics capabilities support in particular the creation of customer experience and customer insight, implementation of store-specific business ideas, forecasting, pricing, optimisation of goods flows and market analysis.

Robotics and process automation increase efficiency and speed

Operating on Kesko's scale means it is possible to achieve major benefits and digital economies of scale using the scalable capabilities of software robotics and automated systems. They automate routine and repetitive tasks, reduce errors and improve efficiency, which saves money and improves the customer experience.

Kesko utilises process redesign in its enterprise resource planning (ERP) system and is strongly increasing its use of software robotics and other automation solutions. In 2023, Kesko automated, for example, invoice processing, processes related to campaigns and establishing store products, and complaints handling. The number of automated Kesko processes nearly doubled in 2023, totalling more than 350 at the end of the years.

Data and cyber risk management ensure continuity and security

Identifying, managing and mitigating data-related risks is a critical part of Kesko's data-intensive operating model. Specific sub-areas include data quality, usability, security, processing compliance and responsibility issues. Effective data and cyber risk management is embedded in day-today operations and the Group's integrated risk management model and internal audit plan.

Risk management covers Kesko's own, customer and third-party data within Kesko's operations, as well as all risk categories related to its storage, processing, transfer, use and destruction throughout the entire lifecycle of the data.

In line with the risk management model, data protection risks are reviewed twice a year and cyber risks four times a year. Identified new risks or material changes in existing risks are added to the risk management model that is the responsibility of the business that owns the data. The risk universe is reviewed by the Audit Committee of Kesko's Board four times a year.

Cybersecurity and the IT supply chain were part of the internal audit annual programme in 2023

The internal audit related to data and cybersecurity takes place in an independent and risk-based manner. The internal audit plan verifies the sufficient coverage of data risk management, programmes, controls and handling of development issues. The internal audit function reports to senior management and the Board's Audit Committee.

Data regulation and compliance

Models of data administration and management that cover the entire lifespan of data are critical for the usability of data at Kesko. The company takes a proactive stand when securing the rights of its customers and stays true to its strong values.

Compliance with data regulation is monitored with a structure and management model that ensures that Kesko processes and utilises data responsibly and in compliance with the regulations throughout the company, but also recognises and utilises new business opportunities.

The most significant regulatory entity for Kesko is the EU General Data Protection Regulation (GDPR). Kesko's compliance with it is described in more detail in the data protection section of this data balance sheet report. The impact of the ePrivacy Directive covering electronic communications can be seen in the easier-to-understand cookie policies of online services.

The new EU-wide 'Big Five' acts (Data Act, Data Governance Act, Artificial Intelligence Act, Digital Services Act and the Digital Markets Act) will have a major impact on data use, sharing and disclosure practices in the EU in the coming years. From a security perspective, the most relevant directives are the NIS2 cybersecurity directive and the Critical Entities Resilience Directive (CER).

Kesko is proactively analysing the entry into force and binding character of the new regulations. It participates in advocacy activities related to the legislative process primarily through EuroCommerce, the European organisation representing the retail and wholesale sector. Of the new 'Big Five' regulations, the Data Act and the AI Act will have the biggest impact on Kesko. Analysis of the regulations and implementation in processes and operating models began in 2023. Kesko may also benefit from new regulations as the Digital Markets Act concerning large platform service providers will offer new opportunities for operating on the platforms.

CASE

Customer insight helps to see things more clearly

Gaining the best customer and business insight is vital. It helps Kesko forecast, plan and target the store services and solutions that are important and meaningful for customers in their everyday lives.

Kesko's world-class customer insight is based on solid data analytics expertise and speed. The sudden and major changes in the operating environment in recent years have been analysed quickly and the data generated has helped Kesko and its retailers to make the right business decisions at the right time.

Despite the in-depth nature of the research, phenomena are approached thematically rather than in terms of individual research questions or dimensions. Comprehensive overviews of broad themes such as the Finnish the origin of products, eating habits, digitality, everyday life, and price perception are produced for business use, to provide an understanding of the essential issues and transitions that impact Kesko and its customers every day.

A variety of complementary data sources, methods and tools create a rich and interesting picture of customers and other subjects studied. The Stakeholder Insight team is made up of nine highly specialised researchers and analysts, which generates unique connections and insights for the research.

"We analyse what is happening today and we predict the future. Investigating phenomena and trends and generating insights to support business is fascinating. The extensive data sets, rich classifications and diverse methodologies, from textual to statistical analysis, and stakeholder surveys produce something new all the time," says Heidi Jungar, Head of the Stakeholder Insight function.

The freshness and continuous availability of the research data and analysis is a strength. Changes and weak signals can be identified quickly, which helps us keep up and make informed decisions even when situations change fast. The analysis and research can be efficiently widened and deepened as new issues arise.

"When the foundations of the consumer, retail and construction worlds shifted, we were able to identify and analyse changes in consumer behaviour and in the outlook for our divisions in a comprehensive way. Kesko was able to make good, informed decisions on how to adapt and compete in the new operating environment," says Jungars.

The information that is turned into insight is obtained from a multitude of sources. Kesko's in-house team collects data from customer satisfaction surveys, the K-Barometri survey, customer feedback and the K-Kylä customer community, but also from databases and external research organisations. The data is enriched with observations gained from sales data and customer loyalty data and by analysing online activities. Data collection is always based on the customer's consent.

Kesko also shares its insights and ideas with its retailers, suppliers and partners. All parties benefit from this sharing and mutual discussion.

"In addition to retailers and our businesses, we share our research data with our partners. Together we are wiser," says Jungar.

DATA ENABLES OPTIMISATION AND ENERGY SAVINGS

Kesko's operations and properties use large amounts of energy. Digitalisation plays a major role in energy management and improving energy efficiency.

In 2023, K Group operations used around 750 GWh of electricity for refrigeration units, lighting and building services, and around 200 GWh of district heat to heat properties. . Kesko purchases electricity from the market and produces its own electricity with solar power plants. As part of this advanced energy system, a heat recovery system, which substantially reduces the need for purchased energy, has been installed in some 60 K Group grocery stores.

Kesko is utilising its digital capabilities in energy management, with good results. Advanced analytics services are used in property management and maintenance to enable remote optimisation of energy use in buildings based on consumption, conditions and building automation data.

The price fluctuations in the electricity market offer Kesko significant opportunities to optimise its electricity use and utilise flexible consumption in its extensive real estate portfolio. Through its subsidiary Ankkuri-Energia, Kesko is continuously strengthening its capabilities to operate in the Nordic electricity markets. The utilisation and reporting of real estate, energy and electricity market data will, in future, provide measurable results quickly and transparently for both Kesko and the retailers who purchase electricity from Ankkuri-Energia.

Kesko's relative consumption of electricity and heat in Finland has been decreasing over recent years, in line with the Group's energy strategy. Reducing purchase costs for electricity and heat, optimising energy consumption and continuously improving energy efficiency will benefit the climate and save money without compromising store conditions.

KESKO'S DATA BALANCE SHEET

Kesko's data balance sheet describes the data capital and data assets of Kesko and its businesses. Data assets are digital products, services and processes that convert data capital into value for Kesko, customers and other stakeholders.

Data in itself has no value for Kesko – its value is based on the benefits for customers and business. The data balance sheet is used for managing data capital and its utilisation in business operations in a balanced way that increases the value of both sides of the balance sheet.

The data balance sheet combines the management of data usability (fit for use), quality and life cycle in terms of data capital with the use of data to create value in terms of data assets. Value is created through Kesko's data and analytics platform services and the digital services, products and processes that Kesko produces for its own operations and for its customers and stakeholders.

Data governance is the key process for managing data capital. Data governance focuses on processes related to data life cycle, quality, storage, usability and risk management. This ensures the highest possible quality, availability and reliability of data assets (digital services and data-driven decision-making) from the perspective of business operations, customers, K-retailers, partners and suppliers.

Kesko's data capital concerning grocery trade customers is in a class of its own in Finland and even internationally, in proportion to the population and sales. The data capital is significant in terms of both temporal coverage and data quantity. Our K-Plussa customer loyalty programme was launched in November 1997 and today nearly 90% of Finnish households have joined the programme.

Kesko's data balance sheet

Strategy and value-creation model

Architecture management

Data governance

Capabilities and competence

Risk management and compliance with regulations

Data assets

=

Data and analytics platform

Services, products and processes produced using data capital

Value drivers:

Direct or indirect benefits created by data assets for the company and its stakeholders

Data capital

=

In-house and external data that can be used by business operations

Value drivers:

Data quality, availability and usability in the production of data assets

Vast amounts of usable data

Some key figures of data-driven management in our grocery trade operations in Finland in 2023.

Over
3.3 million
K-Plussa loyalty customers

Over
300,000
product items in grocery trade

Nearly
800,000
instances of customer feedback

4.5 million
visits in digital channels per week (K-Ruoka and K-Plussa, 12/2023)

Nearly
1,200
K Group grocery stores

Some
1.8 million
daily customer encounters in physical and online stores (K-Ruoka and K-Plussa, 12/2023)

Over
3,000
K-partners (suppliers of goods)

Nearly
21,000
customers involved in development work (K-Kylä customer community)

Kesko's limited data balance sheet for 2023

	DATA ASSETS	DATA CAPITAL
Definition	Value-creating digital services, products and processes produced using data capital	Available in-house and external data
Purpose	Managing the business value of data and the benefits for customers and stakeholders	Managing data quality, quantity, usability and risk management
Operating models	Customer and business processes Analysis, decision-making and risk management processes Data protection and information security operating models	Data quality management and correction process Data governance
Examples of services	**For consumers** (examples) • K-Ruoka (app and mobile) • K-Ruoka (online store, delivery, Click&Collect, fast delivery) • K-Rauta (site, online store, renovation customers) • K-Ostokset, K-Hyvinvointi (wellbeing) • K-Kuitit (receipts) • K-Plussa • K-Tunnus user ID • Data protection services	**In-house data capital** (examples) • Consumer customer data (including K-Plussa data, customer feedback, K-Kylä survey data) • Receipt data (retail sales from physical and online stores, express deliveries and wholesalers) • B2B customer data • Wholesale • Selection and pricing data • Enriched product data • Procurement data • Logistics data (warehousing operations, transport operations, product replenishments and store logistics, traceability) • Web browsing data (sites, apps and online stores) • Store site and retailer data • Campaign and media data • Operational ERP data • HR data • ESG data
	For B2B customers (examples) • Online stores (Kespro, K-Rauta, Onninen) • Interface and EDI services • Reporting services • Product information services • Delivery tracking service (Kespro) • Procurement	**External data capital** (examples) • Digital and Population Data Services • Agency (e.g. address data) • Carbon footprint and other sustainability data • Product information: grocery trade (Synkka) • Product information: building and technical trade • Statistics Finland • Market data, other statistics • External surveys and studies • Data on the use and conditions of store and logistics properties
	For K-retailers • K-Ruokakauppa • K-Valikoima • K-Kampanja • K-Markkinointi • K-Tuote • K-Työvuorot • Hymy, NPS • K-Raportointi • Digital Signage display services • Electrical shelf labels	
	For partners and suppliers • K-Toimittaja (incl. information sharing and reporting services) • Media solutions • Data services to support production and product development	
	Kesko's internal services • Forecasting and reporting • Network planning • Risk management • Property management • Business Insight • K Consent	

The report and its data balance sheet model are based on the Balanced Data Insight concept of the Finnish Functos Oy.

CASE

Improving ESG data flow at Kesko

Kesko has integrated its ESG (Environment, Social, Governance) data, which is becoming increasingly important, into its operations. TESG data is used in management, in analytics and reporting services for customers, in enriching product data and in investor communications. Other important areas for use include the constantly increasing requirements of ESG regulation and sustainability reporting.

The increase in stakeholder expectations and regulation mean that Kesko is faced with new demands and opportunities. Areas that require continuous development include the quality of ESG data throughout value chains, and the availability, pooling and compilation of the data as well as the automation of processes. The modernisation of Kesko's digital architecture will also help improve the flow of ESG data.

Kesko updated its ESG data roadmap in 2023, with the aim of ensuring that ESG data is just as up-to-date and usable and of the same high quality as other business data. The data flows through processes and value chains almost in real-time, serving both business and Group-level needs and requirements. The data is managed according to a common Data Governance model and is linked from different source systems to a common K-Data platform for further use. We are able to provide customers and other stakeholders with constantly improving ESG data for different uses.

CYBERSECURITY

As turbulence in the digital operating environment continues, Kesko's permanent goal is to produce the most sustainable and secure digital infrastructure possible. In 2023, Kesko was successful in ensuring cyber and information security.

Kesko produces digital services targeted at a variety of user groups and purposes. The core digital infrastructure comprises significant databanks, cash register systems, ERP systems, money and transaction data traffic and building technology systems. As a multinational company, Kesko is regularly exposed to different types of disruptions and attacks in the digital environment.

Managing digital security

Kesko is developing its capacity to ensure the continuity of its operations in various disruptive situations on a risk-based manner. The protection of Kesko, customer and stakeholder data and of systems and connections has been designed and deployed on the principle of multiple lines of defence.

Kesko's robust information security architecture is based on several layers of protection. The systems and tele-communications connections are classified in accordance with their importance. The systems have recovery plans that are tested and rehearsed regularly. The cybersecurity technology utilises automation and machine learning, which enables rapid detection of and response to threats.

The detection of and response to threats is managed using a centralised information security control room. The response to data security threats and cyberattacks follows a response and continuity plan that ensures the security and continuity of business operations.

Information security management and steering model

Kesko has an information security policy approved by its Board of Directors. The policy defines basic requirements for information security and ensures that conditions exist for implementing the policy in practice. The information security steering model is part of Kesko's risk management steering model. Responsibilities for the management of information security are defined throughout the chain of management up to the level of Board of Directors.

Kesko's information security policy is available on Kesko's website at www.kesko.fi/information-security-policy/

Constantly ensuring information security

The Group's information security team serves as the in-house competence and service centre. The team is responsible for system-level information security architecture and operating models, and it provides training and services to Group units. In line with the role, the team's tasks also include supporting internal audit and Due Diligence investigations in business acquisitions.

Kesko audits information security using both in-house and external experts. In 2023, key themes included audits and processes related to mergers and acquisitions and an enhanced review of the information security of Kesko's current services and applications and middleware. A high level of critical capacity services was ensured and capabilities to defend against ransomware were strengthened.

Kesko's comprehensive risk management and common well-taught and rehearsed operating models support the company's preparedness and capacity to act when necessary. Kesko assesses information security risks at regular intervals, as part of the development and deployment of new services and systems and in connection with other significant changes. Contractual partners must commit to maintaining an information security level that meets Kesko's information security requirements and this may be verified using audits, if necessary.

The status of information security is reported in connection with normal internal control, as well as internal and external audits. Technical information security is assessed continuously, and separate information security audits are conducted in the most significant environments.

Kesko is actively involved in the National Cyber Security Centre, the National Emergency Supply Agency and the ISAC information sharing groups

Communication and training on information security issues

Kesko has various regularly implemented measures in place to improve information security issues. These include online training, phishing message simulations, and internal communication about significant topical information security matters.

Training remained active in 2023. Mandatory basic information security training for all employees was provided online, as was training tailored for cashiers and customer service personnel. In addition, the information security team actively trained personnel according to the requirements of their respective roles.

Information security and cyber exercises are actively and routinely organised. Kesko participated in a major cyber exercise for the Finnish food supply chain, and actively engaged in cooperation regarding preparedness and exercises with, among others, the National Cyber Security Centre and its ISAC information sharing group for food supply, as well as the National Emergency Supply Agency. Members of ISAC form a large national network that also plays an important role in the management of disruptive situations. In the event of a disruption, the groups and their members offer their expertise, analytical resources, information sources and international contacts to the network.

In 2023, exercises related to identifying and preventing scam messages and phishing were organised every month. In addition, Kesko carried out several exercises with its key IT service partners, testing e.g. the ability to detect and respond to external disruptions.

PROTECTION OF PERSONAL DATA

Kesko protects the data of its customers, personnel and stakeholders and ensures that the data protection rights of individuals are fulfilled when data is processed. Kesko's data protection instructions and methods are based on the data protection policy confirmed by Kesko's Board of Directors.

Kesko collects and uses personal data in particular about its customers and employees. The data is primarily used to provide services and manage different aspects of the employment relationship.

Customer data is used in customer-oriented business management, targeted marketing, advertising and customer communications, and selection management. Customers benefit from this, for example through more targeted benefits and more personalised service. For stores, customer information provides tools to develop products and services that are of interest to customers.

Personal data processing is planned in advance and at the same time Kesko ensures that the processing is lawful, reasonable and transparent, and done in accordance with a legal basis laid down by law. Kesko processes the personal data only to the extent and for as long as it is necessary and justified for the purpose of use.

Kesko's occupational health function processes special categories of personal data, as part of the provision of occupational health services, including health data and biometric data. Such data are not collected or processed for other stakeholders.

Kesko's complete data protection policy is available on its website at https://www.kesko.fi/en/company/policies-and-principles/data-protection-policy/

Data protection management model

The data protection management model consists of Kesko's Data Protection Officer, Corporate Counsel specialising in data protection legislation and two members of the Compliance & Ethics function who specialise in data protection matters and requests. Data Protection Impact Assessments (DPIA) are carried out as part of the data protection operating model. The subject's instructions and methods are based on the data protection policy confirmed by Kesko's Board of Directors.

Each business unit or data controller ensures and monitors the implementation of data protection in their operations. The daily implementation of data protection and risk management in the businesses is supported by trained Data Protection Champions. Requests submitted by data subjects are processed by the business operation that owns the personal data register in question. The Group-level data protection organisation provides support as necessary.

Ensuring data protection in operations

Kesko's data protection programme ensures that data protection competencies and awareness of data protection guidelines remain at a high level. This supports the identification and management of data protection risks in Kesko's units.

The data protection guidelines consist of a Group-level data protection manual and supplementary country-specific instructions. Kesko's data protection guidelines concern all employees and include key rules, operating instructions and processes for implementing data protection and identifying and processing incidents and risks.

Regular data protection risk assessment provides guidelines for the annual data protection plan and data protection programme. The assessment is carried out in cooperation with Kesko's risk management organisation and was updated twice in 2023 in accordance with the risk management process. Kesko also carries out internal and commissions external data protection audits, especially when there a changes in business operations and in connection with corporate arrangements.

Training and communication

Kesko processes a lot of customer data. The induction programme and ongoing training for each Kesko employee includes achievement and maintenance of the level of data protection competence required for the role. Active communications, information bulletins and training ensure a high level of data protection competence. Up-to-date instructions concerning data protection are easily available to all employees.

An eLearning course on data protection is a mandatory part of the induction of each Kesko employee. The training must be repeated every two years. In addition, experts and representatives of management must complete the data protection and information security training required for their duties. An online training environment ensures that the training is widely accessible and that the employees' competence level can be verified and documented.

A total of 9,046 Kesko employees across our operating countries and in all business units completed a refresher training course, which mainly took place in 2023. Data protection training is also available to the staff of retailers on K Group's shared K Academy training platform.

Data Protection Interest Groups focusing on various themes are organised four times a year. They discuss the data protection application practices, instructions issued by the authorities, amendments to legislation and best practices that are essential from the perspective of each group.

Regular training and current activities are supplemented by targeted need-based data protection training events for various units.

Kesko has a dedicated data protection portal for customers, employees, K-retailers and partners, through which data subjects can exercise their rights under the General Data Protection Regulation per register. Requests can also be submitted through other channels.

Monitoring and addressing issues

Kesko ensures the implementation of data subjects' rights under the EU General Data Protection Regulation by informing them about data processing and by responding to data subjects' requests based on the rights of a data subject. The Data Protection Officer plays a key role in monitoring and steering and in providing advice and managing incidents.

Kesko documents all information security breaches and reports them to the data protection authorities if the controller is of the opinion that the event poses a risk to the data subject. If the risk of malpractice or damage is deemed to be high, Kesko also immediately informs the person whose personal data protection has been jeopardised about the information security breach.

Suspected abuse associated with data protection can be reported anonymously in Kesko's SpeakUp whistleblowing channel. Data subjects can contact Kesko's Data Protection officer in all data protection matters tietosuojavastaava@kesko.fi.

Data protection requests and incidents

In 2023, Kesko processed 1,125 requests (2022: 1,308) submitted through its data protection portal. Requests were also processed in other channels. Responses to requests for checking K-Plussa data are automated, and the data subject may receive the requested information in just 15 minutes. On average, information requests are resolved in fewer than 10 days.

Kesko detected and investigated a total of 461 information security breaches in its operations in Finland in 2023 (2022: 469). Of these, 110 (2022: 50) were reported to the Data Protection Ombudsman. Individual cases were also reported to the affected data subject. The number of information security breaches remained almost unchanged from the previous year. The relative share of cases reported to the Data Protection Ombudsman doubled compared to 2022.

Around 75% of all information security breaches and the majority of cases reported to the ombudsman continued to relate to the unexplained loss of customer correspondence sent by letter. Kesko moved over to an electronic application process for K-Plussa membership back in spring 2022, but old cases are still coming to light where the root cause seems to be post that has gone missing.

Distribution of requests in 2023

After this, the most common causes of information security breaches are disclosure of data to the wrong party or changes to data. The disclosure of data to the wrong party is often linked to data that has been sent to the wrong recipient by human error. When customers use various self-service options (such as checking their own data or using electronic receipts), possible errors in customer data are more easily detected leading to customer complaints. This allows errors to be resolved quickly, which improves the quality of customer data.

The number of data protection requests has been on a general upward trend since the first years of application of the GDPR, as overall discussion on data protection has become more widespread and data subjects have learned to exercise their rights under the regulation. In particular, high-profile information breaches, for example in the healthcare sector, have increased public interest in the processing of personal data.

Most data protection requests are related to reviewing and rectifying data subjects' personal data. Other normal updating of data (e.g. changes to name and contact details) is also recorded in the statistics as a rectification of data if the data subject uses the data protection portal for this purpose. Erasure requests are typically related to situations in which the customer feels that the customer relationship has ended or otherwise wants the processing of their personal data to stop.

CASE

Storage period of K-Plussa purchase data will be shortened

K Group's objective is to create real value for loyal customers from the data it collects: data on purchases can be used to build useful services and offer personalised benefits. Until 2023, Kesko stored the data for the entire duration of the loyalty customer relationship.

Kesko has engaged in good dialogue with the data protection authorities on the storage periods and has defined new, clear and precise storage periods for customer data. Following the decision of the data protection authorities in December 2023, the storage period for K-Plussa purchase data has been shortened, and the data will now be stored for the current year and the following 10 years.

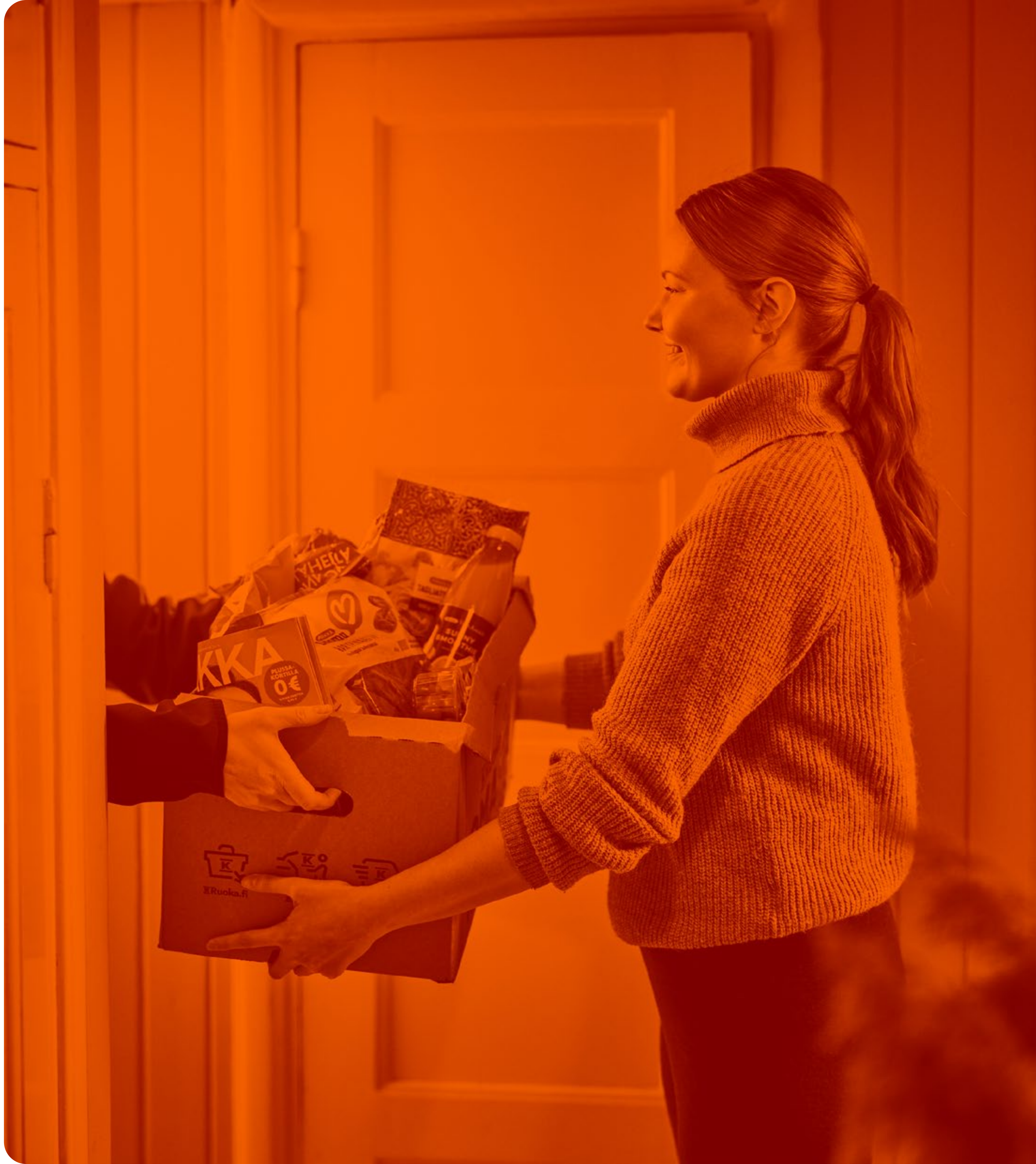
If the customer wishes, the storage period can still be longer than this. Similarly, data on passive loyalty customers are not retained. Customer data is deleted automatically if the customer loyalty card is not used for two years.

Longer time series make it easier to understand changes and provide customers with data on trends, for example on consumption habits. Currently, customers can view and analyse their purchase data to 2015.

0.4%

of loyalty customers have limited level at which their purchasing data can be reviewed

SUSTAINABLE VALUE FROM DATA



2023

SUSTAINABLE VALUE FOR CUSTOMERS AND KESKO

Kesko's competitive advantage is created with data and technology in all three divisions. Each division has an operating model based on digital architecture, and more synergies are constantly being created between the divisions.

Kesko is rightly considered a forerunner in digitalisation in the trading sector. Due to significant goods flows and customer volumes, Kesko's grocery trade division and building and technical trade division in particular have been trailblazers in digitalisation in the retail sector in the 2000s. Digitalisation in the car trade division is rapidly gaining ground in response to the changing expectations of the market and customers.

In a landscape of stiff competition and a changing operating environment, new ways of collecting, enhancing and utilising data are constantly needed to create the best customer experience and provide new services.

In the consumer business, the best customer experience is largely based on the K-Plussa customer loyalty programme and customer data collected and utilised under it. The K-Tunnus identity and access management service is an integral part of K Group's online services. It enables customers to sign in securely to multiple digital services provided by K Group, connects users to their K-Plussa membership, and enables personalised services. Since the beginning of 2022, consumers have been able to use the K-Tunnus service to sign in to services for all K Group divisions (K-Plussa.fi, K-Ruoka, K-Rauta and K-Lataus. etc) with one user ID.

GROCERY TRADE DIVISION STRIVES TO CREATE THE BEST CUSTOMER EXPERIENCE

Key areas in which data is utilised in Kesko's grocery trade include unique customer and market insight, store-specific business ideas, high-quality customer data and its extensive use and efficient automated processes. In the challenging year, data helped us respond to the changed expectations of consumers and foodservice customers.

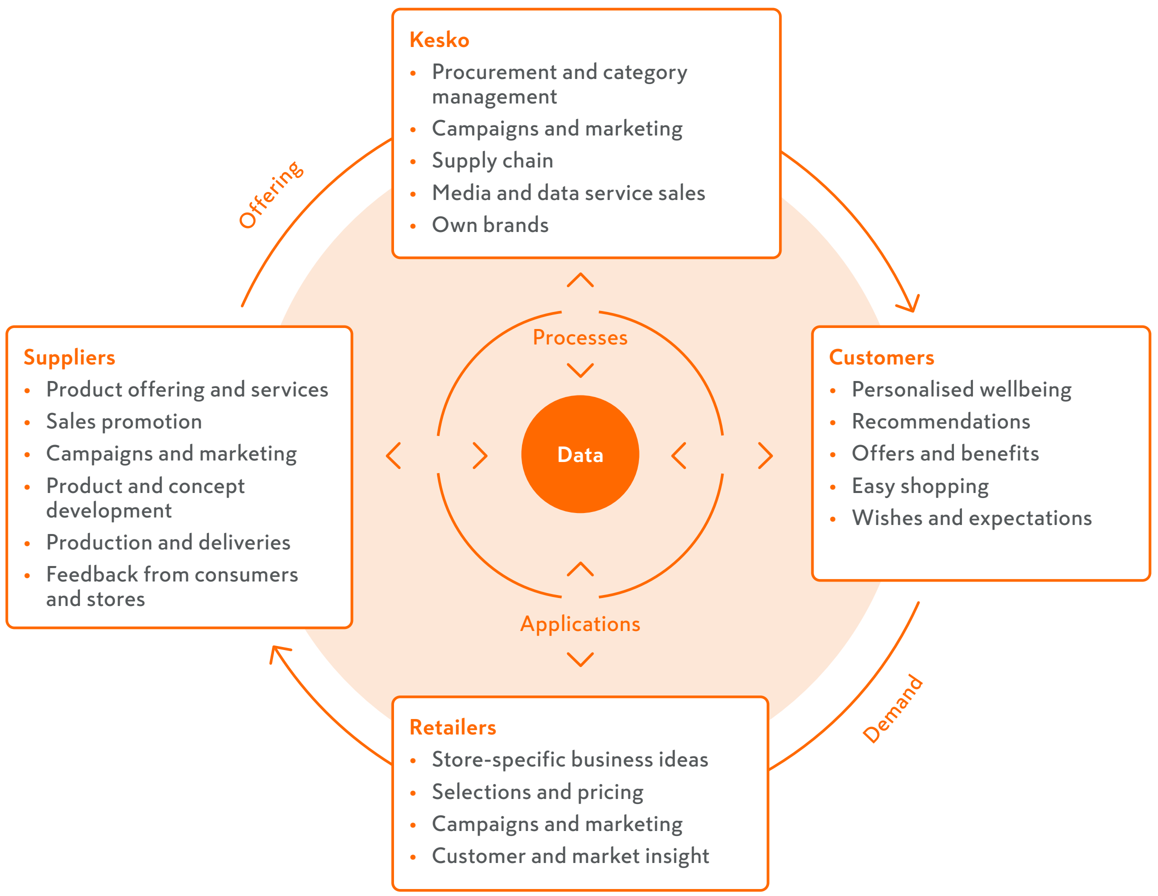
Data and analytics help us to deliver on our brand promise: 'For shopping to be fun'. Data on customers and products and from many other sources is used in the creation of customer experience for both consumers and Kespro's foodservice customers. We also use data to help our suppliers and partners succeed with Kesko and customers.

A data-driven store is able to stand by its customers in an inflation-driven market

The sharp rise in inflation increased the price-driven nature of trade in grocery products in 2023. The purchasing behaviour of consumers and professional kitchens changed, and in some cases dramatically. Data helped K-retailers and Kespro to take quick action and offer their customers attractive products and campaigns in all price points appreciated by customers.

Updated modern tools for stores, data analytics and automation provided novel types of support for selection

Digital business platform for Kesko's grocery trade



management, pricing and campaigns and the ability to offer personal K-Plussa benefits to consumers. The data-driven store-specific business ideas also helped us meet our customers' expectations and adjust our operations even in rapidly changing circumstances.

Kesko's updated value creation model of the grocery trade division proved its effectiveness. The model combines in a single digital platform all background technologies, data and applications that are associated with the supply and demand of products and services that serve different stakeholder groups. It also enables entirely new business models.

Modern tools make stores more efficient and help them implement store-specific business ideas

A data-driven store-specific business idea means that every K-store has an individual character depending on its location and customer base and the changing trends the store responds to. Kesko's growing broad-based data capital and analytics play a key role in the retailer's success.

In 2023, new digital tools that were available for the retailers and their employees helped to increase sales and customer numbers. The modern tools, developed together with retailers, focus on the essentials and help to make decisions based on forecasts and recommendations. The vast amount of data combined with advanced analytics offer retailers a unique opportunity to test and make decisions on selections, promotions, pricing and concepts that appeal to their customer base.

In 2023, the implementation of store-specific business ideas involved a significant number of choices. Retailers strive to create the combination of selection, affordability, customer- and store-specific benefits and experiences that is the most suitable for their customers. The retailer tools make it possible to optimise store-specific business ideas and related choices in the constantly evolving market conditions. Forward-looking analytics help to predict the impact of the retailer's decisions and simulate different options.

Real-time pricing that is always up-to-date thanks to electronic shelf labels and in-store communications on benefits and special offers are features of a data-driven store. In 2023, prices changed more frequently than before. Electronic shelf labels improved the efficiency of store operations and increased customer satisfaction by significantly reducing mispricing.

The almost real-time reporting of sales, the high-quality use of customer and market area data (including identification of upselling potential) enable the continuous development of the store-specific business ideas and the management of campaigns. The campaign management tool, K-Kampanja, was developed further to be smarter and to offer the latest information on the implementation and success of campaigns.

Continuously evolving understanding of how successful selections are in terms of turnover rate, sales and margin structure brings financial value for retailers. In addition, the environment benefits from less food waste.

K-Ruoka at the forefront of customer experience

Kesko aims to offer a supremely useful customer experience that makes everyday life easier and promotes wellbeing. By logging in to the K-Ruoka service, customers can access personal offers, recommendations and content. K-Ruoka also enables online grocery shopping, offers recipes and allows customers to examine their consumption patterns and set sustainability goals for their grocery shopping. Our goal is to make K-Ruoka the most interesting and personalised grocery store app for customers.

Both the background systems and customer experience of the K-Ruoka mobile app were developed further. The service was improved in 2023 to make it even more personalised and useful. Personalised customer benefits and other benefits based on the customer profile and purchase history were made more easily accessible, and electronic receipts and key K-Plussa membership functionalities were added to the service. The 'Your Year in Food' (Ruokavuotesi) feature, which presents consumers' purchasing patterns in a visually interesting way, gained a record number of users at the beginning of 2024.

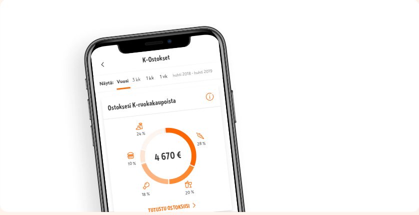
In 2023, Kesko's digital services in the grocery trade in Finland had an average of 4.5 million visitors each week. Most visitors access different websites, but the use of the K-Ruoka mobile app is increasing substantially. Average weekly visits to the mobile app increased by nearly 1.5 million year-on-year.

All digital services are designed to be reliable and easy to use. Accessibility and data protection design are part of the development and maintenance of each service.

Kesko's most popular digital services for consumers

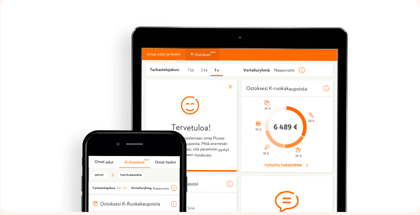
1.	K-Ruoka.fi	9.7 million visits
2.	K-Ruoka mobile service	9.5 million visits
3.	K-Rauta	1.5 million visits
4.	Intersport	1.7 million visits
5.	K-Plussa.fi	0.2 million visits

THE K-RUOKA SERVICE OFFERS A VAST ARRAY OF FEATURES



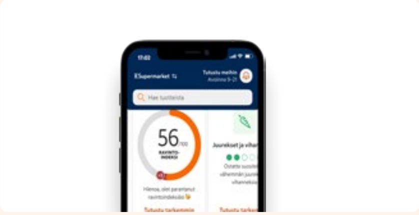
Your store, your benefits and your content

- The main digital channel for purchases and content for consumers
- Online grocery services, including smart shopping lists and high-quality product information
- Product, recipe and store searches
- Personalised customer-specific content and product recommendations and offers
- Interaction with local K-retailer(s)
- Personalised benefits based on membership level



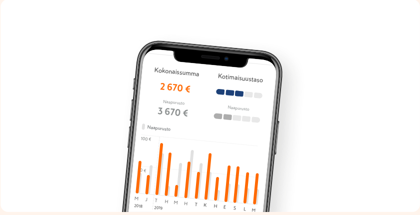
Tracking the sustainability of your purchases

- Helps customers track and adjust their purchase behaviour in terms of spend, health aspects, carbon footprint and share of Finnish products bought.
- Customers can track how many products of Finnish origin they are buying and set goals to increase this. Customers will then be provided with recommendations on Finnish products.
- Customers can monitor the climate impacts of their grocery shopping with relevant indicators. Customers can set goals to reduce the carbon footprint of their grocery purchases, after which they will be provided with practical advice on how to reduce the climate load of their purchases.



Promoting personal wellbeing

- Comparing purchases against national nutritional recommendations
- Expert inspiration and advice for promoting personal wellbeing
- Allows the user to set personal goals and track how well they are met
- Offers recipes, product recommendations and personal Plussa benefits to help achieve the goals



K-Plussa services and paperless service

- Real-time and archived receipts
- Online order history
- Warranty certificates
- Available directly or through the K-Ruoka service

Kesko is a strong operator in online grocery

Online grocery sales now have a strong customer base after the breakthrough that took place at the beginning of the decade. Online grocery sales grew by 5.7% in 2023, and accounted for 2.3% of B2C grocery sales. Since 2020, Kesko's online grocery sales have increased by over 400%. In B2C online grocery, nearly 730 K Group grocery stores offered online sales services in 2023.

The K-Citymarket online store launched in 2023 delivers home and speciality goods to customer homes

KKesko launched a K-Citymarket online store in 2023, selling a wide range home leisure goods and textiles. The design of the online store focused on good search functions and filters, good product information and comprehensive delivery options.

The strengths of Kesko's B2C online grocery operations include our comprehensive customer loyalty programme, unique product selections enabled by store-specific business ideas, the concept that combining the strengths of online and physical stores, the market's most extensive selection of up to 40,000 products, and flexible delivery options. The NPS for Kesko's B2C online grocery sales was 79 at the end of 2023.

53,000
online grocery deliveries per week
(K-Ruoka + express deliveries)

Key drivers for the development of our online grocery operations include the continuous improvement of selections and price competitiveness, utilising the full potential of the store-specific business ideas, and offering a wider range of delivery options and times. The automation-assisted storage and collection centre in Salmisaari, Helsinki, which was taken into use in 2022, has significantly improved efficiency in the region.

KESPRO SUPPORTS CUSTOMERS WITH INFORMATION AND DATA

Kespro has in-depth expertise in eating out. Data is the cornerstone of Kespro's success – it is used to strengthen customer insight, customer experience and operational efficiency across the board.

Kespro's goal is to grow as a wholesaler that offers the best selection and service experience, and as a business partner for its customers. Kespro's customer base ranges from large foodservice companies to restaurant chains, and restaurants and cafés run by entrepreneurs. As a leading foodservice operator, Kespro can offer its customers unique data and analytics-based insights into food.

Wide range of services to support the customer's business

Kespro aims to offer its customers an unbeatable combination of personal service, market-leading digital services and partner services. Kespro helps customers anticipate and capitalise on rapidly emerging trends and effectively adapt their operations to changes in eating out.

Customer-specific solutions are tailored in cooperation with the customer and are based on in-depth understanding of the market, operating models and customer business ideas. Versatile digital wholesale services and logistics and distribution services ensure efficient implementation of the solutions. In addition to wholesale services, Kespro's customers have the opportunity to procure financial services, HR services and QA services from Kespro's national partners.

HIGHLIGHTS OF KESPRO'S DIGITAL SERVICES

Offering

- Customer-specific prices and selections are produced as a service directly in the purchasing systems of large customers
- Integration with the customer's own system greatly improves the efficiency of the customer's processes

Reports

- Customer purchase data is provided in an easy-to-use format
- Ingredient purchases can be examined and analysed in terms of euros, kilos, suppliers, Finnish origin and sustainability
- Ready-made reports and the ability to create your own
- Helping customerso manage and develop their business from financial, efficiency and sustainability perspectives

Deliveries

- Tells the customer what is coming in the next delivery
- Also informs the customer of any missing products
- Replaces paper delivery lists, and complaints can be lodged directly in the service when checking the delivery
- Tailored smart notifications automate everyday life and free up time
- Displays all orders placed, including delivery dates and delivery history
- Enables more efficient work days
- Paperless service is more environmentally friendly
- Digital complaints process saves time for everyone

Superior services with a single sign-in

Kespro's digital services bring together the services of professionals, and offer the services of Finland's largest grocery wholesaler combined with customer-specific useful content, inspiration and tips. Detailed product information helps in menu planning and offers useful information about the products, their use and sustainability aspects. Use of the service has been made as easy possible – all services are available with a single sign-in.

Superior online store

More than 70% of Kespro's sales take place digitally, either through the online store or through order interfaces directly through the customer's own ordering system. Kespro's sales through digital channels total more than €800 million, the highest figure in K Group. With a selection of more than 50,000 products and smart features the online store strives to meet all the needs of professionals.

In 2023, Kespro's online store helped customers find the best products and inspiration especially with smart features related to price points, product options and tips for use. The NPS for Kespro's online store varied between 50–55 in 2023.

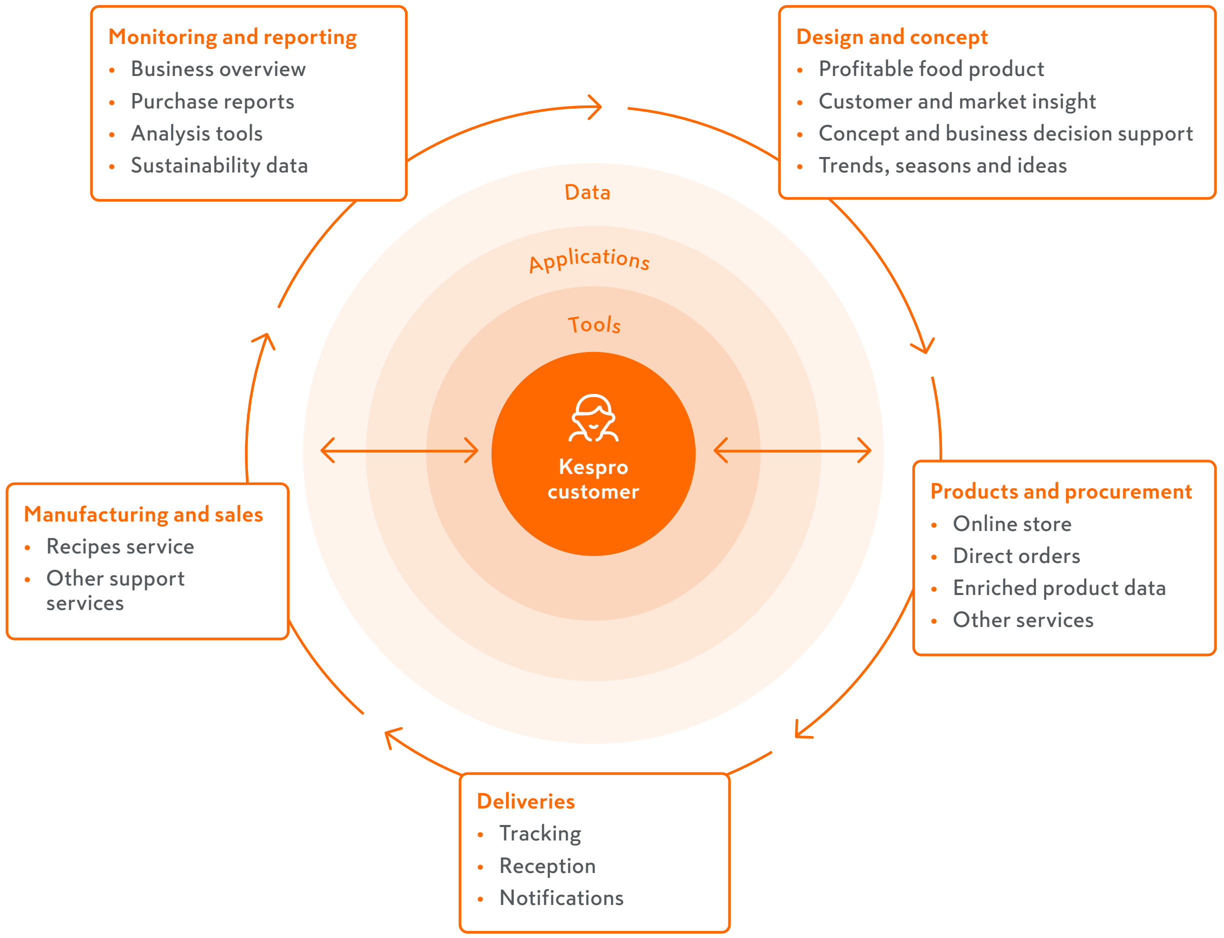
Continuous development of our own digital platform and data-driven management

Kespro is constantly developing its digital platform to make it more comprehensive, ensuring that its various services are useful to customers. In 2023, Kespronet's search engine was updated to make it smarter and offer more customer-specific. The potential of AI is being utilised in a variety of ways to develop the best search engine on the market.

Alongside services that create value for customers, Kespro's internal processes are continuously being improved, which increases efficiency and also frees up working hours for promoting projects that lend a competitive advantage.

In 2023, Kespro established its virtual team for data-driven management, which combines the best data and analytics expertise extensively from Kesko's different functions to benefit foodservice customers.

Kespro's digital business platform creates customer value across the value chain



BUILDING AND TECHNICAL TRADE USES DIGITALISATION TO ITS FULL POTENTIAL

Kesko's building and technical trade plays a key role in its value chain. Data is used to guide the provision of products and services and the creation of customer experience. The significance of technology and digitalisation in the customer experience and marketing keeps on growing.

Our aim is to offer the best customer experience in the business for consumers, professional builders, and technical trade customers. Strong basic systems enable using data more and more efficiently and comprehensively.

Customer insight drives business decisions and the creation of customer experience. The division's marketing, sales and campaign operations are strongly data-driven, and personalised customer experience strengthens the leading positions of the Onninen, K-Rauta, K-Bygg and Byggmakker brands in their respective operating countries. Analytics and AI are used in commercial management, creation of customer experience, and the automation of operations.

The division is characterised by high-volume flows of goods, ensuring good availability and deliveries of materials and supplies to customers, construction sites and maintenance sites. The order-delivery process was digitalised early on, and the focus is now on developing applications that continuously improve the customer experience, and on smart, predictive logistics for the division as a whole.

Expanding selections serve customers

The wide selection of products offered by Onninen and K-Rauta that meets changing customer needs is one of the most important aspects in terms of customer experience and satisfaction. Onninen in particular strives to offer the widest selection in the business, constantly updated based on both customer insight and the expertise of suppliers.

In 2023, the building and technical trade division significantly increased the offering of products available in its Finnish online stores by some 30,000 products. In-depth insight was used in modelling demand for new products and a supply chain that is as efficient as possible. The expansion also focused on increasing the number of made-to-order products to ensure that customers can get everything they need from one place, delivered either directly from the store or their own or a supplier's warehouse.

Enriched product data at the core of customer experience

Excellent product data significantly improves the customer experience and customer satisfaction. It helps in choosing the right products and saves professionals time and money by providing relevant and correct information on e.g. product use, installation and maintenance. Data is enriched using AI applications based on Kesko's and suppliers' data.

Comprehensive data provides information on a product's intended use, technical features, product code, colours, dimensions, weights and certificates, among other things. Linked product images, technical documentation, installation instructions, videos, and information on spare parts and products needed in the installation complete the information provided about the product.

30,000
products added to online store selections in Finland

The most useful sustainability data on products

Finding and buying sustainable and responsible products needs to be made easy. Onninen has, in cooperation with its suppliers, identified and clearly labelled all products that meet Onninen's demanding sustainability criteria.

Specific categories provide practical information on a product's sustainability aspects, such as carbon footprint reduction, energy efficiency, saving water, use of recycled materials or conserving natural resources. The labelled products have passed a set of criteria that is based on researched and verified data, legislation, official eco-labels and certificates. If a product does not have a label, this does not necessarily mean that it is less responsible. It may also be that there is not enough verified information available on the product to prove that it meets the responsibility criteria.

Technical trade close to customers via digital means

Technical trade serves HVAC and electrical contractors, industrial companies, infrastructure operators and retailers of various sizes. In large sales volumes, data and digital solutions are used to boost the efficiency of procurement, logistics, purchasing and product use. Personal service provided by experts is also extremely important. Onninen delivers almost 12 million sales rows to its customers every year.

Sales take place in Onninen's online store, via the OnniAPP application or, for larger volumes, by direct orders sent from the customer's systems. Onninen also offers customer-specific digital solutions and integrations that are designed to meet the customer's needs and procurement process. Onninen has introduced a digital desktop for salespersons that helps them serve their customers efficiently.

CASE

OnnSale uses data to help salespeople more comprehensively than ever before

OnnSale, Onninen's digital desktop launched in 2022, has made a flying start. The popularity is based on ease of use and improved work efficiency, as the app brings together all the relevant customer and product data in terms of the service that is being provided to the customer, as well as various applications, in the main view.

The service was developed with agile methods and in close cooperation with Onninen's sales organisation. The number of users and orders made have grown rapidly, and already almost 40% of Onninen's orders are now made using OnnSale. The salesperson can utilise the time freed up by not having to use background systems to better identify and respond to customer needs and prepare quotes. This improves both sales performance and customer experience.

OnnSale is centred around customer data, and Onninen's uniquely comprehensive product offering and rich product information. Data from the customer's previous orders, tracking of offers and deliveries, and other customer-specific data provide a good overall view of the customer's situation.

OnnSale enables the salesperson to tell the customer about the supplies and tools needed for installing the product, read the documentation and help the customer purchase related products. The salesperson can also use OnnSale to provide information about the product's sustainability, such as environmental certificates.

Analytics linked to OnnSale improve Onninen's data capital and help gain increasingly deeper customer insight. Onninen uses the collected customer data responsibly in the development of its processes and product offering, and in sales and marketing.

40%
of Onninen's order rows are ordered using OnnSale

The digital customer process has been modelled end-to-end, which enables us to forecast which steps along the customer journey bring value to the customer and to manage these steps with data. Browsing and purchasing has been made as easy as possible and the customer can select a range of additional services related to reporting, logistics and deliveries. Automation is becoming increasingly common, improving operations and benefiting both the customer and Onninen.

K-Rauta attracts visitors to its online and physical stores

A digital operating model and high-quality product data allow K-Rauta to serve its customers by combining the strengths of its online and physical stores. More than 80% of online store traffic comes from search engines, so product information, ideas and inspiration are of key importance. K-Rauta's 122 physical stores in Finland allow the customers to see, test, touch and compare the products. Skilled salespeople help customers select the right products and use them successfully.

The online store, with its comprehensive product information, allows visitors to explore an extensive selectons, and find and buy the right products. K-Rauta offers comprehensive delivery options: in-store, pick-up point, home delivery or delivery to a worksite.

K-Rauta stores are developed and managed utilising various data sources. Each K-Rauta store analyses the demographic, purchase and customer data of its operating area and customers and uses the results to guide its business operations. This is particularly significant for customer experience, as the retailers use the data to implement their store-specific business ideas and marketing.

Data-driven management enables all stores to have the selections and services that precisely meet the needs of that store and its customer base. Group-level synergies are achieved by utilising the common K-Plussa customer data, and the new K-Data platform opens up entirely new possibilities for utilising our shared data foundation and analytics.

Onninen's online store already sells over

11,000

products with sustainability labelling

Onninen helps customers reduce logistics emissions

Mitigating climate change is a shared goal for Onninen's entire value chain: for the manufacturers of the products, for Onninen itself as an importer and seller of the products, and for the customers. In addition to reducing emissions from their own operations, Onninen supports its customers' responsibility goals with data, for example through environmental information found in enriched product data.

The latest initiative is a service where customers can access up-to-date information on the carbon footprint of distribution deliveries and logistics packaging materials for the products they order from Onninen to the customer. Onninen's unique application means that customers are already aware of the carbon footprint before the delivery, as soon as the waybill is confirmed. The data is provided to customers through the online store's reporting service.

The carbon footprint data allows customers to minimise indirect emissions from their own supply chain and report on this effectively and reliably to their customers and stakeholders. In particular, the new EU's Corporate Sustainability Reporting Directive (CSRD) requires assured and increasingly comprehensive information on the carbon intensity of the supply chain.

The reporting also supports Kesko's and Onninen's own emission reduction targets, where the aim is to achieve complete carbon neutrality by 2030. Deliveries account for a fairly small share of the total emissions over the life cycle of products, but measures to reduce emissions in deliveries are tangible. Increasing the use of renewable fuels and electric vehicles, and the use of recyclable transportation packaging help reduce the carbon footprint of logistics.

The ESG data provided by Onninen has been made as interoperable as possible with the data that customers acquire from other sources and the data they produce themselves. The calculation of the carbon footprint of logistics is based on the widely accepted EN 16258 standard and the Global Logistics Emissions Council (GLEC) framework.

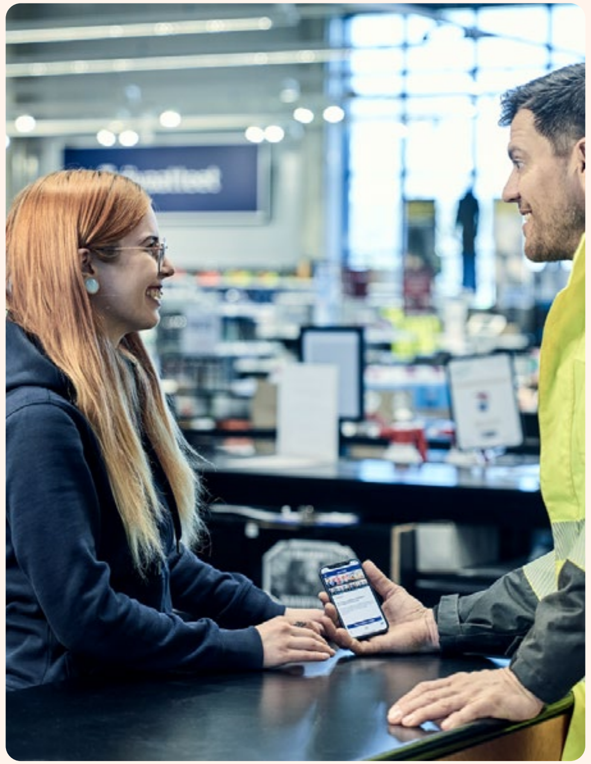
Onninen is leading the way in challenging the industry to improve the flow of ESG data from the manufacture of products to their use. In addition to logistics, the aim is to provide increasingly comprehensive carbon footprint data on the products themselves and the life cycle (LCA) phases before becoming a product, from manufacturing to delivery to Onninen.

Products' responsibility information will be launched in online stores in 2024.

CASE

Onninen rises to a new level in Poland

Onninen carried out an agile overall renewal of its e-commerce in Poland in 2023, to increase online store traffic and sales and improve customer experience.



As a result of the technical and business improvements, Onninen.pl's customer numbers grew, its visibility improved in Google searches in Poland, and it outperformed its competitors in the technical trade sector. Special focus was on search engine optimisation (SEO) and expanding the online store's product offering, as well as enriching product information and marketing texts. Several measures were taken to improve customer experience, with focus on more comprehensive product selections, the most useful product data, easier shopping and more varied delivery options.

Product offering at Onninen.pl almost doubled in 2023

The update focused on expanding the online product offering and enriching product information in the online store, making it easier for customers to find and compare products, and install and use them at the worksite. The previously manual process of becoming a customer was automated – a new self-service process makes things easier for customers as it retrieves the information from a variety of data sources. This has both increased the size of the customer base and strengthened customer data and marketing potential.

Online store delivery options were also improved. Onninen in Poland has some 100,000 pick-up points near worksites and daily routes, and some of the delivery options also offer weekend deliveries. The online store's geographical coverage was also expanded. In addition to Polish, customers are now served in several other languages (English, Ukrainian, Czech, Slovak, Romanian). Payments can be made in a variety of currencies, including the euro (EUR), US dollar (USD), Ukrainian hryvnia (UAH), British pound (GBP), Romanian leu (RON) and Czech koruna (CZK).

Overall, the changes led to significant results in an efficient and productive way. The leap to the market-leading online store in 2023 in the sector was based on Onninen's own digital business capabilities, clear strategic choices and simultaneous, agile development of different sub-areas.

K-AUTO IS A CAR DEALER OF THE FUTURE

K-Auto is a forerunner in car trade and in car servicing and EV charging operations. It responds to new types of customer needs for sustainable motoring, and offers new ways of buying and owning a car. In 2023, focus was on increasing the level of automation and updating the customer experience.

People have very different needs and preferences when it comes to transport. The role of data, analytics and automation is growing all the time as customers increasingly tend to follow a fully digital path at their own pace when looking for a new or used car to buy.

Customers can expect new solutions

K-Auto is doing things in a new way. The aim is to make the process of buying a new car as smooth and easy as possible, and even be considered an experience, while all the routine tasks related to registration, financing, insurance and contracts are as automated as possible. Significant gains in efficiency can be achieved with software robotics. The aim is to create new partnerships and use different data sources in an increasingly varied way for the benefit of customers and employees.

We understand cars and their users

In 2023, there were more than 10 million customer encounters in K-Auto's online services. High visitor numbers are converted into rich and diverse customer insight, which means information on cars, features and equipment that are of interest to customers in different markets and customer segments. In addition, K-Plussa data is used with the customer's permission, for example, to understand car use and the related needs, and to deliver relevant and useful communications and marketing.

In car trade, customer relationship management is a long-term commitment. K-Auto applies a lifecycle model for customer relationships, consisting of customer interaction from the stage of considering a car purchase to buying and owning one, and finally replacing it with a new one. Basic car trade processes have already been digitalised to a large extent, which improves efficiency and frees up time. Internal sales tools and agreement and order processes are electronic and, to a large extent, automated. The process of selling a car is electronic from the configuration of the car to order, delivery and handover. The customer and K-Auto salesperson have access to easy, useful and paperless electronic services.

There were more than 10 million customer encounters in K-Auto's online services in 2023

We understand car trade

K-Auto uses a variety of data sources to understand regional trends at different times, the market and the customerss. Advanced analytics are used in particular in processes that support marketing and sales, such as pricing of used cars, identifying customer needs and supporting the formulation of marketing texts.

The smart pricing tool helps establish a sales price for each used car that is as attractive as possible for the buyer and at the right level from the perspective of K-Auto's business.

CASE

Easier ways to buy and service cars

In 2023, K-Auto renewed its system architecture for car sales and servicing and services visible to customers. This will help improve efficiency and streamline the customer experience.

The updated service booking feature automatically generates a recommendation for the vehicle based on age, mileage, service history and manufacturer's service schedule. The customer can choose the desired service location based on availability of locations and installers.

A wide range of additional services, from washing and cleaning services to the purchase of new tyres, can be bought from the online store at the same time.

Customers appreciate convenience and a large part of bookings are now made online. Service customers are taken care of with a multichannel approach to ensure the service process is as easy as possible. The convenience of creating a car service package also encourages customers to take care of other matters related to car use – in the online store, sales of additional services can be even higher than when customers book their car service appointment with a customer service representative.

A large part of car service reservations are now made online

Automation of office work saves time and money

A significant share of the administrative processes in car sales is based on step-by-step workflows and the use of internal and external systems. Car registrations, changes to insurance policies, test drive management, and financing and sales contract processes are highly automated at K-Auto.

K-Auto has aimed to automate most of the repetitive routine tasks, which has significantly sped up operations and freed up time in car sales for active sales work and customer service. The high automation rate with fast response times increased operational efficiency and also brings savings.

WORLD'S MOST DATA RESPONSIBLE TRADE COMPANY

At Kesko, sustainability and corporate responsibility are long-term strategic choices. The responsible use of data means creating common sustainable value transparently, securely, and by meeting individual needs.

Data responsibility at Kesko is based on protecting the individual's data and using it sustainably in business operations, while creating shared positive impacts for customers, stakeholders and the society. Trust in the execution of these factors is a key requirement for sharing data between an individual and Kesko.

Data contributes to positive impact

Kesko helps its customers to act sustainably and provides them with advice, recommendations and useful information based on their data. Data helps customers understand and increase the positive climate impacts, healthiness and level of Finnish products of their grocery shopping. Wellbeing is supported by providing information on the nutritional properties of food products. An understanding of the sustainability and broader impacts of their purchasing behaviour helps customers make more sustainable choices in their daily lives.

→ Read Kesko's ethical principles for utilising artificial intelligence

Data-driven forecasting and continuous optimisation of the product selection helps the K-retailers to significantly reduce food waste. Store properties and fixtures allow us to continuously improve energy efficiency without any adverse impact on store conditions.

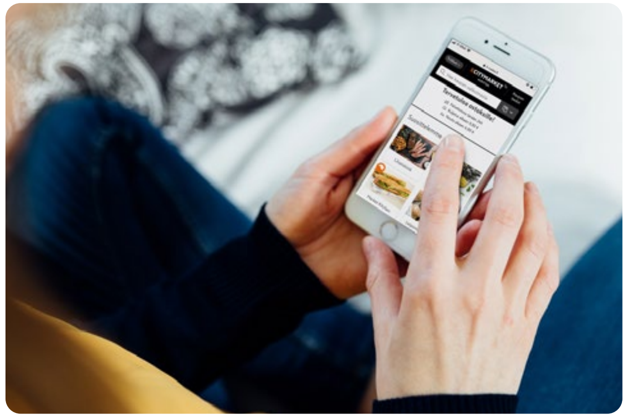
Sharing the data

Kesko's data responsibility also extends to sharing new statistical data and insights generated by data with customers, retailers and partners. One example is illustrative reporting, analysis and recommendation services based on grocery store shopping history. In the case of statistical data, a vast understanding of trends in Finnish eating habits has been shared with various stakeholders. Data protection considerations are taken into account very carefully when sharing compiled data.

Responsible and human-centred data use

The use of data and artificial intelligence is based on responsibility and ethical principles. Customer data is used for the customer's benefit and special offers, product recommendations and targeted communications, for example, are always based on the customer's preferences. The customer has the right to choose their preferred forms of communication and to limit or prevent the use of their data if they so choose.

Customer data is protected by Kesko. Kesko processes personal data carefully, securely and in compliance with the applicable rules and regulations, and responds to data protection requests quickly. Comprehensive information on data use and life-cycle management is provided in the relevant register descriptions. During 2023, Kesko clarified and updated its data protection notices and the related customer communications.



Kesko's key data responsibility perspectives

PERSPECTIVE	EXPLANATION
Compliance	• Kesko manages data use compliance throughout the data life cycle • Individuals' rights to their own data are comprehensively secured and access to data is made easy
Fair data economy and data citizenship	• Kesko returns the benefits produced by the data to its customers, suppliers and partners • Kesko creates sustainable value from data for its own business, its stakeholders, society and the environment
Climate and environment	• Helping customers understand and manage the carbon intensity of their own shopping and purchases • Minimising the carbon footprint of products and logistics • Other product-level indicators and certificates of environmental responsibility
Supply chain	• Helping customers track and impact how many local Finnish products they are buying • Ensuring supply chain sustainability and responsibility • Finnish origin of individual products • Social responsibility certification (e.g. Fair Trade) of individual products
Suppliers	• Kesko helps suppliers improve their operations and security of supply and develop their product selection and new products • Data connects local demand to local producers and their supply
Wellbeing, health and safety	• Enriched product information that supports wellbeing • Comprehensive health labelling, such as the Finnish Heart symbol • Understanding the health and wellbeing profile of personal purchases with the K-Hyvinvointi wellbeing service • Opportunities to include recommendations that increase personal wellbeing (e.g. smart shopping lists, recipes, product recommendations based on personal goals, inspiration)
Energy resource and material efficiency	• Enriched product information in building and technical trade helps in choosing products that promote sustainability • Continuous optimisation of energy efficiency based on condition and equipment data in properties and store fixtures and furniture • Optimisation of goods flows and logistics and delivery routes • Minimising waste by means of predictive analytics and selection planning
Ethical AI	• Solid ethical principles and practices for using artificial intelligence, customer data and analytics (profiling, automated decision-making, transparency)

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