KESKO ANNUAL REPORT 2022

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Kesko's 2022 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.

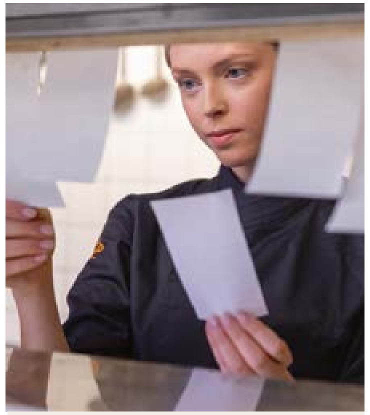
Read more ›

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 2022.

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.

Read more ›

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

KESKO'S ANNUAL REPORT 2022

KESKO'S DIRECTION

KESKO IN BRIEF

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

Kesko has around **1,800 stores engaged in chain operations** in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland*. 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 2022 totalled some €16 billion. Kesko and K-retailers combined employ approximately 39,000 people, and K Group employs some 45,000 people in total.

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.

* Kesko Senukai, a joint venture that engages in building and home improvement trade in the Baltics and Belarus, is part of K Group.

- Biggest trading sector operator in Finland, one of the biggest in Northern Europe
- Profitable growth strategy, 3 divisions, 1,800 stores in 7 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 €8.2 billion (31 Dec. 2022), some 83,000 shareholders

YEAR IN FIGURES

- All divisions generated good results in 2022.
- Net sales in January-December totalled €11,809.0 million, an increase of 4.4% in comparable terms.
- Comparable operating profit totalled €815.1 million, an increase of €39.6 million.
- Grocery trade net sales were up by 3.6%. Profitability for the division was good, with a comparable operating margin of 7.5%.
- Building and technical trade net sales increased by 9.4% in comparable terms, comparable operating margin for the division was 7.1%.
- Car trade net sales totalled €910.9 million, with a comparable operating margin of 5.3%.
- Kesko was included in the Dow Jones Sustainability Indices the DJSI World and DJSI Europe, and on the Global 100 Most Sustainable Corporations in the World list.
- Nearly 83,000 shareholders at the end of 2022.
- The Board proposes a dividend of €1.08 per share, to be paid in four instalments.

+ More information in the Business section.

- Grocery trade €6,124.7 million
- Building and technical trade €4,805.1 million
- Car trade €910.9 million

- Grocery trade €460.4 million
- Building and technical trade €339.8 million
- Car trade €48.4 million

Year in Figures	1–12/2022	1–12/2021	1–12/2020	1–12/2019
Net sales, € million	11,809.0	11,300.2	10,669.2	10,720.3
Operating profit, € million*	815.1	775.5	567.8	461.6
Operating margin, %*	6.9	6.9	5.3	4.3
Earnings per share, basic, €*	1.54	1.43	0.97	0.74
Capital expenditure, € million	449.2	276.6	398.4	686.1
Comparable return on capital employed, %	16.9	17.2	12.0	9.6

*Comparable figures

KEY EVENTS IN 2022

In 2022, Kesko continued the execution of its growth strategy. Accordingly, our focus is on the constant improvement of customer experience, further development of digital services, and sustainability.

In 2022, the Russian attack and war in Ukraine significantly impacted our operating environment in Europe and Finland. In addition to the crisis in Ukraine and geopolitical tensions, inflation rose record high, interest rates began to rise after staying at zero for years, and uncertainty concerning the availability and price of energy was historically high.

Rapid inflation also pushed up food prices, and customers became increasingly interested in more affordable products. We launched a new concept – **both premium and bargains** – to better showcase our range that extends from low-priced private label products and offers to premium products.

The **new sustainability strategy** for 2022–2024, approved in March, sets clear sustainability targets for the operations of Kesko and its three divisions. The focus areas of the strategy are climate and nature, value chain, people, and good governance. As part of the sustainability strategy, sustainability-linked criteria was introduced to Kesko's share-based commitment and incentive plans.

Kesko was included in the esteemed **Dow Jones Sustainability Indices** the DJSI World and the DJSI Europe.

Our **K-Lataus EV charging network** doubled in size in 2022. At the end of the year, it offered some 1,000 charging points at some 200 K Group store locations.

In the autumn, Kesko initiated **measures to save energy** in 1,300 stores as well as offices and warehouses in Finland, in an effort to cut peak consumption and prevent potential electricity shortages during colder winter months. The measures aim at temporarily saving electricity by as much as 20%.

Finland's **first in-store automation-assisted collection system for online grocery orders** began operations in K-Citymarket Ruoholahti in Helsinki. The system enables faster deliveries, higher volumes and a **better customer experience**.

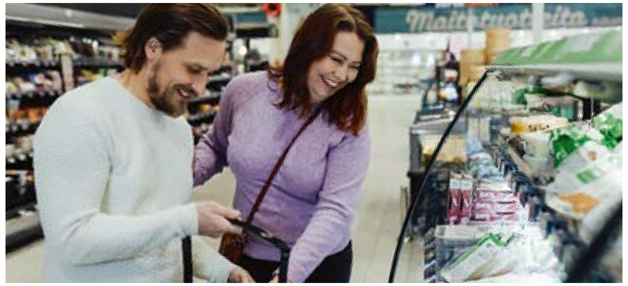
We announced we will continue to implement our growth strategy by investing over €300 million to build a new 82,000 square-metre **logistics centre for Onninen and K-Auto** in Finland. Construction will be completed in between 2025–2030, and the centre will house some 400–500 logistics professionals.

According to its new **no deforestation policy** published in June, Kesko will only accept in its own brand selections wood, paper, palm oil, soy, cocoa, coffee and tea that have been produced 100% sustainably.

We continued **acquisitions in line with our growth strategy** in 2022: in March, Kesko acquired Kungälvs Trävaruaktiebolag in Sweden, in June Seljord Elektriske AS in Norway, and in September Föllinge Såg AB and Djurbergs Järnhandel Aktiebolag in Sweden.

DIVISIONS IN BRIEF

Grocery trade



K Group is the 2nd 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 600 of the stores also offer online grocery services, K-Markets also 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.

	2022	2021
Net sales, € million	6,124.7	5,909.0
Operating profit, comparable, € million	460.4	442.9
Operating margin, comparable, %	7.5	7.5
Return on capital employed, comparable, %	19.6	20.6
Capital expenditure, € million	257.6	122.8
Personnel, average	6,288	6,126

More about the division and its key events in 2022

Building and technical trade

The building and technical trade division operates in 7 countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland. 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 wholesale customers, while K-Rauta, Byggmakker and K-Bygg serve professional builders and consumers. The division also includes the sports trade chains Intersport and Budget Sport.

	2022	2021
Net sales, € million	4,805.1	4,387.7
Operating profit, comparable, € million	339.8	318.0
Operating margin, comparable, %	7.1	7.2
Return on capital employed, comparable, %	19.4	19.0
Capital expenditure, € million	108.7	43.1
Personnel, average	6,155	5,977

More about the division and its key events in 2022

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. K-Auto has over 1.2 million customers, served by over 1,000 professionals. The brands imported and sold by K-Auto are Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars, Volkswagen Commercial Vehicles and MAN trucks in Finland, and SEAT & CUPRA in the Baltics.

	2022	2021
Net sales, € million	910.9	1,028.3
Operating profit, comparable, € million	48.4	52.2
Operating margin, comparable, %	5.3	5.1
Return on capital employed, comparable, %	12.7	14.0
Capital expenditure, € million	44.7	71.2
Personnel, average	1,235	1,225

More about the division and its key events in 2022

ALL KESKO DIVISIONS GENERATED GOOD RESULTS IN 2022

Kesko achieved a record result in 2022, and our annual result has now improved for eight consecutive years. The result is strong proof that our strategy works and yields results also in a changing operating environment. Our profit ability is based on successful strategic choices and consequent sales growth. Kesko is in many ways a unique trading sector operator.

In 2022, our net sales grew by 4.3% in comparable terms and totalled €11,809 million. Our comparable operating profit amounted to €815 million, representing an increase of €40 million. Profitability in both grocery trade and building and technical trade has risen to the level of the best European operators. In car trade, strong transformation efforts have improved profitability. Kesko's growth strategy centres on profitable growth in three selected business divisions: grocery trade, building and technical trade, and car trade. Our strategic objective is to strengthen the customer experience we offer to both B2C and B2B customers in our stores and digital channels. Continuous improvement of customer experiences, further development of digital services, and corporate responsibility and sustainability are central themes for us strategically.

Kesko's growth strategy centres on profitable growth in three selected business divisions: grocery trade, building and technical trade, and car trade.

Focus on customers also in a changing operating environment

We experienced another exceptional year in 2022. The Covid-19 pandemic continued to impact our operations early in the year, but the biggest change in our operating environment was the Russian attack on Ukraine at the end of February, and the impacts the war and related sanctions had globally on the energy and raw materials markets. The price of food rose especially in the second half of the year, interest and energy costs went up, prices of certain building materials continued to rise, and the availability of cars weakened further. Thanks to its right strategic choices, Kesko is a unique trading sector operator that can navigate also through rapidly changing operating conditions.

Our good results are based on the strategy first established in 2015 and its successful execution. During our annual strategy review in the spring, we evaluated the effectiveness of our existing growth strategy in the changed operating environment. As a result, we noted that we continue the execution of our good growth strategy in all three divisions, taking more targeted division-specific actions to ensure further growth in sales and better efficiency and profitability in each division. Kesko's sustainability strategy was updated in 2022, setting even clearer sustainability targets for the operations of Kesko and its divisions.

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 divisions. Customer-orientation drives everything we do. Customer trust towards K Group is good and we are among the most reputable companies in Finland. Interest towards Kesko as an investment rose significantly among Finnish private investors in 2022. At the end of the year we had some 83,000 shareholders: the figure rose by 27% during the year.

> Customer-orientation drives everything we do.

A good result in food trade in a changing market

Profitability in the grocery trade division was good in 2022 and was improved by a good performance by Kespro. The division's net sales grew by 3.6%, and its comparable operating profit rose to €460 million. The basis for the division's good profitability is our strong position in all areas of Finnish food trade. Our strength lies in our extensive network of physical grocery stores combined with efficient online sales, our foodservice business, and our well-functioning retailer business model. The division's growth strategy is based on store-specific business ideas, data and customer insight driven decision-making, strong digital capabilities, and efficient processes. B2C online grocery sales were strengthened by the extensive collaboration launched with Wolt in quick deliveries.

Food prices rose in 2022. Combined with the rise in other costs, this had a marked impact on consumer behaviour. Customers focused more on food prices and interest toward offers, bargains and private label products increased. In 2022, our strategic focus was especially on strengthening our price competitiveness, price image, selection image and differentiation. We launched a new concept – 'both premium and bargains' – to strengthen our price image and better showcase our grocery range, which extends from low-priced private label products and offers to premium categories.

In the foodservice business, Kespro strengthened its market-leading position: it is the leading foodservice wholesale company in Finland, and acts as a partner for its customer businesses and municipalities as well as other public operators. Kespro has the biggest online store in the business in Finland, and some 70% of its sales come from digital channels. Demand for foodservice recovered notably in 2022. We strongly believe that the trend of eating out will grow, even if rising inflation is forcing customers to re-examine their consumption habits. Some 70% of Kespro's sales come from lunches and workplace cafeterias and sales to public sector operators such as schools and hospitals. In 2022, Kespro's sales grew clearly compared to the year before, and profitability was at a good level.

A record-result also in building and technical trade

The building and technical trade division posted its all-time best result in 2022. The division's net sales grew by 9.4% in comparable terms and totalled €4,805 million. The comparable operating margin for the division was 7.1%.

B2B trade now accounts for over 80% of the division's sales. Sales growth in B2B trade continued strong, underpinned by good construction activity as well as high price levels of products. Demand was particularly strong in products related to the green transition and to improving energy efficiency. Good demand in renovation building also underpinned the performance. Renovation building accounts for over half of the division's sales. The share of international operations of the division's net sales grew in comparable terms and totalled 46%.

The key to strategy execution is to address the differing needs of the division's three customer segments - B2B customers in technical wholesale, B2B customers in building and home improvement trade, and B2C customers in building and home improvement trade - in all channels. Digital solutions and multichannel customer experience play a very significant role for all customer segments.

In Finland, K-Rauta's sales outperformed the market in 2022 and the chain's market share was over 45%. Onninen's performance was strong in all operating countries, with higher net sales and significantly improved profitability. In Sweden, sales development was good in the B2B segment in both technical trade and building and home improvement trade, while B2C sales decreased. In Norway, the year was particularly good for Onninen, where net sales increased by 17% and profitability also clearly improved. Byggmakker's net sales were at a good level, but declined year-on-year. Onninen's sales growth was particularly strong in Poland, and solidly strong in Estonia, Latvia and Lithuania. The share of result of Kesko Senukai, which focuses on B2C trade, decreased in particular due to rapid acceleration in inflation.

In addition to organic growth, we continued acquisitions to execute our growth strategy.

A good result in car trade in a difficult market

The transformation of our car trade division is proceeding and yielding results. Issues with car availability caused net sales to decrease in 2022, but profitability remained good thanks to better sales margins and continued transformation measures and efficiency improvements. All operations within the division – new cars, used cars, and services – were in profit.

The car trade market is changing rapidly. Cars are becoming electric and digitalisation is changing consumer purchase behaviour. To ensure future success, our focus will be - in line with our strategy - on improving customer experiences, strengthening profitability, accelerating digitalisation, and ensuring sustainability, while utilising synergies as part of 'One unified K'. Today, Kesko's car trade is No 1 in Finland when it comes to the sales of electric cars and EV charging network.

Kesko's sustainability work ranks high on a global scale

Companies have assumed a bigger role in finding solutions to global sustainability challenges. Investors are also increasingly taking account of aspects related to the environment, social responsibility, and corporate governance (ESG) alongside financials when making investment decisions. Sustainability is an integral part of Kesko's strategy and one we have engaged in for years. Kesko's sustainability strategy was updated in 2022, setting clear sustainability targets for the operations of company and its three divisions. The focus areas of the strategy are climate and nature, value chain, people, and good governance. Kesko's long-standing work for sustainability and corporate responsibility brings results that gather international recognition. The most recent examples are the assessments for the Dow Jones Sustainability Indices and the Global 100 listing of the most sustainable companies in the world: Kesko ranked among the best in its sector in both. Kesko is the only company in the world to have made the Global 100 list every year since it was first established in 2005.

As a trading sector company, we have a unique opportunity and a duty to enable sustainable lifestyles for our customers.

Plenty of further growth potential

Our good ability to produce profit and strong financial position enable not only investments but also good dividend capacity. Kesko's Board proposes to the Annual General Meeting a dividend of €1.08 per share.

Overall, the outlook for Kesko's business in 2023 is positive. We estimate that Kesko's comparable operating profit in 2023 will be in the range of €600–800 million.

I want to thank all our customers, shareholders, people at Kesko and K Group, and our partners for their trust and collaboration in 2022.

Mikko Helander
President and CEO

STRATEGY AND OPERATING ENVIRONMENT

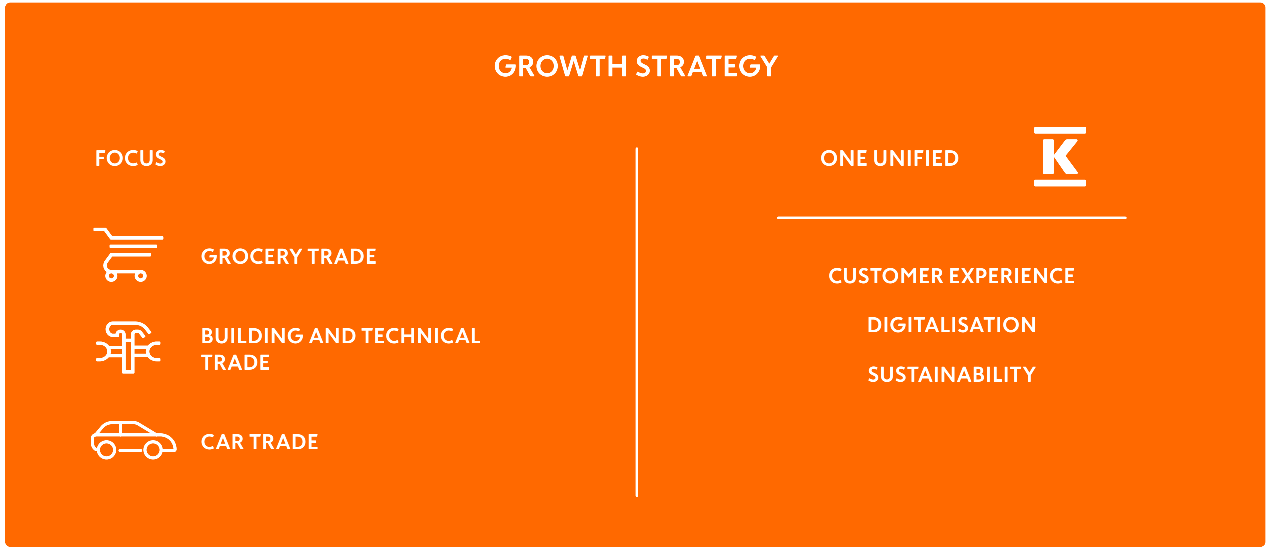
STRATEGY AND OBJECTIVES

Kesko's growth strategy centres on profitable growth in three selected business divisions: grocery trade, building and technical trade, and car trade. We continue to execute our growth strategy in the three business divisions. Continuous improvement of customer experiences, further development of digital services, and corporate responsibility and sustainability are also central themes for us strategically.

Kesko has a 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 well also in a rapidly changing post-pandemic 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.

We continue our strategy execution



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.

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 Plussa network totalled 2.4 million at the end of December 2022, with 3.3 million active customers.

'One unified K' is an important part of our strategy. 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.

Kesko's sustainability strategy was updated in spring 2022. The strategy sets clear sustainability targets for the operations of Kesko and its three divisions, focusing on climate and nature, value chain sustainability, people, and good governance. With climate and nature, Kesko focuses on reducing emissions from its own operations and in the whole value chain. We aim to reach carbon neutrality by 2025, and to cut our emissions to zero by 2030. In the value chain, we emphasise responsibility and sustainability in our whole purchasing chain.
With people, Kesko focuses on employee safety and wellbeing and on fostering diversity, inclusion and equal opportunities for its personnel. Key aspects to ensure good governance include the implementation of the K Code of Conduct, and building stronger sustainability competencies among employees.

SUSTAINABILITY STRATEGY

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

FOCUS AREAS:
- Climate and nature
- Value chain
- Our people
- Good governance

IMPLEMENTATION BY DIVISION:
- Grocery trade
- Building and technical trade
- Car trade

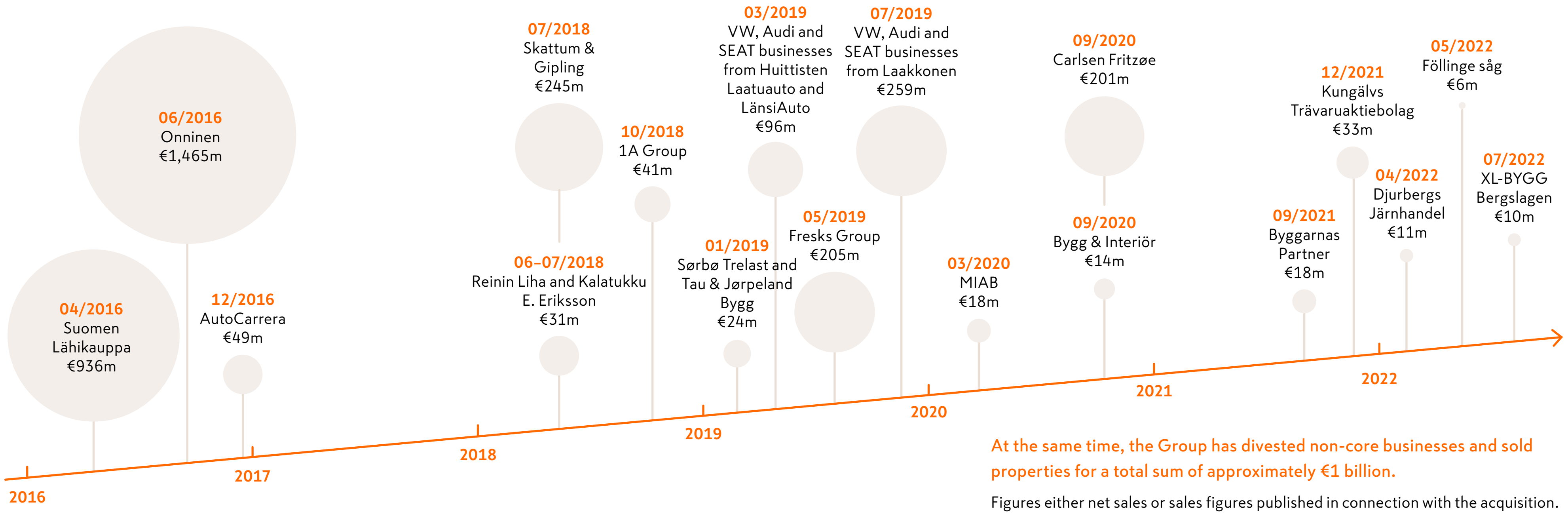
Progress is measured with sustainability indices and assessments, including the Dow Jones Sustainability Indices, MSCI ESG, Sustainalytics, and CDP.

Find out more about our sustainability objectives

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, as the most active online customers are often loyal customers for the traditional stores as well. Our strategic investments in remodelling the stores of all our grocery 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 store network in Finland. Megatrends such as urbanisation, population ageing, and increasingly individual customer behaviour support the strengthening of neighbourhood services. With some 760 K-Market stores, K Group is the market leader in the Finnish neighbourhood store market.

Our aim also remains to further strengthen Kespro's market-leading position in foodservice. We expect the trend of eating out to continue to grow, thus supporting our business.

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 wholesale, and B2B and B2C customers in building and home improvement trade, and will continue to execute its growth strategy with a country focus, seeking growth both organically and via acquisitions.

Each of our operating countries has its own customer-focused strategy. We seek synergies both within and between the countries.

B2B trade now accounts for over 80% of the division's sales. 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 growth. The need for renovation building is also growing in Northern Europe. Our recent acquisitions have further strengthened our position in the growing B2B segment.

New digital services and online sales are a significant part of the customer journey and more efficient operations. For B2B customers, good digital services primarily mean efficient order channels. Some 30% of Onninen's sales now come from digital channels. Consumers, on the other hand, use online services to obtain information and compare products, services and prices.

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, 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

Kesko achieved its financial targets also in 2022. Central to this were business growth, constant improvement in cost efficiency, and efficient allocation of capital.

Our growth strategy, first established in 2015, has proven effective also in a constantly changing operating environment, and its successful execution has seen our net sales grow and profitability improve significantly. 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. We have achieved the targets in a constantly changing operating environment.

Read more about Kesko's outlook

Indicator	Targets (as of 27 May 2021)	Level achieved 2022	Level achieved 2021	Level achieved 2020
Comparable operating margin, %	Over 6.0	6.9	6.9	5.3
Comparable return on capital employed, %	Over 14.5	16.9	17.2	12.0
Interest-bearing net liabilities / EBITDA, excluding IFRS16 impact	at maximum 2.5	0.2	0.0	0.4

GUIDANCE FOR 2023

Kesko Group's guidance is given for the year 2023, in comparison with the year 2022. Kesko's net sales and operating profit are estimated to remain at a good level in 2023 despite the challenges in the company's operating environment. Kesko estimates that its comparable operating profit in 2023 will be in the range of €680–800 million.

TRENDS IMPACTING OUR OPERATING ENVIRONMENT

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

MEGATRENDS

Accelerating transformation in the utilisation of digital solutions, data, and new technologies

- Growth in local and international eCommerce
- Automation, robotics and improving operational efficiency
- Data, analytics and AI

Importance of sustainability, climate and environmental impacts

- Carbon neutrality, emissions reductions, renewable energy
- Ensuring biodiversity
- Increased sustainability regulation

Globalisation: importance of supply chain security and risk management

- Heightened geopolitical situation and consequent tensions and crises
- Globalisation trend continues, supply chain security and transparency important
- Importance of and demand for local products growing

Continued population change: urbanisation and population ageing

- People continue to move to more urban areas
- Urbanisation impacts traffic and mobility
- Regional divides, structural changes

CHANGING CONSUMER TRENDS

Constant adjustment of selections

- The importance of price emphasised as purchasing power diminishes
- Appreciation of Finnish products
- Interest towards sustainable and healthy products

Multichannel sales

- Sales through digital channels growing
- Seamless multichannel customer experience a requirement
- Services that utilise customer data and AI, targeted marketing

Growing customer knowledge and power

- Customers seek information themselves to base their choices on
- Customers want to impact selections
- Sustainable lifestyles: carbon footprint of food, living and mobility, impact on biodiversity
- Importance of peer experiences in consumption

Individuality in customer behaviour

- Rapid changes in purchasing habits, individualisation
- Customers value versatile selections, convenience and safety
- Changing concept of workplace and work hours: impact on eating habits, traffic, equipment and clothing choices

CHANGES IN OUR OPERATING ENVIRONMENT IN 2022

In 2022, strong price inflation, rising costs, uncertainties related to the price and availability of electricity, and geopolitical tensions heightened by the war in Ukraine led to fast changes in Kesko's operating environment. The keys to managing changes in all our operations are securing supply chains, managing cash flows, efficiency, and measures to curb the rise in costs.

GROCERY TRADE

Factors affecting business

- Price inflation and diminished purchasing power.
- Rise in costs.

Actions

- Strengthening competitiveness in both B2C and B2B trade.
- Measures to save energy, preparing for potential power outages.
- Managing rising costs, improving process efficiency.

Outlook for 2023

- B2C trade as a whole is estimated to remain stable, and the foodservice market is predicted to continue to grow.
- Price inflation will support sales development in euro terms, but will also increase costs.
- Operating profit is expected to remain at a good level.

BUILDING AND TECHNICAL TRADE

Factors affecting business

- Uncertainty in the construction market, demand shifting from new construction to renovation building and products that support the green transition.
- Diminished consumer purchasing power.

Actions

- Growing the share of B2B trade, already accounts for over 80% of sales.
- Managing rising costs, improving process efficiency.

Outlook for 2023

- The construction market is expected to decrease somewhat compared to 2022.
- New building construction is estimated to decrease, but renovation building and construction related to the green transition are estimated to continue to grow.
- Operating profit is expected to remain at a good level.

CAR TRADE

Factors affecting business

- Extended delivery chain disruptions weakened the availability of new cars.
- General economic uncertainty weakened demand for both new and used cars.

Actions

- Continued measures to transform operations and improve efficiency to maintain profitability.
- A more balanced business structure: new cars, used cars, services.

Outlook for 2023

- Car availability is estimated to improve, but demand is estimated to remain below long-term average.
- Profitability in the car trade division is expected to remain at a good level.

Managing the impact of rising electricity prices

- The price of electricity rose significantly and fluctuated heavily in 2022.
- Our electricity costs in 2022 totalled around €39 million (€28 million in 2021).
- In Finland, we have a centralised company for purchasing electricity, which purchases some 2/3 of the electricity consumed by K Group. Some 50–80% of these electricity purchases have been hedged until 2025.
- Measures were initiated to save energy in 1,300 stores as well as offices and warehouses in Finland, with the objective of temporarily saving electricity by as much as 20%. In total, K Group accounts for approximately 1% of all electricity consumption in Finland.

OPPORTUNITIES AND RISKS IN OUR OPERATING ENVIRONMENT

RISK	IMPACT	MANAGEMENT	OPPORTUNITIES
Economic operating environment • Inflation, rising interest rates, and high energy prices 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, 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.	• Strengthening our competitive advantage by ensuring customer orientation, quality and competitive prices. • Increasing operational efficiency through digitalisation. • 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 and business development. • Utilising business opportunities from 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 legislation 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 elements 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. • A chance to utilise our existing network of physical stores more effectively in growing online sales and digital services.
Geopolitical situation • Growing tensions in security policy as a result of the war in Ukraine and the potential expansion of the conflict, as well as tightened military and economic competition between superpowers.	• Rising energy prices impact Kesko's costs both directly and indirectly. • The energy crisis leads to a growing threat of electricity rationing and disruptions in electricity availability. • 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.	• K Group has significantly reduced its energy consumption and prepared for potential power outages by updating and testing its business contingency plans. • Preparing for potential tightening in global tensions and disruptions in supply chains by ensuring our contingency plans and crisis management systems are up to date.	• Efficient response to the acceleration of the green transition as a result of the energy crisis, by offering customers high-quality products, solutions and services that improve energy efficiency.

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, and 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, systematics 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.
EMERGING RISKS			
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. In Finland, this 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. • 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 very important. • Preparing for global changes in prices, suppliers, availability and quality resulting from the climate crisis important for business continuity.	• Kesko can offer its customers sustainable solutions for reducing their climate impact, improving the energy efficiency of buildings, and reducing the amount of 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.
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 through circular economy and minimising food waste. • Actively participating in nature restoration via various projects, offsetting the impact on biodiversity from our own projects. • Creating selections where products and product packaging put minimal burden on biodiversity during their lifecycle.	• 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.

BUSINESS

KESKO'S BUSINESS MODEL

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

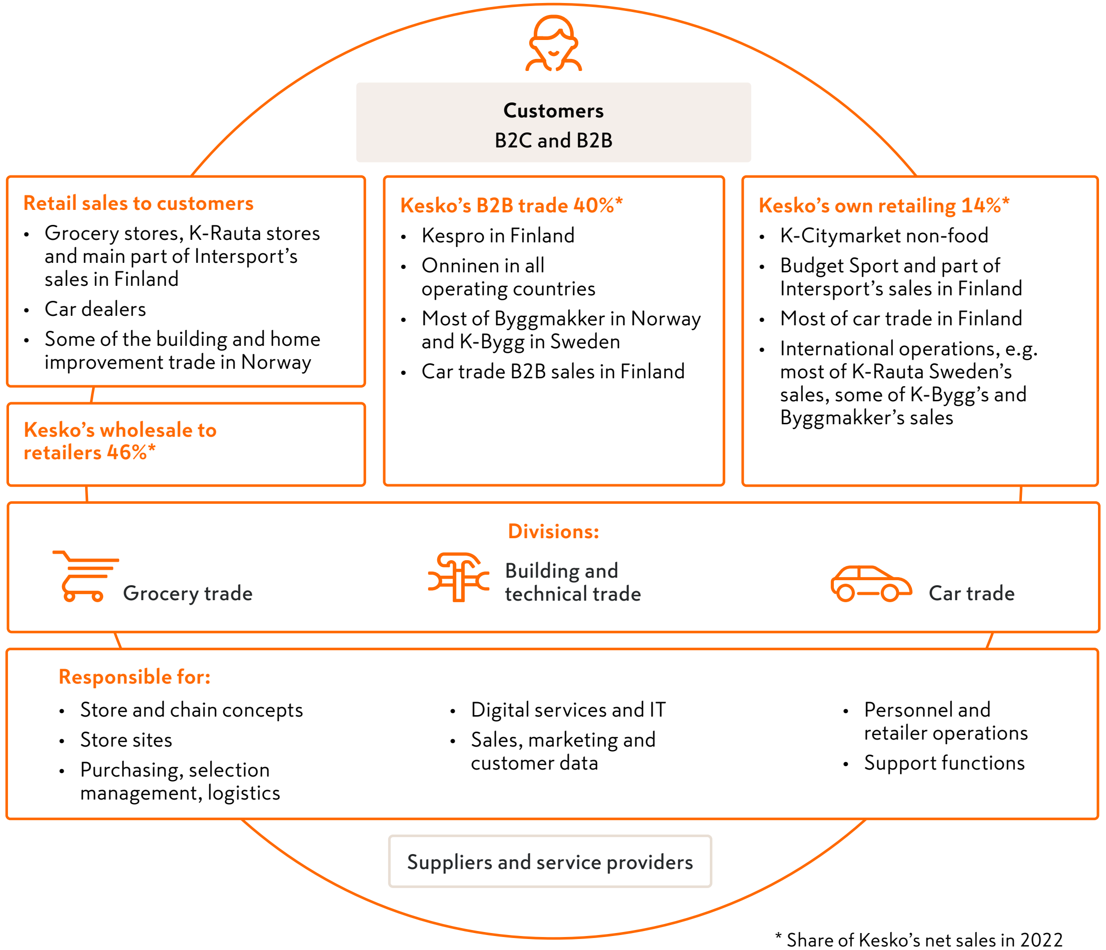
In Finland, the biggest business model in terms of percentage is the chain business model, in which **independent K-retailers run retail stores in Kesko's chains**, namely the grocery store chains, and the K-Rauta and Intersport chains. Some 46% of Kesko's net sales come from sales to retailers.

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 €2.2 billion, or 19%, of Kesko's net sales in 2022. Kesko operates in seven countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland. 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.

Kesko's business model



* Share of Kesko's net sales in 2022

K-RETAILER OPERATIONS IN FINLAND

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

Kesko is responsible for the continuous development of the operating model and store concepts, for steering chain operations, for purchasing products included in chain selections, and for the store site network.

K-retailers are responsible for their store-specific business ideas, customer satisfaction, store personnel and business performance. The multi-store model, in which one retailer can have multiple stores, creates synergies in e.g. management, personnel resourcing, and product selections.

K-Retailers' Association is a co-operative organisation for K-retailers that oversees their interests. It holds 5.13% of the shares or a 13.31% share by votes of Kesko's shares (31 Dec. 2022). K-retailers are significant Kesko shareholders.

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

More on K-Retailers' Association

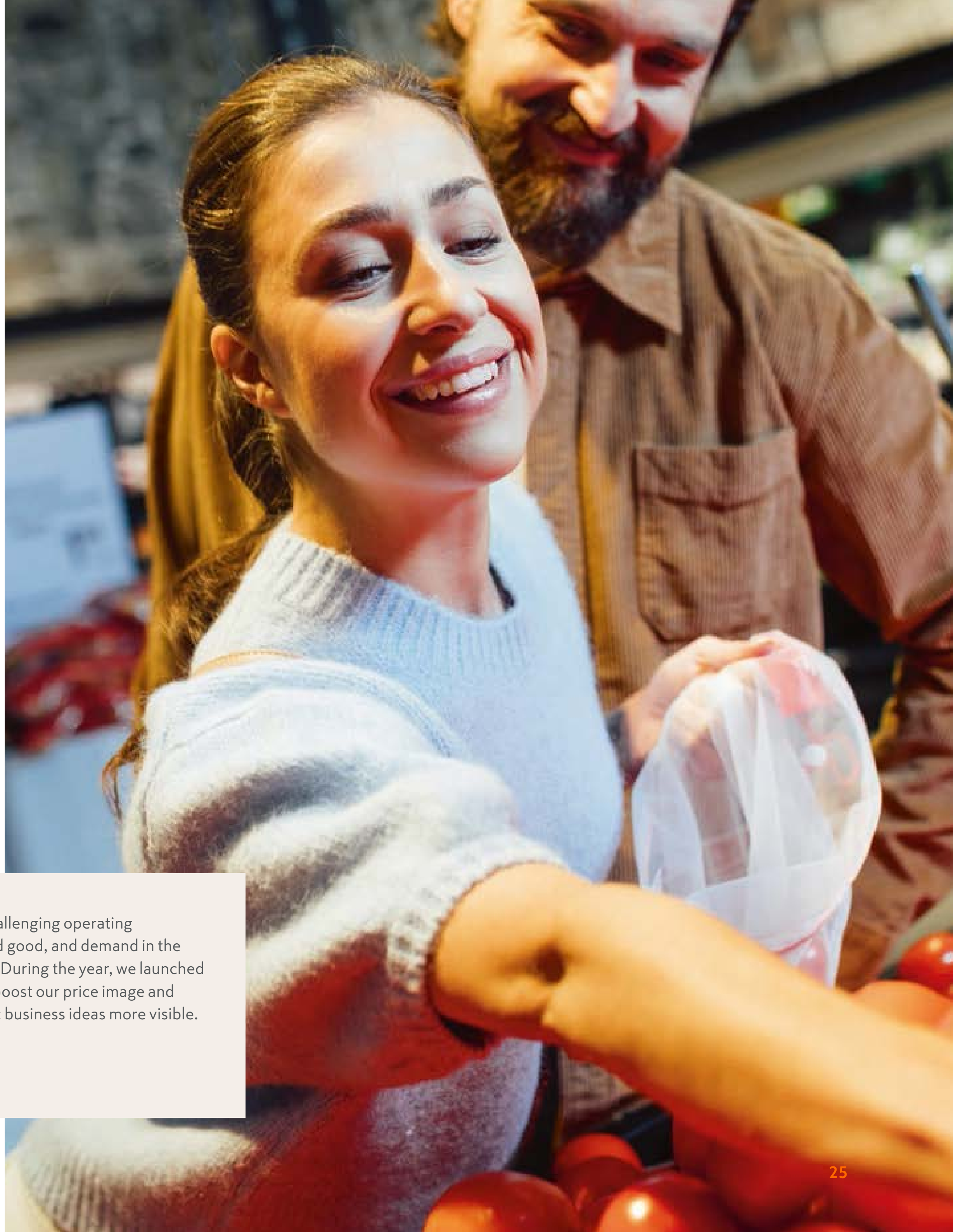
Kesko and K-retailers: roles

KESKO'S GROCERY TRADE HAS A STRONG POSITION IN ALL AREAS OF FINNISH FOOD TRADE

In the grocery trade division, profit improved in 2022 thanks to good performance by Kespro and the grocery stores. Sales continued to grow and operating profit improved. Kespro's performance was particularly strong. In grocery stores, we focused increasingly on making store-specific business ideas visible and on improving our price competitiveness and price image. Sales growth, better efficiency per square metre, and more efficient processes contributed to profitability improvement.

"Our effective strategy brought results in a challenging operating environment. Demand in food trade remained good, and demand in the foodservice business was particularly strong. During the year, we launched the "both premium and bargains" marketing concept to boost our price image and showcase our strengths, while also making store-specific business ideas more visible.

Ari Akseli
Ari Akseli, President, grocery trade division



Strong position in all areas of Finnish food trade

In the grocery trade division, Kesko strives to maintain its position as 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 2022, we honed store-specific business ideas and focused in particular on strengthening our price image and price competitiveness. In the foodservice business, the aim is to further strengthen our market position by offering the best selection and service. Our strong position in both consumer trade and B2B trade brings us strategically important synergies in purchasing, logistics and IT investments. Net sales and sales continued to grow in both grocery stores and foodservice. Towards the end of the year changes in customer behaviour due to the rise in food prices and growth in the share of campaign sales year-on-year had a diminishing impact on profitability. The increase in costs resulting from rising inflation also had a negative impact on profitability.

During the year, we invested €230.5 million in our store network. Our focus is on updating existing store sites, with new stores opened mainly in growth centres.

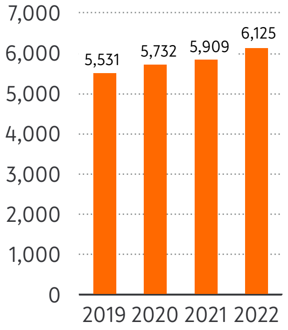
Strategy focus heavily on customer experience and managing price image

We introduce new products and services to our grocery stores based on customer data and local preferences. In 2022, the rise in energy and producer prices saw inflation accelerate at an exceptionally fast pace, and food prices rose. This had a marked impact on consumer behaviour: customers focused more on food prices, and interest toward offers, bargains and private label products increased. As food expenses are less fixed than, for example, housing expenses, consumers began to plan their grocery shopping more carefully. Our customer data shows that 30% of our customers focus on price, while 30% choose premium products. Some 40% employ a hybrid approach, buying both bargains and premium. There is a difference in everyday food shopping and shopping for special occasions.

In 2022, our strategic focus was especially on making store-specific business ideas visible, and on strengthening price competitiveness, price image, selection image and differentiation. For price image, we launched the "both premium and bargains" marketing concept, which emphasises how our stores offer both affordable private label products and offers as well as premium options. Thus customers have a one-stop shop for both affordable everyday items and treats for the weekend and special occasions. Price image management relies heavily on our private labels K-Menu and Pirkka. We will also continue to

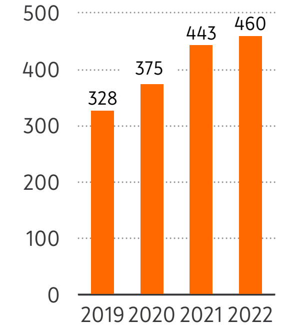
Net sales

€ million



Operating profit

€ million



Comparable figures

PIRKKA IS THE BEST-KNOWN PRIVATE LABEL IN FINNISH GROCERY

Sales of own brand products accounted for some 20% of retail sales in grocery trade. Kesko's own brands play a significant role in strengthening price image, differentiating and diversifying selections, and ensuring profitability. 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 2022, there were in total some 2,600 Pirkka products: of these, 330 were Pirkka Parhaat premium products and 200 Pirkka Luomu organic products. The lowest price point K-Menu range comprises some 200 products.

BETTER VISIBILITY FOR LOCAL PRODUCTS

Tailoring store-specific selections and listening to customer wishes on specific products are an essential element in the work of K-retailer entrepreneurs. Although much focus is currently on price, consumers are interested in products by small local producers. K Group launched a new digital platform that makes it easier for local food producers to collaborate with K-retailers and to get their products in the stores. Finnish small producers can add their products on the platform for no charge, and K-retailers and selection managers have easy access to all interesting local products.

focus on sustainable high-quality selections that set us apart, easy shopping, and individuality.

To offer a better customer experience, we are constantly developing inspiring digital services that make life easier. The use of digitalisation in K Group grocery stores is advanced. For instance, most stores now have electronic price labels, and many stores have large marketing screens. We offer the biggest in-store media in Finland, accelerating sales and bringing new earnings for Kesko. We are also investing in various digital applications that make store operations easier. The 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 80.

K-Ruoka is the biggest food media in Finland, and its mobile app one of the most popular apps in the country. In 2022, the K-Ruoka website and mobile app had on average 3 million weekly visits.

Online grocery sales capacity grew

Online grocery sales have risen clearly above pre-pandemic levels. Our retailer business model enabled us to increase online service capacity further. In our view, physical stores and online sales are an effective combination. At the end of the year, more than 600 K Group grocery stores offered online services (2021: approx. 500). Online grocery sales in 2022 totalled around €236 million (incl. VAT), down by 3.3%. Online accounted for 3.1% 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 90 stores, with further rollout in 2023. Customer satisfaction for the K-Nouto click & collect service is very high: 86.5 for personal service and 78.8 for locker collection. Our K-Ruoka online grocery service was ranked the best in Finland in 2022.

Finland's first in-store automation-assisted collection system for online grocery orders began operations in K-Citymarket Ruoholahti in Helsinki. The system is based on the Micro Fulfillment Center concept, and enables faster deliveries, higher volumes and a better customer experience.

Together with Wolt, we have created an efficient fast-delivery concept for groceries in Finland. At the end of 2022, some 160 K-Market stores around Finland offered fast deliveries, covering a range of as many as 5,000 grocery store products. Demand for fast deliveries has been strong, and they play a significant role in both the growth of the online grocery business and the sales development of the K-Market chain. In the Greater Helsinki region, we launched a pilot for Wolt+ with monthly fees.

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, with 61 new retailers launching their careers in 2022. 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. We see plenty of further potential to improve sales and profit with the development and implementation of store-specific business ideas. Retailers running K Group stores have long led innovation in Finnish grocery trade.

Kespro creates services based on customer insight

Kespro is the leading foodservice wholesale company in Finland, and acts as a partner for its customer businesses, and municipalities and other public operators. Kespro offers its customers tailored purchase solutions and delivery and collection services based on extensive customer data. It 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. The Kespronet online service is tailored to each customer, displaying customer-specific selections, prices, delivery times and options.

Kespro has 14 cash-and-carry outlets across Finland and an online wholesale store. Kespro's Foodsteri in Helsinki is the most modern development and training kitchen in Finland. Kespro also includes speciality fish and meat wholesalers Kalatukku E. Eriksson and Reinin Liha.

BUSINESS ENVIRONMENT

- 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
- Price competition increasing
- Accelerating evolution of digitalisation and AI, seamless customer experience combining digital and physical
- Climate change and environmental awareness emphasised
- Responsibility and sustainability required from operations and concepts

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.

STRATEGIC OBJECTIVES

- Making store-specific business ideas clearly visible to customers
- The best multichannel customer experience
- Leading selection image and differentiation
- Strengthening price competitiveness and price image
- Decision-making based on data and customer insight
- Enabling sustainable choices for customers
- The best selection and service in the foodservice sector
- The most attractive partner and business platform

SUSTAINABILITY STRATEGY OBJECTIVES AND FOCUS AREAS

Climate

- Expanding our pilot of the carbon-neutral grocery store concept in 2023
- Shifting to renewable diesel by the end of 2025, increasing the use of electricity in transports

Biodiversity

- Acknowledging biodiversity in purchasing chains and projects for store sites and logistics centres
- Increasing the sales of organic and MSC fish products by 10% by 2024

Circular economy

- Actively promoting the rollout of packaging innovations
- Reducing food waste by 25% by 2026, halving food waste by 2030

Supply chain

- Setting targets for sustainable selections
- Strengthening our Fairtrade collaboration
- Visible commercial sustainability actions

Customer choices

- Making sustainable selections visible in our digital services by 2024
- Making healthy choices easier for our customers by 2024
- Elaborating on our 'sustainable choice' concept by 2024

Finnish food

- Strengthening the Finnish food chain and security of supply
- Strengthening our image as Finland's biggest seller of locally produced food

Market

In 2022, the Finnish grocery retail market totalled some €21–22 billion (incl. VAT), representing a growth of some 3.3% (Finnish Grocery Trade Association's statistics). Strong food price inflation decreased volumes, but increased sales in euro terms. Consumer purchase behaviour has changed, with emphasis on price and often favouring more affordable alternatives. Sales volumes were also impacted by people returning to offices and restrictions on restaurants, events and travel being lifted. Price competition in the Finnish grocery trade market has intensified due to the strong rise in prices. Online grocery sales have continued to grow, while the relative share of online of the total market has decreased.

Market shares

GROCERY TRADE

Kesko's market share in Finland was 35.3% (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 slightly in 2022 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 online stores.

Grocery trade in figures

Key figures	2022	2021
Net sales, € million	6,124.7	5,909.0
Operating profit, comparable, € million	460.4	442.9
Operating margin, comparable	7.5	7.5
Return on capital employed, comparable, %	19.6	20.6
Capital expenditure, € million	257.6	122.8
Personnel, average	6,288	6,126

Properties	2022	2021
Owned properties, capital, € million	943	817
Owned properties, area, 1,000 m²	598	550
Leased properties, area, 1,000 m²	1,434	1,480

	Number of stores		Retail and B2B sales, 0% VAT, € million	
K Group's grocery trade	**2022**	**2021**	**2022**	**Change, %**
K Food stores	1,220	1,237	6,456.5	-0.2
K-Citymarket, non-food	81	81	607.8	-2.1
Kespro	-	-	1,067.0	21.6
Grocery trade, total	**1,220**	**1,237**	**8,131.3**	**2.1**

In addition, 619 K-food stores offer online grocery sales services. Kespro has 14 cash & carry outlets and an online outlet.

KESPRO FOODSERVICE

Pandemic-related restrictions on restaurants, events and travel, and recommendations to work from home in the first quarter of 2022 impacted the foodservice business negatively, after that the market returned to almost normal levels. Kespro's market share is estimated to have grown and to stand at 46.1% (in the Finnish Grocery Trade Association's Foodservice wholesale peer group). Competitors: Meira Nova, Metro-tukku, Valio Aimo, Suomen Palvelutukkurit.

GROWTH CONTINUED IN BUILDING AND TECHNICAL TRADE

The execution of country-specific strategies led to a record-result in the building and technical trade division in 2022. All business areas were in profit. During the year, we continued the determined, country-specific execution of our growth strategy both organically and via acquisitions. Our strategic objective is to become an even stronger operator in Northern Europe, especially in B2B trade.

"Growth in Kesko's building and technical trade continued in all operating countries, driven by B2B trade. In technical wholesale in particular, we reached significant profit improvement, and won over market share in all countries. In building and home improvement trade, despite market challenges, sales grew in all countries and profit stayed at a good level.

Jorma Rauhala
President, building and technical trade, Deputy CEO

High activity in B2B trade

In the building and technical trade division, Kesko continues to strengthen its leading position in Northern Europe by executing country-specific strategies. In 2022, the division's net sales grew by 9.4% in comparable terms, totalling €4,805,1 million, with a comparable operating margin of 7.1%. International operations account for 46% of net sales.

The business is divided into technical wholesale and building and home improvement trade. In 2022, growth continued in all countries in technical wholesale, while sales in building and home improvement trade stayed at a good level.

Net sales for technical wholesale, i.e. Onninen, totalled €2,286.2 million, and operating profit grew in all operating countries. The technical wholesale business is 100% directed at professionals, with the customer base comprising technical contractors, industry, infrastructure builders, and retailers. Onninen's business is Kesko's own retailing.

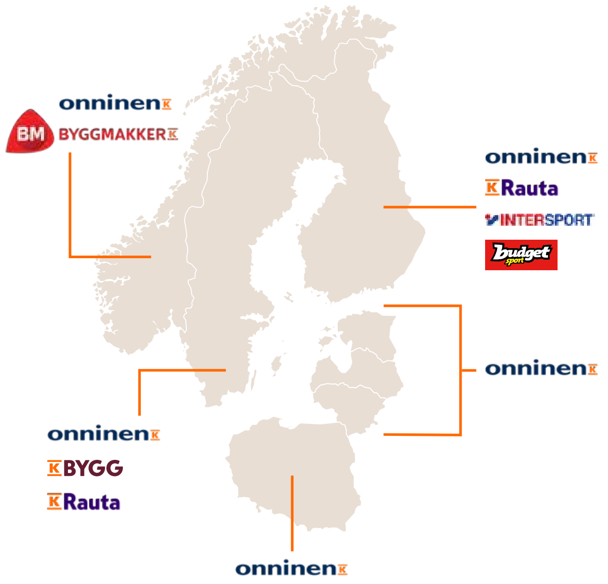
Combined, B2B customers in technical wholesale and building and home improvement trade accounted for over 80% of the division's sales. Sales growth in B2B trade continued strong, underpinned by good construction activity. Demand was very strong in products related to the green transition and to improving energy efficiency, which is approximately 36% of the division's products. Strong demand in renovation building also underpinned the good performance. Renovation building accounts for over half of the division's sales.

Net sales for building and home improvement trade totalled €2,377.2 million, and comparable operating profit increased. Building and home improvement trade serves both B2B customers (some 68%) and consumers (32%). Kesko's building and home improvement chains are K-Rauta, K-Bygg and Byggmakker. Kesko also owns half of the company Kesko Senukai, which operates in the Baltic countries and Belarus. 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 wholesale, and B2B and B2C customers in building and home improvement trade – in all channels. We strive to offer a seamless customer experience in physical stores and digital channels. We actively seek synergies within and between our operating countries, for example, in concept, digital service and own brand development.

We continued acquisitions in line with our strategy in 2022 by acquiring the B2B building and home improvement trade companies Djurbergs Järnhandel, Föllinge Såg and XL-BYGG Bergslagen in Sweden, and Seljord Elektriske in Norway. The acquisitions in Sweden strengthen our position in growth centres in northern and central parts of the country, and were merged as part of the growing K-Bygg chain for B2B customers. We continue to see further potential for growth in both Sweden and Norway especially in B2B trade.

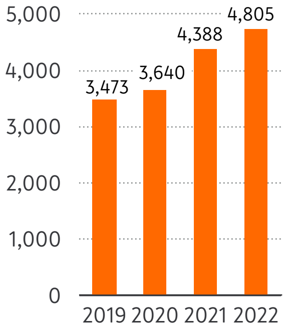
Building and technical trade



Business units excluding Kesko Senukai.

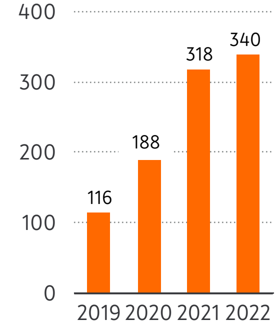
Net sales

€ million



Operating profit

€ million



Comparable figures.
Illustrative figures for 2019 and 2020 excluding Kesko Senukai.

Strong year for K-Rauta and Onninen in Finland

K-Rauta Finland saw good sales development, and its market share rose further to over 45%. The chain aims to be the best locally, and combines store-specific business ideas with the efficiency and competitiveness of chain operations. We have continued to update K-Rauta through sales programmes, and have further strengthened 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 service for consumers.

Onninen is the market leader in Finnish technical wholesale, with a market share of 44%. The market share continued to grow in 2022. Onninen's performance was strong, with higher net sales and significantly improved profitability. Of the product categories, demand was particularly strong for products related to the green transition, such as air source heat pumps, solar panels and wind power-related products. Technical wholesale 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 some 30% of Onninen's sales in Finland.

In leisure trade, sales for Intersport and Budget Sport were at a good level, and our market share in sports trade grew. The good progress was attributable to stronger focus on specific sports, improving the multichannel customer experience, and tightening collaboration with strategic suppliers to ensure product availability.

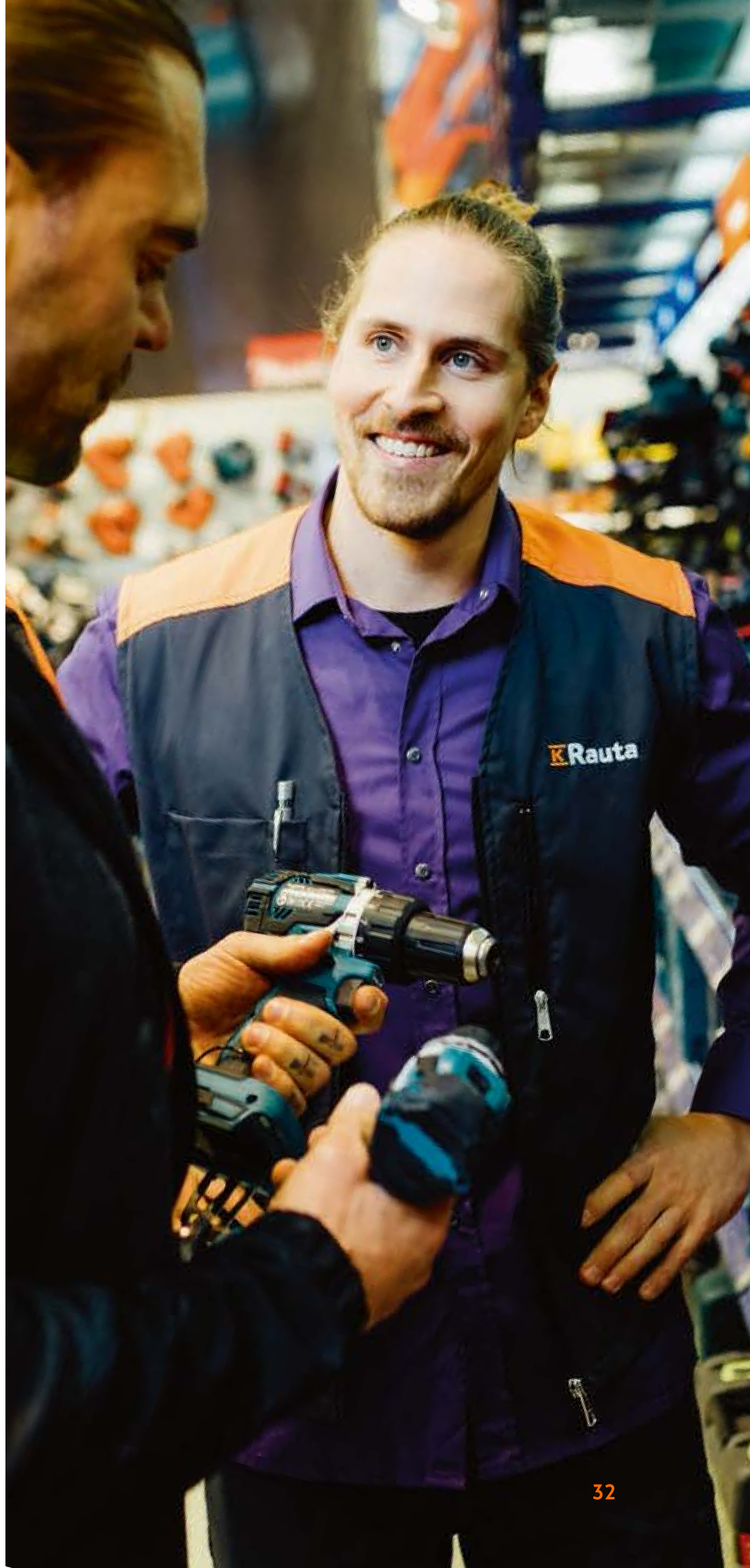
Good progress continued in Sweden and Norway

In Sweden, Kesko serves technical wholesale customers in infrastructure construction via Onninen, B2B customers via K-Bygg and K-Rauta, and consumers via K-Rauta. B2B trade in Sweden grew, while B2C trade contracted. K-Bygg's net sales grew by 5.8% in comparable terms. K-Rauta's sales remained at a good level but were down by 1.2% year-on-year in comparable terms. The good position we have achieved in Sweden provides us with a strong basis for continued growth.

We strengthened our B2B chain K-Bygg with acquisitions, while the number of B2B customers also grew in K-Rauta. K-rauta.se, which serves consumers, was named the best renovation and building online store in Sweden. In technical wholesale, we only operate in the growing infrastructure business and water and sewage business in Sweden. Onninen is particularly strong in e.g. product categories related to wind farms in Sweden.

In Norway, 2022 was a strong year for Onninen in particular. Onninen's net sales increased by 17.2% in comparable terms, and operating profit grew markedly. In Norway, Onninen only focuses on the electricity product categories, and is the market leader in our selected area of wholesale. 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 were at a good level, but net sales came down by 2.3% in comparable terms. One of Byggmakker's strengths is its extensive store network, combined with good digital services.

In the long term, we expect both Sweden and Norway to continue to offer significant growth potential.



Strong year of growth for Onninen also in Poland and the Baltics

Onninen's sales growth was strong and profitability improved significantly in Poland, Estonia, Latvia and Lithuania. B2B demand was strong in the Baltic countries and Poland, underpinned by high construction activity. Onninen in Poland is also strong in digital services. Of the Baltics, the biggest business and most extensive Onninen Express store network are found in Estonia.

The comparable operating profit in building and technical trade in Finland was €200.7 million (€180.7 million), in Sweden €27.1 million (€30.5 million) in Norway €60.0 million (€70.4 million), and in Poland and the Baltics in total €28.0 million (€13.1 million).

The share of result of the Kesko Senukai joint venture, which focuses on B2C trade, stayed at the level of the previous year.

Building and technical trade in figures

Key figures	2022	2021
Net sales, € million	**4,805.1**	**4,387.7**
Building and technical trade excl. speciality goods trade	4,591.1	4,164.0
Building and home improvement trade	2,377.2	2,292.3
Onninen	2,286.2	1,930.3
Speciality goods trade	214.0	223.7
Operating profit, comparable, € million	**339.8**	**318.0**
Building and technical trade excl. speciality goods trade	302.8	275.4
Building and home improvement trade	127.5	154.2
Onninen	173.7	122.3
Speciality goods trade	16.1	21.2
Kesko Senukai	20.9	21.5
Operating margin, comparable, %	**7.1**	**7.2**
Building and technical trade excl. speciality goods trade	6.6	6.6
Building and home improvement trade	5.4	6.7
Onninen	7.6	6.3
Speciality goods trade	7.5	9.5
Return on capital employed, comparable, %	19.4	19.0
Capital expenditure, € million	108.7	43.1
Personnel, average	6,155	5,977

Properties	2022	2021
Owned properties, capital, € million	175	166
Owned properties, area, 1,000 m²	252	241
Leased properties, lease liabilities, 1,000 m²	883	886

	Number of stores		Retail and B2B sales, 0% VAT, € million	
K Group's building and technical trade	**2022**	**2021**	**2022**	**Change, %**
K-Rauta, Finland	123	125	1,279.6	0.3
Rautakesko B2B Service, Finland	-	-	331.9	17.8
Onninen, Finland	57	58	1,289.2	17.5
Leisure trade, Finland	62	62	274.8	-3.7
Finland, total	**242**	**245**	**3,175.6**	**8.0**
K-Rauta, Sweden	17	17	189.8	-5.7
K-Bygg, Sweden	50	42	382.4	0.9
Onninen and MIAB, Sweden	5	4	142.4	21.6
Byggmakker, Norway	89	90	817.3	-3.0
Onninen, Norway	19	18	374.0	19.6
Onninen, Baltics	18	17	130.7	37.9
Onninen, Poland	36	36	350.1	15.1
Other countries, total	**234**	**224**	**2,386.7**	**6.0**
Kesko Senukai	60	60	1,220.5	11.7
Building and technical trade, total	**536**	**529**	**6,782.7**	**7.9**

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 acquisition of Byggarnas Partner i Sverige AB on 1 September 2021, the acquisition of Kungälvs Trävaruaktiebolag on 1 March 2022, the acquisition of Seljord Elektriske AS in Norway on 1 June 2022, the acquisitions of Föllinge Såg AB and Djurbergs Järnhandel Aktiebolg in Sweden on 1 September 2022, and the acquisition of XL Bygg Bergslagen AB on 1 October 2022, had been completed on 1 January 2021.

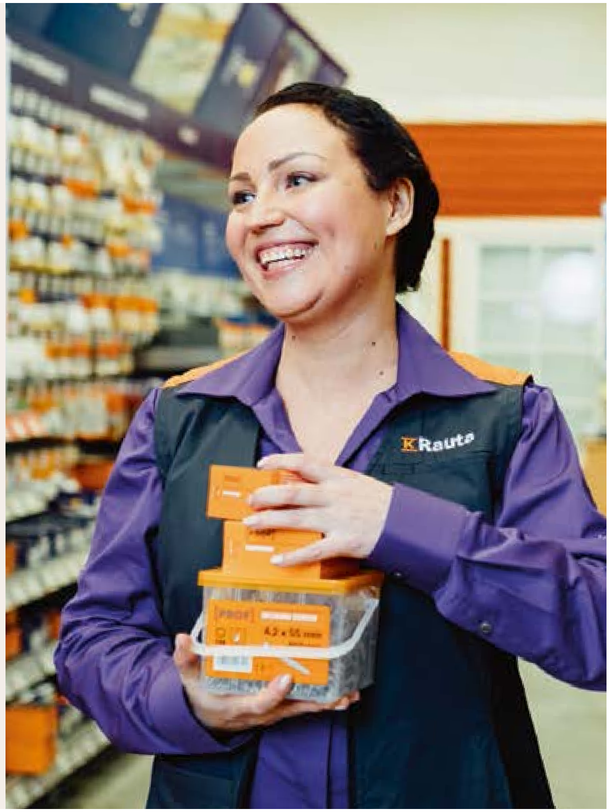
BUSINESS ENVIRONMENT IN NORTHERN EUROPE

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

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

STRATEGIC OBJECTIVES

- 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



SUSTAINABILITY STRATEGY OBJECTIVES AND FOCUS AREAS

Climate
- Achieving carbon neutrality by 2025, significantly reducing greenhouse gas emissions by 2030
- Encouraging suppliers to commit to emission reduction targets

Biodiversity
- Establishing a chemicals policy by 2024
- Causing no net biodiversity loss through our own operations from 2025 onwards

Circular economy
- All packaging for own brand products recyclable in 2025
- Developing circular economy operating models
- Raising our recycling rate by 2025

Value chain
- Establishing a supplier policy for environmental protection by 2023
- Sustainability audits of direct suppliers in high-risk countries by 2024

Customer choices
- Establishing an operating model that supports sustainable choices by 2024 (Finland)

Societal and local impacts
- Guidelines and implementation of local sustainability works for business units

Market

Outlook for the building and technical trade division weakened during 2022 due to the rise in inflation. However, renovation building grew in all operating countries, thus supporting good demand in B2B trade. B2C trade remained at a good level, but at a more normal level than during the peak pandemic consumer construction boom.

The total market for our current building and technical trade business in our market areas was some €34 billion in 2022. Market growth varied between countries.

Construction related to energy efficiency and the green transition, as well as urbanisation and changes in population structure will continue to support the construction market in Northern Europe. The renovation needs of homes and other properties, building becoming increasingly technical, and growing infrastructure investment debt also support construction.

Growth potential through 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 operating countries, and thus there is excellent potential to continue active sector consolidation. The total potential market with our strategy amounts to over €46 billion in Northern Europe. Currently our market shares are still relatively low in e.g. Norway, Sweden and Poland, which means excellent potential for continued growth also via acquisitions in line with our strategy.

Kesko's own estimates. Market excluding sports trade.

Markets

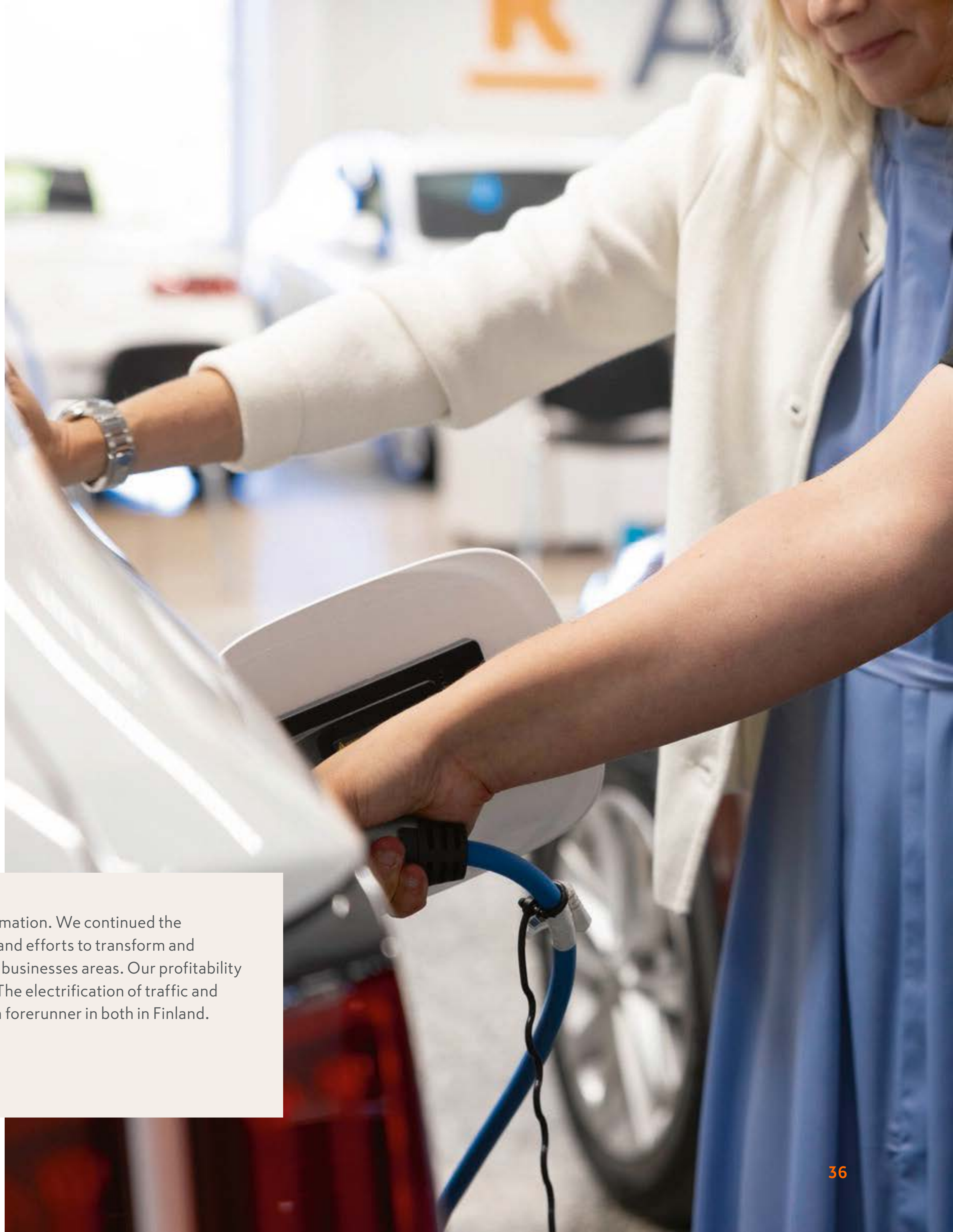
Market by country, along with the improvement in 2022 from the previous year (retail trade, VAT 0%), and main competitors.

	Market area	Market size and change	Market share	Main competitors
Building and home improvement trade	Finland	€3.7 bn (+0.4%), (RaSi ry)	45%	STARK, S-Group, RTV, Bauhaus
	Sweden	€7.3 bn (+7.4%), (Byggmaterialhandlarna and Kesko's own estimate)	8%	Beijer, XL-Bygg, Optimera, Woody, Bauhaus, Byggmax, Derome, Bygghemma
	Norway	€6.2 bn (+1.6%), (Virke and Kesko's own estimate)	13%	Optimera, Mestergruppen, Coop, Maxbo
Technical trade	Finland	€2.8 bn (+15.0%), (STK, Talteka)	44%	Dahl, Ahlsell, SLO, Rexel
	Sweden	€1.0 bn (+23.8%), (SEG Infra, RGF** Water and sewage)	11%	Dahl, Ahlsell, Elektroskandia, Rexel
	Norway	€1.5 bn (+11.5%), (Virke electrotechnical trade)	22%	Elektroskandia, Solar, Ahlsell, Berggård Amundsen, Sonepar, Elektroimportøren
	Poland	€6.7 bn (+18.0%)*	5%	GC Group (BIMs, HTI, Hydrosolar), Grudnik, Tadmar, TIM, Kaczmarek, Alfa Elektro, Grodno
	Estonia	€0.7 bn (+20.5%)*	10%	FEB (Ahlsell), SLO, W.E.G (Würth)
	Latvia	€0.5 bn (+15.8%)*	6%	Sanistal, EVA-SAT, SLO
	Lithuania	€1.0 bn (+24.1%)*	3%	Sanistal, Dahlgera, Elektrobalt, SLO
Sports trade	Finland	€1.1 bn (-8.3%), (Fashion and Sports Commerce association)	26%	XXL, Stadium, hypermarkets and online stores

* Kesko's own estimate ** Total market has been specified

PROFITABILITY IN CAR TRADE REMAINED AT A GOOD LEVEL

We continued our strategy execution in 2022 in a rapidly changing operating environment. Our main objective is to offer the best customer experience on the market and to strengthen our market position. Availability issues caused our net sales to come down, but our profitability remained at a good level thanks to improved sales margins and continued transformation measures and efficiency improvements. In passenger car sales, the share of electric cars continued to grow strongly. We expanded our K-Lataus EV charging network with over 100 stations, and charging doubled during the year.



"The car trade market is undergoing a transformation. We continued the execution of our customer-oriented strategy and efforts to transform and improve the efficiency of our operations in all businesses areas. Our profitability remained good despite availability issues with new cars. The electrification of traffic and digitalisation of services are accelerating, and K-Auto is a forerunner in both in Finland.

Matti Virtanen
President, car trade division

Net sales for the car trade division decreased by 11.4% in 2022 and totalled €910,9 million. Net sales decreased due to availability issues with new cars. In line with our strategy, we continued measures to transform our operations and make them more efficient, and the division's profitability improved, with a comparable operating margin of 5.3%. All three business areas – new cars, used cars, and services – were in profit.

The car trade market is changing rapidly due to electrification and consumer purchase behaviour being impacted by digitalisation. The market is subject to significant uncertainties, and issues related to lack of raw materials in particular continued to cause supply chain disruptions in 2022. To ensure future success, 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'. The cornerstones of our growth are our close collaboration with the Volkswagen Group, and accelerating the sales of used cars and services.

All businesses in profit

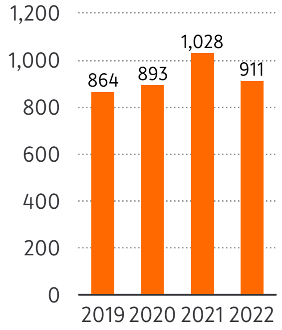
General economic uncertainty and inflation had an impact on consumer purchase behaviour in 2022 also in car trade. First registrations of new cars were down by some 16% in Finland. K-Auto's share of first registrations of new cars was 14.1% in 2022 (passenger cars and vans). The share decreased due to delays in car delivery times resulting from continued issues with car availability. Demand for new all-electric cars grew strongly. Together with that, regardless of power options, the consumers´ interest in more economical and environmentally friendly alternatives grew. The surge in electricity prices and related uncertainties caused public debate over different power options. All-electric cars represented by Kesko accounted for 20.5% of total all-electric car first registrations in Finland (passenger cars and vans). New car sales accounted for 54% of the division's net sales.

Market demand for used cars also declined in 2022, but K-Auto outperformed the market in used car sales. Used car prices fluctuated significantly during the year. K-Auto's purchases are made by its own purchasing unit that operates internationally. Used car sales accounted for some 25% of the division's net sales.

Sales and profitability for the service business were at a good level. The business area comprises servicing, damage repair, spare parts, and K-Lataus. Services accounted for some 21% of the division's net sales. The 206% sales growth for K-Lataus was particularly strong.

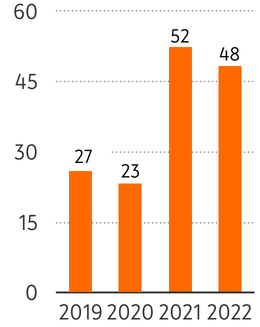
Net sales

€ million



Operating profit

€ million



Comparable figures

K-LATAUS NETWORK

We continued to expand the K-Lataus EV charging network, first launched in 2018, and the network doubled in size during 2022. K-Lataus is one the most extensive EV charging networks in Finland and serves drivers across the country. At the end of 2022, K-Lataus had around 1,000 charging points at 200 K Group store locations. Charging was up by over 120% in 2022, and customer numbers by some 80%. All electricity at K-Lataus stations is renewable energy, generated with Finnish wind power.

CONSTANTLY UPDATED RANGE

The brands represented by K-Auto offer a constantly updated and expanding range, which serves to strengthen our competitiveness. Demand on all-electric cars and hybrids was steady. New models introduced to the Finnish market in 2023 included: all-electric Volkswagen ID. Buzz and ID. Buzz Cargo. Also new Volkswagen ID. FastLane versions and CUPRA Born e-Boost versions were introduced.

Our own leasing fleet comprises some 4,500 cars, making us one of the biggest car leasing service providers in Finland.

Key strategic themes are growing all businesses within the division, and the sales of new and used cars and services. We believe that once it normalises, the market will offer plenty of opportunities for growth and new operating models.

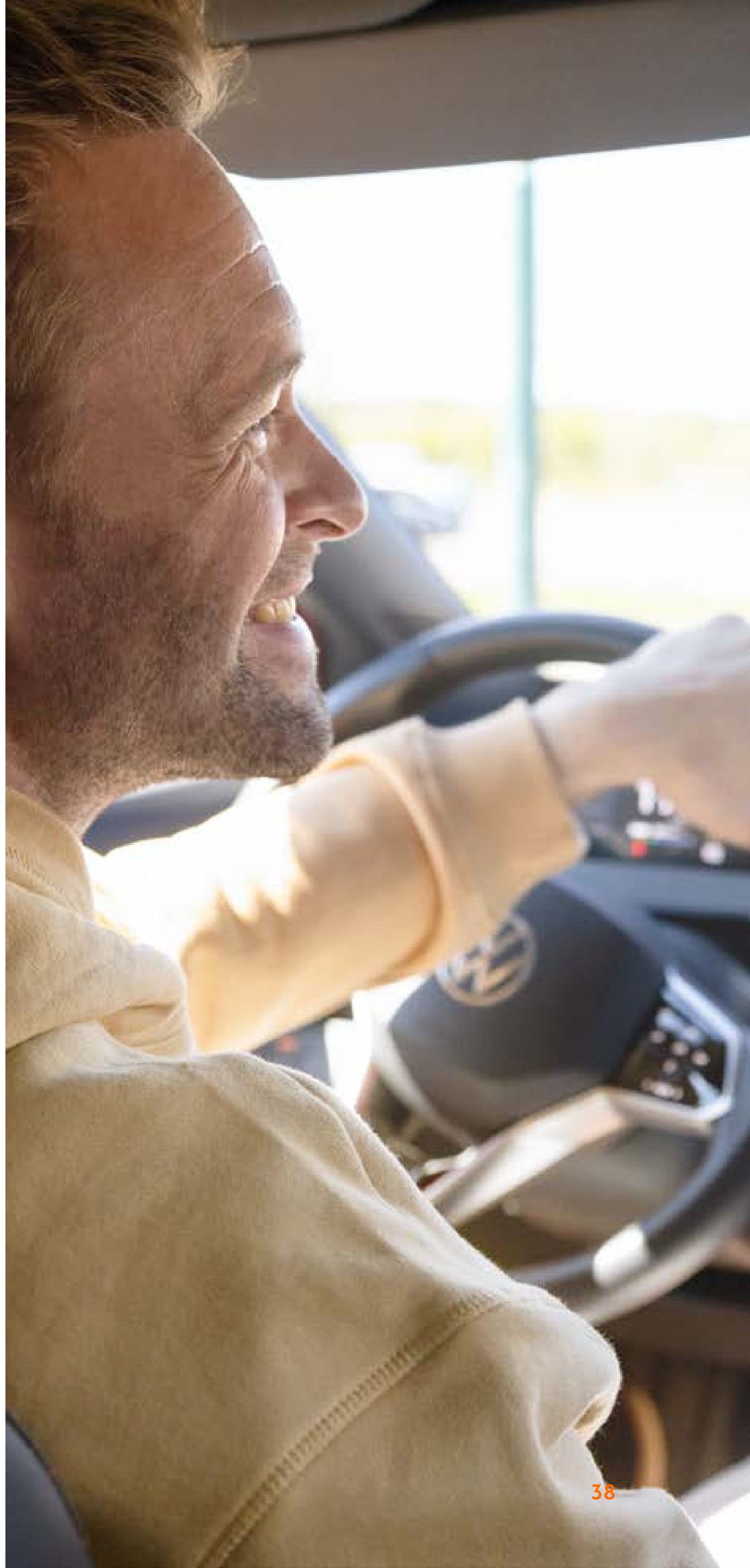
Technological and digital development accelerating

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 partner the Volkswagen Group has stated it will invest some €89 billion in developing EV technologies and car digitalisation in upcoming years. Examples of innovation in the sector include the electrification of transport, and connected cars that are constantly able to access information on e.g. road conditions.

Car sales are becoming increasingly digital, and we want to be the Finnish forerunner in digital services and operating models in car trade. We actively seek synergies with Kesko's other divisions, and utilise shared customer data to offer digital services and a better customer experience. We are constantly developing and updating our services in all our business areas. In used car sales, we have introduced new analytics tools and made pricing digital. Digital tools are also used for inventory and selection management, and automation and robotics are used extensively to improve operational efficiency.

Volkswagen is the most registered brand of all-electric cars in Finland

Demand for all-electric cars has grown faster than anticipated and is expected to grow further in upcoming years. Of the registrations of new cars sold by us in 2022, some 24% were all-electric cars. Rechargeable hybrids and all-electric cars together accounted for 35% of the registrations of new cars sold by us. Volkswagen was the most registered brand of all-electric cars in Finland in 2022. We are able to offer customers the most extensive and versatile range of new all-electric cars, rechargeable hybrids, natural gas cars, and combustion engine cars on the market.



BUSINESS ENVIRONMENT

- New distribution models bring significant reductions in total delivered cost
- Electrification continues, customers are not clear on choices
- Continued disruptions in supply chain
- Digitalisation with focus on efficiency, major changes in buying behaviour
- New competition arriving in Europe
- Possible economic downturn and reduction in market demand

Our strategic objective is to be the leading operator in mobility services in Finland.

STRATEGIC OBJECTIVES

- The best customer experience in the business
- Making car trade digital
- Close collaboration with the Volkswagen Group
- Cost-efficient business model
- Growing used car sales
- Actions to meet our ambitious sustainability goals
- K-Auto the leading brand in the business
- Utilising synergies within the whole K Group

SUSTAINABILITY STRATEGY OBJECTIVES AND FOCUS AREAS

Climate
- Reducing scope 3 emissions from the use of sold products
- Maintaining position as market leader in electric vehicle imports and sales
- Promoting sustainable mobility by investing in our K-Lataus EV charging network

Traffic safety
- Creating and implementing a concrete roadmap to improve traffic safety in Finland

Biodiversity
- Creating a programme for decreasing biodiversity impacts

Circular economy
- Developing circular economy business models and services, especially for HV batteries
- Further increasing recycling rates in all locations by 2025

Supply chain
- Including sustainability as part of all supplier cooperation

Customer choices
- Increasing the share of sustainable products of net sales
- Lowering CO_2 emission levels by updating the Finnish vehicle stock

Markets

In 2022, there were 80,267 first registrations of passenger cars, 11,193 of vans, and 2,594 of trucks (over 6 tons) in Finland. The passenger car market decreased by 17.0% compared to the year before, while the market for vans decreased by 13.2% and the market for trucks (over 6 tons) decreased by 2.1%.

The total number of first registrations of passenger cars and vans imported by K-Auto was 12,855 (excluding motorhomes). The number of MAN trucks registered was 74.

Market shares

K-Auto's market share of first registrations in Finland was 14.1% (Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen commercial vehicles, excluding motorhomes).

- Volkswagen passenger cars 8.9%
- Audi 3.4%
- SEAT and CUPRA 1.0%
- Porsche and Bentley 0.5%
- Volkswagen Commercial Vehicles 15.7%
- MAN trucks 2.9% (over 6 tons)

Registration data source: Bun&Bradstreet/Traficom

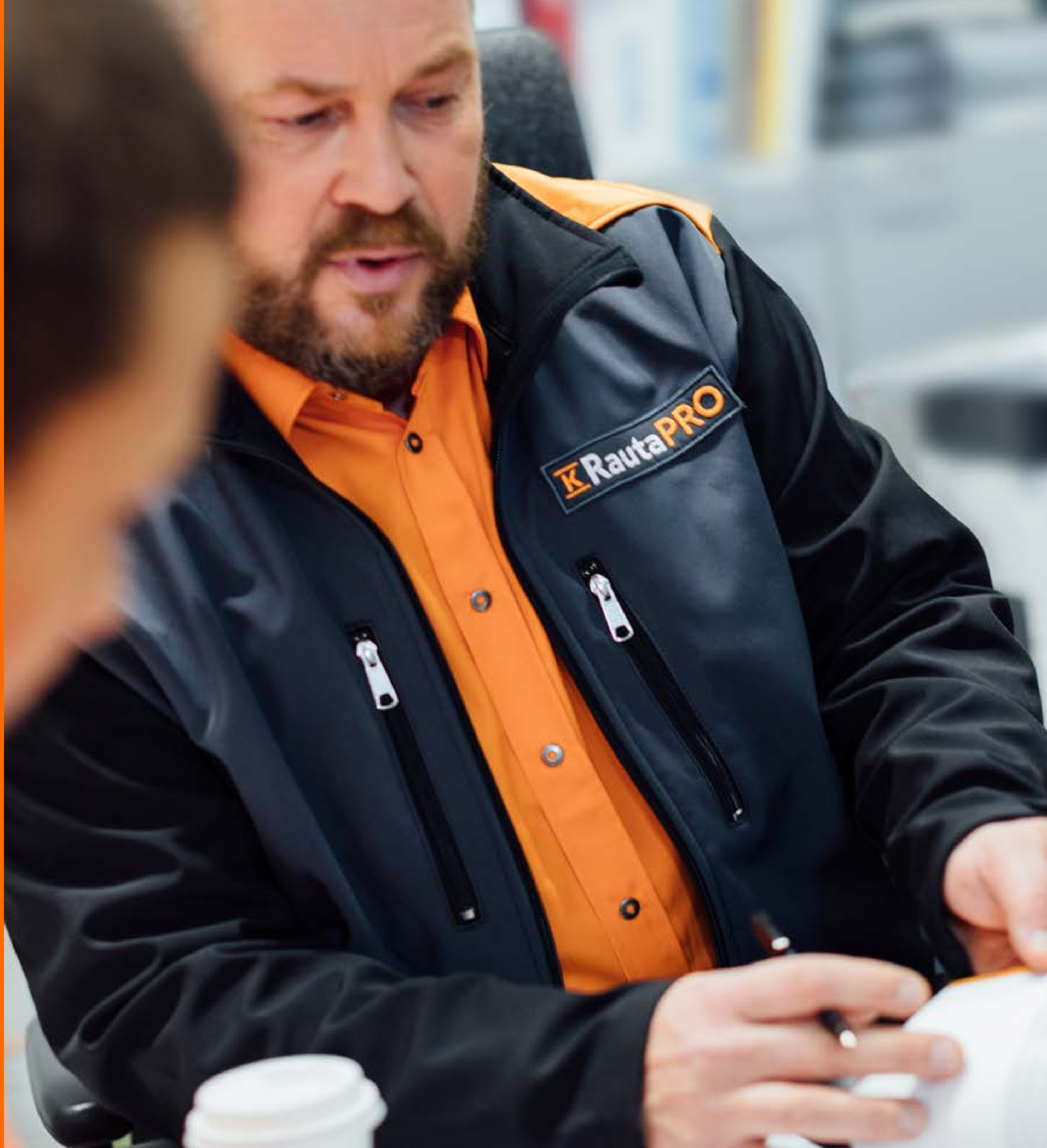
Car trade in figures

Key figures	2022	2021
Net sales, € million	910.9	1,028.3
Operating profit, comparable, € million	48.4	52.2
Operating margin, comparable	5.3	5.1
Return on capital employed, comparable, %	12.7	14.0
Capital expenditure, € million	44.7	71.2
Personnel, average	1,235	1,225

Properties	2022	2021
Owned properties, capital, € million	44	47
Owned properties, area, 1,000 m²	50	50
Leased properties, area, 1,000 m²	96	100

	Number of stores		Retail and B2B sales, 0% VAT, € million	
K Group's car trade	**2022**	**2021**	**2022**	**Change, %**
Car trade, total	**46**	**46**	**918.5**	**-11.5**

INVESTORS



REASONS TO INVEST IN KESKO

Interest towards Kesko as an investment has grown in recent years. In 2022, the number of registered Finnish shareholders increased by 27% and rose to a new record of 82,983 by the end of the year. Foreign ownership in Kesko has also grown in recent years.

"Kesko is a growing and profitable Northern European retail company that strives to strengthen its cash flow and dividend capacity with a long-term focus. In food trade, Kesko is a defensive player also during more difficult times. Our customer-oriented growth strategy has proven effective, as demonstrated by our result in 2022.

Jukka Erlund
EVP, Chief Financial Officer

Profitable growth strategy	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 execute our growth strategy both organically and via acquisitions. We operate as 'One unified K' and maximise synergies between our operations. Our growth strategy, first established in 2015, has proven effective, and its successful execution has seen Kesko's net sales grow and profitability improve significantly. We have also invested over €3 billion in growth, while divesting non-core businesses worth some €1 billion in total. We continued strategic investments also in 2022.
Strong market position	Kesko is one of the leading trading sector operators in Northern Europe. Finland accounts for some 80% of net sales, and overall Kesko is the biggest trading sector operator in the country, and number one in building and technical trade and car trade. We are also among the biggest operators in the Nordic and Baltic countries in various customer segments. Our objective is to grow our market shares in various operations, and to be among the top two operators in all our businesses to ensure economies of scale.
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 4.4%. Growth in shareholder value is based on making and executing successful strategic choices, and on efficient allocation of capital – these saw Kesko's comparable return on capital employed reach 16.9% in 2022.
Responsi-bility and sustainability	Sustainability is at the core of Kesko's operations. Kesko strives to enable sustainable choices for its customers and drive change throughout its value chain. The focus areas of Kesko's sustainability strategy, updated in spring 2022, are climate and nature, value chain, people, and good governance. The strategy sets clear sustainability targets for the operations of Kesko and its three divisions. Management remuneration is tied to both financial targets and sustainability criteria. Business-oriented sustainability actions are increasingly central to Kesko's strategy. We aim to enable more sustainable lifestyles for our customers, and actively offer them information and easier ways to reduce their carbon footprint. Kesko was the first Finnish company to set emission reduction targets approved by the Science Based Targets initiative in 2017; in 2021 it set even more demanding targets that aim at limiting global warming to 1.5 degrees. In the MSCI ESG Ratings, Kesko received the highest AAA rating (scale: AAA-CCC). In 2022, Kesko was included e.g. in the Dow Jones sustainability indices the DJSI World and DJSI Europe, and made both the Leadership level Climate A- List in CDP's international climate questionnaire and the 'Global 100 Most Sustainable Corporations in the World' list.

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 2022, the combined market capitalisation of Kesko's shares was €8,161 million, down by €3,212 million from the end of 2021. The company had nearly 83,000 shareholders, and the number grew by some 17,500 during the year.

Shareholders

Kesko's ownership is diversified. **The biggest shareholder is K-Retailers' Association**, which at the end of the year held 5.13% of all shares and 13.31% of votes.

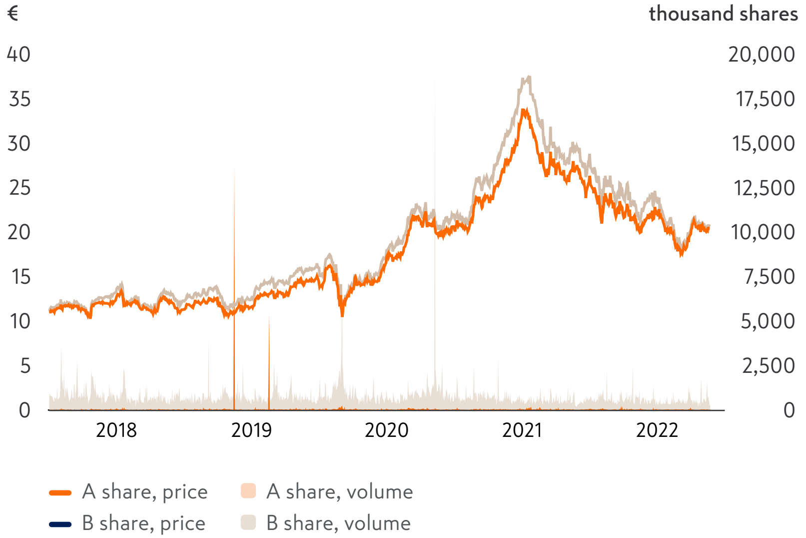
Nominee-registered and international shareholders controlled 38.5% of Kesko's shares at the end of 2022. Finnish institutions and funds held 37.8% of all shares, and Finnish households 23.7%.

More information on Kesko's largest shareholders

Ownership structure (shares)

31 Dec. 2022

Share prices and trading volumes 2018–2022



10 largest shareholders by votes 31 Dec. 2022

	Shareholders	Number of shares	% of shares	Total number of votes	% of votes
1.	K-retailers´ Association	20,529,553	5.13	205,295,530	13.31
2.	Ilmarinen Mutual Pension Insurance Company	14,635,984	3.66	146,359,840	9.49
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Foundation for Vocational Training in the Retail Trade	5,290,612	1.32	52,906,120	3.43
5.	K-Food Retailers' Club	2,374,951	0.59	23,749,510	1.54
6.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
7.	Food Paradise Oy	1,640,164	0.41	16,401,640	1.06
8.	Elo Mutual Pension Insurance Company	5,224,489	1.31	8,990,890	0.58
9.	OP-Finland Fund	1,454,861	0.36	7,783,319	0.51
10.	T.A.T. Invest Oy	792,080	0.20	7,726,400	0.50

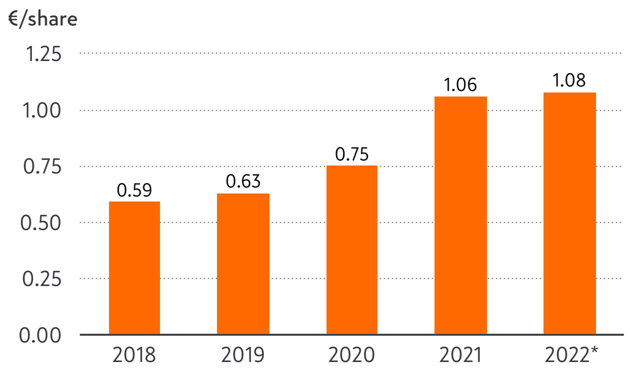
Annual General Meeting

Kesko will hold its Annual General Meeting of shareholders on Thursday, 30 March 2023, starting at 13.00 EET, at Messukeskus Helsinki, Rautatieläisenkatu 3 (Siipi entrance), Helsinki. Participants must register for the Annual General Meeting beforehand. A shareholder in the register of shareholders wishing to participate must register by 24 March 2023 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 2 February 2023. More information at kesko.fi/agm.

Dividend

Kesko's Board proposes to the Annual General Meeting on 30 March 2023 that a dividend of €1.08 per share, a total of €429,255,338.76 be paid for the year 2022 based on the adopted balance sheet, and that the dividend be paid in four instalments as follows:

Dividend history 2018–2022



*Proposal to the Annual General Meeting

- The first instalment of €0.27/share would be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the record date 3 April 2023. The Board proposes that the dividend instalment pay date be 12 April 2023.
- Second instalment of €0.27/share: record date 21 June 2023, proposed pay date 28 June 2023.
- Third instalment of €0.27/share: record date 12 September 2023, proposed pay date 19 September 2023.
- Fourth instalment of €0.27/share: record date 12 December 2023, proposed pay date 19 December 2023.

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/en/investor.

In addition to share and company information, Kesko's investor webpages provide other topical information to those interested in Kesko as an investment, including blog posts and investor podcasts. Kesko's investor webpages have also received outside recognition: they were ranked the best in Finland and sector-best in Europe in Comprend's 2022 Webranking comparison, and 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 IRO of the Year in January 2023. 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 2023:

- 1–3/2023 interim report: 28 April 2023
- 1–6/2023 half-year financial report: 27 July 2023
- 1–9/2023 interim report: 26 October 2023

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 the Group. It enables the development of business operations as well as the improvement of sales and customer satisfaction, and supports online sales.

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

Our capital expenditure in store sites in 1–12/2022 totalled €268 million (1–12/2021 €129 million, and 1–12/2020: €126 million).

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 12/2022: 59% (12/2021: 62%, and 12/2020: 64%)

Basic properties:
- Properties Kesko owns, but could sell and then lease back
- Basic properties in 12/2022: 27% (12/2021: 27%, and 12/2020: 26%)

Development properties:
- Plots and properties that require development to fit their planned purpose
- Development properties in 12/2022: 14% (12/2021: 11%, and 12/2020: 9%).

Realisation properties:
- Properties Kesko no longer has use for
- Realisation properties in 12/2022: 0% (12/2021: 0%, and 12/2020: 1%)

Read more about Kesko's properties

Owned store sites and properties

Book value by region, € million	2022	%	2021	%
Finland	1,183	94.9%	1,020	93.9%
Other Nordic countries	48	3.9%	53	4.9%
Baltics and Belarus	0	0.0%	0	0.0%
Poland	15	1.2%	13	1.2%
Total	**1,246**	**100.0%**	**1,086**	**100.0%**

Area by region, 1 000 m²	2022	%	2021	%
Finland	863	88.5%	801	88.1%
Other Nordic countries	87	8.9%	87	9.6%
Baltics	0	0.0%	0	0.0%
Poland	25	2.6%	21	2.3%
Total	**975**	**100.0%**	**909**	**100.0%**

Leased store sites and properties

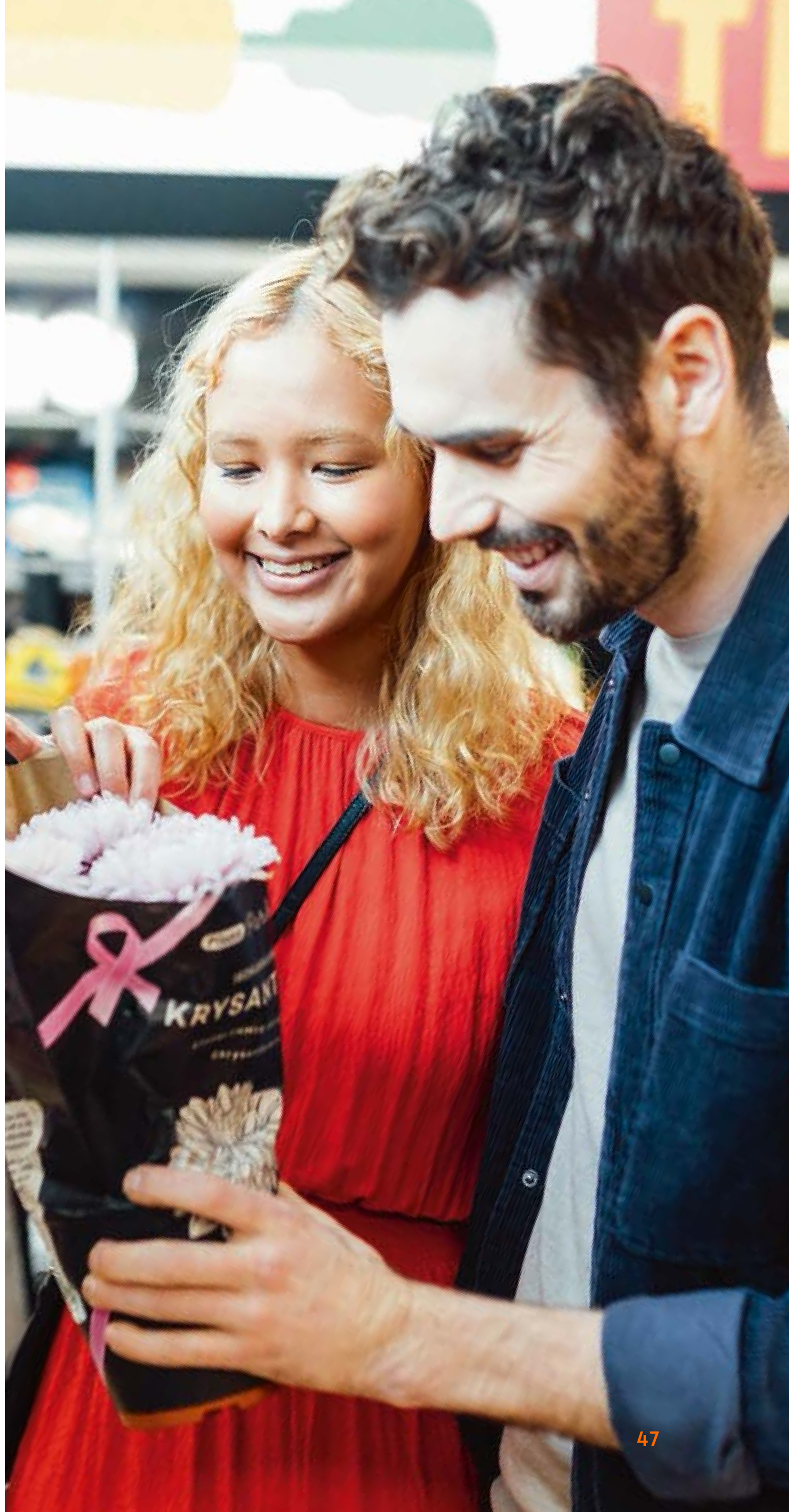
Area by region, 1 000 m²	2022	%	2021	%
Finland	2,232	78.4%	2,299	79.6%
Other Nordic countries	538	18.9%	519	18.0%
Baltics	41	1.4%	34	1.2%
Poland	35	1.2%	36	1.2%
Total	**2,846**	**100.0%**	**2,888**	**100.0%**

Properties by division illustrated on pages 29, 33 and 40.

SUSTAINABILITY REPORT

KESKO'S ANNUAL REPORT 2022

SUSTAINABILITY REPORT



SUSTAINABLE KESKO

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

Our sustainability strategy that was updated in spring 2022 covers Kesko's three divisions and has a holistic approach regarding sustainability. The strategy is based on the materiality assessment updated in spring 2021, where our stakeholders shared their views concerning the key sustainability topics for Kesko and its stakeholders. The materiality assessment guides Kesko's sustainability and stakeholder work and defines actions to meet stakeholder expectations. We have reviewed our strategy based on UN Sustainable Development Goals, identified the most material SDG goals and our impact on them.

The updated sustainability strategy sets a clear direction for sustainability at Kesko. With our strategy we wanted to continue our commitment to ambitious and goal-oriented sustainability work. A large group of people from all three divisions at Kesko participated in creating the strategy. In this way, we ensured our commitment to the strategy and that it is closely connected with our business. The four focus areas of our sustainability strategy are climate and nature, value chain, our people and good governance.

We will focus on reducing emissions both from our operations and in the entire value chain. The importance of biodiversity will increase, and in circular economy the focus is on packaging and reducing food waste.

We encourage our suppliers to set emission targets of their own, raise the number of audits in our supply chain and increase the share of sustainable products of our net sales.

Sustainability strategy focus areas

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

CLIMATE AND NATURE

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

VALUE CHAIN

We drive sustainability throughout the value chain and help our customers make sustainable choices.

OUR PEOPLE

We create safety, wellbeing and success within K Group. We foster diversity and inclusion, and offer opportunities for both current and future employees.

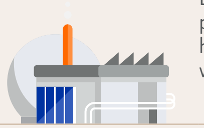
GOOD GOVERNANCE

We create long-term value by embedding sustainability in everything we do.

" The purpose of our new sustainability strategy is to ensure that we remain at the forefront of development also when it comes to sustainability. Our goal is to enable sustainable choices for our customers and drive change throughout our value chain from production to consumption.

Riikka Joukio
Executive Vice President, Sustainability and Public Affairs

Key targets and performance indicators

TOPIC	TARGET	KPI	2022	ADDITIONAL INFORMATION
Climate	Achieve carbon neutrality in 2025 and make own operations emission-free by the end of 2030.	Carbon dioxide emission in tCO_2e	**75,500** tCO_2e	During 2025–2030, we will offset the emissions generated. We will continue to take measures to reduce emissions towards zero by the end of 2030, after which we will have no need for offsets.
	Require 67% of our suppliers by spend to have science-based emissions reductions targets by the end of 2026.	% of suppliers (CDP)	**27.7%**	In 2022, we called on our 364 suppliers and service providers to cut emissions and report on their climate targets and actions through the CDP Climate Change Questionnaire. Out of the invited suppliers by spend 27.7% had approved, science-based emissions reductions targets.
Supply 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%**	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. Social responsibility audits are used to assess the safety of working conditions in production, the salaries and working hours of employees and their rights of freedom of association and collective bargaining.
Sustainable products 	Increase the share of sustainable products in net sales by 2024.	% of sustainable products in net sales	**39%*** grocery trade **21%** car trade	We have made our own classification of products and capital expenditure in each division that are sustainable from a climate and/or biodiversity perspective. For the building and technical trade, the percentage of sustainable products in net sales is not yet available. Our own classification of sustainable products complements the turnover reported in accordance with the EU Taxonomy. *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***	The progress towards the target was measured by the renewed wellbeing index in the Our People survey, which we conducted in all operating countries in November 2022. The index covers the various aspects which influence the personnel's wellbeing and job satisfaction. *scale 0-100, Our People 2022 survey

We will strengthen the sustainability of our value chain also by supporting our customers in making sustainable choices.

In terms of people, we will promote the occupational safety and wellbeing of our personnel and will build on future capabilities through these actions. We want to promote diversity, inclusion and equal opportunities.

For good governance, the key aspects are commitment to the K Code of Conduct, building stronger sustainability competencies among our entire personnel and linking executive remuneration more closely to sustainability performance.

In addition to the common strategy, each division has its own focus areas in sustainability work based on the division's business. In the grocery trade, the focus is on securing the food chain in Finland, reducing food waste and promoting the circular economy. The building and technical trade promotes the green transition and a sustainable product selection. The car trade focuses on reducing transport emissions and promoting road safety.

In conjunction with the update, we determined targets and key performance indicators for the strategy which we will use to measure our success in promotion of the strategy. The targets and key performance indicators are listed in the above table.

SUSTAINABLE VALUE CREATION FOR THE WHOLE SOCIETY

OUR RESOURCES

PERSONNEL AND RETAILERS
- 18,000 Kesko employees
- 1,100 K-retailers employ 21,000 people

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

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

FINANCIAL RESOURCES
- Balance sheet €7.5 billion
- Equity €2.7 billion

NATURAL RESOURCES
- 100% carbon-free electricity in Finland
- Own energy production; over 40 own solar plants
- Sustainable products

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

GROCERY TRADE 52%*
BUILDING AND TECHNICAL TRADE 41%*
CAR TRADE 8%*

THE CUSTOMER AND QUALITY – IN EVERYTHING WE DO

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

ADDED VALUE AND IMPACTS

CUSTOMERS
- Our products are researched, safe and sustainable
- Tailored selections and individual stores
- More affordable shopping baskets with own brand products

PERSONNEL
- Salaries and performance bonuses €626 million and training €2.4 million

SUPPLIERS AND SERVICE PROVIDERS
- Purchases €10.1 billion
- Business partnerships and distribution channels
- Sourcing policies for raw materials critical from a social and environmental responsibility perspective
- Social responsibility audits of suppliers in high-risk countries

SHARE-HOLDERS
- Dividends paid in 2022 €421 million
- Total shareholder return of a B share 17.98% since 2018
- A responsible investment

SHARED VALUE AND IMPACTS

SOCIAL IMPACTS
- Remitted and paid taxes €1.3 billion, of which €1.1 billion to Finland
- Investments €449 million, of which €385 million in Finland
- Co-operation with NGOs

ENVIRONMENT
- Emissions (Scope 1 and 2) 75,500 tons of CO_2e
- Carbon neutral K Group 2025

SUSTAINABILITY HIGHLIGHTS IN 2022

PROGRESS MADE IN OUR SUSTAINABILITY WORK:

WE ENCOURAGE OUR SUPPLIERS TO REDUCE EMISSIONS

Our goal is that 67% of our largest suppliers by spend will have science-based reductions targets set for their emissions by the end of 2026. In 2022, 55.3% out of the 364 companies we called on to respond to the CDP Climate Change Questionnaire disclosed their responses to Kesko, and 27.7% of them had science-based reductions targets for their emissions.

KESKO WAS THE BEST COMPANY IN ITS INDUSTRY IN DJSI EUROPE SUSTAINABILITY INDEX

Kesko was included in the Dow Jones Sustainability Indices the DJSI World and the DJSI Europe, as the best company in its industry in Europe. In DJSI World, Kesko ranked third highest in its industry.

K CHARGE NETWORK FOR ELECTRIC VEHICLES WAS EXPANDED

As electric vehicles are becoming more popular, we focused on expanding our nationwide K Charge network for the charging of electric vehicles. The size of the network doubled compared to 2021. At the end of 2022, there were 200 charging stations with a total of some 1,000 charging points.

PLANNING FOR ELECTRICITY SHORTAGES REDUCED K GROUP'S ELECTRICITY CONSUMPTION

In the autumn we launched an initiative to save energy in our 1,300 stores, Kespro's cash-and-carry outlets and numerous offices and warehouses across Finland. With proactive measures – such as adjusting lighting and heating – we aimed to reduce peaks in demand for electricity and prevent a potential electricity shortage in the winter. Owing to the measures taken, our electricity consumption was around 8% lower in December 2022 than in December 2021.

WE MAKE IT EASIER TO MAKE HEALTHIER CHOICES

The goal of the K Group health and nutrition roadmap is to make healthier food choices as easy as possible for the customer. We will take measures to increase the amount of vegetables eaten by Finns to half a kilo per day and reduce the intake of added salt, sugar and fat in the Finnish diet by renewing the nutritional content of our own brands.

WHAT WE CONTINUE TO WORK ON:

WE WILL CONTINUE TO WORK ON OUR SUSTAINABILITY STRATEGY

We will continue implementing our sustainability strategy in all divisions in 2022–2024. We will encourage our suppliers to reduce emissions and increase sustainability competencies among our personnel. Our aim is to expand the remuneration linked to sustainability in 2023.

THE IMPORTANCE OF BIODIVERSITY INCREASES

We participated in a pilot programme where companies tested the new guidelines of the Science Based Targets Network (SBTN) that are under development for setting their science based nature targets. Our next step is to create a roadmap for biodiversity and to set specific targets for each division for the impacts on biodiversity of our own operations and supply chain.

CLIMATE AND NATURE

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 2022 totalled

75,500
tCO_2e

OUR TARGETS:

- Carbon neutral K Group in 2025 and emission-free own operations by the end of 2030.
- We encourage our largest suppliers and service providers to set their 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.
- 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:

K Group's climate impacts

EMISSIONS FROM PRODUCTION OF PRODUCTS SOLD

7,200,000 tCO_2e

The highest emissions are generated during the lifecycle of products sold by us. We challenge our suppliers and the whole value chain to reduce emissions.

EMISSIONS FROM KESKO'S OWN OPERATIONS

75,500 tCO_2e

Emissions from own operations are mainly related to the fuel consumption of transportation and logistics (57%) and consumption of district heat (33%). In addition to these, emissions are generated by the consumption of electricity purchased (4%), self-produced energy (3%) and emissions of refrigerant leakages (3%).

Emissions from own operations correspond to the emissions of some 7,550 Finns.*

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

1,500,000 tCO_2e

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

* The carbon footprint of an average Finn is 10 tCO_2e per year (source: Ministry of the Environment, Climate Annual Report 2022).

AMBITIOUS CLIMATE ACTIONS

Climate change caused by human action is one of the largest global crises. Limiting global warming to 1.5 degrees will require ambitious targets for emissions and significant actions to cut emissions from all operators.

We are committed to the targets of the Paris Agreement and have set science-based emissions reductions targets. We are reducing the emissions arising from our own operations towards zero and also encourage operators in our value chain to take measures to reduce emissions and to set emissions reductions targets.

Reducing emissions from our operations – towards a carbon neutral K Group

We aim to achieve carbon neutrality from our own operations in 2025 and zero emissions by the end of 2030. During 2025–2030, we will offset the emissions generated, and continue to decrease the emissions towards zero emissions by the end of 2030.

Our key measures to achieve the carbon neutral K Group target are improving the energy efficiency of our properties and stores, switching to emission-free sources of energy in all operating countries and replacing fossil fuels with renewable and low emission fuels in transports.

Science-based emissions reductions targets

We are committed to mitigating climate change by setting science-based emissions reductions targets. Our targets have been approved by the Science Based Targets initiative (SBTi), and in addition to emissions from our own operations they cover the emissions from our value chain.

Our SBT targets are:

- Kesko Corporation commits to reduce absolute Scope 1 and 2 GHG emissions 90% by 2030 from a 2020 base year.
- Kesko Corporation also commits to reduce absolute scope 3 GHG emissions from the use of sold products 17% by 2026 from a 2020 base year.
- Kesko Corporation commits that 67% of its suppliers by spend covering purchased goods and services, will have science-based targets by 2026.

In 2022, the absolute Scope 1 and 2 emissions from our own operations increased by 7.3% compared to the base year of 2020. The increase in emissions is due to increased emissions of transportation and logistics, and also due to more extensive calculation.

We monitor the setting of science-based emissions reductions targets by our suppliers and service providers through the CDP Supply Chain programme. In 2022, 27.7% of the suppliers had science-based emissions reduction targets.

In 2022, the absolute Scope 3 emissions from the use of our products decreased by 43.8% compared to the base year of 2020. Significant reductions of emissions is due to updated and specified calculation in 2022, which reduces comparability between the years.

In 2017, Kesko was the first company in Finland to set science-based 2°C emissions reductions targets approved by SBTi. In November 2021, SBTi approved our updated emissions reductions targets with which we commit to limiting global warming to 1.5 degrees.

Climate-related opportunities and risks

In 2022, we assessed our risks and opportunities related to climate change in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. More information on the TCFD can be found in the Kesko's direction section of the Annual Report or on our website.

+ Read more about Carbon neutral K Group target

Emissions from own operations towards zero

2020:
Scope 1: **38,400** tCO_2e
Scope 2: **31,900** tCO_2e
Total: **70,300** tCO_2e

2022:
Scope 1: **47,700** tCO_2e
Scope 2: **27,800** tCO_2e
Total: **75,500** tCO_2e

K Group aims for carbon neutrality in 2025. We will systematically reduce emissions to reach zero emissions from our own operations by the end of 2030.

Baseline 2020 | Reducing emissions | 2025 | Reducing and offsetting emissions | 2030 | Zero emissions

Progress in 2022

- During autumn 2022, we took significant actions to save electricity and to prevent potential power outages, e.g. reducing lighting, adjusting heating and optimising settings for refrigerating equipment.
- We installed an ingenious heat recycling system in 12 K-food stores.
- We introduced three electric vans and two liquefied biogas (LBG) trucks for transports at Kesko Logistics.

Targets in 2023–2025

- We increase the purchase of emission-free electricity in all operating countries.
- We reduce emissions of self-produced energy in all operating countries by decreasing the consumption of natural gas and oil.
- Replacing fossil fuels with renewable and low emission fuels in transports.

CARBON NEUTRAL K GROUP 2025

Our carbon neutral K Group target is to minimise emissions from our own operations and to be carbon neutral in 2025. We will offset the emissions generated in 2025–2030. We will continue to take measures to reduce emissions towards zero by the end of 2030, after which we will have no need for offsets.

GHG emissions from our own operations (Scope 1 and 2)

In 2022, Kesko's direct (Scope 1) and indirect (Scope 2) GHG emissions were 75,505 tCO_2e in total, which is 7.3% more than in the previous year. Increased emissions are due to increased emissions of own transportation in Finland and also due to more extensive reporting of transportation and logistics in other operating countries.

In 2022, we reported emissions of refrigerant leakages for the first time, which also increased emissions compared to the previous year. Refrigerants are cooling gases circulating in the pipes of refrigeration equipment. When released into the atmosphere, refrigerants can have a global warming impact almost 4,000 times higher compared to carbon dioxide.

Our target is to minimise emissions from our own operations and to be carbon neutral.

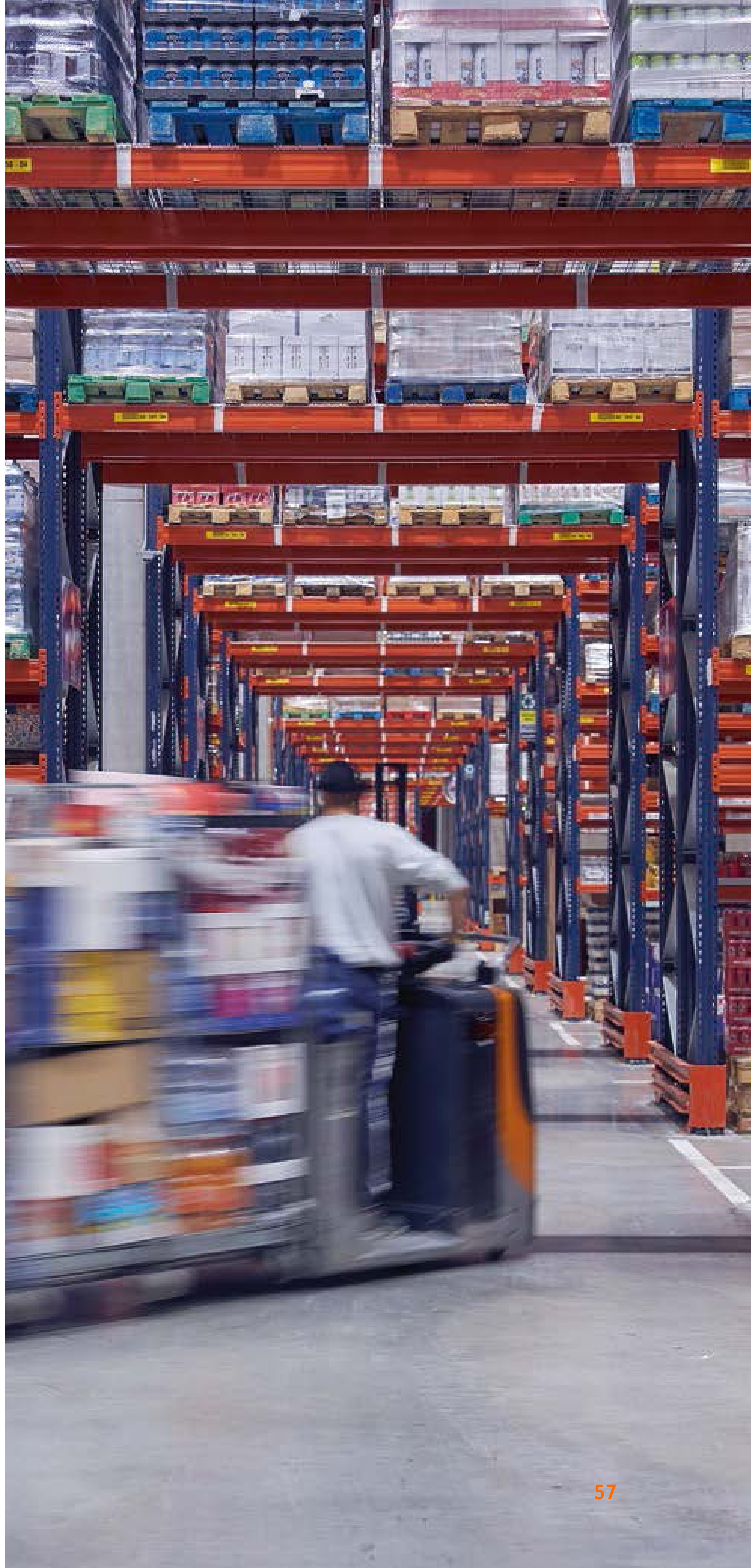
Of the emissions of our own operations, 42,937 tCO_2e, i.e. 56.9% are caused by the fuel consumption of transportation and logistics, and 24,876 tCO_2e, i.e. 32.9% by the consumption of district heat. In addition, emissions are caused by purchased electricity (3.9%), self-production of energy (3.1%) and refrigerant leakages (3.1%).

Our key means to minimise emissions from our own operations include, for example, improving energy efficiency, reducing emissions from heating by recycling waste heat, stopping the use of fossil heating fuels, increasing the share of emission-free energy sources in purchased electricity especially in other operating countries, and switching to renewable and low emissions fuels in transports.

In Sustainability report 2022, we updated the emission reporting of heat consumption. The update concerned emissions from district heat and self-produced heat in Finland. Previously, the figures also included estimated emissions of heat consumption. Due to improved monitoring, we now report emissions based on actual consumption. In the tables of the Sustainability report, the figures have been retroactively adjusted.

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

+ Read more about energy efficiency



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

tonnes CO_2e	2022	2021	2020
Direct greenhouse gas emissions total (Scope 1)	47,681	43,881	38,413
Finland			
Transportation and logistics[1]	41,721	39,794	34,850
Self-produced heat[2]	1,483	2,602	2,419
Refrigerant leakages[3]	2,371	n/a	n/a
Other operating countries			
Transportation and logistics[4]	1,216	351	292
Self-produced electricity and heat[1]	891	1,134	852
Indirect greenhouse gas emissions total (Scope 2)	27,824	37,536	31,940
Finland			
Purchased electricity (market-based)[5]	0	0	0
Purchased electricity (location-based)[5]	50,646	72,113	77,884
Purchased district heat (market-based)[5]	24,372	n/a	n/a
Purchased district heat (location-based)[2,5]	35,601	33,786	28,002
Purcahsed district cooling (location-based)[3]	0	n/a	n/a
Other operating countries			
Purchased electricity (market-based)[1,5]	2,948	2,943	n/a
Purchased electricity (location-based)[5]	12,044	3,136	3,232
Purchased district heat (location-based)[1]	505	808	706

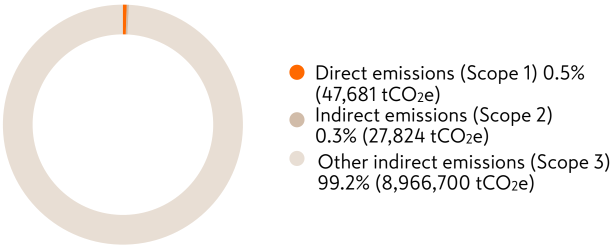
[1] Corrected figure for 2021
[2] Corrected figures for 2020–2021
[3] Reported the first time in 2022
[4] Expanded calculation method starting from 2022; not comparable to 2020-2021.
[5] Following the GHG Protocol standard, the market-based and location-based emission figure for electricity consumption has been reported. Market-based figure for heat consumption of Finland was reported the first time in 2022. The market-based figures are used primarily for the emissions totals.

Scope 1 and 2 emission intensities

	2022	2021	2020
Based on net sales*, tCO_2e/€ million	6.4	7.2	6.6
Based on average number of employees, tCO_2e/person	5.2	5.7	5.0

* Corrected figures for 2020–2021

Distribution of Kesko's emissions in 2022



Scope 1: The most significant emissions are caused by fuels used in transportation and logistic operations.

Scope 2: The most significant emissions are caused by consumption of district heat.

Scope 3: The most significant emissions are caused by production of products for sale.

Nitrogen oxides, sulfur oxides, and other significant emissions

tonnes	2022	2021	2020
Electricity and heating in properties[1]			
NO_x[2]	89.3	102.9	82.5
SO_2[2]	76.9	91.0	72.9
Amount of radioactive waste produced by nuclear power[2]	0.25	0	0
Logistics[3]			
NO_x[4]	28.3	28.0	10.3
SO_2	0.07	0.07	0.12

[1] Boundary: Finland
[2] Corrected figures for 2020–2021
[3] Boundary: Kesko Logistics
[4] Corrected figure for 2021. Updated calculation method starting from 2021; not comparable to 2020.

Reduced emissions from our own transports

Minimising emissions from our own transports is an essential part of reaching the carbon neutral K Group target.

We will reduce emissions from transports in Kesko Logistics, for example, by modernising the vehicle fleet, increasing the efficiency of operations through centralised distribution, optimisation of delivery routes and high volumetric efficiency, increasing the efficiency of reverse logistics and by providing contract drivers with training in economical driving. In 2022, two electric vans and two liquid biogas (LBG) trucks were taken into use at Kesko Logistics.

In the building and technical trade, transports have mostly been carried out in partnership with external transport companies. Since 2019, we have had one electric delivery vehicle in use for our own logistics.

Carbon neutral food store

By the end of 2022, the model we developed together with Natural Resources Institute Finland (Luke) in 2019, which enables a grocery store to become carbon neutral, had been utilised in a total of ten K-food stores, one Kespro cash-and-carry outlet and at Kalatukku E. Eriksson. The purpose of the operating model is to identify the most significant climate impacts of the store's own operations and to plan the most significant store-specific actions to reduce emissions. Utilisation of the operating model will continue in 2023.

Certified environmental management systems

The ISO 14001 certified environmental management system is in use in Kesko Logistics and in all operating countries and operations of Onninen, excluding Poland.

The WWF Green Office environmental management system is in use at our K-Kampus head office in Kalasatama, Helsinki. It is a tool used for environmental management, reduction of emissions and use natural resources sustainably at workplaces. In November 2022, a new Green Office audit was performed at K-Kampus. In the audit report, we received particular praise for our comprehensive Green Office team, for linking work to other sustainability work and for energy efficiency. As an area for development, we will continue to improve measures to increase our recycling rate.

REDUCING EMISSIONS THROUGHOUT THE VALUE CHAIN

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

Other indirect GHG emissions (Scope 3)

In 2022, our other indirect GHG emissions (Scope 3) were total 8,966,700 tCO_2e, i.e. 7.6% less than the previous year. The reduction in emissions is due to the updated and specified calculation in 2022, which reduces comparability between the years. In 2022, about 80% of other indirect emissions was caused by the production of products for sale and about 13% from the use of products.

We report other indirect (Scope 3) greenhouse gas emissions from our operations according to the GHG Protocol standard.

We encourage operators in our value chain to take climate action

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

Other indirect greenhouse gas emissions (Scope 3)

tonnes CO_2e	2022	2021	2020
Other indirect greenhouse gas emissions total (Scope 3)	8,966,700	9,701,300	9,652,800
Upstream			
Purchased goods and services[1 2]	7,164,100	6,885,000	7,258,000
Capital goods (buildings)	10,500	4,700	5,500
Indirect emissions of purchased energy (other than Scope 1 and 2)[1]	18,300	14,200	12,100
Transport and distribution of goods[3]	7,900	8,600	10,800
Waste	6,900	5,500	6,000
Business travel[4]	5,700	700	900
Employee commuting[1 4]	11,100	11,300	11,500
Downstream			
Shopping commutes by customers[1 4]	137,800	78,800	80,600
Use of sold products[1 2]	1,153,900	2,464,500	2,053,000
End-of-life treatment of sold products[1 2]	336,900	167,700	154,900
K-retailers[1 5]	113,600	60,300	59,500

[1] Corrected figures for 2020–2021
[2] Updated calculation method starting from 2022; not comparable to 2020–2021.
[3] Corrected figure for 2021
[4] Boundary: Finland
[5] Expanded calculation method starting from 2022; not comparable to 2020-2021.

In 2022, we called on our 364 suppliers and service providers to cut emissions and report on their climate targets and actions through the CDP Climate Change Questionnaire. Out of the invited suppliers by spend 55.3% disclosed their reply to Kesko.

One of Kesko's Science Based Targets (SBTs) is that 67% of our suppliers and service providers by spend, will have science-based reductions targets set for their emissions by the end of 2026. We monitor the achievement of the target through the CDP Climate Change Questionnaire. In 2022, 27.7% of suppliers and service providers had approved, science-based emissions reductions targets. More information on our SBT targets in the Ambitious climate actions section.

Climate impacts of sold products

Our greatest indirect emissions by far are caused by the production of the products for sale and in the use phase of the products. These emissions can be mitigated by offering selections of products causing less emissions and by encouraging customers to make sustainable choices.

In private consumption, living, food and transportation are the most significant causes of GHG emissions. 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 have classified the products and capital expenditure in each division that are sustainable from a climate or biodiversity perspective. We defined sustainable products as those which have a significantly smaller impact on the climate or biodiversity than comparable products or which are important for adapting to climate change or preventing the loss of biodiversity. More information on our sustainable products is available in the Value chain section or on our website.

CLIMATE IMPACTS OF FOOD CHOICES

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

Vegan and plant-based products belong to our definition of sustainable products, and increasing their share of our sales is one of our targets in 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 includes a carbon footprint calculator, which provides information on the carbon footprint of the customer's shopping basket.

HOUSING SOLUTIONS AND REDUCTION OF CLIMATE IMPACTS

The products and services offered by the building and technical trade help our customers reduce their climate impacts at home. For example, switching to LED lighting, choosing water-saving taps and showers or replacing window seals improve energy efficiency at home and lower the electricity bill.

POPULARITY OF ELECTRIC VEHICLES CONTINUES TO GROW

Electric vehicles have already become a mainstream of interest and the electrification of motoring increases. In 2022, K-Auto was the market leader in electric vehicles with a 20.5% market share (includes cars and vans).

We have built an extensive network of charging points for electric vehicles at K Group stores to help advance the transition to electric vehicles. In 2022, the K Charge network doubled in size from 99 to 200 charging stations. The electricity provided at K Charge stations is 100% 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 2022 was 89.9 gCO_2 per kilometre, which is approximately 2% less than the year before.

Value chain transports

In transports we cooperate with several logistics companies.

In 2022, Onninen introduced trucks operating on biogas for delivering goods to sites in the Helsinki and Uusimaa region. The biogas used in the trucks comes from Gasum's biogas plant, where renewable fuel is produced from inedible biowaste coming from K-stores, for example.

In addition, at the end of 2022 there was a total of 21 long High Capacity Transportation (HCT) trucks in use in the building and technical trade's transports, offering higher volumetric efficiency.

Customer shopping commutes

We offer the most comprehensive network of neighbourhood stores in Finland. Every Finn has approximately 3 kilometres to their nearest K-food store.

When planning the store network, we emphasise the location of grocery stores at transport nodes which are used by our customers and which are easy to reach with all means of transport. We aim to find new locations for our stores that are close to current or future settlements. In large cities, public transport connections are very important, and we seek locations that are easily accessible by foot that are next to public transport terminals and busy tram or bus stops.

Our customers also have the opportunity to utilise the extensive network of charging stations for electric vehicles located at K Group stores.

ENERGY USE AND ENERGY EFFICIENCY

Our key means of mitigating climate change and achieving our carbon neutral K Group target are improving energy efficiency and reducing emissions from energy consumption. We aim to achieve a 10% increase in energy efficiency by the end of 2023.

Energy consumption

In 2022, our total energy consumption in all of our operating countries was 998 GWh. Energy consumption of properties was 83.5% of the total consumption and 16.5% was energy consumption of transportation and logistics, i.e. energy consumption of fuels used.

ELECTRICITY CONSUMPTION OF PROPERTIES

At the end of 2022, properties managed by Kesko in Finland included offices, warehouses and 1,192 store sites. In terms of energy consumption, the most significant properties are K-food stores.

In 2022, Kesko's subsidiary Ankkuri-Energia Oy purchased 504 GWh of electricity to K Group. In addition, we used around 65 GWh of electricity purchased elsewere by the property owners or K-retailers outside of our own electrcity purchases. The electricity we purchase and use in Finland is carbon-free and most of it is generated using renewable sources of energy. 42.4% of the electricity was produced by hydroelectric power, 35.0% by nuclear power, 21.2% by wind power and 1.5% by bioenergy. In 2022, we also produced 7.7 GWh of solarpower using 44 solarplants.

In 2022, K Group's electricity consumption in Finland was around 753 GWh, which includes 674 GWh of measured consumption and about 79 GWh of estimated consumption. Energy saving measures during autumn 2022 reduced K Group's electricity consumption around 2% compared to the previous year. In addition to electricity purchased and used by Kesko, K Group's electricity consumption figure includes electricity used by K-retailers and other tenants of the properties.

In 2022, in other operarating countries, consumption of purchased electricity was 35.2 GWh, i.e. 3.2% less than the previous year. Electricity was also produced with solar panels and with diesel generator a total of 0.06 GWh.

HEAT AND COOLING COMSUMPTION OF PROPERTIES

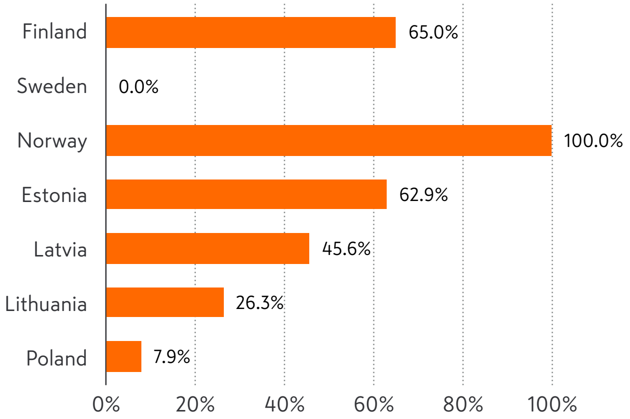
In 2022, we consumed 201 GWh of district heat in properties we manage, which is 11.9% less than the previous year. The standardized district heat consumption in 2022 was 214 GWh, i.e. 5.7% less than the previous year. The decreased consumption was due to the energy saving measures implemented during the year, but also due the decreased need for heating compared to the previous year and the colder winter season. In some of our stores, the heating energy is taken care of by our landlord. We estimate this consumption to be around 116 GWh.

In addition to district heat, we self-produced 6.5 GWh of heat with oil and natural gas, 41.7% less than the previous year.

In 2022, for the first time, we reported the consumption of district cooling. Consumption of district cooling was 2.2 GWh.

In Sustainability report 2022, we updated the reporting method of heat consumption. The update concerned consumption of district heat and self-produced heat in Finland. Previously, the figures also included estimated consumption. Due to improved monitoring, we now report consumption based on actual figures. In the table of the Sustainability report, the figures have been retroactively adjusted.

Share of renewable electricity by country in 2022*



*In Finland, Norway and Estonia, the share of renewables is reported according to the amount of purchased Renewable Energy Guarantees of Origin (REGO). Other countries are reported according to residual mix (source: AIB, European Residual Mix 2021).

Energy consumption

	2022	2021	2020
Total energy consumption, GWh	998	1 002	951
Finland			
Electricity[1], %	57.8	55.7	59.1
District heat[2], %	20.2	22.8	19.1
District cooling[3], %	0.2	n/a	n/a
Fuel for self-produced heat[2], %	0.6	1.1	1.1
Fuel for transportation and logistics[4], %	15.9	15.2	15.5
Other operating countries			
Electricity[4], %	3.5	3.6	3.8
District heat[4], %	0.8	0.9	0.9
Fuel for self-produced electricity and heat[4], %, %	0.4	0.6	0.4
Fuel for transportation and logistics, %	0.5	0.2	0.1

[1] Includes all electricity purchased by Ankkuri-Energia Oy, electricity produced by Kesko's solarplants, and Kesko's share of the electricity consumption purchased by K-retailers and landlords.
[2] Corrected figures for 2020–2021
[3] Reported the first time in 2022
[4] Corrected figure for 2021

Specific consumptions of energy

kWh/m² gross area	2022	2021	2020
Specific consumption of electricity*	204	208	206
Specific consumption of district heating*	89	99	85

* Boundary: properties in Finland managed by Kesko

In 2022, in other operating countries, consumption of district heat was 7.7 GWh, i.e. 12.6% less compared to the previous year. In addition, consumption of self-produced heat using natural gas and oil was 4.4 GWh, which was 19.8% less than in the previous year.

ENERGY CONSUMPTION OF TRANSPORTATION AND LOGISTICS

In Finland and in other operating countries, our own fuel consumption includes road transportation and logistic operations, for example forklifts and wheel loaders.

In 2022, energy consumption of transportation and logistics was 159 GWh (572.7 TJ), which is 4.8% more compared to the previous year. The increase is due to increased transportation kilometres of Kesko Logistics, but also due to expanded calculation method; K-Auto's own transportation and Onninen's own logistic operations were included for the first time. Fuels used in transportation and logistics were fossil diesel and fuel oil.

In 2022, in other operating countries, calculated energy consumption of transportation and logistics operations was 5.2 GWh (18.8 TJ). The figure is more than triple compared to the previous year, because the fuel consumption of transport and logistic operations was reported more widely than in the previous years. Fuels used were fossil and renewable diesel, petrol and gas.

Energy strategy and energy saving measures

In our energy strategy, we aim to achieve a 10% increase in energy efficiency by the end of 2023 compared to the baseline in 2015. This target corresponds to measures implemented in 2018–2023 that would save approximately 105 GWh of energy. The measures Kesko has implemented since 2018 have resulted in savings equivalent to around 86 GWh.

We have implemented

86 GWh

of energy saving measures since 2018.

We participate in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement. We commit to implementing energy saving measures that are equivalent to 7.5% of energy consumption in 2015, i.e. approximately 79 GWh. During 2022, we implemented energy efficiency projects equivalent to at least 13.3 GWh, in addition to which we carried out operational energy saving measures equivalent to around 6.8 GWh. By the end of 2022, we had recorded measures worth approximately 103 GWh of energy, which means we have achieved the target well ahead of schedule.

Using LED lighting can save eletricity as much as 50–60% compared to fluorescent lighting.

ELECTRICITY CRISIS PROMPTED EXCEPTIONAL SAVING MEASURES

During the autumn 2022, we took exceptional measures to save electricity in order to reduce peaks in demand and help prevent a potential electricity shortage. For example, we reduced the use of lighting, adjusted heating and optimised temperatures in refrigeration systems. Measures affected the specific consumption of electricity and heat in the properties we manage; specific consumption of electricity decreased by 2.1% and heat by 10.4% compared to the previous year. We are prepared to take short-term emergency measures and to cut our electricity consumption by as much as 20%, if necessary.

INGENIOUS HEAT RECYCLING SYSTEM

One of the most important means of reducing consumption of heating energy and the emissions generated is the ingenious heat recycling system used in K-food stores. It combines a low-emission refrigeration system, a heat pump and recovery systems needed for recycling energy. The system utilises the condensation heat generated as a by-product of refrigeration for heating the premises. The ingenious heat recycling system was awarded the European Heat Pump City of the Year 2020 prize. Motiva awarded the system the Energy Genius of the Year 2019 recognition.

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 2022, 12 K-food stores were equipped with the heat recycling system. In total, the heat recycling system has already been installed in 38 K-food stores.

NEW ENERGY SAVING MODE FOR LIGHTING

Replacing old fluorescent lighting with LED lighting is one of the most efficient ways to save electricity, as it is possible to reduce electricity consumption by as much as 50–60% using LED lighting. In 2022, we added a separate energy saving mode to LED lighting systems to make it possible to reduce the brightness of lighting in stores for short periods of times.

REDUCING THE USE OF NATURAL GAS

About 10 of our properties in Finland had natural gas heating at the beginning of 2022. Our aim is to discontinue the use of natural gas for heating and to replace it with district heat or geothermal heating by the end of 2023.

REFRIGERATION UNITS WITH HIGHER ENERGY EFFICIENCY AND LOWER EMISSIONS

We intend to replace the old refrigeration systems at K-food stores that use R404A refrigerant with systems that use energy-efficient, lower-emission refrigerant by 2030 in accordance with the EU's F-gas Regulation. In 2022, the refrigeration systems at 33 K-food stores were replaced. In total, the refrigeration systems at 356 K-food stores have been upgraded to use natural refrigerant.

BIODIVERSITY

Loss of biodiversity has risen alongside climate change as a significant global threat. Mitigating the loss of biodiversity and climate change call for largely similar measures; our lifestyles must become more sustainable.

The increase in the importance of biodiversity is also visible in our sustainability strategy which was published in spring 2022. Our goal is to prevent loss of biodiversity in both our own operations and value chain. We will strengthen our biodiversity work by creating a biodiversity roadmap and setting division-specific targets for our operations and supply chains.

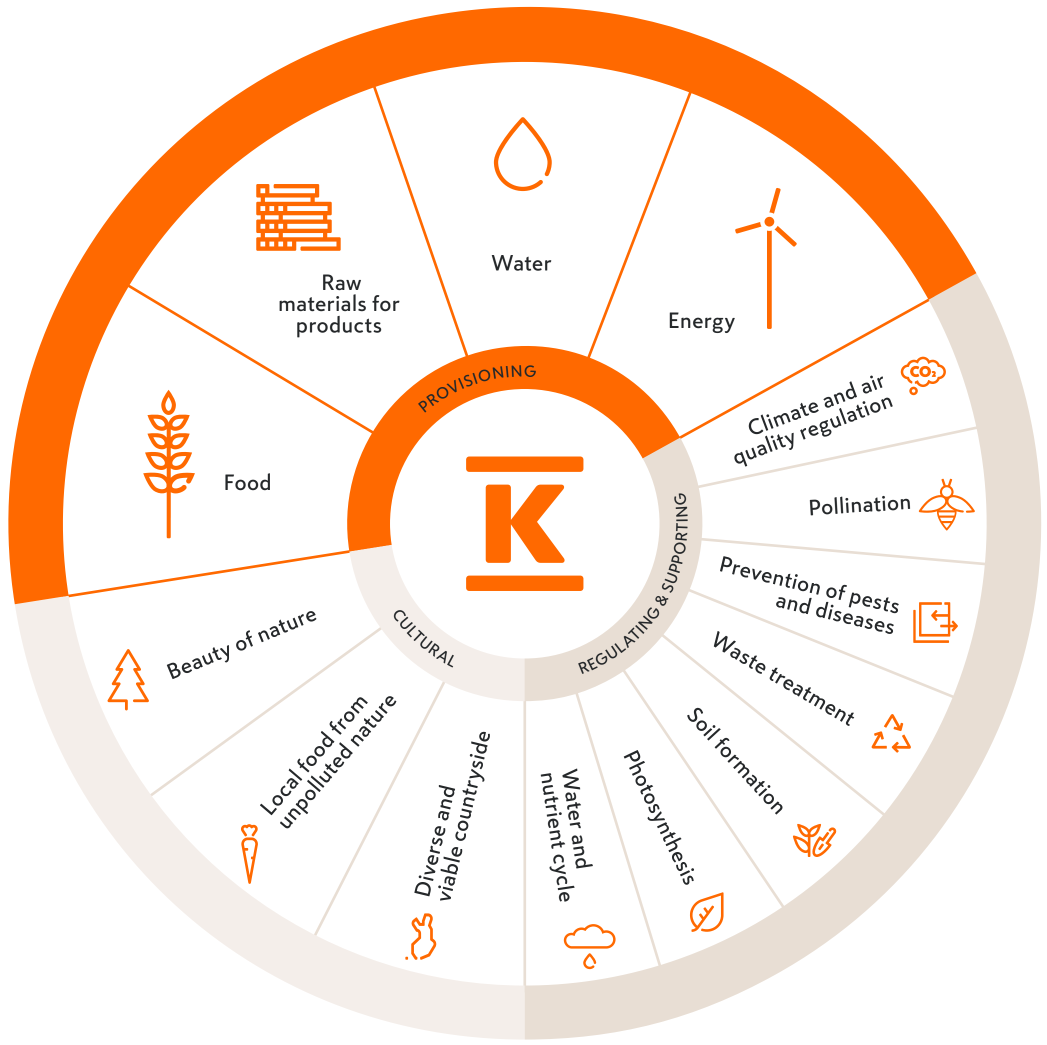
Ecosystem services that we depend on

We have carried out an ecosystem services review in order 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, regulating and supporting, and cultural services. Provisioning services are commodities produced by the ecosystem. Regulating and supporting services are ecosystems processes that life on earth is based on. Nature also provides non-material benefits, which are called cultural services.

We piloted targets for nature

In 2022, we participated in a pilot project involving 10 companies that was funded by the Finnish Innovation Fund Sitra and implemented by FIBS (Finnish Business & Society). The project tested how the guidelines of the international Science Based Targets Network (SBTN) can be applied to setting science-based targets for nature. The observations

Ecosystem services K Group depends on



and outcomes of the pilot project from the participating countries will be compiled and utilised in setting targets in accordance with the Science Based Targets for Nature guidelines created by the SBTN.

Our operations and biodiversity

Both Kesko and the K-retailers carry out concrete measures in their own operations to promote biodiversity.

In spring 2022, we planted native flowering meadow plants in the grounds of K-Citymarket Lohja with the help of volunteers in place of rugosa rose bushes, which were removed earlier due to them being an invasive species. This meadow will promote biodiversity and attract pollinating insects to the area. We also installed insect hotels in the area.

Retailers are also promoting biodiversity through beekeeping. Bees living in beehives placed on a store's roof or at the edge of a nearby field play an important role in pollinating plants in the surrounding area. The honey collected from the beehives is sold by the store where it is produced.

We are looking into practical measures in construction projects and the maintenance of the stores 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 2022, the land at two of our locations in Finland was decontaminated based on a survey of contamination and the need for decontamination.

Biodiversity in the supply chains

Our impacts on biodiversity occur primarily in the supply chains of our products, which is also where our most significant climate impacts arise.

We observe our sustainability policies for sourcing to prevent causing 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 2022, the fish counters of 85 K-food stores had already been awarded the MSC and ASC traceability certificates which promote sustainable fishing and aquaculture. A total of 17 fish counters were certified in 2022. Kespro and its subsidiary Kalatukku E. Eriksson have also been awarded the MSC and ASC traceability certificates. MSC awarded Kalatukku E. Eriksson the Golden Fish 2022 responsibility prize in recognition of the company's work towards increasing awareness of responsibly caught fish and shellfish. In addition, every K-food store follows K Group's fish and shellfish policy, which is based on WWF Finland's Seafood Guide and has been in effect already since 2008.

+ More information on our sustainability policies

One of our enthusiastic beekeepers is Heli Romppanen, retailer at K-Supermarket Suosikki in Suolahti. Her beehives are located at the edge of a field, about 15 minutes' driving distance from the store.

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.

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 2022, we consumed a total of 751,391 cubic metres of water. In Finland, water consumption was 726,653 cubic meters, which is 8.9% less compared to the previous year. In other operating countries, water consumption was 24,737 cubid meters, i.e. 11.1% less than in the previous year.

In Sustainability report 2022, we updated the reporting method of water consumption. Previously, the figures also included estimated consumption of water. Due to improved monitoring, we now report consumption based on actual consumption figures. In the table of the Sustainability report, the figure have been retroactively adjusted.

Water consumption

	2022	2021	2020
Total water consumption, m³	751,391	825,080	781,455
Finland [1], %	96.7	96.6	97.1
Other operating countries [2], %	3.3	3.4	2.9

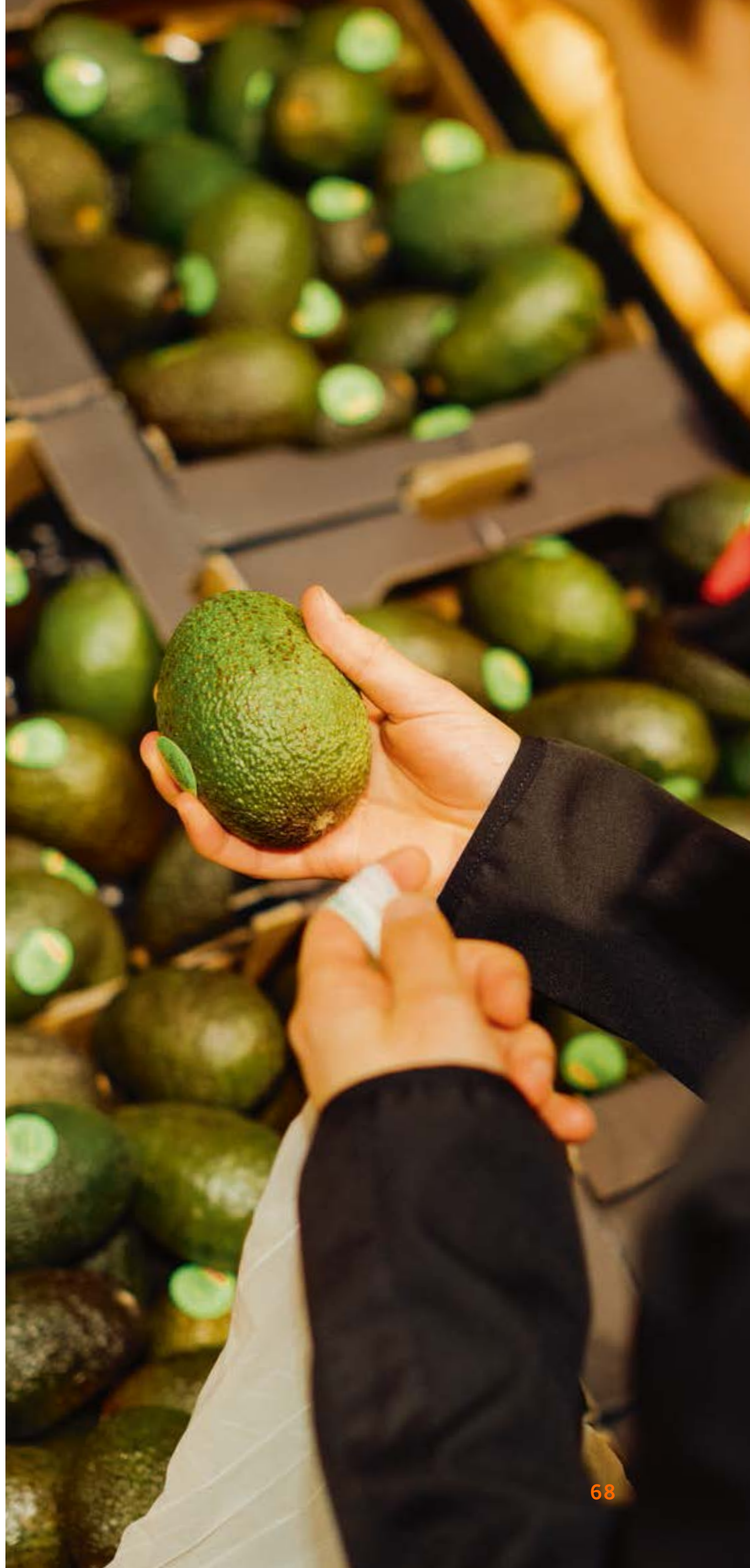
[1] Corrected figures for 2020–2021
[2] Corrected figure for 2021

Water risks in the supply chains

Our most significant impacts on water consumption arise in the products' supply chains through the products we sell, particularly those products which 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 Fair Trade certification include water-related criteria.

Our aim is to identify the most important products, product groups or production areas where water risks can be minimised so we can draw up plans for managing water risks in our products' supply chains.



CIRCULAR ECONOMY AND WASTE MANAGEMENT

Moving towards a circular economy requires increasingly efficient circulation of materials. We are developing the packaging used in our own brand products to make it more sustainable and preparing for the changes that will be introduced by major reforms to legislation governing packaging. We provide our customers with diverse recycling services and are increasing the recovery rate of waste generated by our operations.

Developing the circular economy

We are actively developing solutions together with our partners to utilise production side streams and food waste. More information on the utilisation of food waste can be found in the Food waste section.

In early 2022, we launched a new circular economy cooperation project with Berner, where the used coffee grounds generated at Neste K service stations are collected and utilised. The coffee grounds are composted and the resulting material is utilised in the Pirkka Kaffe Kasvumulta products for plants. During the year, we collected a total of 81 tonnes of coffee grounds. More information on this circular economy innovation for coffee grounds can be found on our website.

Packaging targets and progress made towards them

Packaging has an important role in protecting products, providing information on them and preventing and minimising waste. Together with our suppliers and partners, we are constantly seeking new solutions for finding easily recyclable and reusable packaging. We favour renewable packaging materials, such as paperboard, paper, cardboard and plastics made from renewable materials.

The targets set in our packaging and plastics policies aim to reduce the use of plastic and improve the recyclability of packaging:

- Our target is to reduce the amount of plastic contained in packaging by 20% by the end of 2025 compared to the baseline in 2019.
- Our target is that, by the end of 2025, all of our packaging will be recyclable or reusable.

Our target of reducing the use of plastic is also part of The New Plastics Economy Global Commitment, which was launched by the Ellen MacArthur Foundation and the UN Environment Programme and has the aim of reducing the consumption of unnecessary plastic items.

In 2022, we reduced plastic in the packaging of our own brand products by 33 tonnes. The biggest reduction was achieved by replacing the plastic buckets used to transport Pirkka tulips with cardboard boxes. This will reduce the use of plastic by 27 tonnes each year, corresponding to around 1.3 million plastic bags. We have reduced plastic in our own packaging by a total of 11.5% compared to the baseline in 2019.

In 2022, we made changes to the packaging of a total of 55 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, the aim is to increase the use of recycled plastic and to add written sorting instructions in plain language on own brand product packaging to make it easier for customers to sort plastic waste.

Own brands' packaging materials of grocery trade

tonnes	2022	2021	2020
Packaging materials total	14,483	14,994	14,110
Wood and paper fibre	5,664	6,130	6,330
Plastics	5,221	5,488	4,640
Glass	1,764	1,869	1,820
Metal	1,834	1,507	1,320

Packaging legislation and Green Deals

Legislation governing packaging is being reformed and regulation will increase considerably as a result. In 2022, we prepared for compliance with the requirements of the Single-Use Plastics (SUP) Directive (2019/904/EU).

At the end of the year 2022, we joined the SUP Green Deal, which aims at reducing the consumption of portion packaging, and committed to cutting the amount of single-use plastics in portion packaging in the grocery trade and to developing new packaging solutions with our partners.

The building and technical trade division was the first retail sector operator to join the voluntary Green Deal of Construction Plastics in March 2022. The aim of the Green Deal is to promote the circular economy of plastics by reducing the use of plastic and promoting the recycling of plastic in the construction industry.

Centralised collection service and efficient reverse logistics

In 2022, a total of 3,919 tonnes of cardboard and 114 tonnes of plastic were directed by the central collection service of Kesko's Logistics for recycling. Our waste management partner picks up the collected waste from our terminals and our central warehouse for further recycling.

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

Kesko logistics' reverse logistics

1,000 pcs	2022	2021	2020
Deposit aluminium cans	95,433	102,418	95,203
Deposit PET bottles	68,288	71,683	67,044
Deposit glass bottles	7,135	6,521	6,812
Reusable crates	20,862	21,360	21,560

Circular Economy Agreement for stores

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, or Circular Economy Agreement. The aim of the agreement is to prevent the creation of waste, increase the efficiency of recycling and advance the circular economy. At the end of 2022, a total of 848 K Group stores were covered by the Circular Economy Agreement. The recycling rate of waste generated at these locations was 74%, and the waste recovery rate, which also includes utilisation for energy, was 100%.

K Group's grocery trade committed to a second agreement period under the food industry's material efficiency commitment at the end of 2022. Our aim 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 the baseline in 2019, when the recycling rate was 74%. At the end of 2022, the recycling rate at food stores covered by the agreement was 77%.

Sorting points 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. At the end of 2022, there were a total of 400 Rinki eco take-back points located by our stores where our customers could sort cardboard, glass and metal. In addition, plastic was collected at 226 eco take-back points. In total, over 16,600 tonnes of waste was sorted through the eco take-back points in 2022.

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.

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

	2022	2021	2020
Deposit aluminium cans, million pcs	436	438	414
Deposit PET bottles, million pcs	193	186	164
Deposit glass bottles, million pcs	32	36	36
Batteries and accumulators, tonnes	488	479	462
Waste electric and electronic equipment, tonnes	176	186	177

Waste generated and recovery rates

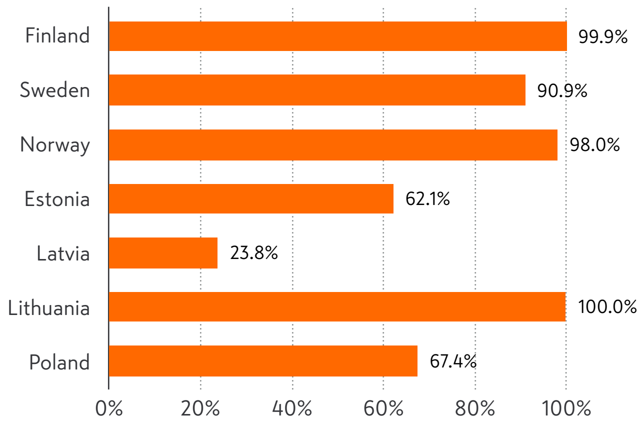
Our target is to minimise the waste generated in all of our operations and to efficiently deliver generated waste for recovery whenever possible.

In 2022, in all operating countries, a total of 23,290 tons of waste was generated, which is 4% less than in the previous year. More than 88% of the waste is non-hazardous waste that ended up in recycling or for energy incineration.

In our own operations in Finland, 14,703 tons of waste was generated. This is 5.5% less than in the previous year, although the waste figures were more extensive in 2022 compared to the previous years. The utilization rate in Finland was 99.9% including energy incineration.

In other operating countries, 8,587 tons of waste was generated, i.e. 1.4% less than in the previous year. In the operating countries, Finland excluded, the utilization rate including energy incineration was an average of 73.7%.

Waste recovery rate by country in 2022



Waste

		2022	2021	2020
Waste total, tonnes		23,290	24,269	24,753
Finland				
Non-hazardous waste, %	Recycling/energy incineration	60.7	61.7	62.9
	Landfill	0.0	0.3	<0.1
Hazardous waste, %	Recycling/energy incineration	2.1	2.1	1.2
	Hazardous waste treatment	0.2	0.1	0.9
Other operating countries				
Non-hazardous waste, %	Recycling/energy incineration	27.5	28.6	28.5
	Landfill	3.2	2.7	2.7
Hazardous waste, %	Recycling/energy incineration	5.5	4.0	2.7
	Hazardous waste treatment	0.7	0.6	1.1

FOOD WASTE

We are committed to halving our food waste by 2030 from the level in 2019. Our interim target is to achieve a 25% reduction in food waste by the end of 2025. By the end of 2022, the relative food waste created at K-food stores had decreased by 9% and in Kespro's cash-and-carry outlets almost 20% from the baseline in 2019.

Food waste prevention

Our primary means of preventing food waste include selection management and forecasting and material requirements planning. What ends up on the shelves of K-food stores and Kespro's cash-and-carry outlets is based on accurate data analysis and management of store-specific selections. Transportation and store logistics are optimised so as little waste as possible is created. The optimisation and continuous development of packaging features play a key role in reducing waste.

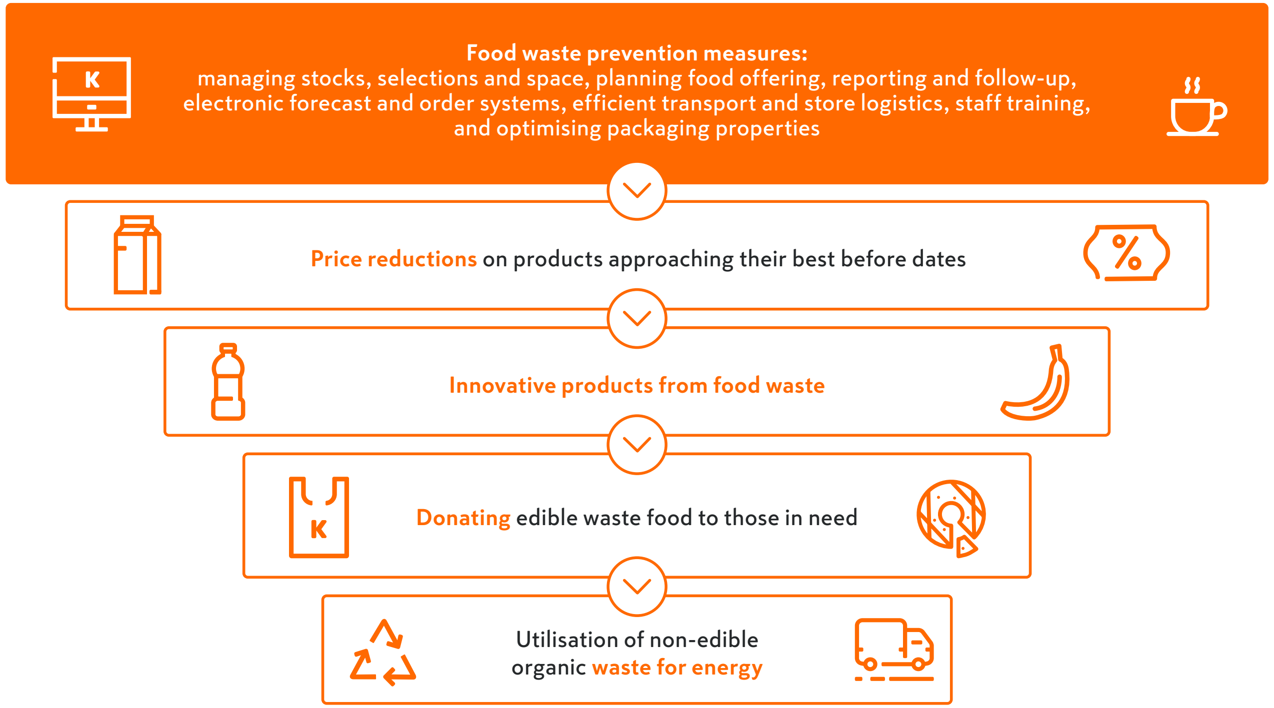
Our target is to constantly find new ways of reducing waste. In autumn 2022, we launched the Vieläkin hyvää (Still Good) concept, which is intended to help customers make more sustainable choices and efficiently reduce food waste in stores.

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. Based on the number of products, the best-selling red label products are bread, ready meals, meat and meat products as well as yoghurts and puddings. In 2022, sales of red label products at K-food stores increased by 15% compared to the previous year. In addition, the stores are exploring ways of utilising their own food waste by turning it into new added value products. In autumn 2022, we launched the food waste bread bag and food waste fruit and vegetable basket operating models at K-food stores, which were immediately popular among customers.

Our consistent measures have been particularly successful in reducing the amount of food ending up as waste at stores. The amount of ineditable food waste from K-food stores that ended up as waste decreased by 11% in 2022.

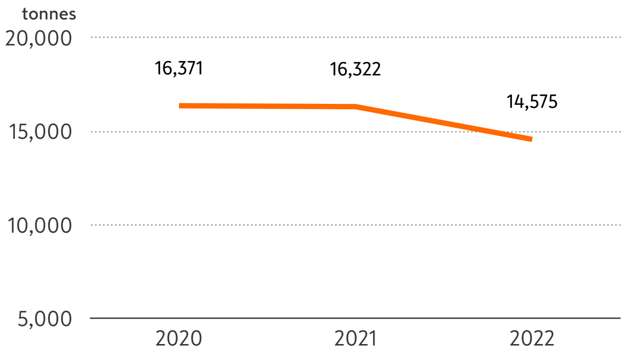
K Group food waste hierarchy



Food waste hierarchy figures

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

Ineditable food waste in K-food stores



Food donations to charities

In 2022, the donations of K-food stores to charities increased by 3.8% on the previous year. The majority of donations goes to religious organisations, which receive over one third of all food donations.

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 due to their appearance. These kinds of edible yet non-sellable fruit and vegetable products are excellent ingredients for soups, for example.

In April 2022, we launched the Hyvis tomato and cheese soup in the Hyvis product range. The soup contains about 40% waste tomatoes. The soup's rich flavour comes from matured cheeses, which are also surplus products. In 2022, around 8,800 kilos of non-sellable tomatoes were used to make Hyvis tomato and cheese soup.

Between 2020 and 2022, around 69,300 kg of waste fruit and vegetables have been utilised in K-food stores' own circular economy products.

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

In 2022, the food waste percentage, or the share of average purchase price sales that ends up as food waste, at Kespro's 14 cash-and-carry outlets was 1.1%. The ambitious target was to reduce this to 0.8%, and this was achieved at the cash-and-carry outlets in Turku and Tampere. Eight cash-and-carry outlets improved their food waste percentage on the previous year.

Around half 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 about 0.5%. Cooperation with local food aid partners was improved in 2022. Measured in kilograms, the amount of food donations increased by 22% on the previous year.

Some of the key measures to reduce food waste are data-driven waste prediction and arranging products on a first-in, first-out basis, as well as discount shelves for products being removed from the selection or nearing their expiry date. This means that the products closest to expiry are sold first to the customers.

Biogas from food waste

In cooperation with Gasum, we use inedible food waste to produce biogas, which is utilised as energy in the production of new Pirkka products such as ice creams and Karelian pasties. Three manufacturers of Pirkka products, 636 K-food stores, Kespro's cash-and-carry outlets and the Kesko Logistics central warehouse are included in the operating model. In 2022, around 6,024 tonnes of organic waste was used to produce 4,492 MWh of biogas. This reduced emission by 895 tCO_2 compared to natural gas and by 1,135 tCO_2 compared to fuel oil (emissions factors: Statistics Finland, Fuel classification 2022).

Waste management services create savings for restaurants

In 2022, Kespro launched cooperation with Hukka AI's food waste management service. The service is a part of the Kespro Services package offered to customers. Hukka AI's food waste management service allows restaurants to reduce waste and reduce costs.

The relative amount of food waste at K-food stores has decreased by

9%

compared to 2019.

VALUE CHAIN

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

91.5%

of direct suppliers in risk countries audited

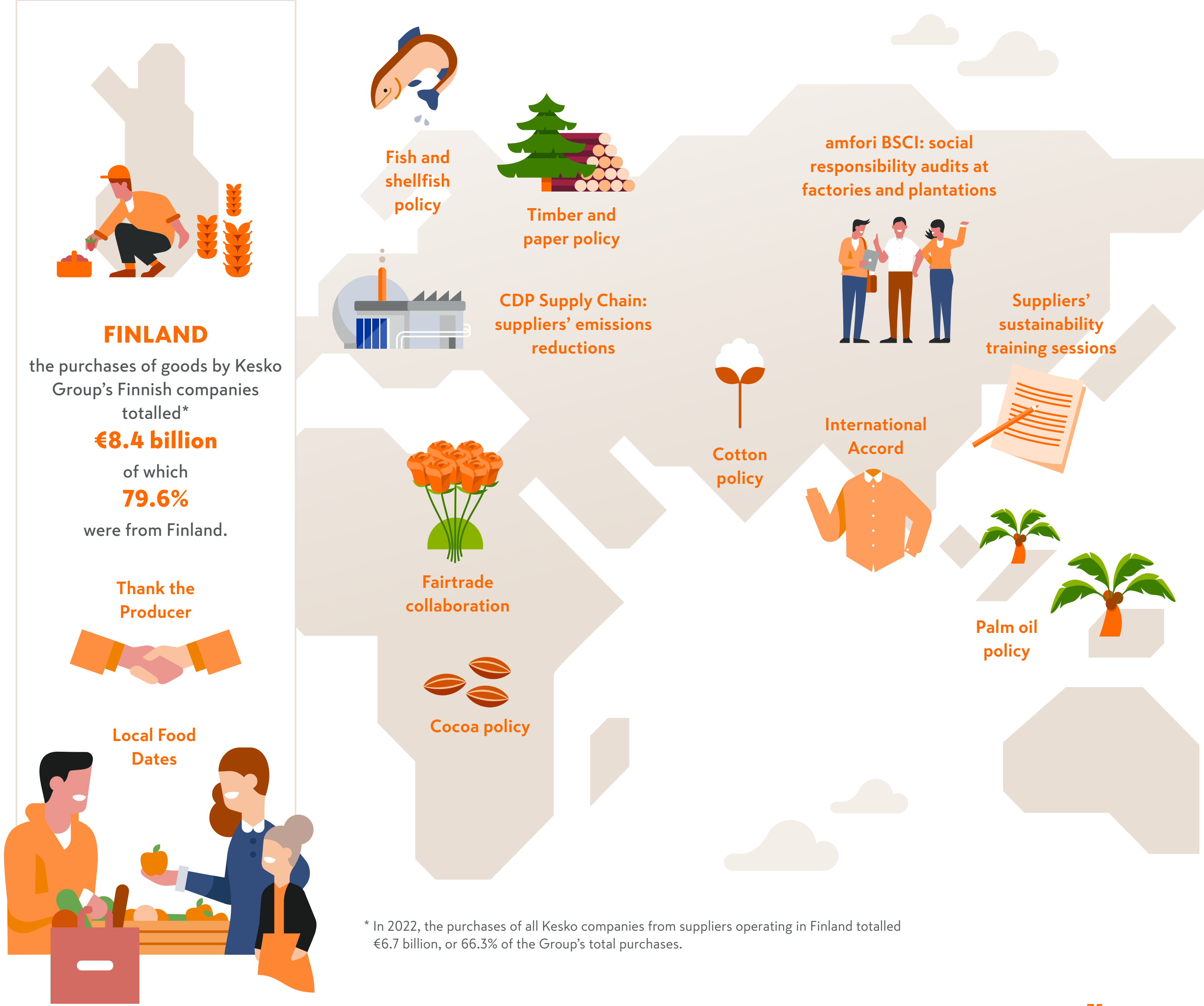
OUR TARGETS:

- 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:

SUSTAINABLE SOURCING GLOBALLY

We promote sustainability and transparency in our supply chains with our sustainability policies, factory and plantation audits, products' sustainability certifications and by working in cooperation with international organisations.



* In 2022, the purchases of all Kesko companies from suppliers operating in Finland totalled €6.7 billion, or 66.3% of the Group's total purchases.

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 at Kesko's web pages.

Most of the economic benefit generated by Kesko's operations – some 85% of Kesko's net sales – flows to suppliers of goods, purchases from which were valued at €10.1 billion in 2022 (2021: €9.5 billion). The purchases of all Kesko companies from suppliers operating in Finland totalled €6.7 billion, or 66.3% of the Group's total purchases (2021: €6.5 billion, or 68.1%). The purchases of all Kesko companies from suppliers in other operating countries totalled €1.9 billion, or 19.0% of the Group's total purchases (2021: €1.8 billion, or 18.9%).

In 2022, Kesko had some 23,400 suppliers from whom purchases were valued at a minimum of €1,000 during the year. Of these, some 9,400 operated in Finland, some 11,700 in Kesko's other operating countries and some 2,300 elsewhere.

The ten largest suppliers accounted for 20.1% (2021: 21.7%) of the Group's purchases of goods, and the 100 largest suppliers for 47.0% (2021: 51.6%). Of the ten largest suppliers, seven were Finnish food industry companies, two import companies operating in Finland and one German car manufacturer.

The purchases of goods by Kesko Group's Finnish companies totalled €8.4 billion (2021: €7.9 billion). Of these purchases, 79.6% (2021: 81.1%) were from suppliers operating in Finland and 20.4% (2021: 18.9%) from other countries. Some of the suppliers operating in Finland are import companies, and reliable statistics cannot be compiled on the origin of goods supplied by them.

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 want 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 2022, the situation of primary producers in the food chain was frequently highlighted. The difficult situation results from a long-term decline in the profitability of primary production, which was rapidly made worse by the increase in the prices of production inputs and the war in Ukraine. Kesko was the first retail sector operator to start negotiations with hundreds of suppliers with the aim of trying to find solutions for the situation of primary producers. We also participated actively in the activities of the entire food chain and in various working groups to seek solutions to secure the functioning of the Finnish food chain and agriculture.

Kesko's purchases by operating country in 2022

	Suppliers of goods in operating country	Purchases from suppliers of goods		Suppliers of goods in other operating countries	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	9,408	6,661	79.6	2,262	1,710	20.4
Sweden	4,906	429	84.7	232	77	15.3
Norway	2,927	782	96.1	139	32	3.9
Estonia	528	26	47.4	283	29	52.6
Latvia	414	11	47.4	213	12	52.6
Lithuania	425	10	37.4	171	17	62.6
Poland	1,413	265	91.5	70	25	8.5
Total	**20,021**	**8,183**	**81.1**	**3,370**	**1,901**	**18.9**

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: Out of the Pirkka products, more than 1,000 are manufactured in Finland and 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 2022, the operating model involved 31 partners and 113 products. In 2015–2022, products sold under the 'Thank the Producer' model accrued a total of more than €8 million in additional money for farmers.

We have made the path of local food to store shelves smoother for years through the 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 2022, we organised three Local Food Date events in which a total of 123 producers and 302 retail trade representatives participated.

In 2022, we promoted Finnish products and their origin in our stores and marketing. With the Kotimainen Onninen (Finnish Onninen) campaign in the building and technical trade, we highlighted Onninen's Finnish origin and raised awareness of Onninen as an important Finnish operator in the industry.

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 utilise the amfori Country Risk Classification, based on Worldwide Governance indicators published by the World Bank.

In 2022, direct purchases from suppliers in risk countries totalled €156 million (2021: €111 million) and accounted for approximately 1.6% (2021: 1.2%) of Kesko's total purchases. Direct imports from risk countries accounted for some 15.8% (2021: 13.4%) of Kesko's total imports to Finland. The figures concern direct purchases in Finland; no statistics are available on direct imports from risk countries in Kesko's other operating countries.

Kesko is a member of amfori, an association dedicated to 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. According to Group guidelines, an amfori BSCI Code of Conduct contract clause must be added to supplier agreements.

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

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

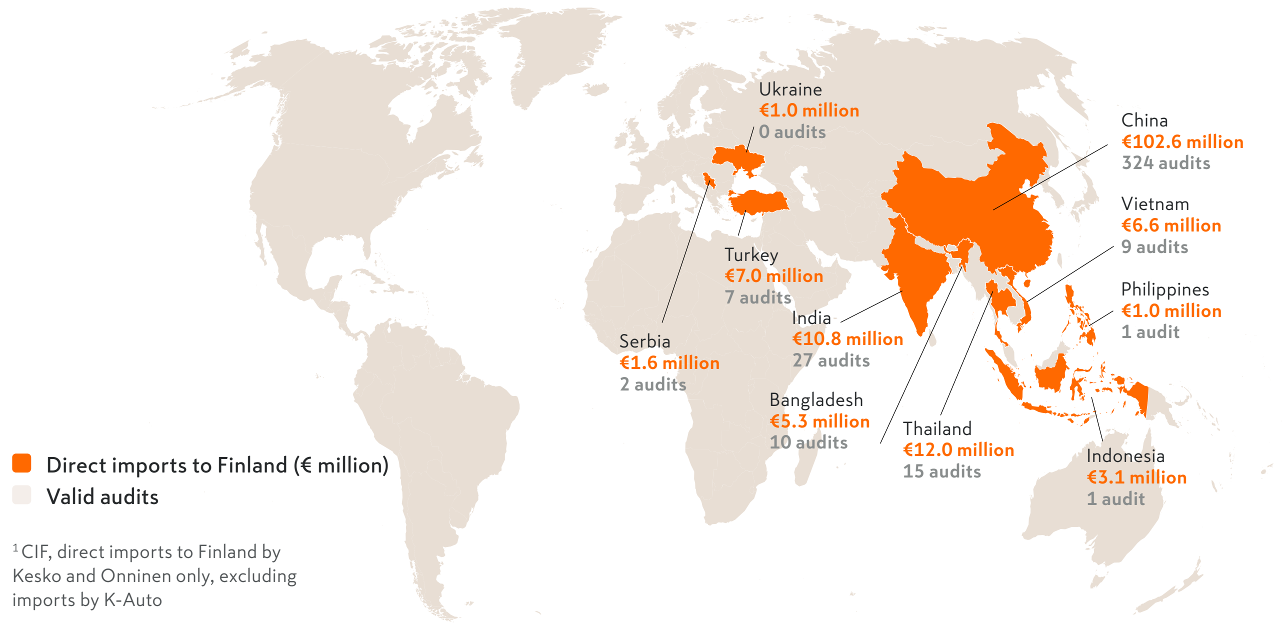
Social responsibility audits and certifications of suppliers in high-risk countries

Social responsibility assessment system	1 Jan. 2023, total	1 Jan. 2022, total	1 Jan. 2021, total	1 Jan. 2020, total	1. Jan. 2019, total
amfori BSCI	345	238	339	347	300
Smeta	77	195	115	177	136
Siza	66	147	59	100	54
SA8000	13	12	16	15	12
Fairtrade	8	31	29	28	21
Rainforest Alliance	2	28	20	22	14
Fair for Life	0	6	2	4	1
For Life	0	3	14	10	12
ICA Social Audit	1	2	12	22	26
ICS	1	-	-	-	-
ICTI	6	6	6	8	8
WRAP	1	2	1	0	0
WIETA	0	0	0	0	1
Total	**520**	**670**	**613**	**733**	**585**

amfori Trade with purpose

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

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



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

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 2022, 91.5% of Kesko's direct suppliers in risk countries had been audited for social responsibility. Kesko's suppliers in risk countries had a total of 520 (2021: 670) 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. In 2022, the Covid-19 pandemic posed some challenges for the implementation of audits.

RESULTS OF AMFORI BSCI AUDITS

In 2022, a total of 219 (2021: 117) of the factories or plantations of Kesko's suppliers underwent full amfori BSCI audits. In addition, 125 (2021: 103) suppliers' factories or plantations underwent amfori BSCI follow-up audits.

The results of the 2022 amfori BSCI audits of Kesko's suppliers' factories and plantations are shown on page 80. The majority of the deficiencies occurred in matters related to working hours and to social management systems at factories. Corrective actions and 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 within 12 months must be arranged to assess the deficiencies identified in the full audit and the corrective measures implemented.

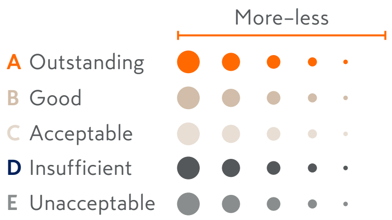
Social responsibility audits are used to assess, among others, the safety of working conditions in production.

Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2022, we were obligated to terminate cooperation with 11 (2021: 15) factories because a consensus could not be reached with the factories regarding necessary corrective measures.

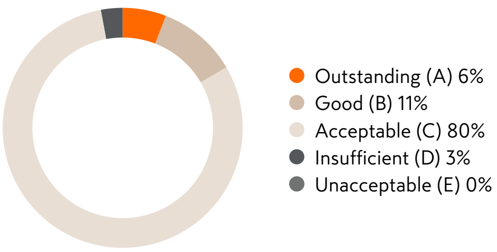
amfori BSCI audit results by area in 2022

Full audits	A Outstanding	B Good	C Acceptable	D Insufficient	E Unacceptable
Social Management System and Cascade Effect	1%	9%	77%	12%	1%
Workers' Involvement and Protection	55%	34%	9%	1%	1%
The Rights of Freedom of Association and Collective Bargaining	99%	1%			
No Discrimination	96%	2%	2%		
Fair Remuneration	42%	50%	6%	1%	1%
Decent Working Hours	16%	1%	4%	78%	1%
Occupational Health and Safety	76%	20%	1%	1%	1%
No Child Labour	99%				1%
Special Protection of Young Workers	99%	1%			
No Precarious Employment	99%	1%			
No Bonded Labour	98%	1%			1%
Protection of the Environment	87%	11%	2%		
Ethical Business Behaviour	96%	4%			

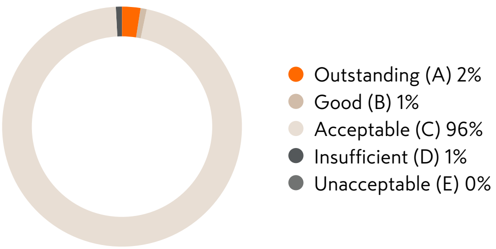
Follow-up audits	A Outstanding	B Good	C Acceptable	D Insufficient	E Unacceptable
Social Management System and Cascade Effect	2%	2%	29%	67%	
Workers' Involvement and Protection	59%	35%	6%		
The Rights of Freedom of Association and Collective Bargaining	100%				
No Discrimination	100%				
Fair Remuneration	32%	60%	8%		
Decent Working Hours	4%		2%	93%	1%
Occupational Health and Safety	87%	11%		1%	1%
No Child Labour	100%				
Special Protection of Young Workers	99%		1%		
No Precarious Employment	100%				
No Bonded Labour	100%				
Protection of the Environment	89%	10%	1%		
Ethical Business Behaviour	98%	2%			



amfori BSCI results in 2022, full audits



amfori BSCI results in 2022, follow-up audits



If the supplier underwent more than one amfori BSCI audit during 2022, the results of the latest audit only are presented.

INTERNATIONAL ACCORD

Kesko is a signatory of the new 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 new 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 2022, all 6 garment 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 2022, 15 factory inspections were made at the factories producing for mywear and myhome brands. Training is also organised for the workers at the factories.

FAIRTRADE PREMIUMS HELP DEVELOP LOCAL COMMUNITIES

Kesko's grocery trade selections have included Fairtrade products since 1999. In 2022, the retail selection of Kesko's grocery trade included 292 (2021: 290) Fairtrade products, of which 23 (2021: 28) were Pirkka products. Kespro's foodservice selection had a total of 77 (2021: 84) Fairtrade products, of which 3 (2021: 5) were Kespro 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, among others.

OWN BRAND PRODUCTS WITH SUSTAINABILITY LABELLING

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

- **467** (477) Hyvää Suomesta (Produce of Finland) products
- **274** (305) products with the Key Flag symbol
- **205** (215) organic products
- **82** (85) Seed leaf label products
- **125** (164) Nordic Swan label products
- **23** (28) Fairtrade products
- **93** (81) Rainforest Alliance/UTZ certified products
- **55** (53) MSC certified products
- **22** (17) ASC certified products
- **12** (15) products with the Finnish allergy label (Allergiatunnus)
- **6** (7) EU Ecolabel products
- **19** products with the Heart Symbol

Kespro's Menu range:

- **125** (84) Hyvää Suomesta (Produce of Finland) products
- **31** (53) products with the Key Flag symbol
- **12** (12) organic products
- **28** (29) Seed leaf label products
- **28** (38) Nordic Swan label products
- **3** (5) Fairtrade products
- **14** (12) Rainforest Alliance/UTZ certified products
- **29** (40) MSC certified products
- **8** (3) ASC certified products
- **9** (12) Dolphin Safe certified products
- **1** (1) products with the Finnish allergy label (Allergiatunnus)
- **36** products with the Heart Symbol

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

- **1,359** (615) products with the Key Flag symbol
- **46** (30) Nordic Swan label products
- **165** (76) products with the Finnish allergy label (Allergiatunnus)
- **184** (119) M1 certified products

In 2009–2022, a total of more than €8.3 million was generated as Fairtrade premiums for social development projects in local communities from Fairtrade products sold by K-food stores and Kespro. In 2022, a total Fairtrade premium of €944,830 was generated by products sold by K-food stores and Kespro (2021: €941,570).

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 others, are in line with the Fairtrade criteria.

On the Tracing Our Products website, we provide information on the origin of Pirkka Fairtrade roses and 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

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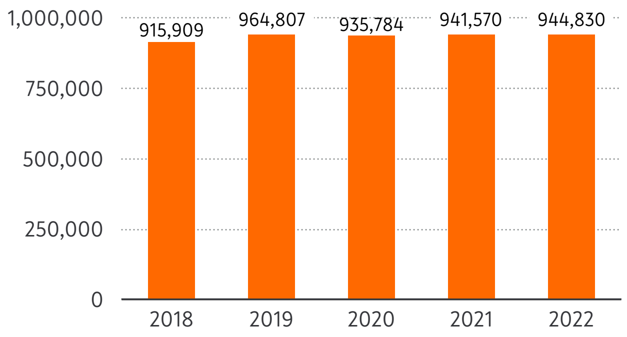


Suppliers' environmental assessment

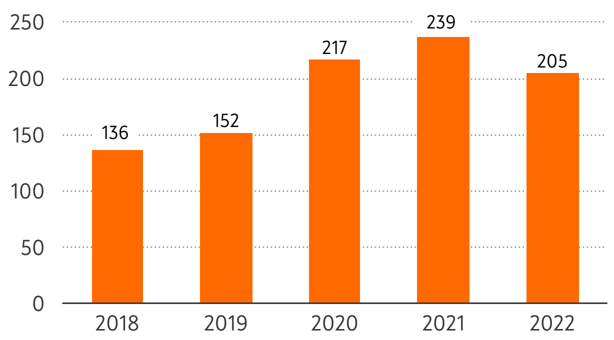
K Group's most significant climate impacts are caused by emissions from own operations as well as emissions from the value chain of the products. We participate in the CDP Supply Chain programme and through this encourage our suppliers to reduce their emissions. Read more about the CDP Supply Chain programme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

We participate in the amfori BEPI programme, which aims to develop environmental management of suppliers in risk countries. In 2022, amfori BEPI risk assessment was carried out on 11 of our suppliers in risk countries.

In 2022, KOPO (Kesko Onninen Purchasing Office), the purchasing office of the building and technical trade division in Shanghai, carried out an audit on 30 (2021: 45) suppliers with focus on environmental management and the ISO 14001 environmental system. At the end of 2022, 66 (2021: 55) suppliers had a valid ISO 14001 certification.

In the IGS (ICA Global Sourcing) purchasing cooperation, we have introduced the IGS Environmental Assessment in which we ask suppliers for information on their energy consumption and sources and their measures taken to reduce energy consumption. No IGS Environmental Assessments were carried out in 2022 because of the Covid-19 pandemic.

Own brand products with ecolabelling*



*Includes Nordic Swan label products and EU Ecolabel products in Pirkka, K-Menu, Menu, Cello, Prof, FXA, GOODIY and Onnline ranges.

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 2022:

- 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. Representatives of 24 of Kesko's suppliers and service providers participated in the training.
- As part of the IGS purchasing cooperation, IGS organised seven 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 63 Kesko suppliers took part in the training.

By the end of 2022, Kesko's 35 suppliers located in risk countries had participated in the training organised by amfori. The training topics included the amfori BSCI and BEPI process, continuous improvement, responsible recruitment, remuneration and working hours of employees and the amfori Sustainability Platform database.

Promoting transparency in supply chains

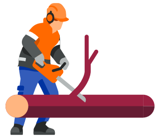
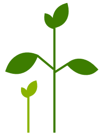
We guide the sourcing of products containing raw materials that have been identified critical from a social and environmental responsibility perspective through our sustainability policies, of which there were 12 at the end of 2022. In 2022, we complemented our policies with our no deforestation policy and coffee and tea policy.

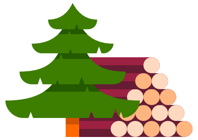
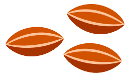
To improve the transparency of our supply chains, we provide information the origin of our products and their journey to the shelves of K-stores on our Tracing Our Products website. We select products that face social and environmental responsibility challenges in the sustainable production of raw materials and whose purchasing is steered by sustainability policies. In 2022, we added information about the supply chain of Pirkka Luomu Fairtrade bananas to the website.

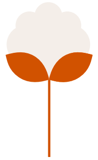
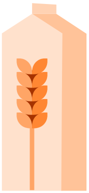
We publish a list of manufacturers of clothes, shoes, bags and home textiles of our own brands and own imports located in risk countries, the addresses of the factories and the number of employees annually on our website.

SUSTAINABILITY POLICIES

1 (3)

POLICY	OBJECTIVE	ACHIEVEMENTS IN 2022	PROGRESS IN 2018–2022	2022	2021	2020	2019	2018
Fish and shellfish policy 	Our selections do not include species on the red list of WWF Finland's Seafood Guide which do not have the MSC or ASC certificate. When making decisions concerning selections, we favour sustainable stocks of fish and MSC and ASC certified suppliers.	The retail selection of Kesko's grocery trade included 498 MSC certified fish products and 122 ASC certified products. Kespro's selections had 249 MSC certified products and 41 ASC certified products. 85 K-food stores had fish counters with the MSC and ASC traceability certificate, which promotes sustainable fishing and aquaculture.	MSC certified fish products, quantity	747	584	443	426	368
			ASC certified fish products, quantity	163	133	69	55	18
No deforestation policy 	Kesko commits to purchasing raw materials that pose a particular concern in terms of deforestation only when they are sustainably produced. We are guided by our timber and paper policy, palm oil policy, soy policy, cocoa policy, and coffee and tea policy and timelines specified within them.	We published our no deforestation policy in June 2022.	We follow our progress with the below policies related to the no deforestation policy.					
Palm oil policy 	The palm oil in our own brand groceries is 100% sustainably produced.	100% of the palm oil in Pirkka and K-Menu food products sold in 2022 was sustainably produced, of which 54% was Segregated, 37% Mass Balance and 9% RSPO Credits. 100% of the palm oil in Kespro Menu food products sold in 2022 was sustainably produced, of which 78% was Segregated, 20% Mass Balance, and 2% RSPO Credits.	Percentage of sustainably produced palm oil in Pirkka and K-Menu food products	100	100	100	100	67
			Percentage of sustainably produced palm oil in Menu food products	100	100	100	100	99.2
Soy policy 	The ingredients of soy origin in the grocery trade's own brand food products and the soy fodder used in the production of products of animal origin are 100% sustainably produced and RTRS, ProTerra, Donau Soja/Europe Soya or Fairtrade certified.	100% of the soy used as an ingredient in Pirkka and K-Menu food products sold in 2022 was sustainably produced soy, of which 38.0% was RTRS, Donay Soja/Europe Soya or Proterra certified and the rest was RTRS credited. 100% of the soy used as an ingredient in Kespro Menu food products sold in 2022 was sustainably produced soy, of which 66.8% was RTRS and DonaySoja/Europe Soya certified and the rest was RTRS credited. About 61% of the soy fodder used for the production of products of animal origin in Pirkka, K-Menu and Menu foods was within the scope of the producers' own certification procedures. For the remaining 39% we acquired the RTRS credits ourselves.	Percentage of sustainably produced soy used as an ingredient in Pirkka and K-Menu food products	100	100	100	100	2.2
			Percentage of sustainably produced soy used as an ingredient in Menu food products	100	100	100	100	74.2

POLICY	OBJECTIVE	ACHIEVEMENTS IN 2022	PROGRESS IN 2018–2022	2022	2021	2020	2019	2018
2 (3)								
Timber and paper policy 	By 2025, timber and paper products in Kesko's product range will be 100% of sustainable origin. The timber and paper products will be FSC or PEFC certified, of certified origin or made of 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.	Kesko's building and technical trade has been awarded the PEFC certificate, which covers sawn pine and spruce timber as well as processed timber wholesale distribution in Finland (percentage-based method). The average PEFC certification percentage in 2022 was 89% for pine and 85% for spruce. Of the timber and paper products in the Pirkka and K-Menu ranges, 40% contained sustainable raw material, of which 58% were FSC certified, 32% PEFC certified and 10% made of recycled materials. In the Menu range, 89% of timber and paper products contained sustainable raw material, of which 62% were FSC certified, 28% PEFC certified and 10% made of recycled materials.	Percentage of timber and paper products containing sustainable raw material in the Pirkka and K-Menu ranges	40	41	36	24	-
			Percentage of timber and paper products containing sustainable raw material in the Menu range	89	84	67	31	17
Coffee and tea policy 	All of our own brand tea and coffee is more sustainable, which means that the sustainability of their primary production has been certified.	100% of the Pirkka and K-Menu coffee sold in 2022 was more sustainable, of which 99% were Rainforest Alliance certified and 1% Fairtrade certified. 99% of the Pirkka and K-Menu tea was more sustainable, of which 94% were Rainforest Alliance certified and 6% Fairtrade certified. 100% of Kespro Menu coffee and tea sold in 2022 was more sustainable, of which 100% were Rainforest Alliance/UTZ certified.	Percentage of more sustainable Pirkka and K-Menu coffee	100	100	100	100	-
			Percentage of more sustainable Pirkka and K-Menu tea	99	83	64	48	-
			Percentage of more sustainable Menu coffee	100	100	100	100	-
			Percentage of more sustainable Menu tea	100	100	100	100	-
Cocoa policy 	All the cocoa used in Kesko's own brand cocoa drinks, chocolate confectionery products and chocolate baking products is of sustainable origin. The cocoa used in other own brand products containing cocoa will be 100% of sustainable origin by the end of 2025.	100% of the Pirkka and K-Menu cocoa drinks, chocolate confectionery products and chocolate baking products sold in 2022 contained sustainable cocoa, of which 93% were Rainforest Alliance certified and 7% Fairtrade certified. The cocoa used in other Pirkka and K-Menu products containing cocoa was 22% of sustainable origin. 100% of Kespro Menu cocoa drinks, chocolate confectionery products and chocolate baking products sold in 2022 contained sustainable cocoa, of which 100% were Fairtrade certified. The cocoa used in other Menu products containing cocoa was 26% of sustainable origin.	Percentage of Pirkka and K-Menu cocoa drinks, chocolate confectionery products and chocolate baking products containing sustainable cocoa	100	100	100	78	-
			Percentage of Menu cocoa drinks, chocolate confectionery products and chocolate baking products containing sustainable cocoa	100	100	100	100	-

POLICY	OBJECTIVE	ACHIEVEMENTS IN 2022	PROGRESS IN 2018–2022					
3 (3)				2022	2021	2020	2019	2018
Cotton policy 	All of the cotton sourced for our own clothing and home textile brands will be more sustainable cotton by the end of 2025. More sustainable cotton is certified organic cotton, recycled cotton, Better Cotton or Fairtrade cotton. Our own brand clothing and home textiles include K-Citymarket's mywear clothes and myhome home textiles, Pirkka socks and K-Rauta's PROF workwear and Cello interior textiles.	Kesko has been a member of the Better Cotton since 2020. Better Cotton's mission is to help cotton communities survive and thrive, while protecting and restoring the environment. In 2022, 92.2% of the cotton sourced for our own clothing and home textile brands was more sustainable cotton.	Percentage of more sustainable cotton sourced for our own brand clothing and home textiles	92.2	14.6	4.8	-	-
Plastics policy 	By the end of 2025, all packaging used in our own brand products will be recyclable or reusable. Our objective is to reduce the amount of plastic contained in the packaging of our own brand products by 20% by the end of 2025.	By the end of 2022, we had reduced plastic in the packaging of our own brand products in Kesko's grocery trade by 13% and in the packaging of Kespro's own brand products by 5% from the 2019 level. In 2022, we reduced plastics by 28 tonnes in Kesko's grocery trade's own products and by 5 tonnes in Kespro's own brand products. Read more about the measures taken in 2022 in the Climate and nature section.	Percentage of plastic reduced in the packaging of own brand products in Kesko's grocery trade compared to the level in 2019	12*	12	8	3	-
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.	In 2022, we made changes to the packaging of a total of 55 own brand products in compliance with our packaging and plastics policies. 29 of the changes were made to the packaging of own brand products in Kesko's grocery trade and 26 to the packaging of Kespro's own brand products.	Number of own brand products for which changes to development of packaging were made in compliance with our packaging and plastics policy	55*	49	77	-	-
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.	In 2022, Kesko's grocery trade sold some 247 million eggs, of which 44% were furnished cage eggs and 56% were barn eggs, organic eggs and free-range eggs.	Percentage of eggs sold that were barn eggs, organic eggs and free-range eggs	56	54*	46	43	-

* the figure includes Kespro for the first time

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 Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO), the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child.

In 2016, we published our statement of commitment on human rights and impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights. The human rights assessment is reviewed every three years by the sustainability management group, with the latest review conducted in autumn 2022. In spring 2022, we published our commitment to achieve a living wage and income in the supply chain.

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 activities 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 be used to submit reports also anonymously. We provide our employees with K Code of Conduct online training, which includes information on respecting human rights. For more information on our training, see the Good governance section.

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.

We have been auditing retail service providers in Finland since 2020. The sustainability of retail service providers – such as cleaning companies and sushi shop owners – is monitored by means of third-party audits.

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

Regular training sessions in responsible purchasing, arranged for those working in purchasing operations, discuss the implementation of human rights in global supply chains. The training sessions discuss, among other things, Kesko's sustainability policies guiding sourcing, the assurance process in purchasing from risk countries and the amfori BSCI Code of Conduct principles. In 2022, we organised four training sessions in cooperation with Fairtrade and one training on our cotton policy in Kesko's grocery trade division.

ANTI-BULLYING ZONE BECAME A PERMANENT OPERATING MODEL

The anti-bullying zone, which was created on the initiative of one K-retailer, became a permanent operating model in all 800 K-Markets in 2022. An anti-bullying zone means that stores offer refuge to bullied children and teenagers where there is always a caring adult around. Partnering with K-Markets, the Mannerheim League for Child Welfare trains K-retailers and their personnel and offers advice for the prevention of bullying.

The anti-bullying zone model was awarded the 2022 Public Health Award by the Finnish Institute for Health and Welfare for its significant contribution towards public health. K-Market stores were praised for prompting high-profile public debate on the issue and for offering a model for intervening in bullying.

SUSTAINABLE PRODUCTS AND CAPITAL EXPENDITURE

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 complements the turnover KPI in accordance with the EU Taxonomy. The car trade division's leasing business is currently Kesko's only function generating net sales within the EU Taxonomy scope. In our own specification of sustainable products, for the car trade division, we also present the net sales from the sale of new vehicles with emissions less than 50 g CO_2/km as part of our net sales from sustainable products. 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. 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.

Sustainable capital expenditure mainly corresponds to the capital expenditure reported according to the EU Taxonomy as environmentally sustainable. In the EU Taxonomy, the right-of-use assets recognised based on lease agreements are included in the Taxonomy's definition of capital expenditure, which deviates from Kesko's definition of capital expenditure in its financial reporting. Sustainable capital expenditure corresponds to the definition used in Kesko's financial reporting, and we do not include additions to right-of-use assets recognised based on lease agreements as sustainable capital expenditure.

Sustainable products

GROCERY TRADE

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

Percentage of sustainable products of grocery trade's net sales in 2022*:

39% (2021: 34%)

*excl. Kespro's sales data 2022 and 2021

BUILDING AND TECHNICAL TRADE

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

Percentage of sustainable products: information is not yet 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 2022:

21% (2021: 22%)

Sustainable capital expenditure

- Vehicles with low and zero emissions in K-Auto's leasing fleet
- K Charge stations
- Equipment used for monitoring properties' energy efficiency
- Technologies based on renewable sources of energy
- Properties sustainable from a climate point of view

Sustainable capital expenditure in 2022, total:

59 million
(2021: 36 million)

Read more about sustainable products

NUTRITION AND PRODUCT SAFETY

We care for the health and safety of our customers

The activities of our Quality and Product Development Unit include assessing the impacts of products on health and safety. Manufacturers of our own brand food products must have international certifications that assure product safety. The standards we approve include: BRC, IFS, FSSC 22000 and GlobalGAP. In 2022, the total number of certified suppliers was 696 (2021: 534).

We analysed 6,712 (2021: 8,393) product samples. Almost 3,500 of the samples were related to the product development of our own brands. We analysed 2,970 (2021: 3,154) of our own control samples.

In 2022, the product safety risk assessment on own brand products in the building and technical trade was updated. The assessment covers all product categories which have own brand products.

K GROUP HEALTH AND NUTRITION PROGRAMME

In January 2023, we published the K Group health and nutrition programme that was prepared during 2022.

The goal of the K Group health and nutrition 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. Consumers are encouraged to add vegetables to their diet for example with the contents and recipes available in the K-Ruoka service, as well as the materials found in the fruit and vegetable departments of stores, which illustrate how easy it is to meet the nutritional recommendation goal in everyday life.

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 reformulating the nutritional content to a healthier option is to reduce the amount of sugar by 200,000 kg, the amount of salt by 50,000 kg and the amount of saturated fat by 50,000 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. The Heart Symbols will also be added to K-Ruoka.fi recipes.

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 nearly 170 fully vegan Pirkka, Pirkka Parhaat and K-Menu products.

We add written recycling instructions on own brand product packaging to make sorting easier.

The customers of K-food stores can monitor their consumption of red meat, fruit and vegetables, for example, in the Nutrition section of the data-based K-Ostokset service. They can compare their own data to the national nutritional recommendations concerning fruit and vegetables, fish and seafood, red meat, salt and sugar, and set targets for their consumption. K-Ostokset also enables users to measure the domestic content 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.

WE MONITOR PRODUCT SAFETY

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

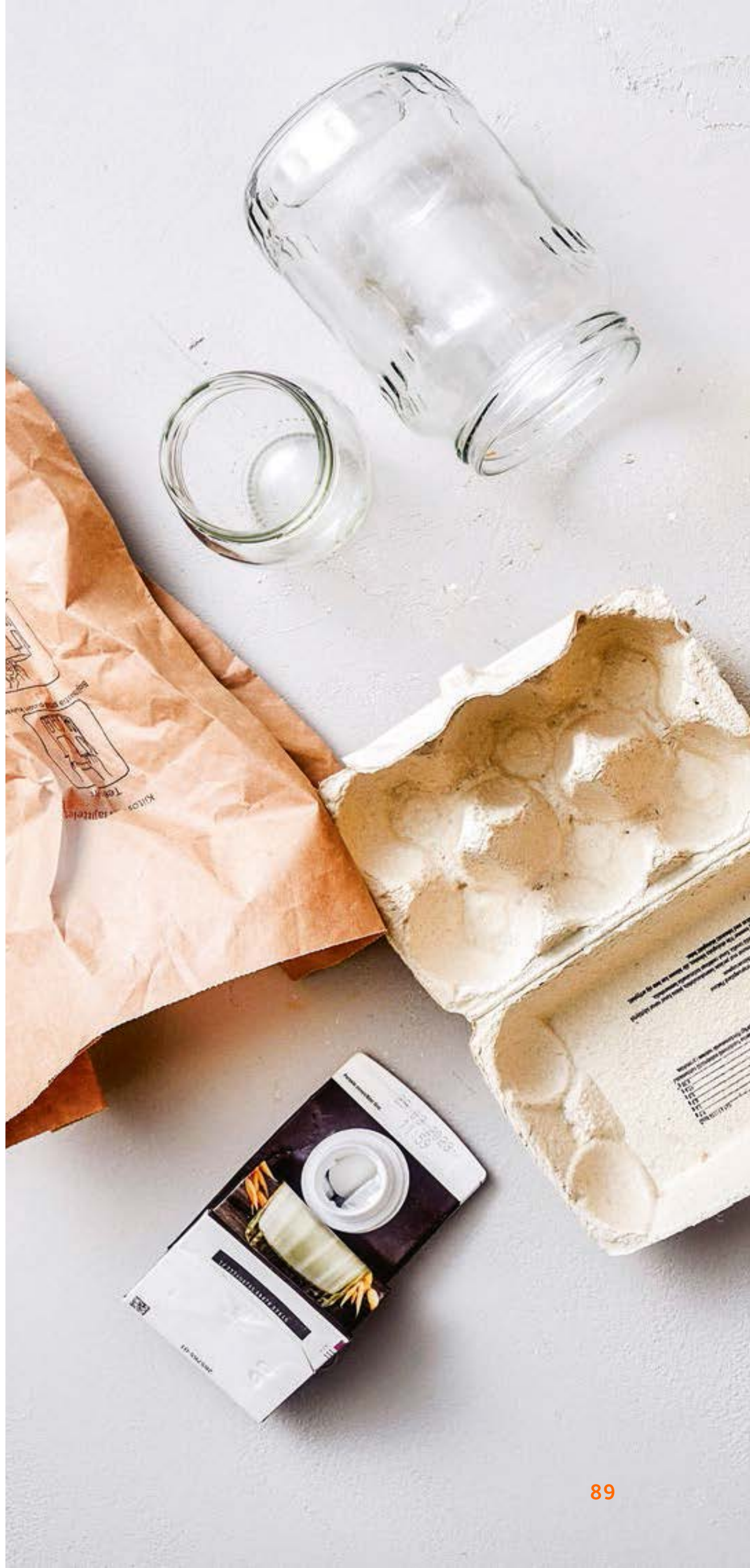
In 2022, we made 178 product recalls in the grocery trade (2021: 214). Of these, 31 concerned our own brand products (2021: 50). In other cases, our Quality and Development Unit assisted the product manufacturers in the recall. If a defect or error in a product might have health impacts, a public recall is carried out. In 2022, this happened 2 times for our own brand products (2021: 5).

In the building and technical trade division, one product recall was made in 2022 (2021: 0).

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 2022, a total of 34 recall campaigns were launched for brands represented by K-Auto (Volkswagen passenger cars and commercial vehicles, Audi, SEAT, CUPRA, Porsche, Bentley and MAN) (2021: 25).

There were no legal proceedings, fines, warnings or breaches of voluntary requirements associated with product safety or health in Kesko in 2022.



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 product 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 2022, we continued to add written recycling instructions on the product 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 2022, there were 7 product recalls of Kesko's own brand products resulting from defective product labelling (2021: 8).

There were no legal proceedings, fines, warnings or breaches of voluntary requirements associated with product labelling in 2022.

WE OBSERVE GOOD MARKETING MANNERS

In 2022, 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 a Sustainable product when it is:

- A product in line with Kesko's sustainability policies guiding 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

The Finnish law allows us to sell alcohol 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. This way, we aim to ensure that no alcohol or tobacco is sold to minors. In 2022, our cashiers verified the age of 2,861,155 (2021: 3,368,598) customers purchasing alcohol and 1,403,175 (2021: 1,689,218) customers purchasing tobacco. Based on these checks, we had to decline 15,680 alcohol purchases (2021: 16,857) and 8,592 tobacco purchases (2021: 9,800).

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

OUR PEOPLE

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

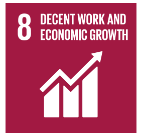
81

(scale 0–100)

OUR TARGETS:

- We support the health, wellbeing and success of our employees
- Our ultimate target is zero injuries
- We create a diversity and inclusion programme
- We aim for equal pay
- We promote gender equality on all levels of the organisation

WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:



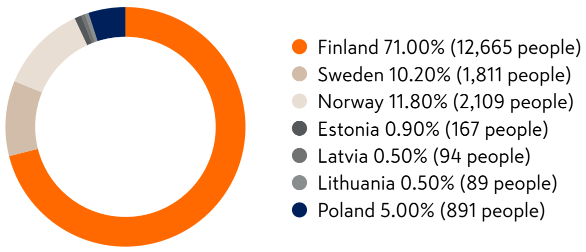
WORKING AT KESKO

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

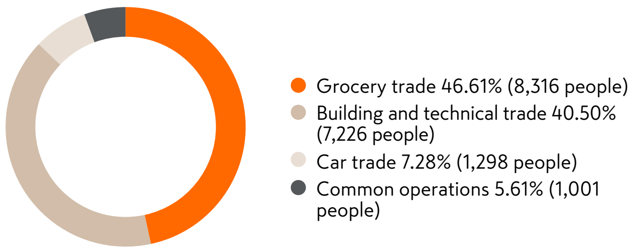
We made Our People one of the key focus areas of our sustainability strategy, which was updated in spring 2022. Responsibility for people is evident particularly in the safety and wellbeing of our personnel as well as in the promotion of diversity, inclusion and equal opportunities.

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. In 2022, we focused particularly on the measurement of results, data-driven management and diversity.

Personnel by country at 31 Dec. 2022, %



Distribution of Kesko personnel by division at 31 Dec. 2022, %



Changes in the number of Kesko employees

	2022	2021	2020
Finland on 31 Dec.	12,665	12,442	12,647
Other operating countries on 31 Dec.	5,176	4,960	5,003
Total on 31 Dec.	**17,841**	**17,402**	**17,650**
Finland, average	10,372	10,114	10,339
Other operating countries, average	4,261	4,119	7,290
Total, average	**14,633**	**14,232**	**17,629**

Kesko's personnel statistics for 2022 analysed by operating country

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland
Total number of personnel at 31 Dec.	12,665	1,811	2,109	167	94	89	891
female	6,133	505	520	48	29	24	218
male	6,532	1,306	1,589	119	65	65	673
Average number of personnel in 2022	10,372	1,490	1,546	162	91	84	873
Average age	37.5	39.2	40.3	40.8	40.2	38.9	39.9
Number of new employments[1]	4,353	498	446	44	36	25	163
female	2,143	142	106	12	10	3	38
male	2,210	356	340	32	26	22	125
Number of terminated employments[1]	4,067	544	369	38	26	17	130
female	2,171	163	89	11	8	2	24
male	1,896	381	280	27	18	15	106
Percentage of new employments[1]							
female	49.2	28.5	23.8	27.3	27.8	12.0	23.3
male	50.8	71.5	76.2	72.7	72.2	88.0	76.7
Percentage of terminated employments[1]							
female	53.4	30.0	24.1	28.9	30.8	11.8	18.5
male	46.6	70.0	75.9	71.1	69.2	88.2	81.5
Terminated by employer, %	2.3	2.8	6.0	7.9	30.8	5.9	12.3
Total turnover rate, %[2]	18.6	20.2	18.2	21.7	27.9	20.7	6.8

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

DIVERSITY, INCLUSION AND EQUAL OPPORTUNITIES

We used our draft diversity and inclusion programme, which we had prepared earlier, in the preparation of our 2022 sustainability strategy. The new sustainability strategy places diversity, inclusion and equal opportunities as one of the themes in the Our People focus area.

As part of our work on the sustainability strategy, we set the goal to take concrete action to promote people's health, wellbeing and capabilities by the end of 2024. Our progress towards this goal will be measured with two new indices: a wellbeing index and a diversity and inclusion index.

The diversity and inclusion index will increasingly focus on the employees' personal everyday experience in inclusion. In November 2022, we conducted the Our People survey and measured its results using the revised indices. The result of the diversity and inclusion index was 86 (on a scale of 0–100).

One of the concrete actions in our sustainability strategy was to create a diversity and inclusion e-learning course for the entire personnel that was rolled out in February 2023. We also arranged training on the subject for Kesko's Group Management Board in the autumn.

According to the diversity policy of Kesko's Board of Directors, Kesko seeks to have a balanced representation of genders on the Board. At the end of 2022, women accounted for two out of the seven members of the Board of Directors, and two out of the eight members of the Group Management Board. In accordance with our sustainability strategy, we aim to achieve gender equality at all levels of the organisation.

Personnel by gender in 2022, %

	Female	Male
Full-time	20.8	44.2
Part-time	19.4	9.1
Non-guaranteed hours employees	1.7	4.7
Permanent	42.9	57.1
Fixed-term	36.5	63.5
Managers	37.8	62.2

Personnel by employee category in 2022, %

	Female	Male
Top management	23.9	76.1
Middle management	38.9	61.1
Managers and specialists	42.8	57.2
Workers and white-collar employees	41.9	58.1
Total	41.9	58.1

Zero-tolerance for discrimination

Equality, fairness and non-discrimination are important principles that are observed at Kesko. Kesko Corporation and its subsidiaries in Finland draw up statutory company-specific HR, training, equality and non-discrimination plans and define objectives for improvement. Kesko has established an Employee Equality and Diversity Group in accordance with a non-discrimination plan, which handles matters related to non-discrimination and equality within the Group. The Employee Equality and Diversity Group includes representatives of the employer, personnel and labour protection functions. No cases of discrimination were reported to us in 2022.

Preferred employer

In 2022, we began to renew K Group's recruitment system and recruitment process. During 2023, the new system and process will make it easier to submit applications, improve the applicant experience and enhance the equal treatment of applicants.

K Group improved its position in the Universum Ideal Employer Ranking survey, going up by two positions to 10th position.

In T-Media's Reputation & Trust survey, K Group's reputation as an employer improved among the general population by 0.03 units, ending up with a score of 3.74.

Internal job rotation opens up opportunities for various careers options. In 2022, a total of 1,953 internal transfers were made in Finland (2021: 2,396) and a total of 1,206 (2021: 725) transfers were made in the other operating countries.

During 2022, we participated 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. A number of Ukrainian refugees were employed through the project in the grocery trade division's logistics operations.

In 2022, the average age of the total personnel was 38.2 years.

Good experiences were gained from using English as the working language, and therefore we intend to make it easier to use English as a working language in logistics over the coming year. Our K-Citymarkets continued their training programme for non-Finnish speakers in cooperation with Careeria in the Helsinki region and with Tredu in Pirkanmaa. In total, more than 20 people with an immigrant background participated in the training programmes in 2022.

In 2022, 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 used for situations where an employee's work capacity is permanently reduced compared to the requirements of the current job, and the employee is no longer capable of returning to their former job. The operating model provides a low-threshold way to search for a job and supplements the vocational rehabilitation supported by earnings-related pension providers. In 2022, with the help of the operating model, we provided 15 people with full-time employment either in a new position at Kesko or in their current position with modified duties.

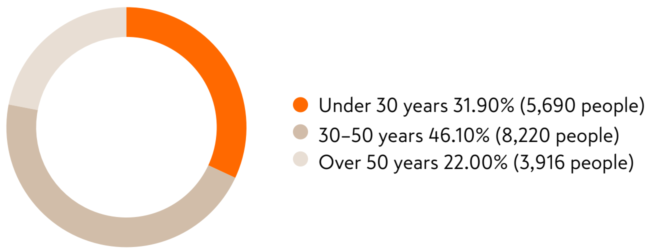
The New Direction operating model, which was piloted in the grocery trade's logistics operations, aims to find employees jobs that suit their work capacity with a new employer either directly or through retraining. Thanks to the success of the solution, we have decided to expand the trial of the model to other areas of our Group.

We also use a headhunting service in recruitment situations where it is harder to find skilled employees. This includes recruitments for K IT roles requiring special expertise.

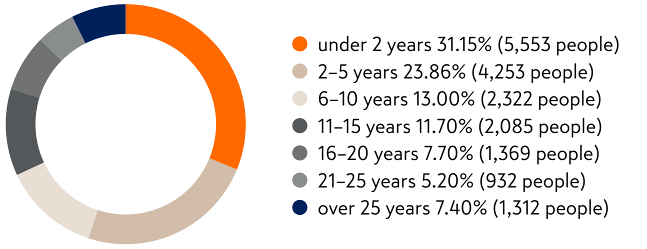
We offer comprehensive personnel benefits

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

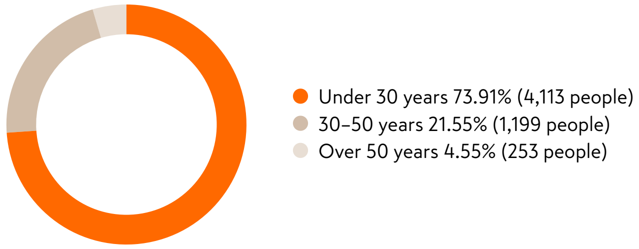
Age distribution of Kesko personnel in 2022*, %



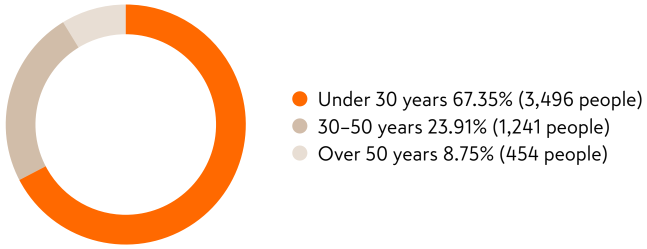
Years of service in 2022*, %



Recruits, age distribution in 2022*, %



Terminated employments, age distribution in 2022*, %



* All operating countries

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

Parental leave

	2022
Number of employees who are entitled to parental leaves	17,410
female	7,383
male	10,027
Number of employees who have taken parental leave	658
female	485
male	173
Number of employees who have returned to work after parental leave	476
female	344
male	132
Number of employees who have returned to work after parental leave and are still working after 12 months	402
female	243
male	159

In all of our operating countries, our personnel, both men and women, are entitled to family leaves (maternity, paternity, parental and childcare leave).

Family leaves were reformed in Finland in 2022. The reform also offers more equality for diverse families and allows 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 under the age of 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 2022, new pensions were granted to 167 (2021: 142) people in Finland. Of these, 27 (2021: 36) were disability pensions, of which 11 (2021: 13) were partial disability pensions. The rehabilitation benefit is a form of fixed-term disability pension granted with the aim of rehabilitating the employee to allow them to return to work. Rehabilitation benefits were granted for the purpose of retraining or work trials to 37 people (2021: 68) who were at a clear risk of incapacity for work within a few years. The average retirement age of employees in 2022 was 62.7 (2021: 61.7). The average retirement age for old-age pensions was 63.6 (2021: 63.5) and the age for disability pensions was 56.8 (2021: 56.5). In the other operating countries, 22 (2021: 28) employees retired.

PERFORMANCE BONUSES AND SHARE PLANS

The entire personnel of Kesko in Finland are covered by one of the various performance bonus schemes. During 2022, we introduced two new performance bonus models for sales assistant jobs that previously had no such models. Criteria for the performance bonus scheme include, for example, the Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on the role, personal performance bonus targets may also be set.

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

	2022		2021	
	Female	Male	Female	Male
Fixed-term employees of total personnel	**995**	**1,731**	**1,097**	**1,708**
Finland	748	5,467	868	1,137
Other operating countries	247	666	229	571
Permanent employees of total personnel	**6,482**	**8,618**	**6,412**	**8,185**
Finland	5,385	5,467	5,317	5,120
Other operating countries	1,097	3,151	1,095	3,065
Part-time employees of total personnel	**3,435**	**1,551**	**3,649**	**1,635**
Finland	3,157	985	3,287	975
Other operating countries	278	566	375	660
Full-time employees of total personnel	**3,710**	**7,881**	**3,611**	**7,587**
Finland	2,760	4,959	2,691	4,775
Other operating countries	950	2,922	92	2,812
Non-guaranteed hours employees of total personnel	**301**	**842**	**249**	**671**
Finland	216	588	207	507
Other operating countries	85	254	42	164

In spring 2022, around €23.1 million (2021: €24.5 million) was paid in Finland in bonuses under the 2021 performance bonus schemes, accounting for approximately 4.5% (2021: 4.9%) of the total payroll. In 2021, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland, €23.8 million (2021: €25.6 million)
- In the other operating countries, €7.1 million (2021: €6.0 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.

Kesko operates a share-based compensation plan for some 215 members of management and other specified key personnel. In 2022, we introduced new performance indicators and as a result some of the performance bonuses are based on Kesko's ranking in international sustainability indices.

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, keep sickness absences under control and prevent workplace injuries and retirements due to disability. We systematically track key indicators and trends, setting goals based on them and taking measures in accordance with these goals. Wellbeing and occupational safety is one of the themes of our sustainability strategy's Our People focus area. The personnel's wellbeing was measured in November 2022 with the Our People survey, which we conducted in all our operating countries. The score achieved in the revised personnel wellbeing index was 81 (on a scale of 0–100).

We continued to support our employees' mental and physical wellbeing in different ways, including through digital health coaching sessions, wellbeing coaching sessions for managers and various online mental wellbeing services. We arranged a mental wellbeing coaching session for department managers at K-Citymarkets together with MIELI Mental Health Finland. We boosted our community spirit through various events and supported the personnel in coping with the challenging global situation through unit-specific events.

The Covid-19 pandemic continued, but as restrictions were lifted, we gradually transitioned to managing the Covid-19 situation as part of normal day-to-day management. We compiled the lessons learned and best practices discovered during the pandemic systematically from the business units and used them to develop management in special situations. We continued to ensure safety in logistics and the stores, in particular.

Employees' occupational health and safety

Kesko's occupational health and safety principles have been defined in K Code of Conduct and Kesko's HR policy. 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, 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 objectives for the development of personnel wellbeing and occupational safety, and we review the results quarterly with the business units and make improvements based on them.

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. The occupational safety and health policy contains measures to prevent, reduce and remove injuries caused by working conditions, occupational diseases and physical and mental load that is harmful to health. We prepared occupational safety principles in 2022 and we require all operators to adhere to these principles. The most significant occupational safety risks are related to manual lifting and moving, the use of machinery as well as slipping during the commute and at work. In logistics, particular attention has been paid to induction and work guidance to prevent risks. In order to enhance our occupational safety work, we have designed a more comprehensive occupational safety management model which is based on the ISO 45001 standard and takes into account the specific needs of our divisions.

Occupational safety cooperation is carried out in accordance with the legislative requirements in the different countries, and there has been an occupational safety and health cooperation group with representatives from the divisions in Finland for many years. As regards occupational safety, occupational health care assesses in particular the health risk caused by work by taking into account the health risks and exposure factors occurring in it. We continuously evaluate and prevent potential work-related risks, which may be injurious to employees' health.

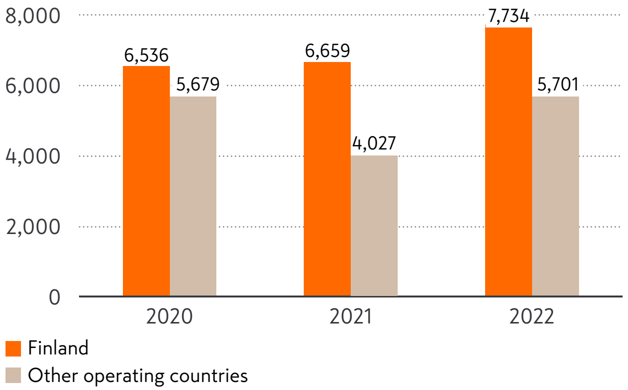
We assess the effectiveness of occupational health care operations by monitoring access to treatment, the sickness absence rate and costs, the distribution of diagnoses and indicators of occupational diseases and injuries as well as pension risks. We survey customer satisfaction in various ways several times a year. We utilise 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. Occupational health care has its own patient information system, which is separate from other information systems at Kesko. To secure data protection, we make occupational health log data inspections four times a year, and no anomalies have been detected. In health care, the level of data protection is the highest possible, and the law requires the information in patient documents to remain confidential.

In 2022, sickness absences increased due to Covid-19 and other respiratory infections as well as mental health reasons. In 2022, the sickness absence rate in the Group companies in Finland was 5.4% of hours worked (2021: 4.6%). Approximately 79.8% (2021: 71.7%) of sickness absences were paid short-term absences. In the other countries, the sickness absence rate was 5.3% (2021: 5.5%). Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables below. In the other countries, a total of 19 injuries (excluding injuries in Sweden) occurred resulting in sickness absences of more than three days in 2022 (2021: 21). The corresponding figure in Finland was 138 (2021: 106).

Trend in number of sick days

Sick days/million working hours



Injuries and occupational diseases

	2022				2021			
	Male	Female	Total	Other operating countries	Male	Female	Total	Other operating countries
Fatal injuries	0	0	0	0	0	0	0	0
Occupational injuries, excl. commuting injuries	92	46	138	117[1]	69	37	106	21
Commuting injuries	34	43	77	3	20	17	37	0
Injury rate[2] /million working hours			6.57	3.68			5.08	14.78
Average degree of injury severity, days			15.0				22.5	
Suspected occupational diseases	3	0	3	0	3	3	6	0
Occupational diseases	0	0	0	0	1	0	1	0
Sick days due to occupational injuries, commuting injuries and occupational diseases	1,806	1,412	3,218		1,350	779	2,129	
Per employee			**0.32**				**0.21**	

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. Calculation method for 2022 changed. Reported by injury date. Comparison figures reported according to the new calculation method

[1] Incl. 87 reported injuries in Sweden, without classification.

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

Sickness absences by country in 2022

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland
Total number of sick days	**151,284**	**6,790**	**25,679**	**166**	**883**	**300**	**9,391**
Per employee	15.0	4.3	31.2	10.6	10.4	4.1	2.3
Per million working hours	7,734	1,490	1,546	162	91	84	873

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

Service providers at our K-Kampus headquarters are using a shared system for reporting employees' occupational safety observations. In 2022, there were no occupational injuries among the employees of service providers working at K-Kampus.

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 region and purchases occupational health care services from one service provider for employees elsewhere in Finland. In 2022, a total of 12,101 (2021: 11,930) employees in Finland were covered by Kesko's occupational health services. A total of approximately €5.7 million (2021: €5.9 million) was spent on occupational health care in Finland. More than 60% of the occupational health care expenses was allocated to promoting work capacity and the wellbeing of the employees.

To maintain health and work capacity, employees in Finland are entitled not only to statutory occupational health care but also medical examinations and specialist's consultations needed for their treatment through Kesko Occupational Health Care. In addition to appointments with occupational health care specialists, our service agreement includes psychologist, occupational health nurse and occupational physiotherapist services. The employer, the employees and occupational health care work together to help prevent occupational diseases and injuries. We also promote the health and safety of the work environment, ensure the health and work and functional capacity of employees at different stages of their career and promote the operations of the working community. The strategic focus areas in occupational health cooperation are promoting brain health and mental wellbeing and supporting managerial work and cooperation of the working community in continuous change.

In occupational health care, the priority is on preventive measures and early identification of risks regarding both the employee's health and work capacity. From the perspective of occupational safety, occupational health care continuously assesses particularly the health risk caused by work by taking into account the health risks and exposure factors occurring in it. As part of our work to manage the Covid-19 pandemic, we provided our employees with Covid testing through occupational health care and enhanced testing in logistics and continued to provide frequent information about the pandemic. Kesko has also actively offered Covid home tests to the personnel at all business locations.

Kesko's contribution to occupational health care, Finland

€/person	2022	2021	2020
	467	494	563

To maintain employees' work capacity and to prevent their incapacity for work, Kesko utilises the multi-professional expertise of occupational health care professionals, work capacity specialists, occupational rehabilitation offered by a pension insurance company and work training services provided by third parties. As part of work capacity management in 2022, we intensified our cooperation with the pension insurance companies and conducted an assessment of risks related to incapacity for work together with the risk management function. 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 in work capacity coaching actively during the year.

ENABLING SUCCESS

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

Key areas of competence building in K Group are:

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

We offer managers a variety of training programmes which support daily managerial work on topics such as performance management, recruiting, coaching style of leadership, change leadership, interaction skills, remuneration and employment law. We especially focus on continuous performance management and strong feedback culture, and support this with various training programmes.

In 2022, we continued to provide the Leader@K coaching package intended for new managers, which includes a 360 assessment and a personal development plan. We developed a new leadership programme called Leadership Boost 2 for the entire manager target group, and it will be rolled out in spring 2023.

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

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 an opportunity to give feedback on managerial work.

Performance and development reviews are a systematic part of our performance management model. In 2022, around 86% (2021: 89%) of our employees discussed their objectives and development with their manager. Per personnel group, 81% of workers and office employees, 99% of managers and specialists and 97% of management discussed their objectives 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 whole working community. Finally, a personal development plan is created for the employee.

Training hours and costs

	2022	2021	2020
Training hours			
Workers, office workers[1]	26,676	20,740	16,055
Managers/specialists[1]	25,361	27,151	19,447
Management[1]	2,251	1,518	1,603
Kesko Group	73,151	96,445	48,950
female[1]	20,431	21,488	19,061
male[1]	33,856	19,680	18,065
Training hours per employee			
Workers, office workers[1]	1.8	1.5	1.1
Managers/specialists[1]	8.2	9.1	6.7
Management[1]	9.0	6.6	6.9
Kesko Group	4.1	5.5	3.5
female[1]	2.7	2.9	2.5
male[1]	3.3	2.0	1.8
Training costs, € million	2.4	2.4	2.0
Training costs per employee, €	166	170	139
Distribution by education, %			
Comprehensive school	1.8	4.9	4.6
Upper secondary vocational school	66.4	65.1	67.0
Lower university degree	15.4	15.0	14.3
Upper university degree	16.4	15.0	14.1

[1] eLearning not included

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

PERSONNEL SURVEY AS DEVELOPMENT TOOL

The personnel survey is among the key tools for improving methods of operation and managerial work and one way of listening to the views of the personnel. In 2022, in addition to various pulse surveys, we conducted the Group-wide Our People personnel survey in Finland, Sweden, Norway, Poland and in the Baltic States. The purpose of the survey was to measure how well the goals of the Our People section of Kesko's sustainability strategy have been achieved with regard to the personnel's wellbeing and diversity and inclusion. The response rate to the survey was 48%.

We promote the realisation of pay equality

The average annual salary of Kesko employees was €43,236 in Finland, €40,766 in Sweden, €56,289 in Norway, €30,933 in Estonia, €25,355 in Latvia, €39,841 in Lithuania and €21,253 in Poland. As Kesko Group engages in various types of operations, average salary is not a good indicator of salary level or structure. The wage groups and tables specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality.

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

Kesko uses a job evaluation system.

Equality 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 salary equality 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 the EWC (European Work Council) activities in cooperation with the Service Union United PAM. Due to the Covid-19 pandemic, no international meetings were held in 2020-2022.

Out of the total personnel, 78.2% are covered by collective agreements. So far, no binding industry-wide collective agreements have been drawn up in the Baltic States 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 shall not exceed eight hours per day or 40 hours per week.

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

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

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

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

GOOD GOVERNANCE

SUSTAINABILITY IN ACTION

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

Ethics index

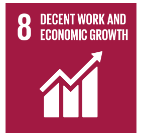
82%

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:



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)

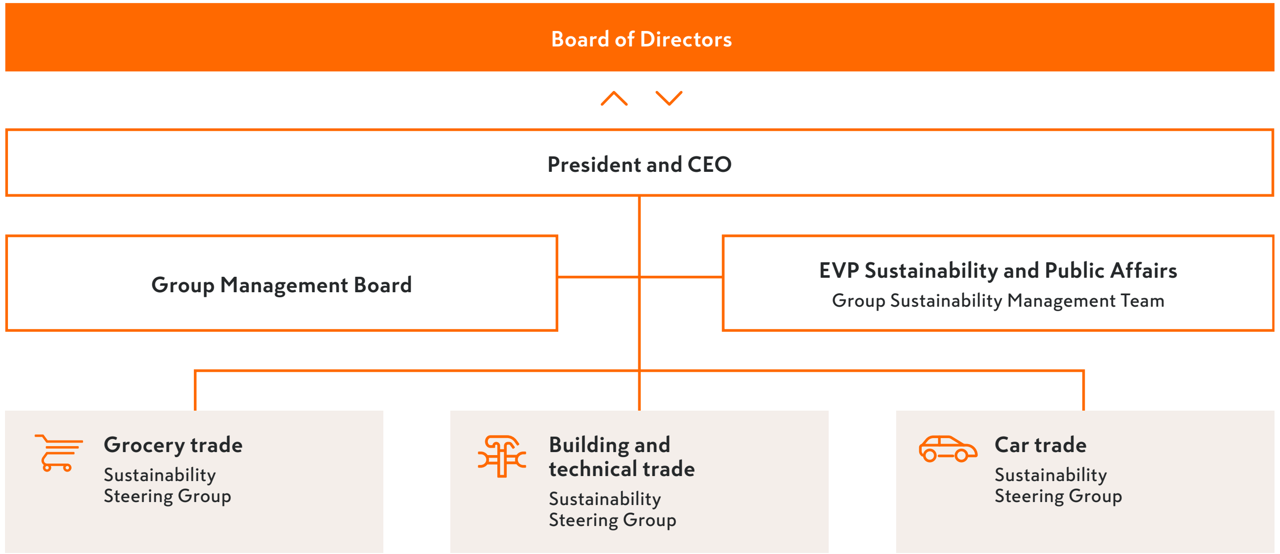
At the highest level, sustainability management is carried out by Kesko's Board of Directors and President and CEO. The Board approves the sustainability strategy and the strategic targets and monitors the progress of the strategy on an annual basis. Kesko's President and CEO has overall responsibility 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 • Transparent supply chains • Health and nutrition • Store as an employer
Investors, shareholders, analysts and other representatives of capital markets	• General Meeting • Financial reporting • Press conferences • Investor web pages, social media channels and other digital channels • Investor and analyst meetings • Surveys and assessments • Personal dialogue	• Climate change • Biodiversity • Personnel and other social responsibility themes • Responsible remuneration • 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 • Non-discrimination, diversity 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	• Vitality of Finnish food production • Climate impacts of food • Packaging and plastic • Food waste • Origin and availability of products • Employees' working conditions

ETHICS AND COMPLIANCE

Ensuring ethical business conduct and compliance in Kesko Group takes place 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 2022, Kesko's K Compliance programmes included data protection, competition law, consumer protection, and anti-bribery and corruption. We established an entirely new trade sanctions and export control programme to ensure that international sanctions applicable to our operations are efficiently complied with. The number of sanctions grew significantly as a result of Russia's war of aggression in Ukraine.

In 2022, the focus areas in ensuring compliant and ethical business conduct were training the personnel and performing the compliance audits according to the annual plan. More than 4,000 persons participated in targeted training sessions and employees also completed more than 17,000 online training sessions on compliance.

In 2022, three reports on K Compliance activities were presented to the Audit Committee, one of which focused on the trade sanctions and export control K Compliance programme alone. In addition, compliance reporting was extended in the divisions' management groups and in country organisations. In 2022, 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 2022 were achieved, and the target levels for 2023 were approved.

The compliance and ethics of Kesko's business operations are implemented in everyday work especially by emphasising the role of managers. According to our sustainability strategy, we ensure good and transparent governance. In the case of suspected misconduct, we instruct our employees to first report them to their own manager or to the unit responsible for the matter. If, for any reason, this is not possible, 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.

Based on the results of the K Voices personnel survey completed at the end of 2021, development measures were initiated to ensure low-threshold reporting of any suspected misconduct in Kesko. The development measures were carried out during 2022 as planned, apart from the internal information campaign on the entry into force of the Whistleblower Protection Act, which was

postponed as the Act's entry into force was delayed until 2023. As part of the development measures, we updated the guidelines for using the SpeakUp reporting channel and published the anti-harassment principles of Kesko. In Sweden, two company-specific reporting channels required by local legislation were introduced.

A total of 37 (2021: 34) reports were submitted through the Kesko SpeakUp channel, 31 (2021: 25) of which required investigation 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 2022. The most frequent reports (45%) were 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 serves as a basis for the K Compliance operating model.

The K Code of Conduct that covers the entire personnel and Kesko's partners serves as a basis for the K Compliance operating model. Activities to increase people's awareness of the K Code of Conduct and to integrate its guidelines into Kesko's HR processes were continued in 2022. Furthermore, we started measures to renew the K Code of Conduct during 2023. All Kesko personnel members are asked annually to confirm their commitment to compliance with the K Code of Conduct. This process was developed in 2022 so that in addition to collecting the annual confirmation, a discussion between the manager and the employees on the application of the K Code of Conduct in practice will also be included. At the time of reporting, the proportion of Kesko's personnel who submitted the annual confirmation was at least 78%, with the exception of the K-Citymarket chain, where collection will continue in March 2023.

Prevention of corruption and bribery

One of the focus areas of Kesko's compliance operations is the prevention of corruption and bribery. This work is carried out with the K Compliance programme. The measures taken in 2022 included, for example, developing anti-bribery and corruption guidelines and providing training on them as well as performing risk assessments on a regular basis. In 2022, the focus of risk assessments was on assessing risks related to hospitality in order to support the further development of Group level guidelines. The risks identified will be considered in the further instructions and training to be introduced in 2023 including, for example, more detailed guidelines to be prepared concerning conflicts of interest.

Kesko's K Code of Conduct includes anti-bribery and 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. In 2022, these online courses were completed a total of 4,798 (2021: 3,696) times.

With the consistent guidelines and training we ensure that everyone at Kesko has the same view about the anti-bribery and corruption principles and modes of operation that guide our everyday work. The anti-bribery and corruption guidelines published in the languages of all our operating countries are the same for all Kesko employees. All Kesko's partners are required to commit to Kesko's K Code of Conduct for 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 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 2022, no corruption-related lawsuits against any Kesko Group company came to our knowledge. No observations of breaches of anti-bribery and corruption guidelines in Kesko were reported through the SpeakUp channel either in 2022.

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 the society. Kesko promotes the growth of welfare throughout its supply chain, including developing countries.

We pay steady dividends

Kesko has some 83,000 shareholders. In the long term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Read more on Kesko's dividend policy in Kesko's direction section.

Our capital expenditure impacts the whole society

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

Kesko's capital expenditure in 2022 totalled €449.2 million (2021: €276.6 million). The store site network is a strategic competitive factor for K Group. In 2022, capital expenditure on store sites totalled €268.1 million (2021: €129.0 million). Read more about Kesko's capital expenditure in the Report by the Board of Directors. In addition to Kesko, K-retailers invest in e.g., store fixtures.

Economic benefits from Kesko's operations to stakeholders

€ million		**2022**	**2021**	**2020**
Customers[1]	Revenues	12,808	12,258	11,600
Value added generated		**12,808**	**12,258**	**11,600**
Distribution of value added:				
Suppliers and service providers	Goods, materials and services purchased	-11,044	-10,556	-10,079
Employees	Salaries, fees and social security expenses	-786	-764	-751
Payments to providers of capital	Net finance income/costs	-56	-68	-87
Owners	Dividend	-429[2]	-421	-298
Public sector	Taxes[3]	-153	-143	-91
Community investments	Donations	-5	-4	-3
Development of business operations		334	301	294

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

Economic benefits from Kesko's operations by market area in 2022

€ million	**Net sales**	**Purchases[1]**	**Capital expenditure**	**Salaries and share-based payments**	**Social security expenses**	**Taxes[2]**
Finland	9,600	6,684	385	459	99	1,001
Other Nordic countries	1,729	1,466	60	148	44	140
Baltic countries and Poland	480	452	4	29	6	40
Other countries	-	1,483	0	1	0	0
Total	**11,809**	**10,084**	**449**	**637**	**149**	**1,182**

[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, property 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 received from public sector

In 2022, Kesko received financial assistance totalling €3.2 million from the public sector. The sum consists mainly of assistance received in Finland (€2.2 million) and in Sweden (€0.8 million). Most of the public sector assistance received in Finland concern 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 the quality of living and sustainability, and bring joy to as many people as possible. K Group is the main cooperating partner of the Finnish Football Association in 2021-2024. 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.

Kesko Corporation may award donations to non-profit organisations out of funds granted by the company's General Meeting. Kesko's Board of Directors decides on the donation recipients. In 2022, half of the Board of Directors' donations were given to Unicef and the Red Cross to support Ukraine. Starting in December 2022, K Group and the Mannerheim League for Child Welfare worked in cooperation to gather funds to support the Ukrainians in Finland by means of sales of the Ukraine bows.

An extensive store network and additional services to customers

Kesko has around 1,800 stores engaged in chain operations in seven countries. In Finland, Kesko's principal business model is the chain business model, in which some 1,100 independent K-retailers operate retail stores in Kesko's chains, which include the grocery store chains, the K-Rauta chain, and the Intersport chain.

Kesko's community investments

€1,000	2022	2021	2020
Non-governmental, environmental and other organisations	434	142	92
Sports (adults)	2,546	1,936	1,246
Youth sports and other youth work	451	486	552
Science, research and education	11	43	61
Culture	454	119	119
Health	1,077	1,057	910
Veteran organisations and national defence	17	51	19
Total	**4,990**	**3,834**	**3,000**

Read more about sponsoring and donations

Outside Finland, Kesko mainly engages in own retailing and B2B trade. Read more in Kesko's direction section.

Together, Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled €15.8 billion in 2022 (0% VAT). K Group has an extensive store network in Finland. Read more at Kesko's webpages.

There is a K-food store in most municipalities in Finland. There are some 1,200 K-food stores in Finland and every day, some 1.2 million customers visit K-food stores. Especially outside growth centres, stores can offer services which may otherwise be scarcely available.

In 2022, the following additional services were available at K-stores:

- Cashback services at all K-food stores
- Postal service points of the Finnish Posti can be found from over 400 K-food stores. In addition to the Posti service points majority of K-food stores offer also other parcel and postal services (Matkahuolto, PostNord, Schenker, UPS, parcel lockers). Parcel and postal services can be found in total at 1,020 K-food stores.
- Charging points for electric cars at over 200 stores
- 400 Rinki eco take-back points

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 2022.

In 2022, Kesko has applied for advance rulings from tax authorities in relation to planned business transactions, the tax treatment of which involved interpretation. In addition, Kesko has had pre-emptive discussions with tax authorities on various questions of interpretation.

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 2022 does not contain provisions for uncertain tax positions.

In 2022, 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 2022, 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 subsidiary in Kazakhstan was dormant in 2022, and is therefore not covered in the country-by-country reporting. In addition to the operating countries of Group companies, in 2022 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. 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 2022, Kesko's income taxes in Finland totalled €118.9 million and in other countries €23.5 million. The Group's effective tax rate was 19.9%. 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 2022, the profit from Finland included a profit of €24.1 million from associates.

Taxes paid and remitted by country 2022

€ 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	664.7	118.9	534.4	115.1	122.0	8.8	50.9	10.5	79.3	46.2
Sweden	19.4	4.3	33.2	16.6	21.3	1.3	-	0.4	0.0	-
Norway	50.4	12.1	46.8	25.5	16.1	0.2	-	0.0	-	-
Estonia	3.9	3.0	7.3	1.1	1.6	0.0	-	0.2	-	-
Latvia	2.2	0.1	2.8	0.4	0.8	0.0	-	-	-	-
Lithuania	1.1	0.2	4.9	0.6	0.7	0.0	-	0.0	-	-
Poland	19.2	3.7	8.9	1.8	7.5	0.2	-	0.2	-	-
China	0.0	0.0	0.1	0.0	0.2	-	-	-	-	-
Armenia	0.0	0.0	0.1	-	-	-	-	-	-	-
Germany	0.1	0.0	-	0.2	0.0	-	-	-	-	-
Total	**761.1**	**142.4**	**638.4**	**161.4**	**170.1**	**10.5**	**50.9**	**11.3**	**79.4**	**46.2**

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.

The Swedish subsidiaries of the Group have a significant amount of tax losses, from which no deferred tax assets have been recognised due to the historical loss position. 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 only recognised if a decision on the distribution of earnings is probable in the near future. Consequently, the difference between the theoretical tax calculated from the profit for the financial period and the tax expense accrued based on profit distribution during the period is shown in the table Country-by-country tax rate reconciliation on row 'Effect of unrecognised deferred taxes'. In Estonia, the accrued taxes and cash taxes in 2022 relate to dividend payments.

Country-specific information 2022

€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	China
Personnel at 31 Dec. 2022[1]	9,770	1,441	1,540	164	94	85	874	15
Salaries	448.4	60.7	87.0	5.0	2.3	3.3	18.6	0.6
External net sales	9,600.2	680.9	1,048.2	70.4	26.4	33.8	349.1	-
Group internal net sales[2]	10.5	0.1	-	1.9	0.1	0.4	0.1	-
Profit before taxes	664.8	19.4	50.4	3.9	2.2	1.1	19.2	0.0
Intangible assets	1,647.5	42.0	34.1	0.6	0.5	0.7	20.1	0.0
Inventories	786.2	123.4	126.9	18.0	7.6	8.3	45.0	-
Group internal interest-bearing debt	31.1	90.4	33.9	0.5	5.2	3.0	7.4	-
Income taxes paid	148.0	3.5	15.3	3.7	0.0	0.1	4.2	0.0
Accrued income taxes[3]	118.9	4.3	12.1	3.0	0.1	0.2	3.7	0.0
Effective cash tax rate	22.3%	17.8%	30.3%	94.1%	0.0%	5.6%	22.1%	3.4%

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 2022

€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	China
Profit before taxes	664.8	19.4	50.4	3.9	2.2	1.1	19.2	0.0
Local tax rate	20.0%	20.6%	22.0%	20.0%	20.0%	15.0%	19.0%	2.5%
Tax at local tax rate	-133.0	-4.0	-11.1	-0.8	-0.4	-0.2	-3.6	-0.0
Effect of tax-free income	0.3	0.0	0.0	-	0.0	-	-	-
Effect of expenses not deductible for tax purposes	-0.3	-0.5	-0.2	-	0.0	0.0	-0.1	-
Effect of unrecognised deferred taxes	0.1	0.0	0.0	-2.3	0.3	0.0	0.0	-
Effect of consolidation of share of result of associates and joint ventures	4.8	-	-	-	-	-	-	-
Others	-0.4	0.0	0.3	-	0.0	0.0	-0.1	0.0
Tax charge	-128.5	-4.6	-11.1	-3.0	-0.1	-0.2	-3.8	0.0
Effective tax rate	19.3%	23.5%	22.0%	77.7%	5.7%	13.9%	19.7%	-0.4%

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 2022 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-by-country tax rate reconciliation is shown on the line "Effect of unrecognised deferred taxes".

RESPONSIBLE USE OF DATA

Kesko's key objectives of data utilisation are improving customer experience 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

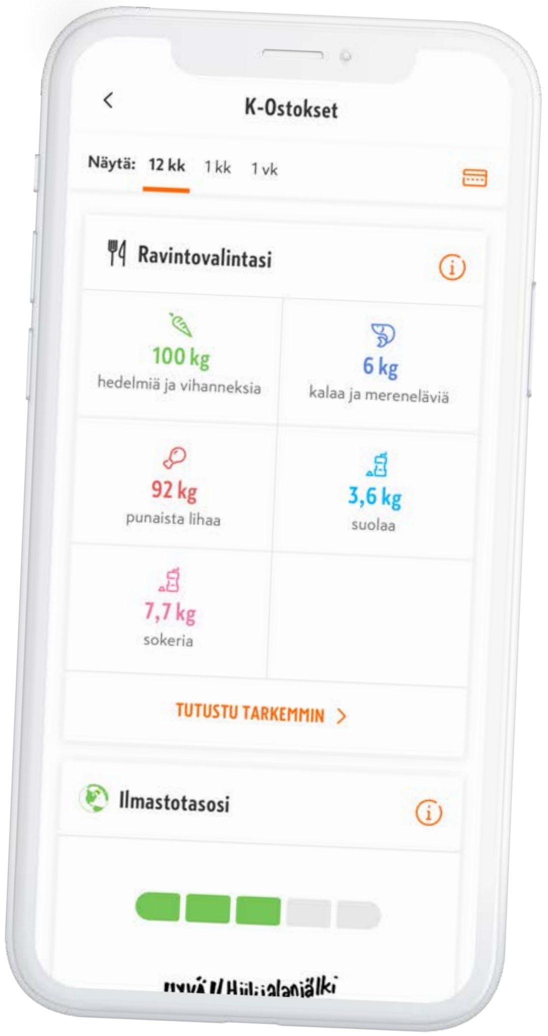
In the grocery trade we use data to help customers make sustainable choices. Customers can make purchase decisions that benefit the environment, Finnish food production, and their own wellbeing by using reporting and product information services, particularly the K-Ostokset service. The service enables customers to set their own sustainability goals, such as the carbon footprint of their grocery purchases, for example.

The carbon footprint calculator enables customers to study the climate impact of their purchases as a whole and by product category. In the application, customers can also set goals related to nutrition, such as a goal to reduce consumption of sugar. Ruokavuotesi 2022 (Your year in food) service launched in December, for example, shows whether the amount of vegetables has increased or decreased in the shopping basket.

The data helps K-retailers create sustainable business. 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 according to the circulation speed.

Kespro is developing a reporting service for its foodservice customers which they can use to view their purchasing data based on the level of Finnish origin or sustainability labelling. The aim is to also include a feature for checking the carbon footprint of products as part of the service.

Data and artificial intelligence are also utilised in K Group's 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.



Read more in the Data Balance Sheet

SUSTAINABILITY REPORTING

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 the first time, we report in accordance with the Universal Standards GRI 1, GRI 2 and GRI 3, in effect at the beginning of 2023. For each reported standard, the GRI index refers to the year of the version used.

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

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

Assurance of reporting

An independent third party, 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

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

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 describes the progress and results of sustainability work in 2022. It includes some information from January and February 2023. The report for 2021 was published in March 2022. The report for 2023 will be published in the spring of 2024.

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

WE SUPPORT
UN GLOBAL COMPACT

GRI INDEX

AR = Annual Report

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
GRI 2 GENERAL DISCLOSURES						**2021**	
2-1	Organizational details	AR 5					
2-2	Entities included in the organization's sustainability reporting			Kesko Corporation (Finland) and its building and technical trade companies in Sweden, Norway, the Baltic countries and Poland as well as its car trade companies in the Baltic countries.			
2-3	Reporting period, frequency and contact point	AR 117 Contacts					
2-4	Restatements of information			No significant changes. Changes reported in connection with topic-specific information.			
2-5	External assurance	AR 126–127					
2-6	Activities, value chain and other business relationships	AR 5, AR 51			x		
2-7	Employees	AR 92–97		There are no significant seasonal fluctuations in the number of employees.	x		
2-8	Workers who are not employees	AR 100		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	AR 249					
2-10	Nomination and selection of the highest governance body	AR 249					
2-11	Chair of the highest governance body	AR 249					
2-12	Role of the highest governance body in overseeing the management of impacts	AR 253–254					
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 Management Board			

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
2-14	Role of the highest governance body in sustainability reporting	AR 253					
2-15	Conflicts of interest	AR 249–258		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.			
2-16	Communication of critical concerns	AR 262					
2-18	Evaluation of the performance of the highest governance body	AR 254					
2-19	Remuneration policies	AR 276–281					
2-20	Process to determine remuneration	AR 276–281					
2-22	Statement on sustainable development strategy	AR 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	AR 107–108 Statement of commitment on human rights and impact assessment					
2-25	Processes to remediate negative impacts	AR 107–108					
2-26	Mechanisms for seeking advice and raising concerns	AR 108 K Code of Conduct			x		
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.			
2-28	Membership associations	Activities in organisations					
2-29	Approach to stakeholder engagement	AR 106					
2-30	Collective bargaining agreements	AR 103			x		

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
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					
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	AR 109					x
201-2	Financial implications and other risks and opportunities due to climate change	AR 21	Monetary evaluations or realisations have not been reported for risks and opportunities.	TCFD Report	x		x
201-4	Financial assistance received from government	AR 110					x
203	**Indirect economic impacts**					**2016**	
203-1	Infrastructure investments and servies supported	AR 110–111					x
204	**Procurement practices**					**2016**	**x**
204-1	Proportion of spending on local suppliers	AR 76–77, AR 109	Purchases from suppliers are reported by the location of the supplier. 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	AR 107–108		Risks related to corruption are discussed as part of Kesko's risk managament. Key risks are identified and assessed regularly throughout the year.	x		x
205-2	Communication and training about anticorruption policies and procedures	AR 107–108	Data for discl. a-e not reported. Percentages not reported by personnel group or geographical region.		x		x
205-3	Confirmed incidents of corruption and actions taken	AR 107–108			x		x

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
206	**Anti-competitive behaviour**					**2016**	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices			In 2022 The Finnish Competition and Consumer Authority informed that it has been investigating Onninen on a suspected violation of competition law in 2009-2016 and proposes a penalty payment of €16 million. Onninen denies the claims. Kesko Corporation is not suspected of participation in the alleged infringement. Kesko has published a release on the matter on 8 September 2022. No authority rulings or legal actions regarding anticompetitive behaviour, anti-trust, and monopoly practices were reported in 2022.			x
207	**Taxes**					**2019**	
207-1	Approach to tax	AR 111–114, Kesko's tax policy					x
207-2	Tax governance, control and risk management	AR 111–114, Kesko's tax policy					x
207-3	Stakeholder engagement and management concerns related to tax	AR 111–114, Kesko's tax policy					x
207-4	Country-by-country reporting	AR 111–114					x
ENVIRONMENTAL IMPACTS							
301	**Materials**					**2016**	
301-3	Reclaimed products and their packaging materials	AR 70	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	AR 63–64	At some properties located in leased premises outside Finland, the heat energy data is not reported because it is included in the lease or data is not available.	Kesko's Greenhouse Gas Inventory Report 2022 The energy consumption data from other countries is compiled from fuel and purchased energy consumption reported by subsidiaries.	x		x
302-3	Energy intensity	AR 64			x		x
302-4	Reduction of energy consumption	AR 65–66			x		x

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
303	**Water and effluents**					**2018**	
303-1	Interactions with water as a shared resource	AR 68			x		x
303-5	Water consumption	AR 68	At some properties located in leased premises outside Finland, water consumption is included in the lease and data is not available for reporting	Kesko's Greenhouse Gas Inventory Report 2022 The water consumption data from other countries is compiled from water billing or consumption data reported by subsidiaries.	x		x
304	**Biodiversity**					**2016**	
304-2	Significant impacts of activities, products and services on biodiversity	AR 66–67			x		x
304-3	Habitats protected or restored			Kesko does not have any protected habitats of its own.	x		
305	**Emissions**					**2016**	
305-1	Direct (Scope 1) GHG emissions	AR 58		Kesko's Greenhouse Gas Inventory Report 2022	x		x
305-2	Energy indirect (Scope 2) GHG emissions	AR 58		Kesko's Greenhouse Gas Inventory Report 2022	x		x
305-3	Other indirect (Scope 3) GHG emissions	AR 60		Kesko's Greenhouse Gas Inventory Report 2022	x		x
305-4	GHG emissions intensity	AR 58			x		x
305-5	Reduction of GHG emissions	AR 55–57, AR 59			x		x
305-7	Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions	AR 58		Kesko's Greenhouse Gas Inventory Report 2022	x		x
306	**Waste**					**2020**	
306-2	Management of significant waste-related impacts	AR 69–70			x		x
306-3	Waste generated	AR 71					x
306-4	Waste diverted from disposal	AR 72–73	Classification of disc. a excluded. Disc. b-e not reported.	Food waste reported.	x		x
308	**Supplier environmental assessment**					**2016**	
308-1	Supplier environmental assessment	AR 82	Not reported by percentage.				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
SOCIAL IMPACTS							x
401	**Employment**					**2016**	
401-1	New employee hires and employee turnover	AR 93	In new employee hires, regional ratio not reported.		x		x
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	AR 95–96, 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	AR 96–97	Data for disc. e not reported.				x
402	**Labour/Management relations**					**2016**	
402-1	Minimum notice periods regarding operational changes	AR 103	Arrangements compliant to legislation. Legislation does not define minimum notice periods at the precision required by GRI.		x		x
403	**Occupational health and safety**					**2018**	
403-1	Occupational health and safety management system	AR 98–100	Data for disc. a.i., a.ii and b not reported.				x
403-2	Hazard identification, risk assessment, and incident invcestigation	AR 98–100	Data for disc. a.i, b, c and d not reported.				x
403-3	Occupational health services	AR 98–100	Data for disc. a not reported.				x
403-5	Worker training on occupational health and safety	AR 98–100					x
403-6	Promotion of worker health	AR 98–100					x
403-9	Work-related injuries	AR 98–100	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	AR 98–100	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	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
404	**Training and education**					**2016**	
404-1	Average hours of training per year per employee	AR 101			x		x
404-2	Programmes for upgrading employee skills and transition assistance programmes	AR 101	Data for disc. b not reported.				x
404-3	Percentage of employees receiving regular performance and career development reviews	AR 101–102	Not reported by gender.		x		x
405	**Diversity and equal opportunity**					**2016**	**x**
405-1	Diversity of governance bodies and employees	AR 94–95	Age distribution data for disc. a not reported.		x		x
405-2	Ratio of basic salary and remuneration of women to men	AR 102–103	Data related to equal pay not reported by country.		x		x
406	**Non-discrimination**					**2016**	
406-1	Incidents of discrimination and corrective actions taken	AR 94			x		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	AR 103			x		x
414	**Supplier social assessment**					**2016**	
414-1	New suppliers that were screened using social criteria	AR 78–81	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	AR 78–81	Percentage of suppliers with whom we ceased to cooperate not reported.				x
415	**Public policy**					**2016**	
415-1	Political contributions	AR 108			x		x

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION	EXTERNALLY ASSURED
416	**Customer health and safety**					**2016**	
416-1	Assessment of the health and safety impacts of product and service categories	AR 88–89	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	AR 89					x
417	**Marketing and labelling**					**2016**	
417-1	Requirements for product and service information and labelling	AR 90	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	AR 90					x
417-3	Incidents of non-compliance concerning marketing communications	AR 90					x
418	**Customer privacy**					**2016**	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data			In one case in 2022, we were contacted by two customers regarding a breach of customer privacy. We were also contacted by authorities regarding this case.			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, 2022 to December 31, 2022. 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 site in Norway through a video conference;
- 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 2022 is not properly prepared, in all material respects, in accordance with the Reporting criteria.

Helsinki, February 28, 2023

Deloitte Oy
Audit firm

Jukka Vattulainen
Authorized Public Accountant

Anu Servo
Authorized Public Accountant

FINANCIAL REVIEW

2022 KESKO ANNUAL REPORT

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.

THE REPORT BY THE BOARD OF DIRECTORS

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 2022. At the end of 2022, Kesko had nearly 1,100 independent K-retailer entrepreneurs as partners. Kesko also engages in its own retailing, which accounted for some 14% of net sales. B2B trade is a significant and growing part of Kesko's business operations, and it accounted for approximately 40% of Kesko's net sales.

Outside Finland, Kesko mainly engages in its own retailing and B2B trade. Net sales for international operations totalled €2,209 million, and accounted for 19% 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 2022.

Operating environment

Identified megatrends impacting K Group's operations include accelerating change in the use of digital solutions and new technologies, the importance of sustainability and impacts on climate and nature, globalisation and related supply chain security, the importance of risk management, and continued population change. Themes emphasised in customer and consumer trends include the need to constantly adjust selections, multichannel shopping, growing customer knowledge and power, and more individual customer behaviour. 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 and loss of biodiversity. 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 2022

Kesko Group's guidance is given for the year 2023, in comparison with the year 2022. Kesko's net sales and operating profit are estimated to remain at a good level in 2023 despite the challenges in the company's operating environment. Kesko estimates that its comparable operating profit in 2023 will be in the range of €680–800 million. The guidance is based on an estimated relatively short recession in Kesko's operating countries. Key uncertainties impacting Kesko's outlook are developments in inflation and interest rate levels, and Russia's ongoing offensive war in Ukraine.

In the grocery trade division, B2C trade as a whole is estimated to remain stable, and the foodservice market is predicted to continue to grow. Price inflation will support sales development in euro terms, but will also increase costs. Operating profit is expected to remain at a good level.

The construction market is expected to decrease somewhat compared to 2022. New building construction is estimated to decrease, but renovation building and construction related to the green transition are estimated to continue to grow. Operating profit is expected to remain at a good level also in building and technical trade.

In the car trade division, car availability is estimated to improve, but demand is estimated to remain below long-term average. Profitability in the car trade division is expected to remain at a good level.

Important events

Positive profit warning on 25 April 2022

Kesko raised its profit guidance for 2022 on 25 April 2022, estimating that its comparable operating profit in 2022 will be in the range of €730–840 million. Before, the company estimated that the comparable operating profit would be in the range of €680–800 million.

Financial performance

Net sales and profit 2022

1–12/2022	Net sales, € million	Change %	Change, comparable, %	Operating profit, comparable € million	Change, € million
Grocery trade	6,124.7	+3.6	+3.6	460.4	+17.5
Building and technical trade excl. speciality goods trade	4,591.1	+10.3	+9.7	302.8	+27.4
Speciality goods trade	214.0	-4.3	+1.8	16.1	-5.1
Kesko Senukai	-	-	-	20.9	-0.5
Building and technical trade total	4,805.1	+9.5	+9.4	339.8	+21.8
Car trade	910.9	-11.4	-11.4	48.4	-3.9
Common functions and eliminations	-31.8	-	-	-33.5	+4.2
Total	**11,809.0**	**+4.5**	**+4.4**	**815.1**	**+39.6**

Group net sales grew by 4.4% in comparable terms. Net sales grew in comparable terms by 3.6% in Finland and by 8.4% in other operating countries. The comparable change % has been calculated in local currencies and excluding the impact of acquisitions and divestments completed. The reported Group net sales grew by 4.5%.

Net sales for the grocery trade division grew by 3.6%. Sales to K Group grocery store chains grew by 0.8%. Net sales for Kespro's foodservice business grew by 20.7%. As Covid-19 restrictions were less severe than in the comparison period, consumption was relatively more geared towards foodservice than retail.

Net sales for the building and technical trade division increased by 9.5%, or by 9.4% in comparable terms. Net sales grew in comparable terms in all operating countries. Net sales growth continued strong in Onninen's technical wholesale. The growth was underpinned by good volume development and rising prices in some product categories.

In building and home improvement trade, sales increased in B2B trade, but decreased in B2C trade.

Net sales for the car trade division decreased by 11.4% due to the poor availability of cars.

The Group's comparable operating profit totalled €815.1 million, an increase of €39.6 million. In the grocery trade division, profitability improved in particular thanks to strong growth in Kespro's foodservice business. In the building and technical trade division, profit continued to strengthen in Onninen's technical wholesale. Onninen's comparable operating profit grew in all operating countries. In building and home improvement trade, comparable operating profit decreased in all operating countries. Share of result from Kesko Senukai had a €0.5 million negative impact on the building and technical trade division's comparable operating profit. In the car trade division, net sales and comparable operating profit decreased due to the weakened availability of cars in 2022.

Items affecting comparability, € million	1–12/2022	1–12/2021
Comparable operating profit	**815.1**	**775.5**
Items affecting comparability		
+gains on disposal	+0.0	+1.4
-losses on disposal	-0.1	-0.0
-impairment charges	-	-5.4
+/-structural arrangements	+1.6	+3.7
Total items affecting comparability	**+1.5**	**-0.3**
Operating profit	**816.5**	**775.2**

K Group's (Kesko and the chain stores) retail and B2B sales (0% VAT) totalled €15,832.5 million, representing a growth of 3.6% compared to the previous year. During the 12-month period that ended in December 2022, the number of Finnish households belonging to the K-Plussa loyalty scheme and using the Plussa network totalled 2.4 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	1–12/2022	1–12/2021
Net finance costs, € million	-56.0	-68.2
Interests on lease liabilities, € million	-68.4	-71.3
Profit before tax, comparable, € million	763.2	710.4
Profit before tax, € million	761.1	712.9
Income tax, € million	-151.2	-141.1
Earnings per share, comparable, €	1.54	1.43
Earnings per share, €	1.53	1.44
Equity per share, €	6.90	6.37

The Group's net finance costs were positively impacted by the change in the fair value of interest rate derivatives, €13.5 million, and a decrease in interest expenses for lease liabilities. The share of result of associates amounted to €0.6 million (€5.9 million, or €2.0 million in comparable terms).

The Group's comparable profit before tax grew thanks to growth in comparable operating profit and a reduction in net finance costs. The Group's effective tax rate was 19.9% (19.8%).

The Group's earnings per share and comparable earnings per share grew compared to the year before.

Cash flow and financial position

Cash flow, € million	1–12/2022	1–12/2021
Cash flow from operating activities	915.2	1,152.0
Cash flow from investing activities	-344.3	-292.3
Cash flow from financing activities	-604.7	-834.4

Financial position	31.12.2022	31.12.2021
Liquid assets, € million	314.1	387.7
Interest-bearing liabilities, € million	2,418.3	2,295.1
Lease liabilities, € million	1,920.1	1,928.6
Interest-bearing net debt excl. lease liabilities, € million	184.1	-21.3
Interest-bearing net debt/ EBITDA, excl. IFRS 16 impact	0.2	0.0
Gearing, %	76.7	75.4
Equity ratio, %	36.9	36.6

The Group's cash flow from operating activities totalled €915.2 million (€1,152.0 million). The cash flow was weakened by growth in working capital. In addition, the cash flow from operating activities for the comparison period included a €38.6 million return of surplus assets paid by Kesko Pension Fund.

The Group's cash flow from investing activities totalled €-344.3 million (€-292.3 million). In the comparison period, the cash flow from investing activities included a negative item of €55.9 million in investment of Group liquid assets in money market funds.

Capital expenditure

Capital expenditure, € million	1–12/2022	1–12/2021
Group, total	**449.2**	**276.6**
Store sites	268.1	129.0
Acquisitions	50.1	13.8
IT	41.8	42.2
Other investments	89.2	91.6

Capital expenditure in store sites increased by €139.1 million on 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. The capital expenditure did not have a cash flow impact.

Capital expenditure included the acquisitions of Kungälvs Trävaruaktiebolag, Föllinge Såg AB, Djurbergs Järnhandel Aktiebolag and XL-BYGG Bergslagen AB in Sweden and Seljord Elektriske AS in Norway.

Segments

Grocery trade

	1–12/2022	1–12/2021
Net sales, € million	6,124.7	5,909.0
Operating profit, comparable, € million	460.4	442.9
Operating margin, comparable, %	7.5	7.5
Return on capital employed, comparable, %	19.6	20.6
Capital expenditure, € million	257.6	122.8
Personnel, average	6,288	6,126

Net sales for the grocery trade division amounted to €6,124.7 million (€5,909.0 million), an increase of 3.6%. Sales to K Group grocery store chains grew by 0.8%. Net sales for Kespro's foodservice business grew by 20.7%. As Covid-19 restrictions were less severe than in the comparison period, consumption was relatively more geared towards foodservice than retail.

The total retail grocery market in Finland (incl. VAT) is estimated to have grown by approximately 3.3% (Finnish Grocery Trade Association PTY) and retail prices are estimated to have risen by some 8.9% (incl. VAT, Kesko's own estimate). K Group's grocery sales decreased by 0.2% (incl. VAT). Online grocery sales decreased by 3.3%, and accounted for approximately 3.1% 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 619 at the end of the reporting period, up by 102 year-on-year. The total market for the foodservice business is estimated to have grown by 16.1% (Finnish Grocery Trade Association PTY).

The comparable operating profit for the grocery trade division totalled €460.4 million (€442.9 million), up by €17.5 million. Profitability improved in particular thanks to strong growth in Kespro's foodservice sales. Operating profit for the grocery trade division totalled €461.5 million (€443.9 million). Items affecting comparability totalled €1.1 million (€0.9 million).

Capital expenditure for the grocery trade division totalled €257.6 million (€122.8 million). Capital expenditure in store sites totalled €230.5 million (€101.2 million). Capital expenditure in store sites included the property for 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. The capital expenditure did not have a cash flow impact.

Net sales, € million	**1–12/2022**	**1–12/2021**	**Change, %**	**Change, %, comparable**
Sales to K-food stores	4,367.4	4,333.2	+0.8	+0.8
K-Citymarket, non-food	605.1	618.6	-2.2	-2.2
Kespro	1,041.3	862.7	+20.7	+20.7
Others	110.8	94.5	+17.1	+17.1
Total	**6,124.7**	**5,909.0**	**+3.6**	**+3.6**

Building and technical trade

	1–12/2022	1–12/2021
Net sales, € million	**4,805.1**	**4,387.7**
Building and technical trade excl. speciality goods trade	4,591.1	4,164.0
Building & home improvement trade	2,377.2	2,292.3
Onninen	2,286.2	1,930.3
Speciality goods trade	214.0	223.7
Operating profit, comparable, € million	**339.8**	**318.0**
Building and technical trade excl. speciality goods trade	302.8	275.4
Building & home improvement trade	127.5	154.2
Onninen	173.7	122.3
Speciality goods trade	16.1	21.2
Kesko Senukai	20.9	21.5
Operating margin, comparable, %	**7.1**	**7.2**
Building and technical trade excl. speciality goods trade	6.6	6.6
Building & home improvement trade	5.4	6.7
Onninen	7.6	6.3
Speciality goods trade	7.5	9.5
Return on capital employed, comparable, %	19.4	19.0
Capital expenditure, € million	108.7	43.1
Personnel, average	6,155	5,977

Net sales, € million	1–12/2022	1–12/2021	Change, %	Change, %, comparable
Building and home improvement trade, Finland	1,126.7	1,078.5	+4.5	+4.6
K-Rauta, Sweden	189.1	200.6	-5.7	-1.2
K-Bygg, Sweden	352.8	294.6	+19.8	+5.8
Byggmakker, Norway	711.4	721.0	-1.3	-2.3
Building and home improvement trade, total	**2,377.2**	**2,292.3**	**+3.7**	**+2.0**
Onninen, Finland	1,319.0	1,121.0	+17.7	+17.7
Onninen and MIAB, Sweden	147.0	118.7	+23.9	+29.8
Onninen, Norway	346.5	296.1	+17.0	+17.2
Onninen, Baltics	130.8	94.8	+38.0	+38.0
Onninen, Poland	349.2	303.3	+15.1	+18.2
Onninen, total	**2,286.2**	**1,930.3**	**+18.4**	**+19.3**
Building and technical trade excl. speciality goods trade total	**4,591.1**	**4,164.0**	**+10.3**	**+9.7**
Sports trade, Finland	214.0	215.5	-0.7	+1.8
Speciality goods trade total	**214.0**	**223.7**	**-4.3**	**+1.8**
Total	**4,805.1**	**4,387.7**	**+9.5**	**+9.4**

Net sales for the building and technical trade division increased by 9.5%, or by 9.4% in comparable terms. Net sales grew in comparable terms in all operating countries. Net sales growth continued strong especially in Onninen's technical wholesale. The growth was underpinned by good volume development and rising prices in some product categories. In building and home improvement trade, sales grew in B2B trade but decreased in B2C trade. The weakening of the Swedish krona and Polish zloty against the euro diminished net sales development in euro terms, while the strengthening of the Norwegian krone against the euro positively impacted net sales in euro-terms.

In Finland, net sales for the building and technical trade division totalled €2,596.3 million (€2,371.4 million), up by 9.5%. In comparable terms, net sales in Finland increased by 10.2%. Net sales from international operations amounted to €2,208.8 million (€2,016.4 million, an increase of 9.5%. In comparable terms, net sales from international operations grew by 8.4%.

Net sales for building and home improvement trade increased in Finland and Sweden and decreased in Norway. Net sales for Onninen's technical wholesale grew in all operating countries. Sports trade net sales in speciality goods trade grew by 1.8% in comparable terms. Reported net sales for speciality goods trade decreased due to the discontinuation of the KooKenkä and The Athlete's Foot chains in 2021.

The comparable operating profit for the building and technical trade division totalled €339.8 million (€318.0 million), an increase of €21.8 million year-on-year. In the building and technical trade division, profit continued to strengthen in Onninen's technical wholesale. Onninen's comparable operating profit grew in all operating countries. In building and home improvement trade, comparable operating profit decreased in all operating countries. Share of result from Kesko Senukai had a €0.5 million negative impact on the division's comparable operating profit. The comparable operating profit for speciality goods trade decreased.

Operating profit for the building and technical trade division totalled €340.8 million (€323.1 million). Items affecting comparability totalled €1.0 million (€5.1 million). The most significant item affecting comparability in the comparison period was the €6.5 million gain on disposal included in the share of result of joint ventures.

Capital expenditure for the building and technical trade division totalled €108.7 million (€43.1 million). Capital expenditure included the acquisitions of Kungälvs Trävaruaktiebolag, Föllinge Såg AB, Djurbergs Järnhandel Aktiebolag and XL-BYGG Bergslagen AB in Sweden and Seljord Elektriske AS in Norway.

Kesko Senukai financials, € million	1–12/2022	1–12/2021
Net sales	1,224.3	1,091.4
Operating profit	70.2	80.2
Operating profit, comparable	64.8	66.3
Net profit for the period	47.1	56.0
Net profit for the period, comparable	41.8	42.9
Kesko Group's share of result of joint ventures	23.5	28.0
Kesko Group's share of result of joint ventures, comparable	20.9	21.5

	31.12.2022	31.12.2021
Assets	849.5	856.6
Liabilities	582.0	570.8
Equity	267.6	285.6

The table figures include Kesko Senukai's business and real estate companies.

Car trade

	1–12/2022	1–12/2021
Net sales, € million	910.9	1,028.3
Operating profit, comparable, € million	48.4	52.2
Operating margin, comparable, %	5.3	5.1
Return on capital employed, comparable, %	12.7	14.0
Capital expenditure, € million	44.7	71.2
Personnel, average	1,235	1,225

Net sales, € million	1–12/2022	1–12/2021	Change, %	Change, %, comparable
Car trade	910.9	1,028.3	-11.4	-11.4

Net sales for the car trade division decreased by 11.4%, impacted by the weakened availability of cars in 2022.

The combined market performance of first registrations of passenger cars and vans was -15.9%. The combined market share of the Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen and MAN vans imported by Kesko's car trade division was 14.1% (17.3%).

The comparable operating profit for the car trade division totalled €48.4 million (€52.2 million). The comparable operating profit was weakened by the decrease in net sales due to weaker availability of cars. Operating profit for the car trade division totalled €47.8 million (€46.2 million). Items affecting comparability totalled €-0.6 million (€-6.1 million), related to division restructuring.

Capital expenditure for the car trade division totalled €44.7 million (€71.2 million).

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 service providers, dividends paid to shareholders, salaries and wages paid to personnel, taxes, and capital expenditure. Kesko employs 17,842 people and in 2022 paid €626.0 million in wages. In 2022, income taxes paid by Kesko in Finland totalled €118.9 million, and in other countries €23.5 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 2022 totalled €449.2 million. At the end of 2022, Kesko had 82,983 registered shareholders, and dividends distributed for the year 2021 totalled €421 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

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 new 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 updated sustainability strategy sets clear sustainability targets for Kesko and its three 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.

In conjunction with the strategy update, Kesko also updated its sustainability management model, specifying in particular the role of the divisions in sustainability work. The Board of Directors of Kesko Corporation decided to set sustainability-related criteria for the company's share-based commitment and incentive schemes.

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, such as the Dow Jones Sustainability Indices the DJSI World and DJSI Europe, CDP, MSCI ESG Ratings, and Sustainalytics.

In December 2022, Kesko was included in the Dow Jones Sustainability Indices the DJSI World and the DJSI Europe. In the global DJSI World, Kesko ranked third highest in its industry and in the DJSI Europe the highest in its industry. Kesko received the highest industry total score in sections concerning climate targets, energy-efficiency, and packaging policy, for example.

In CDP's international 2022 Climate Change Questionnaire, Kesko made the Leadership level A- list.

In the MSCI ESG Ratings, Kesko again received the highest AAA grade (scale of AAA-CCC) in September 2022. 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.

The Sustainalytics ESG risk rating granted to Kesko in July 2022 was 14.3 (low). Sustainalytics assesses corporate risks on a scale of 0 to 40+ (negligible 0–10, low 10–20, medium 20–30, high 30–40, severe 40+).

Kesko ranked 74th on the Global 100 list of the Most Sustainable Corporations in the World in 2023 (69th in 2022). 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 emissions from its own operations and its whole value chain. The sustainability strategy increases the importance of biodiversity. In terms of circular economy, focus areas include packaging and reducing food waste.

Reducing emissions from Kesko's own operations – towards carbon neutrality

K Group aims for its operations to be carbon neutral by 2025. It will seek to systematically reduce emissions to reach zero emissions from its own operations and transports in 2030. In between 2025 and 2030, the remaining emissions will be offset. The objective is to reach zero emissions from own operations in 2030, with no need for offsets.

In Kesko's own operations, emissions mostly come from the consumption of district heat and transport fuels. In addition, emissions from own operations come from the consumption of purchased electricity, Kesko's own generation of heat, and refrigerant leaks. Emissions from Kesko's own operations are estimated to account for some 1% of the total value chain emissions.

K Group is moving towards its carbon neutrality objective by e.g. reducing emissions from heating by recycling waste heat, giving up fossil fuels in heating, and improving energy-efficiency. In autumn 2022, the focus was on preventing acute general power shortages, with exceptional measures taken to reduce electricity consumption.

Kesko participates in the Energy Efficiency Agreement for 2017–2025 for the trading sector in Finland, and has committed to reducing its energy consumption by at least 79 GWh, equalling 7.5% of the energy consumption in 2015. This target was already achieved in 2021. In 2022, new energy efficiency measures amounting to at least 18.5 GWh were implemented.

Electricity purchased and consumed by K-stores and other Kesko properties in Finland is fossil-free and free of carbon dioxide emissions. In Q4/2021-Q3/2022, electricity consumption totalled 564 GWh. The electricity was generated using hydropower, nuclear power, wind power and bio energy. Electricity and heat consumption in Finland totalled 915 GWh. In the other operating countries, electricity and heat consumption in Q4/2021-Q3/2022 totalled 51 GWh.

Emission reductions in the value chain

In Kesko's value chain, the most significant climate impacts are generated during the lifecycle of products and services sold, e.g. in primary production of raw materials, product manufacture, packaging, transport, and use of products. Kesko encourages its suppliers of goods and services to reduce their emissions and helps customers make more sustainable choices.

Kesko aims for 67% of its direct suppliers of goods and services to have science-based emission reduction targets set by 2025. The biggest suppliers by spend are challenged to reduce their emissions and to report their climate targets and actions via CDP's Climate Change Questionnaire.

In 2017, Kesko was the first company in Finland to set targets approved by the Science Based Targets Initiative (SBTi) for emissions from its own operations and supply chain. In November 2021, SBTi approved Kesko's new tighter science-based emissions reduction targets with which Kesko committed to the target of limiting global warming to 1.5 degrees Celsius:

- Kesko has committed to reducing absolute scope 1 and 2 GHG emissions by 90% by 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 2026.
- Kesko has also committed to reducing absolute scope 3 GHG emissions from the use of sold products by 17% by 2026 from a 2020 base year.

Biodiversity

Kesko aims to prevent the loss of biodiversity in both its own operations and its value chain.

In 2022, Kesko complemented its sustainable sourcing policies with a new no-deforestation policy and also a coffee and tea policy. Kesko also took part in a pilot testing the Science Based Targets Network (SBTN) instructions for setting science-based targets for nature.

Next steps include establishing a biodiversity roadmap for Kesko, and setting division-specific targets concerning the biodiversity impact of Kesko's own operations and supply chain.

Circular economy

Kesko is determinately promoting circular economy in its operations. The objective is to have packaging that is either recyclable, reusable or biodegradable for all of Kesko's own brand products by the end of 2025. Packaging plays an important role in protecting products, providing information to consumers, and preventing food waste. Kesko 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. In 2023, the risk assessment will be deepened with a more detailed assessment of the financial impacts of the risks. The impacts of climate change are twofold:

- Impacts on Kesko related to increasing regulation and extreme weather phenomena.
- Impacts of Kesko's operations on the climate 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. In grocery trade, the impact of climate change on global production chains enables exporting Finnish food to new markets in collaboration with the food industry. In building and technical trade market, demand for products related to saving energy and the green transition is set to grow.

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 2022
Achieving carbon neutrality by 2025 and making Kesko's own operations and transports emissions-free by 2030	Carbon dioxide emissions (tCO_2e)	Scope 1 and 2 emissions in all operating countries in Q4/2021–Q3/2022 totalled 89,900 tCO_2e[1]
Having 67% of Kesko's biggest suppliers (by spend) set science-based emission reduction targets set by 2026	% of suppliers (CDP)	364 of Kesko's suppliers invited to reduce their emissions and report their climate targets and actions via CDP's Climate Change Questionnaire. Of the invited suppliers by spend based on year 2021, 27.7% already have approved, science-based emission reduction targets.

[1] The Q4–2021-Q3/2022 figures include for the first time own transports by Onninen logistics in Finland and emissions from Kesko's refrigerant leaks in Finland. In addition, in calculating emissions from district heat consumption, region-specific market-based emission coefficients have been used for the first time.

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 Kesko's 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.

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

Kesko employs sustainability policies to guide the sourcing of products containing raw materials identified as critical from a social and environmental responsibility perspective. At the end of 2022, Kesko had 12 such policies.

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.

In 2022, Kesko published a Commitment to achieve a living wage and income in the supply chain.

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.

Key targets	Indicators	Results in 2022
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, %	91.5%

Product safety

Kesko and K Group stores together with suppliers are responsible to the products' end-users for ensuring that the products comply with all the requirements of Finnish and EU legislation, are safe for users, and meet quality promises. 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 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 the grocery trade. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

People

Responsibility for people for Kesko means, in particular, ensuring the safety and wellbeing of personnel, and fostering diversity, inclusion and equal opportunities.

Professional and committed personnel forms the foundation for Kesko's operations. Kesko's HR management is guided by its human resources policy, the K Code of Conduct, and common operating principles. Kesko respects internationally recognised human rights and complies with the ILO fundamental 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.

Personnel	1–12/2022	1–12/2021
Women	5,921	5,801
Men	8,711	8,431
Average number of personnel converted into full-time employees	**14,633**	**14,232**

	31.12.2022	31.12.2021
Personnel at the end of the reporting period		
Women	7,483	7,509
Men	10,358	9,893
Finland	12,665	12,442
Other countries	5,176	4,960
Total	**17,841**	**17,402**

Diversity in the workplace

In the sustainability strategy, key themes in the People focus area include diversity, inclusion and equal opportunities.

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

Personnel surveys are one of the key development tools for operating practices and managerial work, and they also provide an opportunity to hear personnel views. In 2022, employee experience was measured with a Group-level Our People survey, various pulse surveys, and separate occupational health surveys. The Our People survey covered the whole personnel and comprised wellbeing and diversity and inclusion indices.

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. As pandemic-related restrictions were lifted in 2022, a gradual shift was made to manage the pandemic situation as part of everyday management. Special focus was still paid to ensuring the safe functioning of logistics and the stores.

To ensure the execution of Kesko's strategy, the Group employs performance and competence management models. The performance management process comprises target setting, continuous performance management, and performance evaluation. Remuneration supports strategy execution and performance (pay for performance). Competence management comprises strategic competencies and identifying competence development and development measures at various organisational levels. Personnel recruitments are based on strategy and need, an approved resourcing plan, and identified change projects. In recruitments, we are committed to equality, non-discrimination and selection based on factors that predict success at a position.

Key targets	Indicators	Results in 2022
Tangible actions to promote employee health, wellbeing and capabilities by the end of 2024	Wellbeing index Diversity & inclusion index	81 (on a scale of 0 to 100, Our people 2022 survey) 86 (on a 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 whole personnel.

Compliance

To ensure sustainability and compliance in Kesko Group's operations, Kesko implements the K Compliance operating model confirmed by Kesko's Board of Directors and the K Code of Conduct. 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 Audit Committee of Kesko's Board of Directors.

The practical implementation of the K Compliance operating model is supported by the K Compliance programmes confirmed by Kesko's President and CEO. The systematic implementation of the programmes ensures Kesko's compliance with operating principles, legislation, and other requirements. In 2022, Kesko's K Compliance programmes covered data protection, competition law, consumer protection, anti-corruption and anti-bribery, and as a new addition, a programme concerning trading sanctions and monitoring exports. Focus areas for action included training personnel and conducting compliance audits in accordance with the annual plan. Over 4,000 people participated in targeted training, and employees completed over 17,000 online compliance training sessions. Progress in the K Compliance programmes is reported to the Audit Committee of the Board of Directors at least every six months.

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. In total, 37 (34) reports were received through the channel in 2022. Of these, 31 (25) required investigative actions. No misuse of the channel was detected. Kesko's SpeakUp channel was updated during 2022. Kesko's non-discrimination principles were published as part of the update.

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 using maturity model assessment. In 2022, the Audit Committee received three reports on K Compliance operations: one of the reports focused solely on the K Compliance programme concerning trading sanctions and monitoring of exports.

Compliance reporting was also expanded in division management teams and country organisations.

The K Code of Conduct, which applies to all members of personnel and partners, forms the basis for the K Compliance operating model. Work to increase awareness of the K Code of Conduct and its integration with Kesko's HR processes continued in 2022.

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 financial and reputational risks.

Ensuring data protection is a part of Kesko's K Compliance operating model. Kesko's data protection policy determines the principles, procedures and responsibilities to ensure the lawful processing of personal data and high level of data protection. Kesko Corporation's Data Protection Officer and the data protection group write a data protection balance sheet every year, which is then reported to the Audit Committee of the Board of Directors.

Key targets	Indicators	Results in 2022
Strong commitment to the K Code of Conduct from all Kesko Group personnel	"Ethics index" which comprises the rate of employees completing the annual confirmation of commitment to the K Code of Conduct, and two personnel survey indicators* concerning actions in compliance with the K Code of Conduct in everyday work and the reporting of violations	82%

Prevention of corruption and bribery

The prevention of corruption and bribery is one of the focus areas of Kesko's compliance operations. Related actions are implemented under the K Compliance programme. In 2022, such actions included developing anti-corruption and anti-bribery instructions and related training, and conducting regular risk assessments. The focus in risk assessment was on risks related to hospitality, with the objective of further developing Group-level instructions.

Kesko's K Code of Conduct contains instructions on anti-bribery and anti-corruption. Where necessary, these are complemented with more detailed instructions. New employees receive training on the K Code of Conduct as part of their onboarding. Each employee must also complete two online trainings on the K Code of Conduct, which include instructions on the prevention of corruption and bribery. In 2022, the number of completed online training courses was 4,798 (3,696).

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 – and consequently to zero tolerance towards bribery.

Kesko Group's absolute zero tolerance towards bribery and corruption is described in the K Code of Conduct. Kesko's Compliance & Ethics function, Legal Affairs unit, and K Code of Conduct ambassadors representing various country organisations and units provide personnel support in questions related to the application of the K Code of Conduct.

Reports received through Kesko's SpeakUp channel in 2022 did not contain observations or suspicions of breaches of instructions on anti-corruption and anti-bribery in Kesko Group.

All Kesko Group personnel members are asked annually to confirm their commitment to compliance with the K Code of Conduct. In 2022, the process was developed to also include a discussion between manager and employee on the application of the K Code of Conduct.

Sustainability criteria for share-based commitment and incentive plan for Kesko management

As part of the sustainability strategy, Kesko's Board of Directors decided to set sustainability-related criteria for Kesko's share-based commitment and incentive plans (Performance Share Plans, PSP), i.e. the PSP 2021–2024 and the PSP 2022–2025. In addition to financial indicators, the share award plan includes targets linked to emission reductions and international sustainability indices and assessments. The sustainability targets concerned year 2022. Kesko announced the plan in a stock exchange release on 3 February 2022.

Financing linked to sustainability targets

Kesko has drawn down two bilateral loans, which combined total €200 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.

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 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

Technical screening criteria have been confirmed for the first two environmental objectives, 'climate change mitigation' and 'climate change adaptation', based on which companies shall report on their activities. Criteria for the remaining four environmental objectives is expected to be confirmed in 2023.

In 2022, EU Taxonomy reporting requirements expanded to include not only the identification of 'Taxonomy eligible' activities falling within the scope of the classification system, but also disclosing information on what proportion of these activities can be classified as environmentally sustainable 'Taxonomy aligned' activities. Key performance indicators are presented for activities within the Taxonomy scope 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.

At this early stage, the EU Taxonomy regulation focuses on activities which are material for reducing greenhouse gas emissions and for building climate resilience and which contribute the most to attaining the objectives of climate change mitigation and climate change adaptation. Currently, the Taxonomy does not specifically mention activities that are typical of the trading sector, meaning that trading sector companies report on the activities within Taxonomy scope if they engage in them.

Taxonomy-eligible activities and assessing taxonomy alignment

Kesko has identified the leasing operations in its car trade division and the owning, leasing and construction of properties for own business needs as activities falling within the Taxonomy scope in Kesko's operations. Kesko has assessed the alignment of each activity within the Taxonomy scope. Taxonomy alignment has been determined by assessing whether an activity significantly contributes to at least one of the environmental and climate objectives.

The assessment of Taxonomy alignment is made based on the substantial contribution 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 environmental objectives referred to in the Taxonomy Regulation, using the separate DNSH ('Do No Significant 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 implementation of minimum safeguards has been assessed using the guidelines of the Report on Minimum Safeguards published by the EU Platform on Sustainable Finance. 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.

Kesko's Taxonomy-aligned activities promote the objectives related to climate change mitigation. The following table presents the activities identified by Kesko as falling within Taxonomy scope, and Kesko's assessments of how these activities align with the Taxonomy's technical screening criteria.

Taxonomy activity		Activity description	Performance indicators: Turnover	Performance indicators: Capex	Assessment of Taxonomy alignment
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.	√	√	Vehicles with CO_2 emissions of less than 50g CO_2/km meet the substantial contribution criteria set in the Taxonomy. In addition, the vehicles must meet the DNSH criteria for circular economy and pollution prevention and control. The cars in Kesko's leasing fleet are type approved, meaning they meet the criteria for circular economy and vehicle noise requirements. The fulfilment of the 'Pollution prevention and control' criterion was also assessed by identifying the energy efficiency category of the tyres installed in the vehicles.
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 abovementioned renovation measures in Kesko's store sites.		√	Capital expenditure in energy efficiency made in 2022 include capital expenditure in LED lighting. When assessing the Taxonomy-alignment of LED lighting, Kesko has applied the requirements of the eco-design and energy labelling regulation for light sources that entered into force on 1 September 2021. In order to meet the substantial contribution criteria for activity 7.3., a light source must be in the top two energy categories. The selections of LED lighting that meet the criteria of the Taxonomy Regulation and suit Kesko's operating premises are still limited, which is why the LED lighting installed in 2022 do not meet the EU Taxonomy substantial contribution criteria.
7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings	Installation, maintenance and repair of charging stations for electric vehicles in buildings and parking areas 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 electric car charging stations does not include separate substantial contribution criteria. All capital expenditure related to the activity are classified as Taxonomy-aligned.
7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings.		√	The activity concerning the installation, maintenance and repair 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.
7.6	Installation, maintenance and repair of renewable energy technologies	Individual activities related to renewable energy technologies where the technology is installed on site as building technical systems.		√	The activity concerning the installation of renewable energy technologies 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.
7.7	Acquisition and ownership of buildings	Buying real estate and exercising ownership of that real estate. The activity includes properties built, acquired and leased by Kesko. Construction for own use may be classified either as Taxonomy activity '7.1. Construction of new buildings' or '7.7. Acquisition and ownership of buildings'. Kesko orders the construction work of new buildings it owns from construction companies, which is why the Taxonomy activity '7.7. Acquisition and ownership of buildings' more accurately depicts Kesko's operations than activity '7.1. Construction of new buildings', which depicts the operations of construction companies. Moreover, activity '7.7. Acquisition and ownership of buildings' covers renovation projects where the total cost is 25% of the building's fair value based on Taxonomy activity '7.2. Renovation of existing buildings'. The activity 7.2. is more suited to depict the operations of companies engaged in renovation building, which is why Kesko includes the building improvement measures described in activity 7.2., in the Taxonomy activity '7.7. Acquisition and ownership of buildings'. The activity also includes the amounts of right-of-use assets recognised in the balance sheet based on lease agreements for properties.		√	For buildings built after 2020, assessment of Taxonomy-alignment has been made based on the climate change mitigation substantial contribution criteria of Taxonomy activity '7.1. Construction of new buildings'. With new projects, during the project planning stage, a calculated total energy consumption figure is established for the project, and the figure must be at least ten percent below the determined national limit. An assessment of a building's Taxonomy-alignment is made during the planning stage. The actualisation of the calculated total energy consumption is verified during the building completion stage. A climate risk assessment is made during the project planning stage. If significant climate risks are identified in the assessment, attempts are made to remove the risks during the construction stage. 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.

According to Kesko's assessment, the DNSH criteria related to climate change adaptation concerning conducting a climate risk assessment is not material to the Taxonomy activity '6.5. Transport by motorbikes, passenger cars and light commercial vehicles' nor to activities 7.3 –7.6. with regard to individual building renovation measures due to the nature of the activities.

Kesko's Taxonomy-eligible turnover comprises the leasing operations in the car trade division, which is a Taxonomy activity '6.5. Transport by motorbikes, passenger cars and light commercial vehicles'. In the 2021 reporting, the Taxonomy activity '6.6. Freight transport services by road' was identified as an activity within Taxonomy scope and was reported as part of the turnover indicator for the proportion of selling transport capacity to third parties without a direct connection to Kesko's own sales of goods to customers. Kesko no longer classifies this transport service as an activity falling within Taxonomy scope due to the low volume.

During 2022, Kesko updated its interpretation of activities that fall within Taxonomy scope, and now classifies property-related activities as Taxonomy-eligible activities. In Kesko's financial reporting, activities related to owning, leasing, constructing and using properties do not generate revenue as independent activities. In 2021, real estate activities were not included in the calculation of reported performance indicators as Taxonomy-eligible activities, as the prevailing interpretation at the time was that the inclusion of an activity in the three indicators reported is mostly tied to the recognition of revenue.

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 63.9% of the Group's gross capital expenditure in 2022. Properties are a significant source of emissions (Scope 1) in the Group's own operations, and improving the energy efficiency of properties and transitioning to the use of renewable energy reduce the climate impact from own operations. The Taxonomy regulation technical screening criteria related to owning, constructing and renovating buildings have been taken into account in Kesko's internal instructions used when planning and implementing investment projects.

The Group's Taxonomy-eligible capital expenditure includes investments in new store sites and logistics properties and investments in efficient lighting, in machinery and equipment to improve energy efficiency of buildings, and in automation for measuring and monitoring energy efficiency. In addition, Taxonomy-eligible CapEx includes charging stations for electric vehicles and vehicles in the leasing operations of the car trade division. Land areas are not classified as CapEx within Taxonomy scope. Kesko has not identified in its operations any CapEx plans as referred to in the Taxonomy Regulation, aimed at upgrading Taxonomy-eligible activities to render them Taxonomy-aligned.

EU Taxonomy performance indicators

Kesko presents the performance indicators for turnover and capital expenditure (CapEx) in accordance with the tables determined for non-financial undertakings in the Taxonomy Regulation. Due to the nature of its operating expenditure, Kesko does not present a table for the OpEx indicator, as its operating expenditure is not material for the promotion of the environmental objectives specified in the EU Taxonomy. Kesko's Taxonomy-eligible operating expenditure as defined in the Taxonomy Regulation totalled €49.1 million in 2022. The tables for the performance indicators show the proportion of Group turnover and capital expenditure derived from financial activities in line with the classification system.

Turnover

Taxonomy-eligible economic activities	Codes	Total turnover	Proportion of turnover	Substantial contribution criteria: Climate change mitigation	DNSH criteria (Do No Significant Harm): Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of turnover, 2022	Category (enabling activity / transitional activity)
		€ million	%	%	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)												
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	4.3	0.0%	100%	Y		Y	Y		Y	0.0%	E
Turnover from environmentally sustainable activities (A.1)		4.3	0.0%								0.0%	
A.2. Taxonomy-eligible but not environmentally sustainable activities												
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	19.2	0.2%									
Turnover from Taxonomy-eligible but not environmentally sustainable activities (A.2)		19.2	0.2%									
Total (A.1 + A.2)		23.5	0.2%									
B. Taxonomy-non-eligible activities												
Turnover from Taxonomy-non-eligible activities (B)		11,785.5	99.8%									
Total (A + B)		11,809.0	100.0%									

Capital expenditure (CapEx)

Taxonomy-eligible economic activities	Codes	Total CAPEX	Proportion of CAPEX	Substantial contribution criteria: Climate change mitigation	DNSH criteria (Do No Significant Harm): Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of CAPEX, 2022	Category (enabling activity / transitional activity)
		€ million	%	%	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)												
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	8.3	1.1%	100%	Y		Y	Y		Y	1.1%	T
Installation, maintenance and repair of energy efficiency equipment	7.3	0.0	0.0%	0%						Y	0.0%	E
Installation, maintenance and repair of charging stations for electric vehicles in buildings	7.4	6.5	0.8%	100%	Y					Y	0.8%	E
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	7.5	2.0	0.3%	100%	Y					Y	0.3%	E
Installation, maintenance and repair of renewable energy technologies	7.6	1.2	0.2%	100%	Y					Y	0.2%	E
Acquisition and ownership of buildings	7.7	139.2	18.0%	100%	Y					Y	18.0%	
CAPEX of environmentally sustainable activities (A.1)		157.2	20.3%	100%							20.3%	
A.2. Taxonomy-eligible but not environmentally sustainable activities												
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	21.5	2.8%									
Installation, maintenance and repair of energy efficiency equipment	7.3	9.4	1.2%									
Installation, maintenance and repair of charging stations for electric vehicles in buildings	7.4	0.0	0.0%									
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	7.5	0.0	0.0%									
Installation, maintenance and repair of renewable energy technologies	7.6	0.0	0.0%									
Acquisition and ownership of buildings	7.7	342.6	44.2%									
CAPEX of Taxonomy-eligible but not environmentally sustainable activities (A.2)		373.5	48.2%									
Total (A.1 + A.2)		530.7	68.5%									
B. Taxonomy-non-eligible activities												
CAPEX of Taxonomy-non-eligible activities (B)		243.7	31.5%									
Total (A + B)		774.4	100%									

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 Group net sales that comes from activities within Taxonomy scope. In Kesko's business operations, the leasing operations of the car trade division have been identified as an activity falling within Taxonomy scope and generating turnover. Kesko's primary operations which generate net sales are the sales of goods and services to customers and retailers. The sales of goods does not currently fall within Taxonomy scope.

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 Regulation CapEx definition 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 2022 totalled €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	2022
Property, plant and equipment - Additions (Note 3.2)	370.0
Property, plant and equipment - Acquisitions (Note 3.2)	1.6
Intangible assets - Additions (Note 3.3)	28.6
Intangible assets - Acquisitions (Note 3.3)	3.9
Right-of-use assets - Additions (Note 3.4)	354.6
Right-of-use assets - Acquisitions (Note 3.4)	15.6
EU Taxonomy CapEx, total	**774.4**

Operating expenditure (OpEx)

Operating expenditure (OpEx) as defined in the Taxonomy Regulation include direct non-capitalised costs that relate to research and development, building renovation measures, maintenance and repair, and any other direct expenditures relating to the day-to-day 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.

In Kesko Group's income statement, operating expenditure as defined in the Taxonomy Regulation are 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 are in particular related to expenses for the use, maintenance and repair of properties, the total sum of which was €181.5 million in 2022. 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.

The total amount of operating expenditure as defined in the Taxonomy Regulation was €57.1 million in 2022, of which Taxonomy-eligible operating expenditure accounted for €49.1 million. Operating expenditure includes expenses related to property maintenance and repair and expenses for servicing of the leasing car fleet in the car trade division. Of the Taxonomy-eligible operating expenditure, 97.0% are expenses related to building maintenance and repair. 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. Due to the nature of the operating expenditure, no table is presented for the Taxonomy OpEx indicator, as the operating expenditure is not material to promoting the environmental objects defined in the EU Taxonomy.

Key events during the financial year

On 4 March 2022, Kesko published its 2021 financial statements, Report by the Board of Directors, Corporate Governance Statement, Remuneration Report for Governing Bodies, and the 'Kesko's direction' section of its Annual Report. The 2021 Sustainability Report and Data Balance Sheet were published on 11 March 2022. (Stock exchange release 4.3.2022, investor news 11.3.2022)

Kesko's Board of Directors approved a new sustainability strategy for the company, setting clear sustainability targets for the operations of Kesko and its three divisions. The focus areas of the strategy are climate and nature, value chain sustainability, responsibility for people, and good governance. (Investor news 21.3.2022)

Kesko Corporation's Annual General Meeting was held on Thursday, 7 April 2022, at Kesko Corporation's headquarters K-Kampus, with special arrangements in place and without any shareholders or their representatives present. To prevent the spread of the Covid-19 pandemic, Kesko's Board of Directors decided to have exceptional meeting procedures based on the temporary legislative act 375/2021 in place. Read more in the section: Resolutions of the 2022 Annual General Meeting (Stock exchange releases 11.2.2022 and 7.4.2022)

Kesko issued a positive profit warning and raised its profit guidance for 2022 on 25 April 2022, estimating that its comparable operating profit in 2022 would be in the range of €730–840 million. Before, the company estimated that the comparable operating profit would be in the range of €680–800 million. (Stock exchange release 25.4.2022)

The acquisitions of the Swedish building and home improvement trade companies Föllinge Såg AB and Djurbergs Järnhandel Aktiebolag were completed in September, and the acquisition of the Swedish XL-BYGG Bergslagen in October. These acquisitions complement Kesko's growing K-Bygg chain, which serves professional builders.

A change in Kesko's Group Management Board: Chief Digital Officer (CDO) Anni Ronkainen announced she would be leaving her duties in Kesko Corporation. Ronkainen had been the CDO and member of Group Management Board since April 2015. Ronkainen's last day was 30 September 2022. (Stock exchange release 4.8.2022)

Kesko announced it would invest over €300 million to build an 82,000 square metre logistics centre for Onninen and K-Auto in Hyvinkää, Finland. The project will be completed in stages between 2025 and 2030. (Investor news 23.9.2022)

Events after the financial year

Kesko announced on 30 January 2023 that it would acquire Elektroskandia Norge AS, a company operating in technical wholesale in Norway, from Rexel Group. The acquisition will strengthen Onninen's position in technical trade in Norway. Elektroskandia Norge AS's net sales in 2022 totalled some €250 million and the company has 270 employees, 13 sales points, and a highly automated distribution centre. The completion of the acquisition is subject to the approval of the local competition authority.

Resolutions of the 2021 Annual General Meeting and decisions of the Board's organisational meeting

The Annual General Meeting of Kesko Corporation on 7 April 2022 adopted the company's financial statements for 2021. The Annual General Meeting resolved to distribute a dividend of €1.06 per share on shares held outside the company. The dividend was paid in four instalments. The record date of the first dividend instalment of €0.27/share was 11 April 2022 and the pay date 20 April 2022. The record date of the second dividend instalment of €0.26/share was 22 June 2022 and the pay date 29 June 2022. The record date of the third dividend instalment of €0.27/share was 13 September 2022 and the pay date 20 September 2022. The record date of the fourth dividend instalment of €0.26/share was 13 December 2022 and the pay date 20 December 2022. 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 change or otherwise so require. The remaining distributable assets will remain in equity.

The Annual General Meeting discharged the Board members and the Managing Director from liability for the financial year 2021, and approved the Remuneration Report for Governing Bodies for 2021. The resolution concerning the Remuneration Report is advisory in nature.

As proposed by the Shareholders' Nomination Committee, the General Meeting resolved to leave the Board members' fees and the basis for reimbursement of their expenses unchanged. Board members' remuneration and the basis for reimbursement of their expenses for the 2022–2023 period are as follows:

- Board Chair, an annual fee of €102,000
- Board Deputy Chair, an annual fee of €63,000
- Board member, an annual fee of €47,500
- Board member who is the Chair of the Audit Committee, an annual fee of €63,000
- 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 reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko.

The aforementioned annual fees will be made in Kesko Corporation's B shares and in cash, with approximately 30% of the fees paid in shares. After the transfer of shares, the remaining amount will be paid in cash. The company will acquire the shares 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 will be acquired or transferred to the Board members on the first working day to follow the publication of the interim report for the first quarter of 2022. 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.

As proposed by the Board, the Annual General Meeting re-elected the firm of authorised public accountants Deloitte Oy as the company's Auditor, with APA Jukka Vattulainen continuing as the auditor with principal responsibility. The Annual General Meeting resolved that the Auditor's fee and the reimbursement of the Auditor's expenses are to be paid according to an invoice approved by the company.

As proposed by the Board, the Annual General Meeting resolved to authorise the Board to decide on the repurchase of the company's B series shares. Under the authorisation, the Board will be entitled to decide on the acquisition of a maximum of 16,000,000 of the company's own B shares. The authorisation is valid until 30 June 2023.

As proposed by the Board, the Annual General Meeting resolved to authorise the Board to decide on the issuance of new B series shares as well as of own B shares held by the company as treasury shares. The number of B shares thereby issued would total at maximum 33,000,000. The authorisation is valid until 30 June 2023.

The Annual General meeting resolved to authorise the Board to decide on donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2023, and to decide on the donation recipients, purposes of use, and other terms and conditions of the donations.

The resolutions of the Annual General Meeting were communicated in more detail in a stock exchange release on 7 April 2022.

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 their management and 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.

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 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, supported 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, high energy prices 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 the potential expansion of the conflict, as well as 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.

Business continuity

Serious disturbances affecting resources and operations that are critical for business continuity, such as personnel, logistics, and information systems, could cause business disruptions. For example, a personnel strike related to the labour market situation, an extensive fire at the central warehouse, or a telecommunications issue caused by a power outage could result in a significant problem for business continuity.

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. The EU General Data Protection Regulation has placed more importance on the need to protect personal data.

Availability and retention of personnel

The implementation of strategies and the achievement of objectives require competent and motivated personnel. The Covid-19 pandemic made the workforce more mobile and lowered the threshold of changing jobs. Issues related to the availability of skilled personnel in logistics and retail have also become more prominent.

Climate change

The impact of risks related to climate change for Kesko are assessed using selected climate scenarios. 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 could result in negative publicity for Kesko and cause operational and financial damage. Challenges in Kesko's corporate responsibility work include communicating responsibility principles to customers and ensuring responsibility in the purchasing chain of products.

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 30 March 2023 that a dividend of €1.08 per share be paid for the year 2022 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 €0,27 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 3 April 2023. The Board proposes that the dividend instalment pay date be 12 April 2023.

The second instalment of €0,27 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 21 June 2023. The Board proposes that the dividend instalment pay date be 28 June 2023.

The third instalment of €0,27 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 12 September 2023. The Board proposes that the dividend instalment pay date be 19 September 2023.

The fourth instalment of €0,27 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 12 December 2023. The Board proposes that the dividend instalment pay date be 19 December 2023.

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, 1 February 2023, a total of 397,458,647 shares were held outside the company, and the corresponding total amount of dividends is €429,255,338.76.

The distributable assets of Kesko Corporation total €1,498,545,852.49, of which profit for the financial year is €408,925,619.88.

Annual General Meeting

The Board of Directors decided that the Annual General Meeting will be held on 30 March 2023 at 1.00 pm (EET).

Shares and securities markets

At the end of December 2022, 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 2022, Kesko Corporation held 2,620,361 of its own B shares as treasury shares.

These treasury shares accounted for 0.96% of the total number of B shares, 0.65% of the total number of shares, and 0.17% 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 the shares. At the end of December 2022, Kesko Corporation's share capital totalled €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €27.15 at the end of 2021, and €20.35 at the end of December 2022, representing a decrease of 25.05%. Correspondingly, the price of a B share was €29.34 at the end of 2021, and €20.62 at the end of December 2022, representing a decrease of 29.72%. In 2022, the highest price for an A share was €27.30 and the lowest €17.24. The highest price for a B share was €29.65 and the lowest €17.81. The Nasdaq Helsinki All-Share index (OMX Helsinki) was down by 16.0% and the weighted OMX Helsinki Cap index by 16.4% in 2022. The Retail Sector Index was down by 44.3%.

At the end of 2022, the market capitalisation of the A shares was €2,583 million. The market capitalisation of the B shares was €5,578 million, excluding the shares held by the parent company. The combined market capitalisation of the A and B shares was €8,161 million, down by €3,212 million from the end of 2021.

In 2022, a total of 7.3 million A shares were traded on Nasdaq Helsinki. The exchange value of the A shares was €160.5 million. Meanwhile, 143.9 million B shares were traded, with an exchange value of €3,325 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 2022, the number of registered Kesko shareholders was 82,983, the highest figure in the company's history. At the end of 2022, foreign ownership of all shares was 38.46%, and foreign ownership of B shares 55.47%.

Share performance and turnover

		2020	2021	2022
Share price as at 31 Dec.				
A share*	€	20.00	27.15	20.35
B share*	€	21.04	29.34	20.62
Average share price				
A share*	€	16.62	26.73	21.89
B share*	€	17.72	27.73	23.11
Market capitalisation as at 31 Dec., A share	€ million	2,539.0	3,446.6	2,583.4
Market capitalisation as at 31 Dec., B share	€ million	5,676.4	7,926.6	5,577.9
Turnover				
A share	Million pcs	11**	8**	7**
B share	Million pcs	249**	165**	144**
Relative turnover rate				
A share	%	8.2	6.8	5.8
B share	%	91.2	58.6	52.2
Diluted average number of shares*	Thousand pcs	396,661	397,033	397,383

* Kesko Corporations 's Annual General Meeting on 28 April 2020 decided on a share issue without payment (share split) in which three (3) new A shares were issued for each existing A share, and three (3) new B shares for each existing B share. The share-specific indicators have been calculated using the post-share split number of shares. Share-specific indicators for the comparison periods have been adjusted to correspond to the post-share split number of shares.
** Calculated with post-split number of shares

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2022

All shares	Number of shares, pcs	Percentage of all shares, %
Nominee-registered and non-Finnish holders	153,873,070	38.46
Households	94,783,242	23.69
Non-financial corporations and housing corporations	91,883,579	22.97
General government*	28,367,242	7.09
Non-profit institutions serving households**	20,193,712	5.05
Financial and insurance corporations	10,978,163	2.74
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	73,976,460	58.27	18.49
Households	23,549,520	18.55	5.89
General government*	15,058,525	11.86	3.76
Non-profit institutions serving households**	10,657,043	8.40	2.66
Nominee-registered and non-Finnish holders	2,360,677	1.86	0.59
Financial and insurance corporations	1,345,803	1.06	0.34
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	151,512,393	55.47	37.87
Households	71,233,722	26.08	17.81
Non-financial corporations and housing corporations	17,907,119	6.56	4.48
General government*	13,308,717	4.87	3.33
Financial and insurance corporations	9,632,360	3.53	2.41
Non-profit institutions serving households**	9,536,669	3.49	2.38
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. 2022

All shares Number of shares	Number of shareholders, pcs	Percentage of share-holders, %	Share total, pcs	Percentage of shares, %
1–100	35,451	42.72	1,348,466	0.34
101–500	22,150	26.69	5,855,040	1.46
501–1,000	8,068	9.72	6,086,734	1.52
1,001–5,000	12,284	14.80	28,897,640	7.22
5,001–10,000	2,448	2.95	17,405,203	4.35
10,001–50,000	2,136	2.57	43,494,569	10.87
50,001–100,000	239	0.29	16,809,244	4.20
100,001–500,000	169	0.20	34,741,344	8.68
500,001–	38	0.05	245,440,768	61.35
Total	**82,983**	**100.00**	**400,079,008**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A share-holders, %	A share total, pcs	Percentage of A shares, %
1–100	13,246	54.60	458,587	0.36
101–500	5,265	21.70	1,334,111	1.05
501–1,000	1,422	5.86	1,076,456	0.85
1,001–5,000	2,486	10.25	6,683,638	5.27
5,001–10,000	715	2.95	5,154,976	4.06
10,001–50,000	884	3.64	18,308,419	14.42
50,001–100,000	127	0.52	9,039,860	7.12
100,001–500,000	102	0.42	19,566,346	15.41
500,001–	14	0.06	65,325,635	51.46
Total	**24,261**	**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	24,470	38.48	965,355	0.35
101–500	18,151	28.54	4,883,408	1.79
501–1,000	7,149	11.24	5,405,983	1.98
1,001–5,000	10,466	16.46	23,883,547	8.74
5,001–10,000	1,856	2.92	13,148,495	4.81
10,001–50,000	1,299	2.04	25,318,124	9.27
50,001–100,000	113	0.18	7,860,549	2.88
100,001–500,000	75	0.12	16,172,611	5.92
500,001–	21	0.03	175,492,908	64.25
Total	**63,600**	**100.00**	**273,130,980**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2022

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	20,529,553	5.13	205,295,530	13.31
2.	Ilmarinen Mutual Pension Insurance Company	14,635,984	3.66	146,359,840	9.49
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Foundation for Vocational Training in the Retail Trade	5,290,612	1.32	52,906,120	3.43
5.	Elo Mutual Pension Insurance	5,224,489	1.31	8,990,890	0.58
6.	Varma Mutual Pension Insurance Company	4,303,944	1.08	4,303,944	0.28
7.	The State Pension Fund	2,700,000	0.68	2,700,000	0.18
8.	K-Food Retailers' Club	2,374,951	0.59	23,749,510	1.54
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

Does not contain shares held by Kesko Corporation, amounting to 2,620,361 on 31 Dec. 2022.

10 largest shareholders by number of votes as at 31 Dec. 2022

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	20,529,553	5.13	205,295,530	13.31
2.	Ilmarinen Mutual Pension Insurance Company	14,635,984	3.66	146,359,840	9.49
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Foundation for Vocational Training in the Retail Trade	5,290,612	1.32	52,906,120	3.43
5.	K-Food Retailers' Club	2,374,951	0.59	23,749,510	1.54
6.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
7.	Food Paradise Oy	1,640,164	0.41	16,401,640	1.06
8.	Elo Mutual Pension Insurance	5,224,489	1.31	8,990,890	0.58
9.	OP-Finland mutual fund	1,454,861	0.36	7,783,319	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 2022, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 1,360,800 Kesko Corporation A shares and 526,022 Kesko Corporation B shares, i.e. a total of 1,886,822 shares, which represents 0.47% of the total number of shares and 0.92 % of votes carried by all shares of the Company.

At 31 December 2022, the President and CEO held 5,000 Kesko Corporation A shares and 385,786 B shares, which represented 0.10% of the total number of shares and 0.03% of votes carried by all shares of the Company. At 31 December 2022, the Group Management Board including the President and CEO held 7,824 Kesko Corporation A shares and 993,933 Kesko Corporation B shares, which represented 0.25% of the total number of shares and 0.07% 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 2022, Kesko Corporation transferred 345,104 Kesko B shares held as treasury shares to members of management and other selected key persons in accordance with the terms and conditions of share award plans, while 1,719 B shares were returned to the company without consideration based on the same terms and conditions. Kesko issued related stock exchange releases on 7 December 2022, 8 July 2022, 20 May 2022, 18 March 2022, 15 March 2022 and 17 February 2022. Kesko issued a stock exchange release on 3 February 2022 regarding the most recent share-based commitment and incentive plans. Kesko Corporation also transferred a total of 4,918 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 2022.

Kesko's Annual General Meeting of 7 April 2022 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 2023. The authorisations were communicated in a stock exchange release on 7 April 2022.

Group's key performance indicators

		2020	2021	2022
Income statement				
Net sales	€ million	10,669.2	11,300.2	11,809.0
Change in net sales	%	-0.5	5.9	4.5
Change in net sales, comparable	%	3.6	8.2	4.4
Operating profit, comparable	€ million	567.8	775.5	815.1
Operating profit as percentage of net sales, comparable	%	5.3	6.9	6.9
Operating profit	€ million	600.2	775.2	816.5
Operating profit as percentage of net sales	%	5.6	6.9	6.9
Profit for the year (incl. non-controlling interests)	€ million	435.3	571.8	609.9
Profit for the year as percentage of net sales	%	4.1	5.1	5.2
Profitability				
Return on equity, group	%	20.1	24.2	23.1
Return on equity, comparable, group	%	17.8	24.1	23.2
Return on capital employed	%	12.7	17.2	17.0
Return on capital employed, comparable	%	12.0	17.2	16.9
Funding and financial position				
Interest-bearing net debt, group	€ million	2,310.3	1,907.3	2,104.2
Interest-bearing net debt excluding lease liabilities	€ million	285.3	-21.3	184.1
Gearing, group	%	105.5	75.4	76.7
Equity ratio, group	%	33.1	36.6	36.9
Interest-bearing net debt/EBITDA excluding the impact of IFRS 16, group		0.4	0.0	0.2

		2020	2021	2022
Other performance indicators				
Capital expenditure	€ million	398.4	276.6	449.2
Capital expenditure as percentage of net sales	%	3.7	2.4	3.8
Cash flow from operating activities	€ million	1,152.4	1,152.0	915.2
Cash flow from investing activities	€ million	-421.3	-292.3	-344.3
Personnel, average for the period, group total		17,629	14,232	14,633
Personnel, as at 31 Dec., group total		17,650	17,402	17,841

		2020	2021	2022
Share performance indicators				
Earnings/share, basic and diluted**	€	1.09	1.44	1.53
Earnings/share, comparable, basic**		0.97	1.43	1.54
Equity/share**	€	5.52	6.37	6.90
Dividend/share*	€	0.75	1.06	1.08
Payout ratio	%	69.8	74.3	70.4
Payout ratio, comparable	%	77.4	74.7	70.1
Cash flow from operating activities/ share**	€	2.91	2.90	2.30
Price/earnings ratio (P/E), A share		18.62	19.04	13.26
Price/earnings ratio (P/E), B share		19.59	20.57	13.44
Effective dividend yield, A share	%	3.8	3.9	5.3
Effective dividend yield, B share	%	3.6	3.6	5.2

* Proposal to the General Meeting
**Kesko Corporations 's Annual General Meeting on 28 April 2020 decided on a share issue without payment (share split) in which three (3) new A shares were issued for each existing A share, and three (3) new B shares for each existing B share. The share-specific indicators have been calculated using the post-share split number of shares. Share-specific indicators for the comparison periods have been adjusted to correspond to the post-share split number of shares.

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 interest-bearing 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, %	$\frac{\text{(Profit/loss before tax − Income tax) x 100}}{\text{Shareholders' equity, average of the beginning and end of the financial year}}$
Return on equity, comparable, %	$\frac{\text{(Profit/loss adjusted for items affecting comparability before tax − Income tax adjusted for the tax effect of the items affecting comparability) x 100}}{\text{Shareholders' equity, average of the beginning and end of the financial year}}$
Return on capital employed, %	$\frac{\text{Operating profit x 100}}{\text{(Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months}}$
Return on capital employed, comparable, %	$\frac{\text{Comparable operating profit x 100}}{\text{(Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months}}$
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, %	Shareholders' equity x 100 / (Balance sheet total – Advances received)
Gearing, %	Interest-bearing net debt x 100 / Shareholders' equity
Interest-bearing net debt	Interest-bearing liabilities + Lease liabilities – 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	Net profit/loss - Share of non-controlling interests of net profit/loss / Average number of shares adjusted for the dilutive effect
Earnings/share, basic	Net profit/loss – Share of non-controlling interests of net profit/loss / Average number of shares
Earnings/share, basic, comparable	Net profit/loss adjusted for items affecting comparability – Share of non-controlling interests of net profit/loss adjusted for items affecting comparability / Average number of shares
Equity/share	Equity attributable to equity holders of the parent / Basic number of shares at the balance sheet date
Payout ratio, %	(Dividend/share) x 100 / (Earnings/share)
Price/earnings ratio (P/E)	Share price at balance sheet date / (Earnings/share)
Effective dividend yield, %	(Dividend/share) x 100 / Share price at balance sheet date
Market capitalisation	Share price at balance sheet date x Number of shares
Cash flow from operating activities/share	Cash flow from operating activities / Average number of shares
Yield of A share and B share	Change in share price + Annual dividend yield

Reconciliation of alternative performance measures to IFRS financial statements

€ million	1–12/2022	1–12/2021
Continuing operations		
Items affecting comparability		
Gains on disposal	0.0	1.4
Losses on disposal	-0.1	-0.0
Impairment charges	-	-5.4
Structural arrangements	1.6	3.7
Items in operating profit affecting comparability	**1.5**	**-0.3**
Items in financial items affecting comparability	-3.6	2.9
Items in income taxes affecting comparability	-0.0	1.0
Total items affecting comparability	**-2.2**	**3.5**
Items in EBITDA affecting comparability	**-0.1**	**4.7**
Operating profit, comparable		
Operating profit	816.5	775.2
Net of		
Items in operating profit affecting comparability	1.5	-0.3
Operating profit, comparable	**815.1**	**775.5**
EBITDA		
Operating profit	816.5	775.2
Plus		
Depreciation and impairment charges	169.0	176.8
Depreciation and impairment charges for right-of-use assets	322.1	310.3
EBITDA	**1,307.7**	**1,262.2**
EBITDA, comparable		
EBITDA	1,307.7	1,262.2
Net of		
Items in EBITDA affecting comparability	-0.1	4.7
EBITDA, comparable	**1,307.8**	**1,257.6**

€ million	1–12/2022	1–12/2021
Profit before tax, comparable		
Profit before tax	761.1	712.9
Net of		
Items in operating profit affecting comparability	1.5	-0.3
Items in financial items affecting comparability	-3.6	2.9
Profit before tax, comparable	**763.2**	**710.4**
Net profit, comparable		
Comparable profit before tax	763.2	710.4
Net of		
Income tax	151.2	141.1
Items in income taxes affecting comparability	-0.0	1.0
Net profit, comparable	**612.0**	**568.2**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	612.0	568.2
Net profit attributable to owners of the parent, comparable	**612.0**	**568.2**
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	612.0	568.2
Average number of shares, basic, 1,000 pcs	397,383	397,033
Earnings/share, comparable, €	**1.54**	**1.43**
Return on capital employed, %		
Operating profit	816.5	775.2
Capital employed, average	4,811.9	4,508.9
Return on capital employed, %	**17.0**	**17.2**
Return on capital employed, comparable, %		
Operating profit, comparable	815.1	775.5
Capital employed, average	4,811.9	4,508.9
Return on capital employed, comparable, %	**16.9**	**17.2**

€ million	1–12/2022	1–12/2021
Group		
Return on equity, %		
Net profit	609.9	571.8
Equity, average	2,635.8	2,359.4
Return on equity, %	**23.1**	**24.2**
Return on equity, comparable, %		
Net profit, comparable	612.0	568.2
Equity, average	2,635.8	2,359.4
Return on equity, comparable, %	**23.2**	**24.1**
Equity ratio, %		
Shareholders' equity	2,742.2	2,529.5
Total assets	7,474.0	6,966.0
Advances received	46.9	46.2
Equity ratio, %	**36.9**	**36.6**

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2022	%	1 Jan.–31 Dec. 2021	%
Net sales	2.1	**11,809.0**	100.0	**11,300.2**	100.0
Material and services	2.3	-10,304.5	-87.3	-9,695.3	-85.8
Change in inventory		237.0	2.0	43.1	0.4
Other operating income	2.4	998.7	8.5	957.3	8.5
Employee benefit expenses	2.5	-785.8	-6.7	-764.0	-6.8
Depreciation, amortisation and impairment charges	3.2 3.3	-169.0	-1.4	-176.8	-1.6
Depreciation and impairment charges for right-of-use assets	3.4	-322.1	-2.7	-310.3	-2.7
Other operating expenses	2.5	-670.2	-5.7	-607.2	-5.4
Share of result of joint ventures		23.5	0.2	28.0	0.2
Operating profit		**816.5**	6.9	**775.2**	6.9
Interest income and other finance income	4.4	13.0	0.1	12.5	0.1
Interest expense and other finance costs	4.4	2.9	0.0	-8.6	-0.1
Interest expense for lease liabilities	4.4	-68.4	-0.6	-71.3	-0.6
Foreign exchange differences	4.4	-3.5	-0.0	-0.8	-0.0
Total finance income and costs	4.4	-56.0	-0.5	-68.2	-0.6
Share of result of associates		0.6	0.0	5.9	0.1
Profit before tax		**761.1**	6.4	**712.9**	6.3
Income tax	2.7	-151.2	-1.3	-141.1	-1.2
Net profit for the year		**609.9**	**5.2**	**571.8**	**5.1**
Net profit for the year attributable to					
Owners of the parent		609.9		571.8	
Earnings per share for net profit attributable to owners of the parent					
Basic and diluted, Group total, €	2.8	1.53		1.44	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Net profit for the year		**609.9**	**571.8**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	2.7 3.7	30.6	40.0
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	2.7	-41.9	9.8
Share of other comprehensive income of associates and joint ventures	2.7	-0.5	-0.5
Cash flow hedge revaluation	2.7	26.2	11.1
Total comprehensive income for the year, net of tax		**14.3**	**60.4**
Total comprehensive income for the year		**624.2**	**632.1**
Comprehensive income for the year attributable to			
Owners of the parent		624.2	632.1

Consolidated statement of financial position

€ million	Note	31 Dec. 2022	%	31 Dec. 2021	%
ASSETS					
Non-current assets					
Property, plant and equipment	3.2	1,745.5		1,537.6	
Goodwill	3.3	588.9		588.8	
Intangible assets	3.3	190.2		190.1	
Right-of-use assets	3.4	1,737.6		1,735.0	
Shares in associates and joint ventures	3.8 5.1	231.9		234.6	
Other investments	4.3 4.5	13.2		15.5	
Non-current receivables	4.3 4.5	90.8		72.6	
Deferred tax assets	2.7	2.2		1.1	
Pension assets	3.7	86.9		94.7	
Total non-current assets		**4,687.2**	**62.7**	**4,470.1**	**64.2**
Current assets					
Inventories	3.5	1,115.4		894.3	
Interest-bearing receivables	3.6 4.5	4.4		4.1	
Trade receivables	3.6 4.3 4.5	969.3		909.2	
Income tax assets	3.6	21.9		0.1	
Other non-interest-bearing receivables	3.6 4.5	361.2		299.9	
Other financial assets	4.3 4.5	68.6		107.9	
Cash and cash equivalents	4.5	245.5		279.8	
Total current assets		**2,786.4**	**37.3**	**2,495.4**	**35.8**
Non-current assets classified as held for sale		0.5	0.0	0.5	0.0
Total assets		**7,474.0**	**100.0**	**6,966.0**	**100.0**

€ million	Note	31 Dec. 2022	%	31 Dec. 2021	%
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	-52.2		-10.2	
Revaluation reserve	4.2	35.3		9.1	
Retained earnings		2,097.1		1,868.6	
Total equity		**2,742.2**	**36.7**	**2,529.5**	**36.3**
Non-current liabilities					
Interest-bearing non-current liabilities	4.3 4.5 4.6	245.5		206.4	
Lease liabilities	4.5 4.6	1,592.0		1,610.7	
Non-interest-bearing non-current liabilities	4.3 4.5	24.3		25.2	
Deferred tax liabilities	2.7	63.2		37.9	
Provisions	3.9	10.3		15.4	
Total non-current liabilities		**1,935.3**	**25.9**	**1,895.6**	**27.2**
Current liabilities					
Current interest-bearing liabilities	4.3 4.5 4.6	252.6		160.1	
Lease liabilities	4.5 4.6	328.1		317.9	
Trade payables	4.3 4.5	1,499.4		1,332.6	
Other non-interest-bearing liabilities	4.3 4.5	242.4		232.3	
Income tax liabilities	4.5	19.4		28.9	
Accrued liabilities	4.3 4.5	442.6		454.8	
Provisions	3.9	11.9		14.3	
Total current liabilities		**2,796.5**	**37.4**	**2,540.9**	**36.5**
Total liabilities		**4,731.8**	**63.3**	**4,436.5**	**63.7**
Total equity and liabilities		**7,474.0**	**100.0**	**6,966.0**	**100.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flows from operating activities			
Profit before tax		761.1	712.9
Adjustments			
Depreciation according to plan		169.0	171.4
Depreciation and impairment for right-of-use assets		322.1	310.3
Finance income and costs		-12.4	-3.1
Interest expense for lease liabilities		68.4	71.3
Other adjustments	2.9	-20.2	9.0
		527.0	558.8
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-107.2	-146.8
Inventories, increase (-)/decrease (+)		-225.8	-53.2
Current non-interest-bearing liabilities, increase (+)/decrease (-)		163.7	283.7
		-169.3	83.7
Interest paid and other finance costs		-5.4	-7.0
Interest paid on lease liabilities		-68.4	-71.3
Interest received		10.5	10.5
Dividends received		1.3	1.6
Dividends received from associated companies and joint ventures		33.1	-
Income taxes paid		-174.7	-137.2
Net cash flows from operating activities, total		**915.2**	**1,152.0**

€ million	Note	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.1	-45.3	-13.2
Payments for investments consolidated using the equity method	2.9	-	-0.1
Payments for property, plant, equipment and intangible assets	2.9	-352.4	-239.4
Proceeds from sale of subsidiaries and businesses, net cash deducted		2.2	2.8
Proceeds from sale of property, plant, equipment and intangible assets		14.0	13.3
Proceeds from sale of other investments		0.4	0.1
Loan receivables and other financial assets, increase (-)/decrease (+)		36.8	-55.9
Net cash flows from investing activities, total		**-344.3**	**-292.3**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	4.1	132.6	-223.4
Repayments for lease liabilities	3.4 4.1	-332.7	-323.2
Interest-bearing receivables, increase (-)/decrease (+)	4.1	2.1	10.7
Dividends paid		-406.7	-297.8
Other items		0.0	-0.7
Net cash flows from financing activities, total		**-604.7**	**-834.4**
Change in cash and cash equivalents		**-33.8**	**25.2**
Cash and cash equivalents as at 1 January	4.5	279.8	254.3
Currency translation difference adjustment and change in value		-0.5	0.2
Cash and cash equivalents assets as at 31 December	4.5	**245.5**	**279.8**

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 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**
Balance as at 1 January 2021	**197.3**	**464.7**	**-20.0**	**-2.0**	**-31.4**	**1,580.7**	**2,189.3**
Share-based payments					1.1		1.1
Dividends						-297.8	-297.8
Other changes		0.0				4.7	4.7
Transactions with owners, total		0.0			1.1	-293.1	-291.9
Comprehensive income							
Net profit for the year						571.8	571.8
Actuarial gains/losses						40.0	40.0
Currency translation differences related to a foreign operation			9.8				9.8
Cash flow hedge revaluation						-0.5	-0.5
Other items				11.1			11.1
Total comprehensive income for the year, net of tax			9.8	11.1		39.5	60.4
Total comprehensive income for the period			9.8	11.1		611.2	632.1
Balance as at 31 December 2021	**197.3**	**464.7**	**-10.2**	**9.1**	**-30.3**	**1,898.9**	**2,529.5**

Further information on share capital and reserves is disclosed in Note 4.2 and on share-based compensation 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, PO Box 1, Helsinki, FI-00016 KESKO, visiting address Työpajankatu 12, Helsinki, Finland and from the internet at www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 1 February 2023.

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 2022. 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 2022. 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 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.

- Acquisitions (3.1)
- Intangible assets (3.3)
- Leases (3.4)
- Inventories (3.5)
- Trade and other current receivables (3.6)
- Pension assets (3.7)
- Provisions (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 2022 and 2021 financial years.

1.7 New IFRS standards and IFRIC interpretations and the impact of new and updated standards

IFRIC interpretations, amendments to existing standards, and new and updated standards

Annual improvements or amendments to existing standards that become effective for annual periods beginning on or after 1 January 2023 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% (48%) of the Group's net sales in 2022. B2B trade accounted for 40% (36%) of the Group's net sales in 2022. Kesko's own retailing accounted for 14% (16%) 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.

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries and the retailing of home and speciality goods in Finland. Kesko's grocery trade operates under the K-retailer business model. There are approximately 1,200 K-food stores operated by K-retailers in Finland. These stores form the K-Citymarket, K-Supermarket, K-Market and Neste K grocery retail chains. Kespro is a foodservice provider and wholesaler in Finland. K-Citymarket's home and speciality goods trade operates in home and speciality goods retailing in Finland.

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries and Poland. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland where the retailer business model is employed. Kesko acts as a retail operator in Sweden and Norway. The retail store chains are K-Rauta (Finland and Sweden), K-Bygg (Sweden) and Byggmakker (Norway). The building and home improvement stores serve both consumers and business customers. Onninen provides HEPAC and electrical products and services to business customers in the Baltic Sea Region and Scandinavia. Onninen has around 130 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

Speciality goods trade is included in the building and technical trade division, and comprises leisure trade in Finland, with the Intersport and Budget Sport chains. The operations of the Kookenkä and The Athlete's Foot shoe store chains were discontinued in 2021 as part of the strategy for leisure trade.

Car trade

Car trade comprises the business operations of new cars, used cars, services and leasing. The new cars business includes the operations for importing, marketing and retailing of Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and of Volkswagen and MAN commercial vehicles in Finland, and of SEAT and CUPRA passenger cars in the Baltics. The used car business includes the purchasing of used cars from Finland and abroad and the retailing of the cars in Finland. Services operations include 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-Charge charging network for electric vehicles.

Common functions

Common functions comprise Group support functions.

Segment information 2022

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	6,124.7	4,805.1	910.9	-0.0	11,840.7
of which intersegment sales	-23.3	0.0	-8.2	-0.3	-31.7
Net sales from external customers	**6,101.4**	**4,805.2**	**902.7**	**-0.3**	**11,809.0**
Change in net sales in local currency excluding acquisitions and disposals, %	3.6	9.4	-11.4	-	4.4
Change in net sales, %	3.6	9.5	-11.4	-	4.5
Other division income	789.0	177.2	10.6	28.8	1,005.6
of which intersegment income	-0.1	-2.1	-0.1	-4.6	-6.9
Other operating income from external customers	**788.9**	**175.1**	**10.6**	**24.1**	**998.7**
Depreciation and amortisation	-84.4	-28.4	-26.6	-29.7	-169.0
Depreciation and impairment charges for right-of-use assets	-213.7	-92.4	-10.1	-5.9	-322.1
Share of result of joint ventures		23.5			23.5
Operating profit	**461.5**	**340.8**	**47.8**	**-33.6**	**816.5**
Items affecting comparability	1.1	1.0	-0.6	-0.1	1.5
Comparable operating profit	**460.4**	**339.8**	**48.4**	**-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 operations	Eliminations	Total
Property, plant, equipment and intangible assets	1,333.6	844.6	243.0	105.1	-1.6	2,524.6
Right-of-use assets	1,189.3	434.3	51.8	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	647.9	197.2			1,115.4
Trade receivables	369.2	561.1	41.1	2.9	-5.1	969.3
Other non-interest-bearing receivables	121.6	231.5	15.2	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**	**2,884.4**	**548.3**	**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**	**2,884.4**	**548.3**	**456.7**	**-40.3**	**7,474.0**

€ million	Grocery trade	Building and technical trade	Car trade	Common operations	Eliminations	Total
Trade payables	596.7	837.7	35.3	32.3	-2.6	1,499.4
Other non-interest-bearing liabilities	294.7	293.1	82.9	55.8	-35.4	691.1
Provisions	0.8	2.2	19.0	0.2		22.2
Liabilities included in capital employed	**892.2**	**1,133.0**	**137.3**	**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**	**1,133.0**	**137.3**	**88.3**	**-38.1**	**4,731.8**
Total capital employed as at 31 December	**2,416.5**	**1,751.3**	**411.0**	**368.4**	**-2.2**	**4,945.0**
Average capital employed	**2,353.6**	**1,752.1**	**379.5**	**328.9**	**-2.2**	**4,811.9**
Return on capital employed, %, comparable	**19.6**	**19.4**	**12.7**			**16.9**
Number of personnel as at 31 December	**8,316**	**7,226**	**1,298**	**1,001**		**17,841**
Average number of personnel	**6,288**	**6,155**	**1,235**	**955**		**14,633**

Segment information 2021

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,909.0	4,387.7	1,028.3	0.0	11,325.1
of which intersegment sales	-17.8	0.2	-6.7	-0.5	-24.8
Net sales from external customers	**5,891.2**	**4,388.0**	**1,021.6**	**-0.5**	**11,300.2**
Change in net sales in local currency excluding acquisitions and disposals, %	3.1	14.7	15.2	-	8.2
Change in net sales, %	3.1	20.6	15.2	-	5.9
Other division income	762.9	171.3	9.7	17.6	961.5
of which intersegment income	-0.1	-1.1	-0.1	-2.8	-4.2
Other operating income from external customers	**762.7**	**170.2**	**9.6**	**14.8**	**957.3**
Depreciation and amortisation	-79.8	-32.7	-31.5	-32.7	-176.8
Depreciation and impairment charges for right-of-use asses	-205.5	-89.2	-9.8	-5.9	-310.3
Share of result of joint ventures		28.0			28.0
Operating profit	**443.9**	**323.1**	**46.2**	**-38.0**	**775.2**
Items affecting comparability	0.9	5.0	-6.1	-0.3	-0.3
Comparable operating profit	**442.9**	**318.0**	**52.2**	**-37.7**	**775.5**
Finance income and costs					-68.2
Share of result of associates					5.9
Profit before tax					**712.9**

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Property, plant, equipment and intangible assets	1,161.7	817.3	242.5	96.7	-1.6	2,316.5
Right-of-use assets	1,170.3	440.3	58.4	66.0		1,735.0
Interests in associates and joint ventures and other investments	7.7	168.7	0.0	74.4	-0.6	250.1
Pension assets	19.8	4.5		70.4		94.7
Inventories	225.4	525.5	143.4			894.3
Trade receivables	349.7	524.2	35.2	2.8	-2.6	909.2
Other non-interest-bearing receivables	78.4	187.7	23.3	30.6	-15.8	304.2
Interest-bearing receivables	0.6			71.9		72.5
Non-current assets classified as held for sale				0.5		0.5
Assets included in capital employed	**3,013.7**	**2,668.2**	**502.6**	**413.2**	**-20.6**	**6,577.1**
Unallocated items						
Deferred tax assets						1.1
Other financial assets						107.9
Cash and cash equivalents						279.8
Total assets	**3,013.7**	**2,668.2**	**502.6**	**413.2**	**-20.6**	**6,966.0**

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Trade payables	569.1	716.6	25.0	23.3	-1.4	1,332.6
Other non-interest-bearing liabilities	283.7	306.4	95.6	49.0	-17.0	717.7
Provisions	0.9	1.0	27.9	0.0		29.8
Liabilities included in capital employed	**853.7**	**1,024.0**	**148.5**	**72.3**	**-18.4**	**2,080.0**
Unallocated items						
Interest-bearing liabilities						366.5
Lease liabilities						1,928.6
Other non-interest-bearing liabilities						23.5
Deferred tax liabilities						37.9
Total liabilities	**853.7**	**1,024.0**	**148.5**	**72.3**	**-18.4**	**4,436.5**
Total capital employed as at 31 December	**2,160.0**	**1,644.2**	**354.2**	**340.9**	**-2.2**	**4,497.1**
Average capital employed	**2,145.6**	**1,673.5**	**374.4**	**317.5**	**-2.1**	**4,508.9**
Return on capital employed, %, comparable	**20.6**	**19.0**	**14.0**			**17.2**
Number of personnel as at 31 December	**8,303**	**6,940**	**1,164**	**995**		**17,402**
Average number of personnel	**6,126**	**5,977**	**1,225**	**905**		**14,232**

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	2022	2021
Gains on disposal	+0,0	+1,4
Losses on disposal	-0,1	-0.0
Impairment	-	-5.4
Structural arrangements	+1,6	+3,7
Items in operating profit affecting comparability, total	**+1,5**	**-0.3**

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).

In 2021 the most significant items affecting comparability were the €0.9 million sales gains from grocery trade properties, the €6.5 million sales gain on real estate in the building and technical trade division, included in the share of result of joint ventures, and the €6.1 million costs related to the restructuring of the car trade division and impairment charges.

In 2021 items related to structural arrangements are presented on the following lines in the consolidated income statement: material and services (€0.0 million), change in inventory (€0.6 million), employee benefit expenses (€-4.8 million), depreciation, amortisation and impairment charges (€-0.9 million), depreciation and impairment charges for right-of-use assets (€1.2 million), other operating expenses (€0.9 million) and share of result of joint ventures (€6.5 million).

Reconciliation of alternative performance measures to IFRS financial statements

€ million	2022	2021
Operating profit, comparable		
Operating profit	816.5	775.2
Net of		
Items in operating profit affecting comparability	1.5	-0.3
Operating profit, comparable	**815.1**	**775.5**
Return on capital employed, comparable, %		
Operating profit, comparable	815.1	775.5
Capital employed, average	4,811.9	4,508.9
Return on capital employed, comparable, %	**16.9**	**17.2**
Comparable change in net sales		
Net sales, building and technical trade	4,805.1	4,387.7
Foreign exchange effects	35.3	
Effect of acquisitions and divestments	-61.0	-17.3
Change in net sales, comparable, %	9.4	
Net sales, Group	11,809.0	11,300.2
Foreign exchange effects	35.3	
Effect of acquisitions and divestments	-61.0	-17.3
Change in net sales, comparable, %	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.

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	10,372	3,036	337	888		14,633

2021 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	9,290.7	1,618.6	94.8	303.3	-7.1	11,300.2
Assets included in capital employed	4,989.8	1,226.6	220.9	139.8		6,577.1
Average number of personnel	10,114	2,980	316	822		14,232

2.3 Material and services

€ million	2022	2021
Material and services	-10,088.5	-9,488.6
External services	-216.0	-206.7
Total	**-10,304.5**	**-9,695.3**

2.4 Other operating income

Revenue recognition, including the definition of income reported under other operating income, is presented in Note 2.1.

€ million	2022	2021
Income from services	773.7	753.7
Lease income	44.0	40.9
Gains on disposal of property, plant, equipment and intangible assets	0.7	1.7
Gains on disposal of businesses	0.0	0.6
Realised gains on derivative contracts and changes in fair value	16.1	7.2
Others	164.3	153.3
Total	**998.7**	**957.4**

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	2022	2021
Salaries and fees	-626.0	-610.6
Social security costs	-58.8	-54.6
Pension costs		
Defined benefit plans	-4.1	-7.2
Defined contribution plans	-86.2	-81.9
Share-based payment	-10.6	-9.6
Total	**-785.8**	**-764.0**

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

	2022	2021
Grocery trade	6,288	6,126
Building and technical trade	6,155	5,977
Car trade	1,235	1,225
Common functions	955	905
Total, Group	**14,633**	**14,232**

Other operating expenses

€ million	2022	2021
Marketing costs	-210.2	-210.6
Property and store site maintenance expenses	-181.5	-159.2
ICT expenses	-117.6	-102.1
Lease payments in the income statement	-7.4	-7.6
Losses on disposal of property, plant, equipment and intangible assets	-0.4	-0.5
Realised losses on derivative contracts and changes in fair value	-11.1	-4.0
Other operating expenses	-142.0	-123.3
Total	**-670.2**	**-607.2**

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	2022	2021
Audit	-1.2	-1.0
Tax consultation	-0.0	-0.0
Other services	-0.1	-0.1
Total	**-1.3**	**-1.1**

Kesko Corporation's Auditor is Deloitte Oy.

2.6 Foreign exchange differences recognised in operating profit

€ million	2022	2021
Net sales	-0.0	-0.1
Other operating income	16.1	7.2
Material and services	1.2	-0.4
Other operating expenses	-11.1	-4.0
Total	**6.1**	**2.8**

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. Group prepares for situations in which it is deemed unlikely that the Group's interpretation will be approved in the calculation of income tax. An uncertain tax position may affect taxes or deferred taxes for the financial year or both.

€ million	2022	2021
Current tax	-141.5	-134.0
Tax for prior years	-0.9	0.0
Deferred tax	-8.8	-7.1
Total	**-151.2**	**-141.1**

Reconciliation between tax expense shown in the income statement and tax calculated at parent's rate

€ million	2022	2021
Profit before tax	761.1	712.9
Tax at parent's rate 20.0%	-152.2	-142.6
Effect of foreign subsidiaries' different tax rates	-2.8	-1.7
Effect of tax-free income	0.3	0.7
Effect of expenses not deductible for tax purposes	-1.2	-1.2
Effect of unrecognised deferred tax assets	0.1	0.1
Effect of consolidation of share of result of associates and joint ventures	4.8	6.8
Tax for prior years	-0.9	0.0
Adjustment and revaluation of deferred tax for previous years	0.6	-2.0
Others	0.1	-1.3
Tax charge	**-151.2**	**-141.1**
Effective tax rate	**19.9%**	**19.8%**

Balance sheet division of net deferred tax asset

€ million	2022	2021
Deferred tax assets	2.2	1.1
Deferred tax liabilities	63.2	37.9
Total	**-61.0**	**-36.8**

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 (+)/ liability (-)	-36.8					-61.0

Movements in deferred tax in 2021

€ million	1 Jan. 2021	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2021
Deferred tax assets						
Leases	41.6	-2.5		0.0		39.2
Provisions	7.6	2.0		-0.0	0.8	10.4
Defined benefit pension plans	0.1	-0.0				0.1
Tax loss carry-forwards	4.3	-3.8		0.0		0.5
Other temporary differences	23.6	-6.7	-0.8	0.3	-2.9	13.5
Total	77.1	-11.0	-0.8	0.4	-2.1	63.7
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	43.9	5.3			0.2	49.4
Fair value allocation	25.4	3.0		0.5	-0.6	28.4
Defined benefit pension plans	17.6	-8.7	10.0			18.9
Other temporary differences	5.1	-3.4	2.0	0.0		3.7
Total	92.0	-3.8	12.0	0.6	-0.4	100.5
Net deferred tax asset	-14.9					-36.8

Deferred tax related to components of other comprehensive income

€ million	2022 Before tax	Tax charge/ credit	After tax	2021 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	38.2	-7.6	30.6	50.0	-10.0	40.0
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-41.9		-41.9	9.8		9.8
Share of other comprehensive income of associates and joint ventures	-0.5		-0.5	-0.5		-0.5
Cash flow hedge revaluation	32.8	-6.6	26.2	13.9	-2.8	11.1
Total	**28.6**	**-14.2**	**14.3**	**73.2**	**-12.8**	**60.4**

Tax loss carry-forwards

As at 31 December 2022, the Group had €198,2 million of unused tax losses for which deferred tax assets have not been recognised, because at the balance sheet date, the realisation of the related tax benefit through future taxable profits is not probable.

Tax losses carried forward for which tax assets have not been recognised expire as follows:

€ million	2023	2024	2025	2026	2027	2028-	Total
	0.1					198.0	198.2

2.8 Earnings per share

Accounting policies

Basic earnings per share is 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 is calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares.

	2022	2021
Net profit for the period attributable to equity holders of the parent, € million	609.9	571.8
Number of shares		
Weighted average number of shares outstanding	397,383,187	397,032,704
Diluted weighted average number of shares outstanding	397,383,187	397,032,704
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, Group total, €	1.53	1.44

2.9 Additional details related to the statement of cash flows

Adjustments to cash flows from operating activities

€ million	2022	2021
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-7.5	-8.2
Share of results of associates and joint ventures	-24.1	-34.1
Impairments	-	5.4
Credit losses	4.0	2.2
Gains on disposal of property, plant, equipment and intangible assets and business operations	3.5	-1.0
Losses on disposal of property, plant, equipment and intangible assets and business operations	0.4	4.5
Share-based compensation	-9.2	-10.6
Defined benefit pensions	5.5	44.6
Others	7.3	6.2
Total	**-20.2**	**9.0**

The group 'Others' within the adjustments to cash flows from operating activities includes the adjustment of unrealised foreign exchange gains and losses on purchases and sales, and the adjustment of other transactions of a non-cash nature.

Capital expenditure and non-cash financing activities

€ million	2022	2021
Total acquisitions of property, plant, equipment and intangible assets	399.1	262.6
Total acquisitions of subsidiaries and investments in associates and other investments	50.1	14.0
Total capital expenditure	**449.2**	**276.6**
of which cash payments	386.4	247.4
Loans relating to acquired companies and cash and cash equivalents	19.9	5.3
Payments arising from prior period investing activities	-21.9	-10.4
Capital expenditure financed with liabilities	24.4	34.2
Pension Fund return of surplus assets	40.3	-
Total	**449.2**	**276.6**

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 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. 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

Kesko's Norwegian subsidiary Byggmakker CF AS acquired the entire capital stock of 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. 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.

Acquisitions in 2021

Byggarnas Partner i Sverige AB

Kesko's subsidiary Fresks Försäljning AB acquired the entire capital stock of Byggarnas Partner i Sverige AB, a Swedish building and home improvement trade business for professional builders, on 1 September 2021. The consideration paid was €9.7 million. The acquisition strengthens Kesko's position in the building and home improvement market especially in the Stockholm region, where Byggarnas Partner has a network of five stores.

The fair value of the assets acquired for Kesko Group amounted to €7.9 million and the liabilities assumed to €4.5 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 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.

	2022		2021
€ million	Acquisitions in Sweden	Acquisitions in Norway	Byggarnas Partner i Sverige AB
Debt-free acquisition price	38.3	12.5	9.7
Fair values of assets acquired and liabilities assumed at the date of acquisition			
Intangible assets	4.0	1.1	0.6
Property, plant, equipment, right-of-use assets and investments	14.5	2.5	1.5
Inventories	10.2	2.8	3.1
Receivables	8.5	1.4	2.8
Deferred tax asset	0.0	0.1	
Cash and cash equivalents	5.9	1.3	
Total assets	**43.1**	**9.2**	**7.9**
Trade payables, other payables, provisions, lease liabilities	22.2	3.7	4.3
Deferred tax liability	1.6	0.3	0.3
Total liabilities	**23.8**	**4.0**	**4.5**
Net assets acquired, total	**19.3**	**5.2**	**3.4**
Goodwill	**19.0**	**7.3**	**6.3**
Cash flow impact of acquisition			
Consideration paid	-38.3	-12.5	-9.7
Cash and cash equivalents acquired	5.9	1.3	0.0
Cash flow impact of acquisition	**-32.4**	**-11.2**	**-9.7**

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 its 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.

Depreciation of property, plant and equipment ceases when an item is classified as a non-current asset held for sale.

Gains and losses on disposals of property, plant and equipment are recognised in the income statement and stated as other operating income and expenses.

The Group has not capitalised interest costs incurred as part of the acquisition of assets, because the Group does not have qualifying assets.

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**

2021 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2021
Cost						
Cost as at 1 January	302.0	1,411.0	604.2	35.7	11.9	2,364.8
Exchange differences	0.3	0.2	0.1	-0.2	0.0	0.4
Additions	13.3	59.6	102.3	3.3	50.4	229.0
Acquisitions	1.9	5.1	1.1	-	-	8.1
Deductions	-0.4	-16.6	-65.6	-1.3	-0.3	-84.3
Transfers between items	0.5	14.7	0.5	0.1	-10.2	5.5
Cost as at 31 December	317.6	1,474.0	642.5	37.6	51.8	2,523.5
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-5.0	-537.1	-350.3	-21.7		-914.0
Exchange differences	0.0	0.1	0.2	0.1		0.5
Accumulated depreciation on deductions	0.0	15.9	49.1	1.2		66.3
Accumulated depreciation on transfers	-	-0.1	0.0	0.1		0.0
Depreciation and impairment charges for the year	-2.4	-67.7	-66.6	-2.2		-138.8
Accumulated depreciation and impairment charges as at 31 December	-7.3	-588.9	-367.5	-22.3		-985.9
Carrying amount as at 1 January	297.0	873.9	253.9	14.0	11.9	1,450.8
Carrying amount as at 31 December	**310.3**	**885.1**	**275.0**	**15.3**	**51.8**	**1,537.6**

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.

2022 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	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 and impairment 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	-46.2	-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**

2021 € million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2021
Cost					
Cost as at 1 January	618.3	95.0	261.6	11.9	986.8
Exchange differences	5.6	1.5	1.9	0.0	9.0
Additions	4.7	-	16.5	12.1	33.3
Acquisitions	6.3	0.5	0.1	-	6.9
Deductions	0.0	-	-24.8	-0.3	-25.1
Transfers between items	-	-	3.4	-11.1	-7.7
Cost as at 31 December	634.9	97.0	258.8	12.6	1,003.2
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-46.2	-7.2	-156.0		-209.5
Exchange differences	0.1	-0.3	-1.5		-1.6
Accumulated amortisation and impairment charges on disposals		0.0	24.9		24.9
Amortisation and impairment charges for the year		-1.2	-36.8		-38.0
Accumulated amortisation and impairment charges as at 31 December	-46.1	-8.8	-169.4		-224.3
Carrying amount as at 1 January	572.1	87.7	105.6	11.9	777.4
Carrying amount as at 31 December	**588.8**	**88.2**	**89.3**	**12.6**	**779.0**

Other intangible assets include software and licences amounting to €52.9 million (€47.6 million).

Impairment testing for goodwill and intangible rights

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.

€ million	Trademarks 2022	Goodwill 2022	Trademarks 2021	Goodwill 2021
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				
Byggmakker, Norway	22.4	211.5	24.1	214.9
Onninen	58.3	66.0	58.4	66.9
K-Bygg, Sweden	0.7	190.3	0.4	185.8
Car trade	-	43.1	-	43.1
Total	**86.7**	**588.9**	**88.2**	**588.8**

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 2022 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 0.3–4.6% and the EBITDA ratio range 6.1–13.7%. 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 2022	Terminal growth rate 2022	Pre-tax discount rate 2021	Terminal growth rate 2021
Grocery trade				
Grocery trade, chain operations	6.8%	0.5%	6.1%	0.5%
Grocery trade, Kespro	6.5%	1.5%	5.9%	1.5%
Building and technical trade				
Byggmakker, Norway	7.2%	2.0%	7.2%	2.0%
Onninen	7.8%	2.0%	7.5%	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 2022 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 2022 and 2021.

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 2022 totalled €352.8 million. During the forecast period, the range for change in K-Bygg's net sales is 0.5–5.2% and the growth projection for the period following the forecast period is 2%. By the end of the forecast period, K-Bygg's EBITDA margin is expected to have grown by 0.4 percentage points from the EBITDA margin achieved in

2022. In K-Bygg's impairment test, the recoverable amount exceeded the carrying amount of the assets tested by €161.7 million. Impairment would be recognised if the post-forecast period EBITDA margin would decrease by more than 2.5 percentage points, if the post-forecast period growth percentage would be below -0.7%, or if the pre-tax discount rate was above 9.8%.

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.

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

2021 € million	Land and buildings	Machinery and equipment	Total
Carrying amount as at 1 January	1,798.1	20.9	1,819.0
Additions	256.1	5.0	261.0
Acquisitions	1.1	0.1	1.2
Depreciation	-300.1	-8.1	-308.2
Impairment charges	-1.6	0.0	-1.6
Deductions	-42.0	-0.2	-42.2
Exchange differences	5.5	0.2	5.7
Carrying amount as at 31 December	1,717.2	17.9	1,735.0

The lease commitments for leases not commenced on 31 December 2022 to which the Group is committed totalled €102.4 million (€127.9 million).

Lease expenditure

€ million	2022	2021
Operating profit		
Depreciation and impairment charges on right-of-use assets	-322.1	-310.3
Lease payments for short-term leases	-3.0	-3.3
Lease payments for low-value assets	-3.4	-2.7
Variable lease payments	-1.0	-1.6
Financial expenses		
Interest expense for lease liabilities	-68.4	-71.3
Total	**-397.9**	**-389.2**

Maturity of lease liabilities and related finance costs are detailed in Note 4.3.

Cash flow from leases

€ million	2022	2021
Interest expense for lease liabilities	-68.4	-71.3
Repayments of lease liabilities	-332.7	-323.2
Lease payments in the income statement	-7.4	-7.6
Total	**-408.5**	**-402.1**

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 subleases 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.

Lease income

€ million	2022	2021
Lease income for operating leases	22.8	19.1
Lease income for subleases	21.1	21.7
Total	**44.0**	**40.9**

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 an impairment as necessary. Such reviews require assessments of future demand for products. Possible changes in these estimates may cause changes in inventory measurement in future periods.

€ million	2022	2021
Goods	1,113.0	890.5
Prepayments	2.3	3.8
Total	1,115.4	894.3
Write-down of inventories to net realisable value	56.7	46.6

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	2022	2021
Interest-bearing receivables		
Interest-bearing loans and receivables	4.4	4.1
Total interest-bearing receivables	4.4	4.1
Trade receivables	969.3	909.2
Income tax assets	21.9	0.1
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	80.2	49.0
Prepaid expenses and deferred income	281.0	250.8
Total other non-interest-bearing receivables	361.2	299.9
Total	**1,356.9**	**1,213.3**

Prepaid expenses and deferred income 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	2022	2021
Trade receivables not due	886.7	853.7
1–7 days past due trade receivables	38.1	21.9
8–30 days past due trade receivables	23.6	17.5
31–60 days past due trade receivables	4.1	3.9
Over 60 days past due trade receivables	16.8	12.2
Total	**969.3**	**909.2**

In Finland the key part of the business is done in cooperation with retailers and within trade receivables, €395.6 million (€375.8 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 €238.6 million (€352.7 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 €19.4 million (€19.6 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €4.0 million (€2.2 million).

The amount of trade receivables with renegotiated terms totalled €2.3 million (€3.4 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 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 2,148 beneficiaries, of whom 286 were active employees and 1,862 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. Kesko Group does not expect to pay contributions to the Pension Fund in 2023.

The defined benefit asset recognised in the balance sheet is determined as follows:

€ million	2022	2021
Present value of defined benefit obligation	-225.2	-282.1
Fair value of plan assets	312.1	376.9
Net assets recognised in the balance sheet	**86.9**	**94.7**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	**94.7**	**89.6**
Income/cost recognised in the income statement	-4.1	-7.2
Remeasurement	38.3	49.9
Return of surplus assets	-42.9	-38.6
Contributions to plan and plan costs	1.0	1.0
As at 31 December	**86.9**	**94.7**

€ 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		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**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2021	-294.5	384.0	89.5
Current service cost	-4.2		-4.2
Gains or losses on settlement	-2.8		-2.8
Interest cost/income	-1.3	1.6	0.3
Plan costs		-0.5	-0.5
	-8.3	**1.1**	**-7.2**
Remeasurement			
Return on plan assets		42.7	42.7
Gain/loss from changes in demographic assumptions	0.4		0.4
Gain/loss from changes in financial assumptions	12.1		12.1
Experience gains/losses	-5.2		-5.2
	7.3	**42.7**	**49.9**
Contributions to plan and plan costs		1.0	1.0
Return of surplus assets		-38.6	-38.6
Benefit payments	13.3	-13.3	0.0
As at 31 December 2021	**-282.2**	**376.9**	**94.7**

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**

Plan assets were comprised as follows in 2021

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments		34.5	34.5
Debt instruments	42.8	14.4	57.1
Investment funds	64.9	10.2	75.1
Properties		120.0	120.0
United States			
Investment funds	78.1		78.1
Other countries			
Investment funds	29.1		29.1
Total	**214.9**	**179.1**	**394.0**

€ million	2022	2021
Kesko Corporation shares included in fair value	-	-
Properties leased by Kesko Group included in fair value	86.9	120.0

Principal actuarial assumptions:

	2022	2021
Discount rate	3.56%	0.89%
Salary growth rate	2.97%	2.00%
Inflation	2.49%	1.50%
Pension growth rate	2.68%	1.80%
Average service expectancy, years	5	7

Weighted average duration of pension obligations and expected maturity analysis of undiscounted pension obligations

	2022	2021
Weighted average duration of pension obligations, years	12	15
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	15.4	14.1
Between 1–10 years	120.5	111.7
Between 10–20 years	110.2	94.6
Between 20–30 years	76.9	61.3
Over 30 years	59.4	45.2
Total	**382.3**	**327.0**

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 2022, the realised return on investing activity was -3.73%.

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 €89.2 million as at 31 December 2022. 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 rises, the present value of the defined benefit obligation decreases. 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
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%
2021			
Discount rate	0.50%	-6.89%	7.77%
Salary growth rate	0.50%	0.99%	-0.95%
Pension growth rate	0.50%	6.40%	5.80%

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 transactions are 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. 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. 2022	31 Dec. 2021
Current assets	427.4	440.4
Non-current assets	422.1	416.1
Current liabilities	285.8	270.6
Non-current liabilities	296.2	300.2
The above-mentioned balance sheet items contain the following items:		
Cash and cash equivalents	72.8	120.8
Current interest-bearing liabilities	39.8	44.8
Non-current interest-bearing liabilities	296.1	300.1

	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Net sales	1,224.3	1,091.4
Net profit attributable to owners of the parent	47.1	56.0
Comprehensive income for the year attributable to owners of the parent	48.2	54.9
Group share of profit for the year	23.5	28.0
Share of result of the joint venture consolidated in the consolidated financial statements	23.5	28.0
Share of other comprehensive income of the joint venture consolidated in the consolidated financial statements	24.1	27.5
The above-mentioned income statement items contain the following items:		
Depreciation, amortisation and impairment	-49.3	-46.1
Interest income	0.6	0.1
Interest expense	-12.3	-12.4
Income tax	-7.9	-7.5
Dividends received from joint ventures	-33.0	-

Reconciliation for balance sheet value of joint ventures, € million	2022	2021
Net assets of joint ventures	267.6	285.6
Minority interest in net assets	34.0	33.6
Group interest in net assets	117.2	126.0
Goodwill	19.2	19.2
Fair value allocations	15.0	15.0
Balance sheet value of joint ventures	151.3	160.1

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	2022	2021
Current assets	27.7	9.9
Non-current assets	516.3	525.3
Current liabilities	11.4	181.0
Non-current liabilities	488.5	320.5
Equity attributable to equity holders of the parent	44.1	33.6
Net sales	48.7	46.9
Net profit for the year	10.5	4.9
Comprehensive income for the year, total	9.6	4.7

Reconciliation for balance sheet value of an associate, € million	2022	2021
Net assets of the associate	44.1	33.6
Group interest in net assets	14.7	11.2
Balance sheet value of the associate	14.7	11.2

Other associates

Summary of financials of other associates, € million	2022	2021
Group share of profit for the year	-3.5	1.4
Group share of comprehensive income for the year	-3.5	1.4
Balance sheet value of associates in the consolidated statement of financial position	65.9	63.3

The table presents the associates Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy, which sell services to Kesko and retail companies of K-retailers, as well as some business property companies.

Mutual real estate companies

Mutual real estate companies are consolidated in the consolidated financial statements in proportion to ownership. The figures in the table below are the Group's share of real estate companies' assets and liabilities and net profit, included in the consolidated statement of financial position and income statement. Mutual real estate companies are treated as joint operations and accounted for in proportion to ownership.

€ million	2022	2021
Non-current assets	28.7	29.7
Current assets	0.7	0.7
Non-current liabilities	1.3	0.1
Current liabilities	6.6	7.7
Net assets	21.6	22.7
Income	2.4	2.4
Costs	3.6	3.4
Net profit for the year	-1.1	-1.0

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. 2022	16.0	13.8	29.8
Foreign exchange effects	0.0	0.0	0.0
Additional provisions	7.6	8.2	15.8
Unused amounts reversed	-7.8	-0.4	-8.2
Amounts charged against provision	-7.9	-7.2	-15.1
Changes in the Group structure	0.0	-0.1	-0.1
Provisions as at 31 Dec. 2022	7.9	14.3	22.2
Analysis of total provisions			
Non-current	4.1	6.2	10.3
Current	3.8	8.1	11.9

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	2022	2021
Interest-bearing liabilities and lease liabilities in the consolidated statement of financial position	2,418.3	2,295.1
- Lease liabilities	1,920.1	1,928.6
- Other current financial assets	68.6	107.9
- Cash and cash equivalents	245.5	279.8
Interest-bearing net debt excluding lease liabilities	**184.1**	**-21.3**

€ million	2022	2021
Operating profit	816.5	775.2
+ depreciation, amortisation and impairment	169.0	176.8
+ depreciation and impairment charges for right-of-use-assets	322.1	310.3
- lease payments for right-of-use-assets	399.1	388.3
EBITDA excluding the impact of IFRS 16	**908.5**	**873.9**
Interest bearing net debt/EBITDA excluding the impact of IFRS 16	**0.2**	**0.0**

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 €314.1 million (€387.7 million) on 31 December 2022. Interest-bearing liabilities on 31 December 2022 totalled €2,418.3 million (€2,295.1 million), of which lease liabilities accounted for €1,920.1 million (€1,928.6 million). Interest-bearing net debt totalled €2,104.2 million (€1,907.3 million), and interest-bearing net debt excluding lease liabilities totalled €184.1 million (€-21.3 million).

€ million	2022	2021
Financial assets at fair value through profit or loss	-	50.0
Financial assets at amortised cost (maturing in less than 3 months)	17.0	32.0
Cash and cash equivalents	228.5	197.9
Other current financial assets	68.6	107.9
Borrowings - repayable within one year (including overdraft)	-252.6	-160.1
Lease liabilities - repayable within one year	-328.1	-317.9
Borrowings - repayable after one year	-245.5	-206.4
Lease liabilities - repayable after one year	-1,592.0	-1,610.7
Cash and debt, net	**-2,104.2**	**-1,907.3**

€ 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**

€ million	Carrying amount as at 1 Jan. 2021	Cash flows	Business acquisitions and divestments	Net changes of lease liabilities	Foreign exchange adjustments	Carrying amount as at 31 Dec. 2021
Lease liabilities due within 1 year	-312.7	323.2	-0.6	-326.9	-0.8	-317.9
Lease liabilities due after 1 year	-1,712.3		-0.5	107.3	-5.3	-1,610.7
Borrowings due within 1 year	-182.6	22.5			0.0	-160.1
Borrowings due after 1 year	-408.7	202.4			0.0	-206.4
Other current financial assets	51.7	56.2	0.0			107.9
Cash and overdraft	150.0	47.6	0.0		0.3	197.9
Financial assets at amortised cost	4.5	27.5				32.0
Financial assets at fair value through profit or loss	99.9	-49.9				50.0
Net debt	**-2,310.3**	**629.4**	**-1.0**	**-219.6**	**-5.8**	**-1,907.3**

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 2021	126,948,028	269,791,118*	396,739,146*	197.3	197.8	266.8	661.9
Number of shares after the split							
Transfer of treasury shares		371,198	371,198				
31 December 2021	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**
Number of votes	**1,269,480,280**	**270,510,619**	**1,539,990,899**				

* Excluding treasury shares, which totalled 2,620,361 (2,968,664) at the end of the financial year.

Treasury shares

Authorised by the General Meeting, the Board acquired a total of 500,000 of the Company's own B shares during the 2018 financial year. The Board also acquired a total of 1,200,000 of the Company's own B shares during the financial years 2011 and 2014. The shares are held by the Company as treasury shares and the Company's Board is entitled to transfer them. The acquisition cost of the B shares held by the Company and acquired during the 2018 financial year was €24.4 million, and the acquisition cost of the shares acquired during the 2011 and 2014 financial years was €23.5 million. These costs have been deducted from retained earnings in equity. The Board has the authorisation granted by the Annual General Meeting on 7 April 2022 to decide on the issuance of at maximum 33,000,000 B series shares and decide on the repurchase of a maximum of 16,000,000 of Kesko's B shares. The authorisation is valid until 30 June 2023. Information on share-based payments has been given in Note 5.3.

	pcs
B shares held by the Company as at 31 Dec. 2021	**2,968,664**
Transfer, share-based compensation plan	-350,022
Returned during the period	1,719
B shares held by the Company as at 31 Dec. 2022	**2,620,361**

Dividends

After the balance sheet date, the Board of Directors proposed the distribution of a dividend of €1,08 per share. The dividend distributed for the profit for 2021 was €1,06 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. 2022 € million	NOK	SEK	PLN
Net investment	381.6	263.4	71.0

Group's translation exposure as at 31 Dec. 2021 € million	NOK	SEK	PLN
Net investment	373.0	253.3	49.0

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. 2022 € million	NOK	SEK	PLN
Weakening 10%	-34.7	-23.9	-6.5
Strengthening 10%	42.4	29.3	7.9

Sensitivity analysis, impact on equity as at 31 Dec. 2021 € million	NOK	SEK	PLN
Weakening 10%	-33.9	-23.0	-4.5
Strengthening 10%	41.4	28.1	5.4

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. 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

Group's transaction exposure as at 31 Dec. 2021 € million	USD	SEK	NOK	PLN
Group's transaction risk	-1.7	55.0	59.3	27.3
Hedging derivatives	46.8	-58.0	-56.6	-26.1
Open exposure	45.1	-3.1	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 2022, the exposure with respect to USD was €-5.2 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. 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

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2021 € million	USD	SEK	NOK	PLN
Change +10 %	-4.1	0.3	-0.3	-0.1
Change -10 %	5.0	-0.3	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 bank deposits operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on these investments in 2022 was -1.1% (0.6%) and the duration 0.7 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 two bilateral loans, which combined total €200 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 long-term 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 €506 million (€506 million).

	31 Dec. 2022				31 Dec. 2021			
€ 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**	**200.6**	**0.9**	**201.7**	**1.6**	**150.1**	**0.1**	**151.8**
finance costs	4.5	9.2	0.1	13.9	0.5	1.0	0.0	1.5
Pension loans	**12.0**	**38.6**	**5.7**	**56.3**	**12.0**	**44.9**	**11.5**	**68.3**
finance costs	0.8	1.4	0.1	2.2	0.9	2.0	0.2	3.2
Lease liabilities	**328.1**	**1,012.4**	**579.7**	**1,920.1**	**317.8**	**984.0**	**626.8**	**1,928.6**
finance costs	61.6	144.2	52.1	257.9	61.7	146.6	54.7	263.0
Payables to K-retailers	**82.1**			**82.1**	**120.7**			**120.7**
finance costs	0.2			0.2				
Other interest-bearing liabilities	**158.3**		**0.0**	**158.3**	**25.7**		**0.0**	**25.8**
finance costs	1.3			1.3				
Non-current non-interest-bearing liabilities	**1.0**	**2.6**	**20.5**	**24.1**	**0.7**	**3.4**	**20.7**	**24.8**
Current non-interest-bearing liabilities								
Trade payables	**1,499.4**			**1,499.4**	**1,332.6**			**1,332.6**
Accrued expenses	**442.6**			**442.6**	**454.8**			**454.8**
Other non-interest-bearing liabilities	**195.5**			**195.5**	**186.1**			**186.1**

Financial liabilities in the balance sheet include €1.2 million (€3.4 million) in items related to derivatives, of which €1.2 million will mature within the next 12 months. More information on leases is presented in Note 3.4.

	31 Dec. 2022				31 Dec. 2021			
€ 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	140.9			140.9	202.6			202.6
Interest rate derivatives	1.0	3.0		4.0	1.5	3.7	0.1	5.3
Electricity derivatives	0.6	0.1		0.7	0.2	0.0		0.2
Receivables								
Foreign currency derivatives	142.8			142.8	203.2			203.2
Interest rate derivatives	3.3	8.2		11.5	0.1	0.2		0.2
Electricity derivatives	29.3	15.5		44.8	7.1	4.3		11.5

Interest rate risk on borrowings and sensitivity analysis

Changes in the interest rate level have an impact on the Group's interest expense. The policy for hedging interest rate risk is aimed at balancing the effects of changes in the interest rate level on profit or loss for different financial periods.

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate derivative contracts. The target duration is three years, which is allowed to vary between one and a half and four years. The actual duration during the financial year was 1.7 (2.1) years on average.

The sensitivity analysis for changes in interest rate level in respect of commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2022, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.1 million (€-/+1.2 million), if the interest rate level had risen or fallen by 1 percentage point.

Pension loans, €56.3 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 1.8%.

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 2022 totalled €1,499.4 million, of which €399.3 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	2022	2021
Carrying amount as at 1 January	52.7	31.7
Changes	-14.1	21.0
Carrying amount as at 31 December	**38.7**	**52.7**

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, average annual balances of invested assets 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 €+/-1.8 million (€+/-1.8 million).

Maturity of non-current receivables

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	0.0	0.0	0.0	0.0	0.2
Total	**13.4**	**8.6**	**4.7**	**7.4**	**56.7**	**90.8**

The carrying amount of non-interest-bearing non-current receivables equals their fair value.

Maturity analysis of non-current receivables as at 31 Dec. 2021 € million	2023	2024	2025	2026	2027-	Total
Non-interest-bearing non-current receivables	2.8	0.6	0.2	0.0	0.6	4.2
Loans and receivables from associates and joint ventures	3.4	3.4	3.4	0.5	57.5	68.1
Other non-current receivables	0.0	0.0	0.0	0.0	0.2	0.2
Total	**6.2**	**4.0**	**3.6**	**0.5**	**58.3**	**72.6**

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 applied to electricity, an amount of €34.8 million (€2.5 million) was removed from equity and included in the income statement as purchase cost adjustment, and €67.7 million (€15.4 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €44.2 million (€11.3 million) before accounting for deferred tax.

As at the balance sheet date, a total quantity of 810,336 MWH (1,001,424 MWH) of electricity had been purchased with electricity derivatives and 1,196,839 MWH (1,271,047 MWH) under fixed price purchase agreements. The 1–12 month hedging level was 89% (88%), the 13–24 month level was 73% (82%), the 25–36 month level was 56% (62%), the 37–48 month level was 22% (30%), and the 49-59 month level was 19% (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 2022, it would contribute €-/+8.5 million (€-/+3.4 million) to the 2022 income statement and €-/+5.6 million (€-/+7.0 million) to equity. The impact has been calculated before taxes.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2022 Positive fair value (balance sheet value)	31 Dec. 2022 Negative fair value (balance sheet value)	31 Dec. 2021 Positive fair value (balance sheet value)	31 Dec. 2021 Negative fair value (balance sheet value)
Interest rate derivatives	12.2	-0.1	0.1	-2.2
Foreign currency derivatives	2.4	-0.6	1.7	-1.1
Electricity derivatives	44.8	-0.7	11.5	-0.2

Notional principal amounts of derivative contracts € million	31 Dec. 2022	31 Dec. 2021
Interest rate derivatives	330.0	420.0
Foreign currency derivatives	141.7	204.6
Electricity derivatives	69.7	35.2

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €0.5 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	2022	2021
Interest income and other finance income		
Income on investments at amortised cost	1.0	0.8
Interest income on loans and receivables	9.7	8.5
Income on investments at fair value through profit or loss	1.0	1.6
Other finance income	1.3	1.6
Total interest income and other finance income	13.0	12.5
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-4.0	-4.8
Losses on investments at amortised cost	-2.2	0.1
Losses on investments at fair value through profit or loss	-3.5	-4.4
Other finance costs	12.7	0.5
Total interest expense and other finance costs	2.9	-8.6
Interest expense for lease liabilities	-68.4	-71.3
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-3.5	-0.8
Total exchange differences	-3.5	-0.8
Total finance income and costs	**-56.0**	**-68.2**

Interest expenses and other finance costs 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 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**	

As at 31 December 2021

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	15.5			15.5	15.5			15.5
Non-current receivables		68.9		68.9	68.9			
Non-current receivables, derivatives			3.6	3.6	3.6		3.6	
Current financial assets								
Trade receivables		909.2		909.2	909.2			
Other receivables		294.4		294.4	294.4			
Other receivables, derivatives	1.7		7.9	9.6	9.6		9.6	
Other financial assets	55.2	52.7		107.9	108.0		55.2	
Cash and cash equivalents	50.0	229.9		279.8	279.8		50.0	
Total financial assets	**122.3**	**1,555.1**	**11.6**	**1,689.0**	**1,689.1**		**118.4**	**15.5**

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		206.4		206.4	207.6			
Non-current lease liabilities		1,610.7		1,610.7	1,610.7			
Non-current non-interest-bearing liabilities		24.8		24.8	24.8			
Non-current non-interest-bearing liabilities, derivatives			0.0	0.0	0.0		0.0	
Current financial liabilities								
Current interest-bearing liabilities		160.1		160.1	160.2			
Current lease liabilities		317.9		317.9	317.9			
Trade payables		1,332.6		1,332.6	1,332.6			
Other non-interest-bearing liabilities		637.5		637.5	637.5			
Other non-interest-bearing liabilities, derivatives	3.2		0.2	3.4	3.4		3.4	
Total financial liabilities	**3.2**	**4,290.0**	**0.2**	**4,293.4**	**4,294.7**		**3.4**	

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 €17.0 million (€32.0 million), and financial assets recognised at fair value through profit or loss of €0.0 million (€50.0 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 €46.9 million (€46.2 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 1.9%–3.5% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity structure of non-current borrowings has been presented in Note 4.3.

Changes in level 3 instruments **€ million**	**2022**	**2021**
Private equity funds and other shares and interests as at 1 January	15.5	22.7
Purchases	0.3	0.2
Refunds received		-3.1
Gains and losses through profit or loss	-0.4	-1.6
Changes in fair value	-2.2	-2.7
Private equity funds and other shares and interests as at 31 December	**13.2**	**15.5**

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 €2.6 million has been recorded on these investments for the financial year 2022.

4.6 Commitments and contingencies

€ million	**2022**	**2021**
Collateral given for own commitments		
Pledges	9.0	9.0
Mortgages	179.6	179.8
Guarantees	61.6	62.1
Other commitments and contingent liabilities	58.4	57.1
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 €1.4 million in 2023 and €60.1 million in 2024–2027.

Leases not commenced yet but to which the Group is committed at the balance sheet date 31 December 2022 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
Barker-Littoinen Oy	Espoo, 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
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
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	100.00
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
Kiinteistö Oy Kittilän Säästökulma	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Kittilän Valtatie 31–33	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Mustasaaren Mustikka	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Nokian Kauppapaikka	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

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Savonlinnan Länsikeskus	Joensuu, Finland	100.00	100.00
Kiinteistö Oy Sarviniitynkatu 4	Kerava, Finland	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki, Finland	100	100
Kiinteistö Oy Tarkkaiikka	Oulu, Finland	100.00	100.00
Kiinteistö Oy Vasarakatu 22	Jyväskylä, Finland	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki, Finland	100.00	100.00
Klintcenter Ab	Mariehamn, Åland	100.00	100.00
K-Market Oy	Helsinki, Finland	100.00	100.00
Konekesko Oy	Helsinki, Finland	100.00	100.00
Koskelan Ostokeskus Oy	Oulu, Finland	58.64	29.32
Onninen Oy	Helsinki, Finland	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
Rantasalmen Kauppakeskus Oy	Helsinki, Finland	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	
Byggarnas Partner Sverige AB	Segeltorp, Sweden	100.00	
Bygg & Interiör i Katrineholm AB	Katrineholm, Sweden	100.00	
Bygg & Interiör i Flen AB	Flen, Sweden	100.00	
Bygg & Interiör i Vingåker AB	Vingåker, Sweden	100.00	
Byggmakker CF AS	Sandefjord, Norway	100.00	
Djurbergs Järnhandel Aktiebolag	Söderköping, Sweden	100.00	
Fresks Försäljning AB	Östersund, Sweden	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 Hyvinkään Onnela	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	
Kiinteistö Oy Visuveden Liiketalo	Ruovesi, 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-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 LLP	Aktau, Kazakhstan	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Warsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	
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	
XL-Bygg Bergslagen AB	Frövi, 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	20.00	
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 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 Lahden Lyhytkatu 1	Lahti, Finland	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere, Finland	34.54	
Kiinteistö Oy Taidetehtaanparkki	Porvoo, Finland	21.00	21.00
Kiinteistö Oy Ulvilan Hansa	Ulvila, Finland	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa, Finland	27.81	27.81
Lapin Tehdastalo Oy	Tampere, Finland	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki, Finland	30.65	30.65
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, which 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 2022 or 2021, the pension assets did not include Kesko Corporation shares. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2022 and 2021, 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	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Sales of goods	9.9	9.6	88.2	92.0		
Sales of services	5.2	5.1	1.0	1.0	0.2	0.3
Purchases of goods	-0.6	-1.9	-13.1	-11.5		
Purchases of services	-0.1	-0.1	0.0	0.0		
Other operating income	0.8	0.3	19.1	17.9		0.3
Other operating costs	-3.9	-3.6	-0.0	-0.3	-0.2	0.0
Finance income	6.0	6.3				
Finance expenses	-0.3	-0.0		-0.0		

Balance sheet	Associates and joint ventures		Board and management		Pension Fund	
€ million	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Current receivables	25.8	4.9	7.2	8.2	0.0	3.8
Non-current receivables	64.7	68.1				
Current liabilities	10.1	4.7	2.3	2.5	4.8	13.8

Items related to leases	Associates and joint ventures		Board and management		Pension Fund	
€ million	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Cash flow from leases	-35.9	-35.1		-1.8	-6.2	-8.3
Lease liabilities	231.9	243.0			41.7	48.5

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €7.2 million (€8.2 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 €12.0 million (€16.0 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. During the financial year 2021 Kesko Pension Fund paid in total €38.6 million in return of surplus assets to Finnish Group companies.

The Group joint ventures UAB Kesko Senukai Lithuania and UAB KS Holding decided to distribute in total €33.0 million as dividends to Kesko Group companies in the 2022 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		2022	2021
Mikko Helander	President and CEO	4,866.4	4,381.8
Group Management Board	other members	9,801.4	8,714.4
Esa Kiiskinen	Board Chair	117.0	119.9
Jannica Fagerholm	Board member	75.6	78.4
Peter Fagernäs	Board Deputy Chair	71.4	74.9
Piia Karhu	Board member	57.1	59.5
Jussi Perälä	Board member (starting 12 April 2021)	54.1	54.1
Toni Pokela	Board member	54.1	56.1
Timo Ritakallio	Board member (starting 12 April 2021)	58.9	57.7
Matti Kyytsönen	Board member (until 12 April 2021)	-	4.5
Matti Naumanen	Board member (until 12 April 2021)	-	2.0
Total		**15,156.0**	**13,603.3**

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 4,918 Kesko Corporation B shares in 2022.

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 accrues 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 will be 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 €1.3 million (€1.2 million) and the related pension asset in the balance sheet was €0.9 million (€3.0 million). The pension cost of the President and CEO's statutory pension provision was €0.3 million (€0.3 million).

Share awards

During the 2022 reporting period, members of the Group Management Board were granted 371,397 shares based on the PSP 2020–2023 plan, while the maximum number of shares to be granted was 421,150. The number of shares represents gross earnings, from which withholding tax is deducted. During the 2021 reporting period, members of the Group Management Board were granted 319,622 shares based on the PSP 2019–2022 plan. The number of shares represents gross earnings, from which withholding tax is deducted.

Termination benefits

If the service contract of the President and CEO or some other Group Management Board member is terminated by the Company, he/she is entitled to a monetary salary and fringe benefits for the period of notice and a separate non-recurring termination compensation determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination compensation is not part of the executive's salary and it is not included in the determination of the salary for the period of notice, termination compensation or, in case of retirement, pensionable salary. If an executive resigns, he/she is only entitled to a salary for the period of notice and fringe benefits. When a service relationship terminates due to retirement, the executive is paid a pension based on his/her service contract without other compensations.

Shareholdings

At 31 December 2022, the President and CEO held 5,000 Kesko Corporation A shares and 385,786 Kesko Corporation B shares, which represented 0.10% of the total number of shares and 0.03% of votes carried by all shares of the Company. At 31 December 2022, the Group Management Board, including the President and CEO, held 7,824 Kesko Corporation A shares and 993,933 Kesko Corporation B shares, which represented 0.25% of the total number of shares and 0.07% 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. The liability in the balance sheet is measured at fair value at each balance sheet date. For equity-settled share-based payment transactions, an increase corresponding to the expensed amount is recorded in equity.

The Company's Board of Directors has granted a share-based compensation plan to management under which an award consisting of B series shares and an amount in cash is paid upon fulfilling the plan's terms. The fair value of the award paid in shares is the value of the share at the grant date and it is recognised as an expense on a straight-line basis over the vesting and commitment period of the plan. The expensed amount is based on the Group's estimate of the amount of award payable in shares at the end of the vesting period. The effects of non-market conditions are not included in the fair value of the awards. Instead, they are accounted for in the assumptions of the number of shares expected to vest at the end of the vesting period. A cash component is paid to cover the taxes and tax-like charges incurred under the award. The cash component is recognised as an expense during the vesting period. Changes in estimates are recorded in the income statement.

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 2022 was €-10.6 million (€-9.6 million).

As at 31 December 2022, the amount to be recognised as expense for the financial years 2023–2025 is estimated at a total of €11.2 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 2019–2021. In addition, the target measuring Kesko's sustainability, is included as the performance criteria for the PSP plan initiated in 2022.

Assumptions for share award calculations	PSP 2022–2023	PSP 2021–2022	PSP 2020–2021	PSP 2019–2020
Grant dates	2.2.2022	2.2.2021	4.2.2020	20.3.2019
Grant date fair value of share award, €	27.71	21.01	14.85	13.11
Share price at grant date, €	28.77	21.76	15.48	13.70
Shares transferred in	2024	2023	2022	2021
Number of share awards granted, maximum, pcs*	500,285	646,970	842,850	1,220,600
Changes in the number of shares granted, pcs	-20,550	-87,500	-116,200	-129,600
Actual amount of share award, pcs*			655,729	726,168
Number of plan participants at end of financial year	59	52	46	103
Share price at balance sheet date, €	20.62	29.34	21.04	15.77
Assumed fulfilment of performance criteria, %	69.0	84.5	90.0	71.6
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 2022	KPSP and RSP 2021	KPSP and RSP 2020	RSP 2019–2020
Grant dates	2.2.2022	2.2.2021	4.2.2020	20.3.2019
Grant date fair value of share award, €	27.71	21.01	14.85	13.11
Share price at grant date, €	28.77	21.76	15.48	13.70
Shares transferred in	2025	2024	2023	2022
Number of share awards granted, maximum, pcs*	215,155	256,769	291,700	34,800
Changes in the number of shares granted, pcs	-13,365	-14,936	-50,966	-6,000
Actual amount of share award, pcs*		192,950	209,320	28,800
Number of plan participants at end of financial year	150	135	85	13
Share price at balance sheet date, €	20.62	29.34	21.04	15.77
Assumed fulfilment of performance criteria, %	55.0	89.3	82.0	71.6
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 for 2021, that it was party to two legal proceedings 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. Both legal proceedings have ended, and final judgements have been given. The minority shareholders have brought a claim to the District Court of Helsinki to annul and reverse the arbitral award given in one of the legal proceedings. Minority shareholders have also initiated a new arbitration proceeding against Kesko regarding the company's shareholder agreement.

5.5 Events after the balance sheet date

Kesko announced on 30 January 2023 that it would acquire Elektroskandia Norge AS, a company operating in technical wholesale in Norway, from Rexel Group. The acquisition will strengthen Onninen's position in technical trade in Norway. Elektroskandia Norge AS's net sales in 2022 totalled some €250 million and the company has 270 employees, 13 sales points, and a highly automated distribution centre. The completion of the acquisition is subject to the approval of the local competition authority.

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Net sales	**6,620,483,911.52**	**6,365,811,744.96**
Other operating income	896,343,273.82	834,772,868.35
Materials and services	-5,922,332,251.39	-5,662,809,364.87
Change in inventory	57,389,050.87	11,416,497.67
Employee benefit expenses	-348,288,605.22	-338,417,338.48
Depreciation, amortisation and impairment	-102,891,749.91	-101,597,266.27
Other operating expenses	-741,397,846.78	-730,244,803.36
Operating profit	**459,305,782.91**	**378,932,338.00**
Finance income and costs	63,839,871.87	47,870,421.15
Profit before appropriations and taxes	**523,145,654.78**	**426,802,759.15**
Appropriations		
Change in depreciation reserve	-28,327,302.66	-13,693,328.90
Group contribution	-3,441,910.30	30,475,864.55
Profit before taxes	**491,376,441.82**	**443,585,294.80**
Income taxes	-82,450,821.94	-88,935,242.55
Profit for the financial year	**408,925,619.88**	**354,650,052.25**

Parent company's balance sheet

€	31 Dec. 2022	31 Dec. 2021
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	5,467,058.98	4,062,642.96
Other intangible assets	196,023,659.20	172,161,408.51
Prepayments	8,843,638.88	12,583,008.77
	210,334,357.06	188,807,060.24
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	247,306,198.38	224,327,993.92
Leasehold interests and connection fees	6,656,847.26	1,201,988.31
Buildings		
Owned	556,902,410.32	468,798,386.05
Machinery and equipment	97,574,724.25	88,970,519.00
Other tangible assets	6,489,657.89	5,612,838.97
Prepayments and construction in progress	87,473,806.60	45,681,450.60
	1,002,403,644.70	834,593,176.85
INVESTMENTS		
Investments in subsidiaries	1,080,275,454.12	1,052,815,045.52
Investments in associates	113,989,719.85	111,704,919.85
Other investments	23,741,379.16	15,219,812.62
	1,218,006,553.13	1,179,739,777.99
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	325,389,112.08	268,000,061.21
	325,389,112.08	268,000,061.21

€	31 Dec. 2022	31 Dec. 2021
RECEIVABLES		
Long-term		
Receivables from subsidiaries	80,431,580.19	93,855,424.19
Receivables from associates	64,758,166.16	68,130,199.58
Loan receivables	198,289.59	195,005.00
Other receivables	10,120,166.55	9,142,666.59
	155,508,202.49	171,323,295.36
Short-term		
Trade receivables	408,603,965.96	401,881,076.54
Receivables from subsidiaries	458,263,141.09	410,990,047.58
Receivables from associates	25,277,501.01	4,485,666.41
Loan receivables	415,425.56	160,166.01
Other receivables	7,034,007.06	15,276,301.13
Prepayments and accrued income	122,462,451.29	87,950,046.12
	1,022,056,491.97	920,743,303.79
OTHER FINANCIAL ASSETS	35,826,114.02	74,791,120.38
CASH AND CASH EQUIVALENTS	229,888,894.55	269,250,914.39
TOTAL ASSETS	**4,199,413,370.00**	**3,907,248,710.21**

€	31 Dec. 2022	31 Dec. 2021
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	823,451,129.66	881,380,981.71
Profit for the financial year	408,925,619.88	354,650,052.25
	1,893,326,447.39	1,896,980,731.81
APPROPRIATIONS		
Depreciation reserve	183,109,980.14	154,204,262.19
PROVISIONS		
Provisions	2,238,581.83	1,993,887.54
LIABILITIES		
Non-current		
Loans from financial institutes	200,000,000.00	150,000,000.00
Pension loans	44,343,000.00	56,337,000.00
Other creditors	10,372,880.37	8,995,992.00
	254,715,880.37	215,332,992.00
Current		
Pension loans	11,994,000.00	11,994,000.00
Advances received	26,638,337.94	20,241,848.68
Trade payables	745,126,341.50	706,659,113.18
Payables to subsidiaries	516,685,528.79	436,405,049.89
Payables to associates	5,621,438.75	4,656,873.54
Other payables	328,588,060.01	219,821,267.87
Accruals and deferred income	231,368,773.28	238,958,683.51
	1,866,022,480.27	1,638,736,836.67
TOTAL LIABILITIES	**4,199,413,370.00**	**3,907,248,710.21**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flows from operating activities		
Profit before appropriations	523,145,654.78	426,802,759.15
Adjustments		
Depreciation according to plan	102,891,749.91	101,597,266.27
Finance income and costs	-63,839,871.87	-47,870,421.15
Other adjustments	-51,392,533.62	20,225,978.26
	510,804,999.20	**500,755,582.53**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	-38,448,516.52	-32,048,396.12
Inventories increase (-)/decrease (+)	-57,389,050.87	-11,416,497.67
Current non-interest-bearing liabilities, increase (+)/decrease (-)	56,750,795.21	60,407,058.59
	-39,086,772.18	16,942,164.80
Interests paid and other finance costs	-14,410,293.32	-17,037,141.16
Interests received	16,608,267.52	14,340,978.85
Dividends received	66,587,990.30	48,186,249.20
Income tax paid	-110,101,405.44	-86,764,319.78
	-41,315,440.94	-41,274,232.89
Net cash generated from operating activities	**430,402,786.08**	**476,423,514.44**
Cash flows from investing activities		
Purchases of property, plant, equipment and intangible assets	-268,739,614.55	-154,426,379.56
Acquisitions of subsidiaries	-27,133,141.86	-
Sales of subsidiaries, net of cash	5,987,807.94	2,568,130.88
Acquisitions of associates	-	-462,592.00
Investments in other investments	-1,000.00	-
Proceeds from other investments	363,780.00	147,500.00
Proceeds from disposal of property, plant, equipment and intangible assets	135,466.99	1,475,461.41
Long-term receivables, increase (-)/decrease (+)	11,569,386.96	30,219,565.19
Other financial assets, increase (-)/decrease (+)	38,945,717.30	-64,996,112.70
Net cash used in investing activities	**-238,871,597.22**	**-185,474,426.78**

€	1 Jan.–31 Dec. 2022	1 Jan.–31 Dec. 2021
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	226,769,185.97	-48,344,652.02
Short-term interest-bearing receivables, increase (-)/decrease (+)	-44,199,882.78	53,691,870.93
Dividends paid	-406,670,233.05	-297,833,916.52
Group contributions received and paid	-3,441,910.30	30,475,864.55
Other items	-3,394,705.32	-619,380.19
Net cash used in financing activities	**-230,937,545.48**	**-262,630,213.25**
Change in cash and cash equivalents	**-39,406,356.62**	**28,318,874.41**
Cash and cash equivalents as at 1 Jan.	**269,250,914.39**	**240,976,376.76**
Impairment of financial assets at fair value through profit or loss	44,336.78	-44,336.78
Cash and cash equivalents as at 31 Dec.	**229,888,894.55**	**269,250,914.39**

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
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 three years and it is allowed to vary between one and a half and four years. Cash flows arising from interest rate derivatives are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, outstanding interest rate forward contracts, interest rate future contracts, interest rate option contracts and interest rate swap contracts are stated at fair value, but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign currency derivatives

Foreign currency derivatives are used for hedging against translation and transaction risks. Foreign currency derivatives are used for hedging against commercial foreign exchange risk. Foreign exchange forward contracts are valued using the forward exchange rate of the balance sheet date. The exchange differences arising from outstanding derivative contracts are reported in financial items and adjustment items of sales and purchases. If a derivative has been used for hedging a foreign-currency-denominated asset, the change in value has been recognised against that of the asset item. The premiums of option contracts are included in the balance sheet accruals until they expire, or if a value change at the balance sheet date so requires, recognition in profit or loss.

Commodity derivatives

Ankkuri-Energia Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko Corporation is an external counterparty in electricity derivatives with a bank, and enters into corresponding internal hedge with Ankkuri-Energia Oy. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 5-year time span. With respect to derivatives hedging the price of electricity supplied during the financial year, change in fair value is recognised at Kesko under finance income and cost. Unrealised gains and losses on contracts hedging future purchases are not recognised in profit or loss.

Pension plans

Personnel's statutory pension provision is organised through pension insurance companies and the voluntary supplementary pension provision is mainly organised through Kesko Pension Fund. Pension costs are recognised as expense in the income statement.

Provisions

Provisions stated in the balance sheet include items committed to under agreements or otherwise but not yet realised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group's business operations, as well as losses resulting from renting the premises to third parties, are included in provisions.

Income tax

Income tax includes the income tax payments for the period calculated based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

Notes to the income statement

Note 2. Net sales by division

€ million	2022	2021
Grocery trade	5,493.9	5,288.4
Building and home improvement trade	1,126.6	1,077.4
Others	0.0	0.0
Total	**6,620.5**	**6,365.8**

Note 3. Material and services

€ million	2022	2021
Material and services	-5,811.6	-5,559.5
Change in inventory	57.4	11.4
External services	-110.7	-103.3
Total	**-5,864.9**	**-5,651.4**

Note 4. Other operating income

€ million	2022	2021
Gains on sales of real estate and shares	0.0	0.4
Rent income	90.9	90.1
Fees for services	576.7	561.3
Profits from mergers	28.4	0.1
Others	200.3	182.8
Total	**896.3**	**834.8**

Note 5. Employee benefit expenses

€ million	2022	2021
Salaries and fees	-322.4	-312.6
Social security costs		
Pension costs	-13.8	-14.8
Other social security costs	-12.1	-11.1
Total	**-348.3**	**-338.4**

The 2022 pension costs include a €40.3 million (€36.5 million) return of surplus assets by Kesko Pension Fund.

The average number of personnel at Kesko Corporation was 7,308 (7,262) people.

Salaries and fees to the management

€ million	2022	2021
Managing Director	4.9	4.4
Members of the Board of Directors	0.5	0.5
Total	**5.4**	**4.9**

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	2022	2021
Depreciation according to plan	-102.2	-100.3
Impairment, non-current assets	-0.7	-1.3
Total	**-102.9**	**-101.6**

Note 7. Other operating expenses

€ million	2022	2021
Rent expenses	-327.9	-323.5
Marketing expenses	-152.0	-154.3
Maintenance of real estate and store sites	-105.6	-92.0
Losses on disposals of non-current assets	0.0	-0.1
ICT expenses	-87.7	-72.4
Losses from mergers	-6.8	-32.9
Other operating expenses	-61.5	-55.0
Total	**-741.4**	**-730.2**

Auditors' fees

€ million	2022	2021
Audit	0.4	0.4
Tax consultation	0.0	0.0
Other services	0.1	0.2
Total	**0.5**	**0.6**

Note 8. Finance income and costs

€ million	2022	2021
Income from long-term investments		
Dividend income from subsidiaries	39.5	47.0
Dividend income from associates	26.9	-
Dividend income from others	0.1	1.2
Gains on disposal of shares	0.0	-
Gains on sales of investments	0.0	1.5
Income from long-term investments, total	**66.6**	**49.7**
Other interest and finance income		
From subsidiaries	8.9	6.6
From others	22.9	11.3
Interest and finance income, total	**31.8**	**17.9**
Impairment of investments held as non-current assets		
Impairment of shares	0.3	0.1
Changes in fair value	0.0	0.0
Impairment and changes in fair value of investments held as non-current assets, total	**0.3**	**0.1**
Interest and other finance costs		
To subsidiaries	-11.4	-10.0
To others	-23.5	-9.8
Interest and finance costs, total	**-34.9**	**-19.8**
Total	**63.8**	**47.9**

Note 9. Appropriations

€ million	2022	2021
Difference between depreciation according to plan and depreciation in taxation	-28.3	-13.7
Group contributions received	36.9	43.7
Group contributions paid	-40.4	-13.2
Total	**-31.8**	**16.8**

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	2022	2021
Other changes	0.2	-0.4
Total	**0.2**	**-0.4**

Note 11. Income taxes

€ million	2022	2021
Income taxes on group contributions	0.7	-6.1
Income taxes on ordinary activities	-82.5	-82.0
Taxes for prior years	-0.6	-0.8
Total	**-82.5**	**-88.9**

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 €36.6 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 13. Intangible assets

€ million	2022	2021
Intangible rights		
Acquisition cost as at 1 Jan.	16.3	15.4
Increases	1.1	2.4
Decreases	-2.8	-1.5
Transfers between items	1.9	-
Acquisition cost as at 31 Dec.	16.5	16.3
Accumulated depreciation as at 1 Jan.	-12.3	-10.8
Accumulated depreciation on decreases and transfers	2.8	1.4
Depreciation and amortisations for the financial year	-1.6	-2.9
Accumulated depreciation as at 31 Dec.	-11.1	-12.3
Book value as at 31 Dec.	**5.5**	**4.1**
Other intangible assets		
Acquisition cost as at 1 Jan.	369.9	342.8
Increases	48.9	30.0
Decreases	-31.1	-18.8
Transfers between items	17.5	15.9
Acquisition cost as at 31 Dec.	405.2	369.9
Accumulated depreciation as at 1 Jan.	-197.7	-171.9
Accumulated depreciation on decreases and transfers	31.1	18.2
Depreciation and amortisations for the financial year	-42.6	-44.1
Accumulated depreciation as at 31 Dec.	-209.2	-197.7
Book value as at 31 Dec.	**196.0**	**172.2**
Prepayments		
Acquisition cost as at 1 Jan.	12.6	11.9
Increases	7.0	12.1
Decreases	-0.1	-0.3
Transfers between items	-10.7	-11.1
Acquisition cost as at 31 Dec.	8.8	12.6
Book value as at 31 Dec.	**8.8**	**12.6**

Note 14. Property, plant and equipment

€ million	2022	2021
Land and waters, owned		
Acquisition cost as at 1 Jan.	224.3	208.8
Increases	20.1	11.0
Transferred in mergers	2.4	3.9
Decreases	-	-0.1
Transfers between items	0.5	0.8
Acquisition cost as at 31 Dec.	247.3	224.3
Book value as at 31 Dec.	**247.3**	**224.3**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	1.6	2.3
Increases	5.5	-
Decreases	-	-0.0
Transfers between items	0.0	-0.6
Acquisition cost as at 31 Dec.	7.1	1.6
Accumulated depreciation as at 1 Jan.	-0.4	-0.1
Depreciation for the financial year	0.0	-0.3
Accumulated depreciation as at 31 Dec.	-0.5	-0.4
Book value as at 31 Dec.	**6.7**	**1.2**
Buildings		
Acquisition cost as at 1 Jan.	821.1	757.6
Increases	88.2	30.2
Transferred in mergers	13.9	35.0
Decreases	-0.4	-2.5
Transfers between items	19.7	0.7
Acquisition cost as at 31 Dec.	942.5	821.1
Accumulated depreciation as at 1 Jan.	-352.3	-318.5
Transferred in mergers	-3.3	-10.2
Accumulated depreciation on decreases and transfers	0.0	1.7
Depreciation for the financial year	-30.1	-25.3
Accumulated depreciation as at 31 Dec.	-385.6	-352.3
Book value as at 31 Dec.	**556.9**	**468.8**

€ million	2022	2021
Machinery and equipment		
Acquisition cost as at 1 Jan.	295.1	299.8
Increases	32.0	25.6
Transferred in mergers	0.0	0.2
Decreases	-19.6	-32.5
Transfers between items	3.6	2.0
Acquisition cost as at 31 Dec.	311.1	295.1
Accumulated depreciation as at 1 Jan.	-206.1	-211.3
Transferred in mergers	0.0	-0.2
Accumulated depreciation on decreases and transfers	19.2	31.8
Depreciation for the financial year	-26.6	-26.4
Accumulated depreciation as at 31 Dec.	-213.5	-206.1
Book value as at 31 Dec.	**97.6**	**89.0**
Other tangible assets		
Acquisition cost as at 1 Jan.	21.2	20.5
Increases	1.2	0.6
Transferred in mergers	-	0.1
Decreases	-	-0,0
Transfers between items	1.0	0.0
Acquisition cost as at 31 Dec.	23.3	21.2
Accumulated depreciation as at 1 Jan.	-15.6	-14.3
Transferred in mergers	-	-0.1
Accumulated depreciation on decreases and transfers	-	0.1
Depreciation for the financial year	-1.2	-1.3
Accumulated depreciation as at 31 Dec.	-16.8	-15.6
Book value as at 31 Dec.	**6.5**	**5.6**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	45.7	10.5
Increases	76.4	41.3
Transferred in mergers	-	2.0
Decreases	-1.0	-0.5
Transfers between items	-33.6	-7.6
Acquisition cost as at 31 Dec.	87.5	45.7
Book value as at 31 Dec.	**87.5**	**45.7**

Note 15. Investments

€ million	2022	2021
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	1,080.5	1,177.9
Increases	42.5	7.5
Decreases	-29.1	-104.9
Acquisition cost as at 31 Dec.	1,093.9	1,080.5
Impairment as at 1 Jan.	-27.7	-90.7
Accumulated impairments on decreases	14.1	63.1
Impairment as at 31 Dec.	-13.6	-27.7
Book value as at 31 Dec.	**1,080.3**	**1,052.8**
Investments in associates		
Acquisition cost as at 1 Jan.	111.7	111.0
Increases	2.3	0.5
Transfers between items	-	0.2
Book value as at 31 Dec.	**114.0**	**111.7**
Other investments		
Acquisition cost as at 1 Jan.	15.2	18.6
Increases	8.5	0.1
Transferred in mergers	-	0.1
Decreases	-0,0	-3.3
Transfers between items	0.0	-0.2
Acquisition cost as at 31 Dec.	23.7	15.2
Book value as at 31 Dec.	**23.7**	**15.2**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2022 is presented in the notes to the consolidated financial statements.

Note 16. Receivables

Receivables from subsidiaries

€ million	2022	2021
Long-term receivables		
Loan receivables	80.4	93.9
Long-term receivables, total	**80.4**	**93.9**
Short-term receivables		
Trade receivables	9.9	9.0
Loan receivables	418.9	377.3
Prepayments and accrued income	29.5	24.7
Short-term receivables, total	**458.3**	**411.0**
Total	**538.7**	**504.8**

Receivables from associates and joint ventures

€ million	2022	2021
Long-term receivables		
Loan receivables	64.7	68.1
Other receivables	0.0	0.0
Long-term receivables, total	**64.8**	**68.1**
Short-term receivables		
Accrued income	21.7	1.0
Other receivables	3.6	3.5
Short-term receivables, total	**25.3**	**4.5**
Total	**90.0**	**72.6**

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 €7.2 million.

Prepayments and accrued income

€ million	2022	2021
Taxes	20.9	0.0
Fees for services	6.0	9.6
Employee benefit expenses	7.6	7.6
Purchases	34.1	33.8
Others	53.8	37.0
Total	**122.5**	**88.0**

Note 17. Shareholders' equity

€ million	Share capital	Share premium	Contingency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2021	197.3	197.5	243.4	22.8	1,170.1	1,831.1
Dividends					-297.8	-297.8
Treasury shares					9.1	9.1
Transfer to donations					0.0	0.0
Profit for the year					354.7	354.7
Balance as at 31 December 2021	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**

In accordance with a new accounting policy, donations are recorded in the income statement as expenses as of 2021.

Restricted equity	2022	2021
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2022	2021
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,232.4	1,236.0
Total	**1,498.5**	**1,502.2**

Calculation of distributable profits	2022	2021
Other reserves	266.2	266.2
Retained earnings	823.5	881.4
Profit for the year	408.9	354.7
Total	**1,498.5**	**1,502.2**

On 31 December 2022, Kesko's distributable assets totalled €1,498,545,852.49.

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 7 April 2022 and valid until 30 June 2023, to issue a maximum of 33,000,000 B shares and acquire 16,000,000 B shares.

Treasury shares

On 2 May 2022, Kesko Corporation transferred a total of 4,918 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 7 April 2022 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. 2021	**2,968,664**
Transferred, share-based compensation scheme	-345,104
Transferred, Board of Directors	-4,918
Returned during the financial year	1,719
Own B shares held by the Company as at 31 Dec. 2022	**2,620,361**

Note 18. Provisions

€ million	2022	2021
Provisions for leases	1.7	1.5
Other provisions	0.5	0.5
Total	**2.2**	**2.0**

Note 19. Non-current liabilities

Kesko has drawn down two bilateral loans, which combined total €200 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	2022	2021
Liabilities to subsidiaries		
Trade payables	6.8	1.7
Other payables	25.1	6.8
Accruals and deferred income	484.9	427.9
Total	**516.7**	**436.4**
Liabilities to associates		
Trade payables	0.1	0.0
Accruals and deferred income	0.0	0.0
Other payables	5.5	4.6
Total	**5.6**	**4.7**
Accruals and deferred income		
Employee benefit expenses	111.7	110.8
Accruals and deferred income from purchases	25.2	29.2
Taxes	0.8	7.5
Transaction prices	0.0	0.4
Fees for services	17.8	25.4
Others	75.9	65.7
Total	**231.4**	**239.0**

Note 21. Non-interest-bearing liabilities

€ million	2022	2021
Current liabilities	1,157.4	1,085.0
Total	**1,157.4**	**1,085.0**

Note 22. Guarantees, commitments and contingencies

€ million	2022	2021
Real estate mortgages		
For own debt	159.8	159.8
For subsidiaries	0.7	0.8
Pledged shares	9.5	9.5
Guarantees		
For own debt	0.5	0.5
For subsidiaries	70.9	67.9
Other liabilities and liability engagements		
For own debt	40.5	34.8
Rent liabilities on machinery and fixtures		
Due within a year	6.5	6.9
Due later	6.3	7.1
Rent liabilities on real estate		
Due within a year	256.2	277.7
Due later	1,254.5	1,490.5

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. 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**

Company's transaction exposure as at 31 Dec. 2021 € million	USD	SEK	NOK	PLN
Transaction risk	-15.2	44.0	62.6	26.5
Hedging derivatives	46.8	-41.0	-56.6	-26.1
Exposure	**31.6**	**3.0**	**6.0**	**0.4**

The sensitivity analysis of transaction exposure shows the profit impact of a +/-10% exchange rate change on the Company's foreign currency denominated acquisitions and hedging foreign currency derivatives.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Change +10%	-1.6	-1.7	-0.5	0.0
Change -10%	2.0	2.1	0.6	0.0

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2021 € million	USD	SEK	NOK	PLN
Change +10%	-2.9	-0.3	-0.5	0.0
Change -10%	3.5	0.3	0.7	0.0

Derivatives

Fair values of derivative contracts € million	31 Dec. 2022 Positive fair value (balance sheet value)	31 Dec. 2022 Negative fair value (balance sheet value)	31 Dec. 2021 Positive fair value (balance sheet value)	31 Dec. 2021 Negative fair value (balance sheet value)
Currency derivatives	2.6	-0.7	1.8	-1.6
Interest rate derivatives	12.2	-0.1	0.1	-2.2

Notional amounts of derivative contracts € million	31 Dec. 2022 Notional amount	31 Dec. 2021 Notional amount
Currency derivatives	153.3	227.6
Interest rate derivatives	330.0	420.0

All currency derivatives mature in 2023. Interest rate derivatives mature in 2024, 2026 and 2027.

€ million	2022	Fair value	2021	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives				
Interest rate swaps	330	12.1	420	-2.1
Foreign currency derivatives				
Forward and future contracts	153	1.9	228	0.1
Outside the Group	142	1.8	205	0.6
Inside the Group	12	0.1	23	-0.5
Commodity derivatives				
Electricity derivatives	139	0.0	70	0.0
Outside the Group	70	44.2	35	11.3
Inside the Group	70	-44.2	35	-11.3

Note 23. Cash and cash equivalents within the statement of cash flows

€ million	2022	2021
Financial assets at fair value through profit or loss	0.0	50.0
Available-for-sale financial assets	17.0	32.0
Cash and cash equivalents	212.9	187.3
Total	**229.9**	**269.3**

In the statement of cash flows, cash and cash equivalents include those recognised in the balance sheet and portions of available-for-sale financial assets with maturities of less than three months from acquisition 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 5.1).

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, 1 February 2023

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, 1 February 2023

Deloitte Oy
Authorised public accountants

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, 2022. 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 a summary of significant 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 11,809.0 million (EUR 11,300.2 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 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. We have identified the risk of revenue recognition and fraud, especially in exceptional manual revenue recognition. 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 the risk assessment for fraud, we have focused our substantive audit procedures for the transactions identified to ensure the appropriateness and accuracy. We have assessed the basis and appropriateness for significant credit entries and the appropriateness of exceptional entries, and assessed the appropriateness of applied management judgment.

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 588.9 million (EUR 588.8 million). In addition, consolidated statement of financial position includes EUR 86.8 million (EUR 88.2 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 3 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, 1 February 2023

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 (743700OX6HSVMCAHPB95-2022-12-31_FI.zip) of Kesko Oyj (0109862-8) for the financial year 1.1.-31.12.2022 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 and 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 (743700OX6HSVMCAHPB95-2022-12-31_FI.zip) of Kesko Oyj for the financial year 1.1.-31.12.2022 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.-31.12.2022 has been expressed in our auditor's report dated 1.2.2023. In this report, we do not express an audit opinion or any other assur-ance conclusion on the consolidated financial statements.

Helsinki, 1 February, 2023

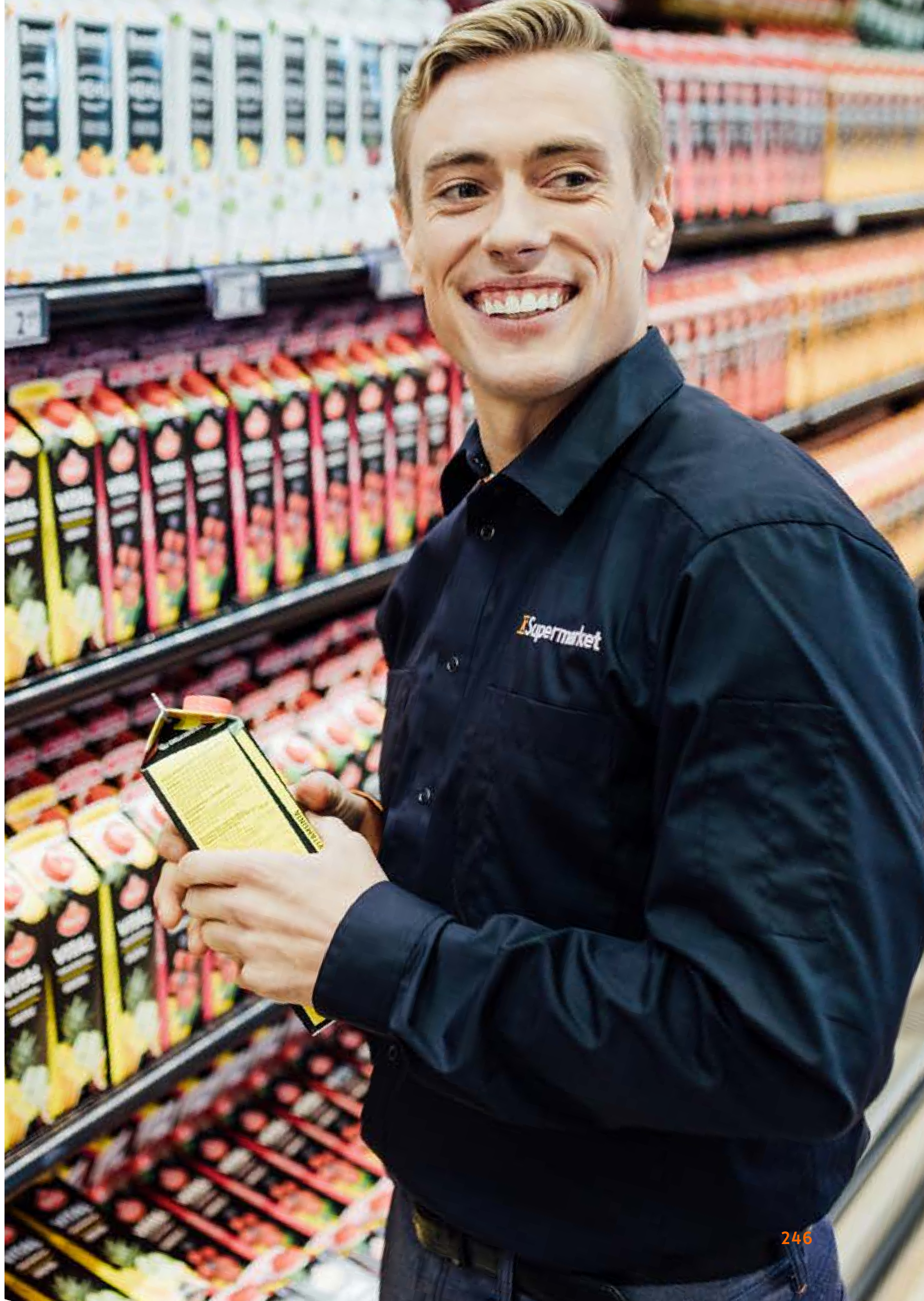
Deloitte Oy
Audit Firm

Jukka Vattulainen
APA

CORPORATE GOVERNANCE

KESKO ANNUAL REPORT 2022

CORPORATE GOVERNANCE



CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Finnish Securities Market Association, effective on 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 31 January 2023. 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	cgfinland.fi/en/corporate-governance-code/
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) The term of office of Kesko's Board of Directors departs from the one-year term pursuant to Recommendation 6 (Term of Office of the Board of Directors) of the Corporate Governance Code. The term of office of the Company's Board of Directors is determined in accordance with the Company's Articles of Association. Amendments to the Articles of Association are decided by the General Meeting. According to the 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. Kesko's Board of Directors proposes to the Annual General Meeting on 30 March 2023 that the Company's Articles of Association be amended so that the term of office for a Board member would be one (1) year, starting at the closing of the General Meeting that elects the Board member and ending at the close of the next Annual General Meeting to follow. The amended Articles of Association would apply from the 2024 Annual General Meeting onwards. The General Meeting will decide on the matter.

DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE

Kesko Group's Corporate Governance system

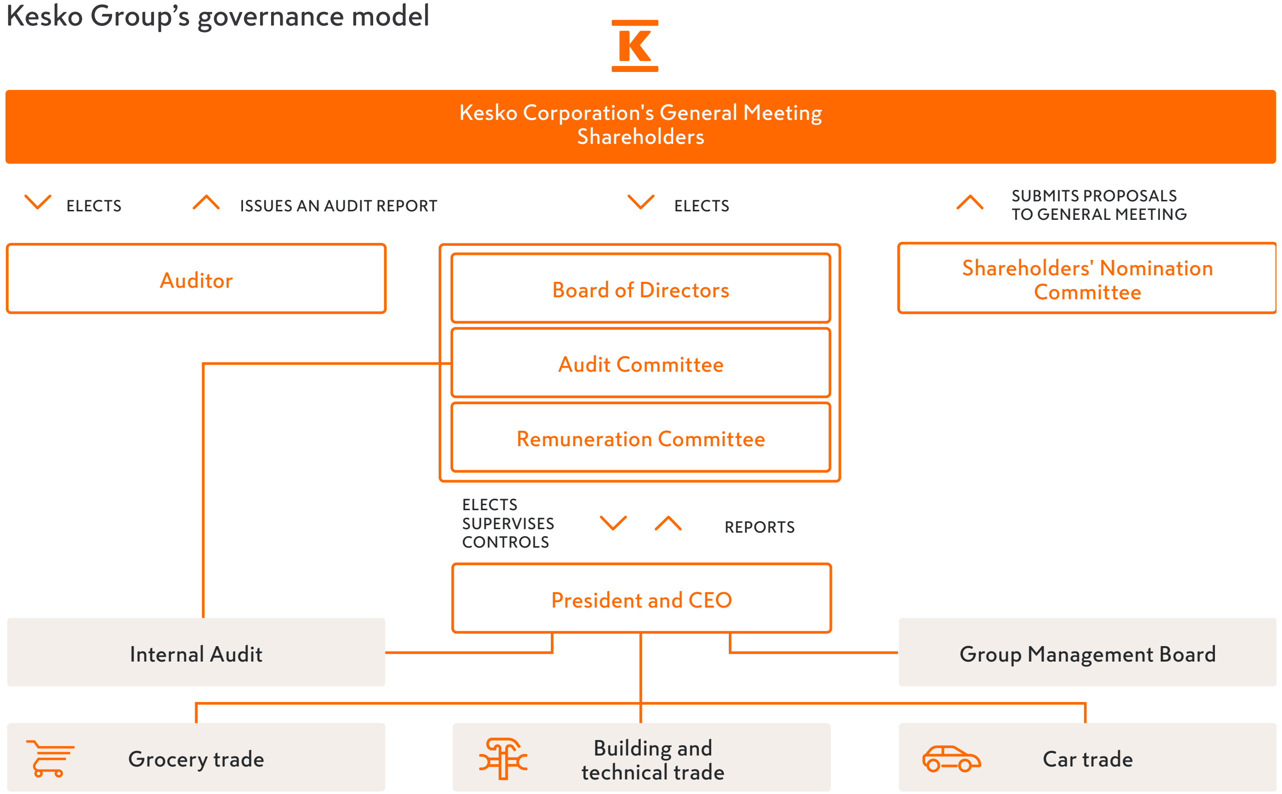
Kesko uses a so-called one-tier governance model. The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting. At the Annual General Meeting, the Company's shareholders elect the Company's Board of Directors and Auditor. The Shareholders' Nomination 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.

The 2022 Annual General Meeting was held with special arrangements in place due to the Covid-19 pandemic. Management was represented in person by Board Chair Esa Kiiskinen and President and CEO Mikko Helander. Shareholders and their proxy representatives could participate in the General Meeting by voting in advance and by submitting counterproposals and questions in advance.

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 the 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 kesko.fi/en/investor/corporate-governance/shareholders-nomination-committee/.

COMPOSITION AND ACTIONS OF THE SHAREHOLDERS' NOMINATION COMMITTEE IN 2022

The members of Kesko's Shareholders' Nomination Committee in the 2022-2023 term of office are

- Toni Pokela, retailer, appointed by the 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 15 September 2022, the Committee elected Toni Pokela as its Chair. The Committee members and Chair were the same also in the 2021–2022 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 2022, and all members attended all meetings. The Nomination Committee proposed no changes to the remuneration of Board members to Kesko's 2022 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 ends at the close of the 2024 Annual General Meeting.

The Shareholders' Nomination Committee proposes to Kesko's 2023 Annual General Meeting that the remuneration for Board members remain unchanged. The proposal for the Board and Committee work is as follows:

- Board Chair, an annual fee of €102,000
- Board Deputy Chair, an annual fee of €63,000
- Board member, an annual fee of €47,500
- Board member who is the Audit Committee Chair, an annual fee of €63,000
- A meeting fee of €600/meeting for a Board meeting and its Committee's meeting. The meeting fee for the Board Chair is €1,200/Board meeting. However, a meeting fee of €1,200/Committee meeting is paid to a Committee Chair who is not the Chair or Deputy Chair of the Board. Meeting fees are paid in cash.
- Daily allowances and the reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko.

It is proposed that the payment of the aforementioned annual fees be made in Kesko Corporation's B shares and in cash, with approximately 30% of the fees paid in shares. After the transfer of shares, the remaining amount is to be paid in cash. The Company will acquire the shares or transfer shares held by the Company as treasury shares in the name and on behalf of the Board members. The Company will be responsible for the costs arising from the acquisition of the shares. The shares will be acquired or transferred to the Board members on the first working day to follow the publication of the interim report for the first quarter of 2023. 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 31 January 2022 and 1 February 2023.

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 for the whole term of office of the Board.

According to the Articles of Association in force, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

Kesko's Board of Directors proposes to the Annual General Meeting on 30 March 2023 that the Company's Articles of Association be amended so that the term of office for a Board member would be one (1) year, starting at the closing of the General Meeting that elects the Board member and ending at the close of the next Annual General Meeting to follow. The amended Articles of Association would apply from the 2024 Annual General Meeting onwards. The General Meeting will decide on the matter.

BOARD COMPOSITION IN 2022 AND SHAREHOLDINGS

In 2022, 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. In accordance with Kesko's Articles of Association, the term of office of the current Board members will expire at the close of the 2024 Annual General Meeting.

The Board's 2022 composition and shareholdings on 31 December 2022 are depicted in the table below.

Board composition in 2022 and shareholdings on 31 Dec. 2022

Name	Year of birth	Education	Principal occupation	Board member since	Committee member	Kesko shares held on 31 Dec. 2022
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	459,200 A shares held by the member and entities controlled by the member 9,380 B shares held by the member
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 the member 13,805 B shares held by the member
Jannica Fagerholm	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	9,805 B shares held by the member
Piia Karhu	1976	Doctor, Business Administration	President, Metals Business Area, Metso Outotec Corporation	2018	Audit Committee	4,364 B shares held by the member
Jussi Perälä	1970	Business College Graduate	Building and home improvement retailer	2021		133,000 A shares held by the member and entities controlled by the member 96,751 B shares held by the member and entities controlled by the member
Toni Pokela	1973	eMBA	Food retailer	2012		757,600 A shares held by entities controlled by the member 5,024 B shares held by the member
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 the member 1,107 B shares held by the member

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 independence evaluations at its organisational meeting held after the Annual General Meeting of 12 April 2021 and at its meeting on 28 April 2022. 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 MEMBERS' INDEPENDENCE 2022

	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.

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 2022

In 2022, the Board held 11 meetings. Board meetings regularly discuss the 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.

In 2022, the Board focused in particular on general economic developments, the war in Ukraine and geopolitical tensions overall, and evaluated the impact of these factors on the sales and profit of Kesko and K Group. The Board evaluated their impact also on cyber security and on securing business continuity.

As in previous years, in 2022, 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. A positive profit warning was issued on 25 April 2022 to announce the Board's decision to cancel its previous profit guidance and issue a new one.

During the year, the Board confirmed Kesko's sustainability strategy for 2022-2024. The Board made decisions, among other things, on the construction of a new logistics centre for Onninen and K-Auto, 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 2023, and on updating the Board's diversity policy. The Board also approved updated versions of the Group governance policy and risk management policy.

The operations and working practices of the Board were evaluated by an external party. The evaluation was conducted through personal interviews of the Board members and the President and CEO, as well as using an electronic survey. The evaluation focused, among other things, on the Board's work and leadership culture, the operations of Board committees, Group and division strategies, risk management and crisis management, the Board's general access to data and reporting, and preparations for the future. The Board reviewed the results of the evaluation in its meeting in December. Each Board member also received a personal report. A summary of the evaluation results was also made available to the Shareholders' Nomination Committee.

Attendance at meetings by members of the Board and its Committees in 2022

		Attendance		
	Committee membership	Board of Directors	Audit Committee	Remuneration Committee
Esa Kiiskinen (Chair)	Remuneration Committee (Chair)	11/11		3/3
Peter Fagernäs (Deputy Chair)	Remuneration Committee (Deputy Chair)	11/11		3/3
Jannica Fagerholm	Audit Committee (Chair)	11/11	5/5	
Piia Karhu	Audit Committee	11/11	5/5	
Jussi Perälä		11/11		
Toni Pokela		11/11		
Timo Ritakallio	Audit Committee (Deputy Chair) Remuneration Committee	11/11	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 Shareholders' Nomination Committee must take the diversity policy into account when preparing the proposal for Board members to the Annual General Meeting. The policy is available on Kesko's website at kesko.fi/en/investor/corporate-governance/board-of-directors/diversity-policy/.

❞ 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. ❞

Kesko's Board of Directors proposes to the Annual General Meeting on 30 March 2023 that the Company's Articles of Association be amended so that the term of office for a Board member would be one (1) year, starting at the closing of the General Meeting that elects the Board member and ending at the close of the next Annual General Meeting to follow. The amended Articles of Association would apply from the 2024 Annual General Meeting onwards. If the Annual General Meeting decides in favour of the Board proposal, the Board will update its diversity policy accordingly.

DIVERSITY POLICY IMPLEMENTATION IN 2022

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 46 to 70 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 2022, 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 insurances. In terms of risk management, the Audit Committee concentrated in particular on general economic development, the war in Ukraine and cyber security and related business risks by reviewing said risks at each meeting. The Audit Committee approved the 2023 audit plan, personnel resources and budget for the Group's internal audit. 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. 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 2022, 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 2022–2025 share-award plans, the performance criteria and target values and the target group for share awards, the principles of Group performance bonuses for 2023, as well as for the performance bonuses to be paid for 2021 to the President and CEO and Group Management Board members responsible for lines of business. 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 has a managing director who is referred to as the President and CEO. Kesko's President and CEO is Mikko Helander, M.Sc. Technology (b. 1960). He 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 he has been the Chair of the Group Management Board since 1 January 2015.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors, and to report to the Board 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.

The Deputy CEO is Jorma Rauhala, M.Sc. (Econ.) (b. 1965).

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 2022, the Group Management Board met 23 times.

Group Management Board 2022

	Group Management Board member since	Area of responsibility	Kesko shares held on 31 Dec. 2022
Mikko Helander, President and CEO	1.10.2014	Kesko's President and CEO	Held 5,000 A shares Held 385,786 B shares
Jorma Rauhala, President, building and technical trade, Deputy CEO	5.2.2013	Building and technical trade	Held 205,178 B shares
Ari Akseli, President, grocery trade division	15.11.2017	Grocery trade	Held 1,824 A shares Held 105,476 B shares
Matti Virtanen, President, K Auto Oy	9.4.2021	Car trade	Held 3,100 B shares
Jukka Erlund, Executive Vice President, Chief Financial Officer	1.11.2011	Finance, IT, risk management and M&A	Held 160,427 B shares
Riikka Joukio, Executive Vice President	12.4.2021	Sustainability and Public Affairs	Held 4,153 B shares
Matti Mettälä, Executive Vice President	1.10.2012	HR	Held 1,000 A shares Held 104,631 B shares
Karoliina Partanen, Executive Vice President	1.10.2020	Communications, Branding and Stakeholder Relations	Held 25,182 B shares
Anni Ronkainen, Executive Vice President*	20.4.2015	Chief Digital Officer	

* Anni Ronkainen's Group Management Board membership ended on 30 September 2022.

DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE MAIN 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.

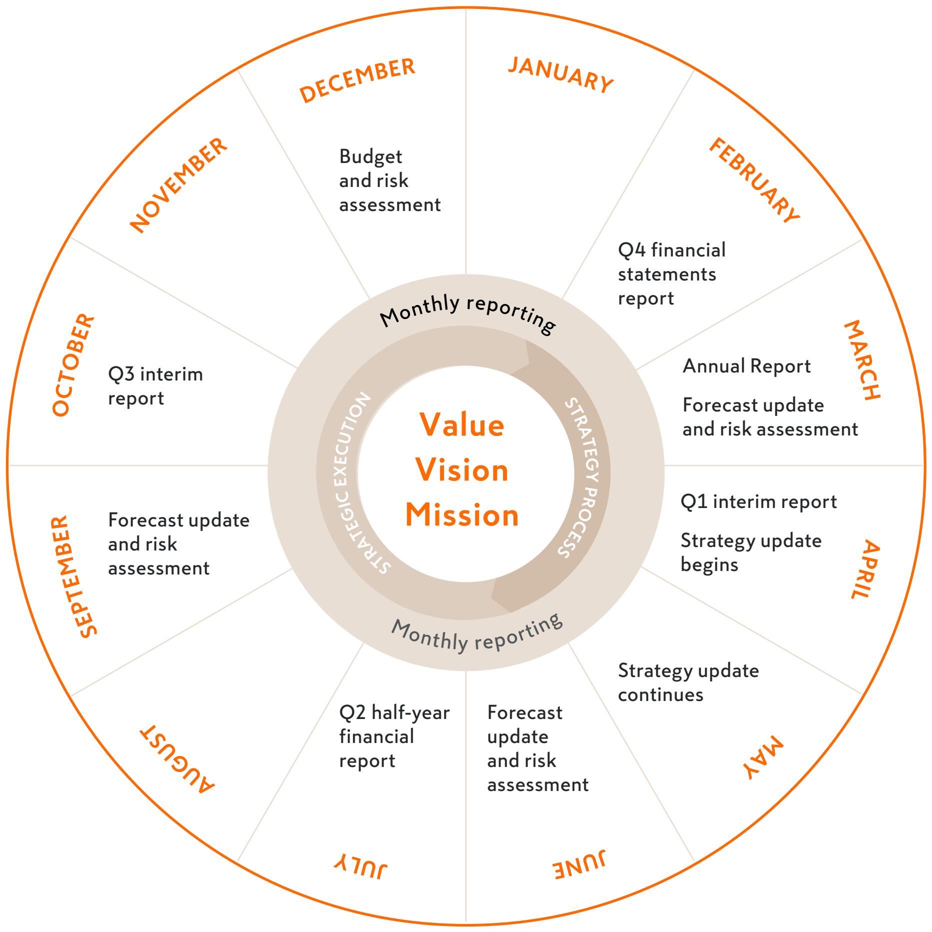
ROLES AND RESPONSIBILITIES

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 objectives are monitored by financial reporting covering the entire Group. Monthly performance reporting includes actual Group, division and business specific results,

Kesko Group's management model



changes compared to the 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 2022

Up-to-date forecasts to support management decision-making and the ability to quickly respond to changing situations were emphasized during the year. In 2022, we continued the harmonisation and automation of financial administration processes The integration of financial administration of acquisitions made in Norway and Sweden continued. The project related to identifying and documenting key controls related to financial processes and financial reporting continued as part of the effort to harmonise of financial administration processes. The finance organisation prepared for the application of new financial reporting requirements concerning EU sustainability reporting.

KEY ACTIONS IN 2023

In 2023, the harmonisation and automation of financial administration processes and the documentation of key controls will continue utilising modern technologies. Processes and reporting will be automated and developed based on business needs. Preparation for the application of the new EU sustainability reporting requirements, which will come into effect in 2024, will continue in 2023.

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 and principles, working instructions, approval authorisations, authorisations for use, device and software controls, manual controls, balancing, monitoring reports, inspections and self-assessments.

The objective of internal control at Kesko Group is to ensure the efficiency, productivity, continuity 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

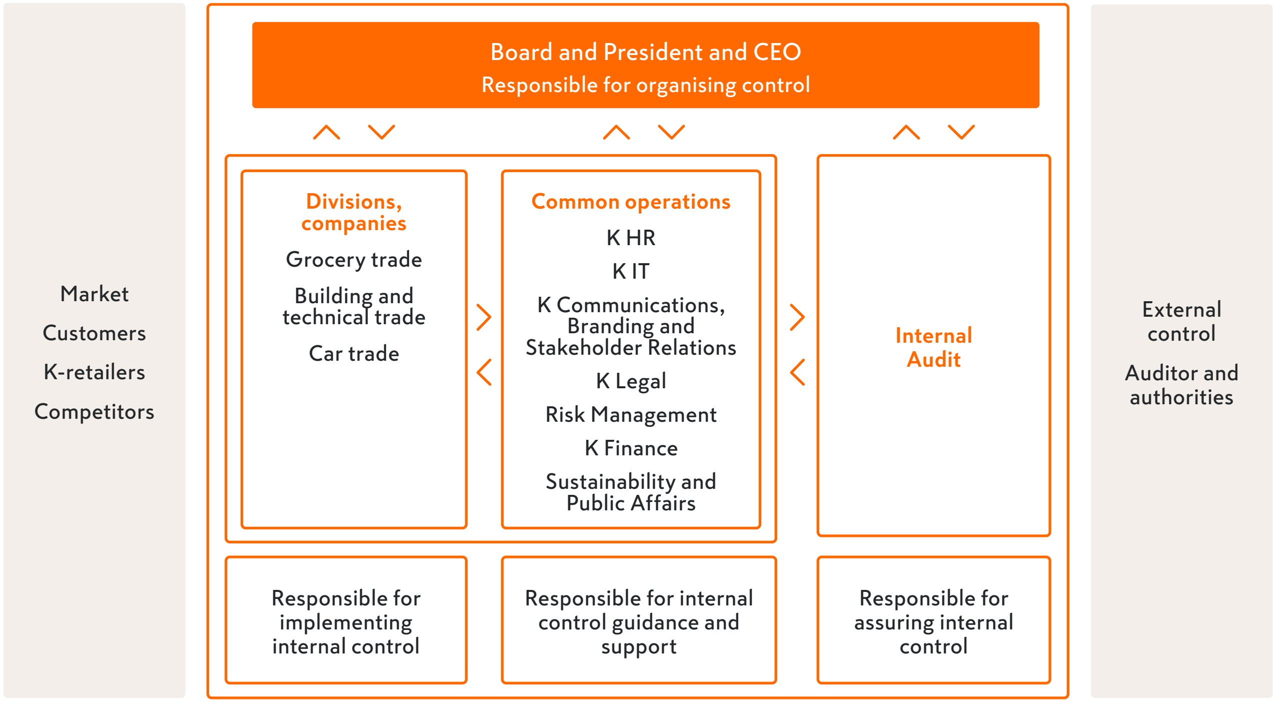
The objective of Kesko's control measures is to ensure, among other things, the efficiency, continuity and legality of operations, the reliability of financial reporting, and the safeguarding of assets and information. Internal control is efficient when it is continuous, integrated as part of operations, and ensures sufficiently that business targets are met. For internal control 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 measures 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 results to the President and CEO and the Audit Committee of Kesko Corporation's Board of Directors. Tight cooperation and good communication between different lines of internal control 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 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 inform the Company of 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.

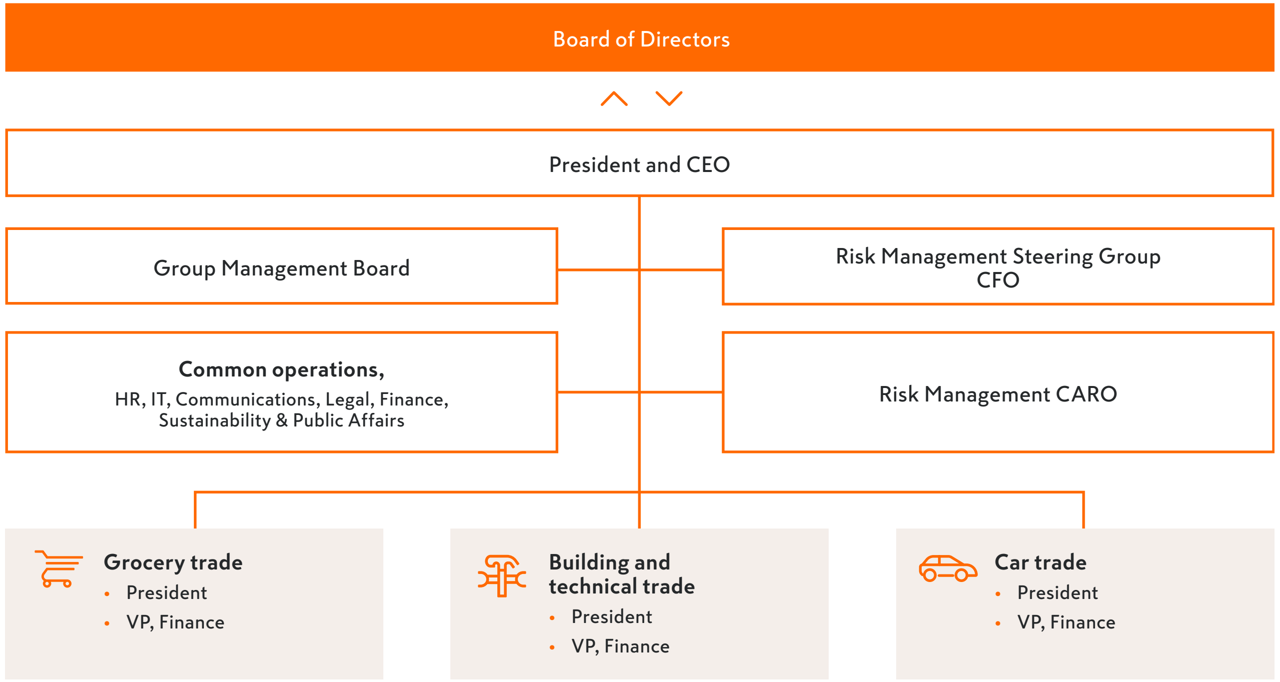
Risk management

Kesko's risk management is proactive and part of day-to-day management. The objective of risk management is to support the implementation of Kesko's strategy. 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 their management and the Group risk management function. Common operations are responsible for Group-level policies, principles and instructions and for

Risk management steering model



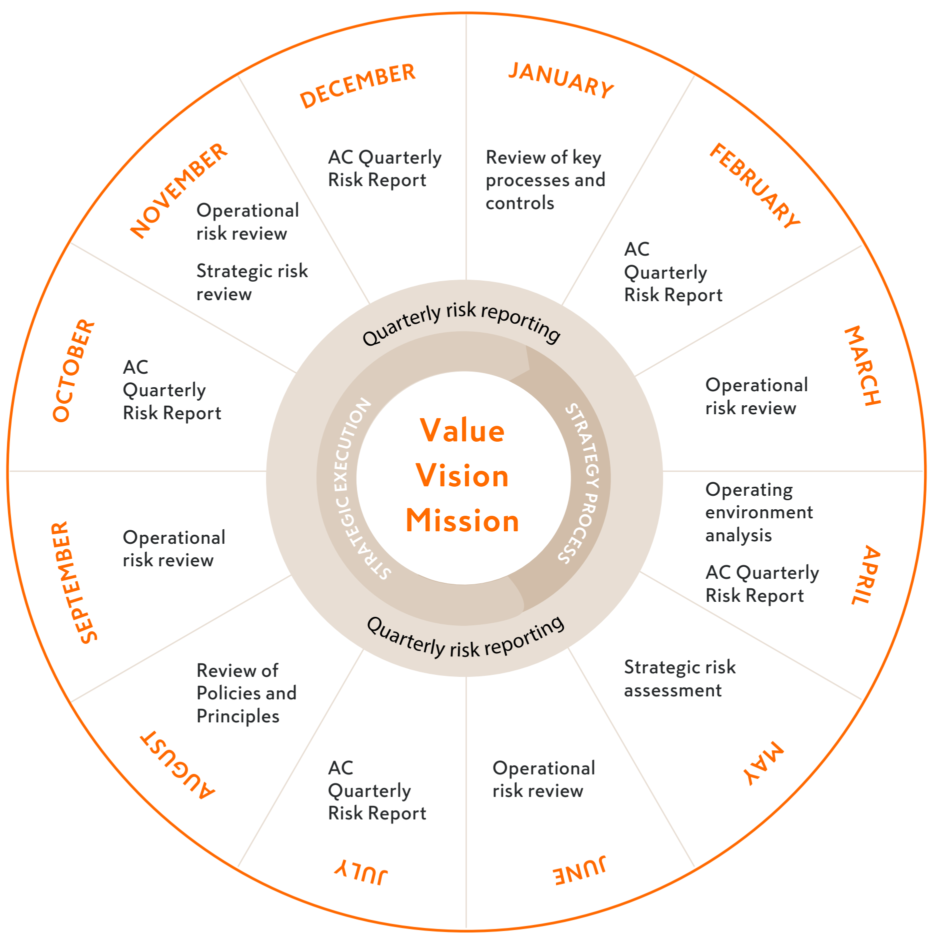
implementing risk management in their respective areas of responsibility. Members of the Group Management Board are responsible for the effective and efficient implementation of internal control and risk management in their respective areas of responsibility. A risk management function independent of 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 Risk Management Steering Group headed by the Chief Financial Officer is responsible for establishing the Group's overview of the risk situation and for presenting it to the President and CEO. 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 impacts in euros.

Risk identification and assessment play a key role in Kesko's strategy work and operational planning. In addition, risk

Risk management annual cycle



assessments are made on significant projects related to investments, business arrangements, or changes in operations. The risk assessments of business divisions and common operations including a risk map, risk management responses, key risk 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 of new and already identified operational and financial risks and their likelihood 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, including key risk 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.

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 2022

Risk management emphasised risks and uncertainties related to global product availability, the war in Ukraine, rising inflation, the availability of energy, and cybersecurity. A Group-level crisis management team was established to monitor developments in the war in Ukraine, to assess its impacts and to ensure the necessary risk management responses. As the risks related to the price and availability of energy increased, a separate crisis management team was established to coordinate measures related to energy savings and energy availability and potential power outages.

In the grocery trade division, a scenario-based assessment of risks and opportunities related to climate change was conducted on the basis of TCFD recommendations. The most significant risks and opportunities for the division in case of different climate scenarios were identified based on the risk assessment.

Kesko's risk management framework and risk management process were updated to meet the requirements of integrated risk management. With the update, more detailed definitions and descriptions were drawn of how Kesko's risk appetite is divided into categories depending on the nature of the risk, and a separate assessment of the maturity level of risk management responses and control was added to the risk assessment. Changes were also made to the risk reporting for the Board's Audit Committee in line with the updated process, with topical information added to the report on phenomena related to different risk areas, cyber security, and business continuity management.

FOCUS AREAS FOR RISK MANAGEMENT IN 2023

Risk management will continue to monitor the impacts of the war in Ukraine and the energy crisis, and to coordinate risk management responses. A special focus in risk assessment will be on estimating the impacts of a weakening economy on the operating environment, business operations, and costs. Processes and tools related to the assessment and reporting of strategic and emerging risks will be developed further, and the assessment of the likelihood and financial impact of risks related to climate change in grocery trade will continue. In continuity management, focus areas will be detailing Group-level requirements, further improving cyber security, ensuring contingency with IT service providers, preparing for disruptions in energy availability, and contingency plan testing and practise.

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 confirmed the operating instructions for Kesko's internal audit function.

The internal audit function operates administratively under the President and CEO and functionally under 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.

A risk-based internal audit plan is prepared annually, and reviewed and 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 utilises 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.

INTERNAL AUDIT IN 2022

In 2022, key focus areas for internal audit were cyber security, IT and business projects, sustainability, process controls and process efficiency, business continuity, and vendor audits. In addition, a quality assessment was conducted for internal audit in 2022 by an external service provider.

FOCUS AREAS FOR INTERNAL AUDIT IN 2023

The main focus areas for internal audit in 2023 will be data and cyber security, IT supply chain, inventory and credit management, indirect purchasing, customer and vendor bonuses, and BSC and Treasury operations.

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 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 Audit Committee monitors and assesses the Auditor's operations and services annually. The Auditor's term of office is the financial year during which the Auditor is elected, and the Auditor's term continues until the close of the next Annual General Meeting to follow. An audit company belonging to the same network of audit companies as the audit firm elected by Kesko's Annual General Meeting as Auditor is elected as the auditor of each of the Group's subsidiaries outside Finland.

The Auditor provides Kesko's shareholders with the statutory Auditor's Report in connection with the Company's financial statements, and regularly reports on its findings to the Audit Committee of Kesko's Board of Directors. The Annual General Meeting of 2022 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.

Auditors' fees in 2021–2022 (€1,000)

	2022			2021		
	Kesko Corporation	Other Group Companies	Total	Kesko Corporation	Other Group Companies	Total
Auditing	399	782	1,181	377	639	1,016
Tax consultation	0	6	6	0	3	3
IFRS consultation	0	0	0	0	0	0
Other services	130	0	130	111	6	117
Total	**529**	**788**	**1,317**	**488**	**648**	**1,136**

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: Taaleri Plc: member of the Board 2014–2019; Confederation of Finnish Industries EK: Chair of the Delegation for Entrepreneurs 2012–2014; Confederation of Finnish Industries EK: Vice-Chair of the Board 2012–2014; Finnish Family Firms Association: member of the Board 2011–2012; The Foundation for Vocational Training in the Retail Trade: Chair of the Board 2008–2012; Saija ja Esa Kiiskinen Oy: Chair of the Board 1995–; Finnish Commerce Federation: member of the Board 2008–2012; K-Retailers' Association: Chair of the Board 2008–2012; Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board 2008–2012.

Board member since: 30 March 2009.

Kesko shares held:
- 31 December 2021: 8,180 B shares held by him and 459,200 A shares held by him and entities controlled by him.
- 31 December 2022: 9,380 B shares held by him and 459,200 A 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–, 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 2021: 13,064 B shares and 4,000 A shares held by him.
- 31 December 2022: 13,805 B shares and 4,000 A 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: Sampo plc: member of the Board 2013–; Solidium Oy, member of the Board 2019–, Kelonia Ab, member of the Board 2010–; The Society of Swedish Literature in Finland, member of the Board 2015–, member of the Financial Board 2001–2015; Föreningen Stiftelser och Fonder (Säätiöt ja rahastot ry): Chair of the Board 2022–, Eira Hospital Ltd: member of the Board 2010–; Veritas Pension Insurance, member of the Supervisory Board 2010–2022; Hanken School of Economics: member of the Board 2008–2021, 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 2021: 9,064 B shares held by her.
- 31 December 2022: 9,805 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 Outotec: President, Metals business area 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 2021: 3,805 B shares held by her.
- 31 December 2022: 4,364 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–, Board member 2009–2014, K-rautakauppiasyhdistys: Board member 2008, Vice Chairman of the Board 2009–2014, Vähittäiskaupan Takaus Oy: Board member 2018–, Vähittäiskaupan Tilipalvelu Oy: Board member 2017–, Finnish Hardware Association: Board member 2009–2011 and 2016–, 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 2021: held by him and entities controlled by him 133,000 A shares and 96,192 B shares.
- 31 December 2022: held by him and entities controlled by him 133,000 A shares and 96,751 B shares.

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: Uudenmaan Osuuspankki: member of the Supervisory Board 2022–, 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: Chair 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 2021: 4,465 B shares held by him and 757,600 A shares held by entities controlled by him.
- 31 December 2022: 5,024 B shares held by him and 757,600 A shares held by entities controlled 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.

Main occupation: President and Group Chief Executive Officer.

Career: 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.

Key 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 2021: 2,000 A shares and 548 B shares held by him.
- 31 December 2022: 2,000 A shares and 1,107 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–; 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 2021: 5,000 A shares, 324,260 B shares.
- 31 December 2022: 5,000 A shares, 385,786 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 2021: 168,796 B-shares.
- 31 December 2022: 205,178 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–, 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 2021: 324 A shares, 79,570 B shares.
- 31 December 2022: 1,824 A shares, 105,476 B shares.

Matti Virtanen

President, car trade

b. 1958, Master of Science (Tech.)

Other major duties: Roima Intelligence Oy; Chair of the Board 2019–, HopLop Holding Oy; Chair of the Board 2018–2021, Kamux Corporation; Chair of the Board 2016–2020.

Employment history: employed by Kesko Corporation and President of car trade division since 9 April 2021, CEO of Norpe Oy 2010–2016, CEO of Perlos Oy 2006–2008, Vice President of Solectron Corporation and CEO of Solectron EMEA area 2004–2005, Vice President of Hewlett-Packard & Compaq Computer 1990–2003, CEO and Managing Partner of Virtanen Consulting GmbH 2003–, Executive positions with Nokia 1984–1990.

Member of the Group Management Board since: 9 April 2021.

Kesko shares held:
- 31 December 2021: 1,000 B shares.
- 31 December 2022: 3,100 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 3/2021–; 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 2021: 137,156 B shares.
- 31 December 2022: 160,427 B shares.

Riikka Joukio

Executive Vice President, Sustainability and Public Affairs

b. 1965, Master of Science (Technology), eMBA

Other major duties: PEFC International: Board Vice Chair, Board member 2014–2022; Keskuskauppakamari: Elinkeino- ja ilmastovaliokunta 2022–, Climate Leadership Coalition (CLC): Deputy Member of the Board 9/2021–; Encore Ympäristöpalvelut Oy: Board member 2018–2021; Puunjalostusinsinöörit ry - Forest Products Engineers: Board Chair, Board member 2014–2021; UNA Europa: advisory board member 2020–.

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 2021: 330 B shares.
- 31 December 2022: 4,153 B shares.

Matti Mettälä

Executive Vice President, Human Resources.

b. 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 2021: 88,440 B shares.
- 31 December 2022: 1,000 A shares, 104,631 B shares.

Karoliina Partanen

Executive Vice President, Communications

b. 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 2021: 16,344 B shares.
- 31 December 2022: 25,182 B shares.

REMUNERATION REPORT FOR THE GOVERNING BODIES OF KESKO CORPORATION

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 of remuneration of the members of Kesko's Board of Directors as well as the President and CEO and the Deputy CEO of Kesko in 2022. This 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 1 February 2023. 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 2023 Annual General Meeting. Kesko's 2022 Annual General Meeting was held on 7 April 2022 under exceptional arrangements because of the Covid-19 pandemic, in accordance with the temporary legislation (375/2021) approved by the Finnish Parliament. All items on the agenda of the Annual General Meeting were subjected to vote, and around 86.6% of the votes cast were in favour of approving the remuneration report for 2021. 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/

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 2022 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 accordance 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 is also reflected in the remuneration for the President and CEO and the Deputy CEO. Changes to the total remuneration of the President and CEO and the Deputy CEO are mostly due to changes in their realised performance bonuses and share awards.

Fees paid and operating profit for the past five years

Role	2018	2019	2020	2021	2022
Board Chair	106,500	109,000	118,000	119,900	117,000
Board Deputy Chair	63,000	67,000	70,500	74,900	71,400
Other Board members, average	56,000	56,100	59,300	61,160	59,960
President and CEO, Mikko Helander	2,299,656	2,633,100	2,997,382	4,381,783	4,866,364
Deputy CEO, Jorma Rauhala	959,543	1,088,999	1,269,791	2,123,288	2,345,080
Employee, Finland	39,523	40,578	41,127	42,974	43,236
Operating profit*, € million	332	371	486	698	740

* Comparable operating profit excluding the impact of IFRS 16

The fees for the Board Chair, Deputy Chair and other members include annual and meeting fees. The remuneration paid to 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 base annual salary (personnel expenses as presented in the financial statements divided by the number of full-time employees in Finland). All sums are reported on a cash basis.

BOARD OF DIRECTORS' REMUNERATION

In accordance with Kesko's remuneration policy for governing bodies, the Annual General Meeting of 7 April 2022 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 for the members of the Board of Directors by the General Meeting 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 paid the asset transfer taxes related to the shares. The Company transferred treasury shares held by the Company to the members of the Board of Directors on 2 May 2022. 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 2022 ANNUAL GENERAL MEETING ON THE ANNUAL AND MEETING FEES OF BOARD MEMBERS

Annual remuneration to Board members (€)

	2022
Chair	102,000
Deputy Chair	63,000
Member	47,500
Board member who is the Audit Committee Chair	63,000

Board meeting fees / meeting (€)

	2022
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 2022 (€)

	Annual fee	Meeting fees			Remuneration, total	Number of B shares transferred as annual fees*
		Board of Directors	Audit Committee	Remuneration Committee		
Esa Kiiskinen (Chair)	102,000	13,200		1,800	117,000	1,200
Peter Fagernäs (Deputy Chair)	63,000	6,600		1,800	71,400	741
Jannica Fagerholm	63,000	6,600	6,000		75,600	741
Piia Karhu	47,500	6,600	3,000		57,100	559
Jussi Perälä	47,500	6,600			54,100	559
Toni Pokela	47,500	6,600			54,100	559
Timo Ritakallio	47,500	6,600	3,000	1,800	58,900	559
Total	418,000	52,800	12,000	5,400	488,200	4,918

* Kesko's treasury shares were transferred on 2 May 2022. The average price on the transfer date was €24.54.

In addition, Kesko's Board members were paid reimbursements for their expenses in accordance with the resolution of the 2022 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 2022 financial year. Jorma Rauhala, whose principal position is President of the building and technical trade division, served as Deputy CEO throughout the 2022 financial year.

Fees paid and falling due

Kesko's Board of Directors has decided on the remuneration for the President and CEO and the Deputy CEO based on a proposal prepared by the Remuneration Committee. The remuneration scheme of 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 of 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 2022 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 2022. In 2022, the President and CEO and the Deputy CEO were paid the salaries, bonuses, fringe benefits and retirement benefits presented in the following table.

Salaries, bonuses, fringe benefits and pension benefits for the President and CEO and Deputy CEO (€)

Description	President and CEO	Deputy CEO
Fixed monetary salary*	962,379	433,861
Performance bonus	787,500	263,953
Share awards**	3,083,684	1,622,986
Car and mobile phone benefits	32,801	24,280
Total	4,866,364	2,345,080
Supplementary pension plan***	1,000,000	-

* 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, 18 March 2022. The euro amounts of the share awards are gross amounts, from which the applicable 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 2022 was 123,052 shares, and the net amount 61,526 shares. The gross number of Kesko B shares transferred to the Deputy CEO in 2022 was 64,764 shares, and the net amount 32,382 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 2022.

The performance bonus to be paid to the President and CEO for 2022 will be €787,500, and the performance bonus to be paid to the Deputy CEO €271,250. 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 81,638 shares (gross) in spring 2023 based on the 2021 and 2022 performance under the PSP 2021-2024. The Deputy CEO will be paid share awards totalling 41,025 shares (gross) in spring 2023 based on the 2021 and 2022 performance under the PSP 2021-2024.

Share-based compensation

Share awards to the President and CEO and the Deputy CEO are presented in the table above. Under the Performance Share Plan (PSP) 2020–2023, shares were transferred in the spring of 2022 based on the performance indicators for 2020 and 2021. Under the Performance Share Plan (PSP) 2021–2024, shares will be transferred in the spring of 2023 based on the performance indicators for 2021 and 2022.

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 fixed 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 fulfilled by both the President and CEO and the Deputy CEO.

Relative proportions of fixed and variable remuneration

The President and CEO was paid a total of €3,871,184 in performance bonuses and share awards in 2022, representing 80% of his total remuneration. The Deputy CEO was paid a total of €1,886,939 in performance bonuses and share awards, representing 80% of his total remuneration.

The maximum performance bonus amount for 2022 was 100% of the President and CEO's annual salary and 67% of the Deputy CEO's annual salary. The performance bonus paid to the President and CEO amounted to €787,500, which is equivalent to 87.5% of his annual salary. The performance bonus paid to the Deputy CEO amounted to €263,953, which is equivalent to 62.8% of his annual salary.

Performance Share Plan (PSP) indicators in 2022

	2022	2021	2020
Absolute total shareholder return (TSR) of a Kesko B share	0%	100%	100%
Kesko's return on capital employed (ROCE)	80%	100%	100%
Kesko's sales development	80%	100%	39.9%
Sustainability*	100%	-	-

The share awards paid in 2022 were earned in 2020 and 2021. The share awards to be paid in 2023 were earned in 2021 and 2022. The criteria for Kesko's Performance Share Plan have been Kesko's return on capital employed (ROCE %), Kesko's sales development, the absolute total shareholder return (TSR, %) of a Kesko B share, and - as of 2022 - sustainability targets.

* Targets linked to emission reductions and international sustainability indices and assessments

The table below presents information on the share awards granted and paid in the previous financial year as well as on the principal terms and conditions for Kesko's share plans.

Share award plans for the President and CEO and Deputy CEO

	PSP 2020–2023	PSP 2021–2024
President and CEO, maximum share allocation	136,800 ***	108,850 ***
Deputy CEO, maximum share allocation	72,000 ***	54,700 ***
Actual earnings	89,95 % *	75.00% **
Performance period ends	31.12.2021	31.12.2022
Shares transferred	2022	2023
Commitment period ends	10.2.2024	10.2.2025

* PSP 2020-2023 was earned in 2020 and 2021, and the shares were paid to the participants' book-entry accounts in spring 2022.

** PSP 2021-2024 was earned in 2021 and 2022, and the shares will be paid to the participants' book-entry accounts in spring 2023.

*** The stated share number represents the gross amount, from which the applicable taxes are deducted. The remaining net amount is paid to the participants in shares.

The gross share award paid to the President and CEO amounted to €3,083,684, which is equivalent to some 343% of his annual salary. The gross share award paid to the Deputy CEO amounted to €1,622,986, which is equivalent to some 386% of his annual salary.

Performance bonus targets and levels achieved in 2021 and 2022 by the President and CEO and Deputy CEO

President and CEO		Level achieved in 2022	Level achieved in 2021
Financial performance for Kesko and K Group	Kesko's EBIT	At maximum level	At maximum level
	Kesko's ROCE, %	Above target level	At maximum level
	Kesko's sales development	Above target level	At maximum level
Personal targets	Targets related to strategy execution have been set for the President and CEO, which are taken into account in the total assessment.	Above target level	Above target level
	Total assessment on a scale of 0 to 100	87.5	87.5

Deputy CEO		Level achieved in 2022	Level achieved in 2021
Financial performance for Kesko and the building and technical trade division, weight 80%	Kesko's EBIT	At maximum level	At maximum level
	EBIT in building and technical trade	At maximum level	At maximum level
	ROCE % in building and technical trade	At maximum level	At maximum level
	Sales development in building and technical trade	At maximum level	At maximum level
Personal targets, weight 20%	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.	At maximum level	Above target level
	Total assessment on a scale of 0 to 100	96.9	93.8

Application of performance criteria to variable remuneration

The performance bonuses paid in 2022 were earned in 2021, and the performance bonuses to be paid in 2023 were earned in 2022. The key indicators for the President and CEO's performance bonus in 2021 and 2022 were the development of Kesko's shareholder value, Kesko's operating profit, return on capital employed (ROCE, %), and sales development. The key indicators for the Deputy CEO's performance bonus in 2021 and 2022 were Kesko's operating profit and the operating profit for the building and technical trade division, return on capital employed (ROCE, %), and sales development. The overall performance of the President and CEO and the Deputy CEO was also used as a criterion in determining their remuneration.

The share awards paid in 2022 were earned in 2020 and 2021. The criteria for Kesko's performance-based share award plan were Kesko's return on capital employed (ROCE, %), the development of Kesko's sales, and the total shareholder return of a Kesko B share. The development of these criteria in 2020, 2021 and 2022 is depicted in the table on the previous page. The share awards paid in 2022 were paid based on the average actual indicators for 2020 and 2021, as presented in the table. The share awards to be paid in 2023 will be paid based on the average actual indicators for 2021 and 2022, as presented in the table.

Supplementary pensions

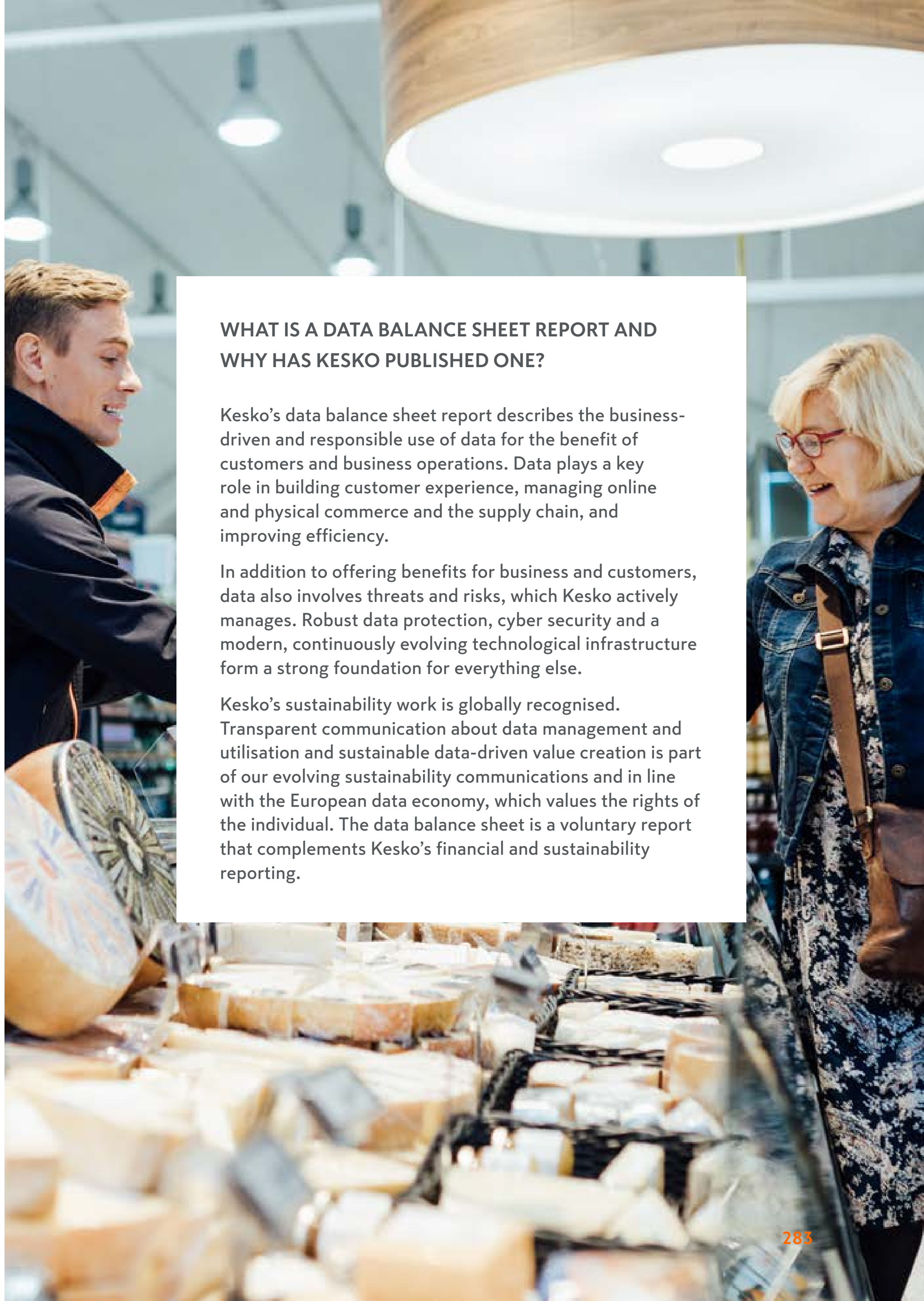
President and CEO Mikko Helander accrues old-age pension based on a defined benefit plan until 30 June 2023. The amount of his old-age pension is 60% of his pensionable earnings in accordance with the Employees Pensions Act (TyEL) for the ten (10) years preceding his retirement. Supplementary pension based on a defined contribution plan will accumulate for the President and CEO from 1 July 2023 onwards. As stated in the stock exchange release issued on 12 April 2021, Helander will continue as President and CEO until further notice. Based on the previous agreement, he would have retired when turning 63 in June 2023.

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.

DATA BALANCE SHEET

KESKO ANNUAL REPORT 2022

DATA BALANCE SHEET



WHAT IS A DATA BALANCE SHEET REPORT AND WHY HAS KESKO PUBLISHED ONE?

Kesko's data balance sheet report describes the business-driven and responsible use of data for the benefit of customers and business operations. Data plays a key role in building customer experience, managing online and physical commerce and the supply chain, and improving efficiency.

In addition to offering benefits for business and customers, data also involves threats and risks, which Kesko actively manages. Robust data protection, cyber security and a modern, continuously evolving technological infrastructure form a strong foundation for everything else.

Kesko's sustainability work is globally recognised. Transparent communication about data management and utilisation and sustainable data-driven value creation is part of our evolving sustainability communications and in line with the European data economy, which values the rights of the individual. The data balance sheet is a voluntary report that complements Kesko's financial and sustainability reporting.

DATA STRATEGY

KESKO USES DATA TO CREATE SUSTAINABLE COMPETITIVE ADVANTAGE

The core elements of Kesko's strategy are sustainability, continuous improvement of customer experiences and being a forerunner in digital services. The goal of our investments in data and digitalisation is to provide the best possible customer experience and to improve the efficiency of all our operations. Digitalisation in particular enabled us to react quickly to the sudden changes in our operating environment in 2022. Data and digitalisation have a crucial impact on our operating result and the increase in shareholder value.

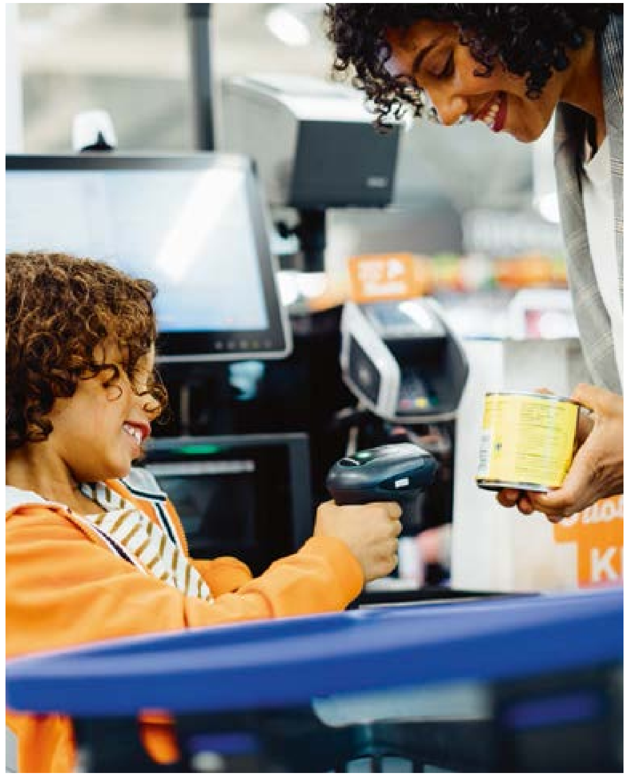
Kesko is rightly considered a forerunner in digitalisation in the trading sector. Our investments in technology have increased in recent years, and totalled some €42 million in 2022. Our focus on digital services, infrastructure updates, analytics and AI capabilities, automation and robotics increase our competitiveness and operating efficiency as well as our digital security.

High-quality data and the digital services and processes that use the data create value for our customers, retailers, partners and business operations as a whole. The impact of data is comparable to that of our financial and human capital. Data allows us to create the best selections, experiences and wellbeing for our customers and helps our retailers to succeed every day. Our first-class online services are also based on high-quality data and its use.

As a data-driven operator in the trading sector, we have accumulated world-class data capital, which gives us almost unlimited opportunities. 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.

The unused and unfolding potential of data inspires us to proceed fast. We estimated in 2021 that we were using around 25% of our data capital. Our realistic goal is to double the utilisation rate by 2025. Combined with our growing data capital, this provides Kesko with significant opportunities for value creation.

For us, data sustainability means that we are seeking to create sustainable value from data for our business operations, our stakeholders and the world around us – sustainably, securely and transparently. We utilise data and technology in ways that proactively meet our stakeholders' expectations and regulatory requirements. We manage data and technology risks proactively and have robust protection in place for personal data. We observe ethical principles in our utilisation of data and artificial intelligence.



STRATEGIC POLICIES

Kesko's goal is to be a forerunner in data utilisation. The utilisation of data and analytics in Kesko's ecosystem generates value for customers, retailers, partners and suppliers. The upgrade of the Plussa customer data system completed in 2022 opens up new opportunities for us in consumer trade.

Kesko has extensive experience in using customer data, product data and operational data, as well as in data-driven management. Applications based on data sciences and business and data analytics have been in use for a long time, and the rapid development of technology will offer entirely new opportunities in the coming years. These new opportunities also involve risks and new requirements which we seek to identify and manage as part of our development and risk management processes.

A strong data foundation ensures efficiency and competitiveness

Kesko gains significant competitive advantage from the ambitious utilisation of its data foundation which it has accumulated over a long period and which is continuously growing. The most valuable benefits are realised when we use our ever-growing data capital actively to meet the expectations of individual customers, making us stand out from the competition in a meaningful way.

Kesko carried out a significant update of its data foundation in 2022 when the long-serving Plussa customer data system was upgraded. The technology upgrade improves the quality, security and efficiency of processes. Naturally, it also opens up entirely new possibilities for the management and utilisation of data with the latest analytical applications, software robotics and automation, including data storage and processing tools.

Data plays an important role in improving the efficiency, cost-effectiveness and reliability of business operations. Everything 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.

Analytical applications are essential

The value of Kesko's data capital as a source of competitive advantage and efficiency is based on its high utilisation rate, which we seek to constantly increase.

Three levels of data management at Kesko

This is where analytical applications play a key role. Data has no intrinsic value in and of itself, its value stems from the business benefits it can produce.

Kesko uses analytics to process data for different uses. Smart automation and AI applications create new types of value while increasing the company's capacity to develop new services and respond to changes in the operating environment. Kesko has an AI competence centre that helps the application owners and developers of each business function in utilising analytics.

Overall architecture supports an increased data utilisation rate

Kesko is committed to raising the data utilisation rate in all its operations. Our goal is to raise the utilisation rate of our data capital from 25% in 2021 to 50% by 2025. Raising the utilisation rate also means that Kesko's customers and partners will use Kesko's digital services more and more.

Kesko is conducting a thorough upgrade of its overall architecture to create new opportunities for using data more diversely and increasingly in real time. Ecosystems and partnerships are also 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.

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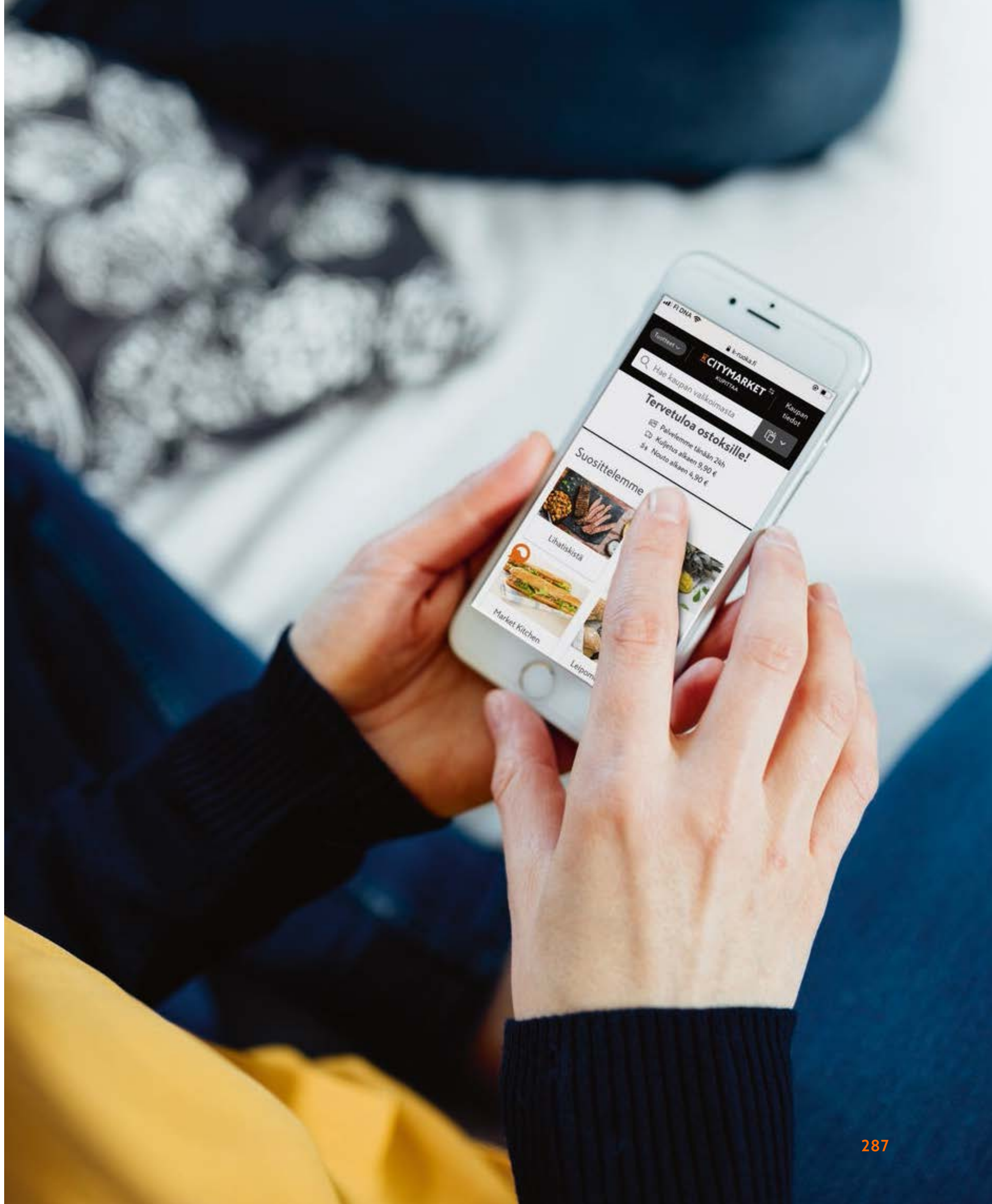
Our goal is to double our data utilisation rate by 2025



Case

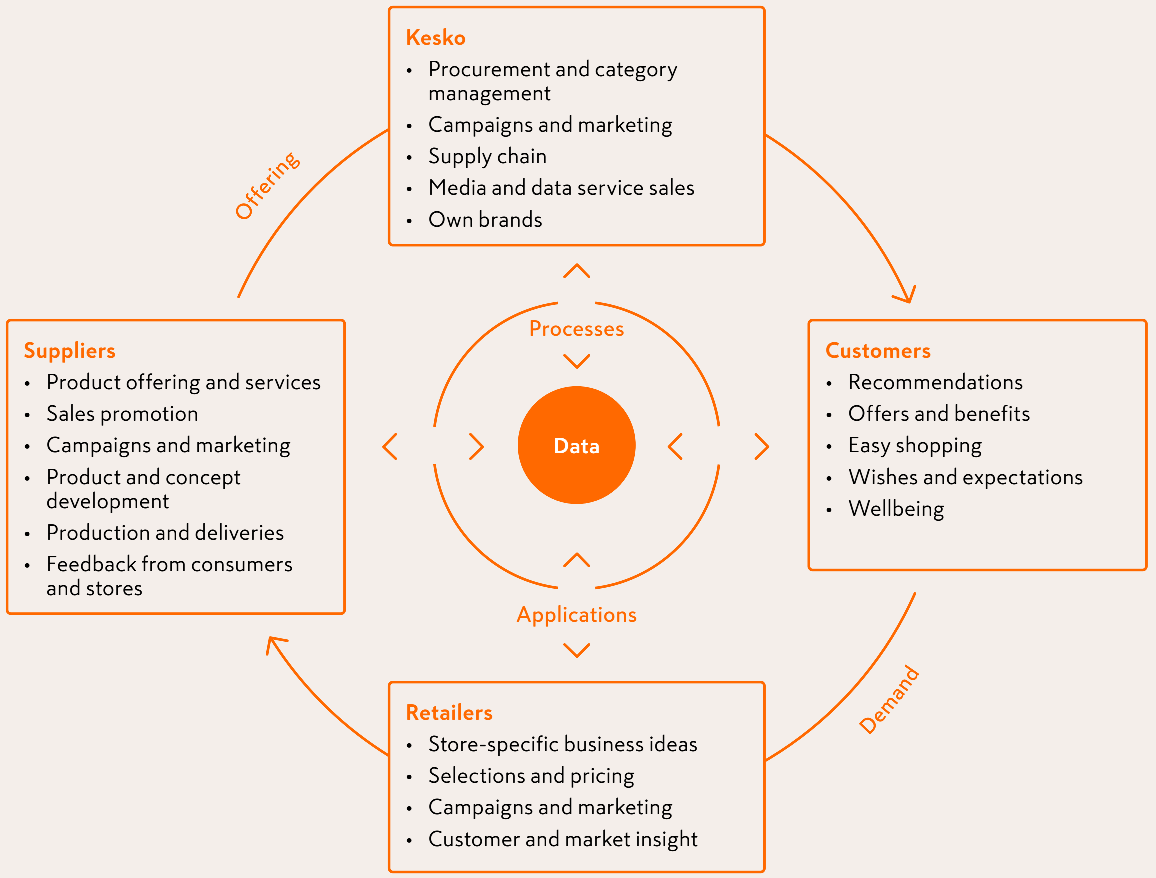
Kesko utilises and upgrades the digital ecosystem of its grocery trade division

Kesko is upgrading the data-driven value creation model of the grocery trade division and the supporting digital architecture. In the new, modernised model, value creation is based on Kesko's data foundation which is used to generate value for stakeholders through analytics and application environments. The stakeholders in this value creation are Kesko, K-retailers, the producers of goods, providers of services and Kesko's partners.

The value creation model is also based on value exchange, which means that value is created for both the data producing and data utilising parties. The model brings to a single business platform all background technologies, data and applications that are associated with the supply and demand of commercial products and services and that serve different stakeholder groups. The construction of the model progressed as planned in 2022 and will continue in 2023.

Kesko is actively developing a digital K business platform designed to significantly raise the utilisation of data and analytics. The new platform will bring together the technologies and data capital behind services offered to customers, K-retailers, partners and suppliers, and will also enable new business models in the network.

Digital business platform for Kesko's grocery trade



DATA CAPABILITIES

Kesko is actively developing its data capabilities. A significant part of architecture development involves being able to serve all Kesko divisions and operating countries and being able to rapidly share the best models and applications internally.

K-Data platform brings benefits and synergies

Kesko aims to considerably scale up data storage, management, utilisation and distribution capabilities within its digital business architecture. The creation of new earnings models requires an open and flexible architecture and compatibility between current and future technologies.

K-Data is Kesko's new modular cloud-based data and technology platform that will be deployed in stages. A significant leap forward was taken in 2022 with the upgrade of the Plussa customer data system and the reform of the K-Data data storage and analytics platform. New business use cases were deployed in all Kesko divisions. Migration to the new platform will be prioritised using a 'business first' approach based on business needs.

This approach ensures that all solutions and decisions associated with data and technology create strategic value in Kesko's divisions. When data and its utilisation are placed at the core of business operations, this will also strengthen Kesko's data culture and strategic competencies significantly. Kesko has a centralised data team that manages the development of the K-Data platform.

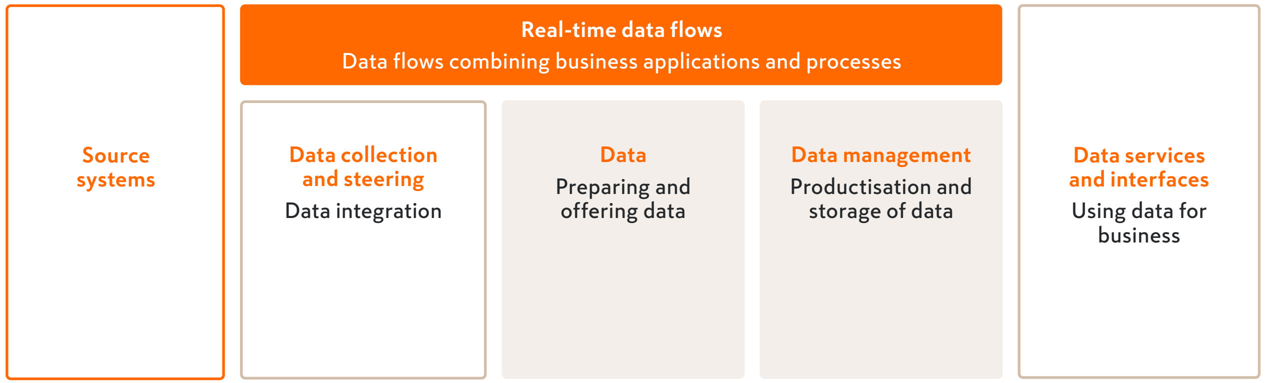
The objective is to create a real-time environment for data and applications that is as flexible as possible and serves the business operations as they develop the existing processes and operating models as well as entirely new innovative use cases.

Pooling databanks, data products, business applications and business processes into a centralised but modular platform brings many benefits. Ensuring data flow, provision of data in real-time and strengthening of control are key aspects in the development of a modern data platform. The structure of the platform also enables development to be genuinely agile and decentralised.

Upgrading our data governance

The usability and potential of data in value creation depends on its overall quality. Kesko approaches the quality of data from the perspective of usability, availability, accuracy

Kesko's new K-Data platform



and freshness. Our data governance practices ensure that personal data are processed carefully, securely and always in line with applicable data protection legislation.

In 2022, Kesko continued to develop its data governance by shifting the focus to larger and more significant data entities and by strengthening business-driven and efficient operations. Ownership of individual registers and data assets was replaced with responsibilities for larger data entities. This shift strengthens the strategic management of data capital, since an increasing number of applications integrate several data sources in order to create value.

Data cataloguing, metadata management and a data management model, i.e. more extensive ownerships, responsibilities and roles associated with different data resources are now defined more accurately.

Analytics and AI as part of everyday operations

Artificial intelligence and other analytical capabilities have quickly become commonplace. AI applications almost always play a central role in the development of new use cases. This has an essential impact on value creation given the scale of Kesko's operations. The utilisation of AI is governed by our public ethical principles.

Centralised AI and analytics functions collaborate closely with teams in each business area. This combination of centralised and business-specific resources ensures that the approach remains very business-driven but also agile enough to allow rapid development and launch of new applications and features for customers.

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.

Utilising process automation

Multi-sector trading operators such as Kesko can leverage major synergies through economies of scale. However, this requires significant automation of repetitive processes and the utilisation of smart software robotics.

Kesko is benefiting from process redesign in its enterprise resource planning (ERP) system and is strongly increasing its use of software robotics. Among the processes automated in Kesko in 2022 were background processes in customer service as part of a larger reshaping of the operating model for customer service. By the end of 2022, Kesko had more than 200 automated processes in production, increasing the efficiency of operations.

Compliance and regulations

Models of data administration and management that cover the entire lifespan of data are critical for the usability of data at Kesko. Kesko takes a proactive stand when securing the rights of its customers and stays true to its strong values.

Read more about Kesko's ethical principles on using AI

Compliance with data regulations is monitored with a structure and steering model that ensures that Kesko processes and utilises data responsibly and in compliance with regulations throughout the company. The most significant regulatory entity for Kesko is the EU General Data Protection Regulation (GDPR). Kesko's compliance with the GDPR is described in more detail in the data protection section of this data balance sheet report.

Kesko takes a proactive stand when securing the rights of its customers and stays true to its strong values.

The European regulatory environment on data is undergoing a process of considerable change. Kesko is proactively analysing and forecasting the preparation and entry into force of new regulations. We exert our influence on the data regulations that apply to the trading sector through pan-European organisations, especially EuroCommerce.

New regulations on data, digital services, digital markets, data governance and AI have a major impact on how data is utilised, distributed and disclosed. Based on our current updated knowledge, we do not expect new regulations to have a material impact on Kesko's principles on data.

Case
Technology raises energy efficiency to a new level

Kesko has, for a long time, managed energy efficiency successfully, taking into account both financial and climate perspectives. In autumn 2022, Kesko started preparing for a potential electricity shortage and reviewed various possibilities for saving energy and optimising its use.

Early in the autumn, Kesko began extensive measures to save energy, covering more than 1,300 stores and various offices and storage facilities. The first actions taken were adjustments to heating, optimisation of refrigeration equipment settings, and reduction of lighting at stores and offices.

"The measures enabled us to reduce our electricity consumption by 8% year-on-year in December 2022 in an already energy efficient network of stores," says **Antti Kokkonen**, Building Services Manager at Kesko.

In addition to active measures to reduce energy consumption, Kesko is continuously investing in the energy efficiency of stores and properties. A good example of an energy efficient grocery store in the Helsinki region is K-Citymarket Tammisto in Vantaa. The store already has a solar power plant, modern refrigeration equipment and heat recycling system, and it is now experimenting with a new lighting solution and an automation system analytics service.

"The connected IoT devices and building automation systems provide us with real-time information on the conditions. They also control automation and enable us to use AI-based optimisation for the consumption, production and procurement of energy. We will keep on adopting the latest technology in energy efficiency renovations and in our new real estate projects," says Kokkonen.

KESKO'S DATA BALANCE SHEET

Kesko's data balance sheet describes the data capital and data assets of Kesko and its divisions. Data assets are data products, data services and data processes that convert data capital into value for Kesko, the customers and the stakeholders.

Data in itself has no value for Kesko. Its value is based on the benefits for 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 on 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 balance sheet

	Data assets	Data capital
Strategy and value-creation model	=	=
Architecture management	Data and analytics platform	In-house and external data that can be used by business operations.
Data governance	Services, products and processes produced using data capital	
Capabilities and competence	**Value drivers:**	**Value drivers:**
Risk management and compliance with regulations	Direct or indirect benefits created by data assets for the company and its stakeholders	Data quality, availability and usability in the production of data assets

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.

We have huge amounts of usable data

Some key figures of data-driven management in our grocery trade operations in Finland in 2022.

Over **3.3 million**
Plussa loyalty customers

Over **300,000**
product items in grocery trade

Nearly **2.3 million**
instances of customer feedback

Over **3 million**
visits in digital channels per week (K-Ruoka and Plussa, 12/2022)

1,200
K Group grocery stores

Some **1.6 million**
daily customer encounters in physical and online stores

Over **3,000**
K-partners (suppliers of goods)

Nearly **14,000**
customers involved in development work (K-Kylä customer community)

Kesko's limited data balance sheet for 2022

	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 and the benefits for customers and stakeholders of data	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** • K-Ruoka (app and mobile) • K-Rauta online store • K-Ostokset • K-Kuitit • K-Plussa • K-Auto • K-Lataus • K-Tunnus • Data protection services	**In-house data capital** (examples) • Consumer customer data (including Plussa data, customer feedback, K-kylä research data) • Receipt data (retail sales from physical stores, 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 the online stores) • Store site and retailer data • Campaign and media data • Operational ERP data • HR data
	For B2B customers • Online stores (Kespro, K-Rauta, Onninen) • Interface and EDI services • Reporting services • Product information services	**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, external studies • Data on the use and conditions of store and logistics properties
	For K-retailers • 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 (including information-sharing services) • K-Mediaratkaisut • 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.

CYBERSECURITY

The changed security situation in Europe and other rising cyberthreats and data security threats were reflected in Kesko's digital security preparations in 2022. In particular, the ability to detect cyberthreats and cyberattacks has become increasingly important.

Kesko offers various digital services aimed at different user groups which might be targeted by a wide range of information security threats and cyberthreats. In addition to services, Kesko's networked infrastructure comprises data repositories, cash register systems, ERP systems, money and transaction data traffic, and building technology systems. As an international company, Kesko is regularly exposed to different types of disruptions and attacks in the digital environment.

Managing digital security

Kesko is proactively developing its capacity to respond to information security threats and cyberthreats and is investing in its ability to ensure the continuity of its operations in various fault situations. A multi-tier approach is used to protect Kesko, customer and stakeholder data and to plan and implement actions to ensure operational continuity.

Kesko has a robust, multi-layered information security architecture. The systems and network connections are classified in accordance with their importance. The systems have recovery plans that are tested and rehearsed regularly. Cybersecurity technology used by Kesko utilises automation and machine learning, which enables us to detect and respond to threats extremely quickly.

Kesko's information security team, which has been reinforced in recent years, serves as the in-house competence and service centre. The unit is responsible for system-level information security architecture and operating models, and it provides training and services to the Group's other units in information security matters.

The detection of and response to threats is managed using a centralised information security control room. The response to information 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 the Board of Directors.

Kesko's information security policy is available on Kesko's website at www.kesko.fi/en/company/policies-and-principles/information-security-policy/

Continuous ensuring of information security

Information security is audited regularly both by in-house and external experts. The information security team also offers its expertise for the Group's internal audits and Due Diligence investigations in M&A situations.

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 compliance with this may be verified using audits, if necessary.

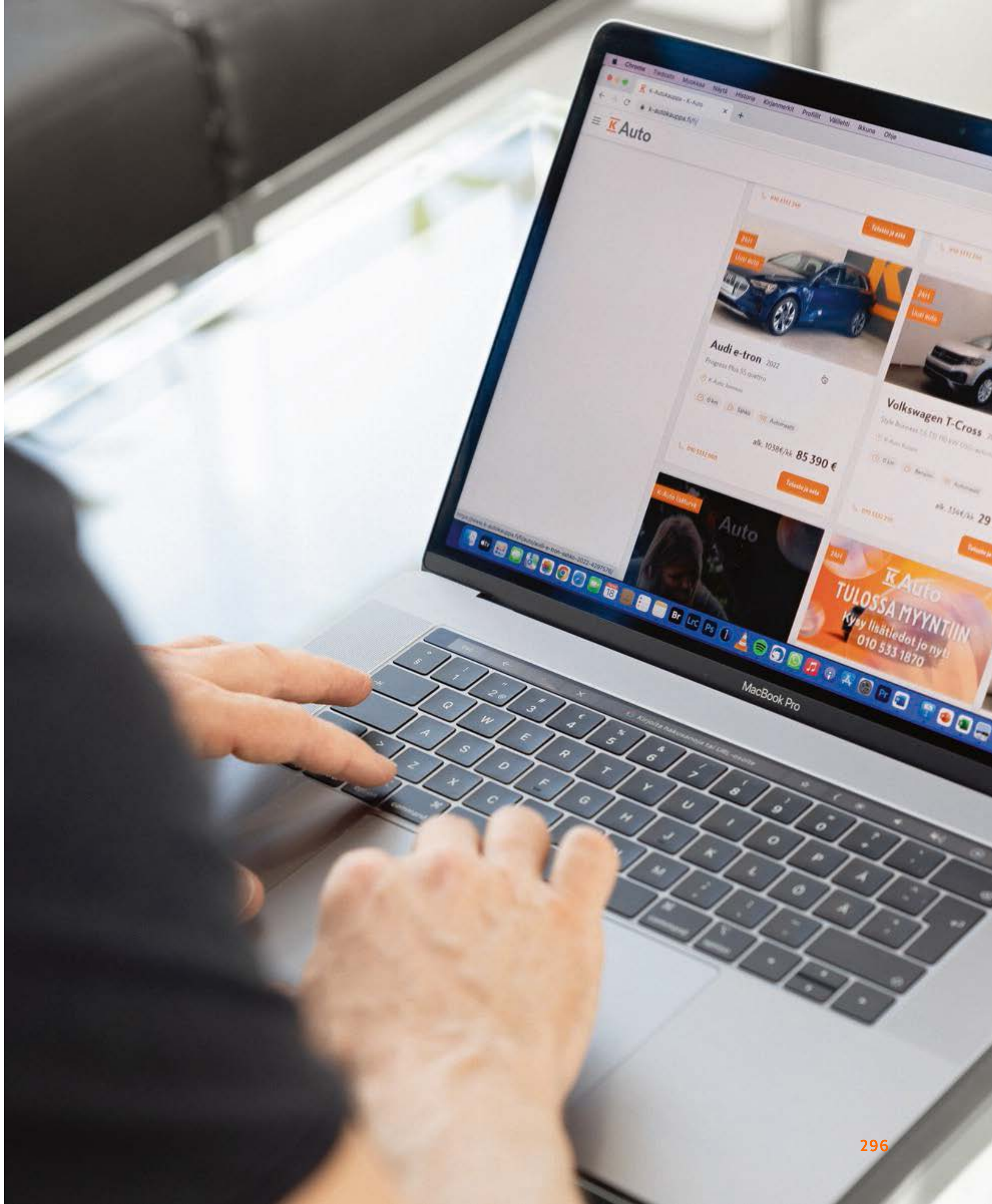
The status of information security is reported in connection with normal internal control, as well as internal and external audits. Technical information security is assessed continuously, and separate information security audits are conducted in the most significant environments.

Communication and training on information security issues

Kesko has various regularly implemented measures in place to improve employee awareness of information security issues. These include online training, phishing message simulations, and internal communication about significant topical information security matters.

Training remained active in 2022. 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 the requirements of their respective roles.

Exercises are organised actively and routinely. In 2022, these were related to identifying and preventing phishing. Kesko's team also participated in the national 'Tieto 22' exercise, rehearsing how to recover from a cyberattack affecting society as a whole. In addition, Kesko carried out several exercises with its IT service partners, testing the ability to detect attacks and respond to external disruptions.



DATA PROTECTION

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 plans personal data processing in advance and ensures that the processing is lawful, reasonable and transparent, and that personal data is processed for a specific purpose in accordance with a legal basis laid down by law. Personal data is processed only to the extent that it is necessary for the purpose of use, and only for as long as it is necessary and justified for the purpose of use.

Personal data protection also refers to everyone's right to have access to the data collected about them, as well as the right to have any inaccurate personal data rectified and any unnecessary data erased.

Kesko's complete data protection policy is available on its website at www.kesko.fi/en/company/policies-and-principles/data-protection-policy/

Management model

Data protection work at Kesko is managed by implementing the K Compliance operating model approved by Kesko's Board of Directors on 17 December 2020, and the Data Protection K Compliance programme confirmed by Kesko's President and CEO. Progress is reported to the Audit Committee of Kesko's Board of Directors twice a year. The data protection management model consists of Kesko's Data Protection Officer, Corporate Counsel specialising in data protection legislation, and two members of the Legal Affairs' Compliance & Ethics function who specialise in data protection matters and requests.

Each business unit or data controller evaluates and monitors the implementation of data protection in their operations. All personal data registers in all businesses have designated owners. 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 security competencies and awareness of data security guidelines remain high. It supports the identification and management of data protection risks in Kesko's units as part of Kesko's careful compliance with regulations.

The 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. The data protection manual was updated in 2022.

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 four times in 2022 in accordance with the risk management process. Kesko carries out internal and external data protection audits as necessary, especially when changes take place in business operations.

Training and communication

Active communications, information bulletins and training ensure that Kesko's staff are highly competent in data protection. All up-to-date instructions concerning data protection are easily available to all employees.

All new Kesko employees are required to complete an eLearning course on data protection as part of their induction. 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 data protection training is widely accessible and that the employees' competence level can be verified and documented. Data protection training is also available to the staff of retailers on K Group's shared K Academy training platform.

In 2022, a total of 9,759 K Group employees across our operating countries completed an eLearning course on data protection. These were new employees or employees otherwise interested in the topic, as mandatory revision courses were last conducted in 2021. Moreover, K Group retailers were offered both general data protection training as well as training on camera surveillance via webinars, with 456 live participants. Recordings of the training sessions were made available to all retailers.

Data Protection Interest Groups focusing on various themes are organised four times a year to key members in managing Kesko Group's personal registers. They discuss current data protection application practices, instructions issued by the authorities, amendments to legislation and best practices in accordance with what is relevant to each of the six subgroups. There were 592 participants in total.

Regular training and 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. Requests can also be submitted through other channels.

Read more about Kesko's data protection portal (in Finnish)

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. Kesko also immediately informs the affected persons about the information security breach in situations involving a high risk of abuse or damage in accordance with the GDPR.

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 at tietosuojavastaava@kesko.fi.

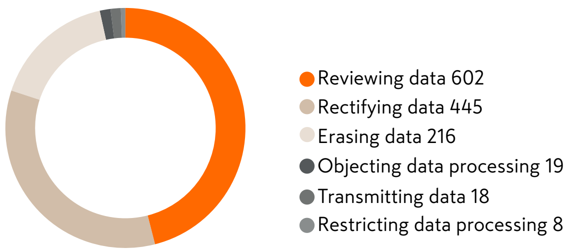
Data protection requests and incidents

In 2022, Kesko processed 1,308 requests (2011: 1,101) submitted through its data protection portal. Requests were also processed in other channels. Replies to requests for checking Plussa data are automated and the data subject will receive the requested information in 15 minutes at a minimum. On average, information requests are resolved in less than 10 days.

Kesko detected and investigated a total of 469 information security breaches in its operations in Finland in 2022 (2021: 497). Of these, 50 (2021: 79) were reported to the Data Protection Ombudsman. Individual cases were also reported to the affected data subject.

The number of data protection requests was found to be linked to the volume of customer communication. In early 2022, Kesko also informed customers of changes to its data protection notices, which prompted customers to review their data. Most data protection requests are related to reviewing and correcting a data subjects' personal data. A large number of requests were received when a popular free e-mail service adopted a paid subscription model which caused the customers to switch to another email provider, which meant that they had to update their contact data. Erasure requests are typically related to situations in which the customer feels that the customer relationship has ended or otherwise wishes to prevent the collection of their personal data.

Distribution of requests in 2022:



CUSTOMERS AND DATA

SUSTAINABLE VALUE FOR CUSTOMERS AND KESKO

The utilisation of data and technology play a key role in the growth strategies of all three of Kesko's business divisions. Data is the precondition for a good customer experience and profitable business, and it is also a significant source of new value. Kesko is actively strengthening the data capability synergies between its 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 trading sector in this century. Digitalisation in car trade is rapidly gaining ground as a 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 in order to create the best customer experience and provide new services. Financial investments and investments in data quality and use are at the core of our development work.

The best customer experience is largely based on our extensive customer insight, which we gain from data from e.g. the Plussa customer loyalty programme, customer feedback, surveys, product data and digital services. 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 Plussa membership, and enables personalised benefits and services. In 2022, we updated the K-Tunnus service, enabling customers even easier access to K Group services (e.g. Plussa.fi, K-Ruoka, K-Lataus and K-Rauta) 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 store-specific business ideas, selection management, digital services for customers, data-driven decision-making, and efficient automated processes. In the rapidly changing operating environment of 2022, data helped us respond to the changed expectations of consumers and foodservice customers.

Data and analytics help us 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 wholesale customers. We also use our data to help our suppliers and partners succeed.

A data-driven store is able to react quickly in an inflation-driven market

In 2022, high inflation increased prices and reduced purchasing power, which prompted consumers and professional kitchens to change their purchasing behaviour. In the grocery trade division, data helped K-retailers and Kespro take quick action and offer their customers attractive products and campaigns at all price points appreciated by the customers.

Data analytics and automation provided novel types of support for selection management, pricing and campaigns and the ability to offer personal Plussa benefits to consumers. The data-driven store-specific business ideas also helped us meet customers' expectations and adjust operations even in rapidly changing circumstances.

Data helps in implementing 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 enabling store-specific business ideas and in their continuous upkeep. Reporting services help retailers and Kesko monitor and document the performance of store-specific business ideas and carry out any necessary changes quickly.

Pricing that is always up-to-date thanks to electronic shelf labels and in-store communication on benefits and special offers are features of a data-driven store. Already around 500 K Group stores have electronic shelf labels that are connected directly into the checkout system.

Store-specific business ideas helped retailers offer excellent combinations of affordability, benefits and experiences for their customers even though the operating environment in 2022 was characterised by inflation. The K-Valikoima tool allows stores to customise their selection based on the latest data. Analytics is used to suggest new products that offer differentiation, and are sustainable and suited to each store's local customer base.

The almost real-time reporting of sales, high-quality use of customer and market area data, and 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, to offer the latest information, and to predict demand for campaign products and ensure their in-store availability.

Continuously evolving understanding of how successful store selections are in terms of turnover rate, sales and margin structure brings financial value to 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, making everyday life easier, supporting each customer's goals, and promoting sustainable choices. By logging into the K-Ruoka service, customers can access personal offers, recommendations and content. K-Ruoka also enables online grocery shopping, offers recipes, and allows the customer to examine their consumption patterns and set sustainability goals for their shopping basket.

Both the background systems and customer experience of the K-Ruoka mobile app were developed further in 2022. The result was an even more comprehensive and easy-to-use service. Personalised customer benefits and other benefits based on customer profile and purchasing history were made more easily accessible, and electronic receipts and key Plussa membership functionalities were added to the service. At the beginning of the year, Kesko also launched the 'Your Year in Food' (Ruokavuotesi) feature that presents the consumer's purchasing patterns in a visually interesting way. Our goal is to make K-Ruoka the most comprehensive and useful grocery app for customers.

Case
Shared customer insight puts us ahead of the competition

The best customer insight is gained by using a wide range of different but complementary survey and analysis methods. The collaboration between Kesko's Stakeholder Insight and data and analytics functions generates unique insight and perspectives which help our decision-making both on a strategic and day-to-day level.

"Data helps us understand the present day and forecast the future. Strategic customer surveys, foresight and market surveys help us and our partners predict phenomena and trends. By making observations and combining both qualitative and quantitative research, we can achieve a tremendously rich understanding of our customers and the world around us," says **Heidi Jungar**, who heads Kesko's Stakeholder Insight function.

Understanding how our customers think and act is at the core of our operations. Our combination of people and data-driven methods enables us to look deep into human behaviour and thinking. This helps Kesko develop its concepts, products and services proactively.

Information that is refined into insight is procured from a multitude of sources. Our in-house team collects data from customer satisfaction surveys, customer feedback and the K-Kylä customer community, but also from databases and external research organisations. We also enrich data 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. Sharing and mutual discussion benefit all parties.

"Having a shared insight into our customers and the operating environment benefits Kesko and its partners. In addition to retailers and business representatives, we also share our results with our partners. Together we are wiser. For example, more than 300 participants from our partner companies studied the results of our recent K Food Trends study in early 2022. We also provide information to schools to support learning and engage in projects with higher education institutes," says Jungar.

Kesko produces hundreds of research and reporting services for grocery trade, building and technical trade and car trade. Many of these services are also offered to Kesko's partners and suppliers, either in a general or tailored format.

Kesko's most popular digital services for consumers in January 2023

1.	K-Ruoka.fi	8.9 million visits
2.	K-Ruoka mobile service	4.4 million visits
3.	K-Rauta	2.2 million visits
4.	Intersport	1.8 million visits
5.	Plussa.fi	0.3 million visits

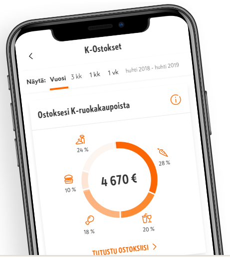
All digital services are designed to be reliable and easy to use. Accessibility and data protection design are part of the development and maintenance of each service.

Kesko is a strong operator in online consumer and foodservice sales

Online grocery sales took a leap in Finland during the pandemic, and sales have now settled clearly above pre-pandemic levels. In B2C online grocery, 619 K Group grocery stores offered online sales services at the end of 2022. Online accounted for some 3% of B2C grocery sales in 2022. Professionals are served by the online stores of Kespro's 14 local cash-and-carry outlets and central warehouse. In sales to professionals, more than 70% of Kespro's sales come from direct EDI order systems and online stores.

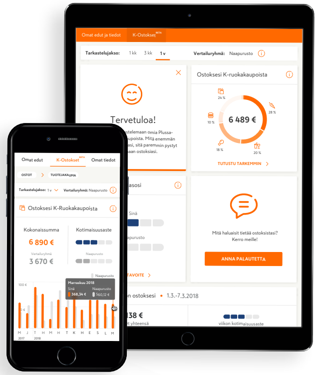
The strengths of Kesko's online food sales to consumers include a comprehensive customer loyalty programme, unique product selections enabled by store-specific business ideas, a concept combining the strengths of online and physical stores, a selection of up to 40,000 products,

THE K-RUOKA SERVICE IS FULL OF FEATURES



Your store, your benefits and your content

- The main digital channel for purchases and content for consumers
- Online grocery sales, 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



Personal purchasing trends

- Helps customers track and adjust their purchase behaviour in terms of spend, health aspects, carbon footprint, and level of Finnish products bought.
- Customers can track how many products of Finnish origin they are buying and set goals to increase it. 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.
- Customers can monitor their consumption of sugar, salt, vegetables, red meat and fish. They can compare their data with national nutrition recommendations. Customers can set goals related to consumption, after which they will be provided with practical advice on how to achieve their goals.

Plussa customer service

- Plussa benefits, Plussa money and events
- Personal customer data, consent approval and interests
- Personal and parallel loyalty cards
- Management of the K-Tunnus user ID

Paperless service

- Real-time and archived receipts
- Online order history
- Warranty certificates
- Available directly or through the K-Ruoka service

and flexible delivery options. The NPS for Kesko's B2C grorcery sales was 80 at the end of 2022.

Key drivers for the development of our online sales 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.

Together with Wolt, Kesko has created an efficient express delivery concept for groceries in Finland. By the end of 2022, nearly 180 K-Market stores around Finland offered express deliveries. Demand for these deliveries has been strong and they play a major role in the growth of online grocery sales and the sales development of the K-Market chain.

Finland's first in-store automation-assisted collection system for online grocery orders began operations in K-Citymarket Ruoholahti in Helsinki in 2022. The concept enables faster deliveries, greater volumes, and a better customer experience.

Kespro's online store has more than 50,000 products and contains smart features that meet the needs of professionals. In 2022, Kespro's online store helped its customers find the best products and inspiration especially with smart features associated with price points, product alternatives and tips for use. The NPS of Kespro's online store varied between 50–53 in 2022.

Case
Kespro enables customer success

Restaurants and professional kitchens have faced challenging market conditions in recent years. The rapidly growing popularity of remote and hybrid work and restrictions on restaurants and travel imposed during the pandemic have changed the way people eat outside their homes.

Kespro has helped its customers adjust their operations and business ideas to meet the needs of the changing world and trends. The cornerstone of this is the unique analytical data and insights that only Kespro, as Finland's leading foodservice operator, can offer its customer and suppliers.

Customer-specific solutions are tailored in cooperation with the customer and are based on in-depth understanding of the market, operating models and customer concepts. Kespro's digital operating model brings together customers, partners and suppliers. Digital services are used to manage the efficient and profitable provision of customer-specific foodservice solutions.

Versatile digital wholesale services and logistics and distribution services ensure that the solutions are implemented efficiently. 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.

Kespronet and kespro.com operate seamlessly to serve foodservice professionals, offering them not only Finland's largest selection of goods, but also customer-specific ideas, inspiration and advice. Detailed product information help in menu planning and offer useful information about the products, their use and sustainability aspects.

The best customer experience is based on personal service that is supported by digital applications for the salesperson, e-mail reports, and entirely new reporting services that will be piloted in 2023. Customer insight, management of the customer relationship and interaction throughout the customer journey are based on versatile utilisation of data. The reporting services help the customer manage their business idea based on data.

BUILDING AND TECHNICAL TRADE DIVISION HAS DIGITALISED ITS ENTIRE VALUE CHAIN

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 journey and marketing keeps on growing. In 2022, we launched several new digital services.

Our aim is to utilise the growing potential of data better and better and to offer the best customer experience in the business for our three different customer segments: consumers, professional builders, and technical wholesale customers.

The differences between the customer segments are taken into account in the development and production of our digital services and their background processes. Digital business architecture supports data-driven business operations throughout the value chain. Data and automation are utilised in increasingly smart ways in the management of customer, sales, store and logistics processes.

Comprehensive customer insight guides business decisions and the creation of customer experience. The division's marketing for the segments, sales and campaign operations are strongly data-driven, and a personalised customer experience strengthens the leading position of the Onninen, K-Rauta, K-Bygg and Byggmakker brands in their respective operating countries. Analytics are used in commercial management and process optimisation, which improves the productivity of investments and also customer satisfaction.

Comprehensive customer insight guides business decisions and the creation of customer experience.

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 is already digitalised everywhere in the division. On the whole, the division is making investments in smart, predictive logistics, focusing first on improving Onninen's logistic capabilities.

Case
Product information helps the customer and accelerates sales

While the needs of B2B and B2C customers differ, both want to access comprehensive and high-quality product information. Enriching product data is a continuous process that gives us a significant competitive advantage.

Product information provides comprehensive specifications on the product, including, but not limited to, technical details, product codes, measurements, weights, colours, product images, up-to-date documentation and certificates. We also offer installation instructions, videos and information on the products and spare parts needed in the installation to help the customer select and buy the right product.

When it comes to the sustainability of building materials and products, customer expectations are growing. We have met this demand by providing more information on the environmental aspects and level of Finnish origin of the products, thus helping our customers make more sustainable choices.

Case

Onninen's digital services allow customers to focus on what is essential

Onninen's two new digital services in Finland, OnnSale and OnniApp, have been developed to support customers in the selection, purchase and use of the right products. The services built on Onninen's large product offering and the ability to manage product and customer data help customers in their day-to-day work.

OnniApp is a mechanic's best friend

Onninen's mobile app, OnniApp, allows customers to pick products at Onninen Express stores or from their own self-service warehouse. The application allows the customer to examine comprehensive product data, verify the prices and availability of products in the store, and pay at check-out. The detailed invoicing and target data entered into the application ensure data is recorded correctly on invoices.

In addition to the stores, OnniApp can also be used in Onninen self-service warehouses, which are tailored for each customer and located near their worksites. The self-service warehouses can also be mobile and located in a van, for example. The customer uses the mobile app to scan the barcodes of the products, and product consumption rates serve as the basis for weekly automatic re-stocking.

At best **40%**

of customers in an Onninen Express store select products for their shopping basket using OnniApp.

A new feature introduced in the app is the possibility to collect products into several shopping carts in one go, for example, for different construction sites or installation sites. OnniApp is available in Finnish, Swedish and English.

The app is rapidly gaining popularity. In 2022, the number of store visitors who used the app grew by more than 40% in Finland on the previous year. Approximately 20% of customers select products using the mobile app.

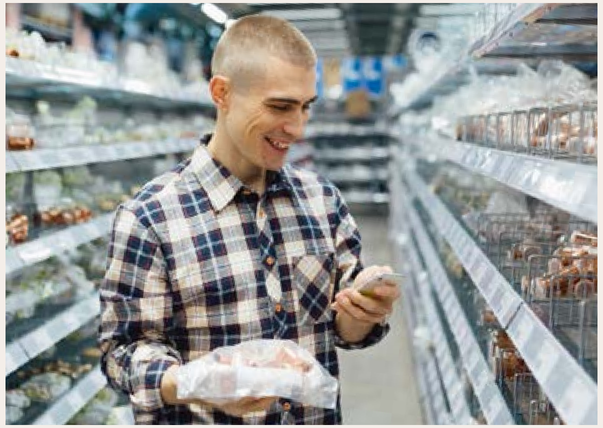
OnnSale allows experts to focus on selling

OnnSale is a digital desktop for Onninen's salespersons that helps them offer the best customer experience in the business. Our goal has been to create a service that eliminates time spent accessing background systems, which allows the salesperson to spend time interacting with the customers instead and provide them with service and help.

All essential features of OnnSale are accessed in the user-friendly main view. Customer data and Onninen's large product offering with its comprehensive product data are crucial. As all the information is clearly displayed, entering the customer's orders and forming an offer is easy, streamlined and centralised. 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 taps into a uniquely comprehensive product information database that contains an enormous volume of enriching information on each product. For example, with OnnSale the salesperson can tell the customer about the supplies and tools needed for installing the product, read the documentation and help the customer purchase associated products. Soon salespersons will also be able to use OnnSale to inform customers about the sustainability of the product. Customer service is based on comprehensive data, which improves customer experience, saves the customer's time, and boosts sales.

Analytics connected to OnnSale improve Onninen's data capital and help us gain deeper customer insight. Onninen uses the collected customer data responsibly in the development of its processes and product offering, and in sales and marketing.



Technical wholesale is integrated in the customer's processes

The customers of technical wholesale include HVAC and electrical contractors, industrial companies, infrastructure operators and retailers of various sizes. Technical wholesale is based on large sales volumes in which data and digital solutions are used to improve procurement, logistics, purchasing and product use. Personal service provided by experts is also extremely important.

Around 30% of Onninen's sales already take place in digital channels. The post-purchase NPS score is very high in the Onninen.fi online store in Finland.

Purchases are made directly in Onninen's online store, via the OnniApp application or, for larger volumes, by sending an EDI message. Onninen also offers customer-specific digital solutions and integrations that are implemented to meet the customer's needs and procurement process. For salespersons, Onninen has introduced a digital desktop that helps them serve their customers efficiently.

Products are delivered to the work site at the right time, or they can be collected quickly from an Onninen Express store or a customer-specific automated service warehouse.

Digital services produced on a robust data foundation are designed to be efficient and useful. The customer has access to the best technical product specifications, making product selection, comparison, installation and maintenance highly efficient.

Onninen.fi online store in Finland

NPS 70

The digital customer process has been modelled end-to-end, enabling us to forecast which steps along the customer journey bring value to the customer, and 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 associated with reporting, logistics and deliveries. Automation is becoming increasingly common, improving operational efficiency and benefitting both the customer and Onninen.

K-Rauta helps builders and renovators succeed

The digital operating model allows us to combine the strengths of the K-Rauta online store with the strengths of the physical stores. The online store is critically important as a provider of product information, inspiration and instructions, as more than 80% of customer journeys are estimated to start from the online store. K-Rauta's 122 physical stores in Finland allow the customers to see, test, touch and compare the products. Skilled salespeople help both professionals and consumers select the right products and use them successfully.

K-Rauta serves consumers and professional builders by combining the best features of online and physical stores. The online store and its comprehensive product information in particular enable customers to examine the products in detail and utilise the self-service features. 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 idea and marketing.

NPS 66

K-Rauta.fi online store NPS in Finland was at an excellent level in 2022

Data-driven management enables all stores to have exactly the selections and services that meet the needs of that store and its customer base. Group-level synergies are achieved by utilising the common Plussa customer data, and the new K-Data platform opens up entirely new possibilities for utilising our shared data foundation and analytics.

In 2022, K-Rauta launched the new 'Parempi Remppa' service package for home renovators, based on identifying the needs of the customer, and in larger projects, on personal advice and service. The development started with an exceptionally comprehensive multi-stage customer survey that helped us gain a detailed idea of the needs and challenges of customers who intend to start a DIY project or carry out maintenance on their home or yard. The outcome was a service package in which K-Rauta and its retailers offer help and benefits in all phases of the project. We provide many additional services, such as a digital archive of purchases, recycling of DIY waste, advice, rapid collection of purchases from an online store, better terms and conditions for returns, and many other services that vary from store to store.

Case

K-Rauta Sweden named online store of the year in 2022

The building and home improvement market is a challenging one with specialised products, where stores often serve customers with demanding and unique needs. Finding the right products and methods of applications is essential for both the customer and the salesperson.

K-Rauta Sweden's online store did extremely well in PriceRunner's online store comparison, and was named the best online store in the building and home improvement category in 2022. An important part of the online shopping experience is smooth customer service and a range of delivery options.

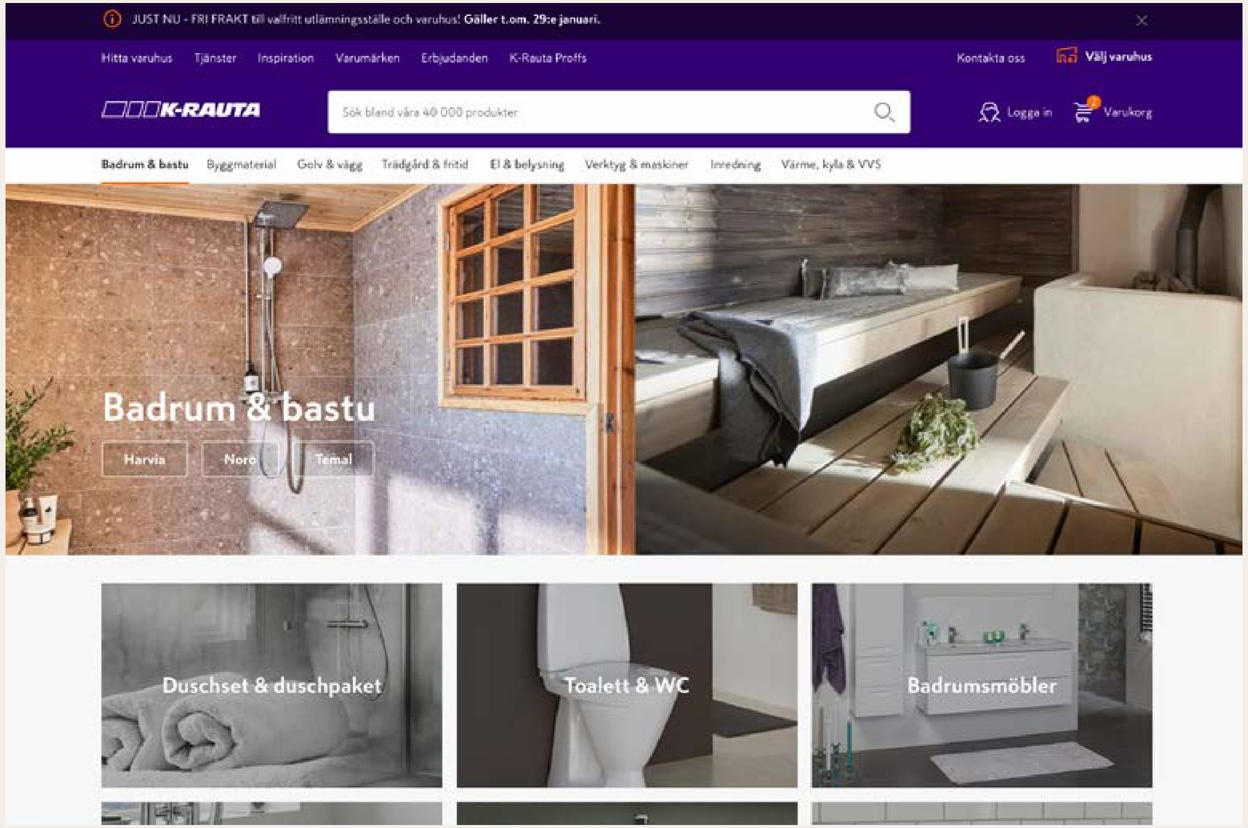
“First place shows that our efforts to improve customer experience have been successful. The product range, product information and comprehensive delivery services are essential factors in the customer experience,” says **Daniel Ahlqvist**, COO of K-Rauta Sweden.

“We have also increased the role and expertise of customer service, which enables us to guide and help customers in the right direction in all stages,” he continues.

PriceRunner uses mystery shoppers to assess how well an online store performs throughout the purchasing journey, from the selection of a correct product to its delivery and customer service. The selection also consists of a customer rating session in which K-Rauta.se gained an excellent score.

Synergies between the operating countries are used actively. The online stores in Finland, Sweden and Norway use the same platform, and are developed by a joint international development team, while the content, product range, pricing and logistics depend on the customer needs of each individual country.

This was the 18th time online stores in Sweden were ranked, with leading online stores in the country competing for first place in twenty different product groups and categories. The candidates were selected on the basis of customer recommendations.



CAR TRADE DIVISION IS A HERALD OF THE FUTURE

Digitalisation in car trade has taken a large leap forward in recent years. K-Auto aims to be the leader in digital car trade and car-related services. In 2022, K-Auto invested especially in the development of a digital customer management model and increasing the use of AI.

As the Finnish vehicle stock becomes more modern, networked cars will use new types of charging and maintenance services, and they will also offer services that support driving. K-Auto is a forerunner in the rapidly electrifying world of car purchasing, use and maintenance.

In car trade, the best customer experience, sales growth and operational efficiency are achieved utilising data and automation in a multitude of ways. In 2022, K-Auto continued to automate processes, build online sales capabilities, and make AI applications a part of day-to-day operations. K-Auto also increased its utilisation of Kesko's shared customer data.

70,000

instances of customer feedback analysed to develop our operations.

As with owning a car, managing customer relationships in car trade is a long-term commitment. Customer relationship management is based on data, enabling K-Auto to provide timely service for the situations and needs associated with vehicle ownership and use. Customer care models consist of services and customer interaction, from the buiyng of a car to selling or replacing it. Customer care models and customer satisfaction are improved by using data analytics and customer feedback.

The targeting accuracy of marketing has been improved by increasing the level of automation and adding new channels. Marketing is targeted according to customer behaviour, customer profile and the phase of the customer relationship lifecycle. The targeting and a special modelling feature that measures the desire to buy a new car utilise the customer data and customer behaviour data collected by K-Auto. The upgraded online sales features provide customers excellent opportunities to familiarise themselves with the cars, ask for further information from the salespersons, or even purchase a car completely online from the comfort of their home.

Basic car trade processes have already been digitalised to a large extent, which improves efficiency and saves time. Internal sales tools and agreement and order processes are electronic and for the most part automated. The process of selling a car is electronic from configuration to order, delivery and handover. The customer is provided with electronic services that are easy, useful and paperless.

As digital self-service gains ground, the role and competence requirements of sales personnel also change. When customers go online to view cars, compare them and plan their dream cars, salespersons need to be increasingly capable of providing solutions for the highly individual needs and wishes of the customers. These needs and wishes may relate to the technical characteristics of the car, its motive power, operating and maintenance costs, financing or insurance.

Case

Smart pricing for used cars

K-Auto uses analytics to support the pricing of used cars.

Kesko developed and launched an AI-based pricing tool for used cars in 2022. By using up-to-date and regional data on the demand, completed transactions and other trends associated with used cars, K-Auto can price and market the cars effectively.

The tool helps establish a sales price for each car that is as attractive as possible for the buyer and also at the right level from the perspective of K-Auto's business. The pricing tool makes the pricing of cars dynamic, which guarantees that the price is always up-to-date. In many cases, AI-assisted pricing has been able to evaluate the correct price better than a human.

"The pricing tool also gives us significant economies of scale. More than one-fifth of the sales in the car trade division come from used cars, and our selection has an average of 2,000 cars at all times," says **Ilkka Virtanen,** Vice President of the used cars business at K-Auto.

WORLD'S MOST DATA-RESPONSIBLE TRADING SECTOR OPERATOR

At Kesko, sustainability and corporate responsibility are a strategic choice integrated into day-to-day work. The responsible use of data means transparency, a high level of data protection, and creating common sustainable value.

Data responsibility at Kesko is based on protecting the individual's data and using it sustainably and transparently in business operations, while creating positive impacts on customers, stakeholders and the society. Trust in the execution of these factors is a key requirement for sharing data between an individual and the company.

Data enables positive impact

Kesko helps its customers in sustainable consumpion and in understanding and improving the climate impacts and healthiness of their purchases, as well as offering information on how much of the products are produced locally. We support customer wellbeing by providing information on the nutritional properties of food products. An understanding of the sustainability aspects and broader impacts of their purchasing behaviour helps customers make more sustainable choices in their daily lives.

Data-based forecasting and continuous selection optimisation help K-retailers significantly reduce food waste. Kesko's store properties and store fixtures and furniture allow us to continuously improve energy efficiency without degrading the conditions.

Responsible human-centred data use

The use of data and artificial intelligence are based on responsibility and ethical principles. Customer data is used for the benefit of the customer: for example, special offers, product recommendations and targeted communications 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. We process personal data carefully, securely and in compliance with the applicable rules and regulations. Comprehensive information about data use and life-cycle management is provided in the relevant register descriptions, and data protection requests are fulfilled comprehensively.

K Group's key data responsibility perspectives:

IMPACT	EXPLANATION
Climate and the environment	• Understanding the carbon intensity of personal consumption in the K-Ostokset service • Carbon footprint of products (currently at the product category level) • Other indicators and certificates for the environmental responsibility of individual food products (e.g. organic production, water footprint)
Supply chain	• Tracking how many personal purchases are Finnish products in the K-Ostokset service • Finnish origin of individual food products • Other social responsibility certification (e.g. Fair Trade) for individual food products
Suppliers	• Data offered by Kesko helps suppliers improve their own operations and security of supply and develop the product selection and new products. • Data connects local demand to local producers and their supply.
Wellbeing, health and safety	• Understanding the health and wellbeing profile of personal purchases in the K-Ostokset service • Comprehensive product information • Opportunities to include recommendations that increase personal wellbeing in the K-Ruoka/K-Ostokset services (e.g. smart shopping lists, recipes, products based on personal goals, product recommendations, inspiration)
Ethical AI	• Solid ethical principles and practices for using artificial intelligence, customer data and analytics (profiling, automatic decision-making, transparency)
Resource and material efficiency	• 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

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