FINANCIAL REVIEW

2023

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This report is a translation of the Finnish original.

REPORT BY THE BOARD OF DIRECTORS

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

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

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

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

Operating environment

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

Outlook and guidance for 2024

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

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

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

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

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

Financial performance

Net sales and profit 2023

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

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

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

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

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

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

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

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

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

Net finance costs, income tax and earnings per share

Net finance costs, income tax and earnings per share	1–12/2023	1–12/2022
Net finance costs, € million	-83.9	-56.0
Interests on lease liabilities, € million	-73.4	-68.4
Profit before tax, comparable, € million	630.4	763.2
Profit before tax, € million	613.5	761.1
Income tax, € million	-118.0	-151.2
Earnings per share, comparable, €	1.28	1.54
Earnings per share, €	1.25	1.53
Equity per share, €	6.93	6.90

The growth in Group net finance costs was impacted by the increase in interest-bearing net debt and rise in interest rate levels. In the comparison period, net finance costs were reduced by a positive change in the fair value of interest rate derivatives. The share of result of associates was €2.1 million (€0.6 million).

The Group's effective tax rate was 19.2% (19.9%).

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

Cash flow and financial position

Cash flow, € million	1–12/2023	1–12/2022
Cash flow from operating activities	1,049.5	915.2
Cash flow from investing activities	-590.2	-344.3
Cash flow from financing activities	-492.2	-604.7

Financial position	31 Dec. 2023	31 Dec. 2022
Liquid assets, € million	227.3	314.1
Interest-bearing liabilities, € million	2,787.0	2,418.3
Lease liabilities, € million	1,997.9	1,920.1
Interest-bearing net debt excl. lease liabilities, € million	561.9	184.1
Interest-bearing net debt/ EBITDA, excl. IFRS 16 impact	0.7	0.2
Gearing, %	92.8	76.7
Equity ratio, %	35.8	36.9

The Group's cash flow from operating activities totalled €1,049.5 million (€915.2 million).

The Group's cash flow from investing activities totalled €-590.2 million (€-344.3 million). Cash flow from investing activities included a positive item of €54.3 million (€36.8 million) from the redemption of money market funds, included in the Group's liquid assets.

The Group's net debt excluding lease liabilities increased due to investments in store sites and logistics, and acquisitions.

Capital expenditure

Capital expenditure, € million	1–12/2023	1–12/2022
Store sites	286.5	268.1
Acquisitions	141.1	50.1
IT	25.0	41.8
Other investments	226.3	89.2
Total	**678.9**	**449.2**

Capital expenditure in store sites increased by €18.4 million on the comparison period. In the comparison period, capital expenditure in store sites included the property of K-Citymarket Turtola in Tampere, €40.3 million: the ownership of the property was transferred to the Group as a result of a return of surplus assets by Kesko Pension Fund in March 2022. The investment did not have a cash flow impact.

Other capital expenditure included an investment of €90.1 million in the construction of Onninen and K-Auto's shared logistics centre in Hyvinkää, Finland. The construction project is expected to be completed in 2025.

Capital expenditure included the acquisition of Elektroskandia Norge AS in Norway, completed on 1 March 2023, the acquisition of Zenitec Sweden AB in Sweden, completed on 5 April 2023, and the acquisition of Geitanger Bygg AS in Norway, completed on 2 October 2023. Capital expenditure in the comparison period included the acquisitions of the Swedish Kungälvs Trävaruaktiebolag, Föllinge Såg AB, Djurbergs Järnhandel Aktiebolag and XL-BYGG Bergslagen AB, and the Norwegian Seljord Elektriske AS.

Segments

New segment structure

Kesko changed its division structure and segment reporting as of 1 April 2023. Sports trade is now part of the car trade division, while it previously was part of the building and technical trade division. Data concerning the comparison periods have been adjusted to correspond to the new segment structure.

Grocery trade

	1–12/2023	1–12/2022
Net sales, € million	6,351.6	6,124.7
Operating profit, comparable, € million	444.8	460.4
Operating margin, comparable, %	7.0	7.5
Return on capital employed, comparable, %	17.4	19.6
Capital expenditure, € million	303.7	257.6
Personnel, average	6,257	6,288

Net sales for the grocery trade division totalled €6,351.6 million (€6,124.7 million), an increase of 3.7%. Sales to K Group grocery store chains grew by 2.7%. Net sales for Kespro's foodservice business grew by 10.9%. Without Covid-19 restrictions, consumption was relatively more geared towards foodservice than retail than in the comparison period.

The total retail grocery market in Finland (incl. VAT) is estimated to have grown by approximately 6.0% (Finnish Grocery Trade Association PTY), and retail prices are estimated to have risen by some 9.0% (incl. VAT, Kesko's own estimate). K Group's grocery sales grew by 3.2% (incl. VAT). New store openings by competitors are estimated to have continued to impact market shares in 2023, but to a lesser extent than in 2022. Online grocery sales grew by 5.7%, and accounted for approximately 3.2% of K Group's grocery sales (incl. VAT). Online grocery sales have risen clearly above pre-pandemic levels. All K Group grocery store chains offer online grocery sales services. The number of K Group stores offering online grocery services was 729 at the end of the reporting period, up by 110 year-on-year. The total market for the foodservice business is estimated to have grown by 6.7% (Finnish Grocery Trade Association PTY). Kespro's market share is estimated to have continued to grow in 2023. The popularity of eating out is expected to be growing trend.

Net sales, € million	1–12/2023	1–12/2022	Change, %	Change, %, comparable
Sales to K-food stores	4,484.0	4,367.4	+2,7	+2,7
K-Citymarket, non-food	615.5	605.1	+1,7	+1,7
Kespro	1,154.9	1,041.3	+10,9	+10,9
Others	97.3	110.8	-12,1	-12,1
Total	**6,351.6**	**6,124.7**	**+3,7**	**+3,7**

The comparable operating profit for the grocery trade division totalled €444.8 million (€460.4 million), down by €15.6 million, weakened by campaigns and other marketing efforts as well as increased real estate costs. Profitability was improved by sales growth and good profitability in Kespro's foodservice business. Kespro's comparable operating profit totalled €75.0 million (€59.2 million). Operating profit for the grocery trade division totalled €443.6 million (€461.5 million). Items affecting comparability totalled €-1.3 million (€1.1 million).

Capital expenditure for the grocery trade division totalled €303.7 million (€257.6 million). Capital expenditure in store sites totalled €251.2 million (€230.5 million).

Building and technical trade

	1–12/2023	1–12/2022
Net sales, € million	4,193.2	4,591.1
Building and home improvement trade	1,912.1	2,377.2
Technical trade	2,344.7	2,286.2
Operating profit, comparable, € million	212.5	323.8
Building and home improvement trade	65.0	127.5
Technical trade	128.5	173.7
Kesko Senukai	19.0	20.9
Operating margin, comparable, %	5.1	7.1
Building and home improvement trade	3.4	5.4
Technical trade	5.5	7.6
Return on capital employed, comparable, %	11.4	19.1
Capital expenditure, € million	273.0	108.2
Personnel, average	6,073	5,871

Net sales for the building and technical trade division decreased by 8.7%, or by 10.5% in comparable terms. Net sales for technical trade increased by 2.6%, but decreased by 4.8% in comparable terms. Net sales for technical trade grew in Norway, underpinned by the Elektroskandia AS acquisition, but decreased in other operating countries. Net sales for building and home improvement trade decreased by 16.1% in comparable terms: net sales decreased in all operating countries, impacted by a weaker construction market year-on-year. Net sales development in euro terms was increased by the strengthening of the Polish zloty against the euro, and decreased by the weakening of the Swedish krona and the Norwegian krone against the euro.

In Finland, net sales for the building and technical trade division totalled €2,115.0 million (€2,382.3 million), down by 11.2%. Net sales from international operations totalled €2,078.2 million (€2,208.8 million), down by 5.9%, or by 9.8% in comparable terms.

The comparable operating profit for the building and technical trade division totalled €212.5 million (€323.8 million), down by €111.4 million. The comparable operating profit decreased in all operating countries primarily as a result of the decrease in net sales. In addition to the decrease in net sales, profitability for technical trade was impacted by Elektroskandia, where profitability was below that of the rest of the business, burdened by a €2.0 million expense recorded for the allocation of fair value of inventories. In Finland, profitability for Onninen and building and home improvement trade remained good. The share of result from Kesko Senukai had a €1.9 million negative impact on the division's comparable operating profit year-on-year.

Operating profit for the building and technical trade division totalled €201.9 million (€324.8 million). Items affecting comparability totalled €-10.5 million (€0.9 million). The most significant items affecting comparability were related to the reorganisation of the K-Rauta chain in Sweden, in which the Swedish building and home improvement trade operations will be concentrated in the K-Bygg chain, and to acquisitions.

Capital expenditure for the building and technical trade division totalled €273.0 million (€108.2 million). Capital expenditure included an investment of €90.1 million in the construction of Onninen and K-Auto's shared logistics centre in Hyvinkää, Finland. The construction project is expected to be completed in 2025. Capital also expenditure included the acquisition of Elektroskandia Norge AS in Norway, completed on 1 March 2023, the acquisition of Zenitec Sweden AB in Sweden, completed on 5 April 2023, and the acquisition of Geitanger Bygg AS in Norway, completed on 2 October 2023. Capital expenditure in comparison period included the acquisitions of the Swedish Kungälvs Trävaruaktiebolag, Föllinge Såg AB, Djurbergs Järnhandel Aktiebolag and XL-BYGG Bergslagen AB, and the Norwegian Seljord Elektriske AS.

Net sales, € million	1–12/2023	1–12/2022	Change, %	Change, %, comparable
Building and home improvement trade, Finland	937.6	1,126.7	-16.8	-16.8
K-Rauta, Sweden	149.8	189.1	-20.8	-14.5
K-Bygg, Sweden	280.0	352.8	-20.6	-19.7
Byggmakker, Norway	547.6	711.4	-23.0	-13.4
Building and home improvement trade, total	1,912.1	2,377.2	-19.6	-16.1
Technical trade, Finland	1,234.0	1,319.0	-6.4	-6.4
Technical trade, Sweden	132.8	147.0	-9.7	-10.7
Technical trade, Norway	517.5	346.5	+49.3	+4.3
Technical trade, Baltics	129.1	130.8	-1.3	-1.3
Technical trade, Poland	336.9	349.2	-3.5	-6.5
Technical trade, total	**2,344.7**	**2,286.2**	**+2.6**	**-4.8**
Total	**4,193.2**	**4,591.1**	**-8.7**	**-10.5**

Car trade

	1–12/2023	1–12/2022
Net sales, € million	1,262.3	1,124.8
Car trade	1,078.6	910.9
Sports trade	183.9	214.0
Operating profit, comparable, € million	82.6	64.3
Car trade	73.1	48.4
Sports trade	9.5	16.0
Operating margin, comparable, %	6.5	5.7
Car trade	6.8	5.3
Sports trade	5.1	7.5
Return on capital employed, comparable, %	15.8	14.7
Capital expenditure, € million	80.3	45.1
Personnel, average	1,531	1,519

Net sales for the car trade division increased by 12.2%, or by 13.9% in comparable terms. Net sales grew in all car trade segments. Net sales for sports trade decreased by 14.1%.

The combined market performance of first registrations of passenger cars and vans was +6.2%. The combined market share of the Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen vans imported by the car trade division was 15.1% (14.1%).

The comparable operating profit for the car trade division totalled €82.6 million (€64.3 million). The comparable operating profit increased in the car trade segments by €24.7 million thanks to net sales growth and transformation and efficiency improvement measures. In sports trade, comparable operating profit decreased due to the decline in net sales.

Operating profit for the car trade division totalled €82.4 million (€63.9 million). Items affecting comparability totalled €-0.1 million (€-0.4 million).

Capital expenditure for the car trade division totalled €80.3 million (€45.1 million).

Net sales, € million	**1–12/2023**	**1–12/2022**	**Change, %**	**Change, %, comparable**
Car trade	1,078.6	910.9	+18,4	+20,7
Sports trade	183.9	214.0	-14,1	-14,1
Total	**1,262.3**	**1,124.8**	**+12,2**	**+13,9**

Changes in Group composition

Kesko acquired Kungälvs Trävaruaktiebolag in Sweden on 1 March 2022, Seljord Elektriske AS in Norway on 1 June 2022, Föllinge Såg AB and Djurbergs Järnhandel Aktiebolag in Sweden on 1 September 2022, and XL-BYGG Bergslagen AB in Sweden on 1 October 2022. During the financial year, subsidiary mergers were carried out in Finland, Sweden and Norway in an effort to streamline Group structure.

Main objectives and results achieved in sustainability

Financial value creation

Kesko's operations create value and generate economic benefits for various stakeholders in Kesko's operating countries and markets. Key stakeholders include shareholders, customers, personnel, retailers, suppliers and service providers, and the society. Kesko promotes the growth of wellbeing throughout its supply chain, also in developing countries.

The most important cash flows comprise revenue from sales of goods and services to customers and retailers, purchases from suppliers of goods and services, dividends paid to shareholders, salaries and wages paid to personnel, taxes, and capital expenditure. Kesko employs 17,702 people and in 2023 paid €629.8 million in wages. In 2023, income taxes paid by Kesko in Finland totalled €104.3 million, and in other countries €10.0 million. Kesko also pays real estate and property taxes, and collects, reports and remits indirect taxes, such as value added tax and excise duties. Kesko's investments have a positive financial impact on e.g. operators in the construction sector and furniture, equipment and data system providers. Kesko's capital expenditure in 2023 totalled €678.9 million. At the end of 2023, Kesko had 105,550 registered shareholders, and dividends distributed for the year 2022 totalled €430 million.

Kesko's business model is described at the beginning of this Report by the Board of Directors. Risks related to climate change, social and employee issues, human rights, and the prevention of corruption and bribery are described in the 'Significant risks and uncertainties' section of the report.

Operating principles, key commitments and policies

Kesko's operations are based on its value "The customer and quality – in everything we do", and its vision and mission. Key Group-level policies that guide operations include the governance policy, human resources policy, sustainability policy, risk management policy, disclosure policy, data protection policy, information security policy, and tax policy.

Kesko is committed to promoting the UN's Sustainable Development Goals (SDGs) in its operations. For Kesko and its stakeholders, the main goals are Responsible consumption, Climate action, Life on land, Gender equality, and Decent work and economic growth.

Kesko first published a statement of commitment on human rights and impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights in 2016. Kesko reviews the commitment and impact assessment every three years, most recently in the autumn of 2022.

Sustainability strategy 2022–2024

Sustainability is one of the key focus areas in Kesko's strategy. Sustainability work is guided by Kesko's sustainability policy, sustainability strategy, and the K Code of Conduct. The Board of Directors of Kesko Corporation approved a sustainability strategy for the company in March 2022. The strategy is based on the extensive materiality assessment updated in 2021, in which stakeholders were asked to provide their views on key sustainability themes for Kesko and its stakeholders.

The sustainability strategy sets sustainability targets for Kesko and its business divisions. The four focus areas of the sustainability strategy are climate and nature, value chain, people, and good governance. The sustainability vision is to enable sustainable choices for customers and drive change throughout the value chain.

Sustainability reporting and sustainability indices

Since 2000, Kesko has reported on its actions in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The Sustainability section of Kesko's Annual Report is prepared in accordance with the GRI Standards: Core option, and covers the key areas of economic, social, and environmental responsibility. Kesko's sustainability principles, management, objectives, processes and results are described in more detail in the Sustainability section of the Annual Report.

Kesko is listed on several sustainability indices, the most significant of which are the Dow Jones Sustainability Indices the DJSI World and DJSI Europe, CDP, MSCI ESG Ratings, and Sustainalytics.

In December 2023, Kesko was ranked the best European company in its sector (Consumer Staples Distribution & Retail) in the Dow Jones Sustainability Indices the DJSI World and the DJSI Europe. In the global DJSI World, Kesko ranked fourth in its sector.

In December 2023, Kesko received a rating of AAA (scale AAA-CCC) in the MSCI ESG Ratings assessment. MSCI ESG Research gives MSCI ESG sustainability ratings to listed and certain private companies. The ratings are based on industry-specific ESG risks and how well corporations are managing them compared to their peers.

In January 2024, Kesko ranked 29th overall (74th in 2023) on the Global 100 list of the Most Sustainable Corporations in the World, and the highest among companies in its sector (Consumer Staples). Kesko is the only company in the world to have been included in the Global 100 list every year since the list was first established in 2005.

Climate and nature

In accordance with its sustainability strategy, Kesko concentrates on reducing carbon dioxide emissions from its own operations and its whole value chain. Central to Kesko's climate and nature efforts are also the company's impacts on biodiversity and in terms of circular economy, especially responsible packaging and reduction of food waste.

Emissions from Kesko's own operations

Kesko aims for its own operations to be carbon neutral by 2025, and free of emissions by the end of 2030. In between 2025 and 2030, Kesko will offset its remaining emissions and will continue to reduce emissions towards zero by the end of 2030.

In Kesko's own operations, emissions (Scope 1 and 2) mostly come from fuel consumption in transport and logistics operations, and the consumption of district heat. In addition, emissions arise from Kesko's own generation of electricity and heat, refrigerant leaks, and the consumption of purchased electricity. Emissions from Kesko's own operations are estimated to account for 1% of the total value chain carbon dioxide emissions.

Kesko promotes the achievement of emissions targets by, for example, increasing the purchase of emissions-free electricity, reducing the use of natural gas and oil to decrease emissions from self-generated energy, improving energy efficiency, utilising waste heat, and increasing electric transport vehicles in logistics.

The electricity consumed by Kesko in Finland is free of carbon dioxide emissions, and for the most part generated using nuclear and wind power. In Finland, Kesko's electricity consumption in Q4/2022–Q3/2023 totalled 278 GWh. The consumption of heat and cooling energy totalled 214 GWh. In Kesko's other operating countries, electricity consumption totalled 33 GWh and heat consumption 12 GWh. Kesko's consumption of electricity and heating and cooling energy in all operating countries in total amounted to 537 GWh in Q4/2022–Q3/2023.

Emissions from value chain

Kesko is committed to mitigating climate change by setting science-based short-term emission reduction targets. The short-term targets validated by the Science Based Targets initiative (SBTi) are as follows:

- Kesko has committed to reducing absolute scope 1 and 2 GHG emissions by 90% by the end of 2030 from a 2020 base year.
- Kesko has committed to 67% of its suppliers (by spend, covering purchased goods and services) setting science-based emission reduction targets by the end of 2026.
- Kesko has also committed to reducing absolute scope 3 GHG emissions from the use of sold products by 17% by the end of 2026 from a 2020 base year.

In autumn 2023, Kesko committed to setting new long-term emission reduction targets and to reducing emissions throughout its value chain in accordance with the NetZero Standard of the Science Based Targets initiative. Kesko is seeking SBTi validation also for its new net-zero target.

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

Biodiversity

Kesko aims to prevent the loss of biodiversity in both its own operations and its value chain. In autumn 2023, Kesko initiated preparations for a biodiversity roadmap. As part of the roadmap, Kesko is setting targets for the biodiversity impacts of its own operations and value chain.

Circular economy

Kesko is strengthening circular economy operating models with the objective that by the end of 2025, all packaging used in Kesko's private label products will be either recyclable or reusable. Kesko also aims to halve the amount of food waste by 2030.

Climate-related opportunities and risks

In 2022, Kesko examined climate change-related risks and opportunities in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. The impacts of climate change are twofold:

- The impacts of climate change on Kesko are related to increasing regulation and extreme weather phenomena.
- The impacts of Kesko's operations on the climate are related to the lifecycle impact of products and services sold, and Kesko's energy solutions and emissions.

Opportunities

In addition to emissions from own operations, the biggest climate impact in the trading sector comes from emissions from the value chain of products. In addition to its own operations, Kesko extends emission reduction targets to its whole value chain.

All Kesko divisions can offer customers solutions that help them reduce their climate impact, as living, food and mobility are the biggest sources of greenhouse gases in private consumption.

Risks

The most significant risk is that climate action on a global scale stays at the current level, attempts to mitigate climate change fail, and as a result, extreme weather phenomena, such as powerful storms and extended periods of high temperatures in the summer, will increase. The impact of global warming on Finnish and global production areas and consequently on product availability, quality and prices could become critical factors for supply chain continuity and product availability.

Key targets	Indicators	Results in 2023
Achieving carbon neutrality in 2025 and making Kesko's own operations emissions-free by the end of 2030.	Carbon dioxide emissions (tCO_2e)	Kesko's own (scope 1 and 2) carbon dioxide emissions in Q4/2022–Q3/2023 totalled 75,138 tCO_2e.
Having 67% of Kesko's suppliers (by spend) set science-based emission reduction targets by the end of 2026.	% of suppliers	Kesko monitors progress mainly via CDP's Climate Change Questionnaire. In 2023, 32.0% of Kesko's suppliers (by spend) had set science-based emission reduction targets.

Value chain

Kesko is developing sustainability and responsibility in its value chain by, for example, supporting customers' sustainable choices and increasing supply chain audits. The sustainability and transparency of supply chains is one of the focus areas for Kesko's sustainability work.

Human rights and sustainable purchasing

In accordance with its human rights commitment, Kesko respects all internationally recognised human rights. Kesko's purchasing is guided by Kesko's ethical principles for purchasing, which are based on the fundamental rights at work accepted by the International Labour Organisation (ILO), the UN Declaration of Human Rights, and the UN Convention on the Rights of the Child.

Kesko has 12 sustainability policies to guide the sourcing of products containing raw materials identified as critical from a social and environmental responsibility perspective.

In its purchasing chains, Kesko pays special attention to human rights issues and working conditions in high-risk countries. Kesko utilises international social responsibility assessment systems for supplier audits in high-risk countries, primarily amfori BSCI auditing. Kesko is a member of amfori and participates in the amfori Business Social Compliance Initiative (amfori BSCI). Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits, or that start the process when the cooperation begins. The audits focus on e.g. the observance of working time regulations, management practices at factories, and occupational health and safety of the workers.

Kesko takes part in the International Accord for Health and Safety in the Textile and Garment Industry to promote occupational health and safety in textile factories in Bangladesh. Kesko is also a member of the Center for Child Rights and Business, an organisation that promotes children's rights in China.

Product safety

Kesko and K Group stores together with suppliers are responsible to the products' end-users for ensuring that the products comply with all the requirements of EU legislation and local legislation in Kesko's operating countries, are safe for users, and meet quality promises. All food product operations have a self-control system in place as required by law.

The Quality and Product Development unit in Kesko's grocery trade division requires the manufacturers of Kesko's own brand food products to have international certifications that assure product safety. The laboratory of the Quality and Product Development unit monitors the safety and quality of own brand products and own imports in grocery trade. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

Key targets	Indicators	Results in 2023
Ensuring the social responsibility of our own direct imports from high-risk countries by having 100% of the production facilities audited by 2024	Audited production facilities, %	97.0%

People

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

Kesko's HR management is guided by its human resources policy, the K Code of Conduct, sustainability strategy, and common operating principles. Kesko's human resources policy is based on the company's mission, vision, strategy, value and responsible operating and management principles. The purpose of the human resources policy is to ensure that skilled and committed employees who are familiar with both their personal goals and Kesko's direction form a foundation for the achievement of good and sustainable financial results. Kesko respects internationally recognised human rights and complies with the ILO fundamental principles.

Personnel	1–12/2023	1–12/2022
Women	5,868	5,914
Men	8,877	8,699
Other/unknown	20	20
Average number of personnel converted into full-time employees	**14,766**	**14,633**

	31 Dec. 2023	31 Dec. 2022
Personnel at the end of the reporting period		
Women	7,360	7,477
Men	10,319	10,349
Other/unknown	23	15
Finland	12,384	12,665
Other countries	5,318	5,176
Total	**17,702**	**17,841**

Diversity in the workplace

In the sustainability strategy, key themes in the 'People' focus area include diversity, equity and inclusion (DEI). In 2023, Kesko set DEI targets for increasing the share of women in management positions, for equal pay, and for measuring employee views on the realisation of equity. In accordance with its non-discrimination plan, Kesko has established a group comprising representatives of the employer, personnel and the labour protection function, to handle matters related to non-discrimination and equality within the Group. Combatting discrimination is at the core of the group's activities. The group reviews matters related to e.g. recruitment, career development and training, remuneration, and the reconciliation of work and family life.

Employee wellbeing and success

Proactive management of employee wellbeing and working capacity has been used in an effort to ensure the working capacity and functioning of employees, to keep sickness absences under control, and to prevent work-related accidents and premature retirement due to disability. Focus on mental wellbeing has continued to be particularly central.

Personnel surveys are used to obtain personnel insight to develop operations and managerial work. The Group-wide K Voices survey was conducted in late 2023 and early 2024.

To ensure the execution of Kesko's strategy, the Group employs performance and competence management models. Performance management comprises target setting, continuous performance management, and performance evaluation. Competence management is used to ensure that employees have the necessary competencies to achieve targets and execute strategy. Competence development takes place via training, development processes, and extensive on-the-job learning. Recruitments are based on strategy and need, an approved resourcing plan, and identified change projects. In recruitments, Kesko is committed to equality, non-discrimination and selection based on factors that predict success at a position.

Key targets	Indicators	Results in 2023
Tangible actions to promote employee health, wellbeing and capabilities by the end of 2024	Wellbeing index Diversity & inclusion index	81 (scale of 0 to 100, Our people 2022 survey) 86 (scale of 0 to 100, Our people 2022 survey)

Good governance

Key elements of good governance include compliance with the K Code of Conduct, increasingly linking sustainability to management remuneration, and strengthening the sustainability competencies of the whole personnel.

Compliance

To ensure compliance in Kesko Group's operations, Kesko implements the K Compliance operating model confirmed by its Board of Directors, based on the K Code of Conduct that applies to the whole Group and all partners. Kesko's Compliance & Ethics function manages measures in accordance with the K Compliance operating model, and reports to Kesko's President and CEO and the Board's Audit Committee.

The practical implementation of the K Compliance operating model is supported by the K Compliance programmes confirmed by Kesko's President and CEO, which cover data protection, competition law, anti-corruption and anti-bribery, and trading sanctions and monitoring exports. The systematic implementation of the programmes ensures Kesko's compliance with operating principles, legislation, and other requirements. In 2023, the focus areas for Kesko's K Compliance operations included training personnel and conducting compliance audits in accordance with the annual plan. Over 1,400 people participated in targeted training, and employees completed over 12,500 online compliance training sessions.

Kesko's SpeakUp is a confidential reporting channel open to anyone. Maintaining the channel is a central part of Kesko's K Compliance operations. The channel is meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to managers or other persons in charge at Kesko. The channel may also be used to report suspected violations of securities market regulations. In 2023, a total of 78 reports were received through the channel, of which 67 required investigative actions. No misuse of the channel was detected. In December 2023, the channel was officially updated to cover the whole K Group.

The Audit Committee of the Board of Directors monitors the implementation of the K Compliance operating model as well as Group-level compliance risks. The Audit Committee also monitors the overall development of K Compliance operations.

Emphasis in compliance operations is driven by the identification of compliance risks related to Kesko's strategy and business operations. The Compliance & Ethics function and the businesses regularly review and prioritise risks, with the support of the risk management function. In the assessment of compliance risks, there is an emphasis on requirements the breach of which could have significant negative consequences, for example, human rights violations or serious legal, financial and reputational risks.

Prevention of corruption and bribery

The prevention of corruption and bribery is one of the focus areas of Kesko's compliance operations.

Kesko Group's absolute zero tolerance towards bribery and corruption is described in the K Code of Conduct, which contains instructions on anti-bribery and anti-corruption. Where necessary, these are complemented with more detailed instructions. Each employee must complete two online trainings on the K Code of Conduct, which include instructions on the prevention of corruption and bribery.

Common instructions and training ensure that everyone at Kesko has the same understanding of the anti-corruption and anti-bribery principles and practices that guide their daily work. The anti-corruption and anti-bribery instructions have been published in the languages of all Kesko operating countries, and the same instructions apply to all employees. All Kesko partners are required to commit to compliance with the K Code of Conduct partner version – and consequently to zero tolerance towards bribery.

Reports received through Kesko's SpeakUp channel in 2023 did not contain observations or suspicions of breaches of instructions on anti-corruption and anti-bribery in Kesko Group.

All Kesko Group personnel members are asked annually to confirm their commitment to compliance with the K Code of Conduct.

An updated K Code of Conduct (both the personnel and the partner versions) will be published in all operating country languages in spring 2024.

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

As part of the sustainability strategy, Kesko's Board of Directors has set sustainability-related criteria for Kesko's share-based commitment and incentive plans (Performance Share Plans, PSP), namely the PSP 2022–2025 and the PSP 2023–2026. In addition to financial indicators, the share award plan includes targets linked to emission reductions and international sustainability indices and assessments. The sustainability targets concern years 2022 and 2023.

Financing linked to sustainability targets

Kesko has drawn down five bilateral loans, which combined total €650 million. The interest margin of these loans accounts for Kesko's sustainability targets for its carbon footprint and food waste, and in the value chain, emission reduction targets set by Kesko's direct suppliers of goods and services.

Key targets	Indicators	Results in 2023
Strong commitment to the K Code of Conduct from all Kesko Group personnel.	The "Ethics index", which comprises the rate of employees completing the annual confirmation of commitment to the K Code of Conduct, and two questions in the regularly conducted personnel survey concerning actions in compliance with the K Code of Conduct in everyday work and the reporting of violations	79.3% (K Voices 2021, K Code of Conduct annual confirmation in 2022)

New EU Corporate Sustainability Reporting Directive (CSRD)

The Directive (EU) 2022/2464 of the European Parliament and of the Council (issued on 14 December 2022) will replace the Non-Financial Reporting Directive (NFRD). Large listed companies are required to report under the new sustainability reporting directive from the 2024 financial year onwards. The first reports will be published in 2025 as part of the Report by the Board of Directors to be published for 2024. As a large listed company, Kesko will be among the first corporations to report on sustainability based on the requirements of the new Legislation.

Companies subject to the reporting requirement must report on sustainability themes in accordance with the European Sustainability Reporting Standards (ESRS). The European Commission adopted the standards on 31 July 2023. The standards comprise a wide range of sustainability themes related to the environment, social responsibility, and governance. There are in total 12 standards, two of which are mandatory for all companies and relate to general information regarding reporting requirements and the application of the standards, as well as general disclosure on e.g. sustainability management, strategy, business model and value chain. The remaining 10 standards concern sustainability themes related to environment, social, and governance. An essential part of the new requirements is conducting a materiality assessment to determine the scope of the company's reporting based on the sustainability matters that are material to the company and its business model. In the materiality assessment, the company assesses the impact its actions have on people and the environment, as well as the risks and opportunities for the company arising from social and environmental factors.

The objective of the new legislation is to provide a uniform framework for companies to disclose information on sustainability and to provide information of higher quality and reliability for investors and other stakeholders. Going forward, sustainability information will be reported as part of the Report by the Board of Directors, which the Board approves when approving the financial statements. The assurance of the sustainability information reported will also become mandatory.

In 2023, Kesko began preparations for the implementation of the requirements posed by the new directive. Kesko will be applying the requirements of the European Sustainability Reporting Standards (ESRS) in its sustainability reporting as of 2024. A central part of the preparation process has been conducting the double materiality assessment required by the ESRS to determine the reporting requirements material for Kesko. A draft of Kesko's double materiality assessment and its impact on the content of the upcoming CSRD-compliant sustainability report have been analysed to identify further measures in preparing for the implementation of the new reporting requirements. In addition, preliminary drafts have been presented to business and Group management and the Board's Audit Committee.

EU Taxonomy

Kesko's reporting on EU Taxonomy complies with Regulation (EU) 2020/852 of the European Parliament and of the Council (18 June 2020). The EU Taxonomy is a classification system for sustainable financing, designed to help companies and investors assess whether an economic activity can be considered environmentally sustainable. The Taxonomy defines a set of criteria for a business activity that enables companies to assess to what extent the company's activities support the attainment of environmental and climate objectives.

Companies that are required to publish non-financial information under the Non-Financial Reporting Directive (NFRD) shall disclose information on how and to what extent their activities can be deemed environmentally sustainable in the manner referred to in the EU Taxonomy based on six climate and environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Activities related to the first two objectives – climate change mitigation and climate change adaptation – were reported in stages in 2021 and 2022 based on the technical screening criteria established for them. In 2021, the reporting requirement covered Taxonomy-eligible activities. In 2022, reporting expanded to cover the share of Taxonomy-eligible activities that can be classified as Taxonomy-aligned sustainable activities.

Economic activities and the technical screening criteria related to the other four environmental objectives were published in 2023. As with the first two environmental objectives, for the first year, the reporting requirement covers information on Taxonomy-eligible activities, and will expand in 2024 to cover Taxonomy-aligned activities. Key performance indicators are presented for Taxonomy-eligible activities and Taxonomy-aligned activities. These indicators are the proportion of the company's net sales (turnover), capital expenditure (CapEx), and operating expenditure (OpEx) as defined in the Taxonomy.

Currently, the Taxonomy does not specifically mention activities that are typical of the trading sector, meaning that trading sector companies report on Taxonomy-eligible activities if they engage in them. It is likely that the Taxonomy will include an expanding number of activities, and that assessment criteria will be established consequently also for the trading sector and possibly for its different product segments.

Taxonomy-eligible activities and assessing Taxonomy alignment

Kesko has identified the car leasing operations and sales of used cars in its car trade division and the owning, leasing and construction of properties for own business needs as Taxonomy-eligible activities in its operations. Of these, the used car business in the car trade division is one of the activities related to the circular economy (sale of second-hand goods), which was included in Taxonomy-eligible activities in 2023.

With each Taxonomy-eligible activity, Kesko has assessed its Taxonomy alignment. Taxonomy alignment has been determined by assessing whether an activity significantly contributes to at least one of the climate and environmental objectives. The assessment of Taxonomy alignment is made based on the technical screening criteria applied for each activity. In addition to meeting said criteria, Kesko has confirmed that the activity does not cause significant harm to the other climate and environmental objectives referred to in the Taxonomy Regulation, using the separate DNSH ('Does Not Significantly Harm') criteria, and that minimum safeguards under the Taxonomy Regulation are met.

Kesko has examined the implementation of minimum safeguards in relation to human rights, corruption and bribery, fair competition, and taxation. The aforementioned areas of minimum safeguards and related Kesko operating instructions and measures are described in more detail in this report in the sections 'Human rights and sustainable purchasing', 'Compliance' and 'Prevention of corruption and bribery'. Based on its review, Kesko assesses that minimum safeguards are in place in Kesko's operations.

The following table presents the activities identified by Kesko as Taxonomy-eligible, and Kesko's assessments of their Taxonomy alignment. Kesko does not have Taxonomy activities related to gas or nuclear power.

Taxonomy activity		Activity description	Performance indicators: Turnover	Performance indicators: CapEx	Assessment of Taxonomy alignment
CCM 6.5	Transport by motorbikes, passenger cars and light commercial vehicles	Purchase, financing, renting, leasing and operation of vehicles designated as category M1, N1 or L. The activity includes leasing operations in the car trade division.	√	√	In 2022, Kesko presented some of the net sales and CapEx of the car leasing business as Taxonomy-aligned. In 2023, Kesko continued to examine the technical screening criteria for the activity. The activity includes as part of the 'does not significantly harm' criteria the requirement that vehicle tyres must comply with the best possible external rolling noise class. As information on the external rolling noise class of the vehicle tyres is not available, it is not possible to determine the Taxonomy alignment of the vehicles. The data for 2022 has been adjusted accordingly, and Kesko does not report the vehicles as Taxonomy-aligned.
CCM 7.1	Construction of new buildings	The construction of buildings for residential and non-residential use. The activity includes building projects developed by Kesko for its own use. These are mainly new store and logistics properties.		√	An energy-efficiency value (E-value) is determined during the planning stage of a new building construction project, which must be at least 10% lower than the nationally set threshold. An assessment of a building's Taxonomy alignment is made during the planning stage. The realisation of the E-value is confirmed when the building is completed.
CCM 7.2	Renovation of existing buildings	Extensive repairs to existing buildings. Extensive repairs in properties owned by Kesko and in leased properties where Kesko is responsible for basic repairs.		√	Building renovations comply with the requirements applied to major renovations. Projects have not been deemed Taxonomy-aligned, as the 'do no significant harm' criteria for Taxonomy alignment related to activity 7.2 have not been met.
CCM 7.3	Installation, maintenance and repair of energy efficiency equipment	Individual renovation measures related to energy efficiency equipment, such as adding insulation to parts of existing buildings, energy efficient replacements for external doors and windows, installing energy efficient light sources, and the installation, maintenance, repair and replacement of ventilation equipment with efficient technologies. The activity mainly includes the above-mentioned renovation measures in Kesko store sites where Kesko is the lessee.		√	Capital expenditure in energy efficiency mainly includes capital expenditure in LED lighting in properties where Kesko is a lessee. In order to meet the substantial contribution criteria for activity 7.3, a light source must be in the top two energy categories. The LED lighting used in Kesko's projects does not meet the Taxonomy alignment criteria.
CCM 7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings	The installation, maintenance and repair of charging stations for electric vehicles in buildings and parking spaces attached to buildings. The activity covers Kesko's K-Lataus stations in Finland and charging stations installed at store sites in Kesko's other operating countries.		√	The installation of charging stations for electric vehicles does not include separate substantial contribution criteria. All capital expenditure related to the activity is classified as Taxonomy-aligned.
CCM 7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	The installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings. The activity covers the above-described capital expenditure in properties where Kesko is a lessee.		√	The activity concerning the installation of instruments and devices for measuring, regulation and controlling energy performance of buildings does not include separate substantial contribution criteria when the activity consists of individual measures listed in the Taxonomy regulation. All capital expenditure related to the activity are classified as Taxonomy-aligned.

Taxonomy activity		Activity description	Performance indicators Turnover	 CapEx	Assessment of Taxonomy alignment
CCM 7.7	Acquisition and ownership of buildings	Buying real estate and exercising ownership of that real estate. The activity includes properties acquired during the reporting period, and the amounts of right-of-use assets recognised in the balance sheet based on lease agreements for properties. Moreover, capital expenditure in properties owned by Kesko in line with the above-mentioned activities 7.3 and 7.5 and activity 7.6 'Installation, maintenance and repair of renewable energy technologies' have been included in activity 7.7 'Acquisition and ownership of buildings'.		√	For buildings built after 2020, the assessment of Taxonomy alignment has been made based on the climate change mitigation substantial contribution criteria of activity 7.1. 'Construction of new buildings'. A building built during or before 2020 must have at least a category A energy certificate, or the building must be in the top 15% in the region in terms of primary energy demand. The assessment method is mainly applied to leased properties.
CE 5.4	Sale of second-hand goods	The sale of second-hand goods that have been used for their intended purpose before by a customer. In Kesko, the sale of second-hand goods includes the used car business in the car trade division.	√		The sale of second-hand goods is one of the circular economy activities. Activities and related technical screening criteria were published for circular economy in 2023. In the first year, the reporting requirement covers Taxonomy-eligible activities, and Taxonomy alignment will be assessed in upcoming years.

Kesko's Taxonomy-eligible turnover comprises the car leasing business and sales of used cars to customers in the car trade division. In 2022, vehicles were identified in the car leasing business that were presented as Taxonomy-aligned based on the criteria for climate change mitigation. To meet the criteria, vehicles must have zero or low (lower than 50 g CO_2/km) emissions. To qualify as Taxonomy-aligned, the vehicles also must do no harm to the attainment of the other climate and environmental objectives. In 2022, turnover reported as Taxonomy-aligned accounted for 0.0%, or €4.3 million, of total Group net sales. Vehicles reported as Taxonomy-aligned accounted for 1.1%, or €8.3 million, of the total Group CapEx. In 2023, Kesko continued to examine the DNSH criteria for the car leasing business in particular. The criteria for pollution prevention and control includes the requirement that vehicle tyres must comply with the best possible external rolling noise class. The technical documentation for the vehicles available to Kesko does not contain information on the external rolling noise class of the vehicle tyres, and therefore all Taxonomy criteria for taxonomy-alignment cannot be determined. In its 2023 reporting, Kesko has adjusted comparison data for 2022, and does not present a portion of the turnover and CapEx for the car leasing business as Taxonomy-aligned.

Kesko owns and leases properties in all operating countries for business purposes. The Group uses some 1,500 owned or leased retail, logistics and office properties. Capital expenditure in real estate accounted for 59.5% (63.9%) of the Group's gross capital expenditure in 2023. Properties are a source of emissions (Scope 1) from the Group's own operations, and improving the energy efficiency of properties and transitioning to the use of emissions-free and renewable energy reduce the climate impact from own operations. The Taxonomy technical screening criteria related to owning, constructing and renovating buildings have been taken into account in Kesko's internal instructions used when planning and executing investment projects.

Real estate operations are not a primary business for Kesko, and therefore there are alternative ways to apply Taxonomy activities and technical screening criteria. In 2022, Kesko presented also construction projects for new buildings as part of the Taxonomy activity 7.7 Acquisition and ownership of buildings. In the 2023 reporting, Kesko makes a change and presents new construction projects in which Kesko acts as a developer and makes decisions regarding construction details, under the Taxonomy activity 7.1 Construction of new buildings. With this change, Kesko follows the construction sector practice for reporting new construction projects. In addition, classification has been specified with regard to other real estate operations compared to 2022, and comparison data for 2022 have been adjusted accordingly.

The Group's Taxonomy-eligible capital expenditure includes investments in new store sites and logistics properties, investments in building improvement measures, and investments in lighting, machinery and equipment to improve the energy efficiency of buildings, and automation for measuring and monitoring energy efficiency. In addition, Taxonomy-eligible CapEx includes charging equipment for electric vehicles and investments in vehicles for the leasing operations of the car trade division. Land areas are not classified as Taxonomy-eligible CapEx.

EU Taxonomy performance indicators

Kesko presents the performance indicators for turnover, capital expenditure (CapEx) and operating expenditure (OpEx) in accordance with the tables determined for non-financial undertakings in the Taxonomy Regulation. The tables for the performance indicators show the proportion of turnover, capital expenditure and operating expenditure derived from economic activities in line with the Taxonomy.

Performance indicator accounting policy

Turnover

When calculating the performance indicator for turnover, Kesko applies the same IFRS accounting principles as it does in the consolidated financial statements. The accounting principles for revenue recognition are presented in Note 2.1 of the consolidated financial statements. The net sales figure used in calculating the turnover performance indicator is the Kesko Group net sales presented in the income statement. The Taxonomy-eligible turnover is the share of total Group net sales that comes from Taxonomy-eligible activities. In Kesko's business operations, car leasing operations and used car sales in the car trade division have been identified as Taxonomy-eligible activities that generate net sales. Kesko's primary operations which generate net sales are the sales of products and services to customers and retailers. Product sales are currently not a Taxonomy-eligible activity, with the exception of used car sales.

Capital expenditure (CapEx)

Capital expenditure (CapEx) as defined in the Taxonomy Regulation includes additions to tangible and intangible assets during the financial year, before depreciation, amortisation and any re-measurements. Capital expenditure also includes additions to tangible and intangible assets resulting from business combinations. In accordance with the Taxonomy Regulation, Kesko includes in its CapEx calculation investments in tangible and intangible assets and the aggregate sum of additions to the right-of-use assets recognised in the balance sheet based on lease agreements. Goodwill recorded in acquisitions is not included in the Taxonomy CapEx definition. Additions to property, plant and equipment are presented in Note 3.2, additions to intangible assets in Note 3.3, and additions to right-of-use assets related to leases in Note 3.4 of the consolidated financial statements.

The Taxonomy definition of CapEx differs from the definition of the 'capital expenditure' performance indicator reported by Kesko. In Kesko's definition, the performance indicator includes investments in tangible and intangible assets and subsidiary shares. The indicator does not include additions to right-of-use assets related to leases recognised in the balance sheet. Group capital expenditure in 2023 totalled €678.9 million (€449.2 million). The following table details the capital expenditure items used to calculate the Taxonomy CapEx indicator.

Capital expenditure under EU Taxonomy (CapEx), € million	2023	2022
Property, plant and equipment - Additions (Note 3.2)	511.2	370.0
Property, plant and equipment - Acquisitions (Note 3.2)	3.7	1.6
Intangible assets - Additions (Note 3.3)	21.9	28.6
Intangible assets - Acquisitions excluding goodwill (Note 3.3)	16.4	3.9
Right-of-use assets - Additions (Note 3.4)	437.3	354.6
Right-of-use assets - Acquisitions (Note 3.4)	15.7	15.6
EU Taxonomy CapEx, total	**1,006.1**	**774.4**

Operating expenditure (OpEx)

Operating expenditure (OpEx) as defined in the Taxonomy Regulation includes direct non-capitalised costs that relate to research and development, building renovation measures, maintenance and repair, and any other direct expenditure relating to the servicing of assets of property, plant and equipment by the undertaking or a third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities 2023

Financial year 2023		2023		Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	Turnover	Proportion of turnover, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) turnover, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%		
Of which Enabling		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%	E	
Of which Transitional		0.0	0.0%	0.0%												Y	0.0%		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	24.9	0.2%	EL	EL	N/EL	N/EL	N/EL	N/EL								0.2%		
Sale of second-hand goods	CE 5.4	287.4	2.4%	N/EL	N/EL	N/EL	N/EL	EL	N/EL										
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		312.3	2.6%	0.2%	0.0%	0.0%	0.0%	2.4%	0.0%								0.2%		
A. Turnover of Taxonomy eligible activities (A.1+A.2)		312.3	2.6%	0.2%	0.0%	0.0%	0.0%	2.4%	0.0%								0.2%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities		11,471.5	97.4%																
Total		11,783.8	100%																

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities 2023

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	CapEx	Proportion of CapEx, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) CapEx, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
Construction of new buildings	CCM 7.1 CCA 7.1 CE 3.1	86.2	8.6%	Y	N	N/EL	N/EL	N	N/EL		Y	Y	Y	Y	Y	Y	1.9%		
Installation, maintenance and repair of charging stations for electric vehicles in buildings	CCM 7.4 CCA 7.4	5.2	0.5%	Y	N	N/EL	N/EL	N/EL	N/EL		Y					Y	0.8%	E	
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	CCM 7.5 CCA 7.5	0.9	0.1%	Y	N	N/EL	N/EL	N/EL	N/EL		Y					Y	0.1%	E	
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	18.8	1.9%	Y	N	N/EL	N/EL	N/EL	N/EL		Y					Y	12.7%		
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		111.1	11.0%	11.0%	0.0%	0.0%	0.0%	0.0%	0.0%		Y	Y	Y	Y	Y	Y	15.6%		
Of which Enabling		6.0	0.6%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%								1.0%	E	
Of which Transitional		0.0	0.0%	0.0%													0.0%		T

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

Financial year 2023		2023		Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	CapEx	Proportion of CapEx, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) CapEx, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	45.8	4.5%	EL	EL	N/EL	N/EL	N/EL	N/EL								3.8%		
Construction of new buildings	CCM 7.1 CCA 7.1 CE 3.1	46.5	4.6%	EL	EL	N/EL	N/EL	EL	N/EL								5.9%		
Renovation of existing buildings	CCM 7.2 CCA 7.2 CE 3.2	103.1	10.2%	EL	EL	N/EL	N/EL	EL	N/EL								10.3%		
Installation, maintenance and repair of energy efficiency equipment	CCM 7.3 CCA 7.3	6.0	0.6%	EL	EL	N/EL	N/EL	N/EL	N/EL								0.6%		
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	484.9	48.2%	EL	EL	N/EL	N/EL	N/EL	N/EL								37.9%		
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		686.2	68.2%	68.2%	0.0%	0.0%	0.0%	0.0%	0.0%								58.5%		
A. CapEx of Taxonomy eligible activities (A.1+A.2)		797.3	79.2%	79.2%	0.0%	0.0%	0.0%	0.0%	0.0%								74.1%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of Taxonomy-non-eligible activities		208.9	20.8%																
Total		1,006.1	100%																

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities 2023

Financial year 2023		2023		Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activites	Code	OpEx	Proportion of OpEx, year 2023	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Climate change mitigation	Climate change adaption	Water	Pollution	Circular economy	Biodiversity	Minimum safeguards	Proportion of Taxonomy aligned (A1) or eligible (A2) OpEx, year 2022	Category enabling activity	Category transitional activity
		€ million	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1 Environmentally sustainable activities (Taxonomy-aligned)																			
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%		
Of which Enabling		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%							Y	0.0%	E	
Of which Transitional		0.0	0.0%	0.0%												Y	0.0%		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5 CCA 6.5	1.8	3.2%	EL	EL	N/EL	N/EL	N/EL	N/EL								2.6%		
Acquisition and ownership of buildings	CCM 7.7 CCA 7.7	54.0	96.8%	EL	EL	N/EL	N/EL	N/EL	N/EL								97.4%		
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		55.8	100%	100%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								100%		
A. OpEx of Taxonomy eligible activities (A.1+A.2)		55.8	100%	100%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %								100%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of Taxonomy-non-eligible activities		0.0	0.0%																
Total		55.8	100%																

Codes
Climate change mitigation: CCM
Climate change adaptation: CCA
Circluar economy: CE

Y – Yes, Taxonomy-eligible and Taxonomy-aligned activity with the relevant environmental objective
N – No, Taxonomy-eligible but not Taxonomy-aligned activity with the relevant environmental objective

EL – Taxonomy-eligible activity for the relevant objective
N/EL – Taxonomy-non-eligible activity for the relevant objective.

In Kesko Group's income statement, operating expenditure as defined in the Taxonomy Regulation is included under 'Other operating expenses', which are presented in Note 2.5 of the consolidated financial statements. Operating expenditure under the Taxonomy Regulation in Kesko Group is in particular related to expenses for the use, maintenance and repair of properties – which in the financial statements are included in 'Property and store site maintenance expenses' – the total sum of which was €185.1 million (€181.5 million) in 2023. In addition to property maintenance and repair costs, the figure includes expenses related to e.g. heating, electricity and water consumption, and waste management, which are not included in the Taxonomy definition of operating expenditure. In addition, Taxonomy-eligible expenses include expenses for servicing of the leasing car fleet. In Kesko's business model, operating expenditure is not material in the transition to more sustainable activities, but instead, building renovation measures, such as those related to improving energy efficiency, are capital expenditure by nature.

Key events during the financial year

Kesko announced on 30 January 2023 that it would acquire the Norwegian technical trade company Elektroskandia Norge AS from Rexel Group. The acquisition strengthens Onninen's position in technical trade in Norway. Elektroskandia Norge AS had net sales of some €250 million in 2022 and it employs some 270 people. The company has 13 stores and sales offices and a highly automated distribution centre. The transaction was completed on 1 March 2023. (Investor news releases 30.1.2023 and 2.3.2023)

Kesko published its 2022 Annual Report, including a strategy review, the Report by the Board of Directors and financial statements for 2022, the Corporate Governance Statement, the Remuneration Report for Governing Bodies, and a sustainability report, on 6 March 2023 on its website at www.kesko.fi. (Stock exchange release 6.3.2023)

Kesko announced it would be combining its customer loyalty scheme and share ownership in a new way with Shareholder's K-Plussa, which offers Finnish loyalty customers with shareholdings in Kesko an alternative way to access K Group's 'Best Customer' benefits. Shareholder's K-Plussa is available to Plussa loyalty customers in Finland with registered annual personal purchases from K Group stores of at least €3,000 for the past year and holdings of at least 100 shares in Kesko. (Investor news release 30.3.2023)

Kesko Corporation's Annual General Meeting was held on 30 March 2023 at Messukeskus in Helsinki. The Annual General Meeting adopted the 2022 financial statements and resolved to distribute a dividend of €1.08 per share. The Annual General Meeting discharged the Board members and the Managing Director from liability, approved the Remuneration Report for Governing Bodies, made resolutions concerning the Board members' remuneration, elected the firm of authorised public accountants Deloitte Oy as the company's Auditor, resolved to change the term of office of Board members from three years to one year, and authorised the Board to decide on the repurchase of the company's own shares, on the issuance of shares, and on donations for charitable purposes. Read more in the section: Resolutions of the 2023 Annual General Meeting. (Stock exchange releases 2.2.2023 and 30.3.2023)

Sami Kiiski, M. Sc. (Economics and Business), 47, was appointed as the new President of Kesko's car trade division and a member of Group Management Board, as the previous division President Matti Virtanen retired. Sami Kiiski had acted as Senior Vice President in charge of Kesko's leisure trade since 2020. He is also a member of the Board of Management of Intersport International Corporation. The changes came to effect on 1 June 2023. Kesko also changed its Group structure, and sports trade became part of the car trade division. Prior to this, sports trade had been part of the building and technical trade division. The segment structure in Kesko's financial reporting has depicted the changes in Group structure as of 1 April 2023. Kesko published comparison figures for the new segment structure for 2022 and for the first quarter of 2023 on 25 May 2023. (Stock exchange releases 31.3.2023 and 25.5.2023)

Kesko agreed to acquire Davidsen Koncernen A/S, a leading builders' merchant in Denmark, thus expanding Kesko's operations to Denmark and strengthening its market position in Northern Europe. The Davidsen family will maintain a 10% minority holding in the company. The completion of the acquisition is subject to EU Commission's merger approval and the fulfilment of certain other conditions. The transaction is expected to be completed in the first quarter of 2024 at the latest. (Investor news release 23.8.2023)

Kesko announced that it will concentrate its building and home improvement trade operations in Sweden under the K-Bygg chain, and that it will increasingly focus on serving building professionals alongside consumers. K-Rauta stores in Sweden will either be converted into K-Bygg stores or closed. Kesko's building and home improvement trade operations in Sweden will be concentrated under one brand by the end of 2024. (Investor news release 29.8.2023)

Kesko's Board of Directors appointed Jorma Rauhala as the managing director of Kesko Corporation and President and CEO of Kesko Group as of 1 February 2024, after Mikko Helander announced his intentions to retire in 2024. Rauhala currently acts as President of Kesko's building and technical trade division and Deputy CEO. (Stock exchange releases on 8.12.2023 and 19.12.2023)

Events after the financial year

Kesko announced in August 2023 it would expand its operations to Denmark by acquiring 90% of Davidsen Koncernen A/S. In January 2024, the EU Commission approved the acquisition, and it is expected to be completed by the end of January 2024.

Kesko is set to withdraw from operating the Neste K service stations. Kesko is currently responsible for the grocery trade operations and additional services at Neste K stations. Kesko plans to withdraw from operating 64 Neste K service stations by the end of 2024. The stations will continue as a service offered by Neste. Kesko's motive is that role of grocery trade at service stations has diminished. (Investor news release 23.1.2024)

Resolutions of the 2023 Annual General Meeting

The Annual General Meeting of Kesko Corporation held on 30 March 2023 adopted the company's financial statements for 2022. The Annual General Meeting resolved to distribute a dividend of €1.08 per share on shares held outside the company, paid in four instalments of €0.27 per share. The record date of the first dividend instalment was 3 April 2023 and the pay date 12 April 2023. The record date of the second dividend instalment was 21 June 2023 and the pay date 28 June 2023. The record date of the third dividend instalment was 12 September 2023 and the pay date 19 September 2023. The record date of the fourth dividend instalment was 12 December 2023 and the pay date 19 December 2023. The Board was authorised to decide, if necessary, on new dividend payment record dates and pay dates for the second, third and/or fourth instalments, if the rules and statutes of the Finnish book-entry system changed or otherwise so required. The remaining distributable assets remain in equity.

The resolutions of the Annual General Meeting were communicated in more detail in a stock exchange release on 30 March 2023.

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in Note 2.5.

Financial risks are presented in Note 4.3 and information on financial instruments measured at fair value is disclosed in Note 4.5.

Related party transactions are disclosed in Note 5.2.

Information on disputes and legal and authority proceedings is disclosed in Note 5.4.

Risk management

Risk management at Kesko is proactive and an integral part of day-to-day management to assess and manage business-related opportunities and risks.

Kesko's divisions and common operations are responsible for identifying, assessing, handling and managing risks related to their operations, and they report on risks, risk management responses and the results of those responses to the Group risk management function. Members of the Group Management Board are responsible for the effective and efficient implementation of internal control and risk management in their respective areas of responsibility.

A risk management function independent of businesses is responsible for providing a framework and guidance for internal control and risk management and supports, coordinates and supervises risk management implementation in Kesko Group. The Chief Audit and Risk Officer reports functionally to the Chair of the Audit Committee and administratively to Kesko's President and CEO on matters related to internal audit, and to the Group's Chief Financial Officer on matters related to risk management. The Risk Management Steering Group headed by the Chief Financial Officer is responsible for establishing the Group's overview of the risk situation. The President and CEO is responsible for the effectiveness and efficiency of the Group's risk management, and approves Group risk reports before they are reviewed by the Board of Directors. Kesko's Board of Directors monitors and assesses the effectiveness of risk management and supervises the assessment of risks related to the company's strategy and operations and their management, aided by the Audit Committee.

The Group's most significant risks and uncertainties, as well as material changes in and management responses to them, including indicators, are reported to Kesko Board's Audit Committee quarterly in connection with the review of interim reports, the half-year financial report, and the financial statements. The Audit Committee Chair reports on risk management to the Board as part of Audit Committee reporting. The most significant risks and uncertainties and emerging risks are reported to the market by the Board in the Report by the Board of Directors, and any material changes in them in the interim reports and the half-year financial report.

Significant risks and uncertainties

Weakened demand due to inflation, rising interest rates and economic downturn

Inflation, rising interest rates, weakened employment, and economic uncertainty have an impact on consumer purchasing power and companies' willingness to invest. In grocery trade, product price has an emphasised impact on consumer purchase decisions, while customers in car trade may postpone their purchases. In building and technical trade, construction and renovation projects may be postponed, which would impact sales and inventory management.

Geopolitical risks

Growing tensions in security policy as a result of the war in Ukraine and other military conflicts, as well as the potential expansion of the conflicts and tightened military and economic competition between superpowers could have a significant impact on Kesko's operating environment, supply chain continuity, and product availability.

Cybercrime

Growing, professional cybercrime has resulted in higher risk on business continuity and loss of critical information. Targets of cyber-attacks may include, for example, data systems critical for business continuity or personal data. Cyber-attacks may result in business disruptions, loss of customer trust, or fines imposed by authorities.

Compliance with laws and agreements

Changes in legislation and authority regulations could necessitate significant changes and result in additional costs. Compliance with laws and agreements is an important part of Kesko's corporate responsibility. Non-compliance can result in fines, claims for damages and other financial losses, as well as loss of trust and reputation.

Climate change

Delays in actions aimed at mitigating climate change and an increase in extreme weather phenomena can impact product availability and cause disturbances in logistics and the store site network. The impacts of Kesko's operations on the climate, in turn, are related to Kesko's energy solutions and emissions, and the lifecycle impact of products and services sold in the whole supply chain.

Product safety

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

Store sites and properties

Good store sites are a key competitive factor for business growth and profitability. The acquisition of store sites can be delayed by town planning and permit procedures and the availability and pricing of sites. Considerable amounts of capital or lease liabilities are tied up in properties for years. As a result of urbanisation, changes in the market situation, growing significance of e-commerce, or a chain concept proving inefficient, there is a risk that a store site or a property becomes unprofitable, and operations are discontinued while long-term liabilities remain.

Responsible operating practices and reputation management

Various aspects of corporate responsibility, such as ensuring responsibility in the purchasing chain of products, fair and equal treatment of employees, the prevention of corruption, and environmental protection, are increasingly important to customers. Any failures in corporate responsibility and sustainability could result in negative publicity for Kesko and cause operational and financial damage.

Reporting to the market

In its investor communication and financial reporting, Kesko follows the disclosure policy approved by Kesko's Board of Directors. Kesko's objective is to produce and publish reliable and timely information. Disclosure follows the principle of providing all market participants information in a timely manner and non-selectively to form the basis for the price formation of Kesko's financial instruments such as shares. Should the information published by Kesko prove incorrect, or should communications fail to meet regulations in other respects, it could result in losing investor and other stakeholder trust and in possible sanctions. Significant business arrangements, tight disclosure schedules and the dependency on information systems create challenges for the accuracy of financial information.

Risks of damage

Accidents, natural phenomena and epidemics can cause significant damage to people, property or business. In addition, risks of damage may cause business disruptions that cannot be prevented.

Proposal for profit distribution

The Board of Directors of Kesko Corporation proposes to the Annual General Meeting to be held on 26 March 2024 that a dividend of €1.02 per share be paid for the year 2023 based on the adopted balance sheet on shares held outside the company at the date of dividend distribution. The remaining distributable assets will remain in equity. The Board proposes that the dividend be paid in four instalments.

The first instalment of €0.26 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 28 March 2024. The Board proposes that the dividend instalment pay date be 9 April 2024.

The second instalment of €0.25 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 16 July 2024. The Board proposes that the dividend instalment pay date be 23 July 2024.

The third instalment of €0.26 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 15 October 2024. The Board proposes that the dividend instalment pay date be 22 October 2024.

The fourth instalment of €0.25 per share is to be paid to shareholders registered in the company's register of shareholders kept by Euroclear Finland Ltd on the instalment's record date 14 January 2025. The Board proposes that the dividend instalment pay date be 21 January 2025.

The Board proposes it be authorised to decide, if necessary, on new dividend payment record dates and pay dates for the second, third and/or fourth instalments, if the rules and statutes of the Finnish book-entry system change or otherwise so require.

As at the date of the proposal for the distribution of profit, 29 January 2024, a total of 397,769,511 shares were held outside the company, and the corresponding total amount of dividends is €405,724,901.22.

The distributable assets of Kesko Corporation total €1,584,703,413.17, of which profit for the financial year is €509,617,838.22.

Annual General Meeting

The Board of Directors decided that Kesko's Annual General Meeting will be held on 26 March 2024 at 1.00 pm (EET).

Shares and securities markets

At the end of December 2023, the total number of shares in Kesko Corporation was 400,079,008, of which 126,948,028 or 31.7%, were A shares, and 273,130,980 or 68.3%, were B shares. On 31 December 2023, Kesko Corporation held 2,309,497 of its own B shares as treasury shares.

These treasury shares accounted for 0.85% of the total number of B shares, 0.58% of the total number of shares, and 0.15% of the votes attached to all shares in the company. The total number of votes attached to all shares was 1,542,611,260. Each A share carries ten (10) votes and each B share one (1) vote. The company cannot vote with own shares held by it as treasury shares and no dividend is paid on such shares. At the end of 2023, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €20.35 at the end of 2022, and €18.02 at the end of 2023, representing a decrease of 11.4%. Meanwhile, the price of a Kesko B share was €20.62 at the end of 2022, and €17.93 at the end of 2023, representing a decrease of 13.0%. In 2023, the highest price for an A share was €21.95 and the lowest €15.26., while the highest price for a B share was €22.20 and the lowest €15.02. The Nasdaq Helsinki All-Share index (OMX Helsinki) was down by 6.6% and the weighted OMX Helsinki Cap index by 5.0% in 2023. The Retail Sector Index was up by 43.4%.

The market capitalisation of Kesko's A shares was €2,288 million at the end of 2023, while the market capitalisation of Kesko's B shares was €4,856 million, excluding the shares held by the parent company as treasury shares. The combined market capitalisation of the A and B shares was €7,143 million, down by €1,018 million from the end of 2022.

In 2023, a total of 5.6 million A shares were traded on Nasdaq Helsinki. The exchange value of the A shares was €102.9 million. Meanwhile, 142.9 million B shares were traded, for an exchange value of €2,642.3 million. Nasdaq Helsinki accounted for over 95% of the trading on Kesko's A and B shares. Kesko shares were also traded on multilateral trading facilities, the most significant of which was Turquoise (source: Euroland).

At the end of December 2023, the number of registered shareholders was 105,550, the highest figure in the company's history. At the end of the year, foreign ownership of all shares was 33.9%, and foreign ownership of B shares 48.8%. Foreign ownership decreased by 4.6 percentage points during the year.

Share performance and turnover

		2021	2022	2023
Share price as at 31 Dec.				
A share	€	27.15	20.35	18.02
B share	€	29.34	20.62	17.93
Average share price				
A share	€	26.73	21.89	18.47
B share	€	27.73	23.11	18.49
Market capitalisation as at 31 Dec., A share	€ million	3,446.6	2,583.4	2,287.6
Market capitalisation as at 31 Dec., B share	€ million	7,926.6	5,577.9	4,855.8
Turnover				
A share	Million pcs	8*	7*	6*
B share	Million pcs	165*	144*	143*
Relative turnover rate				
A share	%	6.8	5.8	4.4
B share	%	58.6	52.2	52.3
Diluted average number of shares	Thousand pcs	397,033	397,383	397,706

* Calculated with post-split number of shares

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2023

All shares	Number of shares, pcs	Percentage of all shares, %
Nominee-registered and non-Finnish holders	135,649,101	33.91
Households	102,021,401	25.50
Non-financial corporations and housing corporations	95,122,697	23.78
General government*	32,203,941	8.05
Non-profit institutions serving households**	21,446,218	5.36
Financial and insurance corporations	13,635,650	3.41
Total	**400,079,008**	**100.00**

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	74,746,304	58.88	18.68
Households	24,027,471	18.93	6.01
General government*	14,582,761	11.49	3.64
Non-profit institutions serving households**	10,903,798	8.59	2.73
Nominee-registered and non-Finnish holders	2,244,036	1.77	0.56
Financial and insurance corporations	443,658	0.35	0.11
Total	**126,948,028**	**100.00**	**31.73**

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Nominee-registered and non-Finnish holders	133,405,065	48.84	33.34
Households	77,993,930	28.56	19.49
Non-financial corporations and housing corporations	20,376,393	7.46	5.09
General government*	17,621,180	6.45	4.40
Financial and insurance corporations	13,191,992	4.83	3.30
Non-profit institutions serving households**	10,542,420	3.86	2.64
Total	**273,130,980**	**100.00**	**68.27**

* General government, for example, municipalities, the provincial administration of Åland, authorised pension providers and social security funds

** Non-profit institutions, for example, foundations awarding scholarships, organisations safeguarding certain interests and various charitable associations

Analysis of shareholding by number of shares held as at 31 Dec. 2023

All shares Number of shares	Number of shareholders, pcs	Percentage of shareholders, %	Share total, pcs	Percentage of shares, %
1–100	46,076	43.65	1,838,579	0.46
101–500	30,202	28.61	7,803,480	1.95
501–1,000	10,128	9.60	7,610,210	1.90
1,001–5,000	13,853	13.12	31,906,513	7.98
5,001–10,000	2,613	2.48	18,505,252	4.63
10,001–50,000	2,225	2.11	45,246,761	11.31
50,001–100,000	229	0.22	16,100,182	4.02
100,001–500,000	184	0.17	37,429,831	9.36
500,001–	40	0.04	233,638,200	58.40
Total	**105,550**	**100.00**	**400,079,008**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A shareholders, %	A share total, pcs	Percentage of A shares, %
1–100	15,659	55.57	552,749	0.44
101–500	6,389	22.67	1,582,170	1.25
501–1,000	1,649	5.85	1,230,172	0.97
1,001–5,000	2,597	9.22	6,791,973	5.35
5,001–10,000	771	2.74	5,550,835	4.37
10,001–50,000	873	3.10	18,051,913	14.22
50,001–100,000	127	0.45	9,112,355	7.18
100,001–500,000	102	0.36	19,782,502	15.58
500,001–	12	0.04	64,293,359	50.65
Total	**28,179**	**100.00**	**126,948,028**	**100.00**

B shares Number of shares	Number of shareholders, pcs	Percentage of B shareholders, %	B share total, pcs	Percentage of B shares, %
1–100	33,675	40.29	1,403,256	0.51
101–500	25,354	30.34	6,652,851	2.44
501–1,000	9,031	10.81	6,805,904	2.49
1,001–5,000	11,931	14.27	26,835,212	9.83
5,001–10,000	1,988	2.38	14,060,646	5.15
10,001–50,000	1,383	1.65	26,938,643	9.86
50,001–100,000	105	0.13	7,218,621	2.64
100,001–500,000	88	0.11	18,166,965	6.65
500,001–	25	0.03	165,048,882	60.43
Total	**83,580**	**100.00**	**273,130,980**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2023

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	21,070,422	5.27	210,704,220	13.66
2.	Ilmarinen Mutual Pension Insurance Company	14,606,643	3.65	142,163,499	9.22
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Elo Mutual Pension Insurance	6,101,725	1.53	9,753,250	0.63
5.	Varma Mutual Pension Insurance Company	5,978,944	1.49	5,978,944	0.39
6.	Foundation for Vocational Training in the Retail Trade	5,477,573	1.37	54,775,730	3.55
7.	The State Pension Fund	3,400,000	0.85	3,400,000	0.22
8.	K-Food Retailers' Club	2,486,307	0.62	24,863,070	1.61
9.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
10.	Oy The English Tearoom Ab	2,000,000	0.50	2,000,000	0.13

Table above includes registered shareholders. The table does not contain shares held by Kesko Corporation, amounting to 2,309,497 on 31 December 2023.

10 largest shareholders by number of votes as at 31 Dec. 2023

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	21,070,422	5.27	210,704,220	13.66
2.	Ilmarinen Mutual Pension Insurance Company	14,606,643	3.65	142,163,499	9.22
3.	Vähittäiskaupan Takaus Oy	13,195,008	3.30	131,950,080	8.55
4.	Foundation for Vocational Training in the Retail Trade	5,477,573	1.37	54,775,730	3.55
5.	K-Food Retailers' Club	2,486,307	0.62	24,863,070	1.61
6.	Heimo Välinen Oy	2,280,000	0.57	22,800,000	1.48
7.	Food Paradise Oy	1,564,164	0.39	15,641,640	1.01
8.	Elo Mutual Pension Insurance	6,101,725	1.53	9,753,250	0.63
9.	Pokela Oy Iso Omena	792,600	0.20	7,926,000	0.51
10.	T.A.T. Invest Oy	792,080	0.20	7,726,400	0.50

Management's shareholdings

At the end of December 2023, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 1,396,510 Kesko Corporation A shares and 577,898 Kesko Corporation B shares, i.e. a total of 1,970,619 shares, which represents 0.49% of the total number of shares and 0.94% of votes carried by all shares of the Company.

At 31 December 2023, the President and CEO held 5,000 Kesko Corporation A shares and 431,385 B shares, which represented 0.11% of the total number of shares and 0.03% of votes carried by all shares of the Company. At 31 December 2023, the Group Management Board including the President and CEO held 7,824 Kesko Corporation A shares and 1,129,797 Kesko Corporation B shares, which represented 0.28% of the total number of shares and 0.08% of votes carried by all shares of the Company.

Board authorisations

Kesko has a share-based commitment and incentive scheme. To implement the scheme, Kesko's Board of Directors may decide, within share issue authorisations granted by the company's General Meeting, to transfer Kesko B shares held by the company as treasury shares. In 2023, Kesko Corporation transferred 304,864 Kesko B shares held as treasury shares to members of management and other key persons in the company. Kesko issued related stock exchange releases on 15 March 2023 and 2 May 2023. Kesko issued a stock exchange release on 2 February 2023 regarding the most recent share-based commitment and incentive plans. Kesko Corporation also transferred a total of 6,000 of its own B shares held by the company as treasury shares to the members of Kesko's Board of Directors as part of the Board members' annual remuneration, and issued a related stock exchange release on 2 May 2023.

Kesko's Annual General Meeting of 30 March 2023 authorised the Board to decide on the issuance of a maximum of 33,000,000 new B series shares or B shares held by the company as treasury shares, and on the repurchase of a maximum of 16,000,000 of the company's own B shares. The authorisations are valid until 30 June 2024. The authorisations were communicated in a stock exchange release on 30 March 2023.

Group's key performance indicators

		2021	2022	2023
Income statement				
Net sales	€ million	11,300.2	11,809.0	11,783.8
Change in net sales	%	5.9	4.5	-0.2
Change in net sales, comparable	%	8.2	4.4	-0.8
Operating profit, comparable	€ million	775.5	815.1	712.0
Operating margin, comparable	%	6.9	6.9	6.0
Operating profit	€ million	775.2	816.5	695.4
Operating margin	%	6.9	6.9	5.9
Profit for the year	€ million	571.8	609.9	495.6
Profit for the year as percentage of net sales	%	5.1	5.2	4.2
Profitability				
Return on equity, group	%	24.2	23.1	18.0
Return on equity, comparable, group	%	24.1	23.2	18.5
Return on capital employed	%	17.2	17.0	13.1
Return on capital employed, comparable	%	17.2	16.9	13.4
Funding and financial position				
Interest-bearing net debt, group	€ million	1,907.3	2,104.2	2,559.8
Interest-bearing net debt excluding lease liabilities	€ million	-21.3	184.1	561.9
Gearing, group	%	75.4	76.7	92.8
Equity ratio, group	%	36.6	36.9	35.8
Interest-bearing net debt/EBITDA excluding the impact of IFRS 16, group		0.0	0.2	0.7

		2021	2022	2023
Other performance indicators				
Capital expenditure	€ million	276.6	449.2	678.9
Capital expenditure as percentage of net sales	%	2.4	3.8	5.8
Cash flow from operating activities	€ million	1,152.0	915.2	1,049.5
Cash flow from investing activities	€ million	-292.3	-344.3	-590.2
Average number of personnel converted into full-time employees		14,232	14,633	14,766
Personnel at 31 Dec.		17,402	17,841	17,702

		2021	2022	2023
Share performance indicators				
Earnings/share, basic and diluted	€	1.44	1.53	1.25
Earnings/share, comparable, basic		1.43	1.54	1.28
Equity/share	€	6.37	6.90	6.93
Dividend/share*	€	1.06	1.08	1.02
Payout ratio	%	74.3	70.4	81.9
Payout ratio, comparable	%	74.7	70.1	79.7
Cash flow from operating activities/share	€	2.90	2.30	2.64
Price/earnings ratio (P/E), A share		19.04	13.26	14.46
Price/earnings ratio (P/E), B share		20.57	13.44	14.39
Effective dividend yield, A share	%	3.9	5.3	5.7
Effective dividend yield, B share	%	3.6	5.2	5.7

* Proposal to the General Meeting

Calculation of performance indicators

Kesko uses alternative performance measures to reflect business performance and profitability. These indicators should be examined together with the IFRS-compliant performance indicators.

Change in comparable net sales is used to reflect changes in the Group's business volume between periods. The indicator reflects the change in net sales excluding the impact of acquisitions and divestments, in local currencies. The comparable net sales have been calculated by including in the net sales the business operations that have been part of Kesko Group in both the financial year as well as the comparison year. Other structural arrangements related to acquisitions and divestments have been adjusted in the same manner as acquisitions.

Performance indicators reflecting comparable profit and profitability are used to improve the comparability of operational performance between periods. Gains and losses on disposal of real estate, shares and business operations, impairment charges and significant restructuring costs are identified as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement.

Alternative performance measures that have been adjusted for the impact of IFRS 16 are used to monitor the achievement of certain financial targets. The EBITDA excluding the impact of IFRS 16 corresponds to EBITDA before the adoption of IFRS 16, and the interest-bearing net debt excluding lease liabilities correspond to interestbearing net debt before the adoption of the standard. These restated indicators are included as components in the Group's financial target "interest-bearing net debt excluding lease liabilities divided by EBITDA excluding the impact of IFRS 16".

In addition, the financial performance indicators required by the Decree of the Ministry of Finance on obligation of securities issuers to disclose periodic information have been presented as alternative performance measures. The management uses these indicators to monitor and analyse business performance, profitability and financial position.

Profitability

Operating profit, comparable	Operating profit +/– items affecting comparability
Items affecting comparability	– gains on disposal + losses on disposal + impairment charges +/– structural arrangements
Return on equity, %	(Profit/loss before tax − Income tax) x 100 ——— Shareholders' equity, average of the beginning and end of the financial year
Return on equity, comparable, %	(Profit/loss adjusted for items affecting comparability before tax − Income tax adjusted for the tax effect of the items affecting comparability) x 100 ——— Shareholders' equity, average of the beginning and end of the financial year
Return on capital employed, %	Operating profit x 100 ——— (Non–current assets + Inventories + Receivables + Other current assets – Non–interest–bearing liabilities) on average for 12 months
Return on capital employed, comparable, %	Comparable operating profit x 100 ——— (Non–current assets + Inventories + Receivables + Other current assets – Non–interest–bearing liabilities) on average for 12 months
EBITDA	Operating profit + Depreciation and amortisation + Impairment charges
EBITDA excluding the impact of IFRS 16	EBITDA – rents from lease agreements

Funding, capital expenditure and financial position

Equity ratio, %	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	1–12/2023	1–12/2022
Items affecting comparability		
Gains on disposal	0.4	0.0
Losses on disposal	-1.0	-0.1
Structural arrangements	-16.1	1.6
Items in operating profit affecting comparability	**-16.7**	**1.5**
Items in financial items affecting comparability	-0.2	-3.6
Items in income taxes affecting comparability	3.1	-0.0
Total items affecting comparability	**-13.7**	**-2.2**
Items in EBITDA affecting comparability	**-12.8**	**-0.1**
Operating profit, comparable		
Operating profit	695.4	816.5
Net of		
Items in operating profit affecting comparability	-16.7	1.5
Operating profit, comparable	**712.0**	**815.1**
EBITDA		
Operating profit	695.4	816.5
Plus		
Depreciation and impairment charges	184.0	169.0
Depreciation and impairment charges for right-of-use assets	353.2	322.1
EBITDA	**1,232.5**	**1,307.7**
EBITDA, comparable		
EBITDA	1,232.5	1,307.7
Net of		
Items in EBITDA affecting comparability	-12.8	-0.1
EBITDA, comparable	**1,245.3**	**1,307.8**

€ million	1–12/2023	1–12/2022
Profit before tax, comparable		
Profit before tax	613.5	761.1
Net of		
Items in operating profit affecting comparability	-16.7	1.5
Items in financial items affecting comparability	-0.2	-3.6
Profit before tax, comparable	**630.4**	**763.2**
Net profit, comparable		
Comparable profit before tax	630.4	763.2
Net of		
Income tax	118.0	151.2
Items in income taxes affecting comparability	3.1	-0.0
Net profit, comparable	**509.3**	**612.0**
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	509.3	612.0
Net profit attributable to owners of the parent, comparable	**509.3**	**612.0**
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	509.3	612.0
Average number of shares, basic, 1,000 pcs	397,706	397,383
Earnings/share, comparable, €	**1.28**	**1.54**
Return on capital employed, %		
Operating profit	695.4	816.5
Capital employed, average	5,313.3	4,811.9
Return on capital employed, %	**13.1**	**17.0**
Return on capital employed, comparable, %		
Operating profit, comparable	712.0	815.1
Capital employed, average	5,313.3	4,811.9
Return on capital employed, comparable, %	**13.4**	**16.9**

€ million	1–12/2023	1–12/2022
Group		
Return on equity, %		
Net profit	495.6	609.9
Equity, average	2,750.3	2,635.8
Return on equity, %	**18.0**	**23.1**
Return on equity, comparable, %		
Net profit, comparable	509.3	612.0
Equity, average	2,750.3	2,635.8
Return on equity, comparable, %	**18.5**	**23.2**
Equity ratio, %		
Shareholders' equity	2,758.4	2,742.2
Total assets	7,754.3	7,474.0
Advances received	56.7	46.9
Equity ratio, %	**35.8**	**36.9**

FINANCIAL STATEMENTS

2023

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net sales	2.1	**11,783.8**	**11,809.0**
Material and services	2.3	-10,035.0	-10,304.5
Change in inventory		-72.0	237.0
Other operating income	2.4	975.2	998.7
Employee benefit expenses	2.5	-786.6	-785.8
Depreciation, amortisation and impairment charges	3.2 3.3	-184.0	-169.0
Depreciation and impairment charges for right-of-use assets	3.4	-353.2	-322.1
Other operating expenses	2.5	-651.8	-670.2
Share of result of joint ventures		19.0	23.5
Operating profit		**695.4**	**816.5**
Interest income and other finance income	4.4	16.9	13.0
Interest expense and other finance costs	4.4	-26.3	2.9
Interest expense for lease liabilities	4.4	-73.4	-68.4
Foreign exchange differences	4.4	-1.1	-3.5
Total finance income and costs	4.4	-83.9	-56.0
Share of result of associates		2.1	0.6
Profit before tax		**613.5**	**761.1**
Income tax	2.7	-118.0	-151.2
Net profit for the year		**495.6**	**609.9**
Net profit for the year attributable to			
Owners of the parent		495.6	609.9
Earnings per share for net profit attributable to owners of the parent			
Basic and diluted, Group total, €	2.8	1.25	1.53

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net profit for the year		**495.6**	**609.9**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	2.7 3.7	-5.5	30.6
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	2.7	-19.5	-41.9
Share of other comprehensive income of associates and joint ventures	2.7	-1.8	-0.5
Cash flow hedge revaluation	2.7	-31.0	26.2
Total comprehensive income for the year, net of tax		**-57.9**	**14.3**
Total comprehensive income for the year		**437.7**	**624.2**
Comprehensive income for the year attributable to			
Owners of the parent		437.7	624.2

Consolidated statement of financial position

€ million	Note	31 Dec. 2023	31 Dec. 2022
ASSETS			
Non-current assets			
Property, plant and equipment	3.2	2,055.6	1,745.5
Goodwill	3.3	663.7	588.9
Intangible assets	3.3	211.4	190.2
Right-of-use assets	3.4	1,816.9	1,737.6
Shares in associates and joint ventures	3.8 5.1	232.8	231.9
Other investments	4.3 4.5	14.0	13.2
Non-current receivables	4.3 4.5	71.4	90.8
Deferred tax assets	2.7	13.7	2.2
Pension assets	3.7	79.6	86.9
Total non-current assets		**5,159.1**	**4,687.2**
Current assets			
Inventories	3.5	1,083.9	1,115.4
Interest-bearing receivables	3.6 4.5	4.3	4.4
Trade receivables	3.6 4.3 4.5	970.5	969.3
Income tax assets	3.6	6.6	21.9
Other non-interest-bearing receivables	3.6 4.5	302.6	361.2
Other financial assets	4.3 4.5	15.4	68.6
Cash and cash equivalents	4.5	211.9	245.5
Total current assets		**2,595.2**	**2,786.4**
Non-current assets classified as held for sale		-	0.5
Total assets		**7,754.3**	**7,474.0**

€ million	Note	31 Dec. 2023	31 Dec. 2022
EQUITY AND LIABILITIES			
Share capital	4.2	197.3	197.3
Share premium	4.2	197.8	197.8
Other reserves	4.2	266.9	266.9
Currency translation differences	4.2	-71.7	-52.2
Revaluation reserve	4.2	4.3	35.3
Retained earnings		2,163.9	2,097.1
Total equity		**2,758.4**	**2,742.2**
Non-current liabilities			
Interest-bearing non-current liabilities	4.3 4.5 4.6	690.7	245.5
Lease liabilities	4.5 4.6	1,647.2	1,592.0
Non-interest-bearing non-current liabilities	4.3 4.5	24.5	24.3
Deferred tax liabilities	2.7	70.9	63.2
Provisions	3.9	6.9	10.3
Total non-current liabilities		**2,440.2**	**1,935.3**
Current liabilities			
Current interest-bearing liabilities	4.3 4.5 4.6	98.5	252.6
Lease liabilities	4.5 4.6	350.6	328.1
Trade payables	4.3 4.5	1,418.3	1,499.4
Other non-interest-bearing liabilities	4.3 4.5	250.0	242.4
Income tax liabilities	4.5	11.2	19.4
Accrued liabilities	4.3 4.5	415.1	442.6
Provisions	3.9	12.0	11.9
Total current liabilities		**2,555.7**	**2,796.5**
Total liabilities		**4,995.9**	**4,731.8**
Total equity and liabilities		**7,754.3**	**7,474.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from operating activities			
Profit before tax		613.5	761.1
Adjustments			
Depreciation according to plan		184.0	169.0
Depreciation and impairment for right-of-use assets		353.2	322.1
Finance income and costs		10.5	-12.4
Interest expense for lease liabilities		73.4	68.4
Other adjustments	2.9	-10.8	-20.2
		610.3	527.0
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		69.3	-107.2
Inventories, increase (-)/decrease (+)		58.3	-225.8
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-137.1	163.7
		-9.5	-169.3
Interest paid and other finance costs		-24.9	-5.4
Interest paid on lease liabilities		-73.4	-68.4
Interest received		15.0	10.5
Dividends received		2.4	1.3
Dividends and capital repayments received from associated companies and joint ventures		24.4	33.1
Income taxes paid		-108.3	-174.7
Net cash flows from operating activities, total		**1,049.5**	**915.2**

€ million	Note	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.1	-140.1	-45.3
Payments for property, plant, equipment and intangible assets	2.9	-539.2	-352.4
Proceeds from sale of subsidiaries and businesses, net cash deducted		9.9	2.2
Proceeds from sale of property, plant, equipment and intangible assets		24.8	14.0
Proceeds from sale of other investments		0.1	0.4
Loan receivables and other financial assets, increase (-)/decrease (+)		54.3	36.8
Net cash flows from investing activities, total		**-590.2**	**-344.3**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	4.1	283.4	132.6
Repayments for lease liabilities	3.4 4.1	-354.3	-332.7
Interest-bearing receivables, increase (-)/decrease (+)	4.1	2.2	2.1
Dividends paid		-430.3	-406.7
Other items		6.8	0.0
Net cash flows from financing activities, total		**-492.2**	**-604.7**
Change in cash and cash equivalents		**-32.9**	**-33.8**
Cash and cash equivalents as at 1 January	4.5	245.5	279.8
Currency translation difference adjustment and change in value		-0.7	-0.5
Cash and cash equivalents assets as at 31 December	4.5	**211.9**	**245.5**

Consolidated statement of changes in equity

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total equity
Balance as at 1 January 2023	**197.3**	**464.7**	**-52.2**	**35.3**	**-28.1**	**2,125.2**	**2,742.2**
Share-based payments					1.4		1.4
Dividends						-429.6	-429.6
Other changes		-0.0	-0.0			6.7	6.7
Transactions with owners, total		-0.0	-0.0		1.4	-422.8	-421.5
Comprehensive income							
Net profit for the year						495.6	495.6
Actuarial gains/losses						-5.5	-5.5
Currency translation differences related to a foreign operation			-19.5			-	-19.5
Share of other comprehensive income of associates and joint ventures				-		-1.8	-1.8
Cash flow hedge revaluation				-31.0		-	-31.0
Total comprehensive income for the year, net of tax			-19.5	-31.0		-7.3	-57.9
Total comprehensive income for the period			-19.5	-31.0		488.2	437.7
Balance as at 31 December 2023	**197.3**	**464.7**	**-71.7**	**4.3**	**-26.7**	**2,190.6**	**2,758.4**
Balance as at 1 January 2022	**197.3**	**464.7**	**-10.2**	**9.1**	**-30.3**	**1,898.9**	**2,529.5**
Share-based payments					2.1		2.1
Dividends						-421.3	-421.3
Other changes		-0.0	-			7.7	7.7
Transactions with owners, total		-0.0	-		2.1	-413.6	-411.4
Comprehensive income							
Net profit for the year						609.9	609.9
Actuarial gains/losses						30.6	30.6
Currency translation differences related to a foreign operation			-41.9			-	-41.9
Share of other comprehensive income of associates and joint ventures				-		-0.5	-0.5
Cash flow hedge revaluation				26.2		-	26.2
Total comprehensive income for the year, net of tax			-41.9	26.2		30.0	14.3
Total comprehensive income for the period			-41.9	26.2		639.9	624.2
Balance as at 31 December 2022	**197.3**	**464.7**	**-52.2**	**35.3**	**-28.1**	**2,125.2**	**2,742.2**

Further information on share capital and reserves is disclosed in Note 4.2 and on share-award plans in Note 5.3. Deferred tax related to components of other comprehensive income is presented in Note 2.7.

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The notes to the consolidated financial statements have been grouped into sections based on their subject. The basis of preparation is described as part of this note, while the accounting policies directly related to a specific note are presented as part of the note in question. The notes contain the relevant financial information as well as a description of the accounting policies and key estimates and judgements applied for the topics of the individual note.

1.1 Basic information about the Company

Kesko is a Finnish listed trading sector company. Kesko has approximately 1,800 stores engaged in chain operations in the Nordic and Baltic countries and Poland.

Kesko Group's reportable segments consist of its business divisions, namely the grocery trade, the building and technical trade, and the car trade.

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The Company's business ID is 0109862-8, it is domiciled in Helsinki, Finland and it's registered address is PO Box 1, FI-00016 KESKO, Finland. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, visiting address Työpajankatu 12, Helsinki, Finland and from the internet at www.kesko.fi/en.

These consolidated financial statements were authorised for issue by the Board of Directors on 29 January 2024.

Kesko has issued an XHTML financial review complying with the ESEF requirements on Kesko's website. The Audit firm Deloitte Oy has provided to company an independent auditor's reasonable assurance report in accordance with ISAE 3000 (Revised) on Kesko's ESEF Financial Statements.

1.2 Basis of preparation

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2023. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Act and regulations based on it. The Group has applied new and amended standards that became effective in the financial year that began on 1 January 2023. The improvements and amendments to existing standards did not have an impact on the consolidated financial statements. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

All amounts in the consolidated financial statements are in millions of euros and based on original cost, with the exception of items specified below, which have been measured at fair value in compliance with the standards.

1.3 Critical accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with international accounting standards requires the use of certain estimates and assumptions about the future that affect the reported amounts of assets and liabilities, contingent liabilities, and income and expense. The actual results may differ from these estimates and assumptions.

The impact of climate risks has been assessed on the Group's business operations and the consolidated financial statements. Climate change related risks on Kesko are assessed based on selected climate scenarios. Kesko Group has not identified any business operations subject to material climate risks in terms of business continuity or valuation of asset items. Kesko owns and manages via leases a substantial number of properties in all its operating countries. Individual asset items may be subject to risks of damage or investment needs due to, for example, extreme weather phenomena.

The estimates and judgements made are continuously evaluated, and they are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and assumptions used in the preparation of consolidated financial statements are further described in the corresponding notes.

- Income tax (Note 2.7)
- Acquisitions (Note 3.1)
- Intangible assets (Note 3.3)
- Leases (Note 3.4)
- Inventories (Note 3.5)
- Trade and other current receivables (Note 3.6)
- Pension assets (Note 3.7)
- Provisions (Note 3.9)

1.4 Critical judgements in applying accounting policies

The Group's management uses its judgement in the adoption and application of accounting policies in the financial statements. The management has exercised its judgement in the application of accounting policies in the income statement with regard to the presentation of income (Note 2.1), the existence of control over subsidiaries (Note 1.5), measuring receivables, determining provisions for restructuring, and measuring assets and liabilities recognised in the balance sheet based on lease agreements (Note 3.4).

1.5 Consolidation principles

Subsidiaries

The consolidated financial statements combine the financial statements of Kesko Corporation and subsidiaries controlled by the Group. Control exists when the Group has more than half of the voting rights of a subsidiary or otherwise exercises control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. The existence of potential voting rights has been considered when assessing the existence of control in the case that the instruments entitling to potential control are currently exercisable. Subsidiaries are listed in Note 5.1.

Mutual shareholding is eliminated by using the acquisition cost method. The cost of assets acquired is determined on the basis of the fair value of the acquired assets as at the acquisition date, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction. The identifiable assets, liabilities and contingent liabilities acquired are measured at the fair value at the acquisition date, gross of non-controlling interest.

Intragroup transactions, receivables and payables, unrealised profits and internal distributions of profits are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss is due to the impairment of an asset. Non-controlling interest in the profit for the period is disclosed in the income statement and the amount of equity attributable to the non-controlling interests is disclosed separately in equity.

The Group accounts for its real estate company acquisitions as acquisitions of assets.

Associates

Associates are companies over which the Group has significant influence but not control. In Kesko Group, significant influence accompanies a shareholding or agreement of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost.

The Group’s share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from associates are deducted from the Group's result and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised.

Joint agreements

Joint agreements are arrangements in which the sharing of joint control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint agreement whereby the parties that have joint control of the agreement have rights to the net assets of the agreement. Investments in joint ventures are accounted for using the equity method, and on initial recognition, they are recognised at cost.

The Group’s share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group’s share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from joint ventures are deducted from the Group's result and the cost of the shares. An investment in a joint venture includes the goodwill generated by the acquisition. Goodwill is not amortised.

Mutual real estate companies are consolidated as common functions on a line-by-line basis in proportion to ownership. The Group's share of mutual real estate companies' loans and reserves is accounted for separately in the consolidation.

Associates and joint ventures and proportionately consolidated mutual real estate companies are listed in Note 5.1.

Foreign currency items

The consolidated financial statements are presented in euros, which is both the functional currency of the environment in which the Group's parent operates and the presentation currency. On initial recognition, the amounts with respect to the result and financial position of the Group companies located outside the euro zone are recorded in the functional currency of each of their operating environments.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currency are translated into euros using the closing rate. Exchange rate gains and losses on foreign currency transactions as well as receivables and liabilities denominated in foreign currency are recognised in the income statement, with the exception of monetary items that form a part of a net investment in a foreign operation and loans designated as hedges for foreign net investments and regarded as effective. These exchange differences are recognised in equity and their changes are presented in other comprehensive income. The exchange differences are presented in the income statement on disposal of the foreign operation or settlement of the hedges. The Group has currently no loans designated as hedges for foreign net investments. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign exchange forward contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in finance income and costs.

The income statements of the Group companies operating outside the euro zone have been translated into euros at the average rate of the financial year, and their balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, exchange differences arising from monetary items that form a part of a net investment in a foreign operation and the hedging results of net investments are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, translation differences are recognised in the income statement as part of the gains or losses on the disposal.

Goodwill arising on the acquisition of foreign operations and the fair value adjustments of assets and liabilities made upon their acquisition are treated as assets and liabilities of these foreign operations and translated into euros at the closing rate.

1.6 Discontinued operations and non-current assets classified as held for sale and related liabilities

Non-current assets (or a disposal group) are classified as held for sale if their carrying amount will be recovered principally through the disposal of the assets and the sale is highly probable. If their carrying amount will be recovered principally through their disposal rather than through their continuing use, they are measured at the lower rate of the carrying amount and fair value net of costs to sell.

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives. The Group did not have any discontinued operations in the 2023 and 2022 financial years.

1.7 New IFRS standards and IFRIC interpretations and the impact of new and updated standards

Amendment to IAS 12 Income Taxes

Kesko Group has adopted International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) upon their release on 23 May 2023. Kesko has applied the exception from deferred tax accounting in relation to top-up tax.

Pillar Two legislation was enacted in 2023 in several jurisdictions in which Kesko Group operates, including Finland where the Group's parent company is a tax resident.

The legislation will be effective for the financial year beginning on 1 January 2024.

Kesko Group has performed an assessment of the potential exposure to Pillar Two income taxes. This assessment is based on the recent information available regarding the financial performance of the entities in Kesko Group. Kesko expects that exposure, if any, of Pillar Two to income taxes would be minimal.

Other annual improvements or amendments to existing standards that become effective for annual periods beginning on or after 1 January 2024 are not estimated to have a material impact on the consolidated financial statements.

2. FINANCIAL RESULTS

2.1 Revenue recognition

Accounting policies

In the consolidated income statement, net sales comprise the sales of goods, services and energy based on customer agreements. The share of sales of services and energy of total net sales is not significant. The Group sells products to retailers and other business customers and engages in own retailing. Income from sales of goods and services is recognised when the customer obtains control of the goods or services. Customers obtain control when they have the ability to direct the use of and obtain the benefits from the goods or services. As a rule, income from sales of goods can be recognised at the time of transfer. Income from services is recognised as the service is being performed. Sales to retailers and business customers are based on invoicing. Sales to consumers are mainly in cash or by credit card.

When calculating net sales, sales revenue is adjusted for indirect taxes, sales adjustment items and the exchange differences of foreign-currency-denominated sales. In businesses in Finland that are part of the K-Plussa customer loyalty scheme, sales adjustment items include loyalty award credits, recognised as part of sales transactions. Income from corresponding sales is recognised when the award credits are redeemed or expire. Contract liability is recognised in the balance sheet. Loyalty award credits affect the net sales of those businesses that grant K-Plussa customer loyalty award credits in Finland and engage in retailing.

Other operating income includes income other than that associated with the sale of goods or services based on customer agreements, such as lease income, store site and chain fees charged from retailers, and various other service fees and commissions. Fees charged from retailer entrepreneurs are based on a partnership agreement (chain agreement) based on which the retailers engage in business in line with the chain's operating models and objectives. Store site fees and chain fees vary depending on the growth and profitability of the retailer's business operations under the chain agreement. Chain marketing fees and data system fees are cost-based charges. More detailed information on other operating income is presented in Note 2.4.

Other operating income also includes gains on the disposal of property, plant and equipment and intangible assets as well as gains on disposal of businesses and realised and unrealised gains on derivatives used for hedging foreign currency risks associated with commercial transactions.

Interest income is recognised on a time apportionment basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

2.2 Segment information

Accounting Policies

The Group's reportable segments are composed of the Group's divisions, namely the grocery trade, the building and technical trade, and the car trade.

Division information is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, responsible for allocating resources to the divisions, has been identified as the Group Management Board. The reportable operating segments derive their net sales from the grocery trade, the building and technical trade, and the car trade. Sales between divisions are charged at prevailing market rates.

The Group Management Board uses alternative performance measures alongside the IFRS financial statements indicators in the Group's results reporting. The Group Management Board assesses the divisions' performances based on operating profit, comparable operating profit, and comparable return on capital employed. Results reporting to management corresponds to the accounting policies of the consolidated financial statements apart from items affecting comparability. Finance income and costs are not allocated to the divisions as the Group's cash and cash equivalents and financial liabilities are managed by the Group Treasury. Changes in the fair values of intra-Group foreign exchange forward contracts entered into and realised gains and losses are reported as part of other operating income and expenses to the extent that they hedge the divisions' foreign exchange risk.

The assets and liabilities of a division's capital employed consist of operating items that can be justifiably allocated to the divisions. The assets of capital employed comprise property, plant and equipment and intangible assets, right-of-use assets related to leases, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables, and assets held for sale. The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions. Capital employed does not include deferred tax assets and liabilities, financial assets at fair value through profit or loss with the exception of fair value of foreign exchange forward contracts recognised in the balance sheet, cash and cash equivalents, or interest-bearing liabilities.

The same revenue recognition policies apply to segment information as to the consolidated financial statements and consolidated statement of financial position. The revenue recognition policies are presented in Note 2.1.

Kesko's business models

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains and B2B trade. Kesko manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Outside Finland, Kesko mainly engages in own retailing and B2B trade. Retailer operations accounted for 46% (46%) of the Group's net sales in 2023. B2B trade accounted for 39% (40%) of the Group's net sales in 2023. Kesko's own retailing accounted for 15% (14%) of the Group's net sales. The management views that these categories depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

New segments structure

Kesko changed its division structure and segment reporting as of 1 April 2023. Sports trade is now part of the car trade division, while it previously was part of the building and technical trade division. Data concerning the comparison periods have been adjusted to correspond to the new segment structure.

Grocery trade

The grocery trade division comprises the wholesale and B2B trade of groceries and the retailing of home and speciality goods in Finland. There are approximately 1,200 K-food stores operated by K-retailers in Finland. These stores form the K-Citymarket, K-Supermarket, K-Market and Neste K grocery retail chains. Kespro is a foodservice provider and wholesaler in Finland. For the part of K-Citymarket's home and speciality goods trade Kesko operates as a retailer in Finland.

Building and technical trade

The building and technical trade division operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries and Poland. In building and home improvement trade, Kesko operates with the K-retailer business model in Finland, and as a retail operator in Sweden and Norway. The retail store chains are K-Rauta (Finland and Sweden), K-Bygg (Sweden) and Byggmakker (Norway). In 2023, Kesko decided to concentrate its building and home improvement trade operations in Sweden under the K-Bygg chain. The building and home improvement stores serve both consumers and business customers. Technical trade provides HEPAC and electrical products and services to business customers. Technical trade has around 140 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

Car trade

The car trade division comprises the business operations of new cars, used cars, services and leasing. The new cars business includes the import, marketing and retail of Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and of Volkswagen commercial vehicles in Finland, and the import of SEAT and CUPRA passenger cars in the Baltics. The used car business includes the purchase of used cars from Finland and elsewhere and the retail of the cars in Finland. The service business includes repair and maintenance services, spare parts sales and accessories services in Finland. The leasing business provides car leasing services for both private and corporate customers. Services provided by the car trade division also include the K-Lataus charging network for electric vehicles. In 2023, Kesko completed the divestment of its MAN business (trucks and buses).

Sports trade is included in the car trade division, and comprises in Finland the Intersport and Budget Sport chains.

Common functions

Common functions comprise Group support functions.

Segment information 2023

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	6,351.6	4,193.2	1,262.3	-0.0	11,807.1
of which intersegment sales	-16.5	0.9	-7.4	-0.3	-23.3
Net sales from external customers	**6,335.1**	**4,194.1**	**1,254.9**	**-0.3**	**11,783.8**
Change in net sales in local currency excluding acquisitions and disposals, %	3.7	-10.5	13.9	-	-0.8
Change in net sales, %	3.7	-8.7	12.2	-	-0.2
Other division income	803.6	135.8	29.3	10.6	979.3
of which intersegment income	-0.4	-1.8	0.1	-2.0	-4.1
Other operating income from external customers	**803.2**	**133.9**	**29.4**	**8.7**	**975.2**
Depreciation and amortisation	-93.6	-30.8	-28.6	-31.0	-184.0
Depreciation and impairment charges for right-of-use assets	-232.0	-91.9	-22.8	-6.4	-353.2
Share of result of joint ventures		19.0			19.0
Operating profit	**443.6**	**201.9**	**82.4**	**-32.6**	**695.4**
Items affecting comparability	-1.3	-10.5	-0.1	-4.8	-16.7
Comparable operating profit	**444.8**	**212.5**	**82.6**	**-27.8**	**712.0**
Finance income and costs					-83.9
Share of result of associates					2.1
Profit before tax					**613.5**

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Property, plant, equipment and intangible assets	1,534.9	1,035.5	265.7	96.4	-1.8	2,930.7
Right-of-use assets	1,233.1	441.4	81.1	61.2		1,816.9
Interests in associates and joint ventures and other investments	5.5	155.7	0.1	86.2	-0.6	246.8
Pension assets	18.6	4.9		56.0		79.6
Inventories	271.9	578.2	233.8			1,083.9
Trade receivables	389.8	509.9	71.2	2.1	-2.5	970.5
Other non-interest-bearing receivables	80.3	189.2	28.1	35.9	-15.6	318.0
Interest-bearing receivables	1.7	0.0		65.3		66.9
Assets included in capital employed	**3,535.9**	**2,914.9**	**680.0**	**403.1**	**-20.6**	**7,513.3**
Unallocated items						
Deferred tax assets						13.7
Other financial assets						15.4
Cash and cash equivalents						211.9
Total assets	**3,535.9**	**2,914.9**	**680.0**	**403.1**	**-20.6**	**7,754.3**

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Trade payables	620.4	717.7	55.4	26.5	-1.7	1,418.3
Other non-interest-bearing liabilities	295.0	242.2	96.6	47.3	-16.6	664.5
Provisions	0.2	5.2	13.2	0.4		18.9
Liabilities included in capital employed	**915.5**	**965.0**	**165.2**	**74.2**	**-18.3**	**2,101.7**
Unallocated items						
Interest-bearing liabilities						789.2
Lease liabilities						1,997.9
Other non-interest-bearing liabilities						36.3
Deferred tax liabilities						70.9
Total liabilities	**915.5**	**965.0**	**165.2**	**74.2**	**-18.3**	**4,995.9**
Total capital employed as at 31 December	**2,620.4**	**1,949.8**	**514.7**	**329.0**	**-2.3**	**5,411.6**
Average capital employed	**2,555.4**	**1,865.1**	**523.6**	**371.5**	**-2.3**	**5,313.3**
Return on capital employed, %, comparable	**17.4**	**11.4**	**15.8**			**13.4**
Number of personnel as at 31 December	**8,184**	**6,934**	**1,641**	**943**		**17,702**
Average number of personnel converted into full-time employees	**6,257**	**6,073**	**1,531**	**905**		**14,766**

Segment information 2022

Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	6,124.7	4,591.1	1,124.8	-0.0	11,840.6
of which intersegment sales	-23.3	-0.6	-7.5	-0.3	-31.6
Net sales from external customers	**6,101.4**	**4,590.6**	**1,117.3**	**-0.3**	**11,809.0**
Change in net sales in local currency excluding acquisitions and disposals, %	3.6	9.7	-9.2	-	4.4
Change in net sales, %	3.6	10.0	-9.6	-	4.5
Other division income	789.0	153.0	35.9	28.8	1,006.6
of which intersegment income	-0.1	-2.9	-0.2	-4.6	-7.9
Other operating income from external customers	**788.9**	**150.1**	**35.6**	**24.1**	**998.7**
Depreciation and amortisation	-84.4	-27.8	-27.2	-29.7	-169.0
Depreciation and impairment charges for right-of-use assets	-213.7	-80.7	-21.8	-5.9	-322.1
Share of result of joint ventures		23.5			23.5
Operating profit	**461.5**	**324.8**	**63.9**	**-33.6**	**816.5**
Items affecting comparability	1.1	0.9	-0.4	-0.1	1.5
Comparable operating profit	**460.4**	**323.8**	**64.3**	**-33.5**	**815.1**
Finance income and costs					-56.0
Share of result of associates					0.6
Profit before tax					**761.1**

Assets and liabilities

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Property, plant, equipment and intangible assets	1,333.6	842.2	245.3	105.1	-1.6	2,524.6
Right-of-use assets	1,189.3	402.9	83.2	62.1		1,737.6
Interests in associates and joint ventures and other investments	4.3	160.4	0.1	81.0	-0.6	245.2
Pension assets	19.6	4.5		62.8		86.9
Inventories	270.3	611.7	233.4			1,115.4
Trade receivables	369.2	517.7	84.5	2.9	-5.1	969.3
Other non-interest-bearing receivables	121.6	223.9	22.8	73.7	-33.0	409.0
Interest-bearing receivables	0.8			68.6		69.4
Non-current assets classified as held for sale				0.5		0.5
Assets included in capital employed	**3,308.7**	**2,763.3**	**669.4**	**456.7**	**-40.3**	**7,157.7**
Unallocated items						
Deferred tax assets						2.2
Other financial assets						68.6
Cash and cash equivalents						245.5
Total assets	**3,308.7**	**2,763.3**	**669.4**	**456.7**	**-40.3**	**7,474.0**

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimina-tions	Total
Trade payables	596.7	794.1	79.0	32.3	-2.6	1,499.4
Other non-interest-bearing liabilities	294.7	278.3	97.7	55.8	-35.4	691.1
Provisions	0.8	2.2	19.1	0.2		22.2
Liabilities included in capital employed	**892.2**	**1,074.5**	**195.8**	**88.3**	**-38.1**	**2,212.7**
Unallocated items						
Interest-bearing liabilities						498.2
Lease liabilities						1,920.1
Other non-interest-bearing liabilities						37.6
Deferred tax liabilities						63.2
Total liabilities	**892.2**	**1,074.5**	**195.8**	**88.3**	**-38.1**	**4,731.8**
Total capital employed as at 31 December	**2,416.5**	**1,688.8**	**473.6**	**368.4**	**-2.2**	**4,945.0**
Average capital employed	**2,353.6**	**1,693.5**	**438.2**	**328.9**	**-2.2**	**4,811.9**
Return on capital employed, %, comparable	**19.6**	**19.1**	**14.7**			**16.9**
Number of personnel as at 31 December	**8,316**	**6,863**	**1,661**	**1,001**		**17,841**
Average number of personnel converted into full-time employees	**6,288**	**5,871**	**1,519**	**955**		**14,633**

Alternative performance measures in segment reporting

Kesko uses alternative performance measures in internal reporting of business performance and profitability to the highest operational decision-making body, i.e. the Group Management Board. The alternative performance measures should be examined together with the IFRS performance indicators.

Change in comparable net sales is used to reflect changes in the Group's business volume between periods. The indicator reflects the change in net sales excluding the impact of acquisitions and divestments, in local currencies. The comparable net sales have been calculated by including in the net sales the business operations that have been part of Kesko Group in both the reporting period as well as the comparison period. Other structural arrangements related to acquisitions and divestments have been adjusted in the same manner as acquisitions.

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability. Performance indicators reflecting comparable profit and profitability are used to improve the comparability of operational performance between periods. Gains and losses on the disposal of real estate, shares and business operations, impairments and significant restructurings are identified as items affecting comparability. Gains on disposals are presented in the income statement within other operating income, and losses on disposals within other operating expenses. Impairment charges and significant profit and loss items related to changes in lease agreements are presented in the income statement under depreciation, amortisation and impairment charges.

Alternative performance measures that have been adjusted for the impact of IFRS 16 are used to illustrate continuity in business profitability and financial position and the achievement of certain financial targets. The EBITDA excluding the impact of IFRS 16 corresponds to EBITDA before the adoption of IFRS 16, and the interest bearing net debt excluding lease liabilities correspond to interest-bearing net debt before the adoption of the standard. These restated indicators are included as components in the Group's financial targets' performance indicators. The indicator is presented in Note 4.1 Capital management.

Items affecting comparability € million

€ million	**2023**	**2022**
Gains on disposal	+0,4	+0,0
Losses on disposal	-1.0	-0.1
Structural arrangements	-16.1	+1,6
Items in operating profit affecting comparability, total	**-16.7**	**+1,5**

Items related to structural arrangements are presented on the following lines in the consolidated income statement: other operating income (€+0.8 million), change in inventory (€-1.0 million), employee benefit expenses (€-7.5 million), depreciation, amortisation and impairment charges (€-0.5 million), depreciation and impairment charges for right-of-use assets (€-3.4 million) and other operating expenses (€-5.1 million).

In 2022 items related to structural arrangements are presented on the following lines in the consolidated income statement: employee benefit expenses (€-1.1 million), depreciation and impairment charges for right-of-use assets (€+1.6 million), other operating expenses (€-1.6 million) and share of result of joint ventures (€+2.6 million).

Reconciliation of alternative performance measures to IFRS financial statements

€ million	2023	2022
Operating profit, comparable		
Operating profit	695.4	816.5
Net of		
Items in operating profit affecting comparability	-16.7	1.5
Operating profit, comparable	**712.0**	**815.1**
Return on capital employed, comparable, %		
Operating profit, comparable	712.0	815.1
Capital employed, average	5,313.3	4,811.9
Return on capital employed, comparable, %	**13.4**	**16.9**
Comparable change in net sales		
Net sales, building and technical trade	4,193.2	4,591.1
Foreign exchange effects	172.4	
Effect of acquisitions and divestments	-258.5	
Change in net sales, comparable, %	-10.5	9.7
Net sales, Group	11,783.8	11,809.0
Foreign exchange effects	172.4	
Effect of acquisitions and divestments	-258.5	-5.3
Change in net sales, comparable, %	-0.8	4.4

Calculation of performance indicators

Operating profit, comparable

Operating profit +/– items affecting comparability

Return on capital employed, comparable, %

$$\frac{\text{Comparable operating profit x 100}}{\text{(Property, plant and equipment + Goodwill + Intangible assets + Right-of-use assets + Shares in associates and joint ventures + Financial assets at fair value through profit or loss + Non-current receivables + Pension assets + Inventories + Trade receivables + Income tax assets + Other non-interest-bearing receivables + Non-current assets classified as held for sale - Non-interest-bearing non-current liabilities - Pension obligations - Provisions - Trade payables - Other non-interest bearing liabilities - Income tax liabilities - Accrued liabilities - Liabilities related to available-for-sale non-current assets) on average for the reporting period}}$$

Geographical information

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland. The grocery trade operates in Finland. The building and technical trade operates in Finland, Sweden, Norway, the Baltic countries and Poland, and the car trade operates in Finland. Net sales, assets, capital expenditure and personnel are presented by location.

Net sales are mostly derived from sales of goods. The amount derived from sales of services is minor.

Kesko Group does not have net sales derived from a single customer, which exceeds 10% of Kesko Group's total net sales.

2023 **€ million**	**Finland**	**Other** **Nordic countries**	**Baltic countries**	**Others**	**Eliminations**	**Total**
Net sales	9,714.0	1,612.5	129.1	336.9	-8.7	11,783.8
Assets included in capital employed	5,733.1	1,417.5	211.3	151.4		7,513.3
Average number of personnel converted into full-time employees	10,314	3,167	357	927		14,766

2022 **€ million**	**Finland**	**Other** **Nordic countries**	**Baltic countries**	**Others**	**Eliminations**	**Total**
Net sales	9,610.7	1,729.3	130.8	349.2	-10.9	11,809.0
Assets included in capital employed	5,492.6	1,294.5	216.0	154.6		7,157.7
Average number of personnel converted into full-time employees	10,372	3,036	337	888		14,633

2.3 Material and services

€ million	2023	2022
Material and services	-9,814.8	-10,088.5
External services	-220.2	-216.0
Total	**-10,035.0**	**-10,304.5**

2.4 Other operating income

Revenue recognition, including the definition of income reported under other operating income, is presented in Note 2.1.

€ million	2023	2022
Income from services	780.3	773.7
Lease income	46.1	44.0
Gains on disposal of property, plant, equipment and intangible assets	1.6	0.7
Gains on disposal of businesses	-	0.0
Realised gains on derivative contracts and changes in fair value	1.4	16.1
Others	145.9	164.3
Total	**975.2**	**998.7**

Income from services mainly comprises chain and store site fees paid by retailers' chain companies.

More information on lease income is provided in Note 3.4.

2.5 Operating expenses

Accounting policies

Other operating expenses include expenses other than the cost of goods sold, such as employee benefit expenses, marketing costs, property and store site maintenance costs, information system expenses, and lease payments recognised in the income statement on leases classified as short-term leases or leased assets classified as of low value. Other operating expenses also include losses on the disposal of property, plant and equipment and intangible assets, losses on disposal of business operations as well as realised and unrealised losses on derivatives used for hedging foreign currency risks associated with commercial transactions.

Employee benefit expenses

€ million	2023	2022
Salaries and fees	-629.8	-626.0
Social security costs	-58.4	-58.8
Pension costs		
Defined benefit plans	-1.2	-4.1
Defined contribution plans	-89.2	-86.2
Share-based payment	-8.1	-10.6
Total	**-786.6**	**-785.8**

Information on the defined benefit plans is presented in Note 3.7. Information on the employee benefits of the Group's management personnel and other related party transactions are presented in Note 5.2, and information on share-based compensation in Note 5.3.

Average number of the Group personnel

	2023	2022
Grocery trade	6,257	6,288
Building and technical trade	6,073	5,871
Car trade	1,531	1,519
Common functions	905	955
Total, Group	**14,766**	**14,633**

Average number of the Group personnel by segment is calculated as full-time equivalent employees.

Other operating expenses

€ million	2023	2022
Marketing costs	-208.5	-210.2
Property and store site maintenance expenses	-185.1	-181.5
ICT expenses	-111.9	-117.6
Lease payments in the income statement	-7.7	-7.4
Losses on disposal of property, plant, equipment and intangible assets	-1.1	-0.4
Realised losses on derivative contracts and changes in fair value	-1.7	-11.1
Other operating expenses	-135.8	-142.0
Total	**-651.8**	**-670.2**

Lease payments in the income statement consist of payments for short-term leases and payments for leases of low-value assets as well as variable lease payments. Property and store site maintenance expenses also include maintenance expenses for leased properties. More information on lease expenditure is provided in Note 3.4.

Auditors' fees

€ million	2023	2022
Audit	-1.2	-1.2
Tax consultation	-0.0	-0.0
Other services	-0.2	-0.1
Total	**-1.4**	**-1.3**

Kesko Corporation's Auditor is Deloitte Oy. A statutory audit fee of €0.1 million is paid to an audit firm outside of Deloitte-group.

2.6 Foreign exchange differences recognised in operating profit

€ million	2023	2022
Net sales	-0.2	-0.0
Other operating income	1.4	16.1
Material and services	-1.0	1.2
Other operating expenses	-1.7	-11.1
Total	**-1.4**	**6.1**

2.7 Income tax

Accounting policies

The taxes recognised in the consolidated income statement include the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes have been calculated from the taxable income of each company determined by local jurisdiction. The tax impact of items recognised in other comprehensive income has been recognised correspondingly in other comprehensive income.

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases and carrying amounts of assets and liabilities and for unused tax losses. Deferred tax liability has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognised unless a distribution of earnings is probable, causing tax implications.

Deferred tax has been determined using the tax rates enacted at the balance sheet date, and as the rates changed, at the known new rate. A deferred income tax asset is recognised to the extent that it is probable that it can be utilised against future taxable income. The Group's deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

The most significant temporary differences arise from leases, defined benefit pension plans, property, plant and equipment (depreciation difference), provisions and measurements at fair value of asset items in connection with acquisitions.

Group's tax positions are assessed regularly to identify situations requiring interpretation. If an interpretation taken by the Group is deemed unlikely to be approved, a provision is made in accounting of income taxes. An uncertain tax position may affect taxes for the financial year or deferred taxes or both.

€ million	2023	2022
Current tax	-113.9	-141.5
Tax for prior years	-0.5	-0.9
Change in deferred taxes	-3.6	-8.8
Total	**-118.0**	**-151.2**

Reconciliation between tax expense shown in the income statement and tax calculated at parent's rate

€ million	2023	2022
Profit before tax	613.5	761.1
Tax at parent's rate 20.0%	-122.7	-152.2
Effect of foreign subsidiaries' different tax rates	-3.5	-2.8
Effect of tax-free income	0.4	0.3
Effect of expenses not deductible for tax purposes	-2.0	-1.2
Effect of unrecognised deferred tax assets	-0.6	0.1
Effect of consolidation of share of result of associates and joint ventures	4.2	4.8
Tax for prior years	-0.5	-0.9
Adjustment and revaluation of deferred tax for previous years	7.0	0.6
Others	-0.3	0.1
Tax charge	**-118.0**	**-151.2**
Effective tax rate	**19.2%**	**19.9%**

Balance sheet division of net deferred tax assets (liabilities)

€ million	2023	2022
Deferred tax assets	13.7	2.2
Deferred tax liabilities	70.9	63.2
Total	**-57.2**	**-61.0**

Movements in deferred tax in 2023

€ million	1 Jan. 2023	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2023
Deferred tax assets						
Leases	37.1	-0.1	-	-0.1	-	36.8
Provisions	8.9	-1.6	-	-0.1	-0.1	7.1
Defined benefit pension plans	0.0	0.4	-	-	-	0.5
Tax loss carry-forwards	0.1	9.9	-	0.3	0.1	10.5
Other temporary differences	12.9	1.7	0.3	0.0	0.4	15.3
Total	59.0	10.3	0.3	0.2	0.4	70.2
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	62.0	8.0	-	-	0.0	70.0
Fair value allocation	28.1	1.5	-	-0.7	2.8	31.7
Defined benefit pension plans	17.2	-0.0	-1.4	-	-	15.8
Other temporary differences	12.8	4.5	-7.5	-0.0	0.1	9.9
Total	120.0	13.9	-8.8	-0.7	2.9	127.3
Net deferred tax asset (+)/ liability (-)	-61.0					-57.2

Movements in deferred tax in 2022

€ million	1 Jan. 2022	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2022
Deferred tax assets						
Leases	39.2	-1.9	-	-0.2	-	37.1
Provisions	10.4	-1.3	-	-0.2	-0.1	8.9
Defined benefit pension plans	0.1	-0.0	-	-	-	0.0
Tax loss carry-forwards	0.5	-0.4	-	-	-	0.1
Other temporary differences	13.5	-0.7	0.1	-0.1	0.1	12.9
Total	63.7	-4.3	0.1	-0.5	0.0	59.0
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	49.4	12.3	-	-	0.3	62.0
Fair value allocation	28.4	-0.9	-	-0.6	1.1	28.1
Defined benefit pension plans	18.9	-9.4	7.6	-	-	17.2
Other temporary differences	3.7	2.5	6.7	-0.0	-0.0	12.8
Total	100.5	4.5	14.3	-0.6	1.4	120.0
Net deferred tax asset	-36.8					-61.0

Deferred tax related to components of other comprehensive income

€ million	2023 Before tax	Tax charge/ credit	After tax	2022 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	-6.9	1.4	-5.5	38.2	-7.6	30.6
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-19.5		-19.5	-41.9		-41.9
Share of other comprehensive income of associates and joint ventures	-1.8		-1.8	-0.5		-0.5
Cash flow hedge revaluation	-38.8	7.8	-31.0	32.8	-6.6	26.2
Total	**-67.0**	**9.1**	**-57.9**	**28.6**	**-14.2**	**14.3**

Tax loss carry-forwards

In the 31 December 2023 consolidated financial statements, the Group has recognised €10.2 million deferred tax asset on tax losses carried forward by the Swedish Group companies. The profitability of the Swedish operations has significantly improved due to reorganisation of loss-making operations, and acquisitions. Considering the uncertainties related to the overall economy, the recognised tax asset is based on estimated utilisation of the tax losses over a limited time period. In Sweden tax losses may be carried forward indefinitely. As at 31 December 2023, the Group still had €149.2 million of unused tax losses for which deferred tax assets have not been recognised.

Tax losses carried forward for which tax assets have not been recognised expire as follows:

€ million	2024	2025	2026	2027	2028	2029–	Total
	-	-	-	-	-	149.2	149.2

2.8 Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing the net profit for the period attributable to the parent's equity holders by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares.

	2023	2022
Net profit for the period attributable to equity holders of the parent, € million	495.6	609.9
Number of shares		
Weighted average number of shares outstanding	397,705,620	397,383,187
Diluted weighted average number of shares outstanding	397,705,620	397,383,187
Earnings per share from net profit attributable to equity holders of the parent		
Basic and diluted, Group total, €	1.25	1.53

2.9 Additional details related to the statement of cash flows

Adjustments to cash flows from operating activities

€ million	2023	2022
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	-2.4	-7.5
Share of results of associates and joint ventures	-21.0	-24.1
Credit losses	5.1	4.0
Gains on disposal of property, plant, equipment and intangible assets and business operations	-1.6	3.5
Losses on disposal of property, plant, equipment and intangible assets and business operations	5.5	0.4
Share-based compensation	-2.3	-9.2
Defined benefit pensions	0.5	5.5
Others	5.5	7.3
Total	**-10.8**	**-20.2**

The group 'Others' within the adjustments to cash flows from operating activities includes the adjustment of unrealised foreign exchange gains and losses on purchases and sales, and the adjustment of other transactions of a non-cash nature.

Capital expenditure and non-cash financing activities

€ million	2023	2022
Total acquisitions of property, plant, equipment and intangible assets	550.0	399.1
Total acquisitions of subsidiaries and investments in associates and other investments	129.0	50.1
Total capital expenditure	**678.9**	**449.2**
of which cash payments	643.5	386.4
Loans relating to acquired companies and cash and cash equivalents	40.3	19.9
Payments arising from prior period investing activities	-39.0	-21.9
Capital expenditure financed with liabilities	34.2	24.4
Pension Fund return of surplus assets	-	40.3
Total	**678.9**	**449.2**

3. CAPITAL EMPLOYED

3.1. Acquisitions

Accounting policies

Assets acquired and liabilities assumed in business combinations are measured at their fair values at the date of acquisition. The fair values on which the allocation of assets and liabilities is based are determined by reference to market values to the extent they are available. If market values are not available, the measurement is based on the estimated earnings-generating capacity of the asset and its future use in Kesko's operating activities.

Critical accounting estimates and assumptions

The measurement of intangible assets is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

Acquisitions in 2023

Acquisitions in Sweden

Zenitec Sweden AB

Kesko's Swedish subsidiary Kesko AB acquired Zenitec Sweden AB, a solar power system wholesaler, on 5 April 2023. The consideration paid for the acquisitions totalled €4.9 million. The acquisition expands the selection, expertise and customer base in technical trade in Sweden's fast growing renewable energy market.

The fair value of the assets acquired for Kesko Group amounted to €6.0 million and the fair value of the liabilities assumed to €4.6 million. The fair value of the intangible assets acquired at the date of acquisitions totalled €0.6 million. The goodwill arising from the acquisition is not tax deductible. The consolidated income statement includes minor acquisition-related costs under “Other operating expenses”, presented as items affecting comparability. The impact of the acquired businesses to the Group’s net sales and operating profit was minor.

Acquisitions in Norway

Elektroskandia Norge AS

Kesko's subsidiary Onninen acquired Elektroskandia Norge AS, a Norwegian technical trade operator, on 1 March 2023. The consideration paid was €120.8 million. The acquisition strengthens Kesko's position in Norwegian technical trade, and further increases its growing role in advancing the green transition.

The fair value of the assets acquired for Kesko Group amounted to €121.6 million and the fair value of the liabilities assumed to €85.4 million. The fair value of intangible assets acquired at the date of acquisition totalled €15.6 million. The goodwill arising from the acquisition, €84.7 million, represents the synergies that are expected to be realised in sales, procurement, selections, and logistics as well as in efficiency of operations. The goodwill arising from the acquisition is not tax deductible. The consolidated income statement includes minor acquisition-related costs under “Other operating expenses”, presented as items affecting comparability.

Geitanger Bygg AS

Kesko's Norwegian subsidiary Byggmakker Handel AS acquired Norwegian building and home improvement trade operator Geitanger Bygg AS on 2 October 2023. The consideration paid was €8.0 million.

The fair value of the assets acquired for Kesko Group amounted to €9.6 million and the fair value of the liabilities assumed to €3.1 million. The fair value of the intangible assets acquired at the date of acquisition totalled €0.6 million. The goodwill arising from the acquisition is not tax deductible. The consolidated income statement includes minor acquisition-related costs under “Other operating expenses”, presented as items affecting comparability. The impact of the acquired business to the Group’s net sales and operating profit was minor.

The following table provides a summary of the consideration paid, the values of assets acquired and liabilities assumed by Kesko Group at the date of acquisition, and the cash flow impact of the acquisitions.

	2023		
€ million	**Zenitec Sweden AB**	**Elektroskandia Norge AS**	**Geitanger Bygg AS**
Acquisition price	4.9	120.8	8.0
Fair values of assets acquired and liabilities assumed at the date of acquisition			
Intangible assets	0.6	15.6	0.6
Property, plant, equipment, right-of-use assets and investments	0.3	15.1	1.8
Inventories	2.8	38.6	3.0
Receivables	2.3	45.8	1.9
Deferred tax asset	-	1.3	-
Cash and cash equivalents	-0.0	5.3	2.4
Total assets	**6.0**	**121.6**	**9.6**
Trade payables, other payables, provisions, lease liabilities	4.5	81.6	2.9
Deferred tax liability	0.1	3.8	0.2
Total liabilities	**4.6**	**85.4**	**3.1**
Net assets acquired, total	**1.4**	**36.2**	**6.5**
Goodwill	**3.5**	**84.7**	**1.5**
Cash flow impact of acquisition			
Consideration paid	-4.9	-120.8	-8.0
Cash and cash equivalents acquired	-0.0	5.3	2.4
Cash flow impact of acquisition	**-5.0**	**-115.5**	**-5.6**

Acquisitions in 2022

Acquisitions in Sweden

Kesko's Swedish subsidiary Fresks Försäljning AB acquired Kungälvs Trävaruaktiebolag, a company that serves professional builders, on 1 March 2022, Djurbergs Järnhandel Aktiebolag and Föllinge Såg AB on 1 September 2022, and XL-BYGG Bergslagen AB on 1 October 2022. The consideration paid for the acquisitions totalled €38.3 million. The acquisitions complete Kesko's growing K-Bygg chain for professional builders.

The fair value of the assets acquired for Kesko Group amounted to €43.1 million and the fair value of the liabilities assumed to €23.8 million. The fair value of the intangible assets acquired at the date of acquisitions totalled €4.0 million.

Acquisitions in Norway

Kesko's Norwegian subsidiary Byggmakker CF AS acquired the Norwegian Seljord Elektriske AS on 1 June 2022. The consideration paid was €12.5 million.

The fair value of the assets acquired for Kesko Group amounted to €9.2 million and the fair value of the liabilities assumed to €4.0 million. The fair value of the intangible assets acquired at the date of acquisition totalled €1.1 million.

€ million	2022 Acquisitions in Sweden	2022 Acquisitions in Norway
Acquisition price	38.3	12.5
Fair values of assets acquired and liabilities assumed at the date of acquisition"		
Intangible assets	4.0	1.1
Property, plant, equipment, right-of-use assets and investments	14.5	2.5
Inventories	10.2	2.8
Receivables	8.5	1.4
Deferred tax asset	0.0	0.1
Cash and cash equivalents	5.9	1.3
Total assets	**43.1**	**9.2**
Trade payables, other payables, provisions, lease liabilities	22.2	3.7
Deferred tax liability	1.6	0.3
Total liabilities	**23.8**	**4.0**
Net assets acquired, total	**19.3**	**5.2**
Goodwill	**19.0**	**7.3**
Cash flow impact of acquisition		
Consideration paid	-38.3	-12.5
Cash and cash equivalents acquired	5.9	1.3
Cash flow impact of acquisition	**-32.4**	**-11.2**

3.2 Property, plant and equipment

Accounting policies

Property, plant and equipment mainly comprise land, buildings, machinery and equipment. Property, plant and equipment are carried at cost less any accumulated depreciation and possible impairment charges. The property, plant and equipment of acquired subsidiaries are measured at fair value at the date of acquisition.

Subsequent costs relating to items of property, plant and equipment are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. The machinery and equipment of buildings are treated as separate assets and any significant expenditure related to their replacement is capitalised. All other repair, service and maintenance expenditures of items of property, plant and equipment are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method over their estimated useful lives. Land is not depreciated.

The most common estimated useful lives are:

- Buildings 10–33 years
- Components of buildings 8–10 years
- Machinery and equipment 3–8 years
- Cars and transport equipment 5 years

The residual values and useful lives of property, plant and equipment are reviewed at least at the end of each financial year. If the estimates of useful life and the expected pattern of economic benefits are different from previous estimates, the change in the estimate is accounted for.

Gains and losses on disposals of property, plant and equipment are recognised in the income statement and stated as other operating income and expenses.

The Group has not capitalised interest costs incurred as part of the acquisition of assets, because the Group does not have qualifying assets.

2023 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2023
Cost						
Cost as at 1 January	352.5	1,647.8	665.8	33.4	113.8	2,813.3
Exchange differences	-0.7	0.0	-1.3	0.3	0.2	-1.5
Additions	38.8	173.7	100.1	2.0	196.6	511.2
Acquisitions	-	1.5	1.9	-	0.3	3.7
Deductions	-1.0	-1.5	-74.9	-0.9	-2.0	-80.3
Transfers between items	1.6	44.8	9.0	2.6	-76.6	-18.7
Cost as at 31 December	391.2	1,866.2	700.6	37.4	232.3	3,227.7
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-7.3	-658.5	-380.5	-21.6		-1,067.8
Exchange differences	0.1	0.2	0.9	-0.1		1.1
Accumulated depreciation on deductions	0.3	-3.1	43.1	0.9		41.2
Accumulated depreciation on transfers	-	1.5	-0.6	-1.0		0.0
Depreciation and impairment charges for the year	-0.3	-80.8	-63.3	-2.1		-146.5
Accumulated depreciation and impairment charges as at 31 December	-7.2	-740.7	-400.3	-23.9		-1,172.0
Carrying amount as at 1 January	345.3	989.3	285.3	11.8	113.8	1,745.5
Carrying amount as at 31 December	**384.1**	**1,125.5**	**300.3**	**13.5**	**232.3**	**2,055.6**

2022 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2022
Cost						
Cost as at 1 January	317.6	1,474.0	642.5	37.6	51.8	2,523.5
Exchange differences	-1.7	-4.3	-5.1	-0.6	-0.1	-11.7
Additions	35.5	148.5	79.6	1.7	104.8	370.0
Acquisitions	-	0.6	1.0	-	0.0	1.6
Deductions	-0.1	-3.0	-63.1	-0.8	-1.7	-68.8
Transfers between items	1.2	31.9	11.0	-4.5	-41.1	-1.4
Cost as at 31 December	352.5	1,647.8	665.8	33.4	113.8	2,813.3
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-7.3	-588.9	-367.5	-22.3		-985.9
Exchange differences	0.1	2.1	3.5	0.4		6.2
Accumulated depreciation on deductions	-	2.2	46.0	1.0		49.2
Accumulated depreciation on transfers	-	0.2	-1.0	1.0		0.2
Depreciation and impairment charges for the year	-0.0	-74.2	-61.5	-1.7		-137.5
Accumulated depreciation and impairment charges as at 31 December	-7.3	-658.5	-380.5	-21.6		-1,067.8
Carrying amount as at 1 January	310.3	885.1	275.0	15.3	51.8	1,537.6
Carrying amount as at 31 December	**345.3**	**989.3**	**285.3**	**11.8**	**113.8**	**1,745.5**

3.3 Intangible assets

Accounting policies

Goodwill and trademarks

Goodwill is not amortised but is instead tested for impairment whenever there is an indication of impairment, and at least annually. For testing purposes, goodwill is allocated to the cash generating units. Goodwill is measured at initial cost. Any negative goodwill is immediately recognised as income. For goodwill, a recognised impairment loss is not reversed.

Intangible assets with indefinite useful lives are not amortised. They are tested for impairment whenever there is an indication of impairment, and at least annually. Costs for intangible assets with finite useful lives are initially measured at cost and amortised over the useful life of the assets. The intangible assets with indefinite useful lives include trademarks capitalised upon acquisitions, recognised at their fair values at the acquisition date.

Other intangible assets

The intangible assets with finite useful lives are initially measured at cost and amortised over their useful lives. Such intangible assets include software licences, customer relationships and licences measured at the fair value at the date of acquisition, and leasehold interests that are amortised during their probable lease terms.

The estimated useful lives are:

- Software and licences 3–5 years
- Customer and supplier relationships 5–10 years

Research and development expenses

The costs of research and development activities have been expensed as incurred, because the Group does not have development costs eligible for capitalisation. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Software

Costs directly attributable to the development of new software are capitalised as part of the software cost. On the balance sheet, software is included in intangible assets and its cost is amortised over the useful life of the software. Costs associated with maintaining the software are recognised as an expense as incurred.

Impairment of non-financial assets

At each balance sheet date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives is assessed every year whether or not there is an indication of impairment. In addition, an impairment test is performed whenever there is an indication of impairment.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Often, it is not possible to estimate the recoverable amount for an individual asset. Then, as in the case of goodwill, the recoverable amount is determined for the cash generating unit to which the goodwill or asset belongs.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed, if the revaluation shows an increase in the recoverable amount. However, the reversal of an impairment loss of an asset should not exceed the carrying amount of the asset without impairment loss recognition. For goodwill, a recognised impairment loss is not reversed under any circumstances.

Critical accounting estimates and assumptions

The recoverable amounts of cash generating units have been determined using calculations based on value in use. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of three years.

2023 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2023
Cost					
Cost as at 1 January	635.1	96.1	249.4	9.1	989.7
Exchange differences	-15.0	-2.0	-3.1	-	-20.1
Additions	-	0.0	19.7	2.2	21.9
Acquisitions	90.0	2.0	14.3	-	106.4
Deductions	-	-	-10.0	-0.0	-10.0
Transfers between items	-	-0.1	28.0	-7.2	20.7
Cost as at 31 December	710.1	96.0	298.2	4.2	1,108.5
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-46.2	-9.3	-155.1		-210.6
Exchange differences	-0.2	0.5	2.2		2.5
Accumulated amortisation and impairment charges on disposals		-	14.5		14.5
Accumulated amortisation and impairment on transfers		0.0	-2.1		-2.1
Amortisation and impairment charges for the year	-	-1.3	-36.6		-37.8
Accumulated amortisation and impairment charges as at 31 December	-46.4	-10.0	-177.0		-233.5
Carrying amount as at 1 January	588.9	86.8	94.2	9.1	779.1
Carrying amount as at 31 December	**663.7**	**86.0**	**121.2**	**4.2**	**875.1**

2022 € million	Goodwill	Trademarks	Other intangible assets	Prepay-ments	Total 2022
Cost					
Cost as at 1 January	634.9	97.0	258.8	12.6	1,003.2
Exchange differences	-25.9	-1.7	-3.6	-	-31.2
Additions	0.0	0.1	21.1	7.3	28.6
Acquisitions	26.1	0.7	3.2	-	30.0
Deductions	0.0	-	-42.4	-0.1	-42.5
Transfers between items	-	-	12.2	-10.7	1.5
Cost as at 31 December	635.1	96.1	249.4	9.1	989.7
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-46.1	-8.8	-169.4		-224.3
Exchange differences	-0.1	0.5	2.6		2.9
Accumulated amortisation and impairment charges on disposals		-	42.5		42.5
Accumulated amortisation on transfers	-	-	-0.2		-0.2
Amortisation and impairment charges for the year	-	-1.0	-30.6		-31.6
Accumulated amortisation and impairment charges as at 31 December		-9.3	-155.1		-210.6
Carrying amount as at 1 January	588.8	88.2	89.3	12.6	779.0
Carrying amount as at 31 December	**588.9**	**86.8**	**94.2**	**9.1**	**779.1**

Other intangible assets include software and licences amounting to €55.0 million (€52.9 million).

Impairment testing

Goodwill is allocated to cash-generating units (CGUs) for impairment testing purposes. The cash-generating units have been identified at maximum at the level of reportable segments. The following table presents the allocation of goodwill and trademarks to cash-generating units. The trademarks presented in the table are assessed to have indefinite useful lives.

€ million	Trademarks 2023	Goodwill 2023	Trademarks 2022	Goodwill 2022
Grocery trade				
Grocery trade, chain operations	-	76.1	-	76.1
Grocery trade, Kespro	5.3	2.0	5.3	2.0
Building and technical trade				
Technical trade	58.3	152.2	58.3	66.0
Byggmakker, Norway	20.8	199.3	22.3	211.5
K-Bygg, Sweden	-	191.0	-	190.3
Car trade	-	43.1	-	43.1
Total	**84.4**	**663.7**	**85.9**	**588.9**

Goodwill is tested for impairment whenever there is indication of impairment, and at least annually. Impairment tests have been carried out during the fourth quarter of 2023 for goodwill and trademarks with indefinite useful lives. Trademarks with indefinite useful lives are part of assets acquired in connection with business combinations.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of three years. The plans are based on external sources concerning projections for total market growth, weighted with the cash-generating unit's own business' share of the market in question. The key variable used in determining the forecast cash flows is the development in profitability based on plans approved by management. The development in profitability is influenced by growth predictions, changes in products and services selection and pricing, changes in store site network and development of operating expenses.

The average compound annual growth rate for the forecast period was 2.3–6.6% and the EBITDA ratio range 6.7–13.0%. Cash flows after the forecast period are estimated based on a 0.5–2.0% growth projection, taking into account country-specific differences.

The key variables in impairment testing are the terminal growth rate, discount rate and EBITDA margin-%. The following table presents the pre-tax discount rate and terminal growth rate-% for each cash-generating unit.

€ million	Pre-tax discount rate 2023	Terminal growth rate 2023	Pre-tax discount rate 2022	Terminal growth rate 2022
Grocery trade				
Grocery trade, chain operations	6.8%	0.5%	6.8%	0.5%
Grocery trade, Kespro	6.5%	1.5%	6.5%	1.5%
Building and technical trade				
Technical trade	7.6%	2.0%	7.8%	2.0%
Byggmakker, Norway	7.2%	2.0%	7.2%	2.0%
K-Bygg, Sweden	7.1%	2.0%	7.1%	2.0%
Car trade	7.2%	1.5%	7.2%	1.5%

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each division and country and adjusted for tax effect in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks.

In the impairment testing carried out in 2023 the recoverable amount exceeded the carrying amount in all cash-generating units. There were no impairment charges recognised on goodwill or intangible rights in the financial years 2023 and 2022.

Sensitivity analysis

According to management estimates, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount. The most sensitive to movements in assumptions is the goodwill impairment test for K-Bygg. For the K-Bygg impairment test a foreseeable change in the key variables would not result in impairment of goodwill.

K-Bygg's net sales in 2023 totalled €280.0 million. During the forecast period, the range for change in K-Bygg's net sales is 3.3–31.4%, which is affected by the opening of new stores. By the end of the forecast period, K-Bygg's EBITDA margin is expected to have grown by 2.2 percentage points from the EBITDA margin achieved in 2023. In K-Bygg's impairment test, the recoverable amount exceeded the carrying amount of the assets tested by €67.8 million. Impairment would be recognised if the post-forecast period EBITDA margin would decrease by more than 0.9 percentage points, if the post-forecast period growth percentage would be below 1.0%, or if the pre-tax discount rate was above 8.1%.

3.4 Leases

Accounting policies

Group as a lessee

The Group leases properties, machinery and equipment for use in its business operations. At inception of a contract the Group determines whether the contract is, or contains, a lease. A contract is deemed as a lease if the contract gives the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date of the lease the Group recognises a right-of-use asset and a lease liability except for leases of low-value assets and for leases for which the lease term is 12 months or less, for which the Group applies the practical expedient of the standard. Lease payments for the short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term. The Group separates the non-lease components, such as service components, and expenses them as they incur.

Lease liability is recognised at the commencement date of the lease and measured at the present value of the future lease payments payable during the lease term. The lease payments are discounted using the interest rate implicit in the lease, if readily available. The interest rate implicit in the lease is not available for all leases. In such cases, the incremental borrowing rate is used, which comprises the reference rate, credit spread for the incremental borrowing, and a potential country and currency risk premium. At the commencement date of the lease, the measurement of the lease liability includes fixed lease payments, variable lease payments that depend on an index or a rate, potential residual value guarantees, and the price of a purchase option if it is reasonably certain the option will be exercised. Payments of penalties for terminating the lease are also included in the measurement of the lease liability if the lease term reflects the option to terminate the lease.

Lease liability is subsequently remeasured when there is a change in lease term due to reassessment of an option to continue or terminate the lease, or when there is a change in future lease payments due to changes of an index or a rate. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset. If the reduction in lease liability exceeds the right-of-use asset, the difference is recognised in profit or loss.

Right-of-use asset is measured at cost at the commencement date of the lease. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability. In addition, the cost comprises any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred and an estimate of costs to be incurred to restore the asset. Subsequently the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted with any remeasurement of the lease liability. The right-of-use asset is depreciated from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

If the use of a leased asset is discontinued or a sublease is made to the lease at a lower rate, the lease contract becomes loss-making and an impairment is recognised to the corresponding right-of-use asset.

In sale and leaseback transactions, the parties assess whether the transfer of the asset satisfies the requirements of IFRS 15 for a sale. If the transfer is accounted for as a sale, the right-of-use asset recognised in the balance sheet will be measured by the portion of the carrying amount of the original asset that corresponds to the value of the right to use that remains with the seller. Only the portion of the sales proceeds of the asset corresponding to the rights transferred to the buyer is presented as sales gain or loss. If the consideration for the sale of the asset or payments for the lease do not equal the fair value, the difference is recognised as an adjustment to the asset's sales proceeds. Any below-market terms are accounted for as a prepayment of lease payments, and any above-market terms are accounted for as financial liability. If the requirements for a sale are not satisfied, the Group will continue to recognise the transferred asset in its balance sheet, and will present the transfer proceeds as financial liability.

Critical accounting estimates and assumptions

When recognising leases in the balance sheet, assessments must be made concerning the lease term, use of extension options and the discount rate used. When assessing the lease term of a new lease, extension options are not acknowledged until a commitment has been made to use the extension option. The assessments may differ from the actualised future lease terms and conditions.

Right-of-use assets

The Group leases for its business operations facilities required for retail and for the logistics operations serving retail. The Group's lease contracts are typically fixed term and in line with local market practices. Some of the leases for the properties contain extension options. The Group also leases machinery and equipment used in its business operations, such as vehicles, logistics machinery and equipment, and equipment for recycling waste at stores and logistics operations. The Group has classified office machinery and equipment as low-value assets, and lease payments for them are recognised as an expense in the income statement.

2023 **€ million**	**Land and buildings**	**Machinery and equipment**	**Total**
Carrying amount as at 1 January	1,718.9	18.6	1,737.6
Additions	431.0	6.2	437.3
Acquisitions	14.8	0.9	15.7
Depreciation	-339.3	-8.0	-347.3
Impairment charges	-5.9	-	-5.9
Deductions	-10.2	-0.4	-10.6
Exchange differences	-9.5	-0.3	-9.8
Carrying amount as at 31 December	1,799.9	17.0	1,816.9

2022 **€ million**	**Land and buildings**	**Machinery and equipment**	**Total**
Carrying amount as at 1 January	1,717.2	17.9	1,735.0
Additions	346.6	8.0	354.6
Acquisitions	14.7	0.9	15.6
Depreciation	-313.8	-7.5	-321.3
Impairment charges	-2.4	-	-2.4
Deductions	-30.0	-0.0	-30.1
Exchange differences	-13.3	-0.6	-13.9
Carrying amount as at 31 December	1,718.9	18.6	1,737.6

The lease commitments for leases not commenced on 31 December 2023 to which the Group is committed totalled €233.2 million (€102.4 million).

Lease expenditure

€ million	**2023**	**2022**
Operating profit		
Depreciation and impairment charges on right-of-use assets	-353.2	-322.1
Lease payments for short-term leases	-3.2	-3.0
Lease payments for low-value assets	-3.6	-3.4
Variable lease payments	-1.0	-1.0
Financial expenses		
Interest expense for lease liabilities	-73.4	-68.4
Total	**-434.3**	**-397.9**

Maturity of lease liabilities and related finance costs are detailed in Note 4.3.

Cash flow from leases

€ million	**2023**	**2022**
Interest expense for lease liabilities	-73.4	-68.4
Repayments of lease liabilities	-354.3	-332.7
Lease payments in the income statement	-7.7	-7.4
Total	**-435.4**	**-408.5**

Accounting policies

Group as a lessor

In lessor accounting leases are classified as operating leases or finance leases. The Group assesses at the commencement date of a lease whether it is classified as an operating lease or a finance lease. Leases where the risks and rewards incidental to ownership are transferred to the lessee are classified as finance lease agreements. At the commencement date of the lease, the lessor recognises in the balance sheet a finance lease receivable that corresponds to the net investment in the lease. Lease income for operating leases is recognised in the income statement on a straight-line basis over the lease term.

Kesko leases premises to entrepreneurs other than K-retailers to ensure that the combination of services at a store site supports Kesko's overall profit generation. Such premises typically include so-called store entrance shops at large retail outlets. Kesko has store entrance shops both in its own properties and in leased properties. The entrance shops in leased properties include a sublease agreement where Kesko has the head lease. The entrance shop leases are classified as operating leases. The business premises owned or leased by Kesko and used by K-retailers to conduct chain operations are provided to the retailers under chain agreements, and are not treated as leases. The treatment of income based on chain agreements is detailed in Note 2.1. K Auto Leasing practices leasing operations of vehicles. Vehicle lease contracts are classified as operating leases.

Lease income

€ million	2023	2022
Lease income for operating leases	68.5	63.6

3.5 Inventories

Accounting policies

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less direct costs necessary to make the sale. The cost is determined using weighted average costs. The cost of finished goods comprises all costs of purchase including freight. The cost of self-constructed goods comprises all costs of conversion including direct costs and allocations of variable and fixed production overheads. The cost excludes borrowing costs.

Critical accounting estimates and assumptions

The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records a write-down as necessary. Such reviews require assessments of future demand for products. Possible changes in these estimates may cause changes in inventory measurement in future periods.

€ million	2023	2022
Goods	1,078.4	1,113.0
Prepayments	5.5	2.3
Total	**1,083.9**	**1,115.4**
Write-down of inventories to net realisable value	72.3	56.7

3.6 Trade and other current receivables

Accounting policies

Trade receivables and other current receivables are recognised in the amounts of the initial receivable. According to the IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. The Group has adopted the standard's simplified approach for recognising impairment of trade receivables using the provision matrix. For the impairment model, Group companies have been classified into risk categories on the basis of their business model and realised historical credit losses. In addition, impairment is recognised, if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Impairment is recognised as an expense in other operating expenses. If an amount previously written off is subsequently settled, it is recognised as a reduction of other operating expenses.

Critical accounting estimates and assumptions

The Group companies apply a uniform practice to measuring receivables past due. Possible changes in customers' solvency may cause changes in the measurement of trade receivables in future periods.

€ million	2023	2022
Interest-bearing receivables		
Interest-bearing loans and receivables	4.3	4.4
Total interest-bearing receivables	4.3	4.4
Trade receivables	970.5	969.3
Income tax assets	6.6	21.9
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	44.6	80.2
Prepaid expenses and deferred income	258.0	281.0
Total other non-interest-bearing receivables	302.6	361.2
Total	**1,284.0**	**1,356.9**

Prepaid expenses mainly relate to purchases. The fair values of current trade and loan receivables, and those of current interest-bearing receivables are estimated to equal the carrying amounts due to their short maturities.

Ageing analysis of trade receivables

Business entities are responsible for managing the credit risk associated with amounts due from customers. Terms and conditions of credit sale and collateral requirements as well as decision-making authorisations for credit facilities have been determined for managing credit risk within businesses. Credit control identifies customers with risk and ensures that credit decisions are based on up-to-date information on a customer's solvency and any changes in solvency are considered. The economic uncertainty is taken into account when estimating expected credit losses in connection with measurement of trade receivables. The Group's trade receivables are from a large number of individual customers, and receivables do not contain significant risk concentrations. The seasonality of businesses impacts the amount of trade receivables in the consolidated statement of financial position. The amount of credit losses remained moderate despite the economic uncertainty.

€ million	2023	2022
Trade receivables not due	875.8	886.7
1–7 days past due trade receivables	58.0	38.1
8–30 days past due trade receivables	14.7	23.6
31–60 days past due trade receivables	4.7	4.1
Over 60 days past due trade receivables	17.1	16.8
Total	**970.5**	**969.3**

In Finland the key part of the business is done in cooperation with retailers and within trade receivables, €382.7 million (€395.6 million) were from chain retailers. The collateral for retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the counter security from the K-retailer's company and its entrepreneur to Vähittäiskaupan Takaus Oy. At the end of the financial year, the aggregate value of counter securities was €199.5 million (€238.6 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €24.4 million (€19.4 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €5.1 million (€4.0 million).

The amount of trade receivables with renegotiated terms totalled €1.4 million (€2.3 million).

3.7 Pension assets

Accounting policies

The Group operates both defined contribution pension plans and defined benefit pension plans. The contributions payable under defined contribution plans are recognised as expenses in the income statement for the period to which the payments relate. In defined contribution plans, the Group does not have a legal or constructive obligation to pay further contributions, in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, the Group may incur obligations or assets after the payment of the contribution. The pension obligation represents the present value of future cash flows from the benefits payable. The present value of pension obligations has been calculated using the projected unit credit method. Pension costs are expensed during employees' service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligation is the market yield of high-quality corporate bonds. Their maturity substantially corresponds to the maturity of the pension liability. The assets corresponding to the pension obligation of the retirement benefit plan are carried at fair values at the balance sheet date. Actuarial gains and losses are recognised in comprehensive income in the income statement.

Critical accounting estimates and assumptions

Items relating to employee benefits are calculated using several factors that require the application of judgement. Pension calculations under defined benefit plans in compliance with IAS 19 are based on, among others, the following factors that rely on management estimates:

- discount rate used in calculating pension expenses and obligations and net finance cost for the period
- future salary increase
- employee service life.

Changes in these assumptions can significantly impact the amounts of pension obligation and future pension expenses. In addition, a significant part of the pension plan assets is invested in real estate and shares, whose value adjustments impact the recognised amount of pension assets.

The Group operates several pension plans in different operating countries. In Finland, the statutory pension provision of personnel is provided through pension insurance companies and the voluntary supplementary pension provision is mainly provided through Kesko Pension Fund. The statutory pension provision provided through pension insurance companies is a defined contribution plan. Defined benefit plans comprise mainly supplementary pension provision provided through Kesko Pension Fund.

Pension plans in foreign subsidiaries are managed in accordance with local regulations and practices, and they are mainly defined contribution plans.

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund. New members have not been included in the Pension Fund after 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. The Pension Fund had 2,072 beneficiaries, of whom 259 were active employees and 1,813 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.4% (96.4%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

In addition to its rules, the Pension Fund's operations are regulated by the Employee Benefit Funds Act, the decrees under the Act and official instructions, and the Fund's operations are supervised by the Financial Supervisory Authority. The regulations include stipulations on the calculation of pension obligation and its coverage, for example. The pension obligation shall be fully covered by the plan assets, any temporary deficit is only allowed exceptionally. In addition, the regulations include detailed stipulations on the acceptability of the covering assets and the diversification of investment risks.

Kesko Pension Fund did not charge contributions from its members during this or the previous financial year. In 2022 Kesko Pension Fund paid €42.9 million in total in return of surplus assets to Finnish Group companies. The return of surplus assets included the property of K-Citymarket in Turtola in Tampere, €40.3 million.

The defined benefit asset recognised in the balance sheet is determined as follows

€ million	2023	2022
Present value of defined benefit obligation	-241.0	-225.2
Fair value of plan assets	320.3	312.1
Net assets recognised in the balance sheet	**79.6**	**86.9**
Movement in the net assets recognised in the balance sheet		
As at 1 January	**86.9**	**94.7**
Income/cost recognised in the income statement	-1.2	-4.1
Remeasurement	-6.8	38.3
Return of surplus assets	0.0	-42.9
Contributions to plan and plan costs	0.3	1.0
As at 31 December	**79.6**	**86.9**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2023	-225.2	312.1	86.9
Current service cost	-2.3		-2.3
Gains or losses on settlement	-1.5		-1.5
Interest cost/income	-7.7	10.9	3.2
Plan costs		-0.5	-0.5
	-11.6	**10.4**	**-1.2**
Remeasurement			
Return on plan assets		11.4	11.4
Gain/loss from changes in financial assumptions	-15.1		-15.1
Experience gains/losses	-3.2		-3.2
	-18.3	**11.4**	**-6.8**
Contributions to plan		0.3	0.3
Benefit payments	14.0	-14.0	-
As at 31 December 2023	**-241.0**	**320.3**	**79.6**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2022	-282.2	376.9	94.7
Current service cost	-4.0		-4.0
Gains or losses on settlement	-0.3		-0.3
Interest cost/income	-2.5	3.1	0.6
Plan costs		-0.5	-0.5
	-6.8	**2.6**	**-4.1**
Remeasurement			
Return on plan assets		-12.1	-12.1
Gain/loss from changes in financial assumptions	58.5		58.5
Experience gains/losses	-8.0		-8.0
	50.5	**-12.1**	**38.3**
Contributions to plan and plan costs		1.0	1.0
Return of surplus assets		-42.9	-42.9
Benefit payments	13.3	-13.3	0.0
As at 31 December 2022	**-225.2**	**312.1**	**86.9**

Plan assets were comprised as follows in 2023

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments		28.5	28.5
Debt instruments	57.4	3.2	60.6
Investment funds	72.9	15.9	88.8
Properties		85.5	85.5
United States			
Investment funds	51.2		51.2
Other countries			
Investment funds	16.9		16.9
Total	**198.5**	**133.1**	**331.6**

Plan assets were comprised as follows in 2022

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments		29.2	29.2
Debt instruments	49.8	20.4	70.2
Investment funds	56.1	15.1	71.2
Properties		86.9	86.9
United States			
Investment funds	47.2		47.2
Other countries			
Investment funds	18.5		18.5
Total	**171.6**	**151.6**	**323.2**

€ million	2023	2022
Kesko Corporation shares included in fair value	-	-
Properties leased by Kesko Group included in fair value	85.5	86.9

Principal actuarial assumptions

	2023	2022
Discount rate	3.02%	3.56%
Salary growth rate	2.96%	2.97%
Inflation	2.48%	2.49%
Pension growth rate	2.67%	2.68%
Average service expectancy, years	5	5

Weighted average duration of pension obligations and expected maturity analysis of undiscounted pension obligations

	2023	2022
Weighted average duration of pension obligations, years	12	12
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	15.4	15.4
Between 1–10 years	121.4	120.5
Between 10–20 years	109.2	110.2
Between 20–30 years	75.6	76.9
Over 30 years	55.5	59.4
Total	**377.0**	**382.3**

Risks related to pension plan

Asset related risks

The Pension Fund's investments comprise properties, equity index funds, private equity funds, unlisted shares and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually approved by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target return on investment activity is 5.0%. The risks involved in investment activity are managed by continuously monitoring market developments and analysing the adequacy of the return and risk potential of the investments. The returns compared to chosen reference indices and the breakdown of investments are reported on a monthly basis. In 2023, the realised return on investing activity was 7.9%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined pension obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €82.1 million as at 31 December 2023. Local rules concerning the Pension Fund may also create a contribution obligation in situations in which the IAS 19 obligation is fully covered. In such a case, the amount of contributions charged increases the amount of pension assets according to IAS 19.

Obligation related risks

In addition to the general level of interest rates, the defined benefit obligation may be impacted by changes in the statutory pension provision, future salary increases, index-based pension increases and changes in life expectancy. The pension promise made to the Fund's beneficiaries is tied to the amount of pensionable salary and it is a lifelong benefit. The total pension amount consists of the statutory pension and the supplementary pension provided by the Fund. Salary increases will increase the future pension amount. If changes in statutory pension provision, such as an increase in the retirement age or reduction of pension provision, were compensated to pensioners by the supplementary pension, the changes would increase the defined benefit obligation. The amount of future pensions is adjusted annually with an index-based increase in accordance with the terms and conditions of the plan. The extension of life expectancy will result in an increase in plan obligation.

Changes in the general level of interest rates and the market yield of high-quality bonds have an impact on the present value of the defined benefit obligation. When the level of interest rates falls, the present value of the defined benefit obligation rises. Because the Pension Fund's investment assets are invested and their return targets are set for long terms, changes in the annual return on investments do not necessarily correlate in the short term with changes in the discount rate applied to the defined benefit obligation.

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented in the following table.

Actuarial assumption	Change in assumption	Impact on defined benefit obligation, increase	Impact on defined benefit obligation, decrease
2023			
Discount rate	0.50%	-5.87%	6.52%
Salary growth rate	0.50%	0.74%	-0.56%
Pension growth rate	0.50%	5.60%	-5.10%
2022			
Discount rate	0.50%	-5.70%	6.33%
Salary growth rate	0.50%	0.72%	-0.70%
Pension growth rate	0.50%	5.30%	-4.90%

The impacts of sensitivity analysis have been calculated so that the impact of a change in the assumption is calculated while assuming that all other assumptions are constant. In practice, this is unlikely to occur, and changes in some of the assumptions may correlate with each other. The sensitivity of the defined benefit obligation has been calculated using the same method as when calculating the pension obligation recognised within the statement of financial position.

3.8 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are treated as equity-accounted investments. The shares in associates and joint ventures are not quoted on the market. Associates and joint ventures are listed in Note 5.1. Related party information is presented in Note 5.2.

Significant joint ventures

The Group has a significant joint venture, UAB Kesko Senukai Lithuania. Kesko Senukai Group engages in building and home improvement trade in Lithuania, Estonia, Latvia and Belarus. The Group's parent company, UAB Kesko Senukai Lithuania, is a limited liability company registered in Lithuania. Kesko Group has a 50.0% holding in Kesko Senukai Group.

UAB KS Holding is a limited liability company registered in Lithuania that engages in real estate development and real estate rental. Its operations are closely related to the operations of Kesko Senukai Group. Kesko Group's holding in KS Holding Group is 50.0%.

Summary of financials of significant joint ventures, € million	31 Dec. 2023	31 Dec. 2022
Current assets	413.9	427.4
Non-current assets	426.8	422.1
Current liabilities	301.0	285.8
Non-current liabilities	292.9	296.2
The above-mentioned balance sheet items contain the following items:		
Cash and cash equivalents	69.7	72.8
Current interest-bearing liabilities	47.1	39.8
Non-current interest-bearing liabilities	292.8	296.1

	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net sales	1,174.9	1,224.3
Net profit attributable to owners of the parent	37.9	47.1
Comprehensive income for the year attributable to owners of the parent	34.3	48.2
Group share of profit for the year	19.0	23.5
Share of result of the joint venture consolidated in the consolidated financial statements	19.0	23.5
Share of other comprehensive income of the joint venture consolidated in the consolidated financial statements	17.1	24.1
The above-mentioned income statement items contain the following items:		
Depreciation, amortisation and impairment	-53.9	-49.3
Interest income	1.1	0.6
Interest expense	-11.9	-12.3
Income tax	-4.7	-7.9
Dividends and repayment of capital received from joint ventures	-21.7	-33.0

Reconciliation for balance sheet value of joint ventures, € million	2023	2022
Net assets of joint ventures	246.7	267.6
Minority interest in net assets	22.0	34.0
Group interest in net assets	112.6	117.2
Goodwill	19.2	19.2
Fair value allocations	15.0	15.0
Balance sheet value of joint ventures	146.8	151.3

Significant associates

Mercada Oy is a limited liability company registered in Finland, which operates in real estate investment. Mercada owns, manages and develops retail sites mainly used by Kesko Group in Finland. Kesko Corporation's holding in Mercada is 33.3%. Mercada's three shareholders have equal stakes in the company.

Summary of financials of a significant associate, € million	2023	2022
Current assets	22.1	27.7
Non-current assets	506.7	516.3
Current liabilities	11.1	11.4
Non-current liabilities	477.6	488.5
Equity attributable to equity holders of the parent	40.1	44.1
Net sales	51.8	48.7
Net profit for the year	-4.1	10.5
Comprehensive income for the year, total	-4.2	9.6

Reconciliation for balance sheet value of an associate, € million	2023	2022
Net assets of the associate	40.1	44.1
Group interest in net assets	13.4	14.7
Balance sheet value of the associate	13.4	14.7

Other associates

Summary of financials of other associates, € million	2023	2022
Group share of profit for the year	2.8	-3.5
Group share of comprehensive income for the year	2.8	-3.5
Balance sheet value of associates in the consolidated statement of financial position	72.7	65.9

The table presents the associates Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy, which sell services to Kesko and retail companies of K-retailers.

3.9 Provisions

Accounting policies

A provision is recognised when the Group has a present legal or constructive obligation as the result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. Provision amounts are reviewed on each balance sheet date and adjusted to reflect the current best estimate. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised.

A warranty provision is recognised when a product covered by warranty provisions is sold. The provision amount is based on historical experience about the level of warranty expenses.

Critical accounting estimates and assumptions

The existence of criteria for recognising provisions and the amounts of provisions are determined based on estimates of the existence and amount of the obligation. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation.

€ million	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2023	7.9	14.3	22.2
Foreign exchange effects	-0.0	0.1	0.1
Additional provisions	4.3	6.8	11.0
Unused amounts reversed	-3.4	-1.5	-4.9
Amounts charged against provision	-2.1	-7.3	-9.4
Provisions as at 31 Dec. 2023	6.6	12.3	18.9
Analysis of total provisions			
Non-current	2.7	4.3	6.9
Current	3.9	8.1	12.0

The biggest items in other provisions are costs related to care plans of vehicles and machines sold by Group companies, real estate costs for empty store sites, and restructuring costs. The average duration for care plans is 3–4 years.

4. CAPITAL STRUCTURE AND FINANCIAL RISKS

4.1 Capital management

Kesko Group's objectives in capital management include target rates set for the Group's solvency and liquidity. The Group's capital structure (equity-to-debt ratio) is managed at Group level. The targets for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market situations, enabling the implementation of Group strategy, and increasing shareholder value. The targets have been set for the performance indicator 'interest-bearing net debt/EBITDA'. Some of the Group's interest-bearing liabilities include covenants, whose terms and conditions have been taken into account in the above target rate. The Group does not have a credit rating from any external credit rating institution.

Target levels for Kesko Group's performance indicators are approved by the Board of Directors of Kesko Corporation. The Board confirmed an updated version of the company's strategy and new medium-term financial targets for the company on 27 May 2021. The new medium-term financial targets for profitability are a comparable operating margin of over 6.0% (previously 5.5%) and a comparable return on capital employed of over 14.5% (previously 12.5%). As for financial position, the Group continues to target a maximum interest-bearing net debt/EBITDA of 2.5, excluding the impact of IFRS 16.

€ million	2023	2022
Interest-bearing liabilities and lease liabilities in the consolidated statement of financial position	2,787.0	2,418.3
- Lease liabilities	1,997.9	1,920.1
- Other current financial assets	15.4	68.6
- Cash and cash equivalents	211.9	245.5
Interest-bearing net debt excluding lease liabilities	**561.9**	**184.1**
Operating profit	695.4	816.5
+ depreciation, amortisation and impairment	184.0	169.0
+ depreciation and impairment charges for right-of-use-assets	353.2	322.1
- lease payments for right-of-use-assets	430.7	399.1
EBITDA excluding the impact of IFRS 16	**801.8**	**908.5**
Interest bearing net debt/EBITDA excluding the impact of IFRS 16	**0.7**	**0.2**

Reconciliation of net debt

The Group determines net debt by deducting the Group's liquid assets, which comprise cash and cash equivalents and other current financial assets, from interest-bearing short-term and long term-liabilities.

The Group had liquid assets of €227.3 million (€314.1 million) on 31 December 2023. Interest-bearing liabilities on 31 December 2023 totalled €2,787.0 million (€2,418.3 million), of which lease liabilities accounted for €1,997.9 million (€1,920.1 million). Interest-bearing net debt totalled €2,559.8 million (€2,104.2 million), and interest-bearing net debt excluding lease liabilities totalled €561.9 million (€184.1 million).

€ million	2023	2022
Financial assets at amortised cost (maturing in less than 3 months)	3.3	17.0
Cash and cash equivalents	208.6	228.5
Other current financial assets	15.4	68.6
Borrowings - repayable within one year (including overdraft)	-98.5	-252.6
Lease liabilities - repayable within one year	-350.6	-328.1
Borrowings - repayable after one year	-690.7	-245.5
Lease liabilities - repayable after one year	-1,647.2	-1,592.0
Cash and debt, net	**-2,559.8**	**-2,104.2**

€ million	Carrying amount as at 1 Jan. 2023	Cash flows	Business acquisitions and divestments	Net changes of lease liabilities	Foreign exchange adjustments	Carrying amount as at 31 Dec. 2023
Lease liabilities due within 1 year	-328.1	354.3	-3.4	-374.8	1.4	-350.6
Lease liabilities due after 1 year	-1,592.0		-12.1	-51.6	8.4	-1,647.2
Borrowings due within 1 year	-252.6	154.2	-		0.0	-98.5
Borrowings due after 1 year	-245.5	-445.2	-		-	-690.7
Other current financial assets	68.6	-53.2	-		-	15.4
Cash and overdraft	228.5	-28.1	8.2		-0.1	208.6
Financial assets at amortised cost	17.0	-13.7	-		-	3.3
Net debt	**-2,104.2**	**-31.7**	**-7.3**	**-426.4**	**9.8**	**-2,559.8**

€ million	Carrying amount as at 1 Jan. 2022	Cash flows	Business acquisitions and divestments	Net changes of lease liabilities	Foreign exchange adjustments	Carrying amount as at 31 Dec. 2022
Lease liabilities due within 1 year	-317.9	332.7	-1.6	-343.8	2.5	-328.1
Lease liabilities due after 1 year	-1,610.7		-12.3	19.0	11.9	-1,592.0
Borrowings due within 1 year	-160.1	-92.5	-		0.0	-252.6
Borrowings due after 1 year	-206.4	-39.1	-0.0		-0.0	-245.5
Other current financial assets	107.9	-39.3	-		-	68.6
Cash and overdraft	197.9	23.5	7.4		-0.3	228.5
Financial assets at amortised cost	32.0	-15.0	-		-	17.0
Financial assets at fair value through profit or loss	50.0	-50.0	-		-	-
Net debt	**-1,907.3**	**120.2**	**-6.4**	**-324.8**	**14.1**	**-2,104.2**

4.2 Shareholders' equity

Accounting policies

The Group classifies the instruments it has issued either in equity or in financial liabilities based on their nature. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Expenses related to the issuance or acquisition of equity instruments are presented as an allowance for equity. If Kesko Corporation acquires equity instruments of its own, their cost is deducted from equity.

The dividend proposed by the Board of Directors to the General Meeting has not been deducted from equity. Instead, dividends are recognised on the basis of the resolution by the General Meeting.

Change in share numbers and equity reserves

	Number of shares						
Share capital	**A**	**B**	**Total**	**Share capital € million**	**Reserve of invested non-restricted equity € million**	**Share premium € million**	**Total € million**
1 January 2022	126,948,028	270,162,316*	397,110,344*	197.3	197.8	266.9	662.0
Transfer of treasury shares		348,303	348,303				
31 December 2022	126,948,028	270,510,619*	397,458,647*	197.3	197.8	266.9	662.0
Transfer of treasury shares		310,864	310,864				
31 December 2023	**126,948,028**	**270,821,483***	**397,769,511***	**197.3**	**197.8**	**266.9**	**662.0**
Number of votes	**1,269,480,280**	**270,821,483**	**1,540,301,763**				

* Excluding treasury shares, which totalled 2,309,497 (2,620,361) at the end of the financial year.

Treasury shares

On 31 December 2023, the company held a total of 2,309,497 of its own B-shares that had been acquired based on the Board authorisation granted by the General Meeting in the financial years 2018 and 2014. The current number of shares acquired in the year 2018 totals 2,000,000 and the number of shares acquired in 2014 309,497. The share numbers correspond to numbers calculated after the share split carried out in 2020. The shares are held by the company as treasury shares and the Board has the right to issue them. The €24.4 million cost of shares for the B shares acquired in the 2018 financial year and held by the company and the €2.4 million cost of shares for the B shares acquired in 2014 have been deducted from retained earnings in equity. The Board has the authorisation granted by the Annual General Meeting on 30 March 2023 to decide on the issuance of a maximum of 33,000,000 B series shares and to decide on the repurchase of a maximum of 16,000,000 Kesko B shares. The authorisation is valid until 30 June 2024. Information on share-based payments has been given in Note 5.3.

	pcs
B shares held by the Company as at 31 Dec. 2022	**2,620,361**
Transfer, share-based compensation plan	-310,864
Returned during the period	-
B shares held by the Company as at 31 Dec. 2023	**2,309,497**

Dividends

After the balance sheet date, the Board of Directors proposed the distribution of a dividend of €1.02 per share. The dividend distributed for the profit for 2022 was €1.08 per share.

Equity and reserves

Equity consists of share capital, share premium, reserve of invested non-restricted equity, other reserves, revaluation reserve, currency translation differences and retained earnings net of treasury shares.

Share premium

The amount exceeding the par value of share received by the Company in connection with share subscriptions was recorded in the share premium in cases where options had been granted under the old Limited Liability Companies Act (29 Sept. 1978/734). As at the end of the financial year, the share premium was €197.8 million.

Reserve of invested non-restricted equity

The reserve of invested non-restricted equity, €24.1 million, includes the other equity-related investments and share subscription prices to the extent not designated to be included in share capital.

Other reserves

Other reserves, a total of €242.7 million, have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves to a total amount of €242.3 million at the end of the financial year.

Currency translation differences

Currency translation differences arise from the translation of foreign operations' financial statements. Exchange differences arising from monetary items that form a part of a net investment in a foreign operation or exchange differences from loans designated as hedges for foreign net investments and regarded as effective, are also included in currency translation differences. The change in currency translation differences is stated within comprehensive income.

Revaluation reserve

The revaluation reserve includes the effective portion of the change in the fair value of derivatives for which cash flow hedge accounting is applied. Cash flow hedges include electricity derivatives. The change in the reserve is stated within comprehensive income. The result of cash flow hedging has been presented in Note 4.3 Financial risks.

4.3 Financial risks

With respect to financial risk management, the Group observes a uniform treasury policy that has been approved by the Company's Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Board's Audit Committee. The Group Treasury is centrally responsible for obtaining financial resources for the Group, for liquidity management, relations with providers of finance, and the management of financial risks. In the main, the Group's financial resources have been obtained through the parent company, and the Group Treasury arranges financial resources for subsidiaries in their functional currencies. For subsidiaries with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

Foreign exchange risks

Kesko Group conducts business operations in seven countries, in addition to which it makes purchases from numerous countries. In consequence, the Group is exposed to various foreign exchange risks arising from net investments in foreign operations (translation risks) and from assets, liabilities and forecast transactions (transaction risks) denominated in foreign currencies.

The Group companies' financial resources are arranged in their functional currencies. The parent company bears the ensuing foreign exchange risk and hedges the risk exposure using derivatives or borrowings denominated in the relevant foreign currencies.

Translation risks

The Group is exposed to foreign currency translation risks relating to net investments in subsidiaries outside the euro zone held on the balance sheet. This balance sheet exposure has not been hedged. The hedge can be designated if equity is repatriated, or if a currency is expected to be exposed to a significant devaluation risk. The most significant translation exposures are the Norwegian krone and the Swedish krona. Relative to the Group's volume of operations and the balance sheet total, the foreign currency translation risk is low.

Group's translation exposure as at 31 Dec. 2023 **€ million**	**NOK**	**SEK**	**PLN**
Net investment	487.2	297.5	85.2

Group's translation exposure as at 31 Dec. 2022 € million	NOK	SEK	PLN
Net investment	381.6	263.4	71.0

The following table shows how a 10% weakening or strengthening of the functional currencies of Group companies against the euro would affect the Group's equity.

Sensitivity analysis, impact on equity as at 31 Dec. 2023 € million	NOK	SEK	PLN
Weakening 10%	-44.3	-27.0	-7.7
Strengthening 10%	54.1	33.1	9.5

Sensitivity analysis, impact on equity as at 31 Dec. 2022 € million	NOK	SEK	PLN
Weakening 10%	-34.7	-23.9	-6.5
Strengthening 10%	42.4	29.3	7.9

Transaction risks

International purchasing activities and foreign currency denominated financial resources arranged by the parent to subsidiaries expose the Group to transaction risks relating to several currencies. The currency-specific transaction risk exposure comprises foreign currency denominated receivables and liabilities in the balance sheet, forecast foreign currency cash flows, and foreign subsidiaries' liabilities and receivables with respect to the parent. The risk is commercially managed by, for example, transferring exchange rate changes to selling prices, or by replacing suppliers. The remaining exposures are hedged using foreign currency derivatives. The subsidiaries report their foreign exchange exposures to the Group Treasury on a monthly basis.

In the main, the subsidiaries hedge their risk exposures with the Group Treasury, which in turn hedges risk exposures using market transactions within the limits confirmed for each currency. Intra-Group derivative contracts are allocated to the segments in segment reporting.

As a rule, the Group does not apply hedge accounting in accordance with IFRS 9 to hedge the transaction risk relating to purchases and sales. In initial measurement, derivative instruments are recognised at fair value and subsequently in the financial statements, they are remeasured at fair value. The change in fair value of foreign currency derivatives used for hedging purchases and sales is recognised in other operating income or expenses.

Insofar as the Group applies hedge accounting to hedge purchases, the valuation of derivatives is recognised in the revaluation reserve of equity. When a derivative matures, it is treated similarly to the hedged item.

Group's transaction exposure as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Group's transaction risk	-2.9	57.5	51.7	-11.6
Hedging derivatives	17.2	-47.3	-42.3	5.1
Open exposure	14.3	10.2	9.5	-6.6

Group's transaction exposure as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Group's transaction risk	-1.2	74.9	23.7	11.9
Hedging derivatives	23.4	-56.2	-20.9	-10.7
Open exposure	22.3	18.7	2.8	1.2

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The table above presents transaction exposure excluding future cash flows. It does not include the Group's actual foreign exchange risk after hedging. When forecast amounts are included in the transaction exposure, the most significant difference to the table is in the USD exposures. As at 31 December 2023, the exposure with respect to USD was €-5.5 million.

A sensitivity analysis of the transaction exposure shows the impact on profit or loss of a +/-10% exchange rate change in intra-Group receivables and liabilities denominated in foreign currencies and foreign currency derivatives and borrowings used for hedging.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Change +10%	-1.3	-0.9	-0.9	0.6
Change -10%	1.6	1.1	1.1	-0.7

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Change +10%	-2.0	-1.7	-0.3	-0.1
Change -10%	2.5	2.1	0.3	0.1

Liquidity risk

Liquidity risk management aims to maintain sufficient liquid assets and credit facilities in order to ensure the ongoing availability of sufficient financial resources for the Group's operating activities.

Liquid assets comprise cash and cash equivalents in the balance sheet, financial assets at amortised cost, and current financial assets at fair value through profit or loss. Changes in these balance sheet items are presented in the consolidated statement of cash flows under change in cash and cash equivalents for cash and cash equivalents, and in cash flow from investing activities for other financial assets.

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and banks deposits operating in Kesko's market area, in bonds of selected companies and in corporate bond funds. The return on these investments in 2023 was 6.0% (-1.1%) and the duration 1.1 years at the end of the financial year. The maximum credit risk is the fair value of these investments on the balance sheet at the balance sheet date.

Interest-bearing net debt reconciliation is presented in Note 4.1.

Payables to K-retailers consist of two types of interest-bearing liabilities by Kesko to K-retailers: retailers' prepayments to Kesko and Kesko's chain rebate liabilities to retailers.

Kesko has drawn down five bilateral loans, which combined total €650 million. The interest margin of these loans accounts for Kesko's sustainability targets for its carbon footprint and food waste, and in the value chain, emission reduction targets set by Kesko's direct suppliers of goods and services.

At the balance sheet date, the total equivalent of undrawn committed credit facilities was €300 million (€300 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €546 million (€506 million).

	31 Dec. 2023				31 Dec. 2022			
€ million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**<1 year**	**1–5 years**	**>5 years**	**Total**
Maturities of financial liabilities and related finance costs								
Borrowings from financial institutions	**0.2**	**650.6**	**0.8**	**651.6**	**0.2**	**200.6**	**0.9**	**201.7**
finance costs	29.6	17.3	0.1	47.0	4.5	9.2	0.1	13.9
Pension loans	**12.0**	**32.3**	**-**	**44.3**	**12.0**	**38.6**	**5.7**	**56.3**
finance costs	0.6	0.9	-	1.5	0.8	1.4	0.1	2.2
Lease liabilities	**350.6**	**1,064.2**	**583.0**	**1,997.9**	**328.1**	**1,012.4**	**579.7**	**1,920.1**
finance costs	69.6	164.5	68.4	302.5	61.6	144.2	52.1	257.9
Payables to K-retailers	**64.5**	**-**	**-**	**64.5**	**82.1**	**-**	**-**	**82.1**
finance costs	-	-	-	-	0.2	-	-	0.2
Other interest-bearing liabilities	**21.7**	**7.9**	**0.0**	**29.6**	**158.3**	**-**	**0.0**	**158.3**
finance costs	0.1	0.4	-	0.5	1.3	-	-	1.3
Non-current non-interest-bearing liabilities	**0.6**	**3.9**	**19.7**	**24.1**	**1.0**	**2.6**	**20.5**	**24.1**
Current non-interest-bearing liabilities								
Trade payables	**1,418.3**			**1,418.3**	**1,499.4**			**1,499.4**
Accrued expenses	**415.1**			**415.1**	**442.6**			**442.6**
Other non-interest-bearing liabilities	**193.4**			**193.4**	**195.5**			**195.5**

Financial liabilities in the balance sheet include €3.9 million (€1.2 million) in items related to derivatives, of which €2.3 million will mature within the next 12 months.

More information on leases is presented in Note 3.4.

€ million	31 Dec. 2023				31 Dec. 2022			
	<1 year	1–5 years	>5 years	Total	<1 year	1–5 years	>5 years	Total
Cash flows of derivatives								
Payables								
Foreign currency derivatives	125.1	-	-	125.1	140.9	-	-	140.9
Interest rate derivatives	3.9	4.8	-	8.7	1.0	3.0	-	4.0
of which derivatives under hedge accounting	3.0	2.9	-	5.9				
Electricity derivatives	0.5	1.3	-	1.9	0.6	0.1	-	0.7
Receivables								
Foreign currency derivatives	123.5	-	-	123.5	142.8	-	-	142.8
Interest rate derivatives	9.4	7.0	-	16.3	3.3	8.2	-	11.5
of which derivatives under hedge accounting	3.6	2.1	-	5.6				
Electricity derivatives	5.3	2.2	0.0	7.5	29.3	15.5	-	44.8

Interest rate risk on borrowings and sensitivity analysis

Changes in the interest rate level have an impact on the Group's interest expense. The policy for hedging interest rate risk is aimed at balancing the effects of changes in the interest rate level on profit or loss for different financial periods. Hedge accounting can be applied for interest rate derivatives according to Kesko Treasury policy.

Hedge accounting is applied to hedging the interest rate risk of specifically determined Kesko Corporation loans. Interest rate swaps with the same maturity as the loan have been used for hedging. Thus the hedging of the interest rate risk of the loan is 67%. During the financial year, no ineffectiveness was recorded in the income statement for the hedging of the loan in question.

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate derivative contracts. The target duration is between 1 and 4 years. The actual duration during the financial year was 1.1 (1.7) years on average.

The sensitivity analysis calculated at the balance sheet date of 31 December 2023, the effect of variable rate borrowings on the pre-tax profit would have been €-/+4.1 million (€-/+1.1 million), if the interest rate level had risen or fallen by 1 percentage point.

Pension loans, €44.3 million in total, have fixed rates, and their effective interest cost was 1.4%. Other borrowings from financial institutions have variable interest rates. At the end of the financial year, the average rate of these borrowings, payables to retailers, and other interest-bearing liabilities was 4.2%.

Credit and counterparty risk

Financial instruments involve the risk of non-performance by counterparties. Credit risk is managed with agreements with financially sound Finnish and foreign banks, financial institutes and brokers, within the counterparty risks limits set in the treasury policy. Financial assets are also invested in money market funds and the bonds, commercial papers and certificates of deposit issued by conservatively selected companies and banks. The limits are reviewed regularly depending on the market situation.

Further information about credit and counterparty risk of trade receivables can be found in Note 3.6.

Supply chain financing arrangements

The Group has established a supply chain financing scheme with three banks. Trade payables in the consolidated statement of financial position on 31 December 2023 totalled €1,418.2 million, of which €354.6 million were liabilities related to open purchase accounts covered by the schemes. In supply chain financing, the supplier utilises the buyer's credit rating when selling its receivables to a financing institution. Once the buyer approves the purchase accounts, the bank pays them to the supplier without a right of recourse, meaning the supplier has quick access to the cash flows related to trade receivables. The Group does not pay commission to the banks for the supply chain financing, and the payment terms do not materially deviate from the payment terms applied with suppliers. Open purchase accounts covered by the scheme are presented under trade payables on the Group balance sheet. The impact of these trade payables can be seen in cash flow from operating activities as change in working capital.

Current interest-bearing receivables and sensitivity analysis

The objective is to invest liquidity consisting of financial assets in the money markets using efficient combinations of return and risk. At regular intervals, the Group's management approves the investment instruments and limits for each counterparty among those analysed by the Group Treasury. The risks and actual returns on investments are monitored regularly.

Financial assets at amortised cost € million	2023	2022
Carrying amount as at 1 January	38.7	52.7
Changes	-23.3	-14.1
Carrying amount as at 31 December	**15.4**	**38.7**

The financial assets at amortised costs include investments in commercial papers, certificates of deposits and other interest rate instruments.

In the sensitivity analysis of floating rate receivables, balances of invested assets at balance sheet date have been used. The receivables include customer financing receivables, other interest-bearing receivables, and within investments money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/-1.5 million (€+/-1.8 million).

Maturity of non-current receivables

Maturity analysis of non-current receivables as at 31 Dec. 2023 € million	2025	2026	2027	2028	2029–	Total
Non-interest-bearing non-current receivables	1.9	2.5	3.5	0.2	0.6	8.8
Loans and receivables from associates and joint ventures	3.4	0.5	1.5	-	56.0	61.4
Other non-current receivables	1.1	0.0	0.0	0.0	0.0	1.3
Total	**6.4**	**3.0**	**5.1**	**0.2**	**56.6**	**71.4**

The carrying amount of non-interest-bearing non-current receivables equals their fair value.

Maturity analysis of non-current receivables as at 31 Dec. 2022 € million	2024	2025	2026	2027	2028–	Total
Non-interest-bearing non-current receivables	9.8	5.2	4.2	5.9	0.7	25.9
Loans and receivables from associates and joint ventures	3.4	3.4	0.5	1.5	56.0	64.7
Other non-current receivables	0.2	-	-	-	-	0.2
Total	**13.4**	**8.6**	**4.7**	**7.4**	**56.7**	**90.8**

Commodity risks and their sensitivity analysis

The Group uses electricity derivatives for the purpose of balancing out energy costs. The electricity price risk is assessed for five-year periods. The changes in the fair values of derivatives hedging the price of electricity supplied during the financial year are recognised within adjustments to purchases. Hedge accounting is applied to contracts hedging future purchases. Hedge accounting is applied in accordance with IFRS 9 to hedge the risk component. The effective portion of the change in the value of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under Revaluation of cash flow hedge.

Result of cash flow hedging

As a result of hedge accounting for interest-bearing loans, a change in fair value of €-0.3 million has been recorded in the revaluation reserve before accounting for deferred tax. In addition, a €0.3 million adjustment for interest expenses has been recorded in the income statement for these interest rate derivatives.

As a result of hedge accounting applied to electricity, an amount of €11.5 million (€34.8 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-27.0 million (€67.7 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €5.7 million (€44.2 million) before accounting for deferred tax.

As at the balance sheet date, a total quantity of 881,560 MWH (810,336 MWH) of electricity had been purchased with electricity derivatives and 9,802,890 MWH (1,196,839 MWH) under fixed price purchase agreements. The 1–12 month hedging level for system price was 79% (89%), the 13–24 month level was 66% (73%), the 25–36 month level was 41% (56%), the 37–48 month level was 27% (22%), and the 49-60 month level was 27% (19%).

The sensitivity analysis of electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by -/+20% from the balance sheet date 31 December 2023, it would contribute €-/+3.3 million (€-/+8.5 million) to the 2024 income statement and €-/+4.6 million (€-/+5.6 million) to equity. The impact has been calculated before taxes.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2023 Positive fair value (balance sheet value)	31 Dec. 2023 Negative fair value (balance sheet value)	31 Dec. 2022 Positive fair value (balance sheet value)	31 Dec. 2022 Negative fair value (balance sheet value)
Interest rate derivatives	14.8	-8.5	12.2	-0.1
Foreign currency derivatives	0.2	-1.8	2.4	-0.6
Electricity derivatives	7.5	-1.9	44.8	-0.7

Notional principal amounts of derivative contracts € million	31 Dec. 2023	31 Dec. 2022
Interest rate derivatives	530.0	330.0
Foreign currency derivatives	125.3	141.7
Electricity derivatives	39.4	69.7

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all bank counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €0.8 million.

The maximum credit risk from derivatives is the fair value of the balance sheet at the reporting date.

4.4 Finance income and costs

€ million	2023	2022
Interest income and other finance income		
Income on investments at amortised cost	0.6	1.0
Interest income on loans and receivables	13.4	9.7
Income on investments at fair value through profit or loss	0.6	1.0
Other finance income	2.4	1.3
Total interest income and other finance income	16.9	13.0
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-24.9	-4.0
Losses on investments at amortised cost	1.2	-2.2
Losses on investments at fair value through profit or loss	-0.3	-3.5
Other finance costs	-2.2	12.7
Total interest expense and other finance costs	-26.3	2.9
Interest expense for lease liabilities	-73.4	-68.4
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-1.1	-3.5
Total exchange differences	-1.1	-3.5
Total finance income and costs	**-83.9**	**-56.0**

Interest expenses and other finance costs in comparison year include positive change in fair value of interest rate derivatives.

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

The Group classifies financial assets into three groups in accordance with IFRS 9. Financial assets are classified either as instruments measured at amortised cost, or as instruments measured at fair value through profit or loss or in other comprehensive income, depending on the business model targets and cash flows based on agreements.

Regular way purchases or sales of financial assets are recognised on settlement date. Financial assets are classified as non-current, if they have a maturity of more than 12 months after the balance sheet date. If financial assets are expected to be settled within 12 months, they are classified as current.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred from the Group, and when the risks and rewards of ownership have been transferred from the Group.

Financial assets at amortised cost and financial assets at fair value are only invested in counterparties deemed creditworthy. The impairment model for expected credit losses in line with the standard requires credit losses to be recognised with a forward-looking approach. As for other financial assets, lacking historical credit losses, counterparty risk is monitored actively and credit losses are recognised if risk is observed.

Financial assets at amortised cost

Financial assets at amortised cost consist of assets that are to be held to maturity and whose cash flows consist solely of payments of principal and interest. Financial assets at amortised cost also include trade receivables and other receivables.

Financial assets at fair value

Financial assets at fair value in other comprehensive income comprise derivatives that meet the hedge accounting criteria. Financial assets that do not meet the criteria of the other groups are classified as financial assets measured at fair value through profit or loss.

Level 1 instruments are traded in active markets and their fair values are directly based on quoted market prices. The fair values of level 2 instruments are derived from market data. The fair value of level 3 instruments is not based on observable market data (inputs not observable).

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with banks as well as liquid funds measured at amortised cost which are invested in instruments with maturities of less than three months from acquisition. Investments in money market funds recognised at fair value through profit or loss, for which liquidity is assessed as very good, are also classified as cash and cash equivalents. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of the group companies, used as cash floats in stores, or amounts being transferred to the respective companies.

Financial liabilities

Financial liabilities have initially been recognised at fair value, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method. Arrangement fees paid on the establishment of loan facilities and financial liabilities are amortised over the period of the facility to which it relates. Financial liabilities having maturities of more than 12 months after the balance sheet date are classified as non-current liabilities. Those maturing within 12 months after the balance sheet date are classified as current liabilities.

Derivative financial instruments and hedge accounting

When derivative contracts are entered into, they are recognised at fair value and in the financial statements, they are re-measured at their fair value. The recognition of changes in the fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting or not and, if so, on the hedged item. When entered into, derivative contracts are treated either as fair value hedges of receivables or liabilities, or in the case of interest rate risk and electricity price risk, as cash flow hedges, as hedges of net investments in a foreign entity, or as derivative contracts that do not meet the hedge accounting criteria. If the hedge accounting criteria are not met, the results of instruments hedging a commercial foreign exchange risk are recognised in profit or loss within other operating income or expenses. Concerning derivatives hedging financial transactions, the amount to be recognised in the income statement is included in financial items.

When a hedging arrangement is entered into, the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedge relationship is tested regularly and the effective portion is recognised, according to the nature of the hedged item, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation reserve. The ineffective portion is recognised, according to its nature, either in financial items or other operating income and expenses.

Hedge accounting is discontinued when the hedging instrument expires or is sold, or when the contract is terminated or exercised. Any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction has occurred.

Measurement principles

The fair value of forward rate agreements is determined by reference to the market prices at the balance sheet date. The fair value of interest rate swaps is calculated on the basis of the present value of future cash flows, using the market prices at the balance sheet date. The fair value of foreign exchange forward contracts is determined by measuring the forward contracts at the forward rate at the balance sheet date. Currency options are measured using the counterparty's price quotation, but the Group also verifies the price by applying the Black–Scholes method. Electricity derivatives are measured at fair value using the market quotations at the balance sheet date.

Hedging a net investment in foreign operations

During the financial year, the Group has not hedged net investments in foreign operations. If a hedge is initiated, the Group applies hedge accounting in accordance with IFRS 9 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the hedging instruments are recognised in profit or loss.

As at 31 December 2023

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
Other investments	14.0		-	14.0	14.0			14.0
Non-current receivables		64.1		64.1	64.1			
Non-current receivables, derivatives	5.6		1.7	7.3	7.3		7.3	
Current financial assets								
Trade receivables		970.5		970.5	970.5			
Other receivables		299.9		299.9	299.9			
Other receivables, derivatives	1.2		5.8	7.0	7.0		7.0	
Other financial assets	-	15.4	-	15.4	15.5		-	
Cash and cash equivalents	-	211.9	-	211.9	211.9		-	
Total financial assets	**20.8**	**1,561.7**	**7.5**	**1,590.1**	**1,590.2**		**14.3**	**14.0**

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial liabilities								
Non-current interest-bearing liabilities		690.7		690.7	691.0			
Non-current lease liabilities		1,647.2		1,647.2	1,647.2			
Non-current non-interest-bearing liabilities		22.6		22.6	22.6			
Non-current non-interest-bearing liabilities, derivatives	-		1.6	1.6	1.6		1.6	
Current financial liabilities								
Current interest-bearing liabilities		98.5		98.5	98.1			
Current lease liabilities		350.6		350.6	350.6			
Trade payables		1,418.3		1,418.3	1,418.3			
Other non-interest-bearing liabilities		606.1		606.1	606.1			
Other non-interest-bearing liabilities, derivatives	1.8		0.6	2.3	2.3		2.3	
Total financial liabilities	**1.8**	**4,834.0**	**2.1**	**4,837.8**	**4,837.8**		**3.9**	

As at 31 December 2022

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
Other investments	13.2		-	13.2	13.2			13.2
Non-current receivables		66.0		66.0	66.0			
Non-current receivables, derivatives	12.1		12.8	24.9	24.9		24.9	
Current financial assets								
Trade receivables		969.3		969.3	969.3			
Other receivables		331.2		331.2	331.2			
Other receivables, derivatives	2.4		32.1	34.4	34.4		34.4	
Other financial assets	29.9	38.7	-	68.6	68.6		29.9	
Cash and cash equivalents	-	245.5	-	245.5	245.5		-	
Total financial assets	**57.6**	**1,650.6**	**44.8**	**1,753.1**	**1,753.1**		**89.2**	**13.2**

Balance, € million	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial liabilities								
Non-current interest-bearing liabilities		245.5		245.5	243.4			
Non-current lease liabilities		1,592.0		1,592.0	1,592.0			
Non-current non-interest-bearing liabilities		24.1		24.1	24.1			
Non-current non-interest-bearing liabilities, derivatives	-		-	-	-		-	
Current financial liabilities								
Current interest-bearing liabilities		252.6		252.6	252.2			
Current lease liabilities		328.1		328.1	328.1			
Trade payables		1,499.4		1,499.4	1,499.4			
Other non-interest-bearing liabilities		636.9		636.9	636.9			
Other non-interest-bearing liabilities, derivatives	0.6		0.7	1.2	1.2		1.2	
Total financial liabilities	**0.6**	**4,578.7**	**0.7**	**4,579.9**	**4,577.3**		**1.2**	

In addition to cash on hand and deposits with banks, cash and cash equivalents include liquid assets measured at amortised cost due in less than three months from acquisition of €3.3 million (€17.0 million).

Non-current receivables from associates and joint ventures contain the shareholder loan granted to Mercada Oy and the financing loans granted to UAB Kesko Senukai.

Deferred tax assets, income tax receivables, deferred tax liabilities and income tax liabilities are not classified as financial assets or financial liabilities and are not included in the table above. Prepayments received of €56.7 million (€46.9 million) are not classified as financial liabilities and are not included in the table above in other non-interest-bearing liabilities.

The fair values of borrowings have been calculated based on the present value of future cash flows using the 2.4%–3.9% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity structure of non-current borrowings has been presented in Note 4.3.

Changes in level 3 instruments € million	**2023**	**2022**
Private equity funds and other shares and interests as at 1 January	13.2	15.5
Purchases	1.3	0.3
Gains and losses through profit or loss	-0.5	-0.4
Changes in fair value	0.0	-2.2
Private equity funds and other shares and interests as at 31 December	**14.0**	**13.2**

Level 3 includes private equity funds and other shares and interests. These investments have been classified as financial assets at fair value through profit or loss. Level 3 financial assets are measured based on computations received from the companies. A loss of €0.5 million has been recorded on these investments for the financial year 2023.

4.6 Commitments and contingencies

€ million	**2023**	**2022**
Collateral given for own commitments		
Pledges	9.0	9.0
Mortgages	181.2	179.6
Guarantees	60.0	61.6
Other commitments and contingent liabilities	64.0	58.4
Collateral given for others		
Guarantees	-	-
Other commitments and contingent liabilities	-	-

The guarantees given do not include guarantees related to the items presented within liabilities in the consolidated statement of financial position or as a lease liability in Note 3.4.

Guarantee maturities are €2.2 million in 2024 and €57.9 million in 2025–2028.

Leases not commenced yet but to which the Group is committed at the balance sheet date 31 December 2023 are presented in Note 3.4.

5. OTHER

5.1 Subsidiaries, associates, joint ventures and proportionately consolidated mutual real estate companies

Subsidiaries

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki, Finland	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi, Finland	100.00	100.00
Asunto Oy Porvoon Taiteilija	Porvoo, Finland	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Intersport Finland Oy	Helsinki, Finland	100.00	100.00
Jyväscool Oy	Jyväskylä, Finland	100.00	100.00
JK-Kiinteistöt Oy	Hyvinkää, Finland	100.00	100.00
Kalatukku E. Eriksson Oy	Helsinki, Finland	100.00	100.00
K Auto Oy	Helsinki, Finland	100.00	100.00
Keskinäinen Kiinteistö Oy Malmin Kankirauta	Helsinki, Finland	100.00	100.00
Keskinäinen Kiinteistö Oy Voisalmentie 9 Lappeenranta	Helsinki, Finland	100.00	100.00
Kesko AB	Stockholm, Sweden	100.00	100.00
Kesko Export Oy	Helsinki, Finland	100.00	100.00
Kiinteistöosakeyhtiö Varkauden Kauppakatu 29	Varkaus, Finland	52.29	52.29
Kiinteistö Oy Espoontori	Espoo, Finland	66.60	66.60
Kiinteistö Oy Espoon Asemakuja 2	Espoo, Finland	100.00	100.00
Kiinteistö Oy Espoon Asematori	Espoo, Finland	54.10	54.10
Kiinteistö Oy Eteläkoivulan Kauppakeskus	Pori, Finland	78.45	78.45
Kiinteistö Oy Helsingin Itäkeskus	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Hiukkavaaran Kauppa	Oulu, Finland	100.00	100.00

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Hyvinkään Onnela	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Kittilän Säästökulma	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Kuopion Tulliportinkatu 33	Kuopio, Finland	100.00	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Mariannen Liiketila	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Pontsonkulma	Helsinki, Finland	94.60	94.60
Kiinteistö Oy Riistaveden Keskustie 15	Helsinki, Finland	79.50	79.50
Kiinteistö Oy Sarviniitynkatu 4	Kerava, Finland	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki, Finland	100.00	100.00
Kiinteistö Oy Tarkkaiikka	Oulu, Finland	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki, Finland	100.00	100.00
Klintcenter Ab	Mariehamn, Åland	100.00	100.00
Kompass Invest Oy	Kemiönsaari, Finland	100.00	100.00
K-Market Oy	Helsinki, Finland	100.00	100.00
Koskelan Ostokeskus Oy	Oulu, Finland	58.64	29.32
ML 84 Dormant Oy	Helsinki, Finland	100.00	100.00
Onninen Oy	Helsinki, Finland	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
Reinin Liha Oy	Helsinki, Finland	100.00	100.00
Tampereen Länsikeskus Oy	Tampere, Finland	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Arn Eiendom AS	Vefsn, Norway	100.00	
Djurbergs Järnhandel Aktiebolag	Östersund, Sweden	100.00	
Elektroskandia Norge AS	Langhus, Norway	100.00	
Espoontorin Pysäköintitalo Oy	Espoo, Finland	68.80	
Geitanger Bygg AS	Bergen, Norway	100.00	
Hasti-Ari AS	Oppegård, Norway	100.00	
Högsbo Trä Aktiebolag	Västra Frölunda, Sweden	100.00	
K Auto AC Oy	Helsinki, Finland	100.00	
K Auto PC Oy	Helsinki, Finland	100.00	
K Auto Leasing Oy	Helsinki, Finland	100.00	
K Auto Retail Oy	Helsinki, Finland	100.00	
Kesko Onninen International Trading Co., Ltd	Shanghai, China	100.00	
K rauta SIA	Riga, Latvia	100.00	
Kestra Kiinteistöpalvelut Oy	Helsinki, Finland	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2–4	Kokkola, Finland	64.78	
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta, Finland	57.12	
Kiinteistö Oy Vantaan Simonsampo	Vantaa, Finland	100.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
K-Bygg Bergslagen AB	Sollentuna, Sweden	100.00	
K-Bygg Försäljning AB	Segeltorp, Sweden	100.00	
K-Bygg Sverige AB	Östersund, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
K-Rauta Holding Finland Oy	Helsinki, Finland	100.00	
Kungälvs Trävaruaktiebolag	Kungälv, Sweden	100.00	
Mark & Infra i Sverige AB	Täby, Sweden	100.00	
Olarin Autokiinteistö Oy	Espoo, Finland	100.00	
Onninen AS	Skedsmo, Norway	100.00	
Onninen AS	Tallinn, Estonia	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Warsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Peltosaaren Liikekeskus Oy	Riihimäki, Finland	59.67	
Profelco Oy	Vantaa, Finland	100.00	
Rake Bergen AS	Oppegård, Norway	100.00	
Sport1 Flokkmann Mosjøen AS	Mosjøen, Norway	100.00	
Sørbø AS	Skedsmokorset, Norway	100.00	
Sörred's Byggvaruhus AB	Göteborg, Sweden	100.00	
Tau & Jørpeland Eiendom	Jørpeland, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
Zenitec Sweden AB	Hästvdeda, Sweden	100.00	
Övik Låsteknik AB	Örnsköldsvik, Sweden	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli, Finland	50.00	50.00
Kesko Senukai Lithuania UAB	Vilnius, Lithuania	50.00	50.00
Kiinteistö Oy Itäaukio	Lahti, Finland	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala, Finland	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu, Finland	22.77	22.77
Mercada Oy	Helsinki, Finland	33.33	33.33
Vähittäiskaupan Takaus Oy	Helsinki, Finland	42.84	42.84
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki, Finland	30.00	30.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
EDISON Data AS	Oslo, Norway	40.00	
Proffsenteret AS	Ringerike, Norway	34.11	
KS Holding UAB	Vilnius, Lithuania	50.01	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo, Finland	46.22	46.22
Asunto Oy Helsingin Strorken	Helsinki, Finland	25.42	25.42
Asunto Oy Kajaanin Louhikatu 2	Kajaani, Finland	42.96	42.96
Asunto Oy Naantalin Tullinkulma	Naantali, Finland	24.45	
Asunto Oy Soukan Itäinentorni	Espoo, Finland	46.60	46.60
Asunto-Oy Punkalaitumen Pankkitalo	Punkalaidun, Finland	33.82	
Itäkeskuksen Pysäköintitalo Oy	Helsinki, Finland	36.16	36.16
Kiinteistö Oy Iso Roobertinkatu 20–22	Helsinki, Finland	25.64	25.64
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti, Finland	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere, Finland	34.54	
Kiinteistö Oy Taidetehtaanparkki	Porvoo, Finland	24.06	24.06
Kiinteistö Oy Ulvilan Hansa	Ulvila, Finland	43.47	43.47
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa, Finland	27.81	27.81
Lapin Tehdastalo Oy	Tampere, Finland	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki, Finland	39.20	39.20
Raksilan Paikoitus Oy	Oulu, Finland	33.33	33.33
Talo Oy Kalevanpuisto	Kuopio, Finland	47.60	47.60
Voisalmen Ostoskeskus Oy	Lappeenranta, Finland	50.00	

5.2 Related party transactions

The Group's related parties include its management (the Board of Directors, President and CEO and the Group Management Board) and the companies controlled by them, their family members and companies controlled by the family members, Kesko's subsidiaries, associates and joint ventures, and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in Note 5.1.

The related party transactions disclosed consist of such transactions carried out with related parties that are not eliminated in the consolidated financial statements.

Some members of the Kesko Board are K-retailers. The Group companies sell goods and services to companies controlled by them. Goods and services have been sold to and purchased from related parties on normal market terms and conditions and at market prices.

Kesko reports Kesko Senukai Group and KS Holding Group that are part of Kesko's building and technical trade segment, as joint ventures using the equity method.

The associated company consolidated using the equity method, Mercada Oy, owns properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates mainly comprise business property companies. Mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. At the end of 2023 or 2022, the pension assets did not include Kesko Corporation shares. Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2023 and 2022, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement	Associates and joint ventures		Board and management		Pension Fund	
€ million	2023	2022	2023	2022	2023	2022
Sales of goods	7.2	9.9	87.8	88.2		
Sales of services	4.7	5.2	0.9	1.0	0.0	0.2
Purchases of goods	0.0	-0.6	-10.7	-13.1		
Purchases of services	0.0	-0.1	0.0	0.0		
Other operating income	0.8	0.8	19.1	19.1	-	-
Other operating costs	-4.4	-3.9	-0.0	-0.0	-0.1	-0.2
Finance income	6.1	6.0	-	-		
Finance expenses	-0.2	-0.3	-	-	-0.2	

Balance sheet	Associates and joint ventures		Board and management		Pension Fund	
€ million	2023	2022	2023	2022	2023	2022
Current receivables	9.9	25.8	7.6	7.2	-	0.0
Non-current receivables	61.4	64.7	-		-	
Current liabilities	5.8	10.1	3.8	2.3	2.8	4.8

Items related to leases	Associates and joint ventures		Board and management		Pension Fund	
€ million	2023	2022	2023	2022	2023	2022
Cash flow from leases	38.7	35.9	-	-	6.0	6.2
Lease liabilities	222.7	231.9	-	-	40.5	41.7

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €7.6 million (€7.2 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the counter security from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the counter security was valued at €10.6 million (€12.0 million).

Non-current receivables from associates and joint ventures contain the shareholder loan granted to Mercada Oy and the financing loans granted to UAB Kesko Senukai Lithuania. Current receivables contain €3.4 million of the current portion of these loans. Other current liabilities include, for example, chain rebate payables to companies controlled by the Kesko Board members. Chain rebates are paid retrospectively based on criteria related to the amount of actual annual purchases and the quality of operations.

During the financial year 2022, Kesko Pension Fund paid in total €42.9 million in return of surplus assets to Finnish Group companies. The return of surplus assets included the property of K-Citymarket Turtola in Tampere, €40.3 million. The ownership of the property was transferred to Kesko Corporation.

The Group joint ventures UAB Kesko Senukai Lithuania and UAB KS Holding distributed in total €21.7 million as dividends and equity repayments to Kesko Group companies in the 2023 financial year. The Group associate Vähittäiskaupan Takaus Oy distributed €2.6 million as dividend to Kesko Corporation in the 2023 financial year.

Management's employee benefits

The top management comprises the Board of Directors and the Group Management Board. The compensation paid to them for their employee services consists of the following items:

Monetary salaries, fees, fringe benefits and share-based compensation €1,000		2023	2022
Mikko Helander	President and CEO	3,370.1	4,866.4
Group Management Board	other members	8,232.9	9,801.4
Esa Kiiskinen	Board Chairman	114.6	117.0
Peter Fagernäs	Board Deputy Chairman	70.2	71.4
Jannica Fagerholm	Board member	74.4	75.6
Piia Karhu	Board member	55.9	57.1
Jussi Perälä	Board member	52.9	54.1
Toni Pokela	Board member	52.9	54.1
Timo Ritakallio	Board member	57.7	58.9
Total		**12,081.6**	**15,156.0**

Approximately 30% of the annual fees for Board members was paid in shares in the Company and the remaining fee amount was paid in cash. The members of the Board of Directors were granted 6,000 Kesko Corporation B shares in 2023. The figures in the table are presented as payment-based. Remunerations to be paid in the later years are not included in the figures.

Retirement benefits

The statutory pension provision for the President and CEO and other members of the Group Management Board is provided through a pension insurance company. Three Group Management Board members are provided with a supplementary pension based on a defined benefit plan in line with the rules of Kesko Pension Fund and personal service contracts. Four Group Management Board members are provided with a defined contribution supplementary pension. President and CEO Mikko Helander's old-age pension based on a defined benefit plan accrued until 30 June 2023. The amount of the defined benefit based old-age pension is 60% of the pensionable earnings for the final 10 years in accordance with the Employees' Pensions Act (TyEL). The President and CEO's supplementary pension is based on a defined contribution plan as of 1 July 2023. The cost of the defined benefit supplementary pension for the period, calculated on an accrual basis, was €0.6 million (€1.3 million) and the related pension asset in the balance sheet was €0.1 million (€0.9 million). Payment to the defined contribution pension plan, in effect as of 1 July 2023, was €0.5 million. The pension cost of the President and CEO's statutory pension provision, calculated on an accrual basis, was €0.3 million (€0.3 million).

Share awards

During the 2023 reporting period, members of the Group Management Board were granted 238,500 shares based on the PSP 2021–2024, while the maximum number of shares to be granted was 318,000. The number of shares represents gross earnings, from which withholding tax and transfer tax are deducted. During the 2022 reporting period, members of the Group Management Board were granted 371,397 shares based on the PSP 2020–2023. The number of shares represents gross earnings, from which withholding tax and transfer tax are deducted.

Termination benefits

If the service contract of the President and CEO or some other Group Management Board member is terminated by the Company, he/she is entitled to a monetary salary and fringe benefits for the period of notice and a separate non-recurring termination compensation determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination compensation is not part of the executive's salary and it is not included in the determination of the salary for the period of notice, termination compensation or, in case of retirement, pensionable salary. If an executive resigns, he/she is only entitled to a salary for the period of notice and fringe benefits. When a service relationship terminates due to retirement, the executive is paid a pension based on his/her service contract without other compensations.

Shareholdings

At 31 December 2023, the President and CEO held 5,000 Kesko Corporation A shares and 431,385 Kesko Corporation B shares, which represented 0.11% of the total number of shares and 0.03% of votes carried by all shares of the Company. At 31 December 2023, the Group Management Board, including the President and CEO, held 7,824 Kesko Corporation A shares and 1,129,797 Kesko Corporation B shares, which represented 0.28% of the total number of shares and 0.08% of votes carried by all shares of the Company.

5.3 Share-based compensation

Accounting policies

The costs relating to share-based payments are recorded in the income statement and the corresponding liability for share-based payments settled in cash is recognised in the balance sheet. For equity-settled share-based payment transactions, an increase corresponding to the expensed amount is recorded in equity.

The Company's Board of Directors has granted a share-based compensation plan to management under which an award consisting of B series shares and an amount in cash is paid upon fulfilling the plan’s terms. The fair value of the award paid in shares is the value of the share at the grant date and it is recognised as an expense on a straight-line basis over the vesting and commitment period of the plan. The expensed amount is based on the Group's estimate of the amount of award payable in shares at the end of the vesting period. The effects of non-market conditions are not included in the fair value of the awards. Instead, they are accounted for in the assumptions of the number of shares expected to vest at the end of the vesting period. A cash component is paid to cover the taxes and tax-like charges incurred under the award. The cash component is recognised as an expense during the vesting period. Changes in estimates are recorded in the income statement.

As of 1.1.2018 cash-settled share-based payments for which the employer shall deduct, on behalf of the employee, from the share award such number of shares which covers taxes and tax-like charges paid in cash, shall be classified in their entirety as equity-settled share-based payments.

Share-based commitment and incentive scheme

The purpose of the share-based compensation schemes is to promote Kesko's business and increase the Company's value by aligning the objectives of the shareholders and executives. The schemes also aim to commit the grantees to Kesko Group and give them the opportunity to receive Company shares upon fulfilling the objectives set in the share-based compensation plan.

The impact of the share-based compensation plans on the Group's profit for 2023 was €-8.1 million (€-10.6 million).

As at 31 December 2023, the amount to be recognised as expense for the financial years 2024–2026 is estimated at a total of €8.6 million. The actual amount may differ from the estimate.

The performance Share Plan (PSP)

PSP plan is a share-award plan that consists of individual annually commencing share plans, each with a two-year performance period and a two-year commitment period following the payment of the potential share award. Kesko's Board decides annually whether to initiate a new plan. During the commitment period, the shares cannot be pledged or transferred, but the other rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of a commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. Kesko Group's tax free sales (%), Kesko Group's comparable return on capital employed (ROCE, %) and the absolute total shareholder return (TSR, %) of a Kesko B share are the performance criteria for the PSPs initiated during 2020–2021. In addition, the target measuring Kesko's sustainability, is included as the performance criteria for the PSP plan initiated from 2022 onwards.

Assumptions for share award calculations	PSP 2023–2026	PSP 2022–2025	PSP 2021–2024	PSP 2020–2023
Grant dates	1.2.2023	2.2.2022	2.2.2021	4.2.2020
Grant date fair value of share award, €	20.56	27.71	21.01	14.85
Share price at grant date, €	21.64	28.77	21.76	15.48
Shares transferred in	2025	2024	2023	2022
Number of share awards granted, maximum, pcs*	651,430	517,350	646,970	842,850
Changes in the number of shares granted, pcs	-121,890	-31,725	-100,950	-116,200
Actual amount of share award, pcs*	-	-	409,515	655,729
Number of plan participants at end of financial year	59	60	49	46
Share price at balance sheet date, €	17.93	20.62	29.34	21.04
Fulfilment of performance criteria, %	-	-	75.0	90.0
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5	2.5

*Gross number of shares from which the applicable withholding tax is deducted and the remaining net amount is paid in shares.

The performance-based share award plan Key Personnel Share Plan (KPSP) and Restricted Share Pool (RSP)

KPSP plan consists of individual annually commencing share plans, each with a one-year performance period and a two-year commitment period. Kesko's Board decides annually whether to initiate a new plan. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares. The performance criteria for the KPSP comprise indicators related to Kesko's profitability and the profitability, growth and capital efficiency of the participant's area of responsibility, and Kesko's share performance.

RSP is a secondary share plan for special situations, to be decided upon separately. The plan consists of annually commencing individual share plans that each have a three-year commitment period, after which the potentially promised share awards for an individual plan will be paid to the participants, provided that their employment or service relationship with Kesko Group continues until the payment of the awards. The number of shares granted based on the share-based compensation plan represents gross earnings, from which the applicable withholding tax is deducted and the remaining net amount is paid to the participants in shares.

Assumptions for share award calculations	KPSP and RSP 2023	KPSP and RSP 2022	KPSP and RSP 2021	KPSP and RSP 2020
Grant dates	1.2.2023	2.2.2022	2.2.2021	4.2.2020
Grant date fair value of share award, €	20.56	27.71	21.01	14.85
Share price at grant date, €	21.64	28.77	21.76	15.48
Shares transferred in	2026	2025	2024	2023
Number of share awards granted, maximum, pcs*	293,850	214,980	256,769	291,700
Changes in the number of shares granted, pcs	-8,500	-14,610	-23,612	-54,370
Actual amount of share award, pcs*	-	88,246	191,450	209,320
Number of plan participants at end of financial year	161	139	126	83
Share price at balance sheet date, €	17.93	20.62	29.34	21.04
Fulfilment of performance criteria, %	-	21.9	89.3	82.0
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	2.5	2.5

*Gross number of shares from which the applicable withholding tax is deducted and the remaining net amount is paid in shares.

5.4 Legal disputes and possible legal proceedings

Group companies act as plaintiffs, defendants or parties to certain legal proceedings, disputes or investigations related to the Group's business operations. Although according to Kesko's management's estimate, the outcome of pending disputes and legal and authority proceedings is unlikely to have any material impact on the Group's financial position, the outcome of disputes and legal and authority proceedings is difficult to predict.

Investigation by the Finnish Competition and Consumer Authority regarding Onninen Oy – The Finnish Competition and Consumer Authority has been investigating Kesko Group company Onninen's suspected violation of competition law for almost 10 years, and finally decided on 8 September 2022 to take the matter to the Market Court. The investigation has concerned a wide range of companies operating in the HPAC infra plastic pipe product market in Finland. The FCCA proposes a penalty payment of €16 million for Onninen for the alleged infringement. The suspected violation concerns almost in its entirety a period of time before Kesko acquired the capital stock of Onninen from Onvest Oy on 1 June 2016. Consequences resulting to Onninen from the investigation were addressed in the acquisition terms and conditions. Onninen denies the FCCA claims of suspected violation of competition law as unfounded. Kesko is not suspected of participation in the alleged infringement.

Legal proceedings concerning UAB Kesko Senukai Lithuania – Kesko has disclosed, for example in its financial statements 2022, that it was party to an arbitration and a legal proceeding concerning the shareholder agreement of Kesko's joint venture UAB Kesko Senukai Lithuania and the disagreements concerning the management and development of the company and its subsidiary. The other parties to these legal proceedings have included, for example, the minority shareholders of UAB Kesko Senukai Lithuania. The arbitration process ended during 2023 and the judgement given is final. In the legal proceeding concerning the annulation and reversal of the arbitral award issued in 2022, the District Court of Helsinki gave its decision in 2023. The opposing parties have appealed the District Court decision to the Helsinki Court of Appeal, where the matter is pending.

5.5 Events after the balance sheet date

Kesko announced in August 2023 it would expand its operations to Denmark by acquiring 90% of Davidsen Koncernen A/S. In January 2024, the EU Commission approved the acquisition, and it is expected to be completed by the end of January 2024.

Kesko is set to withdraw from operating the Neste K service stations. Kesko is currently responsible for the grocery trade operations and additional services at Neste K stations. Kesko plans to withdraw from operating 64 Neste K service stations by the end of 2024. The stations will continue as a service offered by Neste. Kesko's motive is that role of grocery trade at service stations has diminished.

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Net sales	**6,662,223,788.54**	**6,620,483,911.52**
Other operating income	898,211,500.06	896,343,273.82
Materials and services	-5,893,409,138.14	-5,922,332,251.39
Change in inventory	-23,008,211.48	57,389,050.87
Employee benefit expenses	-384,770,788.96	-348,288,605.22
Depreciation, amortisation and impairment	-113,486,865.95	-102,891,749.91
Other operating expenses	-754,854,973.67	-741,397,846.78
Operating profit	**390,905,310.40**	**459,305,782.91**
Finance income and costs	160,251,693.28	63,839,871.87
Profit before appropriations and taxes	**551,157,003.68**	**523,145,654.78**
Appropriations		
Change in depreciation reserve	-23,549,009.97	-28,327,302.66
Group contribution	64,919,581.06	-3,441,910.30
Profit before taxes	**592,527,574.77**	**491,376,441.82**
Income taxes	-82,909,736.55	-82,450,821.94
Profit for the financial year	**509,617,838.22**	**408,925,619.88**

Parent company's balance sheet

€	31 Dec. 2023	31 Dec. 2022
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	5,125,872.64	5,467,058.98
Other intangible assets	219,153,791.56	196,023,659.20
Prepayments	4,150,302.51	8,843,638.88
	228,429,966.71	210,334,357.06
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	277,174,152.62	247,306,198.38
Leasehold interests and connection fees	7,289,059.93	6,656,847.26
Buildings		
Owned	658,740,908.91	556,902,410.32
Machinery and equipment	88,443,233.36	97,574,724.25
Other tangible assets	6,341,067.34	6,489,657.89
Prepayments and construction in progress	113,022,536.55	87,473,806.60
	1,151,010,958.71	1,002,403,644.70
INVESTMENTS		
Investments in subsidiaries	1,281,768,095.60	1,080,275,454.12
Investments in associates	121,462,239.85	113,989,719.85
Other investments	24,693,492.49	23,741,379.16
	1,427,923,827.94	1,218,006,553.13
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	302,380,900.60	325,389,112.08
	302,380,900.60	325,389,112.08

€	31 Dec. 2023	31 Dec. 2022
RECEIVABLES		
Long-term		
Receivables from subsidiaries	34,933,925.92	80,431,580.19
Receivables from associates	61,386,166.16	64,758,166.16
Loan receivables	1,071,723.22	198,289.59
Other receivables	10,320,055.51	10,120,166.55
	107,711,870.81	155,508,202.49
Short-term		
Trade receivables	401,544,346.37	408,603,965.96
Receivables from subsidiaries	419,460,312.16	458,263,141.09
Receivables from associates	9,491,959.99	25,277,501.01
Loan receivables	276,310.07	415,425.56
Other receivables	12,647,229.78	7,034,007.06
Prepayments and accrued income	89,145,137.15	122,462,451.29
	932,565,295.52	1,022,056,491.97
OTHER FINANCIAL ASSETS	-	35,826,114.02
CASH AND CASH EQUIVALENTS	200,012,586.12	229,888,894.55
TOTAL ASSETS	**4,350,035,406.41**	**4,199,413,370.00**

€	31 Dec. 2023	31 Dec. 2022
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium	197,498,010.90	197,498,010.90
Reserve of invested non-restricted equity	22,753,307.40	22,753,307.40
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	808,916,472.00	823,451,129.66
Profit for the financial year	509,617,838.22	408,925,619.88
	1,979,484,008.07	1,893,326,447.39
APPROPRIATIONS		
Depreciation reserve	206,658,990.11	183,109,980.14
PROVISIONS		
Provisions	2,017,574.84	2,238,581.83
LIABILITIES		
Non-current		
Loans from financial institutes	650,000,000.00	200,000,000.00
Pension loans	32,349,000.00	44,343,000.00
Other creditors	19,001,617.22	10,372,880.37
	701,350,617.22	254,715,880.37
Current		
Pension loans	11,994,000.00	11,994,000.00
Advances received	31,541,172.75	26,638,337.94
Trade payables	739,185,366.57	745,126,341.50
Payables to subsidiaries	262,814,413.54	516,685,528.79
Payables to associates	5,728,650.62	5,621,438.75
Other payables	183,827,426.62	328,588,060.01
Accruals and deferred income	225,433,186.07	231,368,773.28
	1,460,524,216.17	1,866,022,480.27
TOTAL LIABILITIES	**4,350,035,406.41**	**4,199,413,370.00**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from operating activities		
Profit before appropriations	551,153,503.68	523,145,654.78
Adjustments		
Depreciation according to plan	113,486,865.95	102,891,749.91
Finance income and costs	-160,251,693.28	-63,839,871.87
Other adjustments	-7,413,552.15	-51,392,533.62
	496,975,124.20	**510,804,999.20**
Change in working capital		
Current non-interest-bearing receivables, increase (-)/decrease (+)	27,535,297.96	-38,448,516.52
Inventories increase (-)/decrease (+)	23,008,211.48	-57,389,050.87
Current non-interest-bearing liabilities, increase (+)/decrease (-)	-19,265,630.51	56,750,795.21
	31,277,878.93	-39,086,772.18
Interests paid and other finance costs	-44,423,936.93	-14,410,293.32
Interests received	34,714,965.24	16,608,267.52
Dividends received	168,684,828.28	66,587,990.30
Income tax paid	-58,598,511.77	-110,101,405.44
	100,377,344.82	-41,315,440.94
Net cash generated from operating activities	**628,630,347.95**	**430,402,786.08**
Cash flows from investing activities		
Purchases of property, plant, equipment and intangible assets	-416,858,310.90	-268,739,614.55
Acquisitions of subsidiaries	-96,464,969.71	-27,133,141.86
Sales of subsidiaries, net of cash	-	5,987,807.94
Investments in other investments	-	-1,000.00
Proceeds from other investments	71,393.23	363,780.00
Proceeds from disposal of property, plant, equipment and intangible assets	364,804.87	135,466.99
Long-term receivables, increase (-)/decrease (+)	48,113,571.58	11,569,386.96
Other financial assets, increase (-)/decrease (+)	35,826,114.02	38,945,717.30
Net cash used in investing activities	**-428,947,396.91**	**-238,871,597.22**

€	1 Jan.–31 Dec. 2023	1 Jan.–31 Dec. 2022
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	86,878,735.01	226,769,185.97
Dividends paid	34,350,288.54	-44,199,882.78
Group contributions received and paid	-430,315,181.18	-406,670,233.05
Other items	64,919,581.06	-3,441,910.30
Net cash used in financing activities	14,600,317.10	-3,394,705.32
Net cash used in financing activities	**-229,566,259.47**	**-230,937,545.48**
Change in cash and cash equivalents	**-29,876,308.43**	**-39,406,356.62**
Cash and cash equivalents as at 1 Jan.	**229,888,894.55**	**269,250,914.39**
Impairment of financial assets at fair value through profit or loss	-	44,336.78
Cash and cash equivalents as at 31 Dec.	**200,012,586.12**	**229,888,894.55**

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

Non-current assets

Intangible assets

Intangible assets are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Other capitalised expenditure	5–10 years
IT software and licences	3–5 years

Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of property, plant and equipment over their estimated useful lives.

The most common estimated useful lives are:

Buildings	10–33 years
Fixtures and fittings	8 years
Machinery and equipment	25% reducing balance method, from 1st January 2023 8 years
Warehouse automation equipment	10 years
Transportation fleet	5 years
IT equipment	3–8 years
Other tangible assets	5–14 years

Leasehold interests are depreciated during their likely lease period. Land and connection fees have not been depreciated. The total of depreciation according to plan and the change in depreciation reserve comply with the Finnish Business Tax Act. The change in depreciation reserve has been treated as appropriations.

Valuation of inventories

Inventories are stated, using the moving-average cost method, at lower of direct purchase cost, replacement cost and probable selling price.

Valuation of financial assets

Marketable securities have been valued at the lower of cost and net realisable value.

Foreign currency items

Foreign currency transactions have been recorded in euros using the rate of exchange at the date of transaction. Foreign currency receivables and payables have been translated into euros using the rate of exchange at the balance sheet date. If a receivable or a payable is tied to a fixed rate of exchange, it has been used for translation. Exchange rate differences have been recognised in profit or loss.

Derivative contracts

Interest rate derivatives

Interest rate derivatives are used to modify the durations of borrowings. The target duration is between 1 and 4 years. Cash flows arising from interest rate derivatives are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, outstanding interest rate forward contracts, interest rate future contracts, interest rate option contracts and interest rate swap contracts are stated at fair value, but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign currency derivatives

Foreign currency derivatives are used for hedging against translation and transaction risks. Foreign currency derivatives are used for hedging against commercial foreign exchange risk. Foreign exchange forward contracts are valued using the forward exchange rate of the balance sheet date. The exchange differences arising from outstanding derivative contracts are reported in financial items and adjustment items of sales and purchases. If a derivative has been used for hedging a foreign-currency-denominated asset, the change in value has been recognised against that of the asset item. The premiums of option contracts are included in the balance sheet accruals until they expire, or if a value change at the balance sheet date so requires, recognition in profit or loss.

Commodity derivatives

Ankkuri-Energia Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko Corporation is an external counterparty in electricity derivatives with a bank, and enters into corresponding internal hedge with Ankkuri-Energia Oy. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 5-year time span. With respect to derivatives hedging the price of electricity supplied during the financial year, change in fair value is recognised at Kesko under finance income and cost. Unrealised gains and losses on contracts hedging future purchases are not recognised in profit or loss.

Pension plans

Personnel's statutory pension provision is organised through pension insurance companies and the voluntary supplementary pension provision is mainly organised through Kesko Pension Fund. Pension costs are recognised as expense in the income statement.

Provisions

Provisions stated in the balance sheet include items committed to under agreements or otherwise but not yet realised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group's business operations, as well as losses resulting from renting the premises to third parties, are included in provisions.

Income tax

Income tax includes the income tax payments for the period calculated based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

Notes to the income statement

Note 2. Net sales by division

€ million	2023	2022
Grocery trade	5,724.6	5,493.9
Building and home improvement trade	937.7	1,126.6
Others	0.0	0.0
Total	**6,662.2**	**6,620.5**

Note 3. Material and services

€ million	2023	2022
Material and services	-5,782.8	-5,811.6
Change in inventory	-23.0	57.4
External services	-110.6	-110.7
Total	**-5,916.4**	**-5,864.9**

Note 4. Other operating income

€ million	2023	2022
Gains on sales of real estate and shares	0.2	0.0
Rent income	99.4	90.9
Fees for services	580.6	576.7
Profits from mergers	26.1	28.4
Others	192.0	200.3
Total	**898.2**	**896.3**

Note 5. Employee benefit expenses

€ million	2023	2022
Salaries and fees	-316.5	-322.4
Social security costs		
Pension costs	-56.7	-13.8
Other social security costs	-11.5	-12.1
Total	**-384.8**	**-348.3**

The 2022 pension costs include a €40.3 million return of surplus assets by Kesko Pension Fund.

The average number of personnel at Kesko Corporation was 7,402 (7,308) people.

Salaries and fees to the management

€ million	2023	2022
Managing Director	3.4	4.9
Members of the Board of Directors	0.5	0.5
Total	**3.8**	**5.4**

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

Note 6. Depreciation, amortisation and impairment

€ million	2023	2022
Depreciation according to plan	-113.0	-102.2
Impairment, non-current assets	-0.5	-0.7
Total	**-113.5**	**-102.9**

Note 7. Other operating expenses

€ million	2023	2022
Rent expenses	-350.6	-327.9
Marketing expenses	-152.7	-152.0
Maintenance of real estate and store sites	-102.8	-105.6
Losses on disposals of non-current assets	-0.0	0.0
ICT expenses	-78.0	-87.7
Losses from mergers	-11.8	-6.8
Other operating expenses	-58.9	-61.5
Total	**-754.9**	**-741.4**

Auditors' fees

€ million	2023	2022
Audit firm Deloitte		
Audit	0.4	0.4
Tax consultation	-	0.0
Other services	0.2	0.1
Total	**0.5**	**0.5**

Note 8. Finance income and costs

€ million	2023	2022
Income from long-term investments		
Dividend income from subsidiaries	146.7	39.5
Dividend income from associates	19.6	26.9
Dividend income from others	2.3	0.1
Gains on disposal of shares	-	0.0
Gains on sales of investments	0.4	0.0
Income from long-term investments, total	**169.0**	**66.6**
Other interest and finance income		
From subsidiaries	24.0	8.9
From others	21.9	22.9
Interest and finance income, total	**45.9**	**31.8**
Impairment of investments held as non-current assets		
Impairment of shares	-	0.3
Changes in fair value	0.1	0.0
Impairment and changes in fair value of investments held as non-current assets, total	**0.1**	**0.3**
Interest and other finance costs		
To subsidiaries	-20.5	-11.4
To others	-34.2	-23.5
Interest and finance costs, total	**-54.7**	**-34.9**
Total	**160.2**	**63.8**

Note 9. Appropriations

€ million	2023	2022
Difference between depreciation according to plan and depreciation in taxation	-23.5	-28.3
Group contributions received	88.9	36.9
Group contributions paid	-24.0	-40.4
Total	**41.4**	**-31.8**

As of the 2020 financial year, an increased 50% depreciation on machinery and equipment and similar fixed assets acquired has been made in compliance with the Finnish Business Tax Act.

Note 10. Changes in provisions

€ million	2023	2022
Other changes	-0.2	0.2
Total	**-0.2**	**0.2**

Note 11. Income taxes

€ million	2023	2022
Income taxes on group contributions	-13.0	0.7
Income taxes on ordinary activities	-69.8	-82.5
Taxes for prior years	-0.1	-0.6
Total	**-82.9**	**-82.5**

Note 12. Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €41.3 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 13. Intangible assets

€ million	2023	2022
Intangible rights		
Acquisition cost as at 1 Jan.	16.5	16.3
Increases	1.3	1.1
Decreases	-1.0	-2.8
Transfers between items	0.0	1.9
Acquisition cost as at 31 Dec.	16.9	16.5
Accumulated depreciation as at 1 Jan.	-11.1	-12.3
Accumulated depreciation on decreases and transfers	1.0	2.8
Depreciation and amortisations for the financial year	-1.7	-1.6
Accumulated depreciation as at 31 Dec.	-11.8	-11.1
Book value as at 31 Dec.	**5.1**	**5.5**
Other intangible assets		
Acquisition cost as at 1 Jan.	405.2	369.9
Increases	49.9	48.9
Decreases	-5.8	-31.1
Transfers between items	19.1	17.5
Acquisition cost as at 31 Dec.	468.4	405.2
Accumulated depreciation as at 1 Jan.	-209.2	-197.7
Accumulated depreciation on decreases and transfers	5.8	31.1
Depreciation and amortisations for the financial year	-45.9	-42.6
Accumulated depreciation as at 31 Dec.	-249.2	-209.2
Book value as at 31 Dec.	**219.2**	**196.0**
Prepayments		
Acquisition cost as at 1 Jan.	8.8	12.6
Increases	2.5	7.0
Decreases	-0.0	-0.1
Transfers between items	-7.2	-10.7
Acquisition cost as at 31 Dec.	4.2	8.8
Book value as at 31 Dec.	**4.2**	**8.8**

Note 14. Property, plant and equipment

€ million	2023	2022
Land and waters, owned		
Acquisition cost as at 1 Jan.	247.3	224.3
Increases	27.3	20.1
Transferred in mergers	1.9	2.4
Decreases	-0.1	-
Transfers between items	0.8	0.5
Acquisition cost as at 31 Dec.	277.2	247.3
Book value as at 31 Dec.	**277.2**	**247.3**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	7.1	1.6
Increases	0.4	5.5
Transferred in mergers	0.1	-
Transfers between items	0.2	0.0
Acquisition cost as at 31 Dec.	7.8	7.1
Accumulated depreciation as at 1 Jan.	-0.5	-0.4
Depreciation for the financial year	-0.0	0.0
Accumulated depreciation as at 31 Dec.	-0.5	-0.5
Book value as at 31 Dec.	**7.3**	**6.7**
Buildings		
Acquisition cost as at 1 Jan.	942.5	821.1
Increases	84.8	88.2
Transferred in mergers	8.7	13.9
Decreases	-	-0.4
Transfers between items	48.2	19.7
Acquisition cost as at 31 Dec.	1,084.3	942.5
Accumulated depreciation as at 1 Jan.	-385.6	-352.3
Transferred in mergers	-2.0	-3.3
Accumulated depreciation on decreases and transfers	0.0	0.0
Depreciation for the financial year	-37.9	-30.1
Accumulated depreciation as at 31 Dec.	-425.5	-385.6
Book value as at 31 Dec.	**658.7**	**556.9**

€ million	2023	2022
Machinery and equipment		
Acquisition cost as at 1 Jan.	311.1	295.1
Increases	14.8	32.0
Transferred in mergers	0.1	0.0
Decreases	-17.8	-19.6
Transfers between items	3.0	3.6
Acquisition cost as at 31 Dec.	311.2	311.1
Accumulated depreciation as at 1 Jan.	-213.5	-206.1
Transferred in mergers	-0.1	0.0
Accumulated depreciation on decreases and transfers	17.1	19.2
Depreciation for the financial year	-26.3	-26.6
Accumulated depreciation as at 31 Dec.	-222.7	-213.5
Book value as at 31 Dec.	**88.4**	**97.6**
Other tangible assets		
Acquisition cost as at 1 Jan.	23.3	21.2
Increases	0.4	1.2
Transferred in mergers	0.1	-
Transfers between items	0.7	1.0
Acquisition cost as at 31 Dec.	24.4	23.3
Accumulated depreciation as at 1 Jan.	-16.8	-15.6
Transferred in mergers	-0.1	-
Depreciation for the financial year	-1.2	-1.2
Accumulated depreciation as at 31 Dec.	-18.1	-16.8
Book value as at 31 Dec.	**6.3**	**6.5**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	87.5	45.7
Increases	92.1	76.4
Decreases	-1.6	-1.0
Transfers between items	-64.9	-33.6
Acquisition cost as at 31 Dec.	113.0	87.5
Book value as at 31 Dec.	**113.0**	**87.5**

Note 15. Investments

€ million	2023	2022
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	1,093.9	1,080.5
Increases	229.2	42.5
Decreases	-27.7	-29.1
Acquisition cost as at 31 Dec.	1,295.4	1,093.9
Impairment as at 1 Jan.	-13.6	-27.7
Accumulated impairments on decreases	-	14.1
Impairment as at 31 Dec.	-13.6	-13.6
Book value as at 31 Dec.	**1,281.8**	**1,080.3**
Investments in associates		
Acquisition cost as at 1 Jan.	114.0	111.7
Increases	7.5	2.3
Book value as at 31 Dec.	**121.5**	**114.0**
Other investments		
Acquisition cost as at 1 Jan.	23.7	15.2
Increases	1.0	8.5
Transferred in mergers	0.0	-
Decreases	-0.1	-0.0
Transfers between items	0.1	0.0
Acquisition cost as at 31 Dec.	24.7	23.7
Book value as at 31 Dec.	**24.7**	**23.7**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2023 is presented in the notes to the consolidated financial statements.

Note 16. Receivables

Receivables from subsidiaries

€ million	2023	2022
Long-term receivables		
Loan receivables	34.9	80.4
Long-term receivables, total	**34.9**	**80.4**
Short-term receivables		
Trade receivables	10.3	9.9
Loan receivables	380.0	418.9
Prepayments and accrued income	29.2	29.5
Short-term receivables, total	**419.5**	**458.3**
Total	**454.4**	**538.7**

Receivables from associates and joint ventures

€ million	2023	2022
Long-term receivables		
Loan receivables	61.4	64.7
Other receivables	0.0	0.0
Long-term receivables, total	**61.4**	**64.8**
Short-term receivables		
Accrued income	1.0	21.7
Other receivables	8.5	3.6
Short-term receivables, total	**9.5**	**25.3**
Total	**70.9**	**90.0**

Kesko Corporation has advanced a long-term loan to its associated company, Mercada Oy, in the amount of €56.0 million and to its joint venture, UAB Kesko Senukai, in the amount of €3.8 million.

Prepayments and accrued income

€ million	2023	2022
Taxes	-	20.9
Fees for services	5.5	6.0
Employee benefit expenses	6.6	7.6
Purchases	31.1	34.1
Others	45.9	53.8
Total	**89.1**	**122.5**

Note 17. Shareholders' equity

€ million	Share capital	Share premium	Contin-gency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2022	197.3	197.5	243.4	22.8	1,236.0	1,897.0
Dividends					-421.3	-421.3
Treasury shares					8.7	8.7
Profit for the year					408.9	408.9
Balance as at 31 December 2022	197.3	197.5	243.4	22.8	1,232.4	1,893.3
Dividends					-429.6	-429.6
Treasury shares					6.1	6.1
Profit for the year					509.6	509.6
Balance as at 31 December 2023	**197.3**	**197.5**	**243.4**	**22.8**	**1,318.5**	**1,979.5**

Restricted equity	2023	2022
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2023	2022
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,318.5	1,232.4
Total	**1,584.7**	**1,498.5**

Calculation of distributable profits	2023	2022
Other reserves	266.2	266.2
Retained earnings	808.9	823.5
Profit for the year	509.6	408.9
Total	**1,584.7**	**1,498.5**

On 31 December 2023, Kesko's distributable assets totalled €1,584,703,413.17.

Breakdown of parent company shares	Pcs
A shares	126,948,028
B shares	273,130,980
Total	**400,079,008**

Votes attached to shares	Number of votes
A share	10
B share	1

Board's authorisations to acquire and issue own shares

Authorised by the General Meeting, the Board acquired a total of 500,000 of the Company's own B shares during the 2018 financial year. The Board also acquired a total of 1,200,000 of the Company's own B shares during the financial years 2011 and 2014. The shares are held by the Company as treasury shares and the Board is entitled to transfer them. The acquisition cost of the B shares held by the Company and acquired during the 2018 financial year was €24.4 million, and the acquisition cost of shares acquired during the 2011 and 2014 financial years was €23.5 million. These costs have been deducted from retained earnings in equity. The Board has an authorisation, granted by the Annual General Meeting of 30 March 2023 and valid until 30 June 2024, to issue a maximum of 33,000,000 B shares and acquire a maximum of 16,000,000 B shares.

Treasury shares

On 2 May 2023, Kesko Corporation transferred a total of 6,000 of its own B shares (KESKOB) held by the Company as treasury shares to the members of Kesko's Board of Directors. The transfer was based on the resolution made by the Annual General Meeting on 30 March 2023 to pay a portion of the Board members' annual fees in Kesko B shares.

	Shares
Own B shares held by the Company as at 31 Dec. 2022	**2,620,361**
Transferred, share-based compensation scheme	-304,864
Transferred, Board of Directors	-6,000
Returned during the financial year	-
Own B shares held by the Company as at 31 Dec. 2023	**2,309,497**

Note 18. Provisions

€ million	2023	2022
Provisions for leases	1.4	1.7
Other provisions	0.6	0.5
Total	**2.0**	**2.2**

Note 19. Non-current liabilities

Kesko has drawn down five bilateral loans, which combined total €650 million. The interest margin of these loans accounts for Kesko's sustainability targets for its carbon footprint and food waste, and in the value chain, emission reduction targets set by Kesko's direct suppliers of goods and services.

Note 20. Current liabilities

€ million	2023	2022
Liabilities to subsidiaries		
Trade payables	7.6	6.8
Other payables	11.4	25.1
Accruals and deferred income	243.7	484.9
Total	**262.8**	**516.7**
Liabilities to associates		
Trade payables	0.0	0.1
Accruals and deferred income	0.0	0.0
Other payables	5.6	5.5
Total	**5.7**	**5.6**
Accruals and deferred income		
Employee benefit expenses	108.5	111.7
Accruals and deferred income from purchases	20.0	25.2
Taxes	4.2	0.8
Transaction prices	0.4	0.0
Fees for services	16.9	17.8
Others	75.5	75.9
Total	**225.4**	**231.4**

Note 21. Non-interest-bearing liabilities

€ million	2023	2022
Current liabilities	1,141.4	1,157.4
Total	**1,141.4**	**1,157.4**

Note 22. Guarantees, commitments and contingencies

€ million	2023	2022
Real estate mortgages		
For own debt	162.1	159.8
For subsidiaries	0.7	0.7
Pledged shares	9.0	9.5
Guarantees		
For own debt	0.5	0.5
For subsidiaries	70.9	70.9
Other liabilities and liability engagements		
For own debt	49.4	40.5
Rent liabilities on machinery and fixtures		
Due within a year	7.1	6.5
Due later	7.0	6.3
Rent liabilities on real estate		
Due within a year	306.6	256.2
Due later	1,597.9	1,254.5

Foreign currency risks

The result of the Company's operating activities is affected by the amount of working capital financing granted by the Company to its foreign subsidiaries and in part also, in its capacity as the Group's parent company, the subsidiaries' hedgings against their parent.

The foreign currency exposure is hedged using foreign currency derivatives in accordance with the confirmed foreign currency risk policy. The fair value of foreign currency derivatives is calculated by measuring them based on quoted market prices at the balance sheet date.

The measurement of derivatives is based on direct market data, in other words, they are classified at level 2. The maximum credit risk of these derivatives corresponds to their fair value at the balance sheet date.

The results of derivatives are recognised in financial items.

Company's transaction exposure as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Transaction risk	-4.8	58.4	54.4	-11.2
Hedging derivatives	17.2	-47.3	-42.3	5.1
Exposure	**12.4**	**11.1**	**12.1**	**-6.1**

Company's transaction exposure as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Transaction risk	-5.5	75.2	26.6	10.8
Hedging derivatives	23.4	-56.2	-20.9	-10.7
Exposure	**17.9**	**19.0**	**5.6**	**0.1**

The sensitivity analysis of transaction exposure shows the profit impact of a +/-10% exchange rate change on the Company's foreign currency denominated acquisitions and hedging foreign currency derivatives.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2023 € million	USD	SEK	NOK	PLN
Change +10%	-1.1	-1.0	-1.1	0.6
Change -10%	1.4	1.2	1.3	-0.7

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2022 € million	USD	SEK	NOK	PLN
Change +10%	-1.6	-1.7	-0.5	0
Change -10%	2.0	2.1	0.6	0

Derivatives

Fair values of derivative contracts € million	31 Dec. 2023 Positive fair value (balance sheet value)	31 Dec. 2023 Negative fair value (balance sheet value)	31 Dec. 2022 Positive fair value (balance sheet value)	31 Dec. 2022 Negative fair value (balance sheet value)
Currency derivatives	0.4	-1.8	2.6	-0.7
Interest rate derivatives	14.8	-8.5	12.2	-0.1

Notional amounts of derivative contracts € million	31 Dec. 2023 Notional amount	31 Dec. 2022 Notional amount
Currency derivatives	133.0	153.3
Interest rate derivatives	530.0	330.0

All currency derivatives mature in 2024. Interest rate derivatives mature in 2024, 2025, 2026 and 2027.

€ million	2023	Fair value	2022	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives				
Interest rate swaps	530	6.3	330	12.1
Foreign currency derivatives				
Forward and future contracts	133	-1.3	153	1.9
Outside the Group	125	-1.6	142	1.8
Inside the Group	8	0.2	12	0.1
Commodity derivatives				
Electricity derivatives	79	-	139	-
Outside the Group	39	5.7	70	44.2
Inside the Group	39	-5.7	70	-44.2

Note 23. Cash and cash equivalents within the statement of cash flows

€ million	2023	2022
Financial assets at fair value through profit or loss	-	0.0
Available-for-sale financial assets	3.3	17.0
Cash and cash equivalents	196.7	212.9
Total	**200.0**	**229.9**

In the statement of cash flows, cash and cash equivalents include those recognised in the balance sheet and portions of available-for-sale financial assets with maturities of less than three months from acquisition and also financial assets at fair value through profit and loss.

Note 24. Related parties

Kesko Corporation's related parties include the company's management (the Board of Directors, President and CEO and the Group Management Board) and the companies controlled by them, their family members and companies controlled by the family members, the Group's subsidiaries, associates and joint ventures, and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 5.2).

Some members of the Kesko Board are K-retailers. Kesko Corporation sells goods and services to companies controlled by them. Goods and services have been sold to related parties on normal market terms and conditions and at market prices.

SIGNATURES

Signatures for financial statements and report by the Board of Directors

Helsinki, 29. January 2024

Esa Kiiskinen

Peter Fagernäs

Jannica Fagerholm

Piia Karhu

Jussi Perälä

Toni Pokela

Timo Ritakallio

Mikko Helander
President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 29 January 2024

Deloitte Oy

Jukka Vattulainen
APA

AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Kesko Oyj

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Kesko Oyj (business identity code 0109862-8) for the year ended 31 December, 2023 The financial statements comprise the consolidated income statement, statement of comprehensive income, financial position, statement of cash flows, statement of changes in equity and notes, including material information in the accounting policies, as well as the parent company's income statement, balance sheet, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU,
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014.

The non-audit services that we have provided have been disclosed in note 2.5 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Refer to accounting policies for the consolidated financial statements and note 2.1. Consolidated Net Sales of Kesko Oyj amounted to EUR 11,783.8 million (EUR 11,809.0 million). Kesko operates in grocery trade, building and technical trade, and car trade through wide sales- and retail network. Consolidated net sales comprise the sale of goods, services and energy from contracts with customers. The share of the of service and energy sales in total net sales is not significant. The Group sells products to retailers and other retail dealers and engages in own retailing. Net sales is a key business and economic indicator and consists of a significant volume of transactions. For this reason, the functionality of information system controls is emphasised in revenue recognition. A significant part of the Kesko Group's net sales is automatically recognised in accounting through IT systems based on the fulfilment of the sales performance obligation. Revenue recognition due to its significance require specific attention both from the accounting and the auditing perspective.	We have evaluated the IT systems related to revenue recognition by testing access and change management controls. We also evaluated process level controls by performing walkthroughs of each significant class of revenue transactions, assessed the design of key controls and tested the operating effectiveness of those controls. We have analyzed the revenue transactions recorded to net sales to identify entries originating from automated processes and entries from manual journals, and to focus our audit procedures to transactions estimated as higher risk transactions. Our audit procedures to ensure appropriateness of revenue recognition for sales transaction population recorded to net sales have consisted among others, performing comprehensive data analytics based substantive audit procedures together with sample based test of details. We have made a focused risk assessment for addressing fraud risk relating to revenue recognition, and identified manual journal entries by applying data analytics. Based on our revenue related risk assessment, we have focused our substantive audit procedures for the transactions identified to ensure the appropriateness and accuracy.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of Goodwill and trademarks Refer to Note 3.3 in the consolidated financial statements of Kesko Oyj. Consolidated statement of financial position includes goodwill of EUR 663.7 million (EUR 588.9 million). In addition, consolidated statement of financial position includes EUR 86.0 million (EUR 86.8 million) Trademarks. Goodwill is subject to management's annual impairment test. As a result of management's goodwill impairment test, no impairment was identified. Goodwill impairment testing requires substantial management judgment over the projected future business performance, cash flows and applied discount rate. Note 3.3 in the Consolidated financial statements describes key assumptions used by management and sensitivity analysis for the impairment tests approved by the Board.	As part of our audit procedures we have assessed the impairment testing calculations prepared by management and approved by the board, and assessed key controls over impairment testing for each cash generating unit. The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. Estimated cash flows used in these calculations are based on three-year financial plans approved by management. The key assumptions used for the plans are total market growth and profitability trends, changes in store network, product and service selection, pricing and movements in operating costs. We have assessed the key assumptions used by management in the Goodwill impairment tests: • comparing the growth and profitability estimates to historical performance. • comparing the estimates with the latest approved budgets and strategic plans. • comparing applied discount rates to external sources. • testing the mathematical accuracy of the impairment calculations We have also assessed the related disclosure information.

We have no key audit matters to report with respect to our audit of the parent company financial statements. There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.

Responsibilities of the Board of Directors and the President and CEO for the financial statements

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and CEO are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the President and CEO are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's responsibilities in the audit of financial statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the President and CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Kesko's Annual General Meeting on 28th of April 2020, and our appointment represents a total period of uninterrupted engagement of 4 years.

Other information

The Board of Directors and the President and CEO are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

We support that the financial statements and consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of profit shown on the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO of the parent company should be discharged from liability from the financial period audited by us.

Helsinki, 29 January, 2024

Deloitte Oy
Audit Firm

Jukka Vattulainen
Authorised Public Accountant (KHT)

INDEPENDENT AUDITOR'S REPORT ON THE ESEF CONSOLIDATED FINANCIAL STATEMENTS OF KESKO OYJ (Translation of the Finnish original)

To the Board of Directors of Kesko Oyj

We have performed a reasonable assurance engagement on whether the iXBRL tagging of the consolidated financial statements in the ESEF consolidated financial statements (743700OX6 HSVMCAHPB95-2023-12-31_FI.zip) of Kesko Oyj (0109862-8) for the financial year 1.1.-31.12.2023 has been prepared in accordance with the requirements of Article 4 of Commission Delegated Regulation (EU) 2018/815 (ESEF RTS).

Responsibilities of the Board of Directors a nd the Managing Director

The Board of Directors and Managing Director are responsible for the preparation of the report of the Board of Directors and financial statements (ESEF financial statements) that comply with the requirements of ESEF RTS. This responsibility includes:

- preparation of ESEF financial statements in XHTML format in accordance with Article 3 of ESEF RTS
- tagging the consolidated financial statements' primary statements, disclosures and identifying information in the ESEF financial statements with iXBRL tags in accordance with Article 4 of ESEF RTS, and
- ensuring consistency between ESEF financial statements and audited financial statements.

The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of ESEF financial statements in accordance with the requirements of ESEF RTS.

Auditor's Independence and Quality Control

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to the engagement we have performed, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The auditor applies International Standard on Quality Management 1 and, accordingly, an audit firm shall design, implement and maintain a system of quality control including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Auditor's Responsibilities

In accordance with the engagement letter, we express an opinion on whether the tagging of the consolidated financial statements in the ESEF financial statements has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS. We conducted a reasonable assurance engagement in accordance with International Standard on Assurance Engagements ISAE 3000.

The engagement includes procedures to obtain evidence on:

- whether the tagging of the consolidated financial statement's primary statements in the ESEF financial statements has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS
- whether the tagging of the consolidated financial statements' disclosures and identifying information in the ESEF financial statements has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS, and
- whether the ESEF financial statements are consistent with the audited financial statements.

The nature, timing and extent of the procedures selected depend on the auditor's judgment. This includes the assessment of risk of material departures from the requirements set out in ESEF RTS, whether due to fraud or error.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the tagging of the consolidated financial statements in the ESEF financial statements (743700OX6HSVMCAHPB95-2023-12-31_FI.zip) of Kesko Oyj for the financial year 1.1.-31.12.2023 has been prepared in all material respects in accordance with the requirements of Article 4 of ESEF RTS.

Our audit opinion on the consolidated financial statements of Kesko Oyj for the financial year 1.1.-31.12.2023 has been expressed in our auditor's report dated 29.1.2024. In this report, we do not express an audit opinion or any other assurance conclusion on the consolidated financial statements.

Helsinki, 29 January, 2024

Deloitte Oy
Audit Firm

Jukka Vattulainen
APA