



29 March 2022

KESKO CORPORATION'S ANNUAL GENERAL MEETING 7 APRIL 2022 ADVANCE QUESTIONS AND ANSWERS

Kesko's shareholders had the possibility to submit questions for the company prior to the Annual General Meeting. By the due date for submitting such questions, 23 March 2022, questions had been submitted by the shareholder Genopas B.V., with Roschier, Attorneys Ltd as its proxy.

The questions were submitted in English. Kesko has translated the questions into Finnish, and provides answers in Finnish and in English.

Question 1

Kesko's Annual Report 2021 includes the following statements/descriptions:

- On p. 3 of "Kesko's direction" of Annual Report 2021, it is stated that "*Kesko Senukai, a joint venture that engages in building and home improvement trade in the Baltics and Belarus, is part of K Group.*"
- On p. 7 of Kesko's "Financial review" of Annual Report 2021, it is stated that "*Kesko is reporting Kesko Senukai Group, which is part of Kesko's building and technical trade segment and operates in the Baltic countries and Belarus, as a joint venture*"
- On p. 107 of Kesko's "Financial review" of Annual Report 2021, Kesko Senukai is no more listed as part of Kesko Group's composition.

The aforementioned statements seem to be in conflict, or at least they require further clarification. Is/was Kesko Senukai considered a part of Kesko Group in the year 2021, or not? On what basis is this Kesko's position?

Answer 1

K Group at its core is composed of Kesko and independent retailer entrepreneurs in Finland. The joint venture Kesko Senukai is also part of K Group. K Group is not a reported legal entity. Kesko provides quarterly information on K Group's retail and B2B sales: in the 2021 financial year, these amounted to some €15 billion.

Kesko Group comprises Kesko Corporation and its subsidiaries. Kesko Senukai is not part of Kesko Group.

Question 2

As a follow-up to the first question, Kesko's Annual Report 2020 includes the following statement:

- On p. 118 of Kesko's "Financial review" of Annual Report 2020, it is stated that "[t]here is a material non-controlling interest in Kesko Group company Kesko Senukai Group, which was consolidated as a subsidiary in the consolidated financial statements up until 30 June 2020"

If the answer to the first question is that Kesko Senukai is no more a part of Kesko Group but only a joint venture, is it correct that something has changed in the treatment of Kesko Senukai during financial year 2021? What is this change and when has it occurred during financial year 2021, and when (or if not, why) has Kesko reported such a change in Kesko Senukai's treatment?

Answer 2

Nothing has changed in the treatment of Kesko Senukai in Kesko Group's consolidated financial statements during the financial year 2021.

For clarity: Kesko consolidated Kesko Senukai as a subsidiary in its consolidated financial statements up until 30 June 2020, after which Kesko Senukai has been consolidated as a joint venture.

Question 3

According to Kesko's Annual Report 2021, Kesko has a material co-ownership in a Belarussian company OMA OOO. Will Kesko maintain its ownership despite Belarus' role in the Russian military aggression against Ukraine? How is the reputational risk of such ownership accounted for in Kesko's operations?

Answer 3

Kesko does not have business operations in Belarus. Kesko has a joint venture, UAB Kesko Senukai Lithuania, with a Lithuanian partner Artūras Rakauskas. The joint venture is registered in Lithuania. The joint venture is a partial owner in the Belarussian building and home improvement trade chain OMA.

Kesko has asked the joint venture to examine the possibilities of withdrawing from building and home improvement trade operations in Belarus. A decision regarding such a withdrawal would need to be made unanimously by the owners of the joint venture. The actions of the joint venture are also limited by the shareholders' agreement made with other OMA shareholders.

Question 4

According to Kesko's Annual Report 2021 (on p. 17 of "Kesko's direction") "*Growth in local and international eCommerce*" is the primary megatrend affecting Kesko's operations, and "*growth of eCommerce continues*" is the primary customer trend. However, according to the Annual Report, Kesko has only a 25% ownership in Kesko Senukai Digital UAB, which operates the eCommerce operations of Kesko Senukai in the Baltics. Why is Kesko's ownership in Kesko Senukai Digital UAB less than Kesko's ownership (50%) in Kesko Senukai's other operations? How does Kesko plan to ensure adequate presence in digital trade channel in the Baltics?

Answer 4

Kesko Group has a joint venture UAB Kesko Senukai Lithuania. Kesko Senukai group engages in building and home improvement trade in Lithuania, Estonia, Latvia and Belarus. Kesko Group's stake in Kesko Senukai group is 50.0%.

UAB Kesko Senukai Lithuania has an ownership of 51% in the company Penktoji Projekto Bendrovė UAB. Penktoji Projekto Bendrovė UAB's subsidiary Kesko Senukai Digital UAB offers eCommerce services in the Baltic States. Kesko Group's calculated ownership of Penktoji Projekto Bendrovė UAB and its subsidiaries is 25.5%. Kesko Senukai is one of the leading eCommerce operators in Estonia, Latvia and Lithuania.

Kesko Group company Onninen offers technical wholesale customers digital services in all its operating countries including the Baltics.

Question 5

According to Kesko's Annual Report 2021 (on p. 116 of "Financial review") "*Kesko is party to two legal proceedings concerning the shareholder agreement of Kesko's joint venture UAB Kesko Senukai Lithuania and the disagreements concerning the management and development of the company and its subsidiary.*" Similar statement was also included in Kesko's Annual Report 2020 (on p. 127 of "Financial review"). Is it correct that the status of the settlement of these legal proceedings has not progressed in any way during 2021? When does Kesko plan to get out of the legal proceedings? Does Kesko's strategy implemented in these legal proceedings have any effects to the profitability of Kesko Senukai?

Answer 5

Kesko Group companies act as plaintiffs, defendants or parties to certain legal proceedings, disputes or investigations related to the Group's business operations. According to the information provided in the 2021 financial statements, Kesko was involved in two separate legal proceedings related to 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 included the minority shareholders of UAB Kesko Senukai Lithuania. Kesko discloses information on matters related to Kesko Group in accordance with its Disclosure Policy.

Question 6

According to Kesko's Annual Report 2021 (on p. 17 of "Kesko's direction") "*[s]eamless multichannel customer experience*" is a major requirement in growing in the eCommerce business. Does this statement also concern Kesko's Baltic businesses, and do you therefore consider merging eCommerce and physical businesses of Kesko Senukai to implement such model? Would Kesko accept a minority position in Kesko Senukai group, if the merger of Kesko Senukai Digital UAB to the group parent entity (Kesko Senukai Lithuania UAB) would lead to such a decrease of Kesko's shareholding?



Answer 6

Digitalisation and customer experience are two central, complementary themes in Kesko's growth strategy. Kesko strives to combine online sales and digital services with its extensive network of physical stores and thus create capabilities for a seamless customer experience in all channels.

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Kesko announced in 2020 that it would begin a strategic review of its operations in the Baltics. The review continued in 2021.

