



31.3.2021

KESKO CORPORATION'S ANNUAL GENERAL MEETING 12 APRIL 2021 ADVANCE QUESTIONS AND ANSWERS

Question 1

During the first half of 2020, Kesko was provided with expert statements concerning Kesko Senukai's treatment in financial statements from (i) a significant international audit company; and (ii) a leading expert in Finland on law and regulation of financial statements and accounting regulation. The conclusion of both expert statements has been that Kesko has not had the right to consolidate Kesko Senukai as a subsidiary in its consolidated financial statements, as Kesko has not exercised the type of control referred to in IFRS 10 in the company. Both expert statements are based on documents concerning Kesko Senukai which have not changed in any part during 2020.

After obtaining the expert statements, Kesko on 17 September 2020 announced "that it no longer exercises the type of control referred to in IFRS 10 over Kesko Senukai". Consequently, Kesko has classified Kesko Senukai as a joint venture as of 1 July 2020. According to Kesko's 2020 Annual Report: "[a]ccording to the management estimate, the loss of control was not due to any individual event", instead, the loss of control was because Kesko Senukai "is no longer managed in accordance with the shareholders' agreement and previously established practices". We request the following specifications from Kesko:

- a. Is it Kesko's understanding that if Kesko Senukai was managed in accordance with the shareholders' agreement, Kesko would again exercise control over the company in accordance with IFRS 10?*
- b. Have the aforementioned expert statements been taken into consideration when Kesko's management made its assessment concerning the loss of control in Kesko Senukai?*
- c. Has any independent party confirmed the Kesko management assessment that the change in the consolidation method of Kesko Senukai is the result of differences of opinion observed in Kesko Senukai's operations, and not, for example, of the division of control established when Kesko Senukai was founded?*
- d. Should the management of Kesko Senukai return to be in line with the shareholder agreement, would there be protective rights or restrictions concerning the company's operations that could factually prevent Kesko from exercising its control with regard to decisions concerning significant operations, such as appointing a managing director for the company or budget planning?*
- e. Should the management of Kesko Senukai return to be in line with the shareholder agreement, would the company's minority shareholders have protective rights, such as veto power, that could prevent Kesko from exercising its control?*

Answer 1

Kesko stated in a 17 September 2020 stock exchange release that it would report 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 as of 1 July 2020. Kesko reported Kesko Senukai Group as a subsidiary until 30 June 2020.

The Group's management exercises its judgement in making decisions concerning the adoption and application of accounting policies in the consolidated financial statements. Kesko's management exercised its judgement in reassessing control and conditions for Kesko Senukai's subsidiary consolidation under IFRS 10. In 2020, the shareholders of the company had significant differences of opinion regarding the management and development of the company and exercise of control. According to the management assessment, the company was no longer managed in accordance with the shareholders' agreement and previously established practices. Work on Kesko Senukai Board had become difficult and had been fully prevented in some areas. Kesko's ability to obtain information on the company had been significantly restricted. According to the management assessment, Kesko no longer exercised the type of control referred to in IFRS 10 over Kesko Senukai. According to the management estimate, the loss of control was not due to any individual event, but was affected by the changes in circumstances and actions by minority shareholders referred to above. Kesko has disclosed the related legal proceedings in Note 5.5 to its consolidated financial statements.

To support its decisions, the company's management uses available information and may, by a case-by-case consideration, use external experts. The firm of authorised public accountants Deloitte Oy has, as an independent auditor, audited and issued a statement on Kesko Corporation's 2020 financial statements, including the consolidated financial statements and the parent company financial statements.

The company does not address conditions or claims that do not factually exist or did not take place during the financial year. The company also does not comment on matters agreed to be kept confidential, such as the shareholders' agreement referred to in the question.

Question 2

Do Kesko's management or other key persons have remuneration or incentive arrangements that are tied to Kesko's financial reporting or result in such a way that fees or incentives paid should be adjusted after the fact should Kesko implement as rectification of the classification of Kesko Senukai also with regard to earlier 2019 financial reporting?

Answer 2

The Board of Directors of Kesko decides on remuneration and incentive schemes. The Board of Directors has a Remuneration Committee which, among other issues, prepares matters related to remuneration in the company. For example, the Remuneration Committee prepares the principles for performance and results criteria for remuneration schemes, and monitors their realisation.

The remuneration of the Board of Directors, the President and CEO, and the Deputy CEO is described in more detail in Kesko Corporation's Remuneration Policy for Governing Bodies 2020 ([link](#)), and the realised remuneration in 2020 in Kesko Corporation's Remuneration Report for Governing Bodies 2020 ([link](#)).

Question 3

According to Kesko's 2020 Annual Report, "Kesko Group simplified its corporate structure in Sweden by merging Onninen AB with K-Rauta AB on 1 May 2020." Does Kesko plan to similarly simplify its structure in other Nordic countries or Baltic countries?

Answer 3

Kesko makes changes to its Group structure when, for example, this serves business needs. Kesko discloses changes in Group structure annually in the Report by the Board of Directors.

Question 4

In Kesko's 2020 Annual Report, it says that "The Finnish Competition and Consumer Authority has a pending investigation concerning a suspected infringement of competition rules by Onninen Oy." Does the suspected infringement of competition rules concern only Onninen's Finnish operations?

Answer 4

Kesko Corporations details the pending investigation by the Finnish Competition and Consumer Authority concerning a suspected infringement of competition rules by Onninen Oy in Note 5.5 of Kesko's consolidated financial statements. Onninen Oy was informed of the investigation in 2015. Kesko acquired the entire capital stock of Onninen Oy on 1 June 2016. The investigation and the potential related risks are addressed in the acquisition terms and conditions.

(This document is a translation of questions originally received and answers given in Finnish.)

