Kesko Corporation

Type of Engagement: Annual Review
Date: 24 March 2025
Engagement Team:
Sidharth P R, sidharth.pr@morningstar.com, +91-9497701999

Introduction

In 2024, Kesko Corporation ("Kesko" or the "Company") issued unsecured green notes[1] of EUR 300 million (the "2024 Green Notes") to finance or refinance projects[2] related to green buildings, renewable energy and clean transportation. In 2025, Kesko engaged Sustainalytics to review the projects[3] financed or refinanced with the proceeds from the 2024 Green Notes (the "Nominated Expenditures") and provide an assessment as to whether they meet the use of proceeds criteria and whether Kesko complied with the reporting commitments in the Kesko Green Finance Framework (the "Framework").[4] Sustainalytics provided a Second-Party Opinion on the Framework in May 2024.[5] This is Sustainalytics' first annual review of allocation and reporting of the instruments issued under the Framework.

Evaluation Criteria

Sustainalytics evaluated the Nominated Expenditures and Kesko's reporting based on whether they:

1. Meet the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators (KPIs)
Green and energy efficient buildings	**New buildings** ▪ New buildings[6] that have or will have a net Primary Energy Demand (PED) at least 10 percent lower than the level required by the national building regulation for nearly zero-energy buildings. ▪ For buildings larger than 5,000 m², upon completion, the building resulting from the construction undergoes testing for airtightness and thermal integrity and the life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle. **Existing buildings**[7] ▪ Buildings with an Energy Performance Certificate (EPC) of class A or qualifying within the top 15% most energy efficient buildings within the national building stock, expressed as PED and demonstrated by adequate evidence, e.g. through a specialist study.	**New and existing buildings** – Annual energy use avoided (kWh/m²) – Annual GHG emissions avoided (tonnes of CO_2e emissions) **Major renovations** – Energy use reduction compared with pre-investment situation (kWh/m² or in percentage terms) – Annual GHG emissions avoided as a result of the renovation (tonnes of CO_2e emissions)

[1] Kesko, "Kesko Issues EUR 300 Million Green Notes", (2024), at: https://www.kesko.fi/en/media/news-and-releases/stock-exchange-releases/2024/kesko-issues-eur-300-million-green-notes/.
[2] Kesko shared the Kesko Green Bond Report 2024, dated March 2025, with Sustainalytics. The report provided details on the eligible projects financed, along with corresponding allocation and impact data.
[3] Ibid.
[4] Kesko, "Kesko Green Finance Framework", (2024), at: https://www.kesko.fi/49be1c/contentassets/d8444d9650934970b5955061eceaa000/kesko-green-finance-framework-may-20242.pdf.
[5] Sustainalytics, "Second-Party Opinion: Kesko Green Finance Framework", (2024), at: https://www.kesko.fi/49be5c/globalassets/03-sijoittaja/raporttikeskus/2024/q2/kesko-corporation-green-finance-framework-second-party-opinion-2024.pdf.
[6] Kesko defines new buildings as buildings where the building application was filed on or after 1 January 2021.
[7] Kesko defines existing buildings as buildings where the building application was filed on or before 31 December 2020.

	Major renovations ▪ Building renovations comply with the requirements applied to major renovations or lead to a total reduction in primary energy demand per square meter and year (kWh/m²/year) by at least 30% compared to the primary energy demand prior to renovation. **Building energy efficiency measures** ▪ Direct costs (e.g. material, installation and labour costs) for the installation, maintenance and repair of energy efficient technologies or other energy saving measures during the construction, maintenance and service phase of a building. These measures may include energy efficient refrigeration display cases and cold rooms, energy management systems, AI and data solutions, energy efficient and low U-value windows, energy efficient lighting, heat exchangers and ventilation, extended or improved thermal insulation, and electric heat pumps (where the global warming potential (GWP) of refrigerants does not exceed 675).	
Renewable energy	**Solar power and wind power** ▪ Photovoltaics (PV) and related infrastructure. ▪ Expenditures related to long-term (≥ 5 years at signing), project-tied power purchase agreements (PPAs).	**Wind and solar power** – Installed capacity (MW) – Annual generation (MWh) – Annual GHG emissions reduced or avoided (tonnes of CO_2e emissions)

Issuer's Responsibility

Kesko is responsible for providing accurate information and documentation relating to the details of the projects, including descriptions, amounts allocated and impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from Kesko's 2024 Green Notes. The work undertaken as part of this engagement included collection of documentation from Kesko and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by Kesko. Sustainalytics is not responsible, nor shall it be held liable, for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by Kesko.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,[8] nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the Nominated Expenditures do not conform with the use of proceeds criteria and reporting commitments in the Framework. Kesko has disclosed to Sustainalytics that 85.9% of the proceeds from the 2024 Green Notes were allocated as of 31 December 2024, and the remaining 14.1% will be allocated by December 2025.

[8] Sustainalytics' limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Nominated Expenditures to determine alignment with the use of proceeds criteria outlined in the Framework.	The Nominated Expenditures comply with the use of proceeds criteria.	None
Reporting Criteria	Verification of the Nominated Expenditures to determine if impact was reported in line with the KPIs outlined in the Framework.	Kesko reported on at least one KPI per use of proceeds category.	None

Appendix

Appendix: Allocation and Reported Impact

Table 3: Allocation and reported impact of the eligible projects per use of proceeds category

Use of Proceeds Category	Eligible Green Project	Environmental Impact Reported	Amount Allocated (EUR million)[9]
Green and energy-efficient buildings	**New and existing buildings[10] – Warehouse[11]** Onninen and K-auto new central warehouse, Onnela, in Hyvinkää, Finland.	• Annual energy use avoided: 56 kWh/m^2 • Annual GHG emissions avoided: 299 tCO_2e emissions	158.3
	New and existing buildings[10] – Supermarkets Four supermarkets in Finland: K-Supermarket (Vaajakoski), K-Supermarket (Laihia), K-Supermarket (Masku) and K-Supermarket Knuutilankangas (Oulu).	• Annual energy use avoided: 36 kWh/m^2 • Annual GHG emissions avoided: 56 tCO_2e emissions	25.8
	Renovations[12,13,14] – Supermarkets and hypermarkets Three supermarkets in Finland: K-Supermarket Koskituuli (Kouvola), K-Supermarket Basilika (Sipoo) and K-Supermarket Hyrrä (Tuusula); and nine hypermarkets: K-Citymarket Tammisto (Vantaa), K-Citymarket (Jämsä), K-Citymarket Lielahti (Tampere), K-Citymarket (Riihimäki), K-Citymarket Turtola (Tampere), K-Citymarket (Lappeenranta), K-Citymarket Seppälä (Jyvaskyla), K-Citymarket Tiiriö (Hämeenlinna) and K-Citymarket Länsikeskus (Turku).	• Energy use reduction compared with pre-investment situation: 109 kWh/m^2 • Annual GHG emissions avoided as a result of the renovation: 1,994 tCO_2e emissions	70.4
Renewable energy	**Solar power[15]** Solar plant within the Onninen and K-auto new central warehouse, Onnela, in Hyvinkää, Finland.	• Annual generation: 554 MWh • Annual GHG emissions reduced or avoided: 33 tCO_2e	0.6
Total Amount Allocated			**255.1**
Total Unallocated Allocated			**42.0**
Total Net Proceeds Raised			**297.1[16]**

[9] As of end-December 2024.
[10] Sustainalytics notes that these are either: i) new buildings that have or will achieve a net primary energy demand (PED) at least 10% lower than the PED resulting from the local nearly zero-energy buildings requirements; or ii) existing buildings that: a) have received an energy performance certificate rating of A; or b) belong to the top 15% of energy-efficient buildings in the national building stock in terms of PED and demonstrated by adequate evidence, such as through a specialist study.
[11] Kesko has communicated to Sustainalytics that this is an ongoing warehouse project, expected to be completed by the end of 2025. While the committed amount is higher, EUR 158.3 million reflects the amount actually paid prior to the bond issuance and through to year-end 2024.
[12] Sustainalytics notes that such renovations meet either of the following criteria: i) lead to a total reduction in PED by at least 30% compared to the PED per square metre and year (kWh/m^2/year) prior to the renovation; or ii) the energy performance of the building or the renovation will meet the cost-optimal minimum energy performance requirements in accordance with the Energy Performance of Buildings Directive.
[13] Kesko has confirmed that: i) for such renovations, only expenditures related to the renovations will be financed and not the entire asset value of the building; and ii) equipment and technologies designed or intended for processes that are inherently carbon-intensive or primarily driven or powered by fossil fuels were excluded from financing.
[14] Kesko has confirmed that this involves the installation of energy-efficient technologies or other energy-saving measures during the construction phase of a building, including: i) energy-efficient refrigeration display cases or cold rooms; ii) energy management systems; iii) AI and data solutions; iv) energy-efficient and low-U-value windows; v) energy-efficient lighting; vi) heat exchanges and ventilation; vii) extended or improved thermal insulation; and viii) electric heat pumps.
[15] Sustainalytics notes that this is a solar photovoltaic power project.
[16] Kesko has communicated that it incurred issuance costs for the 2024 Green Notes and fixed the annual coupon rate at 3.5%, resulting in a discount on the proceeds. Despite the discount, the nominal amount to be repaid at maturity remains EUR 300 million; however, this does not represent the net proceeds, which amounted to EUR 297.1 million.

Disclaimer

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds, which incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. For more information, visit www.sustainalytics.com.