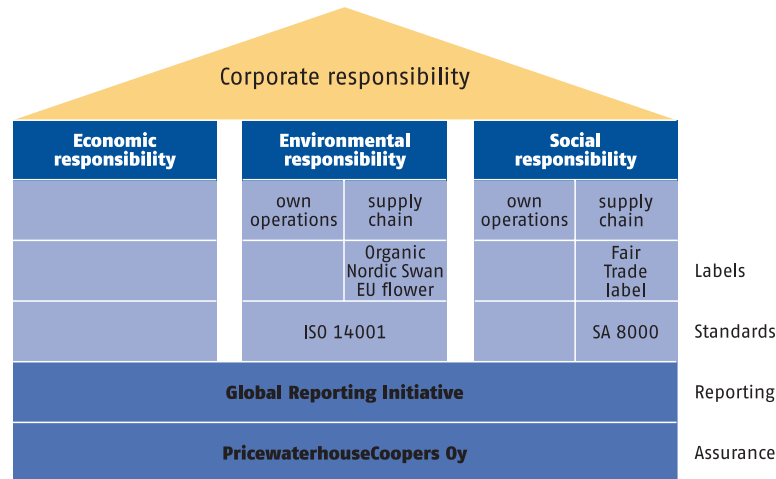


Corporate responsibility report 2002
Building for a better tomorrow



KESKO

Contents of the report



Kesko's third corporate responsibility report has been prepared on the basis of the 'Sustainability Guidelines on Economic, Environmental and Social Performance' published by the Global Reporting Initiative (GRI) in August 2002. Any deviations from GRI guidelines and any shortcomings in presenting its core indicators are noted in the comparison published at the end of the report.

The report's structure has not changed from that used on previous occasions. The renewed GRI guidelines have resulted in some minor revisions, as has the development work done by Kesko. The assurance of the report by an outside, independent party has resulted in some suggestions for improvements in data collection and documentation, some of which have been included in this report.

The report begins with basic information about Kesko and an assessment by Kesko's top management of the pres-

ent status and future prospects for corporate responsibility. Kesko's values, responsibility-related operating principles, strategies and management systems are described in brief, as are its corporate governance system and stakeholders. The main focus is on the indicators of economic, social and environmental performance, which are now a little more numerous and more specific. A summary table of the key indicators has been drawn up. At the end, there is a description of activities related to product liability and the principles of private data protection in the customer loyalty system. A list of the key contact persons is also included.

Most indicators apply only to the Finnish operations of the Kesko Group. Statistics on our foreign operations - in Sweden and the Baltic countries - have now been included in the personnel section of the report and in some indicators of economic responsibility. Our foreign

subsidiaries do not yet have environmental systems capable of producing indicators of environmental responsibility.

An electronic version of the printed report is available on Kesko's Internet pages. In certain topics, it contains more detailed information than the printed report. The online report also contains plenty of links to various sources of information and organisations.

For the first time, the report now includes a statement of assurance. The assurance provider is the Sustainability Services unit of PricewaterhouseCoopers Oy, Kesko's accountants. The assurance statement is published at the end of this report.

The report covers Kesko's performance in 2002, with some information about January-March 2003 included. The report for 2001 was published in May 2002.

Building for a better tomorrow



In 2002, Kesko was given international recognition for its K-environmental store diploma and for its introduction of euro cash. President and CEO Matti Honkala (right) and Jouko Kuisma, Senior Advisor, Corporate Responsibility, assign the credit to all those Kesko employees, K-retailers and K-store personnel by whose work the awards were earned.

Kesko's present corporate responsibility report is its third. The guidelines published by the international GRI organisation have facilitated our work. With the help of the GRI, we have learned to analyse our responsibilities and to measure our performance more accurately. Due to the establishment in practice of our revised values and the further development of our reporting, corporate responsibility is becoming an integral part of our management. This is only to be expected. Responsibility cannot be implemented separately from our other activities, but must be a self-evident part of our daily work. Responsibility is not primarily a tool to improve our corporate image, but a way of reducing business risks and improving the profitability of operations. The report is not the main product of corporate responsibility; it is simply a way of

telling how we performed.

Already, a significant number of our corporate responsibility indicators relate to profitability. We describe responsibility itself relatively well, but we still do not sufficiently analyse its impact on economic performance. These analyses should be elaborated, because good economic results support responsibility and encourage us to further improve our performance. More extensive comparative and research data would be needed to enable us to better assess the level of our activities. As reporting becomes more widespread, the comparative material will gradually increase, particularly in environmental calculation, where the recommendations of the Finnish Accounting Standards Board will accelerate the presentation of environmental performance in terms of figures in financial statements.

The relationship between job satisfaction and economic performance has been known for a long time. When statistics and indicators concerning the personnel become established, there will be plenty of basic information available on how to enhance the quality of management. At Kesko, the latest challenge in this area is ensuring that our foreign employees - whose number is growing fast - are committed to Kesko's values, principles and objectives. We have started this work and we believe our measurements will provide us with interesting comparative data on how well we have been received in new markets by customers and employees alike.

Kesko has had the pleasure of being recognised in many ways in different sectors of corporate responsibility. Although the awards have no intrinsic importance, recognition always feels good. We have noticed that it has a positive impact on the employees' appreciation of their jobs and the recruitment of new employees. Our good track record in the area of corporate responsibility will secure our position in times when labour is scarce. There is still room for improvement, of course. For example, a lot remains to be done in reducing emissions and packaging material, and in social quality control. I trust that we - like many other companies - will be able to perform even better. The tightening of competition in this area, too, will be beneficial for both the economy and society.

Matti Honkala
President and CEO
Kesko Corporation

Contents

Contents of the report	2	K-environmental stores	31
Building for a better tomorrow	3	Stakeholder co-operation and communications	33
Basic information about the Kesko Group	5	Environmental risks, damage and accidents	33
Key indicators of corporate responsibility		Social performance	34
for 2000-2002	6	Number of employees	35
Vision and strategy of corporate responsibility	8	Average age and duration of employment	35
Vision of key factors in corporate responsibility	8	Reasons for terminating employment	36
Strategies	9	Kesko's attraction as a workplace	36
Key areas of influence	9	Quality of management	37
Kesko's principles and management systems		Health and safety	38
guiding corporate responsibility	10	Salaries and other benefits	38
Stakeholder analysis	12	Pensions	39
Corporate responsibility performance in 2002	14	Equality	39
Economic performance	15	Training	40
Economic development from		Unionisation and work safety	40
the viewpoint of shareholders	15	Social quality control of suppliers	41
Investments and store network	17	Purchasing principles	42
Job development	19	Supervision is part of risk management	42
Salaries, social security expenses and taxes	19	Buyer and supplier as partners	42
Employee pension and health insurance systems	19	Progress of certification	43
Suppliers of goods and services	20	Co-operation between Finnish importers	45
Financial support	20	Fair Trade products	45
Environmental performance	22	The UNICEF project in India	45
Environmental system and calculation	23	Other responsibility areas	46
Eco-efficiency in construction	24	Product safety	46
Environmental risks of land use	24	Marketing and competition regulations	47
Energy and water consumption	25	Privacy protection	47
Environmental profile of energy	25	Political relations	48
Transport	26	Attitude to bribes	48
Transport emissions	28	Comparison of the report with guidelines	
Carbon dioxide balance of the Group	28	of the Global Reporting Initiative	49
Use of materials	29	Definitions of terms	52
Waste management and recycling	29	Contact persons in corporate responsibility	53
Developments in the products trade	31	Assurance statement	54

Basic information about the Kesko Group

Kesko

Kesko is Finland's biggest trading company. Its division parent companies - Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd and Keswell Ltd - are responsible for store sites, purchasing, logistics, marketing and chain co-operation with the respective K-retailers. Kesko also has its own retail outlets in speciality goods, hardware and agricultural products, as well as food in the Baltic countries. Of the Group's net sales of EUR 6.5 billion in 2002, 56% came from the food trade and 8.3% from foreign operations (6.3% in 2001).

On the basis of chain agreements, Kesko works in close co-operation with the K-retailers. There were 1,428 K-retailers at the end of 2002. The K-Alliance had 1,792 retail stores in Finland and 78 in other countries, and their sales totalled EUR 7.2 billion.

Kesko's shareholders

Kesko is a listed company, with 25,485 shareholders at the end of 2002. The shares were divided into A shares (34.8% of all shares and 84.2% of all votes) and B shares (65.2% of all shares and 15.8% of all votes). The holdings of the K-retailers remained nearly unchanged at 17.1% of the shares and 34.9% of the votes. During the year, the shareholdings of foreigners increased from 18.1% to 20.6%.

At the end of 2002, the market capitalisation of A shares was EUR 520 million and that of B shares EUR 719 million, the total being EUR 1,239 million. This represented an increase of 13% from the end of 2001.

Personnel

In 2002, Kesko had 12,217 employees on average, of whom 2,497 (20.4%) worked for Kesko's foreign subsidiaries. The number of employees increased by 673 (5.8%) over 2001. The growth abroad was 61.0%, while in Finland the number of employees decreased by 2.7%. In the average figures, part-time jobs have been converted into full-time jobs according to working hours. At the end of the year, the total number of employment relationships was 15,212, which was 224 more than the year before. 67.0% of the personnel worked in retailing.

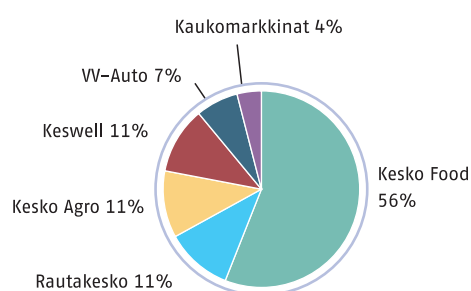
Real estate

At the end of 2002, the Kesko Group owned 1,101,000 square metres of real estate in Finland and 128,000 square metres abroad. Warehouses, offices and other premises accounted for over a quarter of this area, with store premises accounting for the rest. The total floor area of premises rented for use, consisting mainly of retail stores, was 1,573,000 square metres in Finland and 109,000 square metres abroad. The majority of the store premises owned or rented in Finland have been let or sublet to the K-retailers.

Suppliers of products and services

In 2002, Kesko bought products and services at a total cost of about EUR 5.7 billion. Active Finnish suppliers - about 14,500 in all - accounted for 79.8% and

Breakdown of Kesko's net sales by division in 2002



foreign suppliers - 4,500 in all - for 20.2% of Kesko's purchases. The main countries from which goods were imported were Germany, Italy, China, Sweden and Spain.

Kesko is a member of the following international purchasing organisations: Associated Marketing Services AMS (groceries), EuroMat (building and interior decoration products), Inter-sport International (sports goods), EP:International (home electronics) and World Wide Retail Exchange (B-to-B Internet marketplace).

Customers

The K-retailers accounted for 50.1% of Kesko's sales. On average, the K-retailers made 86.3% of all purchases (86.1% in 2001) and 90.3% of food purchases (90.8% in 2001) from Kesko. Wholesale customers - hotels, restaurants, service stations, kiosks, construction companies, etc. - accounted for 32.6% of Kesko's sales. The remaining 17.3% of Kesko's sales went via its retailing subsidiaries directly to consumers.

Key indicators of corporate responsibility for 2000–2002

6

Indicators of economic responsibility	2000	2001	2002
Net sales (EUR million)	6,308	6,214	6,466
Profit before extraordinary items (EUR million)	126	86	110
Return on invested capital (%)	8.5	6.6	7.6
Dividends paid (EUR million)	135	90	54
Investments (EUR million)	247	206	185
Equity ratio (%)	54.7	53.6	53.3
Salaries and fees (EUR million)	268	267	281
Income taxes (EUR million)	34	30	42
Number of personnel (average)	11,099	11,544	12,217
Number of suppliers ¹⁾	*)	*)	19,000
Purchases from suppliers (EUR million)	5,522	5,439	5,714
Support for organisations operating for the public good (EUR million)	2.0	2.4	1.9
Households within 1 km of a K-food store (%)	47.3	46.4	*)

(figures for the whole Group, except at 'Households within 1 km of ...')

Indicators of environmental responsibility			
Use of electrical energy in real estate (GWh) ²⁾	²⁾	628	644
Use of heat energy in real estate (GWh) ²⁾	²⁾	290	282
Use of water in real estate (m ³) ²⁾	²⁾	546	545
Emissions from the production of electrical and heat energy used			
– climate change (tn CO ₂ eq) ²⁾	²⁾	293,509	231,702
– acidification (tn SO ₂ eq) ²⁾	²⁾	742	645
– ozone in lower atmosphere (tn C ₂ H ₄ eq) ²⁾	²⁾	15.2	15.2
Distribution transport			
– loads	112,300	117,125	116,260
– kilometres (1,000 km)	18,512	17,840	15,365
– tons	646,393	658,552	697,000
– use of energy (MWh) ⁴⁾	88,665	85,447	73,592
– emissions (tn) ⁴⁾			
– carbon dioxide	23,508	22,654	19,511
– carbon monoxide	11	11	9
– hydrocarbon	8	7	6
– nitric oxides	247	238	205
Use of materials/waste (tn)			
– materials in imported packaging	27,971	25,250	31,704
– waste in distribution warehouses ³⁾	9,996	10,066	9,510
– radioactive waste from production of electricity purchased	0.65	0.54	0.67

(environmental indicators only on domestic operations)

¹⁾ Since 2002, the so-called active suppliers are included, previous years are not comparable

²⁾ More accurate calculations in 2002, the year 2001 has been corrected accordingly, the year 2000 is not comparable

³⁾ Includes corrugated board collected from K-stores

⁴⁾ Indicators for 2000 and 2001 have been calculated with road traffic's new factors (LIISA 2002)

*) Information inaccurate or not collected

Indicators of social responsibility	2000	2001	2002
Job satisfaction in Finland (scale 1-5)			
- own job	3.71	3.73	3.72
- superior's performance	3.74	3.82	3.82
- unit's operations	3.63	3.73	3.78
- Kesko's operations	3.61	3.60	3.71
Employee turnover			
- new	4,100	3,800	5,189
- left	3,600	3,500	5,064
- vacancies in the internal labour market	500	500	500
- retired	198	194	254
Average age of employees (years)	*)	36.4	*)
- in Finland	*)	*)	35.1
- in foreign units	*)	*)	30.2
Average duration of employment (years)	*)	11.8	11.3
Absenteeism due to illness (work days per person)	7.7 **)	7.8	8.1
- in Finland	7.7 **)	7.8	7.9
- caused by accidents	0.5	0.3	0.3
- in foreign units	*)	*)	9.1
Funds used for health care (per person, EUR)	323	328	340
Funds used for recreation and hobbies (per person, EUR)	46	43	36
Average annual salary in the whole Group (per person, EUR)	24,109	23,164	23,009
- in Finland	*)	24,917	26,280
- in foreign units	*)	11,605	10,275
Training days per person **)			
- in Finland	2.0	1.7	1.5
- in foreign units	*)	*)	1.2
Investment in training (per person, EUR)	570	598	445
Social quality control of purchases			
- suppliers in developing countries included in statistics	135	220	236
- total number of employees in above companies	120,000	225,000	221,500
- companies with SA 8000 certification	1	11	17
- number of employees in companies with SA 8000 certification	*)	19,000	30,700

(information apply to the whole Group, unless specified 'in Finland / in foreign units')

*) information not available

***) calculations cover only part of Group personnel

Vision and strategy of corporate responsibility

At the beginning of 2002, Kesko adopted a revised management system that guides strategic planning and its implementation. At the same time, the corporate values were revised and 'We bear our corporate responsibility' was put at the base of the new value pyramid. To implement the values in practical work, the maintenance and development of responsibility must be included in operating principles, strategies and action plans complying with the management system. Appropriate international standards and the GRI guidelines are used in the development work and in guiding operations.

In March 2001, the Corporate Management Board approved the first vision of the future factors in corporate responsibility. Minor changes were made to the vision in the spring 2003 review.

Vision of key factors in corporate responsibility

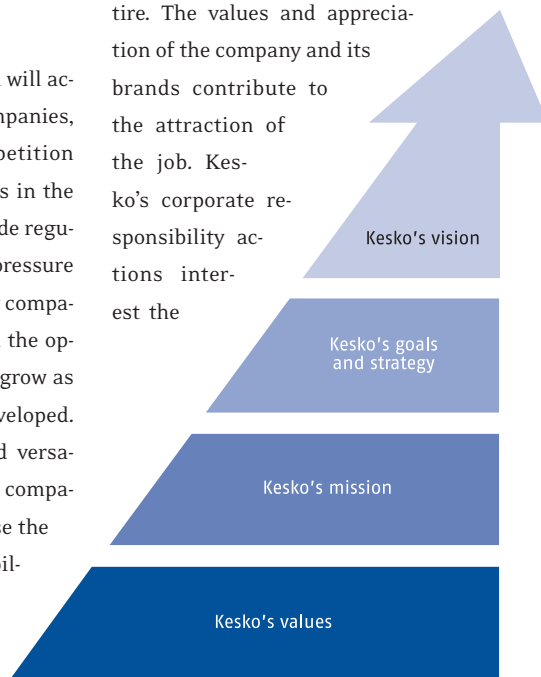
During this decade, globalisation will accelerate the concentration of companies, foreign investment and competition across national borders. Progress in the development of international trade regulations will be slow, increasing pressure for responsible self-regulation by companies. The interest of investors in the operating ethics of companies will grow as performance indicators are developed. Other stakeholders also demand versatile and open information about company operations, which will increase the provision of corporate responsibility indicators and reporting to complement financial statements. The use of indica-

tors in inter-company comparisons will set special requirements for the reliability of reporting, making independent assurances a necessity.

Kesko will experience steady growth in sales, profits and share value. Kesko will maintain a good liquidity and will be able to continue its investor-friendly dividend policy. This will enable increased wealth for Kesko's financial stakeholders and help Kesko to keep its environmental and social performance at the head of the field.

In Finland, Kesko will grow at the pace of the domestic market, but will expand strongly abroad at the same time. Due to the strong structural change in the trading sector, no significant increase is expected in the number of jobs in Finland.

The competition for new employees will intensify as baby-boomers retire. The values and appreciation of the company and its brands contribute to the attraction of the job. Kesko's corporate responsibility actions interest the



new generation now entering working life and thereby facilitate recruitment. The problems associated with the performance and job pressures of ageing employees will be prevented with systematic job rotation and training. In occupational health care, too, the emphasis is on preventive work, the targets being a reduction in the number of disability pensions and a rise in the average retirement age.

Kesko will be largely responsible for the competitiveness of retailing based on private enterprise, which, correspondingly, will be a significant factor in Kesko's success. The store sites, business operating systems and services supporting competitiveness, provided by Kesko, give K-retailers an added value that, along with economical purchases, allows them to stand out from competitors while making a profit. The retailers, for their part, have financial responsibility for their own business operations and store-specific customer satisfaction. As internal migration continues, the store and distribution networks must be kept at the right size to serve customers, while maintaining financial efficiency.

As the supplies of products and services grow, consumers making purchasing decisions will have, besides more options, also more influence to affect the trading structure and supply of goods. The role of the media in consumer business will grow, too. An increasing number of consumers will want information on the origin, safety and production conditions of merchandise, which

will require from Kesko an active management of the purchasing chain and open and active communications. Kesko and the K-retailers can affect consumers' well-being and quality of life by their actions in general, and by their product policies, selections and monitoring. Safety, reliability and ethics will gradually rival price as a factor in communications and marketing.

In order to lead the way and have influence, Kesko will monitor and actively forecast changes in society, and will offer its expertise for the benefit of its business sector and for society as a whole. To do this, Kesko will maintain active contacts with non-governmental organisations, the authorities and other decision-makers, and will actively participate in national and international organisations in its own sector and in business in general.

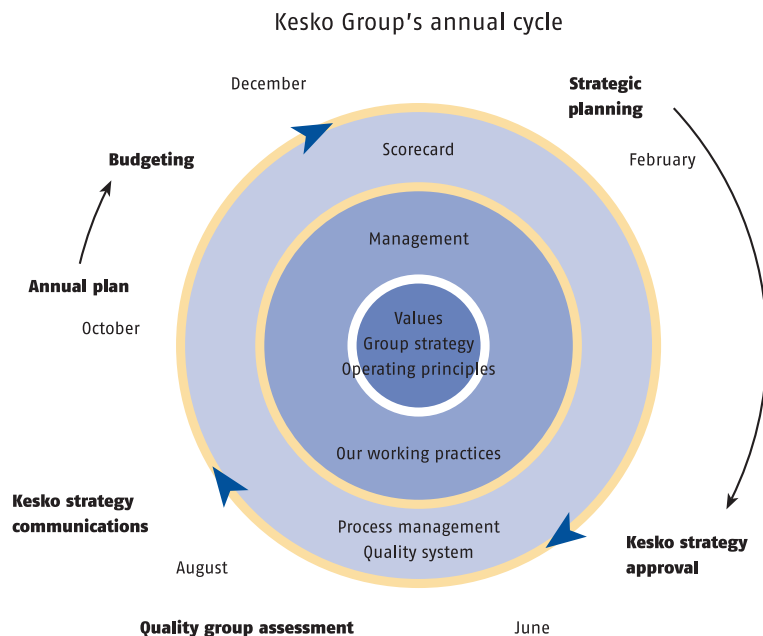
Strategies

Kesko's values and mission guide the preparation of the Group's overall plan or strategy for the activities to be taken to achieve Kesko's vision and goals. The values cannot be overlooked in planning for financial or other short-term reasons. The above Group-level vision concerning corporate responsibility is challenging and includes critical success factors for the operations of many units and opportunities to gain a competitive advantage.

Besides the management system, the Group's operating principles guide planning and operations at all business levels. They include personnel, environmental, communications, financial administration, real estate, safety and security and risk management principles. The corporate responsibility viewpoint, based on the values, is also included in the operating principles.

Key areas of influence

The following are the areas of corporate responsibility in which Kesko can best achieve results that will benefit society and stakeholders:



Economic performance

- The increased trading of products means more sales for suppliers, new manufacturing and retailing companies and jobs, higher salaries and other personnel benefits, more taxes for local and central government, and more funds for enhancing social security and developing society.
- New investments and renovations increase demand for construction and other services.
- Increasing share values and yields means that shareholders will benefit from steadily developing, safe investments that yield good dividends.

Environmental performance

The continuous improvement of Kesko's activities means

- lower energy consumption in real estate and transport compared with the volume of operations = a relative decrease in carbon dioxide emissions, in particular.
- a decrease in waste and increase in recovery.

While better environmental co-operation with suppliers means

- products are more environmentally

sound throughout their life-cycle.

- a relative decrease in the use of packaging material.
- an increase in the recovery of products and packaging.

Social performance

- The provision of good, safe jobs, with care and job satisfaction for employees.
- Gradual improvement of working conditions for suppliers in developing countries, through co-operation.
- Promotion of corresponding principles in companies in Finland and abroad, through example and initiatives.
- Contribution to activities that prevent social problems.

Development in the trading sector and society

- Contribution of expertise to develop trading sector, business, and national and international trading regulations, through co-operation with organisations and stakeholders.
- Support for projects corresponding with Kesko's values, relating to its operations and promoting social and community services and welfare.

Kesko's principles and management systems guiding corporate responsibility

10

Since the mid-1990s, Kesko Group's all units have acted according to value and quality management systems. Introduction of the environmental management system that concerns the units with most environmental impacts, started in 1997. The ethical principles for in-house operations and product purchasing from developing countries were defined for the first time in 1999. These management systems have enabled the systematic development of corporate responsibility. For the improved management system, introduced in February 2002, the values were revised to underline the importance of corporate responsibility. The Quality and Risk Management unit is responsible for management system planning and guidelines. The Senior Advisor responsible for developing and co-ordinating corporate responsibility was appointed in the Corporate Communications unit. The unit's director is a member of the Corporate Management Board and reports to the President and CEO.



Kesko's values

In 1996, Kesko's values were defined after a survey of employees and the K-retailers. The introduction of the new management system involved the revision of values in small group discussions. The President and CEO presented new values in dozens of personnel meetings held in spring 2002. K-retailers also adopted the corresponding values in their our management.

We exceed our customers' expectations

We recognise our customers' needs and expectations. We strive to offer them positive experiences through the continual reform of our operations and emphasis on entrepreneurial activity.

We are the best operator in the trading sector

We offer our customers the best products and services in the market to ensure our competitiveness and success.

We create a good working community

We operate in an open, interactive working community where people are respected and every individual can contribute to the maximum and use initiative.

We bear our corporate responsibility

Our operations are responsible and we follow ethically acceptable principles in all actions within our working community and in relations with our partners.

Our working practices

Based on these values, Kesko's ethical principles have been drawn up for in-house use in the form of a guidebook called 'Our working practices'. The guide describes how Kesko employees act together and with suppliers, customers and other stakeholders, and encourages the open discussion of values and other work matters. The guidebook has been distributed to all personnel and the superiors have introduced the guide in all units. For foreign subsidiaries, the guidebook has been translated into the languages of each country. The guidebook has also been adopted in the K-stores. 'Our working practices' can also be read on Kesko's Internet pages at www.kesko.fi (Kesko in brief/Corporate citizenship).

Kesko's intranet pages - called Keskonet - provide a feedback channel which the staff can use to send questions and proposals for improvement, either by name or anonymously. There is also a direct line for feedback to the President and CEO.

Corporate governance

Kesko's corporate governance can be read at Kesko's Internet pages at www.kesko.fi (Kesko in brief/Administration and management). The principles consist of the following items:

- group structure

- provisions applied
- General Meeting and use of voting power at the General Meeting
- Board of Directors
 - composition and term
 - functions and meetings
 - fees and other benefits
- Managing Director and Deputy Managing Director
- Corporate Management Board
- subsidiary management
- auditors
- control and reporting system
- company insiders
- updating corporate governance

Quality management

Quality management includes a quality evaluation which is carried out by units as a self-assessment based on the criteria for the Finnish Quality Award. The Group's internal quality prize competition between units is part of the quality evaluation.

The Product Research unit of Kesko Food Ltd ensures the quality of groceries and some speciality goods. The unit's operations are based on a quality system complying with the ISO 9000 standard and an in-house control system approved by the authorities. Kesko Food's purchasing unit has started building the ISO 9000 quality system. Its subsidiary Kespro Ltd also has a certified ISO quality system.

Kesko Food participates in the national grocery quality programme and in the food safety working group established by CIES, the global Food Business Forum.

Environmental management

Kesko's existing environmental policy was drawn up in 1996, when Kesko committed itself to the business charter for sustainable development prepared by the International Chamber of Commerce. Due to the lack of resources, updating Kesko's environmental policy was postponed to 2003.

Environmental management sys-

tems based on ISO 14001 standard are used in all of the Group's units that have the biggest impact on the environment. More information about their certification is given in the environmental performance section, starting on page 23. The whole environmental policy can be read on Kesko's Internet pages at www.kesko.fi (Environment and responsibility/Environmental responsibility).

Ethical purchasing principles

Kesko implements social quality control in its imports through the international Social Accountability SA 8000 standard, which is based on the UN Declaration of Human Rights and Convention on the Rights of the Child, and on the key conventions of the ILO. Kesko's partner in promoting the introduction of the standard and supplier certification is Bureau Veritas Quality International. For more information on social quality control, see page 41. Kesko's purchasing principles can be read on our Internet pages www.kesko.fi (Environment and responsibility/Economic and social responsibility).

In its quality assurance programme Kesko Food's Product Research unit has given opinions on ethical issues in food production, such as gene technology, use of hormones, use of azo colours, etc.

Participation in economic and trading sector development

Active participation in national and international economic and trading sector development is part of corporate responsibility. Kesko has representatives in the following national and international organisations and other working groups:

International organisations

- International Chamber of Commerce, ICC
- World Council
- Working parties (Environment and Energy, Business in Society)
- The Finnish Section (Vice Chair)

- UN Environmental Programme UNEP
- Trading sector group (established in 2002)

CIES - The Food Business Forum

- Food Safety working group

EU and EU organisations

EU Commission CSR Multi Stakeholder Forum

- Working group on corporate responsibility reporting

UNICE (Union of Industrial and Employers' Confederations of Europe)

- The Council of Presidents

EuroCommerce

(the retail, wholesale and international trade representation to the EU)

- CSR Experts

Public administration in Finland

- EU drafting section on consumer affairs (Ministry of Trade and Industry)
- Chain - transport development programme (Ministry of Transport and Communications)
- Data Protection Board (Ministry of Transport and Communications)

Finnish central organisations

- Employers' Confederation of Service Industries in Finland (Chair)
- The Federation of Finnish Commerce and Trade (Vice Chair in Board, all committees, Chair in the Taxation Committee)
- Central Chamber of Commerce (Vice Chair in Board)

Kesko's representatives are also active in several industry and recycling organisations. A more detailed list with [www](http://www.kesko.fi) links is available on Kesko's Internet pages at www.kesko.fi (Environment and Responsibility/Environmental responsibility).

Stakeholder analysis

12

In most cases, the company's financial performance is considered from the shareholders' point of view. When estimating performance in terms of corporate responsibility, there are several stakeholder groups with their own expectations which may also be contradictory. A responsible company must be able to balance between different expectations, to allow all stakeholder groups to feel that the company has succeeded in its corporate relations. Regular, documented contacts should be maintained with stakeholders. Kesko maintains active contacts, but creating a real 'stakeholder process' is still underway.

Kesko's operations are so versatile that its corporate responsibility covers many stakeholder groups which cannot - and should not - be ranked in order of importance. Here are brief descriptions of Kesko's key stakeholder groups and an estimate of the major expectations concerning Kesko's responsibility:

The authorities (EU, Finnish state and local authorities)

The European Union and the Finnish Government use legislation, international agreements and other directives to create the framework for Kesko's operations. Through sector and umbrella organisations, Kesko contributes its ex-

perience to decision-making concerning the trading sector and the economy. Kesko acts in co-operation with local authorities when developing and maintaining the store network. Kesko contributes to the well-being of society by paying direct taxes and social security contributions, by collecting indirect taxes and by withholding payroll taxes.

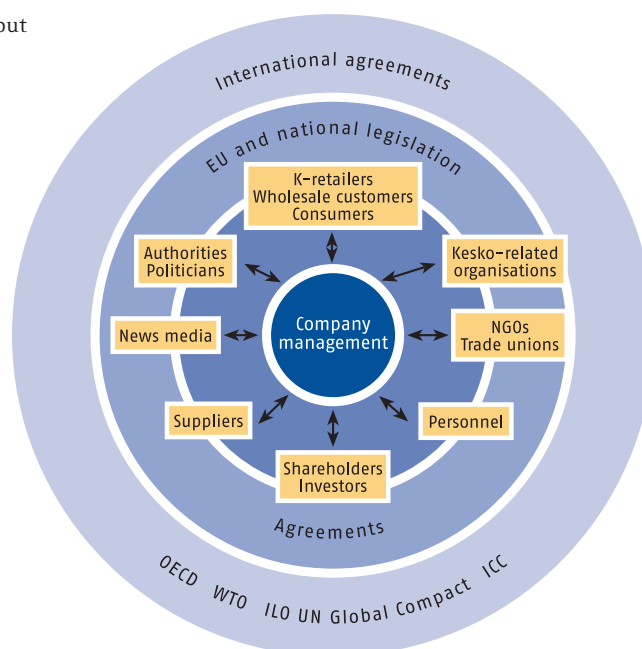
Suppliers of products and services

Kesko buys consumer goods from Finnish and foreign agricultural producers, manufacturing industry and importers, and sells and distributes them to the K-retailers and wholesale customers. Kesko builds and maintains the K-store network and acquires the furnishings, equipment, information systems, etc. required by the K-retailers for their businesses.

Suppliers expect from Kesko business growth and good liquidity.

K-retailers and wholesale customers

The co-operation of Kesko and the K-retailers is based on a vertical agreement in which clear responsibilities and obligations have been defined for both parties. Kesko is responsible for developing the operating system and retail concepts, for controlling chain operations and for purchasing products. Kesko obtains store sites and information systems for the chains and organises marketing, training and other necessary services. The K-retailers are responsible for the operations and profitability of their stores, for personnel management and development, for local marketing and for strengthening customer relations. Kesko's store site operations help new en-



The authorities expect from Kesko strict compliance with legislation, good tax-paying ability, stable employment and the maintenance of a versatile store and distribution network.

terprises to become established and existing retailers to progress in their careers.

Kesko also sells and supplies products to many wholesale customers and, with the help of various surveys, monitors the views of K-retailers and wholesale customers on the services it offers.

K-retailers expect from Kesko competitive store sites, store concepts, selections and prices as well as services and other solutions supporting competitiveness.

Consumers

Kesko's co-operation with the K-retailers and other business customers serving consumers aims at satisfying consumer needs. For this purpose, Kesko plans and builds retail concepts, product selections and marketing campaigns that interest and satisfy consumers, and implements them in co-operation with the K-retailer chains.

Consumer surveys are widely used to establish customer satisfaction and to improve operations. The Pirkka customer magazine is distributed free of charge to all households that have the Plussa customer loyalty card. Consumers are given easy opportunities to give feedback.

Consumers expect from Kesko and the K-stores overall responsibility, easy shopping, opportunities to make ethical consumption choices and a selection of recycling and corresponding services.

Shareholders

Kesko is a listed company whose shares are held by the K-retailers, other companies, institutional and private in-

vestors. Kesko maintains regular contacts with representatives of the capital markets and distributes plenty of information about its financial performance and operations on its websites, in particular. TradeMaker, Kesko's stakeholder magazine, is published four times a year and is sent to all shareholders.

Shareholders expect from Kesko the management of administrative, social and environmental risks and good annual dividends.

Personnel

Kesko encourages its personnel to participate in the planning and development of operations and focuses on maintaining working capabilities and in-house job rotation. Comprehensive annual surveys are carried out to evaluate job satisfaction and in-house customer satisfaction. Kesko's corporate image and attractiveness as a workplace are assessed on a regular basis.

Personnel expect from Kesko activities that maintain and promote job satisfaction and results that contribute to the respect for their workplace.

News media

As a listed company, Kesko gives the information on its operations to shareholders and the general public that is required by the Securities Markets Act, as well as other information. The co-operation with the news media is daily and diverse. Kesko regularly monitors the views of financial editors concerning Kesko and its communications.

The news media expect from Kesko open, reliable and fast communications.

Non-governmental organisations and trade unions

Kesko maintains regular contacts with consumer, environmental, human rights and other organisations when preparing its responsibility-related operating policies and systems, and presenting the results of its activities. The union with the closest ties to Kesko is the Service Union United, which has a local branch organisation in the company. Kesko gives financial support to the work of many socially important organisations and institutions.

Organisations expect from Kesko general responsibility, clear operating principles, reliable results reporting and open communications.

Corporate responsibility performance in 2002

14



Key results of economic responsibility in 2002

- Profit and return on equity improved
- Market capitalisation increased and effective dividend yield remained high
- Percentage of foreign shareholders grew slightly
- Storebrand ranked Kesko the most responsible company in the trading sector
- More than one third of investments were made abroad
- Number of jobs decreased in Finland, but increased even more in the Baltic countries
- Proportion of part-time jobs rose
- Purchases from suppliers of products and services increased clearly
- Large stores' share of K-food stores' sales increased by 1.8 percentage points
- Total support for the public good dropped, but the proportion allocated to youth work and culture rose

Economic performance

Good economic performance is the basis of responsible operations. It secures the financial well-being of shareholders, suppliers and employees, while also ensuring that the company participates in developing the well-being of society as a whole by paying taxes. A strong financial position provides opportunities to focus on environmental and social responsibility, which again contribute to economic performance. So, the three pillars of corporate responsibility are interdependent and should be developed side by side in a balanced way.

Kesko's economic performance has been good and stable throughout its years in business. The dividends distributed have exceeded the average for listed companies, the number of jobs has increased, and supplier invoices and social obligations have been settled on time. The store network has been undergoing continuous reform following changes in residential areas and consumption habits, providing services in consumers' immediate urban or rural neighbourhood. Kesko has participated in the activities of non-governmental and other organisations through financial and moral support.

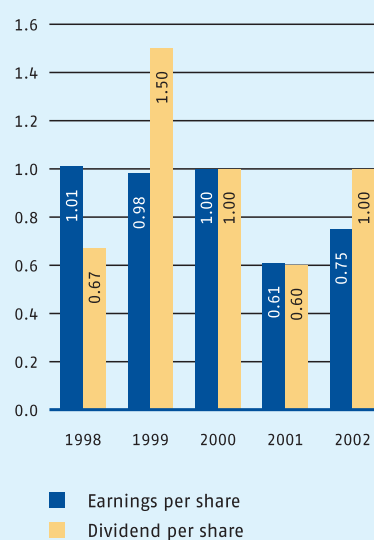
The following analysis handles Kesko's economic performance from the viewpoint of different stakeholder groups. Other financial indicators and the development of business operations for 2002 can be found in Kesko's annual report. The corresponding information is also given on Kesko's Internet pages (www.kesko.fi), "Investor information".

Economic development from the viewpoint of shareholders

Since its establishment in 1940, Kesko has generated profits and paid dividends every year except 1967. For the past ten years, including the recession of the early 1990s, the annual yield (dividend and appreciation) of Kesko's B shares has averaged 12.8% and for the past five years, 2.8%. For the past five years, the effective dividend yield has averaged 8.1%. According to the dividend policy defined in 1997, Kesko distributes at least a third of its earnings per share as dividends, or half if the equity ratio exceeds 50%. During the past five years, the target has been significantly exceeded, and the average dividends have been 110% of the earnings per share.

Kesko's share price performance has been relatively steady and has followed

Earnings per share, EUR
Dividend per share, EUR



the general trends in trading sector prices on the stock exchange. In the late 1990s and at the turn of the millennium, the Hex general index and the weighted Hex portfolio index of the Helsinki Exchanges grew faster than Kesko's B share, due to the share price trends in information technology and Nokia, in particular. However, a major change came in 2001 when the prices of information technology shares experienced a sharp

Profitability of operations	2000	+/- %	2001	+/- %	2002	+/- %
Net sales, EUR million	6,308	3.2	6,214	-1.5	6,466	4.1
Gross margin, %	12.1		12.5		12.3	
Profit before extraordinary items, EUR million	126	-2.1	86	-31.7	110	27.9
Profit before extraordinary items, %	2		1.4		1.7	
ROI (return on invested capital), %	8.5		6.6		7.6	

downturn. In 2002, Kesko's share price performed well (A share +9.3% and B share +17.5%), even though the Hex general index dropped by 34.4% and the portfolio index by 16.7%.

Kesko's market capitalisation was at its highest in early 1998 and 2000, reaching EUR 1.4 billion. At the end of 2002, this figure was EUR 1.2 billion, or about 0.8% of the total market capitalisation of the Helsinki Exchanges and about one half of the total market capitalisation of the trading sector. As the market capitalisation figure was about 90% of the book value of shareholders' equity, Kesko's share price does not seem to include significant growth expectations.

In the early days of the company, Kesko's shareholders were mainly K-retailers. The stock exchange listing of 1960 and the share issues of the 1970s and 1980s increased and diversified the shareholders, raising the number to more than 40,000 in the early 1990s. By the late 1990s this number had dropped, but took a new upward turn in the 2000s, reaching 25,485 by the end of 2002.

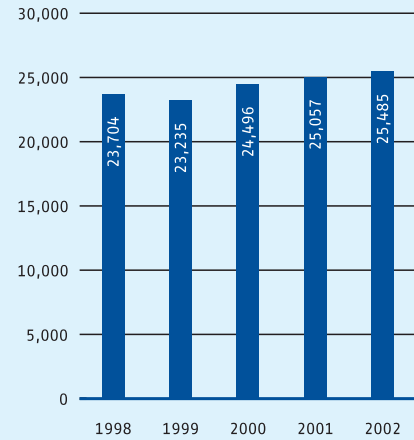
Private investors accounted for about one third of the share capital at the beginning of the 1990s, and currently account for about one quarter. The K-retailers and other private enterprises have retained their nearly 30% holding throughout the past decade, while financial and insurance institutions and general government and non-profit institutions have retained their holding of over one quarter. Finnish pension and life insurance companies have long been among Kesko's major shareholders. Other important shareholders with close ties to Kesko are the Kesko Pension Fund, Vähittäiskaupan Takaus and the K-Retailers' Association. Foreign shareholdings in Kesko have increased to one fifth of the total.

In line with its IR strategy, Kesko continually produces accurate, open and up-to-date information for the markets to serve as a basis for the setting of Kesko's share price. The aim is to make

Kesko's activities better known, to increase the transparency of investor information and to make Kesko more attractive to investors. The principle of objectivity is observed in all investor communications. All investor information is primarily published on Kesko's Internet pages in Finnish, Swedish and English (www.kesko.fi). Likewise, the printed annual report is published in Finnish, Swedish and English. Kesko's financial statements and three interim reports are included in the TradeMaker stakeholder magazine, which is sent to all shareholders. The company also mails the annual report and the TradeMaker magazine to other stakeholders.

Kesko arranges press conferences for analysts and the media when announcing its annual and interim results and other significant news, and holds Capital Market Days giving background information on various themes once or twice a year. In 2002, the theme was Kesko's Baltic operations. The company also participates in other events to introduce itself to prospective investors.

Number of shareholders 31.12.



In spring 2002, Kesko participated in road show events arranged by the Finnish Foundation for Share Promotion in four localities in Finland, and in the Sijoitus-Invest Fair in Helsinki. Five road show trips were made abroad: to the United States, Britain and the Central European markets. About 30 individual meetings were arranged for analysts and investors. Kesko observes a

Investments and assets	2000	2001	2002
Investments, EUR million	247	206	185
Investments, % of net sales	3.9	3.3	2.9
Equity ratio, %	54.7	53.6	53.3
Debt to equity ratio, %	45.3	46.4	46.7
Gearing ratio, %	16.3	12.7	13.9

Number of K-food stores in Finnish municipalities				
K-food stores	No. of municipalities	No. of municipalities	% of municipalities	% of municipalities
	2001	2002	2001	2002
10 or more	15	14	3.3	3.1
7-9	13	13	2.9	2.9
5-6	24	24	5.4	5.4
3-4	70	66	15.6	14.7
2	111	110	24.8	24.6
1	165	165	36.8	36.8
none	50	56	11.2	12.5

two-week period of silence before publishing information on its results. At other times, it answers the questions of analysts and investors by telephone, e-mail and at investor meetings.

Kesko was included in the international trading sector assessment of Storebrand Investments SRI in 2002. The assessment evaluated the performance of 86 companies in the area of environmental and social responsibility, and Storebrand ranked Kesko as the best company in the sector (see [www.storebrand.com / SRI](http://www.storebrand.com/SRI) pages).

More detailed information on Kesko's shareholders and share trends can be found on the company's Internet pages (www.kesko.fi), "Investor information".

Investments and store network

In 2002, the Kesko Group's investments totalled EUR 185 million, or 2.9% of net sales. Of this amount, EUR 137 million was invested in store sites and EUR 37 million in the buildings, fixtures and information technology of Kesko and its subsidiaries. Foreign investments

accounted for 36.9% of the total. Kesko's investments have financially impacted the business operations of construction companies, services companies in the construction sector, suppliers of fixtures, equipment and information systems in Finland, Sweden and the Baltic countries.

Kesko built 14 new food stores and 15 speciality stores in Finland in 2002. Six of the new food stores were K-citymarkets and five were K-supermarkets. There were 1,124 K-food stores in all in Finland, a decrease of 37 from the end of 2001. The number of small K-food stores was 669. In the category of small stores, the number of K-pikkolos, which are modern, urban neighbourhood stores, continued to increase, reaching 28 at the end of the year. Large outlets, i.e. K-citymarkets, slightly increased their share of the K-food stores' sales in Finland, accounting now for 31.4%. The K-food stores were located in 392 of Finland's 448 municipalities (see the accompanying table).

Kesko opened 16 new food stores, two hardware and builders' supplies stores and two agricultural machinery centres in the Baltic countries. Two new K-rauta stores were opened in Sweden.

At the end of 2001, 46.4% of all Finns lived not more than one kilometre away from the nearest K-food store. The same calculation has not been made for 2002, because the annual changes in this matter are relatively small and do not justify the cost of obtaining the information. Statistics of distances will next be presented in the report for 2003 to be published in spring 2004.

When planning store sites, it is also important to take the availability of public transport into account. The ease of accessing services by public transport would be a suitable indicator of responsibility, if country-wide, unambiguous information were available on the matter. No such statistics are available on bus transport. However, A.C.Nielsen statistics are available on the ease of ac-



Behind the indicators



My name

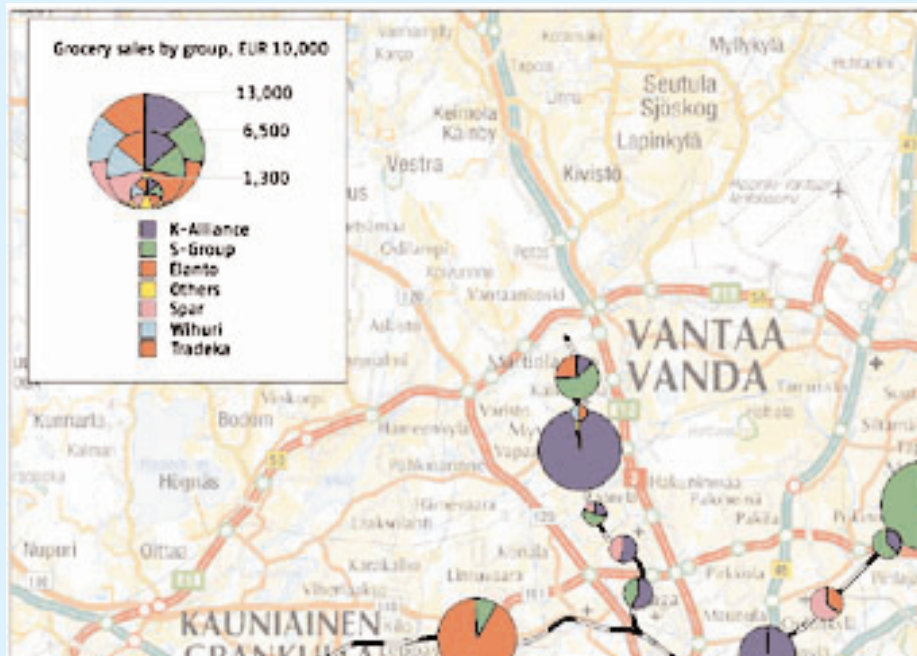
Antti Mansikka

My job

I work as a GIS (Geographical Information System) Planner for Kesko Food's Retail Services unit.

My responsibilities

I develop our GIS as a tool for store network planning. We need information on store catchment areas and their purchasing power, the transport network, auxiliary services, competitors and future plans concerning areas. I mainly communicate with maps and I help all users of the Map-Info programme.



Food stores at the rail transport stations in the greater Helsinki area (K-stores' market shares in dark blue).

Sources: A.C. Nielsen Oy 2003. Store register 2002. Genimap Oy 2002.

Personnel expenses (EUR million)	2000		2001		2002	
Salaries and fees (EUR million)	268	+2.7%	267	-0.1%	281	+5.1%
- of which profit bonus	7.2		-		8.5	
Social security expenses						
- pension expenses	22		40		42	
- other social security expenses	26		26		25	

Taxes (EUR million)	2000	2001	2002
Income taxes to Finland	34	30	42

Productivity (EUR 1,000)	2000	2001	2002
Net sales per employee, whole Group	568	538	529
Net sales per employee, Finland	*)	583	610
Net sales per employee, abroad	*)	251	215
Profit before extraordinary items per employee	11.3	7.4	9.0

*) data has not been collected

cessing retailing services by rail traffic in the greater Helsinki area.

There are 39 train and metro stations in the greater Helsinki area, giving access to 144 stores at the stations or in their immediate surroundings. 81 of these stores are part of trading groups, while the rest are small service stores. There are 36 K-food stores in the vicinity of 27 stations. At the end of 2002, they accounted for 42.2% of all food retailing at stations (estimated to total EUR 700 million), which exceeds the average market share of the K-stores in the greater Helsinki area by about two percentage points.

Job development

At the end of 2002, the Kesko Group had 15,212 employees, an increase of 224 on the previous year. This comprised 12,162 (-638) employees in Finland and 3,060 (+862) abroad. The average number of employees during the year was 9,720 (-273) in Finland and 2,497 (+946) abroad, making 12,217 in all, an increase of 673 or 5.8% on 2001. The average number is calculated from all employees with permanent or fixed-term contracts, excluding those on long-term leave. Part-time jobs are converted into full-time according to working hours.

The expansion of Kesko Food, Rautakesko and Kesko Agro in the Baltic countries increased employee numbers. Rautakesko's employees also increased in Sweden. The establishment of new Citymarket hypermarkets contributed to the growth in Kesko Food's staff in Finland.

The biggest decrease in employees resulted from the sale of the Carrols hamburger restaurant chain. Some service and support activities continued to be outsourced. At the end of 2002, outsourced activities employed about 650 persons.

Due to the rapid growth of Baltic operations, as many as 67% of the Group's personnel now works in retailing.

At the year-end, 13,069 employees

of the Group (85.9%) were permanent, while 2,143 (14.1%) were on fixed-term contracts. The 689 people who were on long-term leave are here included as permanent employees. 34.9% of all Group personnel were part-time employees. Nearly all part-time jobs in Finland were in retailing companies, which continually have a great need for both part-time and fixed-term employees.

The K-stores, retailers included, employ about 21,500 people in all. As there are one or more K-stores in nearly every Finnish municipality and Kesko has premises in nearly 50 municipalities, the nearly 34,000 jobs offered by the K-Alliance contribute to the well-being of people throughout Finland.

Salaries, social security expenses and taxes

In 2002, the Kesko Group's salaries according to income statement totalled EUR 281.1 million, pension expenses of EUR 42.0 million and other social security expenses of EUR 25.3 million. Foreign operations accounted for EUR 25.7 million of the salaries.

The whole Group's deferred income taxes totalled EUR 42 million, which the tax authorities divide further. Income taxes paid abroad totalled EUR 0.4 million. Kesko paid EUR 2.6 million in real estate taxes to 149 municipalities in all.

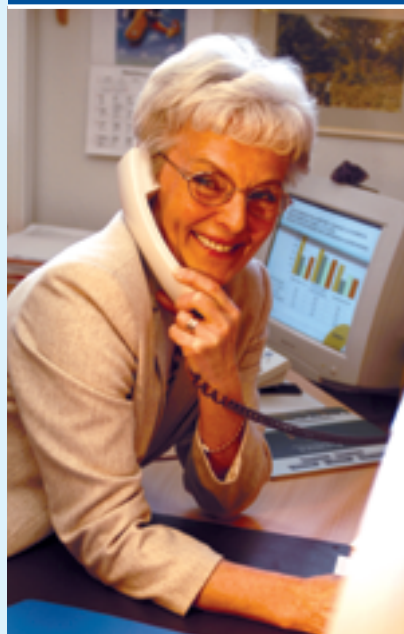
In addition to paying direct taxes, Kesko also collects a significant amount of indirect taxes and fees, such as VAT, car taxes, alcohol taxes, employee payroll taxes, pension contributions based on the Employees' Pension Act, social security contributions, etc. Although these payments are indirect from Kesko's viewpoint, Kesko has assumed full responsibility for making all payments and fees to society on time and in full.

Employee pension and health insurance systems

The Kesko Sickness Fund is responsible for the statutory sickness insurance of the Group's subsidiaries and Kesko-related units. The Sickness Fund covers over 10,500 employees. In 2002, the sickness insurance contributions paid by the Sickness Fund totalled EUR 6.3 million.

The Kesko Pension Fund is responsi-

Behind the indicators



My name

Saara Halko

My job

I am an Office Supervisor at the Pension Insurance and Occupational Health unit.

My responsibilities

I work as the secretary to the director of our unit, make preparations for the Pension Fund board meetings and draw up statistics of the pensions granted. I am also responsible for the budgeting and bookkeeping of the Occupational Health unit. I draw up monitoring reports and analyses of our operations.



The Finnish Science Centre Heureka is one of Kesko's newest partners.

ble for pension contributions, based on the Employees' Pensions Act, of those employees of Kesko Corporation, the division parent companies and some other organisations close to Kesko who are members of the Fund's department B. Varma-Sampo is responsible for the corresponding pension contributions of employees of other subsidiaries. The Pension Fund also has department A (closed on 8 May 1998), which provides extra benefits, including a pension level exceeding the statutory one - a maximum of 66%. Those employees who are members of department A have some pension types outside the statutory system available to them, such as an early retirement pension, granted for production reasons.

In 2002, the Kesko Pension Fund paid about EUR 43 million in pensions to 3,076 people. The Pension Fund covered nearly 3,900 Kesko Group employees at year-end and department A nearly 1,300 persons.

The Kesko Pension Fund has made profitable long-term investments and the level of pension costs has been be-

low the level of the general Employees' Pensions Act. The same also applies to pension costs paid to Varma-Sampo, because the number of disability pensions granted to Kesko employees falls clearly short of the average in Finland.

Suppliers of goods and services

In 2002, Kesko's purchases from Finnish suppliers totalled EUR 4,486 million, while purchases from abroad totalled EUR 1,135 million. The value of purchases from Finland increased by 4% from the previous year, and those from abroad by 13%. This information applies to the whole Group as no specifications by country are available. However, these figures do not show the proportion of domestic products sold, as Kesko registers purchases from importers operating in Finland as domestic. Services of mainly Finnish origin totalled EUR 92 million.

The ten largest suppliers accounted for 24.8% of Kesko's purchases and the hundred largest for 50.7%. Of the ten largest suppliers (all of them Finnish

companies) eight represented the food industry. No corresponding figures were calculated earlier.

Kesko's investments, which amounted to EUR 185 million (see page 17), are also counted among its economic impacts. The majority of invested funds were used for buildings, equipment and information technology.

Kesko paid over 99% of its invoices within the agreed time periods. As no accurate statistics are available, this figure has been estimated on the basis of the penalty interests paid (EUR 80,000). In Finland, payment terms are, both in principle and in practice, considerably shorter than in most EU countries.

Financial support

Kesko and its subsidiaries have for decades given support to those mainly nationwide organisations that work for the good of society. In recent years, support has above all been directed to the physical exercise of children, to youth operations and the promotion of a healthy way of life. Major donations have been

given to nearly one hundred recipients. In addition to Kesko's contributions, the K-retailers give significant support to local organisations and sports clubs.

Drawing a line between donations, sponsorship and marketing is often difficult. When pure marketing measures are left out of the calculations, the financial support provided by the Kesko Group for the public good in 2002 amounted to about EUR 1.9 million, compared with EUR 2.4 million in 2001. Nearly 40% of this amount was given to sports and physical exercise organisations (e.g. the Finnish national alpine skiing teams, the Football Association of Finland and scholarships for young athletes). One quarter was donated to youth operations - with the Young Finland Association and the Finnish Science Centre Heureka (a new recipient) being the most important partners - and over 10% to culture (e.g. the Tapiola Choir and various music and dance events). The proportion of Kesko's support going to culture, youth work, societies and development co-operation slightly increased, whereas the proportion going to children's health care, science and education decreased. The latter categories included some one-off projects implemented in 2001, but not in 2002.

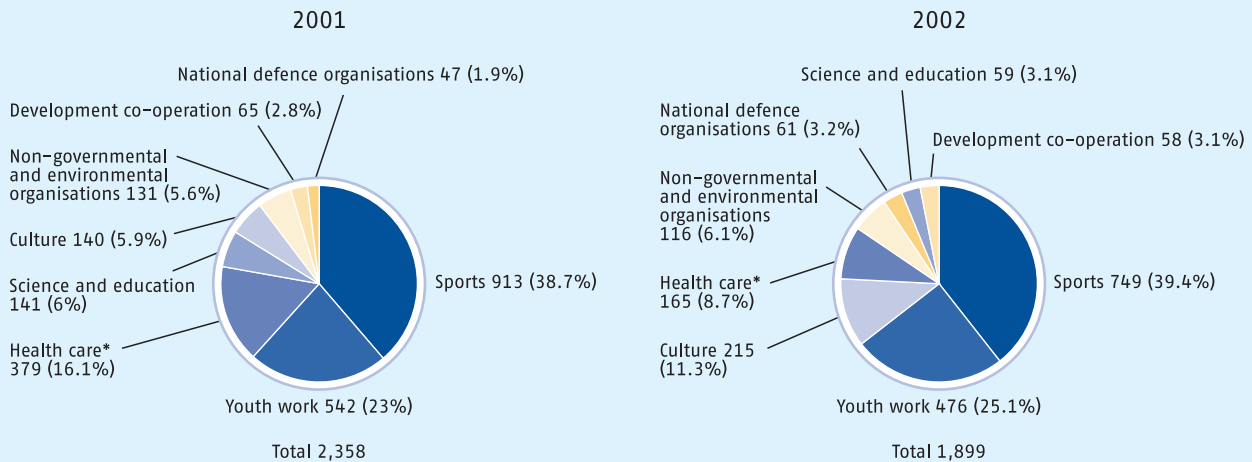


Co-operation with the Tapiola Choir includes Christmas and spring concerts for Kesko's stakeholders.

Economic benefits from Kesko's operations for various stakeholder groups (EUR million)

	2000	2001	2002
Suppliers			
- Finland	4,710	4,325	4,486
- foreign countries	812	1,008	1,135
Suppliers of services	72	75	92
Suppliers of capital goods	202	206	185
Personnel (salaries and other benefits)	268	267	281
Shareholders (dividends)	135	90	54
Tax authorities (income and real estate taxes)	36	32	45
Social security (pension and social security expenses)	48	66	67

Kesko's support for the public good (EUR 1,000)



* part of the funds were donated by K-store customers

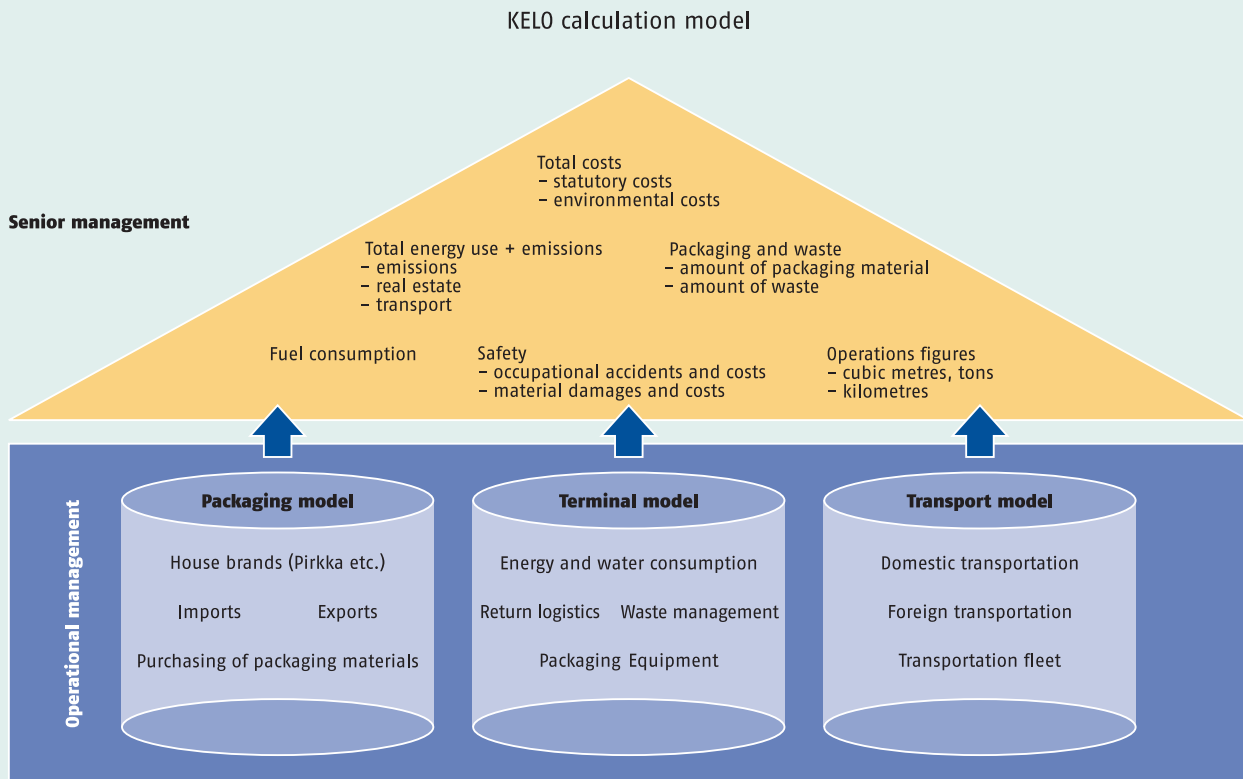
Environmental performance

22



Key environmental performance in 2002

- Certification of Anttila Oy's department stores is progressing faster than estimated
- Accuracy of energy consumption monitoring was further improved
- Specific consumption of electricity increased and specific consumption of heat and water decreased slightly
- The number of kilometres driven in deliveries decreased considerably
- Changing the main electricity supplier reduced carbon dioxide emissions
- Environmental risks of land use were surveyed
- The amount of mixed waste at the central warehouses dropped and the waste recovery rate rose to 90%
- The proportion of packaging out of imported volumes turned to increase
- The K-environmental store diploma was awarded by the United Nations' Environmental Programme, UNEP, and the International Chamber of Commerce
- Kesko's corporate responsibility report was recognised as the best in Finland, and in a global comparison the best in the trading sector



As this is Kesko's sixth environmental report, plenty of comparative information is available on key environmental impacts. As the data collection and environmental calculation systems improve, our measuring performance becomes more accurate and we learn to use the results even better for guiding operations. It is typical that environmental impacts seem to increase as the accuracy and coverage of the calculation improve.

It is also typical that when monitoring systems are revised a critical stand must sometimes be taken towards previous results, correcting them where necessary. This has been the case at Kesko with

the monitoring of energy consumption, for example, as the amendments implemented in 2002 considerably improved the reliability of the measurement.

Environmental system and calculation

Those Kesko units with the biggest environmental impacts - the logistics of Kesko Food Ltd, Kespel Ltd, and real estate management and maintenance (outsourced to ABB Kiinteistöpalvelut Oy) - have the certified ISO 14001 environmental system.

The fast pace of department store certification has continued at Anttila

Oy. By the end of 2002, the real estate operations of the Pitäjänmäki central unit, nine Anttila department stores and seven Kodin Ykkönen department stores for home goods and interior decoration had received the ISO 14001 certificates. The target is to have all department stores and the central operations of Anttila Oy included in the certified environmental system by the end of 2004. Anttila is the first Finnish retailing company with ISO 14001 certification and one of the first in the world.

The KELO (short for sustainable logistics in Finnish) environmental calculation model of Kesko's logistics chain

Behind the indicators



My name

Johanna Saarivuo

My job

I work as a Real Estate Development Manager for Kesko Real Estate.

My responsibilities

I am responsible for Kesko Real Estate's environmental affairs. The focuses include reducing the energy consumption of real estate in use, and in that way carbon dioxide emissions, and the management of environmental risks. I also develop solutions to increase the ecoefficiency of our building projects.

was used, for example, to produce Kesko Food's waste management and return logistics statistics. In addition to Kesko Food, the waste management model was also used in four Rautakesko units and piloted in some Anttila department stores. This model's automatic data transfer was introduced between the logistics warehouses in Hakkila, Vantaa and the waste management company at the beginning of 2003.

Eco-efficiency in construction

The total area of Kesko's new building projects in Finland in 2002 was about 80,000 square metres, and the area covered by renovation projects was at least the same. The quantities are considerable by Finnish standards, which has made Kesko focus on the development of eco-efficient construction. The basis of this is that the entire life cycle of the real estate is taken into account - starting from site acquisition to the supposed demolition of the building. The goal is to minimise energy, alteration and other costs during the building's life cycle for

environmental and economic reasons.

In major projects, the environmental impacts related to site acquisition and adoption are usually assessed in connection with town planning. The 'core and shell' concept is used in eco-efficient construction. This divides business buildings into a long-life 'shell' and a fast adaptable 'core'. The shell includes, for example, walls, ceiling and fixed systems, such as heating and ventilation, whereas the core includes integral parts of retailing, such as furniture and checkout areas.

The idea is that the core can be changed flexibly and fast, without interfering with the basic solutions of the real estate shell. The energy consumption of the shell and core can be monitored and controlled separately. When energy consumption and premises adaptability are managed and controlled throughout the life cycle, the expenses of business premises will remain low and the K-retailers' competitiveness will improve. At the same time a positive impact is made on the environment by improving the con-

sumption of raw materials and energy.

Planning is the tool used for life cycle efficiency. Eco-efficient construction means simplification, keeping to the basics, recognising what is essential, and considering potential alternative uses during the life cycle at an early planning stage.

Good examples of eco-efficient construction include shopping centres built in old, converted industrial premises: the weaving factory in Forssa, the bakery and dairy in Arabia, Helsinki and the alcohol bottling plant in Ruoholahti, Helsinki. The use of old industrial premises promotes the sustainable development of urban milieus by reducing the construction of new buildings.

Kesko's eco-efficient construction model has also received public recognition. In 2001 it was given an honorary mention in a real estate and building sector environmental competition. The model was particularly praised for its new, innovative ideas combining ecological aspects and profitable business. In 2002, the main venue of the European Heritage Days in Finland was the shopping centre in the old Forssa weaving factory, to which the Heritage Days' honorary plate was awarded.

The development of eco-efficient construction will continue. An important target is improving the measurability and comparability of real estate's eco-efficiency. To promote this target, Kesko has actively participated in the joint project started in 2000 between the Ministry of Environment, RAKLI, Motiva and the real estate companies to develop an environmental classification of buildings. The resulting PromisE environmental classification reached the trial stage at the end of 2002.

Environmental risks of land use

Kesko owns about half of its 874 premises and has acquired them over the past forty years. An essential part of the premises' environmental risk management is the survey, maintenance and

prevention of polluted soil.

If any observations suggesting polluted soil are made in connection with building projects, the regulations of authorities are observed. Supervising authorities are informed, and the required cleaning and reconditioning measures agreed on.

A systematic survey of possibly polluted land areas of existing premises was started in the summer of 2002. In this survey, the premises owned by Kesko in Finland were grouped by business history, building age and any possible soil studies into categories indicating the probability of pollution. On the basis of this survey, decisions for any additional studies and reconditioning measures required were made for 12 premises. These measures were completed by spring 2003 in three of them and were underway in the rest.

In Sweden, an environmental survey, including a documented soil study to detect any impurities, will be made of all objects. In the Baltic area, environmental survey need has been considered separately in each case.

Energy and water consumption

The monitoring system for energy consumption was revised at the beginning of 2001. A system of distance reading by hours was adopted with Energiakolmio Oy, allowing for the fast detection of problems and immediate corrective actions. In 2002, the emphasis was on expanding consumption monitoring and increasing its accuracy. About 60% of all real estate in Finland is now included in multi-energy monitoring (electricity, heat and water). Electricity consumption is monitored in 80% of premises.

In the 2002 energy monitoring the calculation of specific consumption in various real estate types was improved by specifying volume and area data and clarifying the basis for measurement and monitoring in mixed use premises (for instance, Anttila and K-citymarket in the same premises). The new, consid-

erably more accurate calculation method proved that the specific consumption figures for 2001 had been too high for electricity and too low for heat, which also affected the total amount of consumption calculated for all real estate. When recording performance in 2002, the data for 2001 has also been revised according to the revised calculation basis to maintain comparability. The 2000 figures have been left out completely.

In 2002, the total floor area of real estate owned or leased by Kesko in Finland - the figure used in environmental calculations - was 2,674,000 square metres, an increase of about 1.5% over the previous year. No systematic monitoring of consumption has yet been organised for premises in foreign countries, which account for about 8% of all real estate.

The combined energy consumption of Kesko and the K-retailers operating in Kesko's premises in 2002 was 644 GWh, an increase of 2.5% over the previous year. The total consumption of heat was 282 GWh, a decrease of 2.7% over 2001. The consumption of water - 545,065 cubic metres in all - dropped by 0.1%.

Kesko monitors, as a separate category, the consumption data of its premises included in the real estate and construction sector energy savings agreement. At this stage it seems that the targets will be reached according to plan, but no reliable conclusions can yet be drawn from the results.

The primary energy used by Kesko in 2002 was about 0.4% of the total consumption of energy in Finland. Electricity accounted for about 0.9% of the total consumption in Finland (Finergy: December 2002 express statistics), while heat accounted for about 0.9% (Finnish District Heating Association, data from 2001).

Environmental profile of energy

As in 2001, JP-Talotekniikka has calculated the environmental profiles using the 'benefit sharing method'. There are two calculations. The environmental

Specific consumption of electricity, heat and water in the real estate owned or leased by Kesko in Finland in 2001-2002



profile of electricity purchased by Kesko for the K-Alliance has been calculated on the basis of the detailed information given by energy companies. The second calculation also takes into account the electricity purchased by K-retailers themselves. The profile of this electricity is based on average information about Finnish electricity production. District heat used for heating real estate is also included and its profile is the average Finnish district heat.

The amount of electricity supplied by Kesko to the K-Alliance increased by 3% to 509 GWh. There were some changes in purchasing. The 99% share of Helsinki Energy in 2001 dropped to 26%, and largest supplier became Espoon Sähkö with a share of 61%. Since the beginning of November 2002, a proportion of purchases have been centralised in the so-called electricity portfolio, which has several suppliers at the same time. In November-December, the main physical supplier was Fortum Markets. Two thirds of the electricity supplied by Espoon Sähkö is purchased from Nord Pool, the Nordic Electricity

Environmental profile of electricity supplied by Kesko to the K-Alliance in 2000–2002

	Unit	2000	2001	2002	Change 2001/2002
Purchasing	GWh	447	494	509	3.0%
Primary energy	PJ	3.4	3.8	3.7	-3.0%
- non-renewable	PJ	3.2	3.5	2.9	-16.7%
- renewable	PJ	0.3	0.2	0.7	193.7%
Environmental impacts					
- climate change	tn CO ₂ eq	152,330	173,430	127,455	-26.5%
- acidification	tn SO ₂ eq	363	399	308	-22.8%
- ozone in lower atmosphere	tn C ₂ H ₄ eq	6.6	7.5	7.1	-4.8%
Radioactive waste	tons	0.39	0.42	0.44	5.1%

Consumption and environmental profile of heat and electrical energy in the real estate owned or leased by Kesko in Finland in 2001–2002

	Unit	2001			2002		
		Heat	Electricity	Total	Heat	Electricity	Total
Volume	GWh	290	628	918	282	644	926
Primary energy	PJ	1.2	4.8	6.0	1.1	4.8	5.9
- non-renewable	PJ	1.0	4.5	5.5	0.9	3.8	4.8
- renewable	PJ	0.2	0.3	0.5	0.2	1.0	1.2
Climate change	tn CO ₂ eq	72,865	220,644	293,509	70,874	160,827	231,702
Acidification	tn SO ₂ eq	234	508	742	227	418	645
Ozone in lower atmosphere	tn C ₂ H ₄ eq	5.7	9.5	15.2	5.5	9.7	15.2
Radioactive waste	tons	-	0.54	0.54	-	0.67	0.67

Exchange. Because Nordic electricity consists, to a large extent, of water and nuclear power, the amount of carbon dioxide emissions in electricity used by Kesko decreased, while the amount of radioactive waste increased slightly. Consumption of primary energy dropped, despite the increase in the quantity supplied. The reason for this is that water energy is calculated as primary energy with a 100% efficiency, while in the production of condensation electricity the rate is 35-40%.

Kesko's and K-retailers' combined energy consumption accounted for about 0.3% of the total impact on the Finnish climate, or of total greenhouse gas emissions.

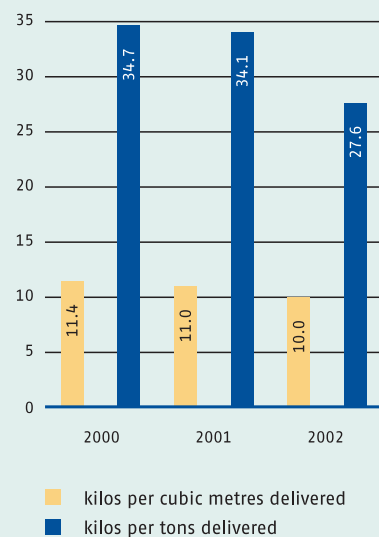
Transport

Kesko's subsidiary Kespel Ltd is in charge of most of Kesko's distribution

deliveries. Exceptions to this are Kesko Food's and Valio's co-operation in frozen food deliveries, Rautakesko's co-operation with Finland Post, and Anttila's own transport system. Kespel owns 30 distribution lorries and also uses 240 contract lorries. In 2002, the company transported nearly 106,061 loads (no change from 2001) representing 683,000 tons of goods (an increase of 6%) to K-stores and other Kesko customers. The total distance driven in distribution transportation was 14.9 million km (17.3 million in 2001).

The decrease in kilometres was due, for instance, to structural changes in the distribution network, the systematic optimisation of distribution routes, and distribution volumes being transferred to other operators. Warehousing has been centralised in Southern Finland near pro-

CO₂ emissions in Kespel Ltd's deliveries compared with delivery volumes



duction and imports, and warehouses are specialised according to product groups. Processed foods, non-food products and frozen foods are stored in Vantaa and processed fresh foods in Turku. Fruit and vegetables are the only goods stored in three warehouses: Vantaa, Turku and Tampere. It is difficult to specify the impacts of Kesko's own optimisation solutions and the transfer of transportation to other operators on the 2002 indicators in a reliable way.

In 2002, an average load contained 6,442 kilos and 17.7 cubic metres of merchandise, and the average driving distance per load was 140.2 kilometres. Driving distances per load decreased considerably with the exception of the Oulu area. The volumetric efficiency of loads decreased in all areas except Kuopio. This development was partly due to the distance distribution started from Vantaa in 2002, involving large K-city-market and K-supermarket stores in the areas of Tampere, Kuopio and Oulu.

So far, there are no corresponding statistics on the purchasing and trunk transport of Kesped. By estimate, purchasing transport made up 7 million and trunk transport 4 million kilometres, so the estimated total number of kilometres driven by Kesped was about 26 million.

No vehicle-specific fuel consumption statistics on Kesped's transportation, or statistical breakdowns between urban areas and the countryside, are available. There is information available on Kesped's own transportation

Behind the indicators



My name

Kari Nurmela

My job

I work as a Forwarding Manager for Kesped Ltd.

My responsibilities

I collect general import and export statistics for corporate responsibility reporting and product category specific statistics on importing countries involving social risks. I am also in charge of seeing that our ethical principles are included in our forwarding contracts.

Volume of imports handled by Kesped Ltd's forwarding in 2002 (tons)

Kesko Food	214,530	77.2%
Rautakesko	29,718	10.7%
Keswell	15,512	5.6%
Kesko Agro	8,685	3.1%
Kesko Machinery	9,510	3.4%
Total	277,955	100.0%

Kesped Ltd's distribution figures in 2000-2002

Distribution centre	tons/load				km/load				m ³ /load			
	2000	2001	2002	Change 01/02 %	2000	2001	2002	Change 01/02 %	2000	2001	2002	Change 01/02 %
Helsinki	5.9	6.0	6.5	8.4	124	129	112	-13.5	18.2	18.7	17.7	-5.3
Tampere	6.1	6.1	5.6	-8.1	193	180	121	-32.8	17.7	18.3	15.9	-13.1
Turku	5.1	4.9	5.2	8.0	125	119	119	-	15.1	14.9	14.5	-2.7
Kuopio	7.6	7.6	9.4	23.7	262	259	260	0.4	24.3	24.8	26.0	4.8
Oulu	7.3	6.2	7.0	12.1	269	238	243	2.1	21.9	19.6	19.3	-1.5
Kesped total	6.1	6.1	6.4	5.9	168	163	140	-14.1	18.7	18.9	17.7	-6.3

Energy consumption and emissions in domestic delivery transport

	Transport 1,000 km	Energy consumption MWh	Emissions, tons				
			CO ₂	CO	HC	NO _x	Particles
2000							
- Kesped	17,993	86,179	22,849	11	8	240	3
- Anttila	519	2,486	659	0.3	0.2	6.9	0.1
2001							
- Kesped	17,303	82,878	21,973	11	7	231	3
- Anttila	536	2,569	681	0.3	0.2	7.2	0.1
2002							
- Kesped	14,871	71,226	18,884	9	6	198	3
- Anttila	494	2,366	627	0.3	0.2	6.6	0.1

lorries, but no consumption statistics have so far been required from contract lorries. To decrease relative fuel consumption and cut down emissions, training in economic driving has been given annually. In 2002, 18 Kesped drivers participated in the training.

Anttila's delivery transportation is handled by 12 companies. 10,200 loads were delivered and 494,000 kilometres were driven, a decrease of 8% over the previous year.

The total volume of imports forwarding for which Kesped Ltd was in charge was 278,000 tons, an increase of 10.1% over the previous year. Transportation from within Europe was handled by lorries, semi-trailers and containers, and from outside Europe by containers only. Kesko Food accounted for 77.2% of all imports.

Export deliveries, mainly to Sweden, the Baltic countries and Russia, were handled by lorries. The total volume of exports, grain trade excluded, was 18,000 tons, of which Rautakesko accounted for 55.6%.

Transport emissions

As before, emissions in Kesped's deliveries have been calculated based on

kilometres driven and by using the emission factors studied by VTT, the Technical Research Centre of Finland. Previously, VTT's calculation model ('LIISA 1999') had general factors of emission figures for the average transportation fleet and all road types. In the updated LIISA model (2002), the factors have been calculated by lorry type, engine class and driving speed category.

On the basis on LIISA's guidelines, Kesped has made its own definitions for the basis of its emission calculations. EURO2 factors (for models produced during 1996-98) have been used for the fleet. 22% of transportation is made by lorries, whose volumetric efficiency is 50%, and 78% by full trailers, whose volumetric efficiency is 70%. In lorry traffic, an assumption of 30% in the countryside and 70% in cities is used, while in full trailer traffic the assumption is 70% in the countryside and 30% in cities. Emission figures for 2000 and 2001 have also been calculated using the LIISA 2002 factors to maintain comparability. The basics of the emission calculation have been included in the corresponding place of this report's online version. General factors for all lorries have been used in Anttila's calcula-

tions (LIISA 2002).

The emission calculation of distribution transportation is based on transport statistics. Emissions in purchasing and trunk transportation have been calculated by estimating the number of kilometres so, for that part, figures mainly give an idea of the size category.

In 2002, emissions in distribution fell clearly short of the previous year's level, because the number of kilometres driven dropped considerably. Comparability of total figures suffers however from the fact that part of distribution was transferred to other operators. Compared with the volume, Kesped's emissions decreased clearly both per cubic metre and particularly per ton delivered.

Emissions from real estate are discussed on page 26. Kesko's operations do not cause any significant discharges into waterways.

Carbon dioxide balance of the Group

Carbon dioxide emissions are among the key indicators of Kesko's environmental impact. Since 2001, Kesko has calculated its carbon dioxide balance using the 'Green Index', developed in Sweden for comparing emissions of

Kesko's carbon dioxide balance for 2002
(tons of CO₂ emissions per EUR million in net sales)

	Tons of CO ₂	Tons of CO ₂ per EUR million
Transportation		
- purchasing transport (7.0 million km)	8,890	
- trunk transport (4.0 million km)	5,080	
- delivery transport	19,510	
Cars used for business trips (14.8 million km)	3,120	
Total (divided by net sales of EUR 6.5 billion)	36,600	5.6
Heat energy of real estate	70,900	
Electrical energy of real estate	160,800	
Total (divided by net sales of EUR 9.0 billion *)	231,700	25.7
Grand total		31.3

* Total net sales consist of Kesko's net sales and the net sales of the K-retailers operating in Kesko's store premises minus K-retailers' purchases from Kesko.

Packaging material used for products imported or packaged by Kesko (tons and the share of packaging of the total weight (%))

	2000	2001	2002
Fibre	18,139	17,226	21,048
Plastic	3,800	3,149	3,973
Metal	2,875	2,333	3,244
Glass	1,248	1,006	1,432
Wood	1,908	1,927	2,007
Total	27,971	25,641	31,704
Share, %	10.3	10.2	11.4

listed companies. This calculation includes purchasing and distribution transport, emissions caused by energy production for real estate, the possible other use of fuels and the business trips of personnel. The emissions are compared with the net sales of the company.

Kesko's calculation of the carbon dioxide balance has many inaccuracies. There is only an estimate of purchasing and trunk transportation, there is no information concerning purchasing transportation from abroad, the impact of the fuel consumption has not been taken into account in transport and information on the trips by personnel in public

transportation cannot be provided. The indicator has, however, been calculated to get an idea of the dimensions between factors causing emissions and the size category of total emissions.

Kesko's parameter for 2001 was estimated at 42 tons of CO₂ emissions per EUR 1 million in net sales. If the calculation were revised based on more specific energy consumption data, the figure would be about 39 tons. The parameter for 2002 in carbon dioxide emissions is 31 tons per EUR 1 million in net sales. Most of the decrease in the relative proportion of emissions is due to the change in the emissions profile of the purchased energy.

Use of materials

Kesko continues its active work in Finnish producer associations and international standardisation organisations, aiming for packaging standardisation, the use of environmentally sound materials and a reduction in the amount of materials used. In 2002, a packaging seminar was arranged for the manufacturers of Pirkka products, Kesko's house brand, for the first time. The seminar attracted 120 participants from 45 companies to discuss the development needs of packaging both from logistical and environmental starting points.

Evaluations of the packaging data of Kesko's divisions for 2002 are still mainly based on import forwarding statistics. The total amount of materials in packaging imported or packed by Kesko increased by over 23% from 25,641 tons to 31,704 tons. As the amount of imports increased by 10% at the same time, the relative proportion of packaging out of the total imported volume increased.

In Kesko Food, the number of times reusable Transbox cases were used decreased and that of roll-containers increased. In other parts, the volume of reuse remained relatively unchanged. The number of aluminium cans collected for recovery continued to increase for the fourth year in succession, reaching now 15.3 million.

Waste management and recycling

In Kesko Food, the KELO calculation model has produced statistical data on waste management in all distribution centres. In 2002, automatic data transfer in the waste management model was tested in co-operation with the waste management operator Lassila&Tikanonja. Automatic data transfer was introduced at the Hakkila logistics warehouse at the beginning of 2003.

The amount of waste from Kesko Food's warehouses totalled 8,304 tons, a decrease of 5%. The total amount in relation to cubic metres supplied was 3.93

Recoverable packaging sent back in Kesko Food's return logistics (million pcs)

	1998	1999	2000	2001	2002
Aluminium cans	13.2	12.5	12.7	14.1	15.3
Disposable bottles	1.3	1.5	2.0	2.2	2.0

Reusable packaging sent back in Kesko Food's return logistics (1,000 pcs)

	1998	1999	2000	2001	2002
Transbox cases	3,700	4,200	3,900	4,700	4,400
Roll containers	2,000	2,300	2,400	2,390	2,638
Return pallets	342	361	387	403	328
Deposit bottles	936	890	1,002	922	923

Reusable packaging sent back to Keswell's central warehouse (number of re-uses)

	2000	2001	2002
Crates	94,545	99,273	92,324
Borrowed cases	39,000	39,000	36,270
Return pallets	222,000	240,000	223,200
Cardboard collars	11,865	7,500	6,000
Long furniture pallets	13,000	15,600	15,600

Waste management statistics (tons)

	Kesko Food			Keswell			Rautakesko+Kesko Agro		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Organic waste	660	791	931	3	3	4	14	30	19
Energy waste	357	341	322	30	-	11	129	95	116
Wood waste	589	620	512	141	30	51	143	159	157
Mixed waste	1,159	997	793	150	84	60	211	211	126
Metal	43	333	109	20	2	3	-	25	15
Film plastic	113	185	267	*)	*)	*)	17	17	6
Corrugated board	5,421	5,278	5,084	407	436	427	73	23	147
Paper	136	210	239	37	39	40	*)	50	20
Total	-	-	-	-	-	4	-	-	-
	8,478	8,755	8,304	788	594	600	587	610	606

*) data is inaccurate or has not been collected

Behind the indicators



My name

Kaj Uhlenius

My job

I work as a District Worker at Central Warehouse 2 in Hakkila.

My responsibilities

I collect plastics and energy components for our return logistics. We aim at continuously reducing the amount of mixed waste and the number of accidents in our unit.

kilos, which includes corrugated board collected by return logistics from K-stores. The amount of mixed waste in relation to cubic metres supplied was 0.37 kilos, compared with 0.42 kilos in 2001 and 0.45 kilos in 2000. The total amount of mixed waste dropped by 20% over the previous year, which was due to a more accurate sorting of organic waste. The waste recovery rate rose to 90% from 88%. At the Anttila central warehouse, the amount of mixed waste has dropped by 60% in two years thanks to more accurate sorting, and the recovery rate rose from 85% to 90% during 2002. The amount of mixed waste also dropped considerably in Rautakesko's and Kesko Agro's operations.

Developments in the products trade

For many years, Kesko's division parent companies have co-operated with suppliers to improve the environmental properties of products and packages. As environmental impacts must be assessed for

the entire life-cycle, the achievement of visible results has been difficult.

In 2000-2002, Kesko Food participated in the life-cycle assessment survey 'Environmental impacts in the food basket - FOODCHAIN' as one of the main sponsors. The survey was implemented by VTT Chemical Technology and Agrifood Research, Finland's natural resources research unit. The target of the research was to produce life-cycle assessment data on the environmental impacts of selected products, based on the real production chain and processes. One of the four products studied was the Pirkka potato flour manufactured for Kesko by Finnamyl. The results of the survey will be published in spring 2003.

In 2002, Kesko Food had 445 organic products and 215 products with environmental labelling. The number of organic products increased by over one hundred from the previous year. Monitoring the retail sales of organic products and products with environmental labelling remained difficult, because

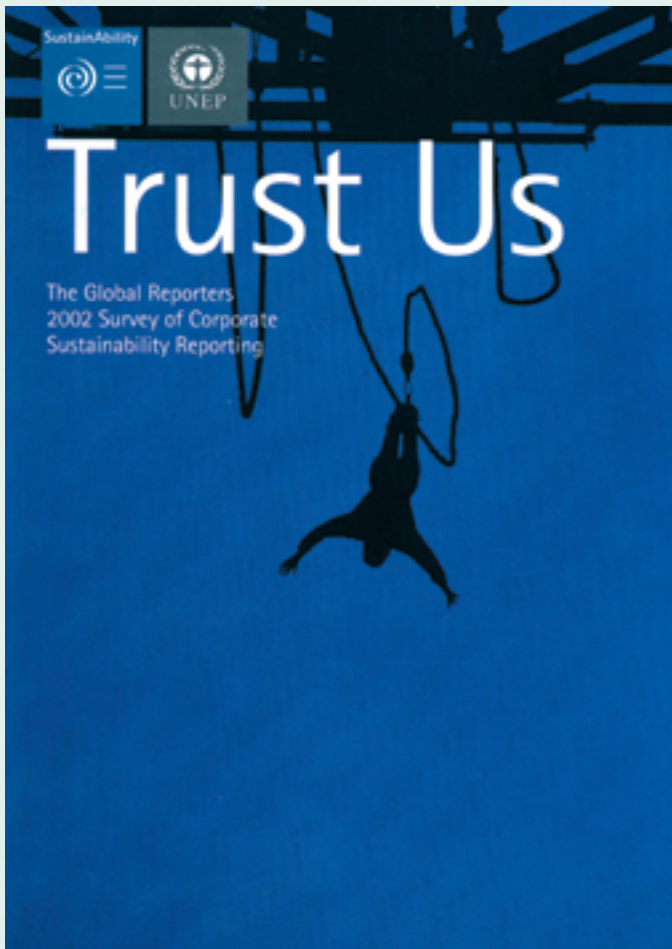
some products - such as milk and meat - are delivered to K-stores straight from suppliers. Therefore Kesko's own sales statistics do not show organic products' real market shares. It is only for fruit and vegetables, mainly sold from warehouses, that the market share of 2% is relatively exact, but even in that case retailers buy organic vegetables from local producers outside Kesko's range.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. Suppliers of board and timber buy their raw materials increasingly from certified forests. According to statements by the five major suppliers of sawn goods, the proportion of certified timber out of all raw material used by these companies varies between 76% and 100%, depending on the supplier. Garden furniture made of FSC certified hardwood has been launched in K-rauta and Rautia stores. The supply of heat-treated timber is increasing as an alternative to pressure treated timber, but its proportion of total sales remains small. Only those producers who have a valid quality control agreement are accepted as suppliers of pressure treated timber. Customers can return used pressure treated timber free of charge to the collecting platforms on the yards of K-rauta and Rautia stores, from where it will be sent for energy recycling.

In 2002 Kesko Agro started marketing Muovix products made of recycled plastic. Kesko is the major supplier of raw materials to Muovix Oy.

K-environmental stores

2002 was the fifth year the K-environmental store diploma, developed by Kesko, the K-Retailers' Association and the Finnish Association for Nature Conservation, was in use. At the end of 2002, 162 K-food stores and 13 hardware and builders' supplies stores had this diploma. The figure was slightly lower than the previous year, as some stores have moved from one K-food store chain to an-



other because of an extension or some other change and their diplomas have not been renewed in that connection.

After a short intermediary stage, K-stores' input in environmental work is again on a strong increase. It is estimated that about 75 new diplomas will be granted in 2003. In spring 2003, the diploma was granted to 33 K-food stores and to 9 K-rauta and Rautia stores. The criteria for K-agricultural stores was completed, and the first two agricultural stores with diplomas will provide valuable experience for the future.

Getting the diploma requires that the retailer, the hypermarket director, the employees responsible for environmental affairs and the whole personnel are trained, and that a comprehensive environmental audit is passed. In the audit, made by a third party, an assessment is made as to whether the store fulfils the detailed requirements set for awarding the diploma.

The K-environmental store diploma gained international recognition, as the

Behind the indicators



My name

Saira Grav

My job

I work as an Environmental Specialist in Kesko Food's Marketing unit.

My responsibilities

I am responsible for the development and implementation of the K-environmental store concept. The target is to double the present number of K-environmental store diplomas in about two years. When the need arises, I advise retailers on environmental issues.

United Nations Environmental Programme UNEP and the International Chamber of Commerce ICC selected it among the ten best sustainable development partnerships out of over 120 candidates. The award was given at the event arranged in connection with the UN World Summit on Sustainable Development in Johannesburg on 31 August.

Stakeholder co-operation and communications

During the year, Kesko continued to maintain close contacts with stakeholder groups related to its environmental activities.

Contacts with the Finnish and EU authorities were primarily maintained through the Environmental Committee of the Federation of Finnish Commerce and Trade. As a member of the Finnish delegation, Kesko's representative participated in the UN World Summit on Sustainable Development in Johannesburg in August and in the preparations and follow-up to the summit in Finland. Kesko par-

ticipated in the co-operation of the economy with the UN environmental organisation and other international organisations through active operations in the environmental committee of the International Chamber of Commerce. In November, Kesko was invited to join the trading sector group initiated by the UNEP.

Co-operation with suppliers for the benefit of organic foods and various recycling systems continued. Kesko continued as a supporting member of the Finnish Association for Nature Conservation and the main sponsor of the family activity project. Kesko Food, Rautakesko and Kesko Agro developed the K-environmental store diploma in co-operation with the Association's experts. Kesko Agro is participating in the Agricultural Research Centre's project 'Eco-efficient waste management in sparsely populated areas' and co-operates with the Association of Rural Advisory Centers (ARAC) to develop the traceability of grain and the quality data bank.

Kesko's report was awarded as the

best in the annual comparison of environmental and corporate responsibility reports by 'Elinkaari', the Finnish Forum of Environmental Experts. Kesko was also the best overall reporter (annual report, printed report, Internet pages). In the global comparison of reports made by SustainAbility Ltd, a consulting company for the UN Environmental Programme UNEP (Global Reporters Survey), Kesko's report was ranked among the TOP 50 (31st) as the best in the trading sector.

Environmental risks, damage and accidents

The management of environmental risks is part of Kesko's security plan. The greatest risk to a company operating in the trading sector is fire, and the required instructions and training have been given to personnel to meet this contingency. Risks relating to the pollution of land areas are discussed on page 24. Kaukomarkkinat Oy's terminal operations in Hamina include the transportation and intermediate warehousing services of products and raw materials of the oil and chemical industries involving environmental risks. The environmental systems of the Group include a level of preparedness for environmental risk management that is fully compliant with the ISO 14001 standard.

No environmental damage or accidents occurred in the Group in 2002.

Social performance

34



Key social performance in 2002

- Proportion of foreign subsidiaries out of all personnel reached 20%
- Most indicators were also received from subsidiaries abroad
- Employees' satisfaction in Kesko's operations increased noticeably
- Job satisfaction in the Baltic countries was high
- Employees consider that equality has continued to improve
- Average retirement age was lower than the previous year
- Number of job accidents decreased
- Number of training days per person decreased
- Social certification of suppliers has progressed, but slowly
- The UNICEF project in India has brought encouraging results

This social performance report is divided into two parts: indicators of personnel at Kesko Group, and the working conditions and terms of personnel employed in the supply chain of our products. Compared with the previous report, we have information available on corporate personnel in foreign units, too. The basic data about the supply chain has been obtained from major suppliers in developing countries.

Structural change continued

In 2002, the number of Kesko Group personnel in the Baltic countries increased by nearly 800. The proportion of foreign subsidiaries grew to 20%, compared with only 8% in 2000. The proportion of Group employees in retailing increased from 60% to 67%.

Number of employees

At the end of 2002, the number of personnel in Kesko Group was 15,212 (compared with 14,988 in 2001). There were 12,152 (12,795) in Finland and 3,060 (2,193) abroad.

The average number (for the calculation method, see page 19) of personnel during the year was 12,217 (11,544), of whom 9,720 (9,993) worked in Finland and 2,497 (1,551) abroad.

Including fixed-term, part-time and summer employees, the Group employed 5,189 new people, of whom about 4,250 were employed in retailing operations. Correspondingly, 5,064 employees left the Group, of whom about 3,694 worked in retailing. The turnover - excluding summer employees - was about 25%. Kesko Group had 1,050 summer

Trends in number of personnel			
	2000	2001	2002
Finland, 31 Dec.	12,239	12,795	12,152
Abroad, 31 Dec.	1,122	2,193	3,060
Total, 31 Dec.	13,361	14,988	15,212
Finland, average	10,161	9,993	9,720
Abroad, average	938	1,551	2,497
Total, average	11,099	11,544	12,217

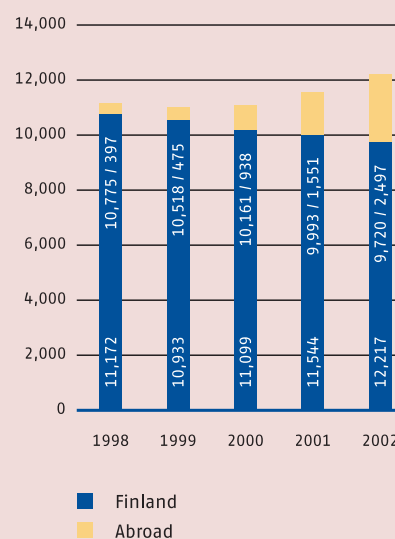
employees in Finland and 225 abroad, most of whom worked in retailing and warehousing. During the year there were 500 vacancies at Kesko Group and 254 people retired.

Average age and duration of employment

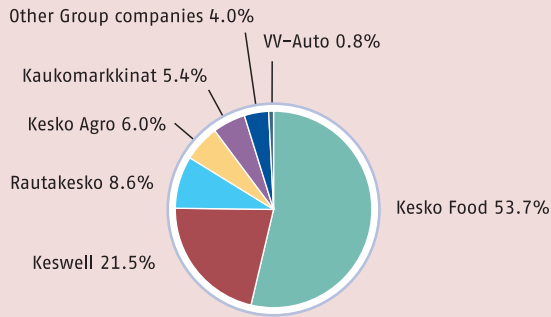
Women accounted for 62.8% of all employees in Finland and 58.4% abroad, while men accounted for 37.2% of all employees in Finland and 41.6% abroad. At the end of December 2002, the average age of Group personnel in Finland was 35 years and abroad 30 years. The average age was the lowest in subsidiaries engaged in retailing.

The average duration of employment in other domestic operations than retailing companies was 11.3 years (11.8 years in 2001). In the Group parent company, VV-Auto Oy and Rautakesko Ltd, the average duration exceeded 15 years. 8.4% of all personnel in Finland had been employed in the Group for more than 25 years. In foreign subsidiaries, all employment relationships have begun in recent years: K-rauta stores in

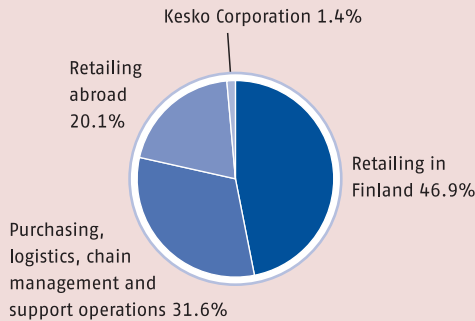
Kesko Group, average number of personnel



Kesko Group personnel by division
at 31.12.2002



Kesko Group personnel by
operations at 31.12.2002



Sweden have the longest as the first of them were established in 1996. In domestic retailing companies, half of all employees have been recruited during the past five years. The high turnover can be attributed to the fact that young employees' life and plans favour part-time and fixed-term jobs which are available in retail stores above all.

Reasons for terminating employment

In 2002, 4,172 positions were terminated in domestic and 892 in foreign companies.

The most common reason for ending a job was a fixed-term contract - accounting for 63% of all cases in Finland and 24% abroad. Employees leaving their jobs accounted for 29% of all terminations in Finland and 52% abroad. In 128 cases in Finland, 3% of the total number, employment was terminated for production and financial reasons or other reasons based on the Contracts of Employment Act. Abroad, the corresponding figure was 161 cases, 18% of the total number. Retirement accounted for 4% of all terminations.

Kesko's attraction as a workplace

Kesko's attraction as a workplace is monitored in several surveys both among students and the working population. Kesko's rankings rose slightly from the previous year.

In the 2002 Universum survey comparing the attraction of companies among students of business administration, Kesko rose from rank 40 to 32 and among young professionals with a university degree in business studies from rank 32 to 12. A total of 120 companies were included.

Among polytechnic students (Employer image survey of Helia, Helsinki Business Polytechnic), Kesko ranked 5th, compared with 8th the year before, while the number of companies included in the survey dropped from 41 to 12.

In the Talentum survey, university

Behind the indicators



My name

Mikko Myyryläinen

My job

I work as a Human Resources Controller for the Group's Human Resources unit.

My responsibilities

I develop the group-level personnel indicators and personnel data analysis. The target is to identify new indicators defining responsibility and to start collecting statistics relating to them. Data collected from foreign units will be expanded and specified.

students of business administration and technology approaching graduation assessed 90 companies. Kesko ranked 43rd (in 2001, the ranking was 58). Most respondents were students of technology who are not usually interested in Kesko as a workplace.

Quality of management

Kesko personnel's job satisfaction is monitored annually through a written job satisfaction survey. The survey is carried out by Gallup Markkinatutkimus Oy. Until 2000, the job satisfaction survey was conducted only among employees working in Kesko's 'basic operations', and then separately in each retailing company. In 2001, the surveys were made uniform, but in the report only the previous sample's result was published to maintain comparability. The figures now published cover all corporate operations in Finland for 2002 and adjusted figures for 2001. Retailing figures for previous years are not available. In 2002, the survey was also carried out in Baltic and Swedish subsidiaries.

In the survey, respondents were asked, on scale of 1-5, to assess their own jobs (19 statements), their superiors' performance (17 statements), their performance appraisal discussion (2 statements), their unit's operations (21 statements), Kesko's (or the local subsidiary's) operations (16 statements), the development of operations and atmosphere (4 statements) and the handling of survey results (2 statements). Personnel also evaluated the management of some affairs related to their employment and employee benefits (the wage level, shopping benefits, job safety, staff facilities, health care, training, staff restaurant, etc.). The outcome of this survey contributes to superiors' profit bonus.

In Finland, employees' satisfaction with Kesko's operations increased to a rating of 3.71 after three years at around 3.60. Other changes were small. The survey showed that employees are well aware of the targets in their own jobs,

are committed to them and consider their work as independent. Satisfaction with their superiors' overall performance was also among the qualities rated as best. Among support operations that contribute to job satisfaction, high ratings were given to occupational health care, job safety and staff facilities. Kesko's work for the environment is also appreciated. Employees would, for instance, like to see improvements in wages and shopping benefits. The survey's response rate was 67%.

In the Baltic countries, job satisfaction ratings were slightly higher than in Finland. In Sweden, satisfaction with the local subsidiary was higher than satisfaction with Kesko in Finland, but in other respects job satisfaction was slightly lower than in Finland. Because of the differences, for example in corporate cultures, the results in various countries cannot as such be compared with the absolute figures of the Finnish survey. Future annual surveys in foreign companies will reveal how job satisfaction develops in each country. This year the emphasis was on harmonising the survey and making it a tool for improving operations, job atmosphere and employees' wellbeing in foreign companies. The response rate of the

first survey varied between 61% and 77%, depending on the company.

Management quality is evaluated with many surveys on a regular basis. The annual customer satisfaction survey is used to see how both external and internal customer relations are developing. All Group units make annual self-assessments in teams, using the criteria of the Finnish Quality Award. An in-house quality competition has been linked to this evaluation. The evaluation of managers' practices and related development plans was started in autumn 2002. Evaluations will also be introduced for superiors at other levels.

The selection of an 'Employee of the Month' and a 'Manager of the Year' continued in 2002. These selections, based on personnel proposals, are intended to highlight individuals who set a good example in promoting Kesko's values. This practice will be continued.

Personnel can give feedback on corporate operations, even directly to top management. The 'Keskonet' intranet has a channel entitled 'mail to the President and CEO' and a 'direct channel' where employees may, anonymously or with their name, comment and make proposals on matters related to Kesko.

Personnel job satisfaction in domestic companies (scale 1-5)

	1998	1999	2000	2001	2002
Own job	3.68	3.66	3.71	3.73	3.72
Superior's performance	3.64	3.67	3.74	3.82	3.82
Unit's operations	3.52	3.49	3.63	3.73	3.78
Kesko's operations	3.81	3.61	3.61	3.60	3.71

Personnel job satisfaction in foreign companies in 2002 (scale 1-5)

	Sweden	Baltics
Own job	3.65	3.86
Superior's performance	3.72	3.98
Unit's operations	3.71	3.93
Local company's (Kesko's) operations	3.83	4.04

Health and safety

In 2002, reporting on absenteeism due to illness covers all Finnish and foreign operations of the Group. However, the breakdown of reasons for absenteeism is not as accurate in foreign statistics as it is for Finland.

In Finland, the total number of days employees were absent for was 95,907, 7.9 days per person or 5,606 days per million working hours. Compared with

2001, the numbers and their breakdown were practically unchanged. The number of job accidents dropped by 8% and the number of compensable days decreased from 9.6 to 8.0. Accidents that did not lead to any sick leave are also included in the statistics.

In foreign companies, the total number of days employees were absent for was 27,968, 9.1 days per person or 6,364 days per million working hours.

In the calculation, the number of working hours is the same as in Finland, that is 1,760 hours per year. There are no significant deviations in absenteeism in different countries. Abroad, accidents account only for 0.7 of all days absent. This difference with Finland is due to the fact that foreign companies have less warehousing operations, which are the most accident-prone. Information about foreign companies was collected for the first time this year, so no comparison figures are available.

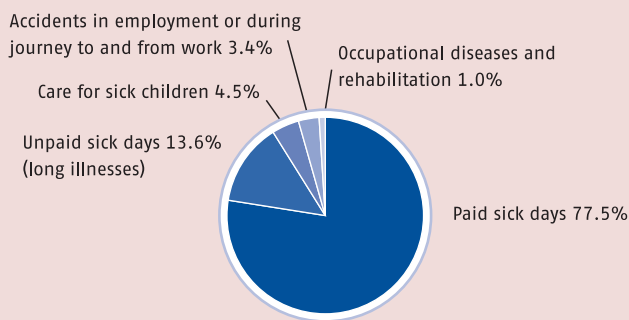
Kesko's own occupational health service unit served 6,000 employees of Kesko Group, 5,200 of whom were seen at the Group's own health stations. Occupational health services for retailing employees are mainly purchased from outside Kesko. Kesko's occupational health service focuses on wellbeing at work and on activities that maintain physical and mental fitness. In recent years, these activities have accounted for over 40% of occupational health operations. In 2002, Kesko's occupational health service used EUR 340 per person for the maintenance of physical and mental fitness and health care.

Kesko's occupational health service participates in care and treatment guidance for employees abusing intoxicants. According to the 'Intoxicants and Kesko' programme, co-operation is made at all levels and, if needed, superiors are trained to enhance their readiness to handle problem situations involving intoxicants. An effort is made to find heavy users of alcohol and other intoxicant abusers when they call or have check-ups at health stations even before any real problems with intoxicants arise. HIV tests are only made in connection with medical treatment, not at normal employment and health check-ups.

Salaries and other benefits

In 2002, the average annual salary of Kesko employees was EUR 23,009. The number of employees used in the calculation is the average number of person-

Absenteeism due to illness in 2002 (domestic operations)



Total number of sick days in Finland 95,907

Behind the indicators



My name

Pirjo Talvela-Blomqvist

My job

I work as an Occupational Physiotherapist for Kesko units in Hakkila, Vantaa.

My responsibilities

I estimate the load and risks of the work and environment on employees' health and develop solutions in co-operation with various parties. The challenge is to include an ergonomic view in all phases of the operations chains. I also guide employees in working methods and life styles that promote health and working ability.

nel. The average annual salary was EUR 26,280 in Finland and EUR 10,275 abroad. Because Kesko Group's operations are very diverse with an estimated 650 different job titles, the average salary is not a very good indicator of salary level and structure. No bonuses under the profit-sharing system were paid for 2001, but the sum for 2002 accounted for over EUR 8.5 million or about 3% of the total payroll. The bonus system applies to all personnel of Kesko Corporation and its domestic subsidiaries, with the exception of retail stores, in which bonuses are only paid to superiors of Anttila department stores and K-citymarkets. Additionally, subsidiaries have their own bonus systems.

In 2002, there were no significant changes to fringe benefits. 576 employees had a company car, 809 employees had a company dwelling and 1,989 employees had a company telephone. Seven holiday cottages are rented for employees and their occupancy rate was nearly 100%. Statistics are not yet available on fringe benefits in foreign subsidiaries.

Supporting the Kesko Staff Club, which arranges recreational activities for personnel, promotes wellbeing in the working community. The annual budget of the Club was about EUR 0.5 million, which was the same as the previous year. No corresponding data concerning foreign subsidiaries is available.

Pensions

In 2002, 254 people retired from Kesko Group. Of these, 122 were members of the Kesko Pension Fund and 132 were insured by Varma-Sampo. The figure includes those employees on partial retirement and partial disability pensions who have valid job contracts. Occupational retraining was arranged for 18 employees who, due to illness, were not able to continue in their previous jobs or whose working ability was at risk.

Membership of department A of the Pension Fund enables early retirement arrangements on certain terms, which

Men and women by employee category in Finland, 31 Dec. 2002

	Women		Men		Total	
	Number	%	Number	%	Number	%
Top management	5	10.4	43	89.6	48	0.4
Middle management	110	22.2	385	77.8	495	4.1
Superiors, specialists	550	56.8	419	43.2	969	8.0
Workers, office workers	6,965	65.5	3,673	34.5	10,638	87.5
Total	7,630	62.8	4,520	37.2	12,150	100.0

Percentage of women by employee category in Finland in 2000–2002

	2000	2001	2002
Top management	8.3	10.2	10.4
Middle management	18.1	19.1	22.2
Superiors, specialists	54.6	55.8	56.8
Workers, office workers	63.4	64.8	65.5
Total	60.5	62.1	62.8

affects the average age of retirement. In Kesko, the retirement age has been below the national average, although it has been growing in recent years. However, in 2002 the age dropped to 56.1 years in pension decisions of both the Pension Fund and Varma-Sampo (in 2001 the ages were 57.5 and 56.4 years respectively). The reason for this was the greater than average number of early retirement decisions and the disability pensions granted to some very young employees.

In 2002, disability pensions accounted for 23.1% (14.9% in 2001) of all pensions granted by the Pension Fund, but the percentage remains considerably below the national average of 33.2%. Disability pensions accounted for 38.0% of the pension decisions concerning employees working in the retailing sector in occupational health care outside of Kesko.

In 2002, the pensions paid by the Kesko Pension Fund to 3,076 persons came to EUR 43.3 million in total. The average pension was EUR 1,172 per month.

The Pension Fund has been financ-

ing the production of dwellings since 1965. At the end 2002, the Pension Fund owned 828 dwellings, of which nearly half were rented to Kesko employees. In 2002, the construction of a new high-rise with 100 flats was started.

Equality

Since 1996, Kesko Corporation and all of its domestic subsidiaries with over 30 employees have participated in an equality plan, the implementation of which is evaluated annually. The plan is available on Kesko's Internet pages (www.kesko.fi).

According to year-end statistics, 62.8% of Kesko Group employees in Finland were women and 37.2% men.

There were five women in top management, representing a proportion of 10.4%. One of the eight members of the Board of Directors is a woman, and likewise one of the seven Corporate Management Board members.

In middle management of the Group, the proportion of women is 22.2%, while in superiors and special-

ists the proportion is 56.8%. In both of these categories, the proportion has been continuously increasing since 2000, when the statistics were first published. In subsidiaries engaged in retailing, the share of women in supervisory positions is significant. Statistics show that 86% of department managers in K-citymarket hypermarkets and 79% of department managers in Anttila department stores are women.

The job satisfaction survey examines the views of Kesko employees on the equality between men and women in Kesko. In the 2002 survey, the implementation of equality was ranked at 3.6 (scale 1-5), compared with 3.5 in 2001. The mark has improved every year since 1996. Satisfaction with equality was highest among personnel of retailing companies (3.7).

In foreign companies, 58.1% of employees were women and 41.9% were men. There is no breakdown available for the foreign offices of Kaukomarkkinat Oy. There are no women in the top management of foreign companies. In middle management women account for 42% and in superiors and specialists 32%. In food trading, the proportion of women in middle management and working as superiors is above the average, while men have a more dominant position in hardware and builders' supplies and agricultural trading. As the job system applied in domestic companies is not yet used in foreign companies, the job classification is not fully comparable.

Training

Statistics have been prepared on Kesko employees' basic training in Finland, with the exception of retailing companies. Of the 4,702 persons included in the statistics, 58% have medium-level or lowest high-level vocational training and 16% have higher-level training. In foreign companies, the corresponding figures are 50% and 11%.

According to the statistics, a total of 14,474 working days, or 1.5 days per em-

ployee, was spent on training in domestic companies. A new statistical method was adopted in 2002. About 80% of all training was internal, including training at the K-instituutti. The number of training days in foreign companies was 3,708, or 1.2 days per employee. Internal training accounted for 31%.

Kesko invested EUR 5.4 million in training, which is the equivalent of EUR 445 per person. The figure per person is clearly lower than the previous year. Lower training costs in the Baltic countries decreased the average figure.

The K-instituutti training centre provided courses for about 6,147 employees in 2002. A total of 45 training programmes were provided for sales assistants, retail and Kesko superiors as well as for entrepreneurs. The number of student workdays totalled 19,096. Important projects in 2002 included the start of the K-JET special vocational qualification in management, expanding online training to include retailer training, and the start of nationwide hygiene competence training.

8,783 K-Alliance employees, including 378 Kesko employees, participated in Master Assistant training arranged by the K-Retailers' Association. The training is mainly organised as distance learning, and 15,000 textbooks were given out as study material.

Unionisation and work safety

39.6% of Kesko Group employees in Finland are unionised, mainly in the Service Union United. In the retailing sector, the unionisation rate is 43.6%. The figure consists of employees whose union membership fee is taken from their salary. In Sweden, 17.3% of the local subsidiary's employees are unionised. In the Baltic countries, the only unionised employees are in Estonia, where the figure is just 2%.

Kesko is a member of the Commercial Employers' Association in Finland and Handelns Arbetsgivareorganisation (HAO) in Sweden.

Kesko has a company-specific shop steward system, adopted by all major subsidiaries. However, Kesko Food Ltd continues to have some office-specific shop stewards who also represent the employees of other division parent companies in their operating districts. Kesko Food Ltd has two chief shop stewards, while other companies have one. The work safety organisation covers all Finnish companies of the Group. The committees and delegates work for one company, district or real estate. The safety work has been particularly successful in warehouses where the number of accidents has decreased (see Health and safety, page 38).

In 2002, the district courts had two (likewise two in 2001) cases and the court of appeal one case concerning employment disputes in the domestic companies of the Kesko Group. All disputes concern termination of employment. No corresponding data has been collected in foreign companies.

Social quality control of suppliers



Kesko is indirectly responsible for the working conditions and terms of the employees who work in the manufacture of the products it purchases. This social responsibility concerns trading with companies operating in developing countries in particular, as national legislation or supervision by authorities in these countries does not always guarantee a sufficient level of safety for employees. Kesko's target is to ensure that its suppliers at least follow the national legislation or the international key conventions of labour, depending on which alternative ensures a better position for employees. The target is ambitious and cannot be reached in a short time. However, every single improvement, however small, is an important step towards socially sustainable development.

As a small buyer, Kesko cannot single-handedly produce big changes in the export industry of developing countries. Our share of a manufacturer's annual sales usually corresponds to one or two days' production, which is too little to enable us to make many demands. The pace of change will only accelerate when all significant buyers want to ensure the background of the products they buy and in that way increase commercial pressures to improve social quality. However, even a small company can, as a pioneer, show the right direction to take. Kesko has aimed to set an example to arouse discussion on the targets and tools of social quality control and to contribute to the adoption of independent auditing as a tool of supervision both at a national and international level.

Purchasing principles

In spring 2000 Kesko published the ethical principles governing its imports from developing countries (see www.kesko.fi/Environment and responsibility / Economic and social responsibility). They are based on the International Labour Organisation's key conventions and the UN Universal Declaration of Human Rights and Convention on the Rights of the Child. The international Social Accountability SA 8000 standard (see www.sa-intl.org) is based on these regulations, and Kesko recommends the adoption of this standard to its suppliers. The standard has been developed by Social Accountability International (SAI), a US non-profit organisation, in co-operation with representatives from non-governmental organisations, trade unions, business companies, universities and certification bodies. SAI accredits certification bodies to conduct audits and give certification to business companies, as well as supervising the operations of these bodies. There are nine SA 8000 certification bodies at present, of which BVQI, DNV and SGS are the best known in Finland.

Social certification can be compared with quality and environmental certification, which means that the company manufacturing or buying the products does not prove its compliance with the standard, but certification is given by an independent, accredited auditor. Social certificates indicate that the minimum requirements of working life are fulfilled compared with national legislation and international standards. The adoption of standards and the certification are voluntary, which means that working life standards can be met even without any certificates.

The social standard will hardly spread to countries where the level of legislation clearly exceeds international standards and supervision works well. In developing countries, the inclusion of the standard in the terms of trade agreements offsets the drawbacks in legisla-

tion and reduces the social risks of business relations. However, the social standard should only be a temporary solution to improve working conditions. As soon as legislation has succeeded in putting the basic things in order, the standard will become unnecessary.

Supervision is part of risk management

At Kesko, the supervision of social quality is part of the risk management of import purchases. Supervision covers many countries and product categories in which defects relating to working conditions and terms have been noted. The sources of the risk analysis include surveys made by many organisations, such as UNICEF, Amnesty International and Global March Against Child Labour. The risk group consists of 35 countries, and the product groups under control include coffee, fruit, clothing, home textiles, carpets, shoes and leather goods, toys and furniture. In 2002, Kesko's purchases of these items from the countries in question amounted to EUR 81 million (EUR 63 million in 2001). These imports accounted for 1.4 percent of Kesko's total purchases, 7.1% of Kesko's total imports and 17.7% of Kesko's imports from outside the EU.

In addition to its own imports, Kesko also buys products made in high-risk countries from other importers operating in Finland and through international purchasing groups. These imports mainly consist of international branded products, in which much attention has been paid in recent years to ensuring the social quality control of their manufacture. Kesko estimates that these purchases amount to approximately the same as its own high-risk imports described above. No reliable statistics are yet available on this. The certificates issued to these companies will be monitored in the same way as Kesko's own imports.

Social quality control is part of the buyer's job description, just like the con-

trol of environmental quality or the product's physical quality. About 100 Kesko buyers participated in the SA 8000 basic training in 1999-2001. In 1999, the training was implemented by Social Accountability International and in 2000-2001 by the SA 8000 unit of the Bureau Veritas group in London. In 2002 no such training was arranged, but in 2003 it will again be offered to new buyers. Kesko has prepared an internal handbook on social quality control for buyers. The book contains detailed instructions for the co-operation between Kesko and its suppliers to improve working conditions. To promote certification, Kesko has made an international co-operation agreement with Bureau Veritas Quality International (BVQI).

Buyer and supplier as partners

Practical quality control proceeds with a buyer collecting the basic information illustrating the company on a questionnaire from suppliers. This information includes net sales, number of employees and subcontractors, working hours, holidays and wage level. There are also questions on child and forced labour, discrimination and occupational health and safety. The questionnaire's purpose is to make the suppliers aware of Kesko's social quality requirements. In

Kesko's own direct imports * from outside the EU in 2000-2002

Country	Imports (EUR million)		
	2000	2001	2002
China	34	32	47
Costa Rica	2	2	18
Japan	14	13	14
United States	11	9	8
Estonia	11	13	8
Vietnam	6	5	7
India	9	6	7
Brazil	11	5	6
Turkey	4	4	6
Taiwan	7	5	4

* does not include merchandise imported to Finland by other than Kesko

Behind the indicators



My name

Tuomo Mykkänen

My job

I work as a Product Manager of toys in the Non-Food Purchasing unit of the K-citymarket chain.

My responsibilities

I promote awareness of and compliance with Kesko's ethical principles among our toy suppliers in the Far East. As part of my study thesis I am preparing an operations system for buyers, to improve the introduction of both the SA 8000 standard and environmental standards.

spite of signatures, the replies given cannot yet be considered a commitment to comply with Kesko's principles.

When visiting the supplier's company, the buyer personally presents Kesko's principles and the SA 8000 standard. The representative of BVQI can participate in this meeting or visit the company separately. The buyer's duties include acting as the supplier's partner in the development of social quality. The target is to make the supplier first interested in a pre-audit for the standard, in order to assess how well the company would fulfil the standard's requirements and what should be corrected to enable certification. After the first introduction, the buyer keeps the issue continuously alive. Suppliers themselves decide on their compliance with the standard and on seeking certification, and they also bear the costs involved. Being one small customer out of many, Kesko cannot bear the costs of certification which the supplier can then use as a proof of social reliability to other customers, too. In some

cases Kesko has, however, shared the expenses to initiate the certification and to spread information about this competitive tool to other companies in the sector.

Employee interviews provide the basis for certification

The SA 8000 certification is based on interviews with management and employees and on checking the documents related to employment and working conditions. The emphasis is on employee interviews, complemented with statements by trade unions and non-governmental organisations. The work is only possible if the auditor speaks the same language as the employees. Knowledge of local legislation is also necessary, because the requirements may exceed the international minimum standards of the SA 8000.

Certification includes control inspections every six months and an obligation to renew the certificate after three years.

Slow progress

The SA 8000 certification has progressed slowly both globally and among Kesko's suppliers. There are many reasons for the slow start. The standard remains unknown to small and medium sized companies in particular, its introduction is considered expensive, and small companies have no previous experience on the use of other standards. There is no management system or documentation required by the standard available, and the company has no competence for this kind of work. If reaching the certification level necessitates significant changes, they cannot be implemented all at once but must instead be realised gradually.

The main reason for the slow progress is, however, that only a few large retailing companies and firms who purchase branded goods require independent certification from their suppliers. The majority say that they comply with the same principles as Kesko, but rely on either their own personnel or even just on supplier assurances in their control. Therefore, manufacturing companies consider the demand for an independent certificate low and do not get it, even if their operation might fulfil the requirements of the standard. Consumer pressure is also not yet high. If consumers would demand unbiased information about the conditions of manufacture, the willingness to obtain certification would grow fast. On the other hand, including a 'guarantee of social quality' in product information remains nearly impossible, because there is no international unanimity about reliable labelling.

China has the highest number of certificates

By the end of February 2003, the worldwide register kept by SAI (see www.saiintl.org) included 203 companies with the SA 8000 certificate, representing 32 different sectors in 32 countries. The business sectors with the most repre-

Kesko's suppliers with SA 8000 certificates by product group

Product group	Certificates	Employees
Clothing	6	6,150
Toys	5	6,600
Home goods	3	5,186
Foods	3	12,750

Kesko's suppliers with SA 8000 certificates by country

Country	Certificates	Employees, total
China	7	9,400
India	3	250
Bangladesh	1	3,100
South Africa	1	250
Indonesia	1	10,000
Italy	1	36
Pakistan	1	5,000
Finland	1	250
Costa Rica	1	2,400

sentations were clothing and textiles, and the country with the most representations was China (38 certificates). In total, the companies with certifications had 125,700 employees. Kesko's experience shows that SAI will not have been immediately informed of all certificates, so the real number is slightly higher.

By the end of 2002, Kesko's buyers had received written replies concerning working conditions and terms from 236 companies in 31 countries, employing a total of 221,500 people. Information has now been received from virtually all suppliers with whom trading is regular. The basic survey has not yet been completed by about 100 companies with whom co-operation has been smaller and more irregular. These included, the companies in the sphere of Kesko's social quality control employ roughly about 350,000 people.

At regular intervals Kesko's buyers establish which suppliers are preparing to adopt the standard and where and when certificates are to be expected. Although intermediary stages are impor-

tant, too, the selected indicators of performance in social quality control only include the number of certified companies and these companies' employees. The latter figure is slightly inaccurate because companies have supplied employee numbers only when replying to Kesko's inquiry, which has not been repeated annually.

By March 2003, Kesko had 17 suppliers with the SA 8000 certificate, employing a total of 30,700 staff. The year before, there were 11 certificates and 19,000 employees. We have now worked with the SA 8000 for about two and a half years and have attained just under nine percent of the long term target: ensuring the working conditions of about 350,000 employees.

One generation's work ahead, at least

The lack of certification cannot, as such, be regarded as a sign of poor working conditions. For the time being it remains unrealistic to believe that all Kesko's suppliers in developing coun-

tries will seek the SA 8000 certification in the next few years. Getting that far would necessitate strong pressures from other customer firms, as well as governments focusing on the development of national legislation and related control. When Kesko published its principles of purchasing operations in spring 2000, it forecast that it had work ahead that would take at least one generation. That schedule still holds, so no great leaps are expected in a year. Kesko estimates that at the end of 2003 about 30 suppliers, employing a total staff of about 40,000, will have certificates.

Kesko's foreign suppliers have decreased in number in recent years. The centralisation of purchases also facilitates the management of social risks. Kesko has not yet been forced to terminate any business relations because of social wrongs revealed, but if any suppliers need to be dropped those who have not reacted to Kesko's inquiries will be the first to go.

Co-operation between Finnish importers

The 'Network to advance Social Responsibility in Importing' was established on Kesko's proposal and under its chairmanship in November 2001 to promote the introduction of joint social quality requirements among Finnish importers. The operations, principles and members are presented on the Internet pages of the Central Chamber of Commerce (see www.keskuskauppakamari.fi). The principles of the network are also available in English.

At the end of 2002, the network comprised 13 companies, including all major food trading groups and many clothing and shoe manufacturers and importers. During the year, the network arranged two training events, provided members with related information and maintained contacts with the press on issues concerning ethical importing.

Fair Trade products

In 2002, sales of Fair Trade products developed as expected. The products available were coffee, tea, chocolate, cocoa, honey, sugar, bananas and mangoes. The market shares of the other products remained small, but it is estimated that the bananas reached a share of about 5% during the high season. Trade was slightly hampered by the publicised deviations from the agreed operating rules by one of the two banana producers significant for Finland. The producer was, however, fast to correct its mistakes.

Kesko's selections include all Fair Trade product groups. The coffee, tea and bananas sold by Kesko are also organic.

The UNICEF project in India

In 2000-2002, Kesko financed a project mediated by UNICEF Finland and implemented by UNICEF India's Mumbai office, with a total of USD 60,000 to prevent the use of child labour in the town of Bhiwandi. At the beginning of 2003, a decision was made to continue the financing for another two years.

The town relies heavily on its weaving industry, and about 12,000 out of a total 250,000 employees are children. The number is smaller than previously estimated. UNICEF co-operates with non-governmental organisations among the families of Bhiwandi, with the aim of preventing children from starting work. The project will survey the families' finances, diet, availability of water, sicknesses, children's opportunities of attending school, etc.

According to the project management, about 1,014 children have now started attending school in one form or another (pre-school classes, preparatory training for school attendance, training for dropouts, vocational training). Teaching children to read and write is an important part of education. Some children go to school in the evening after work, some have older sisters or brothers at work, and some have parents working in the weaving industry. 213 children have already started comprehensive school after attending preparatory training. Weaving mills have given children easier tasks to do and reduced their working hours. After vocational training, 35 girls have become independent handicraft workers. 204 housewives have joined the self-help groups started by the project.

Kesko has not had previous experience with this kind of project in developing countries, so no specific targets had been set. Kesko, UNICEF Finland and UNICEF India all consider the project a success, and the intention is to apply the same operating method in India to other corresponding fieldwork. The annual report of the project can be read in English on Kesko's Internet pages.

Kesko also participates in the 'Global Movement for Children' project through UNICEF Finland. The funds raised in Finland will be used to promote girls' education in Nepal. In 2002, Kesko donated its Christmas card funds to this purpose.

Other responsibility areas

46

Not all work done in the name of corporate responsibility can be grouped under economic, social or environmental responsibility. According to the guidelines of the Global Reporting Initiative, such issues include product safety, compliance with marketing and competition regulations, privacy protection, political relations and attitude to bribes.

Product safety

Product safety is related to all lines of business, but it needs particular attention in the food trade. Kesko has emphasised product safety for decades by auditing industrial operations, analysing product compositions and quality features and by suggesting improve-

ments to manufacturers. In Kesko Food Ltd, the main responsibility lies with the product research unit, which, in addition to food products, also controls the quality of certain non-food products and home goods. When house brand products like Pirkka are manufactured for Kesko, the product research unit acts as product developer in close-knit co-operation with manufacturers. The product research unit and its K-test kitchen employ 20 people.

In 2002, the product research unit audited 39 suppliers (60 in the previous year), of which 29 (18) were Finnish. The audited companies mainly include suppliers of Kesko's house brands and are selected in accordance with Kesko Food's

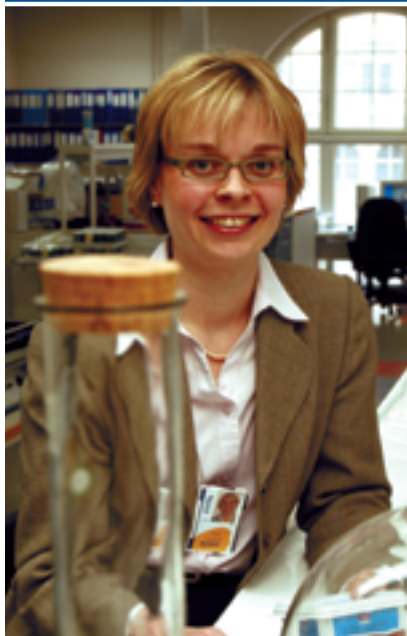
in-house control plan. Auditing is carried out in compliance with Kesko Food's own protocol. In most cases, improvement proposals relate to the planning of production facilities and hygiene.

A total of 8,820 (8,317) product samples were analysed, of which 7,622 were food products, 617 non-food products, 566 home goods and 7 flowers. About two thirds of the samples were imported and one third domestic. Less than 20% of the samples were catering products and the rest consisted of retail products. The majority of the samples were suggestions for new Kesko house brand products, other new products and product comparisons. A total of about 1,500 product lot and other own control samples were analysed. Based on consumer complaints, 671 samples were analysed. The number of analyses totalled 17,216 (12,977 in the previous year). The laboratory conducted four intercalibration tests (comparisons of analysis accuracy between several laboratories) and the results were correct.

26 products were withdrawn from K-stores during the year, most because of defective quality or taste, or manufacturing flaw. 10 of these were Kesko Food house brand products. In the other cases the product research unit assisted manufacturers in withdrawals. None were so-called serious product mistakes. In such cases national supervising authorities would always be notified.

The consumer service maintained by the product research unit received 13,642 feedback contacts. In 2001, the corresponding number was 7,786. The

Behind the indicators



My name

Tarja Vanninen

My job

I work as a Research Chemist at Kesko Food's Product Research unit.

My responsibilities

I participate in the assurance of safety, quality and conformity to the law of Kesko's house brand products and products imported by Kesko, and in the development of new branded products.

increase is mainly attributable to the packaging reform of Pirkka products, in which the consumer service contact information has been printed on all packages since the beginning of 2002 to facilitate consumer contacts. Most feedback was product complaints or questions. The most common contact channel was telephone - two thirds of all contacts were made by telephone. All comments and queries were answered.

In addition to actual products, the product research unit also supervises product labelling. For house brands and own imports Kesko Food uses guidelines based on EU directives, Finnish legislation and the recommendations of authorities. The aim is always to include nutritional values on the packaging of house brand products - package size and space permitting - although they are not always required by law. Any allergenic ingredients are marked on house brand packages in addition to the obligatory markings, even when it is just that they may unintentionally end up in the product during the production process. Country of origin is marked on imported house brand products and the manufacturer's name and domicile on domestic products.

Instructions for package label information also determine the use of the swan flag symbol, the seed leaf flag symbol, the key flag symbol, the Nordic environmental label, the "Wash Right" marking, the Luomu organic product label and the use of recycling symbols.

Marketing and competition regulations

One of Kesko's functions is to plan and implement the marketing programmes of the K-retailer chains. Kesko and the K-retailers operate in a so-called vertical agreement relationship, in which marketing actions are carried out in compliance with exceptional permits granted by The Finnish Competition Authority on the basis of the Promotion of Competition Act. Kesko's foreign subsidiaries themselves act as retailers, which is why this kind of permission is not needed. Their marketing and advertising actions are carried out in compliance with the marketing, consumer protection and price marking regulations of each country.

In Finland, these laws are complemented by the guidelines issued by the Consumer Ombudsman based on decisions made by the Market Court and the Consumer Ombudsman, and/or negotiations with the Federation of Finnish Commerce and Trade. These guidelines cover the following issues:

- sales and clearance sales
- special offer marketing
- price quotation in marketing
- customer loyalty marketing
- consumer credit in the marketing of goods and services
- error liability and guarantee in the consumer goods trade
- children and marketing
- lottery marketing
- price advertisements of house packages
- environmental marketing

The supervision of the Consumer Ombudsman is based on these instructions and she expects them to be followed. Ultimately conformity to the law is determined by the Market Court.

The Consumer Ombudsman settles breaches of marketing regulations on her own initiative or by virtue of notification and, if necessary, by taking the case to the Market Court. In 2002, neither the Consumer Ombudsman nor the Market Court handled any breaches of marketing or competition regulations committed by Kesko or the K-retailer chains.

Privacy protection

A Kesko subsidiary, K-Plus Oy, maintains and manages the customer loyalty system of the K-store chains. At the end of 2002, Plussa cards were held by more than 1.5 million households. Parallel cards included, this totals over 2.8 million Plussa cards. The programme only includes operations in Finland.

The customer information of Plussa cardholders constitutes a customer register at Kesko, used, with customers' permission, for customer relationship management, customer contacts and marketing for the Plussa scheme. Cardholders' purchasing behaviour is registered in the form of sum total of purchases, if the customer has not forbidden it. The registered information may also be used in the direct mail marketing of companies included in the Plussa scheme, if a customer has not forbidden the use of his or her information in this way. The companies who receive this information are not allowed to distribute it further.

By virtue of the Personal Data Act,

every customer register keeper must have an official file description, which is a public document. K-Plus Oy's file description can be read in Finnish on the Internet when registering for the service on Plussa's web pages at www.plussa.com.

In its capacity as register keeper, K-Plus Oy sees to it that customer information is only used for the purposes specified in the file description. Information on individual customers is protected by instructions given to personnel and by efficient technical means. Customer data are only disclosed to outsiders if required by law.

In 2002, K-Plus Oy did not receive any notifications of privacy protection violations.

Political relations

Kesko takes an active role in legislative work concerning trade and industry in Finland and the European Union. Influence is exercised via the Central Chamber of Commerce, the Federation of Finnish Commerce and Trade and its branch organisations, the Employers' Confederation of Service Industries and the Commercial Employers' Association in Finland. The Federation of Finnish Commerce and Trade is a member of EuroCommerce, the retail, wholesale and international trade representation to the EU Commission and the European Parliament. In addition, Kesko belongs to UGAL, the EU organisation of groups of independent retailers, that safeguards its members' interests directly or via EuroCommerce.

In 2002, Kesko's financial support

to political parties amounted to about EUR 20,000. This amount is included in the sector of non-governmental and environmental organisations in the table 'Kesko's support for the public good' on page 21.

Attitude to bribes

Kesko has always assumed a negative attitude to bribes - be it accepting or offering them. This unambiguous principle has been communicated to personnel in, for instance, the guidebook 'Our working practices - the ethical principles of personnel' which was first published in 1999 with a revised version in 2002. Because in recent years Kesko has vigorously expanded operations in foreign countries, the revised version has been published in Swedish, English and all Baltic languages in addition to Finnish. The guidebook has been distributed to all Group personnel and the subject matter has been presented orally in units' own meetings. The guidebook can be read on Kesko's Internet pages at www.kesko.fi (Kesko in brief/Corporate citizenship).

Kesko's ethical purchasing principles - mainly distributed to suppliers operating in developing countries - make a clear statement about Kesko's negative attitude to bribery under all circumstances. These principles also emphasise that co-operation between Kesko and suppliers must be open and fair, equal and in compliance with agreements.

Comparison of the report with guidelines of the Global Reporting Initiative

The table shows an evaluation of the inclusion of the GRI guidelines (see www.globalreporting.org) and the so-called mandatory indicators in Kesko's report. As to the so-called voluntary indicators (marking x), only those included in the report are discussed.

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
Vision and strategy					
1.1	Vision of sustainable development	Yes	8	Vision and strategy of corporate responsibility	
1.2	Statement from the CEO	Yes	3	Building for a better tomorrow	
Organisational profile					
2.1–2.8	Basic information of the company	Yes	5	Basic information about the Kesko Group	
2.9	List of stakeholders	Yes	12	Stakeholder analysis	
Report scope					
2.10	Contact persons for the report	Yes	53		
2.11	Reporting period	Yes	2	Contents of the report	
2.12	Previous report	Yes	2	Contents of the report	
2.13–2.16	Boundaries of report	Partly	2	Contents of the report	Breakdown Finland/abroad, operations not specified by country. In energy and emission indicators, changes in the calculation method make comparisons difficult.
Report profile					
2.17	Decisions not to apply GRI principles	No			A decision made to apply the GRI guidelines.
2.18	Criteria used in accounting for costs and benefits	No			No cost/benefit analyses have been made.
2.19	Significant changes in measurement methods applied	Yes		Environmental performance	Description with each indicator.
2.20.–2.21	Policies and practices in internal and external assurance	Partly	2	Contents of the report	Internal auditing has not been described.
2.22	Obtaining additional information	Yes		(Internet version)	Links in the relevant parts of the printed report.
Governance structure and management systems					
3.1.–3.2	Structure of organisation/board	Yes		(Internet version)	Links in relevant parts of the printed report.
3.3.–3.4	Board-level processes in corporate responsibility management	No			No processes have been defined separately, corporate responsibility is integrated in all management.
3.5	Linkage between executive compensation and corp. responsibility	No			No such indicators are included in the compensation.
3.6	Key responsible individuals	Partly	53	Contact information	The list is not complete, but includes key persons for reporting.
3.7	Mission, values, operating principles	Yes	10	Principles and management systems guiding corporate responsibility	
3.8	Mechanisms for shareholder recommendations or opinions	No			The procedure has not been described in the report – normal public limited company procedure.

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
Stakeholder engagement					
3.9.-3.12	Stakeholder identification, consultations	Yes	12	Stakeholder analysis	Changes caused by stakeholder cooperation not included in the report.
Policies and management systems					
3.13	Addressing a precautionary approach	No			Risk management and addressing a precautionary approach are not included in this report.
3.14	Endorsement to external initiatives, charters, etc. principles	Yes	11	Policies and management systems guiding corporate responsibility	
3.15	Memberships in associations and organisations	Yes	11	Participation in economic and trading sector development	
3.16-3.17	Supply chain management, indirect impacts	Partly	25,31,41	Energy purchases, developments in product trade, social quality	The analysis of indirect economic impacts incomplete.
3.18	Changes in operations	Yes	17	Investments and store network	
3.19-3.20	Management systems, certification	Yes	10	Environmental system and calculation Social quality control of suppliers	The description of management plans incomplete.
Comparison of GRI content					
4.1	Identification of GRI guidelines	Yes	49		
Economic performance indicators					
EC1	Net sales	Yes	5	Kesko as a company	
EC2	Geographic breakdown of markets	No			Not specified according to GRI guidelines.
EC3	Goods and services purchased	Yes	5, 20	Suppliers of products and services	
EC4	Payments in acc. with terms	Yes	20	Suppliers of products and services	
EC5	Total payroll, pensions, etc.	Yes	19	Salaries, social security expenses... Employee pension and social security systems	
EC6	Interests and dividends paid	Partly	15	Economic development from the viewpoint of shareholders	Interests paid have not been specified. Information in the financial report.
EC7	Changes in retained earnings	No			Not specified, information in the financial report.
EC8	Taxes paid	Yes	19	Salaries, social security expenses and taxes	
EC9	Subsidies received	No			No subsidies referred to by GRI.
EC10	Donations to community, civil society, etc.	Yes	20	Financial support	
Environmental performance indicators					
EN1	Materials use	Yes	29	Use of materials	Note! These are packaging materials.
EN2	Use of waste from external sources	No			A trading company does not use recycled waste in the way referred to by GRI.
EN3+EN4	Energy use (direct/indirect))	Yes	25	Energy and water consumption	In Finland only. Unit of measure KWh and its multipliers MWh and GWh.
EN5	Water use	Yes	25	Energy and water consumption	In Finland only.
EN6+EN7	Impact on biodiversity	No			No analysis has been made of land areas from the viewpoint of biodiversity.

Code	GRI content	Included	Page	Report title	Shortcomings/deviations
EN8	Greenhouse gas emissions	Yes	25, 28	Environmental profile of energy Transport emissions Carbon dioxide balance of the Group	In Finland only.
EN9	Ozone	Yes	25	Environmental profile of energy	Ozone in lower atmosphere in G ₂ H ₄ equivalents. In Finland only.
EN10	Acidification	Yes	25	Environmental profile of energy	In Finland only.
EN11	Waste	Partly	29	Waste management and recycling	In Finland only. End-use of waste not specified.
EN12	Discharges to water	Yes	28	Transport emissions	Not relevant in Kesko's operations.
EN13	Spills of chemicals, oils, etc.	No			Minor connection to Kesko's operations.
EN14	Environmental impacts of products	No			Being a trading company, Kesko produces no products.
EN15	Reclaimable products	No			Kesko participates in recovery systems, but the information referred to by GRI applies to manufacturers.
EN16	Environmental damages	Yes	33	Environmental risks, damage and accidents	In Finland only.
EN34x	Environmental impacts of transportation	Yes	26	Transport emissions	In Finland only.
Social performance indicators					
LA1+LA2	Employment statistics	Yes	19, 35, 36	Job development, Number of employees, Reasons for terminating employment	
LA3+LA4	Labour/management relations, negotiation procedures	Yes	40	Unionisation	
LA5-LA8	Health and safety	Partly	38	Health and safety	Assessment of compliance with ILO procedure guidelines not included. Information of subcontractors' accidents (e.g. construction) not included.
LA9	Training and education	Partly	40	Training	Not specified by personnel group.
LA10+LA11	Diversity and opportunity	Yes	39	Equality	
LA12x	Non-mandatory employee benefits	Yes	38, 39	Salaries and other benefits, Pensions	
HR1-HR7	Human rights	Partly	42	Social quality control of suppliers	Human rights questions are not relevant in Kesko's own operations, but they are discussed concerning suppliers operating in developing countries.
S01	Operations in community	No			No process description of stakeholder co-operation.
S02	Policy on bribery	Partly	48	Attitude to bribes	No comparison with the OECD document included.
S03,S05x	Political contributions	Yes	48	Political relations	
S04x	Awards received	Yes	31, 33	K-Environmental stores, Stakeholder co-operation and communications	
PR1+PR2	Customer health and safety	Yes	46	Product safety	
PR3	Respect for privacy	Yes	47	Privacy protection	
Also:			37	Quality of management	

Definitions of terms

52

The text and graphs contain terms, indicators and abbreviations whose contents are defined below.

Return on invested capital (ROI), % =

$$\frac{\text{profit before extraordinary items + interest and other financial expenses}}{\text{balance sheet total less interest-free debt (average during year)}} \times 100$$

Equity ratio, % =
$$\frac{\text{shareholders' equity + minority interest}}{\text{balance sheet total less advances received}} \times 100$$

Debt to equity ratio, % =
$$\frac{\text{liabilities + provisions}}{\text{balance sheet total less advances received}} \times 100$$

Gearing ratio, % =

$$\frac{\text{interest-bearing liabilities less marketable securities less cash in hand and at bank}}{\text{shareholders' equity + minority interest}} \times 100$$

Market capitalisation = share price x number of shares

GWh = gigawatt hour = a million kilowatt hours (kWh)

1 kWh = 3.6 MJ = 3,600 J (in GRI guidelines the unit for measuring energy is joule or J)

PJ = petajoule = 1,000,000,000,000 joules

CO₂ = carbon dioxide = affects climate change ('greenhouse effect')

CO₂ eq. = carbon dioxide equivalent, the amount of different gases whose combined impact on the greenhouse effect corresponds to the amount of carbon dioxide mentioned

SO₂ = sulphur dioxide equivalent (affects acidification)

C₂H₄ = ethene (affects the ozone content of the lower atmosphere)

CO = carbon monoxide or coal gas

HC = hydro carbons

NO_x = nitrogen oxides

Transbox case = reusable transport case made of plastic

Contact persons in corporate responsibility

The list gives contact information about the persons who primarily provide additional information on different areas of the report. The list does not include all Kesko employees who have participated in editing the report.

Kesko's telephone number from outside Finland is +358 10 5311.

E-mail address = firstname.lastname@kesko.fi

Name	Title	Unit
Responsibility for editing the report		
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Pekka Niva	Store Site Director	Kesko Food Ltd/Retail Services
Antti Mansikka	GIS Planner	Kesko Food Ltd/Retail Services
Jukka Pokki	Investor Relations Manager	Corporate Communications and External Relations
Indicators of environmental responsibility		
Johanna Saarivuo	Real Estate Development Manager	Kesko Real Estate
Timo Jäske	Development Manager	Kesko Food Ltd/Logistics
Marja-Riitta Jarva	Environmental Manager	Kesko Food Ltd/Marketing
Saila Grav	Environmental Specialist, K-environmental stores	Kesko Food Ltd/Marketing
Juha Kortesalmi	Environmental Manager	Anttila Oy
Marja Ola	Environmental Specialist	Rautakesko Ltd/Development
Kirsi Kytö	Project Manager	Kesko Agro Ltd/Development
Toni Tynkkynen	Environmental Specialist	Kesped Ltd
Indicators of social responsibility		
Lea Heikkinen	Development Manager	Human Resources
Mikko Myyryläinen	HR Controller	Human Resources
Saara Halko	Office Supervisor	Pension Insurance and Occupational Health
Social quality control system		
Jouko Kuisma	Senior Advisor, Corporate Responsibility	Corporate Communications and External Relations
Product safety		
Matti Kalervo	Product Research Manager	Kesko Food Ltd/Product Research
Privacy protection		
Tapio Pesonen	Credit Manager, data protection	E-business/K-Luotto Oy
Corporate communications		
Erkki Heikkinen	Senior Vice President	Corporate Communications and External Relations

Assurance statement

Translation from the Finnish original

Statement

On request from the management of Kesko Corporation we have performed an independent assurance of Kesko Corporation's corporate responsibility report 2002. Our scope covered the assessment of the report's information content. Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines 2002 were referred to as one assessment criterion. Composition of the report, including the underlying data, is the responsibility of the management of the Group.

Our engagement consisted of the following assurance areas:

- Assess the level of implementation as regards to Kesko's strategy, vision and management principles in the area of corporate responsibility and the organisation's accordance thereto
- Assess the procedures used to generate and report quantitative information presented in the report in the area of corporate responsibility within Kesko Group.
- Assess the accuracy, completeness and balance of presented information

In Finland our work consisted of interviews with Group's senior management,

including CEO Matti Honkala, and divisional responsible persons about Group's approach to different dimensions of corporate responsibility, used practises, and procedures for data generation. The assessment of the quantitative information was based on the initial numeric data delivered to us, as well as interviews with persons responsible for generating such data. Our assurance work included no interviews or visits at Kesko's foreign divisions.

This is Kesko's third corporate responsibility report and it follows the reporting structure of previous years in due form. It is our understanding that the Group's target is to follow the year 2002 Guidelines of Global Reporting Initiative and during the reporting year the Group has systematically continued to develop both the reporting systems and the completeness of collected data to comply with the GRI requirements. Based on our findings both the completeness and accuracy of data covering Kesko's domestic activities has improved during the reporting year and possible inaccuracies are presented in the report in an appropriate manner. We recommend connecting the functions abroad universally under the

same performance indicators, whereby corporate responsibility reporting would commensurably cover all functions of Kesko Group.

Based on our findings corporate responsibility is an integral part of Kesko Group's business culture. Different organizational levels are well aligned on Kesko's approach to corporate responsibility and there is a common understanding of how responsibility is interpreted within the Group, and its implications to the business. Kesko Group's challenge in the area of corporate responsibility reporting and performance improvement is, however, to enlarge the completeness of target setting and related management plans to cover the entire Group in a consistent manner.

Based on the results of the assurance procedures we believe that in all material aspects the information presented in the Kesko Corporation's corporate responsibility report 2002 provides a balanced representation of the company's performance in the area of corporate responsibility. Furthermore, we believe that this information is presented in an appropriate manner.

Helsinki, 12 May 2003

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pekka Nikula
Authorised Public Accountant

Ulla Rehell
Global Risk Management Solutions

Kesko's corporate responsibility report is available in Finnish and English and can be ordered by mail from Kesko Corporation, Corporate Communications, Satamakatu 3, FIN-00016 Kesko, by e-mail from viestinta@kesko.fi or by phone from +358 1053 22404. You can also order and read the report on Kesko's web site at www.kesko.fi.

The report has been edited by Kesko's Corporate Communications / Jouko Kuisma in co-operation with the environmental team of Mainostoimisto Rauta advertising agency (Tapio Heickell and Anne Soikkeli).

Photos: Jari Härkönen, except for p. 20 Kirill Lorech, p. 21 Heikki Tuuli, and p. 22 and 34 Petri Artturi Asikainen.

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