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Kesco is a registered corporate member of the Global Reporting Initiative (GRI). We support the work of the GRI in developing globally approved recommendations for reporting on sustainable development in cooperation with a broad cross-section of stakeholders.

## Contents of the report

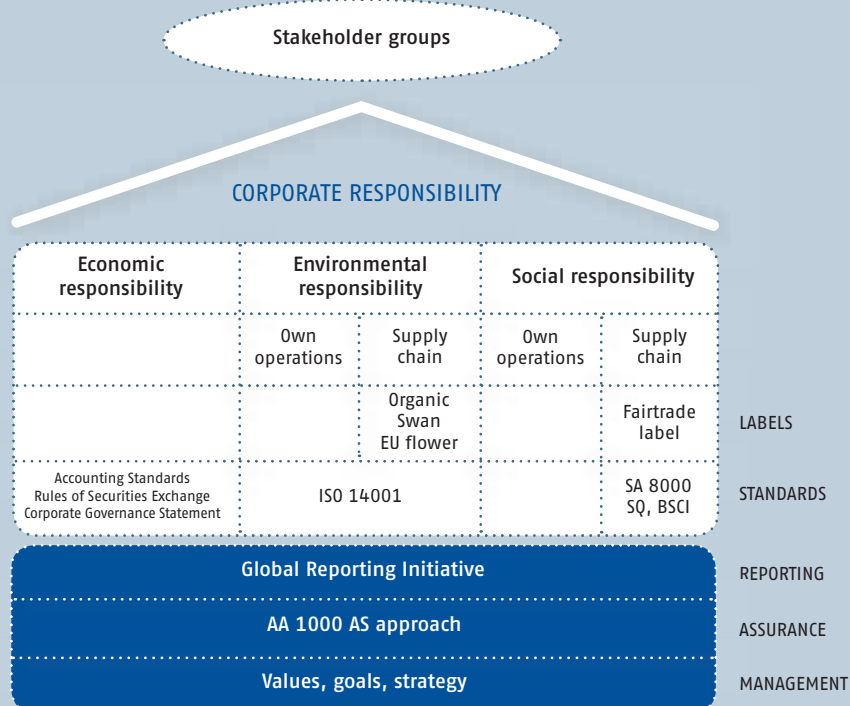
Kesko has been reporting for a decade - first on environmental issues and since 2000 on a wider scope of responsibility. This report is the company's eighth Corporate Responsibility Report. As in the past, this report has been prepared on the basis of the 'Sustainability Guidelines on Economic, Environmental and Social Performance' drawn up by the Global Reporting Initiative (GRI). This year, however, a significant number of case stories illustrating Kesko's practical activities in the area of sustainability have also been included. Traditionally, Kesko's reporting has been very extensive and mainly targeted at a specialised audience. By including these case stories, we aim to present our activities and achievements in a more reader-friendly way and reach a wider audience.

Last year, Kesko organised a materiality workshop to identify the most material issues to be included in the printed report. Based on the feedback, some issues which were annually reported and some tables with data from multiple years are now only available from Kesko's Internet pages at: [www.kesko.fi](http://www.kesko.fi) (responsibility). These changes are denoted in the text.

With regard to the GRI reporting requirements, the report does not follow the order of presentation and headings in the GRI G3 framework in all respects. Any deviations from the GRI guidelines, together with any shortcomings in presenting its core indicators, are noted in the comparison published at the end of the report. Kesko's self-declaration on its reporting level, as required by GRI, is presented on page 92. Our assurance provider csr-network has expressed its opinion on our assessment against the GRI Application Level Criteria in their respective assurance statements.

### Reporting structure

The report first presents some key facts about Kesko followed by a summary of Kesko's key indicators for 2005-2007 as well as an edited version of Kesko's vision of corporate responsibility and related strategy. The full version can be found at: [www.kesko.fi](http://www.kesko.fi) (responsibility). Key risks and opportunities focusing on issues specific to the retailing sector are discussed as is our understanding of future developments. Kesko's stakeholder engagement is followed with a number of case stories illustrating vari-



ous events. The specification of key stakeholder groups, their expectations and Kesko's activities based on those expectations can be found at: [www.kesko.fi](http://www.kesko.fi) (responsibility) as can information on Kesko's key areas of influence.

Corporate governance and the roles of Kesko's Corporate Responsibility Advisory Board, together with steering groups leading our responsibility work are also presented. Our commitments, performance against goals, and our overarching management approach follow, together with our values, policies, principles and management systems guiding corporate responsibility.

This year, 40 of the GRI G3 49 core indicators and 5 additional indicators are included in this report. Detailed information on our performance is presented under the economical, environmental and social sections of the report. A description of other areas of responsibility, such as activities promoting product safety and privacy protection are included. A glossary of the most important terms and a list of key contact persons can be found at the end of this report.

### Reporting on international operations

Kesko follows the principles for reporting boundary and disclosure levels defined in the GRI Boundary Protocol. The coverage of performance indicators of the Group's subsidiaries outside Finland is not complete, however, compared to indicators reported for domestic operations. The first indicators of corporate responsibility for foreign operations were obtained for 2002 and the coverage has been increasing continuously. For the 2007 reporting period we have obtained energy consumption, waste management, and transportation statistics from nearly all companies (apart from Rautakesko's operations in Russia and Belarus). The sale of Kesko Food's 50% shareholding of Rimi Baltic to ICA Baltic was completed on December 18, 2006. In this report, Rimi Baltic's data for 2006 have been excluded from the figures when comparing our performance in 2007 with 2006. Data for 2005 have not been recalculated.

In Finland, electricity consumption data are now available for Indoor Group, which was acquired in 2005.

### Information about K-retailers

Kesko operates in close cooperation with K-retailers, based on chain agreements between the retailers and Kesko. The report presents information on K-stores when this is integrally related to Kesko's reporting and complements the overall picture of the relations between Kesko and K-retailers with society and other stakeholders.

### Stakeholders' viewpoints included

To capture stakeholder views on Kesko's approach and the reporting of corporate responsibility, together with issues defined as material, csrnetwork was commissioned to undertake a stakeholder review as part of the assurance process. The stakeholders interviewed were: the Finnish Consumer Association (member of the consumer panel), the Association for Promoting Fair Trade in Finland and the Ministry of the Environment. A summary of these interviews is on page 16.

### Assurances for online and printed reports

An electronic version of the printed report containing complementary information is available at Kesko's Internet site. Electronic reports are presented on the Internet in the version for which assurance has been provided. Subsequently, texts are not updated. Any changes in information during the year are presented in the report published the following year.

Assurance statements have been given for the printed and electronic versions of the report in Finnish and English since 2002. Like previously, Kesko commissioned two assurance providers for the 2007 reporting period. Csrnetwork (UK) undertook the independent assurance of Kesko's report apart from the economic information which was undertaken by the Sustainable Business Solutions unit of PricewaterhouseCoopers Oy, Kesko's auditors. Both statements are published at the end of the report. The assurance statement provided by csrnetwork refers to the English version of the report; the Finnish translation is provided by Kesko.

This report covers the performance in 2007 with some information for the first two months of 2008. The 2006 report was published in April 2007 and the 2008 report will be published in spring 2009.

## Review by the President and CEO



Kesko's strong performance continued in 2007: the Group's net sales grew by 9% and we reached another record result. After several years of decline, the K-food stores' market share is on the increase again. Our building and home improvement trade also continued its strong international expansion.

The Group strategy emphasises healthy focused growth, sales to consumer-customers and services, combined with responsible and cost-efficient business models. Strong growth and excellent financial results must be achieved by using responsible methods, a course which is increasingly expected of us by our consumer-customers and other stakeholders. The importance of responsibility is also emphasised by trade and industry professionals: according to the Top of Mind survey published by CIES in March 2008, 400 respondents from 52 countries ranked corporate responsibility highest on the list of grocery trade issues for the year ahead.

Kesko has established its position in international comparisons that measure the responsibility of listed companies. In autumn 2007, Kesko participated for the first time in the Carbon Disclosure Project, a project that maps out climate change risks and opportunities. We were ranked fifth in the Carbon Disclosure Leader Index of low carbon intensive Nordic listed companies. We also continue to be included in the World Economic Forum list of the Global 100 Most Sustainable Corporations and, for the fifth time running, were chosen for the list of the Dow Jones sustainable development indexes for 2007/2008. In January 2008, the Swiss evaluation company SAM placed Kesko's responsibility work in the 'silver class' in the food and drug retail sector.

Kesko has a history of nearly 20 years of goal-oriented work for responsibility. Our achievements are many and we are proud of the recognition we have received from independent international specialists and evaluation companies. Kesko and K-stores exist for their customers. We are confident that in the coming years, customers will increasingly favour responsible retailers. I am sure that our brand strategy work, in which accountability plays a central part, will clarify our responsibility image for customers. Our efforts deserve to be noted.

Europe will remember 2007 as the year of climate change. In March, the European Council ratified the objectives of the EU's integrated climate and energy policy.

National targets for increasing the share of renewable energy in end-use consumption were announced in January 2008. The 38% target set for Finland is challenging. As trade is an inherently local service, the maintenance and development of the Finnish trade and service structure necessitate that energy production is guaranteed.

From our part, we want to support a total solution which directs production to the carbon dioxide-free sector; reduce Finland's dependence on imported energy and improve the efficiency of the electricity market. However, any rise in energy costs and overlapping steering methods must be limited, as increasing costs will inevitably reflect in product prices.

For over a decade Kesko has worked on a long-term basis to cut energy consumption and improve energy efficiency. In Finland, our energy consumption proportional to net sales has dropped, and the emissions of electricity purchased by Kesko for the K-Group decreased by some 40% during 2001-2007. At the beginning of 2008, we started buying carbon-free electricity from our biggest supplier. We believe that more advanced technical solutions will make geothermal heat and water potential alternative sources of heat, just like the condensation heat generated by the refrigeration equipment already used in our stores. We actively participate in the pursuit of the EU objective of a low carbon dioxide emission economy.

For us, responsibility is a strategic opportunity: the broad range of our operations enables us to offer responsible consumption alternatives and service solutions to nearly every sector of consumption, and to turn our competences into competitive advantages. Communication with customers as regards corporate communications and marketing are focal areas in responsible operations. Pirkka, our modernised loyal customer magazine, has a monthly readership of 2.61 million or more than 70% of the adult population, which makes it the most widely read magazine in Finland. During its modernisation, customer-oriented responsibility was chosen as the theme to be repeated in each issue. The message we choose carries weight.

Kesko and K-stores employ some 50,000 trading sector professionals in eight countries. Successful growth and international expansion require that a uniform set of responsible operating practices and principles, based on a common solid value basis, are adopted in all of these countries. Competition for good employees also requires that companies show evidence of their values and responsibility. Towards the end of 2007, we published a revised guide, 'Our Responsible Working Principles', which includes the values and principles adopted in the K-Group. The Kesko and K-Group stores have one million customers each day. I am convinced that not only our competencies and service attitude, but also our responsible operating practices will help us exceed our customers' expectations. We exist for our customers.

We will continue our responsibility efforts by preparing an extensive environmental, economic and social responsibility programme in 2008. Our aim is to be a pioneer and trendsetter in corporate responsibility both today and in the future.

MATTI HALMESMÄKI  
President and CEO  
Kesko Corporation

## Our key achievements in 2007

### Economic responsibility:

- The Kesko Group's net sales increased by 9.0% and totalled €9.5 billion
- Kesko's purchases from countries in which it has operations increased by 9.5% and totalled €6.4 billion
- K-retailers' direct purchases from Finnish regions increased by 14% and exceeded the milestone of €0.5 billion
- Salaries paid by Kesko and K-retailers increased by 7.9%
- Kesko was included in the Dow Jones Sustainability Indexes for the fifth time
- Kesko participated in the Carbon Disclosure Project and was ranked fifth in the Carbon Disclosure Leader Index of low carbon intensive Nordic listed companies
- The 'Use your K-Plussa card to put children on the move' campaign organised by Kesko together with the Young Finland Association collected €500,000 to support children's and teenagers' physical exercise and healthy eating habits

### Environmental responsibility:

- During 2001-2007, the CO<sub>2</sub> emissions of electricity purchased by Kesko for the K-Group have decreased by some 40%
- At the beginning of 2008, Kesko started to purchase carbon-free electricity from its biggest electricity supplier
- The relative energy consumption in Finland decreased: The total energy consumption in premises owned or leased by Kesko in Finland increased by 1.7% and their gross area by 3.5%. Kesko's net sales in Finland increased by 6%
- Specific electricity consumption decreased in all of the largest Kesko Food premises
- Total heat consumption in Finland remained unchanged compared to 2006
- The average waste recycling rate in Kesko's Finnish warehousing operations remained at the high level of 89%

### Social responsibility:

- Some 250 people - including senior management and management potential - received training in responsible management
- Employees' job satisfaction improved in all surveyed aspects in Kesko's Finnish companies: one's own job and unit, superior's performance, and Kesko's operations
- Kesko's ranking in the list of ideal employers improved significantly both among commercial students and young professionals

### Responsible purchasing:

- Kesko participates in the Business Social Compliance Initiative, whose importance increased as the organisation reached the milestone of 100 member companies
- The launch of UTZ certified Pirkka Costa Rica increased the sales of Kesko's private coffee labels produced under neutrally monitored certification programmes to over 90%
- The sales of Fairtrade products increased by 300%
- Some 90% of the producers of fruit and vegetables imported by Kesko have the GlobalGAP quality and environmental certificate of good agricultural practice
- Anttila started cooperating with Switcher, a pioneer in ethical and ecological fashion, providing its customers with the opportunity to trace the whole production chain of Switcher clothes from cotton field to the store with the unique 'DNA' code

## Key facts about the Kesko Group

### Kesko's business operations

Kesko is a Finnish retail specialist which provides products and services valued by consumers in the Nordic countries, the Baltic countries, Russia and Belarus. The Group's subsidiary, Kauko-Telko\*, also operates in Poland and China, for example.

Kesko's division parent companies - Kesko Food Ltd, Rautakesko Ltd and Kesko Agro Ltd - manage store chains and combine their purchasing power, arrange efficient logistics, acquire store sites, and guarantee strong marketing and development support for K-stores. Kesko also has its own retail outlets, see [www.kesko.fi](http://www.kesko.fi) (consumers). Kesko's VV-Auto Oy subsidiary imports and markets cars. It is also engaged in car retailing and provides after-sales services in its own outlets in the Greater Helsinki area and in Turku.

The Group's net sales amounted to €9,534 billion in 2007, of which 40.6% were generated in food trade. Net sales outside Finland represented 22.8% of total net sales (20.6% in 2006).

Kesko works in close chain cooperation with the K-retailers in Finland, which numbered 1,285 at the end of 2007. Kesko also had approximately 250 other retailer partners in the Asko, Sotka, Tähti Optikko, Byggmakker and Senukai chains. The K-Group had 1,846 retail stores in Finland and 297 in other countries. Their sales totalled €11.6 billion (€10.5 billion in 2006), of which €2.7 billion were generated outside Finland.

### Kesko's shareholders

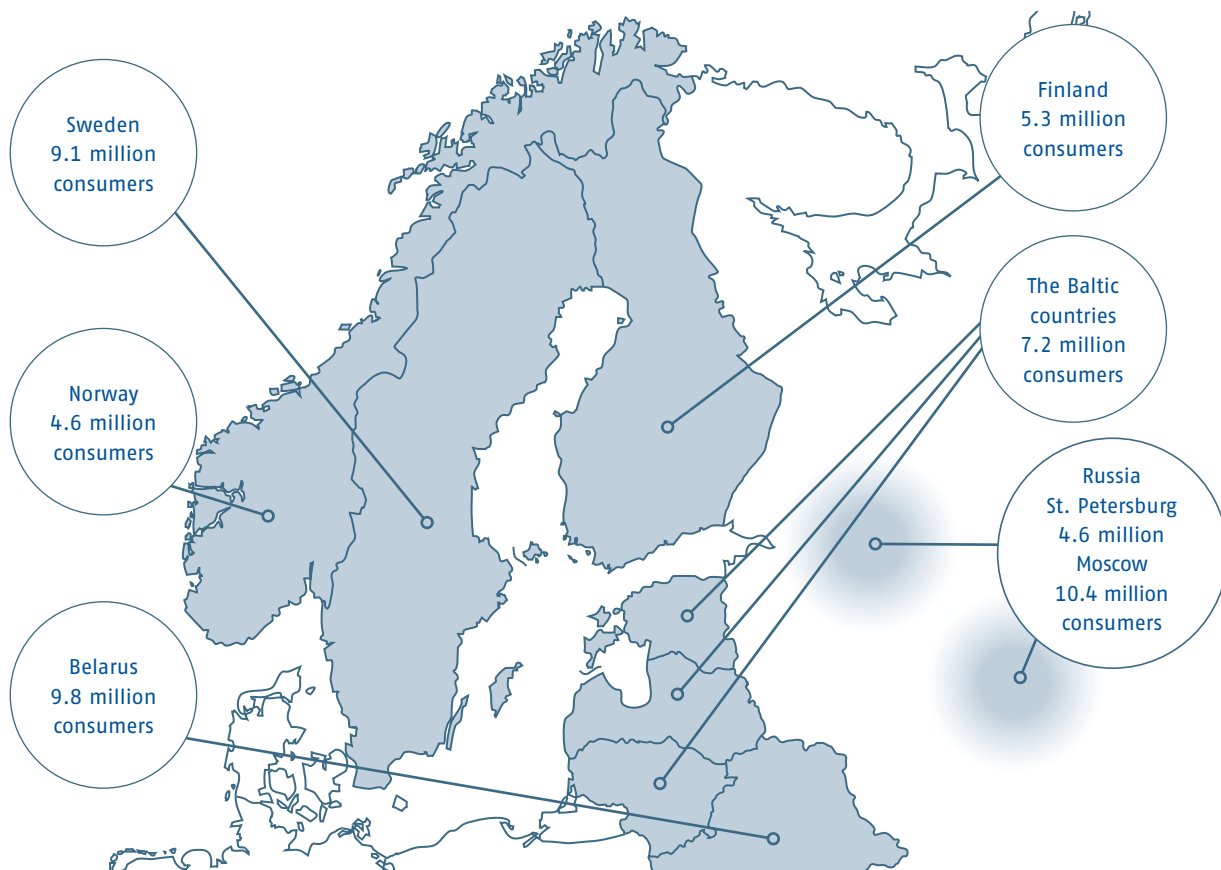
Kesko is a listed company, and had 28,925 shareholders at the end of 2007. Series A shares accounted for 32.5% of the company's total share capital and 83.0% of all votes. The corresponding percentages for B shares were 67.5% and 17.0%. The company's 20 largest shareholders, calculated by number of votes, held 37.31% of all votes and 16.15% of all shares. Shares held by non-Finnish shareholders increased from 33% to 34%, equivalent to 8.8% of all votes.

The market values of A shares was €1.2 billion at the end of 2007 and that of B shares €2.5 billion. Total market capitalisation stood at 3.7 billion.

### Personnel

Converted into full-time employees, the Kesko Group had an average of 21,180 employees in 2007. Compared with 2006, this represented a decrease of 244 in Finland and 2,343 in other countries. The number of personnel mainly decreased as a result of the disposal of the joint venture Rimi Baltic AB in December 2006.

At the end of the year, the total number of employment contracts was 25,890 (23,755), of which 14,192 (14,149) covered personnel in Finland and 11,698 (9,606) in other countries. Approximately three quarters of employees worked in retailing.



Source: Nordea and Statistics Finland

**Real estate**

The Kesko Group owned or leased 3,632,000 m<sup>2</sup> of real estate and premises at the end of 2007, which was 3.6% more than in 2006. Kesko owned 807,000 m<sup>2</sup> in Finland, and 174,000 m<sup>2</sup> in other countries. Square metres reported here represent net floor area. Store premises account for most of this area, with warehouses and offices accounting for less than one fifth. The total floor area of leased premises, consisting mainly of retail stores, was 2,091,000 m<sup>2</sup> in Finland and 560,000 m<sup>2</sup> outside Finland. The majority of store premises owned or leased in Finland are rented to K-retailers.

**Product and service suppliers**

Kesko bought products and services valued at approximately €8,091 billion in 2007.

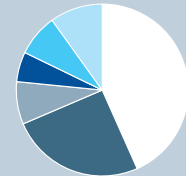
The number of active suppliers totalled about 25,600. Approximately 12,500 of these operate in Finland, accounting for 64.6% of the total purchases, while over 7,600 active suppliers operate in the Group's other operating countries and 5,500 elsewhere. The main countries from which goods were imported into Finland were Germany, China, the Netherlands, France and Sweden.

The most important joint purchasing organisations in which Kesko participates include AMS Sourcing BV in the grocery trade, EuroMat in the building and home improvement trade, Intersport International Corporation in the sports trade, and ElectronicPartner International in the home technology trade.

**Customers**

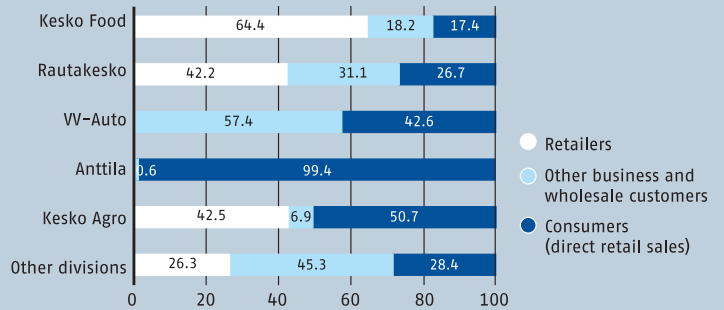
Retailers accounted for 43% of Kesko's sales in 2007. On average, K-retailers made 88% of their total purchases (87.9% in 2006), and 91.2% of their food purchases (90.6% in 2006) from Kesko. B-to-B customers - institutional kitchens, building companies, VV-Auto dealers, agricultural entrepreneurs, manufacturers and others - accounted for 26% of Kesko's sales. Direct sales to consumers through Kesko's own retail stores accounted for 31%.

NET SALES, CONTINUING OPERATIONS 2007



- Kesko Food 40.5%
- Rautakesko 26.5%
- VV-Auto 8.4%
- Anttila 5.9%
- Kesko Agro 8.3%
- Other divisions 10.4%

BREAKDOWN OF KESKO GROUP'S NET SALES IN 2007, %



\* Kesko Corporation and Aspo plc signed an agreement on 28th of February by which Aspo acquires the share capital of Kauko-Telko Ltd, a subsidiary wholly owned by Kesko. The completion of the transaction is subject to the approval of competition authorities.

## Kesko Group's key indicators of corporate responsibility for 2005–2007

### INDICATORS OF ECONOMIC RESPONSIBILITY

	2005	2006	2007
	IFRS	IFRS	IFRS
Net sales, € million	7,922 <sup>1)</sup>	8,749 <sup>1)</sup>	9,534
Profit before taxes, € million	236 <sup>1)</sup>	358 <sup>1)</sup>	369
Return on invested capital, %	12.5	22.6	17.4
Dividends paid, € million	95	107	146
Investments, € million	367 <sup>1)</sup>	251 <sup>1)</sup>	234
Equity ratio, %	42.3	47.0	48.5
Salaries paid, € million	400	460	501
Income tax, € million	49	107	90
Personnel, average	21,305	23,767	21,180
Purchases from suppliers, € million	7,103	7,347	8,091
Support to organisations operating for the public good, € million	2.2	2.3	2.3

<sup>1)</sup> The figure covers continuing operations only.

### INDICATORS OF ENVIRONMENTAL RESPONSIBILITY

	2005 <sup>1)</sup>	2006 <sup>1)</sup>	2007
Use of electrical energy in real estate, GWh <sup>1)</sup>	919	798	825
Use of heat energy in real estate, GWh <sup>1)</sup>	299	309	299
Use of water in real estate, 1,000 m <sup>3</sup> <sup>2)</sup>	650	682	727
Emissions from the production of electrical and heat energy used			
climate change, tn CO <sub>2</sub> eq <sup>1)</sup>	254,367	191,663 <sup>**)</sup>	216,963
acidification, tn SO <sub>2</sub> eq <sup>1)</sup>	1,353	615 <sup>**)</sup>	644
radioactive waste from production of electricity purchased <sup>1)</sup>	0.79	0.66 <sup>**)</sup>	0.65
Distribution transport			
loads <sup>3)</sup>	117,571	115,300	125,200
kilometres, 1,000 km <sup>4)</sup>	16,149	17,020	36,300
tons <sup>3)</sup>	579,800	586,600	644,600
carbon dioxide emissions <sup>5)</sup>	25,360	22,210	41,990
CO <sub>2</sub> emissions from air travel, tn			2,000
Use of materials/waste, tn			
materials in packaging imported to Finland	29,331	30,812	***)
waste in distribution warehouses in Finland	8,916	8,545	8,163
of which for recovery, % <sup>6)</sup>	89.8	89.2	88.6
waste in distribution warehouses in companies outside Finland	18,358	6,802	8,581

<sup>1)</sup> It was impossible to distinguish between the use of electricity and heat in all properties outside Finland. Here, district heat and the heat generated by these properties are included in the heat and all other in electricity.

<sup>2)</sup> Water consumption figures of all properties outside Finland are not available.

<sup>3)</sup> No load and ton statistics are available on foreign transportation or transportation outsourced in Finland. Figure refers to Keslog only.

<sup>4)</sup> The scope of transportation statistics was expanded in 2007. The figure for 2007 covers Keslog's and Anttila's transportation, all outsourced transportation in Finland together with trunk and long distance distribution in Finland. Kilometres are also reported for Rautakesko Latvia and Kesko Agro Estonia.

<sup>5)</sup> The companies included in the calculations during the years 2005–2007 are summarised in the table 'CO<sub>2</sub> emissions in delivery transportation' on p.53. Here figure for 2005 includes Rimi Baltic's emissions.

<sup>6)</sup> Figures include organic waste.

<sup>1)</sup> Data for 2006 does not include Rimi Baltic AB. Data for 2005 has not been corrected to exclude Rimi Baltic AB.

<sup>\*\*)</sup> Environmental profile of energy production has been updated to correspond to the actual production profiles in 2006. A summary of the profile for 2006–2007 is available at [www.kesko.fi](http://www.kesko.fi) (responsibility).

<sup>\*\*\*)</sup> Data has not been collected or is inaccurate.



## INDICATORS OF SOCIAL RESPONSIBILITY

	2005	2006	2007
Job satisfaction in Finland, scale 1-5			
- own job	3.82	3.82	3.85
- superior's performance	3.84	3.81	3.85
- unit's operations	3.78	3.76	3.80
- Kesko's operations	3.58	3.58	3.62
Employee turnover			
- new	8,568	10,790	14,148
- left	7,055	8,050	9,804
- retired	177	140	164
Average age of employees			
- in Finland	x)	35.8	35.1
- in other countries	x)	x)	x)
Sickness absences per person (work days)			
- in Finland	9.7	9.7	9.3
- in other countries	8.0	8.6 *)	7.7
Funds used for health care per person, € <sup>1)</sup>	427	420	484
Average annual salary per person, €			
- in Finland	28,944	29,383	31,589
- in other countries	9,081 **)	13,964	15,219
Training days per person			
- in Finland	1.8	1.5	1.4
- in other countries	1.0	0.5 ***)	0.7 ****)
Spending on training per person, €	370	254 ****)	371 *****)
Responsible purchasing			
- suppliers with SA8000 certification	24	28	16 *****)
- BSCI audited suppliers	2	6	23

<sup>1)</sup> Includes only funds used by Kesko's in-house Occupational Health Service Unit.

\*) Data for Byggnakker (Norway) incomplete.

\*\*\*) Including Rimi Baltic.

\*\*\*\*) Data for Rautakesko AS (Estonia) K-rauta AB (Sweden), and Byggnakker (Norway) unavailable.

\*\*\*\*\*) Data for Byggnakker (Norway) unavailable.

\*\*\*\*\*) Data for Byggnakker (Norway), Senukai (Lithuania) and Rautakesko (Russia) unavailable.

\*\*\*\*\*) Excluding certified Chiquita plantations.

x) Data has not been collected.

The data for OMA in Belarus unavailable

## Vision of corporate responsibility

Corporate responsibility at Kesko is uncompelled, measurable work, based on the corporate values, policies, goals and strategy. Performance in the areas of economic, social and environmental responsibility is enhanced in accordance with the expectations of key stakeholder groups.

The summary of Kesko's vision outlined below has been drawn up from the viewpoint of the Finnish market and was approved in March 2005. The Corporate Management Board assesses Kesko's vision approximately every other year. A revised vision of corporate responsibility highlighting the current market situation and Kesko's rapid internationalisation will be finalised during spring 2008 as part of the Group's strategic cycle. A full version of Kesko's present vision is available at: [www.kesko.fi](http://www.kesko.fi) (responsibility).

### Shareholders/investors

Kesko's general principles for corporate responsibility state that good financial performance must be achieved in a responsible way. Kesko wants to be listed in the major sustainability indexes that are recognised as impartial indicators of responsible performance. Inclusion in such indexes helps reinforce Kesko's standing with existing shareholders and attracts the attention of investors who value responsible corporate behaviour. High scoring also gives us confidence that our responsibility approach is correctly focused and world-class performance of within the retail sector.

### Personnel

Companies that offer good job satisfaction and varied responsibilities and opportunities for career progress are the most likely to succeed in attracting and maintaining the best people. Kesko's reputation as a responsible company is benefiting the company in its recruitment both in Finland and the neighbouring areas.

### Product and service suppliers

Comprehensive networking with suppliers of goods and services and K-retailers means that all the parties involved accept common values, goals and working principles. Kesko's aim is that its approach to responsibility is strongly reflected in the K-Group's consumer brands.

### Consumers

Consumer interest in corporate responsibility is continuing to increase, despite the fact that purchasing decisions are strongly based on price. Responsibility is seen as embracing high-quality products, the maintenance of services, good human resources policies, high standards of environmental protection, a proactive approach to equality, and improving the working conditions of employees in manufacturing operations.

Kesko has a major role in shaping families' healthy way of living and overall quality of life. Offering alternatives for sustainable consumption and a balanced diet, together with educating consumers on these issues is an opportunity for Kesko. We believe product safety, reliability, and ethics will gradually rival price in communications and marketing. Researchers, non-governmental organisations, and the media can be expected to pay increasing attention to investigating any shortcomings in the supply chain, this helping consumers to distinguish between responsible and irresponsible trade.

### Cooperation with the authorities and other organisations

Kesko is actively monitoring and forecasting changes in society in close cooperation with its stakeholders. This is essential for preparing ourselves in emerging issues. We are committed to maintaining continuous contacts and open dialogue with non-governmental organisations, the authorities, and other decision-makers, and having our experts participating in a wide range of national and international organisations in its own sector and in business in general.

## Risks and opportunities

The objective of Kesko's risk management is to ensure: the fulfilment of the Group's customer promises; the improvement of shareholder value; good profit performance; the ability to pay dividends and the continuation of business. Efficient risk management is a competitive advantage for Kesko.

The risk management policy, approved by the Board of Directors, guides risk management in the Kesko Group. This policy is based on the COSO ERM Integrated Framework\* and the OMX Nordic Exchange Helsinki's Corporate Governance Recommendation for Listed Companies.

The policy defines the objectives, principles, organisation, responsibilities and key practices of risk management.

The Group's risk management policy can be visited at: [www.kesko.fi](http://www.kesko.fi) (investors). An edited version of the policy is included in the 'Our Responsible Working Principles' guide which is distributed to all K-Group employees.

Responsible management delivering performance improvement is seen as an opportunity for Kesko. In spring 2007, all senior management together with management potential participated in a one day seminar. The seminar focused on key aspects of Kesko's approach to responsibility, international responsibility trends in the retail sector and responsible management practices.

Promoting a healthy way of life and healthy eating habits is identified as being one of the key opportunities for Kesko Food. A series of lectures by Dietician Hanna Partanen (see p. 20-21) has been planned for Kesko Food retailers' customers in Finland entitled: 'The best choices of the day'. Other examples of Kesko Food's activities, such as the introduction of the GDA (guideline daily amounts) label to the Pirkka range and the reformulation of Pirkka products with respect to their salt, fat and sugar content are discussed on p. 87.

Managing challenges related to climate change, eco-efficient construction and energy saving provide opportunities for Rautakesko. Promoting sustainable living and related service solutions has been identified as being the key opportunity area for Rautakesko. The company will publish a guide with advice and hints on sustainable living in March 2008 (see p. 58).

### Principles of risk management

Risk management is an essential part of management and day-to-day operations. The risk management process generates information on risks and the status of management responses and, if necessary, it leads to remedial actions or the consideration of changes in strategy.

The Kesko Group's risk management system is based on the following principles:

- Conscious and carefully evaluated risks are taken in selecting strategies, e.g. in expanding business operations, enhancing market position and power, and creating new businesses.
- Financial, operational and damage/loss risks are avoided or reduced.
- A safe shopping environment for customers and product safety is ensured.
- A safe working environment is created for employees.
- Information on risks and risk management is provided to the stakeholders.
- Opportunities for unhealthy phenomena, crime or malpractice are minimised through operating principles, controls and supervision.
- The continuity of operations is ensured by safeguarding critical functions and essential resources.
- Crisis management, continuity and disaster recovery plans are prepared should any risk materialise.
- The costs and resources involved in risk management are in proportion to the obtainable benefits.

### Risks and their management

The risk management organisation and the risk mapping process with the reporting responsibilities are discussed under management systems on p. 26. For a detailed discussion on risk management, see pp. 62-65 of Kesko's Annual Report 2007. The Kesko Group's risk analyses have, for example, addressed the following risks and their management in 2007.

#### Delivering the customer promise

The price-quality ratio is a key competitive factor. If Kesko does not succeed in this competition then it will not achieve its sales targets. The general cost development can also endanger the implementation of objectives. Enhancing price competitiveness calls for improvements in the efficiency of operations throughout the supply chain from supplier to shelf. There are several programmes underway to improve cost efficiency and total management of the operations chain, which serve to increase price competitiveness and consumer-customers' satisfaction with the retail stores' offerings and selections.

\* COSO ERM refers to the Enterprise Risk Management (ERM) - Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in September 2004. The framework defines essential ERM components, suggests a common ERM language and provides clear direction and guidance for enterprise risk management.

### Product safety and supply chain quality

Kesko's goal is to provide safe products for its customers. A failure in the quality assurance of the supply chain or in product control may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard. In order to manage this risk, the Product Research Unit controls the quality of products sold by Kesko Food and Anttila, as well as supervises companies that manufacture products for Kesko Food.

The trading sector's self-control practices play a key role in ensuring the quality of foodstuffs and observing the regulations and rules concerning them. The practice of recalling products ensures that defective products are withdrawn from sale quickly. The principles and practice of socially responsible trading secure the ethical quality of products (read more on product safety on p. 84 and on the social quality control of suppliers on pp. 78-79).

### Store sites

Store sites are a strategic competitive factor. Considerable amounts of capital are tied up in store properties for decades. Local competitive situations can quickly change with the risk that operations become unprofitable. The risk is managed by long-term planning of the store network; by careful preparation of each store site investment decision and by applying a sell-lease back approach. When planning construction, Kesko aims to ensure that each store site can be flexibly changed should the need arise. Kesko's core and shell construction model and the LCA-based approach on construction and maintenance are discussed on p. 47.

Contracts made on leased properties also take flexibility into account. The acquisition of new store sites can be delayed by the shortage of sites, town planning and permit practices as well as by the price trends and construction. Different countries also have their specific features. Online sales are growing which affects the store network. Success in e-commerce requires a completely new kind of business expertise, logistics and information security solutions.

### Suppliers and distribution channels

In business divisions that are strongly dependent on individual principals, changes in a principal's or supplier's strategy concerning product selection, pricing and distribution channel solutions can mean a reduction in competitiveness or sales or loss of business. Good market shares, growing sales and the development of operations create a basis for long-term cooperation.

### Shrinkage

The retail trade involves a high risk of shrinkage. Shrinkage can result, for example, from spoilage, breakage, theft or other malpractice, and unsuccessful purchasing. The most important loss prevention activities include the uniform measuring and monitoring of shrinkage, and the consequent development and introduction of new management methods. Loss resulting from unsuccessful purchasing is managed by surveying customer needs, planning selections carefully and monitoring. Waste statistics and especially biowaste statistics provide, for exam-

ple, reliable information on how well we have succeeded in managing various root-causes behind shrinkage (read more on p. 54).

### Internationalisation

Internationalisation aims at growth either through business acquisitions or expanding the existing store network. Success in international growth requires the careful planning of acquisitions and expansion projects, resources and risk management. Challenges include different cultures, local business practices, authorities' actions and fast-changing operating environments. Finnish retail trade operating processes and control practices cannot always be introduced as such outside Finland. The efficient steering of operations and the achievement of synergy benefits require the implementation of common practices and information systems across country and organisational boundaries.

### Personnel

Competition for skilled employees has intensified in the labour market. Recruiting competent employees and retaining their commitment is challenging particularly in the Baltic countries and Russia. This is reflected in the relatively high turnover ratios of the Group's operations in these countries (see p. 65).

There is also the risk that the trading sector will not attract the most skilled people. Specialisation increases dependence on the competence of individuals. Implementing strategies, for example, requires competent and motivated personnel. In updating strategies, the competencies required to implement the strategy are identified, and personnel plans are drawn up on that basis. Job satisfaction surveys play a central role in developing management and leadership. Kesko's employer image is redefined by systematic internal and external communications and shareholder cooperation.

Human resources management at Kesko is discussed on pp. 63-70.

### Continuity of operations and information security

The trading sector is characterised by long and complicated supply chains and their dependency on information systems, telecommunications and external service providers. Disturbances in the supply chain can cause major losses in sales and profit. These problems may be passed on to the customer - a lack of products in the store or it is closed. Kesko has continuity management projects underway which aim to secure undisturbed critical operations and sufficiently fast recovery after a serious disturbance.

The importance of information in business operations is increasing all the time. The requirements of stakeholders and the legislation to safeguard the handling of information in case of accidents and misuse have grown. Confidentiality of customer and employee information is protected with up-to-date information security solutions. Appropriate guidelines are also of key importance for keeping business secrets confidential. Critical transactions, such as payments, are protected with job descriptions, acceptance limits, access rights and system controls.

**Legislation, agreements and Kesko's Code of Conduct**

Compliance with legislation, regulations, agreements and Kesko's Code of Conduct is an important basic value. Non-compliance may result in fines, compensation for damages and other financial losses, and a loss of confidence or reputation. The Group has specific Compliance programmes to avoid this. Self-assessments are made in matters concerning competition legislation.

Contractual risks are managed by harmonising agreements and agreement-making processes. An essential issue in the chain agreements between Kesko and the retailers is finding solutions for the high-quality delivery of customer promise and commitment to the chain business. The efficient steering of chain operations is, to some extent, complicated by interpretations of competition legislation.

Kesko has specified its guidelines concerning responsible working principles and has commenced discussions between managers and other employees on the key contents of the guide (see pp. 25-26).

The goal of Kesko's corporate communications is to produce and publish reliable information at the right time. A piece of information published by Kesko that proves to be wrong or a release failing to meet regulations may result in investors and other stakeholder groups losing confidence, and the possibility of the Group incurring sanctions. Further pressure is put on the accuracy of financial information by the tightening of information disclosure schedules and the dependence on information systems. These risks are minimised by careful scheduling and control of the process, and by ensuring proper resources and sufficient competence.

**Other risks**

Damage, accidents and crimes are prevented with uniform practices and cost-efficient safety precautions. Financial losses and interruptions in operations are covered with Group-wide and appropriate insurance, which is revised on a regular basis.

**Financial risks**

With respect to financial risks, the Group observes a uniform financial policy that has been approved by Kesko's Board of Directors. The Corporate Treasury unit is responsible centrally for Group funding, liquidity management, relations with providers of finance, and the management of financial risks. Financial risks include currency, interest rate, liquidity, credit and commodity risks. Further information is available in Note 44 on p. 120 of Kesko's Annual Report 2007.

## Stakeholder engagement

Kesko's vision of corporate responsibility has been considered from the standpoint of a variety of stakeholders. The diverse nature of Kesko's operations means that the Group has a large number of stakeholder groups, all of which have their own priorities - some that may be mutually contradictory. To enable stakeholder groups to feel that Kesko meets their expectations and for Kesko to benefit from cooperation in developing its operations, Kesko and its stakeholders need to interact on a regular, systematic and measurable basis.

### Stakeholder process

A stakeholder analysis forms part of the annual planning section of Kesko's management system, and is an essential element of quality assessment and part of risk analysis. The Corporate Responsibility Team has prepared a stakeholder process description (see below) to facilitate the structuring and planning of cooperation in this area. Measuring, documenting, and reporting results achieved in stakeholder interaction is a challenging task, and one where much still remains to be done.

A detailed analysis of stakeholder groups' expectations concerning Kesko's responsibility, its activities to meet them, and the indicators used to assess the Group's performance is available at: [www.kesko.fi](http://www.kesko.fi) (responsibility). This report concentrates on stakeholder activities in

2007, case stories (see pp. 18-21) and some examples of stakeholder opinions on Kesko's sustainability work. The interviews were conducted by csrnetwork, Kesko's assurance provider; the interviewees have given their consent for publication.

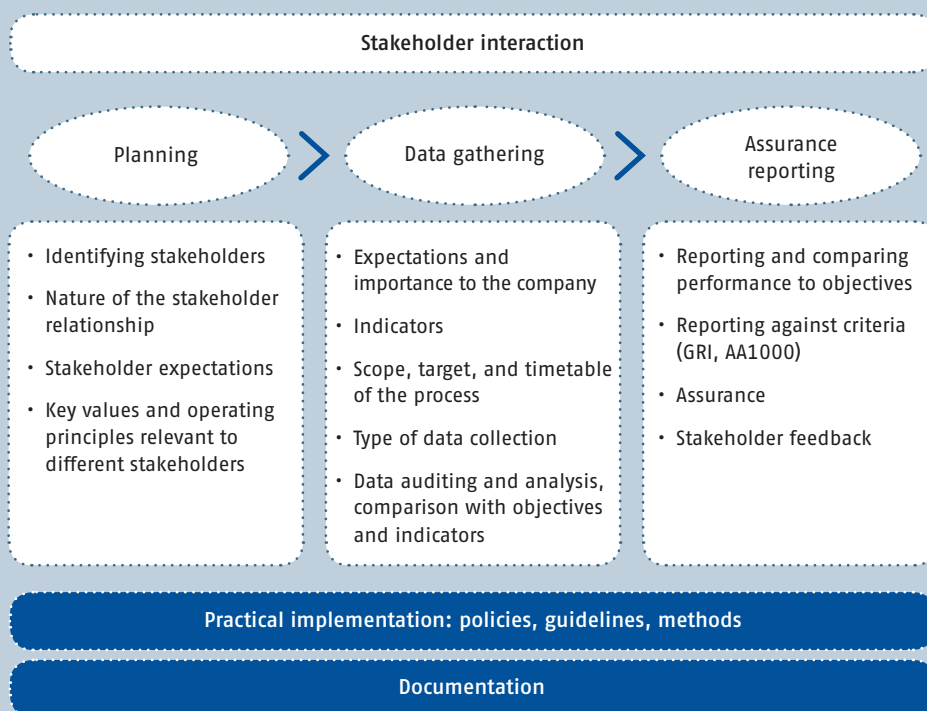
Kesko's participation in national and international organisations is also presented at [www.kesko.fi](http://www.kesko.fi) (responsibility). Kesko ensures that participation in these activities to develop the trading sector and the economy as a whole forms part of its approach to corporate responsibility. Kesko has been involved in these types of efforts for decades.

### Measuring stakeholder perceptions of Kesko

Kesko evaluates how it is perceived by its various stakeholders annually using a specially developed 'reputation radar' toolbox. This measures the current state of Kesko's reputation among different stakeholder groups, its weaknesses and strengths, and how different corporate image factors shape Kesko's profile.

The most recent study was carried out in November 2007, and involved 63 decision-makers, 588 potential employees, 35 journalists, 514 private investors, and 12 professional investors. Consumers, K-retailers, and Kesko personnel were also interviewed. A total of 19 indicators were used.

#### KESKO'S STAKEHOLDER PROCESS



Compared to the result for 2006, the average index rose from 54.25 points to 56.25. The perceptions of political and community decision-makers, professional investors, and financial journalists all showed significant improvements. The views of potential employees, in contrast, were less positive than in 2006. Kesko enjoys its strongest reputation among K-retailers. See graph below.

Political and community decision-makers saw Kesko's social responsibility, responsible approach to business, and emphasis on the environment as particular strengths. Other stakeholders emphasised Kesko's customer orientation, high-quality services, professionalism, and comprehensive store network as strong factors. Introducing greater dynamism into operations and putting more emphasis on Kesko's responsibility towards its employees were seen as areas that could benefit from further development.

### Giving customers a voice

As customers are seen as one of Kesko's key stakeholders, customer satisfaction with the Group's performance is systematically measured. Kesko's major retail chains set annual quantitative customer satisfaction targets based on levels obtained through external surveys conducted by professional research companies. Customer satisfaction with the K-Plus loyalty programme is measured once a year. Mystery shopping is also used to measure store-level

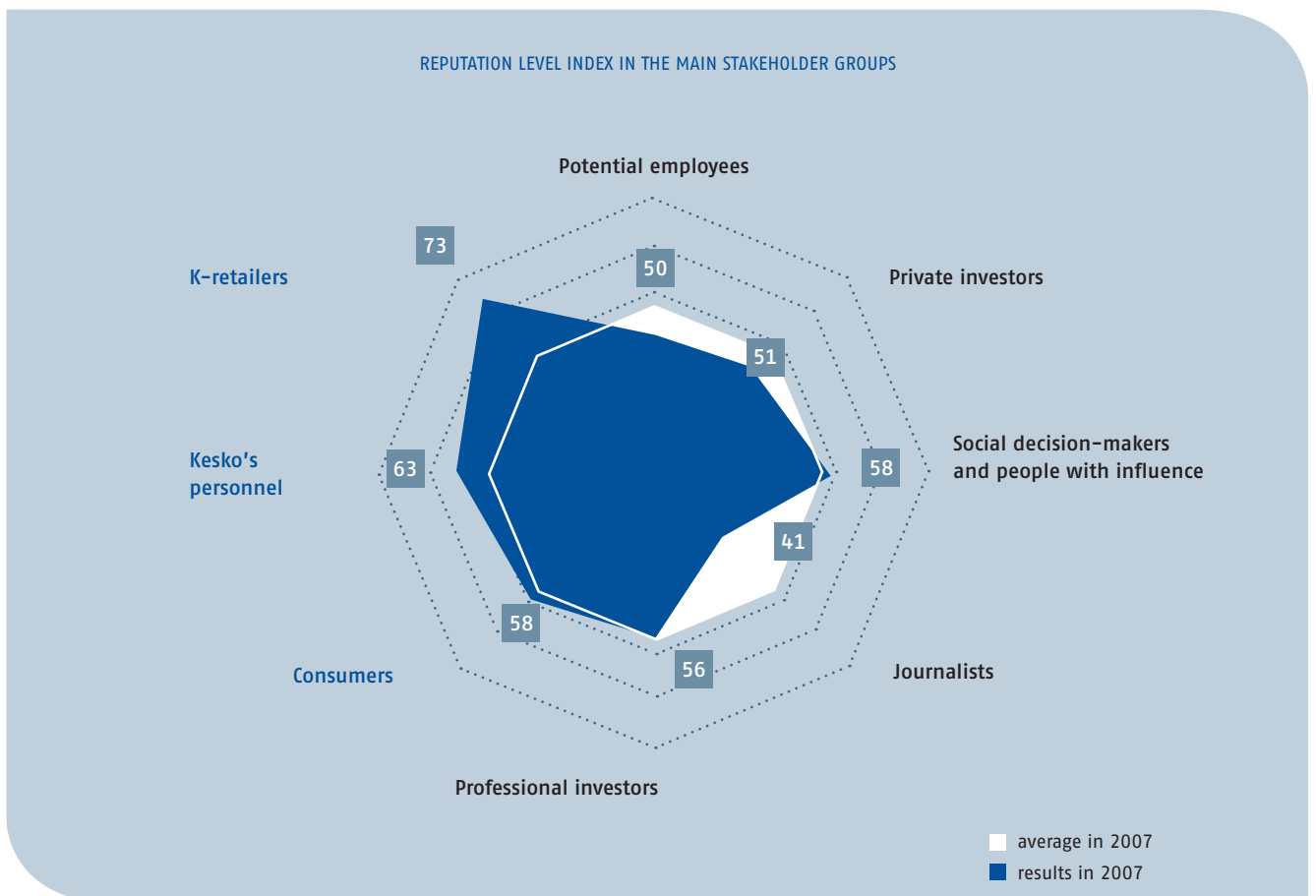
performance and customer service. Subsidiaries have direct lines for customer feedback and comments and requests can be forwarded to the Kesko Group by emailing the Corporate Communications and Responsibility Unit. All feedback is answered and Kesko follows a two hour rule in responding to media requests. Issues raising specific customer concerns, such as the alleged use of child labour, are publicly discussed on the Group's Internet site.

A case story of how customers' opinions are systematically taken into account when building a new K-food store is presented on p. 19.

### Kesko plays a key role in providing information

As a major retailer, Kesko recognises its key role in facilitating sustainable production and consumption by offering sustainable alternatives. At the same time, however, Kesko is faced by the fact that sustainability is often not the key driver behind the purchasing decision of the average customer. Nevertheless, Kesko continues to strive to offer more sustainable alternatives in a number of product groups. Here the engagement both with the scientific community and various environmental and other NGOs is a vital driver for innovation and shared understanding.

Kesko's representatives took an active part in the public discussion on sustainability topics by participating,



for example, in two national phone-in radio shows. Each broadcast reached an audience of some 250,000 people.

From August to December, Kesko sponsored a bi-weekly environmental news programme - 'Environmental Point' - as part of the 'Good Morning Finland' TV programme. The themes covered elements of living a more sustainable way of life - and gave simple ideas of how people can help to this end. The themes and content of each programme were discussed with Kesko's specialists in sustainability (see case on p. 60).

Promoting a healthy way of life is central to Kesko Food's responsibility work. A similar TV programme on healthy eating habits - 'What shall we eat today?' - was launched in September 2007 as part of the 'Good Morning Finland' TV-programme. The programme presented nutritionally balanced recipes using Pirkka house label products. Read more on p. 19.

Together with the dietician Hanna Partanen - a well-known promoter of a healthy diet in Finland - Kesko Food initiated a series of lectures for K-food retailers' customers entitled 'The Best Choices of the Day'. Partanen is mostly concerned with the possibilities children have to eat healthily, as they are fully dependant on their parent's purchasing behaviour. There will be about 100 such events throughout Finland (see case on p. 20).

### Sustainability gains wide stakeholder interest

Sustainability related issues obtained wide media coverage in autumn 2007. Responsible purchasing principles, together with product safety, were especially under scrutiny. The Finnish members of Greenpeace visited hardware stores in 18 towns - including Rautakesko stores - and red-tagged all flooring materials of rainforest origin. Some 90% of Rautakesko's flooring materials is of northern origin; the proportion of such materials where the upper layer is of tropical origin is some 7%. Together with its supplier Karelia-Upofloor Oy, Rautakesko is actively developing alternatives to the use of tropical wood. These alternative flooring materials have achieved customer acceptance and their sales are already today twice the sales of flooring materials with a tropical upper layer.

Associations such as WWF Finland and Greenpeace have paid a great deal of attention to and promoted public discussion on the use of palm oil both in the food industry, and more so in biofuel production, especially since the ambitious EU reduction target of 20% in greenhouse gas emissions and 10% biofuels target by 2020 became public. Kesko participated in a survey on the use of palm oil in the food industry organised by WWF in October 2007. Presently, suppliers producing Kesko's house label products are not obliged to use sustainable palm oil in their production; however, the manufacturer of pure palm oil which Kesko Food sells to hotels and restaurants follows the principles of Roundtable on Sustainable Palm Oil (RSPO).

Kesko is participating in the Fennovoima project aiming at building a new nuclear power plant in Finland. Fennovoima is a joint project of tens of local Finnish energy and service companies. Kesko wants to support a total solution which directs production towards a carbon dioxide-free sector thus reducing Finland's dependency on imported energy and at the same time improving the efficiency of the electricity market. Once the Fennovoima project is past the preliminary survey stage, the Council of State and Parliament will make a decision on the construction permit. If accepted, the power plant would be operational at the earliest in 2016. In November, the Finnish nature association Luonto-Liitto presented Kesko with a 'Hedgehog Spine' to voice its opposition of Kesko's participation in the Fennovoima project.

In November, the Finnish media addressed suspicions of the use of child labour in the sub-supplier chain of the Estonian textile factory Krenholm, which manufactures about 20% of Anno sheets and terry products and slightly over 10% of curtain fabrics in Anttila's selection. Suspicions concerned cotton from Uzbekistan, which had accounted for 8% of all cotton bought by the factory. According to the certificates received from the sub-suppliers, there was no child labour involved with the cotton bought by the factory. However, cotton imports from Uzbekistan were terminated by Krenholm.

When suspicions of the use of child labour are expressed publicly, it is of primary importance to establish the facts with the supplier and its sub-supplier chain first. If accusations are proven to be true, the next recommended step is to join forces to prepare an action plan to ensure school attendance and a livelihood for the family. The objective is to prevent a situation whereby a sudden end of child labour would worsen the family's situation.

Kesko is a member of the Business Social Compliance Initiative (BSCI) of European retail chains, which promotes the independent social audits of suppliers. The basis of the international policies, the BSCI system and Kesko is the interest of the child and the premise that a solution is sought to the problems. In this case, Kesko did not make a decision to stop cooperation with the supplier immediately or to make product recalls, as neither of these actions would have been based on facts or solved the alleged problems in the sub-supplier chain in any way. Instead, Kesko has been promoting the use of the BSCI auditing model by the supplier; the supplier's Finnish agent participated in BSCI training organised by Kesko in January 2008. Krenholm has also published its code of conduct for ethical purchasing.

Both the Fennovoima project and responsibility in Kesko's purchasing chain are discussed at: [www.kesko.fi](http://www.kesko.fi) (responsibility).

In February 2008, Finnwatch published a survey on the responsibility of Finnish companies in the sports business. Kesko participated in this survey and was acknowledged for its open and detailed response together with the transparency of its web pages on the subject.



### Listening to stakeholder viewpoints

As part of the Corporate Responsibility Report assurance process, Kesko commissioned its assurance provider csr-network to undertake a review of stakeholders' viewpoints. Seven stakeholders were invited to the process and three agreed to participate. The stakeholders interviewed were: the Finnish Consumer Association (member of the consumer panel), the Association for Promoting Fair Trade in Finland (managing director) and the Ministry of the Environment (senior advisor). The phone interviews were based on an agreed set of questions addressing Kesko's approach and reporting on corporate responsibility including issues defined as material in the matrix on page 22.

Kesko was seen as responsive and proactive in initiating discussion and engaging in debate on emerging issues by the interviewees. Participation in various research projects was also acknowledged. Annual Corporate Responsibility reporting was regarded as a thorough and detailed way of communicating performance. However, it was noted that the majority of consumers may not be familiar with Kesko's reporting, which presents the opportunity - and also the need - to increase consumer awareness of Kesko's sustainability work through direct communication in stores, magazines and its own brand packaging. Even simple 'read more' advice to visit Kesko's Internet pages could work. Communication is also needed to increase customer knowledge - to make them aware that their choices have an impact. Making sustainable alternatives more visible at store level and encouraging ethical consumer choices was seen as a development area for Kesko. Consumer behavior could be steered by marketing campaigns and by granting Plussa points to K-Plussa loyalty cardholders for more sustainable choices.

Other issues raised by the interviewees included Kesko's role in sustainable community planning, especially how store locations are chosen and how this can affect the traffic. For more on Kesko's activities see p. 57.

Also mentioned was a wish to see Kesko take a more robust lifecycle approach regarding products and energy choices, and to publish clear targets for energy savings and using renewable energy sources. Read more of Kesko's targets on p.27.

## Case



### WORKSHOPS TO EVALUATE THE BEST CRITERIA FOR RESPONSIBLE FOODSTUFFS

A growing number of Finns are becoming interested in responsibly produced food. Strengthening responsible ways of working in the food production chain is also one of the focal areas of the Finnish food industry's quality strategy. What people mean by responsible production or responsible foodstuffs, however, tends to vary, depending on whether the stakeholders concerned emphasise environmental, economic, or social aspects.

Kesko is part of a three-year project coordinated by MTT Agrifood Research Finland and Finland's National Consumer Research Centre aimed at producing a set of commonly agreed criteria for responsible food manufacturing in collaboration with representatives from the food industry, consumers, other stakeholders, and experts in the field. The aim is also to see how responsibility can be incorporated as part of food product brands. The project is part of Finland's environmental cluster research programme and is being funded by research institutes, companies, and the Ministry of Agriculture and Forestry. In addition to Kesko, four other Finnish companies are involved. Two Pirkka products are being studied as part of the project: Pirkka margarine (60% fat content) and Pirkka light margarine (25% fat content), produced in Finland and Poland.

Dialogue-based stakeholder workshops have been given a central role in the project to generate data and exchange views. Researchers are responsible for producing a broad-based background information pack on each of the example products studied, covering every stage of the production chain in terms of economic, social, and environmental responsibility, and also the raw materials used. The first workshop was arranged in September 2007, and the second is planned for spring 2008. A total of 31 people attended the autumn workshop: consumers and representatives of companies, administration, research and various organisations. The workshop looked at the relative responsibility of the two Pirkka margarines from the perspective of their raw materials, production and the overall responsibility of the entire Pirkka margarine chain. Discussion emphasised the importance of satisfied customers, product safety, health, product traceability, environmental impact, and the long-term nature of operations. The role of packaging in providing consumers with information was also discussed.

The minutes of the workshop can be read in full in Finnish at [www.ktkblog.kuluttajatutkimus.fi](http://www.ktkblog.kuluttajatutkimus.fi) (vastuu). A blog allows people to discuss the issues raised and put forward their own views. Experts contribute to the debate through monthly columns.

### TASTY IDEAS ON OFFER AS PART OF THE 'WHAT SHALL WE EAT TODAY?' INITIATIVE

The 'What Shall We Eat Today?' initiative run by K-food stores is designed to offer consumers new food ideas and helpful hints for the kitchen.

A free weekly newsheet available at K-food stores – K-RuokaPirkka – features recipes planned and tested at Kesko Food's own K-test kitchen. All of these are also included in the online library at [www.pirkka.fi](http://www.pirkka.fi), which currently has over 3,000 recipes.

Kesko Food launched an additional initiative with the MTV3 television channel at the beginning of September, with a spot on weekdays at 5.55 p.m. based on the recipes in K-RuokaPirkka, repeated the following morning. Each three-minute spot, hosted by chef Aki Wahlman, profiles one of the week's recipes.

The two airings of each spot have attracted an average of over 400,000 viewers, and the spots can also be downloaded from the Internet ([www.mtv3.fi/mitatanaan-syotaisiin](http://www.mtv3.fi/mitatanaan-syotaisiin) and [www.pirkka.fi](http://www.pirkka.fi)), together with the recipe of the day and an accompanying shopping list. The popularity of the download service grew rapidly during the autumn, reaching over 20,000 downloads a week by the end of the year.



### WORKING WITH LOCAL RESIDENTS TO GIVE THEM THE BEST STORE FOR THEIR NEEDS

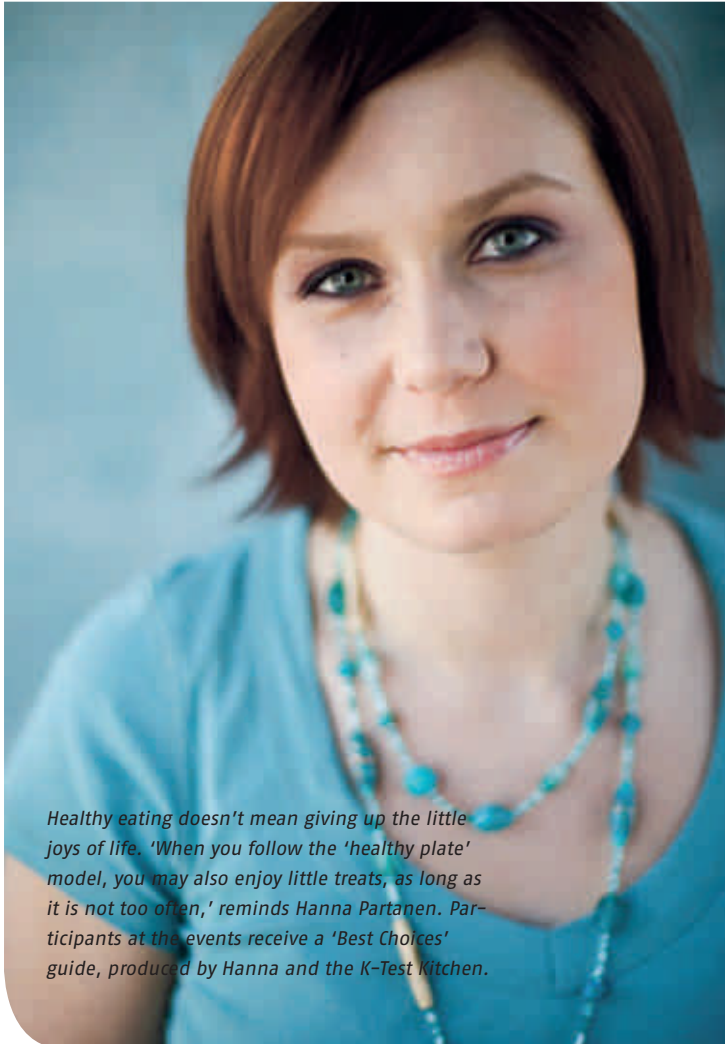
A new-generation K-market was opened in Vuosaari in eastern Helsinki in December 2007, planned in cooperation with local residents. Johanna Alastalo, the retailer who would run the store, contacted the local residents association during the planning process to learn what residents wanted. A joint event was arranged with the local Aurinkolahti-Seura association to exchange views and ideas. Prior to the opening, Alastalo invited the association's members to see the store; in return, she visited the association. The product range at K-market Aurinkolahti was supplemented with items popular locally to ensure that it would have the best potential to meet local expectations. Services that have proved popular with other local stores – such as home delivery, fresh-baked pizzas, a salad bar, an ATM, and a glass recycling point – are also on offer at the store.

'The strength of a small local store is that you can get to know the locals quickly and can respond to their needs and expectations flexibly,' says Johanna Alastalo.

*Mauno Pihlaja, the Chairman of the Aurinkolahti-Seura association, and Johanna Alastalo both believe in the importance of local stores. 'Having a local store is particularly important for the elderly,' says Pihlaja.*



## Case



*Healthy eating doesn't mean giving up the little joys of life. 'When you follow the 'healthy plate' model, you may also enjoy little treats, as long as it is not too often,' reminds Hanna Partanen. Participants at the events receive a 'Best Choices' guide, produced by Hanna and the K-Test Kitchen.*



### REGIONAL DECISION-MAKERS MEET AT KESKO DAY

Kesko Day is an annual event arranged across Finland designed to give regional decision-makers the opportunity to discuss topical issues facing the local community and retailing.

Kesko Day seminars were held at five locations in 2007. Those in Turku, Tampere, and Kuopio were held in the local city theatre and participants had the chance to see a play as part of the programme, something that proved particularly popular. The events in Lahti and Rovaniemi were somewhat smaller. In all, 1,700 people took part in the events.

President and CEO Matti Halmesmäki gave a keynote address at all the seminars, highlighting the 60-year history of the K-sign. The President and CEO and District Directors handed out five €500 scholarships to local polytechnic students at all five locations. Recipients were selected on the basis of their academic success and their contribution to the student community.



### ENCOURAGING FAMILIES TO MAKE BETTER FOOD CHOICES

The number of overweight children in Finland has tripled in the last 30 years. Studies show that most eating habits and food choices learned in the home are transferred to the next generation.

K-food stores are committed to promoting healthier eating, and are organising 100 customer lectures around Finland on the subject between autumn 2007 and spring 2008. These feature lectures by the dietician Hanna Partanen and tips to customers on the best ways to plan meals for children and teenagers and ensure that they eat healthily.

The first 90-minute event in the series was held in Espoo on September 14 for customers of K-supermarket Seilori. By February 2008, some 7,800 customers had attended the lecture on healthy food solutions in 65 events around the country.

#### HANNA'S TIPS TO HEALTHY EATING:

500 grams of vegetables per day  
fish twice a week  
6 dl of low-fat milk / sour milk per day  
6-9 slices of bread  
oil-based salad dressing  
soft margarine on bread  
the plate model

### KESKO BUYS LOCALLY

Kesko strengthened its district operations in Finland during 2007, dividing the country into nine districts: Greater Helsinki, Uusimaa, Southeastern Finland, Southwestern Finland, Pirkanmaa, Finnish Lakeland, Eastern Finland, Ostrobothnia, and Northern Finland.

At the beginning of 2008, Merja Haverinen took over as District Director for Finnish Lakeland, which consists of the regions of Central Finland and Southern Savo. She emphasises the importance of the well-being and success of the surrounding regions for Kesko.

'A dynamic business community and a broad service base help maintain regional vitality and attract new residents and companies.'

The ability of K-retailers to adapt their offering to local demand and needs is a particular K-Group strength on the Finnish retail arena, she says.

'Buying from local producers and suppliers is part of Kesko's social responsibility. When products are sourced locally, it's easier to know where they come from, and provides employment for local people as well.'

Purchases by Kesko and K-stores from local suppliers in Central Finland and Southern Savo totalled some €166 million in 2007. The district is home to 147 K-Group stores, which employ approximately 1,825 people in all. Investments by Kesko and K-retailers in the district in 2007 totalled €12.9 million. Kesko has a number of major retail projects under way or on the drawing board across the district, too.



'The cooperation between different operators is important to the regions', District Director Merja Haverinen says.



## Determining materiality

Kesko's materiality matrix (presented in the table below) was created based on the outcomes of an internal workshop held in 2006. The workshop comprised representatives of Human Resources; Corporate Communications; the Kesko Pension Fund; Real Estate Maintenance; Corporate Responsibility; divisional environmental specialists and a Purchasing Director from Kesko Food.

In the matrix, corporate responsibility issues are rated on a qualitative scale (very high, high, medium, low) in terms of their perceived current and potential impact on the company and level of concern to its stakeholders.

Each rating category is based on specific criteria. The criteria for determining the level of impact on the company includes financial impact, impact on brand and reputation, legal non-compliance and fines, as well as the impact on operations. The criteria for determining the level of concern to stakeholders takes into account the impact on society or the environment; stakeholder priorities; relation to the company's activities; potential non-compliance with company policies and commitments, as well as the impact on stakeholders' judgments on the company's sustainability performance.

During 2007, Kesko gained information on consumers' views on the materiality of different corporate responsibility issues in workshops organised by Finland's National Consumer Research Centre and MTT Agrifood Research Finland. The workshops were related to a three-year project aimed at producing a set of commonly agreed criteria for responsible food manufacturing. In 2008, workshops for academic researchers, consumers, NGOs and the authorities will be arranged as described in the case on p. 18.

As part of the Corporate Responsibility Report assurance process, Kesko commissioned its assurance provider csrnetwork to undertake a review of its stakeholders' viewpoints (see p. 17). In the survey, the interviewees were asked to analyse the materiality of different corporate responsibility issues for Kesko. However, the scope of the survey was too narrow to allow Kesko to use its results to systematically review the materiality matrix.

Level of concern to stakeholders	very high		<ul style="list-style-type: none"> <li>• Social quality control of suppliers</li> <li>• Share performance</li> </ul>	<ul style="list-style-type: none"> <li>• Source of energy supply (climate change)</li> <li>• Product safety</li> <li>• Combatting bribery</li> </ul>	
	high	<ul style="list-style-type: none"> <li>• Transportation and return logistics</li> <li>• Promoting development and communication of green+ethical products</li> <li>• Job development</li> <li>• Financial benefits to suppliers</li> <li>• Protecting privacy</li> </ul>	<ul style="list-style-type: none"> <li>• Employment/employee satisfaction</li> <li>• Employee wellbeing</li> <li>• Consistent sustainability standards</li> <li>• EMS = environmental management systems</li> <li>• Energy and water consumption</li> <li>• CO<sub>2</sub> emissions</li> <li>• Waste (stores)</li> <li>• Use of raw materials</li> <li>• Financial benefit to retailers and other service providers</li> <li>• Security (emerging markets)</li> </ul>	<ul style="list-style-type: none"> <li>• Impacts of construction and structural safety</li> <li>• (environmental) risks, damages and incidents</li> <li>• Supplier selection</li> </ul>	
	medium	<ul style="list-style-type: none"> <li>• Employee safety</li> <li>• Part-time working</li> <li>• Equal opportunities</li> <li>• Waste management (warehouse)</li> <li>• Packaging</li> <li>• Investments in the store network</li> <li>• Pensions (emerging markets)</li> <li>• Support for public good</li> <li>• Security (Scandinavia)</li> </ul>	<ul style="list-style-type: none"> <li>• Talent attraction and retention</li> <li>• Promoting sustainable products &amp; consumption</li> <li>• National health</li> <li>• Maintenance of buildings</li> <li>• Soil contamination</li> <li>• K-environmental stores</li> <li>• Recognition as CR leader</li> <li>• Political relations</li> </ul>		
	low	<ul style="list-style-type: none"> <li>• EMS in office premises</li> <li>• Pension (Finland and Scandinavia)</li> </ul>			
		low	medium	high	very high
<b>Current or potential impact on the company</b>					

## Governance

Kesko Corporation's Annual General Meeting elected seven members, including one woman, to the company's Board of Directors on 27 March 2006. Their three-year term, as prescribed in the Articles of Association, started on 27 March 2006 and will expire at the close of the 2009 Annual General Meeting. The term deviates from the recommended one-year term of office. Four members are independent of the company; three are dependent on the company and are all K-retailers with a chain agreement with a Kesko Group company. The Chairman of the Board of Directors is a non-executive. All Board members are independent of significant shareholders of the company as referred to in the Corporate Governance recommendation. The Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year. In 2007, Kesko's Board of Directors convened eight times with an average attendance percentage of some 98% - a figure that illustrates the participation of Board members in the work of the Board.

According to the Finnish Companies Act, a shareholder has the right to have a matter specified for a General Meeting to be handled at a General Meeting, if the shareholder requests so in writing to the Board of Directors early enough for the matter to be included in the notice of the meeting. In addition, a shareholder has the right to ask the Board questions at a General Meeting, and the Board is generally duty-bound to answer such questions. Further, a shareholder may make proposals at a General Meeting on which there is a vote, if needed. Company's auditor and shareholders owning at least one tenth (1/10) of all shares in a company have the right to request from company's Board to convene an Extraordinary General Meeting to consider a proposal they want to make to the meeting.

Conflicts of interest are handled as required by law. A member of the Board with a conflict of interest is required to abstain from handling the matter in question. The responsibility to abstain is personal. Where there is any uncertainty, independent professional advice may be sought.

The Board of Directors established an Audit Committee in April 2004 and a Compensation Committee in March 2005 both comprising three members. The Audit Committee is responsible for preparing matters relating to the monitoring of Kesko Group's financial position, the supervision and control of reporting, and risk management. The Compensation Committee is responsible for matters relating to the compensation and appointment of the President and CEO and other Group management, as well as other employee compensation matters. Further information on the responsibilities of both Committees is available on p. 59 of Kesko's Annual Report 2007 and at: [www.kesko.fi](http://www.kesko.fi). Both Committees have no independent decision-making power; however, the Board may make decisions based on the preparations done by the Committees. The Audit Committee met five times during the year and the Compensation Committee four times.

Kesko's Board of Directors has not established any other committees other than the Audit and Compensation Committees.

The Board of Directors has not distributed any special areas of focus in terms of business monitoring to its mem-

bers. Further, no Board members have been appointed with specific responsibility for corporate responsibility matters. Compensation of the Board members is not linked to the Group's performance in the area of corporate responsibility. The Board of Directors reviews the Group's Corporate Responsibility Report in the spring after it has been completed, and any other related issues raised by the Corporate Management Board or by the Corporate Responsibility Advisory Board as deemed necessary.

The responsibilities of the Board of Directors can be consulted at: [www.kesko.fi](http://www.kesko.fi) (investors) and are presented on pages 58-59 of Kesko's Annual Report 2007.

Kesko's corporate governance statement is updated regularly. The most recent update can be consulted at: [www.kesko.fi](http://www.kesko.fi) (investors), where the Annual Report for 2007 can also be found.

The Kesko Group has a Corporate Management Board chaired by Kesko's President and CEO. Other members are the Presidents of the major division parent companies and the Senior Vice Presidents responsible for Finance, Human Resources and Corporate Communications and Responsibility. The deputy to the President and CEO renounced his membership in the Corporate Management Board as of 1 June 2007. Two members are female. The Corporate Management Board has no authority based on legislation or the Articles of Association. It acts instead as an advisory body appointed by Kesko's President and CEO, and is responsible for reviewing Group-wide development projects and Group-level principles and practices. The Corporate Management Board also participates in the preparation of matters considered by Kesko Corporation's Board of Directors and takes a stand on issues in the area of corporate responsibility proposed by the Corporate Responsibility Advisory Board. In spring 2007, the Corporate Management Board adopted the Kesko Group's principles for corporate responsibility, the K-Group's revised environmental policy, and responsibility objectives for the Kesko Group. In autumn 2007, the Corporate Management Board reviewed the 'Our responsible working principles guide and approved the Group-wide implementation plan. In autumn, the human resources policy and information security policy were also approved by the Corporate Management Board.

### Risk Management Steering Group

Risk management is part of the Group's management system. Persons responsible for risk management have been appointed in the divisions to coordinate and report on risk management activities. Kesko Food and Rautakesko also have a risk management function of their own which supports the implementation of risk management in the division.

Kesko has a Risk Management Steering Group chaired by the President and CEO, and has representatives of various divisions and Group units as members. The Steering Group approves risk management procedures and guidelines, and discusses and assesses the Group's risks and the implementation of risk management responses.

Risks are reported to the Audit Committee of Kesko's Board of Directors on a regular basis. Kesko Corporation's Board of Directors considers the major risks and

assesses the functioning of risk management at least once a year.

The Internal Audit Department assesses the functioning of risk management annually and reports on the level of risk management to Kesko's Board of Directors' Audit Committee.

### Corporate Responsibility Advisory Board and Environmental Steering Group

The Corporate Management Board established a Corporate Responsibility Advisory Board in January 2006. It comprises six members (seven in 2006) drawn from Kesko's management who represent various areas of corporate responsibility (representatives of Kesko Food, Rautakesko, Kesko Agro, Anttila, Human Resources, and Corporate Communications and Responsibility). The Advisory Board, chaired by the Senior Vice President, Corporate Communications and Responsibility, met three times in 2007. Issues handled at Advisory Board included the sustainability trends in the retail trade and the analysis of those trends which could also be seen as providing possibilities for differentiation and competitive benefits. Other issues included discussion on the elements to be included in the Group's climate change programme together with Advisory Board's recommendations for future use of different energy sources, for example. Also the implementation plan for the 'Our Responsible Working Principles' guide was discussed.

An Environmental Steering Group has also been appointed chaired by the Group's Assistant Vice President for Corporate Responsibility. It comprises divisional environmental managers and specialists, together with maintenance, human resources, and product safety managers, as appropriate. The main responsibilities of the Steering Group include developing environmental management systems based on the guidelines given by the Advisory Board, promoting the sharing of best practices, following up environmental and chemical legislation, and the joint implementation of new Group-wide requirements such as REACH and the EU Directive 2006/66/EC on Batteries and Accumulators and Waste Batteries and Accumulators. The Steering Group met three times in 2007.

### Steering Group for Responsible Purchasing

In 2007, Kesko established a Steering Group for Responsible Purchasing. The steering group comprises representatives from Kesko's division parent companies and subsidiaries importing from high risk countries. The Steering Group is responsible for coordinating and developing practices related to responsible purchasing at Kesko; it met three times in 2007.

Kesko Food, the biggest division parent company, has established corresponding steering groups to manage responsibility work in its own organisation.

### Corporate Communications and Responsibility Unit

The development and coordination of corporate responsibility at Group level is the responsibility of the Corporate Responsibility team headed by the Assistant Vice President for Corporate Responsibility. The team comprises three members and is organised under the Corporate Communications and Responsibility Unit, headed by the Senior Vice President for Corporate Communications and Responsibility, reporting directly to the President and CEO. Other teams in the Corporate Communications and Responsibility Unit include the Communications and Brand Management teams.

The members of the Corporate Responsibility team have corporate responsibility indicators included in their annual bonus system. Some responsibility indicators are also included in other units' bonus systems, covering areas such as job satisfaction, customer satisfaction, and recycling performance.



# Kesko's policies, principles, and management systems related to corporate responsibility

The Kesko Group has operated in line with the Group's value, quality and environmental management systems since the mid-1990s. The management system was updated in 2002 to further highlight the importance of values in underpinning all our operations. In late 2007, we published a revised version of the Group's responsible working principles which included Kesko's Code of Conduct. As part of closer chain cooperation, Kesko and K-retailers have agreed to follow the same values and responsible working principles. The Group's values and principles are also followed in subsidiaries outside Finland.

Above and beyond the Group's strategy and management system, Kesko's corporate policies guide planning and operations at all business levels. They cover administration, human resources, environmental issues, communications, financial management, real estate, financing, security, information security and risk management. The Group's overarching policies, principles and management systems affecting our approach to corporate responsibility are discussed below. Key policies and principles observed by the Kesko Group are listed in the 'Our Responsible Working Principles' guide and can be found at [www.kesko.fi](http://www.kesko.fi) in Finnish, Swedish and English. Sector-specific policies such as the K-Group's environmental policy are discussed under the relevant sections on economic, environmental, and social performance of this report.

## Values

Kesko's present values were introduced in 2002, since when their importance and role in planning operations and day-to-day activities have been discussed throughout the Group at numerous employee and training events.

A number of Kesko's performance indicators in the area of corporate responsibility are used to measure how well the Group implements its values. Some of these indicators, such as external and internal customer satisfaction surveys, are typically included as elements of units' annual bonus systems.

The illustration below gives some examples of the indicators used.

### 'Our responsible working principles'

Kesko has had ethical principles applicable to its personnel in place since 1999. These principles were revised in 2002 to reflect the Group's new values. The guide, published in 2002, was value driven with no formal Code of Conduct or information on the Group's overarching policies or external commitments in the area of responsibility. As the content of these policies and commitments were finalised during 2006 and approved in early 2007, the guide also called for revision.

In late 2007, a new guide on the Group's responsible working principles, approved by the Corporate Management Board, was published. The guide was also formally approved by the Board of the K-Retailers' Association and the K-retailers have adopted the same values and principles in their own management.

The guide consists of two main sections: Kesko's formal Code of Conduct including a list of all commitments together with key policies and principles, and examples of day-to-day responsibility. As part of the revision process, the Group's HR policy and information security policy were also revised and approved by the Corporate Management Board during 2007. The guide is supported by e-learning material targeted for supervisors who, in turn, are respon-

## Values

We exceed our customers' expectations



- Internal and external customer satisfaction surveys

We are the best operator in the trading sector



- Development of net sales, market share, and profit
- Customer surveys
- Investor surveys

We create a good working community



- Job satisfaction survey
- Internal customer satisfaction survey
- Sickness absences, accident statistics
- Equality statistics, training statistics, etc.

We bear our corporate responsibility



- Customer, decision-maker and media surveys
- Sustainability indexes

sible for both launching and implementing the principles within their respective teams.

The implementation of the new guide will be one of the key activities in 2008. To support it and to highlight its day-to-day importance, two animation characteristics solving everyday sustainability dilemmas are presented at: [www.kesko.fi\(jobs\)](http://www.kesko.fi(jobs)). The guide will be presented and referred to in the Group's publications, such as stakeholder magazines, and training events throughout the year. It has been translated into all Group languages and was first introduced to HR personnel during annual HR summit in September 2007, and to non-Finnish senior management in the Annual Management Forum in January 2008 (see case story on p. 75).

### Principles for Corporate Responsibility

The Kesko Group's overarching principles for corporate responsibility were approved by the Corporate Management Board in January 2007. These principles illustrate the Group's approach and objectives in all three areas of corporate responsibility, together with the Group's external commitments. Under these principles, Kesko endorses:

- UN Universal Declaration of Human Rights
- UN Convention of the Rights of the Child
- ILO's key conventions, listed on p. 78
- OECD Guidelines for Multinational Corporations
- ICC Business Charter for Sustainable Development
- ICC principles against corruption and bribery
- Global Compact (Kesko is also a member of Global Compact Nordic Network)

The principles for corporate responsibility are supported by more detailed Group-level policies, such as the environmental policy, which are listed in the Code of Conduct section of 'Our Responsible Working Principles' guide. These principles are applicable in all the Group's operating countries.

### Management systems

Kesko's management system is used to plan and manage the Group's operations to reach its goals. The system highlights the importance of prioritising customer orientation, people management, promoting participation and cooperation, greater efficiency, and developing competitiveness and added value. Corporate responsibility is not treated as a separate issue in management terms; rather all related plans and activities are included in the management system in the same way as other operations. This approach was further strengthened during 2007 when implementing the Group's objectives described above in table opposite.

Risk assessment is conducted in connection with the strategy cycle and risks are prioritised according to their criticality and management level. The impact of risk materialisation is evaluated in euros. The divisions update their risk assessments quarterly, and separate risk analyses are made for major projects. Group units, such as Corporate Accounting, Treasury, Corporate Communications and Responsibility, Legal Affairs and IT Management, have analysed the risks threatening the objectives and their management. On the basis of the Divisions' and Group units' risk analyses, the Corporate Risk Management Unit prepares summaries of major risks and their management on a quarterly basis for Kesko Corporation's Board of Directors' Audit Committee. Kesko Corporation's Board of Directors considers the major risks and assesses the functioning of risk management at least once a year.

## Goals

The goals of the Group guide the setting of the divisions' and chains' goals and objectives and the implementation of strategies.

The most satisfied customers – growing customer value



- Exceeding customer expectations
- The best in industry – leadership in selected markets

Excellent practices, stores and services



- The best practices and performance in the trading sector
- High corporate responsibility

Competent and motivated people



- Management by values
- Systematic development of competencies

Good performance – increasing shareholder value



- Return on equity 14%
- Return on invested capital 16%
- Growth in Finland in excess of market growth
- Proportion of international operations on the increase

## Our performance in 2007 and Group-wide objectives for 2008

Objective 2007	Achievements
Providing responsible management training for all senior management and management potential personnel, covering some 200 people in all.	Trained the target group and additional specialists in environment, HR and communications. Altogether some 250 people participated in the training.
Strengthening the integration of responsibility-related issues and performance measures in the Group's management model, including risk management.	Managers participating the responsible management training were all asked to include responsibility-related action items in their unit's annual action plan for 2008. These action items, together with relevant indicators to measure success, were reported back to the Corporate Responsibility Advisory Board.
Creating the Group's action plan against climate change.	The first draft of the action plan was reviewed by the Corporate Management Board. The draft was not finalised because the details of the EU's Integrated Energy and Climate Policy, together with country-specific targets such as the amount of renewable energy used in energy production (%), was only published in January 2008, and because the discussion on the sustainability criteria for bio-fuels – especially palm oil – was ongoing at the time both in Finland and in the EU. The plan will be finalised in 2008.
Implementing environmental management systems in foreign operations.	No progress made. The implementation work will begin in 2008.
The BSCI-auditing of suppliers operating in risk countries according to schedules agreed with the BSCI.	Proceeding was slower than agreed with the BSCI. The new targets for 2008 were given in February 2008. Read more on p. 80.
Promoting healthy eating habits.	Kesko Food launched its healthy campaign in September 2007. This includes: the introduction of the GDA labels on all Pirkka house label products; the reformulation of Pirkka house label products (fat, sugar and salt content); the Best choices of the day –lectures for customers; the nutrition code service for loyalty customers etc. Read more on pp. 20, 87.
Continuing as the sector leader in the Dow Jones Sustainability Index.	Kesko is listed both in DJSI World and STOXX, but not as the sector leader for 2007/2008. In January 2008, Kesko was granted the SAM Silver Medal status in Food and Drug Retail sector.

### The Group's objectives for 2008–2012 include:

Objective	Target
Create a Group action plan for all areas of responsibility in 2008.	<ul style="list-style-type: none"> <li>• Create a programme to combat climate change.</li> <li>• Create targets for energy savings and CO<sub>2</sub> reductions.</li> <li>• Other targets to be specified in spring 2008.</li> </ul>
Continue with Kesko Food's healthy way of life programme.	<ul style="list-style-type: none"> <li>• Continue with the reduction of salt, sugar and fat content of Pirkka house label products.</li> <li>• Have all products with high contents reformulated by the end of 2010.</li> <li>• Expand the use of the nutrition code service. A target of 100,000 loyalty card users by the end of 2009.</li> <li>• Continue consumer health education. Train 500 shop-floor specialists in healthy eating by the end of 2012.</li> </ul>
Continue with Rautakesko's focus to develop cost and eco-efficient service solutions for construction and living.	<ul style="list-style-type: none"> <li>• The division's target is to publish a guide for Finnish consumers giving advice and hints on sustainable living in March 2008. The themes of the guide are energy, water, ventilation, waste management, maintenance, safety and security. Along with the guide, products and solutions supporting the issue will be promoted.</li> <li>• In Finland all K-rauta and Rautia stores under the K-environmental store concept by the end of 2009.</li> </ul>
Continue to focus on promoting sustainable practices in agriculture in the K-agricultural chain.	<ul style="list-style-type: none"> <li>• Continue to develop an environmentally-friendly and cost-efficient model for farmers for producing clean domestic grain and oil and grass plants for the food industry and domestic animal feeds.</li> <li>• Promote products such as machinery and services which enable a more environmental friendly cultivation.</li> <li>• Organise call centres to guide in the proper use of plant protection substances during the growth season.</li> <li>• All stores under the K-environmental store concept by spring 2009.</li> </ul>
CO <sub>2</sub> emissions from Kesko Food's transportation	<ul style="list-style-type: none"> <li>• Specific reduction of 10% compared to delivered volume (m<sup>3</sup>) by the end of 2012. The year 2007 is used as the baseline.</li> </ul>
The BSCI-auditing of suppliers operating in risk countries according to schedules agreed with the BSCI.	<ul style="list-style-type: none"> <li>• 40 initial and 10 re-audits carried out in the non-food supplier companies' facilities. For suppliers in primary production, the target is two initial and one re-audit during 2008.</li> </ul>
Dow Jones Sustainability Index.	<ul style="list-style-type: none"> <li>• To be listed as a sector-leader for 2008/2009.</li> </ul>

Risk management emphases for 2008 include improving continuity management and the efficiency of loss prevention. The new deviation reporting system launched in 2007 produces information on disturbances in operating activities in order to effectively prevent disturbances in advance.

Key risks affecting the Group are discussed on pages 11-13 (risks and opportunities) and in the Corporate Governance section of Kesko's Annual Report 2007.

The quality control of groceries and home and speciality goods, for which Kesko Food's Product Research Unit is responsible, is based on an ISO 9001 quality system and a self-control system approved by the authorities. The Product Research Unit also assists K-retailers in implementing and maintaining their respective self-control systems. Kespro Ltd has a certified ISO quality system, and the Hamina Terminal was ISO 9001-certified in January 2007. VV-Autotalot Oy and Turun VV-Auto Oy received the certificates granted by the Finnish Central Organisation for Motor Trades and Repairs in October 2007. The action plan fulfils the requirements both of the ISO 9001 and ISO 14001.

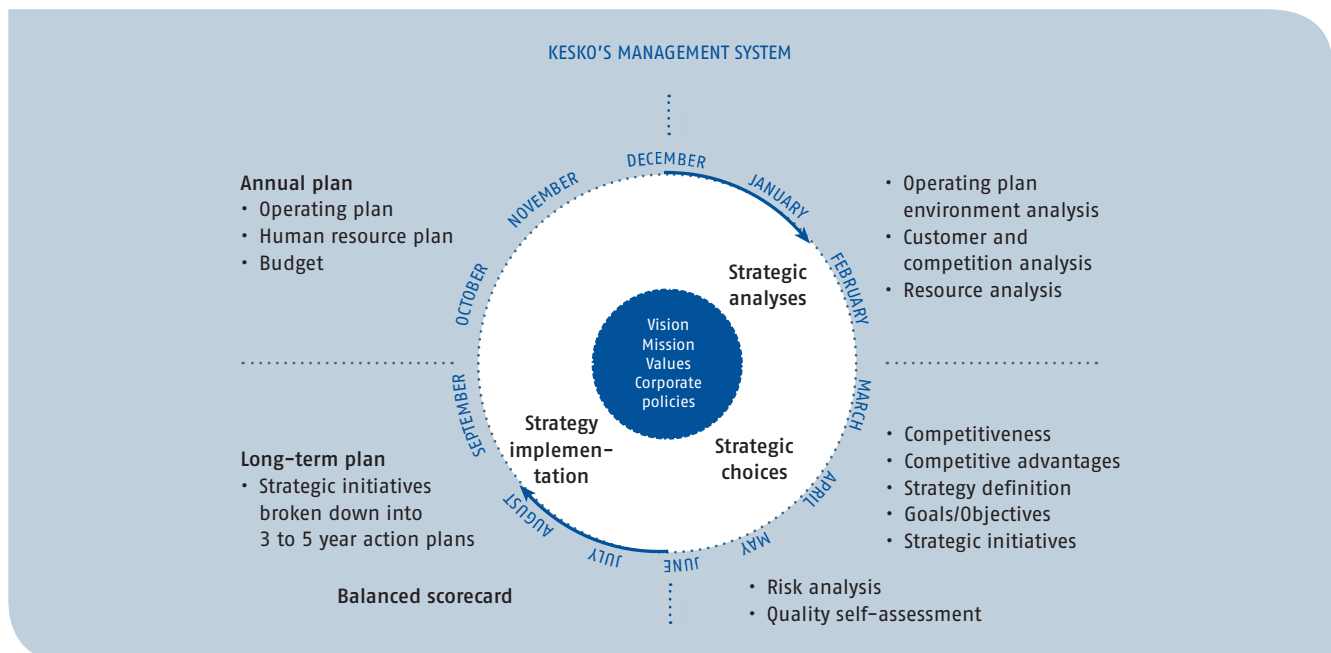
An environmental management system complying with the ISO 14001 standard has been adopted in all Kesko units impacting the environment to a significant extent. Environmental management in K-stores is based on the K-environmental store concept. Compliance with the latter is monitored through independent audits. More information about certifications within the system is given under Environmental Performance on page 45, and about K-environmental stores on page 56. Kesko's environmental policy can be consulted at: [www.kesko.fi](http://www.kesko.fi) (responsibility).

Quality control in respect of purchasing, particularly with a risk component such as imports from developing countries, is carried out in compliance with the principles of the European Business Social Compliance Initiative and the international Social Accountability SA 8000 standard. More information about social quality control can be found on pages 76-81 and information on the principles followed in imports from developing countries can be found at: [www.kesko.fi](http://www.kesko.fi) (responsibility/purchasing principles).

The Group's human resources management, including occupational health care and preventative measures for health and safety, are discussed on pp. 63-70.

### Reporting

Kesko has followed the reporting recommendations of the Global Reporting Initiative (GRI) since the publication of the first generation of Guidelines. In line with the principles of quality and environmental management and a balanced scorecard, Kesko believes that where performance can be measured, clear targets can be set and management improved. The same ideology of continuous improvement is inbuilt in all management systems within the Group. GRI guidelines have provided Kesko with a good basis for analysing its corporate responsibility, developing responsibility indicators, and reporting progress in this area to the public at large. In addition to GRI indicators, Kesko also reports publicly a number of company-specific performance indicators. Any deviations from the GRI G3 guidelines are noted in the comparison published at the end of this report. Kesko has been an Organisational Stakeholder of GRI since the beginning of 2005.



Progress made in the areas of environmental and social responsibility also has a financial impact. In a company like Kesko, successful environmental activities usually mean cost savings. However, Kesko considers that recommendations concerning environmental accounting are still relatively imprecise and has not started monitoring environmental income, costs, and investments in this way to date.

Independent assurance promotes the continuous development of the processes behind corporate responsibility management and improves the reliability of reported information and the accuracy of individual indicators an assurance has been provided for Kesko's Corporate Responsibility Report since 2002. For the last two reporting cycles, Kesko has used two assurance providers - csrnetwork Ltd and PricewaterhouseCoopers Oy.

### **Online information collection and reporting system**

Kesko and its Finnish division parent companies adopted an online system for collecting and reporting on corporate responsibility data in 2005. The system collects and combines responsibility data from various organisational levels and from specified source systems in a form required for the GRI guidelines. The system follows the indicators defined in G2, and an update to G3 was planned to take place during 2007. However, this was not accomplished as the host server of the system was changed and some additional improvements made in order to give Kesko's foreign operations direct access to the system. The system is now available for all Group companies and includes more sophisticated reporting features for HR data. Also, it automatically calculates the indicators used for performance evaluation.

A web-based consumption monitoring system - known as 'EnerKey' and supplied by Energiakolmio Oy (more information on page 48) - is one of the main source systems on consumption information transferring data from some 700 stores monthly.

Today, the Group's waste data is only reported at warehouse level and once the decisions for streamlining waste management at divisional level have all been finalised, the compilation of waste data will be expanded to cover individual stores. At that point, the waste statistics supplied by the waste operators will automatically be integrated to the system.

# Economic performance



## KEY ECONOMIC PERFORMANCE IN 2007

- + The Kesko Group's net sales increased by 9.0% and totalled €9.5 billion
- + Kesko's purchases from countries in which it has operations increased by 9.5% and totalled €6.4 billion
- + K-retailers' direct purchases from Finnish regions increased by 14% and exceeded the milestone of €0.5 billion
- + Salaries paid by Kesko and K-retailers increased by 7.9%
- + Kesko was included in the Dow Jones Sustainability Indexes for the fifth time
- + Kesko participated in the Carbon Disclosure Project and was ranked fifth in the Carbon Disclosure Leader Index of low carbon intensive Nordic listed companies
- + The 'Use your K-Plussa card to put children on the move' campaign organised by Kesko together with the Young Finland Association collected €500,000 to support children's and teenagers' physical exercise and healthy eating habits
- The proportion of domestic goods in Pirkka products sales dropped from 59.0% to 57.8%
- Kesko was not listed as the sector-leader in the Dow Jones Sustainability Index for 2007-2008

### Kesko's approach to economic responsibility

According to Kesko's general principles of corporate responsibility approved in January 2007, economic responsibility refers to the good management of finances, efficient use of resources and generating stable, long-term economic benefits to different stakeholder groups. Financial performance must be achieved in a responsible way - supported by good corporate governance, open communications and effective stakeholder interaction, while taking environmental and social responsibility into account.

Most indicators of economic responsibility are derived from the consolidated financial statements, the preparation and disclosure of which is based on the IFRS standard. The proportion of the profit distributed to shareholders is defined in the dividend policy. Under its dividend policy, established in 2005, Kesko distributes at least half of its earnings per share as dividends, taking the company's financial position and operating strategy into account.

In addition to the indicators in compliance with the GRI recommendation, in the economic performance section Kesko also reports about developments in its store network and the breakdown of economic benefits between various stakeholder groups. The statistics presented do not contain target definitions concerning geographic cov-

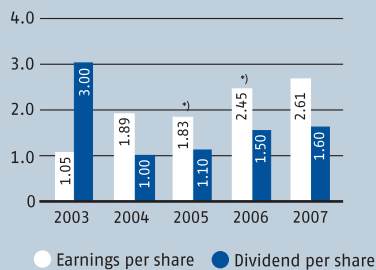
erage of operations, neighbourhood stores' sales percentages or ratios between domestic production and imports. In the market economy, trends in these types of issues depend on consumers' wishes and behaviour, which Kesko must adapt to and which must be anticipated. Kesko considers that presenting this kind of structural development to stakeholders on an open basis is also an important part of economic responsibility.

### Kesko as a public company

Kesko is a public company with two share series, Kesko A and Kesko B. Kesko's B share has been listed on the Helsinki Stock Exchange since 1960, and the A share since 1999. The share series differ from each other only as to the number of votes they entitle holders to. A shares entitle holders to 10 votes each, and B shares to one vote. Nearly all trading on the Stock Exchange takes place in B shares. In recent years, the difference in share prices has evened out due to active trading of B shares and an increase in the share price; the premium associated with the extra votes of A shares has disappeared, with A shares occasionally trading at a slightly lower price.

Kesko's share capital as of 31.12.2007 was €195,535,530, and the total number of shares was 97,767,765. The number of shares increased by 247,840

#### EARNINGS PER SHARE AND DIVIDENDS PER SHARE, €

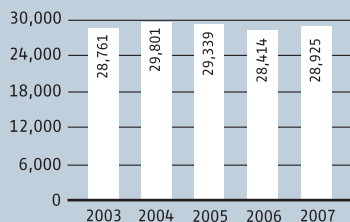


● Earnings per share ● Dividend per share

The dividend is paid in the spring from the profit recorded for the preceding financial year. The figures for 2004, 2005, 2006 and 2007 are based on IFRS accounting, and the figures for the previous years on FAS-standards.

<sup>\*)</sup> continuing operations

#### NUMBER OF SHAREHOLDERS AT YEAR-END



#### PROFITABILITY OF OPERATIONS

	2005 <sup>*)</sup>	2006 <sup>*)</sup>	2007
Net sales, € million	7,922	8,749	9,534
Gross margin, %	14.0	14.6	14.6
Profit before taxes, € million	236	358	369
Profit before taxes, %	3.0	4.1	3.9
ROI (return on invested capital), %	12.5	22.6	17.4

<sup>\*)</sup> continuing operations

due to share subscriptions based on the ongoing option scheme of 2003. As of the end of 2007, A shares accounted for 32.5% of all shares, entitling holders to 83% of all votes. The corresponding percentages for B shares were 67.5% and 17%.

Kesko currently has two option plans for management, dating from 2003 and 2007. In the event that all the options are exercised by the end of the subscription period in 2014, the total number of shares will increase by 4,800,000 to 101,738,705 shares, representing 4.7% of the share capital and 1.2% of all votes.

#### Broad shareholder base

The number of Kesko's shareholders has been steady in recent years. The number of shareholders increased from 25,000 (in year 2000) to 28,414 in 2006 and to 28,925 in 2007.

The distribution between different shareholder groups has also remained relatively stable. The most significant change has been the growth in the proportion of foreign shareholders, who accounted for 34% of all shares in 2007 (17% in 2003 and 33% in 2006) and 50% of B shares (26% in 2003 and 49% in 2006).

Finnish households have traditionally been a significant shareholder group and accounted for 25% of the total as of the end of 2007. The proportion of K-retailers and other private enterprises has remained at around a quarter.

Kesko has no significant individual shareholders, and ownership is relatively equally divided. The Kesko Pension Fund, the K-Retailers' Association and Vähittäiskaupan Takaus Oy, all closely linked to Kesko and each holding 3-4% of shares and 7-9% of votes, have been major shareholders for a long period. Insurance companies, banks and other institutional investors have also been Kesko shareholders for many years.

According to the shareholder register maintained by Rematch Investor Relations, Kesko has over 200 Finnish and foreign institutional shareholders. These institutions administer 800 investment funds holding Kesko's shares. 30 of these funds were Finnish and the remaining 770 were foreign. Some 300 German funds form the largest single group of foreign owners.

More detailed information on Kesko's shareholders and trends in the Kesko share price can be found at: [www.kesko.fi](http://www.kesko.fi) (investors/share information).

#### High long-term dividend yield

Kesko has generated profits and paid dividend every year since it was founded in 1941, with the exception of 1967. For the past 10 fiscal years, the annual yield (dividend and appreciation, dividends reinvested) of Kesko's B share has averaged 15% and 33% for the past five years. The effective dividend yield has averaged 6.5% during the past five years.



## Kesko in sustainability indexes

### Dow Jones Sustainability Index

The Dow Jones Sustainability World Index (DJSI World) comprises more than 300 companies that represent the top 10% of the leading sustainability companies out of the biggest 2,500 companies in the Dow Jones World Index. The DJSI STOXX tracks the financial performance of the top 20% in terms of sustainability of the companies in the Dow Jones STOXX 600 Index. Reviews are carried out by the SAM Group of Switzerland and cover all areas of corporate responsibility. Kesko has been included in the Dow Jones sustainability indexes five times in succession and is listed in both the indexes DJSI World and DJSI STOXX for 2007/2008 indexes.

In the 2007/2008 review, Kesko's environmental work was rated the best in the sector. Kesko's customer relationship management and investment in occupational health and safety were also rated high. The 2007/2008 review of the sectors highlighted the retail sector's role in the promotion of consumers' healthy eating habits and lifestyles, as well as the companies' own investments in occupational health and safety. Privacy protection and the confidentiality of customer information were also emphasised.

Kesko's responsibility work also qualified in the silver class in the food and drug retail sector in the 2008 Sustainability Yearbook. The Yearbook was published in the Davos Economic Forum by SAM, the company responsible for assessing the companies chosen annually for the Dow Jones Sustainability Index. Only the top 15% in each sector qualified for inclusion in the Sustainability Yearbook with a total of 367 companies participating in the assessment.

### The Global 100 Most Sustainable Corporations

In January 2008, Kesko was chosen for 'The Global 100 Most Sustainable Corporations' list for the fourth time. Kesko has been ranked among the global 100 most sustainable companies since 2005 when the list was first launched in the Davos Economic Forum. In addition to Kesko, the 2008 list features four other Finnish companies and six other consumer staples manufacturers or distributors.

As in previous years, the assessment of the world's 100 most sustainable corporations was conducted by Corporate Knights Inc. and Innovest Strategic Value Advisors Inc. The participating companies were particularly evaluated according to how effectively they manage environmental, social and governance risks, and their ability to transform identified responsibility risks into opportunities.

### The Carbon Disclosure Project

The Carbon Disclosure Project (CDP) provides a coordinating secretariat and innovative forum for investor and corporate collaboration on climate change. On behalf of 385 investors with assets under management of nearly \$57 billion (€42 billion), CDP annually analyses climate change strategies, related risks and opportunities, and collects information on greenhouse gas emissions of 3,000 of the world largest quoted companies. In 2007, this analysis was conducted for the first time amongst the largest companies in the Nordic countries.

The CDP reporting included the 125 largest listed companies from Denmark, Finland, Norway and Sweden, and provided an analysis of how the Nordic companies are responding to climate change. With a score of 73 points, Kesko's ranking was fifth in the Carbon Disclosure Leader Index of low carbon intensive companies.

### Kempen/SNS Smaller Europe SRI Index

Kempen/SNS Smaller Europe SRI Index is an initiative of two Dutch investment companies - Kempen Capital Management and SNS Asset Management - and is designed for companies with a market value of under €2 billion. The index was launched in 2003, with 69 companies out of 1,700 from 12 different countries listed. The assessment was repeated in autumn 2005 and most recently in spring 2007 when Kesko again received a pass status.

### ASPI Eurozone® Index

The Vigeo Group in France has designed two families of SRI indexes: The ASPI Eurozone® index and The Ethibel Sustainability indexes (Ethibel Pioneer and Ethibel Excellence indexes). Kesko is included in the ASPI Eurozone® index.

The ASPI Eurozone® (Advanced Sustainable Performance Indexes) is the European index of reference for companies and investors wishing to commit themselves in favour of sustainable development and corporate social responsibility. Company performance is assessed and rated based on the six Vigeo criteria: human rights, human resources, environment, business behaviour, corporate governance and community involvement. Annually, a total of 120 companies are included in the index.

### Nordic Sustainability Index

This index initiated by the Nordic Council evaluates the performance of the 500 largest companies listed on the Nordic stock exchanges in terms of corporate responsibility. The 2005 index includes 50 companies. Assessments are made by GES Investment Services of Denmark.

### Storebrand SRI

The Norwegian banking Group Storebrand restructured its analysis methods to focus more extensively on high-risk industries in February 2007. As the Food and Staples retailing industry no longer belong to the target group, the "Best in Class" status granted to the Kesko Group was withdrawn from the Food and Staples industry as a whole. The Kesko Group continues to qualify for investment by Storebrand and is a member of Storebrand's investment universe.

### oekom research

The sustainability rating agency oekom research advises investors and financial service providers in the realization of individual strategies for sustainable investments. The analyses of oekom research currently affect around €85 billion in assets under management. Oekom research's assessment is based on 200 environmental and social criteria and comprises two components: the Environmental Rating and the Social Cultural Rating.

In 2007, oekom research assigned Kesko an overall grade of C+. This means Kesko is classified as 'prime' and ranks among the world's best companies within the same industry and fulfills the sector-specific minimum requirements. As a result, oekom will recommend Kesko's shares for environmental and social-oriented investments to their clients.

Under the Group's amended dividend policy dating from 2005, Kesko distributes at least half of its earnings per share as dividend, taking the company's financial position and operating strategy into account. This has been exceeded during the past five years, and average dividends have been 98.5% of earnings per share.

Kesko's share price performance has exceeded the Helsinki Stock Exchange's OMX Helsinki All Share and weighted OMX Helsinki CAP Indices over the last five years. The development of the Kesko share price was two sided in 2007. In the first half of the year the price of shares rose strongly only to fall again in the latter part of the year, following the general downturn of the market. In 2007, Kesko B shares were traded the lowest at €34.40 and the highest at €54.85.

Kesko's market capitalisation has grown considerably since 2000, tripling since 2003 to reach some €3.7 billion at the end of 2007 of which A shares accounted for €1.2 billion and B shares €2.5 billion.

#### Impartial investor communications

In line with its investor strategy, Kesko provides accurate and up-to-date information to the markets on a continuous basis to provide a foundation for determining Kesko's share price. The aim is to make Kesko's activities better known and to increase the transparency of investor information, and thereby enhance Kesko's attractiveness as an investment.

Kesko observes the principle of impartiality in its investor communications, and publishes all investor information, primarily via the Internet, in Finnish, Swedish and English ([www.kesko.fi](http://www.kesko.fi)).

A printed Annual Report is published in Finnish, Swedish and English. The annual financial statements release and three Interim Reports are published via the Internet. In addition, the company maintains a mailing list of non-shareholder recipients on the Annual Report and the Trademaker magazine.

#### Comprehensive information for investors

Kesko arranges press conferences for analysts and the media when announcing its results or other relevant information, together with background information events (Capital Market Days) on various themes once or twice a year. Information on Kesko is also provided to interested investors at several other events.

Kesko arranged press conferences when announcing its 2006 results and three interim results in 2007. The conferences were webcast in Finnish and English via the Internet. A Capital Market Day was held for analysts in autumn 2007.

Kesko participated in the Sijoitus-Invest Fair in Helsinki in the autumn, when Kesko's stand was visited by around 2,000 investors. In the spring, the traditional road show for around 10 major institutional investors was organised in Finland. Additionally, in parallel with

#### INVESTMENTS AND ASSETS

	2005	2006	2007
Investments, € million	367	251	234
Investments, % of net sales	4.6	2.9	2.5
Equity ratio, %	42.3	47.0	48.5
Gearing ratio, %	42.4	11.9	14.0

#### NUMBER OF K-FOOD STORES IN FINNISH MUNICIPALITIES

K-food stores	Municipalities			% of all municipalities		
	2005	2006	2007	2005	2006	2007
10 or more	11	13	13	2.5	3.0	3.1
7-9	12	10	9	2.8	2.3	2.2
5-6	15	23	24	3.5	5.3	5.8
3-4	74	66	65	17.1	15.3	15.6
2	95	95	86	22.0	22.0	20.7
1	169	164	170	39.1	38.1	40.9
none	56	60	49	13.0	13.9	11.8
Municipalities, total	432	431	416	100.0	100.0	100.0

the announcement of the interim result, information events for brokerage companies' customers were held. In autumn 2007, Kesko also participated in a road show event for private investors organised by Pörssisäätiö in five Finnish cities.

Road show visits totalling 17 days were also made to Britain, Ireland, the Netherlands, Norway, France, Sweden, Germany, Switzerland, Denmark, and the United States.

Kesko observes a two week silent period before publishing information on its results. Outside these periods, it answers analysts' and investors' questions by telephone, e-mail, and at investor meetings.

Kesko's policy is to answer all questionnaires and surveys sent by analysts or other research companies, aiming at analysing companies' sustainability performance for investor use. The number of surveys have steadily increased during recent years, and typically Kesko completes around ten surveys annually. As a result, the company has been ranked among the world's most sustainable companies in several international comparisons.

In 2007, Kesko was included in the Dow Jones sustainability indexes for the fifth time in succession, and in January 2008 Kesko was chosen for 'The Global 100 Most Sustainable Corporations' list for the fourth time. Kesko has been ranked among the global 100 most sustainable companies since 2005 when the list was first launched in Davos Economic Forum. In Davos Kesko's responsibility work was also granted a silver class status by Sustainability Asset Management (SAM).

Kesko participated the 'Carbon Disclosure Project' survey (DCP) for the first time in 2007 in the 'low carbon intensive companies' category. The CDP reporting included the 125 largest listed companies from Denmark, Finland, Norway and Sweden, and provided an analysis of how the Nordic companies are responding to climate change. With a score of 73 points, Kesko's ranking was 5th in the Carbon Disclosure Leader Index.

Kesko's key rankings are presented on page 33.

### Investments and the store network

Kesko's investments in 2007 totalled €234 million, equivalent to 2.5% of net sales (2.9% for continuous operations in 2006). Finnish investments accounted for €177 million, and those in other countries for €57 million. Investments in store sites totalled €189 million and business acquisitions €6 million. Other investments totalled €39 million. Kesko's investments have a positive financial impact on construction companies, service companies in the construction sector, and suppliers of fixtures, equipment, and information systems. Investments in Finland are included in the 'Breakdown of economic benefits by region' on page 38.

### Strong store network

In 2007, there were 179 building and home improvement stores, 95 agricultural stores, 28 Anttila department stores and 460 speciality stores in Finland. In the Baltic countries, there were 26 building and home improvement stores, 13 agricultural and 11 furniture stores. In the other Nordic countries, there were 137 building and home improvement stores and 2 furniture stores. There were eight building and home improvement stores in Russia, three of which are new and operate in conformity with the K-rauta concept. Some 118 new K-retailers started during the year.

### Number of K-food stores remained steady

At the end of 2007, there was one K-food store fewer than the year before, i.e. 1,070 stores located in 367 of Finland's 416 cities and municipalities. A total of 27 new K-food stores were opened, and several stores were refurbished or expanded. Large outlets, or K-citymarkets, accounted for 35.8% (36.2% in 2006) of K-food stores' sales in Finland.

In 2007, Kesko looked into opportunities to dispose of Kespro Ltd and its sourcing operations. Accounts and assessments proved that the price would have remained low considering the sales and profit expectations of Kespro. Therefore, a decision was made to continue developing Kespro as an independent part of Kesko Food.

### Rautakesko investing strongly outside Finland

Rautakesko's strong internationalisation continued also during 2007, and out of the 16 new building and home improvement stores opened during the year, eleven were outside Finland. The eighth K-rauta outlet in St.Petersburg Russia was opened in December. The proportion of the foreign subsidiaries of the whole Rautakesko Group's net sales was 64.2% in 2007.

Rautakesko has now 16 own K-rauta stores and one retailer-owned store in Sweden. In Norway, Rautakesko owns Byggmakker Norge AS, which manages the Byggmakker chain of 120 building and home improvement stores, 22 of which are owned by Byggmakker. Rautakesko also has a strong store network and a nationwide network of wholesale outlets in Estonia and Latvia. In Lithuania, Rautakesko has a majority shareholding in UAB Senuku Prekybos centras, which is the market leader in Lithuania. The Senukai chain consists of 14 Senukai-owned stores and 76 partnershops.

### Job development

The number of jobs in the Kesko Group decreased in 2007, both in Finland and elsewhere.

The average number of Kesko Group employees, converted into full-time employees, totalled 21,180, a decrease of 2,587. The average decrease in Finland was 244

**PERSONNEL EXPENSES, € MILLION**  
 (CONTINUING OPERATIONS)

	2005	2006	2007
Salaries and fees	400	460	501
- of which bonuses <sup>*)</sup>	8.9	10.4	21
- Finland	5.5	6.2	14.8
- other countries	3.4	4.2	6.2
Social security expenses			
- pension expenses	39	39	25
- other social security expenses	36	44	48
Share options granted	3	2	2

<sup>\*)</sup> The figures for years 2005-2007 are bonus sums paid in the fiscal year in question from the profit of the previous year.

**TAXES, € MILLION**

	2005	2006	2007
Income taxes paid in Finland	46.4	101.8	72.6
Income taxes paid in other countries	3.0	5.3	17.6
Real estate taxes paid in Finland	3.4	3.2	3.3

**LABOUR PRODUCTIVITY, € 1,000**  
 (CONTINUING OPERATIONS)

	2005	2006	2007
Average net sales per employee			
- Finland	592	600	649
- the other Nordic countries	506	555	563
- the Baltic countries	112	139	148
- entire Group	385	445	450
Profit before taxes per employee	13.5	18.2	17.4

employees and outside Finland 2,343 employees. The number of personnel mainly decreased as a result of the disposal of the joint venture Rimi Baltic AB in December 2006. Kesko had 25,890 (23,755) employment contracts at the end of December 2007, of which 14,192 (14,149) were in Finland and 11,698 (9,606) elsewhere.

In Finland, Kesko works in a close cooperation with K-retailers. At the end of 2007, Kesko had 1,285 K-retailer entrepreneurs as partners, as well as 250 other retailer partners in the Asko, Sotka, Tähti Optikko, Byggmakker and Senukai chains.

K-retailers employed about 22,000 people in all, including retailers themselves. As there are one or more K-stores in 367 Finnish municipalities and Kesko has premises in more than 84 municipalities, the over 36,000 jobs offered by the K-Group make an important contribution to the economy across Finland.

Kesko Agro started rationalisation negotiations towards the end of 2006 and as a result 30 employment contracts were terminated. Due to the plan to increase the efficiency of operations in Finland and to divest the business in Sweden, Indoor Group started rationalisation negotiations in December 2007. The estimated need for redundancies is approximately 50 employees in both Finland and in Sweden.

**Salaries, social security expenses, and taxes**

In 2007, Kesko Group salaries recognised in the income statement totalled €501 million, pension expenses €25 million, and other social security expenses €48 million. Operations outside Finland accounted for €149 million of total salaries. Share options recognised as expenses totalled €2 million. Income tax paid by the Group as a whole totalled €90.2 million, of which €17.6 million was paid

**KESKO GROUP'S PURCHASES BY COUNTRY IN 2006**

	Number of suppliers in the country		Purchases from these		Number of suppliers in other countries		Purchases from these	
		€ million	%	%		€ million	%	
Finland	12,501	5,223	81.4		3,504	1,196	18.6	
Sweden	1,792	141	84.6		261	26	15.4	
Norway	218	529	97.1		48	16	2.9	
Estonia	2,179	122	65.9		441	63	34.1	
Latvia	681	126	58.2		286	90	41.8	
Lithuania	2,014	151	37.2		889	255	62.8	
Russia	525	123	100.0		9	0	0.0	
Other operating countries	202	9	31.9		77	20	68.1	
Total	20,112	6,425	79.4		5,515	1,666	20.6	

Companies from which Kesko purchases goods for at least €1,000 in 2007 are included as suppliers

outside Finland. Real estate taxes paid to 84 municipalities in Finland totalled €3.3 million, compared with €0.7 million in other countries. K-retailers paid €275 million in salaries and €33 million in taxes. These figures include K-retailers whose bookkeeping and salaries are handled by Vähittäiskaupan Tilipalvelu VTP Oy, and which are estimated to account for between 80% and 85% of the total business volume of K-retailers. Statistics do not show the taxes paid on salaries drawn by K-retailers themselves. As a result, the combined tax data on K-retailers should be considered as essentially illustrative.

### Employee pension and health insurance

In Finland, the Kesko Pension Fund is responsible for pension contributions, based on the Employees' Pensions Act, of those employees of Kesko Corporation, the division parent companies, and some other corporations close to Kesko that are members of the Fund's Department B. In 2007, the Varma Mutual Pension Insurance Company was responsible for the corresponding pension contributions of employees of other subsidiaries. The Pension Fund also has a Department A, which was closed in 1998, and which provides extra benefits. Employees covered by Department A have access to some pension benefits not offered on the basis of the Employees' Pensions Act, such as an early retirement pension for production-related reasons.

The Pension Fund covered 9,226 employees of the Kesko Group and corporations close to Kesko at the end of 2007 (3,779 at the end of 2006), with Department A covering 796 (889) of the total. In 2007, the Kesko Pension Fund paid €57.7 million (€52.0 million) in pensions to 3,749 people (3,318). Details on the retirement age of employees and other statistics are presented on page 72 under 'Social Performance'.

The proportion of the Kesko Pension Fund increased considerably at the beginning of 2007, when 12 of Kesko's subsidiaries transferred their pension insurance contributions based on the Employees' Pensions Act from Varma or Ilmarinen to the responsibility of the Kesko Pension Fund. These transfers increased the membership in the Kesko Pension Fund by 5,400 and the number of pensioners by 328.

The Kesko Sickness Fund provides statutory sickness insurance for the employees of Kesko Group corporations, and covers about 11,500 employees. Sickness insurance contributions paid by the Sickness Fund totalled €9.8 million in 2007 (€8.3 million).

Subsidiaries outside Finland arrange their own employee pension and health insurance cover, within the context of local legislation and practice.

#### PIRKKA PRODUCTS OF DOMESTIC ORIGIN IN 2007

Product group	Proportion of domestic products of total Pirkka sales
Meat, fresh and frozen	98.2
Fish	59.1
Processed meat	90.7
Ready-to-eat foods	95.5
Fruit and berries	3.0
Vegetables and root crops	68.0
Milk products	100.0
Yoghurt, puddings etc.	29.3
Edible fats	38.8
Cheese	44.0
Frozen foods	35.6
Ice cream	17.9
Cereal products	31.8
Canned foods	20.1
Juices	85.0
Baby food and drinks	100.0
Confectionary	39.6
Soft drinks	100.0
Tissue paper	97.9
Personal hygiene	49.7
Washing and cleaning products	37.4
Total	57.8
Proportion of total number of Pirkka products	44.8

### Suppliers of goods and services

In 2007, Kesko had about 25,600 suppliers providing goods and services valued in excess of €1,000. Approximately 12,500 of these operate in Finland, about 7,600 in the Group's other operating countries, and about 5,500 elsewhere.

Kesko's purchases of goods and services totalled €8,091 million, of which the purchases of Kesko's Finnish companies from suppliers operating in Finland accounted for €5,223 million or 64.6% of the Group's total purchases (69.9%). The purchases of Kesko's companies outside Finland from suppliers in their home countries accounted for €1,202 million or 14.9% (9.9%), and those from other countries for €1,666 million, or 20.6% (20.2%). Purchases and supplier numbers by operating country are shown in the attached table opposite.

Statistics are inaccurate in the respect that the purchases of Kesko's Finnish companies, for instance, from Estonia, Sweden, and other operating countries are registered as 'purchases from suppliers outside the operating area'. These intra-Group imports have been taken into account in the calculation of benefits by market area, presented later under 'Breakdown of economic benefits'.

Kesko's ten largest suppliers accounted for 18.9% of the Group's purchases (22.1%), and its 100 largest suppliers for 47.5% of purchases (50.7%). Of the ten largest suppliers, six were Finnish food manufacturers, one importing company operating in Finland, one Finnish IT equipment distributor and two German car manufacturers.

**ECONOMIC BENEFITS FROM KESKO'S OPERATIONS  
FOR VARIOUS STAKEHOLDER GROUPS, € MILLION  
(CONTINUING OPERATIONS)**

	2005	2006	2007
Suppliers of goods and services			
- Finland	4,718	5,139	5,223
- other countries	2,363	2,208	2,868
Suppliers of capital goods & acquisitions	367	251	234
Personnel (salaries and other benefits)	400	460	501
Shareholders (dividends) <sup>1)</sup>	95	107	146
Tax authorities (income and real estate taxes)	53	111	94
Social security (pension and social security expenses)	74	83	73
Support for the public good	2	2	2

<sup>1)</sup> dividends paid during the financial year

**BREAKDOWN OF ECONOMIC BENEFITS BY MARKET AREA, € MILLION**

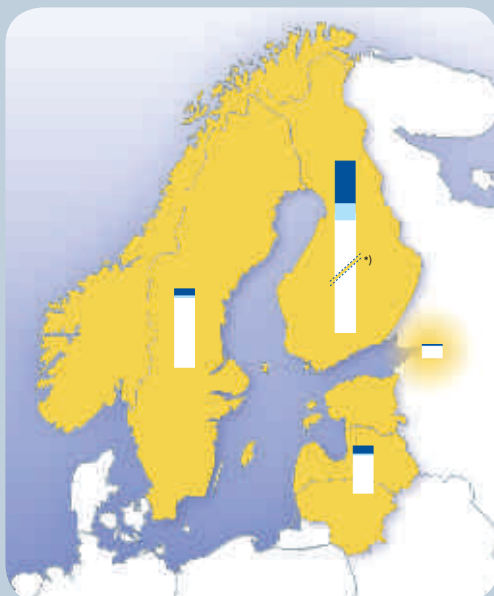
	Purchases	Investments	Salaries and taxes	Total
Finland	5,223	178	475	5,876
Other Nordic countries	769	29	78	876
Baltic countries	414	20	90	524
Russia	123	6	19	148
Other countries	9	1	7	17

Purchases: figures also include Kesko's imports into Finland from these countries.

Investments: both acquisitions and other investments

Salaries and taxes: companies' income and real estate taxes

<sup>1)</sup> The column illustrating purchases has been shortened



- Purchases
- Investments
- Salaries and taxes

Among the 100 largest suppliers, there were 22 such foreign suppliers from which the purchases are included in imports statistics. In addition, large suppliers also included many import companies and Finnish subsidiaries of foreign companies, which are registered in purchase statistics as suppliers operating in Finland.

The Kesko Group's Finnish companies made 81.4% of their purchases from suppliers operating in Finland. In the calculation for 2005, importers accounted for about 16% of these purchases. No corresponding calculation was made for 2006 or 2007, but the share is assumed to have remained unchanged. Based on this assumption, purchases from importing companies operating in Finland totalled €836 million (€820 million). While Kesko's own direct imports were €1,196 million (€1,098 million), the total value of import purchases in Kesko's operations in Finland amounted to €2,032 million, or 31.7% (30.8%) and that of domestic purchases €4,387 million, or 68.3% (69.2%). These figures should be considered as only indicative, as statistics are available for companies rather than products.

Kesko had about 1,700 private label Pirkka products as of the end of 2007, following the introduction of over 176 new products during the year. 44.8% (49.0%) of Pirkka products were manufactured in Finland, and their sales accounted for 57.8% (59.0%) of total Pirkka sales. The table on page 37 gives some examples of the proportion of Finnish products in different categories. Kesko Food had 307 (338) Euro Shopper products sourced through the European AMS alliance in its selection. 27.9% of their sales were of Finnish origin.

### Breakdown of economic benefits

The operations of Kesko and K-retailers benefit their personnel, shareholders, partners, and employees, as well as municipalities and states. The graph and map on this page show how these benefits are divided by stakeholder group and market area (Finland, the other Nordic countries, the Baltic countries, and Northwest Russia). It is not possible to show the breakdown of dividends paid in the same way, beyond stating that non-Finnish investors held 34% of Kesko's shares at the end of 2007.

As stated above, some of the products Kesko buys in Finland are manufactured in other countries. The foreign products imported by Kesko or other companies that operate in Finland and sell them on to Kesko benefit not only foreign suppliers, but generate considerable economic benefit in Finland as well. Importers and trading commissions cover the salaries of the Finnish employees of the companies involved and their other expenses. Value Added Tax is also paid, together with customs duties on some products. It can be estimated that a typical product imported into Finland and sold by a retail store generates an economic benefit equivalent to 40-50% of the product's retail price. The same is true in Kesko's other operating countries.

## BREAKDOWN OF ECONOMIC BENEFITS FROM KESKO'S AND K-RETAILERS' OPERATIONS BY FINNISH REGION IN 2007, € MILLION

Region	Kesko's purchases of goods ***	K-retailers' direct purchases of goods **	Kesko's and K-retailers' investments	Salaries paid by Kesko	Salaries paid by K-retailers **	Taxes paid by K-retailers **	Total
Southern Karelia	11.9	13.2	1.5	5.3	7.9	0.9	40.6
Southern Ostrobothnia	264.2	37.3	4.4	4.8	8.8	0.6	320.2
Southern Savo	47.5	23.9	9.3	4.6	7.7	1.1	94.0
Eastern Uusimaa	77.1	11.2	0.2	2.1	5.2	0.5	96.3
Kainuu	8.4	11.2	2.9	1.5	4.4	0.4	28.8
Kanta-Häme	75.4	34.9	2.1	6.9	10.7	1.2	131.2
Central Ostrobothnia	71.5	7.5	0.2	2.0	2.9	0.5	84.6
Central Finland	73.0	21.7	3.6	7.5	14.3	1.5	121.5
Kymenlaakso	37.1	13.1	8.5	7.2	8.8	1.1	75.8
Lapland	23.4	43.4	6.2	4.2	13.8	2.1	93.1
Pirkanmaa	377.5	30.9	18.5	21.8	24.6	2.6	476.1
Ostrobothnia	93.2	8.8	0.8	5.6	5.2	0.8	114.4
Northern Karelia	26.2	12.7	20.3	3.8	7.4	0.9	71.4
Northern Ostrobothnia	79.6	25.8	20.3	16.6	18.1	2.0	162.4
Northern Savo	144.5	22.4	5.1	8.8	15.7	2.0	198.4
Päijät-Häme	98.5	19.1	5.9	13.7	8.6	0.9	146.7
Satakunta	114.6	19.8	17.8	4.7	9.3	0.6	166.8
Uusimaa	3,112.1	138.0	48.3	247.4	78.1	10.1	3,634.0
Varsinais-Suomi	647.6	38.9	4.2	26.3	23.1	3.1	743.2
Åland	18.5	*)	0.1	-	*)	*)	18.5
Total	5,401.6	533.9	180.2	394.6	274.8	33.0	6,818.0

\*) data has not been collected.

\*\*) K-retailers' figures include the retailers that are customers of Vähittäiskaupan Tilipalvelu Oy (80%–85% of all K-retailers).

Purchases from 1 Dec. 2006 till 30 Nov. 2007, salaries paid from 1 Dec 2006 till 30 Nov. 2007 and taxes from the fiscal periods that ended between 1 Oct. 2006 and 30 Sept. 2007.

\*\*\*) Some service providers that are not included in the calculations for the tables 'Kesko Group's purchases by country in 2007', 'Economic benefits from Kesko's operations for various stakeholder groups' and 'Breakdown of economic benefits by market area' are included in this table.

## Breakdown of economic benefits by region in Finland

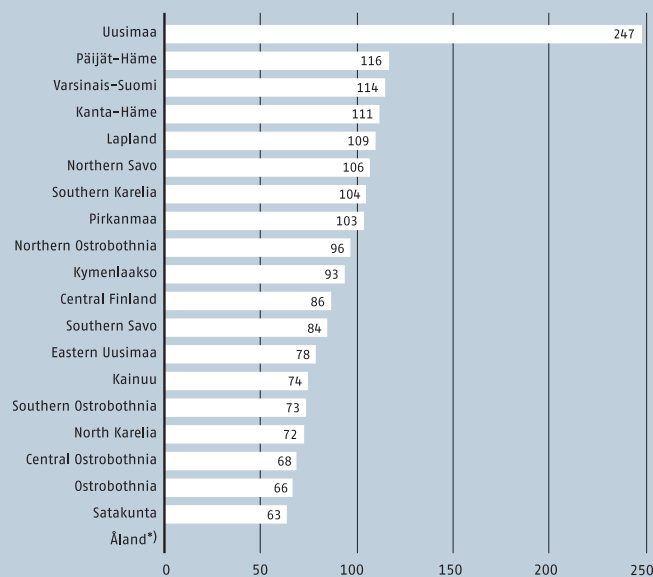
The benefit from Kesko's purchases, K-retailers' direct purchases from local suppliers, salaries paid by Kesko and K-retailers, taxes paid by K-retailers, and investments by Kesko and K-retailers has been divided by region.

It has only been possible to break down purchases by suppliers' invoice addresses, despite the fact that production might have taken place in several locations. As a result, the purchase figures for the Uusimaa region are higher than in reality. As stated before, statistics also include import companies, most of which are located in Uusimaa.

Nearly all salaries paid by Kesko have been broken down by region, but not income tax, as this remains the responsibility of the tax authorities. Compared to other figures, real estate taxes are such a small item that they have not been included in the breakdown.

Only those K-retailers that are customers of Vähittäiskaupan Tilipalvelu VTP Oy are included in the analysis of salaries and taxes. They account for between 80% and 85% of the Group's consolidated net sales. Because it was not possible to specify K-retailers' direct purchases on the basis of invoicing addresses, the statistics have

## SALARIES AND TAXES PAID BY FINNISH REGIONS IN 2007 IN PROPORTION TO THE POPULATION, € PER CAPITA

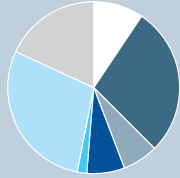


\*) data has not been collected.

Statistics include salaries paid by Kesko and K-retailers, taxes paid by K-retailers. Population numbers are from the web statistics provided by regional councils.

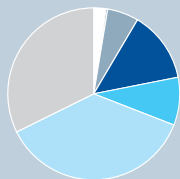
KESKO'S SUPPORT FOR THE PUBLIC GOOD  
IN FINLAND, € 1,000, %

2006



- Health care 213 (9.4%)
  - Veteran organisations 635 (28.1%)
  - Non-governmental and environmental organisations 151 (6.7%)
  - Science, research and education 160 (7.1%)
  - Culture 42 (1.8%)
  - Sports 651 (28.8%)
  - Youth work 408 (18.1%)
- Total 2,260 (100%)

2007



- Health care 54 (2.3%)
  - Veteran organisations 8 (0.3%)
  - Non-governmental and environmental organisations 139 (5.9%)
  - Science, research and education 314 (13.4%)
  - Culture 211 (9.0%)
  - Sports 861 (36.8%)
  - Youth work 757 (32.3%)
- Total 2,343 (100%)

been prepared on the assumption that purchases have been made from within the region in question.

K-retailers' direct purchases from regional producers totalled €534 million (€468 million in 2006), which means that the proportion of local suppliers in store-specific selections has increased. In some regions, K-retailers' direct purchases were considerable. In these cases, there are only a few suppliers with a production volume sufficient to supply Kesko's nationwide chains, and K-retailers buy products from smaller suppliers for their store-specific selections. Kesko's warehouse selections also include a number of small suppliers' products for the same purpose.

Absolute figures do not fully illustrate the differences between regions but must be related to population numbers, in particular when estimating service levels. The figures for salaries and taxes per inhabitant, shown on previous page, illustrate the K-Group's human resource input in each region's infrastructure. The figures for Uusimaa are not comparable in this respect, as they include the Kesko Group's administrative functions and a major part of the personnel of the division parent companies. Investments could also be shown in the same way, provided that the time period under review is longer than one year.

Kesko pays a monthly benefit to K-Plusa cardholders for their purchases in the form of Plusa points, which can be used instead of money in all K-stores and Plusa partner companies. These benefits have not been included in the calculations concerning the economic benefit provided by Kesko to its stakeholders, because the benefits are part of the pricing of the products sold and reward customers for concentrating their purchases at K-stores. As some Plusa benefits are granted in the form of specially priced Plusa card offers, Kesko does not include these activities under economic responsibility but treats them as a form of normal competition.



## Financial support

Kesko and its subsidiaries support a number of organisations that work for the good of society in Finland. In many cases, support is based on reciprocal cooperation, in which Kesko is not only a sponsor, but also an active player. Kesko directs its support primarily to areas associated with the everyday life of families with children. Supporting socially responsible activities and sustainable development in Kesko's operating environment is also important to Kesko. Drawing a line between donations, sponsorship, and marketing is often difficult. When purely marketing measures are left out of the calculations, the financial support provided by the Kesko Group for the public good in 2007 amounted to €2.3 million (same as in previous year).

The subsidiaries outside Finland accounted for €0.5 million or 20.7% of the financial support.

In Norway, Byggnakker together with its employees donated €52,500 to 'Save the Children' foundation. Out of this sum €40,000 was donated by the employees as they donated two thirds of their 2007 Christmas money to the foundation. Byggnakker's contribution was €12,500. They are planning to continue this in the coming years and increase the amount donated to 'Save the Children'. In Latvia, Rautakesko donated €23,400 to build a playground for the children's hospital. The opening event was organised on International Children's Day.

## Case



*Aimo Kulonen, sending his son, Antti, off to school.*

### MAKING IT SAFER FOR FIRST GRADERS TO GET TO SCHOOL, THANKS TO RAUTIA

The Rautia chain posted reflectors to all of Finland's nearly 60,000 children starting school for the first time in 2007 – as part of the Finnish National Board of Education's 'Safety Affects Everyone' traffic safety campaign between September 10 and 14, 2007.

The idea for sending out the reflectors came from Aimo Kulonen, a salesman at Rautia Raisamo in Nokia.

'Our slogan, 'Rautia – part of your life', got me thinking about how we could be part of people's lives from the very start, when they're children,' says Kulonen. 'My own son started school in autumn 2006 and it was natural to make sure he wore a reflector as the autumn days become darker. It's important that reflectors are good quality, so that they can be seen easily in dark. Thanks to our campaign, we were able to give every child starting school for the first time in 2007 a high quality reflector to protect them.'

### ENCOURAGING ACTIVITY DURING SCHOOL BREAKS

A new world school break-time exercise record was set in Finland at 9.45 am on November 1, 2007 when 147,482 schoolchildren pounded the ground across the country in tune with a direct broadcast by Radio Nova. The new record broke the previous one, dating from 2006, by over 40,000 participants.

The record was part of the school break campaign coordinated by Kesko and the Young Finland Association, which encourages schoolchildren to be active during school breaks.

Kesko has donated sports equipment to the campaign, including 2,600 sports bags, which were raffled off to classes that sent in details on how much exercise they had taken during the week of the campaign. Some 166,000 schoolchildren from 1,950 schools, together with 9,000 teachers, took part in the campaign.

Radio Nova's Minna Ottavainen reported on the attempt on the world record from a school in Luttasaari in Helsinki. The atmosphere was tense as hundreds of children danced and bopped away to the music of the Finnish Idols star, Anna Abreu. Young Finland's mascot, Vikke, kept everyone smiling with his crazy dance steps.



### HELPING DISADVANTAGED FAMILIES AT CHRISTMAS

The Mannerheim League for Child Welfare, the Finnish Red Cross, Radio Suomi and the television channel Yle TV1 arrange a 'Good Christmas Spirit' collection every year on morning television to send €60 gift vouchers to disadvantaged families over Christmas. Kesko donated €30,000 earmarked for the company's Christmas cards for the tenth time in 2007.

The collection was a greater success than ever this time around, and nearly €650,000 was collected, €50,000 above the target. Gift vouchers were distributed to 10,000 needy families before Christmas, and the remaining €50,000 will be distributed next Christmas.

Recipients are selected on the basis of need, and the Mannerheim League for Child Welfare and the Finnish Red Cross work with children's clinics and church congregations to identify those who would most benefit. This year, vouchers were distributed to low-income families with at least one child under 15 suffering from unemployment, illness, debt problems, or other difficulties.



## HAND-BAKED KARELIAN PASTIES FROM NURMES

The Pirkka-brand Karelian pasties in the frozen cabinets at K-food stores are produced by Pielispakari Oy in Nurmes. The partnership between the companies, which began in 2006, has transformed the regional bakery into a national player.

The bakery took on four extra people after receiving the Pirkka contract, and the company, which was founded in a garage in 1992, employs 40 people today and makes an important contribution to the local economy, where unemployment is running at over 15%. A good workforce is essential to hand-shape the more than 19,000 Karelian pasties produced daily. Some 5 million pasties, a traditional local product officially recognised by the EU, are produced annually, of which Pirkka-brand pasties account for 1.5 million.

The small Pielispakari bakery works closely with Kesko on marketing, logistics, and product development. The partnership benefits both the bakery itself and the industry as a whole, according to Managing Director Erkki Timonen. 'I see it as very positive that Kesko wanted a local small business as its partner. This is a good sign for the future of the industry generally, I believe.'

*Pielispakari's Pirkka-brand Karelian pasties were awarded an honourable mention in the grain products series at the Finnish Star Product of the Year contest arranged at the Finnish Food Product of the Year event in May 2007.*



## 'THE PERSPECTIVE OF LOCAL BUSINESSES GOES FAR BEYOND SIMPLE QUARTERLY REPORTING'

'Local businesses are prominent in the local community, and responsibility is something that is reflected in their day-to-day work by definition,' says Jorma Tarkki, Chairman of the Board of Finland's largest sock manufacturer, Sukkamestarit Oy.

Sukkamestarit has produced Pirkka-brand sports socks since they were introduced in 1997. Founded in 1995, the company currently has net sales of €8.8 million and employs 60 people. Sukkamestarit produces 4.3 million pairs of socks a year, of which 1.2 pairs are supplied to Kesko. The company expanded into men's underwear at the beginning of 2008.

Sukkamestarit sees responsible operations as an integral part of its competitiveness, and its aim is to act as responsibly as its customers. The company has a number of long-term supplier and customer contracts, and subcontractors are monitored with the help of regular audit visits. Redundancies, if called for, are always handled in collaboration with local municipal employment offices and other local companies. Responsible operations play a key role in shaping the company's public profile.

'We're an attractive employer and we don't have any problem recruiting new people,' says the company's Managing Director, Jussi Koskinen.

Sukkamestarit prioritises environmental issues in its operations, and uses only raw materials that comply with the Ökō-Text standard, and recycles and reuses all of its materials. The production process is a closed one and generates no emissions. Socks are shaped in the final stage of the process using chemical-free distilled water. This produces a better result than traditional methods and ensures that no chemical residues that could cause allergic reactions find their way into end-products.



## 'GIVE CHILDREN A LIFE' CAMPAIGN COLLECTED OVER 1 MILLION EUROS

Around 4% of children in Finland annually are born prematurely. Intensive care for premature babies is very advanced in Finland, and thanks to the high-quality care, even babies born in the early part of the third trimester can expect a good start in life. Around 50 premature infants can be cared for in a single incubator unit in a year, and each unit has a service life of around 10 years.

K-food stores and Chiquita have taken part in the 'Give Children a Life' campaign, which donates incubators and other intensive care equipment to the children's clinics at Finland's five central university hospitals, for the last nine years. The target for the 2007 campaign was to collect over a million euros, which was exceeded. The joint effort by Kesko and Chiquita achieved its highest sum ever – €205,931 – which came from donating three cents for every kilo of Chiquita and Chiquita Mini bananas sold and voluntary donations.

The campaign lasts in K-food stores from April to September, culminating in a televised 'Give Children a Life' concert.

Environmental performance



## KEY ENVIRONMENTAL PERFORMANCE IN 2007

- + Total electricity consumption in Finland increased by 2%, whereas the gross-floor area increased by 3.6% and net sales by 6%.
- + Specific electricity consumption decreased in all significant Kesko Food's premises.
- + Total heat consumption in Finland remained unchanged compared to 2006 and specific consumption calculated for all real estate types decreased by 3.5%.
- + The target to establish acceptable consumption frameworks for all the Group's major business types was achieved.
- + From the beginning of 2008, Kesko has started to purchase 'Carbon Free Electricity' supplied by Fortum Markets Oy – Kesko's main provider of electricity.
- + The scope of Finnish transportation statistics was expanded to cover all outsourced transportation as well as trunk and long distance distribution.
- + Statistics on business travel by air was included for the first time.
- + The average waste recovery rate in Finnish distribution centres remained at a high level – 89%, and at 98% in Anttila.
- The impacts of electricity supplied by Kesko increased in Finland: the estimated use of electricity generated from non-renewable sources increased by 25% and CO<sub>2</sub> emission by 21%.
- The content of the Group's climate change programme was not finalised.
- The target to increase the coverage of multi-energy measurement was not met.
- No progress in the implementation of environmental management systems in operations outside Finland.

### Kesko's approach to environmental management

Kesko's environmental management is based on the company's environmental policy, revised and adopted by the Corporate Management Board in January 2007; the International Chamber of Commerce's principles of sustainable development, signed in 1997, and the ISO 14001 standard. The policy has been adopted by the Board of the K-Retailers' Association, and covers all operations of the K-Group, including the Kesko Group and the operations of retailers in Finland and abroad. The Group's key business partners are also expected to follow the principles set out in the policy. The main changes in the revised environmental policy include a more formal description of responsibilities and linkage to Kesko's management model. The policy states that it is the responsibility of the Corporate Responsibility Advisory Board to establish the main objectives and targets for the Group's environmental activities. Divisions and subsidiaries are responsible for incorporating these objectives and targets into programmes that support their respective business activities. Progress is followed and updated annually as part of strategy work. Examples of these activities are presented on p.27 (objectives and targets).

The K-Group's environmental policy can be consulted at: [www.kesko.fi](http://www.kesko.fi) (responsibility). A shortened version of the policy is also included in the 'Our Responsible Working Principles' guide, which is distributed to all employees working in the K-Group.

The environmental management system had been certified in all units with significant direct environmental impact by the end of 2007, apart from the Hamina Terminal, which employs an environmental system based on the ISO 14001 standard though not yet certified. ISO 14001 certification of Keslog Ltd was revised during the year. Certification covers central warehouses 1 and 2 in Vantaa, the frozen food warehouse in Vantaa, and the warehouse in Turku, and the terminals in Vantaa, Tampere, Oulu, Kuopio, Turku, Mikkeli, and Jyväskylä. VV-Autotalot Oy and Turun VV-Auto Oy have built their management system based on the program created by the Finnish Central Organisation for Motor Trades and Repairs Association and passed certification in October 2007. This system fulfills the requirements set both in the ISO 14001 and ISO 9001 standards.

Other units with ISO 14001 certification are:

- Anttila Oy's central unit, mail order sales, and NetAnttila operations.
- All Anttila and Kodin Ykkönen department stores, apart from Mikkeli department store opened in October, where certification process was ongoing at the year end.
- Real estate management and maintenance (ISO 14001 and ISO 9001 certificates held by YIT Kiinteistötekniikka Oy, which is responsible for some 50% of outsourced real estate operations).

Kesko Food's return logistics terminal operations are operated by Lassila & Tikanoja (L&T). The terminal sends recyclable material returned from stores for further treatment and other returned components for reuse. The terminal is not included in Kesko's or L&T's environmental systems as yet. Its performance, in terms of the volumes of recycled materials it handles, is included in Kesko's Corporate Responsibility Report.

Kesko has an agreement in Finland with YIT Kiinteistötekniikka Oy on the management and maintenance of some 440 premises totalling 1,511,000 square metres (net floor area), and with Ovenia Oy of some 300 premises totalling 857,000 square metres (net floor area). Ovenia's share of outsourced real estate operations is some 30%.

Like Kesko, Ovenia has been covered by the KRESS energy-saving agreement between MOTIVA and the Ministry of Trade and Industry. The KRESS energy-agreement was terminated at the end of 2007 to be replaced by new industry-specific energy-saving agreements based on the Directive 2006/32/EC on energy end-use efficiency and energy services. Kesko has participated in the preparation of the new agreement for retail trade signed by the Federation of Finnish Commerce on December 4, 2007. The new energy-saving agreement will be valid for the years 2008-2016.

The Kauko-Telko Group employs an environmental system based on the ISO 14001 standard although it has not been certified. Kauko-Telko Group has also signed the Responsible Care Program - the chemical industry's worldwide commitment for sustainability. Kesko's main office building in Katajanokka, Helsinki, and Kesko Food's central warehouses in Hakkila Vantaa, together with the

Turku distribution centre, have adopted an environmental programme for office work developed by Kesko.

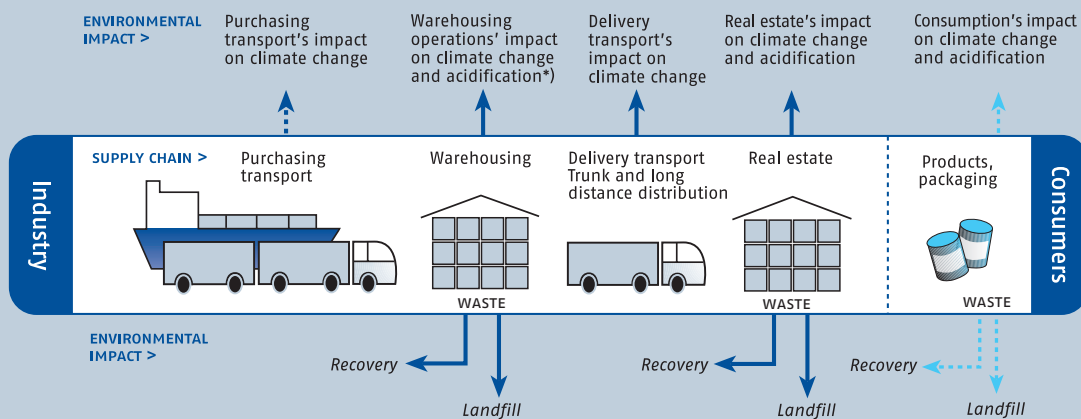
K-stores' environmental management is based on a variety of inputs, including the K-environmental store manual, division-specific training programmes, and best practices documented on the intranet. The K-environmental store model has been a part of the chain concept employed in the largest K-food stores since 2004 (see pages 56-57). In early 2008, it was decided to have all K-maatalous agricultural stores under the concept by spring 2009, and all K-rauta and Rautia stores by the end of 2009. Under the Kesko Group's revised environmental policy, all business operations which have significant impact on the environment must, in future, include the K-environmental store concept as part of their chain requirements.

The K-environmental store manual for Rautakesko's operations has been translated into English to help introduce the K-rauta chain's environmental management system in its foreign subsidiaries. Implementation of the K-environmental store concept in foreign operations did not proceed during the year due to a lack of resources.

### Goals and performance

How well Kesko's Group-level objectives for 2007 were reached, together with the new objectives for 2008, are discussed under Kesko's policies, principles, and management systems on corporate responsibility (see pages 25-27). The units with ISO 14001 certification have all set their individual targets in line with the requirements defined in the standard.

#### KESKO'S ENVIRONMENTAL IMPACT



\*) included in the impact associated with real estate

Kesko Ltd's main targets were related to the optimisation of delivery transportation, the reduction of total waste from all warehouse operations and the reduction of electricity consumption. Measured as €/m<sup>3</sup>, the optimisation of delivery transportation was reached as the cost per cubic metre decreased by 3%. The total waste (kg) from warehouse operations was reduced by 7%. The goal to reduce electricity consumption by 3% was not met as consumption rose by 6%. The underlying reasons were the installations of a new cooling area, and new office premises for 140 employees together with the new banana ripening plant which became fully operational in summer 2007.

At Anttila warehouses, the target to keep the recycling rate at the same level as in the previous year was not quite met (-0.8%) if hazardous waste is excluded from the recycling figures. If hazardous waste is calculated as part of recycled waste, the high recycling rate of 98% was once again reached. The new target for 2008 is to significantly increase the segregation and recycling of plastics. The target of reducing total electricity consumption at the Anttila distribution centre was not met as the absolute consumption increased by 6.2%. At the same time, however, the amount of working hours rose by 8%.

The Anttila and Kodin Ykkönen department stores have set their own targets in line with divisional targets. Some 45% of stores reached their target for electricity savings, and 68% for reducing waste volumes. Many department stores share their waste management with other local operators. This presents a number of challenges in respect of appropriate segregation.

## Real estate operations

### Construction and maintenance

Kesko's construction operations are based on following the target levels and technical specifications set for different types of business operations, covering areas such as indoor climate and essential technical quality requirements. The 'core and shell' model is utilised in the specifications; this facilitates cost control during a building's life-cycle by dividing a building into a long-term shell and flexible business core. Specifications also include empirical maintenance knowledge gained as a building owner-user in order to ensure the best LCA-based practice in use.

The value of Kesko's store site investments in 2007 totalled approximately €189 million. This figure is not comparable to the value of real estate investments reported in the Corporate Responsibility Report for 2006, as the figure in that year - €218 million - also included investments in Rimi Baltic AB. Investments in 2006, excluding investments in Rimi Baltic AB, totalled €187 million. Store site investments for 2005-2007 also include investments in existing properties.

The foundation of Kesko's real estate management in Finland is the CuEstate database, which maintains all root-level data of Kesko's premises such as name and gross floor area. It is operated by Kesko and is a source system for three web-based management systems namely 'Tampuuri', 'Ryhti'® and 'Enerkey' which, in turn, are utilised by the outsourced real estate management and maintenance service providers.

'Tampuuri' serves as a maintenance log book and includes Kesko-defined target levels for different types of business operations, and covers areas such as quality requirements for mechanical and electrical services. 'Ryhti'® is a tool for long-term planning and contains information on the repairs related to property life cycle management. Enerkey is an energy monitoring system that enables the control of changes of energy consumption online. Systems such as these make it possible to optimise investments related to property maintenance, which also support the business purposes.

Kesko's experts participated in several working groups organised by RAKLI, the Finnish Association of Building Owners and Construction Clients. One of the projects was 'Agreements on Property and Facility Managements', which aimed to create an instrument to procure both property and facility management services and an instrument with which a company can analyse its own activities and improve its managements skills. The result is a checklist and aid to help describe the scope, quality and price of assignments for property and facility management.

As part of the national implementation of the Directive 2006/32/EC on energy end-use efficiency and energy services, Kesko participated in a survey which analysed the relative impact of the energy-saving operations conducted by three major retailers during 1995-2006 in Finland. The survey was funded by the Ministry of Trade and Commerce. Based on the results, the relative annual savings in electricity totalled 380 GWh (25%) and in heat 590 GWh (62%). Some uncertainty is included in the estimated savings due to the long time period; however, the results clearly indicate that the Finnish retail trade has put much emphasis on energy-saving actions and have yielded significant results.

### Environmental risks associated with land use

Surveys of contaminated land are made annually in connection with construction work or real estate transactions. Contaminated land was identified at two construction projects in Finland in 2007 and appropriate actions taken by Kesko. Four site investigations were conducted as part of real estate transactions. No remedial actions were undertaken at premises outside Finland in 2007.

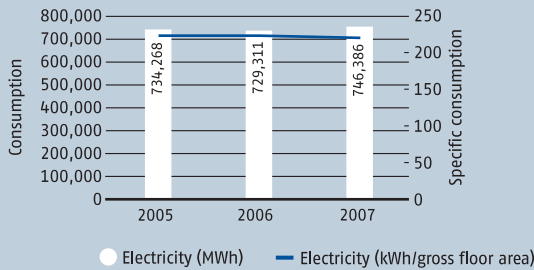
In 2007, the Finnish Ministry of the Environment sent 18,000 letters to landowners in Finland evaluating issues such as the former use of the site. Kesko delivered information on 33 sites - mostly Pikoil oil stations - to the Ministry's register of land use.

### Monitoring energy and water consumption

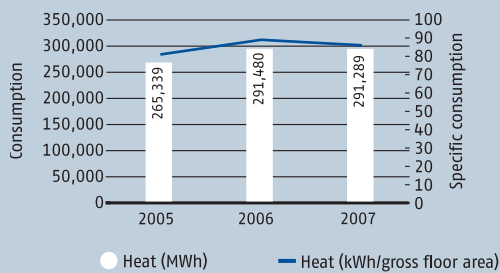
Energy and water consumption are calculated in relation to the heated gross area of premises in Finland. This approach provides greater comparability of specific consumption with the statistics generally used in Finland - published by Motiva for example - and will illustrate true consumption patterns more accurately. Only information based on the net floor area is available for premises outside Finland.

The gross floor area owned or leased by Kesko totalled 3.4 million square metres in Finland as of the end of 2007, with some 2.9 million square metres as net floor ar-

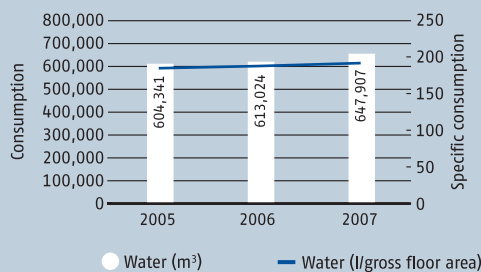
**CONSUMPTION OF ELECTRICITY AND SPECIFIC CONSUMPTION <sup>\*)</sup> IN FINLAND, 2005-2007**



**HEAT CONSUMPTION AND SPECIFIC CONSUMPTION <sup>\*)</sup> IN FINLAND, 2005-2007**



**WATER CONSUMPTION AND SPECIFIC CONSUMPTION <sup>\*)</sup> IN FINLAND, 2005-2007**



<sup>\*)</sup> Measured specific consumption converted to cover all real estate premises.

ea. The surface area calculated as gross floor area has increased by 3.6%. The net floor area totalled 3.6 million square metres, of which 0.7 million square metres were outside Finland.

In terms of energy consumption, the most important real estate categories are K-citymarkets, K-supermarkets, K-markets, Anttila department stores, and office and warehouse buildings. Consumption monitoring is as inclusive as possible for these properties. The aim has been to ensure that monitoring includes properties from all categories to increase the accuracy of total consumption calculations as far as possible.

Electricity, heat, and water consumption in Finland is monitored using the EnerKey system supplied by Energia-kolmio Oy. This enables monitoring to take place automatically in locations where the electricity utility has an hourly-based measurement terminal. In most buildings, remote terminal reading takes place via the telephone network at least six times a month. Readings from manually monitored meters are collected by maintenance companies.

The target to increase the coverage of multi-energy monitoring in premises managed by Kesko to 80% in 2007 was not achieved as the coverage remained at 63% (64% in 2006). To increase the coverage of multi-energy monitoring is challenging as the premises outside the present monitoring are mostly relatively small and have no metering systems - the cost of heating energy is included in the rent. Furthermore, in order to increase the coverage, monitoring should include a considerably higher number of small stores.

Electricity consumption alone was monitored at 17% of premises (13%), mainly not owned by Kesko. Consumption at premises outside the system is evaluated by the type of property and is based on the specific consumption of the premises monitored.

**Energy and water consumption in 2007**

The combined electricity consumption of Kesko and the K-retailers operating in Kesko's premises in Finland totalled slightly above 746 GWh. Electricity consumption increased by 2% when, at the same time, the gross floor area increased by 3.6% and the net sales by 6%.

Specific consumption at all significant real estate categories of Kesko Food decreased (at K-citymarkets by 0.9%; K-supermarkets by 3%; K-markets by 4.7%); however, absolute consumption increased by 7% both at K-citymarkets and K-supermarkets. This increase in consumption was comparable to the increase of the number of stores: the gross floor area of K-citymarkets increased by 8% and that of K-supermarkets by 10%.

In the small food stores category, absolute consumption of K-markets decreased by 4% but increased by 17% in K-extra. The specific consumption of Anttila department stores increased by 5.1% and absolute consumption by 1%. This was due to heavy electricity consuming equipment, such as stacker cranes, operating 5.6% more hours than on average during 2005-2006.

In real estate covered by the KRESS real estate and construction energy-saving agreement, total electricity consumption increased by 5 GWh (1%) - comparable to the



increase in gross floor area (2%). Most of the increase was due to the new banana ripening plant. The specific consumption of K-rauta stores covered by the KRESS agreement continued to fall again this year by more than 10% and Anttila department stores by 12%. The specific consumption of K-citymarkets and K-supermarkets increased slightly by 1.2 % and 1.8% respectively.

The decreases in specific consumption and total consumptions of various business types are mainly due to the work carried out by Kesko's energy team during 2006-2007 to establish 'consumption frameworks' of acceptable specific consumptions. The 2007 target to establish these frameworks for all the Group's major business types - K-citymarkets, K-supermarkets, K-markets, K-rauta, and Rautia stores - was achieved.

Heat consumption was 291 GWh as in the previous year. The specific consumption calculated for all real estate categories decreased by 3.5%. The specific consumption in K-citymarkets decreased by 5% and in K-supermarkets by 5.6%. These figures are absolute and not temperature-adjusted. Temperature-adjusted consumption data of comparable properties shows a similar trend: standardised consumption decreased by 2% on 2006.

Water consumption stood at 647,907 cubic metres - some 6% more than in 2006. The total specific consumption increased by an average of 2%, and in KRESS buildings by 3%.

Total water consumption in K-citymarkets rose by 10% and in K-supermarkets by 12%. This increase was comparable to the increase in the number of stores. Total water consumption decreased by 15% in Anttila department stores.

The three largest K-food store chains (K-citymarkets, K-supermarkets, and K-markets) accounted for 63% of the Kesko Group's total electricity consumption, 65% of water consumption and 57% of heat consumption.

The primary energy used by Kesko in Finland in 2007 was equivalent to approximately 0.3% of the total national energy consumption (1,492 PJ in 2006 according to Statistics Finland's energy statistics). Electricity used at Kesko's Finnish premises accounted for around 0.8% (90 TWh according to www.energia.fi/ 2006 statistics), and district heat for about 0.9% (32.3 TWh in 2006 according to Statistics Finland) of total consumption in Finland.

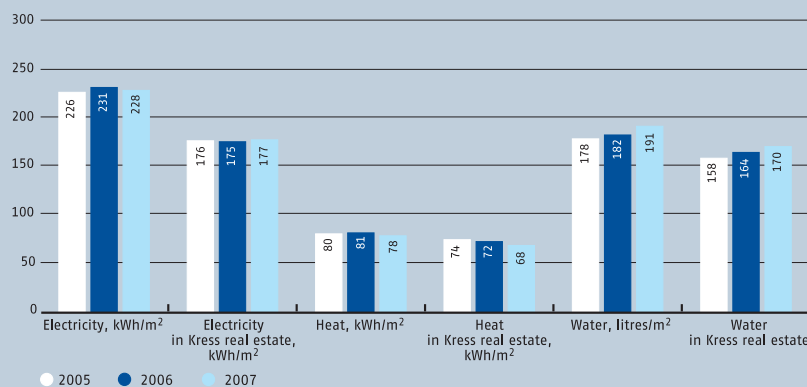
Energy monitoring and related emission calculations were initiated during 2005 in Kesko's companies outside Finland. Foreign subsidiaries purchased a total of 79.4 GWh of electricity and distant heat compared to 68.9 GWh in 2006 (excluding Rimi Baltic's 2006 figure) Consumption of heat and electricity generated by subsidiaries themselves totalled 8.4 GWh (18 GWh) in the Baltic countries. Energy consumption figures in Russia and Belarus are not included.

**Environmental energy profile**

Energiakolmio Oy has calculated Kesko's environmental profiles for 2007. The profiles quantify the environmental impact of the energy usage by reporting it in equivalent tonnes of CO<sub>2</sub>, SO<sub>2</sub> and radioactive waste. The calculation, which includes a comparison with the energy protocol contained in the GRI reporting guidelines, is published in full at: www.kesko.fi (responsibility).

Kesko supplied 577 GWh or approximately 77% of the total energy used by the K-Group in Finland, an increase of around 8% on 2006. K-retailers purchased the remaining 170 GWh themselves.

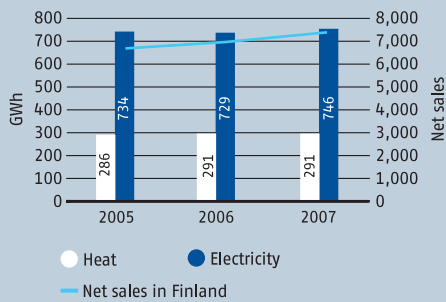
**SPECIFIC CONSUMPTION <sup>1)</sup> OF ELECTRICITY, HEAT AND WATER IN THE REAL ESTATES OWNED OR LEASED BY KESKO IN FINLAND, 2005-2007**



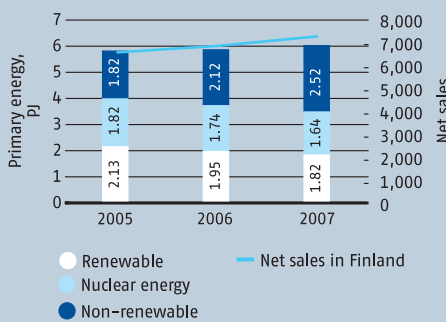
KRESS real estates are covered by the real estate energy saving agreement  
 Their proportions of floor areas used in the calculations of specific consumptions are:  
 electricity 28%, heat 26%, and water 28%.

<sup>1)</sup> Measured specific consumption.

**TOTAL ENERGY CONSUMPTION IN THE REAL ESTATE OWNED OR LEASED BY KESKO IN FINLAND, 2005-2007**

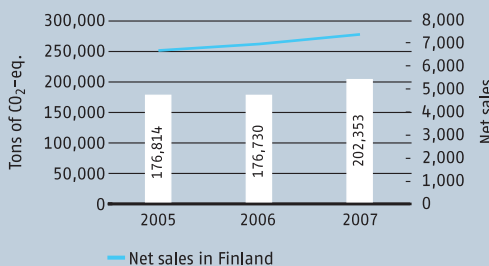


**PROFILE OF THE ENERGY USED IN THE REAL ESTATE OWNED OR LEASED BY KESKO IN FINLAND, 2003-2007**



2007 is an estimate based on 2006 energy profile as 2007 energy profile is not yet available.

**ENVIRONMENTAL IMPACTS OF THE TOTAL ENERGY USED IN THE REAL ESTATE OWNED OR LEASED BY KESKO IN FINLAND, 2005-2007**



2007 is an estimate based on 2006 energy profile as 2007 energy profile is not yet available.

As in previous years, no environmental profile for 2007 for calculating Kesko's indicators was available from the energy utilities in February 2007. As a result, the 2006 environmental profile obtained from the Group's main suppliers has been used. For electricity purchased by K-retailers themselves, the average 2006 environmental profile of electricity consumed in Finland has been used. Kesko's indicators for 2006, which for the 2006 report had to be calculated on the basis of the 2005 environmental profile, have now been updated to correspond to actual emissions in 2006. A corresponding update was made in the 2005 figures a year earlier.

The environmental impact of the generation of district heat has been assessed on the basis of generation and emissions information published by Statistics Finland in 2006.

The calculation of nuclear waste is based on the amount of nuclear energy used - energy suppliers have a statutory obligation to report this indicator.

The summary tables presenting the environmental impact associated with generating the electricity purchased by Kesko and the electricity and heat used in all real estate managed by Kesko between 2005 and 2007 - including electricity purchased by K-retailers - are found at: [www.kesko.fi](http://www.kesko.fi) (responsibility). For the above reasons, the figures for 2007 and the changes between 2006 and 2007 are only indicative.

Fortum markets Oy was the biggest electricity supplier in 2007 with its share dropping from 86% in 2006 to 82%. The second-largest supplier was Suur-Savon Sähkö Oy (15%). The share accounted for by Pohjois-Karjalan Sähkö Oy dropped further to 2%. Balance power accounted for 1%.

Energiakolmio's environmental profile calculation for 2007 revealed that the share of electricity purchased by Kesko generated from renewable natural resources has, after many years of positive trend, decreased and the proportion of electricity generated from non-renewable natural resources increased by 25% compared to 2006. The main reason was the increased use of non-renewables and especially peat in energy production. Correspondingly, the CO<sub>2</sub> emissions rose by 21%.

In respect of the electricity supplied by Kesko, the updated figures for 2006 reveal that the share of electricity generated from non-renewable natural resources increased by 54% compared to the estimated decrease of 17% presented in the 2006 report. This change was also due to the increased use of non-renewables and peat in energy production.

As of January 2008, Kesko has started to supply carbon free electricity from Fortum Markets Oy. This electricity is generated by nuclear power and renewable energy sources. The proportion of electricity generated by the non-renewable natural resources of Kesko's purchases, together with CO<sub>2</sub> emission related to energy production, will drop significantly in 2008. This switch to carbon-free electricity will also help in estimating the actual energy profile and emissions of the reporting year, as the energy sources used by the biggest supplier are guaranteed to be carbon free.

As in previous years, the ozone levels in the lower atmosphere were evaluated on the basis of the average profile for Finnish electricity generation, as electricity suppliers do not usually provide this data in their own emission profiles. As a result, ozone information contains major uncertainties.

It can be estimated that the relative combined share of Kesko and K-retailers' electricity and heat consumption of total greenhouse gas emissions (202,353 tons) in Finland was about 0.3% in 2007 (approx. 64 million tons in 2006, www.energia.fi).

Outside Finland, calculations of the consumption of primary energy in electricity and heat generation in Estonia, Latvia, Lithuania, Sweden, and Norway are based on country-specific statistics on energy generation and statistics prepared by the International Energy Association (IEA). Specific electricity emissions are based on the statistics of Eurelectric, and assessments of district heat emissions are based on the energy sources used. Specific emissions of nuclear energy consumed are estimated at 4.25 g per MWh regardless of country. The calculation of carbon dioxide emissions from Kesko's own generation is based on the OECD/IEA instructions and the IPCC 1996 Good Practices Guide. Acidifying emissions from Kesko's own generation have not been calculated, as it is mainly based on natural gas.

Foreign premises accounted for approximately 20% of Kesko's total real estate volume, 8% of combined electricity and heat consumption, and 6% of greenhouse gas emissions.

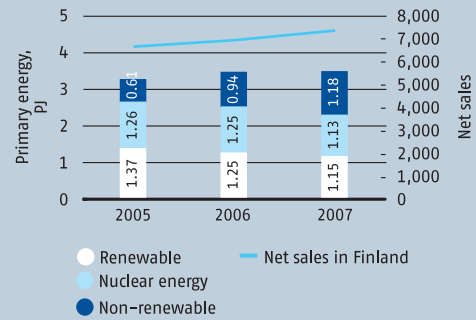
The share of foreign operations has decreased both in terms of energy consumption and greenhouse gas emission due to the disposal of Kesko Food's 50% shareholding in Rimi Baltic AB. Comparable figures for greenhouse gas emissions without Rimi Baltic's operations totalled 14,933 tons in 2006 and 14,664 tons in 2007 - a decrease of 2%.

Energy consumption in the Kesko Group in Finland and other countries combined (without Rimi Baltic's operations in 2006) increased by about 1.5%, whereas climate warming-related emissions increased by about 13%, and acidifying emissions by about 4.7%. In respect of climate warming-related emissions in particular, the above shortcomings in the calculation of the environmental energy profile must be taken into account. The amount of radioactive waste decreased by about 1.5%

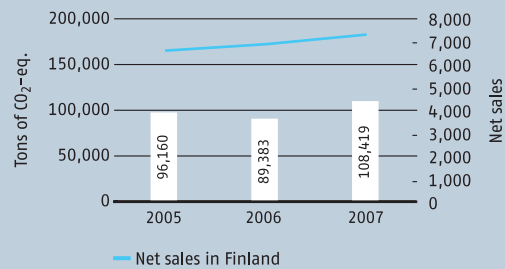
### Transport

In 2007, the scope of Kesko's transportation statistics was expanded to cover also trunk distribution between Kesko's warehouses and distribution terminals, and long distance distribution between warehouses and terminals to stores outside their distribution areas. In addition, the 2007 calculations included distribution carried out by all external operators employed in Finland, rather than just refrigerated transportation by contract drivers (+2 operators) as had been the case in previous years. Therefore, the transport statistics are not comparable with those for previous years. Transportation in foreign subsidiaries is slightly more comprehensive than in 2006, as this year the kilometres driven by Kesko Agro's operations in Lithuania and Estonia are also included.

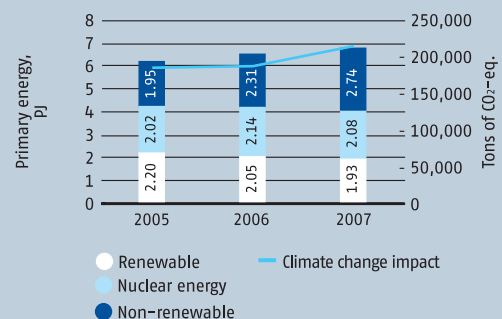
PROFILE OF ELECTRICITY SUPPLIED BY KESKO TO THE K-GROUP IN FINLAND, 2005-2007



CLIMATE CHANGE IMPACT OF ELECTRICITY SUPPLIED BY KESKO TO THE K-GROUP IN FINLAND, 2005-2007



PROFILE OF PURCHASED ELECTRICITY CONSUMED BY THE WHOLE KESKO GROUP AND ITS CLIMATE CHANGE IMPACT, 2005-2007



Excluding own production and purchased energy for Russia and Belarus.

2007 is an estimate based on 2006 energy profile as 2007 energy profile is not yet available.

Detailed information is available at: [www.kesko.fi](http://www.kesko.fi) (responsibility).

About 70% of domestic goods for Kesko Food's warehouses are bought at 'ex works' prices; this allows Kesko Food to decide on the mode of transport used. In most cases, transportation is handled by Kesko Food's trucks returning from trunk shipments or deliveries, which means that these purchases are included in the figures for distribution kilometres.

Keslog transported 125,162 loads to K-retailers and other Kesko's customers in 2007 (115,272 in 2006), representing 644,634 tons of goods (586,608 tons). The total distance driven was 15.9 million kilometres (13.8 million). The average load was 5,150 kilos (5,089 kilos) and 15.1 m<sup>3</sup> (14.9 m<sup>3</sup>) of goods. The average distance driven per load was 126.7 kilometres (120 kilometres). The total distance driven by trunk distribution and long distance distribution was 11.6 million.

The distance increase was due to increased volumes. Minor structural changes continued in 2007, when the transportation of meat products in the northern Kainuu region was started at the Kuopio terminal. This change increased the terminal's kilometres per load by 18.3%. At the same time, the average volumetric efficiency of loads - measured both as t/load and m<sup>3</sup>/load - decreased by some 1%.

In total, Keslog distributed 10% more goods compared to 2006 and its overall performance measured as average volumetric efficiency of loads both as (t/load) and (m<sup>3</sup>/load) increased by some 1%.

Contract transport companies in Finland travelled some 6.7 million kilometres. This figure is based on the information provided by transport companies as a proportion of the total distances driven. It has not been possible to compile sufficiently accurate statistics on the loads, cubic metres, and tons involved.

Anttila's transportation totalled 817,723 kilometres - an increase of 51% over 2006. The majority of Anttila's transportation is handled by Keslog. Warehousing and the transportation of products sold by Rautakesko and Kesko Agro to K-retailers were mainly handled by external suppliers; similar statistics to those available for Kesko Food's and Anttila's transportation are not available.

Statistics regarding foreign subsidiaries' transportation include Norway, Rautakesko's operations in Latvia, and Kesko Agro's operations in Lithuania and Estonia. Companies in Sweden, together with Rautakesko Estonia, Senukai and Kesko Agro Latvia, were not able to provide transportation data. Regarding transportation statistics, only the emission data has been recorded in the table opposite.

The total volume of imports forwarding by Keslog was 318,562 tons - an increase of 12.5% over 2007. Transportation within Europe was handled by trucks, semi-trailers and containers, and from outside Europe by containers only. Kesko Food accounted for 71% of all imports.

### Transport emissions

The emissions associated with deliveries by Keslog and other Finnish transport companies have been calculated according to the kilometres driven, as no fuel consumption data is available. Finnish transportation is based on the emission factors and definitions contained in the LII-SA 2002 model produced by VTT Technical Research Centre of Finland. Information is provided on co-efficient by truck type, engine category and driving speed. Emissions associated with deliveries by foreign subsidiaries have been calculated on the basis of the fuel used in accordance with the GHG Protocol - Mobile Guide.

Together with the expansion of the scope of transportation statistics in Finland, the assumptions for fleet type used and the share between rural and urban traffic have also been revised.

Volumetric efficiencies applied in Keslog's calculation for distribution delivery were 30% for truck and 70% for full trailer transportation.

The assumed proportion of truck transportation is 43% (22% in 2006), of which 30% is considered to be rural traffic and 70% urban traffic. Full trailer transportation accounted for 57% (78%), of which 30% was urban traffic and 70% rural traffic.

For trunk transportation and long distance transportation, the assumed proportions are 20% for semi trailer and 80% for a full trailer. Some 10% of transportation is assumed to be urban and 90% rural.

#### KESLOG DISTRIBUTION STATISTICS

Distribution centre	km/load			diff 06/07 %	t/load			diff 06/07 %	m <sup>3</sup> /load			diff 06/07 %
	2005	2006	2007		2005	2006	2007		2005	2006	2007	
Helsinki JK	96.2	99.6	102.1	2.5	4.3	4.4	4.6	2.3	12.7	13.8	14.2	2.6
Tampere JK	180.8	179.7	175.9	-2.1	8.5	8.1	7.9	-2	22.6	21.5	21	-2.2
Turku JK	87.6	76.1	78.7	3.4	5.8	5.1	4.9	-4.1	14.8	14.2	13.6	-4.3
Kuopio JK	198.2	186.7	220.8	18.3	8	6.7	6.6	-1.4	23	19.3	19	-1.3
Oulu JK	256.3	258.7	263.5	1.8	6.9	6.8	7	2.5	18.6	18.4	19	2.8
Jyväskylä JK	60.9	55.9	68.2	21.9	3.9	3.3	3.3	0.2	9.2	7.8	7.8	0.2
Mikkeli JK	153.9	174.3	166.4	-4.5	7.8	7.9	6.6	-15.6	24	24.4	20.6	-15.3
Keslog total	118	120	126.7	5.6	5.2	5.1	5.2	1.2	14.7	14.9	15.1	1.1

Some 17% of outsourced deliveries are made by truck with 83% by semi or full trailers. Urban deliveries account for 70% truck and 30% other transportation. The assumed volumetric efficiencies are the same as for Keslog.

Anttila's calculations are based on general factors applicable to all trucks, taking into account replacements in the truck fleet. The CO<sub>2</sub> emissions of Anttila's transportation operations organised by Keslog are included in Keslog's statistics.

Total CO<sub>2</sub> emissions of Keslog's delivery transportation decreased by 2.5%. The relative CO<sub>2</sub> emissions per cubic metre and per ton delivered decreased by roughly 11%. All other air emissions increased: total carbon monoxide by 29%, hydrocarbon by 46% and particulate emissions by 16%. These increases are due to changes in fleet type and the proportion of rural and urban traffic.

Carbon dioxide emissions for foreign transportation are now available for the third year. Comparison over 2006 has not been conducted, however, as the coverage of reporting has not been constant during 2005-2007.

### Kesko's CO<sub>2</sub> emissions

Carbon dioxide emissions are among the key indicators of Kesko's environmental impact. However, Kesko does not have sufficiently accurate information about all the carbon dioxide emissions associated with its operations. It is difficult, for example, to compile statistics on purchasing transportation or on fuel consumption related to delivery transport in Finland. Statistics on business travel by air, including related CO<sub>2</sub> emissions, was collected for the first time in 2007. Air miles totalled 9.8 million and CO<sub>2</sub> emissions some 2,000 tons. Air travel emissions represent roughly 1% of Kesko's calculated CO<sub>2</sub> emissions. Annual business travel by car totals approximately 14 million kilometres. As some of Kesko's division parent companies have outsourced their warehousing and transportation, and some manufacturers supply goods directly to K-stores, their transportation data is not included in Kesko's statistics. Due to the numerous possible inaccuracies associated with calculating the Group's overall carbon dioxide balance, it has been decided not to calculate this information until further notice.

A summary of the emissions associated with the energy used in Kesko and K-stores premises and from distribution is presented on page 8. The information covers the majority of the emissions caused by Kesko which gives a good picture of their scale and enables them to be related to the Group's net sales.

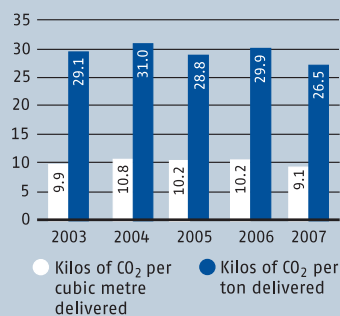
### Use of materials

Kesko has interpreted the GRI guidelines' indicator on the use of materials to cover the amount of packaging materials on finished goods imported as well as those packed by Kesko. In accordance with the EU packaging directive, these should also be reported annually to the authorities.

Packaging materials on goods packed by Kesko and placed on the Finnish market totalled 2,143 tons.

In terms of packaging on imported finished goods, packaging statistics have historically been calculated

CO<sub>2</sub> EMISSIONS IN KESLOG LTD'S DISTRIBUTION COMPARED WITH DELIVERY VOLUMES



CO<sub>2</sub> EMISSIONS IN TRANSPORT 2005-2007, TONS

	2005	2006	2007
Anttila	666.3	687.2	888
Keslog's delivery transportation	16,722.7	17,558	17,113.1
Keslog's trunk delivery and long distance delivery	-	-	14,458.5
Outsourced transportation	2,351	2,232	7,887.5
Finland total	19,739.9	20,477.2	40,347.1
Kesko Agro, Estonia	45	660.5	726.3
Estonia total <sup>1)</sup>	45	660.5	726.3
Kesko Agro, Latvia	51.8	-	-
Rautakesko, Latvia	289.7	252.5	390.9
Latvia total <sup>1)</sup>	341.5	252.5	390.9
Kesko Agro, Lithuania	-	-	359.9
Senukai	-	675.1	-
Lithuania, total <sup>1)</sup>	-	675.1	359.9
K-Rauta AB	21.3	-	-
Sweden total	21.3	-	-
Byggmakker	160.2	147.4	160.8
Norway total	160.2	147.4	160.8
Grand total	20,308	22,212.7	41,985.1

<sup>1)</sup> Rimi Baltic excluded from the 2005-2006 figures

Most of Anttila's distribution is managed by Keslog and included in Keslog's transportation figures. Foreign delivery does not include outsourced transportation.

mainly on the basis of import forwarding statistics. In 2007, Kesko Food and Keslog jointly prepared themselves for the INTRASTAT reporting required by EU. As purchasing data stored in SAP is the main data source for INTRASTAT statistic, Keslog no longer has information on net tonnages of EU imports. The calculation based on import forwarding statistics was thus not possible.

The reporting to Finnish authorities in March 2008 of packaging on imported goods will be conducted based on the statistics collected in 2006 and multiplied by the percentage increase of imports in each product category. This approach, however, was seen as too inaccurate for inclusion in the Corporate Responsibility Report, and no data on Kesko's packaging imported materials is presented in this report. This element makes up the majority of the total packaging on goods sold by Kesko.

Kesko continues to work actively with Finnish producer associations and standardisation organisations to im-

prove the standardisation of packaging, the use of environmentally sound materials, and reduce the amount of materials used. Kesko can play an important role in determining the packaging materials and quantities used for its house brands in particular.

### Waste management and recycling

The amount of waste generated by Kesko Food's warehouses in 2007 totalled 6,926 tons, a decrease of 5% on 2006. Most of the change can be attributed to the decrease in the amount of wood waste as majority of non-reusable wooden pallets were sold instead of being recycled as waste. The total amount in relation to each cubic metre of material supplied (2.25 million) dropped to 3.07 kilos from 3.40 kilos in 2006. The figure includes the corrugated board collected from K-stores (excluding corrugated board the total waste was 1.18 kilos (1.45 kilos) of waste per ton supplied).

#### WASTE FROM FINNISH OPERATIONS, TONS

	Kesko Food			Anttila			Rautakesko			Kesko Agro		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
Waste for recovery												
confidential material	-	-	-	3	5	6	-	-	-	-	-	-
corrugated board	4,378	4,180	4,273	422	425	435	136	118	92	24	20	-
energy waste	455	481	519	49	42	54	43	46	51	16	17	-
glass	-	-	-	-	-	-	-	-	-	-	-	-
metal	145	186	181	10	14	17	5	6	21	14	15	56
paper	153	168	136	52	4	5	-	1	2	5	7	-
plastic	237	253	301	25	25	24	3	9	17	-	-	-
wood waste	902	797	376	102	83	85	140	152	137	26	14	-
Landfill waste												
construction waste	-	-	-	-	-	-	89	73	76	-	-	-
mixed waste	760	728	718	18	16	17	1	-	19	41	47	-
organic waste	574	498	419	7	7	7	-	-	-	10	5	-
Hazardous waste	3	5	3	1	2	9	-	-	-	45	43	10
WEEE	-	-	-	19	52	94	-	-	-	-	-	4
Total	7,607	7,296	6,926	708	675	752	417	406	415	182	167	70
Reuse-%	90	90	90	98	98	98	78	82	77	77	72	100

#### WASTE MANAGEMENT STATISTICS FOR OPERATIONS OUTSIDE FINLAND, 2005-2007

	Sweden			Norway			Estonia			Latvia			Lithuania		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
Waste for recovery	1,034	1,373	1,990	714	887	1,001	49	105	198	382	-	-	-	1,600	1,627
Landfill waste	215	203	660	768	746	884	468	671	600	287	538	773	463	575	779
Hazardous waste	52	79	37	2	10	12	10	10	10	8	-	-	17	4	11
Total	1,301	1,655	2,686	1,484	1,644	1,897	527	786	808	677	538	773	479	2,179	2,417
Recovery, %	83	88	75	48	55	53	11	15	26	58	-	-	4	74	68

Segregation slightly improved on 2006, which was reflected in the decrease in mixed and organic waste. The amount of mixed waste totalled 0.32 kilos (0.34 kilos) per cubic metre delivered. The total waste recovery rate (including organic waste) remained at 90%, a figure unchanged since 2005.

The Anttila distribution centre continued to show excellent performance on recycling, as the recovery rate was close to 98% (without hazardous waste 97%). The amount of wood waste was reduced by 8% and construction and furniture waste was also supplied for recovery. A total of 94 tons (52 tons in 2006) of waste electric and electronic equipment were collected from Anttila and Kodin Ykkönen department stores through distribution centres for recycling in 2007.

Waste amounts for Rautakesko increased by 2% and the recovery rate remained at the 77% level. Kesko Agro's waste amounts are partly reported under Rautakesko's figures.

Comprehensive waste statistics on Kesko's subsidiaries outside Finland were available for the first time in 2005. In these summary statistics, waste has only been broken down into landfill, recovery, and hazardous waste. The figures for 2005-2006 exclude Rimi Baltic AB. As segregation and statistics are not as accurate as in Finland and the other Nordic countries, the recovery percentages for the Baltic countries must be considered as indicative only.

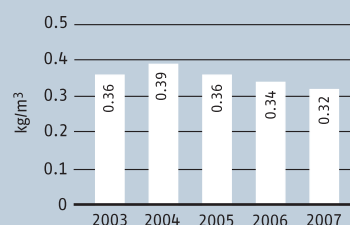
The number of packages supplied by Kesko Food's return logistics for recovery and reuse remained relatively unchanged for disposable and deposit bottles; however, the number of beverage cans collected increased from 55 million to 82 million and Transbox crates from 5 million to 7 million. The number of reusable transportation material returned to Anttila's central warehouses remained at the 2006 level.

### Product-related developments

Kesko's division parent companies have cooperated with suppliers to improve the environmental properties of products and packages for many years. The Corporate Responsibility Team has participated in several national development projects promoting the practical measurement of the environmental impact of production and consumption. As environmental impact must be assessed over the entire life-cycle, achieving clear-cut results has been difficult, and thus implementation has progressed slowly. Some practical findings of environmental impacts and every-day tips for more sustainable consumption are presented in the case stories on pp. 58-59.

The selection and marketing definitions related to organic and Fairtrade products and products with environmental labelling are included in K-food stores' chain concepts. At the end of 2007, Kesko Food offered a selection of about 500 organic products and 550 products with environmental labelling. The extent of the selection varies by store chain. There were 35 organic, eight Fairtrade, and 31 products with environmental labelling in the Pirkka range. Some organic products - such as milk and meat - are delivered to K-stores directly from suppliers, and K-retailers buy organic vegetables from producers out-

MIXED WASTE PER CUBIC METRE DELIVERED, KESKO FOOD 2003-2007



### RECOVERABLE AND REUSABLE PACKAGING SENT BACK IN KESKO FOOD'S RETURN LOGISTICS

	2003	2004	2005	2006	2007
Aluminum cans	20,000	22,243	33,434	54,662	81,636
Disposable bottles	2,100	1,959	2,111	2,124	2,763
Deposit bottles	833	738	730	708	761
Transbox crates	5,702	5,506	5,206	4,885	7,087

### REUSABLE TRANSPORTATION PACKAGING RETURNED TO ANTILTA'S CENTRAL WAREHOUSE (NUMBER OF USES)

	2003	2004	2005	2006	2007
Crates	95,000	94,000	94,000	94,000	94,000
Roll containers	-	-	6,000	30,000	30,000
Borrowed cases	35,500	35,500	35,500	35,500	35,500
Return pallets	240,000	250,000	250,000	262,500	262,500
Long furniture pallets	7,500	7,500	16,000	19,000	19,000

side Kesko's range. Consequently, it is difficult to obtain reliable information on the actual market shares of organic products in the retail business.

In early 2007, Kesko Food signed an extensive cooperation agreement with the Fairtrade Association for Promoting Fairtrade in Finland. Kesko Food aims to be the market leader in the sales of Fairtrade products in Finland and actively seeks new Fairtrade products for the selection. Fairtrade carnations and mixed bunches were launched in autumn 2007 to complement the Fairtrade roses that had been a huge success. Sales of Fairtrade products have increased by around 40% in Finland in general, and in Kesko Food almost 300% due to successful new product launches.

In April 2007, the K-food stores' own coffee brand, Costa Rica, was replaced by the UTZ-certified Pirkka Costa Rica. The new coffee soon became the most responsibly-produced bought coffee in Finland. The UTZ certification is based on complying with the demanding Code of Conduct, which includes both environmental and social aspects. Consumers can trace the UTZ-certified coffee all the way back to the coffee plantation with the help of the coffee pack's 'best before' labelling.

Since the end 2007, K-food stores have offered the Pirkka 100% biodegradable shopping bag as an alternative to the plastic bag. The main raw material used is non-gmo maize. A new Pirkka non-disposable shopping bag was introduced at the same time.

Most producers - representing around 91% of total imports of these products - of the fruit and vegetables imported by Kesko Food have obtained GlobalGAP (good agricultural practices) certification, granted by an independent agency for fulfilling the traceability, product safety, and environmental requirements set for production by the Euro-Retailer Produce Working Group. The remaining 9% of imports come from Polish, Hungarian, and Egyptian producers. Kesko Food reported the same ratio of GlobalGap and non-GlobalGap producers in 2006. In practice, the number of certified producers has increased, but as the volume of imports has also increased, the ratio has remained unchanged.

Kesko Food's Finnish suppliers of vegetables must belong to the Finnish Horticultural Products Society (KK) to be entitled to use the society's seed leaf symbol. The Society has drawn up a set of guidelines entitled 'Good production practices for growers'.

Rautakesko offers a wide selection of products featuring environmental, energy, or emission category labelling. Certified timber - mainly with FFCS certification - accounted for over 90% of sawn goods sold by Kesko. In all, 753 tons of impregnated timber were recycled through K-rauta and Rautia stores. Tropical wood and timber accounted for under 2% of Rautakesko's total sales. In line with Kesko's sourcing policy, the garden furniture sold by all K-Group stores is either FSC-certified or made of cultivated tropical wood species.

The heat renovation service of the K-rauta and Rautia chains finds the most suitable heating technique for the customer, surveys opportunities for energy savings and pays special attention to the building's energy efficiency (see case on page 58).

K-rauta and Rautia continued their 'Mould Trap' project, together with the Pulmonary Association 'Heli' under a new agreement effective between 2007 and 2008 that will see Rautakesko donate building supplies for renovating and repairing mould-affected homes. These renovation projects typically take several months; during 2006-2007, Heli helped repair 20 affected houses. The experience collected in this project will be used to create a standard for renovation which can be used in similar cases in the future.

The Finnish hardware chains K-rauta and Rautia also participated in Heli's 'Burn wood purely' campaign together with the Finnish Central Association of Chimney Sweeps, the the Finnish National Rescue Association SPEK, the stove manufacturer Harvia and the car dealer VV-Auto. The aim of the campaign was to contribute good practices in residential wood combustion and to prevent air quality defects, health-damaging effects and citizen appeals caused by poor practices in wood combustion. The target group were those house owners who use wood as their primary or secondary source of heating fuel. The campaign was financed by Finland's Ministry of the Environment and the companies participating in the campaign were responsible for organising the campaign events, which took place in 15 cities and all at K-rauta and Rautia hardware stores.

### K-environmental stores

The K-environmental store operating model is incorporated into the chain concepts for Kesko Food's K-citymarkets, K-supermarkets, and K-markets. In spring 2008, the K-maatalous agricultural chain decided to have all stores under the concept by spring 2009 and Rautakesko to have all K-rauta and Rautia stores by the end of 2009. The K-environmental store concept, launched in 1998, will celebrate its 10th anniversary in 2008.

All K-environmental store personnel receive basic training in environmental issues with supplementary training on different themes arranged annually. The Bureau Veritas Quality International (BVQI) audits each store during the introduction of the K-environmental store concept, and makes repeat audits in stores by annual sampling. The number of completed audits in Kesko Food was 64 by the end of the year with 34 ongoing. The audits focus on evaluating whether a store meets the detailed requirements set out in the K-environmental store checklist. In addition to training, these cover areas such as product selection and labelling; the prevention of the generation and recycling of in-store waste; recycling services, and consumption-related environmental information offered to customers; in-store energy management as well as cleaning practices. Some of the requirements are also included in the chains' concept measurements.

All K-citymarkets (except one), and all K-supermarkets (except eight) were K-environmental stores as of the end of 2007. The K-market chain set a target in 2006 to increase the number of 148 K-environmental stores to 200 by the end of 2007. The target was not quite reached as the number totalled 175 with 23 stores in the auditing process.



Chain management work in the K-rauta and Rautia chains focuses on developing store operating models in cooperation with the K-environmental store development team at both chains. These teams comprise retailers and employees responsible for environmental issues. Hardware and builders' supplies stores and agricultural stores cooperate with the Environmental School of Finland (SYKLI) in the auditing work. Repeat audits are made every three years. The number of K-environmental stores increased by eight in the K-rauta, Rautia and K-maatalous chains.

### Stakeholder cooperation and communications

Kesko continued to maintain close contacts with its stakeholder groups in the area of environmental activities.

Contacts with the Finnish and EU authorities were primarily maintained through the Environmental Committee of the Federation of Finnish Commerce. Kesko had a representative on the advisory committee of the Finnish Environmental Institute, on the executive group of environmental labelling (Ministry of Trade and Commerce and SFS), on the environmental committee of EuroCommerce, and on the energy and environmental committee of the International Chamber of Commerce.

Kesko representatives participated in the work of several organisations and associations in Finland, including the Finnish Food Marketing Association, the Finnish Standards Association SFS, the Finnish Packaging Association, the Finnish Society of Refrigeration, Elävä kaupunkikeskustary, and producer communities responsible for the recycling of packaging materials, and electrical and electronic scrap. Cooperation also continued with suppliers to promote organic foods and various recycling systems.

Kesko cooperated with WWF Finland in 'Operation Mermaid', a programme to protect the Baltic Sea; Kesko also continued to have a representative on the Executive Committee of WWF Finland.

Kesko continues to be a supporting member of the Finnish Association for Nature Conservation and participates in the FIN-MIPS Household project coordinated by the Association. This two year project examines and illustrates the natural resource consumption of Finnish households using the MIPS-concept, and produces MIPS-data for different fields of consumption, construction, travelling and transportation. The project is mainly funded by the Ministry of the Environment in the framework of the Environmental Cluster Program. More information in Finnish is available at: [www.sll.fi](http://www.sll.fi) and in English at: [www.ymparisto.fi](http://www.ymparisto.fi).

The environmental impact of the retail trade - especially how the size and the location of the store is contributing to the overall impact - was part of a general public discussion on the total impact of consumption. In autumn 2007, Kesko participated in a survey organised by the Finnish Grocery Trade Association aiming at developing a climate change programme for the Finnish retail trade. The survey was conducted by researchers from the Helsinki and Tampere Universities of Technology, and based

on the data provided by the participating retail companies. At the end of the year, the work was still ongoing and the policy paper on the agreed actions is expected to be published during spring 2008.

The demand for traceability and product-related information is increasing together with the need to share this information. Dodo ry - a modern environmental organisation that avoids black-and-white views of the world - has begun a project to create a platform called 'Product-Wiki' which uses the same principles for information gathering and free participation as Wikipedia. The project is funded by the Ministry for Foreign Affairs in Finland. Kesko's representative is a member of Product-Wiki's steering group and the site can be visited in Finnish at: [www.tuotewiki.fi](http://www.tuotewiki.fi).

Kesko's ratings in sustainability indexes and other comparisons are presented on page 33.

### Environmental risks, damage, and incidents

Units having ISO 14001 certification manage their environmental risks and readiness to act according to the requirements set in the standard in emergency circumstances. Managing environmental risks is also part of Kesko's security plan. As the greatest risk to a company operating in the trading sector is fire, Kesko has provided its personnel with the relevant instructions and training needed to meet this contingency.

On 9 December 2007, a fire broke out at 9 am at Anttila's 'Jumbo' department store before the store was opened to the public. An overheated spotlight broke and set some clothes on fire. The automatic sprinkler system extinguished the fire but both the Anttila department store and the stores beneath suffered some water damage. Corrective preventive actions were started immediately. These included, evaluating the on-show spotlights and fluorescent tubes, renewing spotlights, drawing up criteria for safe lighting systems, and implementing an upgraded maintenance programme for spotlights and fluorescent tubes.

Risks relating to soil contamination are discussed on page 47. Kauko-Telko Ltd's terminal operations in Hamina include the intermediate warehousing of industrial chemicals, some of which are classified as hazardous to the environment. In accordance with the SEVESO directive, the terminal has been defined as an installation involving major accident hazards and it submits regular reports on its operations to the authorities. There were no environmental incidents or fires at Hamina in 2007.

No environmental damage or accidents were reported from Kesko's foreign subsidiaries.

## Case



### ENVIRONMENT FRIENDLY ALTERNATIVES TO PLASTIC BAGS

K-food stores have offered shoppers an alternative to conventional plastic carrier bags since the end of October in the shape of Pirkka 100% biodegradable shopping bags. A Pirkka non-disposable bag is also now available.

The Pirkka shopping bag is completely biodegradable. The fact is clearly printed on the bag. The bag is made of renewable natural resources; its main raw material comes from Italy and is based on cornstarch. The biodegradable bag is as strong and durable as a normal plastic carrier bag.

The bag can be disposed of after use in an organic waste container, composted, or together with mixed waste. The first two options are the best way as regards the environment. Bags can also be burnt safely.

In addition to the biodegradable bag, the product range was complemented with a new Pirkka non-disposable bag sold at check-outs. The non-disposable bag makes a good choice for shoppers wanting an extra-strong, long-lasting shopping bag that can be used repeatedly. The bag is fully washable and when it comes to the end of its life can be disposed of as energy waste.

### MAKING PEOPLE'S HOMES MORE SUSTAINABLE, WITH A LITTLE HELP FROM K-RAUTA AND RAUTIA

Rising energy prices and people's growing awareness of the impact of energy-related emissions on climate change is seeing consumers becoming more critical in their heating choices. K-rauta and Rautia stores have responded to this by developing a new heating solutions service, designed to help people find the best type of heating for their needs, evaluate their energy-saving opportunities, and improve the energy efficiency of their systems and buildings.

The service also simplifies things for people building a new home, as it offers a comprehensive range of solutions, from ground heat and pellet-fired boilers to heat pumps, heat recovery, and automated thermostats. Adopting one or more these solutions can often result in a significant reduction in energy and heating costs. Small changes in everyday routines can have a big impact as well. Reducing room temperatures by as little as one degree can save as much as 5% in heating costs.

Rautakesko will publish a new guide in March 2008, giving people tips on sustainable living. The themes of the guide include energy usage, water, indoor air quality, household waste, maintenance, and safety. Available at K-rauta and Rautia stores, the material in the guide is the outcome of collaboration with a number of organisations, such as Motiva, the Ministry of the Environment, Pulmonary Association Heli, and the Confederation of Finnish Construction Industries RT.





*Per capita, Finns eat between 600 and 700 kilos of food a year, generate between 30 and 40 kilos of food packaging waste a year and throw away between 30 and 70 kilos of edible food a year*

## DON'T THROW FOOD AWAY!

The food people eat is the largest single factor impacting the environment in Finland. The food chain contributes both to the eutrophication of water systems and climate change. Agricultural emissions and consumer behaviour, such as driving to the stores, are the major factors involved. Stores themselves, or rather their chilled cabinets and freezers, can also contribute to the problem. Products with a slow turnover use a lot of energy during the time they are stored.

Logistics and packaging do not account for a very large part of the environmental impact associated with the food chain, despite what people might think based on public debate on the subject. Air freight has the biggest environmental impact of any mode of logistics, which is why the fruit and vegetables imported by Kesko Food are carried by ship and truck.

The most wasteful aspect of food chain-related environmental impact comes from people throwing away food that can still be eaten. Disposing of organic waste with mixed waste is also a problem, as this generates methane – a greenhouse gas that is 20 times more potent than carbon dioxide – as it decomposes in landfills. Food and other biodegradable waste should be composted to minimise environmental problems.

While packaging plays an important role in protecting food and reducing waste, it is also important to recycle packaging, which is why all K-environmental stores feature a recycling point where customers can drop off cardboard containers, metal cans, glass jars, and milk and juice cartons. K-food stores also offer biodegradable shopping bags and non-disposable bags.

Source: MTT Agrifood Research Finland's Foodchain projects, which Kesko has been involved in since 2000. For more information, see [www.mtt.fi/foodchain](http://www.mtt.fi/foodchain)

### Some tips on how to eat with an eye on the environment:

- Buy only what you need and in quantities and packs suited for the size of your household.
- Plan what you eat to avoid unnecessary left-overs.
- Walk or cycle to the store. If you go by car, buy more on the same trip or combine a visit to the stores with travelling to work or leisure activities.
- Choose vegetable over animal products.
- Choose chicken and pork rather than beef.
- Snack on raw vegetables. Use potatoes instead of rice.
- Use a microwave to heat small quantities and conventional ovens for larger ones.
- Keep an eye on how many pre-prepared or pre-cooked frozen items you buy.
- Pick berries and mushrooms when they are in season and enjoy them fresh. Walk or cycle to the woods.
- Go fishing; use a rowboat.
- Compost food waste and recycle packaging material as efficiently as possible.

## Case



### UP-TO-DATE RECYCLING

Finns have a good track record in returning bottles and cans, returning up to 98% of bottles and nearly 90% of cans. Out-of-date and broken bottles and related packaging are also recycled.

Finland's tax on beverage packaging was repealed on January 1, 2008, and the recycling of light-weight plastic bottles was launched. Beverages packed in light-weight PET\*-based disposable plastic bottles now have a deposit included in their price. This has brought changes for retailers, who have had to replace or upgrade their bottle return stations and install new notice boards showing symbols of deposits and returning methods.

K-supermarket Jättijako, which is located in Vantaa, was one of the first stores in the country to prepare for the change. Bottle collection areas were updated 18 months ahead of time, making space for the on-site presses through which the recyclable plastic bottles go on their way to further processing.

Finland's largest bottle processor, Preformia Oy, is located in Toholampi. Preformia Oy processes recyclable bottles into secondary raw material used by the plastics industry. The secondary raw material is transported by Kauko-Telko Ltd to Finnish packaging producers. Kauko-Telko also handles the collection of recyclable bottles to be sent to Toholampi.

\* PET = Polyethyleneterephtalate

### K-RAUTA, DESTROYED BY FIRE, REOPENS IN GÄVLE, SWEDEN

The K-rauta hardware store in Gävle in Sweden, was destroyed by fire on 13 August, 2006. The fire at the Gävle store came as a shock to everyone in the organisation, especially to those working at the store of course. The entire staff met with crisis personnel and psychologists from the Red Cross 12 hours after the fire started to discuss what had happened.

The management of K-rauta AB did everything they could to assure that everybody was employed during rebuilding. It took a year to build a new K-rauta during which time the staff worked in alternative positions at other K-rauta stores in other towns. Staff from Gävle helped prepare the opening of new K-rauta stores in Umeå and Växjö, for example, as well as the extension of the store in Norrköping.

Almost exactly a year from the fire, on August 16, 2007, a new store of approximately 8,000 m<sup>2</sup> was opened.

'After the opening, the feelings were excellent! Everybody had longed for normal work rhythm for so long, and, especially, had looked forward to working with customers', recalls country manager Jani Jylhä.



### KESKO SPONSORS MTV3'S RESPONSIBLE CONSUMPTION PROGRAMME

In 2007, MTV3's Good Morning Finland featured a series of short programmes sponsored by Kesko entitled 'The Environment's The Point', designed to help people act more responsibly in consumer-related areas. The programmes focused on everyday subjects related to consumption, such as the environmental aspects of cars and driving, recycling, energy saving in the home, ethical consumption, and product safety.

A total of 34 spots were broadcast over 17 weeks in the autumn, twice a week on Tuesday and Thursday mornings at 6.25 a.m. and 8.15 a.m. and repeated at the weekend. Each spot lasted a few minutes.

The initiative was designed to highlight the opportunities consumers have to act more responsibly in their everyday lives, and the work Kesko and K-stores are doing to promote a more responsible society.



### ANTTILA RECEIVES KERAVA'S ENVIRONMENTAL AWARD

The City of Kerava granted its 2007 Environmental Award to Anttila's local department store for its work in developing its quality and environmental management system and implementing the system in its day-to-day operations.

'Anttila's department store in Kerava manages its environmental issues in an exemplary way that goes well above normal standards,' according to the Chairman of the award jury and Kerava's Development Director, Harri Nikander. 'The store has achieved very good results in saving electricity, in logistics, and in waste recycling and reuse. The personnel are also provided with extensive information on the importance of environmental work.'

'I'm very happy and proud on behalf of all our people that we received the award,' says Ossi Pihlaja, the department store director of Anttila Kerava. 'It's an excellent recognition of the work that our people have committed themselves to. The award will be a very positive motivator as we go forward.'

'We have put in a lot of work on environmental issues over the years. Anttila was the first department store chain in Finland to introduce an environmental management system complying with the requirements of the ISO 14001 standard, at the beginning of 2002, and we received our certificate at Kerava in 2003,' he adds.

Environmental issues are very much part of Anttila's everyday operations in Kerava. They are discussed regularly at monthly staff meetings, and new employees are given a thorough introduction to the subject. The store also uses various indicators to monitor how well it is performing in the area.

Kerava granted its first Environmental Award, aimed at promoting the importance of a proactive approach to the environment and sustainable development, in 2002.



### RECYCLING AT VV-AUTOTALOT

VV-Autotalot follow the action programme for Finnish car companies and garages coordinated by the Finnish Central Organisation for Motor Trades and Repairs (AKL). The action programme of VV-Autotalot meets the requirements of the ISO 9001 and 14001 quality and environmental management standards. Systems are also designed to meet the requirements of the car manufacturers, Volkswagen and Audi, such as the recycling of components and reuse. Operations were granted an environmental certificate in October 2007.

Modern vehicles make use of a wide range of different materials and systems, including steel, glass, rubber, numerous electronic components, and various liquids, a number of which are potentially harmful to the environment. Recycling represents an important aspect of the company's environmental systems, and VV-Autotalot processes a total of 19 categories today. Chemicals are handled by an outside specialist company, which provides safety data sheets and carries out chemical surveys where necessary. The company's waste management provider is responsible for the proper disposing of hazardous waste. Water-based paints are used in VV-Autotalot's paint shops, reducing the volume of hazardous waste generated. Water usage is also closely monitored. The car wash unit at the company's Herttoniemi outlet in Helsinki uses recycled water provided by an on-site bioreactor.

What can you do to reduce the environmental impact your car has over its lifetime? Check out [www.pirkka.fi](http://www.pirkka.fi) for more information.

# Social performance



### KEY SOCIAL PERFORMANCE IN 2007

- + The basis of Kesko's HR management was revised as the HR policy and HR principles were updated and the revised guide 'Our Responsible Working Principles' was published.
  - + Employees' satisfaction improved in all surveyed aspects in Finland and Norway.
  - + The investment in training increased in companies outside Finland, both in terms of time spent and financially. In Finland, the number of training days per employee decreased, but the money spent on training increased.
  - + Kesko's ranking in the list of ideal employers improved both among commercial students and young professionals.
  - + K-citymarket was placed fourth in the category of large organisations in the Best Workplaces in Finland survey.
- The proportion of women in middle management and in management and specialist positions dropped in Finland.
  - The number of accidents increased in Finland, but their average seriousness decreased.
  - The number of sick days as a proportion of working hours increased in Finland, but decreased abroad.

### Kesko's approach to human resources management

Kesko Group's HR management is based on Kesko's values and Code of Conduct. In 2007, the basis of Kesko's HR management was revised as the HR policy and HR principles were updated and the revised guide 'Our Responsible Working Principles' was published. It contains two elements - the Code of Conduct and day-to-day responsibility.

Kesko's HR principles and HR strategy provide guidelines and support in the practical implementation of the HR policy. HR principles are permanent corporate policies and guidelines for practical human resource issues. The HR strategy defines HR management goals, critical success factors and key development initiatives.

The Corporate HR Unit is responsible for defining the HR strategy as part of the annual Kesko Group's strategy process. The HR steering group monitors and promotes the implementation of the HR strategy. Division parent companies and subsidiaries can also establish complementary guidelines to support their business objectives.

An international one-day HR Summit is organised annually for the Group's HR specialists. The main theme in the 2007 Summit was the implementation of Kesko's Code of Conduct.

NUMBER OF KESKO GROUP EMPLOYEES



## PERSONNEL STATISTICS FOR 2007, BY COUNTRY

	Finland	Estonia	Latvia	Lithuania	Russia	Sweden	Norway
Total personnel as of 31.12.	15,235	557	965	4,991	1,363	1,511	817
Average	11,338	554	928	5,139	1,081	918	633
New employees, number	7,390	323	467	4,169	887	600	312
Contracts of employment terminated, number	4,896	217	344	3,019	620	488	220
terminated by employer	157	75	31	173	0	245	*
Summer employees	973	58	29	571	18	127	*
Turnover rate, %	25.8	28.5	32.6	49.0	44.2	23.9	26.9 ****
Sick days	141,278	7,787	6,149	35,817	13,373	6,892	8,820
per person	9.3	14.0	6.4	7.2	9.8	4.6	10.8
per million working hours	7,080	6,924	3,280	3,450	6,248	4,266	7,917
Salaries paid, € million	360	8.9	14.9	50.8	11.9	23.9	30.4
average annual salary, €	31,589	16,119	16,011	9,881	11,003	26,055	48,092
Vocational training, %	63.3	43.6	61.3	16.1 ***	40.5	*	*
Higher education with degree, %	16.0	45.6	26.3	20.3	44.5	*	*
Training days per person	1.4	2.3 **	6.1	0.2	0.1	*	*
expenses, € per person	421	373	293	356 ***	*	265	*
Unionisation rate, %	38.2	-	-	-	-	*	25.5

\*data not available

\*\*data for Rautakesko AS not available

\*\*\*data for Senukai not available

\*\*\*\*Including summer workers

The data for OMA in Belarus not available

## FIXED-TERM AND PART-TIME EMPLOYMENT IN 2003-2007

	2003	2004	2005	2006*	2007
Fixed-term employees as a % of all personnel as of 31.12.					
Finland	18.6	16.2	14.1	16.5	14.6
Other countries	3.1	1.1	1.0	0.9	0.8
Entire Group	12.9	10.2	8.2	10.2	8.3
Part-time employees as a % of all personnel as of 31.12.					
Finland	41.3	40.1	37.1	42.0	42.6
Other countries	8.8	8.7	9.0	8.8	8.6
Entire Group	29.8	27.8	24.3	28.6	27.2

\*The figures for 2006 do not include Kauko-Telko and are not fully comparable to other years



Goal	Performance indicators
The best personnel productivity in the trading sector	<ul style="list-style-type: none"> <li>• Personnel expenses/gross profit</li> <li>• Personnel expenses/net sales</li> <li>• Coverage of performance and development reviews, % of employees</li> <li>• Sickness absence, % of regular working time</li> <li>• Sickness absence hours, % of working hours</li> </ul>
The most competent and motivated personnel in the trading sector	<ul style="list-style-type: none"> <li>• Training days/person</li> <li>• Personnel development expenses/person</li> <li>• Job satisfaction</li> <li>• Customer satisfaction</li> </ul>
The most attractive workplace in the trading sector	<p><b>Profile as an employer (internal):</b></p> <ul style="list-style-type: none"> <li>• Job satisfaction</li> <li>• Turnover, %</li> </ul> <p><b>Profile as an employer (external):</b></p> <ul style="list-style-type: none"> <li>• Ranking in employer profile surveys</li> </ul>

Critical HR management success factors include:

- Kesko's and its stores' good reputation as employers
- responsible value-driven leadership
- efficient performance management and motivation of immediate superiors
- competitive compensation and benefits
- competence management and the broad-ranging development of competencies in the whole chain
- capable and committed key people

Key development initiatives for 2007-2010 include: implementing Kesko's Code of Conduct; preparing a recruitment policy; the efficiency and quality of the recruitment process, the renewal and development of compensation systems and the uniformity and influence of the employer image work.

To support the uniformity and efficiency of HR processes, the SAP HR Master main system for personnel data management was adopted in all of the Kesko Group companies in Finland in 2007. In the future, the system is planned for adoption outside Finland.

### Goals and performance

Kesko's strategic human resources goals and linked performance indicators are presented in the above table. Performance is discussed under the relevant headings.

### Employment and employee turnover

The Kesko Group had 23,731 permanent employees and 2,159 fixed-term employees at the end of 2007 - equivalent to 91.7% and 8.3% of the total. The 998 people on long-term leave, such as parental leave, are included as permanent employees. Due to the Christmas season, the proportion of fixed-term employees is higher at the end of the year than at other times.

Part-time employees accounted for 27.2% of all Group personnel - the majority working for retail companies in Finland. Approximately three-quarters of all Group employees work in retailing. Employment trends show that at the Group level the proportion of both fixed-term and

part-time employees has decreased compared to 2006. In Finland, the proportion of part-time workers has slightly increased. However, the figures for 2006 and 2007 are not fully comparable.

The Group employed 7,390 new employees in Finland and 6,758 in other countries during 2007. A total of 4,896 employees left the Group in Finland and 4,908 in other countries. Staff turnover in Finland was 25.8%, which is slightly more than in 2006 (24.9%). The average turnover rate outside Finland was 37.1% (38.5%), but the differences between companies were large - varying between 8% and 49%.

The Kesko Group had 973 summer employees in Finland and 803 in other countries - the majority in retailing and warehousing. This figure is not available for Byggmakker.

The most common reason for terminating employment with Kesko in Finland was a fixed-term contract which accounted for about 50% of departures. Elsewhere, the reason for approximately 62% of departures was employees leaving the company. The details are not available for Byggmakker or Senukai. During 2007, 164 people retired in Finland. There were no retirements elsewhere.

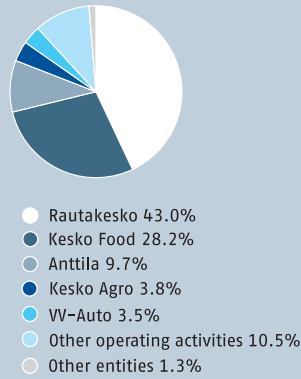
About 3% (157) of employment contracts in Finland and about 11% (524) elsewhere were terminated for production and financial reasons or other reasons based on the Contracts of Employment Act. The corresponding figures in 2006 were 137 and 310 respectively.

In all operating countries Kesko applies the minimum notice periods in operational changes which are specified in labour legislation. In Finland, the minimum notice period is 0.5-6 months depending on years of service.

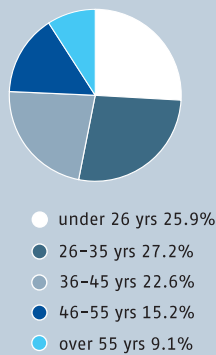
### Average age and duration of employment

The age breakdown of Group personnel in Finland is given in the figure on page 66. Over half of the employees are younger than 36 while those over 55 account for only 9%. The average age of the personnel is 35.1. On average, employees are even younger in subsidiaries outside Finland: Sweden 30; Norway 36; Estonia 35; Lithuania 31; Latvia 33 and Russia 28.

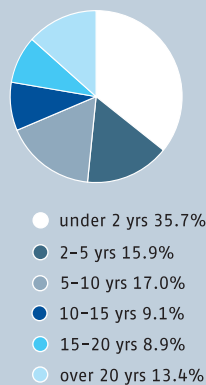
BREAKDOWN OF KESKO GROUP EMPLOYEES BY DIVISION AS OF 31 DECEMBER 2007, %



AGE BREAKDOWN OF PERSONNEL IN FINLAND IN 2007, %



DURATION OF EMPLOYMENT IN FINLAND IN 2007, %



A breakdown of the duration of employment contracts in Finland is presented in the chart (left) which shows that 13% of employees had worked for the Group for over 20 years.

Outside Finland, the longest current employment contracts are less than 15 years. Over 60% of employees have worked for the Group for less than two years and only 16% for more than five years.

### Recruitment and job rotation

In Finland, Kesko recruits about 6,200 new employees annually. Approximately 2,000 are permanent and the rest are hired for a fixed term such as seasonal helpers. In-house job rotation makes it possible to offer a great variety of career alternatives.

Major HR risks include the shortage of sales personnel in Finland and experts in Russia and the Baltic countries. The efficiency of the K-Group's internal labour market, coupled with well-managed job rotation, will thus be of crucial importance in the near future. In Finland, some 1,200 people moved internally from one job to another in 2007. The figure is not comparable to previous years as the accuracy of the statistics improved in 2007. The corresponding figure for operations outside Finland was 370. The figure is not available for K-rauta AB in Sweden, Byggnakker, K-rauta AS in Estonia, or Senukai.

In Finland, recruitment in the K-Group is supported by the K-trainee programme and the K-retailer trainee programme. Annually, Kesko selects some 20 new university or polytechnic graduates to be trained for managerial and specialist positions in the trading sector. The first K-trainee programme, which commenced in 2007, was an outstanding success receiving more than one thousand applications. The latest K-trainee programme started in January 2008 and will run for one year. A total of 18 new trainees, selected from 700 applicants, started the programme, all of whom will be offered a permanent job in the K-Group. At the same time, the 18 participants of the first K-trainee programme in 2007 graduated after a challenging year. An essential part of the one-year programme is training in a retail store, the purpose of which is to provide the participants with practical introduction to the work at store level.

In addition to the K-trainee programme, Kesko also offers K-retailer trainee programmes for future retailer entrepreneurs. The K-retailer trainee programme has approximately 100 participants annually.

### Kesko's profile as an attractive employer

Kesko's target is to be the most attractive workplace in the trading sector. In addition to increasing the commitment and job satisfaction of current Group employees, Kesko wants to be seen as an interesting option by other trading professionals and students. To meet this target, Kesko is continuing to further develop its cooperation with educational institutions, participate in recruitment fairs, and present the K-Group as an attractive employer at various events.

Kesko monitors how it is perceived as an employer in Finland through a number of surveys conducted among students and the young working population. Regular surveys are also conducted on Kesko's employer profile among top decision-makers and other influential people in society.

Five external surveys were carried out in 2007: two surveyed student opinion (Universum and T-media), one young professionals (Universum), and one decision-makers (Taloustutkimus). In addition, EVTEK-Mercuria Business school conducted a survey among business college students.

Kesko's ranking among business students has risen since 2000, with the exception of 2006. In 2007, Kesko's ranking as an ideal employer in the Universum survey rose considerably with business students ranking Kesko 23<sup>rd</sup> (42<sup>nd</sup>) out of the 100 companies surveyed. A new survey by T-media was also conducted in which Kesko's ranking among students in institutions of higher education was 37<sup>th</sup> and among business students 31<sup>st</sup>. Among business students (polytechnic), Kesko was ranked 16<sup>th</sup>. T-media's survey categorises students as job seekers into four segments: career oriented, work oriented, ethical and those who avoid stressful situations. Among ethical job seekers, Kesko's ranking was considerably higher (23<sup>rd</sup>) than among students in institutions of higher education in general.

In the survey conducted by the EVTEK-Mercuria Business School, business college students found Kesko attractive as an employer. The students ranked the retail and wholesale trade fourth among the most interesting sectors. The general image of the K-Group was rated 8.2 and its attractiveness as an employer 7.7 (scale 1-10).

Kesko's ranking among young professionals also rose substantially. In 2007, Kesko was ranked 16<sup>th</sup> (28<sup>th</sup>) among business graduates with a career of 1-8 years (Universum).

In the VIP survey that assessed the opinions of managers in large companies, organisations, municipalities, and government agencies, Kesko's reputation as an employer fell slightly below average in the comparison covering trading sector companies, but was clearly above average in the comparison of large companies. Kesko's overall scoring dropped slightly in both categories compared to 2006.

An internal survey was also conducted as part of Kesko's manager training, for employees in management and specialist positions (aged under 30), who have been working for the company for less than two years. A good working community and interesting duties were listed as strengths, whereas the performance of immediate superiors and compensation were seen as development targets.

### Emphasis on leadership

A uniform management system built on corporate values and responsible working principles is essential for long-term operational development. The management ensures that Kesko operates in compliance with the Group's values. Annual performance and development reviews are one of the key tools used for efficient performance management and motivating leadership. Reviews cover the entire personnel. In 2007, 72% (74% in 2006) of the Group's employees in Finland participated in the reviews.

#### JOB SATISFACTION OF PERSONNEL IN FINNISH COMPANIES (SCALE 1-5)

	2003	2004	2005	2006	2007
Own job	3.71	3.79	3.82	3.82	3.85
Superior's performance	3.79	3.80	3.84	3.81	3.85
Unit's operations	3.76	3.76	3.78	3.76	3.80
Kesko's operations*	3.70	3.60	3.58	3.58	3.62

\*The results for 2003 are not comparable to the results for other years

#### JOB SATISFACTION OF PERSONNEL IN COMPANIES OUTSIDE FINLAND (SCALE 1-5)

	Sweden			Estonia			Latvia			Lithuania			Norway		Russia	
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	2006	2007	2006	2007
Own job	3.97	3.86	3.90	4.09	4.15	4.14	4.14	4.11	4.10	3.88	4.10	4.26	3.95	4.02	4.14	4.07
Superior's performance	3.74	3.65	3.66	3.96	4.02	3.99	3.98	4.04	3.88	3.94	3.70	4.06	3.66	3.89	4.13	4.10
Unit's operations	3.79	3.63	3.67	3.95	4.06	4.00	3.99	3.99	3.93	3.71	3.85	4.12	3.66	3.91	4.23	4.18
Company's operations	3.76	3.70	3.75	4.01	4.06	4.07	4.02	3.97	3.92	3.65	3.73	3.73	3.68	3.80	3.96	3.86
Average <sup>1)</sup>	3.82	3.71	3.75	4.00	4.08	4.04	4.03	4.05	3.97	3.73	3.88	4.15	3.79	3.94	4.17	4.12
Number of respondents	380	547	491	377	449	582	398	596	621	116	149	145	346	381	666	744
% of employees	51	53	40	74	79	81	60	64	56	68	76	81	51	49	66	63

<sup>1)</sup> Average is calculated on the basis of categories own job, superior's performance and unit's operations.

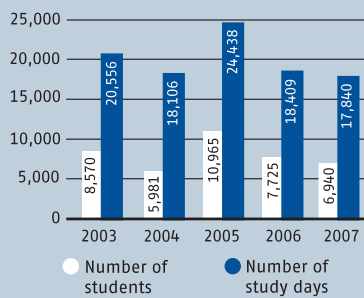
EMPLOYEE CATEGORY BY GENDER IN FINLAND AS OF 31 DECEMBER 2007

	Women, number	%	Men, number	%
Top management	6	16.2	31	83.8
Middle management	79	21.6	286	78.4
Superiors, specialists	816	42.6	1,101	57.4
Workers, office workers	8,542	66.2	4,371	33.8
Total	9,443	62.0	5,789	38.0

PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY IN FINLAND 2003-2007

	2003	2004	2005	2006	2007
Top management	8.9	13.3	14.3	15.6	16.2
Middle management	23.9	24.1	23.6	24.7	21.6
Superiors, specialists	58.2	55.4	54.8	48.7	42.6
Workers, office workers	64.3	63.7	63.4	64.4	66.2
Total	61.9	61.1	60.8	60.9	62.0

NUMBER OF STUDENTS  
AT THE K-INSTITUUTTI



Leadership skills and career progress are supported by Kesko's three-step manager and management training. Kesko has also implemented a long-term development programme for management and potential management personnel since 2004. There are some 200 participants in the programme, which is designed to ensure a sufficient supply of managerial resources, both in terms of quality and quantity, and focuses on leadership, management, and key business processes.

The programme's themes in 2007 concentrated on responsible management, customer loyalty, and communication and media skills. In 2008, the main theme will be work productivity. The media training conducted in Finland in 2007 will be offered to managers in subsidiaries elsewhere.

In August 2007, the K-Group launched its first own K-retail eMBA programme in cooperation with the Helsinki University of Technology. The programme aims to train top experts in international retail management (for more see page 74).

Job satisfaction

A good working community is a prerequisite for employee wellbeing and excellent performance. Progress in this area is monitored through a regular job satisfaction survey used since 1996 which covers Kesko's indicators for management quality. The survey measures an employee's job satisfaction, their superior's performance, the operations of their units and Kesko as a whole. The results of the survey are uniformly analysed and the development targets are included in the units' action plans. A job satisfaction survey is carried out in all K-Group's stores except for the smallest K-food stores.

The results of the job satisfaction survey for the Kesko Group are presented in the table on page 67. In Finland, 9,374 employees (67.2%) responded to the survey - slightly less than in 2006. The survey did not include employees on long-term leave.

Employees' satisfaction improved in all surveyed aspects in Finnish companies: one's own job, superior's performance, unit and Kesko's operations. The strengths listed in 2007 were people's awareness of both their own and their unit's targets and the high perceived level of customer satisfaction.

Satisfaction with internal mobility opportunities has improved over the years, but is still seen as a development target, as are communications between employees and management and general employee wellbeing. The results of the job satisfaction survey contribute to the bonuses paid to management in Group companies in Finland.

Outside Finland, the response rates increased in Estonia and Lithuania yet decreased elsewhere, varying between 40% and 82%. The survey was not carried out in Senukai, in Lithuania. Job satisfaction improved, on average, in the Group's Swedish, Lithuanian and Norwegian companies, and decreased in Estonia, Latvia and Russia. The changes were, however, significant only in Norway.

Other evaluation practices

Management quality is evaluated regularly through a number of other surveys. Kesko's annual customer satis-

faction survey indicates how both external and internal customer relations are developing. Both contribute to the bonuses paid at unit level.

Outside Finland, Senukai has an 'Ethical Committee', which consists of five management representatives and meets, where necessary, to consider complaints and problems presented by employees. The committee received no complaints in 2007.

Through Kesko's intranet in Finland, employees can give feedback on operations in their units directly to senior management via the 'direct channel' or 'mail to the President and CEO' links, or via a discussion channel where they can comment or make proposals openly or anonymously. Management replies are published via the intranet's 'direct channel'; the President and CEO replies personally.

In 2007, a project was started to reform Kesko's intranet - Keskonet - whereby its structure, content, functionalities and visual appearance will be completely renewed. When the project is completed, Kesko's personnel in all operating countries will be able to share information via Keskonet.

#### **K-citymarket is one of the best workplaces in Finland**

K-citymarket participated for the first time in the 'Best Workplaces in Finland' survey conducted by the Great Place to Work Institute. K-citymarket was placed fourth in the category of large organisations. The organisations are included in the annual list of best workplaces based on the level of trust and the quality of relationships existing between employees and management. For more on this, see case on page 74.

### **Equality**

Kesko Corporation and its Finnish division parent companies and subsidiaries have company-specific equality plans. Prepared in 2005-2006, they include objectives for improvement based on national legislation and cover recruitment, career development and training, compensation, and work-family interaction. In addition to gender equality, they also cover other aspects of equality such as age and cultural background. The employees' experience of equality has been monitored as part of the job satisfaction survey since 1996.

As of the end of 2007, a total of 62% (60.9% in 2006) of Kesko Group employees in Finland were female and 38% (39.1%) male. Outside Finland, companies are male-dominated (57%).

Six women held top management positions in 2007 (16.2% of the total); one sat on the Board of Directors (seven members) and two sat on the eight-member Corporate Management Board.

The proportion of women in middle management dropped to 21.6% (24.7% in 2006) and in management and specialist positions to 42.6% (48.7%) in Finland.

The proportion of women in middle management was 40% in Estonia, 42.6% in Latvia, 6.7% in Lithuania, and 59.4% in Russia. Women in superior or expert positions accounted for 14.5% of employees in Estonia, 32.5% in Latvia, 9.5% in Lithuania, and 55.8% in Russia. Statistics are not available for K-rauta AB in Sweden, Byggnakker, Rautakesko AS in Estonia, or Senukai.

The number of women in supervisory positions is significant in retail subsidiaries. Some 80% of department managers in K-citymarket hypermarkets and 72% of department managers in Anttila department stores are female.

In Finland, Kesko's implementation of equality was rated at 3.64 (3.60) on a scale of 1-5 in the annual job satisfaction survey. This rating has improved every year since 1996, except for 2004.

### **Competence development and training**

The objective of Kesko's personnel development and training is to develop the competencies needed to implement the Group's business strategies and the customer promises of its chains.

Statistics are available for all Kesko employee basic training in Finland, with the exception of retailing companies. Of the 5,826 people included in Kesko's statistics, 21% have basic training, 63% have medium-level vocational training, and 16% have a degree from an institution of higher education.

The percentage of employees with a degree was higher in the Baltic countries and Russia than in Finland - 46% in Estonia, 26% in Latvia, 20% in Lithuania, and 45% in Russia. No statistics are available for Sweden or Norway.

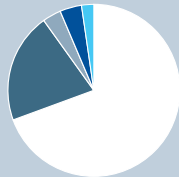
A total of 16,000 working days or 1.4 days per employee were devoted to supplementary training in Finland. A total of €4.8 million or €420 per employee was spent on training. As the figures for 2006 were 1.5 days and €350 per employee, the input in terms of duration decreased in 2007, but increased in financial terms. Around 80% of training was internal, including training at the K-instituutti.

The number of training days in companies outside Finland totalled 7,109 (3,589) or 0.7 (0.5) days per employee, costing €792,910 or €220 (€95) per employee. Internal training accounted for 67%. The increase in the number of training days can mainly be attributed to training related to store openings and management training in A/S Rautakesko in Latvia. The data for training expenses for Byggnakker or Senukai are not available. The data for training days for K-rauta AB in Sweden, Byggnakker, or Rautakesko AS in Estonia are not available.

The K-instituutti training centre offers training programmes for Kesko's management and management potential, superiors and experts. The management's and management potential's training programmes are discussed under 'Emphasis on leadership'. The training programmes for K-retailers and shop managers focus on the daily management of the store, action planning and entrepreneurship. In addition, K-instituutti offers training on customer service and sales to K-store staff.

In 2007, K-instituutti provided courses for around 6,940 Kesko employees, K-retailers, and K-store staff (7,700 in 2006). The number of study days totalled 17,840 (18,400). In 2007, programmes related to the reform of the K-Plussa customer loyalty system was the biggest single programme in terms of participants. The K-instituutti has close to 20 e-learning courses for the Group's companies and chains.

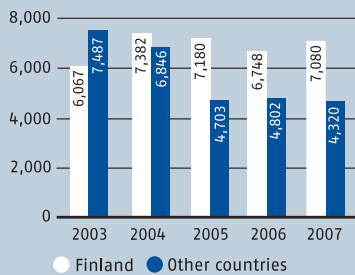
**SICKNESS ABSENCE IN 2007  
(FINNISH OPERATIONS), %**



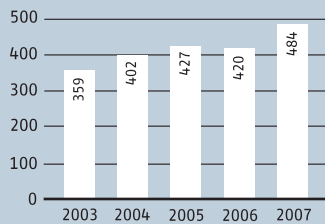
- Paid sick days 69.4%
- Unpaid sick days 20.7% (long illnesses)
- Care for sick children 3.5%
- Workplace and commuting accidents 4.1%
- Occupational diseases and rehabilitation 2.3%

**Total number of sick days in Finland: 141,278**

**TRENDS IN THE NUMBER OF SICK DAYS,  
SICK DAYS PER MILLION WORKING HOURS**



**KESKO'S SPENDING ON  
OCCUPATIONAL HEALTH SERVICE IN FINLAND  
(KESKO'S IN-HOUSE OHS UNIT), €/PERSON**



The responsibility for implementing the Master Sales Assistant training - Finland's largest adult training programme - was transferred from the K-Retailers' Association to K-instituutti at the beginning of 2007. The purpose was to increasingly integrate the Master Sales Assistant training in the staff development programmes. Some 15,160 students (862 from Kesko including personnel from Kesko's retailing companies) participated mainly through distance learning. As in previous years, the programme was offered in about 100 business colleges and polytechnics. Some 6,000 students from educational institutions took part in the training in 2007.

**Health and safety**

Kesko collects work-related health and safety statistics, together with absence statistics due to illness. Statistics on contractors are not collected.

**Sick leave in Finland**

From April 2007, Kesko Corporation has used the insurance services of Pohjola instead of If, the former insurer. The number of work-related incidents (resulting in one or more sick days) in Finland was 699 (495 in 2006), and 155 (139) accidents took place on the way to and from work. The figures for 2006 have been updated according to information received from the insurance company after the publication of the 2006 report. Nine occupational illnesses were reported to the Group's insurer. There were no fatal accidents.

The lost time incident rate per million working hours was 43.2 (31.3). The number of sick days caused by incidents and occupational illnesses totalled 5,918 (equivalent to 0.5 days per employee), an increase of 25% over 2006. However, the average severity of incidents, as calculated in terms of days lost per incident, dropped to 6.9 (7.4).

Kesko Group companies in Finland have occupational health and safety committees based on the Finnish occupational safety and health legislation. In 2008, Kesko will establish a Group-level occupational health and safety forum comprising industrial safety officers and delegates, as well as representatives of Corporate Risk Management, Corporate HR and Occupational Health Service Unit. Its purpose is to find common solutions for practical OHS questions in different units.

The total number of sick days in Finland was 141,278 or 9.3 days per employee (9.7 days in 2006) or 7,080 days per million working hours. The figure represented an increase of 4.9% (see the graph on left for the 2003 to 2007 statistics). The accuracy of the statistics has improved over the years which has increased the number of sick days to some extent and made comparisons more difficult.

According to the Confederation of Finnish Industries EK, the average sickness absence rate in the Finnish service sector in 2006 was 3.8% of theoretical working hours. The corresponding figure for industry was 6.7%. Kesko's absence rate in Finland was 5.1% (without absences related to child's illness) in 2007. The sick days of part-time employees are entered as full days in Kesko's statistics. If they were entered as hours, the indicators for sickness absence would be slightly lower.

## The occupational health care objectives for 2007–2008

Objectives	Achievements
Integrating the reporting and processing of sick leave into a systematic procedure in all companies and units.	The procedures in K-citymarket and Anttila were developed during 2007 (see below); the work will continue in other companies in 2008.
Harmonising joint meetings between managers, employees, and occupational health care personnel.	The target was not met during 2007. Introducing joint meetings is a focal target for 2008.
Introducing drug testing as part of initial health check-ups for certain categories of employees in areas such as IT, occupational health care, security, and drivers.	The target was met during 2007.

The graph on left shows the reasons for sickness absence. Compared to 2006, the major changes were the increase in the number of sick days resulting from incidents, and the increase in the number of paid sick days.

The number of paid and unpaid sick days used for rehabilitation increased by 6.5%. Rehabilitation focused on 'ASLAK' vocation-specific early rehabilitation courses. Seven new groups began in 2007.

Long-term projects focusing on wellbeing at the workplace are being implemented by several companies. The aim is to increase work productivity by reducing sickness absences and raising the retirement age. Rautakesko's Timantti programme focuses on continuous wellbeing and the life/work balance of employees over 50 (for more on this, see case on page 75). Anttila introduced a new model to discuss reasons for sickness absence with employees, and a similar programme was piloted in K-citymarket (see case on page 74). The annual K-Group-wide 'On the move' campaign encourages employees to exercise and try new sports. The Kesko Staff Club encourages and supports the personnel's hobby and recreational activities.

### Sick leave in other countries

Subsidiaries outside Finland recorded 78,838 sick days, equivalent to 7.7 days per person (8.6 days in 2006) or 4,320 days (4,802 days) per million working hours. Absence accounted for 3.2% of working days in 2007, which is less than the absence rate in Kesko's Finnish operations. Country-specific details are given in the table on page 64. Relative sickness absence dropped in 2007, but the figures for different years are not completely comparable.

Subsidiaries outside Finland spent approximately €362,000 on staff leisure and recreational activities. Data for K-rauta AB in Sweden, Byggmakker or Senukai are not available.

### Occupational health service

In Finland, Kesko's in-house Occupational Health Service Unit served approximately 6,000 Kesko Group employees; over 5,200 were seen at the Group's own health clinics in Greater Helsinki. Some Kesko Group companies buy occupational health services from external providers.

A total of €4.3 million was spent on occupational health care in Finland in 2007. Around €2 million of this sum was paid for by the Social Insurance Institution of Finland.

The total spending on promoting employees' work capabilities and health care was €327 per person in Finland. Of the total spending on services from external service providers, 35% was used in activities maintaining employees work capabilities and preventing illnesses. The corresponding figures for Kesko's in-house occupational health service were €484 and over 40%.

The Occupational Health Service Unit assists Kesko's retail companies in questions related to workplace ergonomics. Where required, Kesko's Occupational Health Service Unit also participates in care and treatment guidance for employees abusing intoxicants, and trains managers, in cooperation with the occupational psychologist, to handle problematic situations involving intoxicants with prevention as the primary target. HIV tests are only made in connection with medical treatment, not during initial or normal employment health check-ups.

The OHS Unit participates in four research projects of the Finnish Institute of Occupational Health (FIOH) related to improving the functioning of work communities and the effectiveness of health examinations in occupational health services; developing a system for assessing physical work load, and the early diagnosis and prevention of work-related upper extremity disorders.

The occupational health care objectives for 2007-2008 and achievements are discussed above.

## Salaries and other benefits

The average annual salary of Kesko employees in Finland was €31,590 in 2007, €35,050 in the other Nordic countries, and €11,230 in the Baltic countries and Russia - based on the Group's average number of personnel.

As Kesko Group's operations are diverse - nearly 700 job titles - the average salary is not a very good indicator of salary level and structure. As the Group structure has also undergone many changes in Finland and elsewhere, yearly comparisons are not indicative of salary trends.

### Bonuses

Some €14.8 million was paid in spring 2007 in Finland in the form of bonuses under the bonus system for 2006, and accounted for 4.1% of the total payroll. The Group's bonus system applies to all personnel of Kesko Corporation and its Finnish subsidiaries, with the exception of retail stores, where bonuses are only paid to managers in Anttila department stores and K-citymarkets.

In 2007, a new sales bonus system was piloted among the employees of Anttila and Kodin Ykkönen department stores. K-citymarket introduced a similar sales bonus system to its employees in retailing which was piloted in 2006.

In Kesko Corporation's bonus system, the key factors contributing to the payment of a bonus are the overall performance of the Group and the division, sales and performance within a person's unit, and customer satisfaction. The job satisfaction of the personnel is another contributing factor for managers.

The bonus systems of companies outside Finland are not necessarily comparable to those in Finland. Companies outside Finland paid nearly €6.3 million in bonuses for 2007, accounting for about 4.4% of the total payroll. These figures are not available for Byggmakker or Senukai.

Keskos Group's management - comprising some 80 executives - has a performance-based bonus system. Approved by Kesko Corporation's Board of Directors, maximum bonuses vary depending on the profit impact on each person's job and are equivalent to three and eight months' salary.

### Stock option schemes

Kesko had two stock option schemes in 2007. The share subscription period of the 2003 stock option scheme will end at the end of April 2008, 2009, or 2010 depending on the stock option.

In March, the Annual General Meeting decided to grant a stock option scheme to Kesko Group's management, other key personnel and a subsidiary wholly owned by Kesko Corporation. The exercise period of options will end at the end of April 2012, 2013, and 2014, depending on the stock option. The schemes can be consulted at: [www.kesko.fi](http://www.kesko.fi) (investors). Personnel expenses in the financial statements for 2007 included share options granted to the value of €2.3 million.

## Pensions

The Kesko Pension Fund increased as a result of a portfolio transfer taking place on 1 January 2007. The portfolio transfer increased the number of the Pension Fund members by some 5,400 and the number of pensioners by 328.

In Finland, a total of 164 people (140 in 2006) retired from the Group. Of these, 115 (59) were members of the Kesko Pension Fund, while 49 (81) were insured by Varma-Sampo. The figure includes employees on partial retirement and partial disability pensions. Occupational retraining was arranged for seven (26 in 2006) employees unable to continue in their previous jobs or whose working ability was at risk due to illness. There were no retirements in companies outside Finland.

The number of employees who retired on full pension due to health grounds decreased by 6 to 51. The number of disability pensions has remained very low throughout the 2000's - calculated as a three-year average the number has been declining after the mid-1990's and has now settled to a very low level. At the same time, the Occupational Health and Safety Unit has strongly invested in actions targeted to maintaining working capacity.

The number of early retirement pensions granted by Department A of the Pension Fund on production - or economic related grounds totalled 16 (10).

The average retirement age of employees covered by pension decisions made by the Kesko Pension Fund decreased to 57.7 years (58.1), and increased in Varma-Sampo decisions to 58.9 years (55). Regarding the Kesko Pension Fund, the average retirement age varies annually depending, for example, on the age of employees retiring on disability pensions. With regard to the Varma-Sampo decisions, the increase in average age can be attributed to the new Pension Act, which enables employees to retire at their own discretion between the age of 63 and 68. The average retirement age of people in the Finnish national employee pension scheme was 58.6 years (2006).

The average pension paid by the Kesko Pension Fund was €1,282 per month - a total of €57.7 million to 3,749 people in all.

## Activities in employer organisations

Kesko is a member of the Federation of Finnish Commerce, the Swedish Commercial and Service Employers' Association, and NHO - the Confederation of Norwegian Enterprise. Rautakesko's and Kesko Agro's subsidiaries were not members of any organisations in the Baltic countries.

Kesko's President and CEO is a member of the Federation of Finnish Commerce's Board of Directors and Deputy Chairman of the Confederation of Finnish Industries EK's Board of Directors.



### Cooperation with employee representatives

A total of 38.2% of Kesko Group employees in Finland were unionised in 2007, mainly as members of Service Union United PAM, based on membership fees deducted from salaries. In Norway, the unionisation rate was 25.5%. Only a few employees belonged to trade unions in the Baltic countries and Russia. In the Baltic countries, many subsidiaries have workplace committees, where both management and employees of the company are represented. Data for K-rauta AB in Sweden and Senukai are not available.

Collective bargaining agreements cover all employees in Finland, Sweden and Norway. In Russia and the Baltic countries, no binding collective agreements covering any industries have yet been concluded.

The Kesko Group has a company-specific shop steward system in place at all its major subsidiaries in Finland. Keslog Ltd's site-specific shop stewards also represent the employees of other division parent companies at their sites. There are also department store-specific shop stewards at Anttila Oy and Citymarket Oy.

The international Group-level European Works Council (EWC) meets once a year, and was attended by representatives from Finland, Sweden, Estonia, and Latvia in 2007.

In the summer, the retailer of K-supermarket Kesäpäivä in Kangasala was accused of illegally terminating the store's shop steward's employment contract. Other accusations, related to the treatment of employees, were also made public and Service Union United PAM announced a boycott of the store. The retailer denied all accusations. After negotiations the shop steward returned to the workplace and in October Kesko, the retailer and PAM agreed on a plan to develop the working community in K-supermarket Kesäpäivä.

Finland's Court of Appeal had one case and the district courts four cases pending concerning disputes related to the termination of employment. One case was found in favour of Kesko, one was settled in 2007 and one at the beginning of 2008.

The statistics regarding employment disputes in operations outside Finland only include open cases. According to these statistics, there was one employment dispute case pending at the end of 2007 which was related to the violation of an employment contract by a former employee.

## Case



### BUILDING FUTURE EXPERTISE

The K-Group's second K-trainee programme got under way on January 7. A total of 18 participants, from 707 applicants, have been selected for the programme, with a focus on recent university graduates or young people soon to graduate, to help prepare them for future managerial, leadership, and specialist positions. Some 58% of applicants had a university or equivalent qualification, or were close to completing one, and 42% had a polytechnic degree.

Hands-on training in a retail store forms a central part of the one-year programme and is designed to introduce participants to the practical aspects of retailing. The K-trainee programme also includes a comprehensive managerial training at K-instituutti, the K-Group's own training centre. Participants also take part in various division- and chain-specific training.

Simultaneously with the start of the second programme, the trainees from the first programme celebrated the completion of their studies. Mikko Larinen from Nurmes served his in-store traineeship at K-citymarket Kuopio, and says that the year gave him valuable work experience and helped him make important contacts that will be useful in the future.

'The programme has enabled me to see retail operations from a number of perspectives. The events arranged for trainees and specialists to exchange ideas and views on key issues in the retail field were among the highlights of the programme for me. I wouldn't have missed a day of the programme for me. I wouldn't have missed a day of the programme, even though there were inevitably things that I could have handled better – with the benefit of hindsight.'

In addition to the K-trainee programme, Kesko operates the K-retailer trainee programme, which attracts around 100 participants annually. This has operated in its current form since 1998 and has become central to ensuring that the Group has a strong reserve of retailers to draw on.

### ENJOYING WORK AT K-CITYMARKETS

Kesko Food's subsidiary K-citymarket Oy was placed fourth in the large company category of 'Finland's Best Workplaces in 2008' coordinated by the Great Place to Work Institute. Selection criteria used in the competition included employee perceptions of their employer and the quality of personnel operations.

A project designed to increase the wellbeing at work was started

in the non-food departments of K-citymarkets in summer 2007. The project will standardise sick leave procedures across the chain and offer store managers a new, more efficient approach. This will focus attention on guaranteeing better occupational health care, better ergonomics, and on reducing the need for sick leave with positive methods. The efforts designed to promote a more satisfying work experience for staff. The model will standardise sick leave reporting across all K-citymarkets and give managers new management tools. The project was piloted in 10 stores in Greater Helsinki and the Tampere region at the end of 2007. The pilot project will continue in early 2008, after which a decision will be taken on whether to adopt the new system across all 56 department stores in the chain.



### BUILDING BETTER MANAGEMENT CAPABILITIES THROUGH AN INTERNATIONAL EMBA PROGRAMME

Kesko launched its first K-retail eMBA programme for key personnel in Finland at the end of August 2007, in association with TKK Executive School of Business Oy.

Riitta Laitasalo, Kesko's Senior Vice President, Human Resources, says that those with strategic vision and the ability to implement their strategies effectively are those most likely to succeed in the highly competitive and increasingly international trade sector.

'We've launched our own K-retail eMBA programme to help us face this management challenge, and have selected participants from people in key positions in Kesko's various divisions to give our operational management the cutting-edge expertise we'll need in the future,' she says.

Participants come from areas such as finance, logistics, and international trade across the K-Group. The programme is designed to give them a better understanding of the growing international dimensions of the retail trade, the central success factors involved, and the importance of strategic thinking and leadership for a service company.

Students admitted to the programme are expected to make a major commitment, as study takes place alongside everyone's daily work. The programme is expected to take around 18 months to complete, and the first set of students should graduate in December 2008.

### RAUTAKESKO'S 'DIAMOND' PROGRAMME HELPS MAINTAIN WORK CAPACITY

Rautakesko has started a training programme to help older members of staff maintain their work capacity until retirement. Launched in October 2007 and known as the 'Diamond' programme, the initiative will last a year and will focus on improving employees' physical and mental conditions and enhancing their motivation during the last few years of their career.

The programme is being implemented in cooperation with a specialist training company, Mercuri, and with input from occupational health care and other specialists, such as psychologists and sports trainers. Regular sessions for participants will cover the importance of diet, overall health, rest, and self-awareness in the reconciliation of work and private life. Listening to seniors' views and learning from their experience forms an important part of the programme's goals.

Seija Takamaa (67) works as an interior products sales person at K-rauta 75 in Vantaa.

'I like working with young people. Young and old employees have a lot to give each other,' she says. The retirement papers have been filled out already.

Seija has had over 30 years' experience in her job, and has worked for the last 16 years at K-rauta 75.

'I find my job very rewarding. It's a real pleasure to work out a successful remodelling project with a customer and help people make the best paint and wallpaper choices. The job also keeps me active as well.'



### A COMMON SET OF GROUND RULES

The Annual Management Forum in Tallinn attracted 130 participants at the end of January and was the first event at which Kesko presented its 'Our Responsible Working Principles' guide to the Group's international management. The guide lists the international agreements that Kesko and the K-Group have committed themselves to, together with Kesko's own principles and policies in the area and common values.

Speaking at the event, Group Counsel Anne Leppälä-Nilsson underlined the importance of acting responsibly for a listed company operating internationally such as Kesko.

'Responsibility is a success factor for Kesko. We need to earn the trust of our customers, our suppliers, our employees, the authorities, our shareholders, and our other stakeholders every day. We are committed to operating in accordance with all aspects of local legislation and regulations wherever we do business. As a listed company, we are also covered by security market regulations, Corporate Governance recommendations, and legislation designed to prevent bribery and other forms of corruption.'

Baiba Pedraudze, HR Manager at Kesko Agro in Latvia and one of the participants at the event, sees a common set of ground rules for all countries as very important.

'Operating responsibly in the same way everywhere means that we all speak the same language. It ensures that we all know what's allowed and what's not. It also means that we can rely on the same principles to help us solve problems when conflicts arise. That's what makes the 'Our Responsible Working Principles' guide one of the most important documents we use when inducting new employees. It's also great that we've got video animations available as well to help people get to grips with the practical implications of our principles.'

The guide and video animations can be found at: [www.kesko.fi\(jobs\)](http://www.kesko.fi(jobs)).

Responsible purchasing



## KEY RESPONSIBLE PURCHASING PERFORMANCE IN 2007

- + Market strength of BSCI cooperation increased, as the number of member companies rose from 60 to nearly 100.
- + Kesko strengthened its management practice for responsible purchasing by establishing a steering group comprising representatives of division parent companies and subsidiaries importing from high risk countries.
- + K-food stores' own coffee brand, Costa Rica, was replaced by the UTZ-certified Pirkka Costa Rica.
- + Anttila launched the ecological and ethical Switcher clothes collection with the unique 'DNA' code.
- + Kesko published a comprehensive list of restricted substances in textiles (reported under 'Product safety').
- Kesko was not able to meet its target as regards the number of BSCI audits.
- In the BSCI Initial Audits, fewer than one third of the suppliers comply with BSCI requirements.

### Kesko's imports from the high risk countries

In monitoring the social compliance of its suppliers, Kesko primarily concentrates on suppliers operating in the so called 'high risk' countries. These are countries and areas where there is a risk of human rights and workers' rights violations, mainly due to the poor monitoring of national labour legislation.

Direct purchases by Kesko's Finnish companies from suppliers in risk areas in 2007 totalled €129 million. These imports accounted for 1.6% of Kesko's total purchases. Around 70% of imports come from EU countries. Outside the EU, Kesko's most important supplier countries in risk areas are China (€74 million), South Korea (€12 million), and India (€9 million).

In addition to its own direct imports, Kesko also buys goods produced in high-risk countries from other importers operating in Finland (see page 36) and through international purchasing groups. These imports mainly consist of international branded products that have been the subject of much attention in respect of the social quality of their manufacture in recent years.

Kesko cannot present reliable statistics on the country of origin of these imports, but estimates that their value is approximately similar to that of its own high-risk imports. In addition, social risks may be associated with the manufacturing of products that come to Finland through third countries as well as with the production of product ingredients.

Kesko's subsidiaries outside Finland have not yet introduced a corresponding procedure for their direct imports. As their parent companies buy from distant countries on a centralised basis, subsidiaries have only few foreign suppliers - mainly in the EU. For country-specific imports, see page 36.

### Management practice for responsible purchasing

Kesko's management practice for responsible purchasing is based on the company's principles for socially responsible trading, approved by Board of Directors on 30 April 1999 (see [www.kesko.fi](http://www.kesko.fi) (responsibility)). According to these principles, Kesko wants to ensure that suppliers comply, at minimum, with national labour protection legislation. In cases where international labour standards - mainly the key conventions of the International Labour Organization (ILO) - ensure a better position for employees than national legislation, suppliers are required to comply with international norms.

Kesko has been a member of the Business Social Compliance Initiative (BSCI, [www.bsci-eu.org](http://www.bsci-eu.org)), a group of European retail chains promoting social audits in the supply chain, since the beginning of 2005. As a BSCI member, Kesko has committed itself to promoting the implementation of the BSCI Code of Conduct in its own purchasing. The BSCI Code requirements are similar to Kesko's own principles. In 2007, Kesko's guide for suppliers -

## MAIN ELEMENTS OF SA8000 AND BSCI AUDITS

Auditing areas	Corresponding ILO convention
Compliance with legislation and agreements	-
Freedom of association and collective bargaining	87, 98, 135 and 154
Discrimination	100, 111, 143, 158 and 159
Compensation	26 and 131
Working hours	1 and 14
Health and safety at work	155 and recommendations 164 and 190
Child labour	79, 138, 142, 182 and recommendation 146
Forced labour	29 and 105
Basic environmental protection	-

'Principles and practice of socially responsible trading' was revised and issued together with the BSCI Q&A for suppliers with additional support material for buyers.

Kesko strengthened its management practice by establishing a steering group for responsible purchasing. The steering group comprises representatives of Kesko's division parent companies and subsidiaries importing from high risk countries, and is responsible for coordinating and developing practices related to responsible purchasing at Kesko. The steering group met three times during 2007.

In 2007, Kesko prepared a 'first evaluation form' for high risk country suppliers. The form covers all aspects of the BSCI Code of Conduct and is supplemented with questions concerning environmental management. Its purpose is to give Kesko basic information on suppliers' social and environmental performance and to encourage suppliers to start the BSCI auditing process. It will be piloted in March 2008 and in the future all new suppliers in high risk countries are required to fill in the form before signing a contract with Kesko.

Kesko's buyers are regularly trained in issues related to responsible purchasing. In 2007, the buyers of Anttila and Kesko Food received training in the BSCI process. At the beginning of 2008, a similar training was organised for K-citymarket's buyers and agents involved in Anttila's supply chain. The workshop was attended by representatives of nearly 20 agents and generated fruitful discussion about the agents' role in promoting social audits in the supply chain.

### Tools for monitoring social compliance

The tools Kesko currently employs to monitor its supply chain are the SA8000 standard and the BSCI audits. In addition to these, there are several national and sector-specific initiatives with similar Codes of Conduct on the market.

Although all existing models do not necessarily fully comply with Kesko's requirements, it is clear that these other initiatives linked to Kesko's supply chain have resulted in improvements especially in global labour standards.

#### SA8000 Social Accountability standard

SA8000 is a standard developed by Social Accountability International SAI, based on the Universal Declaration on Human Rights and the Convention on the Rights of the

Child by the United Nations and the key conventions of the ILO.

The standard is developed and governed on a multi-stakeholder basis, involving non-governmental organisations, trade unions, universities, and business and certification body representatives. Certification is granted by international certification bodies accredited by SAI.

Of the available monitoring tools, SA8000 is the most demanding as well as being the most expensive. As of the end of June 2007, there were 1,373 SA8000 certifications in force, compared to 1,112 in September 2006. The list of certified facilities can be found at the SAI website ([www.sa-intl.org](http://www.sa-intl.org)).

#### Business Social Compliance Initiative (BSCI)

The BSCI is a business initiative promoted by European retail chains encouraging the use of social audits in cooperation with SAI. BSCI audits are carried out by SA8000 auditors, and are designed to guarantee the same basic rights for employees as the SA8000 standard. If a company that has passed the BSCI audit implements a management system complying with the SA8000 standard, it can be granted SA8000 certification.

The BSCI is part of the activities of the Foreign Trade Association (FTA) in Brussels. The governing bodies and working groups consist of member company representatives only. For stakeholders such as NGOs and trade unions, the BSCI offers the opportunity to participate in Stakeholder Dialogue meetings held annually. The target of the BSCI is to create a Stakeholder Board during 2008, the role of which would be give feedback and advice for development of the BSCI system. In addition, stakeholders' input is essential in the round table meetings regularly organised in China, Turkey, India and Bangladesh, for example.

Kesko has been active in the BSCI organisation, and participated in Working Group Primary Production and discussions with the European Committee of Domestic Equipment Manufacturers (CECED).

In March 2008, the BSCI had over 100 members, and there were nearly 3,700 suppliers in its member-only database. The suppliers do not receive a public certificate for having passed a BSCI audit.

Currently, Kesko promotes BSCI auditing to its suppliers, although it still recommends SA8000 certification as the ultimate goal in social compliance.

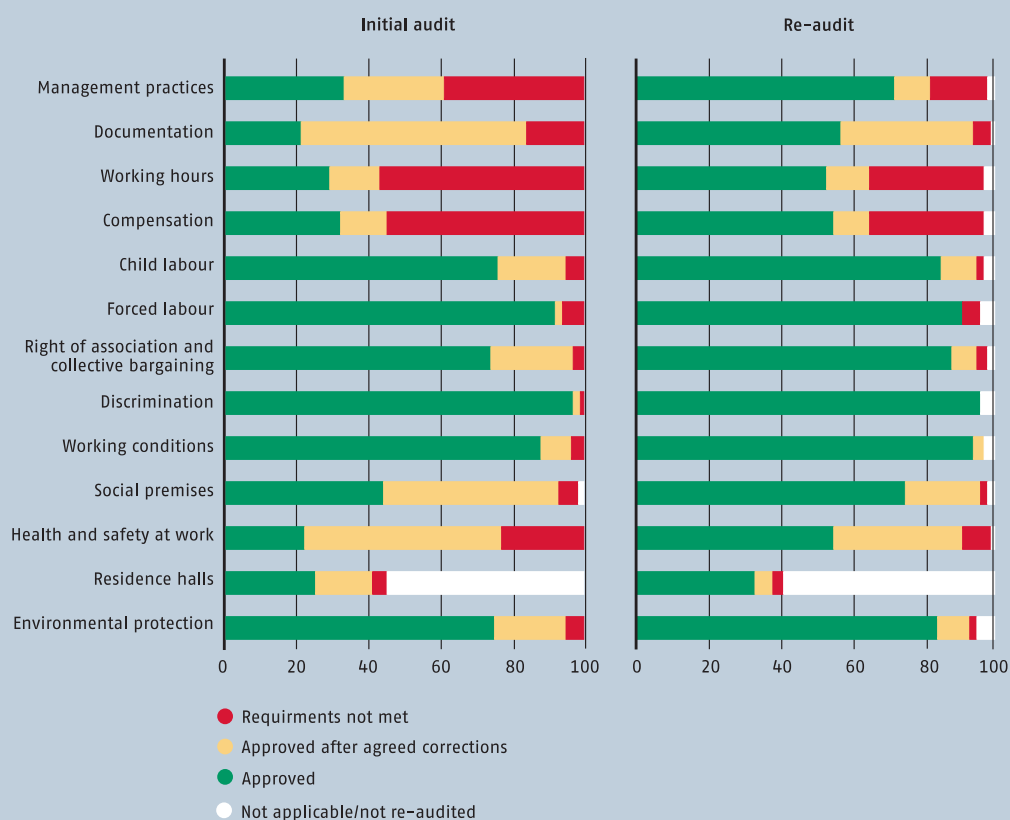
#### Fairtrade Certification

Fairtrade Labelling Organisations International (FLO), together with the FLO-CERT GmbH certification body, monitors the social compliance of approximately 600 producer organisations in 59 countries. The Fairtrade system covers some 1.5 million farmers and workers. In 2007, FLO-CERT was granted ISO 65 certification. The standard ensures that the Fairtrade certification process is reliable and transparent.

Fair trade sales totalled some €1.6 billion worldwide in 2007, and €32 million in Finland, in 2007.

The Fairtrade certification procedure is comparable to GlobalGAP certification and the BSCI Primary Production Module. The major difference between Fairtrade and

RESULTS OF BSCI AUDITS IN DIFFERENT AREAS IN 2007, % OF AUDITED COMPANIES



other schemes is that farmers are guaranteed a minimum price that is higher than the world market price and are required to invest in the local social infrastructure.

The International Fairtrade Certification Mark - the Fairtrade label - is the only social label that is known and accepted worldwide. The SA8000 or BSCI systems, for example, do not include a product label.

Kesko Food Ltd is a licence holder of the Finnish Fairtrade Labelling Organisation for its Pirkka range.

**Cooperation with other initiatives**

CIES, the Food Business Forum, has developed the Global Social Compliance Programme (GSCP), the purpose of which is to provide a platform to discuss and identify best practices related to the improvement of working conditions in the global supply chain. The GSCP model is based on corporations' engagement and direct participation and the programme is open to retailer and brand manufacturers across all sectors - food as well as non-food. The programme also associates civil society stakeholders.

GSCP is not a code or a monitoring system in itself, but aims at building transparency and comparability between existing initiatives, including the BSCI, and coor-

inating the industry effort to allow for joint training and capacity building activities in partnership with suppliers. Kesko follows the development of GSCP and cooperation between the programme and the BSCI.

In addition to meetings with GSCP representatives, the BSCI also entered into active discussions with the Ethical Trading Initiative (ETI) in the UK; the Initiative Clause Sociale (France); the Wine and Agricultural Ethical Trading Association (South Africa); the European Committee of Domestic Equipment Manufacturers (CECED) and GlobalGAP - a private sector body that sets voluntary standards for the certification of agricultural products. The purpose of these discussions is to find the possibilities for cooperation and to avoid the multiple auditing of suppliers.

**Results of social auditing**

In reporting on its performance on social compliance in the supply chain, Kesko can only provide exact data on SA8000 certifications, BSCI audits, and Fairtrade producers. After Kesko's 'first evaluation form' for suppliers has been implemented, Kesko will also be able to provide more accurate statistics on other audits carried out in its suppliers' factories.

### SA8000 results

As Kesko has concentrated on promoting the BSCI model to its suppliers, progress on SA8000 was slow. As of the end of 2007, Kesko had 16 non-food suppliers in five countries that had been granted SA8000 certification. In addition, all Chiquita's banana plantations in Costa Rica and Panama (50 in all), including those supplying Kesko, are SA8000 certified.

Kesko will continue to introduce SA8000 certification to suppliers as the ultimate goal and the last step of the BSCI audit (part C, Best Practice for Industry) during 2008.

### BSCI results

In March 2008, the BSCI had a total of 3,686 BSCI audited and 93 SA8000 certified suppliers in its database.

Kesko's objective for 2006 was to have 50 suppliers covered by BSCI audits; as this was not achieved, the same target was restated for 2007. Unfortunately, progress continued to be slower than expected in 2007, mainly due to supplier turnover and the fact that the auditing procedure has proven to be much more time consuming than expected. At the current rate, Kesko will not fulfill its commitment to BSCI (2/3 of the suppliers in high risk countries audited by mid-2008).

In March 2008, Kesko had 23 audited suppliers in the BSCI database. The total number of employees involved is around 9,700. During 2007, 11 initial audits and one re-audit were carried out. In addition, Kesko has four suppliers, which are members of the BSCI, and thus committed to promoting audits in their own supply chain.

Kesko's target for 2008 is to have 40 initial and 10 re-audits carried out in the non-food supplier companies' facilities - half in China. For suppliers in primary production, the target is two Initial and one re-audit during 2008.

The BSCI statistics show that at the time of the initial Audit, as much as 72% of the suppliers do not comply with the BSCI requirements. At the time of the re-audit, the proportion of non-compliant suppliers is still 45%, although there is measurable improvement after the initial audit due to corrective action being taken. The most challenging issues for suppliers continue to be management practice, working time and compensation. Kesko's suppliers' results are in line with these general results.

It is clear that auditing alone is not enough to improve working conditions. Audits are useful in raising awareness and improving performance in concrete issues that can be corrected fairly easily - occupational health and safety arrangements for instance. However, sustainable improvement in working conditions can only be achieved through supplier training and cooperation with the local authorities, trade unions and other stakeholders. For this reason, Kesko encourages its suppliers to attend training and qualification workshops and programmes arranged by the BSCI, and it continues to invest in development projects similar to the one ongoing in Vietnam (see below).

### Fairtrade products

Kesko has the broadest selection of Fairtrade products among Finnish trading groups - 64 products in all, eight in the Pirkka-range. The most important new Fairtrade products introduced in 2007 were Pirkka Fairtrade carnations and mixed bunches (see case on page 83), as well as new Pirkka Fairtrade coffee. As of the end of the year, Kesko had 64 Fairtrade suppliers in 27 countries, employing a total of 94,000 people.

In early 2007, Kesko Food signed an extensive cooperation agreement with the Fairtrade Association for Promoting Fairtrade in Finland. Kesko Food aims to be the market leader in the sales of Fairtrade products in Finland and actively seeks new Fairtrade products for its selection (for more on this, see case on page 83).

Taking the SA8000 and Fairtrade certifications and BSCI audits into account, Kesko has had a direct influence on the working conditions of over 100 supplier companies.

### Other initiatives

As many of the suppliers exporting to Europe supply both the BSCI members as well as other European and American retailers participating in social compliance initiatives, some of Kesko's suppliers have been audited within these parallel schemes.

In non-food, some of Kesko's suppliers have been audited against the criteria of the Ethical Trading Initiative (ETI), the Initiative Clause Sociale (ICS), Worldwide Responsible Apparel Production (WRAP), and the International Council of Toy Industries (ICTI), to name a few. In primary production, ETI audits as well as audits by the Wine and Agricultural Ethical Trading Association (WETA) and the Rainforest Alliance have been carried out at farms supplying Kesko.

#### EXAMPLES OF KESKO'S OWN DIRECT IMPORTS IN 2007\*

Country	Value of imports, € million
1. Germany	75.8
2. China	74.0
3. Netherlands	57.2
4. France	48.9
5. Sweden	45.7
6. Estonia	32.0
7. Italy	30.3
8. Spain	24.0
9. Belgium	14.0
10. South Korea	12.2
11. Japan	11.5
12. Denmark	10.2
13. Lithuania	9.8
14. Great Britain	9.5
15. India	9.2
16. Turkey	9.0
17. Vietnam	8.2
18. United States	7.8
19. Poland	7.5
20. Thailand	5.8

\*Figures include only direct imports forwarded by Keslog, no imports by W-Auto Oy or by Kauko-Telko Group



In April 2007, K-food stores' own coffee brand, Costa Rica, was replaced by the UTZ-certified Pirkka Costa Rica. The UTZ certification is based on complying with the demanding Code of Conduct, which includes both environmental and social aspects. The decision increased the sale of Kesko's private label coffee produced under the neutrally monitored certification programmes to over 90% (for more on UTZ, see case on page 82).

### Training and qualification of suppliers

In 2007, the BSCI arranged supplier training in China and Turkey, and supplier and stakeholder meetings related to agricultural supplier audits in Morocco, South Africa and Almería, Spain. In China, around 900 suppliers attended the workshops, which were held in Shanghai and Shenzhen. Representatives of 11 Kesko's supplier companies attended the workshops, nine companies in China and two in South Africa. In April and May 2008, the BSCI will arrange supplier workshops in China and India, as these are the most important sourcing markets for its members. Kesko will invite around 80 suppliers to attend these workshops.

#### **The development programme in Vietnam aims at sustainable improvement in working conditions**

Some of Kesko's Vietnamese suppliers participate in the joint three-year development programme by the Social Responsibility in Importing network, the Trade Union Solidarity Centre of Finland (SASK) and the Central Organisation of Finnish Trade Unions - SAK. Also Stockmann and Tuko are involved in the project, which is mainly funded by the Development Aid Programme of the Finnish Foreign Ministry. Project management is provided by APHEDA (a development agency owned by Australia's trade unions); the Ministry of Labour, trade unions and the Chamber of Commerce in Vietnam are also represented in the project's Steering Group.

A BSCI initial audit was carried out in the supplier companies participating in this project during 2007. The companies also received training in issues related to employees' unionisation. In October 2007, a mid-term seminar was organised in Ho Chi Minh City to discuss the outputs of the project so far. Many supplier companies found complying with the BSCI criteria very challenging. Overtime restrictions, requirements related to health and safety at work, and worker representation in factories were discussed. At the beginning of 2008, the corrective actions will be implemented in supplier companies with the help of local CSR consultants involved in the project. The BSCI re-audits will be carried out in the factories by mid-2008.

The stakeholder discussions related to responsible purchasing are described on page 14.

## Case



### RESPONSIBLE FASHION FROM ANTTILA

Swiss-based Switcher is a pioneer in ethical and ecological fashion, and its range is sold exclusively in Finland by Anttila department stores and NetAnttila. Ensuring that responsible practices are followed throughout the production chain is central to Switcher's philosophy.

Switcher prefers to use organic and Fairtrade cotton grown in countries such as Mali; and mainly partners with suppliers in Portugal, India, China, Turkey, Romania, and Tunisia. Switcher has been part of the independent Clean Clothes Campaign pilot programme coordinated by International Social Compliance Verification (ISCOM) since 1998. As part of this, Clean Clothes Campaign representatives monitor working conditions at the factories producing Switcher products. ISCOM ensures that the plants concerned observe basic international norms and are committed to developing the working conditions of their employees.

Work is also constantly under way to reduce the environmental impact of factories by increasing the efficiency of their use of energy, water, and the salt in dyes, and by investing in wind and solar power. Switcher also has a 100% CO<sub>2</sub>-neutral range, in which CO<sub>2</sub> emissions have been compensated for by supporting projects aimed at curbing global warming.

The Switcher Foundation funds a number of local development programmes in the countries where it sources its clothes, mostly linked to education, environmental protection, and health care. In India, for example, the company's foundation has supported school bus operations.

Switcher offers consumers the opportunity to see how its production chain works all the way from the cotton field to the store.

'Consumers can trace the route their clothes take via [www.respect-inside.org](http://www.respect-inside.org) web site by using the 'DNA' code on the reverse of product labels or by product name,' explains Riitta-Liisa Leiviskä, Anttila's Fashion Marketing Manager.



### DRINK MORE RESPONSIBLY, DRINK UTZ CERTIFIED COFFEE

A new coffee – UTZ-certified Pirkka Costa Rica – replaced K-food stores' original Costa Rica coffee in April 2007, and quickly became Finland's most widely drunk responsibly produced coffee. It also made K-food stores one of the country's leading retailers of responsibly produced coffee.

UTZ certification guarantees that coffee is produced responsibly in terms of both the well-being of people and the environment. The programme is based on a demanding Code of Conduct covering areas such as land use, fertiliser usage, irrigation, harvesting, and the health, safety, and working conditions of employees. The programme also helps growers develop into coffee growing professionals and produce better-quality coffee, and earn more as a result.

Traceability is an important aspect of UTZ CERTIFIED coffee. This enables consumers to know exactly where the coffee they buy comes from, down to the exact plantation where it was grown. Consumers can access this information by typing in the 'best before' information on a pack at: [www.pirkka.fi/ruoka/jaljitakahvi](http://www.pirkka.fi/ruoka/jaljitakahvi).

The ability to trace the origin of products is becoming an increasingly important factor in ensuring that the entire production chain is responsibly managed. Traceability works the other way around as well, as it enables growers to know, in the case of UTZ CERTIFIED coffee, that their product is being drunk in the world's highest per capita coffee-drinking country far in the north – Finland.



#### MAKING RESPONSIBLE PURCHASING PART OF EVERYDAY LIFE

A responsible purchasing team was established at Anttila in autumn 2007, made up of home and fashion marketing and range managers. The team meets every two to three months to report on the auditing situation at suppliers, share experiences, and identify best practices.

The group discusses the practical implications of Kesko's ethical purchasing principles and how best to arrange independent auditing with new suppliers, for example. This has highlighted the fact that social compliance is a familiar subject to most major suppliers today and that the BSCI auditing model used by Kesko is becoming increasingly well-known. As part of these discussions, Anttila has also been able to collect valuable information on other auditing carried out at plants and working conditions there. It has also shown that social audits have been carried out at around 50% of Anttila's Asian shoe and bag suppliers. Much work still needs to be done at many plants, however.

'Anttila wants to see an increasing number of suppliers in developing countries included in BSCI auditing, and this is why we have included responsible procurement indicators in our buyers' scorecards,' says Marketing Director Anu Pihlaja. 'By doing things like this, we want to ensure that our entire organisation realises that responsibility is an integral part of purchasing.'

#### KESKO FOOD – AIMING TO BE THE MARKET LEADER IN FAIRTRADE PRODUCTS

Kesko Food and the Association for Promoting Fairtrade in Finland strengthened their collaboration dating back to 1999 with a new, broad-based cooperation agreement on February 26, 2007. This aims at strengthening joint work in areas such as developing and launching new products, communications, and marketing.

Kesko currently offers the widest range of Fairtrade goods of any retailer in Finland: 64 product names, of which eight are Pirkka products. The new agreement aims to see Kesko Food become Finland's largest seller of Fairtrade products by the end of 2008. The plan includes doubling the number of Pirkka-branded Fairtrade products.

The combination of the Fairtrade philosophy and the Pirkka brand has worked excellently in the cut flowers area, and Fairtrade flowers have become a real success. A total of nine million Fairtrade roses were sold in 2007, and Fairtrade carnations and bouquets, launched on Pirkka Day (September 1), have also proved popular. Flower sales generated some €80,000 of Fairtrade supplementary income in 2007, which has been used to renovate schools and develop water supply systems in Kenya, as well as provide peace education and small loans in Columbia. Fairtrade flowers are sold exclusively under the Pirkka brand in Finland.



## Other responsibility areas

The corporate responsibility issues defined in the GRI Guidelines under the headings 'Product responsibility' and 'Society' are reported here, as applicable to Kesko. These include product safety, privacy protection, compliance with marketing and competition regulations, attitude to bribery, and political relations.

### Product safety

Product safety is closely linked to all of Kesko's business. It is particularly important in the food trade, where safety is highlighted both by means of legislation and statutory control and by companies' voluntary activities. The new Decree on Food Premises (STMa 905/2007) entered into force on 1 November 2007. The requirements of the revised decree concerning temperatures, for example, will be updated in the K-Group's self-control plans during the transition periods.

Kesko's voluntary policies on product safety include Guidelines on Packaging Information and Stand on Genetic Engineering, both of which can be consulted at: [www.kesko.fi](http://www.kesko.fi) (responsibility).

Based on EU and Finnish legislation, and authority guidelines, Kesko Food has prepared guidelines on packaging information for its house brands and own imports. In some areas, the guidelines exceed legislative requirements. For instance, nutritional information is always included - package size and space permitting - on house brand products. In addition to obligatory information, any allergenic ingredients are indicated even when they may only find their way into a product accidentally through cross-contamination during the production process. The country of origin is always marked on imported house brand products, and the manufacturer's name and domicile on domestic products. Instructions for package labelling information also specify how different symbols relating to domestic origin, environmental aspects and recycling are to be used.

In 2007, Kesko introduced the Guideline Daily Amounts (GDA) labelling to the Pirkka range and reduced the amount of salt in six and the amount of fat in four Pirkka products (see cases on page 87). The reformulation of Pirkka products with respect to their salt, fat and sugar content will continue during 2008.

In its Stand on Genetic Engineering, Kesko states that it keeps a close eye on the development of the legislation concerning the use of genetic engineering and the latest data and products available. Special attention is paid to products offering added value to consumers. Kesko's decisions on selections are based on consumers' needs and wishes - food selections are wide and comprehensive providing consumers with many alternatives to choose from. Kesko can include in its ranges such GMO products whose safety has been duly confirmed in the way required by authorities. Currently, Kesko's house brand products (Pirkka, Euro Shopper, Rico) are GMO-free; K-food stores do not sell any other GMO products supplied by Kesko Food.

Safety questions of textiles, such as formaldehyde and nonylphenol contents, aroused much discussion throughout the autumn. In the analyses made by Kesko Food's Product Research Unit, no contents exceeding the per-

mitted values were found. However, as Kesko wants to pay special attention to chemical safety, at the end of 2007 the Product Research Unit prepared a comprehensive list of restricted substances in textiles based on REACH, EU Directives, Finnish legislation and Kesko's own requirements. The list will be distributed to suppliers outside the EU.

Indian guar gum containing dioxin caused extensive recalls in the EU area in early autumn. Guar gum (E412) is used as a thickening additive in very many types of groceries. Kesko Food's Product Research Unit followed the situation carefully and ensured that no polluted lots of guar gum ended up at the manufacturers of Pirkka products. The laboratory also made spot-check type determinations of dioxin, which revealed no deviations.

### The activities of Kesko Food's Product Research

Kesko Food's Product Research ensures the quality of the products purchased by Kesko, develops the Group's own brands, coordinates self-control, keeps abreast of food legislation, and is responsible for recipe and consumer services. In addition to food products, the unit also controls the quality of some non-food products and home and specialty goods. In the case of Kesko's house brands, the Product Research Unit acts as a product developer partner, working in close cooperation with Kesko's buyers and product manufacturers.

In 2007, the Product Research Unit audited 28 suppliers (40 in 2006), of which 14 were Finnish. These companies mainly included suppliers of Kesko's house brands, and were audited in compliance with Kesko Food's audit protocol. The improvements suggested mainly related to the planning of production facilities and hygiene.

A total of 8,053 (9,739) product samples were analysed. Over 40% of samples were product development samples of house brand products. The number of samples related to new products was 1,654 (1,982 in 2006). A total of 1,262 (1,277) batch control and other self-control samples were analysed.

The Product Research Unit is also responsible for product recalls, which numbered 35 (36) during the year. Most of them related to defective quality or taste, or a manufacturing or packaging error. Nine (18) recalls covered Kesko Food's house brand products. In the other cases, the Product Research Unit assisted manufacturers in the recalls. Two were public product recalls, in which case the defect or error may involve potential health hazards and are notified to the relevant national authorities. One case was related to guar gum containing dioxin (see above) and the other to a toy panda which was found to contain ftalate exceeding the permitted values.

The consumer service section of the Product Research Unit in Finland received 20,305 (19,322) items of feedback during the year - all of which were answered. Nearly 80% of contacts were product complaints, and almost 15% questions concerning products. Feedback also included thanks, ideas, and suggestions. More than 1,800 product samples or wrappings were sent to the consumer service; around 60% of them were analysed by the unit and the rest sent to the manufacturer for analysis.

Representatives of the Product Research Unit participate in several legislation and development projects concerning food quality and safety both at the national and international levels. These include the EU/Codex hygiene and package labelling workgroups, expert groups under the Advisory Committee on Foodstuffs, the Ministry of Agriculture and Forestry's research working group, and the working groups of the Finnish Food Marketing Association. Respectively, Product Research Unit's researchers participate in two ISO/TC working groups. When required, the unit prepares and publishes Kesko Food's views on current issues.

### Privacy protection

The Plussa customer loyalty system operated by K-store chains and Plussa partners is managed by a Kesko subsidiary, K-Plus Oy, and is limited to Finnish operations. As of the end of 2007, approximately 3.5 million people in more than 1.9 million households held Plussa cards. Nordea Finance Finland Ltd provides payment and credit services for the system.

The customer information provided by Plussa cardholders forms a customer database that is used, with customers' permission, for improving the service capabilities of partners belonging to the programme, customer relationship management, customer contacts, and marketing purposes.

Cardholders' purchasing patterns are registered on the basis of product categories. More detailed information is evaluated by customer group rather than individually. Customers can expressly forbid the use of their product category information. If they decide to do so, data on their purchasing is not registered or used in planning the range of goods on sale, nor is the information used for direct mail marketing purposes. Customers can also request that no information at all is registered on their purchases, and only make use of the immediate benefits they receive from using their Plussa card. In these cases, purchasing data is not entered into the Plussa system and customers cannot receive any benefits accruing from Plussa points. Some 4,000 customers in 2007 requested that their purchasing data not be recorded.

As a registrar, K-Plus Oy is required to ensure that the customer information it holds is only used for the purposes specified. Information on individual customers is protected by instructions given to personnel and various technical means. Customer data is only disclosed to third parties if required by law.

Every registrar must have a register description under the terms of the Finnish Personal Data Act, and the register description for K-Plus Oy can be consulted, in Finnish, at: [www.plussa.com](http://www.plussa.com).

### Marketing and competition regulations

Kesko's functions include deciding the basic selections of the K-retailer chains, setting the maximum retail prices for some of the chain selection products sold by K-retailers, which prices retailers are allowed to undercut, and planning and implementing the marketing programmes for the K-retailer chains. Kesko and K-retailers operate within a vertical relationship to ensure that marketing and other cooperation takes place in compliance with competition legislation.

After the amendment of the Act on Competition Restrictions as of 1 May 2004, the Finnish Competition Authority no longer grants exemptions to Kesko's division parent companies to set the maximum retail prices in K-retailer chains and to determine their chain selections. Consequently, companies are required to evaluate the acceptability of their agreements and practices from the viewpoint of competition legislation themselves, taking competition regulations, legal practice, and competition authorities' guidelines into account.

In August 2004, the Finnish Competition Authority sent a draft proposal to Kesko, suggesting that Kesko had exceeded the limits for maximum pricing permitted in the exemption in the K-market and K-extra store chains in the late 1990's. At that time, the operations of the K-Group were based on mutual horizontal K-retailer cooperation.

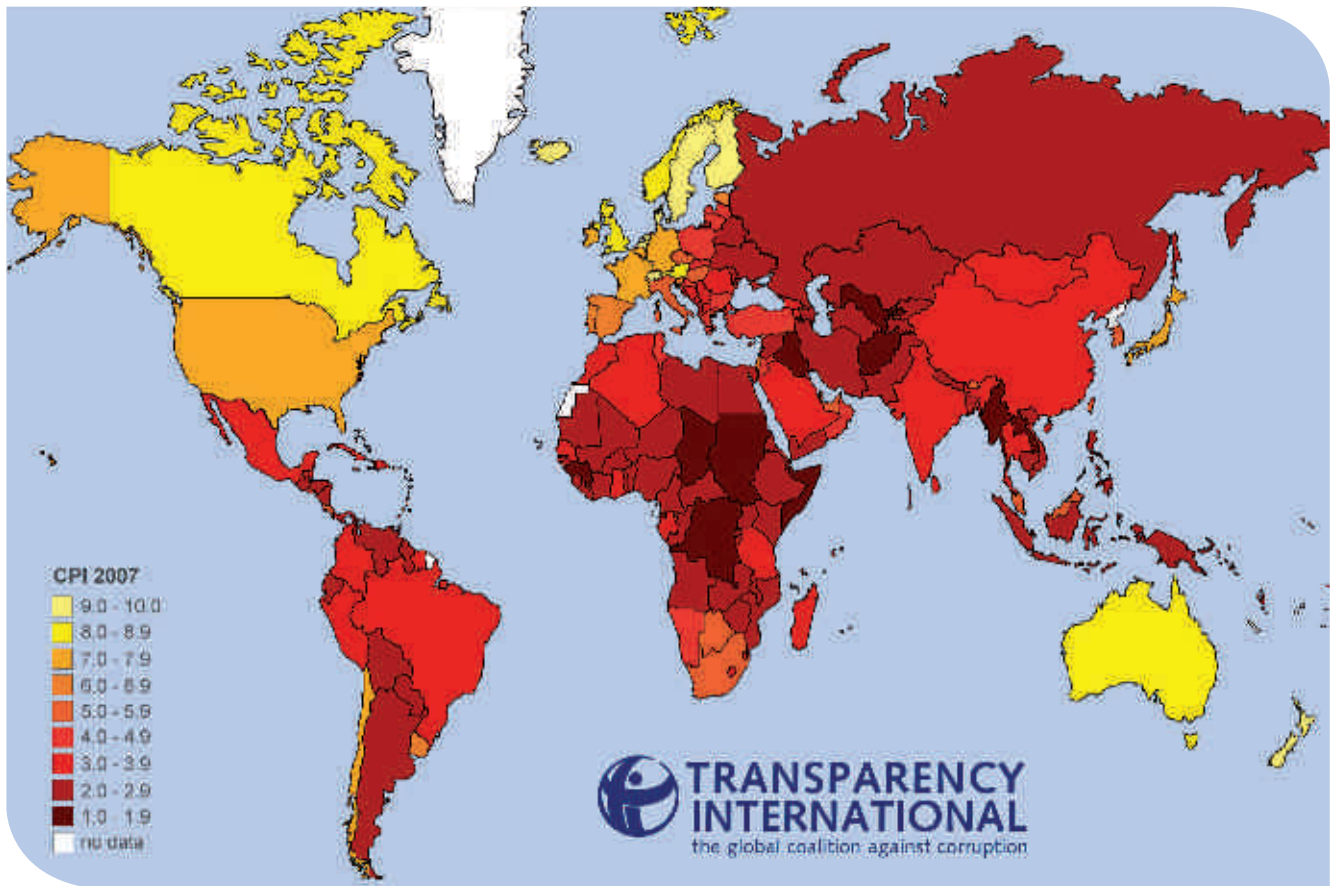
The Finnish Competition Authority proposed to the Market Court in February 2005 that a sanction of €100,000 be imposed on Kesko. The Market Court had not issued its finding on the matter by the end of 2007.

### Political relations

Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to legislative work. Kesko is particularly active in the Finnish Central Chamber of Commerce, the Federation of Finnish Commerce and its associations, and the Confederation of Finnish Industries EK. The Federation of Finnish Commerce is a member of EuroCommerce, which represents trade interests to the EU Commission and the European Parliament. Kesko also belongs to UGAL, the EU organisation of independent retailers, which promotes its members' interests both directly and through EuroCommerce. A chart on Kesko's key channels of influence is given at: [www.kesko.fi](http://www.kesko.fi) (responsibility).

Kesko's subsidiaries in Sweden and Norway are members of national employer organisations in these countries. In the Baltic countries, trade and industry activities are not yet as highly organised as in Finland, although sector and central organisations, and chambers of commerce have been established. Kesko's memberships in these are listed under 'Activities in employer organisations' on page 72.

Kesko gave no political financial support in any country in 2007. Advertising of a supportive nature in Finnish party newspapers amounted to €12,800. The amount is included under 'non-governmental and environmental organisations' in the chart entitled 'Kesko's support for the public good' on page 40.



**KESKO'S OPERATING COUNTRIES IN THE TRANSPARENCY CORRUPTION PERCEPTION INDEX**

	Scale 1-10
1. Finland	9.4
1. Denmark	9.4
4. Sweden	9.3
9. Norway	8.7
14. Hong Kong	8.3
16. Germany	7.8
28. Estonia	6.5
39. Hungary	5.3
51. Lithuania	4.8
51. Latvia	4.8
61. Poland	4.2
72. China	3.5
123. Vietnam	2.6
143. Russia	2.3
150. Belarus	2.1

Transparency International 2007

**Attitude to bribery**

Kesko has always opposed the giving and taking of bribes in any shape or form. Kesko's position in this area has been included in 'Our Responsible Working Principles', the most recent version of which was published in late 2007. Read more on the guide and its implementation on page 25. The guide can also be consulted at: [www.kesko.fi](http://www.kesko.fi) (responsibility). It has been published in Finnish, Swedish, English, Norwegian, Russian, and all the Baltic languages, and has been distributed to all Group personnel. The Internal Audit Department pays particular attention to assessing systems designed to prevent malpractices and financial losses. No cases of malpractice were identified during 2007.

Kesko's ethical purchasing principles, which have been distributed mainly to suppliers operating in developing countries, make a clear statement about Kesko's opposition to bribery.

Kesko is a member of Transparency International, Finland. Among Kesko's operating countries listed in the Transparency International Corruption Perceptions Index 2007, Hungary, Latvia, Poland, and China in particular, have improved their scores, while the scores of Estonia, Russia and Belarus dropped compared to 2006.

## Case



### K-SUPERMARKETS' CAMPAIGN ENCOURAGES PEOPLE TO EAT FRUIT

A special fruit campaign took place at all 156 K-supermarkets between February 11 and 13, 2008, and profiled over 30 different types of fruit, which were sold at a special price of €1 a kilo, pack, box or bag.

The campaign was the second so far; the first was held in autumn 2007. Sales easily exceeded expectations during the first campaign, and fruit continued to attract greater-than-average consumer interest subsequently as well. The targets were exceeded this year, too. Over a million kilos of fruit were sold during the campaign, and the sales in euros improved with over 100% during the period. The fruit campaign had a positive effect on the sales of vegetables also.

Finns continue to eat too little fibre. One reason for this is that people eat relatively small amounts of vegetables and fruit, although vegetables are becoming more popular. The recommended intake of vegetables and fruit is over 400 grams a day.

'We need more incentives to ensure that Finns eat more fruit, vegetables, and berries,' says Development Manager Marjaana Lahti-Koski of the Finnish Heart Association. 'They're not only excellent sources of nutrients, but are also attractive in terms of colour and taste. Varied use of fruit and vegetables can give people new taste experiences and replace the harmful salt in their diet.'



### CHECK OUT YOUR GDAS

Kesko Food introduced GDA (Guideline Daily Amount) labelling on its Pirkka products in 2007. GDA labels provide easy-to-understand information on the energy, sugar, fat, saturated fat, and salt content in a portion of food, and what percentage this accounts for in a person's recommended daily diet. The information provides a quick and easy way to see the key nutritional value of a product, and helps people achieve a well-balanced diet.

The first GDA-labelled Pirkka products arrived in stores in September. The very first product was Pirkka Class A grill sausages. By the end of the year, the number of GDA-labelled products stood at 72.

Virtually all Pirkka products will feature GDA labelling once stocks of old packaging material have been used up, which should take a couple of years all in all.

For more information in Finnish, see [www.pirkka.fi/hyvaolo](http://www.pirkka.fi/hyvaolo)



### CUTTING FAT, SALT, AND SUGAR CONTENT IN PIRKKA PRODUCTS

The EU published a white paper at the end of May 2007 on a European health strategy for improving people's nutrition and reducing weight-related problems. The document outlines a number of measures that can be used to stop the average weight of populations across Europe increasing. Improving the information provided on food packaging was highlighted as one of the key measures for the retail sector (see Check out your GDAs). Other key areas mentioned included marketing campaigns to increase consumption of fruit and vegetables (see the fruit campaign at K-supermarkets above), promoting exercise (see school break campaign on page 42), and reformulating products to reduce their fat, salt and/or sugar content.

Kesko Food has already taken up the challenge and has decided to systematically reduce the fat, salt, and/or sugar in Pirkka products that contain high levels of these ingredients. This will be a long-term, demanding project, as it will call for improving the nutritional balance of popular products without affecting their taste or other qualities. The first steps in the project have already been taken in 2007, with reduced salt content introduced in six Pirkka products and reduced fat content in four.

The white paper can be consulted at: [http://eur-lex.europa.eu/LexUriServ/site/fi/com/2007\\_0279f01.pdf](http://eur-lex.europa.eu/LexUriServ/site/fi/com/2007_0279f01.pdf)

## Comparison of the report with the guidelines of the Global Reporting Initiative

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
<b>Profile</b>					
<b>1. Strategy and analysis</b>					
1.1.	CEO's statement	Yes	4	Review by the President and CEO	
1.2.	Key impacts, risks, and opportunities	Yes	10 11	Vision of corporate responsibility Risks and opportunities	Commitments and key areas of influence presented at: <a href="http://www.kesko.fi">www.kesko.fi</a> (responsibility)
<b>2. Organisational profile</b>					
2.1-2.10.	Basic information on the company	Yes	6	Key facts about the Kesko Group	
<b>3. Report parameters</b>					
<b>Report profile</b>					
3.1.	Reporting period	Yes	2	Contents of the report	
3.2.	Previous report	Yes	2	Contents of the report	
3.3.	Reporting cycle	Yes	2	Contents of the report	
3.4.	Contact persons	Yes	93	Contact personnel in corporate responsibility	
<b>Report scope and boundary</b>					
3.5.	Process for defining report content	Yes	2 22	Contents of the report Determining materiality	
3.6.	Boundary of the report	Yes	2	Contents of the report	
3.7.	Limitations on the scope or boundary of the report	Yes	2 8	Contents of the report Kesko Group's key indicators of corporate responsibility 2005-2007	Project timeline for providing complete coverage of all indicators not included. Reporting also covers partly the years 2003-2007.
3.8.	Basis for reporting on joint ventures, subsidiaries, leased facilities etc.	Yes	2	Contents of the report	
3.9.	Data measurement techniques and the bases of calculations	Yes		The data measurement techniques and the basis for calculations are noted in connection with the information concerned	
3.10.	Explanation of the effect of any re-statements of information provided in the previous reports	Yes	2	Contents of the report The explanations are also noted in connection with the information concerned	
3.11.	Significant changes from previous reporting periods	Yes	2	Contents of the report	
3.12.	GRI Content Index	Yes	88	Comparison of the report with the guidelines of the Global Reporting Initiative	
<b>Assurance</b>					
3.13.	Policy and current practice with regard to external assurance	Yes	2 94	Contents of the report Assurance statements	



GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
<b>4. Governance, commitments, and engagement</b>					
4.1.	Governance structure of the organisation	Yes	23	Governance	
4.2.	Independence of the Chair of the highest governance body	Yes	23	Governance	
4.3.	Number of independent members in the highest governance body	Yes	23	Governance	
4.4.	Mechanism for shareholder recommendations or directions	Yes	23	Governance	
4.5.	Linkage between compensation for the highest governance body, senior managers, and executives and the organisation's performance	Yes	23	Governance	
4.6.	Processes for the highest governance body to ensure conflict of interest are avoided	Yes	23	Governance	
4.7.	Expertise of the members of the highest governance body for guiding the organisation's strategy on corporate responsibility	Partly	23		The Board rely on the expertise the Corporate Management Board and the Corporate Responsibility Advisory Board to brief them on corporate responsibility matters as required.
4.8.	Internally developed values, principles and codes of conduct relevant to corporate responsibility	Yes	25	Kesko's policies, principles, and management systems related to corporate responsibility	
4.9.	Procedures of the highest governance body for overseeing the organisation's identification and management of corporate responsibility performance, incl. risks	Yes	11 23	Risks and opportunities Governance	
4.10.	Processes for evaluating the highest governance body's own performance	Yes	23	Governance	
<b>Commitments to external initiatives</b>					
4.11.	Addressing a precautionary approach	Partly	84	Product safety	Kesko's Product Research Unit controls products in order to ensure their quality and safety. However, the precautionary approach itself (as introduced in article 15 of the Rio Principles) is not included in control of the Unit.
4.12.	Externally developed corporate responsibility initiatives to which the organisation subscribes to	Yes	26	Principles for corporate responsibility	
4.13.	Memberships in associations	Yes		Explained at: <a href="http://www.kesko.fi">www.kesko.fi</a> (responsibility)	

**2002**  
In Accordance      C      C+      B      B+      A      A+

<b>Mandatory</b>	Self Declared			Report Externally Assured	✓	Report Externally Assured		Report Externally Assured
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
	GRI Checked							

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
<b>Stakeholder engagement</b>					
4.14.	List of stakeholder groups engaged by the organisation	Yes	14	www.kesko.fi (responsibility) Stakeholder engagement	
4.15.	Basis for identification and selection of stakeholders	Yes	14	Stakeholder engagement	
4.16.	Approaches to stakeholder engagement	Yes	14	Stakeholder engagement	
4.17.	Key topics and concerns highlighted by stakeholders	Yes	14 22	Stakeholder engagement Determining materiality	
<b>5. Management Approach and Performance Indicators</b>					
	Management approach to economic responsibility	Partly	31	Kesko's approach to economic responsibility	Kesko's approach to economic responsibility management is not reported separately for each economic aspect defined in the G3 Guidelines. Instead, an overall description of Kesko's approach to economic responsibility is included in the report.
<b>Economic performance indicators</b>					
EC1	Direct economic value generated and distributed	Yes	6–8 31 35 36 37 38	Key facts about the Kesko Group Kesko as a public company Investments and the store network Salaries, social security expenses and taxes Suppliers of goods and services Breakdown of economic benefits	
EC2	Financial implications and other risks due to climate change	No			Kesko participates in Carbon Disclosure Project, see ranking on page 33.
EC3	Coverage of the organisation's benefit plan obligations	Yes	37	Employee pension and health insurance	
EC4	Financial assistance from government	No			No subsidies referred to by GRI.
EC6	Locally based suppliers	Yes	37 38	Suppliers of goods and services Breakdown of economic benefits	
EC7	Local hiring	Partly	35 38	Job development Breakdown of economic benefits	Policy for local hiring and the proportion of senior managers locally hired in significant locations not reported.
EC8	Infrastructure development	No			
EC9*	Indirect economic impacts	Yes	38 39–40	Breakdown of economic benefits Breakdown of economic benefits by region	

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
	Management approach to environmental responsibility	Partly	45	Kesko's approach to environmental management	Kesko's approach to environmental management is not reported separately for each environmental aspect defined in the G3 Guidelines. Instead, an overall description of Kesko's environmental management is included in the report.
<b>Environmental performance indicators</b>					
EN1	Materials use	Partly	53	Use of materials	Only packaging materials for products packed by Kesko are included.
EN2	Recycled input materials	No			A trading company does not use recycled waste in the way referred to by GRI.
EN3	Direct energy consumption	Yes	48	Energy and water consumption 2007	
EN4	Indirect energy consumption	Yes	48	Energy and water consumption 2007	
EN5*	Energy saved due to conservation and efficiency improvements	Yes	47	Real estate operations	
EN8	Water use	Yes	48	Energy and water consumption 2007	
EN11	Land owned, protected areas, biodiversity values	No			No analysis has been made of land areas from the viewpoint of biodiversity.
EN12	Impacts on biodiversity	No			No analysis has been made of land areas from the viewpoint of biodiversity.
EN16	Greenhouse gas emissions	Yes	49	Environmental energy profile www.kesko.fi (responsibility)	
			52	Transport emissions	
EN17	Other relevant indirect GHG emissions	Partly	53	Kesko's CO <sub>2</sub> emissions	
EN19	Emissions of ozone depleting substances	Partly	49	Environmental energy profile www.kesko.fi (responsibility)	Use of ozone depleting substances in cooling equipment is not reported.
EN20	NO, SO and other air emissions	Yes	49	Environmental energy profile www.kesko.fi (responsibility)	
			52	Transport emissions	
EN21	Total water discharge	No			Not relevant in Kesko's operations.
EN22	Waste	Yes	54	Waste management and recycling	
EN23	Spills of chemicals, oils, etc.	Yes	57	Environmental risks, damage and incidents	
EN26	Mitigation of environmental impacts of products and services	Partly	55	Product-related developments	
EN27	Products and their packaging materials reclaimed	Partly	54	Waste management and recycling	Kesko produces no products, but as a retailer plays a significant role in recycling.
EN28	Fines and sanctions	No			No significant fines or non-monetary sanctions paid in 2007.

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
	Management approach to social responsibility	Partly	63	Kesko's approach to human resources management	Kesko's approach to the management of social responsibility is not reported separately for each social aspect defined in the G3 Guidelines. Instead, an overall description of Kesko's human resources management is included in the report. Social quality control of suppliers and management of product safety, together with procedures for protecting customers' privacy, are disclosed.
<b>Social performance indicators</b>					
LA1	Total workforce	Yes	35 65	Job development Employment and employee turnover	
LA2	Employee turnover	Partly	65	Employment and employee turnover	Only the total employee turnover is reported.
LA4	Collective agreements	Yes	73	Cooperation with employee representatives	
LA5	Minimum notice periods in operational changes	Yes	65	Employment and employee turnover	
LA7	Health and safety statistics	Partly	70	Health and safety	Assessment of compliance with ILO procedure guidelines not included. Information of subcontractors' accidents not included.
LA8	Employee education on serious diseases	Yes	70	Health and safety	RSI and stress management are included in health and safety programmes.
LA10	Training	Yes	69	Competence development and training	
LA12*	Performance and career development	Yes	67	Emphasis on leadership	
LA13	Diversity of governance bodies	Partly	69	Equality	Kesko's reporting covers only diversity related to gender.
LA14	Ratio of basic salary of men to women	No			
HR1-HR9	Human rights	Partly	76	Responsible purchasing	Not all indicators relevant to Kesko's operations: discussed as for product purchases
S01	Managing the impact on communities	No			
S02	Business units analysed for risks related to corruption	Partly	86	Attitude to bribery	Internal audit assures as part of its normal auditing practices that all ethical principles, also relating to corruption, are followed. Transparency International's corruption perception indexes in countries of operation are reported.
S03	Anti-corruption training	Partly	86 25	Attitude to bribery Kesko's policies, principles, and management systems related to corporate responsibility	Anti-corruption is discussed in Kesko's revised Code of Conduct, implemented in 2008.
S04	Incidents of corruption	Yes	85	Attitude to bribery	
S05	Public policy development and lobbying	Partly	85	Political relations	Commitments and key areas of influence presented at: <a href="http://www.kesko.fi">www.kesko.fi</a> (responsibility). Position papers can be found at the Internet pages of the organisations in question.
S06*	Donations to political parties	Yes	85	Political relations	
S07*	Anti-competitive behavior incidents	Yes	85	Marketing and competition regulations	
S08	Fines and sanctions	No			There were no fines or sanctions levied against Kesko for failure to comply with laws or regulations related to fraud or corruption.
PR1	Health and safety impacts of products	Partly	84	Product safety	These requirements are mostly covered by legislation and Kesko's reporting focuses mainly on house-label products.
PR3	Product and service information	Yes	84	Product safety	
PR6	Marketing communications	Partly	85	Marketing and competition regulations	No codes or voluntary standards relating to marketing communication are disclosed
PR9	Fines for non-compliance	No			There were no sanctions levied against Kesko for failure to comply with laws or regulations related to product responsibility.

\*) an optional additional indicator

## Contact personnel in corporate responsibility

The list below gives contact information on the personnel 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: firstname.lastname@kesko.fi

NAME	TITLE	UNIT
<b>Development, coordination, responsibility for editing the report</b>		
Ulla Rehell	Assistant Vice President, Corporate Responsibility	Corporate Communications and Responsibility
Anne-Maria Flanagan	Corporate Responsibility Advisor	Corporate Communications and Responsibility
Marjut Lovio	Corporate Responsibility Advisor	Corporate Communications and Responsibility
<b>Indicators of economic responsibility</b>		
Pauli Alajoki	Accounting Manager	Corporate Accounting
Tiina Nyrhi	Financial Controller	Corporate Accounting
Päivi Avelin	Controller	Corporate Accounting
Jukka Pokki	Investor Relations Manager	Investor Relations
Riikka Toivonen	Investor Relations Manager	Investor Relations
<b>Indicators of environmental responsibility</b>		
Jari Suuronen	Maintenance Manager	Real Estate Maintenance
Jari Pihlajamaa	Maintenance Manager	Real Estate Maintenance
Toni Pelin	Environmental Specialist	Kesko Food Ltd/Supply Chain Management
Toni Tynkkynen	Distribution Coordinator	Keslog Ltd/Grocery Transport
Sari Koskinen	Environmental Specialist	Rautakesko Ltd/Sourcing and Logistics
Jesse Mether	Environmental Specialist	Rautakesko Ltd/Commerce
Virpi Kantoluoto	Environmental Specialist	Kesko Agro Ltd/Development
Katarina Perkkiö	Project Assistant	HR and Office Services
Harri Ajomaa	Quality and Environmental Manager	Anttila Ltd/Development
<b>Indicators of social responsibility</b>		
Sari Kulmala	Senior HR Manager	Human Resources
Mikko Myyryläinen	HR Development Manager	Human Resources
Maija Fast	HR Communications Officer	Human Resources
Lea Heikkinen	Development Manager	Human Resources
Päivi Sariola	Financial Manager	Pension Insurance and Occupational Health
<b>Responsible purchasing</b>		
Marjut Lovio	Corporate Responsibility Advisor	Corporate Communications and Responsibility
<b>Product Safety</b>		
Matti Kalervo	Product Research Manager	Kesko Food Ltd/Product Research
<b>Corporate security and risk management</b>		
Juha Pietarinen	Chief Risk Officer	Corporate Risk Management
<b>Privacy protection/customer loyalty system</b>		
Kaija Kuusimaa	Development Manager	Kesko Food Ltd/K-Plus Ltd
<b>Corporate Communications and Responsibility</b>		
Paavo Moilanen	Senior Vice President, Corporate Communications and Responsibility	Corporate Communications and Responsibility

# Independent Assurance Statement

## Scope and objectives

Kesko commissioned Csrnetwork to undertake independent assurance on the sustainability information in its Corporate Responsibility Report 2007 [The Report]. Our objectives in undertaking the assurance work were to:

- check key claims in the report and the systems for collection of data,
- review the arrangements for the management and reporting of social and environmental issues provide an independent opinion to stakeholders on the information included in the Report based on the principles of the AA1000 Assurance Standard and comment on the report against the principles of materiality, completeness and responsiveness

The scope of our work excluded the economic section of the report which was subject to assurance by PricewaterhouseCoopers Oy.

## Responsibilities of the directors of Kesko and the assurance providers

The directors of Kesko have sole responsibility for the preparation of the Report. In performing our assurance activities, our responsibility is to the management of Kesko, however our statement represents our independent opinion and is intended to inform all of Kesko's stakeholders including the management of Kesko. The opinion expressed in this assurance statement should not be relied upon as the basis for any financial or investment decisions.

We were not involved in the preparation of any part of the Report. This is the 2<sup>nd</sup> year that we have acted as independent assurance providers and we have no other contract with Kesko. We adopt a balanced approach towards all Kesko's stakeholders and a Statement of Impartiality relating to our contract with Kesko will be made available on request.

The independent assurance team for this contract with Kesko comprised Mark Line, Richard Hughes, Judith Murphy and Sini Forssell. Further information, including individual competencies relating to the team can be found at: [www.csrnetwork.com](http://www.csrnetwork.com).

## Basis of our opinion

Our work was designed to gather evidence on which to base our conclusions. We undertook the following activities:

- A review of stakeholder opinions including a desktop review of issues reported by other retailers and telephone interviews with three of Kesko's stakeholders
- Interviews in Helsinki with a selection of senior managers. The objective of these discussions was to understand Kesko's governance arrangements and management priorities in respect of Corporate Responsibility. The managers were selected through discussion with Kesko and covered the following functions and operations: Kesko Agro, Keslog, Corporate Communications and Responsibility and the following parts of Kesko Food: HR, Logistics & Finance and Real Estates.
- Site visits to Byggmakker in Norway, an Anttila department store in Finland and a K-supermarket store in Finland. During these visits, we reviewed the systems used to generate data for the report, and checked

a sample of recent data. We also discussed corporate responsibility management arrangements and programmes in place at each site.

- We reviewed the full 12-month sustainability data collated at the corporate level and evidence supporting key claims made in the Report.
- The external assurance team worked in parallel with, but independently from, Kesko's internal data validation processes. We interviewed managers responsible for internal data validation, reviewed their work processes and undertook sample checks on consolidated sustainability data.
- We undertook an assessment of the company's reporting and management processes against the principles of materiality, completeness and responsiveness as described in the AA1000 Assurance Standard.
- We reviewed a draft and final version of The Report to identify key claims. We reviewed these claims and evidence to support them with the managers responsible for drafting the report. We provided comments to management on the draft version of the text.
- We reviewed a sample of the case studies from the report and evidence to support the data and claims within them.
- We reviewed the disclosure relating to GRI and Kesko's self declared level and provided comments which were incorporated in the final version of this disclosure.
- The English language version of the report was used as the basis for the assurance. The Finnish version of the assurance statement was translated by Kesko.

## Observations:

**Materiality** - has Kesko provided information on material issues to enable stakeholders to make informed judgments?

- Nothing came to our attention to suggest that material issues have been omitted from the scope of the Report. We found evidence that appropriate systems are in place for monitoring and gathering information on relevant management arrangements and performance.
- Kesko has piloted an internal process for making decisions around materiality of Corporate Responsibility issues, based upon management understanding of stakeholder priorities. This Report includes coverage of all the issues identified as high or very high on Kesko's materiality matrix.
- Kesko has identified Climate Change as one of its material issue and has started to develop an action plan encompassing all areas of Climate Change and building on work already in place. This is a positive development and we recommend that Kesko report progress against this action plan next year.

**Completeness** - does Kesko have systems in place to understand changes to stakeholder expectations and to provide complete and accurate information against the issues identified as material for inclusion in the Report?

- On the basis of the method and scope of work undertaken and the information provided to us by Kesko nothing came to our attention to suggest that these data have not been properly collated from information

reported at operational level. We are not aware of any errors that would materially affect the group data. Kesko was able to provide evidence for the key claims we reviewed.

- In developing its work on materiality the next step is to work to integrate stakeholder feedback into the materiality process in order to refine the priority issues for internal management and for reporting.
- The use of the Proventia database to manage sustainability data has been extended this year and the amount of data entered at source has increased. As the scope is extended further we recommend new users are given clear guidance and training to ensure data integrity is preserved. In addition, all users should be encouraged to peer review data, particularly in the area of Human Resources, to ensure data accuracy.
- CO<sub>2</sub> emissions data from goods transport for Finland now includes trunk delivery and long distance for the first time which improves the completeness of this data. These calculations could be improved through direct use of fuel usage data.
- Following a change in reporting systems this year Kesko is only reporting packaging purchased for goods it has packed in its warehouse. We recommend systems are extended to ensure Kesko can meet legal requirements to report packaging on imported goods.
- We agree with Kesko's GRI self-declared level of B+.

Responsiveness - how does Kesko demonstrate that it has responded to stakeholder concerns?

- Kesko Food has introduced a sustainability group which has developed strategic sustainability steps and targets for that division. Kesko management should consider whether other divisions could benefit from similar forums to manage sustainability at a divisional level. These type of forums could be used by divisions to promote and share good practices in Corporate Responsibility across stores and operations. This could help establish minimum divisional standards as well as drive improvements. It could also help Kesko realize its stated strategic aim to offer responsible consumption alternatives.
- Responsible purchasing remains a key issue for the company. The steering group for responsible purchasing is starting to make progress on auditing targets. We recommend the development of an overall management plan for responsible purchasing building on existing work which includes communication, training and capacity building as well as auditing targets.

We also restate our recommendations from last year to:

- implement environmental management systems for foreign operations and
- increase reporting on responsible lobbying



U.K.

March 2008

Mark Line  
Director

Judith Murphy  
Consultant

Richard Hughes  
Associate

# Independent Assurance Report

Translation from the Finnish original

## TO THE MANAGEMENT OF KESKO CORPORATION

We have been engaged by the management of Kesko Corporation to provide assurance on their 2007 Corporate Responsibility Report ('the Report') for the year ended 31 December 2007, with respect to the following information therein:

- The corporate responsibility performance in the area of economic responsibility, as reported in the section titled 'Economic performance' on pages 31-43; and
- The comparison of the economic responsibility indicators in the Report with the economic responsibility indicators outlined in the Global Reporting Initiative Sustainability Reporting G3 Guidelines, as reported in the section titled 'Comparison of the report with the guidelines of the Global Reporting Initiative' on page 90.

The management of Kesko Corporation is responsible for the preparation of the Report and the information and assessments contained therein. Our responsibility is to express a conclusion about the subject matter information based on the limited assurance engagement.

This assurance report is made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone other than Kesko Corporation for our work, for this report, or for the conclusions that we have reached.

### Engagement Approach

We have performed an independent assurance engagement on Kesko Corporation's 2007 Corporate Responsibility Report with respect to the information defined above. Other information in the Report is outside the scope of our engagement.

The Global Reporting Initiative Sustainability Reporting G3 Guidelines have been used as a source of the criteria against which the subject matter of the assurance engagement has been evaluated.

Our engagement was performed in accordance with the Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'.

We have planned and performed our evidence gathering procedures to obtain sufficient appropriate evidence on which to base our conclusion. For a limited assurance engagement the evidence gathering procedures are more limited than for a reasonable assurance engagement, and thus less assurance is obtained from it than in a reasonable assurance engagement.

### Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the subject matter information of the assurance engagement does not give a balanced and appropriate view of Kesko Corporation's corporate responsibility performance in the area of economic responsibility, in all material respects, based on the above mentioned assurance criteria.

Helsinki, 26 March 2008

PricewaterhouseCoopers Oy



Johan Kronberg  
Authorised Public Accountant



Sirpa Juutinen  
Director, Sustainable Business Solutions