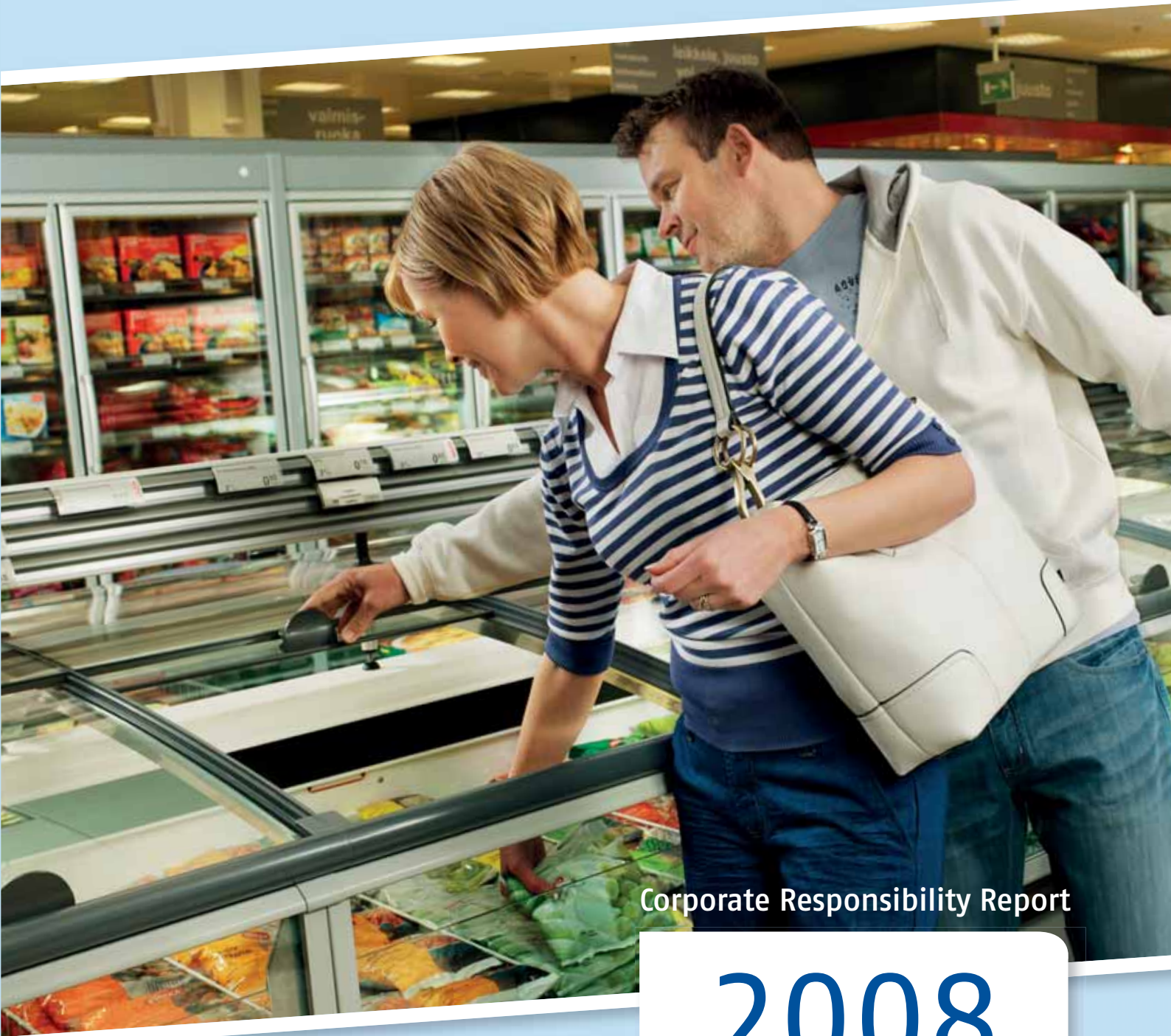




KESKO



Corporate Responsibility Report

2008

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Kesko 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's report is based on the 'Sustainability Guidelines on Economic, Environmental and Social Performance' drawn up by the Global Reporting Initiative (GRI). Kesko publishes a Corporate Responsibility report annually and this is the ninth such report. This year, we have streamlined the content and headings to better meet the GRI G3 requirements.

Traditionally, Kesko's reporting has been very extensive as many investors and rating agencies use this as their main source of information to assess our performance on sustainability. However, like last year, a significant number of case stories illustrating Kesko's practical activities in the area of sustainability have also been included to make the report more reader-friendly and appealing to a wider audience.

General corporate governance and risk management issues are discussed in the Annual Report, while this report concentrates on the governance of sustainability related issues and the analysis of the company's key impacts on sustainability, related risks and opportunities. Information on Kesko as a public company has been shortened. This information is presented in full at www.kesko.fi/investors. As in previous years, some issues are only available from Kesko's Internet pages at www.kesko.fi/responsibility.

Any deviations from the GRI guidelines, together with any shortcomings in presenting its core indicators, are noted in the comparison table published on pages 85–89. Kesko's self-dec-

laration on its reporting level is presented in the same comparison table. Our assurance provider has expressed his opinion on our assessment against the GRI Application Level Criteria also in the same table. As a conclusion it can be stated that Kesko has followed the A+ application level of the GRI guidelines.

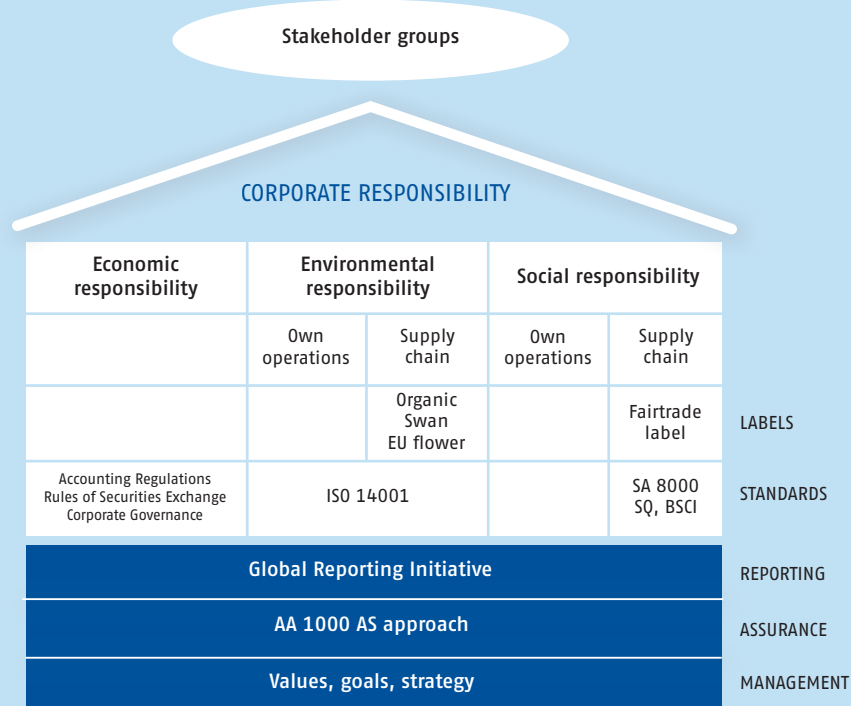
Reporting structure

The report first presents some key facts about Kesko followed by a summary of Kesko's key indicators for 2006–2008 and a shortened version of Kesko's vision of corporate responsibility and related strategy (the full version can be found at www.kesko.fi/responsibility).

Key impacts, risks and opportunities focusing on issues specific to the retailing sector are discussed as are our understanding of future developments. As Kesko's responsibility programme for 2008–2012 is closely linked with impacts, risks and opportunities, it is presented in this chapter.

Kesko's stakeholder engagement is followed with a number of case stories illustrating various events. The specification of key stakeholder groups, their expectations and Kesko's activities based on those expectations can be found at www.kesko.fi/responsibility as can information on Kesko's key areas of influence.

Governance, focusing on sustainability and the roles of Kesko's Corporate Responsibility Advisory Board, together with



steering groups leading our responsibility work are also presented. This is followed by the overarching management systems guiding corporate responsibility, commitments and performance against the goals in 2008.

Detailed information on performance is presented under the economic, 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.

Report scope

The report covers all Kesko's operations. Any deviations or limitations are reported in connection with the figures in question. 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. For the 2008 reporting period, Kesko has obtained energy consumption, waste management, and transportation statistics from nearly all companies (apart from Rautakesko's operations in Russia and Belarus).

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

In 2007, Kesko commissioned csnetwork to undertake a stakeholder review as part of the assurance process. To continue to capture stakeholder views on Kesko's sustainability approach, Kesko's reputation measurement survey gathered the opinions of over 1,000 respondents in 2008. A summary is presented on page 17.

Global Compact – Communication on Progress

Kesko joined the Global Compact launched by Kofi Annan, the former UN Secretary General, in June 2007. This is the first year that Kesko is reporting its progress on the ten principles included in the charter. The charter considers the use of the indicators in the GRI G3 Guidelines as appropriated for monitoring and evaluating progress on the principles. The comparison table at the end of this report illustrates which GRI indicators have been used to evaluate Kesko's performance in fulfilling the principles of human rights, labour, the environment and anti-corruption.

Assurances for online and printed reports

An electronic version of the printed report (pdf and Digipaper) containing complementary information is available at www.kesko.fi/responsibility. Electronic reports are in the version for which assurance has been provided, and are thus not updated during the year.

Assurance statements have been given for the printed and electronic versions of the report in Finnish and English since 2002. This year, the assurance work was undertaken by the Sustainable Business Solutions unit of PricewaterhouseCoopers Oy, Kesko's auditors. Their statement is published at the end of the report. Both Finnish and English versions of the assurance statement have been provided by PricewaterhouseCoopers.

This report covers the performance in 2008 with some information for the first three months of 2009. The 2007 report was published in April 2008 and the 2009 report will be published in spring 2010.

REVIEW BY THE PRESIDENT AND CEO

Finland's economic situation deteriorated rapidly towards the end of 2008. The operating environment of trade was also affected by the recession. Responsible operating practices and the degree of commitment are weighed in a difficult financial situation. For Kesko, responsibility is part of the chosen strategy and not an element depending on economic cycles.

Kesko has worked for decades in a goal-oriented manner and on a long-term basis to enable customers adopt more sustainable consumption habits and to reduce its own direct environmental impact. During the period 2001–2008, the carbon dioxide emissions of the total energy consumed by Kesko and the K-Group stores decreased by more than 60%, and those of the electricity purchased by Kesko for the K-Group by nearly 90%. These are achievements the K-Group can be proud of!

Responsibility programme 2008–2012

In 2008, we prepared a comprehensive responsibility programme for the years 2008–2012. The programme sets concrete targets for the areas of combating climate change, reducing wastage, transportation, responsible purchasing and employees' wellbeing.

As part of the responsibility programme implementation, we signed a trading sector energy-efficiency agreement and committed to saving more than 65 GWh of energy by the end of 2016. The savings target is significant as it corresponds to the annual energy consumption of about 15 K-citymarket size stores or 2,600 one-family houses.

The freezers of all new K-stores have lids and new illuminated signs are lighted with LEDs. Thanks to our efficient recovery of condensation heat, the K-food stores need not buy heating until the temperature drops below zero.

K-retailers contribute to local wellbeing

Customer traffic constitutes most of the consumption-related environmental impact. Our K-food store network is the most comprehensive in Finland. More than 45% of the Finnish population live less than one kilometre from the nearest K-food store, and the average distance from a store is 2.3 km. In a good living environment, services are available within walking distance. Among Finnish trading groups, the K-Group also has the most neighbourhood stores – a total of 679.

Kesko's and the K-Group retailers' investments, local purchases, salaries and taxes paid contribute to local wellbeing. In 2008, Kesko's and the K-Group's investments in regions amounted to over €410 million, and the salaries and taxes they paid to nearly €740 million. K-retailers' purchases from local regional suppliers totalled nearly €570 million and increased by 7% over the previous year. Our operations are very important on a local scale.

We promote the principles of the Global Compact initiative

In spring 2007, we committed ourselves to the Global Compact initiative launched by the former UN Secretary-General Kofi Annan. We now report for the first time on the implementation of the ten Global Compact principles in Kesko's operations.

Increasing the coverage of social quality control and the implementation of BSCI audits has been slower than we hoped. However, we are committed to promoting the princi-



ples of the Global Compact initiative in our own operations and in the supply chain.

Towards the end of 2008, we established a monitoring team of our own in China to control and train our Chinese suppliers. This is the first Finnish project of its kind and it will receive support from the Finnpartnership programme funded by the Finnish Ministry for Foreign Affairs.

Pioneer in sustainable development

Kesko has established its position in international comparisons that measure the responsibility of listed companies.

For the sixth time in succession, Kesko was included in the Dow Jones Sustainability Indexes for the period 2008/2009. In the assessment, Kesko was given a full 100 points for the eco-efficiency of its operations. In March 2009, Kesko was included in the FTSE4Good Indices. Kesko continues on the list of 'The Global 100 Most Sustainable Corporations' published by the World Economic Forum. In January 2009, as in the previous year, the Swiss evaluation company SAM placed Kesko's responsibility work in the silver class in the food and drug retail sector. No companies in this sector qualified in the gold class.

Our efforts have produced results and I am proud of the recognition we have received from independent international specialists and evaluation companies. Repeated top rankings in several indexes are not matters of course.

Kesko and the K-Group stores employ around 50,000 trading sector professionals in eight different countries. Competence and the right attitude are decisive for achieving our targets and ensuring customer satisfaction.

I thank all K-Group people and our business partners for their commitment to our common objectives. A pioneering position requires a vision and combined competence.

Matti Halmesmäki
President and CEO

OUR KEY ACHIEVEMENTS IN 2008

Economic responsibility:



- K-retailers' direct local purchases from regional suppliers increased by 7% and totalled €569 million
- Kesko's and the K-Group retailers' investments in Finnish regions amounted to over €413 million, and the salaries and taxes they paid to €740 million
- A record number of 139 new retailers started a career during the year
- Among Finnish trading groups the K-Group has the most neighbourhood stores, 679 in all
- More than 45% of the Finnish population live less than a kilometre away from the nearest K-food store
- Kesko is included in all of the leading responsibility indexes

Environmental responsibility:



- The K-Group signed a trading sector energy-efficiency agreement and committed to saving more than 65 GWh of energy by the end of 2016
- Compared with 2007, the carbon dioxide emissions of the total energy consumed by the whole K-Group decreased by more than 40%, and those of the electricity purchased by Kesko for the K-Group by 80%
- Total energy consumption in Finland increased only by 0.2% whereas the gross-floor area increased by 2% and net sales by 4.4%
- In Finland, specific electricity consumption calculated for all real estate types decreased by 1.4% and specific heat consumption by 3%
- The K-Environmental Store Diploma celebrated its 10th anniversary
- The waste recovery rate in Finnish distribution centres was at a high level of 88%

Social responsibility:



- The guide Our Responsible Working Principles was distributed to all employees in all operating countries
- The personnel survey was revised and unified throughout the Group
- According to the personnel survey, the implementation of equality improved significantly in Finland and abroad
- The proportion of women in management and specialist positions in Finland grew by 6%
- The number of accidents and their average seriousness, and the number of sick days caused by incidents and occupational illnesses decreased in Finland

Responsible purchasing:



- Kesko's own monitoring team was set up in Shanghai, China in October 2008
- Kesko has the broadest selection of Fairtrade products among Finnish trading groups – 120 products in all, of which 16 are in the Pirkka range
- The Fairtrade products sold by K-food stores generated some €200,000 in Fairtrade premiums
- 89% of the sales of Kesko Food's own coffee brands originated from plantations that have passed neutrally monitored certification programmes
- 95% of producers of imported fruit and vegetables have obtained GlobalGAP certification

KEY FACTS ABOUT THE KESKO GROUP



Kesko's business operations

Kesko is a provider of trading sector services and a listed company. Kesko operates in the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

Kesko Food is engaged in the grocery trade in Finland. The operations of the more than 1,000 K-food stores are based on the K-retailer business model.

Anttila is a home and speciality goods retailer in Finland. Anttila serves its customers at Anttila department stores, Kodin Ykkönen department stores for interior decoration and home goods, and through NetAnttila, which focuses on distance sales. K-Group's sports store chains are Intersport, Budget Sport and Kesport. Indoor is a retailer of home furniture and interior decoration items, which operates in Finland and the Baltic countries. Its retail chains are Asko and Sotka. The Musta Pörssi chain and Konebox.fi online store offer home technology products and services. The K-Group's specialist shoe stores are K-kenkä and Andiamo.

Rautakesko is engaged in the building and home improvement trade in Finland, Sweden, Norway, the Baltic countries, Russia, and Belarus. It manages and develops its retail chains K-rauta, Rautia, Byggnakker, Senukai and OMA and also B-to-B sales in its operating area.

VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. Konekesko is a service company specialising in the import and sales of construction and environmental machinery, trucks and buses, and recreational machinery.

Kesko Agro's business operations were re-organised as of the beginning of 2009. The K-maatalous chain and the agricultural trade were transferred to Rautakesko, while the tractor and combine harvester business and the Kesko Agro subsidiar-

ies in the Baltic countries were transferred to Konekesko. Kauko-Telko and Tähti Optikko were divested in 2008.

The Group's net sales were €9.6 billion in 2008, of which 42.7% were generated in the food trade. Net sales outside Finland represented 21.4% of total net sales (22.2% in 2007). Kesko works in close chain cooperation with the K-retailers in Finland, which numbered 1,305 at year-end. Kesko also had approximately 250 other retailer partners in the Asko, Sotka, Byggnakker and Senukai chains. The K-Group had 1,678 retail stores in Finland and 106 in other countries. Their sales totalled €11.9 billion (€11.6 billion), of which €2.7 billion were generated outside Finland.

Kesko's shareholders

Kesko is a listed company with 38,080 shareholders at the end of 2008. Series A shares accounted for 32.4% of the company's total share capital and 83.0% of all votes. The corresponding percentages for B shares were 67.6% and 17.0%. The company's 10 largest shareholders, calculated by number of votes, held 34.71% of all votes and 19.69% of all shares. The proportion of shares held by non-Finnish shareholders decreased and was 20% at the end of the year. The market value of A shares was €0.7 billion and that of B shares €1.2 billion. Total market capitalisation stood at €1.9 billion.

Personnel

In January–December 2008, the average number of personnel in the Kesko Group was 21,327 (20,520) converted into full-time employees. There was a decrease of 95 employees in Finland and an increase of 902 employees in other countries compared with 2007, mainly due to the acquisition of the Belarusian subsidiary OMA.

At the end of December 2008, the total number of personnel was 24,668 (25,228) of whom 13,651 (13,762) worked in



Finland and 11,017 (11,466) in other countries. Compared with the end of December 2007, there was a decrease of 111 employees in Finland and 449 in other countries. Approximately three quarters of employees worked in retailing.

Real estate

The Kesko Group owned or leased 3,807,000 m² of real estate and premises, some 4.8% more than in 2007. Kesko owned 756,000 m² in Finland, and 199,000 m² 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, mainly retail stores, was 2,191,000 m² in Finland and 661,000 m² outside Finland. The majority of store premises owned or leased in Finland are rented to K-retailers.

Product and service suppliers

Kesko bought products valued at approximately €8.1 billion. The number of active product and service suppliers was some 31,000, of which 18,000 operate in Finland and account for 66.1% of the total purchases. Over 9,500 active suppliers operate in the Group's other operating countries and 3,500 elsewhere.

The main countries from which goods were imported into Finland were China, Germany, the Netherlands, Sweden and France.

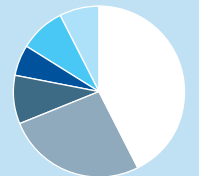
In October 2008, Rautakesko signed a partnership agreement with tooMax-x Handels GmbH, a DIY purchasing alliance. Anttila, home and speciality goods of K-citymarket and other home and speciality goods companies will intensify their cooperation in 2009. Synergy benefits are sought in product sourcing and purchasing, management and customer relationship management.

Customers

Retailers accounted for 49% of Kesko's sales. On average, K-retailers made 86% of their total purchases (88% in 2007), and 91.3% of their home and speciality goods (91.2%) from Kesko. B-to-B customers – institutional kitchens, building companies, VV-Auto dealers, agricultural entrepreneurs, manufacturers and others – accounted for 25% of Kesko's sales. Kesko's own retailing accounted for 26%.

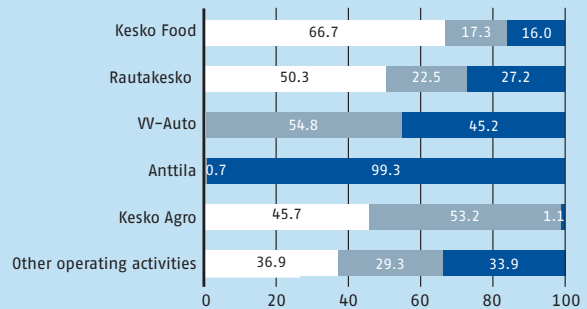


KESKO'S NET SALES 2008, CONTINUING OPERATIONS, %



■ Kesko Food 42.7%
■ Rautakesko 26.2%
■ VV-Auto 9.2%
■ Anttila 5.8%
■ Kesko Agro 8.8%
■ Operating activities 7.3%

KESKO'S NET SALES BY DIVISION 2008, %



■ Retailers
■ Other business and wholesale customers
■ Consumers (direct retail sales)

KESKO GROUP'S KEY INDICATORS OF CORPORATE RESPONSIBILITY FOR 2006–2008

INDICATORS OF ECONOMIC RESPONSIBILITY

	2006	2007	2008
Net sales, € million ¹⁾	8,493	9,287	9,600
Profit before tax, € million ¹⁾	351	358	289
Return on invested capital, %	22.6	17.4	14.2
Dividends paid, € million	107	146	156
Investments, € million ¹⁾	246	228	338
Equity ratio, %	47.0	48.5	52.4
Salaries paid, € million ¹⁾	436	477	497
Income tax, € million ¹⁾	105	87	89
Personnel, average ¹⁾	18,935	20,520	21,327
Purchases from suppliers, € million ²⁾	7,347	8,091	8,106
Support to organisations operating for the public good, € million	2.3	2.3	1.6

¹⁾ continuing operations

²⁾ 2008 continuing operations only

INDICATORS OF ENVIRONMENTAL RESPONSIBILITY

	2006	2007	2008
Use of electrical energy in real estate, GWh ¹⁾	798	825	820
Use of heat energy in real estate, GWh ¹⁾	309	299	319
Use of water in real estate, 1,000 m ³ ²⁾	682	727	743
Emissions from the production of electrical and heat energy used			
climate change, tn CO ₂ eq ¹⁾	191,663	206,026 ^{a)}	119,400
acidification, tn SO ₂ eq ¹⁾	615	625 ^{a)}	455
radioactive waste from production of electricity purchased ¹⁾	0.66	0.60 ^{a)}	1.22
Distribution transport			
kilometres, 1,000 km ³⁾	17,020	36,300	38,200
tonnes ⁴⁾	586,600	1,813,813	1,834,422
carbon dioxide emissions, tonnes ⁵⁾	22,210	41,985	45,340 ^{b)}
CO ₂ emissions from travelling by air, tonnes		2,370	2,370
CO ₂ emissions from company cars, tonnes			3,200
Use of materials/waste, tonnes			
materials in packaging imported to Finland	30,812	c)	c)
waste in distribution warehouses in Finland	8,545	8,576 ^{d)}	8,310 ^{d)}
of which for recovery, % ⁶⁾	89.2	88.6	88.3
waste in distribution warehouses in companies outside Finland	6,802	8,581	7,795 ^{e)}

¹⁾ 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.

²⁾ Water consumption figures of all properties outside Finland are not available.

³⁾ Figure for 2006 refers to kilometres driven by Keslog only. Figures for 2007–2008 refers to all transported kilometres managed by Keslog.

⁴⁾ Figure for 2006 refers to tonnes delivered by Keslog only. Figures for 2007–2008 refer to tonnes delivered by all transportation managed by Keslog.

⁵⁾ Companies included in the calculations during the years 2006–2008 are summarised in the table 'CO₂ emissions in delivery transportation' on page 50. Figures for 2007–2008 include CO₂ emissions of all transportation managed by Keslog.

⁶⁾ Figures include organic waste.

^{a)} Environmental profile of energy production has been updated to correspond to the actual production profiles in 2007.

^{b)} The impact of biofuel in pilot use has been taken into account in emissions calculations.

^{c)} Data has not been collected or is inaccurate.

^{d)} Figure includes waste from the operations of Turun VV-Auto Oy and VV-Autotalot Oy, not reported in 2006.

^{e)} Figure does not include waste for subsidiaries in Latvia.

INDICATORS OF SOCIAL RESPONSIBILITY

	2006	2007	2008
Job satisfaction in Finland, scale 1-5			
own job	3.82	3.85	3.75
superior's performance	3.81	3.85	3.76
unit's operations	3.76	3.80	3.79
Kesko's operations	3.58	3.62	3.77
Employee turnover			
new	10,790	14,148	11,075
left	8,050	9,804	10,919
retired	140	164	181
Average age of employees			
in Finland	35.8	35.1	36.2
in other countries	a)	a)	33
Sickness absences per person, work days			
in Finland	9.7	9.3	10.1
in other countries	8.6 ^{b)}	7.7	11
Funds used for health care per person, € ¹⁾	420	484	427
Average annual salary per person, €			
in Finland	29,383	31,589	32,054
in other countries	13,964	15,219	16,327
Training days per person			
in Finland	1.5	1.4	1.8
in other countries	0.5 ^{c)}	0.7 ^{c)}	0.5 ^{c)}
Spending on training per person, €	254 ^{d)}	371 ^{e)}	286 ^{f)}
Responsible purchasing			
suppliers with SA8000 certification	28	16 ^{g)}	23 ^{g)}
BSCI audited suppliers	6	23	35

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

^{a)} Data has not been collected.

^{b)} Data for Bygghem (Norway) incomplete.

^{c)} Data for Rautakesko AS (Estonia), K-rauta AB (Sweden), and Bygghem (Norway) unavailable.

^{d)} Data for Bygghem (Norway) unavailable.

^{e)} Data for Bygghem (Norway), Senukai (Lithuania) and Rautakesko (Russia) unavailable.

^{f)} Data for SIA Agro (Latvia) and Senukai (Lithuania) not available.

^{g)} Excluding certified Chiquita plantations.

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, objectives 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 by key stakeholder groups. A full version of Kesko's vision is available at 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 our performance is world-class 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 benefits the company in its recruitment both in Finland and the neighbouring areas. This will be further highlighted in the coming years when the baby-boomers' generation will retire.

Product and service suppliers

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



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 and wellbeing at work, high standards of environmental protection, a proactive approach to equality, and improving the working conditions of employees in manufacturing operations.

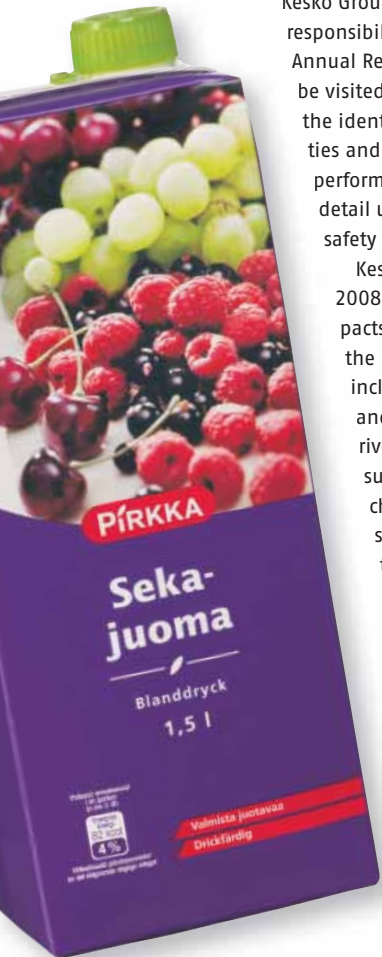
Kesko has a major role in shaping families' healthy way of living and overall quality of life. Offering alternatives for sustainable consumption and balanced diet together with educating consumers on these issues is an opportunity for Kesko. We believe product safety, reliability, and ethics will gradually 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 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 and maintaining a fore-runner position. We are committed to maintaining continuous contacts and open dialogue with non-governmental organisations, the authorities, and other decision-makers. Our experts participate in a wide range of national and international organisations in their own sector and in business in general.



KEY IMPACTS, RISKS AND OPPORTUNITIES



Kesko Group's risk management procedures, roles and responsibilities are described on pages 63–64 of Kesko's Annual Report. The Group's risk management policy can be visited at www.kesko.fi. This section concentrates on the identification of sustainability risks and opportunities and their connection to business strategies. Our performance in specific topics is described in more detail under the environmental, social or product safety sections of this report.

Kesko published its responsibility programme for 2008–2012 in late 2008. The analysis of key impacts, risks and opportunities has been used as the basis for the assessment of the issues to be included in the programme. Thus, the objectives and targets included in the programme were derived from sustainability topics, either global sustainability challenges, such as climate change which Kesko, as a responsible company, should combat against, or issues closely linked to the strategies of Kesko and its divisions that are assessed to create opportunities and generate a competitive edge. This work was conducted in cooperation with Kesko's corporate functions and business divisions. Stakeholder analysis of the most material issues was conducted as part of Kesko's reputation measurement, see pages 16–17.

A detailed analysis on stakeholder groups' expectations concerning Kesko's responsibility and its activities to meet them is available at www.kesko.fi/responsibility.

The responsibility programme is presented on pages 14–15.

Key impacts of operations

As a retailer, Kesko's key impacts on society are related to the sustainable sourcing of the goods sold at K-Group's stores and sustainable alternatives and service solutions they are able offer their customers. Other impacts are related to the use of land, energy and materials, and to Kesko's actions in those local communities it operates in or purchases from. The significant reputation risks potentially effecting our operations are assessed to be linked with shortcomings or failures with our sustainable sourcing practices. These include the potential violation of human rights and the use of child labour.

The most important areas of direct environmental impact are associated with the emissions resulting from the generation of the electricity and thermal energy used at the K-Group's premises, transport-related emissions, and waste produced during the storage of goods and by store operations. Indirect impact is linked to the production, use and disposal of the goods sold and their packaging. Indirect environmental impact also results from customer visits to K-Group's stores.

Product quality and safety of supply chain

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 has been assessed to be a business risk, which 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 supervising companies manufacturing products for Kesko Food. The Product Research Unit's laboratory has ISO 17025 accreditation. Producers of Pirkka own brand products are audited by Kesko Food's specialists.

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. Read more on product safety on pages 79–80.

Promoting a healthy way of living

Obesity is an increasing health hazard in the developed countries and also in Finland. It has been estimated that the number of starving people (1 billion) in undeveloped countries equals the number of overweight people in developed countries. Promoting a healthy way of life and healthy eating habits is a key opportunity and a strategic goal for Kesko Food. This work is carried out in many ways: the reduction of salt, sugar and fat in Pirkka own brand products, the addition of Guideline Daily Amount (GDA) labels on Pirkka products, 'Best choice of the day' lectures by dietician Hanna Partanen given to our customers during 2008, and the expansion of a virtual nutrition code service feature included on our customer loyalty card to K-citymarket, K-supermarket and K-market stores. Read more on pages 83–84.



Climate change seen as an opportunity

Kesko's broad range of operations enables us to offer responsible consumption alternatives and service solutions to nearly every section of consumption. Managing challenges related to climate change, eco-efficient construction and energy saving provide opportunities especially for Rautakesko. Promoting sustainable living and related service solutions has been identified as being the key opportunity area for Rautakesko.

Agricultural conditions will be altered if temperature rises by the forecasted 2–3°C. Northern regions are estimated to benefit from the higher temperature and longer growing season, even if the number of plant diseases and pests may increase. However, the changing climate conditions, such as a possible increase in spring drought, require that new plant varieties be tried and current farming practices partly modified in favour of, for example, varieties sown in the autumn or perennial varieties.

The K-Group has a K-maatalous Experimental Farm of its own carrying out research and development of plant varieties, fertilising and plant protection. The farm has been engaged in cooperation with the Swedish plant-breeding institution, Svalöf-Weibull, for nearly 50 years, testing varieties cultivated in southern Sweden and Denmark, which are also assumed to be suitable for cultivation in Finland. Genetically modified varieties are not tested on K-maatalous' Experimental Farm. Read more about the K-maatalous' Experimental Farm operations on page 59.

Due to its northern location, Finland is one of the few countries where physical risks related to climate change are not seen as highly critical. Globally, extreme weather events may influence our supply chain and sourcing channels, and, for example, increase prices. As a retailer, we create our assortments based on the availability of the products. Although the increased price levels may affect our competitiveness, our competitors will face the same challenges. In 2008, Kesko's purchases from Finnish suppliers accounted for 66.1% of the Group's total purchases and around 75% of the imports originated from EU countries, see pages 36–37, and page 73. Our purchasing patterns even out the possible negative influences of climate change on crops. Extreme weather conditions may, however, increase the number of individual incidents and, subsequently, insurance costs.

The launch of the EU's Integrated Energy and Climate Policy and Finland's country-specific target for increasing the share of renewable energy in end-use consumption to 38% may increase energy prices. In order to be able to influence the Finnish energy market and future energy prices, Kesko is a participant in the Fennovoima project which aims to build a new nuclear power plant in Finland.

Our actions to combat climate change are presented in the responsibility programme and under the environmental section of this report.

Kesko's responsibility programme 2008–2012

Kesko's responsibility programme 2008–2012 was approved in the corporate management board in December 2008. The pro-

EXAMPLES OF RISK MANAGEMENT RESPONSES IN 2008

- Shrinkage reporting was harmonised.
- The Group-level crisis plan and crisis communications guidelines were updated.
- The deviation reporting application was introduced (including the reporting of 'near miss' situations and the follow-up of corrective actions).
- The guidelines for handling malpractice were updated.
- Group-level cooperation forums to support the development of risk management were established.
- Risk awareness was increased through risk management and safety training, and communications.

RISK MANAGEMENT EMPHASES IN 2009

- Key development areas at Group level include more efficient counterparty risk and continuity management and improved management of operational risks and loss prevention.
- An assessment of job hazards will be carried out in Finland.

gramme includes the following areas: economic responsibility, combating climate change, energy efficiency, transportation, business travel, recovery and material efficiency, environmental management at store level, responsible purchasing and sourcing policies, responsible product assortments, promoting a healthy way of living, and the wellbeing of our employees.

Some of the objectives included in the responsibility programme for 2008–2012 were launched in the corporate responsibility report 2007. Our performance against these objectives in 2008 is presented on page 29.



Kesko's responsibility programme 2008–2012

OBJECTIVE	TARGET
<p>Actively increase the amount of local supplies and encourage K-retailers to purchase locally</p> <p>Maintain a comprehensive store network in Finland</p>	<ul style="list-style-type: none"> • In 2007, K-retailers' local purchases were €534 million and in 2008 €569 million. Our target is to increase the value of local purchases. Our performance will be reported in the CR report. • In 2008, 45.5% of the Finnish population lived within one kilometre of the nearest K-food store; the average distance was 2.3 km. • Kesko's K-food store network has the highest number of stores and the lowest average distance to the stores compared to its Finnish competitors. • Among Finnish trading groups, Kesko Food has the highest number of neighbourhood stores.
<p>Combating climate change</p>	<ul style="list-style-type: none"> • K-Group has signed the trading sector energy efficiency agreement and made a commitment to save over 65 GWh (65 million kWh) by the end of 2016. The agreement covers all store chains that belong to the K-Group. • K-Group's purchased electricity is carbon free.
<p>Increasing energy efficiency</p>	<p>Kesko Food:</p> <ul style="list-style-type: none"> • Freezers in all new stores will be fitted with lids. • Doors will be piloted in other cooling equipment. • Only LED lighting will be used in new K-food stores' signs. • The possibilities of replacing the neon and fluorescent tubes of existing signs with the new LED technology are also studied. • The number of breweries' own cooling cabins will be optimised. • All equipment at store level is recommended to be class A in energy consumption.
<p>Transportation</p>	<ul style="list-style-type: none"> • We deliver goods comparable to a distance of 2.5 times around the world daily. • Our target is a specific CO₂ reduction of 10% compared to the delivered volume (kg) by the end of 2012; 2007 is used as baseline. • This is equivalent to two times the emissions of Kesko's business travel by air, or the removal of 1,000 passenger cars from the roads in Finland. • All our drivers will be trained in economical driving by the end of 2009. Some 12 training courses with 500 participants were already held in 2008.
<p>Business travel and company cars</p>	<ul style="list-style-type: none"> • As of 2008, we will report the CO₂ emissions derived from travelling with company cars and the average CO₂ emission level per km. Our recommendation is below 180 g CO₂/km. • All employees who drive significant distances should have diesel cars. • A pilot group of 50 company car holders will be trained in economical driving, and their future fuel consumption monitored. • We will continue to examine the video conference possibilities in our operating countries and actively train employees to favour video over of business travel. The target is to decrease the amount of air travel. • As of 2009, we will follow the number of video conferences held. • We will report the CO₂ emissions from air travel in our CR report.
<p>Recovery and material efficiency</p>	<ul style="list-style-type: none"> • Today, the recovery rate of our warehouse activities is some 90%. We will increase the recovery rate of K-food stores to 90% by 2012. • We will decrease the shrinkage by some 20% by 2012. • We will develop the recovery and recycling services offered to our customers at K-food stores in cooperation with local communities.
<p>Environmental management at stores</p>	<ul style="list-style-type: none"> • In Anttila Oy, all new department stores will be included in Anttila Oy's ISO 14001 certification. • All K-citymarket and K-supermarket stores are K-environmental stores. • Half of K-market stores are K-environmental stores. • All K-rauta and Rautia stores in Finland will be under the K-environmental store concept by spring 2009. • All K-agricultural stores in Finland will be under the K-environmental store concept by spring 2009. • Kesko Food will expand the K-environmental store concept by including elements of responsible purchasing, product safety and healthy way of living. Training of the above issues will be held at K-food stores by the end of 2010.

OBJECTIVE	TARGET
<p>Responsible purchasing</p>	<ul style="list-style-type: none"> • Kesko has two auditors of its own in China. Their target is to make annually 160 factory visits to suppliers supplying all Kesko divisions. • Kesko will continue promoting the BSCI audits with annual targets: 59 initial audits in 2009 24 re-audits in 2009. • In 2008, Kesko published its sustainable sourcing policy for fish and shellfish and the restricted list of restricted chemicals. Implementation of these will continue in 2009. The key target is to train K-retailers on the requirements of sustainable fish and shellfish policy, as they purchase a majority of the fresh fish sold at K-food stores.
<p>Responsible product assortments</p>	<ul style="list-style-type: none"> • Promote the sales of Pirkka own brand biodegradable and reusable bags. • Introduce new biodegradable packaging materials in the Pirkka own brand product range. Materials of GMO origin will not be accepted. • Continue with the reduction of salt, sugar and fat content of Pirkka own brand products. Have all products with high contents reformulated by the end of 2010. • Expand the use of the Nutritioncode service. Have the service available at all K-citymarket, K-supermarket and K-market stores. The service is free to our customers. A target of 100,000 service users by the end of 2009. • Continue consumer health education. Train 500 shop-floor specialists in healthy eating by the end of 2012. • Kesko Food will have the widest assortment and sales of Fairtrade products in Finland. • Continue with Rautakesko's focus to develop cost and eco-efficient service solutions for construction and living. • Continue to focus on promoting sustainable practices in agriculture in the K-maatalous chain.
<p>Wellbeing of employees</p>	<ul style="list-style-type: none"> • We use €2 million on employees' recreational and spare time activities annually. • Kesko's Occupational Health Service focuses on operations that maintain the ability to work and prevent illnesses. • We aim at promoting work capacity and improving work productivity by active measures to improve wellbeing at the workplace. • We unify the calculation methods of sickness absences and, from the beginning of 2009, take into use an hour-based sickness absence reporting system. We give special attention to frequent and long-time sickness absences. • In all divisions, a new model to discuss reasons for sickness absences will be introduced by 2010.
<p>Incorporate the responsibility programme into the brand and marketing strategy work</p>	<ul style="list-style-type: none"> • Strengthen the responsibility image associated with Kesko, its division parent companies and the various product brands. • Bring the results of responsibility work to the attention of customers in the stores. • Develop Kesko's divisions' and chains' communication plans on the most important sustainability topics by spring 2009. • Renew Kesko's responsibility web pages in 2009 to support the responsibility programme's communication plan.



STAKEHOLDER ENGAGEMENT

Kesko's vision of corporate responsibility has been considered from the standpoint of a variety of stakeholders in this report. 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 chart 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. In 2008, a more systematic approach both to the content and the analysis of stakeholder engagement was taken when sustainability issues, defined material by Kesko's internal assessment, were included in the reputation measurement survey for the first time.

A detailed analysis on 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/responsibility. This report concentrates on stakeholder engagement and their opinions on Kesko's sustainability work in 2008. Work carried out for and with

Kesko's stakeholders is illustrated through case stories (see pages 19–23).

Kesko's participation in national and international organisations can be found at www.kesko.fi/responsibility. Kesko ensures that participation in 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.

In 2008, one of the main activities Kesko's representatives participated in was the project to update the Corporate Governance Code for Finnish Listed Companies. It was chaired by Anne Leppälä-Nilsson, Kesko Corporation's General Counsel, Legal Affairs, see case on page 21.

Responsibility as part of Kesko's reputation measurement

Kesko evaluates how it is perceived by its various stakeholders annually by 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 2008, and involved 60 decision-makers, 506 potential employees, 36 journalists, 507 private investors, and 15 professional investors. Opinions from consumers, K-retailers, and Kesko personnel were analysed by another survey. The combined results form the level of Kesko's reputation index in the main stakeholder groups.

As this survey reaches a high number of respondents in all main stakeholder groups annually, Kesko wanted to use it to

KESKO'S STAKEHOLDER PROCESS

Stakeholder interaction

Planning

- Identifying stakeholders
- Nature of the stakeholder relationship
- Stakeholder expectations
- Key values and operating principles relevant to different stakeholders

Data gathering

- Expectations and importance to the company
- Indicators
- Scope, target, and timetable of the process
- Type of data collection
- Data auditing and analysis, comparison with objectives and indicators

Assurance Reporting

- Reporting and comparing performance to objectives
- Reporting against criteria (GRI, AA1000)
- Assurance
- Stakeholder feedback

Practical implementation, policies, guidelines, methods

Documentation

analyse the importance of its responsibility work for those stakeholders most relevant to Kesko. Questions regarding issues determined as 'very high' in Kesko's materiality matrix (see page 18) were thus incorporated in the 2008 survey. These included product safety, combating bribery, combating climate change, social quality control of suppliers, Kesko's offerings of more sustainable product categories, and bearing responsibility of its own personnel. The respondents were asked to assess the importance of these issues from a personal perspective, and how well they perceive these issues are implemented in Kesko's day-to-day activities.

Compared to the result for 2007, the average reputation index decreased in many stakeholder groups. As the survey was conducted in November 2008, Kesko assumes the financial crisis to have partly affected the results. For example, the perceptions of professional investors, and financial journalists were significantly less positive than the previous year. The views of journalists and potential employees in superior positions, in contrast, were more positive than in 2007. Kesko continues to enjoy its strongest reputation among K-retailers. See graph below.

All responsibility issues included in the survey achieved scores above 3.7 on a 1-5 scale and were thus deemed to be material to stakeholders. Differences of perceived importance were minor between the various stakeholder groups, and all ranked product safety and combating bribery as being their main priorities. Potential employees also highlighted the importance of bearing responsibility of its own employees.

Differences in the various stakeholder groups were also small when evaluating the perceived implementation of these issues

in day-to-day activities. Issues perceived as being the most important – product safety and combating bribery – were also those perceived to be implemented the best. The main differences between perceived importance and implementation were combating climate change and the social quality control of suppliers. These results indicate that Kesko has not been successful enough in communicating its actions on climate change or supply chain management to the wider audience.

Giving customers a voice

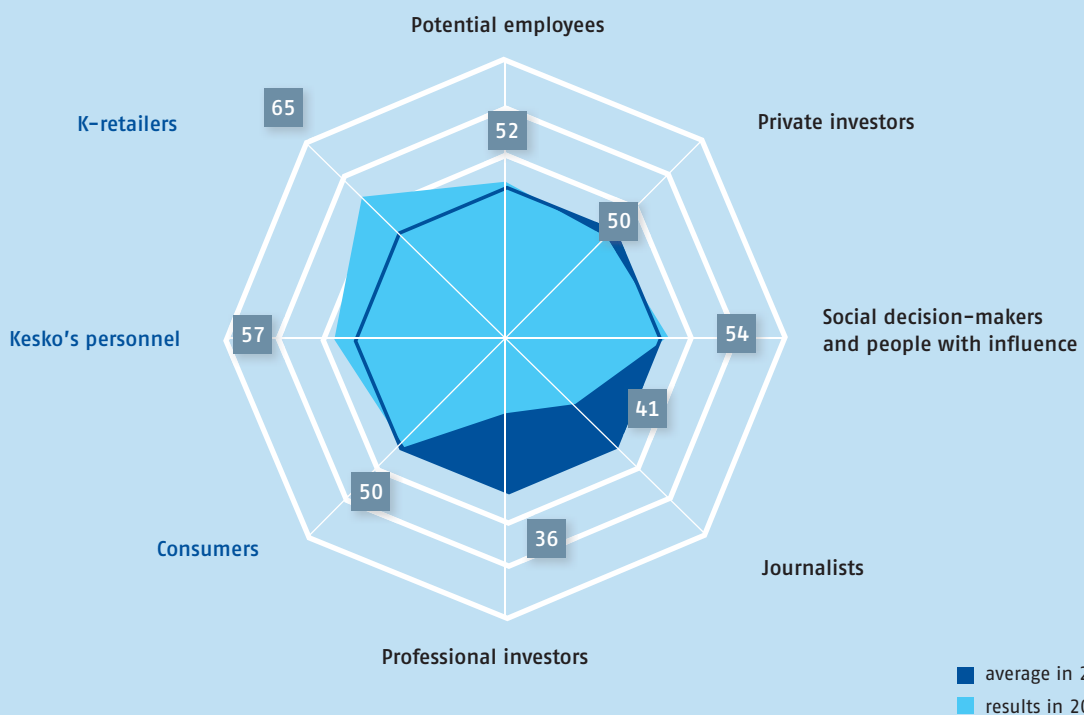
As customers are seen as one of Kesko's key stakeholders, customer satisfaction with the Group's performance is systematically measured. Kesko's major retail chains set annual quantitative customer-satisfaction targets based on levels obtained through external surveys conducted by professional research companies.

Customer satisfaction with the K-Plussa 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 (see case on page 22) and comments and requests can be forwarded to the Kesko Group by e-mailing Corporate Communications. All feedback is answered and Kesko follows a two hour rule in responding to media requests. Issues raising specific customer concern are publicly discussed on the Group's web pages.

Striving for more sustainable product alternatives

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

REPUTATION LEVEL INDEX IN THE MAIN STAKEHOLDER GROUPS



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, shared understanding and behavioural change.

In autumn 2008, Kesko answered the Commission's questionnaire on the sustainability actions taken by the European retail sector together with 20 other European Retailers, and participated in the workshop 'Towards a greener retail sector' organised by the Commission. Kesko shares the opinion with many other European retailers that rather than just increasing the number of environmentally-labelled products on the shelves with possible modest customer interest, more work needs to be done to increase the overall sustainability of the so-called bulk products, and the sustainability of the whole lifecycle of the product including its use and disposal.

During 2008, several sustainable sourcing policies concerning the origins and production conditions of foodstuffs were made. Since September, all Pirkka eggs have been free-range or organic, see case on page 20. At the same time, Pirkka Fairtrade bananas were launched in the K-food stores. Also, all Chiquita bananas sold at K-food stores have both SA 8000 and Rain Forest Alliance certification. The joint fish and shellfish statement of Kesko Food and Kespro guiding the responsible purchasing of fish and shellfish was published in November. As regards sourcing policies, Kesko works in cooperation with WWF Finland and also takes into account the opinions of other environmental NGOs.

The topical issues' section called Building for a better tomorrow, accessed from the main page of 'Responsibility' on Kesko's website, was launched at the beginning of 2008. It introduces Kesko's various sustainability actions to a wider audience and acts as an information channel.

In October 2008, environmental NGOs started a campaign to raise the knowledge level of Finnish consumers of products originating from rain forests. Kesko's ranges of rain forest products were presented on the pages together with its sustainable sourcing policies concerning tropical hard wood, imported fruit and vegetables, and bananas.

Kesko awards players who promote sustainable development

Kesko itself has been recognised for its achievements in the area of sustainability several times. For its part, Kesko wants to recognise other promoters of sustainable development and give publicity to their work. In 2008, Kesko granted these awards for sustainable development for the sixth time. From the first recognition in 1996, the total number awards stands at 36.

Four awards were granted with a total value of €30,000. Two nationwide projects – the Finnish Diverse Learners' Association and the Ilmari project – each received €12,000. Awards of €3,000 were presented to journalist Jussi Laitinen of Petäjävesi, Finland, and civil entrepreneur Markku Jussila of Helsinki, the founder of the www.kuinoma.fi lending service. Read more on pages 20–21 and 41.

Level of concern to stakeholders	VERY HIGH		<ul style="list-style-type: none"> • Social quality control of suppliers • Share performance 	<ul style="list-style-type: none"> • Source of energy supply (climate change) • Product safety • Combating bribery
	HIGH	<ul style="list-style-type: none"> • Transportation and return logistics • Promoting development and communication of green and ethical products • Job development • Financial benefits to suppliers • Protecting privacy 	<ul style="list-style-type: none"> • Employment/employee satisfaction • Employee wellbeing • Consistent sustainability standards • EMS = environmental management systems • Energy and water consumption • CO₂ emissions • Waste (stores) • Use of raw materials • Financial benefit to retailers and other service providers • Security (emerging markets) 	<ul style="list-style-type: none"> • Impacts of construction and structural safety • Environmental risks, damages and incidents • Supplier selection
	MEDIUM	<ul style="list-style-type: none"> • Employee safety • Part-time working • Equal opportunities • Waste management (warehouse) • Packaging • Investments in the store network • Pensions (emerging markets) • Support for public good • Security (Scandinavia) 	<ul style="list-style-type: none"> • Talent attraction and retention • Promoting sustainable products & consumption • National health • Maintenance of buildings • Soil contamination • K-environmental stores • Recognition as CR leader • Political relations 	
	LOW	<ul style="list-style-type: none"> • EMS in office premises • Pension (Finland and Scandinavia) 		
	LOW	MEDIUM	HIGH	VERY HIGH
Current or potential impact on the company				

Case

CUSTOMER SERVICE FOR MONITORING CARBON DIOXIDE EMISSIONS

Customers want more and more information on the impact of their consumption behaviour on the environment and their health. These expectations and needs must also be taken into account in the development of products and services.

Kesko has participated in a development project which has examined consumers' opportunities to impact climate change. In the future, the one-year Climate Bonus project may help customers monitor the impact the food has on the climate. The project is part of the ClimBus research programme initiated by Tekes – the Finnish Funding Agency for Technology and Innovation. The programme is implemented by researchers of the Government Institute for Economic Research (VATT); the National Consumer Research Centre (KTK); MTT Agrifood Research Finland; the Finnish Environment Institute; and the Technical Research Centre of Finland (VTT), co-ordinated by VATT. In addition to Kesko, project participants also include Elisa, HK Ruokatalo, Nokia, Stora Enso and Tuulia International.

A group of 40 selected households, consisting of K-Group customers, has been participating in the development of an online service in ten K-supermarkets. The target is to provide K-food store customers with information on the carbon footprint caused by the products they buy. To be able to make choices that affect climate change, individual customers need reliable and easy-to-understand information about the size of the carbon footprint.

A number of K-Group customers in Joensuu are very interested in the responsibility of consumption. **Markku Sippola**, one of the active consumers participating in the Climate Bonus project, explains: "During the pilot project, we have compared the product groups and changed our consumption habits towards products with smaller emis-

sions. We have reduced the proportion of beef in our diets and try to buy second hand consumer durables."

During the pilot project, the eager group is rewarded with comparative data automatically gathered with their purchases – the basis for redirecting purchasing behaviour. Using the online service, households can also compare their emission data with those of other households. It is also important to note that there are a variety of means available that affect the responsibility of consumption – motorists can, for example, combine their commuting and shopping trips.

The Climate Bonus service may be connected to the K-Plussa card in the future.



PIRJO ANTILA AWARDED FOR HER PIONEERING WORK ON DYSLEXIA



The Finnish Diverse Learners' Association, a nationwide dyslexia association, granted the 2008 ALL-VAR prize to **Pirjo Anttila**, Chief Physician of Kesko's Occupational Health Service, for her pioneering work on dyslexics in occupational health care.

"Diverse learning is a personal characteristic that people carry throughout their lives, and which affects different areas of their lives. Taking it into account in education, job induction and on-the-job learning throughout the professional career is a chal-

lenge for today's working life," says Pirjo Anttila.

Anttila maintains that training and coaching programmes should be planned so that messages are conveyed through several channels. By reading, writing, talking, hearing, and hands-on training diverse learners will learn too. This should be taken into account especially in instructions concerning safety at work and in multi-cultural working communities.

Kesko's occupational health care staff has been trained to identify learning difficulties and to refer people to tests. The K-Group's own

coaching centre, K-instituutti, has also trained its staff in diverse learning issues. At the beginning of a programme, K-instituutti students are tested for their learning styles. This helps students identify the channel through which they best take in information – by hearing, seeing or doing. Tests have proved that in retailing, which involves a lot of practical work, the number of hands-on learners is above the average.

Siiri Suonuuti-Lintumäki, Rautakesko's Training Specialist, trains people with learning difficulties and cooperates with the Occupational Health Service. She and her personal experiences have helped the Occupational Health Service understand the part learning difficulties play at work.

"The technicalisation of our operating environment presents challenges to diverse learners. They would be much helped if people planning and acquiring information systems paid attention to the user friendliness of systems and did not choose the technically easiest solution.

"I'm a poor writer myself and writing correct Finnish is difficult for me. I've solved my dyslexic problems by using every possible means and devices. I regularly use a computer with utility programmes, a palmtop computer and nowadays a small PC. I use their recorders for taking notes. My communicator's calendar programme reminds me of appointments, while a scanner and the web help me write," says Suonuuti-Lintumäki.

Case

THE ILMARI PROJECT IS A YOUTH-TO-YOUTH CLIMATOLOGY INITIATIVE

The Ilmari project distributing climatology information in schools was awarded Kesko's €12,000 sustainable development award in 2008. The project was initiated by four Finnish organisations: the Youth Academy, Dodo, the Finnish Nature League and Friends of the Earth Finland.

These organisations have developed a new model for climate communications in which young 'climate ambassadors' visit schools to encourage youths to think what they can personally do to slow down the climate change. The Ilmari project has been running for six years, during which it has trained over 200 'climate ambassadors', who have reached nearly 33,000 youths in the upper levels of comprehensive schools, upper secondary schools and vocational schools.

A ball of yarn helps join the discussion

Climate ambassador **Riitta Savikko** visited the upper level of the Vesala comprehensive school in Kontula in February 2009, where she explained to the pupils the reasons for climate change and the choices each of us can make to contribute to preventing it.

Time went quickly playing a game based on a climate theme. Each pupil was given a word on a piece of paper which was then discussed in relation to climate change. As soon as a pupil had said what the word brought to his or her mind, he or she threw a ball of yarn to the next pupil. A variety of terms were discussed – carbon sink, permafrost and extinction, for example. Pupils were already familiar with many of them.



PIRKKA EGGS ARE NOW FREE-RANGE EGGS

The majority of eggs sold in Finland are laid by hens reared in conventional battery cages. There is also the possibility to produce eggs in a new kind of enriched cage where hens can behave more naturally, as the cages have nests, perches and litter. Egg production also takes place in indoor litter-based systems where hens can freely move, scratch, take dust baths, perch and lay eggs in nests. In organic poultry houses, hens are reared as they are in litter-based free-range systems with the addition of being allowed outdoors, weather and other circumstances permitting.

From the beginning of 2012, the conventional battery cages will be phased out throughout the EU, as the new legislation only allows the sale of eggs produced in free-range or enriched cage systems.

Since September 2008, all eggs in the Pirkka range have been free-range or organic eggs.

"We want to offer consumers Pirkka eggs that take animal welfare into account. At present, we're one of the first operators in the Finnish market whose whole egg range is produced in a free-range system," says **Sari Holi**, Kesko Food's Product Manager.

Consumers have eagerly welcomed the Pirkka eggs. According to Holi, the share of free-range eggs in Kesko Food's warehouse sales has grown significantly since October 2008.

Animal protection organisations Animalia and the Federation for Animal Welfare Association (SEY) have also thanked Kesko for its decision to only offer free-range eggs in the Pirkka range.

"The vast majority of Finns are critical about rearing hens in cages. Kesko's active approach in discontinuing the sale of battery-caged eggs in the Pirkka range is exemplary and proof of the fact that the company listens to its customers. I hope that animal welfare and rights will be increasingly included in the corporate responsibility of businesses," says **Kati Pulli**, Director, Animalia – Federation for the Protection of Animals.



Interaction helps get the message through

Savikko sees that the aim of the Ilmari project is to use discussion and interaction to encourage youths to realise that climate change can be delayed in many ways, and that what they think and do actually makes a difference.

"It may be difficult to measure the effect of the message. It may reflect in the background of the general lifestyle after 15 years. I myself consider these visits successful if young people become more confident about the future and are encouraged to participate and ask questions."



DONALD DUCK ILLUSTRATOR DON ROSA VISITED K-CITYMARKETS



Don Rosa, the famous Donald Duck illustrator, visited Finland in October 2008, invited by K-citymarket. During the weekend, he signed books in the K-citymarket hypermarkets in Helsinki, Espoo, Vantaa and Turku. Father's Day and Christmas were approaching and so a signed book by Don Rosa was certainly a very nice present for

many. Enthusiastic fans were quite happy to wait in line for his autograph.

Don Rosa's programme also included a visit to the Helsinki Children's Hospital to donate, jointly with K-citymarket, a Duckburg-inspired illustration of the Children's Hospital. Chief Medical Officer, **Pekka Lahdenne**, explained the hospital's operations to Don Rosa and showed him the newborn babies' intensive care unit. At the end of the visit, the youths' library of the Children's Hospital received a pile of books signed by Don Rosa.

The visit of the popular illustrator brought joy to both young and old in the Children's Hospital and K-citymarkets.



REVISED CORPORATE GOVERNANCE CODE INCREASES TRANSPARENCY AND OPENNESS



The Finnish Corporate Governance Code came into force on 1 January 2009. The revision was prepared by the corporate governance working group appointed by the Securities Market Association, which was chaired by **Anne Leppälä-Nilsson**, Kesko Corporation's General Counsel, Legal Affairs.

The objectives of the revision include: increasing confidence in Finnish listed companies' good governance, enhancing transparency and openness, and providing international stakeholders with an overall picture of the corporate governance system of Finnish listed companies.

"During the process, we visited significant foreign investors to hear their opinions on good corporate governance. They expressed a wish to receive information on the matters to be discussed at the general meeting well in advance so that they could give voting instructions to their representatives at the meeting. We also had extensive discussions with the Finnish authorities, the board members of listed companies and respective experts on their views. We also maintained contacts with other Nordic countries during the revision process," explains Anne Leppälä-Nilsson.

Thanks to the revision, stakeholders will now receive more information than before on the general meeting, the candidates for the board, remuneration of the board members, management and risk management, and internal audit. One significant change is also that both males and females will be represented on the boards of all listed companies as of 1 January 2010.

A new principle included in the Code is the Board of Directors' contacts with shareholders holding significant voting rights when preparing matters to be decided by the general meeting, such as a major merger. In practice, it is the Chair of the Board who is responsible for maintaining such contacts.

The main channel in communicating corporate governance principles in Kesko is the company website at www.kesko.fi, which has been updated to comply with the new Code and which will be regularly updated. The Board's and the Committees' rules of procedure have also been updated.

Case



COLOURFUL FLOW OF CUSTOMER FEEDBACK

The K-citymarket chain adopted the ASPA customer feedback system in May 2008. By the end of the year, the system had received 4,742 items of feedback addressed to the chain, retailers or hypermarkets.

The system was used to process 3,850 items of feedback, which accounted for 81% of the total number received. Part of the feedback continued to be handled in the traditional way – by phone, e-mail or letter. 656 items of feedback were classified as positive; 2,115 as negative; and 1,079 in the category of 'others'.

Marja-Riitta Jarva, Development Manager of Kesko Food's Retail Services, Concepts and Development Unit, says that they receive customer feedback, comments and inquiries through several different channels – customer service situations, feedback boxes, the chain's web pages, e-mail, mail and telephone.

"Most feedback related to responsibility concerns products and recycling. Many customers have thanked our stores for providing good re-cycling points. Questions about packaging and energy savings are also frequent. Consumers would like to see plastic bags replaced with bio-degradable or paper bags. We also receive questions about freezer lids and energy-saving activities.

Most often, feedback concerns subjects highlighted by the media. Consumers ask, for example, about potential harmful chemicals, such as bisphenol or phthalate. One of the trends in the feedback is the focus on the wellbeing of the environment and animals in product selections. Consumers ask about our stand on the production and sale of fur, and have also expressed a wish that eggs of caged hens be removed from the selection. The Pirkka range has responded to this wish and now only offers free-range eggs."

Erkki Joensuu, Consulting Manager from K-citymarket food, considers customer feedback as an opportunity: "Listening to the customer is responsibility at its best. Customer feedback gives us an opportunity to provide individual services for each customer, meeting his or her current needs. In many cases, a dialogue that begins from feedback leads to a deeper and more loyal customer relationship. We can leverage the feedback system to give a quick answer to the customer and aim at ensuring that each feedback item is seen through in a proper way."

THE WINNER OF THE K.E.N.K.Ä.09 CONTEST DESIGNED THE ANDIAMO BY SONJA COLLECTION



In spring 2008, Kenkäkesko / Andiamo, the Pirkka magazine and the youths' television, radio and web channel, The Voice, organised The K.E.N.K.Ä.09 shoe design contest. The winner, chosen by the audience from more than 600 entrants, was **Sonja Ripatti**, a 17-year-old student at Mäntyhärju upper secondary school.

The entrants uploaded photos of their shoe designs onto the contest website at www.voice.fi where the contest progressed until the winner was announced. The audience voted for their favourite designs and designers by text messages and postcards. E-mail and Facebook were also used for the contest.

Sonja's shoe designs are for summer party sandals. In October 2008, they were included in the production programme of a factory in Portugal where Sonja was invited to see how the shoes are actually manufactured. The 'Andiamo by Sonja' collection includes



More than 600 trade and industry executives and representatives of key public authorities and the economic life listened to the speeches on responsibility in business in the Day of Commerce Seminar on 21 January 2008.

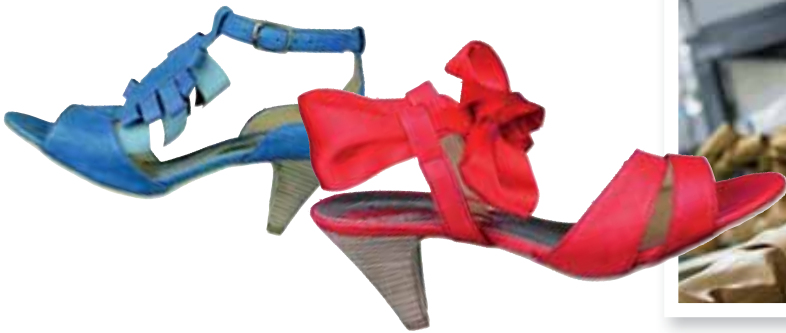
five bright coloured women's shoe models: yellow, green and light lilac court shoes, and red and blue party sandals.

"It's incredible how many nice things the victory has meant. I've been interviewed for the radio and magazines, and I was invited to a PR office to show my designs to fashion reporters. But the best thing is that my designs are actually in production and will be available in the Andiamo stores in March. I'd never have believed that I, a shy girl from the countryside, could make it!" says Sonja.

The shoes designed by Sonja are manufactured by the Ibershoes Relance factory in Portugal. They have two own designers who design all shoes in production. Sonja is their first outside designer.

During the trip, Sonja was even invited to study at the shoe design college in Porto. During the contest period, Sonja revised her plans for the future more than once.

"For a long time, becoming a fashion designer has been the profession of my dreams. Before the trip, I planned to take a degree in design at the Institute of Design in Lahti. Now I've changed my plans and want to study shoe design in the Wetterhoff unit of the HAMK University of Applied Sciences. I'll probably apply this spring, or take a sabbatical from studies and go abroad as an au pair," says Sonja.



STAKEHOLDER MEETINGS FOCUSED ON THE THEME OF RESPONSIBILITY

During 2008, Kesko arranged several events for stakeholders with responsibility as the main theme.

In January, an audience of more than 600 key people representing trade and industry discussed responsibility in business in the Day of Commerce Seminar. Kesko's responsibility operations were presented to existing and potential investors at the Sijoitus-Invest 2008 event.

At the K-Team Päivät event in November, Kesko had a responsibility stand where retail employees meeting customers on a daily basis received information on Kesko's responsibility policies, such as the fish and shellfish statement.

Stakeholder events are also annually organised for commercial college teachers. In autumn 2008, they were invited to seminars in Kuopio, Oulu, Turku and Kerava. The theme was 'Good shopping and a good conscience'.

In Kerava in October, teachers of commercial subjects heard presentations on global corporate responsibility trends, their reflection on the K-Group's operations, and Kesko's corporate responsibility actions.

The teachers praised Kesko as the frontrunner in corporate responsibility. As consumers, however, they expressed a wish that this could be more visible to customers in stores. According to Corporate Responsibility Advisor **Marjut Lovio**, communicating corporate responsibility has now been defined as the number one priority, and so Kesko wants the messages about its responsibility actions to reach customers more efficiently.

Relating to social responsibility, **Riikka Lavonen**, Director of K-citymarket Vuosaari, explained the K-citymarket chain's actions for improved wellbeing at work. The audience of teachers was told about Citymarket Oy's success in the survey of the best working places in Finland.

"A healthy sense of pride of your own working place and its atmosphere has emerged among the staff. There's also been a rapid increase in the number of job applicants," says Lavonen.

Young applicants' ideas and expectations concerning working life present employers with new challenges when competing for good employees in the future. Employer image surveys show that corporate responsibility is an important criterion for young applicants. According to T-Media's research, responsible values are becoming stronger and for many young people, responsibility also means the possibility to make a personal contribution through work.

GOVERNANCE

Kesko Corporation's Annual General Meeting elected seven members, six males and one female, to the company's Board of Directors on 27 March 2006. Their 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.

Corporate Governance recommendation for Finnish listed companies was revised in autumn 2008. The Finnish Corporate Governance Code came into force on 1 January, 2009. See case on page 21.

The Board of Directors regularly assesses its operations and working procedures and carries out a self-assessment once a year. In 2008, Kesko's Board of Directors convened ten times. The attendance of the Board members is presented on page 60 of Kesko's Annual Report 2008.

The Board of Directors established an Audit Committee in April 2004 and a Compensation Committee in March 2005 both comprising three members. Information on the duties of both Committees is available on page 61 of Kesko's Annual Report 2008 and at www.kesko.fi. Neither committee has any independent decision-making power; however, the Board can make decisions based on presentations made by the Committees. The Audit Committee met five times during the year and the Compensation Committee three 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 members. Further, no Board members have been appointed with specific responsibility for corporate responsibility matters. Compensation of Board members is not linked to the Group's performance in the area of corporate responsibility. Information of the compensation is presented on page 60 of Kesko's Annual Report 2008 and at www.kesko.fi.

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 duties of the Board of Directors can be consulted at www.kesko.fi/investors and are presented on pages 59–61 of Kesko's Annual Report 2008.

Kesko's Corporate Governance is updated regularly. The most recent update can be found at www.kesko.fi/investors, where the Annual Report for 2008 can also be found.

The Kesko Group has a Corporate Management Board chaired by Kesko's President and CEO. It comprises the Presidents of the major division parent companies and the Senior Vice Presidents responsible for Finance, Human Resources, and Corporate Communications and Responsibility. 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 2008, the Corporate Management Board accepted Kesko's own two-member monitoring team to be established in Shanghai, China, and the investment proposals targeting to reduce the energy consumption of freezers and other cooling equipment at Kesko Food's premises. These investments were part of Kesko's actions of how to reduce its overall energy consumption as committed to in the Energy Saving Agreement signed in November. In autumn 2008, the Corporate Management Board accepted the Kesko Group's responsibility programme for 2008–2012, presented on pages 14–15.

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 in accordance with the risk management policy approved by the Board of Directors, 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 quarterly basis. Kesko's Board of Directors considers the major risks and assesses the functioning of risk management at least once a year.

The Internal Audit assesses the functioning of risk management annually and reports on the level of risk management to the Audit Committee.

In 2008, one of the key targets was the implementation of the new guide, Our Responsible Working Principles, published in late 2007. The Audit Committee was informed of the implementation plan, and the representatives of Risk Management, Legal Affairs and Internal Audit played an integral role in dis-

cussing the content of Kesko's Code of Conduct with the management boards of Kesko's foreign daughter companies. Special attention in these meetings was given to Kesko's absolute opposition of bribery.

Corporate Responsibility Advisory Board and Environmental Steering Group

The Corporate Management Board established a Corporate Responsibility Advisory Board in January 2006. It comprises five members (six in 2007) drawn from the management of Kesko's various division parent companies including representatives from Human Resources and Corporate Communications and Responsibility. The Advisory Board, chaired by the Senior Vice President of Corporate Communications and Responsibility, met three times in 2008. Issues handled at Advisory Board included agreeing on the elements to be included in the Group's responsibility programme together with deciding on the details of the monitoring activities to be established in China. The Group's responsibility programme contains objectives and targets from a vast variety of subjects, most of which require a significant amount of preliminary work and the cost impact calculations of different options. Thus some six months were needed for the completion of the programme.

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, and following up environmental and chemical legislation. The Steering Group met three times in 2008.

In 2008, two ad-hoc groups were established to manage the requirements of the new chemical and environmental legislations which came into force during the year. One group focused on the joint implementation of REACH, the EU's new regulation on chemicals and their safe use throughout the supplier chain. The group was also responsible for performing the necessary REACH pre-registrations. The other group was responsible for the implementation of the EU Directive 2006/66/EC on Batteries and Accumulators and waste batteries and accumulators. A collection system based on the producers' responsibility was set up in all stores selling batteries or accumulators.

Steering Group for Responsible Purchasing

In 2007, Kesko established a steering group consisting of representatives from division parent companies' purchasing management. In 2008, Kesko's major responsible purchasing projects included the establishment of a monitoring team to audit suppliers in China and the introduction of a self-assess-

ment form for suppliers operating in high-risk countries. As part of the introduction of REACH, a list of restricted chemicals that exceeded the legislative requirements to some extent was also introduced. The Steering Group met five times in 2008.

Kesko Food, the biggest division parent company, has established corresponding steering groups to manage responsibility work in its own organisation. Responsibility work at Kesko Food is headed by the Vice President for Logistics and Finance. Kesko Food's responsibility steering group played a significant role in defying Kesko Food's responsibility targets for 2008-2012. It met ten times.

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 Corporate 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 MANAGEMENT APPROACH TO CORPORATE RESPONSIBILITY, OBJECTIVES AND PERFORMANCE IN 2008

The concept of corporate responsibility at Kesko is understood to include good corporate governance, risk management, economic, social and environmental responsibility, and all work carried out on behalf of product safety and consumer protection. The management of these issues are discussed in detail under the relevant sections of this report and are thus not repeated here. Risk management procedures are discussed in Kesko's Annual Report 2008, pages 63–64.

KESKO ENDORSES:

- *The UN Universal Declaration of Human Rights*
- *The UN Convention of the Rights of the Child*
- *ILO's key conventions, listed on page 76*
- *OECD Guidelines for Multinational Corporations*
- *The ICC Business Charter for Sustainable Development*
- *The ICC principles against corruption and bribery*
- *Global Compact (Kesko is also a member of Global Compact Nordic Network)*

Commitments, policies and principles

The international commitments Kesko complies with in its corporate responsibility work and the corporate responsibility policies and principles approved by Kesko's Board of Directors or Corporate Management Board have been published at www.kesko.fi/responsibility.

Kesko's Code of Conduct is published in Our Responsible Working Principles guide. These policies and principles, together with the Group's strategy and management systems, guide the planning of operations at all business levels.

Values

Kesko's present values were introduced in 2002. Their importance and role of values 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 are used to measure how well the Group implements its values in its overall approach to corporate responsibility. Some of these indicators, such as external and internal customer satisfaction surveys, are typically included as elements of a unit's annual bonus system.

The illustration below gives some examples of the indicators used.

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



- Personnel 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

Our Responsible Working Principles

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 was translated into all Group languages during spring 2008.

The implementation of the new guide was one of the key activities in 2008. Supervisors were expected to demonstrate that they are familiar with the e-learning material supporting the launch of the guide. By the end of 2008 75% of supervisors in Finland had done so. Supervisors were also responsible for both launching and implementing the principles within their respective teams. The personnel survey conducted in late 2008 indicated that 71% of all employees in Finland and 68% all Kesko employees globally were familiar with the guide and its principles.

In January 2008, the guide was introduced to non-Finnish management at the Annual Management Forum. The legal department and risk management professionals discussed Kesko's absolute opposition to bribery with the Management Boards of Kesko's foreign daughter companies during the year. Kesko's internal auditors follow the Group complies with Code of Conduct as a part of their normal auditing procedures.

To highlight the guide's day-to-day importance, several animated films solving everyday sustainability dilemmas are presented at www.kesko.fi/employees/responsible_working_principles.

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. In 2008, special attention was given to Kesko's work and productivity programme, read more on page 67.

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. The most important objective for 2009 is to incorporate the responsibility programme, published in late 2008, into the brand and marketing strategy work. The aim is to strengthen the responsibility image associated with Kesko, its division parent companies and the various product brands, and to bring the results of responsibility work to the attention of customers in the stores.

KESKO'S POLICIES AND PRINCIPLES INCLUDE:

- *Corporate Governance*
- *Internal audit principles*
- *Risk management policy*
- *Information security policy*
- *General principles of corporate responsibility*
- *HR policy*
- *Security policy*
- *Environmental policy*
- *Ethical purchasing principles*
- *Communications policy and principles*
- *Sponsorship principles*



Risk management is part of Kesko's management and operational activity. The divisions assess the risks in connection with the strategy cycle and prioritise them according to their criticality and management level. Project-specific risk analyses are also prepared. The Group's units, such as Corporate Finance and Accounting, Treasury, Corporate Communications and Responsibility, Legal Affairs and IT Management, have assessed the risks threatening the Group's objectives and their management.

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. In February 2009, Kesko Food's Product Research Laboratory was awarded the international ISO 17025 accreditation. The Product Research Unit also assists K-retailers in implementing and maintaining their respective self-control systems. Kespro Ltd together with VV-Autotalot Oy and Turun VV-Auto Oy have a certified ISO quality system.

An environmental management system complying with the ISO 14001 standard has been adopted in all the Kesko units that impact 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 54 and pages 56-57. Kesko's environmental policy can be found at www.kesko.fi/responsibility.

Quality control in respect of purchasing 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 from page 72 onwards and information on the principles followed in imports from developing countries can be found at 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 pages 60-69.

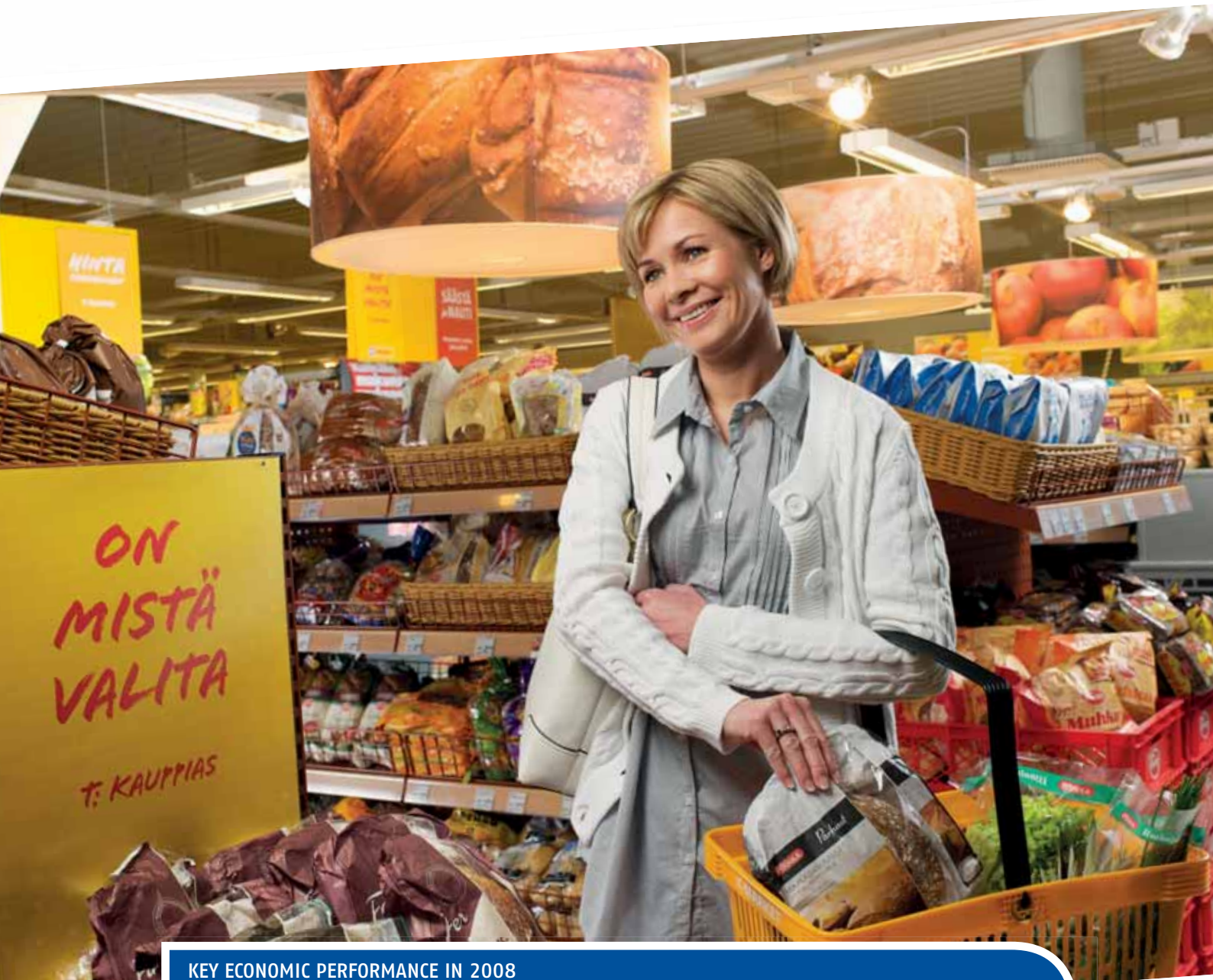
Our objectives and performance against targets in 2008

Our performance against defined targets in the area of corporate responsibility for 2008 is discussed on page 29. The Kesko Group's responsibility programme 2008-2012 is presented on pages 14-15.



Our objectives and performance against targets in 2008

OBJECTIVE	TARGET	PERFORMANCE
Create a Group action plan for all areas of responsibility in 2008	<ul style="list-style-type: none"> • Create a programme to combat climate change. • Create targets for energy savings and CO₂ reductions. • Other targets to be specified in spring 2008. 	<ul style="list-style-type: none"> • The target was met: the Kesko Group's responsibility programme was approved in December 2008. Kesko signed the trading sector energy saving agreement in November 2008.
Continue with Kesko Food's healthy way of life programme	<ul style="list-style-type: none"> • Continue with the reduction of salt, sugar and fat content of Pirikka own brand label products. Have all products with high contents reformulated by the end of 2010. • Expand the use of the Nutritioncode service. A target of 100,000 loyalty card holders as users by the end of 2009. • Continue consumer health education. Train 500 shop-floor specialists in healthy eating by the end of 2012. 	<ul style="list-style-type: none"> • Salt was reduced from 19, fat from 17, and sugar from 6 Pirikka products. Reformulation work is proceeding as planned. • The Nutritioncode was expanded to all K-city-markets, K-supermarkets and K-market stores. The launch of the renewed code was in February 2009. See case on page 84. • Planning the training content began with Kesko Food chains and K-instituutti.
Continue with Rautakesko's focus to develop cost and eco-efficient service solutions for construction and living	<ul style="list-style-type: none"> • 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. • In Finland, all K-rauta and Rautia stores are under the K-environmental store concept by the end of 2009. 	<ul style="list-style-type: none"> • The target was met and the guide was published. Koti+ customer magazine focusing on the same issues was published in early 2009. • Work is proceeding better than expected and all the 144 stores in business at the end of 2008 will be under the concept by summer 2009.
Continue to focus on promoting sustainable practices in agriculture in the K-agriculture chain	<ul style="list-style-type: none"> • Continue to develop an environmentally-friendly and cost-efficient model for farmers to produce clean domestic grain and oil and grass plants for the food industry and domestic animal feeds. • Promote products such as machinery and services which enable a more environmental friendly cultivation. • Organise call centres to assist in the proper use of crop protection substances during the growth season. • All stores under the K-environmental store concept by spring 2009. 	<ul style="list-style-type: none"> • Some 55 customer events were organised by the K-agriculture chain focusing on training the participants of the K-cultivation programme; 30,000 K-cultivation manuals were sent to customers. • Three two-day training events on the K-cultivation programme were organised for the sales personnel. • The machinery industry's product development and studies were followed to develop environmentally friendly cultivation. • 435 phone calls were received during the season. • Work is proceeding as planned and the target will be met.
CO ₂ emissions from transportation	<ul style="list-style-type: none"> • Specific reduction of 10% compared to the delivered volume (kg) by the end of 2012; 2007 is used as the baseline. 	<ul style="list-style-type: none"> • Negative development. Specific CO₂ emissions per volume increased by 1.1%, see page 51.
The BSCI auditing of suppliers operating in risk countries according to schedules agreed with the BSCI	<ul style="list-style-type: none"> • 40 initial and 10 re-audits carried out in the non-food suppliers' facilities. For suppliers in primary production, the target is two initial and one re-audit during 2008. 	<ul style="list-style-type: none"> • The target was not met: 13 initial audits and 17 re-audits were carried out in the non-food suppliers' facilities and two suppliers in the primary production started the BSCI process.
Dow Jones Sustainability Index	<ul style="list-style-type: none"> • To be listed as a sector leader for 2008/2009. 	<ul style="list-style-type: none"> • Kesko is listed both in DJSI World and STOXX, but not as the sector leader for 2008/2009. In January 2009, Kesko was granted the SAM Silver Medal status in the Food and Drug Retail sector.



KEY ECONOMIC PERFORMANCE IN 2008

- + Kesko was included in the Dow Jones sustainability indexes DJSI World and DJSI STOXX for the sixth time in succession.
- + In March 2009 Kesko was included in the FTSE4Good Index Series for the first time.
- + A record number of 139 of new retailers started their retailer careers during the year.
- + 45.5% of the Finnish population live less than a kilometre away from the nearest K-food store.
- + The average distance to the nearest K-food store is 2.3 km.
- + Among Finnish trading groups, the K-Group has the most neighbourhood stores – a total of 679.
- + K-retailers' direct purchases from regional producers increased by 7% and totalled €569 million.
- + K-retailers' direct purchases from regional producers were seven times higher than Kesko's direct imports from China.
- + With Kesko's support, the Young Finland Association annually puts more than half a million children and young people on the move in sports clubs, day-care centres, schools and after-school clubs.
- Despite the reasonably good results in 2008, Kesko's share price halved during the year.
- Kesko's market capitalisation returned to the 2005 level and stood at €1.9 billion at the end of 2008.
- The financial support provided by the Kesko Group for the public good in 2008 was €1.6 million, €0.7 million less than in 2007.

ECONOMIC PERFORMANCE

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, the efficient use of resources as well as 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 are based on the IFRS standard. The proportion of the profit distributed to shareholders is defined in the dividend policy.

In addition to the indicators in compliance with GRI recommendation, Kesko also reports on developments in its store network and the breakdown of economic benefits between various stakeholder groups in the economic performance section. The statistics do not contain target definitions concerning the geographic coverage of its operations, neighbourhood stores' sales percentages or ratios between domestic production and imports. In a market economy, these trends depend on consumers' wishes and behaviour – issues that Kesko must adapt to and anticipate. Kesko also considers that openly presenting this kind of structural development to stakeholders is 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 NASDAQ OMX Helsinki Stock Exchange since 1960, and the A share since 1999. The share series only differ in the number of votes they entitle holders to. A shares entitle holders to ten votes; B shares to one vote. At the end of 2008 Series A shares accounted for 32.4% of the company's shares and 83% of all votes. The corresponding percentages for B shares were 67.6% and 17%. Nearly all trading on the Stock Exchange takes place in B shares.

Kesko's share capital as of 31 December 2008 was €195,649,708 and the total number of shares was 97,824,854. The number of Kesko's shareholders has been steady in recent years but increased strongly in 2008 and reached 38,080 at year-end. The development of the number of shareholders and shares is shown on page 32.

Broad shareholder base and high long-term dividend yield
At the end of 2008, Kesko had 38,080 shareholders. The distribution between different shareholder groups has remained relatively stable. Kesko has no significant individual shareholders, and ownership is relatively equally divided. In recent years, the proportion of foreign shareholders has been growing rapidly; however, 2008 was a turning point when the proportion plummeted to 20% of all shares at year-end (2007: 34%). The decrease in foreign ownership in Finnish companies was a general trend in the Finnish stock market in 2008. The ten largest shareholders are presented on page 32.

INVESTOR EVENTS IN 2008

- *Kesko arranged press conferences to announce its 2007 results and three interim results in 2008. The conferences were webcast in Finnish and English via the internet.*
- *A Capital Market Day was held for analysts in winter.*
- *Kesko participated in the Sijoitus-Invest Fair in Helsinki in autumn; Kesko's stand was visited by some 2,000 investors.*
- *At the beginning of summer, the traditional road show for around ten major institutional investors was organised in Finland.*
- *In parallel with the announcement of the interim results, information events were held for brokerage companies' customers.*
- *Kesko participated in a road show event for private investors organised by The Finnish Foundation for Share Promotion in two Finnish cities.*
- *Road show visits totalling 17 days were made to the UK, Ireland, France, Sweden, Germany, Switzerland, Italy, Canada and the United States.*

According to the shareholder register maintained by Factiva, Kesko has nearly 200 Finnish and foreign institutional shareholders with the largest foreign owners from the United States, Germany, France, the UK and the Netherlands.

Kesko has generated profits and paid dividends every year since it was founded in 1941, with the exception of 1967. Under the Group's amended dividend policy dating from 2009, Kesko distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking however the company's financial position and operating strategy into account. This has been exceeded during the past five years with the average dividends being 74.2% of earnings per share (excluding non-recurring items).

Despite the reasonably good results in 2008, Kesko's share price halved during the year. Kesko's market capitalisation also returned to the 2005 level and stood at €1.9 billion at the end of 2008.

Detailed information on Kesko's shareholders and trends in the Kesko share price can be found at www.kesko.fi/investors/ share information.

Impartial and comprehensive investor communications

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

- *Kesko was included in the Dow Jones sustainability indexes DJSI World and DJSI STOXX for the sixth time in succession. In the 2008 assessment, Kesko's environmental work was rated the best in the specific industry. Measured by eco-efficiency indicators, Kesko got the full score for its work to cut energy consumption and carbon dioxide emissions, among other things.*
- *In March 2009, Kesko was included in the FTSE4Good Index Series for the first time.*

Kesko observes the principle of impartiality in its investor communications, and publishes all investor information in Finnish, Swedish and English, primarily on its web pages (www.kesko.fi).

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.

A printed Annual Report is published in Finnish, Swedish and English. The annual financial statements release and three Interim Reports are published on Kesko's web pages.

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 given at several investor events.

Kesko in sustainability indexes

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 has steadily increased during recent years. Typically, Kesko completes some ten surveys annually. As a result, the company has been ranked among the world's most sustainable companies in several international comparisons.

NUMBER OF SHARES AND SHAREHOLDERS, EARNINGS PER SHARE AND DIVIDEND PER SHARE

	2006	2007	2008
All shares	97,519,925	97,767,765	97,824,854
A-shares (%) of all shares	32.5	32.5	32.4
B-shares (%) of all shares	67.5	67.5	67.6
A-shares (%) of votes	82.8	83	83
B-shares (%) of votes	17.2	17	17
Number of shareholders	28,414	28,925	38,080
Share capital (€)	195,039,850	195,535,530	195,649,708
Earnings per share, diluted* (€)	3.76	2.90	2.24
Dividend per share (€)	1.50	1.60	1.00

*whole group

10 LARGEST SHAREHOLDERS BY NUMBER OF VOTES

	Percentage of votes	Percentage of shares
Kesko Pension Fund	9.23	4.54
K-Retailers' Association	8.64	3.42
Vähittäiskaupan takaus Oy	6.90	2.86
Valluga-sijoitus Oy	3.50	1.37
Foundation of Vocational Training in the Retail Trade	2.04	0.94
Ilmarinen Mutual Pension Insurance Company	1.20	2.16
Ruokacity Myyrmäki Oy	1.02	0.40
K-Food Retailers' Club	0.88	0.35
Heimo Välinen Oy	0.74	0.31
Svenska litteratursällskapet i Finland r.f	0.56	0.34
Total	34.71	

PROFITABILITY OF OPERATIONS

	2006	2007	2008
Net sales*, € million	8,493	9,287	9,600
Gross margin* (%)	14.3	14.3	13.6
Profit before taxes*, € million	351	358	289
Profit before taxes* (%)	4.1	3.9	3.0
ROI (return on invested capital) (%)	22.6	17.4	14.2

*continuing operations

In January 2009, Kesko was chosen for 'The Global 100 Most Sustainable Corporations' list for the fifth time. Kesko has been ranked among the global 100 most sustainable companies since 2005 when the list was first launched at the Davos Economic Forum. In Davos, Kesko's responsibility work was also granted silver-class status by Sustainability Asset Management (SAM) in 2008 and in 2009. No companies in this sector qualified in the gold class.

Kesko participated in the 'Carbon Disclosure Project' survey (CDP) in the 'low carbon intensive companies' category and received a score of 85 points. As Kesko did not permit the publication of its answers, it is not included in the CDP Leadership Index for 2008.

A complete list of Kesko's inclusion in sustainability indexes is presented on page 34.

Investments and the store network

Kesko's investments in 2008 totalled €338 million, equivalent to 3.5% of net sales (2.5% for continuous operations in 2007). Finnish investments were €240 million and in other countries €98 million. Investments in store sites totalled €279 million and other investments €59 million. There were no business acquisitions in 2008 but Kesko divested Kauko-Telko and Tähti-Optikko in 2008.

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 Break-down of economic benefits by region on page 39.

Kesko has a strong store network both in and outside Finland. The number of stores in different countries are listed on this page.

The K-food concepts cater for various consumer needs from daily local services to hypermarkets which also carry a wide range of clothing and other home and speciality goods.

The K-food network is the most comprehensive in Finland. More than 45% of the Finnish population live less than a kilometre away from a K-food store. A total of 1,055 K-food stores were operating in 316 of Finland's 415 (31.12.2008) cities and municipalities, 15 fewer than in 2007; 36 new K-food stores were opened and several stores were refurbished or expanded.

STORE NETWORK IN 2008

Finland

- 1,055 K-food stores
- 144 building and home improvement stores
- 6 car stores
- 91 agricultural stores
- 30 Anttila department stores
- 8 Kodin Ykkönen interior design stores
- 344 speciality stores

Baltic countries

- 31 building and home improvement stores
- 13 agricultural stores
- 13 furniture stores

Other Nordic countries

- 37 building and home improvement stores

Russia

- 9 building and home improvement stores

Belarus

- 3 building and home improvement stores

- A record number of 139 of new retailers started their retailer careers during the year.
- 45.5% of the Finnish population live less than a kilometre away from the nearest K-food store.
- The average distance to the nearest K-food store is 2.3 km.
- Among Finnish trading groups, the K-Group has the most neighbourhood stores – a total of 679.

INVESTMENTS AND ASSETS

	2006	2007	2008
Investments*, € million	246	228	338
Investments*, % of net sales	2.9	2.5	3.5
Equity ratio, %	47.0	48.5	52.4
Gearing ratio, %	11.9	14.0	2.3

* continuing operations

Kesko in sustainability indexes

Dow Jones Sustainability Index

Kesko has been included in the Dow Jones sustainability indexes for six years in succession. For the period 2008/2009, Kesko was chosen for the list in both of the indexes, DJSI World and DJSI STOXX. The DJSI World Index lists more than 300 companies (the top 10% in the DJ World Index) and the pan-European index some 160 companies (the top 20% in the DJ STOXX 600 Index). Reviews are carried out by SAM Group of Switzerland and cover all areas of corporate responsibility.

In the 2008 assessment, Kesko's environmental work was rated the best in the specific industry. Measured by eco-efficiency indicators, Kesko got the full score for its work to cut energy consumption and carbon dioxide emissions, among other things. This year, 320 companies from 26 countries were included in the global Dow Jones index and 162 companies from 14 countries in the European index. The assessment was carried out by an independent party, the SAM Group of Switzerland. As in previous years, the review covered all areas of corporate responsibility: environmental affairs and the economic and social responsibility of the company.

Kesko's responsibility work qualified in the silver class in the consumer staples sector in the 2009 Sustainability Yearbook by SAM, the company responsible for assessing the companies chosen annually for the Dow Jones Sustainability Index. SAM analyzed over 1,000 companies last year, of which the top 15% in each sector qualified for inclusion in the Sustainability Yearbook.

The Global 100 Most Sustainable Corporations

In January 2009, Kesko was chosen for 'The Global 100 Most Sustainable Corporations' list for the fifth 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.

The assessment 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.

FTSE4Good

In March 2009, Kesko was included as a member of the FTSE-4Good Global and FTSE4Good Europe indices focusing on responsible investment. The assessment was made by Ethical Investment Research Service (EIRIS), an independent institute.

For the purposes of the FTSE4Good indices, companies are assessed in five different areas: environmental sustainability, human rights, countering bribery, supply chain labour standards and climate change. The companies included for the FTSE4Good family of indices published since 2001 represent pioneers in responsible business.

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. Kesko holds a passed status and is therefore a member of the Kempen SNS SRI Universe, which allows Kempen to invest in Kesko for its ethical funds.

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 Vigeo Group's ASPI Eurozone® index which is a broad based equity index tracking the financial performance of Eurozone's top 120 sustainability performers from the DJ EURO STOXX-SM benchmark financial universe.

The companies' performance is assessed and rated based on the six Vigeo criteria: human rights, human resources, environment, business behaviour, corporate governance and community involvement.

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 €90 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 2008, 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. For oekom's clients, companies rated as prime are usually the preferred choice for environmentally and socially oriented investments.



Kesko food actively develops the K-food store network by investing in stores of all sizes. The constant development of the network is required to meet the needs of ageing stores, expanding selections, new services and migration. Large outlets, or K-citymarkets, accounted for 35.8% (35.9%) of K-food store sales in Finland.

Rautakesko opened 21 new stores in 2008, of which 13 abroad. Foreign subsidiaries accounted for 65% of Rautakesko's net sales. In October 2008, Rautakesko signed a partnership agreement with tooMax-x Handels GmbH, a DIY purchasing alliance.

Job development

At the end of 2008, the average number of personnel in the Kesko Group was 21,327 converted into full-time employees. There was a decrease of 95 employees in Finland and an increase of 902 employees in other countries compared with the corresponding period of the previous year. The number of personnel in other countries mainly increased as a result of the acquisition of the Belarusian subsidiary OMA. At the end of December 2008, the total number of personnel was 24,668 of whom 13,651 worked in Finland and 11,017 in other countries.

In Finland, Kesko works in a close cooperation with K-retailers. At year-end Kesko had 1,305 K-retailer entrepreneurs as partners and 250 other retailer partners in the Asko, Sotka, 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 316 Finnish municipalities and Kesko has premises in more than 86 municipalities, the over 35 000 jobs offered by the K-Group make an important contribution to the economy across Finland.

Salaries, social security expenses and taxes

Kesko Group salaries recognised in the income statement totalled €497 million, pension expenses €29 million, and other social security expenses €47 million. Operations outside Finland accounted for €154 million of total salaries. Share options recognised as expenses totalled €6 million. Income tax paid by the Group totalled €89 million, of which €10 million

- K-retailers employed some 22,000 people.

was paid outside Finland. Real estate taxes paid to 86 municipalities in Finland totalled €3.4 million, compared with €1.1 million in other countries.

K-retailers paid €324 million in salaries and €35 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 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 2008, 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 8,757 (9,226) employees of the Kesko Group and corporations close to Kesko at year-end, with Department A covering 745 (796) of the total. The Kesko Pension Fund paid €61.0 million (€57.7 million) in pensions to 3,839 people (3,749). Details on the retirement age of

NUMBER OF K-FOOD STORES IN FINNISH MUNICIPALITIES

K-food stores	Municipalities			% of all municipalities		
	2006	2007	2008	2006	2007	2008
10 or more	13	13	18	3%	3%	4%
7-9	10	9	9	2%	2%	2%
5-6	23	24	28	5%	6%	7%
3-4	66	65	56	15%	16%	13%
2	95	86	70	22%	21%	17%
1	164	170	135	38%	40%	33%
0	60	49	99	15%	12%	24%
Municipalities total	431	416	415*	100%	100%	100%

* number of municipalities at 31.12.2008, at 1.1.2009 the number was 348

employees and other statistics are presented on page 69 under Social Performance.

The Kesko Sickness Fund provides statutory sickness insurance for 11,220 employees at Kesko Group's corporations. Sickness insurance contributions paid by the Sickness Fund totalled €9.3 million (€9.8 million).

Subsidiaries outside Finland arrange their own pension and health insurance cover according to local legislation and practices.

Suppliers of goods and services

In 2008, Kesko had about 31,000 suppliers providing goods and services valued in excess of €1,000; of which, 18,000 operate in Finland; 9,500 in the Group's other operating countries, and about 3,500 elsewhere.

Kesko's purchases of goods totalled €8,106 million, of which the purchases of Kesko's Finnish companies from suppliers operating in Finland accounted for €5,357 million or

66.1% of the Group's total purchases. The purchases of Kesko's companies outside Finland from suppliers in their home countries accounted for €1,168 million or 14.4%. Kesko's purchases from suppliers outside its operating countries accounted for €1,314 million (16.2%). Purchases and the number of suppliers by operating country are shown in the table on page 37.

Kesko's ten largest suppliers accounted for 20.4% of the Group's purchases (18.9%), and its 100 largest suppliers for 47.4% (47.5%) of purchases. Of the ten largest suppliers, five were Finnish food manufacturers, one producer of mineral fertilizers, one importing company operating in Finland, one Finnish IT-equipment distributor and two German car manufactures.

Kesko Group's Finnish companies purchased 81.9% from suppliers operating in Finland and 18.1% from elsewhere. In the calculation, which was performed based on 2007 data, importers accounted for about 21% of these purchases. Based on this assumption, purchases from importing companies

PERSONNEL EXPENSES, €MILLION (CONTINUING OPERATIONS)

	2006	2007	2008
Salaries and fees	436	477	497
- bonuses	*	20.3	21.5
- bonuses in Finland	*	14.1	12.5
- bonuses in other countries	*	6.2	9
Social security expenses			
- pension expenses	35	21	29
- other social security expenses	42	46	47
Share options granted	2	2	6

* no comparable data available

LABOUR PRODUCTIVITY, €1,000 (CONTINUING OPERATIONS)

	2006	2007	2008
Average net sales per employee			
- Finland	613	662	697
- other Nordic countries	*	508	462
- the Baltic countries	*	166	147
- entire Group	448	453	450
Profit before tax per employee	18	17	14

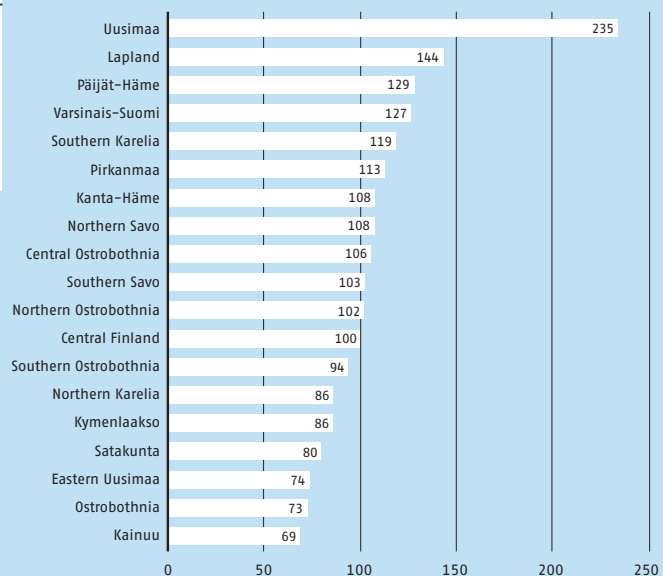
* no comparable data available

TAXES, €MILLION (CONTINUING OPERATIONS)

	2006	2007	2008
Income taxes paid in Finland	94.1	70.7	79.4
Income taxes paid in other countries	10.4	16.5	10.1
Real estate taxes paid in Finland	*	3.2	3.4
Real estate taxes paid in other countries	*	0.7	1.1

* no comparable data available

SALARIES AND TAXES PAID BY FINNISH REGIONS IN 2008 IN PROPORTION TO THE POPULATION, EUROS PER CAPITA



operating in Finland totalled €1,125 million (€836 million). While Kesko's own direct imports (Kesko Group's purchases from countries outside its operating area) were €1,184 million (€1,196 million), the total value of import purchases in Kesko's operations in Finland amounted to €2,309 million, or 35.3% (31.7%) and that of domestic purchases €4,232 million, or 64.7% (68.3%). These figures should be considered as only indicative, as statistics are available for companies rather than products.

Own brand products

At year-end, Kesko had some 2,100 own brand Pirikka products following the introduction of some 150 new products during the year. Some 45.6% (44.8%) of Pirikka products were manufactured in Finland, and accounted for 58.5% (57.8%) of total Pirikka sales. The table on page 38 gives some examples of the proportion of Finnish products in different categories. Kesko Food had 321 (307) Euro Shopper products sourced through

- *K-retailers' direct purchases from regional producers increased by 7% and totalled €569 million.*
- *K-retailers' direct purchases from regional producers were seven times higher than Kesko's direct imports from China.*

KESKO GROUP'S PURCHASES BY OPERATING COUNTRY IN 2008, € MILLION (CONTINUING OPERATIONS)

	Number of suppliers in the country*	Purchases from these**		Number of suppliers in other countries*	Purchases from these**	
		€ million	%		€ million	%
Finland	17,733	5,357	81.9	2,799	1,184	18.1
Sweden	1,114	116	82.9	132	24	17.1
Norway	1,578	502	98.0	78	10	2.0
Estonia	1,879	85	63.2	327	50	36.8
Latvia	1,732	138	67.9	293	65	32.1
Lithuania	1,147	135	37.8	728	221	62.2
Russia	504	162	99.5	3	1	0.5
Belarus	791	29	52.4	199	26	47.6
Total	26,478	6,524	80.5	4,559	1,582	19.5

*suppliers of products and services

**suppliers of products

PURCHASES BY COMPANIES' COUNTRY OF ORIGIN AND BY SUPPLIERS' COUNTRY OF ORIGIN, € MILLION (CONTINUING OPERATIONS)

Company's country of origin	Supplier's country of origin									Total
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus	Other countries	
€ million										
Finland	5,357	153	9	24	1	4	0	0	993	6,541
Sweden	6	116	4	0	0	0	0	0	14	140
Norway	2	6	502	0	0	0	0	0	3	513
Estonia	8	2	0	85	4	4	0	0	32	135
Latvia	7	3	0	4	138	10	0	0	42	204
Lithuania	2	0	0	0	0	135	0	0	219	356
Russia	0	0	0	0	0	0	162	0	1	163
Belarus	1	0	0	0	0	1	13	29	11	55
Total	5,382	280	515	114	143	154	175	29	1,314	8,106

PIRKKA PRODUCTS OF DOMESTIC ORIGIN IN 2008

Product group	Proportion of domestic products of total Pirkka sales, %
Meat, fresh and frozen	98.1
Fish	59.6
Processed meat	91.4
Ready-to-eat foods	96.7
Fruit and berries	3.8
Vegetables and root crops	63.5
Milk products	100.0
Yoghurt, pudding etc.	30.8
Edible fats	71.5
Cheese	45.8
Frozen foods	25.9
Ice cream	2.0
Cereal products	31.0
Canned foods	20.7
Juices	86.2
Baby food and drinks	100.0
Confectionary	36.9
Soft drinks	100.0
Tissue paper	98.3
Personal hygiene	50.4
Washing and cleaning products	41.9
Total	58.5
Proportion of total number of Pirkka products	45.6

the European AMS alliance in its selection, of which 28.2% 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 table on page 38 shows how these benefits are divided by stakeholder group and market area.

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 operating in Finland benefit not only foreign suppliers, but also generate considerable economic benefit in Finland. Importers and trading commissions paid cover the salaries and other expenses of the Finnish employees of the companies involved. Value Added Tax is also paid as are customs duties on some products.

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 have 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 figures for Uusimaa

BREAKDOWN OF ECONOMIC BENEFITS BY MARKET AREA, € MILLION (CONTINUING OPERATIONS)

	Purchases	Investments	Personnel expenses and taxes	Total
Finland	5,382	240	482	6,105
Other Nordic countries	795	31	66	893
The Baltic countries	411	11	90	513
Russia	175	54	24	253
Other countries	1,343	1	9	1,354

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

	2006	2007	2008
Suppliers of goods and services			
- Finland **, ***	5,139	5,223	5,382
- other countries **	2,208	2,868	2,724
Suppliers of capital goods and acquisitions	246	228	338
Personnel (salaries and other benefits)	436	477	497
Shareholders (dividends)	107	146	156
Tax authorities (income and real estate taxes)	*	91	94
Social security (pension and social security expenses)	77	67	76

* no comparable data available

** 2006 and 2007 figures include Kauko-Telko and Tähti Optikko

*** 2006 and 2007 figures include only Finnish companies' purchases from Finnish suppliers
2008 figure includes all companies' purchases from Finnish suppliers

are higher than actual. As stated earlier, statistics also include import companies, most of which are located in Uusimaa. Nearly all salaries paid by Kesko have been broken down by region unlike income tax, which remains the responsibility of the tax authorities. Compared to other figures, real estate taxes are so small that they have not been included in the breakdown.

Only those K-retailers who are customers of Vähittäiskaupan Tilipalvelu VTP Oy are included in the analysis. They account for some 85% of the Group's consolidated net sales. As it was not possible to specify K-retailers' direct purchases on the basis of invoicing addresses, the statistics assume that purchases have been made from within the region in question.

K-retailers' direct purchases from regional producers totalled €569 million (€534 million), an increase in the proportion of local suppliers in store-specific selections. In some regions, K-retailers' direct purchases were considerable. In these cases, only few suppliers have the capacity to supply Kesko's nationwide chains; 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; they must be related to population numbers, especially when estimating service levels. The figures for sala-

ries and taxes per inhabitant, shown on page 36, illustrate the K-Group's input in each region's infrastructure. The figures for Uusimaa are not comparable in this respect, as they include Kesko Group's administrative functions and most of the personnel of the division parent companies.

Customer loyalty system

Kesko awards monthly points to K-Plusa cardholders for their purchases. A customer is sent a €5 voucher for every 1,000 K-Plusa points he/she has collected during the period. The value of the vouchers can be deducted from a purchase in K-stores, in other K-Plusa partner stores or paid into the customer's bank account. These benefits have not been included in the calculations concerning the economic benefit provided by Kesko to its stakeholders, as the benefits are part of the pricing of the products as well as rewarding customers for shopping at K-stores. As some Plusa benefits are specially priced 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

BREAKDOWN OF ECONOMIC BENEFITS FROM KESKO'S AND K-RETAILERS' OPERATIONS BY FINNISH REGION IN 2008, € MILLION

Region	Kesko's purchases of goods*	K-retailers' direct purchases **	Kesko's and K-retailers' investments	Salaries paid by Kesko	Salaries paid by K-retailers **	Taxes paid by K-retailers **	Total
Southern Karelia	9.2	16.5	3.0	5.1	9.8	1.1	44.7
Southern Ostrobothnia	115.7	47.0	5.0	4.8	12.4	1.1	186.0
Southern Savo	43.7	16.4	3.3	5.2	10.2	1.1	79.9
Eastern Uusimaa	94.6	3.6	3.2	2.2	4.9	0.3	108.8
Kainuu	6.0	10.8	5.8	1.6	3.8	0.5	28.5
Kanta-Häme	81.0	32.5	7.6	6.0	11.4	0.9	139.4
Central Ostrobothnia	62.9	13.5	0.2	2.1	4.9	0.4	84.0
Central Finland	79.3	30.9	15.1	7.8	17.4	1.7	152.2
Kymenlaakso	28.1	14.4	3.5	6.2	8.6	1.2	62.0
Lapland	22.8	45.6	44.5	5.7	19.1	1.9	139.6
Pirkanmaa	379.2	35.4	20.3	21.8	28.7	3.4	488.7
Ostrobothnia	105.4	11.1	7.8	5.6	6.5	0.6	137.0
Northern Karelia	21.0	13.8	11.5	3.8	9.2	1.7	61.0
Northern Ostrobothnia	76.7	28.4	38.3	16.9	19.5	2.3	182.1
Northern Savo	135.1	26.6	29.6	8.9	16.5	1.5	218.2
Päijät-Häme	109.7	23.2	35.5	13.8	10.8	1.1	194.1
Satakunta	114.6	20.0	55.0	4.4	13.2	0.9	208.1
Uusimaa	3,185.2	122.0	96.0	230.5	88.3	10.3	3,731.2
Varsinais-Suomi	666.9	57.7	28.0	26.6	28.4	3.4	810.8
Åland	19.1	***	0.0	-	***	***	19.6
Total	5,356.8	569.4	413.2	379.0	323.6	35.4	7,075.9

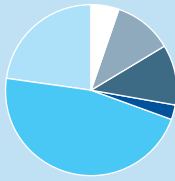
* continuing operations

** The K-retailer figures include the retailers that are customers of Vähittäiskaupan Tilipalvelu Oy (85% of all K-retailers)

purchases from 1 Dec. 2007 to 30 Nov. 2008, salaries paid from 1 Dec 2007 to 30 Nov. 2008 and taxes from the financial periods that ended between 1 Oct. 2007 and 30 Sept. 2008.

*** no data available

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



Health care	89	(5.5%)
Non-governmental and environmental organisations*	177.7	(10.9%)
Science, research and education	186.2	(11.5%)
Culture	43.3	(2.7%)
Sports	757.9	(46.7%)
Youth work	368.1	(22.7%)

Total 1,622.2 (100.0%)

* Donations to veteran organisations and advertising of a supportive nature in Finnish party newspapers are included in the "donations to non-governmental and environmental organisations" figure.

support primarily to areas associated with the everyday life of families with children. For example Kesko's cooperation with the Young Finland Association has continued for over a decade. You can read more about Kesko's support to organisations on pages 42–43.

Supporting socially responsible activities and sustainable development in Kesko's operating environment is also important. Drawing a line between donations, sponsorship and marketing is often difficult. When pure marketing measures are left out of the calculations, the financial support provided by the Kesko Group for the public good in 2008 was €1.6 million.

The subsidiaries outside Finland accounted for €0.2 million or 12.5% of the financial support. In Norway, Byggmakker continued the tradition with its employees and donated a sum of €38,000 to the 'Save the Children' foundation. The employees donated their 2008 Christmas money, €28,000, while Byggmakker's contribution was €10,000.

- *With Kesko's support, the Young Finland Association annually puts more than half a million children and young people on the move in sports clubs, day-care centres, schools and after-school clubs.*

Case

SUSTAINABLE DEVELOPMENT AWARDS FOR PREVENTING SOCIAL EXCLUSION AND TO ENVIRONMENT AMBASSADORS

In November 2008, Kesko distributed €30,000 in awards to promoters of sustainable development. The awards, now distributed for the sixth time, are especially aimed at encouraging work done on a voluntary basis and with limited financial resources.

There were 46 applicants, four of which were awarded. **The Finnish Diverse Learners' Association** and **the Ilmari project** received €12,000 each. In addition, €3,000 awards were presented to journalist **Jussi Laitinen**, and civil entrepreneur **Markku Jussila**, the founder of the www.kuinoma.fi service.

The jury praised the long-term work of the Finnish Diverse Learners' Association in identifying learning difficulties and supporting diverse learners in their studies which generates wellbeing and helps maintain the ability to work.

The jury appreciated the Ilmari project's communicative model based on voluntary community participation, with youths distributing information about climate change to schoolchildren and students. The Ilmari project is discussed further in the case on pages 20–21 of this report.

Journalist Jussi Laitinen was praised for his ability to write articles perfectly highlighting the consumer perspective and to explain often difficult and complicated matters in a clear and popular style. Jussi



Recipients of the sustainable development awards with Kesko's President and CEO Matti Halmesmäki.

Laitinen's articles on climate change and other environmental issues have been published in the Hinta & Laatu (price & quality) column in the Helsingin Sanomat daily and the Vihreä Lanka magazine.

The website www.kuinoma.fi is a community oriented lending and renting service established by Markku Jussila. It operates on the principle of increasing the utilisation degree of good products while reducing new product purchases and excessive consumption. According to the jury, [kuinoma](http://www.kuinoma.fi)'s operating principle is innovative and promotes sustainably consumption in Finland, especially among youths.

"THE MOMENT I WAS PROUD TO BE A K-RETAILER"

For a decade already, K-food stores have participated in the annual 'Give Children a Life' campaign of the Association of the Friends of the University Children's Hospitals to raise funds for buying intensive care equipment for premature babies in all of the five university hospitals in Finland.

The impressive sum of €253,923, donated in 2008, was collected by K-food stores during April to September. Every kilo of Chiquita and Chiquita Mini's bananas sold increased the sum by three cents, and the Association's collection boxes at K-food store check-outs were filled during the campaign. Over ten years, K-food stores and Chiquita have donated €1,340,604 to the 'Give Children a Life' campaign.

Jouni Ekholm, retailer of K-supermarket Mustapekka, was there when four positive pressure respirators were donated to the Helsinki University Children's Hospital. A positive pressure respirator is needed in situations when the patient does not need a real respirator, but still needs some breathing assistance.

"It's difficult to describe the feeling I had when visiting the department. Babies are incredibly helpless and definitely need all the help we can provide for them. I felt privileged to be able to represent the retailers and be involved in the joint effort of Chiquita and Kesko Food. The moment was one of those I was truly proud to be a K-retailer," says Jouni Ekholm.



Case

PIRKKA YOGHURT FROM FAIRTRADE INGREDIENT

The Fairtrade system has been created to improve the position of farmers and farm workers in developing countries in the international trade. Farmers in developing countries receive fair compensation for their work (see page 76 to see how much Fairtrade premium was generated through the Fairtrade products sold by K-food stores in 2008).

Composite products are a new product innovation, which expands the group of farmers who benefit from the Fairtrade system. The key is that the raw materials produced by farmers in developing countries are combined with ingredients produced in Finland.



The Pirkka yoghurt, containing Fairtrade ingredients and sold by K-food stores throughout the country, is a typical composite product – a unique concept in Finland. So far, other composite products come from outside Finland.

"We didn't want to start importing yoghurt, but decided to look into possibilities of having it manufactured in Finland," says **Minna Kurunsaari**, Vice President of Kesko Food's Commerce.

Juustoportti Oy in Jalasjärvi was chosen for the job. **Timo Keski-Kasari**, Managing Director: "It's always exciting to develop something new especially as the Fairtrade ideology is well in line with our values."

The new Pirkka yoghurt is a combination of Fairtrade ingredients, Finnish milk and Finnish work. Cane sugar comes from the Kasinthula farmer cooperative in Malawi, the banana compote from the El Guapo cooperative in Ecuador and the mango compote from the Apromalpi cooperative in Peru. The jam used in the yoghurt is manufactured from Fairtrade ingredients by Roberts Oy, a Finnish company.

The packaging design is environmentally friendly: the plastic cup is thinner and lighter than the traditional yoghurt cup. The cardboard wrap is recyclable and the reverse side provides additional information about Fairtrade operations.

COOPERATION OF KESKO AND THE YOUNG FINLAND ASSOCIATION CONTINUES

In November 2008, Kesko and the Young Finland Association signed an agreement to continue their cooperation. Kesko has supported physical exercise of children and the young as the main partner of the association for a decade already.

With the support by Kesko and its chains, the Young Finland Association annually puts hundreds of thousands of children on the move. In spring, the campaign 'Around the Globe' engaged a total of 175,000 school-children and 9,150 teachers in physical exercise. K-food stores participated by distributing leaflets on exercise and healthy nutrition to the children's parents.

A record number of 125,000 children and nearly 23,000 pre-school educators participated in the 'Let's get the toes tapping!' campaign organised in day care centres in autumn. The aim of the

campaign was to increase the daily time children spend in physical activities to two hours, as recommended by specialists.

In cooperation with the Young Finland Association, the K-rauta and Rautia chains prepared a leaflet which contains easy and fun instructions on DIY exercise equipment. The aim is to encourage families to get together and build play and exercise equipment for home yards.

Kesko, the K-food stores and the Young Finland Association built a joint physical exercise track for the Child Fair organised in Helsinki in April 2008. The activity points for children of different ages made the stand the most popular at the fair attracting 23,000 visitors during the weekend.



FINNISH COGNAC MUSTARD TO THE PIRKKA PARHAAT RANGE



The Pirkka Parhaat cognac mustard, manufactured by Ruoveden Herkku, was launched in the stores in December 2008.

Ruoveden Herkku began operations in 1993. The small company's year-round employees are its owner **Jarmo Keinonen** and two permanent employees.

Cognac mustard was at first sold only at fairs and marketplaces. Vietävän hyvää tukku Oy, a sales and marketing company, was established in 2005 and began negotiations with central corporations. Ruoveden Herkku's cognac mustard is one of the first products to make it to the K-food stores' shelves in this way.

The product is made of domestic ingredients, except for spices and mustard powder. The mustard powder is bought through Kesko which involves a fine logistical advantage – the cognac mustard is transported to Kesko's warehouse in Ruoveden Herkku's own truck, which drives back with a load of mustard powder.

"We have high expectations about our cooperation with Pirkka," says Keinonen. "We also have a seasonal staff of six and if the demand for the Pirkka cognac mustard picks up as we hope, at least one of them will have a permanent job!"



K-FOOD STORES CONTRIBUTED TO THE UNICEF VACCINE CAMPAIGN



In November–December 2008, UNICEF and Procter & Gamble ran their second worldwide campaign, in which one tetanus vaccine for every pack of Pampers nappies bought was donated to women of child-bearing age in developing countries to protect both mothers and newborn babies.

One of the UNICEF aims is to provide protection against tetanus to all children. One way to achieve this is to vaccinate all women of

child-bearing age as by doing so their children would then be protected at the same time.

K-food retailers joined the campaign with a significant extra contribution, as they donated the funds for one more vaccine in addition to the campaign vaccine for every pack of Pampers bought. One vaccine was also donated for every Ariel and Fairy product bought from a K-food store.

"The campaign was very well received by our customers. The importance of the cause also motivated others than families with children, which was proved by the number of vaccines raised through Ariel and Fairy products," says **Minna Wegelius**, Kesko Food's Sales Director.

"The target for the additional vaccines to be raised by K-food stores was set at 500,000. We thought this was quite ambitious, but the number was exceeded by nearly 57,000 vaccines. The total number of vaccines raised by K-food stores amounted to 556,570."



KEY ENVIRONMENTAL PERFORMANCE IN 2008

- + K-Group signed the trading sector energy efficiency agreement and made a commitment to save over 65 GWh (65 million kWh) by the end of 2016.
- + As a result of purchases of carbon free electricity, CO₂ emissions of the electricity purchased by Kesko to the K-Group decreased by 80%.
- + Total energy consumption in Finland increased only by 0.2%, whereas the gross-floor area increased by 2% and net sales by 4.4%.
- + Specific electricity consumption calculated for all real estate types decreased by 1.4% in Finland.
- + Specific heat consumption calculated for all real estate types decreased by 3% in Finland.
- + The average waste recovery rate in Finnish distribution centres remained at a high level of 88%, and 97% in Anttila.
- + Waste statistics for VV-Auto and VV-Autotalot are included for the first time.
- Specific CO₂ emissions compared to volumes transported increased by 1.1%.
- As a result of Kesko's purchases of carbon free electricity, the share of electricity generated from nuclear power increased by almost three-fold; the amount of nuclear waste increased by 2.5-fold.
- The consumption of primary energy increased by 59%.

ENVIRONMENTAL PERFORMANCE

Kesko's approach to environmental management

Kesko's environmental management is based on the company's environmental policy, the International Chamber of Commerce's principles of sustainable development, and the ISO 14001 standard. K-stores follow the environmental management principles defined in the K-environmental store concept, and VV-Autotalot Oy and Turun VV-Auto Oy the principles of the programme created by the Finnish Central Organisation for Motor Trades and Repairs Association. This system fulfils the requirements set both in the ISO 14001 and ISO 9001 standards. Kesko's main office building in Katajanokka, Helsinki, Kesko Food's central warehouses in Vantaa, and the Turku distribution centre have adopted an environmental programme for office work developed by Kesko.

The K-Group's environmental policy together with other group level policies, principles and commitments can be found at 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.

Coverage of environmental management systems

Environmental management systems had been third-party certified at all units that have significant direct environmental

impact, see table below. The coverage of environmental management systems at year-end calculated per retail sales was 63% in Finland and 49% globally.

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 450 premises totalling 1,350,000 m² (net floor area), and with Ovenia Oy of some 270 premises totalling 866,000 m² (net floor area). Ovenia's share of outsourced real estate operations is some 30%. ISO 14001 certification covering real estate management and maintenance is held by YIT Kiinteistötekniikka Oy.

Goals and performance for environmental management

Kesko's Group-level objectives and performance for 2008 are discussed under Kesko's management approach to corporate responsibility, objectives and performance in 2008 (see pages 26–29) and Kesko's responsibility programme for 2008–2012 under key impacts, risks and opportunities (see page 12–15).

OPERATIONS	ENVIRONMENTAL MANAGEMENT SYSTEM	COMMENT
Keslog Ltd; warehouse and transportation operations	ISO 14001	Certification renewed in 2007
Anttila Oy; central unit, mail order sales, NetAnttila, all Anttila and Kodin Ykkönen department stores	ISO 14001	Certification renewed in 2008
Real estate management and maintenance	ISO 14001; ISO 9001	Certificates held by YIT Kiinteistötekniikka Oy, which is responsible for some 50% of outsourced real estate operations
VV-Autotalot Oy and Turun VV-Auto Oy	ISO 14001; ISO 9001	Program created by the Finnish Central Organisation for Motor Trades and Repairs Association.
K-Food stores; 423 stores under concept	K-environmental store concept	Chain requirement for K-citymarkets, K-supermarkets and K-markets
K-rauta stores; 21 stores under concept	K-environmental store concept	Target to have all stores under concept by summer 2009
Rautia stores; 38 stores under concept	K-environmental store concept	Target to have all stores under concept by summer 2009
K-maatalous stores; 28 stores under concept	K-environmental store concept	Target to have all stores under concept by summer 2009
Office premises in Helsinki, warehouses in Vantaa and Turku	Environmental management system for offices	System developed by Kesko

- The three largest K-food store chains (K-citymarkets, K-supermarkets, and K-markets) accounted for 65% of Kesko Group's total electricity consumption, 63% of water and 57% of heat.
- K-Group is committed to save over 65 GWh by the end of 2016.

The units with ISO 14001 certification have all set their individual targets in line with the requirements defined in the standard. Goals and performance against these division-level targets is presented in the table below.

Real estate operations

The gross floor area owned or leased by Kesko totalled 3.5 million m² in Finland at year-end with some 2.9 million m² as net floor area. The surface area calculated as gross floor area

increased by 2.0%. The net floor area totalled 3.8 million m², of which 0.9 million m² were outside Finland. The net floor area outside Finland increased by 1.7%

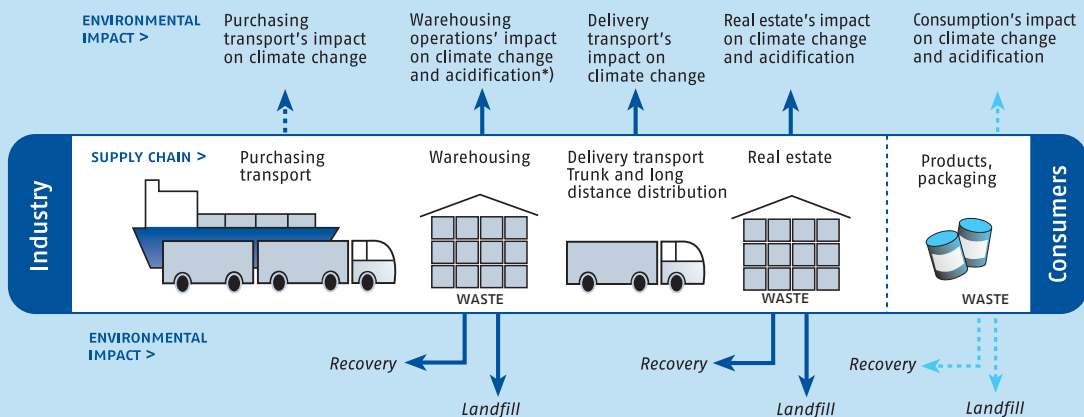
The value of Kesko's store site investments in 2008 totalled €279 million (€188.2 million). Store site investments also include investments in existing properties.

Trading sector energy efficiency agreement

In November, the K-Group signed the trading sector energy efficiency agreement and made a commitment to save over 65 GWh (65 million kWh) by the end of 2016. The agreement is based on the 9% saving target set in the Directive on Energy End-Use Efficiency and Energy Services for the period 2008-2016, starting from the level of 2005. The agreement covers all store chains that belong to the K-Group. The agreed saving target is significant as it equals the annual energy consumption of some 15 stores the size of a K-citymarket. Calculated at K-Group level, the saving target of 65 GWh corresponds to a 6.7% reduction in energy consumption. The agreed target is less than the 9% saving target set in the Directive, due to the fact that Kesko Food has already achieved relative savings of 20% in electricity and 60% in heating

OPERATIONS	GOAL	PERFORMANCE	COMMENT
Keslog Ltd	Increasing the efficiency of transportation, €/m ³	Goal was not met; costs per cubic metre increased by 3.8%	Main reason was the significant increase in fuel prices
Keslog Ltd	Decrease the amount of waste per delivered volume by 4%, kg/m ³	Goal was met; achieved 5.1% reduction	Total waste amount decreased by 6% though delivered volumes increased by 1%
Keslog Ltd	Reduction of electricity consumption by 3%, kWh/m ³	Goal was met; achieved 9.8% reduction	
Keslog Ltd	Training courses on economic driving	Goal was met; 12 training sessions were held	By the end of 2009, all drivers will have passed this training
Anttila Oy	Reduction of electricity consumption, goals are department store-specific	Overall reduction of 4.7% at department stores; 5.2% reduction at the central warehouse	82% of department stores reached their specific target
Anttila Oy	Reduction of waste, goals are department store-specific	73% of department stores reached their specific target	Segregating waste plastics began at nine stores

KESKO'S ENVIRONMENTAL IMPACT



*) included in the impact associated with real estate

energy during 1995–2006. These savings were taken into account when determining the final saving target.

A significant amount of energy is consumed by freezers and other cooling equipment at K-food stores. Together with the launch of Kesko’s responsibility programme, Kesko Food made a decision to install freezers with lids in all new Kesko Food premises, see case on page 55. As regards existing premises, the Ministry of Employment and Economy has granted €347,000 for installation of lids or doors in old cooling equipments with an annual saving target of 1 GWh.

K-food store signs to use LED lighting

As of January 2009, only LED lightning will be used for K-food stores’ new illuminated signs. The possibilities of replacing the neon and fluorescent tubes of existing signs are also being studied. The most immediate environmental impact of LED lighting is reduced energy consumption by as much as 60–80%.

Environmental risks associated with land use

Surveys of contaminated land are made annually in connection with construction work or real estate transactions.

Altogether 21 site investigations were conducted as part of real estate transactions. Contaminated land was identified at five sites in Finland and remediation actions taken at four in connection with construction work. The fifth site is waiting for construction activities to start.

No remedial actions were undertaken at premises outside Finland in 2008.

Monitoring energy and water consumption

Energy and water consumption are calculated in relation to the heated gross area of premises in Finland, which allows the figures for specific consumption to be compared more accurately. Only information based on the net floor area is available for premises outside Finland.

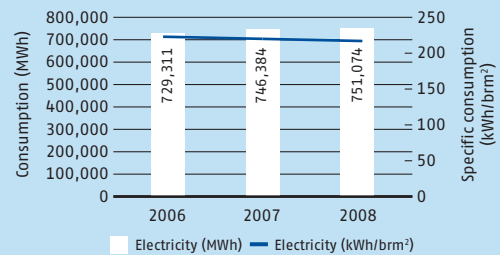
In terms of energy consumption, the most important real estate categories are K-citymarkets, K-supermarkets, K-markets, Anttila department stores, and office and warehouse buildings. Kesko Food alone consumes two thirds of all electricity consumed by the K-Group in Finland. Monitoring is as inclusive as possible for these properties in order to ensure that it increases the accuracy of total consumption calculations.

Electricity, heat, and water consumption in Finland is monitored using the EnerKey system supplied by Energiakolmio Oy. This enables monitoring to take place automatically in locations where the electricity supplier 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.

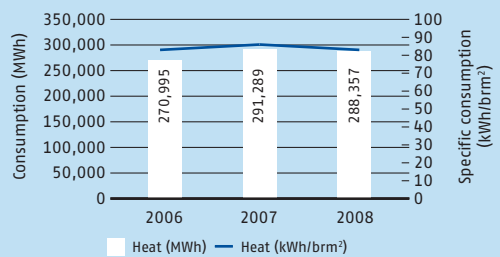
Increasing the coverage of multi-energy monitoring in premises managed by Kesko has proven to be challenging with the coverage remaining at 62% in 2008 (63%). The premises outside the present monitoring are mostly relatively small and have no metering systems – the cost of heating energy is included in the rent. The goal, however, is to continue to raise the coverage of multi-energy monitoring of premises managed by Kesko to 100% in 2009.

Electricity consumption alone was monitored at 20% of premises (17%), mainly not owned by Kesko. Consumption at premises outside the system is evaluated by the type of property and based on the specific consumption of the premises.

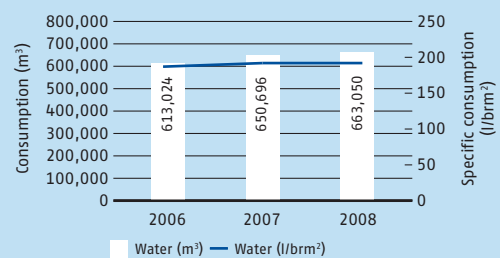
CONSUMPTION OF ELECTRICITY AND SPECIFIC CONSUMPTION IN FINLAND, 2006–2008



HEAT CONSUMPTION AND SPECIFIC CONSUMPTION IN FINLAND, 2006–2008



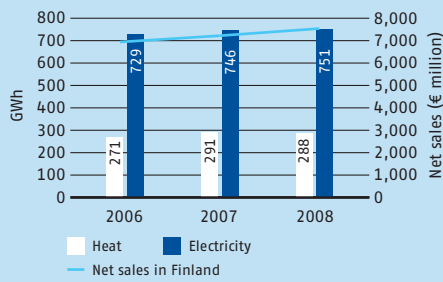
WATER CONSUMPTION AND SPECIFIC CONSUMPTION IN FINLAND, 2006–2008



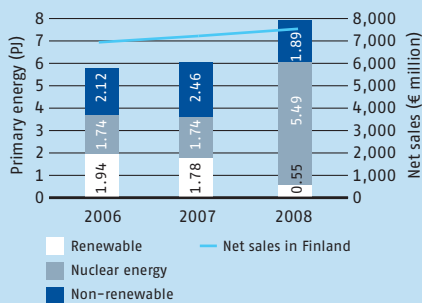
Energy and water consumption in 2008

The combined electricity consumption of Kesko and the K-retailers operating in Kesko's premises in Finland totalled slightly above 751 GWh. Electricity consumption increased only by 0.6% when, at the same time, the gross floor area increased by 2.0% and the net sales by 4.4%.

TOTAL ENERGY CONSUMPTION IN THE REAL ESTATE OWNED OR LEASED BY KESKO IN FINLAND, 2006-2008



PROFILE OF THE ENERGY USED IN THE REAL ESTATE OWNED OR LEASED BY KESKO IN FINLAND, 2006-2008



CLIMATE CHANGE IMPACT OF THE TOTAL ENERGY USED IN THE REAL ESTATE OWNED OR LEASED BY KESKO IN FINLAND, 2006-2008



The specific consumption of electricity at all real estate categories decreased by 1.4%. Absolute consumption increased by 10% at K-citymarkets but decreased by 4% at K-supermarkets. These changes in consumption were comparable to the changes in the gross floor area - the floor area of K-citymarkets increased by 11% and that of K-supermarkets decreased by 4%. In the small food stores category, absolute consumption at K-markets decreased by 3% and by 22% at K-extra.

Heat consumption was 288 GWh (291 GWh). The specific consumption calculated for all real estate categories decreased by 3.0%; at Anttila department stores it decreased by 5.1%. Temperature-adjusted consumption data of comparable properties shows that this decrease in consumption was due to less heating needs.

Water consumption stood at 663,050 cubic metres, some 2% more than in 2007, which corresponds with the increase of gross floor area. The total specific consumption remained unchanged. Total water consumption increased by 1% at K-citymarkets and by 3% at K-supermarkets. The specific water consumption decreased by 8% at Anttila department stores.

The primary energy used by Kesko in Finland was equivalent to approximately 0.3% of the total national energy consumption (1,467PJ in 2007 according to Statistics Finland's energy statistics). Electricity used at Kesko's Finnish premises accounted for around 0.6% (90 TWh according to www.energia.fi/2007 statistics), and district heat for about 0.9% of total consumption in Finland (30.7 TWh in 2007 according to Statistics Finland).

Energy monitoring and related emission calculations were initiated during 2005 in Kesko's companies outside Finland. Foreign subsidiaries purchased a total of 77,9 GWh of electricity and district heat (79.4 GWh). Consumption of heat energy generated by subsidiaries themselves totalled 21.4 GWh (8.4 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 2008. 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 (available only in Finnish).

Kesko supplied 577.6 GWh or approximately 77% of the total electricity used by the K-Group in Finland, an increase of around 0.1% on 2007. K-retailers purchased the remaining 173.7 GWh themselves.

Fortum Markets Oy was the biggest electricity supplier with its share dropping from 82% in 2007 to 77%. The second-largest supplier was RAO Nordic Oy (15%). The share of Tammissaaren Energia accounted for 7.6%. The balance power accounted for 0.4%.

As in previous years, no environmental profile for 2008 for calculating Kesko's indicators was available from the energy utilities in February. As a result, the 2007 environmental profile obtained from the Group's main suppliers has been used. For electricity purchased by K-retailers themselves, the average 2007 environmental profile of electricity purchased from Nord pool electricity stock market has been used. Kesko's indicators for 2007, which for the 2007 report had to be calculated on the basis of the 2006 environmental profile, have now been updated to correspond to actual emissions in 2007.

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 2006 and 2008 – including electricity purchased by K-retailers – are found at www.kesko.fi/responsibility. For the above reasons, the figures for 2008 and the changes between 2007 and 2008 are only indicative. However, as 77% of the electricity purchased in 2008 was carbon free, the error is estimated to be relatively small.

The figures on page 48 give the total energy consumption per net sales in Finland, together with CO₂ emissions and the shares of renewables, non-renewables and nuclear power in energy production.

The figures beside illustrate the profile and environmental impacts of electricity supplied by Kesko to the K-Group.

Significant reduction in CO₂ emissions

Carbon free electricity purchased from Fortum Markets Oy is generated from nuclear power and from renewable natural sources. The ratio between nuclear power and renewables is typically 95:5. Due to this switch to carbon free electricity, the share of electricity purchased by Kesko generated from renewable natural resources dropped by 80%, and the amount of electricity generated from nuclear power increased almost three-fold. As a result, CO₂ emissions decreased by 80% and consumption of primary energy increased by 59%.

In respect of the electricity purchased by Kesko, the updated figure (available only in Finnish) for 2007 reveals that the actual CO₂ emissions were 98,307 tonnes instead of 108,419 tonnes presented in the 2007 report. Calculated with this corrected figure, the CO₂ emissions of the electricity purchased by Kesko have decreased by 43% during 2001–2007, and by 89% during 2001–2008.

CO₂ emissions of the total electricity consumed (including purchases by K-retailers) by the premises owned or leased by Kesko in Finland accounted for 36,674 tonnes, a decrease of 71% on 2007 and 83% during 2001–2008.

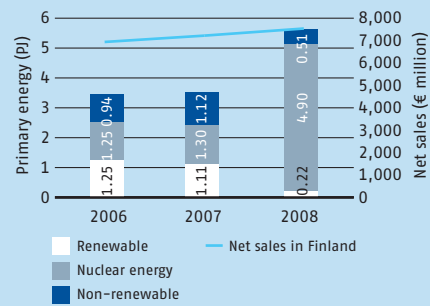
In terms of total energy consumed (electricity and heat combined), CO₂ emissions (100,137 tonnes) decreased 48% on 2007 and of 66% during 2001–2008.

It can be estimated that the relative combined share of Kesko and K-retailers' electricity and heat consumption of total greenhouse gas emissions (100,137 tonnes) in Finland was about 0.3% in 2007 (64 million tonnes, www.energia.fi).

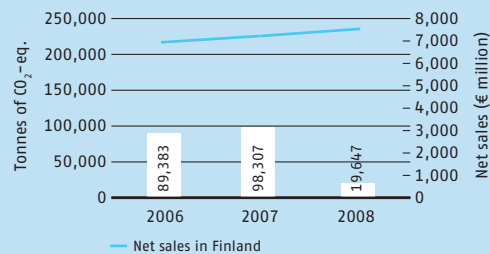
Outside Finland, calculations of the consumption of primary energy in electricity and heat generation in Estonia, Latvia, Lithuania, Sweden, and Norway are based on country-specific statistics on energy generation, and statistics prepared by the International Energy Association (IEA). Specific electricity 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 the 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.

- CO₂ emissions of the electricity purchased by Kesko to the K-Group decreased by 80%.

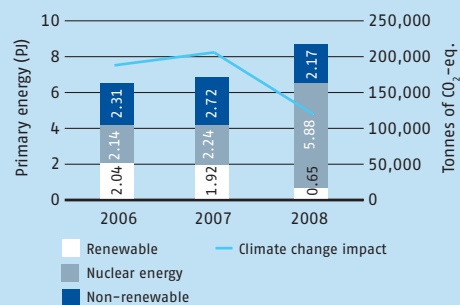
PROFILE OF ELECTRICITY SUPPLIED BY KESKO TO THE K-GROUP IN FINLAND, 2006–2008



CLIMATE CHANGE IMPACT OF ELECTRICITY SUPPLIED BY KESKO TO THE K-GROUP IN FINLAND, 2006–2008



ENVIRONMENTAL PROFILE AND IMPACT OF THE PURCHASED ENERGY CONSUMED BY THE WHOLE K-GROUP, ALL OPERATING COUNTRIES, 2006–2008



Detailed information is available at www.kesko.fi/responsibility.

Foreign premises accounted for approximately 23% of Kesko's total real estate volume, 9% of combined electricity and heat consumption, and 16% of greenhouse gas emissions.

Energy consumption in the Kesko Group in Finland and other countries combined, increased by about 1.4%. Climate warming-related emissions decreased by about 42%, and acidifying emissions by approximately 27%. 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 increased by 102%.

Transport

In 2008, the scope of Keslog's transportation statistics covers all delivery transportation, 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 2008 calculations include distribution carried out by all external operators employed in Finland and managed by Keslog. Therefore, the transport statistics are not comparable with those for previous years. Because of this change, distribution statistics on individual centres are not presented in this report.

Transportation statistics from foreign subsidiaries is included from Rautakesko's operations in Latvia and from Kesko Agro's operations in Estonia, Latvia and Lithuania.

Some 70% of domestic goods for Kesko Food's warehouses are bought 'ex works', which allows them to decide on the mode of transport. 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.

The total distance driven by all forms of transportation managed by Keslog was 38.2 million km (36.4 million) and the total volume delivered was 1,834,422 tonnes (1,813,813 tonnes).

Delivery transportation accounted for 17.7 million km (same as the previous year), long distance distribution and trunk distribution 11.6 million km (12.2 million), and external operators 8.8 million km (6.6 million). Figures presented here for 2007 have been recalculated as part of the process to determine the 2007 baseline for relative CO₂ emission reduction target (kgs of CO₂ per delivered kgs). As a result, there are some differences compared to the transportation performance figures reported in 2007.

The majority of Anttila's transportation is handled by Keslog and reported under Keslog's statistics, as are other Kesko divisions whose transportation is managed by Keslog. Kilometres driven by Anttila, and not included in Keslog's figures, totalled 151,000 km.

Only the CO₂ emission data have been recorded for foreign subsidiaries' transportation in the table below.

The total volume of imports forwarded by Keslog was 313,341 – a decrease of 7% on 2007. Transportation within Europe was handled by trucks, semi-trailers and containers, and from outside Europe only by containers. Kesko Food accounted for 68% of all imports.

CO₂ emissions related to transportation

The emissions associated with deliveries by Keslog and other Finnish transport companies have been calculated according to the number of kilometres, as no fuel consumption data is available. Finnish transportation is based on the emission factors and definitions contained in the LIISA 2002 model produced by VTT Technical Research Centre of Finland. Information on the co-efficient is provided by truck type, engine category and 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 to cover all transportation managed by Keslog in Finland, the assumptions for the share between rural and urban traffic have also been revised.

Volumetric efficiencies applied in Keslog's calculation for distribution delivery were 50% for truck and 70% for semi and full trailer transportation.

The assumed proportion of truck transportation in distribution delivery is 42% of which 30% is considered to be rural traffic and 70% urban traffic. Full trailer transportation accounted for 52% (78% in 2007) and semi trailer for 6%. Here the proportion of rural and urban traffic is 70% and 30%, respectively.

For trunk and long distance transportation, the assumed proportion is 100% for a full trailer (20% for semi trailer and 80% for a full trailer in 2007). As in previous years, some 10% of transportation is assumed to be urban and 90% rural.

Some 17% of outsourced deliveries are made by truck, 82% by full and 1% by semi trailers. Urban deliveries account for 70% truck and 10% for semi and full trailers; rural deliveries account for 90% semi and full trailers. The assumed volumetric efficiencies are the same as for Keslog.

The CO₂ emissions of Anttila's transportation operations organised by Keslog are included in Keslog's statistics. CO₂ emissions from Anttila's own transportation totalled 192 tonnes.

Keslog's CO₂ reduction target

As part of Kesko's responsibility programme, Keslog set a target to reduce its relative CO₂ emissions calculated as kg CO₂ per delivered kg by 10% by the end of 2012.

CO₂ EMISSIONS IN TRANSPORT 2006–2008, TONNES

	2006	2007	2008
Anttila's delivery transportation	687.2	888	191.8
Keslog's delivery transportation	17,558	17,113.1	19,117
Keslog's trunk and long delivery transportation	–	14,458.5	14,975
Outsourced transportation (Finland)	2,232	7,887.5	10,242
Finland total	20,477.2	40,347.1	44,525.8
Kesko Agro, Estonia	660.5	726.3	581.6
Estonia total	660.5	726.3	581.6
Kesko Agro, Latvia	–	–	32.4
Rautakesko Latvia	252.5	390.9	321.7
Latvia total	252.5	390.9	354.1
Kesko Agro Lithuania	–	359.9	269.2
Senukai	675.1	–	–
Lithuania total	3,090.6	359.9	269.2
Byggmakker	147.4	160.8	–
Norway total	147.4	160.8	–
Grand total	22,213	41,985	45,731

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

CO₂ emissions of Kesko's delivery transportation were 19,117 tonnes, a decrease of 2.6%. CO₂ emissions of long distance and trunk transportation totalled 14,975 tonnes, a decrease of 4.6%. The trend of outsourced transportation's emissions was negative, however. These emissions totalled 10,242 tonnes, an increase of 34% on 2007 (see table on page 50).

The total CO₂ emissions of all Kesko-managed transportations increased by 2.2% on 2007. Relative CO₂ emissions calculated per delivered kg accounted for 0.0240 kg CO₂/kg (0.0237 kg CO₂/kg). Thus, the relative CO₂ emissions increased by 1.1%, mainly due to the tightened delivery schedules that required more deliveries than the previous year.

In 2008, biofuel (Neste Green diesel using palm oil as the bio-component) was piloted in Kesko's distribution transportation in southern Finland. When this bio-component is taken into account, the total calculated CO₂ emissions of 44,344 tonnes will decrease to 43,941 tonnes. Since January 2009, biofuel has not been used.

Carbon dioxide emissions for foreign transportation are now available for the fourth year; however, the 2007 comparison has not been made as reporting was not constant during 2006–2008.

CO₂ emissions related to business travel

Statistics on business travel by air, including related CO₂ emissions, were collected for the first time in 2007. Air miles in 2008 totalled 11.3 million and CO₂ emissions 2,370 tonnes. The magnitude of CO₂ emissions remained unchanged. Air travel represents roughly 2% of Kesko's calculated CO₂ emissions.

As part of Kesko's sustainability programme 2008–2012, Kesko aims to decrease the amount of emissions from air travel, although this emission source is not very significant at Group level. Video conference facilities have been installed at Kesko's head office and at Rautakesko's operations in Finland, Sweden, Norway, Estonia and Latvia. The target is to install this equipment at Rautakesko's operations in Russia, and in Kesko Food's operations in Tampere, Kuopio and Oulu during 2009.

Kesko had 590 company cars at year-end, of which 235 were gasoline and 355 diesel. In line with the Group's company car policy, Kesko favours cars with a CO₂ emission level below 180 g CO₂/km. The average level was 167 g CO₂/km and total CO₂ emissions 3,200 tonnes.

Summary of Kesko's CO₂ emissions

A summary of the emissions associated with the energy used in Kesko and K-stores premises, and from distribution and

business travel is presented on page 8. The information covers the majority of the emissions caused by Kesko and enables them to be related to the Group's net sales.

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 are not included in Kesko's statistics. Further, it has not been able to collect sufficiently accurate information of purchasing transportation. Due to these shortcomings associated with calculating the Group's overall carbon dioxide balance, it has been decided not to calculate this information until further notice.

Use of materials

Kesko has interpreted the GRI guidelines' indicator on the use of materials to cover the amount of packaging materials on imported Finished Goods 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 of goods packed by Kesko Food and placed on the Finnish market totalled 2,160 tonnes. Packaging materials of imported goods and of goods packed by Anttila and Rautakesko and placed on the Finnish market totalled 4,334 tonnes.

Kesko Food's target was to renew its compilation of packaging statistics of imported finished goods during the year. This work was postponed, however, due to a lack of resources. As reported last year, the calculation based on import forwarding statistics was no longer possible; the reporting to the Finnish authorities in March 2009 on the packaging of imported goods will be based on the statistics collected in 2006 and 2007 and multiplied by the percentage increase of imports in each product category. This calculation was seen to be too inaccurate for inclusion in the assured Corporate Responsibility Report, and thus no data on Kesko Food's packaging of imported materials are presented in this report. This element makes up the majority of the total packaging on goods sold by Kesko Food.

Kesko continues to work actively with Finnish producer associations and standardisation organisations to improve 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 own brands in particular.

Waste management and recycling

The amount of waste generated by Kesko Food's warehouses totalled 6,503 tonnes, a decrease of 6% on 2007. Most of the change can be attributed to the decrease in the amount of corrugated board collected from K-stores. The total amount in

RECOVERABLE AND REUSABLE PACKAGING SENT BACK IN KESKO FOOD'S RETURN LOGISTICS (1,000 PCS)

	2004	2005	2006	2007	2008
Aluminium cans	22,243	33,434	54,662	81,636	81,885
Deposit plastic bottles					18,061
Disposable bottles	1,959	2,111	2,124	2,763	2,872
Deposit bottles	738	730	708	761	666
Transbox crates	5,506	5,206	4,885	7,087	9,125

relation to each cubic metre of material supplied (2.33 million) dropped to 2.79 kgs from 3.07 kgs in 2007. The figure includes the corrugated board collected from K-stores. Excluding the corrugated board, the total waste was 1.11 kgs (1.18 kgs) of waste per tonne supplied.

Segregation slightly improved on 2007, which was reflected in the decrease in mixed waste, which totalled 0.30 kgs (0.32 kgs) per cubic metre delivered. The total waste recovery rate (including organic waste) was 89.1% (89.6%).

As part of Kesko's responsibility programme, Kesko Food has set a target to decrease shrinkage by an average of 20% and increase the waste recovery rate at the K-food store level to 90% – the same as at Kesko Food's warehouse level.

The Anttila distribution centre continued to show excellent performance on recycling, as the recovery rate was 97% (without hazardous waste 96%). The amount of wood waste was reduced by 45%. A total of 101 tonnes (94 tonnes) of waste electric and electronic equipment were collected for recycling from Anttila and Kodin Ykköinen department stores through distribution centres.

Waste amounts for Rautakesko increased by 8.4% and the recovery rate remained at the 75% level. Kesko Agro's waste statistics are included in Rautakesko's figures due to the reorganisation of Kesko Agro's business operations, see page 6.

In 2008, the waste statistics for Turun VV-Auto Oy and VV-Autotalot Oy are also included for the first time. Waste amounts totalled 655 tonnes in 2008 with a recovery rate of 80%. The total waste amounts increased by 36% over 2007. This was mainly due to the increased amounts of collected waste oil typical for after-sales-service in the car retail business.

Comprehensive waste statistics on Kesko's subsidiaries outside Finland were available for the first time in 2005. In the table, waste has only been broken down into landfill, recovery, and hazardous waste. 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 beverage cans, and for disposable and deposit bottles. The recycling of disposable plastic (PET) bottles started in Finland in 2008, and the number of plastic deposit bottles recycled reached 18 million during the first year. The number of recycled transbox crates increased from 7 million to 9 million – as of 2005 the number of recycled crates increased by 75%. The number of reusable transportation material returned to Anttila's central warehouses remained at the 2007 level.

WASTE FROM FINNISH OPERATIONS, TONNES

	Kesko Food			Anttila			Rautakesko			Turun VV-Auto and VV-Autotalot	
	2006	2007	2008	2006	2007	2008	2006	2007	2008*)	2007	2008
Waste for recovery											
confidential material	-	-	14	5	6	7	-	-	-	6	8
corrugated board	4,180	4,273	3,920	425	435	416	118	92	94	62	67
energy	481	519	574	42	54	49	46	51	57	56	80
glass	-	-	-	-	-	-	-	-	-	18	22
metal	186	181	112	14	17	17	6	21	13	89	121
paper	168	136	56	4	5	2	1	2	1	53	45
plastic	253	301	345	25	24	31	9	17	28	4	7
wood	797	376	383	83	85	47	152	137	145	5	23
Landfill waste											
construction	-	-	-	-	-	-	73	76	106	0	9
mixed	728	718	705	16	17	23	0	19	5	127	121
organic **)	498	419	388	7	7	8	-	-	-	8	8
Hazardous waste	5	3	2	2	9	3	0	-	-	54	140
WEEE	-	-	4	52	94	101	-	-	-	3	3
Total	7,296	6,926	6,503	675	752	702	406	415	450	483	655
Reuse, %	90	90	89	98	98	97	82	77	75	74	80

*) Waste amounts for Rautakesko and Maatalouskesko has been combined

**) Majority of organic waste is composted

WASTE FROM OPERATIONS OUTSIDE FINLAND IN 2006-2008, TONNES

	Sweden			Norway			Estonia			Latvia			Lithuania		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Waste for recovery	1,373	1,990	2,022	887	1,001	932	105	198	285	-	-	-	1,600	1,627	1,931
Landfill waste	203	660	635	746	884	765	671	600	449	538	773	-	575	779	672
Hazardous waste	79	37	83	10	12	11	10	10	-	-	-	-	4	11	11
Total	1,655	2,686	2,739	1,644	1,897	1,708	786	808	734	538	773	-	2,179	2,417	2,614
Reuse, %	88	75	93	55	53	57	15	26	39	-	-	-	74	68	100

Product-related developments

The selection and marketing definitions related to organic and Fairtrade products and products with environmental labelling are included in K-food stores' chain concepts. Kesko Food's selection of organic, Fairtrade and products with environmental labelling totalled some 600 at year-end. The extent of the selection varies by store chain. There were 30 organic, 16 Fairtrade, and 59 products with environmental labelling in the Pirkka range. The number of Fairtrade products doubled and number products with environmental label rose by 90% in the Pirkka range. The best selling Fairtrade product was Pirkka Fairtrade roses. Some organic products – such as milk and meat – are delivered to K-stores directly from suppliers. K-retailers also buy organic vegetables from producers outside Kesko's range. Consequently, it is difficult to obtain reliable information on the actual market shares of organic products in the retail business.

Kesko Food has 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 products for its selection which stands today at 120. New product launches included Pirkka Fairtrade bananas and Pirkka yoghurt – the first Finnish Fairtrade product combining Fairtrade ingredients and the Finnish dairy industry. Pirkka spelt biscuits, made of Fairtrade ingredients, were introduced to K-food stores at the beginning of December.

The sales of Fairtrade products in 2008 exceeded €54 million in Finland, an increase of 65% on 2007. The Fairtrade premium generated by products sold at K-food stores totalled €200,000. Pirkka Fairtrade roses alone generated some €90,000 of Fairtrade premium, see case on page 78.

The Association for Promoting Fairtrade in Finland gives annual recognition to the trading sector and non-governmental parties which have contributed to promoting Fairtrade activities. The 2008 Fairtrade prize was given to Kesko Food whose Pirkka range has made Fairtrade available to consumers throughout Finland, see case on page 78.

The K-food stores' own coffee brand, Costa Rica, was replaced by the UTZ-certified Pirkka Costa Rica in 2007. Some 89% of sales of Kesko's private coffee labels originate from producers under neutrally monitored certification programmes.

During the year, several sustainable sourcing policies concerning the origins and production conditions of foodstuffs were finalised. As of September, all Pirkka eggs have been free-range or organic, see case on page 20. At the same time, Pirkka Fairtrade bananas were launched in the K-food stores. In November, Kesko Food and Kespro published their joint statement on sustainable fishing, and fish and shellfish products.

In August, K-citymarket launched its own clothing collection, Doogood, with a focus on environmental values. The clothing is produced according to the Global Organic Textile Standard (GOTS), see case on page 77. K-citymarkets also sell the Excelgreen collection which is made of recycled plastic bottles.

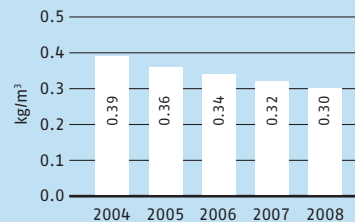
Most producers – representing around 95% of total imports of these products – of the fruit and vegetables imported by Kesko Food have obtained GlobalGAP (good agricultural practices) certification. The certification is granted by an independent agency for fulfilling the traceability, product safety, and environmental requirements set for production by the Euro-Retailer Produce Working Group.

- Some 9 million transbox crates were recycled. This means a decrease in the number of cardboard boxes by 9 million.
- The average waste recovery rate in Finnish distribution centres is 88%.

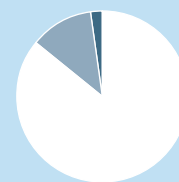
Kesko Food's Finnish suppliers of vegetables must belong to the Finnish Horticultural Products Society (KK) to be entitled to use the society's seed leaf symbol. The Society has drawn up a set of guidelines entitled 'Good production practices for growers'.

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, 832 tonnes (753) of impregnated timber were recycled through K-rauta and Rautia stores. Tropical wood and timber accounted for under 1% 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.

MIXED WASTE PER CUBIC METRE DELIVERED, KESKO FOOD 2004-2008



SEGREGATION OF WASTE FROM FINNISH OPERATIONS, TONNES



- Waste for recovery 7,087 (86%)
- Landfill waste 970 (12%)
- Hazardous waste 153 (2%)

- *The K-environmental store concept, launched in 1998, celebrated its tenth anniversary in 2008.*

K-rauta and Rautia continued their 'Mould Trap' project, together with the Pulmonary Association 'Heli', by donating building supplies to renovate and repair mould-affected homes. These renovation projects typically take several months. Heli helped repair 15 houses during the year, and the plans to repair 15 more finalised. The experience collected in this project will be used to create a standard for renovation which can be used in similar cases.

Altogether 510 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, the K-maatalous 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. This work has proceeded smoother than anticipated with the K-rauta, Rautia and K-maatalous stores all expecting to have their stores under the concept by spring 2009. See case on pages 56–57 of K-environmental store concept.

All personnel at K-environmental stores receive basic training in environmental issues with supplementary training on different themes arranged annually. The Bureau Veritas Certification audits each store during the introduction of the K-environmental store concept, and makes repeat audits by annual sampling. Altogether, 96 audits were conducted and the number of completed repeat audits in Kesko Food was 23 by year-end with nine 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 generating waste; recycling in-store waste; recycling services, and consumption-related environmental information offered to customers; in-store energy management and cleaning practices. Some of the requirements are also included in the chains' concept measurements.

All K-citymarkets and K-supermarkets (except five) were K-environmental stores at year-end. Altogether, 199 K-markets have passed the audit. The K-market chain renewed its target in 2008, by which 230 K-markets (50% of all stores in the chain) should be K-environmental stores by the end of 2009.

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. The 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 18 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 representatives on the advisory committee of the Finnish Environmental Institute, the executive group of environmental labelling Ministry of Trade and Commerce (SFS), the environmental committee of EuroCommerce, and the energy and environmental committee of the International Chamber of Commerce.

Kesko's 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 kaupunkikeskusta ry, and producer communities responsible for the recycling of packaging materials, and electrical 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 until June.

Kesko continues to be a supporting member of the Finnish Association for Nature Conservation and participated in the FIN-MIPS Household project coordinated by the Association. This two-year project, which ended during the year, examined and illustrated the natural resource consumption of Finnish households using the MIPS-concept, and produced MIPS-data for different fields of consumption, construction, travel and transportation. The project was mainly funded by the Finnish Ministry of the Environment in the framework of the Environmental Cluster Program. More information in Finnish is available at www.sll.fi and in English at www.ymparisto.fi.

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. No such incidents took place in 2008.

Risks relating to soil contamination are discussed on page 47. No environmental damage or accidents were reported by Kesko's foreign subsidiaries.

Case

ENERGY EFFICIENCY AND NEW TECHNOLOGY FOR CURBING CLIMATE CHANGE

Energy efficiency and reductions in carbon dioxide emissions are elements in the battle against climate change.

In autumn 2008, the K-Group signed the trading sector energy efficiency agreement, by which it agreed to save over 65 million kWh by the end of 2016. At the annual level, the target corresponds to energy consumption of some 15 stores the size of a K-citymarket. The agreement covers all store chains of the K-Group.

The K-Group is a major consumer of energy, whose annual consumption represents roughly one percent of the total electric energy used in Finland.

"Kesko is a trading sector pioneer in energy issues. According to a preliminary survey made for the energy efficiency agreement, Kesko Food, for example, has managed to save relatively some 60% of heat energy and some 20% of electric energy compared with 1995, when systematic monitoring of consumption started," explains **Juha Liikainen** of Energiakolmio.

Efficient monitoring of consumption, determined levels of specific consumption for different store types and competent energy management with good partners provide the basis for the K-Group's work for energy savings.

"Around 62% of our premises are in the sphere of online based automated monitoring of consumption. The target is that multi-energy monitoring covers all floor area managed by Kesko in 2009," says **Jari Suuronen**, Kesko Food's Maintenance Manager.



K-CITYMARKET PÄIVÄRANTA – SELF-SUFFICIENT IN HEAT EVEN AT BELOW ZERO TEMPERATURES

The new K-citymarket Päiväranta in Kuopio manages with heat produced by the store until the outdoor temperature falls well below zero, as the heat generated by the system for ventilation and fixture refrigeration is recovered and used for heating the premises.

All freezers in the store have lids and LED lighting, which also generate considerable energy savings. In addition, the carbon dioxide plant which refrigerates the freezers represents a new technology and only uses an organic refrigerant.

The new kind of refrigeration technology used by K-citymarket Päiväranta reduces the store's annual carbon dioxide emissions by 440 tonnes – equivalent to the annual emissions from heating some 70 one-family houses.



RAUTAKESKO LATVIA AWARDED FOR ENVIRONMENTAL FRIENDLINESS

In December 2008, Rautakesko Latvia was recognised in the large retail stores category of the 'Labākais Latvijas Tirgotājs' contest (the Best Latvian Trader 2008) for the environmental friendliness of the K-rauta stores.

Environmental experts evaluated the stores based on 20 eco-friendly criteria, such as the use of energy saving light bulbs in the stores, the availability of biodegradable plastic bags, the possibility to leave used electric and electronic appliances and batteries, and the store's recycling facilities.

The contest is aimed to encourage trading companies towards environmentally friendly entrepreneurship and to publicise environmentally friendly businesses.

Case

A DECADE OF K-ENVIRONMENTAL STORES

The K-environmental store model celebrated its 10th anniversary in 2008. At year-end, 423 K-food stores, 59 K-rauta and Rautia stores and 28 K-maatalous agricultural stores met the requirements of the K-environmental store diploma.

The K-environmental store is a management system and operating model for K-stores' environmental issues. In their daily activities, K-environmental stores focus on the selection and labelling of environmentally sound products, 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, and cleaning practices.



With the help of the operating model, the stores are able to reduce their environmental load and offer customers the opportunity for responsible consumption. The K-environmental store diploma is recognition for working for the environment.

So far, the model has been adopted by the stores of the K-city-market, K-supermarket, K-market, Rautia, K-rauta and K-maatalous chains.

Bureau Veritas Certification audits all food stores applying for the diploma, while Sykli Environmental School of Finland audits all building and home improvement and agricultural stores. These parties also carry out regular reaudits.

Strong input by the building and home improvement and agricultural stores

The Executive Committees of the K-rauta, Rautia and K-maatalous chains set a target in 2008 to have all their stores in Finland under the K-environmental store concept by the end of 2009. The work has proceeded faster than expected as nearly all the 144 K-rauta and Rautia stores active at the turn of the year will have the diploma by summer 2009, as will K-maatalous stores.

Jesse Mether, Rautakesko's Environmental Specialist, says that the company has kept to the timetable well: "In total, 18 stores received the diploma in spring 2008 and 95 stores started preparing for the system in the autumn. The environmental store concept will be one of the cornerstones of our chain marketing. Retailers and other staff have adopted a serious and ambitious attitude to the issue."

At the end of 2008, 38 Rautia stores (of which 19 are combined Rautia and K-maatalous stores), 21 K-rauta stores and 28 K-maatalous stores had the diploma.

"The target is for 42 K-rauta stores and 102 Rautia stores to have the diploma by summer 2009, with the exception of a couple of stores that will move site in the near future."

Environmental issues linked with everyday activities

Anna Maria Pääkkö, who is responsible for the agricultural business in Rautia K-maatalous Nilsiä, says that after their initial training

K-FOOD STORES' NEW SIGNS TO BE ILLUMINATED WITH LEDs

LED lighting technology will replace neon and fluorescent tubes in K-food stores' signage. Based on the agreement made with Imagon Oy of Kajaani, LED lighting only will be used in the new illuminated signs of K-food stores.

The most immediate environmental impact of giving up the use of neon and fluorescent tubes is reduced electricity consumption, as the adoption of LEDs for new signage is estimated to save the amount of electricity used by 40 electricity-heated one-family houses annually. (Source: Imagon Oy.) Indirect environmental impact is reflected in the reduced need for maintenance work and travel.

"Using the LED lighting technology on this scale is unique, as LEDs still remain uncommon in cases illuminated advertising, which is the largest category among Kesko Food's store signage. We are constantly developing new solutions to increase the energy efficiency of K-food stores – and LED technology represents one answer to this," says **Vesa Korttesniemi**, Kesko Food's Purchasing Manager.

"This is a significant definition from Kesko Food internationally, too. Kesko Food is one of the first European companies to adopt an energy-saving source of light that does not produce hazardous waste for its illuminated signage on such a wide scale," says **Mika Okkonen**, Managing Director of Imagon.

they began to launch the concept in the store. The training made everyone familiar with the environmental store model.

"Training helped everyone view the issue from the perspective of his or her job, department and product groups. We proceed in small steps and gradually begin to link environmental issues with our normal activities," says Pääkkö.

In addition to focusing on the product selection, the store also bears responsibility for its environment through energy and waste solutions.

"The aim is to reduce the amount of mixed waste going to landfills to improve the ecological footprint of the store in this respect. We also make every effort to improve the efficiency of our logistics. A good example of the chain's activities is combining the weekly loads of building and home improvement supplies and agricultural items to one journey," explains Pääkkö.

Competence at K-supermarket Ylitornio

At the end of 2008, all K-citymarkets were K-environmental stores, as were all but five K-supermarkets with three in the application process. Approximately 200 K-markets had the diploma with some 30 having the audit ongoing or expecting it in spring 2009.

Among the K-supermarkets audited in 2008, two got the highest grade – AAA. One was K-supermarket Ylitornio which, for example, segregates plastic and paper more accurately than required in the municipality's waste management regulations. K-supermarket Ylitornio provides a wide selection of organic, Fairtrade and local products.

The store also arranges customer inquiries and events based on the environmental store concept and products. Selections are developed to meet customer wishes. The store also distributes information on the products and recycling opportunities.

K-supermarket Ylitornio was also given credit for its in-store activities and heating system – the store's refrigeration equipment is solution-condensed allowing for heat recovery. The equipment's condensation heat is sufficient to heat the entire building even when the temperature is well below zero!



KOTI+ GIVES HINTS TO BUILDERS AND INTERIOR DECORATORS

K-rauta published a free Koti+ magazine for builders and interior decorators in early 2009. The magazine was mailed to 100,000 Plusa customers of K-rauta and was also available at K-rauta stores.

The Koti+ magazine provides information on how to improve energy-efficiency and increase energy savings in homes. The magazine also reports on the experiences of using the latest heating innovations in one-family houses and on new perspectives to existing heating systems.

As of the beginning of 2009, an energy certificate is required from all new buildings, including one-family houses, as well as from old buildings when the premises or part of it is sold or rented. The Koti+ magazine gives information on the certificate's requirements.

An energy certificate provides information on a building's heating energy, equipment or real estate and cooling energy. Its energy-efficiency ratio – how many kilowatt-hours of energy the building annually consumes per square meter – is then calculated on the basis of this data. Energy consumption is indicated on scale of A-G.

To comply with the current regulations, a building must have at least a D rating. A good energy certificate is given to a building in which the heat insulation, sealing and ventilation heat recovery of the exterior walls, windows, the roof and the floor are good.



Case

ACCUMULATORS AND BATTERIES RECYCLED THROUGH K-GROUP STORES

Legislation changed in Finland in autumn 2008, when producers became responsible for the waste management of any batteries and accumulators discarded after 26 September. Retail stores' obligation to accept them entered into force at the same time. After this date, all stores selling small, portable accumulators or batteries must accept used ones from consumers without the obligation of buying a new product. The change was significant as, for example, retail stores have no obligation to accept waste electrical and electronic equipment (WEEE).

The collection of batteries and small accumulators was arranged in K-Group stores by making use of the collection system of Recser, the producer organisation. Collection boxes were supplied to the stores, and advice was given to all personnel on how to arrange collection.

Although individual stores have no obligation to accept motor vehicle accumulators, their waste management can be arranged either on a store-specific or regional basis.

"VV-Auto Group, a member of the producer organisation of Akkukierrätys Pb Oy, accepts accumulators at their outlets. Rautakesko has organised the collection through the network of a nationwide operator. In both of these cases, accumulators are sent for further treatment through hazardous waste collection," says **Jari Huotari**, VV-Autotalot's Quality Manager.

"Annually, some 13 tonnes of lead accumulators pass through VV-Auto for further treatment. Volumes at building and home improvement stores are smaller. Lead accumulators were accepted at 55 building and home improvement and agricultural stores. By the end of 2008, the total number accepted had reached 261 and the total weight 3.3 tonnes," explains Huotari.



TOWARDS IMPROVED FUEL ECONOMY AND LOWER EMISSIONS

At the beginning of 2008, a new car tax based on carbon dioxide emissions became effective in Finland. Its aim is to encourage consumers to buy as energy-efficient and low-consumption cars as possible.

The tax reform has proved successful. In 2007, the average CO₂ emissions of registered cars were 177.36 g/km, while in 2008, the corresponding figure was 163.1 g/km (Source: the Finnish Vehicle Administration AKE). The EU aims to reduce CO₂ emissions of light vehicles to the level of 120 g/km by 2012.

Car technology is also rapidly developing in a more environmentally-friendly direction. Volkswagen's BlueMotion concept features lower exhaust emissions and better fuel economy. The focus on the environment is, among other things, reflected in reduced drag and the start-stop system – a device that automatically turns the engine off when waiting at traffic lights, for example.

The transmission also affects the car's emissions. The Volkswagen DSG transmission combines low emissions, fuel economy and comfort to the extent that automatic transmission generates even lower emission and consumption figures than versions with a manual gearbox.

Low-emission options of the Volkswagen range also include the EcoFuel concept – natural gas vehicles. Compared with petrol vehicles, carbon dioxide emissions are decreased by 24%, carbon monoxide emissions by 80%,

nitrogen oxide emissions by 53% and hydrocarbon emissions by 60%. No particulate emissions are generated. (Source: Volkswagen AG.)



KESLOG'S CLIMATE AMBASSADORS: A PROACTIVE DRIVING COURSE FOR 500 DRIVERS HAS STARTED

Keslog Ltd, a producer of logistics services owned by Kesko, encourages and commits its partners to joint environmental efforts. In 2008, Keslog arranged a one-day training event in proactive driving for its transport operators and their drivers in different parts of Finland. The training is required by the drivers' professional qualification directive.

Proactive driving and compliance with its principles lead to an economical driving style, which reduces fuel consumption and thereby helps save the environment.

In 2008, Keslog arranged 12 regional training events with an aggregate number of some 500 drivers. In 2009, 26 further training events focusing on proactive driving will be arranged.

"In addition, the training will cover issues concerning Keslog's and the Kesko Group's everyday operations – the new pallet exchange system, for example. The better the FIN and EUR pallets are recycled, the smaller the environmental impact," says Keslog's Transport Manager **Juha Heikkinen**.

Keslog Ltd mainly orders transport services from contract operators and, if necessary, purchases them from the free market. Keslog itself employs some 16 drivers depending on the season. According to Heikkinen, drivers have eagerly welcomed the training: "When training is provided in a complete package, the drivers can concentrate on their actual business, namely goods transport."

In 2008, Keslog transported some 1.83 million tonnes of goods covering a distance of 38.2 million kilometres in the process.



REACH AFFECTS STORE OPERATIONS

The EU area's new chemicals regulation REACH – the Registration, Evaluation, Authorisation and Restriction of Chemicals – entered into force on 1 June 2007. The pre-registration period of chemicals set out in the regulation was from 1 June to 1 December 2008.

More than a year before pre-registration began, Kesko started Group-level cooperation to prepare for the requirements of REACH. Product managers and buyers of various divisions were trained to understand the obligations of REACH concerning chemical substances in goods. Kesko Food's Product Research and the Group's corporate responsibility team were responsible for the content of the training and drawing up REACH guidelines. The authorities also participated in the planning and implementation of the training.

The different division parent companies of Kesko have hundreds of thousands of product headings in their selections. As part of the preparation process, all imports by Kesko's division parent companies were systematically revised and all chemical substances of the headings imported in quantities exceeding one tonne were evaluated. A total of seven pre-registrations of chemical substances were made.

"Compliance with the requirements of REACH calls for efficient supplier chain management, particularly regarding substances of very high concern, such as phthalates," explains **Jorma Österberg**, Konekesko's Development Manager.

"It is also important to include the requirements of REACH in purchase agreements and receive assurance that our suppliers, particularly outside the EU, have understood the content of the new chemicals regulation and the impact of the responsibility to provide information," adds Österberg who, as a member of the Group-level working group, has actively conveyed REACH information to Kesko subsidiaries in the Baltic countries.

K-MAATALOUS EXPERIMENTAL FARM CONCENTRATES ON PLANT CULTIVATION AND VARIETY RESEARCH

The K-maatalous Experimental Farm is located in connection with the Hahkiala Manor, some 25 km from Hämeenlinna. The Experimental Farm's research plants include all of Finland's major cereals, oil crops, grasses, potato and pea. Plant trials are conducted on test squares of some 10 m², approximately 2,500 annually.

"We're making research into the impacts of plant production agents and fertilisers on crop yield and quality. The research results are used in the Cultivation Programme of K-maatalous, which provides solutions that improve the profitability of cultivation while meeting the needs of each farmer. The cultivation programme includes guidelines on the choice of seeds, fertilisation, plant protection and liming," explains Farm Manager **Kalle Kärki**.

The programme enables cultivation to be both environmentally conscious and economical at the same time. The aim is to reduce emissions while increasing the quantity and quality of crop yields.

Combining plant protection agent and fertiliser trials with the Experimental Farm's perennial variety trials helps develop variety-specific cultivation techniques. The fickle weather conditions experienced over the last couple of years, new tillage methods and new plant protection agents have increased the need for more information on different varieties.

The Experimental Farm also tests new K-varieties and the production fields of the farm then yield the first domestic seed batches from the successful new K-varieties. The cultivation programme and the terms of agri-environmental aid are taken into consideration.

Chlorophyll measurements and crop forecasts are becoming increasingly popular every year. The K-maatalous agricultural stores have offered measurement services for 10 years already. There are currently 40 K-maatalous stores in different parts of Finland offering crop forecasts, chlorophyll measurements and dung balance and condition evaluations for standing crops on agricultural parcels.





KEY SOCIAL PERFORMANCE IN 2008

- + The distribution of the guide Our Responsible Working Principles to all employees in all operating countries, supported by arranging an e-learning programme for superiors, and unit-specific staff events conducted by superiors.
- + The personnel survey was revised and unified and covers now the whole of Kesko Group.
- + The number of performance and development reviews carried out in the Group improved in Finland by 5% and abroad 6%.
- + According to the personnel survey, equality improved substantially in Finland and abroad.
- + The proportion of women in management and specialist positions in Finland grew by 6%.
- + The number of accidents and their average seriousness decreased in Finland.
- + The number of sick days caused by incidents and occupational illnesses decreased by 37% in Finland.
- The number of sick days increased by 28% abroad.
- The in-house job rotation is considered to be insufficient in the personnel survey, although internal mobility improved from the previous year.
- Using the personnel survey results to develop operations is perceived to be insufficient.

SOCIAL PERFORMANCE

Kesko's approach to human resources management

Kesko Group's HR management is based on Kesko's values and Code of Conduct. 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 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 principles and HR strategy. Division parent companies and subsidiaries can also establish complementary guidelines to support their business objectives.

In 2008, the important focus in HR management was the distribution of the new guide Our Responsible Working Principles to all employees in all operating countries, supported by arranging an e-learning programme for superiors and unit-specific staff events conducted by superiors.

The other essential focus area was to start the work and productivity programme covering Kesko and all its chains. Its main target is to increase the productivity of employees by putting efforts on the personnel's competence development and wellbeing as well as improving HR management. The programme will continue during 2009.

Other long-term key development initiatives include: reducing sickness absences and more accurate reporting; the efficiency and quality of the recruitment process; strengthening the key personnel's commitment to the company and the uniformity and influence of the employer image work.

An international one-day HR Summit is organised annually for the Group's HR specialists. The main 2008 theme was the implementation of the work and productivity programme.

Several long-term projects focusing on wellbeing at the workplace were implemented by several subsidiaries. Kesko's personnel survey was revised and unified for the whole Group in order for the senior management to better make use of the results.

Goals and performance

Kesko's HR goals are the best personnel productivity, the most competent and motivated personnel and the most attractive workplace in the trading sector (see figure below). Kesko's strategic human resources goals and linked performance indicators are presented in the table on page 62. Performance is discussed under the relevant headings.

Employment and employee turnover

Kesko Group had 22,489 permanent employees and 2,179 fixed-term employees at year-end – equivalent to 91.2% and 8.8% of the total. The 1,397 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 year-end than at other times.

Part-time employees accounted for 27.5% of all Group personnel at year-end – the majority working for retail companies in Finland. Approximately three-quarters of all Group employees work in retailing. Employment trends show that at Group level, the proportion of fixed-term employees only slightly increased while that of part-time workers decreased compared with 2007 – see table on page 63.

The Group employed in Finland 5,620 (7,390) new employees (of whom 2,025 (2,130) fixed-term employees) during 2008. A total of 5,729 (4,896) employees (of whom 2,506 (1,981) fixed-term employees) left the Group in Finland. Staff turnover in Finland was 35.0% (25.8%). Staff turnover calculated from fixed-term employees in Finland was 23.1% (17.0%).

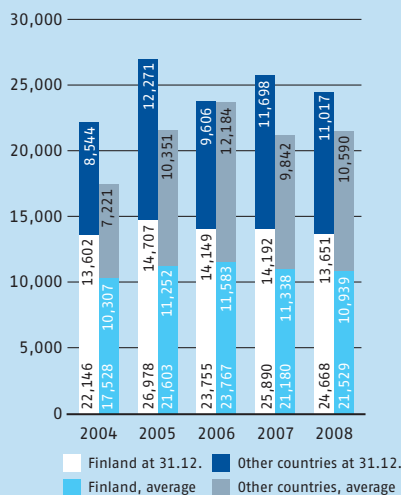
In other countries the Group employed 5,455 (6,758) employees and 5,190 (6,758) left the Group. The average turnover rate outside Finland was some 51% (37%) with differences between companies varying from 25% for Byggnakker in Norway and 60% in Lithuania; the figure for Byggnakker is calculated without the data of summer employees.

The Kesko Group had 967 summer employees in Finland and 299 in other countries – the majority in retailing and warehousing. The figure is not available for Byggnakker in Norway.

KESKO'S HUMAN RESOURCE GOALS 2011



NUMBER OF KESKO GROUP EMPLOYEES



The figures include Kauko-Telko and Tähti Optikko and people on long-term leave.

The most common reason for terminating employment with Kesko in Finland was a fixed-term contract which accounted for about 46% of departures. Elsewhere, the reason for approximately 86% of departures was employees leaving the company. In Finland, 181 people retired. There were no retirements elsewhere.

Some 2% (97) of employment contracts in Finland and 12% (615) elsewhere were terminated for production and financial reasons or other reasons based on the Employment Contracts Act. The corresponding figures in 2007 were 3% (157) and 11% (524) respectively.

In all operating countries, Kesko applies the notice periods 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 64. Over half of the employees are younger

than 36, while those over 55 account for only 8%. The average age is 36.2. On average, employees are younger (except Norway) in subsidiaries outside Finland: Sweden 31; Norway 37; Estonia 34; Lithuania 32; Latvia 34 and Russia 29.

A breakdown of the duration of employment contracts in Finland is presented in the figure (on page 64) which shows that 14% of employees had worked for the Group for over 20 years.

Outside Finland, the longest current employment contracts are less than 15 years except in Norway where some 5% of employees have contracts of over 15 years. Some 47% 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 recruited in 2008 about 5,600 new employees (including summer employees), of which some 2,000 were permanent and the rest hired for a fixed term such as seasonal helpers. In-house job rotation makes it possible to offer an extensive choice 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 be of crucial importance in the future. In Finland, some 1,600 people moved internally from one job to another (1,200) and outside Finland about 400 (370). The figure is not available for K-rauta AB Sweden, Rautakesko AS Estonia and Senukai, Lithuania.

In Finland, recruitment in the K-Group is supported by the K-trainee and the K-retailer trainee programmes. Annually, Kesko selects some 20 new university or polytechnic graduates to be trained for managerial and specialist positions in the trading sector. The second K-trainee programme concluded in January 2009, and the participants of both programmes (started 2007 and 2008) being hired for superior or expert positions in the K-Group; participants of the VV-Auto car salesman trainee programme were employed as car salesmen. An essential part of the one-year K-trainee programme is the practical training in a retail store.

Kesko also offers K-retailer trainee programmes for some 100 future retailer entrepreneurs annually. Within a few years, some 95-99% of participants start their career as independent entrepreneurs.

PERFORMANCE INDICATORS

GOAL	GOAL	GOAL
THE BEST STAFF PRODUCTIVITY IN THE TRADING SECTOR	THE MOST COMPETENT AND MOTIVATED STAFF IN THE TRADING SECTOR	THE MOST ATTRACTIVE WORKPLACE IN THE TRADING SECTOR
<ul style="list-style-type: none"> Staff cost / gross profit, % Staff cost / sales, % Average number of personnel (converted into full-time employees) Hours of sickness absence / total hours, % 	<ul style="list-style-type: none"> Personnel survey, performance and development review, realisation % Personnel development cost / person Training days, days / person Personnel survey (own job, superior's performance, unit's operations; scale 1-5) Customer satisfaction, two own indicators 	<ul style="list-style-type: none"> Personnel survey (Kesko's and company's operations; scale 1-5) Departure turnover, % Company's / chain's employer image

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 the current Group employees, Kesko wants to be seen as an interesting option by other trading professionals and students. To meet this target, Kesko participates in recruitment fairs and presents the K-Group as an attractive employer at various events. Kesko is also continuing to further develop its cooperation with students and teachers in different sectors, for example the job orientation of Finnish teachers of commercial and technical subjects is promoted in training events arranged by Kesko.

Kesko monitors how it is perceived as an employer in Finland through a number of surveys conducted among students and the young working population.

Five external surveys were carried out in 2008: two surveyed student opinion (Universum and T-Media) and one young professionals (Universum). In addition, two surveys (Universum and T-Media) were conducted among students of applied sciences.

Kesko's ranking among business students has risen since 2000, with the exception of 2006. In 2008, Kesko's ranking as an ideal employer in the Universum survey rose slightly again with business students ranking Kesko 22nd out of the 100 companies surveyed.

A survey by T-Media was also conducted in which Kesko's ranking among students in institutions of higher education was 39th. 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 (23rd) than among students in institutions of higher education in general.

The T-Media survey also ranked Kesko among students with various educational backgrounds and university studies. The highest interest was achieved by students with a background in agriculture, forestry, politics, social science and economics. However, most students studying economics see Kesko as a potential employer (50%).

The company profile as an employer as seen by students of vocational education in commercial studies was surveyed by T-Media and Universum for the first time in 2008. Kesko was



PERSONNEL STATISTICS FOR 2008, BY COUNTRY

	Finland	Estonia	Latvia	Lithuania	Russia	Sweden	Norway
Total personnel at 31.12.	13,651	585	766	4,871	1,566	1,079	739
Average ^{a)}	10,939	576	841	4,671	1,375	1,059	596
New employees, number	5,620	230	239	3,133	1,167	458	228
Contracts of employment terminated, number	5,729	202	438	3,073	912	384	181
terminated by employer	97	90	207	147	68	56	47
Summer employees	967	11	22	142	51	73	²⁾
Turnover rate, %	35	32.6	54.3	60.2	55	28.8	24.5 ¹⁾
Sick days	138,101	6,325	8,030	52,920	16,496	10,649	6,333
per person	10.1	10.8	10.5	10.9	10.5	9.9	8.6
per million working hours	6,531	5,409	4,726	5,609	6,059	5,714	6,037
Salaries paid, € million	350.6	9.1	14.8	55.2	16.4	24.6	28.7
average annual salary, €	32,054	15,811	17,602	11,823	11,926	23,235	48,187
Vocational training, %	65.2	29.8	61.8	1.9	15.8	²⁾	²⁾
Higher education with degree, %	14.5	69.4	29.4	19	40.4	²⁾	²⁾
Training days per person	1.8	0.9	1.9	0.1	0.5	²⁾	²⁾
expenses, € per person	420	460	248	12	10	310	370
Unionisation rate, %	40.1	²⁾	²⁾	²⁾	²⁾	²⁾	25.5

^{a)} Including Kauko-Telko and Tähti Optikko

¹⁾ Including summer employees

²⁾ Data not available

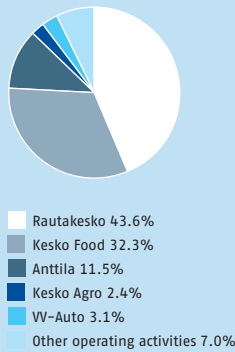
The data for OMA in Belarus not available

FIXED TERM AND PART-TIME EMPLOYMENTS IN 2004-2008

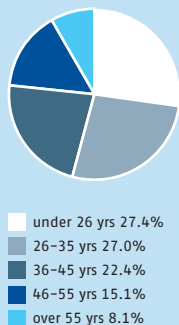
	2004	2005	2006*	2007*	2008*
Fixed-term employees as % of all personnel at 31.12.					
Finland	16.2	14.1	16.5	14.8	15.6
Other countries	1.1	1.0	0.9	0.8	0.5
Group total	10.2	8.2	10.2	8.6	8.8
Part-time employees as % of all personnel at 31.12.					
Finland	40.1	37.1	42.0	43.6	43.0
Other countries	8.7	9.0	8.8	8.8	6.7
Group total	27.8	24.3	28.6	27.8	27.5

* Figures 2006-2008 exclude Kauko-Telko and Tähti Optikko

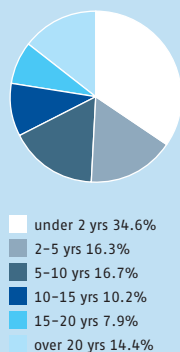
BREAKDOWN OF KESKO GROUP EMPLOYEES BY DIVISION AT 31 DECEMBER 2008, %



AGE BREAKDOWN OF PERSONNEL IN FINLAND IN 2008, %



DURATION OF EMPLOYMENT IN FINLAND IN 2008, %



ranked sixth in the Universum survey and eleventh by T-Media. K-citymarket was separately ranked fourth by T-Media – an apparent impact from K-citymarket's fourth place in the 'Best Workplaces in Finland' survey.

Kesko's ranking among young professionals also rose again to thirteenth among business graduates with a career of 1–8 years (Universum).

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 2008, 77% (72%) of the Group's employees in Finland participated in the reviews and 74% (68%) elsewhere. The performance assessment of key personnel was extended to cover all companies in the Kesko Group.

Leadership skills and career progress are supported by Kesko's three-step superior 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. In 2008, the main theme was work productivity and media skills. Kesko-level management training is supported by its own training programmes for the chains, such as the K2-tusen chef programme for future superiors in K-rauta AB.

In January 2009, K-Group's first own K-retail eMBA programme in cooperation with the Helsinki University of Technology was concluded. The programme aims to train top experts in international retail management.

Personnel survey

A good working community is a prerequisite for employee wellbeing and excellent performance. Progress in this area is monitored through a regular personnel survey used since 1996, which covers Kesko's indicators for management quality. As the survey was revised in 2008, the results are not fully comparable with 2007. It now covers the whole of Kesko and its chain stores (excluding Senukai in Lithuania, Pikoil, K-Extra and Rautakesko in Finland). The survey measures an employee's job satisfaction, their superior's performance, the operations of their units and the Kesko Group as a whole. The revised survey can now collect more practical information on the staff's strengths and development targets. The results of the survey are uniformly analysed and the development targets are included in the units' action plans.

The results of the personnel survey are presented in the table on page 65. A total of 11, 282 employees in the participating companies (68.8% of their staff) responded to the survey – more than in 2007. In Finland, the response rate was 72.8% and outside Finland it increased in all countries, excluding Russia, varying between 50% and 89%. The survey did not include employees on long-term leave.

The strengths listed in 2008 were the very high awareness by an employee of both his/her own and the unit's targets. The result is seen as the outcome of motivation by the superiors, efficient on-the-job induction, annual performance and

development reviews, and homogenous performance management in the Group.

The implementation of equality in Kesko is rated high and has improved from previous years. Satisfaction with internal mobility opportunities has also improved over the years.

The employees are committed to Kesko and their own business units. However, further efforts on internal employer profile, the exchange of information as well as to better make use of the personnel survey are seen as development areas.

The results of the personnel survey contribute to the bonuses paid to the management in Group companies in Finland.

Other evaluation practices

Management quality is evaluated regularly through a number of other surveys. Kesko's annual customer-satisfaction survey indicates how both external and internal customer relations are developing. The results contribute to the bonuses paid at unit level.

Outside Finland, Senukai in Lithuania has an 'Ethical Committee', which consists of five management representatives and meets when necessary to consider complaints and problems presented by employees. The committee did not receive any complaints in 2008.

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

Kesko's intranet - Keskonet - project continued to completely renew its structure, content, functionalities and visual appearance. When the project is completed, Kesko's personnel in all operating countries will be able to share information via Keskonet.

Equality

Kesko Corporation and its Finnish division parent companies and subsidiaries have company-specific equality plans includ-

- *K-citymarket participated in the 'Best Workplaces in Finland survey conducted by the Great Place to Work® Institute Finland. K-citymarket was again rated fourth in the category of large organisations.*

ing 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 personnel survey (earlier job satisfaction) since 1996.

At year-end, 62% (62%) of Kesko Group employees in Finland were female and 38% (38%) male. Outside Finland the figures were accordingly 45% and 55% (43% and 57%).

Seven women held top management positions in 2008 (6 or 20.6% (16.2%) of the total top management positions; one sat on the Board of Directors (seven members) and two sat on the eight-member Corporate Management Board.

In Finland, the proportion of women in middle management slightly dropped to 20.3% (21.6%) but rose in management and specialist positions to 48.8% (42.6%).

Outside Finland, the average in middle management was 58% and in superior or expert positions 38%. Statistics are not available for Rautakesko AS and Kesko Agro Estonia, Senukai in Lithuania and Byggmakker in Norway. Results abroad vary from between 20% to 60% in both categories.

In Finland, Kesko's implementation of equality was rated at 3.89 (3.64) and in the whole Group 3.98 (3.70) on a scale of 1-5 in the annual personnel survey.

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

	2004	2005	2006	2007	2008
Own job	3.79	3.82	3.82	3.85	3.75
Superior's performance	3.80	3.84	3.81	3.85	3.76
Unit's operations	3.76	3.78	3.76	3.80	3.79
Kesko's operations	3.60	3.58	3.58	3.62	3.77

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

	Sweden			Estonia			Latvia			Lithuania			Norway			Russia		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Own job	3.86	3.90	3.74	4.15	4.14	3.98	4.11	4.10	4.06	4.10	4.26	4.05	3.95	4.02	3.78	4.14	4.07	4.08
Superior's performance	3.65	3.66	3.48	4.02	3.99	3.88	4.04	3.88	3.93	3.70	4.06	4.15	3.66	3.89	3.52	4.13	4.10	4.26
Unit's operations	3.63	3.67	3.80	4.06	4.00	4.05	3.99	3.93	4.03	3.85	4.12	4.22	3.66	3.91	3.77	4.23	4.18	4.30
Company's operations	3.70	3.75	3.67	4.06	4.07	3.97	3.97	3.92	4.00	3.73	3.73	4.14	3.68	3.80	3.69	3.96	3.86	4.21
Average ¹⁾	3.71	3.75	3.67	4.08	4.04	3.97	4.05	3.97	4.01	3.88	4.15	4.14	3.79	3.94	3.69	4.17	4.12	4.21
Number of respondents	547	491	557	449	582	601	596	621	512	149	145	139	346	381	361	666	744	866
% of employees	53	40	50	79	81	82	64	56	58	76	81	89	51	49	53	66	63	58

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

- The number of women in supervisory positions is significant in retail subsidiaries. Some 82% of department managers in K-citymarket hypermarkets and 76% of department managers in Anttila department stores are female.
- K-instituutti provided courses for around 25,057 (22,126) Kesko employees, K-retailers, and K-store staff including Master Sales Assistant students. The number of study days was 36,015 (33,009).
- The student feedback rating for K-instituutti was 4.3 on a scale of 1–5 – the same as in 2007, even though there was a significant increase in the number of students.

The 2008 result is more accurate due to the more specific phrasing of the question referring to an employee's organisation level in the revised personnel review and is thus not fully comparable with that of 2007.

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 chains' customer promises.

The statistics of basic training are available for Kesko's employees in Finland, with the exception of retailing companies. Of the 5,638 (5,826) people included in Kesko's statistics, 20% (21%) have basic training, 65% (63%) have medium-level vocational training, and 15% (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 – 49% in Estonia, 23% in Latvia, 19% in Lithuania, and 40% in Russia. No statistics are available for Sweden or Norway.

GENDER BY EMPLOYEE CATEGORY IN FINLAND AT 31 DECEMBER 2008

	Women, number	Men, number	Women, %	Men, %
Top management	7	27	20.6	79.4
Middle management	76	298	20.3	79.7
Superiors, specialists	890	934	48.8	51.2
Workers, office workers	7.430	3.961	65.2	34.8
Total	8.403	5.220	61.7	38.3

PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY IN FINLAND 2004–2008

	2004	2005	2006	2007	2008
Top management	13.3	14.3	15.6	16.2	20.6
Middle management	24.1	23.6	24.7	21.6	20.3
Superiors, specialists	55.4	54.8	48.7	42.6	48.8
Workers, office workers	63.7	63.4	64.4	66.2	65.2
Total	61.1	60.8	60.9	62.0	61.7

A total of 19,900 (16,000) working days or 1.8 days (1.4) per employee were devoted to supplementary training in Finland with €4.6 million (€4.8 million) or €420 (€420) per employee. Around 90% (80%) of training was internal, including training at the K-instituutti.

The number of training days in companies outside Finland totalled 3,230 (7,109) or 0.5 (0.7) days per employee; data are not available for Norway, Sweden and Rautakesko AS Estonia. Internal training accounted for 15% (67%); data for Sweden, Norway and Kesko Agro Latvia, Rautakesko AS Estonia and Senukai in Lithuania are not available. The number of training days was exceptionally high in 2007 mainly due to new store openings and management training in AS Rautakesko Latvia. Also, in the long run the actual number of training days is expected to decrease due to more e-learning and on-the-job learning possibilities.

The training 2008 costs abroad totalled €1.1 million (0.8) or €124 (€220) per employee based on average number of employees.

The K-instituutti training centre, a subsidiary of Kesko, offers training programmes for Kesko's management and management potential, superiors and experts. The operation model of K-instituutti was revised 2008 and now plans competence development solutions for the needs of chain activities, and implements training programmes with partner network. Local training possibilities have also increased.

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 for K-stores' staff.

The responsibility for implementing the Master Sales Assistant training – one of Finland's largest adult training programmes – has been carried out by K-instituutti since the beginning of 2007. Some 16,600 (15,160) students participated in 13 various forms of training. Rautia-chain was given an award for its work as a training chain. Some 80% of Rautia chain's personnel passed the training at an acceptable level. As in previous years, the programme was offered in about 100 business colleges and polytechnics. Some 6,000 (6,000) students from educational institutions took part in the training.

During autumn, K-instituutti carried out practical self-control training for K-food store retailers and their staff. The participants were trained on how to implement the store's self-control and electronic monitoring of self-control activities. More than 500 food retailing professionals attended the training.

The number of employees with an apprenticeship contract was 1,034, an increase of 27% over 2007. Of these, 329 graduated with a professional diploma in, e.g. sales, store management or entrepreneurship, an increase of 29% over 2007. K-instituutti will enlarge the selection of programmes within apprenticeship by offering a vocational qualification in business and administration in retail during 2009.

Health and safety

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

Sickness absences and incidents in Finland

Kesko Corporation has used the insurance services of Pohjola since 2007. The number of all work-related incidents, that is,

including minor incidents in Finland was 609 (696; the figure for 2007 has been updated according to the information received from the insurance company after the publication of the 2007 report); 179 (155) accidents took place on the way to and from work. The number of work related incidents, resulting in three or more sick days, was 205 (238). Eight occupational illnesses (2007: 9) were reported to the Group's insurer. There were no fatal accidents (0).

The lost time incident rate per million working hours (for all work-related incidents, including minor incidents resulting in zero or more sick days) was 41.9 (42.8). The number of incidents per million working hours for incidents resulting in three or more sick days was 10.8. The incident figure excluding those on the way to and from work per million working hours was 32.3 (35.0). In 2008, the working hours that are used in calculations are more accurate, whereas working hours from previous years are based on theoretical working hours per year in Finland.

The number of sick days caused by incidents and occupational illnesses was 3,548 or 0.3 days per employee (5,918 and 0.5), a decrease of 37% over 2007 (an increase of 25% in 2007 over 2006). The average severity of incidents, as calculated in terms of days lost per incident, dropped to 4.5 (6.9).

The total number of sick days in Finland was 138,101 (141,278) or 10.1 (9.3) days per employee or 6,531 (7,080) days per million working hours. The figure per million working hours is not fully comparable to 2007 due to more accurate working hour statistics (see the figure on page 68). The absence rate in 2008 was 4.9%. In 2008, the project of more accurate monitoring of sick days was started and it will continue in 2009.

According to the Confederation of Finnish Industries EK, the average sickness absence rate in the Finnish service sector in 2007 was 4.4% (2006: 3.8%) of theoretical working hours. The corresponding figure for industry was 6.7% (6.7%). Kesko's absence rate in 2008 in Finland was 4.7% (2007: 5.1%) without absences due to children's illnesses.

Kesko Group companies in Finland have occupational health and safety committees based on the Finnish occupational safety and health legislation. In 2008, Kesko established a Group-level occupational health and safety forum as a communication forum for employees occupied with health and safety at work. For the same target group and for superiors in general, 'occupational safety and responsibility day' courses were offered at

the K-instituutti training centre. Corresponding course days have been and will be arranged in different K-store chains.

The figure on page 68 shows the reasons for absence due to sickness. Compared to 2007, the major change was the decrease in the number of sick days due to long illnesses.

The number of paid and unpaid sick days used for rehabilitation decreased by 19.7%. Rehabilitation focused on ASLAK vocation-specific early rehabilitation courses. Seven new groups – 62 employees – began in 2008. Additionally, seven employees participated in rehabilitation courses for department store personnel.

Sickness absences in other countries

Subsidiaries outside Finland recorded 100,753 (78,838) sick days, equivalent to 11.0 (7.7) days per person or 5,617 (4,320) days per million working hours (based on country-specific theoretical working hours per year). Absences accounted for 4.3% (3.2%) of work days – less than the absence rate in Kesko's Finnish operations. Country-specific details are given in the table on page 63.

Subsidiaries outside Finland spent approximately €471,600 (€362,000) on staff leisure and recreational activities. Data for K-rauta AB in Sweden and Senukai Lithuania are not available.

Wellbeing and work productivity

During the year, Kesko started a work and productivity programme. Its main aim is to increase the employees' work productivity by putting more efforts on staff competence and wellbeing as well as investing in more effective human resources management. The programme also includes measures related to increasing operational efficiency and electronic communications. The work and productivity programme applies to all of Kesko and its chain stores.

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, to maintain the physical condition and to raise the retirement age; management intervention skills will also be improved. Improvements to work productivity are also sought by promoting the adoption of different working hour models and by systematic working hours' management.

Rautakesko's 'Diamond' programme was concluded in autumn and the 'Fit for life' course and other various training ses-

THE OCCUPATIONAL HEALTH CARE OBJECTIVES FOR 2008-2009

OBJECTIVES	ACHIEVEMENTS
Integrating sick leave reporting and processing into a systematic procedure in all division parent companies and units.	The systematic procedure started in all companies in Finland at the beginning of 2009.
Harmonising joint meetings between managers, employees and occupational health care personnel.	The meetings became part of daily work and will be expanded to be part of the sick leaves follow-up procedure.
Statutory cooperation of occupational health services in common workplaces as of the beginning of 2009.	The aim is to create closer cooperation in the fields of safety and occupational health, for instance in shopping centres.
The main in-house occupational health service projects for 2009 are the introduction of the organisation-specific annual planning process and increasing the focus on occupational health services in medical treatment.	The projects are part of the integrated in-house OHS but will be later expanded into Kesko's occupational health service in Finland. The projects started 2009.

sions were arranged. Anttila initiated a new model for the whole Anttila chain to discuss the reasons for absences due to sickness with its employees. An introduction leaflet was given to all employees. A similar programme was piloted in K-citymarket in 2008, and 2009 is planned to be the year of implementation throughout the whole chain. A similar model was piloted also in Kespro end of 2008. VV-Auto as well as Konekesko arranged several courses open to all to maintain employees' common wellbeing at work.

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.

Occupational health service

In Finland, Kesko's in-house Occupational Health Service Unit served approximately 6,100 (6,000) Kesko Group employees; over 5,400 (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, the share of which is 45% of the total services. In other countries, occupational health services have been arranged according to the local practice and legislation.

A total of €4.5 million was spent on occupational health care in Finland in 2008. Around €1.9 million of this sum was paid for by the Social Insurance Institution of Finland. The total spending on promoting employees' work capability and health care was €349 per person in Finland.

Kesko's occupational health service focuses on operations that maintain work capacity and promote the wellbeing of the work community, the share of which was over 40% of the total volume in 2008 or €427 per person (within employees served by Kesko's in-house Occupational Health Service Unit). Reliable statistics for external service providers will be shown in 2009 after collecting the figures from the companies.

The Occupational Health Service Unit assists Kesko's retail companies in questions related to workplace ergonomics. Where required, the unit also participates in the care and treatment guidance for employees who abuse intoxicants; it also 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 research projects 2007-2008 focusing on various areas of occupational health with the Finnish Institute of Occupational Health (FIOH) were concluded in 2008. The project related to improving the functioning of work communities and the effectiveness of health examinations in occupational health services will be reported in spring 2009. The project to develop a system to assess physical work load was dropped due to reasons not attributable to Kesko; also, an assessment report for the early diagnosis and prevention of work-related upper extremity disorders will be also be received during spring 2009.

A new, two-year project, Stop the Flu, began in January 2009 with the National Institute for Health and Welfare. Another new project related to the care of depression in a work community will begin during 2009 with the FIOH.

Pirjo Anttila, Chief Physician of Kesko's Occupational Health Service, was granted the 2008 ALLVAR prize in November by the Finnish Diverse Learners' Association for her pioneer work in reading and writing difficulties within occupational health service, read more on page 19.

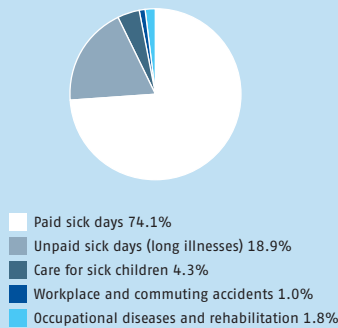
The occupational health care objectives for 2008-2009 and achievements are presented on page 67.

Salaries and other benefits

The average annual salary of Kesko employees in Finland was €32,054; €32,220 in the other Nordic countries; and €12,803 in the Baltic countries and Russia - based on the Group's average number of personnel.

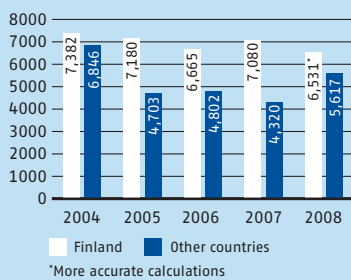
As Kesko Group's operations are diverse - nearly 700 job titles - the average salary is not a good indicator of salary lev-

SICKNESS ABSENCE IN 2008 (FINNISH OPERATIONS), %

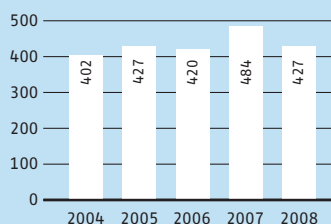


Total number of sick days in Finland 138,101

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



el and structure. Also, because the Group structure has also undergone many changes in Finland and elsewhere, yearly comparisons are not indicative of salary trends.

Bonuses

Some €12.5 million (€14.1 million) was paid in spring in Finland in the form of bonuses under the bonus system for 2007, accounting for some 3.6% (4.2%) of the total payroll (excluding Kauko-Telko and Tähti Optikko). 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-city-markets. In 2008, the pilot project of sales bonus system among the employees continued in Anttila, Kodin Ykkönen and K-city-market department stores. In 2008, the aggregate amount paid in different fees in operations in Finland was €14.3 million (€16.9 million), consisting of bonuses, commissions on sale and other similar monetary remunerations (the figures are exclusive of Kauko-Telko and Tähti Optikko).

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. 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 some €9 million (6.2) in bonuses for 2007, accounting for about 6% (4%) of the total payroll. These figures are not available for K-rauta AB, Sweden or Senukai, Lithuania.

Kesko Group's management – comprising some 100 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 a salary of between three and eight months.

Stock option schemes

Kesko had two stock option schemes in 2008. The next share subscription period of the 2003 stock option scheme will end 2009 or 2010 depending on the stock option. The share subscription period of the 2007 stock option scheme will end 2012, 2013 or 2014 depending on the stock option. The schemes can be consulted at www.kesko.fi/investors. Personnel expenses in the financial statements for 2008 included share options granted to the value of €6 million.

Pensions

The number on the Kesko Pension Fund is some 8,750 employees and the number of pensioners increased by 90 during the year.

In Finland, 181 (189 in 2007; the figure was corrected after the last report as accurate figures were received in March 2008 only) employees retired from the Group. Of these, 94 (115) were members of the Kesko Pension Fund, while 87 (74; corrected figure) were insured by Varma. The figure includes employees on partial retirement and partial disability pensions. Occupational retraining was arranged for 16 (13; corrected figure) 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 increased from 69 (corrected figure) to 78. The number of disability pensions has, however, remained very low throughout the 2000s. Calculated as a three-year average the number has been declining after the mid-1990s and has now

stabilised at a very low level. At the same time, the Occupational Health and Safety Unit has strongly invested in actions targeted at maintaining working capacity.

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

The average retirement age of employees covered by pension decisions made by the Kesko Pension Fund decreased to 55.4 (57.7) years, and decreased in Varma-Sampo decisions to 57.4 (58.9) years. Regarding the Kesko Pension Fund, the average retirement age varies annually depending, for example, on the age of employees retiring on disability pensions. The average retirement age of people in the Finnish national employee pension scheme was 58.6 years in 2007.

The average pension paid by the Kesko Pension Fund was €1,324 (€1,282) per month – a total of €61 (€57.7) million to 3,839 (3,749) people.

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 40.1% (38.2%) of Kesko Group employees in Finland were unionised, mainly as members of Service Union United PAM, based on membership fees deducted from salaries. In Norway, the rate was 16.2% (25.5%). Only a few employees belonged to trade unions in the Baltic countries and Russia; the information is not made public in Sweden. In the Baltic countries, many subsidiaries have workplace committees where both management and company employees are represented. Data for Senukai, Lithuania 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 national Works Councils meets twice a year. The international Group-level European Works Council (EWC) meets once a year, and was attended by representatives from Finland, Sweden and Estonia in 2008.

Finland's Court of Appeal had three cases and the district courts two cases pending at the end of 2008 concerning disputes related, e.g. to the termination of an employment contract and the payment of additional benefits.

There were four employment dispute cases pending in operations outside Finland at the end of 2008 which were related, e.g. to the termination of an employment contract and compensations of an occupational accident. During 2008, two cases were found in favor of Kesko and one case was settled.

Case



RETAILERS AND BUSINESS IN GOOD SHAPE

The K-Retailers' Association launched a new wellbeing programme for K-retailers in March 2008. The programme, which will continue throughout 2009, encourages retailers to increase the amount of physical exercise, improve their diet and enhance time management.

A special website was also created to support the retailers, providing them with information on nutrition, exercise, acceptable vices and various areas of personal life. On the pages, well-known experts talk about the importance of a healthy way of life and answer questions sent by retailers. The Association also offers its members various services and events related to wellbeing.

Terhi Wirén from Turku, who runs K-supermarket Paimio, participates in the starting group of ten retailers and has been very pleased with the programme.

"Strict diets are a thing of the past and I've started a new way of life. The change will be slower but more permanent. Now exercise has a completely new meaning for me. I'm also trying to set an example to my colleagues and make them join in. This is an excellent opportunity to make my dreams come true, finally!"

Retailers Nordic walking at Eerikkilä Sports Institute. Terhi Wirén leads the pack!

K-RAUTA REZEKNE AWARDED FOR ITS FRIENDLINESS TO DISABLED PEOPLE

Towards the end of 2008, K-rauta Rezekne was recognised as one of Latvia's most customer-friendly new buildings. Apeirons, the organisation of people with disabilities and their friends, and the Latvian Ministry of Finance annually verify how easily customers with physical disabilities can get into new buildings. The best buildings are awarded the Zelta Kruksis prize.

The specialists conducting the review found that the K-rauta stores are easy to move around, products are well presented, all necessary access ramps are in place, thresholds are low and doors wide. Toilets are equipped with technical aids and spacious parking lots are provided beside the store.

According to Apeirons, some 20% of new, monitored buildings in Latvia are customer friendly and accessible to everybody.

"One-level layout, broad aisles and the other details mentioned in the criteria are well-thought-out K-rauta concept solutions. We take easy accessibility into account from the very beginning when designing K-rauta stores in our operating countries," says **Jouni Jaakkola**, Rautakesko's Concept Manager.

K-rauta Rezekne was opened in Latvia in October 2008.



MASTER SALES ASSISTANT TRAINING PROVIDES KEYS TO COMPETENCE



Master Sales Assistants in 2008

The Master Sales Assistant training, implemented in the K-Group, is one of Finland's largest annual vocational adult training programmes. Training is organised by K-instituutti Oy in cooperation with K-store and chain unit experts. The Master Sales Assistant training has been arranged since 1960.

Annually, over 16,000 K-Group employees and 6,000 students of vocational education institutions complement their product knowledge and sales skills with the help of the Master Sales Assistant training. In 2008, 10,500 completed the programme.

Participants in the study lines are individual students, but finals are arranged for both individuals and store teams. General study lines are food, fresh foods, checkout, non-food, home and interior decoration, leisure and clothing. The lines tailored for the needs of each chain include shoes, sports, Musta Pörssi (home electronics), agri-

culture, and building and home improvement. Training for Swedish-speaking staff is arranged every second year.

The training consists of distance learning, semi-finals and the finals for the three best participants in each study line. The annual programme culminates in a study trip for the winners – in January 2009 they headed off to Beijing, China, where they had the chance to familiarise themselves with the local culture and retailing.

Annually, more than 300 suppliers participate in producing contents for the distance learning purposes. Every year, Master Sales Assistant students select the best study material in their particular line. In 2008, the winner in the food study line was Finnsugar Ltd's material, drawn up by **Tiina Palomäki**.

JOY OF SUCCESS IN SUMMER JOBS

A summer job in the K-Group is an excellent way to become familiar with the ins and outs of the trading sector and see if it is the right career choice for you. Experiences gained in a K-Group store are also beneficial for a later career at Kesko. A summer job may, for example, be a good starting point for a journey towards becoming a K-retailer.

In 2008, the K-Group recruited some 5,000 summer employees, and it is expected that thousands of summer jobs will also be available in 2009.

Most summer jobs offered by the K-Group are basic trading sector duties. The largest employers include K-citymarket, Anttila and the warehouses. There are also office duties available in finance administration, for example.

Workplaces have the main responsibility for the induction of new summer employees, but there is also chain- and company-specific introductory material available.

"Good atmosphere and team spirit are the best things"

Merju Koljonen, 25, started her career as a warehouse worker in the fruit and vegetable department of Keslog Ltd. Her duties included picking customer units.

"Every week I also had some new duties, such as picking missing items or working at the FT terminal, where I had a chance to learn something about the wonderful world of organic products and exotic fruits and vegetables."

After the summer, she has continued as an 'on-call employee' while studying logistics in a polytechnic. According to Merju, the best things Keslog offers an employee are the good atmosphere and team spirit. "I also like the fact that careful and efficient work contributes to your earnings. Keslog also provides you with the benefits of a large company. I would be pleased to have a permanent job here. Instead of picking, it would be great to do something closer to my studies. And I plan to go as far as possible."





KEY RESPONSIBLE PURCHASING PERFORMANCE IN 2008

- + Kesko's own monitoring team was set up in Shanghai, China.
- + Kesko's steering group for responsible purchasing met five times and focused on the monitoring in China, the use of Kesko first evaluation form and Kesko restricted substance list in textiles, clothing, leather goods, shoes and upholstered furniture.
- + Kesko has the broadest selection of Fairtrade products among Finnish trading groups - 120 (64 in 2007) products in all, of which 16 (8) are in the Pirkka-range.
- + The 2008 Fairtrade award was given to Kesko Food.
- + BSCI has established its position as a reliable initiative for social compliance; the market strength of the BSCI co-operation has also further increased as the number of member companies rose from 100 to 265.
- Kesko was not able to meet its target regarding the number of BSCI audits due to the slower than expected implementation of the required improvements at factories and supplier turnover.
- Kesko's own monitoring work indicates that Chinese suppliers need more time and professional support and assistance from Kesko's experts than expected to manage the corrective actions needed for the BSCI compliance.

RESPONSIBLE PURCHASING

Kesko's imports from 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 the national labour legislation.

Direct purchases by Kesko's Finnish companies from suppliers in risk areas totalled €129 million and accounted for 1.6% of Kesko's total purchases – the same as the previous year. Around 75% (70%) of imports come from EU countries. Outside the EU, Kesko's most important supplier countries in risk areas are China (€77 million), Turkey (€8 million) and India (€7 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 37) 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 proportion 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 similar 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 table on the right.

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 Kesko's Board of Directors in 1999 (see 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 these.

Kesko continues its active work as a member of the Business Social Compliance Initiative. As a BSCI member since 2005, Kesko has committed itself to promoting the implementation of the BSCI Code of Conduct in its own purchasing. Kesko's own principles are similar to the BSCI Code requirements.

The steering group for responsible purchasing (established 2007) comprises representatives of Kesko's division parent companies and subsidiaries importing from high risk countries. The group coordinates and develops practices related to responsible purchasing at Kesko. The steering group met five times during 2008 and focused on the use of Kesko's first evaluation form, Kesko's restricted substance list in textiles, clothing, leather goods, shoes and upholstered furniture and starting the monitoring work in China.

- Kesko started its own monitoring activities in China in October – see also page 77.

In risk countries, Kesko's first evaluation form is used to collect basic information on suppliers' working conditions. The form covers all aspects of the BSCI Code of Conduct and is supplemented with questions concerning environmental management. It is sent out to all new risk country suppliers and is required to be returned undersigned before entering into a contract with Kesko. The form is also used to gather information on quality, environment and social audits – either ongoing or completed – at factories. Based on the first evaluation, a supplier's preliminary risk analysis is also prepared.

Kesko started its own monitoring activities in China in October to support its responsible purchasing in the country. All Kesko companies importing from China participate. A team of two experts guide, train and oversee Kesko's Chinese suppliers in issues related to the terms of employment and working conditions, and the observance of environmental and chemical regulations. The monitoring principles of Kesko are in compliance with the terms of the BSCI auditing and the final aim is to get the factory to apply for either the BSCI audit or the SA8000 certificate granted by a third party. The annual target for the team is to make 160 factory visits of about 50 selected suppliers.

The restricted substance list of Kesko determines the prohibited and restricted chemicals within textiles, clothing,

EXAMPLES OF KESKO'S OWN DIRECT IMPORTS IN 2008*

Country	Value of imports, € million
China	77
Germany	75
Holland	68
Sweden	60
France	47
Denmark	43
Estonia	30
Italy	29
Spain	29
Belgium	21
Great Britain	14
Japan	10
United States	9
Turkey	8
Poland	8
Lithuania	7
India	7
South Korea	6
Vietnam	6
Portugal	6
Thailand	5

*Figures include only direct imports forwarded by Keslog, no WV-Auto's imports.

- *Kesko's own coffee brand, Costa Rica, has been UTZ certified since April 2007. In 2008, some 89% of the sales of Kesko Food's own coffee brands originated from plantations that passed neutrally monitored certification.*

leather goods, shoes and upholstered furniture supplied to Kesko and also bans the use of the substances of very high concern in a concentration above 0.1% (w/w) based on the EU chemicals legislation, REACH. The list is sent out to all Kesko suppliers outside the EU.

Kesko's buyers are regularly trained in issues related to responsible purchasing. In 2008, ten training sessions were organised for the buyers of Anttila, K-citymarket, Kesko Food, Indoor, Kenkäkesko, Intersport, Keslog and Kespro. The sessions focused on monitoring principles and processes as well as the targets of Kesko's own monitoring work. In addition, BSCI training that focused on the BSCI management tools and requirements of BSCI auditing was arranged for the buyers of Kesko's companies. No workshop for the agents was arranged during the year.

In October 2008, Rautakesko signed a partnership agreement with tooMax-x Handels GmbH, a company engaged in purchasing cooperation in home improvement and building products. The basic activities of tooMax-x include the further efficient purchasing and sourcing and quality assurance for imports from the Far East.

Social responsibility guidelines

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

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.

Short summaries of the most widely used monitoring tools are presented below:

SA8000 Social Accountability standard (www.sa-intl.org)

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. Certification is granted by international certification bodies accredited by SAI.

Of the available monitoring tools, SA8000 is the most demanding as well as the most expensive. At the end of September 2008, there were 1,835 certified facilities worldwide (1,580); the annual growth is 16%.

Business Social Compliance Initiative (BSCI) (www.bsci-eu.com)

BSCI is a business initiative promoted by European retail chains encouraging the use of social audits in cooperation with SAI. In January 2009, BSCI had 265 members, and there were some 7,590 suppliers in its member-only database. The BSCI audits are carried out by the 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.

Kesko has been a member of BSCI since the beginning of 2005 and is active in the BSCI organisation. During the year, Kesko participated in both BSCI Primary Production and System Committees and BSCI National Contact Group meetings.

The first BSCI Stakeholder Board meeting was arranged at the end of 2007, after which there have been regular meetings with various stakeholder groups for instance in China, India and several African countries. During the year, the Board called for more synergies and less duplication with the other initiatives.

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

Fairtrade Certification (www.fairtrade.org.uk)

Fairtrade Labelling Organisations International (FLO), together with the FLO-CERT GmbH certification body, monitors the social compliance of approximately 600 producer organisations in some 60 countries. FLO-CERT is granted the ISO65 certification and the standard ensures that the Fairtrade certification process is reliable and transparent.

The Fairtrade certification procedure is comparable to the GlobalGAP certification – a private sector body that sets voluntary standards for the certification of agricultural products – and the BSCI Primary Production Module. The main differences between Fairtrade and other schemes are that farmers are guaranteed a minimum price higher than the world market price, and they are required to invest in the local social infrastructure.

Fairtrade sales totalled some €2.4 billion worldwide in 2007, and some €54 million in Finland in 2008 (€35 million in 2007).

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

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

Cooperation with other initiatives

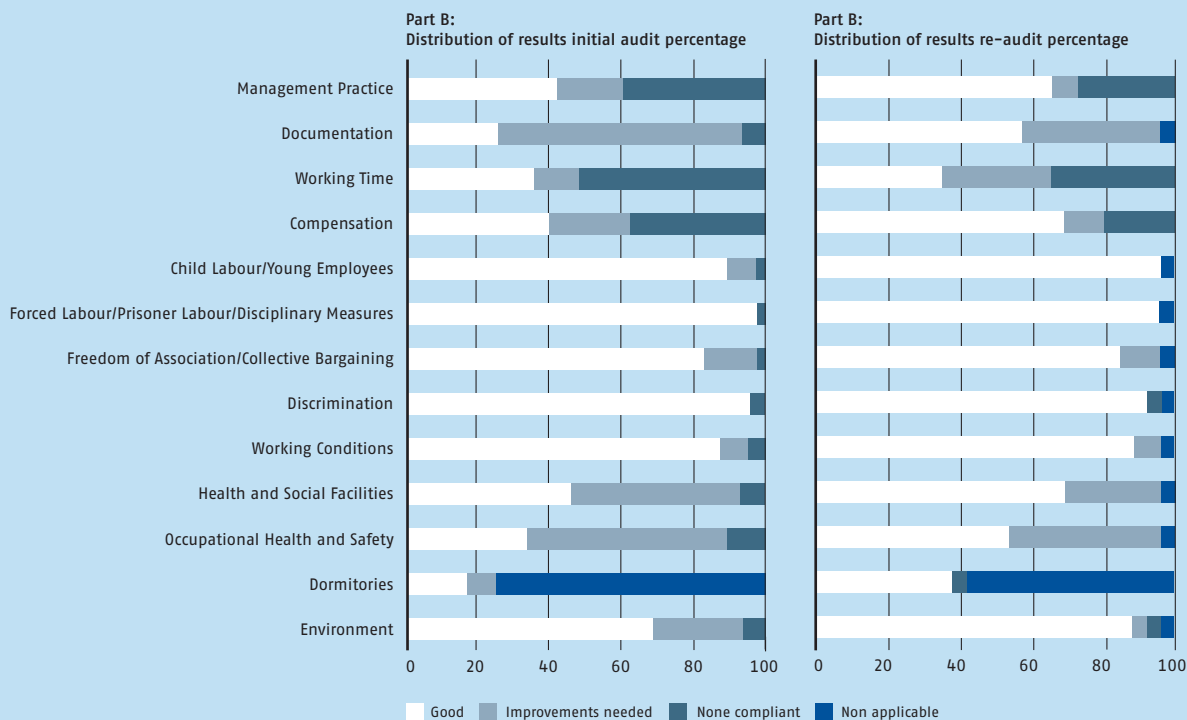
CIES, the Food Business Forum have developed the Global Social Compliance Programme (GSCP). GSCP is not a code or a monitoring system in itself, but aims at building transparency and comparability between existing initiatives, including BSCI. Kesko follows the development of GSCP and cooperation between the programme and BSCI.

Through BSCI, Kesko also collects information and participates in 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. The purpose of these discussions is to explore 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 the SA8000 certifications, BSCI audits and Fairtrade producers. Kesko's first evaluation form was implemented in 2008, and a database project to store all data obtained from the suppliers in risk countries was initialised at the same time. Once the database

KESKO'S RESULTS OF BSCI AUDITS IN DIFFERENT AREAS IN 2008, % OF AUDITED FACTORIES



project is completed in spring 2009, Kesko will also be able to provide more accurate statistics on all other audits carried out in its suppliers' factories.

SA8000 results

Kesko has concentrated on promoting the BSCI model to its suppliers and progress on SA8000 was slow. As of the end of January 2009, Kesko had 23 non-food suppliers in six countries that had been granted the SA8000 certification. In addition, all Chiquita's banana plantations in Costa Rica and Panama that supply Kesko, are SA8000 certified. They are also all Rain Forest Alliance certified.

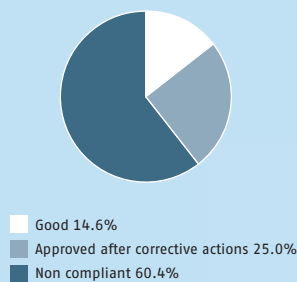
Kesko will continue to introduce the SA8000 certification to suppliers as the ultimate goal and the last step of the BSCI audit (part C, Best Practice for Industry) during 2009.

BSCI results

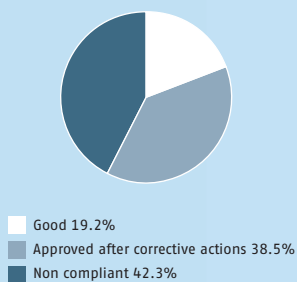
Kesko's objective for 2008 was to have 50 suppliers covered by the BSCI audits (40 initial and 10 re-audits). Unfortunately, progress continued to be slower than expected, mainly due to supplier turnover and a very time-consuming auditing procedure. This meant that Kesko was not able to fulfil its commitment to BSCI to audit 2/3 of its suppliers in high risk countries by mid-2008.

In February 2009, Kesko had 35 suppliers in the BSCI audit database. The total number of employees involved is around 21,600 (9,700). From January 2008 to February 2009, 13 (11) initial audits and 17 (1) re-audits were carried out. In addition, Kesko had 17 (four in March 2008) suppliers, which are members of BSCI, and thus committed to promoting audits in their own supply chain.

KESKO'S RESULTS, INITIAL AUDITS



KESKO'S RESULTS, RE-AUDITS



- *By Fairtrade products sold in K-stores in 2008 the farmers received some €200,000 as a separate Fairtrade premium.*
- *The Association for Promoting Fairtrade in Finland gives annual recognition to the trading sector and non-governmental parties which have contributed to promoting Fairtrade activities. The 2008 Fairtrade prize was given to Kesko Food, whose Pirkka range has made Fairtrade available to consumers throughout Finland.*



For suppliers in primary production, the target was two initial and one re-audit during 2008; at the end of January 2009 two suppliers had started the BSCI process.

Kesko's target for 2009 is to have 59 initial audits and 24 re-audits carried out in non food and food supplier companies' facilities.

The BSCI statistics show (February 2009) that at the time of the initial audit, as much as 75% 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 58%, although there is measurable improvement after the initial audit due to corrective actions being taken. The most challenging issues for suppliers are documentation, working time, compensation and to certain extent health and safety issues, which are linked to lack of good management practice.

The results of Kesko's suppliers' audits and own monitoring work within the suppliers so far are in line with these general results, see figure on page 75.

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. For this reason, Kesko has set up the monitoring team of its own in China and encourages its suppliers worldwide to

attend training and qualification workshops and programmes arranged by BSCI. Profound changes also call for cooperation with the local authorities, trade unions and other stakeholders.

Fairtrade products

Kesko has the widest selection of Fairtrade products among Finnish trading groups – 120 (64) products in all, of which 16 (8) are in the Pirkka range. This is in line with Kesko Food's target to be the market leader in the sales of Fairtrade products in Finland. The most important new Fairtrade products introduced in 2008 were Pirkka Fairtrade bananas and Pirkka yoghurt – the first combination product, combining Fairtrade ingredients and Finnish work (see also page 42).

At year-end, Kesko had some 60 Fairtrade suppliers in 29 countries, employing 153,500 people according to Fairtrade Finland statistics.

Through SA8000 and Fairtrade certifications and the BSCI audits, Kesko has had direct influence on the working conditions of some 120 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 (WIETA) and the Rainforest Alliance have been carried out at farms supplying Kesko.

Training and qualification of suppliers

In 2008, BSCI arranged supplier training in China and India – the most important sourcing markets for its members. Some 40 Kesko suppliers participated in these workshops. In addition, one workshop for primary production was arranged in Kenya. In 2009, workshops are planned to be arranged in Peru, Costa Rica, Brazil, China and Vietnam.

Some of Kesko's Vietnamese suppliers participate in the joint three-year (2006–2008) development programme, of which the final project report was received at year-end. A BSCI initial audit was carried out in 16 supplier companies participating in the project during 2007 and 15 enterprises were re-audited in 2008. At present, three enterprises have passed the BSCI requirements, nine required improvements and four were at the critical stage. The common issues identified in the companies, which did not meet the BSCI requirements, were in line with the BSCI general audit results. However, the factory results show that significant improvements were reached at every factory. The companies also received training in issues related to employees' unionisation. The final evaluation and impact assessment is scheduled for early 2009.

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	-

Case



THE MONITORING TEAM CONTROLS THE RESPONSIBILITY OF KESKO'S CHINESE SUPPLIERS

Kesko started monitoring in China in October 2008. The purpose of the initiative is to support Kesko's responsible purchasing with all of Kesko's division parent companies importing from China participating in

the project. This is the first Finnish project of its kind and it will receive support from the Finnpartnership programme funded by the Finnish Ministry for Foreign Affairs.

During the first months, the monitoring team already visited 15 factories. The target for the first year is to make 160 monitoring visits to the factories of about 50 selected suppliers.

Both of the Chinese monitoring officers, **Margaret Lee** and **Buick Bie**, are official auditors. Their duty is to guide, train and monitor Kesko's suppliers, focusing on the terms of employment and working conditions, as well as on matters relating to the compliance with environmental and chemical statutes.

"Our aim is to have suppliers more rapidly covered by the BSCI or SA8000 audits by providing advice and by supporting factories through monitoring," says Lee.

The monitoring officers assess suppliers in relation to the responsibility criteria adopted by Kesko and its division parent companies, and help fill in Kesko's self-control form and the BSCI self-declaration form. In addition, they assist in supplier audit processes and help implement corrective measures.

During the factory visits, the main issues needing improvement have been found in management practices, working hours, remuneration and occupational health and safety matters.

DOOGOOD IS GOOD FOR THE ENVIRONMENT



K-citymarkets' own Doogood clothing collection takes the environment into account throughout the entire production process from the cultivation of cotton to ready-to-wear apparel. All clothing is produced according to the Global Organic Textile Standard (GOTS). The cheerful and trendy family collection was launched in K-citymarkets in August 2008.

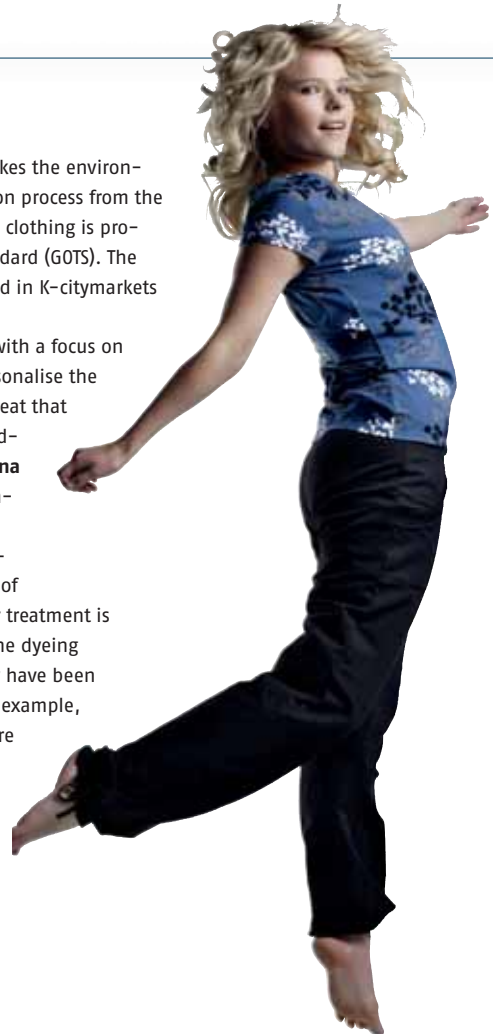
"We created a clothing collection of our own with a focus on environmental values because we wanted to personalise the styles, colour schemes and measurements. It's great that we can offer our customers an alternative to products made of traditional cotton," says **Maija-Leena Leppänen**, K-citymarket Oy's Product Group Manager.

In the Doogood's production process, unnecessary chemicals are avoided, the consumption of energy and water is monitored and wastewater treatment is applied both to the production of cotton and the dyeing process. Criteria concerning non-toxicity and biodegradability have been set for the entire manufacturing process. Strict limits concerning chemical residues, for example, have been set for all accessories, such as sewing yarns and zippers. Even the buttons are made from nut instead of plastic.

The K-citymarket chain's own designers and clothing technicians have created the Doogood collection from ecological cotton or cotton elastane.

Men's Doogood collection is manufactured by Lets Wear. The products are manufactured in their Greek factory, which is certified by a GOTS certificate.

Women's and children's Doogood products are manufactured for Helge Rasmussen Textiles A/S, a company certified by the Institute for Marketecology (IMO) (www.imo.ch), by their fully-owned factory in Ukraine. The working conditions of employees must meet the social and ethical criteria set by the International Labour Organization (ILO).



Case



FAIR FLOWERS FOR A BETTER QUALITY OF LIFE

Fairtrade flowers have been very well received by consumers. In 2008, sales of more than 10 million roses generated some €90,000 of Fairtrade premium in Kenya.

At the Oserian flower farm in Kenya, most of the premium was used to provide the farm workers' children with an opportunity to attend school. The plans also include building a well and providing HIV education for the Oserian community.

Pirkka Fairtrade carnations come from the Colibri Flowers farm in Columbia, where Fairtrade premiums have been used to train employees.

The premiums have also been used to improve employees' health care: the farm has a public health nurse's and a dentist's reception. The farm has also paid for health education campaigns with the premiums.

Some of the Fairtrade premiums are also used for the day care of farm workers' children. At Nevado Roses, the day care centre is on the flower farm, whereas that of Colibri Flowers is located in the nearby town.

"Colibri pays better than other flower farms where I have worked, and the wages are always paid on time. Thanks to Fairtrade, we also have a store on the farm, where we can buy basic products at lower prices. We also have longer holidays now. My plans for the future include paying for my house so that I'll own it and making sure that my children complete their school education," says farm worker **Esperanza Cardenas**.

FAIRTRADE PRIZE TO KESKO FOOD

The Association for Promoting Fairtrade in Finland annually gives recognition to parties representing commerce and civic society who have promoted Fairtrade activities.

In 2008, the prize was given to Kesko Food, whose Pirkka range has made Fairtrade products accessible to consumers throughout Finland. In just a year, the Pirkka Fairtrade product family has doubled from eight to sixteen.

"The wide selection makes it easy for consumers to find Fairtrade products and make responsible choices. Kesko Food has extensively integrated the sales promotion of Fairtrade products into its business operations. So far, it's the only nationwide grocery trade operator in Finland to have signed a cooperation agreement with the Fairtrade Labelling Organisation," explains **Tuulia Syvänen**, Executive Director of the Association for Promoting Fairtrade in Finland.

According to the prize recipient **Minna Kurunsaari**, Kesko Food's Vice President, Commerce, new Fairtrade products are actively being sought for as they can easily be included in the Pirkka range.

"Pirkka products are considered to be reliable, safe and permanently low-priced. Pirkka Fairtrade products lower consumers' purchasing threshold," says Kurunsaari.



OTHER RESPONSIBILITY AREAS

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

Product labelling

Based on EU and Finnish legislation, and authority guidelines, Kesko Food has prepared guidelines on packaging information for both its own 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 own 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 own brand products, and the manufacturer's name and domicile on domestic products. Instructions for package labeling information also specify how different symbols relating to domestic origin, environmental aspects and recycling are to be used.

Kesko's Stand on Genetic Engineering

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 own brand products (Pirkka, Euro Shopper, Rico) are GMO-free; K-food stores do not sell any other GMO products supplied by Kesko Food.

ISO 17025 accreditation

In April 2008, the national accreditation body FINAS (the Finnish Accreditation Service) audited the activities of the laboratory of Kesko Food's Product Research Unit for the purpose of the ISO 17025 accreditation. The accreditation process was completed in February 2009 and now the laboratory of Kesko Food's Product Research Unit is the first accredited laboratory representing the Finnish trading sector. In 2008, there were 45 laboratories with ISO 17025 accreditation in Finland. Near-



- All Pirkka products are analysed by Kesko Food's Product Research Unit.
- In 2008, Kesko Food's Consumer Service answered 21,482 consumer inquiries.



ly all were run by the authorities, with the exception of a few major food manufacturers.

Food safety

In May 2008, Kesko Food and Finfood organised a joint seminar on food safety. The results of the survey ordered by Kesko Food from TNS Gallup, assessing Finnish consumers' attitudes towards food safety, were published in the seminar. According to the survey, confidence in the Finnish production chain has remained high and consumers feel that Finnish food is safer than food produced elsewhere. Young people had by far the highest confidence in the safety of the production chain.

A healthy diet was also seen as part of product safety.

Melamine contaminated milk in China and a counterfeit scandal concerning Italian cheese made headlines in the autumn as did the dioxin scare in Irish pork before Christmas.

The Product Research Unit kept a close eye on all such cases and took actions to ensure the cleanliness of the ingredients of Pirkka products. As far as melamine was concerned, the Unit examined

all the products included in the selection to verify that they did not contain any milk components of Chinese origin.

In November 2008, Kesko Food and Kespro published a joint fish and shellfish statement guiding the responsible purchasing of fish and shellfish.

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. During the year, 859 recipes were generated for both the K-Group units and directly for consumers.

In addition to food products, the Unit also controls the quality of some non-food products and home and specialty goods. For Kesko's own brands, the Unit acts as a partner in product development, and works in close cooperation with Kesko's buyers and product manufacturers.

In 2008, the Unit audited 31 suppliers (28 in 2007), of which 19 were Finnish. These companies mainly included suppliers of Kesko's own 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 8,313 (8,053) product samples were analysed. Over 51% of the samples were product development samples of own brand products. The number of samples related to new products was 1,469 (1,654 in 2007). A total of 1,341 (1,262) batch control and other self-control samples were analysed.

The Unit's consumer service section in Finland received 21,482 (20,305) items of feedback during the year – all of which were answered. Over 76% were product complaints, and over 15% questions concerning products. Feedback also included thanks, ideas and suggestions. More than 1,900 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.

Recall management

The Unit is also responsible for product recalls, which numbered 66 (35) during the year. Most of them related to defective quality or taste, or a manufacturing or packaging error. Some 18 (9) recalls covered Kesko Food's private label products. In the other cases, the Unit assisted manufacturers. Four were public product recalls, in which case the defect or error may involve potential health hazards and are thus notified to the relevant national authorities. One case was related to a toy football set which was found to contain phthalate exceeding the permitted values, one to faulty planning of the product, one to defective quality and one to packaging error. Among the non-public cases, the recall of Pirkka beer gained the most media attention. The batches in question contained 0.1–0.2% more alcohol than the 4.7% vol. permitted in grocery stores. In all, some 735,000 cans were returned to the supplier.

Promoting a healthy way of living

As part of Pirkka products' reformulation project, salt was reduced in 19 Pirkka products, fat in 17, and sugar in six. In some products, the contents of several ingredients were reduced simultaneously. Kesko Food's target is to reformulate all products with high salt, sugar or fat content by the end of 2010. Guidable Daily Amount labelling (GDA) was added on the labels of several hundreds of Pirkka products. The target is to add the GDA labelling to all Pirkka products. Some 7,000 customers attended a series of 69 lectures, entitled 'The best choices of the day' organised in cooperation with Dietician Hanna Partanen and K-food retailers throughout Finland.

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 labeling workgroups, expert groups under the Advisory Committee on Foodstuffs, and the working groups of the Finnish Food Marketing Association. Respectively, the 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 K-Plussa customer loyalty system, operated by K-store chains and K-Plussa partners, is managed by the Kesko sub-

- The laboratory of Kesko Food's Product Research Unit is ISO 17025 accredited.

subsidiary, K-Plus Oy, and is limited to Finnish operations. As of the end of 2008, there were approximately 3.9 million K-Plus cards in some 2 million households.

K-Plus Oy's partnership with OP-Pohjola Group gives customers the chance to have their OP-Visa and OP-Visa-Electron cards and MasterCard with the K-Plus feature. It is also possible to have a Nordea Visa-Electron card with the K-Plus feature.

The customer information provided by K-Plus cardholders forms a customer database that is used, with the customer's permission, to improve 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 are 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 K-Plus card. In these cases, purchasing data are not entered into the K-Plus system and they cannot receive any benefits accruing from K-Plus points. Some 4,000 customers in 2008 requested that their purchasing data not be recorded.

As a controller, 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 the personnel and various technical means. Customer data is only disclosed to third parties if required by law.

Every controller must have a description of file under the terms of the Finnish Personal Data Act. The description of file for K-Plus Oy can be found in Finnish at www.plusa.com.

Marketing and competition regulations

Kesko's functions include deciding on the basic selections of the K-retailer chains, setting the maximum retail prices for some of the chain selection products sold by K-retailers and 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 take 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 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 1990s. At that time, the operations of the K-Group were based on mutual horizontal K-retailer cooperation.

- *Some 7 000 customers attended 'The best choices of the day' events during the year.*

The Finnish Competition Authority proposed to the Market Court in February 2005 that a fine of €100,000 be imposed on Kesko. The Market Court had not issued its finding on the matter by the end of 2008.

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/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 69.

Kesko gave no political financial support in any country in 2008. Advertising of a supportive nature in Finnish party newspapers amounted to €21,905. The amount is included under 'non-governmental and environmental organisations' in the table entitled 'Kesko's support for the public good' on page 39.

Attitude to malpractice

Kesko's policy is that malpractice, including bribes, is strictly forbidden. The personnel have been informed about the principles in, for example, Our Responsi-



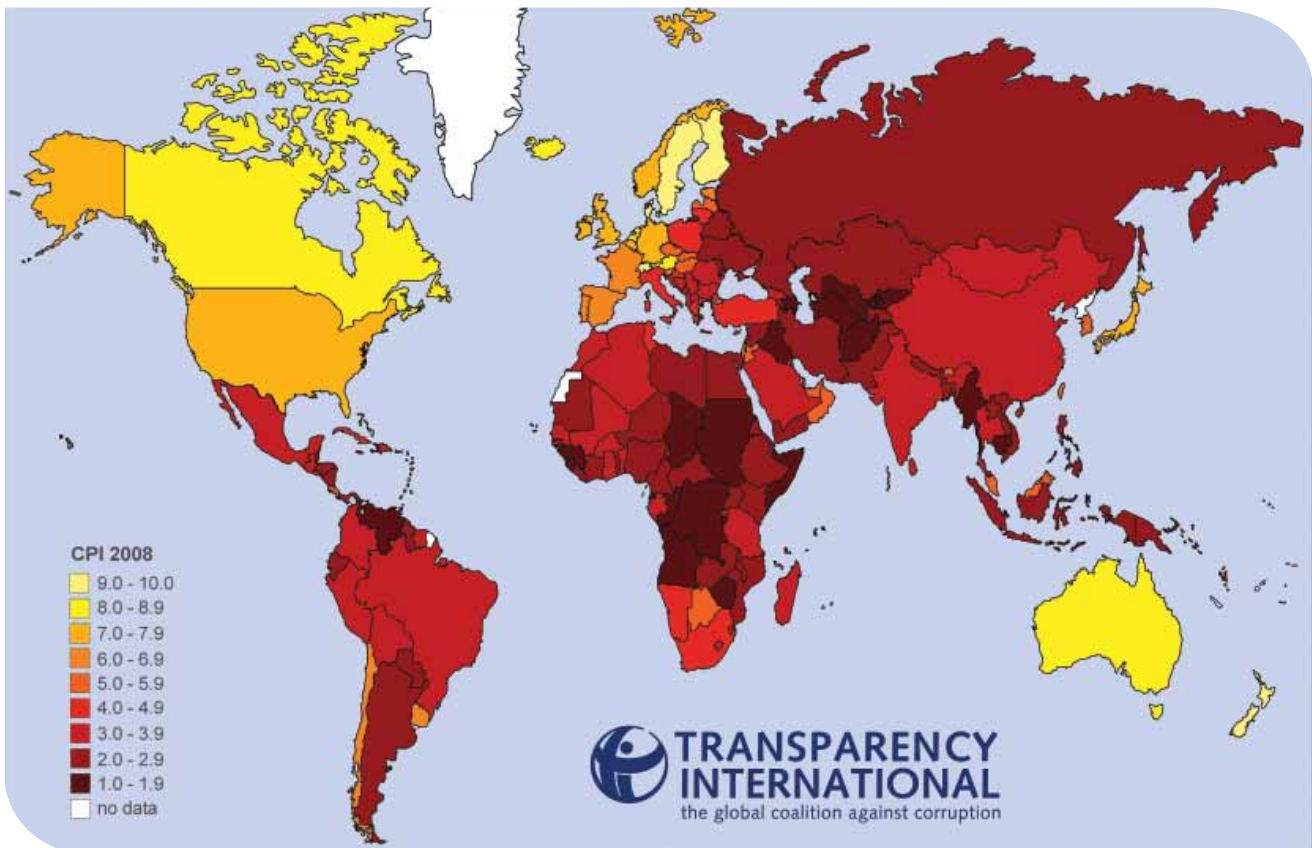
KESKO'S OPERATING COUNTRIES IN THE TRANSPARENCY CORRUPTION PERCEPTION INDEX

	Scale 1-10
1. Sweden	9.3
5. Finland	9.0
14. Norway	7.9
27. Estonia	6.6
52. Latvia	5.0
58. Lithuania	4.6
147. Russia	2.1
151. Belarus	2.0

ble Working Principles, the most recent version of which was published in late 2007. Read more about the guide and its implementation on page 27. The guide can also be found at www.kesko.fi/responsibility. The guide has been published in Finnish, Swedish, English, Norwegian, Russian, and all the Baltic languages, and has been distributed to all Group personnel.

In its own operations, Internal Audit pays particular attention to assessing systems designed to prevent malpractices and financial losses. Some malpractice incidents were detected during 2008. The incidents were examined in accordance with Group regulations.

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 2008, Estonia and Latvia in particular, have improved their rating while the rating Finland, Sweden, Norway, Lithuania, Russia, and Belarus fell compared to 2007.



Case

PROFICIENCY TRAINING IMPROVES AGE LIMIT CONTROL

The purpose of legislation concerning age-restricted products is to prevent damage that might be caused by them and to protect children and adolescents.

The age limit proficiency test allows checkout personnel to show their competence in the sale of age-restricted products. The test includes questions about the sale of alcohol beverages, tobacco, nicotine preparations, adult entertainment, money games, and computer and console games, which are all age-restricted products.

The proficiency test can be taken in K-food stores starting from the first half of 2009. The aim is that all checkout personnel and their supervisors will have completed the test by the end of 2009. Progress will be monitored during the spring and autumn.

The test is part of the development of the grocery store self-control system concerning the sale of age-restricted products. It is a voluntary action by the Finnish Grocery Trade Association and relates to the Finnish Government's alcohol programme. The aim is to improve store em-



ployees' proficiency to ensure that no age-restricted products end up to minors.

In the member companies of the Finnish Grocery Trade Association, all checkout personnel selling age-restricted products and their supervisors have to pass the test.

Each employee studies the material before taking the test on store's premises and in the presence of a supervisor. Those who have passed the test will receive a certificate. A well-functioning control system is an essential part of retail store responsibility and a part of self-control exercised by the store.

Luonnon omat sydänmerkkituotteet



Kesällä joulukin painoa
sallittuaan, kirsikka, vadelma, pähkinä,
vähärasvainen liha, maustettu pöytä.
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HEART SYMBOL VISIBLE IN FRUIT AND VEGETABLE DEPARTMENTS

The use of the Heart Symbol was expanded to cover fresh berries, fruit and vegetables in April 2008. The aim was to make healthy choices easier for consumers, increase their consumption of vegetables and increased awareness of the Heart Symbol.

Vegetables form an important part of a healthy diet as they contain a number of important nutritive substances along with nutrients and fibre that prevent diseases, but only little energy and fat.

The Heart Symbol helps consumers compose a diet that meets nutrition recommendations, by telling at a glance that the product is a better choice when it comes to fat and salt. The project of launching the Heart Symbol to the fruit and vegetable department is based on the trading sector's wish to respond to the ongoing nutrition discussion in Finland and the EU. In this way, healthy choices, such as vegetables, are better highlighted in stores.

Introducing the symbol to the stores' fruit and vegetable departments was the result of cooperation between the Finnish Grocery Trade Association, the Finnish Heart Association and the Finnish Horticultural Products Society. The project received support from the Food and Nutrition Programme (ERA) of Sitra, the Finnish Innovation Fund. In 2008, the Finnish Horticultural Products Society gave its annual recognition to the Finnish Grocery Trade Association for initiative and active participation in the cooperation that introduced the symbol to retail stores' fruit and vegetable departments.

K-SUPERMARKETS ARRANGED CAMPAIGNS ON HEALTHY PRODUCTS DURING HEART WEEKS

K-supermarkets arranged a campaign for wellbeing in April 2008. Nature's own Heart Symbol products, such as fresh asparagus, cherry tomatoes and oranges, were offered to customers at a campaign price.

K-supermarkets' Heart Weeks were part of the chain's wider wellbeing related to the campaign. The Heart Weeks encouraged customers to choose healthy products by providing tastings and special offers. "Our previous campaigns have clearly proved that lower prices increase the share of fruit and vegetables in the food basket. We strongly believe that campaigns can encourage people to choose more varied and healthy foods, as well as develop a comprehensive interest in individual and family diets," says **Jaana Hertsberg**, Vice President for the K-supermarket chain.

Case



PEKKA PUSKA BELIEVES IN NUTRITIONCODE

Pekka Puska, Director General of the National Institute for Health and Welfare (THL), warmly welcomes the Nutritioncode service expanded to all K-food stores in February 2009. According to the Professor, the service embeds healthy eating habits in the users as it provides both information and support in shopping for heart-friendly food.

"The importance of a good diet is crucial to the nation's health. Diet is a complex issue and we don't necessarily know what is good for us, this is why we need easy-to-understand, practical instructions," says Puska.

The Nutritioncode service offered for K-Plussa customers is free of charge and easy to use. Purchases are automatically registered in the system and the customer receives information on their nutrition content and how they meet the recommendations.

The service is available at www.ravintokoodi.fi and it can be adopted at www.plussa.com.

According to Puska, Nutritioncode is an excellent example of how 'health terrorism' is not always needed to encourage people towards choosing heart-friendly nutrition. He says that practical health education has progressed well in Finland: "The service is unique and has aroused much interest and positive attention outside Finland," explains Puska, who has presented Nutritioncode on the nutrition forums of the EU.

Half a million Finns suffer from diabetes and even more are in other health risk groups. One million Finns have blood pressure that exceeds recommendations and 15-20 percent of the nation are fat. Every other Finn is overweight.

"Everyone can benefit from taking nutrition recommendations into account when planning one's diet," says Puska.



PIRKKA PRODUCTS TO CONTAIN LESS FAT, SALT AND SUGAR

In May 2007, the EU published a white paper describing actions to stop the population from gaining excessive weight. One of the key measures is reformulation, which means that product compositions are modified by reducing their fat, salt and sugar contents.

Kesko Food started to systematically reduce the content of fat, salt and sugar in those Pirkka products from which it was possible and sensible. By the end of 2008, a total of 34 Pirkka products had been reformulated. The objective is to reformulate some 200 Pirkka products.

Cutting salt content is easiest, fat and sugar reduction is more difficult

The reduction of salt proved the easiest. The salt contents were decreased in a number of processed meat products and bakery products. For example, the new salt content in Pirkka class A grill sausages is 1.7% (0.8 g of sodium per 100 g) compared with the previous 1.8%.

The salt content of the 25% Pirkka margarine was cut by 0.5 percentage points and that of the 60% margarine by 0.1. In all, the amount of salt reduced from the Pirkka margarines sold in 2008 corresponds to a 436-kg heap of salt.

The reduction of fat and sugar proved more difficult. However, good results were achieved in

cutting fat on prepared foods and sugar on bakery products. For example, the fat content of Pirkka organic pea soup dropped from 2% to 1.7%.

The sugar content of Pirkka cardamom rusks decreased from 8.6% to 6.8% and their fat content from 15% to 8%. The recipe for Pirkka country bread slices was modified for less fat, salt and sugar.

The work is elaborate and demanding because the products must be developed without compromising their organoleptic properties. Pirkka products are reformulated without changing the taste or other sensory properties. The reduced contents of fat, sugar or salt are not replaced by new, supplementary ingredients.



COMPARISON OF THE REPORT WITH THE GUIDELINES OF THE GLOBAL REPORTING INITIATIVE

GRI GUIDELINES		KESKO'S REPORT				
Code	GRI content	Global Compact, COP ^{a)}	Included	Page	Report title/Figure	Shortcomings/deviations
Profile						
1. Strategy and analysis						
1.1	CEO's statement		Yes	4	Review by the President and CEO	
1.2	Key impacts, risks, and opportunities		Yes	12-15	Key impacts, risks and opportunities	
2. Organisational profile						
2.1, 2.4, 2.5, 2.6, 2.10	Name of the organisation, Location of organisation's headquarters, Countries of operation, Nature of ownership and legal form, Awards received		Yes	6-7, 45	Key facts about the Kesko Group, Environmental responsibility	
2.2, 2.3, 2.7, 2.8	Primary brands and products, Operational structure, Markets served, Scale of the reporting organisation		Yes	6-7, 35, Annual report (p.58)	Key facts about the Kesko Group, Economic responsibility	
2.9	Significant changes during the reporting period regarding size, structure or ownership		Yes	6-7	Key facts about the Kesko Group	
3. Report parameters						
Report profile						
3.1-3.3	Reporting period, Previous report, Reporting cycle		Yes	2-3	Contents of the report	
3.4	Contact persons		Yes	90	Contact personnel in corporate responsibility	
Report scope and boundary						
3.5	Process for defining report content		Yes	2-3, 18	Contents of the report, Materiality matrix	
3.6-3.7	Boundary of the report, Limitations on the scope or boundary of the report		Yes	2-3, 8-9	Contents of the report, Kesko Group's key indicators of corporate responsibility for 2006-2008	Projected timeline for providing complete coverage for all indicators not included. Reporting also partly covers the years 2004-2008.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities etc.		Yes	2-3, 6-7	Contents of the report, Key facts about the Kesko Group	The report covers the data from the subsidiaries.
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	The data calculation methods have been reported separately in each section.
3.10	Explanation of the effect of any re-statements of information provided in the previous reports		Yes	2-3	Contents of the report, The explanations are also noted in connection with the information concerned	The changes regarding the previously reported data are reported in connection with the figures in question.
3.11	Significant changes from previous reporting periods		Yes	2-3	Contents of the report	If the data for divested companies/units/divisions is included in the data reported, it is clearly stated in connection with the figures in question.
3.12	GRI Content Index		Yes	85-89	Comparison of the report with the guidelines of the Global Reporting Initiative	
Assurance						
3.13	Policy and current practice with regard to external assurance		Yes	2-3, 91	Contents of the report, Independent Assurance report	

GRI GUIDELINES			KESKO'S REPORT			
Code	GRI content	Global Compact, COP ^{a)}	Included	Page	Report title/Figure	Shortcomings/deviations
4. Governance, commitments, and engagement						
4.1	Governance structure of the organisation		Yes	24	Governance	Kesko's Corporate Governance is presented on pages 58-65 of Kesko's Annual Report 2008.
4.2	Independence of the Chair of the highest governance body		Yes	24	Governance	
4.3	Number of independent members in the highest governance body		Yes	24	Governance	
4.4	Mechanism for shareholder recommendations or directions		Partly	24, 21	Governance, Case on Corporate Governance Code	
4.5	Linkage between compensation for the highest governance body, senior managers, and executives and the organisation's performance		Yes	24	Governance	
4.6	Processes for the highest governance body to ensure conflict of interest are avoided		Partly	24	Governance	Conflicts of interest are handled as required by law. Information presented on page 23 of Kesko's Corporate Responsibility Report 2007.
4.7	Expertise of the members of the highest governance body for guiding the organisation's strategy on corporate responsibility		Partly	24	Governance	The Board rely on the expertise the Corporate Management Board and the 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	26-29	Kesko's management approach to corporate responsibility, objectives and performance in 2008	
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of corporate responsibility performance, incl. risks		Yes	12, 24	Key impacts, risks and opportunities, Governance	
4.10	Processes for evaluating the highest governance body's own performance		Yes	24	Governance	
Commitments to external initiatives						
4.11	Addressing a precautionary approach		Partly	79	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 procedures of the Unit.
4.12	Externally developed corporate responsibility initiatives to which the organisation subscribes		Yes	26-29	Kesko's management approach to corporate responsibility, objectives and performance in 2008	
4.13	Memberships in associations		Yes		Explained at www.kesko.fi / responsibility/responsibility management	

GRI 3 – application levels

		C	C+	B	B+	A	A+
Optional	Mandatory	Self Declared					
		Third Party Checked					
		GRI Checked					
			Report Externally Assured		Report Externally Assured		Report Externally Assured ✓
							Report Externally Assured ✓

Based on its own assessment, Kesko has followed the A+ application level of the GRI guidelines. The application level has been checked by a third party, PricewaterhouseCoopers Oyj. In accordance with the A+ level, Kesko reports all the key indicators or explains why it has not reported on them. GRI indicator protocols are not applied in detail for the calculation of all the indicators.

GRI GUIDELINES		KESKO'S REPORT				
Code	GRI content	Global Compact, COP ^{a)}	Included	Page	Report title/Figure	Shortcomings/deviations
Stakeholder engagement						
4.14	List of stakeholder groups engaged by the organisation		Yes	16-23	Stakeholder engagement, www.kesko.fi /responsibility/responsibility management	
4.15	Basis for identification and selection of stakeholders		Yes	16-23	Stakeholder engagement	
4.16	Approaches to stakeholder engagement		Yes	16-23	Stakeholder engagement	
4.17	Key topics and concerns highlighted by stakeholders		Yes	16-23	Stakeholder engagement, Materiality matrix	
5. Management Approach and Performance Indicators						
Management approach to economic responsibility			Yes	26-29, 31	Kesko's management approach to corporate responsibility, Kesko's approach to economic responsibility	
Economic performance indicators						
EC1	Direct economic value generated and distributed		Yes	6-8, 31, 33, 35-38	Key facts about the Kesko Group, Kesko Group's key indicators of corporate responsibility for 2006-2008, Economic responsibility, starting from page 31.	
EC2	Financial implications and other risks due to climate change	COP Relevant	Partly	14, 49-51		Kesko participates in Carbon Disclosure Project, see more information on page 33.
EC3	Coverage of organisation's benefit plan obligations		Yes	35-36	Employee pension and health insurance	
EC4	Financial assistance from government		Yes			No subsidies referred to by GRI.
EC6	Locally based suppliers		Yes	36, 38, 39	Suppliers of goods and services, Breakdown of economic benefits, Breakdown of economic benefits by region in Finland	
EC7	Local hiring	COP Relevant	Partly	35,38, 39, 63	Job development, Breakdown of economic benefits, Breakdown of economic benefits by region in Finland, Personnel statistics for 2008	
EC8	Infrastructure development		N/A			Not material to Kesko.
Management approach to environmental responsibility			Partly	14, 26-29, 44, 45	Kesko's management approach to corporate responsibility, Kesko's approach to environmental management, Environmental management systems	
Environmental performance indicators						
EN1	Materials use	COP Relevant	Partly	51	Use of materials	For Kesko Food, only packaging materials for products packed by Kesko Food are included.
EN2	Recycled input materials	COP Relevant	N/A			A trading company does not use recycled waste in the way referred to by GRI.
EN3	Direct energy consumption	COP Relevant	N/A			The direct energy consumption is not material compared to the indirect energy consumption reported in EN4.
EN4	Indirect energy consumption	COP Relevant	Yes	48, 51	Energy and water consumption 2008	

GRI GUIDELINES			KESKO'S REPORT			
Code	GRI content	Global Compact, COP ^{a)}	Included	Page	Report title/Figure	Shortcomings/deviations
EN5*	Energy saved due to conservation and efficiency improvements	COP Relevant	Yes	46-47	Real estate operations	
EN8	Water withdrawal	COP Relevant	Yes	47-48	Monitoring energy and water consumption, Energy and water consumption 2008	
EN11	Land owned, protected areas, biodiversity values	COP Relevant	N/A			No analysis has been made of land areas from the viewpoint of biodiversity.
EN12	Impacts on biodiversity	COP Relevant	NA			No analysis has been made of land areas from the viewpoint of biodiversity.
EN16	Greenhouse gas emissions	COP Relevant	Yes	48, 50	Environmental energy profile, www.kesko.fi/responsibility , Transport emissions	
EN17	Other relevant indirect GHG emissions	COP Relevant	Partly	51	Kesko's CO ₂ emissions, CO ₂ emissions related to business travel	
EN19	Emissions of ozone depleting substances	COP Relevant	Partly		Environmental energy profile (www.kesko.fi/responsibility)	Use of ozone depleting substances in cooling equipment not reported.
EN20	NO, SO and other air emissions	COP Relevant	Partly	8	Kesko Group's Key indicators of corporate responsibility for 2006-2008, Environmental energy profile (www.kesko.fi/responsibility)	
EN21	Total water discharge	COP Relevant	N/A			Not material to Kesko.
EN22	Waste	COP Relevant	Yes	51-52	Waste management and recycling	
EN23	Spills of chemicals, oils, etc.	COP Relevant	Yes	47, 54	Environmental risks, damage and incidents	
EN26	Mitigation of environmental impacts of products and services	COP Relevant	Partly	52	Product-related developments	
EN27	Products and their packaging materials reclaimed	COP Relevant	Partly	51	Waste management and recycling	Kesko produces no products, but as a retailer plays a significant role in recycling.
EN28	Fines and sanctions	COP Relevant	Yes			No significant fines or non-monetary sanctions paid in 2008.
EN29	Environmental impacts of transportation		Partly	50-51	Transportation, Transport emissions	
Management approach to social responsibility			Yes	26-29, 60	Kesko's management approach to corporate responsibility, Kesko's approach to human resources management	Kesko's approach to management of social responsibility is not reported separately for each social aspect defined in the G3 Guidelines. Description of Kesko's human resources management is included as well as Social quality control of suppliers and management of product safety together with procedures for protecting customers' privacy are disclosed.
Social performance indicators						
LA1	Total workforce		Yes	35, 61, 63	Job development Employment and employee turnover, personnel statistics	
LA2	Employee turnover	COP Relevant	Yes	61, 63	Employment and employee turnover, personnel statistics	Not specified according to age groups.
LA4	Collective agreements	COP Relevant	Yes	69	Cooperation with employee representatives	
LA5	Minimum notice periods in operational changes	COP Relevant	Yes	62	Employment and employee turnover	

GRI GUIDELINES			KESKO'S REPORT			
Code	GRI content	Global Compact, COP ^{a)}	Included	Page	Report title/Figure	Shortcomings/deviations
LA7	Health and safety statistics	COP Relevant	Yes	67	Health and safety	Injuries and sickness absences reported according to Finnish National Accounting Board's (KILA) recommendations. Information of subcontractors' accidents not included.
LA8	Employee education on serious diseases	COP Relevant	Yes	68	Health and safety	
LA10	Training		Partly	63, 66	Personnel statistics, Competence development and training	Not specified according to age groups.
LA11	Programs for skills management and lifelong learning		Yes	66	Competence development and training	
LA12*	Performance and career development		Yes	64	Emphasis on leadership	Percentage provided for employees in Finland.
LA13	Diversity of governance bodies	COP Relevant	Yes	65	Equality	Kesko's reporting covers age and gender.
LA14	Ratio of basic salary of men to women	COP Relevant	Partly			The Kesko Group uses a job grading system. The equality of pay is monitored as part of the implementation of company-specific equality plans.
HR1-HR9	Human rights	COP Relevant	Partly	72	Responsible purchasing	Not all indicators relevant to Kesko's operations: discussed as for product purchases.
S01	Managing the impact on communities		No			Kesko does not have separate programs for managing its impacts on communities.
S02	Business units analyzed for risks related to corruption	COP Relevant	Partly	81	Attitude to malpractice	In its own operations, Internal Audit pays particular attention to assessing systems designed to prevent malpractices and financial losses. Transparency International's corruption perception indexes in countries of operation are reported.
S03	Anti-corruption training	COP Relevant	Partly	81, 26	Attitude to malpractice 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	COP Relevant	Yes	81	Attitude to malpractice	
S05	Public policy development and lobbying	COP Relevant	Partly	81	Political relations	Commitments and key areas of influence presented at www.kesko.fi/responsibility . Position papers can be found at the Internet pages of the organisations in question.
S06*	Donations to political parties		Yes	81	Political relations	
S07*	Anti-competitive behavior incidents		Yes	81	Marketing and competition regulations	
S08	Fines and sanctions		Partly	69, 81		Employment dispute cases have been reported on page 69 and the compliance with marketing and competition regulations on page 81.
PR1	Health and safety impacts of products	COP Relevant	Partly	79	Product safety	These requirements are mostly covered by legislation and Kesko's reporting focuses mainly on own brand products.
PR3	Product and service information	COP Relevant	Yes	79	Product safety	
PR5*	Customer satisfaction		Partly	16, 22	Stakeholder analysis	Results of customer satisfaction surveys are not published, apart Kesko's Reputation Level Index. Customer feedback case.
PR6	Marketing communications		Partly	81	Marketing and competition regulations	No codes or voluntary standards relating to marketing communication are disclosed.
PR9	Fines for non-compliance		Yes			There were no sanctions levied against Kesko for failure to comply with laws or regulations related to product responsibility.

a) COP (Communication on Progress)
*) an optional additional indicator

INDEPENDENT ASSURANCE REPORT

To the Management of Kesko Corporation

We have been engaged by the Management of Kesko Corporation to perform a limited assurance engagement on the 2008 Corporate Responsibility Report of Kesko Corporation ('the Report') for the year ending December 31, 2008.

Management's Responsibility

Kesko Corporation's Management is responsible for the collection, preparation and presentation of information in the Report according to the reporting criteria as set out in Global Reporting Initiative's G3 Guidelines, AA1000 AccountAbility Principles Standard 2008 issued by AccountAbility, and in Kesko Corporation's internal corporate responsibility reporting guidelines.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the information disclosed in the Report based on our work performed. Our assurance report has been made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Kesko Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that causes us to believe that the Report does not present fairly, in all material respects, Kesko Corporation's corporate responsibility performance based on the reporting criteria.

Moreover, we conducted our work in accordance with AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with Kesko Corporation's Management, this Standard requires that we plan and perform the assurance engagement to obtain moderate assurance (consistent with "limited assurance" as articulated in ISAE 3000) with respect to evaluation of the nature and extent of Kesko Corporation's adherence to the principles in the AA1000 AccountAbility Principles Standard 2008 (inclusivity, materiality, responsiveness), and with respect to the evaluation of the reliability of the information disclosed in the Report based on the reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the practitioner's judgment, including the assessment of the risks of material non-compliance of the information

in the Report with the reporting criteria. We have performed amongst others the following procedures:

- Interviewing five (5) members of Kesko Corporation's Management in order to ascertain the current targets for Kesko Corporation's corporate responsibility as part of the business strategy and operations.
- Interviewing employees responsible for corporate responsibility data collection and reporting at Kesko Group level as well as at a sample of sites in Finland and Estonia.
- Assessing how Kesko Group employees apply the Kesko Corporation's internal corporate responsibility reporting guidelines and procedures.
- Evaluating management systems and inspecting relevant policies and documents relating to information disclosed in the Report.
- Evaluating systems for gathering, analyzing and aggregating corporate responsibility quantitative data as well as performing tests on a sample basis.
- Assessing corporate responsibility data consolidation process at Kesko Group level.
- Reading documents regarding Kesko Corporation's stakeholder engagement activities.
- Assessing Kesko Corporation's materiality definition process at Kesko Group level and evaluating defined material corporate responsibility aspects as well as evaluating information disclosed in the Report with respect to these aspects.

Conclusion

Based on our limited assurance engagement, we state our conclusion in relation to each of the principles in the AA1000 AccountAbility Principles Standard 2008.

Inclusivity: Nothing has come to our attention that causes us to believe that Kesko Corporation's Management is not committed, in all material respects, to corporate responsibility and stakeholder engagement in adherence to the principle of inclusivity, based on the criteria in AA1000 AccountAbility Principles Standard 2008.

Materiality: Nothing has come to our attention that causes us to believe that Kesko Corporation has not established and implemented a materiality definition process resulting in a comprehensive and balanced understanding and prioritisation of material sustainability issues, in all material respects, in adherence to the principle of materiality, based on the criteria in AA1000 AccountAbility Principles Standard 2008.

Responsiveness: Nothing has come to our attention that causes us to believe that Kesko Corporation has not established, in all material respects, policies, programmes and procedures to address material stakeholder expectations, and through non-financial reporting and other communications is

not responsive to the significant issues raised by its stakeholders in adherence to the principle of responsiveness, based on the criteria in AA1000 AccountAbility Principles Standard 2008.

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that Kesko Corporation's Corporate Responsibility Report for 2008 does not present fairly, in all material respects, Kesko Corporation's corporate responsibility performance, or that the information disclosed in the Report is not reliable, in all material respects, based on the above-stated reporting criteria.

Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for corporate responsibility information. This independent assurance report should not be used on its own as a basis for interpreting Kesko Corporation's performance in relation to its principles of corporate responsibility.

Observations and recommendations

Based on our limited assurance engagement, we provide the following observations and recommendations, which do not affect the above-stated conclusion.

- Product safety and combatting bribery are issues of high importance to various stakeholders based on Kesko Corporation's materiality determination process. We recommend improving reporting on product safety and combatting bribery thus successfully responding to stakeholder expectations.
- Considering Kesko Group's climate change impacts, transport represents nearly one third of Kesko Group's CO₂ emissions as a result of a significant decrease in emissions from the production of power and heat energy used. The reporting of transport greenhouse gas emissions has strengthened, but we recommend developing the consistency of the reporting of CO₂ emissions related to transport with respect to foreign subsidiaries and moving towards fuel consumption based calculation in Finland.
- Well-being of employees is of importance to Kesko Corporation thus having been selected as one of the target areas of improvement for 2009. We recommend aligning the strategy and measurement of well-being of employees and improving accuracy of the reported data.
- To streamline the data consolidation process we recommend continuing the development of reporting instructions for the sites as well as improving usage of the database to manage sustainability information.
- We recommend continuing work with supplier audits and reporting on progress and results of audits.
- We recommend continuing work to incorporate the corporate responsibility programme into the brand and marketing strategy work.


Practitioner's independence and qualifications

As auditor of Kesko Corporation, PricewaterhouseCoopers Oy is required to meet the independence requirements of Finnish Auditing Act (459/2007). In addition, PricewaterhouseCoopers' own Global Independence Policy, which in some areas exceeds the Finnish statutory requirements, is applicable to PricewaterhouseCoopers Oy, its partners and professional staff, including all members of the assurance engagement team.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, sustainability management, social and environmental issues as well as knowledge of the retail industry to undertake this assurance engagement.

Helsinki, 3 April 2009

PricewaterhouseCoopers Oy


Johan Kronberg
Authorised Public Accountant


Sirpa Juutinen
Director, Sustainable Business Solutions

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
Development, coordination, responsibility for editing the report		
Ulla Rehell	Assistant Vice President, Corporate Responsibility	Kesko Corporation, Corporate Communications and Responsibility
Helena Frilander	Corporate Responsibility Advisor	Kesko Corporation, Corporate Communications and Responsibility
Pirjo Nieminen (pirjo.j.nieminen@kesko.fi)	Communications Officer	Kesko Corporation, Corporate Communications and Responsibility
Indicators of economic responsibility		
Tiina Nyrhi	Financial Controller	Kesko Corporation, Corporate Accounting
Päivi Avelin	Controller	Kesko Corporation, Corporate Accounting
Esko Mansikka	Managing Director	Vähittäiskaupan Tilipalvelu VTP Oy
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DEFINITIONS OF TERMS

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

Return on investment, %	= $\frac{\text{Profit/loss before tax + financial expenses}}{\text{Shareholders' equity + interest-bearing liabilities}}$	x 100
Equity ratio, %	= $\frac{\text{Shareholders' equity}}{\text{Balance sheet total - prepayments received}}$	x 100
Gearing, %	= $\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity}}$	x 100
Market capitalisation	= Share price at balance sheet date x number of shares	
Primary energy	= available in resources in their natural state; divided into renewable and unrenovable energy	
GWh	= gigawatt hour = a million kilowatt hours (kWh)	
1 kWh	= 3.6 MJ = 3,600 kJ (in GRI guidelines the unit for measuring energy is joule or J)	
CO ₂	= carbon dioxide = affects climate change ('greenhouse effect')	
CO ₂ eq.	= carbon dioxide equivalent, the amount of different gases whose combined impact on the greenhouse effect corresponds to the amount of carbon dioxide mentioned	
SO ₂	= sulphur dioxide equivalent (affects acidification)	
C ₂ H ₄	= ethene (affects the ozone content of the lower atmosphere)	
Transbox crate	= reusable transport case made of plastic	



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