

# KESKO

**CORPORATE  
RESPONSIBILITY REPORT**

2012





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# CONTENTS OF THE REPORT

Since 2000, Kesko has annually reported on its corporate responsibility in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. This report covers, in line with the GRI G3 guidelines, the key areas of economic, social and environmental responsibility. In our operations, we apply the AA1000 AccountAbility Principles (inclusivity of stakeholders, identification of material issues and responsiveness to stakeholders).

We have divided this report into five sections: introduction, strategy, responsibility themes, responsibility management and GRI indicators. Their contents are described in section Report Structure. A comparison of the report contents against the GRI G3 guidelines is provided on pages 60–64. As required by the GRI, the comparison includes Kesko's self-declaration on its reporting level. The level assessment has also been checked by the assurance provider and the parties are in agreement that Kesko's reporting has followed the A+ application level of the GRI reporting guidelines.

## REPORT STRUCTURE

The introduction first provides basic information on Kesko, its divisions, brands, ownership structure and market area. This is followed by the reviews by the President and CEO and the Senior Vice President, responsible for corporate responsibility, Kesko's ratings in the most important sustainability indices, a summary of the key events in 2012, and Kesko's responsibility path. A summary of the key responsibility indicators can be found on page 7.

The section Responsibility is a Strategic Choice describes the impacts of Kesko's operations, the most material aspects, the

impacts of responsibility on business operations, stakeholder interaction, and opportunities and risks while concentrating on issues most material to the retail trade. The results of the 2008–2012 responsibility programme are presented on page 22 and the key objectives of the updated responsibility programme on page 23.

Based on the responsibility programme and materiality assessment, six material themes have been selected to describe Kesko's responsibility work. The theme Responsible Operator discusses Kesko's responsible operating practices and the multi-channel store network. The theme For the Benefit of the Community describes the local approach and K-retailer entrepreneurship. Kesko as an employer and workplace is discussed in the Working Community section. The fourth theme is a review of responsibility in purchasing and product safety, and the fifth theme discusses online services and services promoting customer wellbeing. The theme section ends with a review of Kesko's work for mitigating climate change.

The case examples within the themes have been divided into two groups: The 'Let's do good. Together.' cases illustrate Kesko's key responsibility work in respect of business strategy, while the Highlights cases describe Kesko's pioneering work and diversity of operations. A new component in the Themes section are the addresses by stakeholders in which our key stakeholders talk about their expectations and views.

Since the summer of 2012, we have presented Kesko personnel's responsibility work in the series 'Bearing Responsibility' published on Keskonet, the Kesko intranet. The series has been included in the Themes section of this report. Longer

versions of the stories are available in the online version of this report.

The Responsibility Management section discusses the management and organisation of responsibility at Kesko and responsibility themes are used for describing the management approaches. The progress and results of responsible operations are disclosed in more detail in the GRI Indicator section of the report on pages 77–100, arranged in accordance with the GRI guidelines. The results are presented using indicators most material to stakeholders and Kesko.

When reading the report it should be noted that personnel affairs, for example, are discussed in the Working Community theme section and the GRI Indicator section.

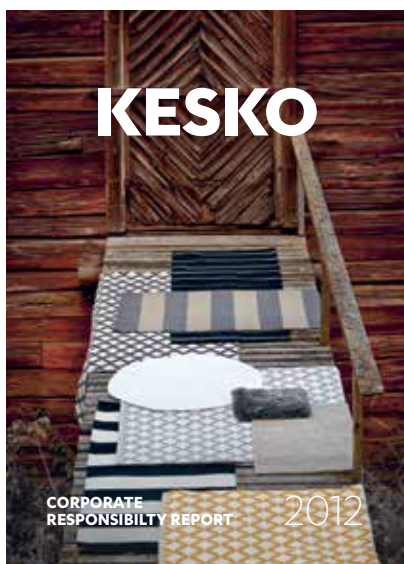
## OTHER CHANNELS OF RESPONSIBILITY COMMUNICATIONS

More extensive financial information, Kesko's principles of corporate governance and risk management are disclosed in more detail in Kesko's Annual Report and at [www.kesko.fi](http://www.kesko.fi). Kesko's responsibility programme for 2008–2012, corporate responsibility vision and principles, as well as the stakeholder analysis are available in full at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

Kesko's responsibility work is also described in Kesko's Annual Report, on the websites of Kesko and its chains, on the [Pirkka.fi](http://Pirkka.fi) pages, on the Facebook pages of Kesko, its chains and K-stores, and through other social media channels.

## REPORTING SCOPE

The Kesko Group (hereinafter also 'Kesko') follows the principles for reporting boundary and disclosure levels defined in the GRI Boundary Protocol.



**THIS IS KESKO'S  
13TH CORPORATE  
RESPONSIBILITY REPORT.  
THE REPORT THEME IS  
LET'S DO GOOD.  
TOGETHER.**

The reporting covers all of Kesko's operations.

- Most economic responsibility indicators are derived from the consolidated financial statements, the preparation and representation of which are governed by the IFRS standards.
- The key environmental indicators, such as energy consumption, water consumption, waste and direct greenhouse gas emission from operations, cover the most significant environmental impacts of the parent company Kesko Corporation and its subsidiaries in all countries in which they operate, excluding Intersport stores in Russia.
- The HR indicators cover the personnel of the parent company Kesko Corporation and its subsidiaries in all countries in which they operate.

Around three quarters of Kesko employees work in retail stores. The report does not cover the personnel employed by retailer entrepreneurs, unless separately stated in the text.

Any deviations and limitations in the boundary are reported in connection with the indicators in question. If changes have taken place in the indicators, their scope, boundary or measurement methods reported previously, related information is given in connection with the respective indicators.

Indicator reporting does not cover contractors or suppliers of goods and services, unless stated otherwise.

#### **INFORMATION ON K-RETAILERS**

Kesko's division parent companies and chains act in close cooperation with retailer entrepreneurs and other partners. The

report presents information on K-stores (e.g. energy monitoring) when it is materially related to Kesko's reporting and complements the overall picture of the relations of Kesko and K-retailers with society and other stakeholders. In such cases, the report refers to them as 'the K-Group'.

#### **REPORT STAKEHOLDERS**

Kesko's reporting is comprehensive, and many investors and institutions making sustainability assessments use the report as their source of information when assessing Kesko's performance in various areas of responsibility. The most important target groups of the report include owners, investors, analysts, Kesko personnel and the media. In the report, we have also taken into account Kesko's other important stakeholders: customers, suppliers of goods and services, as well as non-governmental and environmental organisations. In the Themes section, we give our customers and business partners practical information on Kesko's responsible operations and events in 2012.

#### **GLOBAL COMPACT REPORTING**

The report describes Kesko's progress on the 10 principles of the Global Compact initiative. The Global Compact accepts the use of the indicators in the GRI G3 Guidelines as appropriated for this purpose. The GRI index on pages 60–64 shows which indicators have been used for evaluating performance in fulfilling the principles of human rights, labour, the environment and anti-corruption.

#### **ASSURANCE OF REPORTING**

This report has been published in print in Finnish and English. The PDF version and the online version are available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility). The online version consists of the main elements of the report and some additional material.

An independent third party, PricewaterhouseCoopers Oy, has provided assurance for the corporate responsibility information in the printed Finnish language report and checked congruence between the Finnish and English versions. The assurance report provided by PricewaterhouseCoopers Oy can be read on pages 102–103.

An independent assurance provider has provided assurance for Kesko's reporting since 2002. The assurance is commissioned by operative management.

This report covers the progress and results of responsibility actions in 2012 with some information concerning January–March 2013. The 2011 report was published in April 2012 and the 2013 report will be published in spring 2014.



# KESKO IN BRIEF

Kesko is a listed trading sector company domiciled in Helsinki, where the main office is also located. 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 manages retail chains and provides services for the retail chains' purchasing, logistics, network development and information management. Kesko's chain operations comprise some 2,000 stores in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus.

## KESKO'S DIVISIONS

### FOOD TRADE

#### LINE OF BUSINESS

Kesko Food is a key operator in the Finnish grocery trade. K-food retailers, with whom Kesko Food applies the chain business model, are responsible for the more than 900 K-food stores. In December 2012, Kesko Food opened the first grocery store in the K-ruoka chain in St. Petersburg, Russia.

PERCENTAGE OF THE GROUP'S NET SALES

**44%**

NET SALES

**4,311**  
€ million

NUMBER OF PERSONNEL, AS AT 31 DEC. 2012

**3,114**

PERCENTAGE OF THE GROUP'S OPERATING PROFIT EXCL. NON-RECURRING ITEMS

**69%**

OPERATING PROFIT EXCL. NON-RECURRING ITEMS

**168.4**  
€ million

OPERATING COUNTRIES

Finland, Russia



### HOME AND SPECIALITY GOODS TRADE

#### LINE OF BUSINESS

Kesko's home and speciality goods chains provide customers with products and services related to clothing, home, leisure, home technology, entertainment, interior decoration and furniture.

PERCENTAGE OF THE GROUP'S NET SALES

**16%**

NET SALES

**1,603**  
€ million

NUMBER OF PERSONNEL, AS AT 31 DEC. 2012

**8,950**

PERCENTAGE OF THE GROUP'S OPERATING PROFIT EXCL. NON-RECURRING ITEMS

**8%**

OPERATING PROFIT EXCL. NON-RECURRING ITEMS

**19.8**  
€ million

OPERATING COUNTRIES

Finland, Estonia, Latvia, Russia



## BUILDING AND HOME IMPROVEMENT TRADE

### LINE OF BUSINESS

Rautakesko operates in eight countries where it manages and develops five retail store chains for building, renovation and home improvement products and services, and the K-maatalous agricultural chain in Finland. Rautakesko and its chains are engaged in both B2C and B2B sales.

PERCENTAGE OF THE GROUP'S NET SALES

**29%**

NET SALES

**2,827**  
€ million

NUMBER OF PERSONNEL,  
AS AT 31 DEC. 2012

**10,204**

PERCENTAGE OF THE GROUP'S OPERATING PROFIT EXCL. NON-RECURRING ITEMS

**6%**

OPERATING PROFIT  
EXCL. NON-RECURRING  
ITEMS

**13.6**  
€ million

OPERATING COUNTRIES

Finland, Sweden, Norway,  
Estonia, Latvia, Lithuania,  
Russia, Belarus



## CAR AND MACHINERY TRADE

### LINE OF BUSINESS

The car and machinery trade consists of VV-Auto and Konekesko with their subsidiaries. VV-Auto and Konekesko represent leading brands and are responsible for their sales and after-sales services.

PERCENTAGE OF THE GROUP'S NET SALES

**11%**

NET SALES

**1,114**  
€ million

NUMBER OF PERSONNEL,  
AS AT 31 DEC. 2012

**1,259**

PERCENTAGE OF THE GROUP'S OPERATING PROFIT EXCL. NON-RECURRING ITEMS

**17%**

OPERATING PROFIT  
EXCL. NON-RECURRING  
ITEMS

**42.1**  
€ million

OPERATING COUNTRIES

Finland, Estonia, Latvia,  
Lithuania, Russia



**KESKO'S BUSINESS OPERATIONS**

Kesko and K-retailers form the K-Group, whose retail sales totalled around €12 billion in 2012. The K-Group employs around 45,000 people.

In 2012, the Kesko Group's net sales were €9,686 million, representing a growth of 2.4% compared to the previous year. International operations accounted for 18.2% of net sales, showing an increase of 9.0%. At the end of 2012, Kesko had 1,210 K-retailer entrepreneurs as partners.

**KESKO'S OWNERS**

Kesko Corporation is a listed company whose shares are quoted on the NASDAQ OMX Helsinki Ltd Helsinki Stock Exchange. Kesko Corporation's share capital is divided into A and B share series. At 31 December 2012, the company's share capital totalled €197,282,584.

A shares accounted for 32.2% and B shares for 67.8% of all shares. Each A share carries 10 votes and each B share 1 vote. The votes attached to A shares accounted for 83% and the votes attached to B shares 17% of all votes attached to the shares.

The company's 10 largest shareholders, calculated by number of votes, held 17.3% of all shares and 36.0% of all votes.

The company cannot vote with treasury shares (608,591 B shares). At the end of 2012, the market capitalisation of A shares was €774 million and that of B shares €1,644 million. The total market capitalisation was €2,418 million.

At the end of 2012, the number of shareholders was 44,554, which is 3,339 more than at the end of 2011.

Foreign ownership of all shares was 18% at the end of December. Foreign ownership of B shares was 27% at the end of December.

**PERSONNEL**

In 2012, the average number of Kesko personnel was around 19,741 (2011: 18,960), converted into full-time employees, and they work in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus, with 52% in Finland and 48% in the other countries. Approximately three quarters of all employees worked in retailing.

Compared to 2011, there was an average increase of 170 employees in Finland. Outside Finland, the increase was 611 compared to 2011.

**STORE SITE OPERATIONS**

The store site network is a strategic competitive factor for Kesko. It provides opportunities for developing business operations and increasing sales and customer satisfaction. Kesko's division parent companies are responsible for their own store sites throughout their life cycles. The companies plan their own store site networks and, on the basis of their network and business plans, make capital expenditures in accordance with the Group's real estate strategy. Opportunities for cooperation between the division parent companies are sought and leveraged in shopping centre projects.

Kesko's real estate operations are based on the life cycle affordability and eco-efficiency of store sites. The aim is the lowest life cycle costs in the trading sector. Kesko makes capital expenditure only on properties needed in its own or supporting business operations.

At the end of 2012, the combined area of real estate and premises owned or leased by Kesko was 4,122,000 m<sup>2</sup>. At the end of the year, the area of owned properties in Finland was 750,000 m<sup>2</sup> and in the other operating countries 355,000 m<sup>2</sup>.

**SUPPLIERS AND SERVICE PROVIDERS**

Kesko purchased products valued at around €8.1 billion, of which around 68% was from Finnish suppliers. Kesko had a total of around 21,700 active product and service suppliers, of which 10,600 were companies operating in Finland. The Group had 8,100 suppliers in its other operating countries and 3,000 in the rest of the world. The main countries from which goods were imported for operations in Finland were the Netherlands, Sweden, Germany and Denmark, and, outside the EU, China.

**CUSTOMER GROUPS**

Kesko's sales to retailer entrepreneurs accounted for 52% of the sales in 2012. Food retailers made around 92% of their purchases, home and speciality goods retailers around 96% and building and home improvement and agricultural retailers around 72% of their purchases via Kesko. K-retailers' product purchases from local regional suppliers valued at €586 million. Kesko's own retailing accounted for 26% of total sales. Kesko's sales to professional customers contributed 22% to total sales.

KESKO'S BUSINESS MODELS





KEY PERFORMANCE INDICATORS	2012	2011	2010
<b>Finances</b>			
Net sales, € million	9,686	9,460	8,777
Operating profit excl. non-recurring items, € million	235	279	268
Profit before tax, € million	215	282	312
Return on capital employed excl. non-recurring items, %	9.3	13.1	14.0
Dividends, € million	118	118	128
Salaries, fees and social costs paid, € million	603	571	521
Goods, materials and services purchased, € million	9,454	9,188	8,526
Capital expenditure, € million	378	425	325
<b>Personnel</b>			
Permanent employees, %	89.0	87.4	86.3
Full-time employees, %	71.3	71.5	71.3
Wellbeing at work (personnel survey, scale 1–5)	3.81	3.75	3.75
Gender equality (personnel survey, scale 1–5)	4.18	4.11	4.02
Supervisory positions held by women, Finland, %	51	51	52
Contribution to occupational health care, €/person	479	447	435
Sickness absence rate, Finland, %	4.8	4.8	4.9
Sickness absence rate, other operating countries, %	4.0	3.4	3.7
<b>Environment</b>			
CO <sub>2</sub> emissions, Scope 1 and 2, CO <sub>2</sub> e, thousand tonnes (real estate and own logistics)	208	202	200
CO <sub>2</sub> emissions/net sales (Scope 1 and 2)	21.4	21.3	22.8
CO <sub>2</sub> emissions/FTE (Scope 1 and 2)	10.5	10.5	10.8
Specific consumption of electric energy, Finland, kWh/gross m <sup>2</sup>	213	219	224
Specific consumption of heat energy, Finland, kWh/gross m <sup>2</sup>	95	90	110
Waste recovery rate, % (central units and cash&carry outlets in Finland)	93	93	n/a
<b>Supply chain</b>			
Direct purchases from high-risk countries, Finnish companies, % of all purchases	1.3	1.8	1.5
Suppliers included in BSCI audit process	209	247	188
SA8000 certified suppliers	14	10	24

**FINLAND**

All divisions. Number of stores 1,535.

**SWEDEN AND NORWAY**

Building and home improvement trade. Number of stores 127.

**BALTIC COUNTRIES**

Building and home improvement trade, machinery trade, furniture trade and distance sales. Number of stores 46.

**RUSSIA**

Building and home improvement trade, food trade, sports trade, machinery trade. Number of stores 44.

**BELARUS**

Building and home improvement trade. Number of stores 9.



# REVIEW BY THE PRESIDENT AND CEO

*2012 was characterised by the deterioration of the general economic situation and consumer confidence and the Kesko profitability programme that was launched in response. The role of e-commerce and services became more pronounced as consumers expect an increasing number of multi-channel services from the trading sector. The most significant projects were the Veturi shopping centre in Kouvola and the first grocery store of the K-ruoka chain in St. Petersburg, Russia. During the year we updated our responsibility programme, which sets both long and short-term objectives for Kesko and the entire K-Group.*



## **PROFITABILITY PROGRAMME TO GENERATE SAVINGS AND IMPROVE EFFICIENCY**

The deteriorating economic situation and the higher cost levels in 2012 called for strong measures to ensure Kesko's competitiveness and to improve cost-efficiency. Kesko started a Group-wide profitability programme aimed at securing sales growth, implementing cost savings of €100 million and enhancing the efficiency of capital use by adapting

capital expenditure and improving stock turnover rates. Most of the targeted cost savings are expected to be achieved during 2013.

## **STORE NETWORK EXPANDS INTO NEW MARKETS**

One of Kesko's largest retail projects, the Veturi shopping centre was opened in Kouvola in September. In addition to Finland, an important area of growth is Russia, where the market develops rap-

idly. In December, the first grocery store in the K-ruoka chain was opened in St. Petersburg, Russia. The objective is to open three new K-grocery stores in the St. Petersburg region and a third K-rauta in Moscow during 2013.

Crucial preconditions for expansion include success in the acquisition and building of good store sites, in the development of store concepts, in purchasing and logistics and in the recruitment and encouragement of motivated and skilled personnel.

The trading sector's operation is subject to many kinds of international and national regulations. During 2012, there was a lot of discussion on the proposed amendment to the Finnish Competition Act regarding dominant market shares. Kesko opposes the proposed change, because we believe it would limit open and fair competition, raise prices, reduce the range of goods on offer and increase imports. The amendment does not take into consideration the fact that K-food retailer entrepreneurs compete not only with other companies in the food trade but also with one another.

#### **RESPONSIBILITY IS A STRATEGIC CHOICE**

Responsibility is an inherent part of daily work at Kesko and K-stores. It is also essential for achieving good financial results and building trust between Kesko, the K-stores, customers and business partners.

In 2012 we updated our responsible working principles that guide the work of employees at Kesko and K-stores. It is especially important to ensure that all employees in the eight countries where we operate, as well as our partners, commit themselves to working in line with Kesko's values and responsibility guidelines.

#### **SERVICES ADOPT MULTI-CHANNEL APPROACHES**

Customer needs and purchasing habits change rapidly as new online services and quickly-developing technologies are introduced. The importance of electronic transactions and multi-channel services has grown in the past few years.

The increase in electronic services and online shopping provides customers new purchasing opportunities and forces the trading sector to develop new operational models and logistics solutions.

Kesko has started a Group-level project that aims to greatly increase electronic transactions, services and interaction provided by stores and chains. Achieving the objectives requires for the development projects to progress quickly enough

and for us to offer interesting electronic services and online stores to customers.

#### **OUR PARTICIPATION IN COMBATING CLIMATE CHANGE**

In the spring of 2012, Kesko joined the Climate Partners network, a joint organisation formed by businesses and the City of Helsinki that aims to find new ways to combat climate change.

The Kodin1 department store for interior decoration and home goods in Raisio, scheduled to be completed in May 2013, will be the first passive retail store building in the Nordic countries. With a waste recovery rate of nearly 99% at Anttila's logistics centre in Kerava, almost no waste ends up in the dump.

Energy solutions currently in use include the K-store freezer lids and doors, condensate heat recovery, refrigerated units that use carbon dioxide, and adjustable and targeted lighting. Keslog transport emissions are reduced through economic driving, route planning and two-tier trailers.

The Energy Expert service at K-rauta and Rautia stores aims to make it easy for customers to improve energy efficiency in their homes.

We are also looking into the use of renewable energy sources: using the ground and water as sources of heat and cooling as well as using solar energy are increasingly often possible alternatives as technical solutions become more sophisticated.

#### **THE RESPONSIBILITY PROGRAMME UPDATED**

The Kesko Board of Directors accepted the updated Kesko responsibility programme in December 2012. When working on the programme and setting its objectives, we took into account the future changes in our operating environment and the expectations of our stakeholders. The updated responsibility programme contains both short- and long-term objectives for Kesko's and the whole K-Group's operations up to 2020. The responsibility programme covers all divisions and it is important to ensure that it is adopted as a part of all our operational processes.

Our customers must be able to trust the quality and safety of the products we sell and be confident that when they enter a K-store they will make a responsible and sustainable choice. The new K-responsibility concept will be adopted in all K-food store chains during 2013, and it aims to make responsible actions visible and easy to make for our customers.

#### **KESKO REMAINS IN THE MOST IMPORTANT INDICES**

The demand for responsibility has emerged as an important criterion for institutional investors when deciding where to invest. Kesko has established its position in comparative studies that measure responsibility and serve as tools for investors when making investment decisions.

In 2012, Kesko was again included in the most important sustainability indices, such as the Dow Jones indexes DJSI World and DJSI Europe, the FTSE4Good index and the Nordic Climate Disclosure Leadership Index. Kesko has been included in 'The Global 100 Most Sustainable Corporations in the World' list every year since the list was set up in 2005.

Kesko participates in the UN Global Compact initiative and is committed to observing ten generally accepted principles related to human rights, labour standards, the environment and anti-corruption in all the countries where it operates.

International initiatives and sustainability indices set a high standard for Kesko's responsibility. In the future, we have to take even better care that responsibility is implemented without exceptions in all our operations.

I wish to extend my warmest thanks to all Kesko employees, retailers and their staff, and our business partners for our fruitful cooperation. Let's continue to do good together.

**Matti Halmesmäki**  
President and CEO

REVIEW BY THE SENIOR VICE PRESIDENT RESPONSIBLE FOR CORPORATE RESPONSIBILITY

# RESPONSIBILITY CANNOT BE COMPROMISED



Kesko engages in long-term, high-quality corporate responsibility work that has been internationally recognised. For years, Kesko has been included in the most significant sustainable development indices. This sets a high standard for the demands on our responsibility work and its continued development. The objective of our updated responsibility programme is to ensure that responsibility is implemented in the daily work of every K-Group employee and across all of our processes.

The trading sector has been in the public spotlight during the past year, also in a negative light. Topics of discussion have included the structure of the Finnish retail trade, the taxation and amendment to the Competition Act regarding the dominant market share in the grocery trade. As an employer, Kesko was in the public eye in the autumn of 2012 when cooperation negotiations related to Kesko's profitability programme were carried out in all divisions. Product supply chains and product safety were discussed by the public in early 2013, first due to the unsatisfactory working conditions in a Thai factory revealed by Finnwatch and then because of the horsemeat cases.

Kesko operates in eight countries and the K-Group employs approximately 45,000 people. We purchase materials

from some 22,000 suppliers with about €8 billion every year. It is likely that different cases related to stores' responsibility will come up in the public in the future. Customers expect us to ensure the implementation of responsibility across the entire supply chain regardless of its length. We must ensure that responsibility is implemented without exceptions in every one of our processes. Our partners' operations must also be carried out responsibly.

As the population ages and the structure of the workforce changes, the trading sector will face a labour shortage in the future. The importance of responsibility in the construction of the employer image is increasingly emphasised. One of our areas of emphasis in 2013 is to improve youth employment and the attractiveness of the K-Group as an employer. We are participating in the Youth Guarantee initiative, which drives youth employment and prevents social exclusion. There are some 1,300 K-stores in addition to Kesko's units, and the objective is to employ as many young people under the threat of social exclusion as possible.

Kesko actively monitors and pre-empts societal changes and we will continue to work more closely and speak openly with organisations, authorities and our other stakeholders.

In 2012 we paid special attention to making responsible actions increasingly visible to our customers in stores. In the future our responsibility work will be visible as concrete information in stores through the 'Let's do good. Together.' campaign: we will talk about products, their origins, production and locality. We want to make our responsibility work visible to customers and we want to help our customers make sustainable decisions as easily as possible.

Kesko's 2012 Corporate Responsibility Report is already our 13th report. Over the years we have developed our reporting practices, and this year is no exception; our report has a lot of new features, such as the addresses by stakeholders and the online version of the report. We await with interest the changes brought by the G4 version of the GRI reporting guidelines and the development towards integrated reporting.

#### **Matti Mettälä**

Senior Vice President, Human Resources and Stakeholder Relations, Member of the Corporate Management Board responsible for corporate responsibility



# KESKO IN THE MOST SIGNIFICANT SUSTAINABILITY INDICES

*Kesko has been included in 'The Global 100 Most Sustainable Corporations in the World' list since 2005. On the 2013 list published in January, Kesko came in the 50th place.*

## DOW JONES SUSTAINABILITY INDICES

Kesko has been included in the Dow Jones Sustainability Indices DJSI World and DJSI Europe for ten successive years.



## SUSTAINABILITY YEARBOOK 2013

In the 2013 Sustainability Yearbook published in January 2013, Kesko was classified into the bronze class in the Food & Drug Retailers sector. The Sustainability Yearbook includes companies only the top 15% of which in each sector qualify among the world's leaders according to RobecoSAM's assessment.



## STOXX GLOBAL ESG LEADERS

Since 2011, Kesko has been included in the STOXX Global ESG Leaders index family, which represents the leading global companies in terms of environmental, social and governance criteria.



## FTSE4GOOD

Kesko has been included as a member in the FTSE4Good Index since 2009. Kesko's overall score in the FTSE4Good Index assessment in 2012 was 96/100. Kesko's work for mitigating climate change was given 5 points on a scale of 0-5.



## CDP

In October 2012, Kesko was featured in CDP's Nordic Climate Disclosure Leadership Index (CDLI) for the second time. Kesko's disclosure score was the highest in the Consumer Staples sector.



## OEKOM

The German oekom research assesses companies based on over 100 environmental and social responsibility criteria. oekom research has assigned Kesko a prime grade of C+ (latest in January 2012). This means that Kesko ranks among the world's best companies within the same industry.



**READ MORE**

[www.kesko.fi/investors](http://www.kesko.fi/investors)

# EVENTS IN 2012

26 MARCH 2012

## MANY KINDS OF PERFORMERS

Thanks to the joint project of the K-Retailers' Association and the Finnish Association on Intellectual and Developmental Disabilities (FAIDD), dozens of people with disabilities have found an employment or a training position in K-stores.

18 APRIL 2012

## CLIMATE PARTNER NETWORK

Kesko joined the Climate Partner network between the City of Helsinki and businesses and committed to reducing its carbon dioxide emissions.

27 JUNE 2012

## GUIDE 'OUR RESPONSIBLE WORKING PRINCIPLES' WAS UPDATED



1 MAY 2012

## E-SERVICES TO CUSTOMERS

The Pirkka recipe and shopping list services, operable on mobile devices since May, had over 120,000 users at the end of the year.

1 JUNE 2012

## MORE ENERGY EFFICIENT HOUSING

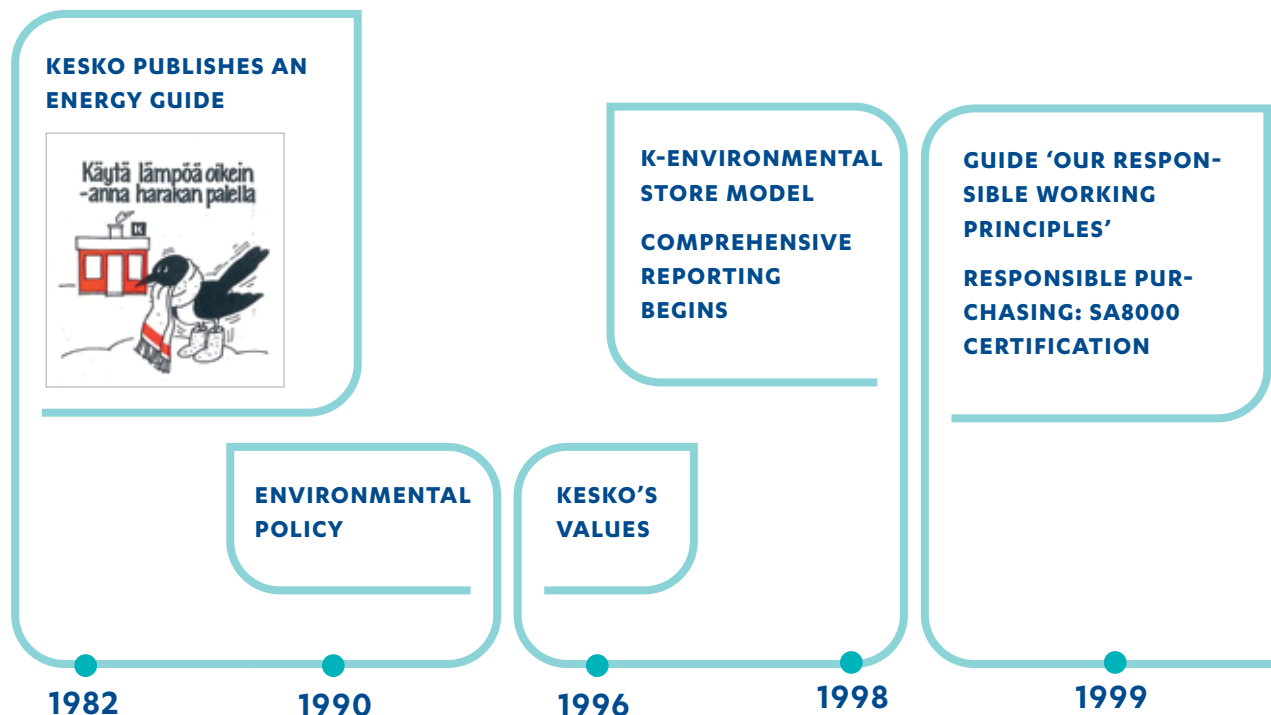
Rautakesko's Energy Expert concept was adopted in 26 K-rauta and 88 Rautia stores during the year. Energy Experts and Energy Masters serve the customers of the building and home improvement stores.

1 SEPTEMBER 2012

## GUIDE 'PRINCIPLES AND PRACTICE OF SOCIALLY RESPONSIBLE TRADING' UPDATED

The guide helps Kesko's buyers and suppliers especially in purchasing from high-risk countries.

## KESKO'S RESPONSIBILITY PATH



5 DECEMBER 2012

## K-RUOKA IS KESKO'S FIRST GROCERY STORE IN RUSSIA



24 OCTOBER 2012

### NEW ONLINE STORES

In addition to citymarket.fi opened in October, new retail websites opened during the year included mustaporssi.fi and kookenka.fi.

1 NOVEMBER 2012

### CASH FROM K-FOOD STORES

The cashback service was tested in 30 K-markets. The aim is to extend the service to K-food stores throughout the country by summer 2013.

13 SEPTEMBER 2012

### VETURI SHOPPING CENTRE OPENED IN KOUVOLA

The K-Group chains operating in the shopping centre are K-citymarket, K-rauta, Anttila, Intersport, Musta Pörssi, Kookenka and Budget Sport.

10 OCTOBER 2012

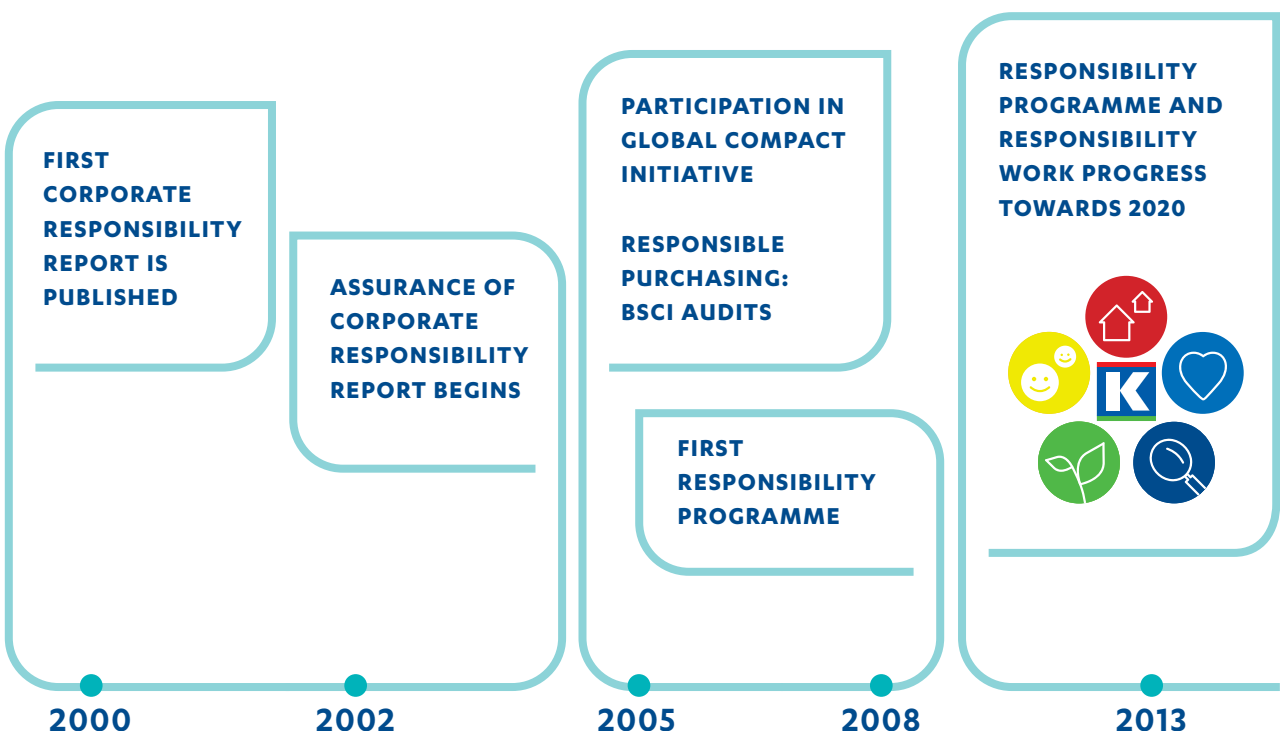
### MORE ECONOMICAL DRIVING

Keslog launched a training programme in economical driving for its drivers aimed to reduce emissions from transportation.

5 NOVEMBER 2012

### K-SUMMER JOB CAMPAIGN STRESSED THE IMPORTANCE OF EMPLOYING YOUNG PEOPLE

Anni Nurminen of K-citymarket Seppälä was selected as the K-Summer Employee of the Year and the retailer couple Jyrki and Mari Koenkytö of K-citymarket Loimaa as the K-Summer Employer of the Year.



# IMPACTS OF KESKO'S OPERATIONS



## GLOBAL ECONOMY

- Increasing importance of responsible investment
- Ethical purchasing principles and human rights in the chain of functions
- Good corporate governance

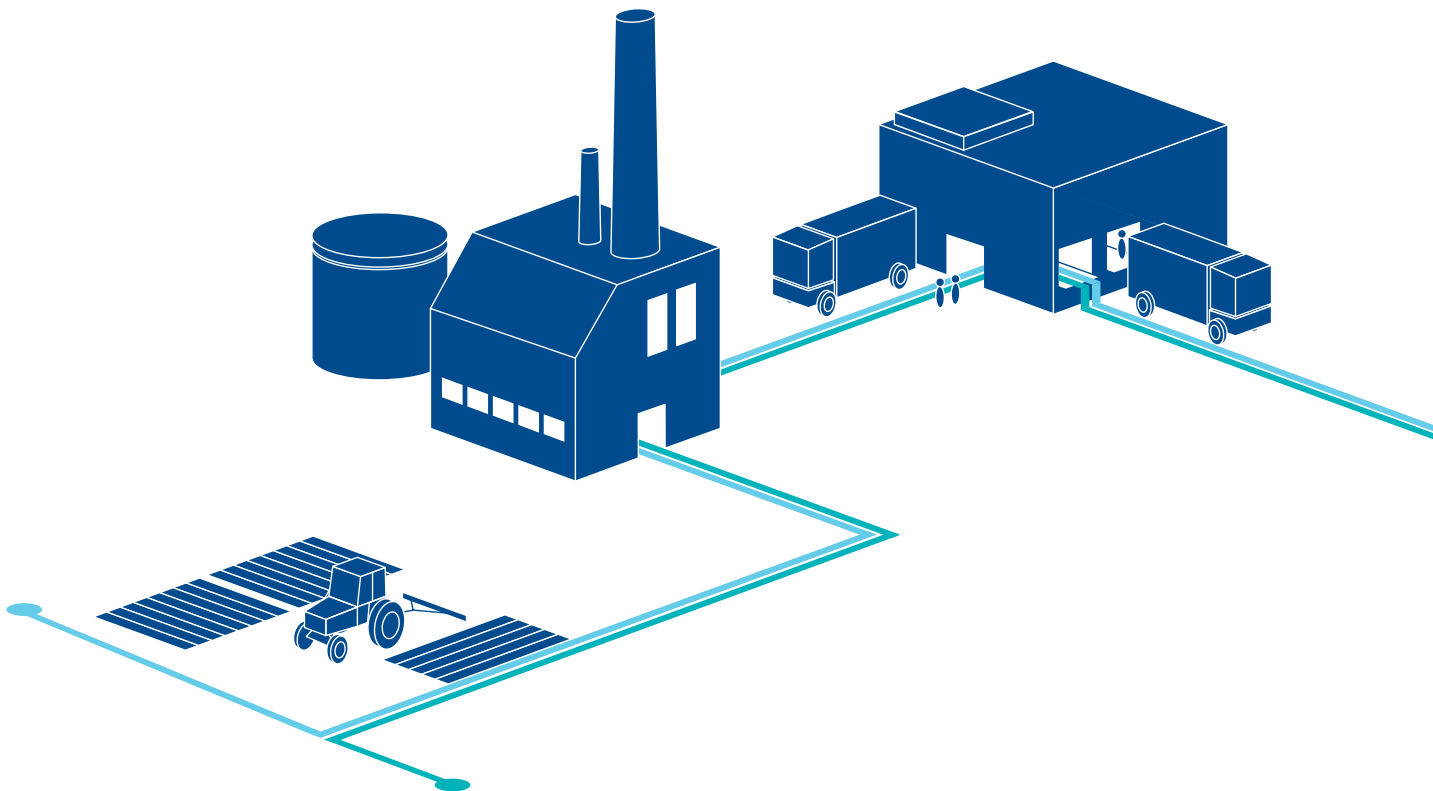


## POPULATION GROWTH

- Adequacy of water and nutrition for 9 billion people
- Ageing of population and adequacy of labour supply

## KESKO'S VALUE CHAIN

RAW MATERIALS → PRODUCTION → LOGISTICS



## RESPONSIBILITY THEMES

1

### RESPONSIBLE OPERATOR

Our responsible working principles guide all our operations. Together, we improve the financial profitability. We develop the multi-channel approach of our store network listening to the expectations of our customers.

2

### FOR THE BENEFIT OF THE COMMUNITY

A local approach and K-retailers are the competitive advantages of the K-Group. Retailers know the local community and the needs of their customers. Together with its partners, Kesko is building a better community.


3

### WORKING COMMUNITY

We offer meaningful and varied jobs for 45,000 people in eight countries. We want to be the most attractive workplace in the trading sector, with satisfied employees and competent supervisors.



Kesko's responsibility themes are based on the impacts of global megatrends on Kesko's value chain. Responsibility aspects have been prioritised in the materiality matrix on page 17 and they are described in more detail in the theme sections on pages 24–59.



### CLIMATE CHANGE

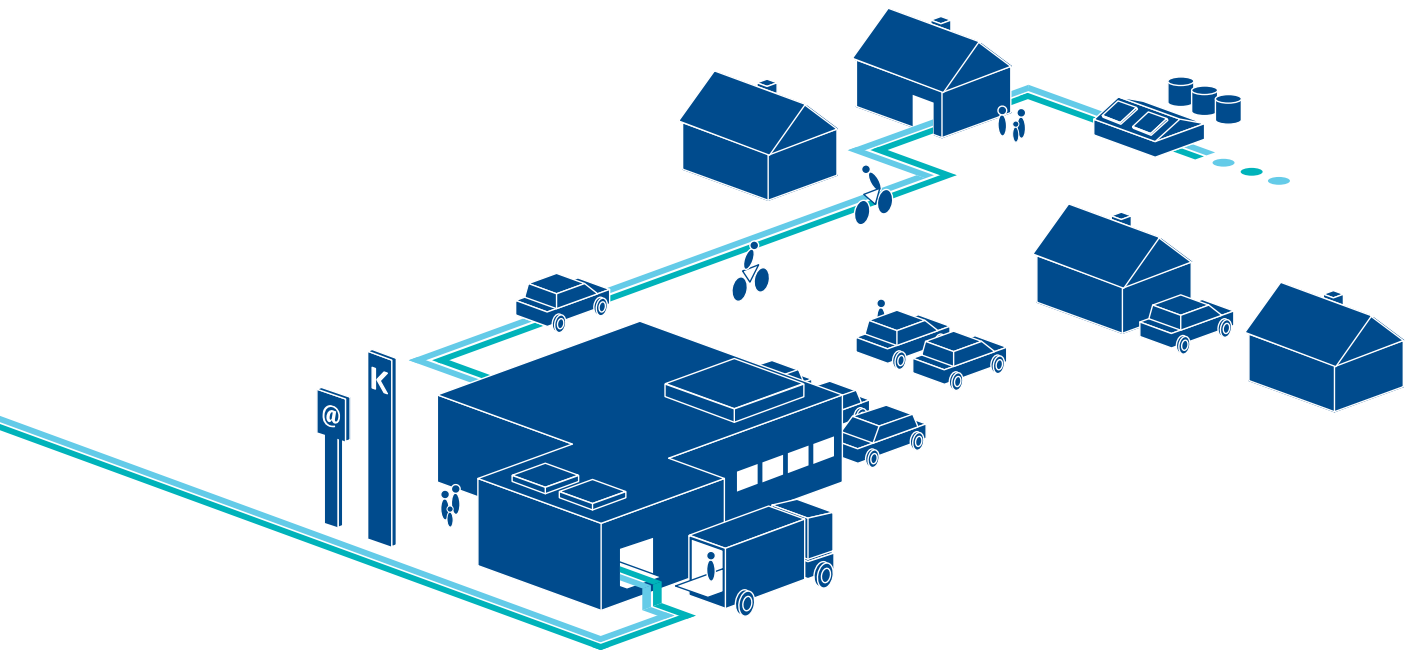
- Taking account of the environmental impacts of the entire production chain and products throughout their lifecycles
- Improving own operations



### TECHNOLOGICAL DEVELOPMENTS

- Increasing importance of electronic services
- Time and place become irrelevant

→ STORE → CUSTOMER → PRODUCTS AND SERVICES → RECYCLING



#### 4 RESPONSIBLE PURCHASING AND SALES

We ensure the responsibility of the purchasing chain and bear responsibility for product safety and quality. We provide customers with information and support for responsible purchasing decisions.

#### 5 WELLBEING FOR CUSTOMERS

We make customers' lives easier, providing them with services that promote health and wellbeing and guiding them on the proper use of products. We make responsible actions visible and easy for customers.

#### 6 MITIGATION OF CLIMATE CHANGE

We participate in the mitigation of the progress of climate change and promote the sustainable use of natural resources. We help customers reduce their impact on the environment.

# RESPONSIBILITY WORK FOCUSES ON MATERIALITY

*Kesko's vision for corporate responsibility and materiality assessment of responsibility were updated in the autumn of 2012. Matters taken into account in the process included the issues that came up during the updating of Kesko's responsibility programme, megatrends in responsibility, aspects significant for stakeholders and Kesko's strategic objectives.*

## CORPORATE RESPONSIBILITY VISION

Kesko's vision for corporate responsibility is summarised as: In all areas of responsibility, we are one of the trading sector pioneers on a global scale. More specific information on the corporate responsibility vision by key stakeholder groups is available at [www.kesko.fi](http://www.kesko.fi).

## MATERIALITY ASSESSMENT

The purpose of Kesko's materiality assessment is to identify Kesko's and its stakeholders' key responsibility aspects. The materiality assessment guides Kesko's corporate responsibility and stakeholder work and defines activities for meeting stakeholder expectations. Kesko has also defined the indicators presented in this report in terms of materiality to the company itself.

The division of the previous materiality assessment – updated in 2010 – into economic responsibility, environmental responsibility, human resources responsibility, and responsible purchasing and sales was given up, because many of the operations cover widely various sections. Aspects affecting purchasing include working conditions in factories, environmental impacts of production, efficient logistics, product safety and financial profitability. Aspects related to the same section were also combined in the assessment. New aspects or those with more weighting include local approach, servitisation of products and changing expectations about work.

The updated materiality assessment was discussed by Kesko's corporate re-

sponsibility steering group, Corporate Management Board and Board of Directors.

## RESPONSIBILITY PROGRAMME

The updating of the 2008–2012 responsibility programme started in late 2011. During 2012, stakeholder expectations and wishes were extensively examined by interviewing management and retailers, conducting surveys and organising stakeholder panels. The results obtained as well as stakeholder expectations, impacts on Kesko's business and the major aspects identified in the course of updating the vision for corporate responsibility and the materiality assessment formed the basis for the various sections of the responsibility programme.

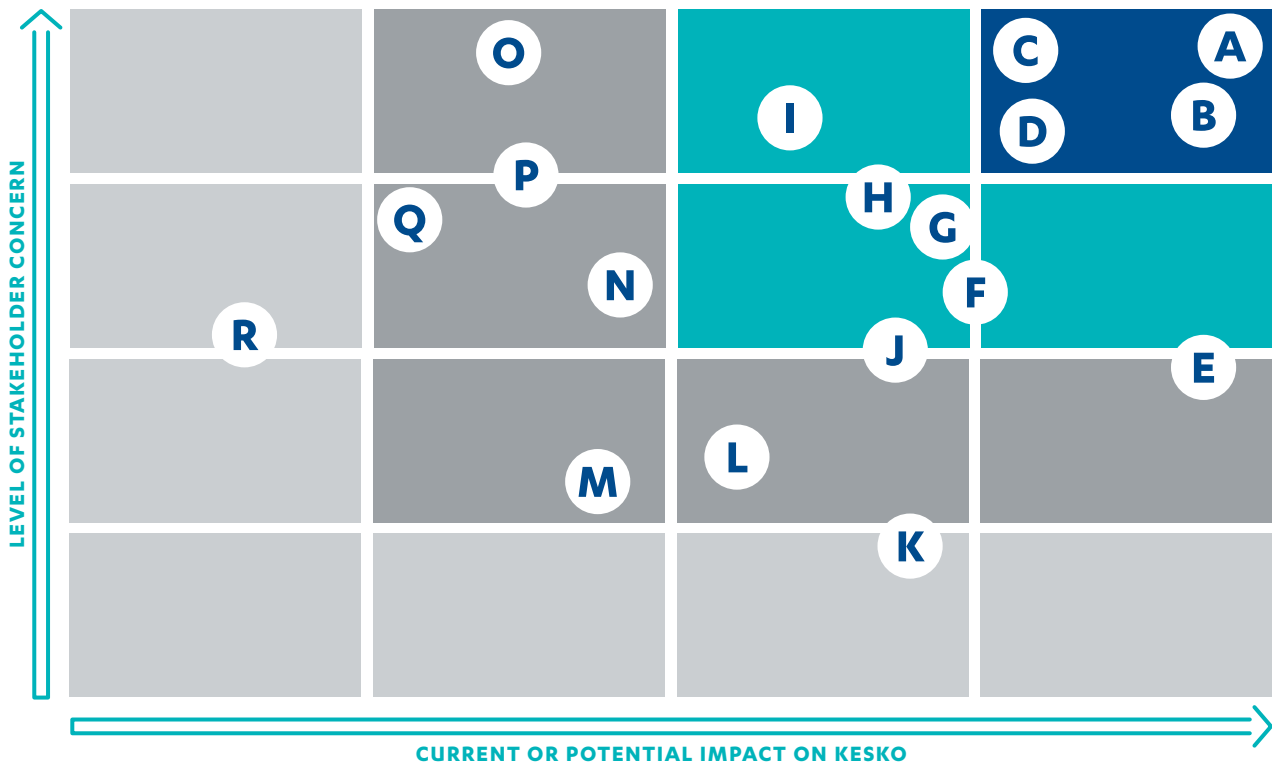
The responsibility programme was updated by the Group- and division-level project group and discussed by the management boards of various divisions during spring 2012. Kesko's Corporate Management Board discussed the responsibility programme in November 2012 and Kesko's Board of Directors approved the programme in December 2012. The updated responsibility programme was published in February 2013.

The responsibility programme applies to all of Kesko's divisions and contains both long-term and short-term objectives. Each division has prepared its own, division-specific objectives for the programme section. The commitments of the programme form its framework and, in the future, individual objectives can be annually specified more flexibly than before.

The commitments and key objectives of the responsibility programme are presented on page 23 and at [www.kesko.fi](http://www.kesko.fi). The themes of the report on pages 24–59 are based on the objectives and results of the responsibility programme's corresponding sections. The programme results for 2012 are presented on page 22 and more extensively for the years 2008–2012 at [www.kesko.fi](http://www.kesko.fi).

*Kesko's material corporate responsibility aspects are presented in the adjoining matrix, in which the vertical axis shows the level of concern for stakeholders and the horizontal axis the current or potential impact on Kesko. The level of concern for stakeholders has been assessed as a whole, which is why the weightings of areas by separate shareholders are not shown in the matrix.*

## MATERIALITY MATRIX



THE THEMES OF THE REPORT ON PAGES 24–59 ARE BASED ON THE ASPECTS IDENTIFIED IN THE MATERIALITY MATRIX AS FOLLOWS:

### RESPONSIBLE OPERATOR

- A. Financial profitability
- B. Good corporate governance and risk management
- D. Accessibility and multi-channel approach
- N. Shopping safety and security

### FOR THE BENEFIT OF THE COMMUNITY

- L. Local approach
- M. Sense of community

### WORKING COMMUNITY

- E. Personnel’s competence development
- G. A fair working community
- Q. Changing expectations for work-life

### RESPONSIBLE PURCHASING AND SALES

- C. Product safety and quality
- O. Sustainable product selection
- P. Human rights and the environmental impacts of production in the purchasing chain

### WELLBEING FOR CUSTOMERS

- H. Promoting wellbeing
- J. Guiding customers
- K. Servitisation of products

### MITIGATION OF CLIMATE CHANGE

- F. Efficient logistics
- I. Energy and resource efficiency
- R. Promoting sustainable agriculture

# STAKEHOLDER INTERACTION

The assessment of corporate responsibility performance takes account of Kesko's key stakeholders, namely customers, investors and Kesko's owners, Kesko personnel, retailers and store staff, suppliers of goods and services, the media, the authorities, non-governmental and other organisations, and trade unions. At Kesko, the stakeholder analysis is included in the management system and operating plans. Operations in all areas of responsibility are developed in accordance with the expectations of the key stakeholder groups.

Kesko's corporate responsibility vision has been described in respect of its stakeholders. It is available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility). Stakeholders' expectations of Kesko, Kesko's actions to meet these expectations, and indicators measuring the performance are described

in the stakeholder group analysis of the Group's responsibility work, available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility). The divisions also use their specific stakeholder analyses. The Group's stakeholder analysis and Kesko's corporate responsibility vision are available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility). The process description prepared on Kesko stakeholder interaction is presented below.

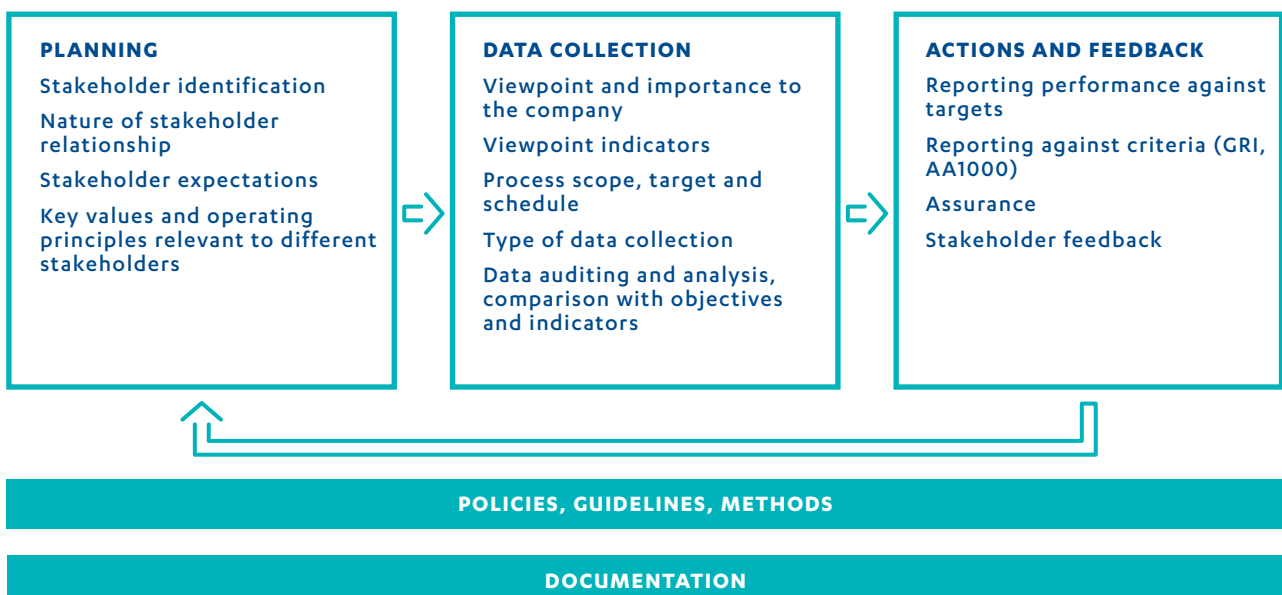
In connection with updating its responsibility programme, Kesko arranged two stakeholder panels to take stakeholder expectations and aspects significant to them into account when setting the objectives. The materiality assessment of Kesko's responsibility guides Kesko's corporate responsibility work and defines measures in response to stakeholder expectations. Read more about the materi-

ality assessment and the responsibility programme on pages 16–17 and 22–23.

Various surveys are regularly conducted to identify stakeholder expectations. According to the 2012 survey by TNS Gallup on companies' reputation and responsibility, the strongest area in Kesko's and K-stores' reputation was considered to be the combination of products and services. Room for improvement was seen in the transparency of financial operations and in social responsibility as a whole, such as looking after employees, honesty and the anti-bribery approach, and the observance of ethical principles.

Staying aware of stakeholder expectations requires regular dialogue. The table on page 19 describes interaction with the key stakeholder groups.

## KESKO'S STAKEHOLDER INTERACTION





KEY STAKEHOLDERS	STAKEHOLDER INCLUSIVITY AND CHANNELS OF INTERACTION	RESPONSIVENESS TO STAKEHOLDER EXPECTATIONS
CUSTOMERS	<ul style="list-style-type: none"> <li>• Customer service channels</li> <li>• Interaction via social media channels (Facebook, Twitter, Google+ and Pinterest, in particular) is increasing and the significance of blogs is growing</li> <li>• Kesko's and K-stores' responsibility inquiry at Pirkka.fi in the spring of 2012: important issues for respondents included product safety, secure handling of customer data and increasing the share of local foods in store selections</li> <li>• Mobile and e-services for customers, such as the Pirkka recipe and shopping list app</li> </ul>	Responsibility is strongly visible to customers in the K-Group's consumer brands and stores. Customers have to be able to trust on the quality and safety of products and the fact that their responsible choices start when they enter a K-store.
INVESTORS, OWNERS AND ANALYSTS	Investors and shareholders have been asking more questions concerning responsibility in recent years. Kesko annually replies to inquiries of several institutions making sustainability assessments. Examples of events: <ul style="list-style-type: none"> <li>• General meeting</li> <li>• Investor meetings</li> <li>• Press conferences</li> <li>• Capital Market Days</li> </ul>	Kesko wants to continue and improve its ratings in significant sustainability indices and lists, as they are important neutral evidence of responsible operations. Transparency of reporting and corporate governance principles as well as ensuring that legislation and responsible working principles are observed create a solid basis for Kesko's business operations.
EMPLOYEES AND RETAILERS	<ul style="list-style-type: none"> <li>• Personnel survey</li> <li>• Performance and development reviews</li> <li>• National Works Council meetings</li> <li>• The Keskonet intranet's country-specific pages for Finland, Estonia, Latvia and Russia, and Keskonet Global, that is common to all</li> <li>• Keskonet has the 'Direct Line' and 'Mail to President and CEO' feedback channels, a discussion channel and several blogs</li> <li>• Annual K-Team event for K-retailers, K-store personnel, Kesko employees and business partners</li> <li>• Value discussions on responsible working principles</li> </ul>	Kesko's working community is developing and global; common working principles and practices provide the basis for our work everywhere. The importance of responsibility in creating the employer image is further emphasised. The companies in which job satisfaction is high and which are able to offer versatile jobs and opportunities for career progress, most probably succeed in attracting and hanging on to the best employees. K-retailers listen to the wishes of their customers and adapt their selections accordingly. Stores implement responsibility in all of their operations.
SUPPLIERS AND SERVICE PROVIDERS	<ul style="list-style-type: none"> <li>• More than 21,000 suppliers of goods and services</li> <li>• Close cooperation</li> <li>• 'Principles and Practice of Socially Responsible Trading' guide</li> <li>• Business partner meetings, such as the annual info event organised by Kesko Food</li> </ul>	Multi-form networking with suppliers and service providers requires that all parties to the supply chain accept the common values, objectives and working principles. We are together responsible for ensuring that our customers can rely on our expertise, services and the quality and safety of our products.
SOCIETY (THE MEDIA, AUTHORITIES, NON-PROFIT AND OTHER ORGANISATIONS, AND TRADE UNIONS)	<ul style="list-style-type: none"> <li>• Meetings</li> <li>• Media events and inquiries</li> <li>• Activities in organisations</li> <li>• International BSCI operations and the national BSCI country group</li> <li>• Inquiries by NGOs, including Finnwatch's report on the responsibility of the trading sector's own-brand products in 2013 and WWF Finland's soy inquiry in 2012</li> </ul>	Kesko proactively follows any changes in society in close cooperation with its stakeholders. We cooperate and discuss openly with NGOs, authorities and other decision-makers.

# OPPORTUNITIES AND RISKS

## KESKO PROMOTES SUSTAINABLE DEVELOPMENT JOINTLY WITH ITS CUSTOMERS

For Kesko, responsible operation is a strategic choice and bearing its corporate responsibility is one of Kesko's values. It creates possibilities to improve customer satisfaction and to increase healthy, profitable business.

As a multi-division company operating in eight countries, Kesko offers responsible product alternatives and service solutions to a great number of consumers in nearly all sectors of consumption. Kesko's product and service selections provide choices with which Kesko and its customers together can reduce the adverse effects of consumption and promote sustainable development.

## STORE NETWORK GROWTH TO NEW MARKETS

The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Competitive edge is gained by combining systematic chain operations and the K-retailer operations based on entrepreneurship. Listening to the wishes of local customers and making use of customer data, the K-retailers build a selection of products and services that meet customers' needs.

In addition to Finland, Kesko seeks growth especially in the rapidly growing Russian market. In the last few years, Kesko has made significant capital expenditures, especially in the development of the food store network in Finland and the network of building and home improvement stores abroad. The key strategic objective is to increase the selling power of the implemented capital expenditures and thereby to reach the targets set for return on capital.

The key in expansion is to succeed in the acquisition and building of well located store sites, the development of store

concepts, purchasing operations and logistics, as well as the recruitment and encouragement of motivated and competent personnel. The country risks in Russia, such as corruption, unpredictability of officials and rapid changes in laws and their application, coupled with unexpected changes in the operating environment can delay the expansion and make business operations more difficult.

## ELECTRONIC SERVICES INCREASINGLY IMPORTANT

New web services and rapidly developing technology have changed customers' needs and purchasing habits. E-commerce is not confined to opening hours, as shopping is possible irrespective of time and place. In view of the competitive situation in the trading sector, the importance of electronic shopping and multi-channel services has grown significantly within a few years.

The achievement of objectives requires attractive e-services and retail websites, utilisation of a multi-channel approach and electronic customer communications to support it. The risk is that the progress of our e-commerce and e-service development projects is outpaced by competitors, or that competing online stores and e-services are more attractive to customers.

Store network maintenance and visits in shopping centres and stores generate some of the environmental impacts which Kesko aims to help reduce jointly with its stakeholders.

## IMPACTS OF CLIMATE CHANGE

Climate change causes both physical, regulation-related risks and risks and opportunities affecting reputation factors.

The emissions from the production of electrical and heat energy represent a significant part of the K-Group's environmental impacts. In accordance with the K-Group's environmental policy, Kesko's real estate functions develop, in cooperation with business partners, solutions

for the building, repair, concept changes, maintenance and use of real estate properties that reduce the consumption of materials and energy during the life cycles of these properties.

The implementation of the EU's Integrated Energy and Climate Policy, and the Finnish Government's energy policy will affect energy solutions and may increase energy prices, adding to energy saving pressures. Kesko wants to support a total solution towards carbon dioxide free production, reduce Finland's dependency on imported energy and improve the efficiency of the electricity market. A Kesko subsidiary, Kestra Kiinteistöpalvelut Oy, is a participant in the Fennovoima project which aims to build a new nuclear power plant in Finland.

Kesko efficiently recovers waste heat, such as condensation heat generated from cooling stores' refrigeration units, for heating while using the latest technology. Kesko also actively examines the use of renewable energy sources. The use of, for example, ground and water as storages of heat and cold, and making use of solar energy, will be a potential alternative as the technical solutions become increasingly sophisticated.

Kesko also helps its customers find energy efficient solutions. Products and services offered by the building and home improvement stores make it easy for customers to improve the energy efficiency of housing and to find solutions that support sustainable development.

Read more on pages 24–59 and 78–79.

## TRANSPARENCY AND RESPONSIBILITY OF PURCHASING CHAINS

In respect of products offered to customers, the aim is to take account of the impact of their entire life cycles on consumption. The transparency and responsibility of purchasing chains have become increasingly important and increasingly detailed information on the origin and manufactur-

ing methods of products need to be made available to customers. Care must be taken that responsibility is realised in all operations and throughout the supply chain.

Diversified networking with suppliers of goods and providers of services requires that all supply chain operators share the same values, objectives and operating practices. A failure in product safety control or in the quality assurance of the supply chain can result in financial losses, the loss of customer confidence or, in the worst case, a health hazard to customers.

Customers' purchasing decisions are also affected by a concern for personal wellbeing. Promoting healthy ways of living and eating habits is an opportunity and a strategic objective for the food trade. Different forms of physical activity play a significant role in the product selections of the K-Group's sports stores and department stores, as well as Kesko's various forms of cooperation in projects which promote the wellbeing of families and children.

There are different kinds of requirements on product packaging: packaging protects products, but packaging labelling also provides customers with information which supports their purchasing decisions. As early as in preparing product specifications, for example, product characteristics, such as ingredients, allergens, microbiological features and nutritional values can be determined.

For home and speciality goods, a list of banned chemicals, maintained by Product Research, has been adopted jointly with a policy which defines the quality level required of products and which every supplier is expected to comply with.

Read more about the product selections of the food trade on pages 34–37 and 44–49, the Energy Expert concept of the building and home improvement trade on page 53, the energy efficient products of the car trade on page 57, and the responsible purchasing of the home and speciality goods trade on pages 44–49.

## RISK MANAGEMENT AT KESKO

Kesko's risk management is proactive and an integral part of its management and day-to-day activities. The objective of risk management is to ensure the delivery of customer promises, profit performance, dividend payment capacity, shareholder value, the implementation of responsible operating practices and the continuity of business operations in the Kesko Group.

The risk management policy confirmed by the Board of Directors guides risk management in the Kesko Group. The policy is based on the COSO ERM Framework and the SFS-ISO 31000 risk management standard.

Kesko has a uniform risk assessment and reporting system. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised on the basis of their significance by assessing the impacts and probability of their materialisation and the level of risk management. When assessing the impact of materialisation, the impacts on reputation, people's wellbeing and the environment are considered in addition to financial impacts.

The risks identified in Kesko's risk assessments and reported to the Kesko Board include the following:

- Weakening customer demand
- Electronic services change customer behaviour
- Expansion in Russia
- Slow implementation of changes in business operations
- Regulation of the food trade
- Business interruptions and information system failures
- Store sites
- Product safety and supply chain quality
- Competence and working capacity of personnel
- Suppliers and distribution channels
- Crime and malpractice
- Responsible operating practices and reputation management



## READ MORE

[www.kesko.fi/investors](http://www.kesko.fi/investors)

*Risk management, Kesko's Annual Report, pages 55–58 and [www.kesko.fi/investors](http://www.kesko.fi/investors).*

*A comprehensive presentation of Kesko's most significant risks and uncertainties and risk management responses, [www.kesko.fi/investors](http://www.kesko.fi/investors).*

*Financial risks and implications, and risks and opportunities from climate change for the organisation, pages 78–79.*

*The focal points of Kesko's corporate responsibility work, materiality assessment, page 17.*

*Impacts of Kesko's operations related to the focal points are illustrated on pages 14–15.*

*The issues closely connected to the strategies of Kesko and its divisions, which are estimated to create business opportunities and generate competitive advantages, Kesko's Annual Report, pages 8–35.*

# KEY RESULTS OF THE 2008–2012 RESPONSIBILITY PROGRAMME

*The objectives and results of the responsibility programme in 2008–2012 can be read in full at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).*

## WE ACTIVELY INCREASE THE NUMBER OF LOCAL SUPPLIERS AND ENCOURAGE K-RETAILERS TO PURCHASE LOCALLY

- **Objective:** Increasing the amount of local purchases. In **2012:** K-retailers' direct purchases totalled €586 million.

## WE MAINTAIN A COMPREHENSIVE STORE NETWORK IN FINLAND

- **Objective:** Compared to Finnish competitors, Kesko Food's store network is the most comprehensive and the distance to the nearest food store for households is the shortest. In **2012:** The K-food store network covered 87% of all Finnish municipalities. Around half of the Finnish population lived within one kilometre of the nearest K-food store.

## MITIGATING CLIMATE CHANGE

- **Objective:** The K-Group has signed the trading sector energy efficiency agreement and made a commitment to save 65 GWh by the end of 2016. Electricity purchased by Kesko to the K-Group is carbon-free. In **2012:** Around 70% of the target had been achieved. Electricity purchased by Kesko was carbon-free and produced with nuclear power.

## INCREASING ENERGY EFFICIENCY (KESKO FOOD)

- **Objective:** Actions include fitting chest freezers in all new stores with lids, cold cabinets with doors, new stores' advertising signage with LED lighting, optimising the number of cold cabinets, and energy classification recommendation 'A' for store equipment. In **2012:** The total length of refrigeration equipment fitted with lids and doors around 7.8 km. LED lighting used in illuminated signs and for general and outdoor lighting.

## TRANSPORTATION

- **Objective:** Reducing relative CO<sub>2</sub> emissions per kilogram transported by 10% by 2012. In **2012:** Relative emissions per kilogram transported were 0.0236 CO<sub>2</sub>kg. Compared to the comparative 2007 level, relative emissions from transportation have decreased by 5.0%.

## BUSINESS TRAVEL AND USE OF COMPANY CARS

- **Objective:** Reporting the CO<sub>2</sub> emissions from company cars and the average emission level (g CO<sub>2</sub>/km). Reducing air travel and reporting the CO<sub>2</sub> emissions from air travel. In **2012:** The average CO<sub>2</sub> emissions were 140 g and the CO<sub>2</sub> emissions from company cars were 3,076 tonnes. The emissions from air travel were 1,489 tonnes.

## RECOVERY AND MATERIAL EFFICIENCY

- **Objective:** A recovery rate of around 90% in warehouse operations. Increasing the recovery rate of K-food stores to the same 90% level by 2012. In **2012:** The recovery rate in Kesko Food's logistics was 96% and in Anttila's logistics centre, it was around 99%.
- **Objective:** Reducing wastage in K-food stores by some 20% by 2012. In **2012:** Around 90 K-stores had adopted the new waste management model and had recovery rates of around 90%. The use of the model will be expanded in 2013.
- **Objective:** Developing the recovery and recycling services offered by K-food stores to their customers. In **2012:** There were 220 Eco Points for customers at K-food stores.

## ENVIRONMENTAL WORK AT STORES

- **Objective:** Including Anttila Oy's all new department stores in Anttila's ISO 14001 certification. The K-environmental store concept widely used in the food trade and the building and home improvement trade chains. In **2012:** The central unit, 28 Anttila department stores, 9 Kodin1 department stores for interior decoration and home goods, and the logistics centre are certified. For K-environmental store information, see page 76.

## RESPONSIBLE PURCHASING AND PURCHASING POLICIES

- **Objective:** Kesko's monitoring officers in China make 160 factory visits to the premises of Kesko's suppliers annually. In **2012:** A total of 379 factory visits in 2008–2012.
- **Objective:** Continuing the promotion of BSCI audits. In **2012:** 47 full audits and 14 re-audits.
- **Objective:** Establishing the fish and shellfish statement. In **2012:** The statement is applied to Kesko Food Ltd's, Kespro Ltd's and K-food stores' purchases.

## RESPONSIBLE PRODUCT SELECTIONS

- **Objective:** Promoting the sales of biodegradable Pirkka bags and reusable Pirkka bags, new biodegradable packaging. In **2012:** Promoting sales and developing packaging continued.
- **Objective:** All Pirkka products with high salt, sugar or fat content reformulated. In **2012:** 143 reformulated products.
- **Objective:** Training 500 specialists in healthy diets for K-stores. In **2012:** Over 680 K-Food Specialists.
- **Objective:** Kesko Food's selection and sales of Fairtrade products the largest in Finland. In **2012:** 215 Fairtrade products, of which 39 Pirkka products.
- **Objective:** Developing Rautakesko's cost- and eco-efficient service solutions for building and housing. In **2012:** The Energy Expert concept in use in K-rauta and Rautia stores.
- **Objective:** The K-maatalous chain continues the development of sustainable cultivation methods. In **2012:** The next cultivation development programme is a cultivation programme for organic production.

## WELLBEING AT WORK

- **Objective:** €2 million for employees' recreational and leisure activities annually. In **2012:** €1.4 million were used.
- **Objective:** In the development of wellbeing at work, promoting working capacity and maintaining the ability to work. In **2012:** The programme for wellbeing at work, the management model for wellbeing at work and the early intervention model were used.

## INCORPORATING THE RESPONSIBILITY PROGRAMME IN THE BRAND AND MARKETING STRATEGY WORK

- **Objective:** Strengthening the responsibility image associated with Kesko and its product brands and making responsibility work visible to customers. In **2012:** K-food stores, K-citymarket Oy and a significant part of K-rauta and Rautia stores will adopt the K-responsibility concept in the course of 2013.

# UPDATED RESPONSIBILITY PROGRAMME



**100% OF OUR PERSONNEL ACT IN COMPLIANCE WITH OUR RESPONSIBLE WORKING PRINCIPLES**

## WE ARE COMMITTED TO RESPONSIBLE WORKING PRINCIPLES AND WE TOGETHER GENERATE ECONOMIC VALUE ADDED

- Responsible working principles guide all our operations
- We follow good corporate governance principles
- We improve financial profitability together
- We develop the multi-channel approach in our store network while listening to customers' expectations

### OBJECTIVES INCL.

All of our personnel act in compliance with our responsible working principles.

We organise regular training on our responsible working principles.

Kesko's target for return on equity is 12% and the target for return on capital employed is 14%.



**THE 'LET'S TALK ABOUT WORK' MODEL ADOPTED BY ALL COMPANIES**

## WE PERFORM AND OFFER HIGH-QUALITY WORK

- We have satisfied employees and competent supervisors
- We offer meaningful and diverse jobs and development opportunities
- We are the most attractive workplace in the trading sector
- We offer a safe and healthy working environment

### OBJECTIVES INCL.

We are the best employer in the trading sector in terms of job satisfaction.

We conduct a performance and development review annually with every employee.

We train our supervisors on a regular basis.

We reduce sickness absences and premature disability pensions.



**THE THEME 'LET'S DO GOOD. TOGETHER.' IS VISIBLE TO CUSTOMERS**

## WE OFFER SERVICES WHICH PROMOTE CUSTOMERS' WELLBEING

- We make life easier for our customers
- We offer healthy products and services which promote wellbeing
- We increase our offer of e-services
- We provide advice to customers in using products

### OBJECTIVES INCL.

Every building and home improvement store has at least one trained Energy Expert and a service cooperation network. At least one Energy Master's qualification is completed every year.

All K-food stores will have adopted the K-responsibility concept by 2014.

The theme 'Let's do good. Together.' is visible in stores and marketing.

We train and advise our machinery trade customers in the correct, safe and economical use of machines and devices and in prolonging the service lives of machinery.



**MORE TRAINING ON RESPONSIBILITY ISSUES FOR PERSONNEL**

## WE BUILD A BETTER SOCIETY TOGETHER

- We establish partnerships and contribute to the development of local communities
- We develop our operations in interaction with customers
- Our personnel act responsibly in day-to-day operations

### OBJECTIVES INCL.

We are an attractive partner and a responsible neighbour.

We include our customers and our personnel in our responsibility work.

We help customers in efficient shopping; online stores, SmartPost, in-store collection.

We expand the contract cultivation programme trainings; the objective is to train 100% of the contract farmers.

We develop the organic farming programme into a concept.



**200 PIRKKA ORGANIC PRODUCTS BY 2015**

## WE PURCHASE AND SELL RESPONSIBLY AND SUPPORT CUSTOMERS IN MAKING SUSTAINABLE CHOICES

- We provide customers with information and support in responsible buying decisions
- We make responsible actions visible and easy for customers
- We develop our product selections while listening to customers
- We ensure responsibility in the supply chain
- We answer for the safety and quality of products

### OBJECTIVES INCL.

We identify the whole of our supply chain and actively promote the social responsibility audits of our suppliers in high-risk countries.

We add indication of origin to our own brand products.

We offer a wide selection of Pirkka responsible products; 500 Pirkka products meeting a responsibility criterion by 2015 and 200 Pirkka organic products by 2015.



**100% RECOVERY RATE IN WAREHOUSE FUNCTIONS**

## WE JOINTLY MITIGATE CLIMATE CHANGE AND PROMOTE THE SUSTAINABLE USE OF NATURAL RESOURCES

- We reduce our environmental impacts in cooperation with the whole supply chain
- We promote the development towards a low carbon society
- We help our customers reduce their environmental impacts

### OBJECTIVES INCL.

We increase cooperation with the supply chain in order to promote the sustainable use of natural resources and the development towards a low carbon society.

We recover the waste generated in our operations to achieve zero landfill waste.

We reduce food wastage by 10% by 2020.

We improve our annual energy efficiency by 65 GWh by 2016.

We reduce the relative emissions from Kesko's transportation by 10% by 2020.





# RESPONSIBILITY THEMES

## KEY ISSUES IN 2012

### RESPONSIBLE OPERATOR p. 26–33

- The Veturi shopping centre opened in Kouvola
- The first K-ruoka store in Russia
- The 'Our responsible working principles' guide was updated
- Value discussions proceeded to new offices in Russia



### FOR THE BENEFIT OF THE COMMUNITY p. 34–37

- The K-Retailers' Association celebrated its 100th anniversary
- K-retailers' local purchases totalled €586 million
- Kesko's and its subsidiaries' support to communities and organisations was €0.9 million



### WORKING COMMUNITY p. 38–43

- Kesko's profitability programme was launched
- The wellbeing at work programme focused on the development of supervisory work and working communities
- Kesko and K-stores to participate in the Youth Guarantee initiative
- The fourth K-trainee programme was launched



### RESPONSIBLE PURCHASING AND SALES p. 44–49

- The guide for responsible trading was updated
- Suppliers in high-risk countries have 209 factories or farms within the scope of the BSCI process
- The Product Research Laboratory analysed more than 11,600 product samples
- The number of Pirkka organic products will increase to 200 by 2015



### WELLBEING FOR CUSTOMERS p. 50–53

- E-channels increase interaction
- Mobile and online services to support customers
- Responsibility visible for customers in stores
- The Energy Expert service helps improve energy efficiency at home



### MITIGATION OF CLIMATE CHANGE p. 54–59

- New solutions for refrigeration equipment provide significant savings in K-food stores
- The Kodin1 department store for interior decoration and home goods in Raisio is the first passive retail store building in the Nordic countries
- Keslog aims to cut carbon dioxide emissions from transportation by 10% by 2020



# KESKO'S OPERATIONS HAVE AN IMPACT ON THE WHOLE OF SOCIETY

*Kesko develops and provides trading sector services, employs directly and indirectly, and buys, sells and arranges the manufacture of products. The operations of Kesko and K-retailers generate economic benefits for shareholders, personnel, suppliers of goods and services and their employees, customers, as well as municipalities and states.*

Kesko and K-retailers employ a total of about 45,000 people in eight countries. In 2012, Kesko paid a total of €503 million in salaries and other employee benefits in all operating countries. K-retailers paid €382 million in salaries, €40 million in income taxes, and €93 million in obligatory social security expenses.

## CUSTOMER-DRIVEN BUSINESS MODELS

The principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in retail chains managed by Kesko. In Finland, all food stores and building and home improvement stores in the K-Group are run by K-retailer entrepreneurs. Kesko's own retail stores in Finland include, for example, Anttila department stores and Kodini department stores for interior decoration and home goods, and Kesko is also responsible for the K-city-market chain's home and speciality goods trade. The company's own retailing is the model mainly used in the other countries. Kesko is also engaged in B2B sales.

## DIVERSE STORE NETWORK

Kesko has about 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus.

The K-food store network is comprehensive: at the end of 2012, there were 936 K-food stores in 290 municipalities in Finland. Around half of the Finnish population lives within less than one kilometre of a K-food store. K-food stores welcome about 900,000 customers every day.

The development of electronic shopping and e-commerce are strategic focal points in all of Kesko's divisions. The new retail websites [citymarket.fi](http://citymarket.fi), [mustaporssi.fi](http://mustaporssi.fi) and [kookenka.fi](http://kookenka.fi) were launched during the year.

"The popularisation of e-services and e-commerce provides new kinds of shopping possibilities for people living outside population centres, or people with reduced mobility, for example. E-commerce is not confined to opening hours, as shopping is possible irrespective of time and place. New channels offer new ways of making price comparisons and exchanging product experiences," says Senior Vice President **Minna Kurunsaari**, responsible for Kesko's electronic marketing and services projects.

In September 2012, the Veturi shopping centre, one of Kesko's biggest projects ever, opened in Kouvola. Veturi was designed on the basis of customer needs, accessibility, comfort, diversified selections, as well as easy, barrier-free movement.

Read more about Veturi on pages 32–33.







## HIGHLIGHTS CASE

## Kesko is a significant tax payer

In recent years, taxes paid by companies have become a topic of public discussion and all parties' contributions to balancing public economies have been considered important. The discussion has especially focused on the level of companies' income taxation and the payment of income taxes to different countries.

In 2012, the income taxes paid by Kesko to Finland were €70.5 million and to other countries €5.3 million. Kesko paid €3.8 million in real estate tax to Finland and €4.2 million to other operating countries in 2012. Kesko also collects, reports and remits indirect taxes.

"Indirect taxes include, for example, value added tax and excise duties. Value added tax is a consumption tax paid by the end consumers of goods and services, in other words, households. Kesko remits value added taxes to tax recipients in its capacity of a company selling goods and services. As for excise tax, it is a consumption tax levied from the manufacturer, producer, importer or wholesaler of certain products and remitted to tax recipients. The excise duty is included in the product price, which makes it payable by the consumer. Kesko remits excise duties on, for example, confectionery, alcohol, soft drinks and cars. In 2012, Kesko remitted value added taxes to Finland to the amount of €319.8 million, and €42.0 million to other countries," says Kesko's Tax Specialist **Jyrki Seipäjärvi**.



### MAJORITY OF PURCHASES FROM FINLAND

Most of the economic benefits from Kesko's operations, 83% of Kesko's net sales, flow to suppliers of goods.

In 2012, Kesko's purchases from suppliers in Finland were €5,478 million and €2,591 million from other countries.

Kesko encourages K-retailers to include locally produced products in their selections. K-retailers' direct purchases from Finnish regions were €586 million in 2012.

### PROPOSAL TO AMEND THE COMPETITION ACT RELATES TO DOMINANT MARKET SHARE

The Finnish Parliament is considering a proposal to amend the Competition Act to the effect that a minimum market share of 30% in the grocery trade would automatically mean a dominant market position in purchasing and selling markets. The amendment would affect Kesko Food and the around 1,000 K-food retailer entrepreneurs who have signed a chain agreement with it.

If the bill is passed, Kesko expects it to have very negative impacts on competition in the grocery trade as well as for consumers. Prices would rise and selections

shrink while imports would increase.

Kesko is in favour of fair and open competition and Kesko Food's retailer business model advances competition. K-retailer entrepreneurs operate in competition with not only other food retail businesses but also with each other. As local operators, K-food retailers have the best knowledge concerning customer needs and they buy products from local producers. Kesko objects to the proposed amendment to the Competition Act because, in Kesko's opinion, it restricts open and fair competition which serves the best interests of consumers.

### GOOD CORPORATE GOVERNANCE

Kesko complies with the Finnish Corporate Governance Code for Listed Companies and publishes a Corporate Governance Statement annually on its website.

For the third time, Kesko was placed in the final in the Corporate Governance competition organised in Finland in 2012. Kesko was given especially good ratings for its remuneration statement and the description of its risk management, internal control and internal audit functions.

In 2013, as in the two previous years, Kesko was awarded by World Finance Magazine for 'the Best Corporate Governance in Finland' in terms of corporate





governance development and reporting.

In 2012, Kesko was given high scores for its responsible operating practices, compliance with laws, anti-corruption work and corporate governance in the assessments of the Dow Jones Sustainability Indexes DJSI World and DJSI Europe, as well as the FTSE4Good Index.

Kesko's placement in the most important sustainability indices is described further on page 11 of this report and at [www.kesko.fi](http://www.kesko.fi).

## OUR RESPONSIBLE WORKING PRINCIPLES

The work of people at Kesko and K-stores is guided by 'Our Responsible Working Principles'. Employees in the eight operating countries have the same guidelines and a shared understanding of our common values and principles.

The 'Our Responsible Working Principles' guidelines were revised in 2012. The contents were specified and the principles and guidelines were illustrated with practical examples. The revised guide was published in print in eight languages in summer 2012 and distributed to the personnel in all operating countries. The guide is also available on Kesko's website in the section Our Responsible Working Principles, complemented with a foreword from the Presi-

dent and CEO, and animated examples of the guidelines in practice. Kesko personnel was encouraged to test their knowledge and views on responsible working principles with the help of the Responsible Operator web application.

The annual personnel survey asks whether employees, in their own opinion, act in accordance with the responsible operating principles. In 2012, the average rating in the Kesko Group was 4.37 on a scale of 1–5.

Kesko expects its business partners to comply with corresponding responsible operating principles. In autumn 2012, all divisions in all operating countries introduced model letters and contractual clauses to be sent to business partners in order that they commit themselves to compliance with Kesko's responsible working principles, or with their own, provided they are at least as responsible. The aim was to send the letter to the majority of existing contract parties by the end of 2012. The responsibility clause has been added to new contracts from the beginning of 2013.

## COMPETITION LAW E-LEARNING

Kesko runs compliance programmes to ensure that Kesko employees are familiar with the key laws relating to operations

and act in compliance with them. Knowledge of and compliance with competition laws, for example, is essential at Kesko and also on a wider scale in the trading sector. Kesko has a competition law compliance programme, composed of training sessions and an e-learning component available to all Kesko employees. Those whose work is largely related to competition laws are invited by the Group's Legal Affairs Unit to complete the training.

"The training discusses the principles related to cooperation and exchange of information between competitors as well as chain operations, and sanctions on the infringement of competition rules, among other things. Since 2011, more than 800 Kesko employees in Finland have completed the competition law e-learning programme. We updated the e-learning programme in autumn 2012 and published it also in English. In 2013, we will also invite employees in the other operating countries on a wide scale to complete the training," says Kesko's Vice President, General Counsel **Anne Leppälä-Nilsson**.

## LET'S DO GOOD. TOGETHER. CASE

## Operations in Russia are expanding

*Russia is a large and growing market area, in which Kesko seeks growth just as it does in Finland. Kesko's business operations in Russia include the food, building and home improvement, machinery and sports sectors. The 14 K-rauta stores in Russia are located in St. Petersburg, Moscow, Tula, Kaluga and Yaroslavl. The 29 Intersport stores operate in St. Petersburg, Moscow, Novosibirsk, Nizhny Novgorod, Yekaterinburg and Krasnodar. The first grocery store in the K-ruoka chain was opened in St. Petersburg in December 2012.*

Operating with many chains in Russia creates efficiency and synergy benefits for Kesko.

"We share offices in St. Petersburg and also have shared service operations, such as the financial and HR services centres. We cooperate in the acquisition, construction and maintenance of store sites. We will also try to locate different stores in the same premises, whenever possible. Since late 2012, it has been possible for customers to get a Russian K-Plus loyalty card," says **Kari Heiskanen**, Kesko Food's Country Director for Russia.

### K-RUOKA OFFERS HEALTHY, HIGH-QUALITY PRODUCTS

**Oleg Buyalski**, General Director of Kesko Food Rus, says that the launch of operations of K-Pyoka, the first grocery store of the chain in Russia has proceeded according to plan.

"We adopted solutions that reduce the consumption of materials and energy during the life cycle of the property. We save energy in store operations: the freezers are covered with lids and condensation heat from the cooling units is recovered. Waste recycling and segregation remain at an early stage in Russia and the recycling infrastructure is insufficient. We recycle much of the cardboard and plastic packaging and will introduce new recycling methods with the development of the market."

Experiences during the first months of operations have been good: customers are satisfied with the store's product selection and sales have exceeded expectations. Russian customers value the freshness and high quality of Finnish products.

"The store focuses on good selections of healthy and fresh products. Our fruit and vegetable department is large, we

have extensive service counters for meat, fish and prepared foods plus an in-store scratch bakery. We also launched Pirkka products, which are safe, high-quality and valued by Finns, on the Russian market. When the store opened, we already had about 250 Pirkka products in our selections and we aim to increase the number to about 2,000 over the course of 2013," says Oleg Buyalski.

### VALUE DISCUSSIONS PROCEEDED TO NEW OFFICES

It is important that the personnel in a new market area are experienced and know the operating environment for the retail trade and local customer needs. Most employees in the offices of Kesko Food Rus and the K-ruoka store are Russian. Special attention was paid to recruitment, as there is a shortage of labour in St. Petersburg in particular and employee turnover is very high.

It is particularly important to ensure that all employees commit themselves to working in accordance with Kesko's values and responsible working principles. Our business partners are also required to act according to the corresponding responsible operating principles.

"Kesko's operations in all countries are based on observance of laws and responsible operating principles. We condemn all forms of bribery. We will also not promise or pay bribes or facilitation payments or any other illegal payments to the authorities or other parties to promote or secure any business activities," says **Anne Leppälä-Nilsson**, Kesko's Vice President, General Counsel.

In December 2012, value discussions on responsible working principles were organised in Kesko Food Rus in St. Petersburg and in Intersport Russia in Moscow. Anne Leppälä-Nilsson and Kesko's Chief Audit Executive **Pasi Mäkinen** discussed with local management the challenges the companies have faced when applying responsible working principles.

"In Kesko Food Rus, for example, we discussed the best practices to implement Kesko's responsible working principles in the new company, responsibility clauses in supplier agreements and acceptable hospitality. Intersport Russia's list of questions included store and information security as well as issues related to the management of rights of use," says Pasi Mäkinen.

## KESKO'S OPERATIONS IN ALL COUNTRIES ARE BASED ON THE OBSERVANCE OF LAWS AND RESPONSIBLE OPERATING PRINCIPLES





## ADDRESS BY STAKEHOLDER

## Mirja Tiri, FRCC

Finnish companies operating in Russia, such as Kesko, have a very good reputation among Russian authorities, employees and other affiliated groups.

One can say that economic responsibility is built into Finnish companies. It is reflected in the full and timely payment of taxes and transparent and even exemplary accounting practices, among other things. Social responsibility is reflected in the 'over-the-table', timely and full payment of salaries, pensions and social taxes, in the significant investment in the professional development of personnel and good working conditions, and in the efforts to secure employment even during difficult times.

The trust that customers, employees and the authorities have in Rautakesko and Intersport, including their products, employer obligations and corporate responsibility, is a great asset to Kesko Food in its mission to succeed in Russia.



*Mirja Tiri is the Managing Director of the Finnish-Russian Chamber of Commerce.*

## HIGHLIGHTS CASE

## The European trade sector cooperates to protect its interests

Kesko seeks to influence developments in the trade sector by cooperating with international trade sector organisations. For instance, it has been a member of UGAL, the Union of Groups of Independent Retailers of Europe, since the 1970s, and it participates in the activities of EuroCommerce, the trade representation to the EU, via the Federation of Finnish Commerce.

UGAL represents nearly 300,000 independent retailers and groups, which have over 500,000 outlets within the EU. EuroCommerce represents the retail, wholesale and international trade sectors, promoting the visibility and defending the interests of commerce and raising awareness among EU decision makers about the special features and operating environment of commerce.

Kesko's Vice President, General Counsel **Anne Leppälä-Nilsson**, is a Board member of UGAL and a Board member and a steering committee member of EuroCommerce.

### IT IS IMPORTANT TO INFLUENCE

In 2012, UGAL and EuroCommerce discussed various issues related to corporate responsibility, such as the EU sustainability strategy for 2011–2014, human rights, self-regulation in the sector's distribution chain, supplier agreements and e-commerce.

"Obtaining information via UGAL and EuroCommerce and cooperating with international trade companies is very important for Kesko. Most of the regulation on commerce comes from the EU and there are currently several projects about the sector underway in the commission. For instance, the proposed amendment to the Finnish Competition Act that would change the dominant market share provisions can be partly attributed to regulatory pressure coming from the EU. It is important to influence and to receive information about provisions being prepared in good time," says Anne Leppälä-Nilsson.



LET'S DO GOOD. TOGETHER. CASE



## Veturi shopping centre

**VETURI'S KEY WORDS ARE A LOCAL APPROACH, AN ACTIVE LIFE AND THAT COSY FEELING**



### GENERAL

- Opened in Kouvola in September 2012
- The eighth largest shopping centre in Finland
- One of Kesko's biggest shopping centre projects of all time



### TRAFFIC CONNECTIONS

- About 1,800 parking spaces, including 33 for disabled customers
- Nearly 200 parking spaces for bikes and a separate parking area for scooters
- Separate parking lots for families and loading bays for trailers



### SERVICES

- Employs 800 people
- Store area 48,000 m<sup>2</sup>; more than 80 stores
- The K-Group stores in Veturi are K-city-market, K-rauta, an Anttila department store, Intersport, Musta Pörssi, Kookenkä and Budget Sport
- Around 35 completely new operators, most of them in response to the wishes of local inhabitants
- Expected number of customer visits: about four million per year
- Wide and accessible: six escalators, four customer lifts
- Families with children taken into account: children's playroom and baby care facilities
- Electronic information board and web pages in Finnish, English and Russian
- K-citymarket has four checkouts for tax free shopping to serve Russian customers





## ENERGY EFFICIENCY

- K-citymarket's cooling system uses the CO<sub>2</sub> technology; surplus condensation heat is used to heat the premises
- LED illuminated signs
- Outdoor lighting that dims in five stages
- BREEAM environmental rating: very good
- More durable roof and frame structures than required by building regulations – lower energy consumption, lower costs and a lower risk of damage (e.g. ability to withstand snow)
- Light-coloured roof covering reduces heating during summer and thus the need for interior refrigeration
- Energy-efficient building, top-class tightness
- Web-based, hour-by-hour remote reading system for electricity and water consumption with separate measurement of consumption
- Energy-efficient, optimised ventilation
- About half of the shopping centre's heating and cooling power comes from the ground: 109 ground heating/cooling wells
- The shopping centre also uses electricity supplied by the local electricity company KSS Energia, produced, to a great extent, by hydroelectric power from the Kymijoki river system
- A recycling point for customers

*There are three recharging points for electric cars in the Veturi shopping centre's yard.*





# DOING GOOD TOGETHER, LOCALLY

*A local approach and K-retailers are the competitive advantages of the K-Group. Retailers know the local community and the needs of their customers. Together with its customers and partners, Kesko is building a better society.*

At the end of 2012, Kesko had 1,210 K-retailer entrepreneurs as partners. In Finland, all food and building and home improvement stores in the K-Group are run by K-retailer entrepreneurs.

In 2012, 65 new K-retailers started their careers. Approximately one fifth of all K-retailers are female, while many of the K-stores are family enterprises, headed by a retailer couple.

The K-retailers are responsible for their stores' customer satisfaction, personnel and business profitability. K-retailers listen to the wishes of their local customers, creating the selection and services that respond to their needs. The common selection of the chain is, for instance, complemented with local food from nearby producers.

Future K-retailers are trained by the retailer training programmes. The training consists of online studies, on-the-job training under a mentor retailer and regional and nationwide classroom instruction sessions.

## **K-RETAILER ENTREPRENEURSHIP HIGHLIGHTED IN ITS ANNIVERSARY YEAR**

The K-Retailers' Association, which looks after the interests of and promotes co-operation between K-retailers, has all of the 1,210 K-retailers as members. The K-Retailers' Association's duties include

enhancing and strengthening K-retailer entrepreneurship and promoting K-retailers' interests in the trading sector.

The K-Retailers' Association celebrated its 100th anniversary in 2012 and K-retailer entrepreneurship was made known in many ways during the year. 'K100, the K-Retailers' Association 1912–2012', which tells the one-hundred-year history of the K-Retailers' Association, K-retailers and the K-Group as part of the development of Finnish commerce and society, was published in early 2012.

Many retailers participated in the discussion about the significance of entrepreneurship in society at the main festival of the annual Entrepreneur Event in Tampere and also in the discussion organised in the SuomiAreena radio channel in Pori. The 'Encounters in K-stores' competition tempted nearly 1,700 customers to reminisce and tell about their recollections over the years. The stories were published in the Pirkka, Kehittyvä Kauppa and Kauppias magazines as well as on the website of the K-Retailers' Association.

## **SUPPORT FOR CHILDREN AND THE YOUNG**

In 2012, Kesko and its subsidiaries gave financial support worth approximately €0.9 million to various communities and organisations.



## HIGHLIGHTS CASE

## Local Pirkka breads meet consumer demand

Local products have a central position in K-food stores' selections. In 2012, the Pirkka range focused on bread. Local Pirkka products were developed in cooperation with local bakeries to meet the growing demand for local foods.

Cooperation with the Nurmes-based Pielispakari resulted in Pirkka Organic bagels and Pirkka rye pan bread being included in the selections of K-food stores in Northern Savo and Northern Karelia regions in August.

"It's great that Kesko Food has chosen to participate in maintaining local food culture. The bagels are made from organic flour in the traditional Karelian way. The rye pan bread is high in fibre, contains no additives and is baked according to a traditional recipe," says **Erkki Timonen**, Managing Director of Pielispakari.

## HIGHLIGHTS CASE

## Benefits from Plussa cooperation

K-Plussa's sponsorship service encourages and supports retailers in their local charity and sponsorship work. In 2012, K-Plussa and K-retailers provided support to around 140 sports clubs or teams across Finland.

The K-stores in the Turtola shopping centre in Tampere have had Plussa cooperation with local sports clubs for years. Club members shop at the stores, which pay a certain percentage of their purchases as support to the clubs. K-city-market Turtola, Intersport Koskikeskus and Intersport Turtola are all major sponsors of the Ilves sports club. Special Ilves events are organised in K-citymarket Turtola to attract new junior players to join in the activities of the club.





LET'S DO GOOD. TOGETHER. CASE

## Aaltonen shares his knowledge with the next generation of retailers

**Hannu Aaltonen**, who has been a K-citymarket retailer since 1990, was recognised as Tutor Retailer of the Year by the K-Food Retailers' Club in spring 2012. This Turku-based K-citymarket Kupittaa retailer has helped seven people start their careers in retail in seven years, all of them his employees.

### RETAILER TRAINING IS A PASSAGEWAY TO BECOMING A K-RETAILER

Kesko Food's retailer training programme includes different kinds of studies: online learning, guided retailer training, and regional and nationwide on-site assignments. Retailer training takes 4–24 months, depending on the specified training needs.

The retailer training provided by Aaltonen differs from Kesko Food's retailer training programme to some extent. The training occurs alongside paid work and the employer pays compensation to the trainee for studying, too. The training period is also longer than in the training programme.

"Because I'm eventually going to lose a good employee, I also try to get a lot out of the trainee. With us, the retailer training takes 4–5 years instead of one or two years, which is usually the case. This way we ensure that the trainee has a chance to participate as widely as possible in all the work at the store, progressing to more demanding duties and assuming more responsibility," says Aaltonen.

### A DEPARTMENT MANAGER BECOMES A RETAILER

**Juha Pöyhönen** became interested in a retailer career at K-citymarket Kupittaa, where he worked in different departments for five years. Pöyhönen now works in his second store, the K-market Neste Oil in Paimio, as a retailer.

"Hannu gave me a really good basis for my retailer career. We went through the main issues together, from financial indicators to the importance of product display. And things did not end there: Hannu arranges annual events so that those of us who were trained in Kupittaa can exchange experiences," commends Pöyhönen.

### RETAILING IS A WAY OF LIFE

Who has it in them to be a retailer? According to Aaltonen, practical work tells the tale, and many people work in this field for years before acquiring retailer training. People with completely different backgrounds, such as banking, also choose this career path.

Aaltonen says that working as a retailer is a way of life that combines HR management, purchasing and chain operations. Retailer entrepreneurship also has a social dimension that may affect the whole family. "You can be offered a store site anywhere in Finland, which will entail a complete change in the life of any possible family," Aaltonen concludes.



**“ THE TRAINEE HAS A CHANCE TO PARTICIPATE AS WIDELY AS POSSIBLE IN ALL THE WORK AT THE STORE, PROGRESSING TO MORE DEMANDING DUTIES AND ASSUMING MORE RESPONSIBILITY**

HIGHLIGHTS CASE

## Rautakesko helps build an orphanage in Vietnam

As a partner of the Eurobuy purchasing cooperation, Rautakesko helped support Eurobuy's Eurogroup Charity Fund (ECF) in the Far East when it participated in the construction of an orphanage in the poor

province of Nghe An in North Vietnam.

Opened in July 2012, the Nghi Loc Mother Theresa Orphanage offers orphans, many of whom have disabilities, primary care, shelter and education.





The main emphasis in Kesko's and K-stores' sponsorship activities is on providing support to children and the young. At any given time, Kesko's sponsorship is targeted on a few projects that affect a large number of consumers.

For 15 years now, Kesko has been promoting an active lifestyle and the well-being of children, families with children and the young in cooperation with the Young Finland Association. In 2012, Kesko participated in the regional competition of the Association's Your Move Taisto campaign for physical activity.

#### GOOD CHRISTMAS SPIRIT

The Finnish Red Cross and the Mannerheim League for Child Welfare annually organise a Christmas Spirit collection to help Finnish low-income families with children. The collection is implemented in cooperation with three media channels – YLE Morning TV, YLE Radio Suomi, YLE Radio Vega – and Kesko. The funds donated to the collection are used to distribute gift vouchers that the families can use at K-food stores to buy food for Christmas.

In 2012, consumers could, for the first time, also participate in the collection by donating their K-Plussa points. Kesko's

Board of Directors donated €40,000 to the collection, which generated about €1.4 million in all. Vouchers of €70 each were given to 18,000 families.

"Through our Facebook pages, we have received dozens of messages from mothers thanking us for the voucher and saying that €70 is a lot of money for their families and saves their Christmas," says **Sanna Räsänen**, Communications Officer for the Finnish Red Cross, who has participated in organising the collection for many years.

#### COOPERATION WITH PARTNERS

Kesko requires that its suppliers and other partners act in compliance with Kesko's values and responsible operating principles.

Cooperation with partners requires a regular dialogue. Kesko Food organises an annual information event for its suppliers. In November 2012, nearly 600 people gathered in Helsinki to hear about the competitive advantages provided by K-food stores, Kesko Food's expansion into Russia and the shift of customer encounters to electronic channels.

"Customer relationships are undergoing a change: we have an increasing number of active and demanding consumers aged over 65, while for the young, on the other hand, the web is omnipresent. As competition for customers is escalating and getting more complex, we must also be present in electronic channels forecasting and interpreting customer needs. We are shifting from mass marketing towards an interactive business model. While this is an opportunity for us, it also presents a risk if we don't keep up with the change," said President and CEO **Matti Halmesmäki** at Kesko Food's partner information event.

#### STORES AS A MEETING PLACE

Retail stores offer various shopping and other services and act as meeting places in many localities.

About 170 K-stores also provide postal services in their neighbourhood. Smartpost parcel terminals will be installed in all K-citymarkets by the end of 2013. Customers can order their online purchases to a Smartpost terminal and pick them up during their shopping trips.

Tests of the cashback service started in 30 K-markets across Finland in November 2012. The experience gained so far has been positive and the aim is to expand the service nationwide in K-food stores during 2013.

Pilot projects for testing electronic price displays and self-service checkouts in retail stores were also launched in 2012.

#### HIGHLIGHTS CASE

## Food culture to local children

The K-citymarket yard was filled with children at the market event celebrating Children's Food Culture Week in Äänekoski one September morning. Together with the local society for Agricultural Producers, K-citymarket retailer **Mika Lankinen** had invited all the local kindergartens, private day care providers, children's day clubs and primary schools to learn about the origins of Finnish food.

In front of the store, the children interested in food had a chance to hear about domestic food production and see agricultural machinery. The local producers invited by the retailer offered samples of rye bread and milk products to the children.

#### HIGHLIGHTS CASE

## Salads and herbs direct from farmer

Based in Sipoo, **Kenneth Eskman** supplies salads and herbs to two K-food stores in Helsinki. Eskman supplies the products himself, visiting the stores every other day in the winter and more often in the summer.

"The biggest benefit for both the store and customers from having small, local suppliers is the short supply chain – the products are guaranteed to be fresh and of high quality," says **Jouni Ekholm**, retailer at K-supermarket Mustapekka.

From the perspective of a small supplier, the advantage of cooperating with the stores is the ongoing relationship it offers.

"I have supplied salads to K-supermarket Mustapekka for eight years now. Over the years we have expanded our product range to also include various herbs, such as coriander and parsley," says Eskman.

During their long journey, Ekholm and Eskman have developed operating practices that benefit both of them. They have agreed that Eskman can take broken pallets from the store for use in heating the greenhouse, which reduces the amount of waste in the store.



## WE DO AND OFFER HIGH-QUALITY WORK

*The K-Group employs around 45,000 people in eight countries. We offer meaningful and varied jobs, flexibility at work for various life situations plus personal development opportunities. We want to be the most attractive workplace in the trading sector, with satisfied employees and competent supervisors.*

In Kesko and K-stores, you can have a varied career in many trading sector jobs, which vary from retail store duties to retailer entrepreneurship and specialist and supervisory jobs in different sectors.

Many Kesko employees work in several different jobs during their careers and may also change from one division to another. In 2012, there were more than 5,000 internal transfers to new jobs.

Kesko is a significant regional employer, and the new shopping centres in particular provide jobs for hundreds of people. The two newest ones, Veturi in Kouvola and Karisma in Lahti, employ a total of about 1,400 people. In spring 2012, the Karisma shopping centre was recognised with an honourable mention for 'the Employment Provider of 2011'.

### **WORKING COMMUNITY SKILLS THE THEME OF THE YEAR**

In Kesko, wellbeing at work is based on the opportunity to do meaningful work, in line with one's abilities, in a safe, pleasant and supportive working environment. The management of wellbeing at work consists of the following areas: life management, work and competence, working

community and management and supervisory work. Enhancing supervisory work, providing management tools and creating the right conditions for success at work all contribute to wellbeing at work.

In 2012, Kesko's wellbeing at work programme focused on the development of supervisory work and working communities. The special emphasis was on the use of the personnel survey to develop the working community. During the year, Kesko arranged around 30 training events for supervisors, where the models for early intervention and performance and development reviews were discussed. Approximately 500 managers and supervisors participated in these training events.

"With the goal of developing skills for the working community, we produced some videos in cooperation with Ketonen and Myllyrinne, the popular sketch actors. Humorous videos were used to spark discussion about developing working communities and as part of the online Master Sales Assistant training material. In 2012, best practices were also sought through an in-company contest, and the good working community deeds reported were presented on the intranet site throughout the year. The community deed of the year was





## LET'S DO GOOD. TOGETHER. CASE

## Checkout personnel have many skills

Besides knowing about various products, checkout workers also need information on, say, different payment cards and age limit control concerning purchases. Superiors play a key role in the induction of new checkout workers and the many online training courses available provide support.

### 1 AGE LIMIT CERTIFICATE

Retail stores offer many products whose sale to minors is either restricted or entirely forbidden. According to the directions that came into force in January 2013, checkout workers must always verify the age of any customer buying alcohol beverages, tobacco products and smoking paraphernalia who appears to be under 30. Employees' proficiency at age limit control is improved by training. They have to take the proficiency test of the Finnish Grocery Trade Association and follow the instructions given by the association on age limit control.

### 2 RESPONSIBLE CHOICES

In 2012, the K-instituutti training centre implemented a new online training course called 'Responsible choices' to give a comprehensive idea of different areas of responsibility in the K-Group and answers to questions frequently asked by customers.

### 3 MASTER SALES ASSISTANT TRAINING

Master Sales Assistant training has been available to K-store sales assistants for over 50 years. The current online training programme, which was revised in 2012, focuses on basic issues

common to the K-Group, matters of current interest in the chains' business operations, product information and customer service.

### 4 DATA SECURITY CERTIFICATE

Annual data security training provides basic information on data security risks and minimising them in connection with payment transactions by paying attention and acting properly. At the end of 2012, more than 23,000 Kesko and K-store employees had completed the training and received the data security certificate.

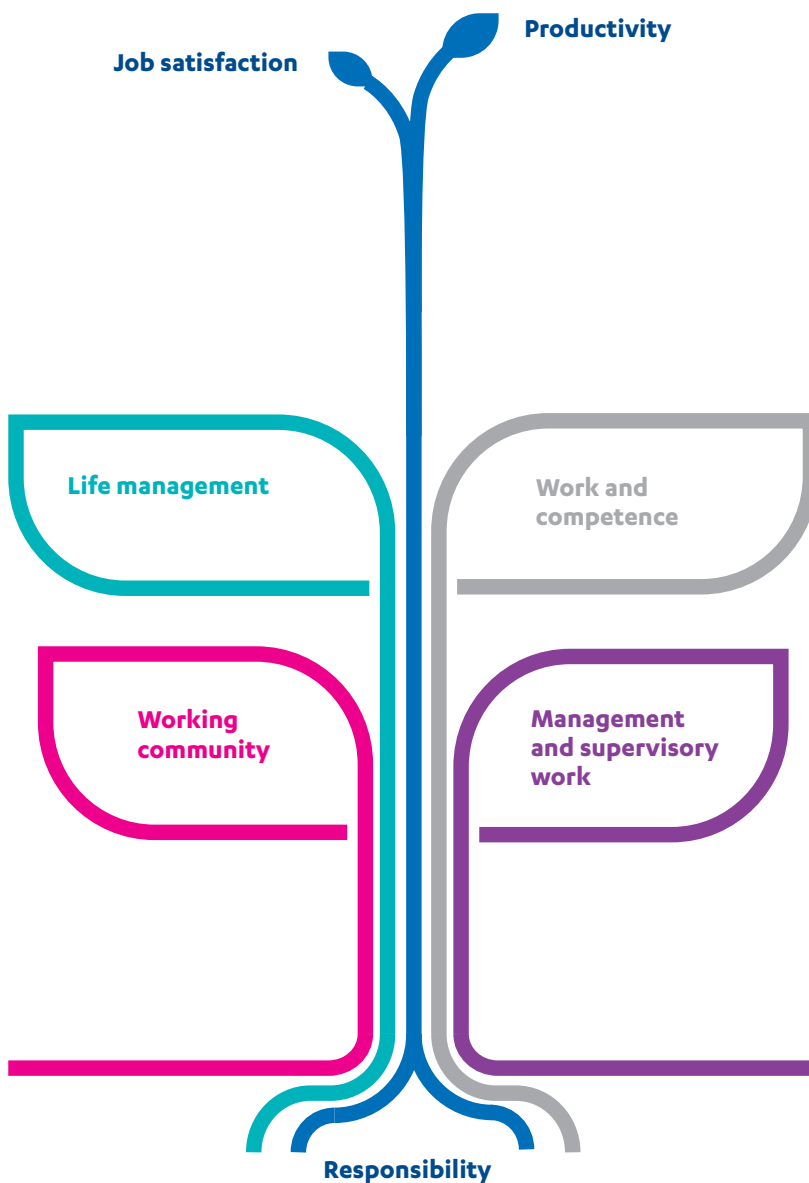
### 5 CASHBACK SERVICE

Online training for the cashback service provided by retail stores started in March 2013. Checkout personnel are given information on the operations of payment and POS terminals when customers want to withdraw cash when paying for their purchases.

### 6 K-PLUSA MASTERCARD

An online training course on K-Plussa MasterCard, the K-Group's own means of payment, has been available to store personnel since February 2013. The course provides basic information on the terms and benefits of the card to the customer.





the shared commuting bus arranged for Indoor Group employees,” says **Janna Pirhonen**, Kesko’s Manager for Wellbeing at Work.

**SUPPORT FOR SUPERVISORS AND EMPLOYEES DURING CHANGES**

The aim of the profitability programme implemented during the latter part of the year was to improve cost-efficiency in all of the companies and units. Besides other savings, the measures also had a significant impact on personnel. The implementation of the profitability programme is supported by common coaching events arranged for supervisors and by group coaching. Various employment trainings are offered for employees.

**UNIFORM OPERATING SYSTEM FOR OCCUPATIONAL HEALTH CARE IN FINLAND**

All employees of Kesko and its subsidiaries in Finland fall within the sphere of comprehensive occupational health care. In addition to the extensive health care services for maintaining working capacity, full-time employees are entitled to general practitioner level health services.

Starting from the beginning of 2012, Kesko’s Occupational Health Service and Kela, the Social Insurance Institution of Finland, have been applying the PATU service provider model. Throughout Finland, occupational health care services for all of Kesko’s division parent companies are produced and purchased by the Occupational Health Service, whose centralised

**HIGHLIGHTS CASE**

**K-retailers contribute to employment of persons with intellectual disabilities**

To celebrate its 100th anniversary, the K-Retailers’ Association launched a project called ‘Many kinds of performers’ in April 2012 in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). An employee was hired at the FAIDD to bring together K-retailers and people with intellectual disabilities who are interested in working in K-stores.

During the spring and autumn, 55 retailers across Finland announced that they were interested in the project. In 13 cases, employment contracts have since been signed and in 29 cases the process was still underway at the beginning of 2013. One of the reasons was that the retailer was waiting for decisions by

authorities on the financial aid provided for employment. For various reasons, 13 of the contacts did not lead to the desired end result.

One of those employed in the project is **Tiina Sulander** (to the left in the picture), who found a job she likes in K-supermarket Härkätie in Somero. “Tiina was quick to learn various duties and now handles the cheese department like a pro,” praises retailer **Minna Lunden** (to the right in the picture). On the basis of her experience, she is ready to recommend this type of employment to other retailers, too.

The project will continue in 2013, when the aim is to build a permanent operating model for employing intellectually disabled people at K-stores.





sourcing and target-oriented management enable us to provide uniform content and practices throughout the whole Kesko Group.

The activities of the Occupational Health Service help Kesko and its subsidiaries achieve the targets of the programme on wellbeing at work.

“We are here to coach supervisors and managers on early intervention in challenging situations, such as in case of extended absences due to illness or conflicts at the workplace. We also provide support for supervisors in various daily situations and support employees in cases of personal crisis, burnout or something threatening their physical health,” says **Pirjo Anttila**, Chief Physician of Kesko’s Occupational Health Service.

### REHABILITATION HELPS PEOPLE STAY AT WORK

Several ASLAK rehabilitation courses, paid for by Kela and coordinated by Kesko’s Occupational Health Service, were arranged for store, warehouse and office employees and supervisors in 2012.

In the greater Helsinki area, Kesko’s Occupational Health Service also directed employees to AMI rehabilitation, which promotes mental health. AMI rehabilitation for outpatients is a development project carried out by Kela that has provided help for depression patients in working life.

### PERSONNEL SURVEY SUPPORTS THE DEVELOPMENT OF THE WORKING COMMUNITY

The wellbeing of the working community and the quality of management are measured in Kesko and its chains’ stores with an annual personnel survey.

In the 2012 personnel survey, the Kesko Group’s results improved from the previous year. The total satisfaction was 3.94 (scale 1–5), compared with 3.90 in the previous year. The total average given for supervisory work was 3.94, compared with 3.90 in 2011.

The state of wellbeing at work is monitored with the help of an index that measures the working capacity of employees and the work-load. In 2012, the wellbeing at work index increased to 3.81 from 3.75 in the previous year.

Employees felt that they easily get help from their colleagues. High scores were also given for the tolerance of differences and for the implementation of equality between people of different ethnic backgrounds, gender and ages.

Room for improvement was found in Kesko’s attraction as an employer, in opportunities for job rotation and in cooperation between the different units.

## LET’S DO GOOD. TOGETHER. CASE

# A common management model for wellbeing at work

A common management model for wellbeing at work is being developed for K-citymarkets’ home and speciality goods departments and for Anttila department stores. The idea is that the same methods used for increasing wellbeing at work can be introduced in department stores across Finland. The objective is to enhance employee wellbeing by decreasing staff turnover and sick leaves, and to increase the feeling of appreciation of work and productivity.

“The aim is to develop a model that is easy to adapt in various department stores and that produces results that are easy to measure,” says **Janna Pirhonen** (to the right in the picture), Kesko’s Manager for Wellbeing at Work.

A multi-disciplinary working group, which included representatives from K-citymarket Oy’s and Anttila Oy’s HR Management, the Kesko Group’s HR unit and the Occupational Health Service, was set up to develop the management model for wellbeing at work. The home and speciality goods department of K-citymarket Porvoo was selected to serve as a test case.

After an initial inspection of the hypermarket, special attention was paid to the following: induction of new employees, appreciation of employee wellbeing, and the community spirit between the department and checkout personnel.

“A decision was made to focus on things we can genuinely affect,” says

Hypermarket Director **Nina Wikström** (to the left in the picture).

Although supervisors are primarily responsible for the induction of new employees, it has been agreed in Porvoo that everyone will take part. Feedback given for work will, among other things, strengthen the feeling of appreciation.

“A supervisor’s feedback to an employee is naturally the most important of all, but praise from colleagues also feels good. We are learning to give positive feedback to each other and to learn from each other by working across departmental boundaries,” says Wikström.

The third target for improvement in Porvoo is improving the community spirit between the department and checkout personnel. According to Wikström, it is important that checkout personnel understand the nature of the work done in the department.

In Porvoo, overall progress and the experiences gained from new operating practices are dealt with on a weekly basis at department meetings. Future surveys will ultimately reveal how wellbeing at work develops.

Janna Pirhonen says that the indicators used in the model should remain the same for a longer period. This allows those interested to monitor whether the activities agreed upon and implemented affect the feeling of wellbeing at work.



ADDRESS BY STAKEHOLDER

## Eeva Hukka, Ilmarinen

Improving wellbeing at work and extending careers are themes that are close to those of us in the work pension insurance sector. As a pension provider, the role of Ilmarinen is to offer facts, figures, good practices and expertise for the use of our client companies.

We find Kesko's approach to wellbeing at work through work and the requirements of working to be very smart: there is no point in talking about wellbeing at work, if the work does not feel worthwhile or if the supervisor does not offer the desired level of support.

Kesko's last year is a good example of how a company can simultaneously start a profitability programme and invest in the well-being of employees at work. Luckily investments in personnel do not deduct from the company's results, and in fact the opposite is true. Employees who are well work more efficiently, and therefore each euro that is correctly invested in wellbeing at work is returned many times over. Wellbeing at work benefits the employee, the employer and the entire society.



*Eeva Hukka is an Account Manager for major customers at Ilmarinen.*

As part of the 2012 theme of developing the working communities, 30 working units got help from an external consultant to enhance the unit's operations after the 2011 personnel survey.

In 2013, the programme on wellbeing at work will focus on work safety and ergonomics.

### TRAINING FOR STORE PERSONNEL

Kesko's subsidiary K-instituutti has been organising the Master Sales Assistant training programme for retail store personnel for over 50 years.

The training package was revised in 2012 and went all online. The contents focus on the K-Group's joint basic competencies, matters of current interest in the chain's business and on product information.

The K-Retailers' Association organised its annual K-Team event in Turku on 3 November 2012. More than 4,000 K-retailers, K-store employees, Kesko employees and business partners gathered at this event to see the Master Sales Assistant finals, learn about new products and hear the partners' latest news. For the sixth year, Kesko had a corporate responsibility stand at the event. This year's theme was social responsibility.

In 2012, the K-instituutti training centre implemented the new Responsible Choices online course, which is part of the 2013 Master Sales Assistant training, offering an extensive presentation on the K-Group's work for responsibility.

Kesko Food and K-instituutti will provide training on the new K-responsibility concept for Kesko employees, K-food retailers and store personnel in 2013. Tools to support and help practical implementation in stores will include online training material and a concept manual. Responsible deeds in Kesko and retail stores will be presented with illustrative case examples.

### KESKO AND K-STORES TO PARTICIPATE IN THE YOUTH GUARANTEE INITIATIVE

Kesko and K-stores will participate in the social guarantee for young people initiative, with a view to promoting employment and preventing social exclusion among young people. Kesko will implement the initiative in cooperation with the authorities, the K-Retailers' Association and other organisations. A tailored programme will be built for the K-Group to employ young people in K-stores and Kesko. Kesko's Board of Directors granted €100,000 to start up the programme in February 2013.

BEARING RESPONSIBILITY CASE

## Wellbeing at work in the Baltics

In 2012, HR Manager of Konekesko Baltic **Katrin Tur**, focused on the implementation of Kesko's and Konekesko's group-level HR processes in Estonia, Latvia and Lithuania.

One of the major projects is the communication and implementation of the wellbeing at work model in the Baltic countries.

"On the Baltic level, the most important thing is to support every employee's understanding of wellbeing at work and better awareness of wellbeing in general. I like the definition of wellbeing at work in Kesko's guide: Wellbeing at work means the opportunity to do meaningful work, in line with one's abilities, in a safe, pleasant and supportive working environment," Katrin Tur says.



**READ MORE**  
[corporateresponsibility2012.kesko.fi/tur](http://corporateresponsibility2012.kesko.fi/tur)



## START TO A CAREER IN A K-STORE

The K-Group offers different training and summer jobs, most of which are in K-stores. Kesko also employs thousands of summer employees, job trainees, and young people for short-term orientation to working life and for short-term summer jobs called 'Learn and Earn'.

In K-stores, summer employees most often work as checkout clerks or sales assistants, while in Kesko they do office work, such as in financial administration, or assist in warehouse duties in logistics centres.

In 2012, Kesko's and K-stores' aim was to have each Kesko unit and store employ at least one young summer employee or trainee. K-retailers employed around 3,200 people and Kesko employed 1,200.

Kesko and the K-Retailers' Association supported K-stores' participation in the Finnish Family Firms Association's 'Summer job for 10th graders' project. K-stores provided summer jobs for 90 grade 10 secondary school students.

For many young people, apprentice training is a good way to advance in a career path. In 2012, there were 773 people in apprentice training, of whom 224 had a vocational and special qualification.

## KESKO KNOWN TO TEACHERS AND STUDENTS

Kesko is engaged in close collaboration with students and teachers in various fields. Kesko employees regularly visit business universities and polytechnics, as well as recruitment fairs, to tell students about the K-Group's career and summer job opportunities, K-trainee programmes and the retailer entrepreneur path provided by polytechnics.

A special programme ('K-Tutuksi'), targeted at teachers, business partners and Kesko personnel, offers a practical, guided opportunity to become familiar with K-food store operations and competence requirements.

For ten years, Kesko has organised autumn seminars on topical issues for teachers, guidance counsellors, principals and programme directors. The five seminars held in autumn 2012 discussed Kesko's expansion in Russia and the Master Sales Assistant training.

## KESKO SCHOLARSHIP PROGRAMME

Kesko launched a special scholarship programme for students at business polytechnics in 2011. Students who have completed their study-related training period in Kesko's offices or a K-store can apply

for a scholarship. In order to qualify for the scholarship, the student's mark for the training period, given by the supervisor, must be either excellent or good.

In 2012, the programme was expanded to cover all polytechnic students and Kesko scholarships of €500 each were distributed to 24 students from 10 polytechnics.

## A YEAR AS A K-TRAINEE PROVIDES EXTENSIVE EXPERIENCE IN COMMERCE

The K-trainee programme is directed at young people with a university or polytechnic degree, either newly graduated or with little work experience. The core of the 15-month programme consists of work in various trading sector duties. The programme also includes a joint leadership training period at K-instituutti and advanced division- and chain-specific courses.

The fourth K-trainee programme was launched in June 2012. From among over 500 applicants, ten were selected for the programme.

Over the year, the K-trainees were taking turns to shoot a video blog, in which they described their experiences during the training.

The three previous programmes have been completed by 50 K-trainees, of whom 39 worked in specialist or supervisory positions in the Kesko Group at the end of 2012.

## SURVEYS OF EMPLOYER IMAGE

Kesko's attraction as an employer is monitored with several surveys. The Universum Young Professionals 2012 survey looked into the opinions of professionals in working life about employment, careers and the most ideal employers. Kesko was the 10th most popular employer in the answers of young trading sector professionals.

T-Media's Young and Management 2012 survey focused in particular on young people's thoughts about supervisory work. Respondents said that the most important means for contributing to the development of young people include introduction, support given by the working community and feedback. In the images of young people, Kesko was on the lists for both the best managed (ranking 12) and the worst managed (ranking 9) companies.

## HIGHLIGHTS CASE

# K-summer job campaign to employ young people



Kesko and the K-Retailers' Association organised a K-summer job campaign in 2012 to attract attention to the employment of young people. The campaign culminated in awards for the K-summer employee and the K-summer employer of the year.

The K-Summer Employee of the Year title went to **Anni Nurminen** from Joutsa, who worked at K-citymarket Seppälä in Jyväskylä for the summer.

Anni Nurminen charmed both customers and fellow workers. "She has set an example and showed the right attitude, creating a positive feeling and a spirit of getting things done among everyone working here," praises K-citymarket Seppälä's Store Manager **Jukka Vihavainen**. In the picture, Vihavainen and Department Manager **Anja Ylivainio** lift Anni up high. The K-Summer Employer of the Year was retailer couple **Jyrki** and **Mari Koenkytö** of K-citymarket Loimaa. This retailer couple had 17 summer employees and trainees in 2012. The inventive retailers bought a special ice cream bike for the summer and employed young people to ride around selling ice cream.

"The unique ice cream bike campaign paid off," the retailers say. "Although the investment did not produce much money, the campaign was more than good publicity for us. We care about our neighbourhood and these young people and want to share the good feelings with others."

The second K-summer job campaign will be organised in 2013.

# WELL-RESEARCHED AND SAFE PRODUCTS

*A product's route to the store shelf is often long and the supply chain may have many steps. It is the store's duty to help customers make responsible choices. Customers must be able to rely on the fact that the products offered by stores are well-researched, safe and sustainably produced.*

## SUSTAINABILITY STATEMENTS SUPPORT THE WORK OF BUYERS

The buyers in Kesko's various divisions make purchasing decisions every day. It is important that they all follow common rules, have sufficient information and are experts in responsible sourcing and purchasing. In order to ensure responsible operations across the entire chain, Kesko also requires that all suppliers accept our values and principles and act accordingly.

Kesko's purchasing principles guide our responsible purchasing. Various policy statements, such as the palm oil policy, the fish and shellfish statement, the timber policy, and the stand on the sandblasting of jeans, have been prepared to support purchasing operations.

Kesko Food is a member of the Roundtable on Sustainable Palm Oil (RSPO), which promotes the sustainable production of palm oil. Kesko Food recommends the use of certified sustainable palm oil (CSPO) by manufacturers of Pirkka and Menu products.

As declared in the fish and shellfish statement, Kesko Food, Kespro and K-food stores do not sell species with a red rating in WWF Finland's traffic light guide for fish. Species with a green rating are favoured and sustainable fish stocks and MSC certified suppliers are preferred when making selection decisions. Kesko Food supports retailers' efforts to sell fish caught in local waters using sustainable methods. The Pirkka range contains 11 MSC certified fish products and new ones are sought actively.

During 2012, there was much public discussion about the recommendations in the WWF's fish guide and about sustainable fishing of Finnish migrant whitefish and wild Baltic salmon in particular. The Ministry of Agriculture and Forestry set up two working groups to develop regulations on whitefish and salmon fishing to ensure its

sustainability. Kesko Food's representative, Product Research Manager **Matti Kalervo**, is a member of both working groups.

Kesko Food participates in the national monitoring group set up in 2012 to monitor European standardisation initiatives on the sustainability and traceability of cocoa.

## PAYING SPECIAL ATTENTION TO WORKING CONDITIONS IN HIGH- RISK COUNTRIES

In its operations, Kesko pays special attention to human rights issues and working conditions across its sourcing chain. Monitoring focuses mainly on countries where the risks that these rights will be violated are the greatest (such as in many Asian, Central American and African countries). International assessment systems, BSCI auditing and SA8000 certification, are used for supplier audits in high-risk countries.

Kesko is a member of the European Business Social Compliance Initiative (BSCI). There is also a project underway to add audits on environmental impacts and risks to complement social auditing in the future.

Kesko's Finnish companies' direct purchases from suppliers in risk areas accounted for 1.3% of Kesko's all purchases in 2012. The most important non-EU supplier countries in risk areas are China, India and Turkey. Imports from these countries mainly consist of clothing, home textiles, shoes and household appliances.

Kesko actively promotes social responsibility audits of suppliers in high-risk countries. The aim is to only do business only with suppliers that have passed an audit. At the end of 2012, Kesko's suppliers in high-risk countries had 209 factories or farms within scope of the BSCI process.

The audits alone are not sufficient to improve working conditions, but the BSCI system increases awareness and provides





## HIGHLIGHTS CASE

## Anno products are designed to stand the test of time

The Anno collection, which has been designed in Pitäjänmäki, Helsinki, is based on basic products and neutral colours, and is complemented with a colour palette that changes from season to season. Anno textiles are mainly made from natural materials, such as cotton, linen or wool.

The redesigned Anno products are made from recycled materials and locally produced when possible. For instance, the Anno Kupla vase is made from recycled glass and the new Anno Collection paper napkins are manufactured by Suomen Kerta Oy in Kotka. The Anno Rehti blanket is partly made from recycled fibres, while the kitchen textiles in the Aika range are made from recycled cotton.

“When we developed the collection, our aim was to create long-lasting and reasonably-priced products that customers find easy to combine. We have paid special attention to the materials and quality. The collection includes many natural fibres, whose positive features are hard to match with other materials,” says **Pia Lehtovuori**, designer of home products for K-citymarket Oy and Anttila Oy.

Efforts are made to minimise the use of packaging materials. For instance, some of the Anno kitchen textiles have no plastic in their packaging. When designing large products, packaging is taken into account to allow shipping containers to be packed as tightly as possible (using the so-called flat pack method).

Production stages have also been minimised as far as possible. For example, some of the Palmikko wool carpets are not dyed or bleached but their colour comes directly from the wool itself.

“Our Anno Collection wool carpets are made in India under controlled conditions. The factory that manufactures the popular Pandora wool carpets is committed to social responsibility and supports the communities near the weaving centres by arranging education for the children. This factory has been particularly active and has worked to resolve issues in the Indian carpet industry,” says **Helena Frilander**, Communications and Responsibility Manager for K-citymarket Oy and Anttila Oy.







sector own-label products in Finland that has been certified as complying with the SFS-EN ISO/IEC 17025 standard.

Laboratory Chemist **Timo Kivi** explains what accreditation means:

“Accreditation is about establishing competence. It is a practice based on international criteria that allows someone to reliably verify the credibility of the analyses carried out by the lab.”

For the laboratory, obtaining and maintaining accreditation requires high level and continuous development.

“The quality of measurements and the correctness of results are ensured with the validation of the analysis methods and the calibration of measuring instruments. In the annual accreditation survey of the laboratory, external reviewers assess the performance and quality of the laboratory and its analyses. The laboratory annually participates in comparative surveys, in which several laboratories from different countries determine, say, the salt content of the same sample. Based on the results obtained by all the labs, a statistical result is determined to which the lab’s result is compared to assess whether the result obtained is acceptable,” says Timo Kivi.

### THE MONITORING OF PRODUCTS IS THE KEY TO QUALITY ASSURANCE

Food operators are obligated by statute to set up systems to determine product safety hazards involved in their operations and to draw up systematic measures to manage these hazards. Kesko Food’s Product Research unit is responsible for guidance and support for the relevant K-Group activities.

Municipal food inspectors also conduct inspections in food stores. Starting from May 2013, the results will be initially published on the Internet and be also posted later at the store entrance. The Finnish Food Safety Authority Evira coordinates this national system, which is called Oiva.

The results of food inspections will be listed in the Oiva report, where smiling face symbols indicate the results obtained by the store. The four smiling face options are: excellent, good, room for improvement and poor.

The publication of inspection data should help increase transparency and provide consumers with information to assist them when making decisions.

### FLOWERS AND BANANAS ARE THE MOST POPULAR FAIRTRADE PRODUCTS

In 2012, Kesko Food had 146 Fairtrade suppliers in 38 countries. Kesko Food had 215 Fairtrade products in its selection, of which 39 were Pirkka Fairtrade products. The most popular Pirkka Fairtrade products are flowers, bananas, oranges, coffee, juices, honey and chocolate.

The products sold by Kesko Food generated a total of over €330,000 as a Fairtrade premium for social development projects. Out of this, Kesko Food’s flower sales accounted for nearly €190,000.

A campaign, in which a hand-made bracelet from Kenyan women was added to each Pirkka Fairtrade flower bunch, was carried out in May for the third year in succession.

### HIGHLIGHTS CASE

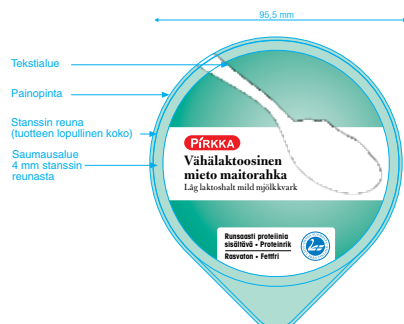
## PEFC info event in K-rauta stores offered customers information on wood origins

PEFC certification was highlighted in an info event arranged for consumers in K-rauta stores in May 2012. The PEFC logo tells the company and the consumer that the product has been manufactured from wood originating from sustainably managed forests. PEFC specialists visited stores in Espoo, Helsinki, Järvenpää, Kirkkonummi, Tampere and Vantaa to tell customers about PEFC certification of timber and the domestic origin of wood.

K-rauta aims to further develop as a shopping destination offering high-quality and responsible products. Rautakesko’s selections currently include PEFC logos on the wrapping of sawn goods, and on floor materials, building boards, glue boards, mouldings and panels. The selection of PEFC certified products keeps growing. Customer awareness of the significance of good origins is raising interest in domestic wood in particular. Experiences gained from the day were positive and encourage us to organise corresponding events in the future.

#### JUNE–JULY

Approval of print proofs and the manufacture of packaging materials.



#### SEPTEMBER

The quality and safety of a finished product is checked once more at this stage. The Pirkka Product Research makes an evaluation of the first finished lot before the product is approved for sale. The Pirkka low lactose mild quark is launched to the market in September 2012 and is well received by customers.

#### OCTOBER–JANUARY

The new arrival is presented in the K-RuokaPirkka leaflet, the Pirkka magazine and on the Pirkka Facebook site. Home economics teachers develop recipes suitable for the product, such as a snack of cottage cheese and quark.



HIGHLIGHTS CASE

## Pirkka Organic milks are just naturally good

Pirkka Organic low-fat milk and Pirkka Organic fat-free milk come from the milk of cows raised on organic farms in Finland. When the search for a partner started, a decision was made to complement the Pirkka range with Finnish organic milk, because consumers value Finnish origins.

Organic milk is processed less in the dairy; it is pasteurised but not homogenised. This means that fat globules in the milk are not broken up and the structure remains as natural as possible.

Organic farms allow cows to behave in ways typical for their species. They may go out all year long and nurse their offspring. The cows' food mainly comes from organic feed produced on the same farm.

No artificial fertilizers or chemical pesticides are used on organic farms. The nutrients return to the field to fertilize plants as efficiently and with as little wastage as possible.



HIGHLIGHTS CASE

## The Product's Path opens up the product's route

Customers are increasingly interested in product origins and the working conditions across the entire production chain. The Product's Path map application, published at kesko.fi and pirkka.fi sites, illustrates the journeys of our key products from factories or farms to stores. For example, the route of the Pirkka Organic Fairtrade banana can be followed from Peru to Finland via text, pictures and a video.



**READ MORE**  
[www.kesko.fi/productspath](http://www.kesko.fi/productspath)

"We ordered 350,000 bracelets and 350 women started to make them in Kenya in January. The women receive part of the proceeds, while the rest is used for the community. In 2012, the money was used to build a new classroom for the school in Naivasha and to expand the kindergarten providing education. The women use their money to buy farm land or domestic animals or to finance their children's education," says **Liisa Myllylä**, Purchasing Manager at Kesko Food.

Kesko highlighted fair trade issues during the Fairtrade week in October 2012 with articles in various channels, with in-store campaigns and by participating in a panel discussion at the 'Global responsibility through Fairtrade' seminar in Tampere. In cooperation with Fairtrade Finland, Kesko arranged a Mothers' Day event for the third time in Helsinki in May 2012, where 10,000 Pirkka Fairtrade roses were given to mothers and grandmothers.

### THE SELECTION OF ORGANIC PRODUCTS IS GROWING

Kesko Food is a founding member of the Pro Luomu association, which was established to promote the development and growth of organic production in Finland. The growing popularity of organic products is reflected in K-food stores: sales of Pirkka organic products increased by over 40% from the previous year in 2012.

In the autumn of 2011, K-food stores set themselves a target of doubling the selection of Pirkka organic products from fifty to around one hundred by the end of 2012. The result came extremely close as there were 99 Pirkka organic products at the end of the year.

"The best-selling Pirkka organic products are eggs and Pirkka Organic Fairtrade bananas. We will respond to demand and customer wishes and increase the selection still further. Our aim is to offer 200 Pirkka organic products by 2015," says Pirkka Manager **Ulla Heikkilä**.

In addition to Pirkka organic products, Kesko Food's selection includes more than 1,500 organic products. K-retailers also buy organic products direct from local producers.

The goal is to have 500 products that meet a responsibility criterion in the Pirkka range by 2015. Merchandise that fulfils a responsibility criterion includes Fairtrade products, MSC certified products, products with environmental labelling and UTZ certified products.

### LABELLING PROVIDES INFORMATION ABOUT PRODUCT ORIGINS

Product package labelling and origins provoked much public discussion in early 2013 in particular, when horsemeat was, contrary to package labelling, found in products across Europe. Due to the error by the company manufacturing Pirkka products, Pirkka kebab slices were among the products recalled for this reason.

Kesko complies with Finnish law and EU legislation on package labelling for its own brands and imports.

All Finnish Pirkka products have had the name and location of the manufacturer indicated on the packaging for over 25 years. Foreign Pirkka products carry the name of the country of origin. Finnish Pirkka products always have the Hyvää





Suomesta (Produce of Finland) label to indicate their Finnish origin if the criteria are fulfilled. There are currently 279 Pirkka products with this label.

Since 2011, the country of origin for meat has been indicated in the list of ingredients in those Pirkka products that have meat as one of the main ingredients. Legislation requires that the area where fish have been caught must be indicated, but Kesko has expanded the information to also cover fish products in the Pirkka range, such as fish fingers and canned tuna. The information on origin was added to most meat and fish products over the course of 2012.

The country of origin will be indicated on all own-brand products in K-citymarket and Anttila as their selections are updated. It will, however, take some time before this information is indicated on all own-brand products available in stores. Rautakesko aims to add the country of origin on the labelling of its own brands.

When the transition period for the EU regulation comes to an end in December 2014, changes will be required in consumer information on package labelling. For information on nutritional values, the deadline is December 2016. In practice, these so-called consumer information regulations will change all food package labelling and specify new requirements for product names and the readability of labelling, for instance. The work that is currently underway in Kesko Food on changing package labelling is vast, as changes need to be made in the packaging of about 2,500 products.

## ADDRESS BY STAKEHOLDER

## Sonja Vartiala, Finnwatch

Kesko should pay more attention to the responsibility issues concerning the products sold under its own brands across the entire subcontracting chain. Kesko is responsible for the observance of human rights throughout the value chain of its own products. In the case of many products, Kesko's current monitoring activities only extend to the closest producer.

Finnwatch considers the BSCI system favoured by Kesko as a good start. However, BSCI auditing only focuses on direct suppliers from high-risk countries, ignoring indirect purchases. Nor does the system require that suppliers pay their employees enough to ensure a decent standard of living.

As a stakeholder, we would like to have more specific information on the results of Kesko's BSCI audits and the number of audited factories in relation to the total number of factories in high-risk countries.



*Finnwatch is a NGO focusing on global corporate responsibility issues. Sonja Vartiala is the Executive Director at Finnwatch.*

## BEARING RESPONSIBILITY CASE

## Tuuli is responsible for purchasing canned foods

Product Group Manager **Tuuli Luoma** of Kesko Food's Processed Foods handles the purchasing of canned foods for Kesko Food's selections.

"My product group is exceptional because around 60% of the products come from abroad. Most of the food suppliers in the high-risk countries fall within my area, including Thailand, China and Indonesia. This makes social responsibility issues extremely important in my job," says Tuuli.

In her job, Tuuli promotes BSCI audits of suppliers and she is a member of the BSCI Food and Primary Production Working Group.

"Most recently, I visited the factories of different suppliers in Thailand and the Philippines in the spring of 2012. There is still much to be done in the area of social responsibility in many places, but it was a pleasure to discover that most things are in order in the factories of our suppliers."



**READ MORE**

[corporateresponsibility2012.kesko.fi/luoma](http://corporateresponsibility2012.kesko.fi/luoma)

# WELLBEING FOR CUSTOMERS

*Kesko and K-stores aim at making customers' lives easier, providing them with services that promote health and wellbeing and guiding them on the proper use of products. More and more often services are offered electronically.*

## MORE ELECTRONIC SERVICES

The development of electronic transactions and shopping is one area of strategic emphasis in all of Kesko's divisions.

Many kinds of mobile and web services, such as Budget Sport's online customer service, Asko's design programme and K-rauta stores' instructional videos, are available for customers.

Volkswagen published a mobile phone application for those touring by car in 2012. The Service App contains a travel vocabulary in several different languages, route directions to the nearest Volkswagen service centre, route directions back to the parked car, and the car dashboard symbols and explanations.

A QR (Quick Response) code was tested on Pirkka meat packages in cooperation with HK Ruokatalo during the year. By reading the QR codes on 15 domestic Pirkka meat packages, customers receive recipes recommended by the Pirkka test kitchen on their smartphones and can also give feedback. By monitoring the number of QR codes scanned and the contents selected, Kesko obtains information on what kinds of mobile contents interest K-food store customers.

## HEALTH THROUGH PROPER FOOD AND PHYSICAL EXERCISE

The promotion of healthy lifestyles and eating habits and physical exercise is essential for our food and sports stores in particular.

K-Food Specialists, experts in nutrition and special diets, have been trained for K-food stores since 2010. At the end of 2012, there were already more than 680 employees with this training.

All of the about 210 K-supermarkets in Finland annually organise a Fruit&Veg campaign, in which different fruits and vegetables are offered for one euro per kilo, package, box or bag.

The Pirkka test kitchen, which is part of Kesko Food's Product Research unit, devel-

ops and tests food recipes. The nutritional contents for nearly all of the approximately 5,000 recipes have been calculated to help customers make choices. Specified searches enable consumers find recipes for special diets and, for example, to find gluten-free, egg-free, milk-free, sugar-free or vegetarian recipes.

The 'Own Kitchen' service on the Pirkka website provides an electronic recipe book, where customers can save their favourite recipes. The Pirkka recipe and shopping list app, which can be downloaded on smartphones and tablets, was published in 2012.

In Intersport's Sport to the People concept, sport has something for everyone, regardless of age and level of interest. Every Intersport store in Finland organises a physical activity event for its customers at least twice a year. The aim is to promote a healthy lifestyle and to encourage people to be physically active.

## WE GUIDE OUR CUSTOMERS ON THE PROPER USE OF PRODUCTS

According to the Consumer Protection Act, goods shall be delivered with instructions for use, maintenance and care, if instructions are needed to use the product. A responsible store takes care that the customer also understands the instructions and knows how to correctly use the purchased appliance. Special attention was paid to this particularly in the machinery trade in 2012.

"Machinery trade products are often a big investment for a customer. It is important to make sure that the customer knows how to use the purchased machine bought. At Konekesko, our aim is to train and guide our customers to use machinery and appliances correctly and safely. Proper use is economical and will extend the useful life of machinery," says **Lina Morkunaite**, Managing Director of Konekesko Lithuania.









LET'S DO GOOD. TOGETHER. CASE

## Responsibility made visible to customers

Kesko and K-stores want to make their responsible operations more visible to customers in stores. In 2012, a new K-responsibility concept was designed for K-food stores to tell customers about the store's good actions in practice and to make sustainable choices easy for them.

A new symbol and the customer promise 'Let's do good. Together.' were designed for the concept. The new K-responsibility concept is more comprehensive than the earlier K-environmental concept. In addition to the environment, K-food stores' K-responsibility concept takes better account of other responsibility aspects, such as local origin, healthiness of food, safe products and a good working community.

The concept, to be adopted in the course of 2013, will help communicate Kesko Food's and K-food stores' responsibility and the work done to achieve it to customers, personnel and the public with the help of concrete examples. The K-responsibility concept is part of K-food stores' chain concepts and its messages are made visible to customers on, for example, store fixtures, signs and advertisements in stores.

A new K-responsibility manual will be distributed to K-food stores to support them in their continuous responsibility work and compliance with the responsible store operating system. The K-responsibility manual will guide personnel in how responsibility is a matter of cooperation between the customer and the store and how responsibility is comprised of local influence, a good workplace, environmentally friendly actions, reliable selections and healthy foods. As personnel adopt the themes of the K-responsibility concept, they will be able to guide K-food store customers toward increasingly responsible choices and actions.

The K-responsibility concept will enable K-food store customers and employees to become increasingly aware of different aspects of responsibility. One of the concept components is local origin and the inclusion of local operators' products in the food stores' selections. K-food stores are an important market place for local products.

K-food stores, K-citymarket Oy and a significant part of K-rauta and Rautia stores will adopt the K-responsibility concept in 2013.

BEARING RESPONSIBILITY CASE

## Interaction online

Building a good customer relationship requires that the service chain works in all of the channels as promised. Customers are seeking for more opportunities for online interaction with store people and other customers.

"Blogs can also serve as a channel for discussion about responsibility. Our new Anno products have been given an encouraging reception by customers, bloggers and the media. In one blog, new Pandora carpets in the Anno collection were admired but some concern was expressed about their manufacturing conditions. With the permission of the blog writer, we were able to give background information directly to those asking these questions," says Kesko's Social Business Director **Anne Laakso**.



READ MORE

[corporateresponsibility2012.kesko.fi/laakso](http://corporateresponsibility2012.kesko.fi/laakso)



## LET'S DO GOOD. TOGETHER. CASE

## Energy Expert service led to savings

*The K-rauta and Rautia stores' Energy Expert service aims to make it easy for customers to improve their energy efficiency at home. Services and products offered to customers include an energy savings survey, a thermal camera survey, air and ground heat pumps, solar water heaters and solar panels, and installation services.*

A housing association with four families on Mesikukankuja lane in Helsinki completely upgraded its heating system in 2011–2012. The exceptionally extensive renovation of the heating system and the related repairs required careful coordination of the business partner network by K-rauta Vantaanportti, which made a bid for the contract.

The housing association where the renovation took place consisted of two semi-detached houses built in 1982 on two sites. They had completely separate heating systems: one house had night-rate electric storage heating, while the other had single-pipe radiator heating.

"The job was demanding," says Contractor **Jarno Hartonen**, a business partner of K-rauta Vantaanportti. "Old 2.1 cubic metre boilers were dismantled to make room for heat pumps, the radia-

tors were replaced with new ones and all the visible parts of the piping were pulled down. The utility areas were also renovated to allow installation of the ground heat pumps. In addition to the installation of the pumps, the job also included a lot of other work, such as all the required electrical installation."

"Scheduling was demanding in this project, as there were so many parties involved in this complex job," says **Teemu Lampinen**, who was responsible for the coordination of the project at K-rauta Vantaanportti.

Thanks to good cooperation by all, however, the project was completed on schedule.

"We have been pleased," says **Markku Heinonen**, who lives in the housing association. "Our total electricity consumption decreased by over 30% compared with 2010. Pipe leaks made us start repairs. In hindsight, we should have introduced ground heat even earlier to save energy. The renovation evened out room temperatures and there has been plenty of hot water. Ground heat also has much less impact on the environment than electric heating and I think the value of the investment is directly reflected in the increased value of the property."

## ADDRESS BY STAKEHOLDER

## Noora Jokinen: Good choices easily

As the mother of small children I think about the impact of my purchases every time I go shopping.

Besides environmental impacts I consider working conditions in the supply chain and the treatment of animals. I would like to buy food and clothes without damaging the environment, animals or other people. I prefer products which consist of easily identifiable raw materials. Seasonal, local food is easier to trace and therefore often feels like a safe option.

I expect the store to take the issue of responsibility seriously and be trustworthy. I wish that responsible products were easily available and I wouldn't have to figure out how to make good choices when visiting the store.



*Noora Jokinen is a food store customer.*



## CHOICES FOR THE BENEFIT OF THE ENVIRONMENT

*Kesko contributes to mitigating the progress of climate change by saving energy and increasing the recycling and recovery of waste. We also want to help our business partners and customers to contribute to the same effect.*

Environmental responsibility in practice is about knowing and reducing the environmental impacts of one's own operations. Working for the benefit of the environment is part of the duties of all Kesko personnel and those working at K-stores and we also expect it from our partners.

Kesko has signed the trading sector energy efficiency agreement and committed to saving 65 GWh of its annual energy consumption by the end of 2016 through various actions. This amount corresponds to the annual energy consumption of more than 3,200 one-family houses. By the end of 2012, we had achieved approximately 70% of our target.

### ENERGY EFFICIENT BUILDING WITH PARTNERS

The design of a new store site or shopping centre is based on sustainable development and energy efficiency. When building new stores and renovating existing ones, we use solutions that reduce the consumption of materials and energy during the lifecycles of the properties. It is very important that partners are carefully selected and that the building and installation process is closely supervised.

Efficient energy solutions are also the guiding principle in Rautakesko's building projects. Rautakesko and Ruukki have jointly developed an energy efficient and airtight frame and outer shell model for stores that has been used in building K-rauta Skanssi, which opened in Turku in March 2013.

"K-rauta Skanssi's energy efficiency clearly exceeds the current required level. The tightness of the outer shell of the building is state of the art. LED lamps are used in all lighting to help reduce the store's thermal stress and the consumption of electric energy. The roof has a coating that reduces the carbon footprint of the building by removing nitrogen oxides from the air. Its light colour also reduces the thermal stress placed on the building," says Rautakesko's Construction Manager **Petri Mörk**.

The Kodini department store for interior decoration and home goods, which will open in Raisio in May 2013, will be the first passive retail store building in the Nordic countries. The new building has been designed with special attention to air tightness, ventilation, the optimum location of ventilation equipment and lighting control. Excessive lighting





## HIGHLIGHTS CASE

## Recycling made easier for customers

Consumer packaging discarded by households, such as deposit beverage packaging, cardboard, glass and metal can be returned to the Eco Points at K-food stores during shopping visits.

Customers can find 220 Eco Points at K-food stores. In 2012, 330 million beverage cans and 131 million recyclable bottles were returned to K-food stores.

Over 1.7 million kilos of clothes from K-stores' recycling points were delivered to UFF (U-landshjälp från Folk till Folk i Finland rf) for recycling.

The amendments to waste legislation will change producers' liability and impose new duties on the trading sector. Recycling will become easier for customers, as it can be combined with shopping trips more often than before.

Starting from 1 May 2013, consumers may return waste electrical and electronic equipment (WEEE) also to stores. The store's obligation to accept returned WEEE depends on the sales area and product selection.

The collection of WEEE has been tested in Rovaniemi, Ranua and Pello since October 2012. The K-Group stores participating in the pilot are K-rauta Rovaniemi, K-citymarket Rovaniemi and Anttila Rovaniemi.

K-citymarket Director **Sari Mommo** and **Merja Rantala**, responsible for environmental affairs at the store, are happy with the recycling pilot. Customers have found it a good additional service and the collection has not caused excessive work for store personnel.

"We have been slightly surprised to see that the quantity of recyclable WEEE is not bigger. Most of the returned items are lamps and other small household appliances, such as coffee makers," says Sari Mommo.

It is hoped that the collection of WEEE at stores will increase their recycling rate. The scrap returned to WEEE collection is primarily treated in Finland. It is treated for recovery of harmful substances, such as lead and mercury, which prevents them from ending up in landfill sites and the environment.







will be avoided by using it only where and when needed.

After tightness measurements, the Kodin1 building is awarded a passive building certificate by VTT Technical Research Centre of Finland in spring 2013. Eco-efficient measures will enable the heating energy consumption of the department store to be reduced by around 60% and electricity consumption by around 50% compared to a traditional department store.

The Kodin1 Raisio building project is part of the Sustainable Community Technology programme of Tekes – the Finnish Funding Agency for Technology and Innovation. VTT Technical Research Centre of Finland and Kimmo Lylykangas Architects, also participating in the project, aim to set target levels for energy consumption in passive retail store buildings.

“The project includes several subcontractors who have the opportunity to try completely new types of environmentally friendly solutions in commercial construction. In about a year, we will know the actual energy consumption, the impact of savings in energy costs on competitiveness and how the experiences from this project have been used in others,” says **Heli Törrönen**, Customer Relationships Director of the Kodin1 department store.

#### NEW REFRIGERATION EQUIPMENT SOLUTIONS

An unbroken cold chain is an essential part of food safety and the quality of products offered to customers. K-food stores actively adopt energy efficient solutions

for substantial energy savings.

Since 2008, refrigeration equipment in all new K-food stores has lids and doors. Chest freezers with lids help save 40% of energy compared to uncovered ones.

K-supermarket Nurmijärvi, which opened in August 2012, uses the latest refrigeration equipment:

“All of the refrigeration equipment in the store has either doors or lids. Frozen foods, milk products, cheese, meat and fish products are kept in chest freezers fitted with lids or cabinets that have doors. Waste heat from refrigeration units is recovered and used for heating the store,” say the retailer couple **Ville and Mia Kiuru**.

The cooling of chest freezers and other refrigeration equipment generates condensation heat that can be used for heating. Condensation heat is recovered in nearly all K-food stores, thanks to which they only need additional heat energy in very low sub-zero temperatures.

K-supermarket Nurmijärvi is one of the around ten K-food stores that use carbon dioxide recovered from industrial processes in their refrigeration equipment. A refrigeration unit that uses carbon dioxide increases the capital expenditure of the store, but it pays off in the long run because the consumption of heat energy is 30% lower compared to the use of other refrigerants.

“Recovered carbon dioxide is a natural and safe refrigerant that saves costs and is more environmentally friendly than traditional refrigerants based on hydrogen halides. All K-food stores will gradually introduce equipment using carbon di-

oxide,” says Kesko Food’s Refrigeration Engineering Expert **Ilpo Hakkarainen**.

#### THE RIGHT KIND OF LIGHTING SAVES ENERGY

The design and proper selection of lighting can save energy in a store.

The new signs of all K-Group stores use LED lighting. This results in savings of 60–70% compared to traditional neon and fluorescent tube solutions.

Intersport is refurbishing its Russian stores in accordance with the Sport to the People concept. Environmental friendliness is part of the new concept, and LED lighting will be used throughout the refurbished stores.

The Anttila department stores and the Kodin1 department stores for interior decoration and home goods have achieved substantial savings in their electricity consumption by using adjustable and directional lighting systems.

The lighting system in the Kodin1 department store for interior decoration and home goods in the Merituuli shopping centre in Espoo, which was refitted with low non-directional lighting and low power directional lights in 2012, helps save around 40% compared to earlier consumption. Energy efficient adjustable and directional lighting is used in the refurbished Anttila department store in Kuopio, where it helped save 12% on the store’s total electricity consumption, and in the Anttila department store in the Veturi shopping centre in Kouvola, opened in autumn 2012.

In 2012, more than 20 K-rauta stores in Sweden adopted the practice of turning off the lights in every car park and illuminated sign between 22.00 and 5.00. According to Real Estate and Setup Coordinator **Jan Oxendal**, the company hopes to save over €100,000 annually through this practice.

#### WASTE RECOVERY

Reducing waste and wastage from stores and warehouses has a significant environmental impact. Kesko's objective is to direct all generated waste to recycling and energy recovery.

Anttila's logistics centre in Kerava recovers nearly all its waste, at a rate of around 99%. Operations have been enhanced by, for example, using recyclable pallets and removing excessive packaging materials from products destined for department stores at the logistics centre.

Packaging materials and waste are carefully sorted in Kesko Food's logistics. The amount of waste ending up in landfill has decreased and the recovery rate has improved from 86% (in 2009) to 96% at present.

"We began collecting energy waste, plastic, wood and metals over ten years ago. Previously, we disposed of packaged organic waste with mixed waste, but now it is directed to ethanol production. We aim to reach a 100% waste recovery rate and to reduce the amount of waste. A key method for achieving this target is the reduction of wastage to which logistics can contribute through a better placement of articles in warehouses, the use of shelves on roll containers, employee training and leveraging order pickers' practical experience," says **Toni Pelin**, Environmental and Safety Manager of Keslog.

Kesko Food has developed operating models for K-store waste management since 2011. The recovery rates of around 90 K-stores that have adopted the new model in the Greater Helsinki area and the Uusimaa region have risen to 90%, which is partly attributable to centralised waste management reporting and efficient recovery of organic waste. In 2013, the operating model will be expanded to other parts of Finland.

#### THE BUILDING AND HOME IMPROVEMENT TRADE AND FURNITURE TRADE PROMOTE HEALTHY HOUSING

According to estimates, 600,000 – 800,000 people in Finland are exposed daily to moisture and mould damage in homes, workplaces or other public buildings.

Rautakesko wants to promote healthy housing and has joined the Stop Mould!

#### LET'S DO GOOD. TOGETHER. CASE

## Lowering emissions with economical driving and route planning

Kesko's logistics company Keslog Ltd aims to cut carbon dioxide emissions from transportation by 10% by 2020. Environmentally friendly transportation solutions are constantly sought, as transportation has a significant impact on the environment.

Since the autumn of 2012, Keslog has provided training in economical driving style for the contract transport companies and their drivers with the aim of cutting emissions. Nearly all of Keslog's more than 500 contract drivers will be trained in the economical driving style in the course of one year. At the same time, terminals will be installed in vehicles to monitor the driving styles of individual drivers.

Keslog was the first in Finland to use a two-tier trailer for distribution to retail stores in the autumn of 2011. This innovative trailer cuts carbon dioxide emissions by one third, when one trailer carries more than double a normal load. Keslog had seven two-tier trailers in use in 2012.

"As traffic-related environmental requirements become stricter and costs increase, it certainly pays to be active and take the initiative. Our customers

are also more and more interested in how environmental aspects are taken into account in logistics," says **Toni Pelin**, Keslog's Environmental and Safety Manager.

#### KESLOG HELPS ITS CUSTOMERS RECYCLE

Keslog also offers a return logistics service to its customers, where empty bottles and other recyclable materials are transported for recycling. This is an important service for restaurants in particular, because they do not usually have much space in their backrooms. Keslog's return logistics help customers recycle and also save on their recycling costs. When one operator transports all recyclable materials away, it means fewer kilometres driven and fewer emissions.

Keslog annually picks up around 61 million aluminium beverage cans and 32 million bottles of recyclable plastic from K-food stores and Kespro's customer restaurants for further processing and recycling. Kesko transports recyclable materials from return logistics terminals for further processing by the industry.

#### HIGHLIGHTS CASE

## Freedom of choice

From 2006 to 2012, the CO<sub>2</sub> emissions of Volkswagen passenger cars imported into Finland fell from 173.36 g/km to 130.96 g/km (source: VV-Auto Group Oy).

The wide Volkswagen range offers economical, low emission TSI petrol and TDI diesel engines, the EcoFuel engine running on natural/biogas and the TSI MultiFuel engine running flexibly on high-blend ethanol E85 and petrol. The TSI MultiFuel alternative, currently available on the Passat models and in the course of 2013 also on the new Golf models, enables a choice of petrol type based on cleanliness, price or availability. The percentage of ethanol made from organic waste in RE85 fuel reduces fossil emissions by as much as 80%.

The network of natural/biogas refuelling stations in Finland will expand in the next few years, which will help vehicles using them for fuel gain popularity. The CO<sub>2</sub> emissions from natural gas combustion are around 25% lower compared to petrol combustion and there is virtually no dust emission. Using domestic biogas reduces CO<sub>2</sub> emissions by about 80%. In addition to the Passat, Touran and Caddy ranges, the EcoFuel range running on natural/biogas will be complemented by a new Golf and the eco up! model, which is one of the internal combustion engine cars with the lowest emissions in the world: the CO<sub>2</sub> emissions of eco up! stand at no higher than 79 g/km.



Moisture and Mould Programme coordinated by the Ministry of the Environment. This nationwide five-year programme aims to give impetus to the restoration of Finland's building stock, reduce moisture and mould damage and prevent further damage. Rautakesko seeks to find opportunities to develop new service concepts through this cooperation.

Healthy housing is also taken into account in the product selections of building and home improvement stores. The Cello paints sold by the K-rauta and Rautia chains are water dilutable, solvent free and nearly odourless. They have the MI certificate of low emissions, granted by the Building Information Foundation RTS, and the Allergy and Asthma Federation's Allergy Label.

The Asko furniture chain has developed its mattress and sofa collection in cooperation with the Allergy and Asthma Federation. As a result, Puro sofas and the

Asko Bonnell spring mattresses, available at Asko stores, are entitled to the Allergy Label.

**CARBON FOOTPRINT LABEL DISPLAYS INFORMATION ON ENVIRONMENTAL IMPACTS**

Pirkka is the first Finnish private label to carry a carbon footprint label on its packaging. Pirkka bags of potatoes have carried the label since the end of 2011 and their carbon footprint is 16 g per 100 g.

The calculation model for the Pirkka carbon footprint label is based on research conducted by MTT Agrifood Research Finland. The label indicates the environmental impacts of potatoes with respect to fertilizers, lime and seed potato production up to storage in the central warehouses of the trading sector.

At the Pirkka.fi website, the carbon dioxide emissions of potatoes throughout

their whole lifecycle from cultivation to table can be examined. The carbon footprint test available at Pirkka.fi shows the impacts of different transportation methods to the store, different storage and cooking methods, and if, after all this, the potatoes are discarded.

**LESS FOOD WASTAGE**

Discarded food has a much higher environmental impact than the manufacture of packaging and waste management. (Source: MTT Agrifood Research Finland)

In 2011–2012, Kesko Food participated in the ECOPAF research project run by Tekes – the Finnish Funding Agency for Technology and Innovation and MTT Agrifood Research Finland to find out whether the properties of foodstuffs packaging, such as size and usability, have any significance in food waste generation.

**LET'S DO GOOD. TOGETHER. CASE**

**Cultivation programme aims to improve the profitability of customers' cultivation**

*The cultivation programme provides solutions tested in local conditions to meet the needs of Finnish farmers. The K-maatalous' cereal cultivation programmes are based on research and tests conducted by the K-maatalous' Experimental Farm and the results from cultivation in practice aimed to enhance customers' cultivation and improving its profitability.*

The Experimental Farm annually tests several cereal and oil plant varieties and tailors the best plant protection recipes, fertilising recommendations, cultivation techniques and varieties suited to their intended use. The product selection relies on the Experimental Farm's results from the research on testing varieties, fertilising and plant protection products. The cultivation programmes enable cereal development to be monitored online, with the related data updated on a weekly basis. The products included in the cultivation programmes are sold with the help of the Cultivation Guide.

The specialist sales assistants of K-maatalous are trained professionals.

"In winter, we organise advisory and training sessions for customers and stakeholders at which farmers can study the products and the enhance-

ment of cultivation techniques. During the growing cycle, we assist farmers in choosing and using agricultural inputs based on the established yield potential and observations made during previous growing cycles. We provide advice on, for example, plant protection on the phone and in connection with chlorophyll measurements. Presentations of experimental plots are among the key events," says **Seppo Vähti**, Store Manager of K-maatalous Eura.

In 2012, the K-maatalous' Experimental Farm monitored the progress of the growing cycle and the development of different plant species on the experimental plots. Plant disease control during a rainy growing season played a key role in the test. The data on cereal development monitoring were updated on the website directly from the experimental plots, and the data on accumulated temperature, sum of precipitation, plant development stages and cultivation measures were made available on K-maatalous' online service and in the Cultivation Guide.

The next major element to be added to the cultivation programme will be the organic cultivation programme. The year 2013 marks 50 years since the establishment of K-maatalous' Experimental Farm.



K-food stores aim to reduce food wastage with the help of a forecast based replenishment system.

“Purchased products are recorded in the information system at the store checkout. As soon as there is enough information, the system produces a forecast on future product needs. The forecast enables us to have the right amounts of goods available at the right time. The system has clearly reduced wastage in our store,” says retailer **Pauli Jaakola** of K-supermarket Ruokaniitty.

#### K-CITYMARKETS RECYCLE STORE FIXTURES

Not all store fixtures need to be new, even if the store is. A manager in charge of store fixtures at K-citymarket Oy and Anttila Oy got the idea to refurbish store fixtures discarded from a K-citymarket and make them useful in another or even more than one other store. This operating model was adopted in 2011 and has generated store specific savings of 30–60% compared to corresponding new acquisitions.

“All reusable metal fixtures, such as shelves, shelf studs, background boards and regulating tubes, are reused. In connection with the store refurbishment, they are given a new paint finish which makes them better than ever. The new operating model has enabled the materials costs to be reduced when replacing fixtures. It has been nice to see how, in the long run, small things can contribute to major savings in finances and natural resources,” says Store Fixture Manager **Sanna-Kaisa Loisa** of K-citymarket Oy and Anttila Oy, the mother of the idea.

#### PREFERENCE FOR VIRTUAL MEETINGS

Kesko recommends that its personnel organise virtual meetings instead of travelling to meetings. Due to cost, efficiency and environmental considerations, a virtual meeting shall always be given priority when choosing a meeting method.

Virtual meetings can be telephone conferences, web conferences via personal computers or video conferences.

At Rautakesko, which has operations in eight countries, employees have lots of meetings from their work stations using the Microsoft Lync system.

“I use Lync to communicate with other Rautakesko personnel on a daily basis. Lync is easy to use and fast if you need to get an answer without delay. It saves both costs and time,” says Marketing Director **Henning Johansen** of Byggmaker, Norway.

#### ADDRESS BY STAKEHOLDER

## Amanda Haworth Wiklund, CDP Nordic

It has been a delight to watch Kesko improve the quality of their reporting over the six years it has responded to the investor request for climate information through CDP. The integrity with which it works and the seriousness with which it addresses these questions are just a few of the reasons why the company has achieved high CDP disclosure scores.

Kesko improved its score for disclosure to 88 in 2012 and has made the annual Nordic Climate Disclosure Leadership Index (CDLI) on three occasions. CDP also rates companies on their climate actions and strategies for improving performance. Kesko improved its 2010 grade with a B in both 2011 and 2012, reflecting the actions it is taking to reduce emissions and mitigate the risks of climate change.

CDP works to transform the global economic system to prevent dangerous climate change and value our natural resources by putting relevant information at the heart of business, investment and policy decisions. This goal is robustly enabled when companies write not only



thorough responses to the questions CDP poses on behalf of many interested parties, but also provide inspiring examples that lead the way for their sector peers.

*CDP is a not-for-profit organisation, which gathers information about companies' operations to prevent climate change.*

#### BEARING RESPONSIBILITY CASE

## Real Estate Managers help improve energy efficiency

Kesko's 40 Real Estate Managers help K-stores find ways in which to make the stores' energy consumption more efficient.

“Store operations are supported by the good condition of premises and equipment, and the correct settings of lighting, building services and store equipment,” says Customer Relationships Manager **Eero Aho**, YIT Kiinteistötekniikka Oy, in charge of Kesko's store properties.

Regular monitoring, technical supervision and the comparison of reports from separate properties are used for maintaining the optimal level of energy consumption.

“Lighting control optimised in accordance with opening hours generates savings, whereas in-store lighting left on by mistake on a Sunday, or illuminated signs remaining lit through the night would mean hundreds of euros added to the electricity bill,” says Aho.



**READ MORE**

*corporateresponsibility2012.  
kesko.fi/aho*

# GRI INDEX 2012

We have self-declared our reporting to be Application Level A+ of the GRI G3 Guidelines (version 3.0). PricewaterhouseCoopers Oy has checked our reporting and has confirmed it to be Appli-

cation Level A+. Kesko reports on all material information and indicators related to its operations. GRI indicator protocols are not applied in detail for all of the indicators.

GRI GUIDELINE		Kesko's Report			
Code	GRI content	Included	Page	Further information	Global Compact
<b>1. STRATEGY AND ANALYSIS</b>					
1.1	Statement from the President and CEO	●	8–9		
1.2	Description of key impacts, risks, and opportunities	●	14–15, 20–23		
<b>2. ORGANISATIONAL PROFILE</b>					
2.1	Name of the organisation	●	6		
2.2	Primary brands, products and services	●	4–5		
2.3	Operational structure	●	4–5		
2.4	Location of organisation's headquarters	●	4		
2.5	Countries where the organisation operates	●	4–5, 7		
2.6	Nature of ownership and legal form	●	6, 77		
2.7	Markets served	●	3–7		
2.8	Scale of the reporting organisation	●	6–7	Kesko's 2012 Annual Report	
2.9	Significant changes during the reporting period regarding size, structure, or ownership	●	6, 13		
2.10	Awards received in the reporting period	●	11, 38		
<b>3. REPORT PARAMETERS</b>					
3.1	Reporting period	●	3		
3.2	Date of most recent previous report	●	3		
3.3	Reporting cycle	●	2		
3.4	Contact point for questions regarding the report or its contents	●	104		
3.5	Process for defining report content (materiality, prioritisation, stakeholders expected to use the report)	●	3, 16–17		
3.6	Boundary of the report	●	2–3		
3.7	Specific limitations on the scope or boundary of the report	●	3		
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations	●	2–3		
3.9	Data measurement techniques and the bases of calculations	●	3		
3.10	Explanation of the effect of any re-statements of information provided in earlier reports	●	3		
3.11	Significant changes in the scope, boundary, or measurement methods applied in the report	●	3		
3.12	GRI content index	●	60–64		
3.13	Policy and current practice with regard to seeking external assurance for the report	●	3, 102–103		
<b>4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT</b>					
4.1	Governance structure of the organisation	●	68–69	Kesko's 2012 Annual Report, pages 53–54.	
4.2	The Board Chair's function within the organisation's management	●	68	Kesko's 2012 Annual Report, page 54.	
4.3	Independence of Board members	●	68	Kesko's 2012 Annual Report, page 54.	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the Board	●	68–69	Kesko's 2012 Annual Report, page 53.	
4.5	Linkage between compensation for members of the Board and the management, and the organisation's corporate responsibility performance	●	69, 91	Kesko's 2012 Annual Report, page 55.	
4.6	Processes in place for the Board to ensure conflicts of interest are avoided	●	68–69	Kesko complies with the Finnish Corporate Governance Code for Listed Companies. Kesko's 2012 Annual Report, pages 52–55.	
4.7	Qualifications and expertise of the Board members for strategic management and corporate responsibility	●	69		



GRI GUIDELINE		Kesko's Report			
Code	GRI content	Included	Page	Further information	Global Compact
4.8	Mission, values, codes of conduct and principles, and the status of their implementation	●	65–66		
4.9	Procedures of the Board for overseeing the organisation's management of economic, environmental and social performance, including risk management	●	16, 65–66, 68–69		
4.10	Processes for evaluating the Board's own performance	●	68		
4.11	Explanation of how the precautionary principle is addressed	●	20–21, 78–79		
4.12	Externally developed economic, environmental and social initiatives to which the organisation endorses	●	66		
4.13	Memberships in associations and advocacy organisations	●	71	www.kesko.fi/responsibility	
4.14	Stakeholder groups engaged by the organisation	●	19		
4.15	Basis for identification and selection of stakeholders	●	18		
4.16	Approaches to stakeholder engagement	●	18–19		
4.17	Key topics and concerns raised through stakeholder engagement	●	16–18, 95		

## 5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS

### ECONOMIC RESPONSIBILITY

<b>MANAGEMENT APPROACH TO ECONOMIC RESPONSIBILITY</b>	●	20–23, 65–71		x
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#### Economic performance indicators

EC1*	Direct economic value generated and distributed	●	77–78		
EC2*	Financial implications and other risks and opportunities for the organisation's activities due to climate change	●	78–79		x
EC3*	Coverage of the organisation's defined benefit plan obligations	●	79		
EC4*	Financial assistance received from government	●	79		
EC5	Standard entry level wages compared to local minimum wages at organisation's significant locations of operations	●		In Finland, Sweden and Norway, collective agreement. In other countries, at least statutory minimum wages. Ratio data not available.	
EC6*	Spending on locally-based suppliers	●	73, 80–81		
EC7*	Procedures for local hiring	●	80–81		x
EC8*	Infrastructure investments and services provided for public benefit	●	81		
EC9	Significant indirect economic impacts, including the extent of impacts	●	14–15, 23, 81		

### ENVIRONMENTAL RESPONSIBILITY

<b>MANAGEMENT APPROACH TO ENVIRONMENTAL RESPONSIBILITY</b>	●	20–23, 65–67, 75–76, 82		x
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#### Environmental performance indicators

EN1*	Materials used	●	82	Packaging materials supplied to the market. Data from outside Finland not available.	x
EN2*	Materials used that are recycled input material	●	82	Reporting covers recycling of packaging plastic used in transportation.	
EN3*	Direct energy consumption	●	82–83		x
EN4*	Indirect energy consumption	●	82–83		x
EN5	Energy saved due to conservation and efficiency improvements	●	83–84		x
EN6	Energy-efficient or renewable energy-based products and service	●	53, 57, 84	Energy savings achieved not reported.	x
EN7	Initiatives to reduce indirect energy consumption and reductions achieve	●	84	Energy savings achieved not reported.	x
EN8*	Water withdrawal	●	84–85		x
EN9	Water sources significantly affected by Not material in Kesko's withdrawal of water	●		Not material in Kesko's operations. Kesko uses municipal water.	

● Included ● Partly included ● Not included

\* Key indicator recommended in the GRI Guidelines

x) Reporting in compliance with Global Compact principles, COP = Communication on Progress

GRI GUIDELINES		Kesko's Report			
Code	GRI content	Included	Page	Further information	Global Compact
EN10	Water recycled and reused	●	85		
EN11*	Land owned, leased and managed in areas of high biodiversity value or in protected areas	●	85		
EN12*	Impacts of activities on biodiversity in protected areas and areas of high biodiversity value	●	85	Reporting covers Kesko's areas of direct impacts and provides purchasing policy definitions. All supply chain impacts cannot be reliably assessed.	
EN13	Habitats protected or restored	●	85		
EN14	Strategies, actions and plans related to biodiversity	●	23, 75–76, 83, 85–86		
EN15	IUCN Red List species and national conservation list species in areas affected by operations	●	86		
EN16*	Direct and indirect greenhouse gas emissions	●	86–87		x
EN17*	Other indirect greenhouse gas emissions	●	86–87		x
EN18	Initiatives to reduce greenhouse gas emissions	●	87	Emission reductions achieved not reported.	x
EN19*	Emissions of ozone-depleting substances	●	87		x
EN20*	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type	●	87		x
EN21*	Water discharge	●	87		
EN22*	Total weight of waste by type and disposal method	●	87–89		x
EN23*	Total number and volume of significant spills	●	89		x
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous	●		Not material in Kesko's operations.	
EN25	Water bodies significantly affected by the reporting organisation's discharges of to water and runoff	●	89		
EN26*	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	●	22, 89–90	Kesko has indirect impacts on products on sale. Results achieved through products on sale cannot be reliably assessed.	x
EN27*	Percentage of products sold and their packaging materials that are reclaimed	●	90	Reporting covers recycling of packaging plastic used in transportation.	x
EN28*	Compliance with environmental laws and regulations	●	89		x
EN29	Significant environmental impacts of transporting	●	86–87, 90		x
EN30	Total environmental protection expenditures and investments	●		Data not available.	

## SOCIAL RESPONSIBILITY

<b>MANAGEMENT APPROACH TO LABOUR ASPECTS</b>	●	20–23, 65–67, 71–72			x
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### Labour practices and decent work performance indicators

LA1*	Total workforce by employment type and employment contract	●	91–92		
LA2*	Employee turnover	●	91–92	Not reported by age group or gender. Data not available.	x
LA3	Benefits provided to employees	●	91–92	Benefits exceeding statutory level not reported in detail. Practices vary by operating country.	
LA4*	Percentage of employees covered by collective bargaining agreements	●	92		x
LA5*	Minimum notice period(s) regarding operational changes	●	92		x
LA6	Percentage of total workforce represented in formal health and safety committees	●	93	Percentage of employees not reported. Arrangements compliant to local legislation.	x
LA7*	Rates of injury, occupational diseases, lost days, absenteeism and work-related fatalities	●	93	Reporting does not cover contractors. Occupational injury statistics not available for countries other than Finland.	x
LA8*	Education and counselling to assist workforce members regarding serious diseases	●	93–94	Kesko's activities/programmes for serious diseases have direct impact on Kesko personnel only.	x
LA9	Health and safety topics covered in formal agreements with trade unions	●		In Finland, arrangements based on legislation.	

GRI GUIDELINES		Kesko's Report			
Code	GRI content	Included	Page	Further information	Global Compact
LA10*	Average hours of training per employee	●	94–95	Not reported by personnel category. Data not available.	
LA11	Programmes for skills management and lifelong learning	●	94–95		
LA12	Performance and career development reviews	●	95		
LA13*	Composition and diversity of governance bodies and employee categories	●	95–96		x
LA14*	Ratio of basic salary of men to women	●	97	Ratio not reported. Group-level comparison not possible.	x

<b>MANAGEMENT APPROACH TO HUMAN RIGHTS</b>	●	20–23, 65–67, 71–74			x
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#### Human rights performance indicators

HR1*	Human rights screening in investment decisions	●		In Kesko's operating countries, no problems in human rights issues related to the retail trade have been detected. The issue is included in the risk assessment procedure.	
HR2*	Suppliers' and contractors' screening on human rights	●	97–98	Number of suppliers in BSCI, SA8000 and Fairtrade audits reported, no percentages.	x
HR3	Employee training on policies and procedures concerning aspects of human rights	●	98	Training hours not reported, data not available.	x
HR4*	Total number of incidents of discrimination and actions taken	●	98		x
HR5*	Operations in which the right to exercise freedom of association and collective bargaining may be at risk	●	98	Employee unionisation rates reported for functions on which data is available.	x
HR6*	Operations with a risk for incidents of child labour	●	97–98		x
HR7*	Operations with a risk for incidents of forced or compulsory labour	●	97–98		x
HR8	Percentage of security personnel trained in aspects of human rights	●	98	Description of security issue management.	
HR9	Number of incidents involving rights of indigenous people and actions taken	●	98	No violations.	x

<b>MANAGEMENT APPROACH TO SOCIETY ASPECTS</b>	●	20–23, 65–67, 70–71			x
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#### Society performance indicators

SO1*	Programmes that assess and manage the impacts of operations on communities	●		Assessments compliant with local laws.	
SO2*	Percentage and number of business units analysed for risks related to corruption	●	99	Risks related to corruption considered as part of Kesko's risk management. Key risks are identified and assessed regularly during the year.	x
SO3*	Percentage of employees trained in anti-corruption policies and procedures	●	99	Number of employees trained and percentages for management and other employees not reported. Percentages not available.	x
SO4*	Actions taken in response to incidents of corruption	●	99		x
SO5*	Organisation's public policy positions and participation in public policy development and lobbying	●	99		x
SO6	Financial and in-kind contributions to political parties, politicians and related institutions	●	99		x
SO7	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	●	99		
SO8*	Fines and non-monetary sanctions for non-compliance with laws and regulations	●	99		

● Included ● Partly included ● Not included

\* Key indicator recommended in the GRI guidelines

x) Reporting in compliance with Global Compact principles, COP = Communication on Progress



GRI GUIDELINES		Kesko's Report			
Code	GRI content	Included	Page	Further information	Global Compact
<b>MANAGEMENT APPROACH TO PRODUCT RESPONSIBILITY</b>		●	20–23, 65–67, 73–75		x
<b>Product responsibility performance indicators</b>					
PR1*	Assessment of health and safety impacts of products and services at various life cycle stages	●	99	Percentage of products and services covered by the assessment not reported. Data not available.	x
PR2	Non-compliance with regulations and codes concerning health and safety impacts of products	●	99		x
PR3*	Product and service information required by procedures	●	100	Percentage of products included in mandatory product information not reported. Data not available.	x
PR4	Non-compliance with regulations and voluntary codes concerning product and service information and labelling	●	100		x
PR5	Practices related to customer satisfaction and results of customer satisfaction surveys	●	100	Results of customer satisfaction surveys not reported. Group-level results not available.	
PR6*	Adherence to laws, standards and voluntary codes related to marketing communications, incl. advertising, promotion and sponsorship	●	100		
PR7	Incidents of non-compliance with laws and regulations and voluntary codes related to marketing communications	●	100		
PR8	Complaints regarding breaches of customer privacy and losses of customer data	●	100	Number of complaints regarding breaches of customer privacy not reported. Statistics on complaints are not compiled by issue.	x
PR9*	Fines for non-compliance with laws and regulations concerning products and services	●	100		

● Included ● Partly included ● Not included

\* Key indicator recommended in the GRI guidelines

x) Reporting in compliance with Global Compact principles, COP = Communication on Progress

# RESPONSIBILITY MANAGEMENT IN DAY-TO-DAY ACTIVITIES

Corporate responsibility work at Kesko is integrated in day-to-day work. It is based on Kesko's values and vision and guided by the management system, corporate responsibility stakeholder analysis, operating principles and the guide 'Our Responsible Working Principles' (Code of Conduct). The trading sector operators are expected to take care of product safety and healthiness and the environmental and social impacts of business operations.

## VALUES



### VALUES, STRATEGY AND MANAGEMENT MODEL

Corporate responsibility at Kesko is a measurable activity, based on Kesko's values, operating principles, objectives and strategy. The implementation of the values is monitored using a number of corporate responsibility performance indicators, such as surveys of customer satisfaction, investor and personnel surveys, net sales and market share performance and sustainable development indices.

Kesko's key strategic objective is healthy growth exceeding market growth. Growth is sought by actively developing store selections and services to meet customer needs, by actively revising the store site network and by developing e-services and e-commerce. Capital expenditure in Kesko's business operations in Russia offer significant growth potential for a long time to come. The principles of sustainable development and responsible working principles are a central part of the day-to-day activities of Kesko and its chains.

The strategic objectives are presented on page 66. Kesko's strategy is largely built on division and chain specific strategies guided by the division Boards and the Kesko Board.

Over the next few years, Kesko Food's key strategic focus will be on an efficient implementation of customer-oriented projects to generate competitive advantages and on strengthening customer loyalty relationships. The competitive advantages of the food trade include the fruit and vegetable department, the bakery department and service counters with fresh meat, fish and ready meals, a wide selection of products from local producers adding to the chain selection, Pirikka products, responsibility and e-services.

Competition in the home and speciality goods trade is becoming increasingly international and the proportion of online business out of total sales in the sector continues to grow. Customers' purchasing behaviour is more individual than before, purchases are made from an increasing number of online stores, and the number

of channels for interaction between stores and customers is growing.

The key objective of Kesko's home and speciality goods chains is to offer customers a shopping experience that seamlessly combines the services of an online store and a traditional store. The emphasis is on developing electronic services that support the extensive store network, and on online stores.

Rautakesko's objective is sales growth exceeding market growth and improvement in profitability. Rautakesko develops its digital customer solutions and continues the development of planning and installation services offered to customers in 2013.

In the car and machinery trade, the objective for 2013 is to increase the market share of the brands it represents, to further develop its dealer and maintenance network and to strengthen customer satisfaction and loyalty. The key focus areas for development are strengthening the selection of products and services and increasing electronic customer communications.

## STRATEGIC OBJECTIVES

### PROFITABLE GROWTH

- Our objective is healthy growth exceeding market growth.
- We seek growth especially in the growing Russian retail market.
- We strongly develop e-services and e-commerce.
- Our objective is to improve profitability and increase shareholder value.

### SALES AND SERVICES FOR CONSUMER CUSTOMERS

- We increase the value of our brands.
- Our customer satisfaction rating is higher than that of our competitors.
- Our competitive asset is the K-retailers, who know local customers and their needs.
- We leverage loyal customer information efficiently to serve our customers.

### RESPONSIBLE AND EFFICIENT OPERATING PRACTICES

- Our operating practices are responsible.
- We efficiently combine retailer entrepreneurship and chain operations.
- We leverage our economies of scale and competencies.

Kesko's strategy is presented in more detail in the Annual Report on pages 8–11 and at [www.kesko.fi](http://www.kesko.fi).

The business models applied in Kesko's sales to consumer-customers are retailing through retailer entrepreneurs and Kesko's own retailing. Kesko is also engaged in B2B sales. More detailed information on the business models and responsible and efficient operating practices is available in the Annual Report on pages 10–11.

Kesko's financial reporting and planning are based on the Kesko Group's management system. The plans and actions relevant to corporate responsibility are integrated in the different sections of Kesko's management system (see below). Management systems based on international standards have been adopted.

The progress and results of Kesko's corporate responsibility work are discussed in the section Kesko's Responsibility Programme on pages 22–23 and in the GRI Indicator section on pages 77–100.

### GENERAL OPERATING PRINCIPLES GUIDING RESPONSIBILITY

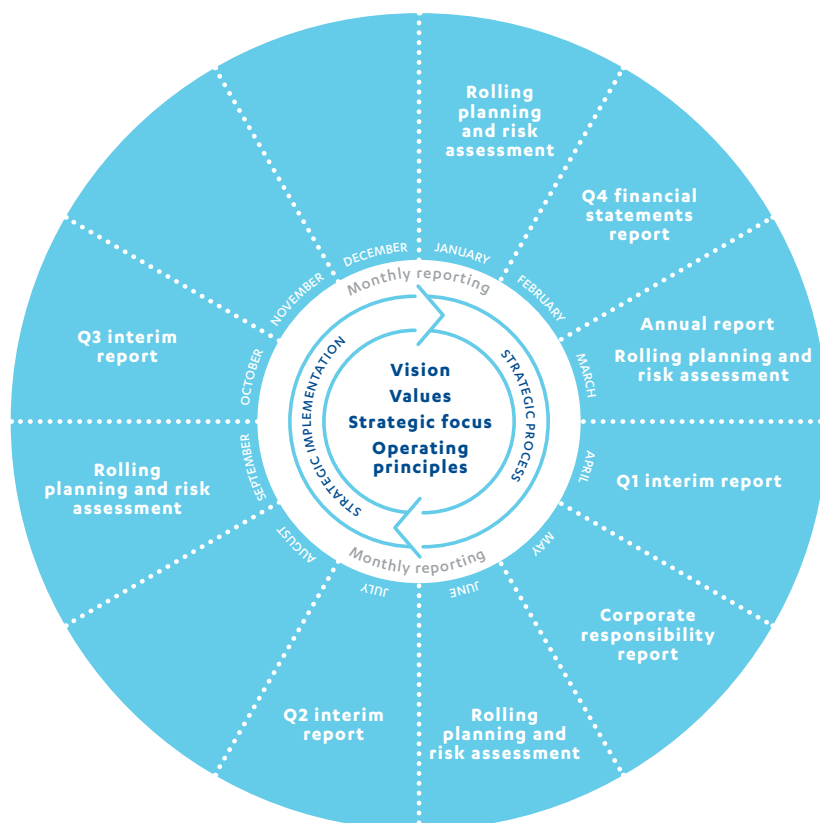
Kesko's Corporate Management Board has approved the Group's general corporate responsibility principles. These principles define the basic economic, social and environmental responsibility promises, and related communication principles. Kesko's commitments to international

declarations and conventions are also included in the principles. The most important of them are the UN Universal Declaration of Human Rights and the UN Convention of the Rights of the Child, the ILO convention on the Fundamental Rights and Principles at Work, the OECD Guidelines for Multinational Corporations, the ICC Business Charter for Sustainable Development and principles against corruption and bribery, the UN Global Compact initiative, and the purchasing principles of the Business Social Compliance Initiative (BSCI). Kesko has used the ISO 26000 standard as a source document that offers orientation to corporate responsibility. The Board of the K-Retailers' Association has recommended that Kesko's principles be also followed by K-stores.

Kesko's corporate responsibility principles can be read at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility). Kesko's general corporate responsibility principles are complemented by more detailed policies, principles and statements. They are listed in the guide 'Our Responsible Working Principles' and at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

Kesko uses the GRI (Global Reporting Initiative) guidelines as the its reporting principle. Kesko reports on economic, environmental and social responsibility in compliance with the GRI guidelines version 3.0.

## THE KESKO GROUP'S MANAGEMENT SYSTEM





## RESPONSIBILITY ORGANISATION

### RESPONSIBILITY ORGANISATION IN KESKO

Corporate responsibility in Kesko is integrated in daily work. The management of each business division is responsible for the practical implementation, and Kesko's Board and Corporate Management Board handle reporting and the key principles. Kesko's Corporate Responsibility Unit, assisted by steering groups, is responsible for the development, coordination and reporting. The corporate responsibility function is managed by the Senior Vice President for Human Resources and Stakeholder Relations, who is a member of Kesko's Corporate Management Board.

### GROUP-LEVEL RISK MANAGEMENT STEERING GROUP

President and CEO (Ch.), division representatives

- discusses the operating principles and key policy definitions concerning risk management, safety and security
- assesses and monitors the Group's risks and the safety and security situation, and the implementation of risk management responses.

### CORPORATE RESPONSIBILITY ADVISORY BOARD

Senior Vice President for HR and Stakeholder Relations (Ch.), division representatives

- develops the principles that guide the Group's corporate responsibility
- steers and coordinates their practical implementation
- sets the objectives for corporate responsibility work and monitors and, as necessary, supports their implementation.

### STEERING GROUP FOR HR OPERATIONS

Senior Vice President for HR and Stakeholder Relations (Ch.), division representatives

- prepares the Group's HR strategy and common HR policy definitions
- sets the common objectives for the HR function and guides and coordinates the achievement of the objectives of HR operations and practical implementations

- guides the development of HR processes and services and monitors the quality and efficiency of HR processes and services.

### WELLBEING AT WORK STEERING GROUP

Senior Vice President for HR and Stakeholder Relations (Ch.), division and specialist representatives

- prepares the Group's management model for wellbeing at work and common operating principles
- sets the common objectives for work aimed at wellbeing at work and monitors their achievement
- coordinates practical implementations and promotes the sharing of best practices within the Group.

### ENVIRONMENTAL STEERING GROUP

Corporate Responsibility Unit (Ch.), divisions' specialist representatives

- develops the Group's environmental management based on the objectives set by the Corporate Responsibility Advisory Board
- promotes the sharing of best practices within the Group
- keeps up with changes in legislation pertaining to environmental responsibility.

### STEERING GROUP FOR RESPONSIBLE PURCHASING

Corporate Responsibility Unit (Ch.), divisions' specialist representatives

- develops the Group's purchasing and sourcing based on the objectives set by the Corporate Responsibility Advisory Board
- promotes the sharing of best purchasing practices within the Group
- keeps up with changes in legislation pertaining to product purchasing and sourcing.

### DIVISION-SPECIFIC RESPONSIBILITY STEERING GROUPS

are, based on the objectives set and information distributed by the Group-level steering groups, responsible for:

- determining their own responsibility objectives
- implementing them in accordance with the specific characteristics and strategy of the division.

## CORPORATE RESPONSIBILITY STEERING AT KESKO



# RESPONSIBILITY MONITORING AND STEERING

## RESPONSIBLE OPERATOR

Management approach	
<b>We are committed to responsible working principles and we together generate economic value added</b>	
We generate economic value added	At Kesko, 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 stakeholders.
Responsible working principles (Code of Conduct) and reputation management	Different aspects of responsibility, such as ethicality of production and sourcing, fair and equal treatment of employees and environmental protection are increasingly important for customers. Possible failures of responsibility would result in negative publicity for Kesko. Kesko's challenges in responsibility work include communicating its responsibility principles to suppliers, retailers and customers, and ensuring responsibility in the purchasing chain. Responsible working principles are promoted by arranging value discussions in all of Kesko's operating countries.
Goals	
The objectives have been recorded in the responsibility programme, see page 23.	
Policies and working principles	
Accounting policies	The Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union. The accounting policies adopted by the Group are collected in the accounting manual, which is updated when amendments to standards are adopted. The manual contains instructions for separate companies, the parent company and for the preparation of the consolidated financial statements.
Corporate Governance principles	<p>Kesko's decision-making and corporate governance are guided by Kesko's values and responsible operating practices. Decision-making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board and its Committees and the rules and guidelines of NASDAQ OMX Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for Listed Companies 2010. The Code can be read in full at <a href="http://www.cgfinland.fi">www.cgfinland.fi</a>.</p> <p>As provided by the Comply or Explain Principle of the Corporate Governance Code, Kesko departs from the Corporate Governance Code's recommendation for a Board member's one year term of office in that the term of office of a Kesko Board member is three years in accordance with Kesko's Articles of Association. Read more at <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a> or in the Annual Report on page 52.</p> <p>The highest decision-making power in Kesko is exercised by the company's shareholders at the company's General Meeting. The company's shareholders elect the company's Board of Directors and the auditor at the General Meeting. The Kesko Group is managed by the Board and the Managing Director who is the President and CEO. The President and CEO is appointed by the Board. The company uses a so-called one-tier governance model.</p> <p>Read more about the General Meeting, matters falling within the competence of the General Meeting, convocation of the General Meeting, right to participate in the General Meeting, its minutes and the presence of the administrative bodies at <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a> or in the Annual Report on pages 53–54.</p> <p>Kesko's Board has seven members, two of whom are women. All of Kesko's Board members are non-executive directors.</p> <p>In the latest independence evaluation carried out on 16 April 2012, the Board found all members independent of the company's significant shareholders and the majority of the members also independent of the company. Three Board members (K-retailers) control companies each of which has or has had a chain agreement with a Kesko Group company at the date of evaluation. Kesko's Board does not have representatives of the personnel. Board members are obliged to provide the Board with sufficient information to allow the Board to evaluate his or her independence.</p> <p>The Board regularly assesses its operations and working practices and carries out a related self-assessment once a year. In 2012, the Board held 11 meetings. The Board members' average attendance rate at Board meetings was 98.7%. Read more about the Board's operations in the Annual Report on page 53 and at <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a>.</p> <p>The Board has an Audit Committee and a Remuneration Committee, both of which consist of three Board members. The Committees have no independent decision-making power. Instead, the Board makes decisions based on the preparatory work of the Committees. In 2012, the Audit Committee held five meetings and the Remuneration Committee held three meetings. Further information on the Committees' operations is available in the Annual Report on pages 53–54 and at <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a>.</p> <p>In accordance with the Finnish Limited Liability Companies' Act, all Board members are collectively responsible for the administration and the proper organisation of the operations of the company. The Board has not appointed any of its members to concentrate especially on corporate responsibility matters, nor does Kesko have a separate process for evaluating the Board members' competence in corporate responsibility. In its decision-making, the Board relies on the expertise of the Corporate Responsibility Advisory Board, as necessary.</p> <p>The Board members' fees are not tied to the company's corporate responsibility performance. The Board's remuneration plans and fees are presented in the Annual Report on pages 55–56 and at <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a>.</p> <p>The Board discusses the Corporate Responsibility Report as soon as it has been completed, and as necessary, also other related issues brought out either by the Corporate Management Board or the Corporate Responsibility Advisory Board. The Board's main duties are listed in the Annual Report, on page 53 and at <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a>.</p>

	<p>The Kesko Group has a Corporate Management Board, the Chair of which is Kesko’s President and CEO. The Corporate Management Board has no competence based on legislation or the Articles of Association. The duty of the Corporate Management Board is to discuss Group-wide development projects and Group-level policies and practices. In addition, the Corporate Management Board discusses the Group’s and the division parent companies’ business plans, profit performances and matters handled by Kesko’s Board, in the preparation of which it also participates.</p> <p>The Corporate Management Board is composed of the presidents of the major division parent companies and the senior vice presidents responsible for corporate accounting and finance, human resources and stakeholder relations (including corporate responsibility), as well as store sites and investments. Two of the eight Corporate Management Board members are women. The Corporate Management Board takes a stand on matters brought out by the Corporate Responsibility Advisory Board. The Corporate Management Board meets 8–10 times a year.</p>
Risk management principles	The risk management policy confirmed by Kesko’s Board is available at <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a> .

**Monitoring and control systems**

	<p>Kesko’s financial reporting and planning are based on the Kesko Group’s management system. The Group units’ financial results are reported and analysed within the Group on a monthly basis, and disclosed in interim reports published quarterly. Financial plans are prepared for quarterly periods, in addition to which significant changes are taken into account in monthly performance forecasts. The Group’s and its units’ strategies and related long-term financial plans are updated annually.</p>
Prevention of malpractice	<p>Kesko’s attitude to bribery and other malpractice is absolutely uncompromising. Kesko’s principles are presented in the guide ‘Our Responsible Working Principles’, adopted by all Kesko units and K-stores since 2008. The guide has been published in Finnish, Swedish, Norwegian, English, Russian, Estonian, Lithuanian and Latvian, as have the animated videos on the themes available at <a href="http://www.kesko.fi">www.kesko.fi</a>.</p> <p>The guide was updated in 2012 and an online training programme was built to support it. The updating process also included some specifications on stakeholder cooperation, for example, to the Group and division level instructions relating to the Responsible Working Principles.</p> <p>Kesko’s ethical purchasing principles, adopted for trade relations with suppliers in high-risk countries, make a statement about opposition to bribery. Kesko is a member of Transparency International, Finland.</p> <p>The Kesko Group’s Internal Audit has paid particular attention to the efficiency of controls that prevent malpractice and financial losses. Measures preventing malpractice have included more effective communications, training and guidelines as well as tightened controls. Information technology is used to trace exceptional transactions, and to prevent and examine malpractice. Kesko has a malpractice examination and reporting guideline, according to which Kesko’s Risk Management examines the suspicions of malpractice. Clear suspicions of criminal activity are reported to the police for further investigation.</p> <p>Through Kesko’s intranet, employees in all operating countries, except for Belarus, can give feedback and ask questions concerning operations not only in their own units but also directly to top management. Feedback can be given openly or anonymously. Through the intranet or by e-mail at <a href="mailto:IA@kesko.fi">IA@kesko.fi</a>, employees can also contact Kesko’s Internal Audit in confidence.</p>



Privacy protection	<p>K-Plus Oy, a Kesko subsidiary, manages and maintains the K-Plus customer loyalty system, operated by K-chains and K-Plus partners. K-Plus is the most extensive customer loyalty system in Finland with around 2.2 million, or some 85% of Finnish households, enjoying K-Plus's customer loyalty benefits. At the end of 2012, the customer loyalty programmes in Russia, previously implemented on a chain-specific basis, were combined under one programme run jointly by all K-Group chains, called the K-plus Loyalty Program. The programme operated in the Russian market is managed by Kesko Food Rus OOO.</p> <p>The customer information of K-Plus cardholders forms a customer database that is used, with the customer's permission, for managing customer relationships, for customer contacts and marketing purposes of the companies which have joined the K-Plus system. Data on cardholders' purchasing patterns are collected at sum total, product group or product level.</p> <p>Customers can forbid the connection of product or product group level information to their identified customer relationship. In this case, product group data on their purchases are not collected and product specific purchasing data are not used in targeting information at customers.</p> <p>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 cards. In these cases, purchasing data are not recorded in the K-Plus system and the customer does not gain K-Plus points. At the end of 2012, some 3,900 active customers had requested that their purchasing data not be collected at all.</p> <p>According to the K-Plus rules, personal data from the customer database and customer information accrued from the use of the K-Plus card can be used and assigned for direct marketing purposes to the companies participating in K-Plus cooperation. Customers can forbid the use and assignment of information for this purpose by informing K-Plus Oy. The prohibition always applies to the K-Plus customer and the holder of a parallel card.</p> <p>As a data controller, K-Plus Oy ensures that customer information is only used for the purposes specified in the file description. Information on individual customers is protected with instructions given to the personnel and by technical systems. Customer data is only disclosed to outside parties if required by law. In compliance with the Finnish Personal Data Act, K-Plus Oy's file description is available in Finnish at <a href="http://www.plusa.com">www.plusa.com</a>.</p>
E-services and e-commerce	<p>The development of electronic shopping and e-commerce are strategic focal points in all of Kesko's divisions. The projects are coordinated by the Customer Information and E-commerce Unit. The objective is to be strongly present throughout customers' purchase transactions, so that customers will be able, if they wish, to use web services from planning their purchases to using the products.</p>
Risk management	<p>The Kesko Group has a uniform risk assessment and reporting system and it applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and unit levels in all operating countries. Risk identification and assessment play a key role in Kesko's strategy work and rolling planning. Risk assessments also cover significant projects related to capital expenditure or changes in operations. The business division and Group managements are responsible for the execution of risk management. Kesko has a Group-level Risk Management Steering Group, which is chaired by the Group's President and CEO and composed of the representatives of the management of the various divisions and Group functions. The Group's risk management function supervises and coordinates the development of joint risk management and security procedures, the adoption of best practices in the Group, and is responsible for risk reporting to the Group's management.</p>
<b>Links</b>	
Corporate Governance Code Kesko's corporate governance principles	<p><a href="http://www.cgfinland.fi">www.cgfinland.fi</a> <a href="http://www.kesko.fi/investors">www.kesko.fi/investors</a></p>

**FOR THE BENEFIT OF THE COMMUNITY**

<b>Management approach</b>	<b>We build a better society together</b>
	<p>A retail store plays an important role in a local community. It serves and employs local people. In addition to its direct employment impact, the retail trade is also a significant indirect employer through its suppliers and business partners. Long-standing cooperation models with competent partners strengthen competitiveness.</p> <p>A retailer represents local activities. The K-retailer entrepreneur is responsible for his or her store's staff and customer satisfaction. Listening to the wishes of local customers and making use of customer data, K-retailers build a selection of products and services that meet customer needs. Retail stores serve as local meeting places.</p> <p>We develop our business in interaction with our customers. We make sure our employees are committed to responsibility work and increase related training activities.</p>
<b>Goals</b>	<p>The objectives have been recorded in the responsibility programme, see page 23.</p>
<b>Policies and working principles</b>	
	<ul style="list-style-type: none"> <li>• 'Our Responsible Working Principles' guide</li> <li>• Chain business model</li> </ul>

Monitoring and control systems	
Chain business model	The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Cooperation between K-retailers and Kesko – chain operations – is based on equality, openness and a willingness to develop common operations. Chain operations aim at increasing competitiveness and customer satisfaction and achieving a higher, uniform quality and lower costs. A competitive edge is gained by combining systematic chain operations and the K-retailer operations based on entrepreneurship. Kesko is responsible for the constant development of the business model and the store concepts, for chain operations management and for sourcing and purchasing the products included in the chain selections.
Stakeholder interaction	For Kesko, knowledge of and compliance with competition laws is of primary importance. Kesko has a competition legislation manual and a control system, which includes self-assessments and employee training events. Key principles and guidelines of competition legislation have also been presented in the internal web training on matters concerning competition legislation. Those whose work is largely related to competition laws are also invited by the Group's Legal Affairs Unit to complete the training, supervised by the unit.
Anti-competitive behaviour	For Kesko, knowledge of and compliance with competition laws is of primary importance. Kesko has a competition legislation manual and a control system, which includes self-assessments and employee training events. Key principles and guidelines of competition legislation have also been presented in the internal web training on matters concerning competition legislation. Those whose work is largely related to competition laws are also invited by the Group's Legal Affairs Unit to complete the training, supervised by the unit.
Public policy	Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to social development and legislative work. The chart describing Kesko's channels of influence and representation in organisations is presented at <a href="http://www.kesko.fi/responsibility">www.kesko.fi/responsibility</a> .

## WORKING COMMUNITY

Management approach	We perform and offer high-quality work
Good working community	<p>Equality, justice and non-discrimination are important principles which are observed at Kesko throughout the employment relationship. The most suitable person with the most development potential is selected for the job, and applicants are judged according to their competence, skills and accomplishments. Every Kesko employee is responsible for creating and maintaining a good atmosphere at work. Bullying at work, discrimination and other improper behaviour are not acceptable.</p> <p>Questions and comments on the activities of the working community can be presented to supervisors. The Kesko Group also has the Direct Line feedback channel on Kesko's intranet, Keskonet, through which employees can ask questions, anonymously if they wish, about any matter concerning the operations of Kesko or its subsidiaries, with the exception of Belarus. The questions and answers to them are published on Keskonet.</p>
High-quality supervisory work	<p>Basic duties of supervisors include setting targets for their subordinates, ensuring their competencies and giving feedback. At Kesko, supervisors are trained to manage their teams in a coaching manner towards the set objectives and good performance. Supervisors are also supported in proceeding constructively in challenging situations.</p> <p>Supervisors are responsible for promoting direct, open and constructive discussion about all work-related matters. Supervisors are also responsible for the induction of new employees. In order to monitor this, Group companies in Finland launched an induction survey in 2012, which is also to be implemented internationally in 2013.</p>
Diversity in the K-Group	<p>In 2012, the K-Retailers' Association launched a project called 'Many kinds of performers' in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). The project will continue in 2013.</p> <p>Kesko and K-stores participate in the Youth Guarantee initiative launched at the beginning of 2013 to promote employment and prevent social exclusion among young people.</p>
<b>Goals</b>	
	The objectives have been recorded in the responsibility programme, see page 23.
HR goals	<p>Kesko's HR goals are:</p> <ul style="list-style-type: none"> <li>• The most attractive workplace</li> <li>• The most competent and motivated personnel</li> <li>• The best personnel productivity</li> </ul> <p>Systematic and long-term work is carried out to achieve the HR goals through, for instance, competence development and management models for wellbeing at work.</p>
Wellbeing at work programme	In the development of wellbeing at work, the objective is to increase employees' job satisfaction and motivation, reducing sickness, increasing the retirement age and enhancing employer image and, in this way, increasing personnel productivity. In 2012, the wellbeing at work programme focused on the development of supervisory work and the working community. For supervisory work, supportive training events were arranged on performance and development reviews and on early intervention. Approximately 500 managers and supervisors participated in these events.
<b>Policies and working principles</b>	
HR policy	Kesko's HR management is based on Kesko's values and responsible operating practices, which are described in the guide 'Our Responsible Working Principles'. The guide was updated in 2012. Kesko's HR policy defines key operating principles in various areas of HR management. The HR principles are operating principles and guidelines of a permanent type to be followed in practical personnel issues. The HR strategy defines HR management objectives, critical success factors and key development initiatives. The Corporate HR Unit is responsible for defining the HR strategy and the HR Steering Group monitors and promotes its implementation.

**Monitoring and control systems**

Continuous and long-term monitoring	The implementation of Kesko's HR goals is monitored continuously. Various indicators, such as the HR scorecard, wellbeing at work indicators and personnel productivity guide operations and they are reported to the management on a regular basis. The responsibility, wellbeing at work and labour protection programmes are updated, taking both short- and long-term targets into account.
Labour protection programme	The personnel's ability to work is protected by creating a safe and supportive working environment. The goal of labour protection is to secure and maintain employees' ability to work and to prevent and avoid occupational injuries, occupational diseases and other physical and mental health hazards arising from work or the working environment. Each supervisor is responsible for labour protection in his/her area as it is part of the line organisation's normal management and supervisory work.
Action plan of the Occupational Health Service	The objective of occupational health care is to maintain and promote employees' health, ability to work and function, preventing work-related diseases and injuries, ensuring health and safety in the working environment and supporting the functionality of working communities. The Occupational Health Service is managed by the chief occupational health physician. The action plan of the Occupational Health Service defines the contents and the extent of the Kesko Group's occupation health care in Finland and it is updated annually. The update carried out at the end of 2012 took into account the requirements of the future decree on occupational health care. The Chief Physician of Kesko's Occupational Health Service is a Board member of the Finnish Association of Occupational Health Physicians and represents the association in the development and monitoring section for occupational health care in the Ministry of Social Affairs and Health. In 2012, the section prepared a decree on good occupational health care practices and cooperation in health care issues.
Personnel survey	The annual personnel survey measures the wellbeing of individual employees and the working community and the quality of management. Supervisors are coached and supported for discussions concerning the personnel survey and the units draw up unit-specific development plans, the implementation of which is monitored by the HR units in addition to each unit concerned. The results of the personnel survey also serve as one of the contributing factors in bonuses paid to those in supervisory positions.
Employer image	The external employer image is monitored through various surveys. Kesko came in 10th place (15th place in 2011) in the 2012 Universum Young Professionals survey investigating the views of business economy professionals and in 21st place (20th) in the Universum survey among business economy students.
Sickness absences and injury statistics	Sickness absence monitoring is monthly and conducted on a company-level basis, and supervisors receive quarterly reports of their teams based on the 'Let's talk about work' model. Starting from the beginning of 2013, regular company-specific injury reporting has also been adopted.
HR scorecard	The attainment of HR goals and the development of indicators are monitored with the help of the HR scorecard. The indicators used include labour productivity figures, personnel survey figures, total employee turnover, internal mobility and sickness absence rates.

**Links**

HR policy Kesko's responsibility programme 'Our Responsible Working Principles' guide	<a href="http://www.kesko.fi/en/Responsibility/Responsibility-management/Policies-and-principles">www.kesko.fi/en/Responsibility/Responsibility-management/Policies-and-principles</a> <a href="http://www.kesko.fi/en/Responsibility/Responsibility-management/Responsibility-programme">www.kesko.fi/en/Responsibility/Responsibility-management/Responsibility-programme</a> <a href="http://www.kesko.fi/static/responsibility">www.kesko.fi/static/responsibility</a>
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**RESPONSIBLE PURCHASING AND SALES**

**Management approach**

**We purchase and sell responsibly and support our customers in their sustainable choices**

In its operations, Kesko pays special attention to human rights issues and working conditions in its purchasing chain and, in monitoring these, primarily focuses on suppliers in high-risk countries. In accordance with the BSCI (Business Social Compliance Initiative), these are countries and areas where there is a risk of human rights and workers' rights violations. The classification is based on, for example, the UN Index of Human Development and the Transparency International Corruption Perceptions Index. The list drawn up by the BSCI on high-risk countries is available at [www.bsci-intl.org](http://www.bsci-intl.org).

High-risk countries typically produce clothing and home textiles, shoes and other leather goods, furniture, carpets, interior decoration items, sports equipment, toys, agricultural products (such as coffee, tea, cocoa, fruit, vegetables, wines), and canned fish, fruit and vegetables.

In 2012, direct purchases by Kesko's Finnish companies from suppliers in risk areas totalled €99 million (€143 million in 2011) and accounted for 1.3% (1.8%) of Kesko's total purchases. Direct imports from high-risk countries accounted for 17.1% (25.6%) of Kesko's total imports into Finland. The most significant high-risk countries from which Kesko imported were China (€61.1 million), India (€9.9 million) and Turkey (€8.2 million). There are no statistics available on the imports of Kesko's subsidiaries in other countries from high-risk countries, but, in 2012, Kesko's purchases analysed by a company's country of domicile and by a supplier's country of domicile also included purchases from high-risk countries at a total value of €267 million (€237 million), or 3.3% (2.9%) of Kesko's total purchases. Some 81% (72%) of Kesko's imports into Finland (excluding imports by VV-Auto) come from EU countries.

In addition to its own direct imports, Kesko also purchases goods produced in high-risk countries from other importers operating in Finland and through international purchasing groups. There are no reliable statistics available on the countries of origin of these imports, which mainly consist of international branded goods that have been the subject of much attention in respect of guaranteeing the responsibility of their production in recent years. There may also be social risks involved in the manufacture of products imported to Finland through third countries or in the production of their ingredients. Kesko is developing an operating model which would enable us to better monitor the implementation of our purchasing principles throughout the entire purchasing chain, including indirect purchases from high-risk countries.



Product Research	<p>Kesko and K-Group stores are responsible to the products' end-users for ensuring that the products comply with all the requirements of Finnish and EU legislation, are safe for users and meet quality and other promises. Kesko Food's Product Research is responsible for the safety and quality assurance of the products purchased, development of own-brand products, coordination of self-control, keeping abreast of food legislation and for recipe and consumer services.</p> <p>In addition to food products, Product Research also controls the safety and quality of non-foods and home and speciality goods. In the development of own brands, Product Research works in close cooperation with Kesko's buyers and product manufacturers.</p>
<b>Goals</b>	The objectives have been recorded in the responsibility programme, see page 23.
<b>Policies and working principles</b>	<p>Responsible purchasing is guided by Kesko's ethical purchasing principles, which are available at <a href="http://www.kesko.fi/responsibility">www.kesko.fi/responsibility</a>. The principles are based on national labour protection legislation and corresponding conventions of the International Labour Organization (ILO), which are applied when national legislation does not correspond to the same level.</p> <p>Kesko's policy on chemicals applies to home textiles, clothing, leather goods and shoes. Based on EU and Finnish legislation, it lists the chemicals which are prohibited or the quantity of which is restricted in the products supplied to Kesko.</p> <p>In addition, product group specific responsibility policies have been prepared to support purchasing, such as the palm oil policy, the fish and shellfish statement, the timber policy and the stand on sandblasting of jeans.</p>
<b>Monitoring and control systems</b>	<p>Kesko has a steering group for responsible purchasing, which steers and coordinates the implementation of ethical purchasing principles. The group consists of representatives of Kesko's division parent companies importing from high-risk countries. The steering group met four times in 2012. The key issues on the agenda included updating the guide for buyers and suppliers on socially responsible trading, BSCI annual targets, purchasing policies and the organisation of the monitoring work.</p> <p>Kesko is a member in the European BSCI audit system, and uses both BSCI auditing and the SA8000 standard for assessing its suppliers in high-risk countries. Kesko is committed to the BSCI Code of Conduct, the content of which is practically the same as Kesko's own ethical purchasing principles.</p> <p>In cooperation with the BSCI, Kesko follows other audit systems in the market and accepts audits based on them, provided that the level of requirements is the same as in the BSCI audit. See the table on page 74 which presents on some certification and audit systems used for different product groups in Kesko.</p> <p>Kesko is a member of the CGF (the Consumer Goods Forum), a discussion and cooperation forum for the grocery trade and industry, currently working on the Global Social Compliance Programme (GSCP), aimed at enhancing the comparability of social and environmental audits.</p> <p>In China, Kesko supports its suppliers of home and speciality goods through monitoring. A local monitoring officer guides, trains and oversees Kesko's Chinese suppliers in issues related to terms of employment and working conditions and compliance with environmental and chemical regulations. Kesko's own monitoring principles are based on the BSCI audit requirements. The ultimate aim is to get the factory to apply for a third-party BSCI audit or SA8000 certification. Rautakesko and Kesko Food monitor and develop the responsibility of the purchasing chain as part of the sourcing cooperation with other European retail chains (Eurogroup, ICASS and AMS).</p> <p>Kesko has a SUMO (supplier monitoring) database, in which the information on supplier audits, certifications and monitoring visits to suppliers in high-risk countries is saved alongside their respective risk ratings. The information on BSCI audits is also saved in the database maintained by the BSCI and is available to all members.</p>
Product Research audits	<p>Specialists of the Product Research visit companies manufacturing Pirkka products to audit them. Auditing extends from the storage of raw materials to product manufacture and the warehousing of finished products. Audits are conducted according to the Product Research Unit's audit protocol.</p> <p>The Product Research Laboratory monitors the quality of products sold by K-food stores, Anttila department stores, K-citymarket hypermarkets and Kodin1 department stores for interior decoration and home goods. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.</p>
<b>Links</b>	
Ethical purchasing principles Responsibility programme Policy statements List of high-risk countries	<p><a href="http://www.kesko.fi/en/Responsibility/Responsibility-management/Purchasing-principles">www.kesko.fi/en/Responsibility/Responsibility-management/Purchasing-principles</a>  <a href="http://www.kesko.fi/en/Responsibility/Responsibility-management/Responsibility-programme">www.kesko.fi/en/Responsibility/Responsibility-management/Responsibility-programme</a>  <a href="http://www.kesko.fi/en/Responsibility/This-is-how-we-operate/Statements-and-policies">www.kesko.fi/en/Responsibility/This-is-how-we-operate/Statements-and-policies</a>  <a href="http://www.bsci-intl.org">www.bsci-intl.org</a></p>

**KESKO'S DIRECT IMPORTS FROM OUTSIDE THE EU, 10 LARGEST COUNTRIES IN 2012\***

Country	Value of imports, € million
China	61.1
India	9.9
Turkey	8.2
Thailand	7.8
Vietnam	4.6
Philippines	1.5
Pakistan	1.5
Bangladesh	1.1
Egypt	0.9
South Africa	0.8

\* Direct imports forwarded by Keslog only, excluding imports by VV-Auto.

**CERTIFICATION AND AUDIT SYSTEMS RELATED TO PRODUCTION IN HIGH-RISK COUNTRIES USED BY KESKO**

Certification/audit system	Product group	Coverage of criteria	Product label
BSCI (Business Social Compliance Initiative)	All product groups	Social, limited environmental part	No
SA8000	All product groups	Social	No
Fairtrade	Agricultural products, incl. cotton	Social, environmental	Yes
Rainforest Alliance	Agricultural products	Social, environmental	Yes
UTZ Certified	Coffee, cocoa, tea	Social, environmental	Yes
FSC (Forest Stewardship Council)	Wood products and timber	Social, environmental	Yes
MSC (Marine Stewardship Council)	Caught fish and shellfish	Environmental (sustainable fishing)	Yes
RSP0 (Roundtable on Sustainable Palm Oil)	Products containing palm oil	Finance, environmental, social	No

**MAIN ELEMENTS OF SA8000 AND BSCI AUDITS**

Auditing areas	Relevant ILO convention
Compliance with laws and agreements	110 (agriculture)
Freedom of association and collective bargaining	11, 87, 98, 135 and 154
Discrimination	100, 111, 143, 158, 159, 169 and 183
Compensation	12, 26, 101, 102 and 131
Working hours	1, 14 and recommendation 116
Health and safety at work	155, 184 and recommendations 164 and 190
Child labour	10, 79, 138, 142, 182 and recommendation 146
Forced labour	29 and 105
Basic environmental protection	-

**WELLBEING FOR CUSTOMERS**

Management approach	We offer services which promote customers' wellbeing
	<p>Kesko and K-stores aim to make their customers' lives easier, providing them with services that promote health and wellbeing and guidance on the proper use of products.</p> <p>Customer needs and purchasing behaviour are changing quickly along with new online services and fast-developing technology. The development of electronic transactions and shopping is one area of strategic emphasis in all of Kesko's divisions.</p>
Goals	The objectives have been recorded in the responsibility programme, see page 23.
Policies and working principles	Providing services that enhance customer wellbeing is part of Kesko's responsibility programme.

**Monitoring and control systems**

Measuring is carried out by customer satisfaction inquiries, customer feedback systems and customer advice events, for instance.

The K-responsibility concept to be adopted in K-food stores in 2013 will replace the previous K-environmental store concept and, in addition to the environment, it will also cover other areas of responsibility. The K-responsibility training related to the concept will also be launched to improve competence in this area, while the K-responsibility manual will provide support in practical work.

Kesko's ethical purchasing principles guide Kesko's responsible sourcing and purchasing. In supplier assessment, Kesko uses international assessment systems, BSCI auditing and SA8000 certification.

**MITIGATION OF CLIMATE CHANGE**

**Management approach**

**We jointly mitigate climate change and promote the sustainable use of natural resources**

At Kesko, the mitigation of climate change includes the key issues in environmental responsibility; energy consumption, emissions, waste management and sustainable use of natural resources.

Energy consumption has a significant impact on both the progress of climate change and costs. Among greenhouse gases as outlined in the GHG Protocol, emissions from the energy consumption of properties are the most significant component. Electricity, heating and water are the biggest expense items in property maintenance. Mitigating climate change resulting from energy consumption is one of the focus areas in Kesko's environmental work. Preventing the generation of waste, increasing the recovery rate and recycling of materials are the means by which Kesko reduces the amount of landfill waste.

**Optimisation of logistics**

Kesko's own logistics company, Keslog, has long reduced the emissions from the K-store supply chain by centralising distribution. New vehicle replacements have reduced unit specific emissions. Key methods for improving logistics efficiency also include the optimisation of transport routes and a high volumetric efficiency. A significant part is also played by efficient return logistics with, for example, purchased loads or carrier trays and recycling components, such as pallets, roll containers, cardboard, bottles or cans, collected on the return route. Training in economical driving styles has also been arranged for drivers.

Kesko concentrates on reducing the impacts of climate change in order to preserve biodiversity. Kesko only builds stores on areas zoned for business properties and it does not have significant direct impacts on biodiversity. Indirect impacts arise through products on sale. In consequence, Kesko's management actions are limited to individual measures and policy definitions.

**Goals**

The objectives in Kesko's environmental work are defined in Kesko's responsibility programme and they were updated at the beginning of 2013. The responsibility programme sets both long-term and short-term objectives. The key objectives in environmental responsibility include reducing the environmental impacts of the supply chain, reducing emissions and helping customers reduce their environmental impacts. See page 23.

**Policies and working principles**

The K-Group's environmental policy, updated in 2011, covers the operations of the Kesko Group and the K-Group stores both in Finland and the other operating countries. The K-Group's key business partners are also expected to observe corresponding environmental management principles.

Environmental management is part of the K-Group's management system and it is based on the ICC Business Charter for Sustainable Development, environmental management standards, as well as requirements set by legislation and the authorities. Kesko is also committed to observe the UN Global Compact principles.

**Monitoring and control systems**

The Kesko Group's Corporate Responsibility Advisory Board defines the main policies for environmental work and the target levels for the Group companies, taking account of the environmental impacts of operations and their significance throughout the whole life cycle and chain of functions. The division parent companies and subsidiaries specify the main policies of their environmental work into environmental action programmes which support their business operations. The action programmes are monitored and updated annually as part of strategy work.

At the end of 2012, environmental systems covered 63% of the Kesko companies net sales in Finland and 53% of the whole Group's net sales. The coverage has been calculated in proportion to retail sales. The environmental systems used at Kesko are presented on page 76.

The operations of the central units of Keslog and Anttila are ISO 14001 certified, as are most of Anttila department stores and Kodin1 department stores for home goods and interior decoration. VV-Auto Group Oy and its subsidiaries fulfil the requirements of environmental programme of Finnish Central Organisation for Motor Trades and Repairs Association and the ISO 9001 quality system, and Audi Center Espoo is ISO14001 certified. In the food, the building and home improvement and the agricultural trades, environmental management is based on the K-environmental store model – the K-environmental store diploma. The model is part of the K-citymarket, K-supermarket, K-market, K-rauta, Rautia and K-maatalous chain concepts. The operating model will be replaced by the K-responsibility concept. The revised K-responsibility concept will be adopted in the course of 2013.

Food stores applying for the K-environmental store diploma are audited by Bureau Veritas, who also perform annual repeat audits. Key environmental issues are also included in the food store chains' concept measurements. The Environmental School of Finland (SYKLI) is responsible for the audits of the building and home improvement stores and for repeat audits conducted every third year.



Energy consumption monitoring	Kesko's maintenance partners monitor the energy consumption of properties with the help of the EnerKey.com system supplied by Energiakolmio Oy. Energiakolmio reads remotely energy consumption measurement terminals located in properties and records the data in the database by the hour. The EnerKey programme responds to even minor location-specific changes in consumption and sends an alarm to the person in charge.
Energy efficiency agreement	Kesko has signed the trading sector energy efficiency agreement ( <a href="http://www.energiatohokkuussopimukset.fi">www.energiatohokkuussopimukset.fi</a> ). In terms of specific energy consumption, the types of properties with the highest energy consumption are K-citymarkets, K-supermarkets, Anttila department stores and large wholesale and warehouse buildings. Every property is important, but the consumption monitoring of these properties has the highest significance for the reduction of energy consumption.  Kesko conducts energy reviews in the properties managed by it on a regular basis.
Water consumption monitoring	Water consumption monitoring is also part of real estate consumption monitoring in Finland and the other operating countries.
Biodiversity	In line with Kesko's sourcing recommendation, the garden furniture made of tropical wood and sold by the K-Group stores is either FSC certified or made of wood species whose cultivation is possible in accordance with the principles of sustainable development.  Kesko's fish and shellfish statement is intended to direct Kesko Food's and Kespro's own sourcing, as well as K-food retailers' sourcing to safeguard responsible fishing and the cultivation of fish.  Palm oil must be produced in a responsible manner, taking account of economic, social and environmental aspects. Kesko Food is a member of the RSPO (Roundtable on Sustainable Palm Oil) and recommends that the producers of Pirkka and Menu products use certified sustainable palm oil (CSPO).
Waste management	Kesko develops recycling systems in cooperation with other operators and promotes waste recycling by developing packaging methods and the use of materials. The generation of waste is prevented by using recyclable transport units and by minimising the wastage of products on sale.  According to Kesko's business model, retailer entrepreneurs are responsible for wastage management in K-stores.
Building contracting and maintenance	Kesko's building contracting is based on target conditions and key technical quality factors determined for each business concept and the planning and execution instructions in respect of building services and construction engineering based on them. Kesko measures the efficiency and quality of planning and execution by providing its individual properties with international green building certificates, such as BREEAM and LEED.  Kesko's partners in the maintenance and service of properties are YIT Kiinteistötekniikka Oy, ISS Palvelut Oy and Ovenia Oy. YIT Kiinteistötekniikka's environmental system has ISO 14001 certification, and Ovenia's quality system is ISO 9001 certified.  Kesko's main office in Katajanokka, Helsinki, and Kesko Food's central warehouse in Hakkila, Vantaa, have themselves developed and adopted an environmental programme for office work.  So far, companies outside Finland have not adopted certified environmental systems.
<b>Links</b>	
K-Group's environmental policy	<a href="http://www.kesko.fi/en/Responsibility/Responsibility-management/Policies-and-principles">www.kesko.fi/en/Responsibility/Responsibility-management/Policies-and-principles</a>
Responsibility programme	<a href="http://www.kesko.fi/en/Responsibility/Responsibility-management/Responsibility-programme">www.kesko.fi/en/Responsibility/Responsibility-management/Responsibility-programme</a>
Statements and policies	<a href="http://www.kesko.fi/en/Responsibility/This-is-how-we-operate/Statements-and-policies">www.kesko.fi/en/Responsibility/This-is-how-we-operate/Statements-and-policies</a>

## ENVIRONMENTAL SYSTEMS AT KESKO

Function	Environmental management system	Comment
Keslog's warehousing, terminal and transportation operations	ISO 14001	Certificate revised in 2013
Anttila Oy: central unit, logistics centre, mail order sales and NetAnttila, 28 Anttila department stores and 9 Kodin1 department stores for interior decoration and home goods	ISO 14001	Certificate revised in 2011
Real estate service and maintenance operations	ISO 14001; ISO 9001	Certificates held by YIT Kiinteistötekniikka Oy ISO 9001 certificate held by Ovenia Oy
VV-Auto Group Oy	ISO 9001 and AKL's environmental programme ISO 14001	ISO 14001 Certificate held by Audi Center Espoo Action programme of The Finnish Central Organisation for Motor Trades and Repairs (AKL)
K-food stores: 471 K-environmental stores	K-environmental store concept	Chain requirement for K-citymarkets, K-supermarkets and K-markets
K-rauta stores: 40 K-environmental stores (of which one combination store)	K-environmental store concept	Chain requirement, total of 42 stores, process underway in one store
Rautia stores: 92 K-environmental stores (of which 47 combination stores)	K-environmental store concept	Chain requirement, total of 99 stores, process underway in two stores
K-maatalous stores: 72 K-environmental stores (of which 47 combination stores)	K-environmental store concept	Chain requirement, total of 83 stores, process underway in one store
Main office in Katajanokka, Helsinki and warehouses in Vantaa	Environmental management system for offices	System developed by Kesko

# ECONOMIC RESPONSIBILITY

Management approach to economic responsibility, including operating principles and monitoring and control systems, is described on pages 68–71.

## ECONOMIC PERFORMANCE

### EC1 ECONOMIC VALUE GENERATED AND DISTRIBUTED

Kesko assesses the economic benefits of its operations with regard to different stakeholder groups and market areas. Stakeholder welfare in its market areas is important for Kesko and its international trading operations also promote increased welfare outside its own markets, especially in developing countries.

The following tables show cash flows between Kesko and its stakeholders, as well as the distribution of economic value added between stakeholder groups. The consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows are available in full in the consolidated financial statements (IFRS) in the Annual Report beginning on page 64.

According to its dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking into account, however, the company's financial position and operating strategy. In 2012, Kesko distributed a total of approximately €118 million as dividends for the 2011 profit, which represented 64.9% of earnings per share and 65.3% of earnings per share excluding non-recurring items. A decision has been made to distribute approximately €118 million for the 2012 profit as dividends, which represents 91.9% of earnings per share and 79.9% of earnings per share excluding non-recurring items.

At 31 December 2012, foreign ownership of all shares was 18%. Foreign ownership of B shares was 27% at 31 December 2012.

The price of liquid B shares decreased by 4.6% and that of less liquid A shares by 1.7%, while the NASDAQ OMX Helsinki All Share Index increased by 8.3%. The B share turnover rate on the Helsinki stock exchange rose by 8.2%, but the exchange value fell by 16%. The A share turnover rate rose by 8.3%, but the exchange value fell by 8% from the previous year.

The largest foreign shareholders are from the United States, Norway, Great Britain, Switzerland and Sweden (source: Big-Dough).

### BENEFITS FROM KESKO'S OPERATIONS FLOWING TO STAKEHOLDER GROUPS

€ million		2012	2011	2010
Customers*	Income	10,433	10,165	9,476
	Goods, materials and services purchased	-9,454	-9,188	-8,526
Suppliers				
Value added generated		979	977	949
Distribution of value added:				
Employees	Salaries, fees and social security costs	-603	-571	-521
Creditors	Net finance income/costs	-2	2	6
Owners	Dividend	-118	-118	-128
Public sector	Income taxes	-76	-85	-97
Communities	Donations	-1	-1	-2
Retained for business development		180	204	207

\* Incl. net sales and other operating income

### BASIC INFORMATION ON KESKO SHARES AND SHAREHOLDERS AS AT 31 DEC. 2012

	2012	2011	2010
Number of shares (1,000 pcs)	98,712	98,645	98,641
Share capital (€ million)	197	197	197
A shares as percentage of all shares (%)	32	32	32
B shares as percentage of all shares (%)	68	68	68
A shares as percentage of all votes (%)	83	83	83
B shares as percentage of all votes (%)	17	17	17
Market capitalisation of A shares (€ million)	774	788	1,101
Market capitalisation of B shares (€ million)	1,644	1,719	2,337
Number of shareholders	44,554	41,215	38,258
Earnings per share, diluted (€)	1,30	1,84	2,06
Dividend per share (€)	1,2	1,2	1,3

### ANALYSIS OF ECONOMIC BENEFITS FROM KESKO'S OPERATIONS BY MARKET AREA

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Pension and social security expenses and taxes*	Total
Finland	5,478	292	364	551	6,685
Other Nordic countries	869	8	57	53	986
Baltic countries	225	3	47	37	313
Russia	226	68	31	13	339
Other countries	1,272	8	7	3	1,289
<b>Total</b>	<b>8,069</b>	<b>378</b>	<b>506</b>	<b>657</b>	<b>9,612</b>

\* Taxes include income taxes, real estate taxes, value-added taxes and withholding taxes.

**10 LARGEST SHAREHOLDERS BY NUMBER OF SHARES HELD (A AND B SERIES) AS AT 31 DECEMBER 2012**

	Percentage of shares, %	Percentage of votes, %
K-Retailers' Association	3.61	9.27
Vähittäiskaupan Takaus Oy	3.54	7.06
Kruunuvuoren Satama Oy	3.48	8.95
Ilmarinen Mutual Pension Insurance Company	2.85	1.41
Valluga-sijoitus Oy	1.36	3.49
Varma Mutual Pension Insurance Company	1.15	0.29
Tapiola Mutual Pension Insurance Company	1.11	0.29
Foundation for Vocational Training in the Retail Trade	1.02	2.27
Oy The English Tearoom Ab	1.01	0.26
The State Pension Fund	0.78	0.20

**STORE NETWORK**

Kesko has around 2,000 stores engaged in chain operations in Finland and other operating countries. The K-food store network, which consists of over 900 K-food stores, is comprehensive. The food trade services cover nearly all municipalities in Finland and K-food stores welcome around 900,000 customers every day. Kesko also has a large number of B2B customers. Outside Finland, Kesko engages in the food trade, the building and home improvement trade, the machinery trade and the sports trade. The numbers of stores are shown on page 7.

At the end of 2012, Kesko had 1,210 K-retailer entrepreneurs as partners. Kesko's sales to retailer entrepreneurs accounted for 52% of total sales in 2012.

Kesko and K-retailers form the K-Group, whose retail sales totalled €12 billion (VAT 0%) in 2012. The K-Group employs approximately 45,000 people.

**STAFF COSTS**

€ million	2012	2011	2010
Wages, salaries and fees	503	473	451
Social security costs			
pension costs	48	45	23
social security costs	49	46	41
Share-based payments	3	6	5

*In 2012, foreign operations accounted for €142 million of total wages and salaries. In 2012, foreign operations accounted for €31 million of total pension costs and other social security costs.*

**TAXES**

€ million	2012	2011	2010
Income taxes to Finland	70.5	78.7	92.6
Income taxes to other countries	5.3	6.5	4.2
Real estate taxes to Finland	3.8	2.4	3.0
Real estate taxes to other countries	4.2	1.9	1.3
Value added taxes to Finland	319.8	*	*
Value added taxes to other countries	42.0	*	*
Withholding taxes to Finland	91.7	*	*
Withholding taxes to other countries	23.1	*	*

\* Information not available

*Real estate taxes to Finland include real estate tax returns for previous years.*

**KESKO'S SUPPORT FOR THE PUBLIC GOOD**

€ 1,000	2012	2011	2010
Non-governmental and environmental organisations	113	189	130
Science, research and education	86	96	1,033
Culture	51	94	166
Sports	470	463	619
Health care	0	15	89
Youth work	125	198	207
Veteran organisations	15	16	10
Total	860	1,072	2,253

**K-FOOD STORES IN FINNISH MUNICIPALITIES (AS AT 31 DECEMBER 2012)**

Number of K-food stores	Municipalities in 2012	% of all municipalities
10 or more	16	4.8%
7-9	7	2.1%
5-6	21	6.3%
3-4	53	15.8%
2	55	16.4%
1	138	41.1%
0	46	13.7%
Municipalities, total	336	100%

**EC2 FINANCIAL IMPLICATIONS AND OTHER RISKS AND OPPORTUNITIES FOR THE ORGANISATION'S ACTIVITIES DUE TO CLIMATE CHANGE**

Climate change causes physical risks, regulation-related risks, as well as risks and opportunities affecting reputation factors. Climate change may impact on the company's business operations in terms of risks involved in regulation, such as various permit procedures, or costs arising from emissions trading or taxation.

Physical changes, such as storms and heavy rains have consequences for the built environment. Resulting from draught and desertification, the availability of water has become difficult in many countries, reducing the productive capacity of the economy. Agricultural production will suffer in case desertification and sea level rise reduce the arable land area. The availability of energy sources and emission limitations may have impacts on energy prices. Climate change can also affect business operations in terms of other risks, such as reputation risks and changes in consumer behaviour. On the other hand, the above changes resulting from climate change can also provide new opportunities and competitive advantages for business operations.

One of the key objectives in Kesko's responsibility work is to mitigate the progress of climate change. Assessments of the financial implications for business activities vary significantly between risk scenarios. The financial implications are assessed annually in the responses to CDP's (Carbon Disclosure Project) questionnaire.

Physical risks are related to both the physical store network and logistics. Exceptional weather conditions can cause interruptions in operations or problems in the availability of products. Climate change can affect the sources of supply and availability of products both inside and outside Europe. Accidents, natural phenomena and epidemics can cause damage or business interruptions which cannot be prevented.



Increasing regulations restricting competitive trading conditions are being imposed in Finland and also by the European Union. Regulation also has indirect impacts on the costs of electrical and heat energy. The electrical and heat energy used in Kesko's own properties represents a significant part of the K-Group's energy costs. The implementation of the EU's Integrated Energy and Climate Policy, and the Finnish Government's energy policy will affect future energy solutions and may increase energy prices, adding to energy saving pressures.

An analysis of risks and opportunities also takes customers' future needs into account. Kesko actively develops the stores' selections and services in all of its divisions to meet customer needs. At the same time, customer awareness of, for example, environmental impacts is increasing and their needs and buying behaviour have become diversified as new forms of services, such as e-commerce, have been made available. With regard to the competitive situation in the trading sector, the role of online transactions and multi-channel services has grown significantly in a few years.

Kesko also helps its customers find energy saving solutions. The Energy Expert concept of the building and home improvement trade makes it easy for customers to improve energy efficiency in their homes. K-maatalous' cultivation programme tests the suitability of plant varieties for the Finnish climate in order to help customers choose the best variety and cultivation method for Finnish conditions.

Kesko wants to support a total solution towards carbon dioxide free production, reduce Finland's dependency on imported energy and enhance the efficiency of the electricity market.

A Kesko subsidiary, Kestra Kiinteistöpalvelut Oy is a participant in the Fennovoima project, which aims to build a new nuclear power plant in Finland.

Kesko recovers the waste heat from real estate, such as the condensation heat from cooling stores' refrigeration units, and uses it efficiently for heating with the help of the latest technology. Kesko also actively examines the use of renewable energy sources, such as soil and water as sources of heat and cold, as well as solar energy, which will be potential alternatives as the technical solutions become increasingly sophisticated.

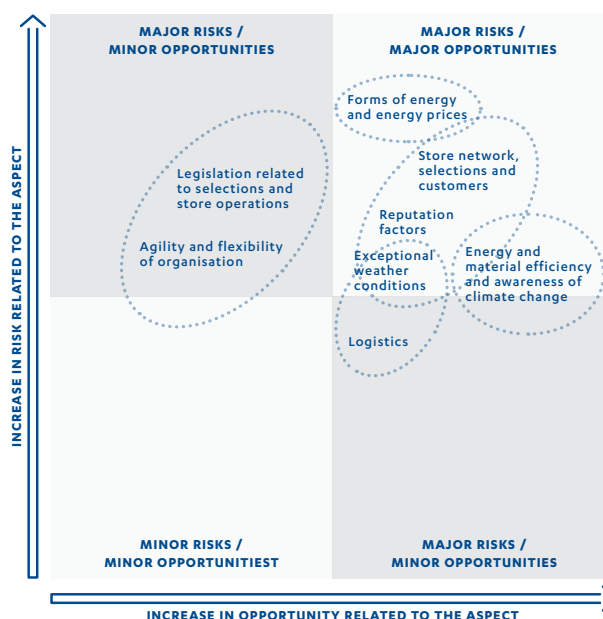
Customers are paying increasing attention to issues related to climate change. Possible failures in implementing responsibility may weaken Kesko's reputation.

Kesko's operations are surveyed in continuous risk assessments, which also cover changes possibly necessitated by climate change. The Group's risk map, the most significant risks and uncertainties, as well as changes in and responses to them are reported to the Kesko Board's Audit Committee in connection with handling the interim reports and the financial statements.

The risk matrix on this page describes some of the risks and opportunities related to Kesko's operations in respect of climate change.

Read more about risks on pages 20–21 and in the Annual Report on pages 55–58.

## RISK MATRIX



## EC3 COVERAGE OF RETIREMENT BENEFIT PLANS

The Group operates several pension plans. In Finland, the retirement benefits of employees are managed partly by pension insurance companies and partly by the Kesko Pension Fund. The statutory retirement benefits of the Kesko Group employees are managed by pension insurance companies and additional retirement benefits are managed by Pension Fund's department A. Department A was closed on 9 May 1998. The pension plans managed by the Kesko Pension Fund are classified as defined benefit plans. As at 31 December 2012, the plan obligation was €243.0 million (€292.4 million in 2011), which is fully covered. The surplus was €147.0 million (€200.1 million in 2011) at 31 December 2012. Calculated in compliance with IFRS (Pension Fund's insurance premium is based on a defined benefit plan), the whole Group's insurance premiums represented 9.5% (9.6% in 2011) of the amount of wages and salaries. Read more in the Annual Report, the consolidated financial statements, note 20, page 103.

At the end of the year, the additional retirement benefit plan, or department A, covered 582 employees.

In the other countries, retirement benefits are arranged in compliance with local legislation, and there are no benefit plans, except in Norway. The number of employees entitled to additional retirement benefits in Norway is not material in proportion to the whole Group.

## EC4 FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT

The Group did not receive significant financial assistance from the government in 2012.

## MARKET PRESENCE

### EC6 SPENDING ON LOCALLY-BASED SUPPLIERS

Kesko assesses the economic benefits from its operations by reporting its purchases by operating country and the company's country of domicile. Kesko also reports K-retailers' direct purchases of goods in Finland by region.

Most of the economic benefits from Kesko's operations – approximately 83% of Kesko's net sales – flow to suppliers of goods, from which purchases were valued at €8.1 billion in 2012.

In 2012, Kesko had around 21,700 suppliers of goods and services from which the purchases were valued at at least €1,000 during the year. Of these, around 10,600 operated in Finland, around 8,100 in Kesko's other operating countries, and around 3,000 in the rest of the world.

The 10 largest suppliers accounted for 22.5% (24.3% in 2011) of the Group's purchases of goods, and the 100 largest suppliers for 51.8% (53.4% in 2011). Of the 10 largest suppliers, seven were Finnish food industry companies, one import company operating in Finland and two German car manufacturers.

The purchases of all of Kesko's companies from suppliers of goods operating in Finland totalled €5,478 million, accounting for 67.9% (67.5% in 2011) of the Group's total purchases.

The purchases of goods by the Kesko Group's Finnish companies totalled €6,692 million. Of these purchases, 81.5% were from suppliers operating in Finland and 18.5% from other countries. It should be noted that because some of the suppliers operating

in Finland are import companies, reliable statistics cannot be compiled on the origin of goods supplied by them.

Kesko actively increases the amount of local purchases and encourages K-retailers to include products from near-by producers in their selections. In 2012, K-retailers' direct purchases from Finnish regions totalled €586 million; see table on page 81.

### CAPITAL EXPENDITURE

In 2012, Kesko's capital expenditure totalled €378 million (€425 million in 2011), or 3.9% of net sales (4.5% in 2011). Capital expenditure in store sites was €310 million (€362 million in 2011). Capital expenditure in foreign operations accounted for 22.9% (31.7% in 2011) of the total capital expenditure.

In addition to Kesko, K-retailers annually make capital expenditures on the building or reconstruction of stores used by the K-Group. These included, the total capital expenditure in Finland was around €469 million in 2012 (€434 million in 2011).

Kesko's capital expenditure has a positive financial impact on the operations of building firms, building sector service companies, and suppliers of fixtures, equipment and information systems, for example.

### EC7 PROCEDURES FOR LOCAL HIRING

Kesko recruits local expertise and aims to cover a wide diversity of candidates for job openings, including management and middle management positions. Kesko compiles statistics on new employment relationships by country. In 2012, all of Kesko's top and middle management positions in Finland were held by Finnish citizens.

### KESKO'S PURCHASES BY OPERATING COUNTRY IN 2012

	Suppliers of goods and services in operating country*			Suppliers of goods and services in other countries*		
	pcs	€ million	%	pcs	€ million	%
Finland	10,356	5,453	81.5	2,180	1,239	18.5
Sweden	991	111	83.0	129	23	17.0
Norway	899	561	97.8	82	13	2.2
Estonia	674	41	52.9	286	36	47.1
Latvia	479	27	34.8	248	51	65.2
Lithuania	861	69	30.6	1,189	156	69.4
Russia	1,918	212	95.0	41	11	5.0
Belarus	1,355	39	59.5	43	27	40.5
<b>Total</b>	<b>17,533</b>	<b>6,513</b>	<b>80.7</b>	<b>4,198</b>	<b>1,556</b>	<b>19.3</b>

\* Suppliers of goods and services

\*\* Suppliers of goods

### KESKO'S PURCHASES IN 2012 ANALYSED BY COMPANY'S AND SUPPLIER'S COUNTRY OF DOMICILE

Company's country of domicile	Supplier's country of domicile									Total
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Russia	Belarus	Other countries	
<b>€ million</b>										
Finland	5,453	177	10	42	1	4	0	0	1,005	6,692
Sweden	9	111	1	0	0	0	0	0	12	133
Norway	1	5	561	2	0	0	0	0	5	574
Estonia	5	1	0	41	3	1	0	0	26	77
Latvia	4	1	0	6	27	2	0	0	39	79
Lithuania	6	1	0	7	17	69	2	1	121	225
Russia	0	0	1	0	0	0	212	0	10	224
Belarus	1	0	0	0	0	1	11	39	13	66
<b>Total</b>	<b>5,478</b>	<b>295</b>	<b>573</b>	<b>98</b>	<b>49</b>	<b>77</b>	<b>226</b>	<b>41</b>	<b>1,231</b>	<b>8,069</b>

In the other operating countries, 97% of top and middle management positions on average were held by local people.

## INDIRECT ECONOMIC IMPACTS

### EC8 INFRASTRUCTURE INVESTMENTS AND SERVICES PROVIDED FOR PUBLIC BENEFIT

During the reporting period, Kesko itself did not make any infrastructure investments for public benefit referred to in the GRI. Instead, Kesko made contributions to the public good in donations and through its business partners. At the national level in all of its operating countries, Kesko supports initiatives promoting, for example, science, research and education, youth work, sports, as well as the operations of non-governmental and environmental organisations. Kesko especially supports projects promoting the wellbeing of families with children.

#### KESKO'S SUPPORT FOR THE PUBLIC GOOD

	2012	2011	2010
€1,000	860	1,072	2,253

### EC9 SIGNIFICANT INDIRECT ECONOMIC IMPACTS, INCLUDING THE EXTENT OF IMPACTS

Kesko is a service sector company which, in addition to its own direct impacts, has indirect impacts related to the production, use and recyclability of products which play a significant part of the whole.

Kesko's and retailers' purchases have economic impacts on suppliers of goods and services, such as increase in jobs. Furthermore, purchases from local producers impact on regional business activities. The salaries, taxes, staff costs and capital expenditure paid by Kesko and retailers have impacts on regional economic wellbeing.

Kesko is a significant tax payer. In 2012, the income taxes paid by Kesko to Finland were €70.5 million and to other countries €5.3 million. The Group's effective tax rate was 35.2%. Kesko paid €3.8 million in real estate tax to Finland and €4.2 million to other operating countries in 2012. Kesko also collects, reports and remits indirect taxes. Indirect taxes include, for example, value added tax and excise duties. Value added tax is a consumption tax paid by the end consumers of goods and services, in other words, households. Kesko remits value added taxes to tax recipients in its capacity of a company selling goods and services. As for excise tax, it is a consumption tax levied from the manufacturer, producer, importer or wholesaler of certain products and remitted to tax recipients. The excise duty is included in the product price, which makes it payable by the consumer. Kesko remits excise duties on, for example, confectionery, alcohol, soft drinks and cars. In 2012, Kesko remitted indirect taxes to Finland to the amount of €319.8 million, and €42.0 million to other countries. For more details, see the table on page 78.

Kesko's measurable indirect impact on society, such as employment impact, increased municipal tax income, or income in the producer and supplier chain, must be evaluated case by case, in connection with the establishment of a new store, for example.

Read more about impacts on society on pages 14–15.

#### ECONOMIC BENEFIT GENERATED BY KESKO AND K-RETAILERS TO FINNISH REGIONS IN 2012

Region	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure*	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	Total
<b>€ million</b>							
Southern Karelia	9.6	15.2	18.4	5.4	13.1	1.4	63.1
Southern Ostrobothnia	263.7	38.6	19.8	5.4	13.2	1.3	342.1
Eastern Uusimaa	0.0	0.0	0.0	1.5	0.0	0.0	1.5
Southern Savo	32.2	15.8	4.4	4.6	11.6	1.5	70.1
Kainuu	2.1	13.0	0.1	1.6	5.8	0.5	23.2
Kanta-Häme	75.7	24.2	6.9	4.6	12.4	0.7	124.5
Central Ostrobothnia	49.2	17.6	0.2	1.9	4.2	0.7	73.8
Central Finland	63.6	21.5	8.9	9.7	18.1	1.7	123.4
Kymenlaakso	39.0	20.9	48.6	5.9	11.7	1.4	127.5
Lapland	16.1	21.7	2.7	5.8	17.1	1.8	65.2
Pirkanmaa	371.5	34.4	23.8	25.1	33.3	3.4	491.6
Ostrobothnia	133.7	9.7	1.1	5.1	8.3	0.8	158.7
Northern Karelia	25.1	20.7	0.7	4.3	11.7	1.8	64.2
Northern Ostrobothnia	87.5	39.3	32.7	17.5	26.4	2.6	206.1
Northern Savo	160.5	28.2	7.0	11.5	19.6	1.7	228.5
Päijät-Häme	139.9	26.1	5.9	9.3	11.8	0.9	193.9
Satakunta	109.9	27.8	5.2	4.1	15.6	1.2	163.7
Uusimaa	3,148.5	141.2	251.5	264.4	112.8	13.3	3,931.6
Varsinais-Suomi	698.8	69.8	31.5	23.8	35.1	3.0	862.0
Åland	26.1	0.0	0.0	0.0	0.0	0.0	26.1
<b>Total</b>	<b>5,452.7</b>	<b>585.6</b>	<b>469.3</b>	<b>411.6</b>	<b>381.9</b>	<b>39.8</b>	<b>7,340.9</b>

The figures are for those K-retailers whose accounts and payroll are managed by Vähittäiskaupan Tilipalvelu VTP Oy, representing around 85% of K-retailers' total business volume.

\* Incl. increase in rent liabilities



# ENVIRONMENTAL RESPONSIBILITY

At the end of 2012, environmental systems covered 63% of the net sales of Kesko companies in Finland and 53% of the whole Group's net sales. The coverage has been calculated in proportion to retail sales. So far, environmental systems have not been adopted in the operations outside Finland.

The K-Group's environmental policy can be read at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

## MATERIALS

### EN1 MATERIALS USED

In respect of Kesko, materials used refer to the quantities of packaging materials of products imported and packaged by Kesko. Kesko reports these materials to the authorities in compliance with the EU packaging directive. Kesko's logistics operations take account of possibilities to use more environmentally friendly materials in its operations and packaging systems.

Kesko guides its customers in comparing the environmental properties of products and packaging, their proper use and disposal after use. Kesko can have an impact on the packaging materials and quantities, especially when developing its own brand products. Among the clearly most important properties of packaging is to sufficiently protect the product from spoilage before use and to enable the whole product quantity to be used. According to surveys (Source: MTT Agrifood Research Finland FutupackEKO), the environmental impacts of foodstuffs packaging as a rule are significantly smaller than the emissions from the production and consumption of the foodstuff itself.

Read about the objectives and progress of Kesko's recycling and material efficiency on pages 22–23.

### QUANTITIES OF PACKAGING IMPORTED AND PACKAGED BY KESKO

Tonnes	2012	2011	2010
Anttila/K-citymarket	2,506	2,231	2,575
Rautakesko	3,081	2,966	3,701
Kesko Food	17,805	17,869	18,101

### EN2 MATERIALS USED THAT ARE RECYCLED INPUT MATERIALS

In 2012, 267 tonnes (277 tonnes in 2011) of packaging plastic recovered from Kesko Food's goods transportation was recycled. Because most part of the reported packaging materials go to consumers, the calculation of the proportion of recycled materials is not appropriate. Read more in EN27.

## ENERGY

### EN3 DIRECT ENERGY CONSUMPTION AND EN4 INDIRECT ENERGY CONSUMPTION

In 2012, Kesko's office and warehouse properties and the K-Group stores in Finland consumed a total of 1,127 GWh of electric and heat energy. In the other operating countries, the total consumption of heat and electricity was 128 GWh in 2012.

### ENERGY CONSUMPTION IN FINLAND

In Finland, multi-energy monitoring covered 2,533,692 m<sup>2</sup> and electricity monitoring alone 581,491 m<sup>2</sup> in 2012. The coverage of multi-energy monitoring, i.e. monitoring properties in respect of electricity, heating energy and water consumption, is 69%. Including properties monitored in respect of electricity consumption only, the coverage is 85%. Based on the measurements, a specific consumption is determined for each type of real estate, which enables the calculation of the total consumption of all properties. For the 2012 report, the calculation of gross areas has been specified. In the same connection, the energy consumption figures for 2011 and 2010 were recalculated, which causes changes in the calculated consumption data for the previous years.

In 2012, the total electricity consumption calculated for Kesko's properties (properties managed by Kesko and monitored by Energiakolmio Oy, see report attachments at [www.kesko.fi](http://www.kesko.fi)) was 779 GWh, whereas the consumption in 2011 was 783 GWh. Regardless of the fact that the total properties in Finland increased by 2.1% in 2012, the total consumption of electricity decreased by 0.6% during the same period.

In 2012, the total heat energy consumption calculated for all properties was 348 GWh, showing an increase of 7.6% on 2011. The increase in the measured specific heat consumption from 2011 is attributable to 2011 being warmer than usual, whereas 2012 was colder than normal. The standardised, or temperature corrected heat consumption in 2012 was 3.3% lower compared to 2011.

In Finland, the specific electricity consumption calculated for all properties was 213 kWh/gross m<sup>2</sup> in 2012, showing a decrease of 2.6% from 2011, when it was 219 kWh/gross m<sup>2</sup>.

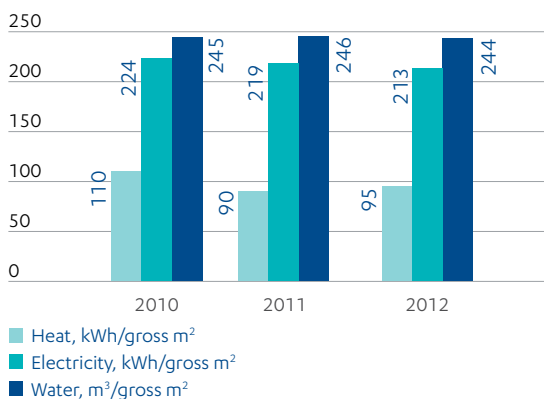
The corresponding specific consumption of heat energy in Finland was 95 kWh/gross m<sup>2</sup>. In 2012, the specific heat consumption of all of Kesko's properties increased by 5.3%. In 2011, the specific heat consumption was 90 kWh/gross m<sup>2</sup>.

Specific consumptions of electricity and heat and developments in real estate in Finland by property type can be read in the consumption monitoring report at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

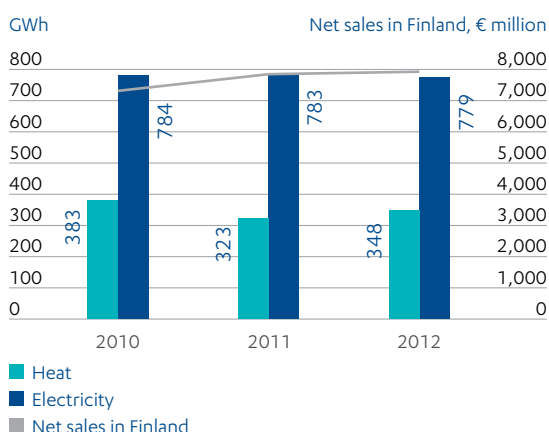
### ENERGY CONSUMPTION IN THE OTHER OPERATING COUNTRIES

The real estate area of subsidiaries outside Finland was 1,042,000 m<sup>2</sup> in 2012. Some heat energy was produced in the operating countries outside Finland from non-renewable energy sources; gas, oil and peat.

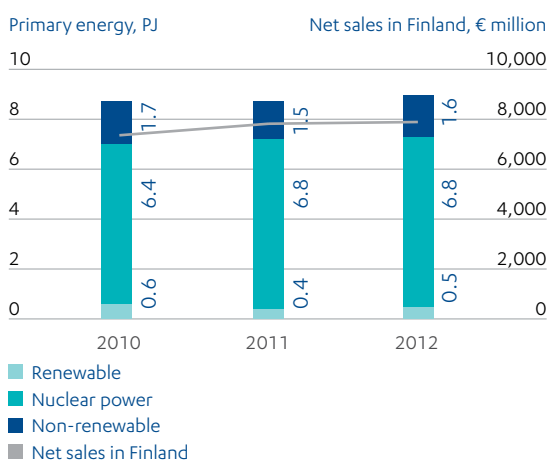
**SPECIFIC CONSUMPTIONS IN FINLAND, 2010–2012**



**TOTAL ENERGY CONSUMPTION IN REAL ESTATE MANAGED BY KESKO IN FINLAND**



**PROFILE FOR ENERGY CONSUMED IN REAL ESTATE MANAGED BY KESKO IN FINLAND**



In 2012, Kesko’s direct energy consumption consisted of 27.6 GWh of self-produced heat outside Finland and of 0.4 GWh of self-produced electricity, or a total of 28.0 GWh. The consumption of purchased electricity was 88.4 GWh and district heat consumption was 11.7 GWh. The total energy consumption in the other operating countries was 128.1 GWh.

**ELECTRICITY SUPPLIED BY KESKO TO THE K-GROUP**

Kesko supplied 528 GWh, or approximately 68% of the total electricity consumed by the K-Group in Finland. In 2012, electricity was supplied by Helsingin Energia. The K-Group’s stores are also located in shopping centres, in which case both electricity and heat is purchased from the real estate company. In addition, some K-retailers purchase electricity, mainly from regional electric power plants.

The 2012 source data and calculation principles are available in the report attachments. The energy consumption figures for 2012 and the environmental profiles for energy consumption have been produced by Energiakolmio Oy. The calculation, which includes a comparison with the energy protocol contained in the GRI reporting guidelines, is available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

**ENERGY CONSUMPTION**

	2012	2011	2010
<b>Finland</b>			
Electricity (MWh)	778,961	783,290	783,675
Heat (MWh)	347,643	323,132	382,801
Total electricity and heat (MWh)	1,126,604	1,106,422	1,112,476
Water (m <sup>3</sup> )	893,803	880,641	857,012
<b>Other operating countries</b>			
Electricity (MWh)	88,367	84,478	96,026
Heat (MWh)	39,758	43,745	33,232
Total electricity and heat (MWh)	128,125	128,223	129,258
Water (m <sup>3</sup> )	127,658	117,881	96,941
<b>All operating countries</b>			
Total electricity (MWh)	867,328	867,768	826,769
Total heat (MWh)	387,401	366,877	362,675
Total electricity and heat (MWh)	1,254,729	1,234,645	1,189,444
Total water (m <sup>3</sup> )	1,021,461	892,279	772,297

Finland: figures for 2011 and 2010 have been specified.

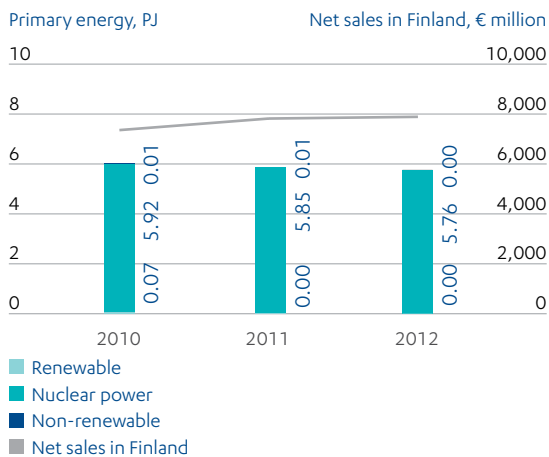
Other operating countries: figures for 2011 have been specified. Figures for 2010 do not include Belarus.

**ENS ENERGY SAVED DUE TO CONSERVATION AND EFFICIENCY IMPROVEMENTS**

The K-Group has signed the trading sector energy-efficiency agreement and committed to improving its energy consumption by 65 GWh through various energy saving measures by the end of 2016. The agreement is based on the 9% savings target set in the EU Directive on Energy End-Use Efficiency and Energy Services for the period 2008–2016. The agreement covers all store chains that belong to the K-Group. A report on the results of the trading sector energy-efficiency agreement is prepared annually. According to the latest reporting confirmed in June 2011, Kesko’s savings were approximately 34 GWh. For 2012, we have reported savings of approximately 14 GWh compliant with the agreement, which have not been confirmed yet. In other words, we have improved our energy consumption by a total of 48 GWh and achieved more than 70% of our target.

The energy consumption at store sites consists of consumption related to store operations, such as lighting and electrical

**PROFILE FOR ELECTRICITY SUPPLIED BY KESKO TO THE K-GROUP IN FINLAND**



equipment, and consumption related to the property, such as HVAC equipment and outdoor lighting. In food stores, the consumption of refrigeration systems can account for more than half of the total electricity consumption at small store sites.

The installation of lids on the chest freezers in K-food stores continued. In 2012, the total length of added chest freezer lids and doors contributed 960 metres to the total length of around 7.8 (6.8) kilometres of such refrigeration equipment. Lids help save 40% of electric energy compared to uncovered chest freezers. In 2012, the total length of added juice and dairy cabinet doors was 330 metres.

In 2012, the remote monitoring of stores' refrigeration equipment helped us save approximately 2.5 GWh of energy. With the help of remote monitoring, refrigeration equipment can be adjusted for optimum temperatures and defrosting cycles. It also enables immediate response to any error conditions.

At the end of 2012, the building automation of 145 Kesko facilities was connected to remote monitoring, i.e. a remote energy management centre. The set points of properties and equipment running hours can be changed from the management centre as necessary, which also enables rapid response to possible disturbances. The right run-times and set points are the easiest and the most effective practical ways in which to improve energy efficiency. The average specific heat energy consumptions of remote controlled properties were 11% lower compared to non-remote controlled properties. The specific electric energy consumption of remote controlled properties was 2.8% lower compared to the consumption of non-remote controlled properties.

Increasingly many K-food stores save energy also by using carbon dioxide recovered from industrial processes as refrigerant in their refrigeration equipment. Not only is carbon dioxide an environmentally friendly refrigerant, but the use of condensation energy from CO<sub>2</sub> plants can save as much as 55% of a store's heat energy compared to traditional solutions using condensation heat from cooling units. Achieved savings are even bigger than calculated savings. Thanks to the solution combining a CO<sub>2</sub> plant and efficient heat recovery at K-supermarket Jalasjärvi, for example, the store's standardised specific consumption of heat energy was no higher than 33.7 kWh/m<sup>2</sup>, which is 75% less compared to an average supermarket.

LED technology is used in the illuminated signs of all new stores. The resulting savings compared to ordinary neon and fluorescent tube solutions are 60–70%. LED technology is also used to light outdoor areas, for example, at K-supermarket Jalasjärvi and the Veturi shopping centre.

At the Veturi shopping centre, ground heat and ground cooling generate around half of the total heating and cooling energy

used by the shopping centre. The solution generates an annual energy saving of 1.9 GWh. Read more about Veturi on pages 32–33.

**EN6 ENERGY EFFICIENT OR RENEWABLE ENERGY-BASED PRODUCTS AND SERVICES**

Rautakesko's Energy Expert concept has been adopted by a total of 118 K-rauta and Rautia stores. In the concept, solutions for higher energy efficiency are displayed at one in-store location where a sales assistant, familiar with building services, finds the solutions that best suit customers' needs. The Energy Expert concept also includes an optional installation service from a K-rauta or Rautia store.

The CO<sub>2</sub> emissions of first time registered passenger cars in Finland were 139.70 g/km in 2012. Out of the car brands imported by Kesko last year, the average CO<sub>2</sub> emissions of Volkswagen passenger cars, for example, were 130.96 g/km.

In 2012, VV-Auto participated in the Recycling Value campaign of Finnish Car Recycling. A total of 65,058 certificates of destruction (CODs) were issued in 2012. To remove a car from the register permanently, the owner must take it to a take-back point authorised by Finnish Car Recycling where the owner is issued a COD.

VV-Autotalot has adopted a voluntary energy labelling scheme for cars, in which the energy label indicates the car's emission category and fuel efficiency. The scheme corresponds to the energy labelling scheme adopted in the EU member countries for the energy consumption of household appliances.

Read more about energy efficiency in construction on page 54.

**EN7 INITIATIVES TO REDUCE INDIRECT ENERGY CONSUMPTION AND REDUCTIONS ACHIEVED**

Kesko is building new, increasingly energy efficient stores in both Finland and its other operating countries. By using energy efficient building materials in stores, we have gained good results in energy consumption, especially in the tightness of buildings.

In 2012, the air miles of Kesko personnel in business travel totalled 9.0 million (10.3 million in 2011). The aim is to continue reducing air travel as part of the Group's responsibility programme by, for example, increasing the possibilities for virtual meetings.

At the end of 2012, there were 27 Videra video conferencing facilities in use within the Group and the total duration of video meetings arranged between two or several facilities was 5,458 hours (4,438 hours in 2011). The total duration of distance meetings from employees' own terminals (Microsoft Lync) was 7,627 hours.

At the end of 2012, Kesko had 665 company cars in use in Finland. Of these, 11 were run on ethanol, 288 petrol, 365 diesel and 1 gas.

**WATER**

**EN8 WATER WITHDRAWAL**

Finland has abundant water resources. Due to virtual water associated with the import of processed goods, more than half of the water footprint of Finnish consumption falls outside Finland (Source: www.waterfootprint.org).

The K-Group has recognised the importance of fresh water as a natural resource. In the K-Group's own operations, water is mainly used for cleaning. The level of hygiene and cleaning methods for food stores have been stipulated in the Food Act and the decree on food hygiene. Major consumers of water within the K-Group are car washes. All water used by Kesko comes from municipal supplies.



The total quantity of water consumed in the K-Group's operations in Finland (monitored by Energiakolmio Oy) was 893,803 m<sup>3</sup> in 2012 (880,641 m<sup>3</sup> in 2011). Water consumption is part of real estate consumption monitoring also in the operating countries outside Finland. When needed, responses to changes can be fast.

The most significant impacts from water consumption are through the products on sale. With respect to the most material product groups in terms of water consumption, such as fruits and vegetables, most producers of imports have obtained the Global GAP certification for good agricultural production, including the use of water. The beverage industry products included in the selections are mainly manufactured in Finland. The breweries and soft drink manufacturers used by Kesko have their own environmental criteria concerning the use of water. The optimisation of water consumption in the textile industry production begins from monitoring water consumption at the factory, coupled with the factory's own measures.

Property-specific statistics on water consumption in Finland are available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

Water consumption in companies operating in countries outside Finland is of minor significance, totalling 127,658 m<sup>3</sup> (117,881 m<sup>3</sup> in 2011) per year. Read more on page 83.

### EN10 WATER RECYCLED AND REUSED

Kesko does not recycle or reuse water. All wastewater from Kesko's operations goes to municipal sewer systems.

## BIODIVERSITY

### EN11 LAND OWNED, LEASED AND MANAGED IN AREAS OF HIGH BIODIVERSITY VALUE OR IN PROTECTED AREAS AND EN12 IMPACTS OF ACTIVITIES ON BIODIVERSITY IN PROTECTED AREAS AND AREAS OF HIGH BIODIVERSITY VALUE

Kesko does not own or operate in areas adjacent to areas with protection or high biodiversity requirements. Kesko only builds retail stores in areas zoned for business properties. Consequently, Kesko does not have significant direct impacts on biodiversity, which is why Kesko's management operations are limited to individual actions and policy definitions. For indirect impacts, see EN15.

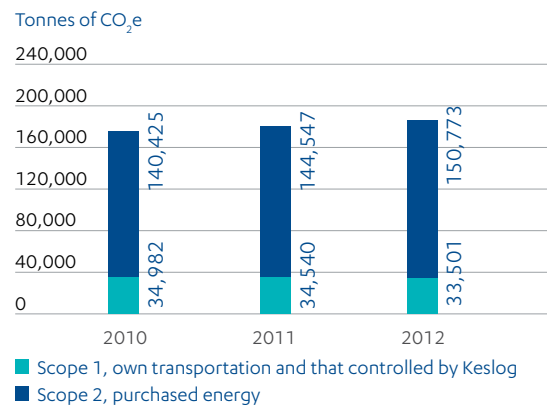
### EN13 HABITATS PROTECTED OR RESTORED

Kesko does not have protected or restored habitats. Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2012, two sites were restored from which a total of 1,374.14 tonnes of contaminated soil and 900 tonnes of contaminated concrete were removed. One of the sites, an area of 4.5 hectares, is located in the Varsinais-Suomi region and the other, less than one hectare in area, in the Kymenlaakso region. Read more about the restoration of contaminated sites in EN23.

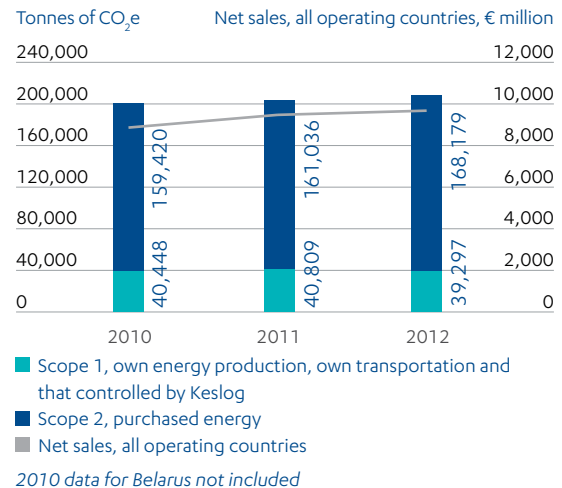
### EN14 STRATEGIES, ACTIONS AND PLANS RELATED TO BIODIVERSITY

Mitigating the progress of climate change resulting from energy consumption is one of the key objectives in Kesko's environmental work for preserving biodiversity. Kesko has signed the trading sector energy efficiency agreement. Read more on page 83. In 2012, Kesko completed the Forest Footprint Disclosure Request.

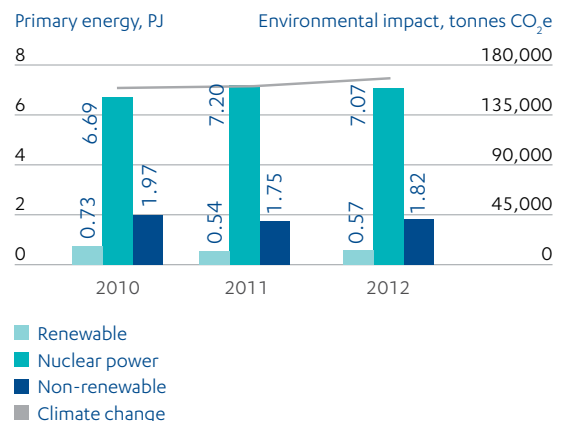
### CLIMATE CHANGE IMPACTS UNDER GHG PROTOCOL IN FINLAND



### CLIMATE CHANGE IMPACTS UNDER GHG PROTOCOL, SCOPE 1 AND SCOPE 2, ALL OPERATING COUNTRIES



### PROFILE AND ENVIRONMENTAL IMPACT OF ENERGY PURCHASED AND CONSUMED BY THE K-GROUP, ALL OPERATING COUNTRIES



Read more about the principles for preserving biodiversity on page 76 and about our product selections in EN26.

## EN15 IUCN ENDANGERED SPECIES IN AREAS AFFECTED BY OPERATIONS

There are no endangered species in areas directly affected by Kesko's operations. Indirect impacts arise through products on sale.

In line with Kesko's purchasing recommendation, the garden furniture made of tropical wood and sold by the K-Group stores is either FSC (Forest Stewardship Council) certified or made of wood species whose cultivation is possible in accordance with the principles of sustainable development.

Tropical wood and timber represented less than 1% of the building and home improvement trade's total sales. In 2012, certified wood – mainly with the Finnish national FSC forest certification and the FSC certification – accounted for some 93% of sawn timber sold by Rautakesko.

The K-Group's fish and shellfish statement directs Kesko Food Ltd's and Kespro Ltd's own purchasing, as well as K-food stores' purchasing to safeguard sustainable fishing and the cultivation of fish. Read more about Kesko's fish and shellfish statement at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

## EMISSIONS, EFFLUENTS AND WASTE

### EN16 DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS AND EN17 OTHER INDIRECT GREENHOUSE GAS EMISSIONS

Kesko reports direct and indirect greenhouse gas emissions from its operations using the GHG Protocol (The Green House Gas Protocol). The greenhouse gas emissions reported by Kesko under Scope 1 and Scope 2 of the GHG Protocol include the energy purchased by Kesko and retailers, own energy production abroad and own transportation in Finland.

Kesko has expanded the emission calculation of indirect greenhouse emissions (Scope 3). For 2012, we report on indirect emissions from outsourced transportation, primary energy, waste, business travel, employee commuting and customers' visits to the K-Group stores. The Scope 3 calculation is based on the GHG Protocol Corporate Standard and, as applicable, on the GHG Protocol Corporate Value Chain (Scope 3) Standard. The Corporate Value Chain Standard's category 1, Purchased Goods and Services, has been identified as the most significant category and related calculation will be specified in 2013.

The electricity, 528 GWh (538 GWh in 2011), supplied by Kesko represents 67.7% of the total consumption by real estate in Finland. All carbon-free electricity purchased by Kesko from Helsingin Energia was produced using nuclear power. Consequently, the carbon dioxide emissions from the electricity purchased by Kesko were 0 tonnes in 2012. The use of primary energy decreased by 1.7% from the previous year. K-retailers' own electricity purchases included, the total carbon dioxide emissions from electricity used in properties were 73,809 tonnes.

In 2012, carbon dioxide emissions from heat energy consumption in real estate were 76,965 tonnes. The combined carbon dioxide emissions from electricity and heat (CO<sub>2</sub>e) were 150,773 tonnes, representing approximately 0.2% of total emissions in Finland (74.6 million tonnes of CO<sub>2</sub>e according to Statistics Finland's energy statistics for 2010). The carbon dioxide emissions from electric and heat energy consumption in Kesko's operations in Finland increased by 4.3% in 2012. In the Nordic energy production, the percentage of fossil fuels was slightly higher than

in the previous year, which has increased the emissions from Kesko's external electricity supply.

Energiakolmio Oy has also calculated the environmental profile of the energy used by Kesko companies outside Finland. The calculation relies on country-specific electricity and heat production profiles, which are based on the statistics of the International Energy Association (IEA) of the OECD on production distributions and carbon dioxide emissions. The amount of radioactive waste generated from nuclear fuel used is estimated at 3.0 mgU/kWh regardless of country. The calculation of carbon dioxide emissions from own production is based on the IEA guidelines. Acidifying emissions from own production have not been calculated. The combined carbon dioxide emissions from real estate in other countries were 23,202 tonnes (22,663 tonnes in 2011). Own energy production accounted for 5,796 tonnes (6,269 tonnes in 2011) of the carbon dioxide emissions from real estate in the other operating countries.

The emissions from transportation are calculated using the LIPASTO system developed by VTT Technical Research Centre of Finland. The 2012 emissions have been calculated using the LIISA 2011 unit coefficients for heavy vehicle traffic.

Transportation for Kesko Food and Anttila in Finland is handled by Keslog Ltd, with a total distance of 38.6 million kilometres travelled by vehicles in goods transport in 2012 (37.9 million km in 2011). Own vehicles and those controlled by Keslog accounted for 33,501 tCO<sub>2</sub>e of the carbon dioxide emissions from transportation.

In 2012, the CO<sub>2</sub>e emissions from Keslog's outsourced transportation were 8,758 tonnes. Rautakesko's transportation is handled by Itella Corporation. The CO<sub>2</sub>e emissions from Rautakesko's transportation in Finland were 2,576 tonnes.

As vehicles have been replaced, their unit emissions have decreased. The relative emissions per transport kilometre in Keslog's transportation were 3.9% lower than in the previous year. Compared to the 2007 level, the relative emissions from transportation have decreased by 5.0%.

The total volume of imports forwarded by Keslog was 310,438 tonnes, showing a decrease of 2.4% on the previous year. There is no information on kilometres driven or any emission calculations available for imports transportation. Transportation arriving from Europe was handled by trucks, semi-trailers and containers, and from outside Europe only by containers. Kesko Food accounted for 74% of the volume of imports.

Transportation of subsidiaries in other countries has been divided between a larger number of companies than in Finland and part of the transportation is made from manufacturers directly to end-users. Transportation statistics are incomplete and annual data is not based on a consistent database and statistics are not presented in this report. The development of transportation statistics continues in order that information on the other operating countries can also be reported.

In 2012, the air miles of Kesko employees in business travel totalled 9.0 million (10.3 million in 2011) and their CO<sub>2</sub> emissions were 1,489 tonnes (2,101 tonnes in 2011). In accordance with Kesko's travel policy, the environmental impacts from travel are considered when making decisions concerning travel. Virtual conferences are part of ordinary meeting procedure. Read more on page 84.

At the end of 2012, Kesko had 665 company cars in use in Finland, of which 11 were run on ethanol, 288 petrol, 365 diesel and 1 gas. Kesko's company car policy recommends a CO<sub>2</sub> emission level below 160 g CO<sub>2</sub>/km. In 2012, the average emission level was 140 g CO<sub>2</sub>/km (146 g CO<sub>2</sub>/km in 2011) and the total emissions from company cars were 3,076 CO<sub>2</sub> tonnes (2,949 CO<sub>2</sub> tonnes in 2011). The calculation includes private travel using company cars.

In 2012, allowances paid for business travel for Kesko in Finland covered 8.8 million kilometres. Assuming that the average

emission level of employees' cars was 167 g CO<sub>2</sub>/km, the total emissions from such business travel would have been in the order of around 1,497 CO<sub>2</sub> tonnes.

For 2012, emissions from railway and ship traffic from Finland and hotel accommodations in Finland have also been calculated, based on information obtained from service providers.

Emissions from waste for all operating countries have been calculated based on the statistics presented in EN22 and the emission factors provided by HSY Helsinki Region Environmental Services Authority.

The emissions from employee commuting were calculated using the VTT LIPASTO emission factors. For metro and trams, the calculation is based on emission factors used in the traffic survey of Helsinki City Transport. The same emission factors have also been used in the calculation of emissions from customers' shopping trips in Finland, based on K-Plussa card data.

### SCOPE 3 CATEGORIES

Tonnes of CO <sub>2</sub> e	2012
<b>Upstream</b>	
Transportation <sup>1)</sup>	14,000
Primary energy	168,000
Waste	5,800
Business travel <sup>1) 2)</sup>	3,700
Employee commuting <sup>1)</sup>	9,000
<b>Downstream</b>	
Customer visits in K-Group stores <sup>1)</sup>	210,000

<sup>1)</sup> Only calculated for operations in Finland

<sup>2)</sup> Including travel (air, railway, ship and car traffic) and hotel accommodations

More information on Scope 3 calculation and the emission calculation attachments (Energiakolmio's reports) are available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

### EN18 INITIATIVES TO REDUCE GREENHOUSE GAS EMISSIONS AND REDUCTIONS ACHIEVED

In its own operations, as well as through the services and products it offers, Kesko makes effective efforts to operate in ways in which to mitigate greenhouse gas production.

By improving energy efficiency and using carbon-free electricity Kesko has been able to have a significant impact on the climate change impact of properties. For example, in Finland, when electricity purchased by Kesko and K-retailers themselves is taken into account, the CO<sub>2</sub> emissions from electricity have decreased by 67% (2001 is used as base year, when CO<sub>2</sub> emissions totalled 220,644 tonnes).

The positive trend in the CO<sub>2</sub> emissions from transportation in 2012 is attributable to the improvement in logistics efficiency. Keslog has long reduced emissions from the K-store supply chain by centralising distribution. New replacements in the vehicle fleet have reduced unit emissions. Key tools in improving logistics efficiency also include the optimisation of transport routes and a high volumetric efficiency. A significant part is also played by efficient return logistics with, for example, purchase loads or carrier trays and recycling components, such as pallets, roll containers, cardboard, bottles or cans, collected on the return route.

Nearly all of Keslog's more than 500 contract drivers will be trained in economical driving styles in the course of the programme launched in 2012. The number of two-tier trailers in long distance trunk delivery transportation has been raised to seven.

In 2012, Kesko continued to support the CANEMU project of the Finnish Environment Institute SYKE. Kesko also participated in the TAPRE project of the EcoEfficient Tampere programme aimed to promote energy efficiency in the service buildings of the area.

### EN19 EMISSIONS OF OZONE-DEPLETING SUBSTANCES BY WEIGHT

The building services equipment in properties managed by Kesko contains approximately 16 tonnes of refrigerants. Refrigerants are added because of leaks in the systems. Kesko monitors the use of refrigerants by compiling refill data from its maintenance partners. In 2012, around 400 kg of refrigerants were added.

The HFC substance, more specifically R404a, is the most frequently used refrigerant in the refrigeration systems of K-food stores. The refrigeration equipment contains an estimated total of 191 tonnes of R404a. New K-food stores use R744 technology, in which the refrigerant is carbon dioxide recovered to 100% from industrial processes. Refrigeration units make use of the gas temperature in the carbon dioxide process – higher than that generated in the traditional refrigeration process – by building an efficient heat recovery system for heating service water and the incoming air of the air-conditioning system.

HCFC chlorofluorohydrocarbon refrigerants, such as R22, are used in less than 40 stores. Their total quantity is around 4 tonnes, which corresponds to around 240 kg CFC-11 equivalents. This refrigeration equipment using HCFC is technologically outdated and HCFCs will be abandoned by the end of 2014.

CFCs are no longer used in K-food store refrigeration equipment.

The leading refrigerants in Keslog's warehouses are NH<sub>3</sub> (ammonia) and R404a.

### EN20 NO<sub>x</sub>, SO<sub>x</sub>, AND OTHER SIGNIFICANT AIR EMISSIONS BY TYPE AND WEIGHT

In 2012, the acidifying emissions of sulphur dioxide (SO<sub>2</sub>) from electric and heat energy used in real estate properties (report by Energiakolmio Oy) in Finland were 212 tonnes (202 tonnes in 2011), and the nitrogen oxide emissions (NO<sub>x</sub>) were 249 tonnes (234 tonnes in 2011). The ethylene emissions (C<sub>2</sub>H<sub>4</sub>e) producing lower atmosphere ozone were 9 tonnes (9 tonnes in 2011). The quantity of radioactive waste produced by using nuclear power was 1.5 tonnes (1.5 tonnes in 2011). The Kesko subsidiary Kestra Kiinteistöpalvelut Oy is a participant in Fennovoima's nuclear power plant project. Read more at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility). CO<sub>2</sub> emissions only are reported for transportation and business travel. Read more in EN16 and EN17.

### EN21 WATER DISCHARGE

Wastewater from Kesko's operations goes to municipal sewer systems. There is no water discharge referred to by GRI from Kesko's operations.

### EN22 TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL

The total amount of waste generated in companies in Finland (Kesko Food Ltd (logistics), Kespro Ltd, Anttila Oy (logistics centre), Konekesko Ltd, Rautakesko Ltd and VV-Auto Group Oy) was 11,239 tonnes (10,776 tonnes in 2011), of which 93% was recovered (92% in 2011). The aggregate quantity of waste in the other operating countries was 11,478 tonnes (10,953 tonnes in 2011), and the recovery rate there was 59% (67% in 2011). The total recovery rate in all operating countries was 76%. In Finland, Kesko's waste statistics mainly cover warehousing operations, while in the other countries, most of the waste included in statistics is generated in retail stores.

In 2012, the recovery rate in Kesko Food's warehouses continued to improve from the previous year reaching 96% (95% in 2011). In 2012, the amount of mixed waste per cubic metre delivered was 0.11 kg (0.15 kg in 2011).



WASTE MANAGEMENT STATISTICS ON OPERATIONS IN FINLAND

Tonnes	Kesko Food (logistics)			Kespro <sup>4)</sup>		Anttila (logistics centre)			Rautakesko			Car and machinery trade		
	2012	2011	2010	2012	2011	2012	2011	2010	2012	2011	2010	2012	2011	2010
Waste for recovery	7,473	7,245	5,596	849	941	542	423	471	640	439	405	734	689	969
WEEE	1	14	-	2	-	71	96	94	-	-	-	5	-	-
Landfill waste <sup>1)2)</sup>	291	391	1,100 <sup>3)</sup>	328	316	4	2	15	102	52	59	41	75	130
Hazardous waste <sup>2)</sup>	4	18	3	1	12	-	-	-	-	-	-	149	61	120
Total	7,769	7,668	6,698	1,180	1,269	617	521	581	742	491	464	929	825	1,219
Recovery rate, %	96	95	84	72	75	99	99	97	86	89	87	96	91	79

<sup>1)</sup> Mixed waste and other components not suitable for recovery

<sup>2)</sup> Composted organic waste and hazardous waste (since 2011) are included in the recovery rate.

<sup>3)</sup> In addition, 96 tonnes of building and special waste was treated in 2010 but not included in calculation.

<sup>4)</sup> Kespro's waste statistics starting from 2011

WASTE MANAGEMENT STATISTICS FOR SWEDEN AND NORWAY

Tonnes	Sweden <sup>1)</sup>			Norway		
	2012	2011	2010	2012	2011	2010
Waste for recovery	1,998	2,723	2,055	1,199	1,224	699
Landfill waste	727	512	480	11	22	504
Hazardous waste <sup>2)</sup>	164	62	-	45	37	38
Total	2,889	3,289	2,535	1,255	1,283	1,241
Recovery rate, %	75	85	81	99	95	56

<sup>1)</sup> Data for Sweden for 2011 have been specified.

<sup>2)</sup> Composted organic waste and hazardous waste (since 2011) are included in the recovery rate.

WASTE MANAGEMENT STATISTICS FOR THE BALTICS, RUSSIA AND BELARUS

Tonnes	Estonia			Latvia <sup>1)</sup>		Lithuania			Russia			Belarus <sup>1)</sup>	
	2012	2011	2010	2012	2011	2012	2011	2010	2012	2011	2010	2012	2011
Waste for recovery	387	402	158	153	189	2,304	2,300	1,905	438	574	2,343	40	8
Landfill waste	176	43	271	464	478	938	1,050	796	2,109	1,113	771	290	53
Hazardous waste <sup>2)</sup>	10	7	-	2	7	22	25	11	1	-	-	0	132
Total	573	452	428	619	674	3,264	3,375	2,711	2,548	1,687	3,114	330	193
Recovery rate, %	69	89	37	25	28	71	68	70	17	34	75	12	4

<sup>1)</sup> Statistics for Latvia and Belarus starting from 2011

<sup>2)</sup> Composted organic waste and hazardous waste (since 2011) are included in the recovery rate.

Kesko Food has developed K-food stores' waste management models since 2011. Approximately 90 stores in the Greater Helsinki area and the Uusimaa region have adopted the new model. Their recovery rates have risen to 90% as a result of, for example, centralised waste management reporting and efficient recovery of organic waste. The recovery rate of Anttila's new logistics centre is over 99%.

There are a total of 220 recycling points made available to customers at K-food stores. A total of 330 million cans and 131 million recyclable plastic bottles were returned.

The collection of recyclable glass bottles from stores was launched as a new operation in return logistics in spring 2012. A total of 12.1 million reusable transport crates were collected in 2012.

For the first time, the quantities of clothes collected via the UFF clothes collection containers located at the K-Group stores were reported for 2012.

#### PACKAGING DELIVERED BY KESKO FOOD'S RETURN LOGISTICS FOR RECOVERY AND REUSE

1,000 pcs	2012	2011	2010
Aluminium cans	95,252	100,236	103,149
PET bottles	53,453	56,841	53,540
Disposable bottles	6,606	5,107	4,266
Reusable crates	12,097	11,429	10,885

#### IMPREGNATED TIMBER AND LEAD-ACID ACCUMULATORS RECYCLED BY THE BUILDING AND HOME IMPROVEMENT TRADE (K-RAUTA AND RAUTIA), FINLAND

Tonnes	2012	2011	2010
Impregnated timber	891	931	840
Lead-acid accumulators	4	4	5

#### BATTERIES AND ACCUMULATORS (RECSER) COLLECTED AT K-GROUP STORES, FINLAND

Tonnes	2012	2011	2010
Batteries and accumulators	152	130	108

#### CLOTHES COLLECTED VIA UFF COLLECTION CONTAINERS AT K-STORES

Tonnes	2012	2011	2010
Clothes	1,736	1,609	1,488

### EN23 TOTAL NUMBER AND VOLUME OF SIGNIFICANT SPILLS AND EN28 COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS

ISO 14001 certified Kesko units manage their environmental risks and readiness to act in exceptional and emergency situations in accordance with the requirements of the standard. One of the biggest risks for trading sector companies is fire, which is why employees have been given appropriate instructions and training. In 2012, there were no cases of reportable environmental damages or accidents within the Group.

Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2012, the soil at five properties was surveyed in connection with construction in Finland. Contaminated land was found at two sites, which were restored in 2012. The restored sites are located in the Varsinais-Suomi region and the Kymenlaakso region. A total of

1,374.14 tonnes of contaminated soil was transported to processing plants. See EN13.

In addition, in connection with property transactions, possible disruptive substances and ozone-depleting substances within structure were surveyed.

In 2012, there were no cases of non-compliance with environmental laws or regulations within the Group.

### EN25 WATER BODIES SIGNIFICANTLY AFFECTED BY THE REPORTING ORGANISATION'S DISCHARGES OF WATER AND RUNOFF

Kesko has no discharges into water bodies. All wastewater from Kesko's operations goes to municipal sewer systems.

## PRODUCTS AND SERVICES

### EN26 INITIATIVES TO MITIGATE ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES, AND EXTENT OF IMPACT MITIGATION

Kesko can have a direct impact on the reduction of the environmental impacts of products in respect of its own products and an indirect impact through product selections.

Selection and marketing policies concerning organic products and products with environmental labelling are, just like Fairtrade products, included in the K-food stores' chain concepts. At the end of 2012, Kesko Food had over 2,100 (around 1,790 in 2011) organic products and products with environmental labelling in its selections, of which 99 (73 in 2011) were Pirkka Organic products and 70 (78 in 2011) Pirkka products carrying the Nordic eco label. In addition, the Pirkka range includes 11 MSC certified fish products.

In autumn 2011, doubling the number of Pirkka organic products from 50 to around 100 by the end of 2012 was set as the target. At the end of 2012, the number was 99. The number of organic products in K-food store selections varies depending on the size of the store. Some of the organic products – such as milk, bakery and meat products – are delivered by suppliers directly to stores; K-retailers also buy organic vegetables direct from local producers. There are no reliable statistics on these products. In 2012, Kesko Food's selections included over 1,500 organic products. In 2012, the Pirkka family of local breads was developed with local bakeries to meet the customer demand for local foods. Read more on page 35.

Anttila department stores and Kodini department stores for interior decoration and home goods accept as pro-environmental products those which carry the Nordic ecolabel, the EU Flower Ecolabel or the label indicating that the energy consumption category is 'A'. These products are highlighted by 'Pro-environmental product' shelf labels in the stores. The Anttila and Kodini department stores currently have hundreds of products labelled as Pro-environmental, especially paper products, light bulbs, batteries, washing agents and household appliances.

Most of Kesko Food's import suppliers of fruits and vegetables, 97.3%, have the GlobalGAP (Good Agricultural Practice) certificate. All Pirkka bananas are RFA and SA8000 certified, except Pirkka Fairtrade Organic bananas, which are Organic and Fairtrade certified.

Kesko Food's Finnish producers of vegetables must belong to the Finnish Horticultural Products Society (KK), in other words, entitled to use the society's seed leaf quality symbol. The society has drawn a guidebook "Quality Requirements for Vegetables" on

good production methods for the sector to ensure product safety and environmental aspects of domestic horticultural products. Compliance with these guidelines is compulsory for companies using the KK's seed leaf quality symbol.

In 2011, Kesko Food joined the RSPO (Roundtable on Sustainable Palm Oil). Palm oil is used in a large number of foodstuffs. Palm oil is an important source of income for the national economies of the countries of production. The yield potential of oil palm per growing area is higher than that of any other oil plant. However, the expansion of palm oil production into new tropical areas is a growing concern for the environment. Palm oil production must be sustainable. Responsibility must be considered in respect of economic, social and environmental aspects. Kesko Food recommends that the manufacturers of Pirkka and Menu products use Certified Sustainable Palm Oil (CSPO). Currently, 15 Pirkka products and 10 Menu products contain CSPO. Read more at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

Instead of an ordinary plastic shopping bag, K-food store customers can choose a bag made of recycled plastic, a biodegradable Pirkka bag or a non-disposable Pirkka bag.

The long-term development programme of the Pirkka product range includes the launch of biodegradable packaging to the market. No genetically manipulated ingredients are accepted.

Rautakesko offers a wide selection of products with environmental or energy efficiency category labelling. In the building and home improvement trade, products with the EU Flower symbol or the Nordic ecolabel, as well as products made of FSC certified wood, are considered to be pro-environmental products. In environmental stores, these products are identified in shelf or other price labelling. PEFC or FCS certified timber accounted for some 93% of sawn timber sold by Kesko. Tropical wood and timber accounted for less than 1% of Rautakesko's total sales. In line with Kesko's purchasing recommendation, the garden furniture made of tropical wood in all K-Group stores is either FSC certified or made of wood species whose cultivation is possible in accordance with the principles of sustainable development.

In the car trade, Kesko's selections include low emission brands. The CO<sub>2</sub> emissions of first time registered passenger cars in Finland were 139.70 g/km in 2012. Out of the car brands imported by Kesko last year, the average CO<sub>2</sub> emissions of Volkswagen passenger cars, for example, were 130.96 g/km.

In 2012, VV-Auto participated in the Recycling Value campaign of Finnish Car Recycling. A total of 65,058 certificates of destruction (CODs) were issued in Finland in 2012. To remove a car from the register permanently, the owner must take it to a take-back point authorised by Finnish Car Recycling where the owner is issued a COD.

VV-Autotalot has adopted a voluntary energy labelling scheme for cars, in which the energy label indicates the car's emission category and fuel efficiency. The scheme corresponds to the energy labelling scheme adopted in the EU member countries for the energy consumption of household appliances.

Starting from the beginning of 2014, new trucks must fulfil the requirements of the Euro 6 emissions standards. This will mean significant reductions in the nitrous oxide and particulate matter emissions, which are achieved by exhaust gas recirculation, particulate trap and the injection of an urea-based reagent called AdBlue directly into the exhaust gas to catalyse a cleaning reaction.

When required, Kesko draws up sustainability statements of its own concerning product selections and purchasing criteria. These include:

- A stand on the sandblasting of jeans
- A stand on genetic engineering
- A fish and shellfish statement
- Pirkka egg statement
- Rautakesko's timber policy
- Kesko Food's palm oil policy

The statements can be read in full at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

## EN27 PERCENTAGE OF PRODUCTS SOLD AND THEIR PACKAGING MATERIALS THAT ARE RECLAIMED BY CATEGORY

Pirkka recycled plastic bags are manufactured to a 90% of recycled plastic. Of this material, 30% is recovered from plastic packaging used in Kesko Food's goods transportation. In 2012, 267 tonnes of plastic recovered from Kesko Food's goods transportation were used in the manufacture of Pirkka recycled plastic bags.

Jointly with suppliers, Kesko contributes to the reuse and recycling of products on sale.

The quantities of consumer packaging, such as bottles and cans, recyclable hazardous waste, like impregnated timber, are reported in EN22.

## EN29 SIGNIFICANT ENVIRONMENTAL IMPACTS OF TRANSPORTING

CO<sub>2</sub> emissions are reported in EN17.



# SOCIAL RESPONSIBILITY

Management approach to social responsibility management, including the operating principles and monitoring and control systems is described on pages 71–75.

## EMPLOYMENT

### LA1 TOTAL WORKFORCE BY EMPLOYMENT TYPE AND EMPLOYMENT CONTRACT AND LA2 EMPLOYEE TURNOVER

At the end of 2012, the Kesko Group had 24,031 (23,375 in 2011) employees, of whom 89.0% (87.4% in 2011) were permanent employees and 11.0% (12.6% in 2011) were fixed-term employees. The figure contains 1,491 (1,433 in 2011) people who were absent for an extended period, such as employees on parental leave. Employees absent for an extended period are included in permanent, full-time employees. The proportion of fixed-term employees is higher at year-end than at other times due to the Christmas season.

Part-time employees (working less than 37.5 hours/week) accounted for 28.7% (28.5% in 2011) of all Group personnel at year-end. The majority of part-time employees work for retail subsidiaries in Finland. Approximately three-quarters of all Group employees work in retail. In 2012, the Group recruited 4,949 (5,092 in 2011) new employees in Finland. In Finland 4,339 (4,392 in 2011) employees left the Group.

In other countries, the Group recruited 6,330 employees (4,382 in 2011), while 5,568 employees (3,969 in 2011) left the Group. The most common reason for the termination of an employment relationship in Finland was a fixed-term contract, which explained about 54% (48% in 2011) of departures. Elsewhere, the reason for approximately 65% (66% in 2011) of departures was the employee's resignation.

In Finland, 3.8% (166) of the terminated employment relationships and 22.2% (1,236) in other countries were terminated by the employer for financial or production-related reasons, or for reasons of the employer's operational reorganisation, or for other reasons based on the Employment Contracts Act. The corresponding figures in 2011 were 3.5% (155) and 20.5% (814), respectively.

See table on page 92.

In 2012, Kesko Group companies had 11 employment disputes pending in different courts in Finland. Three rulings were given in favour of the employer and two in favour of the employee. Two disputes were settled and four employment disputes are pending. In Kesko's other operating countries, there were no employment disputes with a Group company as the defendant.

### CHANGES IN THE NUMBER OF KESKO EMPLOYEES

	2012	2011	2010
Finland at 31 Dec.	13,229	13,124	12,720
Other operating countries at 31 Dec.	10,802	10,251	9,404
Total at 31 Dec.	24,031	23,375	22,124
Finland, average	10,226	10,056	9,914
Other operating countries, average	9,515	8,904	8,300
Total, average	19,741	18,960	18,215

### LA3 BENEFITS PROVIDED TO EMPLOYEES

The Kesko Group provides its permanent, fixed-term and part-time employees in all its countries of operation with the employee benefits required by local legislation. These benefits include occupational health services, insurance against occupational injuries and diseases, parental leave and retirement benefits.

Group companies in Finland acknowledge their employees on their various special days. If, for instance, an employee's 50th or 60th birthday falls on a workday, it is a paid day off. Kesko also supports leisure activities in Finnish companies through the Kesko Staff Club. The purpose of the Club is to create a good team spirit and promote employees' sports, cultural and recreational activities. Some of the companies operating in Estonia and Latvia also give financial support to their employees in various situations in life, such as when a child is born, during the child's first year at school, and in the event of the death of a close relative. Employees are also provided with diverse shopping benefits that apply in K-Group stores and staff shops. A company phone and car are also provided, if required in the job.

### BONUS PAYMENTS AND SHARE OPTION SCHEMES

In spring 2012, around €13.0 million (€16.2 million in 2011) was paid in Finland in bonuses under the 2011 performance bonus schemes, accounting for some 3.6% (4.7% in 2011) of the total payroll. The performance bonus schemes cover the whole personnel, with the exception of sales assistants and jobs covered by other types of bonus and commission systems. In 2012, the total amount of different bonuses paid in operations in Finland was €13.8 million (€17.5 million in 2011) consisting of bonuses, sales commissions and other similar monetary remuneration.

In Kesko Corporation's performance bonus system, the factors contributing to the bonus amount are the total performance of the Group and the division, the sales and performance of the employee's own unit and customer satisfaction. The job satisfaction of personnel is another contributing factor in supervisors' bonuses.

In 2012, the companies outside Finland paid €4.3 million in bonuses and other remuneration, accounting for 3.1% of the payroll. The corresponding figure for 2011 was €10.3 million, accounting for 8.2% of the payroll.

The Kesko Group's management – comprising around 100 people – are covered by a performance-based bonus scheme. The maximum bonus amounts vary depending on the profit impact of the person's job and are equivalent to 3–8 months' salary. In 2012, Kesko operated the 2007A, 2007B and 2007C option schemes. More information on the schemes is available at [www.kesko.fi/investors](http://www.kesko.fi/investors). The options had a €0.5 million impact on the Group's profit for the financial year 1 January–31 December 2012.

Kesko has a share-based compensation plan 2011–2013 for about 150 Kesko management personnel and other named key personnel, in which a total maximum of 600,000 Kesko B shares held by the company can be granted to people in the target group within a period of three years. The share-based compensation plan includes three vesting periods: the calendar years 2011, 2012 and 2013. A commitment period of three calendar years following each vesting period is attached to the shares issued in compensation, during which shares must not be transferred.

In February 2013, the Board decided to grant a total of 66,276 company B shares to about 150 Kesko management personnel and other named key personnel, based on the fulfilment of the vesting criteria of the 2012 vesting period of the share-based compensation plan. (Stock exchange release on 5 February 2013, www.kesko.fi/media/releases/stock exchange releases.)

**PENSIONS**

In Finland, 154 employees (162 in 2011) retired from the Kesko Group. The figure includes employees retiring on part-time pension and on partial disability pension. Rehabilitation allowance was granted for vocational re-training or trials for 20 (16 in 2011) employees with an obvious risk of incapacity for work in the next few years.

The number of disability pensions has remained low throughout the 2000s. In this period, the Occupational Health Service has intensively focused on actions targeted at maintaining employees' working capacity. In 2012, the average retirement age of employees was 58 years (58 in 2011).

In the other operating countries, 10 (13 in 2011) employees retired.

included in the Act on Co-operation within Undertakings, according to which the minimum notice period in most cases is one week.

Collective agreements cover about 80% of Kesko's employees in Finland. So far, no binding industry-wide collective bargaining agreements have been drawn up in the Baltic countries or Russia.

A total of 41.2% (38.8% in 2011) of the Kesko Group employees in Finland were members of trade unions, mainly the Service Union United PAM. The statistics include the employees whose trade union membership fees are deducted at source from pay.

In Norway, the unionisation rate was 24.2% (25.5% in 2011). Statistics on employee unionisation in the other operating countries are not available. In the Baltic countries, Kesko's subsidiaries have workplace committees composed of management and employee representatives.

The Kesko Group has a company-specific shop steward system in place in all of its largest subsidiaries in Finland. Keslog Ltd has site-specific shop stewards, whereas Anttila Oy and K-citymarket Oy also have department store-specific shop stewards.

The National Works Council meets twice a year. The international Group-level European Works Council (EWC) meets once a year.

In all its operating countries, Kesko applies the notice periods specified in local labour legislation. In Finland, the notice period is from two weeks to six months, depending on the duration of the employment relationship.

Employees can ask questions, give feedback or development proposals on issues related to the operations of Kesko or its subsidiaries anonymously via the Direct Line available on the Keskonet intranet. Answers are published for all to see on Keskonet. Employees can also send their wishes, comments or proposals directly to the President and CEO through the feedback channel available on Keskonet.

**LABOUR/MANAGEMENT RELATIONS**

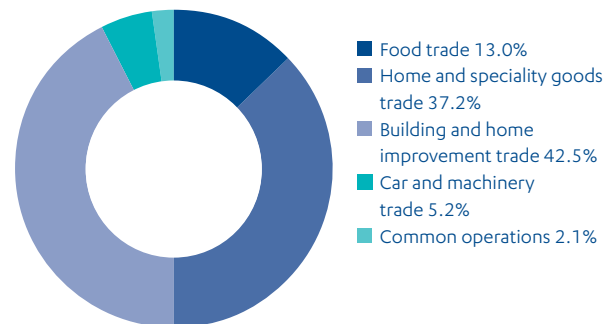
**LA4 PERCENTAGE OF EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS AND LA5 MINIMUM NOTICE PERIOD(S) REGARDING OPERATIONAL CHANGES**

In all of its operating countries, Kesko complies with local legislation. The key statutes governing restructuring situations are

**FIXED-TERM AND PART-TIME EMPLOYMENTS AT KESKO**

	2012	2011	2010
Fixed-term employees of total personnel at 31 Dec., %			
Finland	13.4	14.7	14.6
Companies in other operating countries	8.0	10.0	12.6
Whole Group, total	11.0	12.6	13.7
Part-time employees of total personnel at 31 Dec., %			
Finland	45.4	44.2	43.3
Companies in other operating countries	8.4	8.4	9.0
Whole Group, total	28.7	28.5	28.7

**BREAKDOWN OF KESKO PERSONNEL BY DIVISION AT 31 DEC. 2012, %**



**KESKO'S PERSONNEL STATISTICS FOR 2012 ANALYSED BY OPERATING COUNTRY**

	Finland	Estonia	Latvia	Lithuania	Belarus	Russia	Sweden	Norway
Total number of personnel at 31 Dec.	13,229	554	480	3,553	1,799	2,770	1,121	525
Average number of personnel in 2012	10,226	573	470	3,211	1,377	2,445	1,032	408
Number of new employments <sup>1)</sup>	4,949	142	164	1,800	1,510	2,088	499	127
Number of terminated employments <sup>1)</sup>	4,339	201	204	1,702	902	1,957	460	142
Terminated by employer, %	3.8	34.8	30.4	13.5	62.0	6.6	36.5	12.7
Total turnover rate, % <sup>2)</sup>	23.6	30.5	39.0	47.1	30.2	70.6	19.2	27.0

<sup>1)</sup> Including summer employees.

<sup>2)</sup> Excluding summer employees.

## INJURIES AND OCCUPATIONAL DISEASES IN FINLAND

	2012	2011	2010
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	143	154	149
Commuting injuries	53	75	62
Injury rate*/million working hours	7	9	9
Average degree of injury severity, days	20.7	17.3	23.3
Suspected occupational diseases	2	3	3
Occupational diseases	0	3	3
Sick days due to injuries and occupational diseases	4,056	3,967	4,495
per employee	0.40	0.39	0.45

The calculation method: small injuries, i.e. those leading to absence of less than three days, are not included in the figures. Statistics do not include contractors or the following companies: Vähittäiskaupan Takaus Oy, Vähittäiskaupan tilipalvelu VTP Oy, the Agricultural Foundation of Trade. \* Excl. small injuries and commuting injuries, calculated with actual working hours.

## SICKNESS ABSENCES BY COUNTRY IN 2012

	Finland	Estonia	Latvia	Lithuania	Belarus	Russia	Sweden	Norway
Total number of sick days	130,346	3,108	4,191	32,569	12,031	22,871	10,266	5,747
per employee	12,7	5,4	8,9	10,1	8,7	9,4	9,9	14,1
per million working hours	6,758	2,672	4,414	5,021	4,300	4,724	5,652	8,003

The calculation method: Sick days per employee have been calculated on the average number of employees during the year. 2012 data of Konsoma JLLC, Belarus not included.

## OCCUPATIONAL HEALTH AND SAFETY

## LA6 PERCENTAGE OF TOTAL WORKFORCE REPRESENTED IN FORMAL HEALTH AND SAFETY COMMITTEES

Labour protection activities are arranged separately by each company or place of business in compliance with local legislation. Outside the Nordic countries, labour protection matters are dealt with in the workplace committees.

K-instituutti provides labour protection training for Kesko employees and K-retailers. Different Group companies also arrange training sessions tailored to their needs.

## LA7 RATES OF INJURY, OCCUPATIONAL DISEASES, LOST DAYS, ABSENTEEISM AND WORK-RELATED FATALITIES

The statistics on injuries in Finland and the analysis of sickness absence days by country are presented above. Injury statistics are not yet available for other countries at the same accuracy level as for Finland.

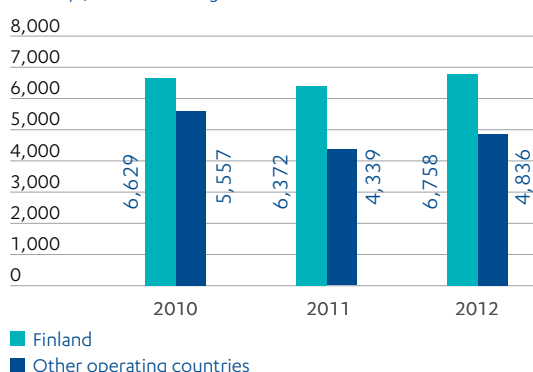
In 2012, the sickness absence rate in Finnish companies was 4.8% (4.8% in 2011) of hours worked. Around 79% (81% in 2011) of the sickness absences were short-term absences (paid sick days). In other countries, the sickness absence percentage was 4.0% (3.4% in 2011). The figures for 2012 and 2011 do not include the data for Konsoma JLLC and the figure for 2011 does not include the data for SIA Antti and OOO Johaston.

## LA8 EDUCATION AND COUNSELLING TO ASSIST WORKFORCE MEMBERS REGARDING SERIOUS DISEASES

At the Kesko Group, the training of employees, counselling, appraisal and prevention of risks, and treatment of serious ill-

## TREND IN NUMBER OF SICK DAYS

Sick days/million working hours



2011 data of Konsoma JLLC, Belarus and SIA Antti, Latvia not included. 2012 data of Konsoma JLLC, Belarus not included.

nesses are part of the normal operations of the Occupational Health Service.

In Finland, there were approximately 8,500 (6,000 in 2011, the figure has been specified after the previous report was published) Kesko Group employees in the sphere of Kesko's in-house Occupational Health Service. In Finland, Kesko's Occupational Health Service mainly procures the related services for employees outside the Greater Helsinki area from various service providers. Centralised procurement and target-oriented management enable uniform contents and operating practices in occupational health care. In other countries, occupational health care is arranged according to local practice and legislation.

A total of around €4.9 million (€4.5 million in 2011) was spent on occupational health care in Finland in 2012. The Social Insurance Institution of Finland compensated around €2.2 million (€1.9 million in 2011) of this amount. In 2012, Kesko's Occupational Health Service spent €479 (€447 in 2011) per employee on maintaining employees' working capacity and providing medical care.

## KESKO'S CONTRIBUTION TO OCCUPATIONAL HEALTH CARE, FINLAND

	2012	2011	2010
€/person	479	447	435

The expertise of the Occupational Health Service Unit is widely used by Kesko's retail companies in the development of workplace ergonomics. In this context, ergonomics is a broad concept, including chemical and physical, motion-related and psychosocial factors.

Occupational health care interviews involving the employee, the supervisor and a representative of the Occupational Health Service are part of basic operations in occupational health care. Cases in which these negotiations can be conducted include, for example, an employee's reduced working capacity, vocational rehabilitation planning, high absence rate, work-related strain or a conflict in the working community. The objective is early intervention in situations threatening the individual's working capacity.



## TRAINING AND EDUCATION

### LA10 AVERAGE HOURS OF TRAINING PER EMPLOYEE AND LA11 PROGRAMMES FOR SKILLS MANAGEMENT AND LIFELONG LEARNING

K-instituutti is in charge of the planning, provision and sourcing of training services for the K-Group in Finland. In 2012, approximately 69% (34% in 2011) of training days were implemented through K-instituutti. A total of 32,026 (29,910 in 2011, the figure has been specified after the previous report was published and includes online training) K-Group employees, including the store staff employed by retailers and all online studies, received training at K-instituutti.

K-instituutti is responsible for carrying out the Master Sales Assistant training, one of Finland's largest adult training programmes. The training package was revised in 2012 and is now completely available online for the first time. Access to the Master Sales Assistant training via the training portal allows everyone to study according to their own schedule and choose the most interesting and useful online courses from among all e-learning material. The objective is to develop continuously the service attitude, sales skills and product knowledge of particularly sales assistants in cooperation with suppliers. For the 26th time, the Master Sales Assistant training programme was also offered in about 100 business colleges and polytechnics.

In 2012, over 163,00 online courses in the Master Sales Assistant training programme were completed by employees of K-stores, while the corresponding figure for various students was over 48,000. Certificates were awarded to 2,346 students of 104 different business colleges and polytechnics across Finland. Feedback for online training has been excellent.

In 2012, 773 (753 in 2011) employees had an apprenticeship contract and 224 (224 in 2011) of them graduated with a vocational qualification.

The training programmes designed for K-retailers and store managers focus on daily management of the store, business planning and entrepreneurship. K-instituutti also offers training in customer service and sales for staff working at K-stores.

In 2012, management and supervisory training focused on providing support for immediate leadership. Training in early intervention and short refresher training provided for performance and development reviews have both reached every third Finnish supervisor during the past two years. Coaching events organised by divisions and chains complement the offer available for supervisors, experts and teams.

The Personal Development Programme for potential future management is carried out both in Finnish and English. The Leadership Development Programme, which was implemented for the first time, attracted participants from several countries. Topical seminars are also arranged for management and potential future management. The theme of their joint 2012 seminar was management by changes, and the 250 or so participants came from various divisions of Kesko. The English-language training event was also implemented as a webinar and was much welcomed by participants.

As part of the profitability programme, K-instituutti organised training events on outplacement and change security related to the supportive package offered in connection with the cooperation procedure. Coaching helped employees in the process of finding a new job, preparing an efficient job application and CV and provided information about employee rights involved in change security as well as various tools available when searching for a job. Coaching was given to supervisors for challenging situations during the cooperation process. Fifteen training events in all were arranged relating the termination of employment. Training will continue in 2013.

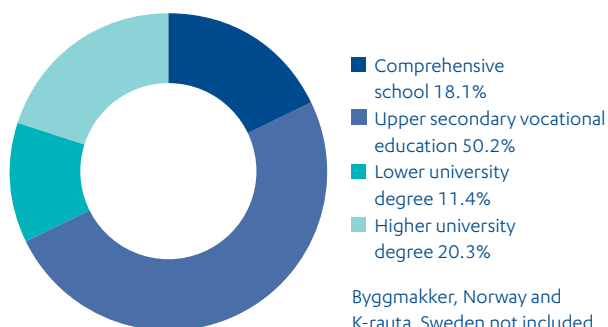
In-house job rotation provides a wide selection of career alternatives. In Finland, there were around 2,500 (1,200 in 2011) internal transfers to new jobs, while the corresponding total figure in other countries was 2,600.

In Finland, recruitment in the K-Group is supported by the K-trainee and retailer training programmes.

The fourth K-trainee programme was launched in 2012. From among over 500 applicants, 10 K-trainees were selected to the programme that started in summer 2012. Several revisions were made to the 2012 K-trainee programme: the machinery trade division is now included for the first time; in the building and home improvement trade, K-trainees perform part of the programme, familiarising themselves with the operations of units outside Finland; and the case exercises that link practice and theory now form the framework in the K-trainees' competence development. An essential part of the K-trainee programme is work experience in a K-Group store.

Future K-retailers are trained in the retailer training programmes. The coaching involves online studies, on-the-job training under a mentor retailer as well as regional and national on-site training periods. Those completing the programme are qualified to start a career as independent K-retailers, which about 95–99% of trainees choose to do. Read more about the K-trainee and retailer training programmes at [www.kesko.fi/jobs](http://www.kesko.fi/jobs).

### BREAKDOWN BY EDUCATION AT 31 DEC. 2012, %



### TRAINING DAYS AND COSTS IN 2012

	2012	2011	2010
<b>Training days</b>			
Finland <sup>1)</sup>	9,498	16,790	17,728
Other countries <sup>2) 3) 4)</sup>	7,819	15,219	10,558
<b>Training days per employee</b>			
Finland	0.9	1.7	1.8
Other countries <sup>2) 3) 4)</sup>	0.8	1.8	1.5
<b>Training costs, € million</b>			
Finland	2.6	3.0	2.7
Other countries	1.2	0.9	1.3
<b>Training costs per employee, €</b>			
Finland	255	299	276
Other countries	121	103	160

<sup>1)</sup> Reporting principle changed in 2012.

<sup>2)</sup> 2010: data for SIA Antti, Latvia not included.

<sup>3)</sup> 2011: data for Byggmakker, Norway not included.

<sup>4)</sup> 2012: data for Byggmakker, Norway and Konsoma JLLC, Belarus not included.

**PERSONNEL'S JOB SATISFACTION, FINLAND, SWEDEN AND NORWAY (SCALE 1-5)**

	Finland			Sweden			Norway		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Own job	3.84	3.82	3.81	3.90	3.93	3.95	3.99	3.91	3.90
Supervisory work	3.89	3.86	3.79	3.73	3.68	3.62	3.84	3.70	3.74
Unit's operations	3.88	3.86	3.80	3.89	3.88	3.86	3.82	3.71	3.64
Kesko's operations	3.58	3.65	3.63	3.39	3.47	3.83	3.34	3.42	3.35

**PERSONNEL'S JOB SATISFACTION, THE BALTICS AND RUSSIA (SCALE 1-5)**

	Estonia			Latvia			Lithuania			Russia		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Own job	3.96	3.96	3.95	4.10	4.12	3.95	4.32	4.29	4.12	4.19	4.17	4.18
Supervisory work	3.90	3.83	3.78	4.01	4.02	3.70	4.17	4.38	4.10	4.32	4.30	4.29
Unit's operations	3.78	3.82	3.79	3.88	3.87	3.53	4.22	4.29	3.95	4.38	4.37	4.40
Kesko's operations	3.54	3.74	3.73	3.74	3.91	3.65	4.12	4.16	3.83	4.12	4.14	4.44

**PERSONNEL'S JOB SATISFACTION, AVERAGE BY COUNTRY (SCALE 1-5)**

Finland			Sweden			Norway			Estonia			Latvia			Lithuania			Russia		
2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
3.87	3.85	3.80	3.83	3.82	3.78	3.88	3.76	3.74	3.88	3.86	3.82	3.99	4.00	3.70	4.23	4.33	4.05	4.30	4.28	4.30

The average is calculated from the results in the categories 'own job', 'supervisory work' and 'unit's operations'.

**LA12 PERFORMANCE AND CAREER DEVELOPMENT REVIEWS**

Performance and development reviews and performance assessment of key personnel are carried out in all Kesko Group companies and operating countries. In the performance and development reviews, the performance of the past season is evaluated and targets are set for the future season, including a discussion on the development of the employee, supervisory work and the working community. Performance and development reviews apply to all employees. In 2012, 80% (76% in 2011) of the Group's employees in Finland and 60% (65% in 2011) in other countries participated in the reviews. In order to ensure the quality of performance and development reviews, K-instituutti organises related trainings for those in supervisory positions. The training events had more than 300 participants in 2012. The level of satisfaction with the reviews was 4.09 (4.07 in 2011) on a scale of 1-5 for the whole Group.

The objective of performance assessment is to support employees' development and encourage them to improve their performance. Uniform evaluation criteria enable systematic assessment of key personnel and management resources and support job rotation between Group companies. In late 2013, training courses on performance management will be launched for supervisors to help them set targets and manage by information. Coaching also provides practice in using performance evaluation tools and giving feedback.

**PERSONNEL SURVEY**

The annual personnel survey plays a key role in measuring and developing the operations of the working community and the quality of supervisory work. The survey is carried out at Kesko and its chains' stores. Keslog Ltd, Senukai and OMA did not participate in the 2012 survey. The response rate was 76% (75% in 2011) of the employees in the participating companies. Employees who are absent for an extended period are excluded from the survey. The results of the personnel survey are presented in the table above.

In the Group companies in Finland, the results of the personnel survey have an impact on the bonuses paid to supervisors, including top management. Since 2010, the Group has com-

pleted a new wellbeing at work index based on the personnel survey responses and used it as one of the wellbeing at work programme indicators. The index is a combination of questions used for monitoring employees' working capacity and work-related strain. In 2012, the Group-level wellbeing at work index rating stood at 3.81 on a scale of 1-5 (3.75 in 2011 and 3.75 in 2010).

**DIVERSITY AND EQUAL OPPORTUNITY****LA13 COMPOSITION AND DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEE CATEGORIES**

In 2012, the average age of personnel in Finland was 35.1 (35.1 in 2011) years. In other countries, the average age varied from 30 (31 in 2011) years to 42 (39 in 2011) years.

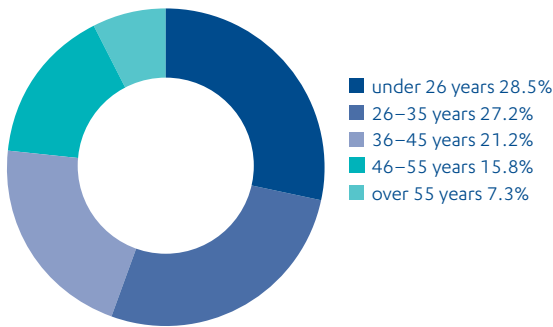
Kesko Corporation and its Finnish division parent companies and subsidiaries draw up statutory company-specific HR and equality plans and define objectives for improvement. The plans cover recruitment, career development and training, compensation, and the reconciliation of work and family life, for instance.

In addition to gender equality, the plans also guide other aspects of equality, such as the treatment of people in different age groups or with different cultural backgrounds. Employees' experiences of equality with respect to age, ethnic origin and gender have been monitored as part of the personnel survey. In these areas, employees' experiences of equality are good: in the Kesko Group's operations, the rating for gender equality is 4.18 (4.11 in 2011) on a scale of 1-5, age equality 4.15 (4.07 in 2011) and ethnic equality 4.27 (4.19 in 2011).

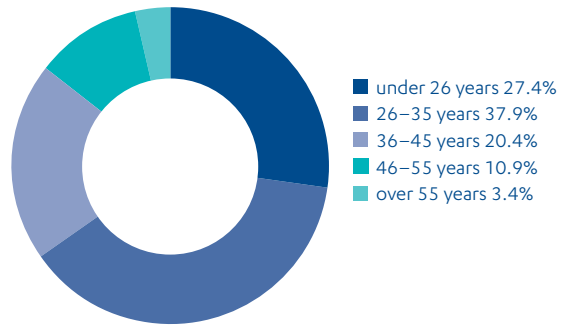
At year-end, 60% (60% in 2011) of the Kesko Group employees in Finland were female and 40% (40% in 2011) were male. In foreign companies, the figures were 49% and 51% (44% and 56% in 2011) respectively. The figure for 2011 does not include data for Konsoma Belarus.

In 2012, two of the seven members of Kesko's Board of Directors and two of the eight members of the Corporate Management Board were women. In the retailing subsidiaries in Finland, women hold a significant percentage of the supervisory posi-

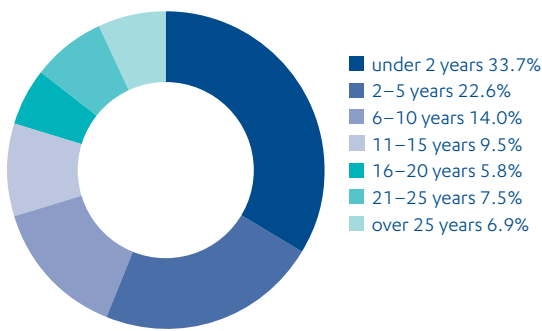
**AGE STRUCTURE OF KESKO PERSONNEL IN FINLAND IN 2012, %**



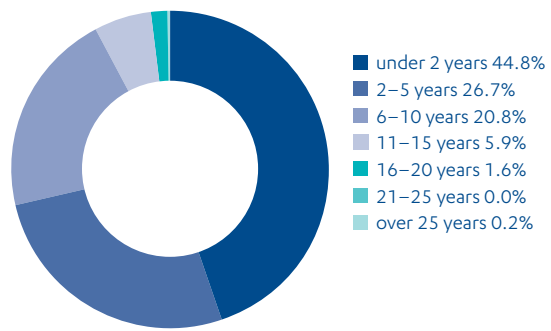
**AGE STRUCTURE OF KESKO PERSONNEL IN THE OTHER OPERATING COUNTRIES IN 2012, %**



**YEARS OF SERVICE IN FINLAND IN 2012, %**



**YEARS OF SERVICE IN THE OTHER OPERATING COUNTRIES IN 2012, %**



**PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY, FINLAND**

	2012	2011	2010
Top management	24.4	28.6	25.7
Middle management	17.1	18.9	18.0
Supervisors and specialists	46.6	46.0	44.5
Workers and white-collar employees	63.0	63.0	64.2
Total	59.9	59.8	60.7

**PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY, OTHER COUNTRIES**

	2012	2011	2010
Top management	0.0*	24.1	32.3
Middle management	46.0	36.6	40.4
Supervisors and specialists	47.0	52.2	52.6
Workers and white-collar employees	48.1	40.6	39.8
Total	47.7	43.5	46.2

\* Reporting principle has changed.  
Breakdown by employee category does not include data for Senukai, Lithuania, Byggnakker, Norway and Kesko Food Rus.

tions. 81% (81% in 2011) of K-citymarket home and speciality goods' department managers and 72% (69% in 2011) of Anttila department stores' department managers are women. In Finland, 51% of all supervisory positions were held by women and 49% by men at the end of 2012.

In 2012, the K-Retailers' Association launched a project called 'Many kind of performers' in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). 55 retailers across Finland stated that they were interested in the project. In 13 cases, employment contracts were signed and in 29 cases the process is still underway. The project will continue in 2013.

Kesko and K-stores also participate in the Youth Guarantee initiative launched at the beginning of 2013 to promote employment and prevent social exclusion among young people. The initiative guarantees a training, work experiment or a workshop place or a job for those who are under 25 or new graduates under 30 within three months from the time a person registers as unemployed. The Youth Guarantee also includes a training guarantee, which ensures a training place for everyone who has recently completed comprehensive school. Kesko's Board of Directors has granted €100,000 for building a tailored programme for the K-Group to employ young people. The aim is to provide as many jobs as possible for young people who are threatened by social exclusion.



## EQUAL REMUNERATION FOR WOMEN AND MEN

### LA14 RATIO OF BASIC SALARY OF MEN TO WOMEN

The average annual salary of Kesko employees was €35,369 in Finland, €39,385 in the other Nordic countries, and €10,536 in the Baltic countries, Russia and Belarus. As the Kesko Group operates in many lines of business, the average salary is not a good indicator of salary level or structure.

The wage groups and tables specified in the collective trading sector labour agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are affected by job-based responsibility bonuses, work experience and the cost-of-living category, which depends on locality. Besides the role and job requirements, the salary of a senior white-collar employee is determined by competence, work experience, performance and results. Because of the diversity of job descriptions, it is not possible to comprehensively compare the salaries between genders at the Group level.

Equality in compensation is considered as part of annual company-specific equality plans. Gender is not a factor in determining pay levels, and no significant differences in comparable jobs have been detected. Company-specific equality plans strive to promote pay equality in jobs where comparisons can be made.

## INVESTMENT AND PROCUREMENT PRACTICES

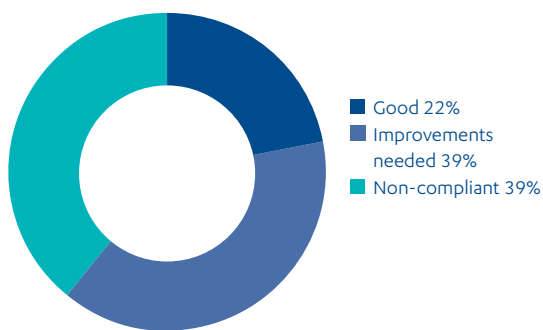
### HR2 SUPPLIERS' AND CONTRACTORS' SCREENING ON HUMAN RIGHTS AND H6 AND HR7 OPERATIONS WITH A RISK FOR INCIDENTS OF CHILD LABOUR, OR FOR INCIDENTS OF FORCED OR COMPULSORY LABOUR

No significant risks related to incidents of child, forced or compulsory labour have been detected in Keskos' own operations. Kesko's reporting concentrates on supplier assessments.

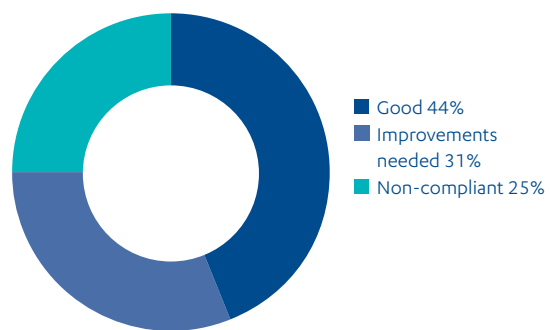
#### SA8000 CERTIFICATIONS

At the beginning of 2013, Kesko had 14 suppliers with SA8000 certification. In addition, all bananas in Kesko Food's selection have SA8000 and Rainforest Alliance certification, except for Pirkka Fairtrade organic bananas.

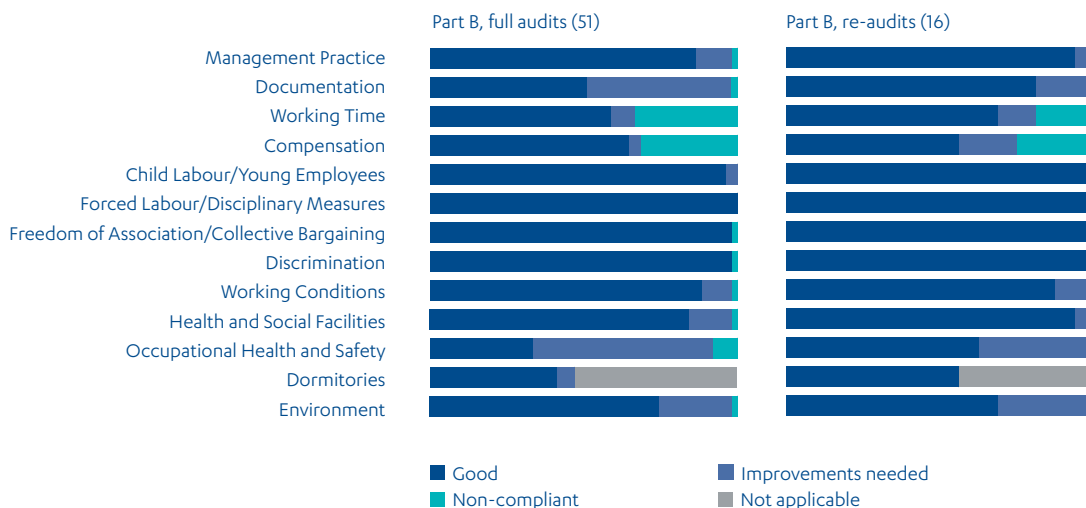
### KESKO'S BSCI RESULTS IN 2012, FULL AUDITS



### KESKO'S BSCI RESULTS IN 2012, RE-AUDITS



### RESULTS OF KESKO'S BSCI AUDITS IN DIFFERENT AREAS IN 2012, % OF AUDITED FACTORIES\*



\* Information from the BSCI database.

**BSCI AUDITS**



Kesko's objective for 2012 was to have 45 full audits and 40 re-audits at the factory premises or farms of suppliers. The total number of full audits carried out at suppliers' factory premises or farms during the year was 47, while the number of re-audits was 14 (information from Kesko's SUMO database). At the beginning of 2013, a total of 209 (247 in 2012) factories or farms of Kesko's suppliers in high-risk countries were in the BSCI auditing process. At the same time, Kesko's direct purchases from high-risk countries also decreased (see page 72). Some of Kesko's suppliers are themselves members of BSCI and promote audits in their own supply chains.

The results of the BSCI audits of Kesko's suppliers' factories for 2012 are presented in the picture on page 97. Most deficiencies occur in observance of working time regulations, compensation, and occupational health and safety. Experiences gained from monitoring work in China are similar, and it has been found that Chinese suppliers need time and professional support in order to manage the corrective actions required by BSCI. In 2012, the total number of monitoring visits was 57 (64 in 2011).

Kesko's target for 2013 is 17 full BSCI audits and 27 re-audits. BSCI members also strive to improve the qualitative level of suppliers, and accordingly quantitative audit targets alone are not reported to BSCI; instead, the targeted audit results must be at the 'good' or 'improvements needed' level.

**FAIRTRADE PRODUCTS**



Kesko Food has a comprehensive cooperation agreement with Fairtrade Finland and a licence for Fairtrade products in the Pirkka range. The selection and marketing policies of Fairtrade products are included in K-food stores' chain concepts.

In 2012, Kesko Food had 215 Fairtrade products (222 in 2011) in its selection, of which 39 (38 in 2011) were Pirkka products. According to the statistics of Fairtrade Finland, Kesko Food had 146 Fairtrade suppliers in 38 countries. The products sold by Kesko Food generated over €330,000 in Fairtrade premium for social development projects.

**HR3 EMPLOYEE TRAINING ON POLICIES AND PROCEDURES CONCERNING ASPECTS OF HUMAN RIGHTS**

Kesko's buyers were constantly trained in responsible purchasing practices with the focus on the BSCI audit process. BSCI also arranged training events for suppliers in high-risk countries in 2012.

**NON-DISCRIMINATION**

**HR4 TOTAL NUMBER OF INCIDENTS OF DISCRIMINATION AND ACTIONS TAKEN**

At the end of 2012, one case concerning discrimination in recruitment, with a Kesko Group company as the defendant, was pending at the District Court in Finland. In addition, one Kesko Group company was ordered to pay compensation at the Court of Appeal in a case that became pending in 2010.

**FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING**

**HR5 OPERATIONS IN WHICH THE RIGHT TO EXERCISE FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING MAY BE AT RISK**

Page 92 reports on the unionisation of Kesko's personnel. The control of and corrective actions by suppliers are included in the SA8000 and BSCI audits.

**SECURITY PRACTICES**

**HR8 PERCENTAGE OF SECURITY PERSONNEL TRAINED IN ASPECTS OF HUMAN RIGHTS**

In Kesko, security issues are part of the risk management functions. All divisions have a risk management coordinator who participates in the operation of the Risk Management Steering Group. Security issues are also addressed in the security and real estate security teams, which hold regular meetings and have representation from all divisions. Each division in each operating country has nominated people responsible for security matters. In 2011, a separate security team was established with the focus on the development of security operations in Russia. The team has representatives from the Group divisions operating in Russia and the Group's Risk Management unit.

Kesko uses services provided by the security industry as needed and as considered appropriate. Finland has a law governing the operations of the private security business (Private Security Services Act, 12 April 2002/282). Local legislation is adhered to in the other operating countries. The operations of service providers are expected to comply with relevant statutory requirements. The relevant legislation stipulates the minimum training required of guards. The training includes the basics in the use of force and forcible means equipment, and regular refresher training is also required.

K-instituutti provides training in security issues to Kesko's personnel in supervisory, retailer and management positions (around 1,000 attendees each year). The Master Sales Assistant training also includes a 'Threatening customer situation' course. In 2012, more than 163,000 online courses related to the Master Sales Assistant training were completed in K-stores. Regular division-specific training is also provided.

**INDIGENOUS RIGHTS**

**HR9 INCIDENTS OF VIOLATION INVOLVING RIGHTS OF INDIGENOUS PEOPLE AND ACTIONS TAKEN**

No incidents of violation involving the rights of indigenous peoples in 2012. Kesko's operations do not directly impact on the rights of indigenous peoples.

## CORRUPTION

### SO2 PERCENTAGE AND NUMBER OF BUSINESS UNITS ANALYSED FOR RISKS RELATED TO CORRUPTION, SO3 PERCENTAGE OF EMPLOYEES TRAINED IN ANTI-CORRUPTION POLICIES AND PROCEDURES AND SO4 ACTIONS TAKEN IN RESPONSE TO INCIDENTS OF CORRUPTION

Risks related to corruption are managed as part of the Kesko Group's risk management. Key risks, including those related to corruption, are systematically identified, assessed, managed, monitored and reported at quarterly intervals as part of business operations at Group, division, company and unit level in all operating countries. In addition, risk assessments are made of significant projects related to capital expenditures or changes in operations. Rankings of Kesko's operating countries in the Corruption Perceptions Index 2012 by Transparency International are presented herein.

Kesko's anti-corruption principles are included in the 'Our Responsible Working Principles' guide, which was updated in 2012, distributed to all employees and is available on Kesko's website. The annual personnel survey contains a question whether employees feel that they act according to the guide. In 2012, the Kesko Group average was 4.37 on a scale of 1–5.

Kesko arranges annual value discussions on responsible working principles in various Group companies. In December 2012, value discussions were organised in Kesko Food Rus in St. Petersburg and in Intersport Russia in Moscow, Kesko's newest subsidiaries in Russia. The themes included responsible working principles, anti-bribery policy and managing the business environment in Russia.

In 2012, Kesko was not informed of any corruption-related lawsuits against any Kesko Group company.

#### RANKINGS OF KESKO'S OPERATING COUNTRIES IN THE TRANSPARENCY CORRUPTION PERCEPTIONS INDEX IN 2012

Ranking	Country	Score
1	Finland	90
4	Sweden	88
7	Norway	85
32	Estonia	64
48	Lithuania	54
54	Latvia	49
123	Belarus	31
133	Russia	28

## PUBLIC POLICY

### SO5 THE ORGANISATION'S PUBLIC POLICY POSITIONS, PARTICIPATION IN PUBLIC POLICY DEVELOPMENT AND LOBBYING

The Finnish Parliament is considering a proposal to amend the Competition Act to the effect that in the grocery trade a market share exceeding 30% would automatically mean a dominant market position in purchasing and selling markets. The amendment would also affect Kesko Food and the around 1,000 K-food retailer entrepreneurs who have signed a chain agreement with it. Kesko objects to the proposed amendment to the Competition Act because, in Kesko's opinion, it restricts open and fair competition.

### SO6 FINANCIAL AND IN-KIND CONTRIBUTIONS TO POLITICAL PARTIES, POLITICIANS AND RELATED INSTITUTIONS

In election years, political parties and candidates are given equal opportunities to arrange campaign events at K-Group stores. In addition, Kesko may participate in economic and tax policy seminars arranged by political parties, at its discretion and without indicating partiality. Kesko does not donate funds to political parties.

In 2012, the seminar attendance fees, advertising in party newspapers and goods for the events paid by Kesko in Finland totalled approximately €4,000. In the table 'Kesko's support for the public good' (page 78) political support is, for the most part, included under 'Non-governmental and environmental organisations'.

## ANTI-COMPETITIVE BEHAVIOUR AND COMPLIANCE

### SO7 LEGAL ACTIONS FOR ANTI-COMPETITIVE BEHAVIOUR, ANTI-TRUST, AND MONOPOLY PRACTICES AND SO8 FINES AND NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH LAWS AND REGULATIONS

One Kesko Group company was under investigation by the Latvian competition authorities in 2012. No fines in 2012.

## CUSTOMER HEALTH AND SAFETY

### PR1 ASSESSMENT OF HEALTH AND SAFETY IMPACTS OF PRODUCTS AND SERVICES AT VARIOUS LIFE CYCLE STAGES AND PR2 NON-COMPLIANCE WITH REGULATIONS AND CODES CONCERNING HEALTH AND SAFETY IMPACTS OF PRODUCTS

The activities of Kesko Food's Product Research include assessing the impacts of products on health and safety. In 2012, the unit audited 37 suppliers (32 in 2011), of which 21 (24 in 2011) were Finnish. These companies mainly included manufacturers of Kesko Food's own brands, and the audits were conducted in compliance with Kesko Food's audit protocol.

A total of 11,688 (10,369 in 2011) product samples were analysed. Nearly half of them related to product development of Kesko Food's own brands. A total of 1,780 (1,712 in 2011) self-control samples were analysed.

In the development of the company's own brands, Kesko Food pays special attention, in line with its strategy, to the health aspects of the products. Since 2008, fat, salt and sugar have been reduced from the Pirkka products with a high content of these. By the end of 2012, a total of 143 (89 in 2011) Pirkka products had been reformulated.

Product Research is also responsible for product recalls, which numbered 82 in 2012 (87 in 2011). Of these, 23 (28 in 2011) were Kesko Food's own brand products; in the other cases, Product Research assisted the manufacturers in recalls. In 2012, there were no public recalls involving a potential health hazard.

There were no lawsuits or fines concerning product health or safety during the year.



## PRODUCT AND SERVICE LABELLING

### PR3 PRODUCT AND SERVICE INFORMATION REQUIRED BY PROCEDURES AND PR4 NON-COMPLIANCE WITH REGULATIONS AND VOLUNTARY CODES CONCERNING PRODUCT AND SERVICE INFORMATION AND LABELLING

In the product labelling of its own brands and imports, Kesko complies with Finnish law and with EU legislation. When the transition period for the EU regulation comes to an end in December 2014, changes will be required in consumer information on package labelling. For information on nutritional values, the deadline is December 2016. In practice, this so-called consumer information regulation will change all food package labelling and specify, for instance, new requirements for product names and the readability of labelling.

In addition to statutory labelling, voluntary product labelling can also be added to the product's responsibility aspects. Such labelling may include, for example, organic and eco-labelling, as well as labelling indicating social responsibility. The selection of organic products and eco-labelled products is discussed on pages 89–90 of this report, and product labelling indicating mainly social responsibility on page 74.

All Finnish Pirkka products have had the name and location of the manufacturer indicated on the packaging for over 25 years. Foreign Pirkka products carry the name of the country of origin. Since 2011, the country of origin of meat has been indicated in those Pirkka products that have meat as one of the main ingredients. The country of origin will be indicated on all own-brand products of K-citymarket and Anttila as their selections are updated.

In 2012, there were 18 (21 in 2011) product recalls resulting from defective product labelling, 3 (5 in 2011) of which concerned Kesko Food's own brands.

### PR5 PRACTICES RELATED TO CUSTOMER SATISFACTION AND RESULTS OF CUSTOMER SATISFACTION SURVEYS

The recognition level and images of Kesko's chains are regularly monitored in brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plus customer loyalty programme and the grocery trade's own brand products. Store-level customer satisfaction is measured by customer satisfaction surveys and the mystery shopping method in the food trade and the building and home improvement trade.

The chains have different channels for giving customer feedback, and Group-level feedback can be given through the [www.kesko.fi](http://www.kesko.fi) website. All messages received via all the feedback channels are responded to.

In 2012, Kesko Food's consumer service, maintained by Product Research, received 22,267 (20,215 in 2011) consumer contacts. Approximately 80% of these were product complaints. The consumer service received nearly 2,300 (2,400 in 2011) product samples or packages, of which the unit analysed almost 50% and sent the rest to manufacturers for analysis.

## MARKETING COMMUNICATIONS

### PR6 ADHERENCE TO LAWS, STANDARDS AND VOLUNTARY CODES RELATED TO MARKETING COMMUNICATIONS, INCL. ADVERTISING, PROMOTION AND SPONSORSHIP AND PR7 INCIDENTS OF NON-COMPLIANCE WITH LAWS AND REGULATIONS AND VOLUNTARY CODES RELATED TO MARKETING COMMUNICATIONS

Kesko complies with laws and regulations in its marketing communications. Amendments to legislation and authorities' recommendations are monitored on a regular basis, and the staff responsible for marketing in each unit are kept informed. Sponsorship is guided by Kesko's sponsorship principles, available at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility). There were no incidents of non-compliance with legislation or voluntary principles in 2012.

## CUSTOMER PRIVACY

### PR8 COMPLAINTS REGARDING BREACHES OF CUSTOMER PRIVACY AND LOSSES OF CUSTOMER DATA

In 2012, K-Plus Oy was contacted directly by more than one hundred customers regarding the processing of personal data and the checking of the information concerned. The number of contacts was directly related to the media coverage of the processing of personal data. Responses to the inquiries were given as part of normal customer service and they did not lead to further action. No data leaks were detected in 2012.

## COMPLIANCE

### PR9 FINES FOR NON-COMPLIANCE WITH LAWS AND REGULATIONS CONCERNING PRODUCTS AND SERVICES

No fines in 2012.

# DEFINITIONS OF TERMS AND THE BOUNDARIES

The text and graphs contain terms and indicators whose contents are explained below. The tables and graphs have been created using exact figures and their totals do not always sum due to rounding.

<b>Return on equity, %</b>	=	$\frac{(\text{Profit/loss before tax} - \text{income tax})}{\text{Shareholders' equity}} \times 100$
<b>Return on capital employed, %</b>	=	$\frac{\text{Operating profit}}{(\text{Non-current assets} + \text{inventories} + \text{receivables} + \text{other current assets} - \text{non-interest-bearing liabilities}) \text{ for a 12 month average}} \times 100$
<b>Return on capital employed excluding non-recurring items, %</b>	=	$\frac{\text{Operating profit excluding non-recurring items}}{(\text{Non-current assets} + \text{inventories} + \text{receivables} + \text{other current assets} - \text{non-interest-bearing liabilities}) \text{ for a 12 month average}} \times 100$
<b>Market capitalisation</b>	=	Share price at balance sheet date x number of shares
<b>Earnings/share, diluted</b>	=	$\frac{\text{Profit/loss} - \text{non-controlling interests}}{\text{Average number of shares adjusted for the dilutive effect of options}}$
<b>Primary energy</b>	=	Available in resources in their natural state; divided into renewable and non renewable energy
<b>GWh</b>	=	Gigawatt hour = a million kilowatt hours (kWh)
<b>1 kWh</b>	=	3.6 MJ = 3,600 kJ (in GRI guidelines, the unit for measuring energy is joule, or J)
<b>CO<sub>2</sub></b>	=	Carbon dioxide, causes climate change ('greenhouse effect')
<b>CO<sub>2</sub>e</b>	=	Carbon dioxide equivalent, the amount of different gases whose combined impact on the greenhouse effect corresponds to the amount of carbon dioxide mentioned
<b>SO<sub>2</sub></b>	=	Sulphur dioxide, affects acidification
<b>C<sub>2</sub>H<sub>4</sub></b>	=	Ethene, affects the ozone content of the lower atmosphere
<b>Sickness absence / million working hours</b>	=	$\frac{\text{Sickness absence from 1 Jan. to 31. Dec.}}{\text{Theoretical regular working time from 1 Jan. to 31 Dec.}} \times 1,000,000 \text{ hours}$
<b>Sickness absence rate</b>	=	$\frac{\text{Sickness absence from 1 Jan. to 31. Dec.}}{(\text{Number of hours worked from 1 Jan. to 31. Dec.} + \text{period of absence})^*} \times 100$
<b>Total turnover rate</b>	=	$\frac{\text{Number of employees left from 1 Jan. to 31 Dec. (excluding summer employees)}}{\text{Number of employees as at 31 Dec.}}$
<b>Injury rate</b>	=	$\frac{\text{Number of injuries from 1 Jan. to 31 Dec.}}{\text{Number of hours worked from 1 Jan. to 31 Dec.}} \times 1,000,000 \text{ hours}$

\* Calculation formula established at Kesko. For units whose hours worked are not known, calculation uses the theoretical regular working time.

# INDEPENDENT ASSURANCE REPORT

(Translation from the Finnish original)

## TO THE MANAGEMENT OF KESKO CORPORATION

We have been engaged by the Management of Kesko Corporation (hereinafter also the "Company") to perform a limited assurance engagement on the numeric information on economic, social and environmental responsibility for the reporting period of 1 January 2012 to 31 December 2012 disclosed in Kesko Corporation's Corporate Responsibility Report 2012 (hereinafter "CR Information").

Furthermore, the assurance engagement has covered Kesko Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

The scope of the CR Information covers Kesko Group.

## MANAGEMENT'S RESPONSIBILITY

The Management of Kesko Corporation is responsible for preparing the CR Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the Sustainability Reporting Guidelines of the Global Reporting Initiative (version 3.0).

The Management of Kesko Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in the AA1000 AccountAbility Principles Standard 2008.

## PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a conclusion on the CR Information 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 cause us to believe that the CR Information has not been prepared, in all material respects, in accordance with the Reporting criteria.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with Kesko Corporation, the AA1000 Assurance Standard 2008 requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles and that the CR Information is not reliable, in all material respects, 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. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the CR Information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the CR Information. Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material sustainability aspects as well as assessing the CR Information based on these aspects.
- Performing a media analysis and an internet search for references to the Company during the reporting period.

- Visiting the Company's Head Office as well as one site in Sweden.
- Interviewing employees responsible for collection and reporting the CR Information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Assessing the systems and practices used for the collection and consolidation of quantitative information.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

## CONCLUSION

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

Furthermore nothing has come to our attention that causes us to believe that Kesko Corporation's CR Information has not been prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Information is not reliable, in all material respects, based on the 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 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 in relation to Kesko Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Regarding Inclusivity:** Kesko Corpora-



tion has a strong commitment to stakeholder engagement. The company has an extensive stakeholder engagement process in place to ensure the identification of relevant stakeholders as well as their concerns and expectations. We recommend that the Company further develops the management of stakeholder engagement, with particular attention on inclusion of employees in implementing the responsibility programme.

- **Regarding Materiality:** Kesko Corporation has processes in place to evaluate and determine the materiality of corporate responsibility aspects. In autumn 2012 the Company has updated materiality assessment at the group level in association with the updating of its respon-

sibility programme. We recommend that the Company pays special attention to divisional and regional characteristics in implementing the responsibility programme.

- **Regarding Responsiveness:** Kesko Corporation is committed to being responsive to its stakeholders, which is evident from the ongoing and wide-ranging communication on sustainability issues in media, forums and other communication channels such as social media. We recommend that the Company continues the development of multi-channel service delivery and makes corporate responsibility aspects even more visible in its stores.

## PRACTITIONER'S INDEPENDENCE AND QUALIFICATIONS

PricewaterhouseCoopers' own Global Independence Policy 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, corporate responsibility strategy and management, social and environmental issues, as well as knowledge of the retail sector, to undertake this assurance engagement.

Helsinki, 11 April 2013

### PricewaterhouseCoopers Oy

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The list 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. E-mail address: [firstname.lastname@kesko.fi](mailto:firstname.lastname@kesko.fi).

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