

*Corporate Responsibility Report 2004*  
*Building for a better tomorrow*



**KESKO**

## Contents of the report

As in previous years, Kesko's fifth corporate responsibility report has been prepared on the basis of the 'Sustainability Guidelines on Economic, Environmental and Social Performance' drawn up by the Global Reporting Initiative (GRI). No essential changes have been made in the structure of the report, as the GRI guidelines remained unchanged during 2004. The content of the report focuses on Kesko's priorities and does not completely follow the order of presentation suggested by the GRI. Any deviations from GRI guidelines, together with any shortcomings in presenting its core indicators, are noted in the comparison published at the end of the report.

Kesko does not, however, despite the GRI guidelines, take a stand on whether the report is in accordance with the GRI guidelines. Kesko believes that it would be appropriate if the guidelines could be changed in this respect to ensure that only an independent assurance provider, approved by the GRI, could make such a statement of compliance.

### GRI core guidelines

The report begins with a presentation of basic information about Kesko and an assessment by Kesko's senior management of the company's key achievements and improvement areas in 2004. Kesko's corporate responsibility vision and stakeholder analysis follow, together with the company's values, strategy, principles, and management systems guiding corporate responsibility. The main focus is on economic, social, and environmental performance indicators, which are now more specific. 42 of the GRI 50 core indicators and 9 additional indicators are included in the report. A summary table of the key indicators is included (see pages 6-7). A description of other areas of responsibility, such as activities promoting product safety and privacy protection, can be found at the end of the report. Definitions of the most important terms and a list of key contact persons are also included.

### International operations partially included

The report for 2002 was the first to contain some indicators on the Group's subsidiaries outside Finland. In the areas of economic and social responsibility, statistics are now very comprehensive. As the implementation of environmental systems in subsidiaries outside Finland is still at an initial stage, indicators can be provided for only some areas of activities. The decision made by Kesko Food and ICA in summer 2004 to merge their

Baltic operations in a joint venture at the beginning of 2005 had some impact on the statistics for 2004.

The agreement signed by Keswell Ltd, a Kesko subsidiary, on the acquisition of Indoor Group Ltd (including the Asko and Sotka chains) in October 2004 was confirmed in January 2005, so the company is not yet included in Kesko's reporting. The Indoor Group has stores in Finland, Sweden, Estonia, and Latvia.

### Information about K-retailers

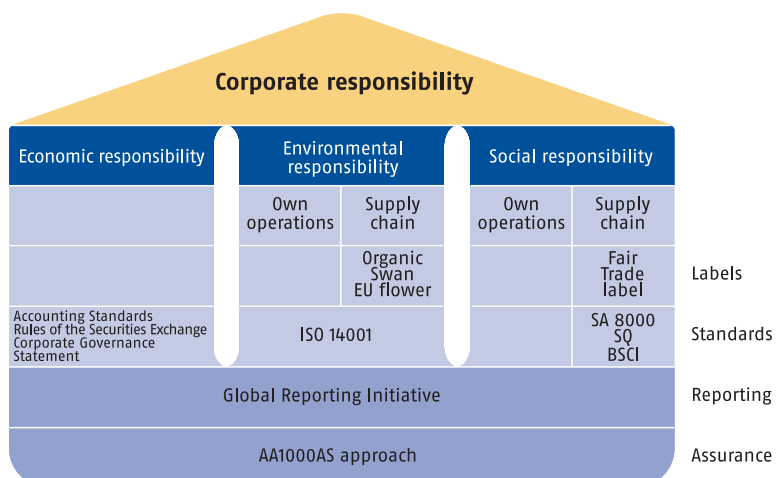
Kesko operates in close co-operation with K-retailers, based on chain agreements between retailers and Kesko. The report presents information concerning K-stores when this is integrally related to Kesko's reporting and complements the overall picture of the relations between Kesko and K-retailers with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

### Assurances for online and printed reports

An electronic version of the printed report containing some complementary information is available at Kesko's Internet site. Additional information has been marked in the corresponding sections of the printed report. Electronic reports are presented on the Internet in their final form, in the version for which assurance has been provided. Texts are not updated subsequently. Any changes in information during the year are presented in the report published the following year.

An assurance statement has been provided for the printed and electronic versions in Finnish and English since 2002. Supplied by PricewaterhouseCoopers Oy, Kesko's auditors, this statement is published at the end of the report.

The report covers performance in 2004, with some information for the first three months of 2005. The previous report, covering 2003, was published in May 2004. The following report, for 2005, will be published in spring 2006.



## Review by the President and CEO

Indicators of corporate responsibility are relatively new, and very few companies present them so far as part of their reporting. As little comparative data is available, in-house estimates of the results of work in this area tend, by necessity, to be subjective. The sustainability indexes established in recent years provide the best impartial source of information available at present for investors and listed companies alike.

Kesko can be satisfied with how it has been assessed. In September 2004, for example, Dow Jones rated Kesko the best in its sector in its index of European companies, as Storebrand and Ethibel had done previously. When 'The Global 100 Most Sustainable Corporations' list, prepared by Innovest, a recognised research firm, was launched at the World Economic Forum in January 2005, Kesko was included as one of the list's five trading sector companies.

Kesko's ranking rose from 30th to 14th in the global comparison of corporate responsibility reports commissioned by UNEP, the UN Environmental Programme, every other year. Kesko was ranked the best in the world in the trading sector for the second time, and the best of all in the area of economic responsibility. In Finland, we were ranked the best overall reporter, although we were not among the top five in respect of separate reports. We have also received significant recognition for our investor relations communications.

We launched a number of development projects on the basis of the assessments we received during 2004. One key shortcoming is that we still lack clear responsibility targets for benchmarking our performance, both on the Group and division parent company level. We also do not assess the impact of our environmental or social responsibility on our financial performance. Although the information contained in our report has been assured by an outside body, we feel that interpretations of this kind are still too imprecise to be presented by a listed company.

Our operations outside Finland provide a solid foundation for corporate responsibility, but progress in this area has been slow. The Baltic countries are eager to proceed in line with EU thinking and directives, but the basic structure of society cannot be changed overnight to enable Finnish systems to be applied directly and immediately. In the food business, the new joint venture that we have established with ICA has called for more time to be given to planning how we want to proceed in respect of corporate responsibility.

At the beginning of 2005, Kesko became a GRI Organisational Stakeholder, and our representative has been invited to participate in the work of the group updating the GRI indi-



cators. By contributing in this way, we want to show that we take corporate responsibility reporting very seriously and support the development of the GRI into a voluntary international standard.

**Matti Honkala**  
President and CEO  
Kesko Corporation

(Matti Honkala retired on 28 February 2005)

# Contents

Contents of the report	2	Use of materials	40
Review by the President and CEO	3	Waste management and recycling	40
Key facts about the Kesko Group	5	Product-related developments	43
Key indicators of corporate responsibility for 2002-2004	6	K-environmental stores	43
Vision of corporate responsibility	8	Environmental office work programmes	45
Stakeholder analysis	10	Stakeholder co-operation and communications	47
Kesko's principles and management systems		Environmental risks, damage, and incidents	47
guiding the approach to corporate responsibility	13	Social performance	48
Values	13	Employment and turnover	49
Ethical principles of personnel	13	Average age and duration of employment	50
Strategy	13	Kesko's profile as an attractive employer	51
Corporate policies	14	Management quality	51
Corporate governance statement	14	Health and safety	52
Management systems	14	Salaries and other benefits	54
Reporting	15	Pensions	54
Corporate responsibility performance in 2004	17	Equality	55
Economic responsibility	18	Training	56
General	18	Activities in employer organisations	57
Share performance	18	Co-operation with employee representatives	57
Investments and the store network	20	Social quality control of suppliers	58
Job development	22	Managing social risks	59
Salaries, social security expenses, and taxes	22	Ethical purchasing principles	59
Employee pension and health insurance	23	Monitoring in practice	60
Suppliers and goods and services	23	Only a few additional SA 8000 certifications	61
Breakdown of economic benefits by region	24	Co-operation between Finnish importers	62
Financial support	27	Fair Trade products	62
Environmental performance	29	The UNICEF project in India	63
Environmental system and data management	30	Other responsibility areas	65
Real estate operations	31	Product safety	65
Construction	31	Corporate security	67
Structural safety	32	Marketing and competition regulations	67
PromisE classification of premises	32	Privacy protection	67
Environmental risks of land use	32	Political relations	68
Energy and water consumption	32	Attitude to bribes	68
Environmental profile of energy	34	Comparison of the report with the guidelines	
Transport	36	of the Global Reporting Initiative	69
Transport emissions	37	Contact persons in corporate responsibility	72
VOC emissions at Kaukomarkkinat's		Assurance statement	73
Hamina terminal	39	Definitions of terms	74
Kesko's CO <sub>2</sub> emissions	39		

## Key facts about the Kesko Group

### Kesko's business operations

Kesko is Finland's largest trading group. Outside its main market area of Finland, Kesko also operates in Sweden, the Baltic countries, and Russia. Kesko's trading house subsidiary, Kaukomarkkinat Oy, operates in over 20 countries, including Denmark, Germany, Poland, Hungary, China, and Vietnam.

Kesko's division parent companies - Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd, and Keswell Ltd - are responsible for store sites, purchasing, logistics, store concepts, and chain co-operation with K-retailers. Kesko also has its own retail outlets. These include home and speciality goods, furniture and agricultural stores, and the Cassa discounter store pilot project in Finland, hardware and builders' supplies and furniture stores in Sweden, and hardware and builders' supplies, furniture and agricultural stores in the Baltic countries. Kesko Food owns 50% of two joint ventures: Pikoil Oy with Neste Marketing Ltd and Rimi Baltic AB, as of 1 January 2005, with Swedish ICA AB. Kesko's VV-Auto Oy subsidiary imports cars and operates as a dealer in Helsinki and Turku.

Food-related operations accounted for 51% of the Group's net sales of EUR 7.5 billion in 2004. Operations outside Finland accounted for 14.6% (11.7% in 2003).

Kesko works in close chain co-operation with the K-retailers in Finland, which numbered 1,313 retailers at the end of 2004. The K-Alliance had 1,751 retail stores in Finland and 127 in other countries. Sales totalled EUR 8.4 billion (EUR 7.9 billion in 2003), of which EUR 1.1 billion were generated outside Finland.

### Kesko's shareholders

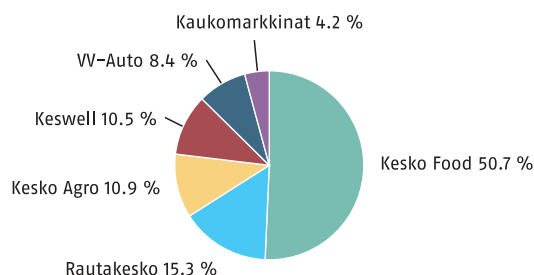
Kesko is a listed company, and had 29,801 shareholders at the end of 2004. Series A shares accounted for 33.8% of the company's total share capital and 83.6% of all votes. The corresponding percentages for Series B shares were 66.2% and 16.4%. The company's 20 largest shareholders, calculated by number of votes, held 33.0% of all votes and 19.2% of all shares. Shares held by non-Finnish shareholders increased from 16.8% to 23.2%, equivalent to 5.8% of votes.

At the end of 2004, the market capitalisation of A shares was EUR 600 million and that of B shares EUR 1,115 million. Total market capitalisation stood at EUR 1,715 million, an increase of EUR 290 million on 2003.

### Personnel

The Kesko Group and its joint ventures had an average of 17,528 full-time employees in 2004. Compared with the previous year, this represented an increase of 448 in Finland and 1,861 outside Finland. At the end of the year, the total number of employment contracts was 22,146 (19,411), of which 13,602 (12,596) were in Finland and 8,544 (6,815) in other countries. 70.6% of personnel worked in retailing.

Breakdown of Kesko's net sales in 2004



### Real estate

The Kesko Group owned or leased 3,016,000 square metres of real estate and premises as of the end of 2004, which was 3% less than in 2003. Kesko owned 1,040,000 square metres in Finland, and 173,000 square metres in other countries. Warehouses and offices accounted for over a quarter of this area, with store premises accounting for the rest. The total floor area of leased premises, consisting mainly of retail stores, was 1,532,000 square metres in Finland and 271,000 square metres outside Finland. The majority of store premises owned or leased in Finland are rented to K-retailers.

### Suppliers of goods and services

Kesko bought products and services valued at approximately EUR 6.5 billion in 2004.

Active Finnish suppliers - about 14,400 in all - accounted for 69.4% and foreign suppliers - 5,200 in all - for 30.6% of Kesko's purchases. The main countries from which goods were imported were Germany, Sweden, China, Italy, France, and Holland.

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

### Customers

K-retailers accounted for 42.9% of Kesko's sales in 2004. On average, K-retailers made 87.7% of their total purchases (88.5% in 2003), and 90.1% of their food purchases (90.8% in 2003), from Kesko.

Wholesale customers - hotels, restaurants, institutional kitchens, service stations, kiosks, construction companies, and others - accounted for 29.6% of Kesko's sales. Direct sales to consumers through Kesko's retail stores accounted for the remaining 27.5%.

## Key indicators of corporate responsibility for 2002–2004

Indicators of economic responsibility	2002	2003	2004
Net sales (EUR million)	6,466	7,070	7,517
Profit before extraordinary items (EUR million)	110	162	173
Return on invested capital (%)	7.6	10.9	11.9
Dividends paid (EUR million)	54	91	274
Capital expenditure (EUR million)	185	259	170
Equity ratio (%)	53.3	51.7	45.5
Salaries and fees (EUR million)	281	316	355
Income taxes (EUR million)	42	58	47
Number of personnel (average)	12,217	15,219	17,528
Purchases from suppliers (EUR million)	5,714	6,258	6,514
Support to organisations operating for the public good (EUR million)	1.9	2.4	2.4

### Indicators of environmental responsibility

Use of electrical energy in real estate (GWh) <sup>1)</sup>	644	730	719
Use of heat energy in real estate (GWh) <sup>1)</sup>	282	337	296
Use of water in real estate (m <sup>3</sup> ) <sup>1)</sup>	545	713	669
Emissions from the production of electrical and heat energy used			
– climate change (tn CO <sub>2</sub> eq) <sup>1)</sup>	231,702	262,949	221,254
– acidification (tn SO <sub>2</sub> eq) <sup>1)</sup>	645	1,050	837
– ozone in lower atmosphere (tn C <sub>2</sub> H <sub>4</sub> eq) <sup>1)</sup>	15.2	16.1	15.2
Distribution transport			
– loads <sup>2)</sup>	116,260	117,782	109,278
– kilometres (1,000 km) <sup>3)</sup>	15,365	19,700	20,126
– tons <sup>4)</sup>	697,000	609,000	576,000
– use of energy (MWh) <sup>5)</sup>	73,592	80,275	80,171
– emissions (tn) <sup>5)</sup>			
– carbon dioxide	19,511	22,954	23,499
– carbon monoxide	9	14	14
– hydrocarbons	6	9	9
– nitric oxides	205	222	221
Use of materials/waste (tn)			
– materials in imported packaging	31,704	31,392	33,448
– waste in distribution warehouses <sup>6)</sup>	9,510	9,573	9,647
– of which for recovery (%) <sup>6)</sup>	89.7	89.8	89.4
– radioactive waste from production of electricity purchased <sup>1)</sup>	0.67	0.96	0.82

<sup>1)</sup> figures for 2002 for Finland only, figures for 2003–2004 for the whole Group, figures for 2004 for Sweden and Lithuania based on calculations

<sup>2)</sup> figures for 2002 for Kesped and Anttila distribution, figures for 2003–2004 also include Kesko Food's distribution in Estonia

<sup>3)</sup> as above but figures for 2003–2004 also include external transport companies in Finland

<sup>4)</sup> for all years Kesped distribution only

<sup>5)</sup> figures for 2002 for Kesped and Anttila distribution, energy calculations for 2003–2004 also include external transport companies and CO<sub>2</sub> calculations moreover Kesko Food's distribution in Estonia

<sup>6)</sup> figures for Finland only

Indicators of social responsibility	2002	2003	2004
Job satisfaction in Finland (scale 1–5)			
– own job	3.72	3.71	3.79
– superior's performance	3.82	3.79	3.80
– unit's operations	3.78	3.76	3.76
– Kesko's operations	3.71	3.70	3.68
Employee turnover <sup>1)</sup>			
– new	5,189	6,650	7,247
– left	5,064	5,162	5,943
– retired	254	151	169
Average age of employees (years)			
– in Finland	35.1	35.0	*)
– in other countries	30.2	33.0	*)
Average duration of employment in Finland (years) <sup>2)</sup>	11.3	9.0	9.0
Sickness absences per person (work days)			
– in Finland	7.9	8.4	9.9
– in other countries <sup>1)</sup>	9.1	10.9	10.5
Funds used for health care per person (EUR) <sup>3)</sup>	340	359	402
Average annual salary per person (EUR)			
– in Finland	26,280	29,155	29,411
– in other countries <sup>4)</sup>	10,275	8,211	8,102
Training days per person			
– in Finland	1.5	1.6	1.2
– in other countries <sup>1)</sup>	1.2	1.5	2.9
Investment in training per person (EUR) <sup>1)</sup>	445	453	448
Social quality control of purchases			
– suppliers in developing countries included in statistics	236	247	300 **)
– total number of employees in above companies	221,500	263,000	280,000 **)
– companies with SA 8000 certification	17	19	24
– number of employees in companies with SA 8000 certification	30,700	47,000	54,000

<sup>1)</sup> data for Senukai, Lithuania is missing

<sup>2)</sup> data for retailing companies included since 2003

<sup>3)</sup> data for Finland only

<sup>4)</sup> data for the whole Group (incl. Senukai)

\*) data has not been collected

\*\*) estimate, because no statistics are yet available from the new European auditing database

## Vision of corporate responsibility

Companies, particularly large, listed international trading corporations, are faced with increasing demands to report more openly and transparently about their activities and performance in all areas of operations. Compliance with legislation alone is not considered sufficient. In developing countries in particular, legislation and the way it is implemented is often inadequate, and to prove their responsibility, companies have to exceed the minimum requirements set by legislation. Voluntary, proactive measures, and exceeding minimum standards generate benefits for pioneering companies compared with those that react slowly and wait for legislative authorities to set the pace.

Corporate responsibility highlights the obligations that companies have towards society and other stakeholders in economic, social, and environmental issues (see stakeholder analysis on page 10). Companies are already very familiar with the concept of corporate responsibility, although many would prefer to talk more about responsible business activities or stakeholder responsibility. The area most familiar to consumers assessing companies is environmental protection, but expectations concerning quality and service are also closely linked to people's perceptions of corporate responsibility.

### Our thinking behind the concept of responsibility

A responsible approach to operations is important to Kesko for many different reasons:

- stakeholders want to be able to evaluate a company's performance using other indicators than purely economic ones
- responsibility is part of a company's competitiveness, and it is a factor in competing for customers, employees, and investors
- responsibility involves reputation risk management and securing a solid foundation for developing sales and share value
- responsibility improves corporate image if a company is seen as a pioneer
- responsible management is better management, and aims at a good working environment in which environmental efficiency means cost efficiency
- good performance in terms of environmental and social responsibility can improve economic performance
- good economic performance creates opportunities for improving performance in terms of environmental and social responsibility
- being a pioneer in the area of corporate responsibility opens up new potential for influencing national and international developments in an industry.

### Our vision of the key issues in corporate responsibility

Kesko's corporate responsibility efforts are based on the Group's values and vision of corporate responsibility. The Cor-

porate Management Board assesses Kesko's vision every other year, unless a clear need for change is identified at other times. The vision outlined below was approved in April 2005.

#### General

Globalisation has a growing impact on companies' operating environment, both in respect of international trade and foreign investments. The importance of international organisations - whether representing different countries, companies, trade unions, or non-governmental organisations - in shaping economic developments is on the increase. Many of them favour compulsory regulations, but decision-making in international forums is slow and difficult. There are already a large number of standards, and adapting them to national legislation and supervising compliance with them is inadequate, particularly in developing countries. Pioneering companies play a valuable role through their voluntary activities, often acting as the catalyst for future recommendations and legislation. Kesko is one of the pioneers, and there are no new standards in sight that would have a profound impact on Kesko's work for corporate responsibility.

#### Shareholders/investors

Kesko's strengths include steadily growing profits and a good dividend-paying capability. Achieving good results using responsible methods is increasingly important to investors and other stakeholders monitoring corporate performance. Kesko wants to be listed in all the major sustainable development indexes that are recognised as impartial indicators of responsible performance. Inclusion in such indexes helps reinforce Kesko's standing with existing shareholders and attracts the attention of investors who value responsible corporate behaviour. Large institutional shareholders are indeed becoming increasingly interested in investing in Kesko. The number of investors prioritising responsibility as a factor in their investment decisions still remains small, however. It is difficult to distinguish the impact of good responsibility from other factors in share value, although the negative impact of poor performance is reflected more clearly.

#### Personnel

The proportion of net sales accounted for by operations outside Finland in the Kesko Group's total net sales will continue to grow. In Finland, Kesko's personnel numbers can be expected to increase, mainly due to acquisitions, and the competition for new employees will intensify as the baby-boomer generations retire. Companies that offer good job satisfaction and varied responsibilities and opportunities for career progress are the most likely to succeed here. Corporate values and responsible corporate behaviour are valuable - young job-



seekers clearly favour companies with a good reputation. Kesko's reputation as a responsible company is benefiting the company in its recruitment. With smaller numbers of people on the job market, we need to put more emphasis on older employees and continue to reduce their performance pressures. Occupational health care needs to give even more emphasis to preventive work, reducing the number of people taking disability pensions and raising the average retirement age. Kesko's good reputation as an employer and a pioneer in environmental management is a valuable factor in attracting the best employees in the neighbouring areas of Finland.

### Suppliers of goods and services

Comprehensive networking with suppliers of goods and services and K-retailers means that all the parties involved accept common values and goals. In terms of Kesko's own business responsibility, it is important that the Group follows its values and principles when building business premises, managing its real estate, and in purchasing, distribution, and retail store operations. Kesko's aim is that its approach to responsibility is strongly reflected in the K-Alliance's consumer brands. This also means that partners have to be selected carefully, and clear principles and guidelines followed and monitored by everyone involved in our product and service chain.

### Consumers

Studies show that consumer interest in corporate responsibility is continuing to increase, despite the fact that purchasing decisions seem to be mainly based on price. Responsibility is seen as embracing high-quality products, the maintenance of services, good human resource policies, high standards of environmental protection, a proactive approach to equality, and improving the working conditions of employees in manufacturing operations. As the supply of products and services grows, consumers will have more options, and more influence in shaping trade and the supply of goods. Although this leverage is not very evident in rewarding good companies, poor performance is penalised.

As a large, multi-sector company, Kesko has a major role in shaping families' wellbeing and quality of life. We need to dimension our stores and distribution network appropriately to serve our customers and be economically efficient. Store sites, business operations systems, and competitiveness-enhancing services must provide K-retailers the kind of added value they need, above and beyond cost-effective procurement, to differentiate themselves from their competitors and operate profitably. We believe safety, reliability, and ethics will gradually rival price in communications and marketing. Researchers, non-governmental organisations, and the media can be expected to pay increasing attention to investigating the true costs behind low prices, helping consumers to distinguish between responsible and irresponsible competition.



*Matti Halmesmäki became Kesko's President and CEO on 1 March 2005.*

### Co-operation with the authorities and other organisations

The results and recognition achieved by Kesko have given the Group extensive opportunities for making its voice heard on both the national and international level. To continue to lead the way and shape developments, Kesko must actively monitor and forecast changes in society and make its expertise available to others in the industries in which it operates and society as a whole. To do this, Kesko is committed to maintaining active contacts with non-governmental organisations, the authorities, and other decision-makers, and to participating in a wide range of national and international organisations in its own sector and in business in general.

## Stakeholder analysis

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

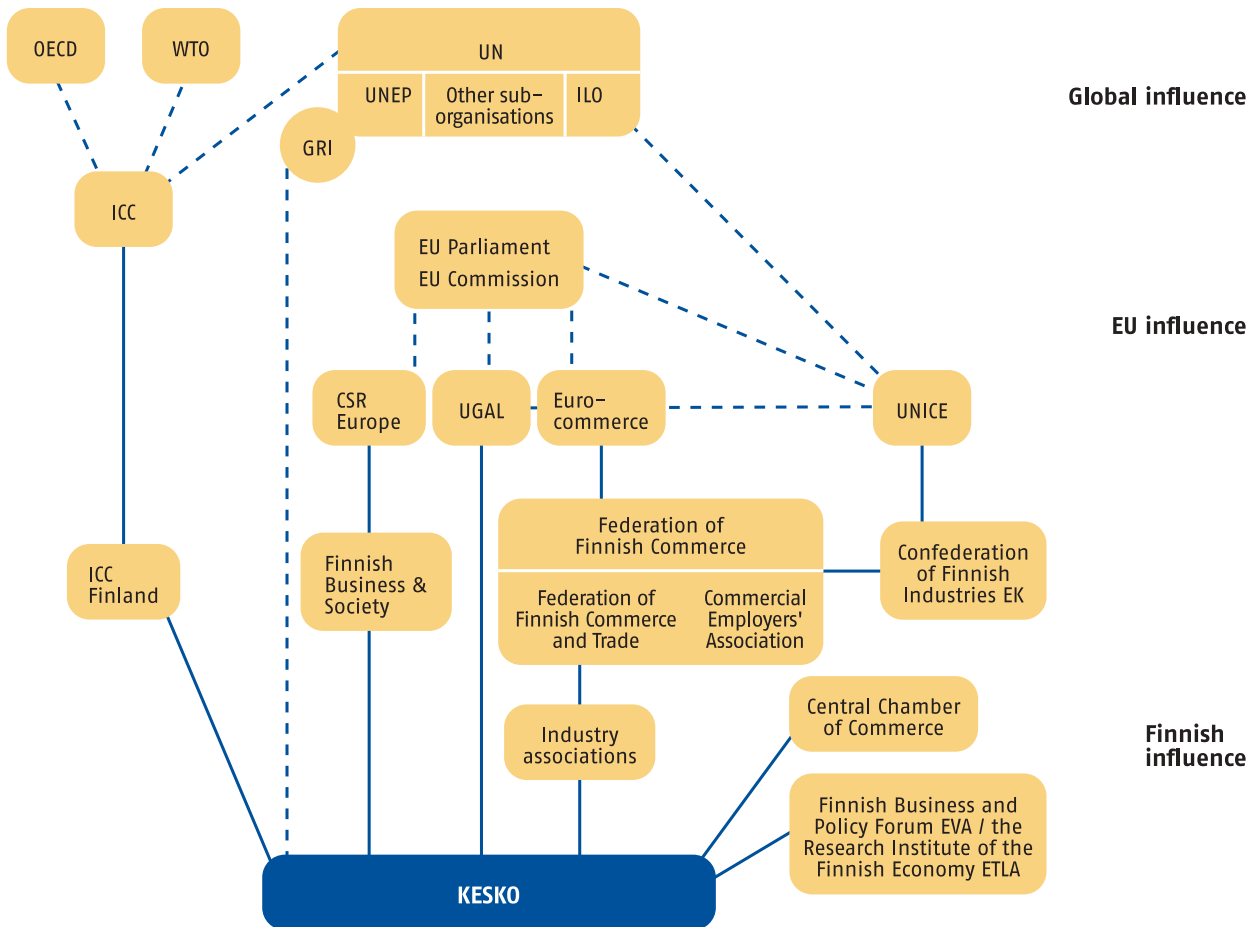
and its stakeholders need to interact on a regular, systematic and measurable basis.

In autumn 2004, the Corporate Responsibility Development Unit arranged three events to which it invited representatives from the authorities, organisations, and other partners to discuss the requirements and indicators of effective stakeholder co-operation. The discussions at these events provided some good ideas for improving Kesko's stakeholder

### Specification of key stakeholder groups

Stakeholder group	Kesko's activities	Stakeholders' expectations	Indicators
Authorities (EU, Finnish state, local authorities)	Practical expertise for developing the operational base of the trading sector and economy. Direct and indirect taxes and fees contributing to the wellbeing of society. Co-operation with local authorities for developing and maintaining the store network.	Strict compliance with legislation. Good tax-paying ability, stable employment. Maintenance of a versatile store and distribution network.	Amount of taxes paid, number of jobs, payroll, investments, structure and regional coverage of the store network.
Personnel	Participation of personnel in the planning and development of operations. Improving the quality of management. Maintenance of work ability, in-house job rotation, continuous training, promotion of wellbeing in the working community, motivating pay.	Activities that maintain and develop job satisfaction and safety. Results that contribute to the appreciation of job and workplace. Increasing individual competences, opportunities for promotion.	Job satisfaction survey, performance and appraisal discussions, in-house customer satisfaction survey. Employment disputes, turnover, absenteeism, accidents, training statistics, retirement age. Attraction as a workplace.
Shareholders, investors, analysts	Contacts with shareholders (TradeMaker magazine for stakeholders), investors and analysts. Plenty of information about financial performance and operations, usually on web pages. Competitive dividend policy.	High annual dividends, management of corporate governance, social and environmental risks.	Number and structure of shareholders, share trading, annual dividend yield, listings in sustainable development indexes, trading sector comparisons.
Suppliers of products and services	Finnish and foreign agricultural producers, manufacturers and importers of consumer goods. Store network planning and construction services. Furnishings, equipment, supplies, information systems, training and advertising for own and K-retailers' business.	Business growth, good liquidity, long-term business relations.	Development and breakdown of purchases by country/area. Number of suppliers, concentration of purchases. Terms of payment of invoices.
K-retailers and wholesale customers	Vertical co-operation agreement between Kesko and K-retailers. Kesko is responsible for developing the operating system and retail concepts, chain operations control and purchasing, store sites, information systems, marketing, training, etc. Kesko also sells and delivers products to many wholesale customers.	K-retailers expect competitive store sites, retail concepts, selections and prices as well as services and other solutions supporting competitiveness. Wholesale customers expect competitive prices and service.	Customer satisfaction surveys. Concentration of K-retailers' purchases in Kesko. Trends in K-chains' market shares. Development of sales to wholesale customers.
Consumers	Retail concepts, product selections, marketing campaigns that interest and satisfy customers in co-operation with K-store chains. Plussa customer loyalty programme, Pirkka magazine for customers, customer feedback systems.	Overall responsibility, easy shopping, help and advice. Opportunities to make ethical consumption choices, recycling etc. services, product safety, privacy protection.	Customer satisfaction surveys. Trends in K-chains' sales and market shares. Corporate image surveys. Number and quality of feedback. Development in the number and sales of 'ethical' products.
Non-governmental organisations and trade unions	Presentation of activities, contacts in the preparation and implementation of operating principles and systems. Co-operation agreements, financial support to socially important organisations and institutions.	Overall responsibility, clear operating principles, reliable results reporting, open communications and interaction.	Corporate image surveys. Amount and breakdown of support for the public good.
News media	Information about operations that is required by the Rules of the Securities Exchange and other information. Annual report, corporate responsibility report, Internet pages, stock exchange and other releases, presentation material, news conferences, services of district communications officers.	Open, diverse, reliable and fast communications.	Daily media monitoring, corporate communications surveys, comparisons ('competitions') of annual reports, investor communications, corporate responsibility reports.

### Kesko's key channels of influence



analysis and activity plans. The final stages of the stakeholder process description and producing the associated documentation and reporting guidelines were postponed until 2005, as they form part of a database development project under way for corporate responsibility reporting needs. Regarding stakeholder co-operation, the target is to specify guidelines for the annual and long-term planning of Kesko's management system for 2006, and to include stakeholder co-operation indicators in reporting.

The table on page 10 highlights Kesko's activities in respect of its various stakeholder groups, their expectations concerning Kesko, and the indicators used to assess performance.

### Key areas of influence

Kesko can achieve many results that benefit society and its stakeholder groups through active, target-driven operations.

In terms of economic responsibility, Kesko's purchases

benefit for its suppliers and their employees, which in turn increases tax revenues for the municipalities and states concerned, providing more funds for developing social security and other services. For shareholders, responsible and profitable operations mean a steady growth in Kesko's share value and a good dividend yield. Maintaining a comprehensive store network and encouraging retailer entrepreneurship as a local resource ensures that consumers continue to have access to the services they need in their communities.

Continuous improvements in environmental performance result in the more efficient use of energy, reduced relative emissions, less waste, enhanced recovery rates, and more environmentally sound products and packaging, for example.

Improvements in the quality of management increase employees' job satisfaction and motivation. Co-operation with suppliers in developing countries is gradually helping to improve local working conditions. The emphasis is on the prevention of employees' problems at individual level both in

our own operations and throughout the purchasing chain.

Supporting associations and organisations related to Kesko's operations promotes services and wellbeing in local communities and society as a whole. Kesko hopes that by taking an active approach here will lead to better dialogue and provide Kesko with more information about the wishes and expectations of its stakeholder groups.

### Working through organisations

Participation in national and international efforts to develop the trading industry and the economy as a whole forms part of corporate responsibility. Kesko has been involved in these types of efforts through numerous national and international organisations and groups for decades. In 2004, Kesko and Kesko representatives were active in the following bodies, amongst others:

- Employers' Confederation of Service Industries in Finland (Chairman until the organisation was merged into the Confederation of Finnish Industries, EK)
- Confederation of Finnish Industries EK (Vice Chairman)
- Central Chamber of Commerce (Vice Chairman, Chairman of the Social Responsibility in Importing network)
- Finnish Business and Policy Forum EVA (Vice Chairman)
- Federation of Finnish Commerce and Trade (Vice Chairman)
- Federation of Finnish Commerce (Chairman)
- Association of Finnish Advertisers (Vice Chairman)
- Association for Finnish Work (Board member)
- Finfood (Chairman)
- Finnish Business & Society network (Board member)
- UNICE, the Union of Industrial and Employers' Confederations of Europe (Council of Presidents)
- Multi Stakeholder Forum on CSR, EU Commission working group on corporate responsibility (work ended in June 2004)
- EuroCommerce, the retail, wholesale and international trade representation to the EU (environmental committee and CSR experts)
- UGAL, EU organisation of groups of independent retailers (Vice Chairman, member of the team of legal experts)
- Business Social Compliance Initiative BSCI (Board member)
- International Chamber of Commerce ICC (National Committee of Finland: Chairman, members of the environmental committee and corporate responsibility committee)
- United Nations Environmental Programme, UNEP (Economics and Trade Branch)
- CIES - The Food Business Forum (members of the Supply Chain Management, Food Safety, and Food Business in Society programmes).

Kesko employees are also active in several state committees and working groups, confederation committees, and industry and recycling organisations in Finland. A more detailed list can be consulted at [www.kesko.fi](http://www.kesko.fi) (Responsibility/Economic responsibility).

## Kesko's principles and management systems guiding the approach to corporate responsibility

Since the mid-1990s, all Kesko units have operated in line with the Group's value, quality, and environmental management systems. The management system was updated in 2002 to further highlight the importance of values in underpinning all our operations. As part of closer chain co-operation, Kesko and K-retailers have agreed to follow the same values and ethical principles.

### Values

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

A survey of employees' views of the importance of Kesko's values and how they are reflected in operations was conducted in the Group's Finnish units in late 2003. This indicated that Kesko employees feel that all four values are important and have been well implemented. A good working community was seen as the most important single value, and employees said that it was also the one in respect of which there was still the most improvement to be made. Corporate responsibility is considered the value best reflected in operations, but is seen as the least important of the four.

A number of indicators can be used to measure how well a company implements its values in its overall approach to corporate responsibility. The illustration below gives some examples of these indicators.



**The implementation of values can be measured in many ways. The figure includes some examples of the indicators used.**

### Ethical principles – 'Our Working Practices'

Kesko's ethical principles applicable to its personnel – 'Our Working Practices' – have been in use since 1999, and were revised in 2002 to reflect the Group's new values. The Our Working Practices booklet provides detailed guidance on practical matters related to working in accordance with our values. The guide has also been translated into Swedish, Estonian, Latvian, Lithuanian, Russian, and English. Separate training material has been developed to support the adoption of the Group's ethical principles and values. K-retailers have also adopted the same values and principles in their own management.

'Our Working Practices' can be consulted at Kesko's web site: [www.kesko.fi](http://www.kesko.fi) (Responsibility).

### Strategy

The key points of Kesko's strategy are presented in the illustration on the next page. More detailed information can be found in the Annual Report, which can be consulted online at [www.kesko.fi](http://www.kesko.fi) (Investors).

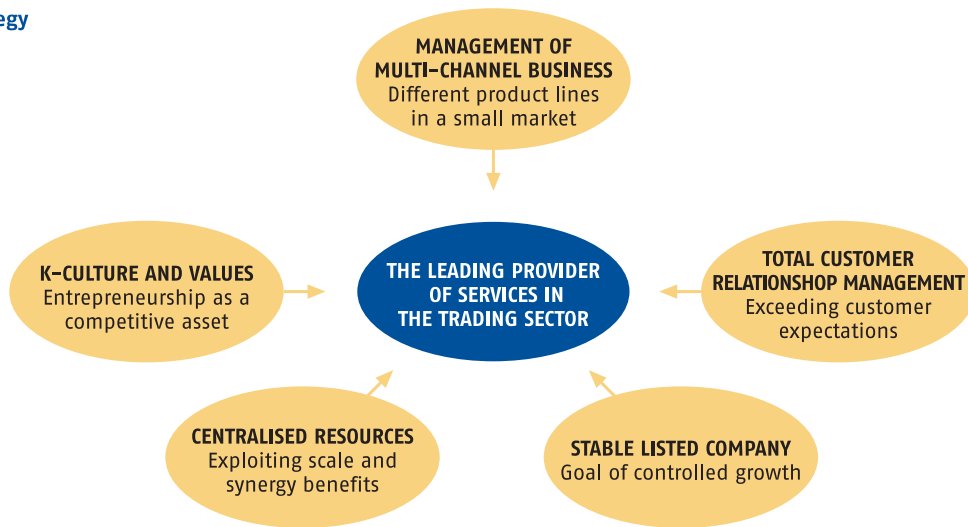
The importance of corporate responsibility is highlighted in the 'Stable listed company' and 'K-culture and values' components of Kesko's strategy.

As a listed company, Kesko is committed to controlled growth and offering investors a steadily growing return. A systematic approach to risk management and a diversified portfolio provide a good foundation for stable cash flow and a solid earnings- and dividend-generating capability. Maintaining the

Group's excellent creditworthiness is an important priority for Kesko. A responsible approach to doing business is a key factor in achieving results in these areas. Good financial management has also contributed to responsible operations in environmental and social issues. Kesko has been, and intends to continue to be, a pioneer here, something that has been reflected in 'the best in the sector' rating received from the Dow Jones STOXX index.

The K-culture and values see corporate responsibility as the basis for the Group's entire system of value management, prioritise the importance of extending the Kesko way of doing business to all K-outlets, see entrepreneurship as an important competitive advantage, and highlight the importance of K-retailers working closely with the local community and local producers.

### Kesko's strategy



### Corporate policies

Above and beyond the Group's strategy and management system, Kesko's corporate policies guide planning and operations at all business levels. They cover administration, human resources, environmental issues, communications, financial management, real estate, financing, security, and risk management. Kesko's values-driven approach to corporate responsibility is included in our corporate policies and principles, particularly in respect of administration, human resource, and environmental policies.

### Corporate governance statement

Kesko's corporate governance statement is updated regularly, and can be consulted at [www.kesko.fi](http://www.kesko.fi) (Investors). The most recent update was made on the basis of the Corporate Governance Recommendation for Listed Companies given in summer 2004.

Kesko Corporation's Board of Directors consisted of eight members, elected for three-year terms. Four members were independent of the company and four of them were dependent on the company. Corporate governance guidelines recommend that members should have a one-year term of office and that the majority of Board members should be independent of the company. Changes concerning these deviations can be made at Kesko Corporation's Annual General Meeting. The Annual General Meeting held in spring 2005 confirmed the number of Board members to be seven. A majority of the new Board members, four in all, are independent of the company. The term of all present members will expire at the close of the 2006 Annual General Meeting.

The Board of Directors established an Audit Committee of three members in April 2004. No Board members to specialise in corporate responsibility matters have been appointed. The Board of Directors will review the Corporate Responsibility Report in the spring after it has been completed and any other related issues as necessary.

The Kesko Group has a Corporate Management Board,

chaired by Kesko Corporation's President and CEO, and with the following members: the Corporate Executive Vice President, Deputy to the President and CEO, the Presidents of Kesko's major division parent companies, the Senior Vice President, CFO, and the Senior Vice President, Human Resources. The Corporate Management Board has no authority based on legislation or the Articles of Association, but acts rather as an advisory body, appointed by the President and CEO, responsible for reviewing Group-wide development projects and Group-level principles and practices. In addition, the Corporate Management Board also participates in drafting matters presented to Kesko Corporation's Board of Directors.

The Head of Corporate Responsibility and Senior Manager responsible for the development and coordination of corporate responsibility at the Group level were based in the Corporate Communications and External Relations until 31 March 2005, but the Corporate Responsibility Unit was organised under the Corporate Executive Vice President, Deputy to the President and CEO starting from 1 April 2005.

Some corporate responsibility indicators have been included in the units' bonus system, covering areas such as job satisfaction, customer satisfaction, and recycling performance.

### Management systems

The main features of Kesko's management system are described in the annual plan. The Group's operations are planned and managed using Kesko's management system. The system highlights the importance of prioritising the customer, people management, promoting participation and co-operation, greater efficiency, and developing competitiveness and economic value added. Corporate responsibility is not treated as a separate issue in management terms, rather all plans and activities related to it are included in the different stages of the management system in the same way as all other operations.

Kesko's management system includes quality evaluation, which is carried out by units in the form of annual self-assess-

ment, based on the criteria of the Finnish Quality Award. A competition for the Group's internal quality prize is arranged every second year. In 2003, the winner was Kesko Food Ltd's subsidiary, Kespro Ltd. 'Quality Action Awards' are made in intervening years. In 2004, awards went to Anttila Oy's electronic AAPO customer feedback system and Kesko Food Ltd's PIHVI best practices project. Anttila Oy was the winner in the large companies category in the 2004 Finnish Quality Award competition, while Kespro Ltd and K-supermarket Länsitori in Tampere received 'Recognized for Excellence' awards.

Kesko Food is gradually adopting a quality system based on the EFQM / ISO 9000 standard. Documented in Kesko Food's intranet, the system is expected to be largely complete in 2005. The quality control of groceries and some home and speciality goods for which Kesko Food's Product Research unit is responsible is based on an ISO 9000 quality system and a self-control system approved by the authorities. Kespro Ltd has a certified ISO quality system.

An environmental management system complying with the ISO 14001 standard has been adopted in all Kesko units impacting the environment to a significant extent. Environmental management in K-stores is based on the K-environmental store concept. Compliance with the latter is monitored through independent audits. More information about certifications within the system is given on page 30, and about K-environmental stores on page 43. Kesko's environmental policy can be consulted at [www.kesko.fi](http://www.kesko.fi) (Responsibility). In its environmental policy, Kesko has committed itself to the Business Charter for Sustainable Development published by the International Chamber of Commerce ICC.

Quality control in respect of purchasing, particularly that with a risk component, such as imports from developing countries, is carried out in compliance with the principles of

the European Business Social Compliance Initiative and the international Social Accountability SA 8000 standard. More information about social accountability can be found from page 58 onwards, and information on the principles followed in imports from developing countries can be found at [www.kesko.fi](http://www.kesko.fi) (Responsibility/Purchasing principles).

### Reporting

Corporate responsibility reporting affects performance in its own area in the same way as financial reporting affects performance in that area. Where performance can be measured, clear targets can be set and management improved. The reporting recommendations of the Global Reporting Initiative have provided Kesko with a good basis for analysing its corporate responsibility, developing responsibility indicators, and reporting progress in this area to the public at large. Kesko joined the Organisational Stakeholders, a network established by GRI, at the beginning of 2005, and a Kesko representative was invited to join the GRI working group on indicators, which is aiming to publish a revised reporting recommendation in 2006.

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

Independent assurance improves the reliability of reporting information and promotes the continuous development of indicators and measuring methods - and an assurance has been provided to Kesko's Corporate Responsibility Report since 2002.

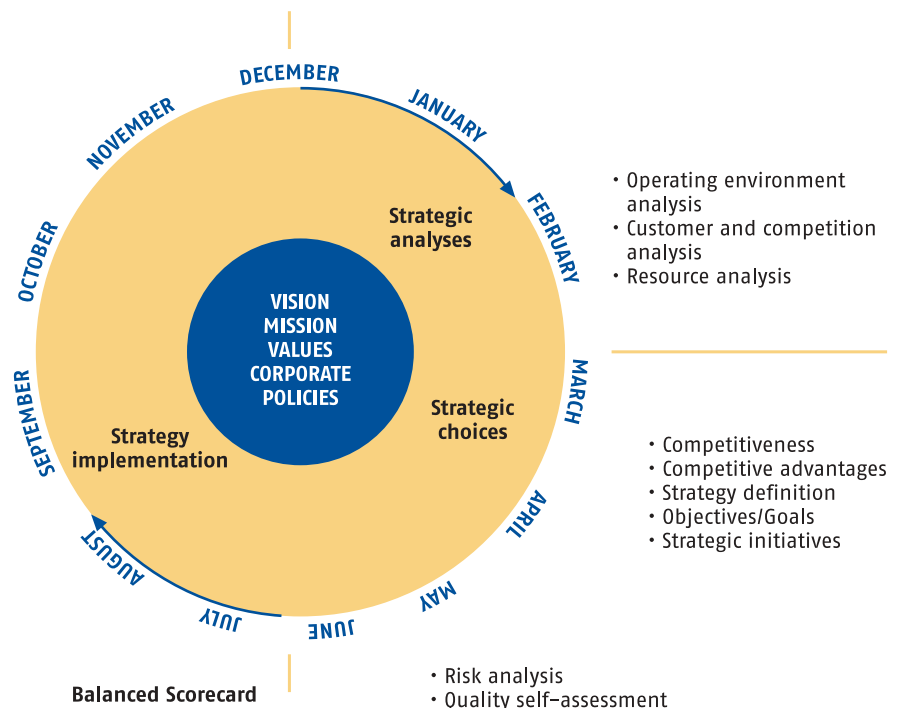
### Kesko's management system

#### Annual plan

- Operating plan
- Human resource plan
- Budget

#### Long-term plan

- Strategic initiatives broken down into 3-to-5-year action plans



## Quality in the limelight at Kodin Ykkönen in Tampere



*Department Store Director Juha Riipinen distributes Master Assistant textbooks to the staff of Turtola Kodin Ykkönen in Tampere.*

The Turtola Kodin Ykkönen department store in Tampere is part of Anttila Oy, which won the large companies and business units category of the Finnish Quality Award in 2004. The store was opened in 2000, and employed 23 full-time and 50 part-time employees as of the end of 2004.

Anttila's success has been based on its professionalism, expertise, and high-quality service.

Developing employees' skills begins on their first day at work at a store like Turtola, and continues throughout their career. Recruits are introduced to house practices using Anttila's own 'Our Operating Practices' booklet, which covers the company's values, operations, customers, success factors, and safety at work issues. Induction also covers an introduction to Turtola's ISO 14001 certified environmental management system and the 'Best Service' training programme. Skills development priorities are reviewed annually in one-on-one development discussions between staff and managers. Young employees lacking a formal commercial education are encouraged to study. Two staff at Turtola graduated from a commercial institute on an apprenticeship contract in 2004, one member of staff completed a specialist management qualification, and three others a sales assistant's vocational qualification. The annual 'Master Assistant' training programme is the most important training event covering all employees. A total of 92% of Turtola's staff completed the programme successfully in 2004, and Turtola's Sari Satoranta placed second in the 'home line' programme in the finals.

Continuous improvement in line with the philosophy behind the Finnish Quality Award is also an integral part of Turtola's environmental management system. Keeping the store's electricity consumption at 2003 levels was set as a target for 2004, and the store, in fact, achieved a reduction of 10%, thanks to successfully implemented energy savings measures. The store failed to reach its target of cutting the amount of waste sent for landfill by 2%, however, largely as a result of one-off mixed waste generated by modernisation of the hardware department. Turtola has set reducing its amount of landfill waste by 5% as a target for 2005. This is designed to contribute to Anttila's company-level target of improving recycling and reuse by 5%. Turtola is also aiming to further reduce its electricity consumption and costs by one percentage point over 2004.



## Corporate responsibility performance in 2004

### Key economic performance in 2004



- Profit reached an all-time high
- Dividend yield continued to increase
- Number of shareholders increased by over one thousand
- Kesko was chosen as the best in its sector in the Dow Jones Sustainability Index for European Companies
- Number of employees increased in Finland and other countries
- Proportion of domestic purchases in K-food stores accounted for 90% in Finland and an average of 80% in all divisions
- K-retailers bought products direct from local suppliers to a value of nearly EUR 400 million
- Total support for the public good remained unchanged, while the proportion allocated to youth work increased, and the proportion of sports decreased



- Number of K-stores in Finland dropped by 38
- Proportion of small stores in K-food trading continued to decrease



Home Economist Leena Korkalainen in the K-test kitchen.

**Profitability of operations**

	2002	+/- %	2003	+/- %	2004	+/- %
Net sales, EUR million	6,466	4.1	7,070	9.3	7,517	6.3
Gross margin, %	12.3		12.8		13.3	
Profit before extraordinary items, EUR million	110	27.9	162	47.3	173	7.0
Profit before extraordinary items, %	1.7		2.3		2.3	
ROI (return on invested capital), %	7.6		10.9		11.9	

**Kesko's net sales by division and market area in 2004 (EUR million)**

Division	Finland	Sweden	Estonia	Latvia	Lithuania	Russia	Other	Total
Grocery trade	3,468		254	85		5		3,812
Hardware and builders' supplies trade	731	92	51	22	249	5		1,150
Agricultural trade	477		51	52	63		9	653
Machinery trade	146	6					12	164
Home and speciality goods trade	770		10	12		1		793
Car trade	619		5			4	4	632
Kaukomarkkinat	215	16	9	3	5	13	55	317
Total	6,426	114	380	174	317	28	81	7,521
Total, %	85.4	1.5	5.1	2.3	4.2	0.4	1.1	

The figures include EUR 4 million of the Group's internal business that have been eliminated in the financial statements.

## Economic responsibility

### General

The Kesko Group's net sales in 2004 totalled EUR 7,517 million, an increase of 6.3% on 2003, resulting from good performance in particular in the hardware and builders' supplies trade, the home and speciality goods trade, and the car trade in Finland, as well as trading in the Baltic countries. Growth in Finland was 2.9%, and 31.9% in other countries. Exports and operations outside Finland accounted for 14.6% (11.7%) of total net sales.

The Group's profit before taxes and extraordinary items totalled EUR 172.9 million (EUR 161.6 million), equivalent to 2.3% of net sales (2.3%). The operating profit excluding non-recurring items was EUR 33.7 million higher than in 2003. The largest increases in profits were registered by Keswell - Anttila Oy in particular - and Rautakesko. Kesko Food's operating profit remained similar to that recorded in 2003.

### Share performance

Kesko has been listed on the Helsinki Stock Exchange since 1960, when B shares (previously ordinary shares) were listed. Kesko's A share (previously exclusive share) was listed in 1999. Nearly all trading on the stock exchange takes place in B shares. The share series differ from each other only as to

the votes they entitle to. A shares entitle the holder to 10 votes each and B shares to one vote.

Kesko's share capital was EUR 187,681,084 and the total number of shares 93,840,542 as of 31 December 2004. During the year, the number of shares increased by 2,650,042 due to subscriptions made on the basis of stock options launched in 2000. A shares represented 33.8% of the total, entitling holders to 83.6% of votes. The corresponding percentages for B shares were 66.2% and 16.4%.

Kesko has two stock option schemes for management, dating from 2000 and 2003. If all the shares are subscribed to under these stock options, the number of shares will increase by 7,640,000 by the end of the subscription periods in 2010.

### Shareholders

The number of Kesko's shareholders dropped in the late 1990s, but has started to increase again in the 2000s. At the end of 2004, Kesko had 29,801 shareholders (28,761 at the end of 2003).

Kesko's ownership structure has remained relatively unchanged in recent years. Private individuals account for around 30% of the total. K-retailers and other private enterprises account for another 30%, while financial and insurance institutions, associations, and non-profit institutions

account for under one fifth. Insurance companies and pension insurance companies have long been among Kesko's largest shareholders. The Kesko Pension Fund, Vähittäiskauppan Takaus Oy, and the K-Retailers' Association, all closely linked to Kesko, have also been major shareholders. In 2004, the proportion of foreign shareholders increased from 16.8% to 23.3% of all shares, and to 35.2% of B shares.

More detailed information about Kesko's shareholders and trends in share prices can be found at [www.kesko.fi](http://www.kesko.fi) (Investors/share information).

### High dividend yield

Kesko has generated profits and paid dividends every year except 1967 since it was founded in 1941. For the past 10 years, the annual yield (dividend and appreciation) of Kesko's B shares has averaged 13.0%, and 14.7% over the past five years. The dividend yield for the past five years has averaged 8.7%. Under its dividend policy, Kesko distributes at least one third of its earnings per share as dividends, or half if the equity ratio exceeds 50%. During the past five years, this has been clearly exceeded, and average dividends have been 140.7% of undiluted earnings per share.

During the past five years, Kesko's share price performance has clearly exceeded the trends on the Helsinki Stock Exchange's All-share and weighted Portfolio indexes. The price of Kesko's B share has more than doubled since 2001. The upward trend continued in 2004, with the A share appreciating by 4.4% and the B share by 29.3%. The Hex All-share index rose by 3.3% and the Portfolio index by 14.6% over the same period. The number of B shares traded nearly trebled in 2004 compared to 2003.

Kesko's market value has clearly grown during the past two years after modest development during the first years of the new millennium, and reached some EUR 1.7 billion at the end of 2004. A shares accounted for EUR 600 million of this total and B shares for EUR 1,115 million.

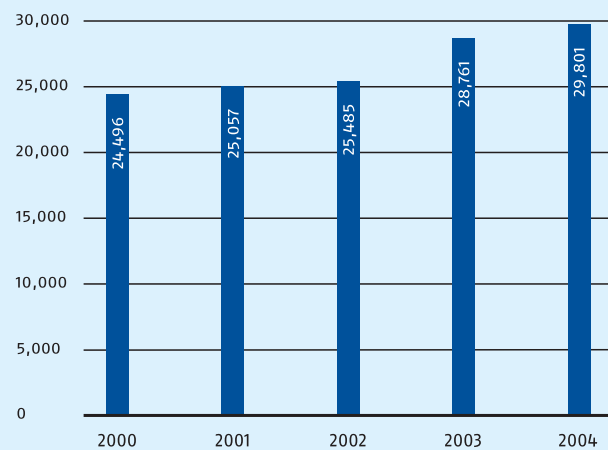
### Keeping the market up-to-date

Kesko produces a regular flow of accurate and up-to-date information for the market to serve as a basis for determining the price of its share. The aim is to make Kesko's activities better known and increase the transparency of investor information, and make Kesko more attractive to investors.

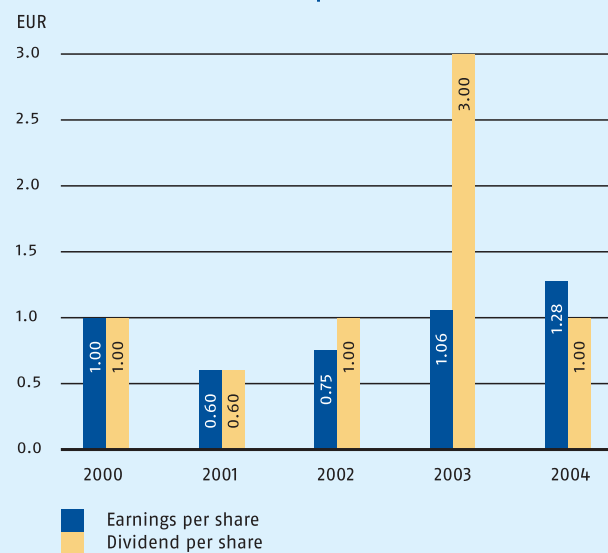
Investor information is primarily published at [www.kesko.fi](http://www.kesko.fi), in Finnish, Swedish, and English. Kesko's web pages were ranked the best site for investors in Finland in 2002 and 2003, and the second best in 2004 by the Finnish Foundation for Share Promotion, the Finnish Society for Financial Analysts, and Talouselämä magazine.

Kesko publishes a printed annual report in Finnish, Swedish, and English. Kesko's financial statements and three

Number of shareholders at year-end



Earnings per share  
Dividend per share



The dividend is paid in spring from the profit of the preceding financial year.

interim reports are included in its TradeMaker stakeholder magazine, which is sent to all shareholders. The company also maintains a list for distributing the annual report and TradeMaker to other recipients.

Kesko arranges press conferences for analysts and the media when announcing its results and other important news, and between one and two themed Capital Market Days a year. Kesko's representatives also visit various events to disseminate information to investors interested in the com-

### Kesko in sustainability indexes

#### Dow Jones STOXX Sustainability Index

The Dow Jones pan-European sustainable development index includes 167 companies from 13 countries. Reviews are carried out by SAM Group of Switzerland and cover all areas of corporate responsibility. In many aspects, the European index is more demanding than the world index, which includes 318 companies. Kesko was rated the best in the Non-Cyclical Goods and Services sector in the 2005 index published in September 2004.

#### Nordic Sustainability Index

This index initiated by the Nordic Council evaluates the performance of the 500 largest companies listed on the Nordic stock exchanges in terms of corporate responsibility. Assessments are made by Oxford Research of Copenhagen and CaringCompany of Stockholm. The index includes 40 companies representing 20 business sectors.

#### Kempen/SNS Smaller Europe SRI Index

This index is an initiative of two Dutch investment companies, Kempen Capital Management and SNS Asset Management, and is designed for companies with a market value of under EUR 2 billion. The index currently lists 69 companies from 12 countries out of a potential total of 1,700 companies.

#### Storebrand SRI

The Norwegian banking group Storebrand has surveyed 86 trading sector companies and selected the 30 best performers in the area of environmental and social responsibility for its funds. Kesko was ranked first in Storebrand SRI's overall assessment and in terms of environmental responsibility, and second in terms of social responsibility in spring 2003.

#### Ethibel Investment Register

Ethibel is a Belgian consultancy agency for ethical investments that screens companies at the request of ethical investment funds and maintains a register of 'social-ethical companies'. Over 200 leading companies are listed. Kesko was ranked number one in the trading sector comparison made in autumn 2003.

#### The Global 100 Most Sustainable Corporations

'The Global 100 Most Sustainable Corporations' list was launched for the first time during the World Economic Forum in Davos in January 2005. Kesko was included in the list, which was drawn up by Innovest Strategic Value Advisors Inc. on the basis of performance in existing leading sustainability indexes. In addition to economic, environmental, and social responsibility, Innovest's evaluation highlighted companies' ability to link these issues to their corporate strategies as factors contributing to profitability and added value.



### Capital expenditure and assets

	2002	2003	2004
Capital expenditure, EUR million	185	259	170
Capital expenditure, % of net sales	2.9	3.7	2.3
Equity ratio, %	53.3	51.7	45.5
Debt to equity ratio, %	46.7	48.3	54.5
Gearing ratio, %	13.9	16.2	28.8

pany. Press conferences devoted to final and interim results were also broadcast as Internet web casts in 2004. A back-grounder meeting for analysts was arranged in August, and another for portfolio managers in November.

Kesko participated in the Sijoiitus-Invest Fair in Helsinki in autumn 2004, and about 1,800 investors visited Kesko's stand. Road show visits, which took 10 days in all, were made to the United States and to London, Paris, Frankfurt, and

Stockholm. About 70 one-on-one meetings were held with analysts and investors.

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

Kesko has been ranked the leading company in its sector in the Dow Jones Sustainability Index for European Companies, and has placed highly in a number of other indexes. A summary of Kesko's rankings can be found in the table above.

### Investments and the store network

Kesko's capital expenditure in 2004 totalled EUR 170 million, equivalent to 2.3% of net sales (3.7% in 2003). Finnish investments accounted for EUR 126 million, and those in other countries for EUR 44 million or 25.9%, which was less in comparable terms than in 2002 and 2003. Investments in store sites and business acquisitions totalled EUR 125 million.

Kesko's investments have a positive financial impact on

### Number of K-food stores in Finnish municipalities

K-food stores	Municipalities			% of all municipalities		
	2002	2003	2004	2002	2003	2004
10 or more	14	13	12	3.1	2.9	2.7
7-9	13	14	10	2.9	3.1	2.3
5-6	24	26	20	5.4	5.8	4.5
3-4	66	70	72	14.7	15.7	16.2
2	110	106	94	24.6	23.8	21.2
1	165	162	177	36.8	36.3	39.9
none	56	55	59	12.5	12.3	13.3

construction companies, service companies in the construction sector, and suppliers of fixtures, equipment, and information systems. Investments in Finland have now been included in the 'Breakdown of economic benefits by region' on page 24.

### New stores and changes

One K-citymarket, five K-supermarkets, and 24 K-pikkolos were opened in 2004. A total of 19 stores changed type as part of the chain reform, and 12 Cassa stores were opened to test the discounter concept.

Pikoil Oy, a joint venture between Kesko Food Ltd and Neste Marketing Ltd, had a total of 70 K-pikkolo neighbourhood and service station stores at the end of 2004. In the future, all the food stores in the chain, Quick Shops included, will operate under the K-pikkolo brand, while service station stores focused on sales of oil products will operate under the Neste brand.

### Number of K-food stores dropped slightly

The number of K-food stores at the end of 2004 totalled 1,084 outlets, which was 26 less than in 2003. 549 (570) of these were small units (K-extras, K-pikkolos and others).

Large outlets, or K-citymarkets, accounted for 35.3% (33.9% in 2003) of K-food stores' sales in Finland.

K-food stores were located in 385 of Finland's 444 municipalities. 45.3% of all Finns as of the end of 2003 lived less than one kilometre from the nearest K-food store. This statistic will be updated and published every three years.

The map on this page shows the municipality-specific square metres of the K-food store network in relation to population. Sparsely populated areas offer a relatively larger K-store floor area than more densely populated areas.

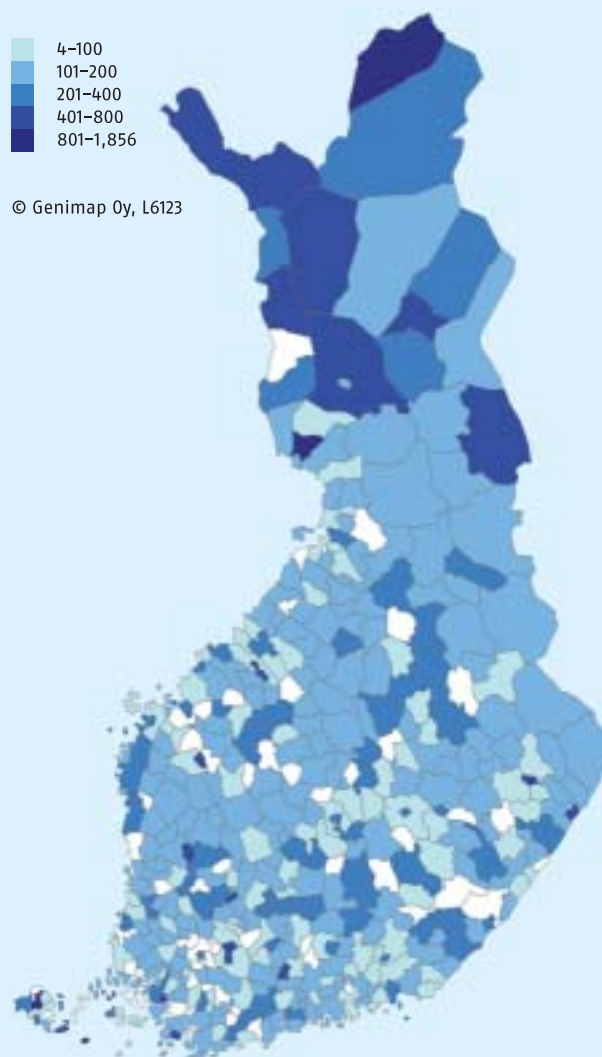
There were 667 K-speciality stores in Finland in 2004, a reduction of 12 on 2003.

### Changes outside Finland

Kesko Food had 84 stores (67) in Estonia and Latvia at the end of 2004, with total sales of EUR 396 million (EUR 269 million).

### Store area of K-food stores in Finnish municipalities

Store area, m<sup>2</sup> per 1,000 inhabitants



Kesko Food and ICA AB merged their Baltic operations at the beginning of 2005 and established Rimi Baltic AB, a 50-50 joint venture. ICA had previously operated mainly in Latvia and Lithuania. Rimi Baltic AB began operations with 162 stores, with combined sales of EUR 690 million and a staff of 8,300 in 2004.

Rautakesko had 12 K-rauta stores in Sweden, and 18 K-rauta stores and 77 Partnerships in the Baltic countries. Kesko Agro had 13 agricultural stores in the Baltic countries.

### Job development

The number of jobs in the Kesko Group continued to increase in 2004, both in Finland and elsewhere.

The average number of Kesko Group employees, including joint ventures, totalled 17,528, an increase of 2,309 on 2003. Employee numbers increased by 448 in Finland and by 1,861 elsewhere. Pikoil Oy, a Kesko Food Ltd joint venture, accounted for 253 employees of the increase in Finland. Kesko's average number of employees is calculated monthly based on all employees with permanent contracts, excluding those on long-term leave. Part-time jobs are converted into full-time positions on the basis of the number of hours worked.

Kesko had 22,146 employment contracts at the end of 2004 (19,411 at the end of 2003), of which 13,602 (12,596) were in Finland and 8,544 (6,815) elsewhere.

In Finland, Kesko Food's staff numbers increased due to the testing of the Cassa discounter concept, for example. The increase at Keswell can be attributed to the growth of Anttila and the increase in the number of stores run by Keswell subsidiaries, Interwell Oy and Jättipörssi Oy. At VV-Auto, the growth was due to the start-up of a second retailing subsidiary. The total increase in employment contracts at year-end brought by Pikoil was 465.

In the Baltic countries, Kesko Food, Rautakesko, and Kesko Agro expanded their operations and recruited more employees. Growth was greatest in Lithuania, where the number of people employed by the Senukai DIY chain increased by an average of 1,053 as new stores were opened.

The average number of personnel employed by Citymarket Oy fell by 221, although there were 174 more employment contracts at the end of 2004 than in 2003. There were no significant reductions in other units.

As of the end of the year, a total of about 700 people worked in outsourced operations, including people in information management, postal services, and security.

K-retailers employed about 23,500 people in all, including retailers themselves. As there are one or more K-stores in nearly every Finnish municipality, and Kesko has premises in nearly 60 municipalities, the approximately 37,000 jobs offered by the K-Alliance make an important contribution to the economy across Finland. The Kesko Group is the largest foreign employer in the Baltic countries.

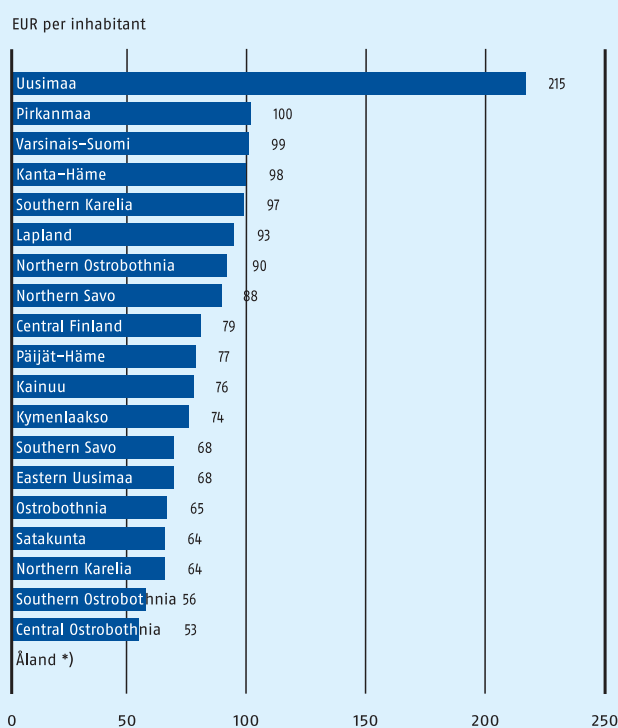
### Salaries, social security expenses, and taxes

In 2004, Kesko Group salaries booked in the income statement totalled EUR 354 million, pension expenses EUR 47 million, and other social security expenses EUR 36 million. Operations outside Finland accounted for EUR 58 million of salaries.

Income tax paid by the Group as a whole totalled EUR 46.6 million, of which EUR 3.1 million was paid outside Finland. Kesko paid EUR 3.2 million in real estate taxes to 125 municipalities in Finland.

K-retailers paid some EUR 260 million in salaries and some EUR 35 million in taxes. These figures include K-retailers whose bookkeeping and salary calculations are handled by Vähittäiskaupan Tilipalvelu VTP Oy, estimated to account for between 80% and 85% of the total business volume of K-retailers. The accuracy of tax data is not as high for partnerships as for business names and limited liability companies. Statistics do not show the taxes on salaries drawn by K-retailers themselves. As a result, the combined tax data on K-retailers contains a number of approximations and should be considered as essentially illustrative.

Salaries and taxes by Finnish regions in proportion to the population in 2004



\*) data has not been collected

Statistics include salaries paid by Kesko, salaries and taxes paid by K-retailers and real estate taxes paid by Kesko. Population numbers from web statistics of regional councils.

**Personnel expenses (EUR million)**

	2002	2003	2004
Salaries and fees	281	316	355
– of which profit bonus *)	8.5	10.0	5.5
Social security expenses			
– pension expenses	42	43	47
– other social security expenses	25	32	36

\*) The bonus is paid in spring from the profit of the preceding financial year.

**Taxes (EUR million)**

	2002	2003	2004
Income taxes to Finland	41.0	54.7	43.5
Income taxes to other countries	0.6	2.8	3.1
Real estate taxes to Finland	2.6	2.5	3.2

**Productivity of labour (EUR 1,000)**

	2002	2003	2004
Average net sales per employee			
– Finland	610	635	639
– Sweden	*)	226	295
– Estonia	*)	173	131
– Latvia	*)	136	139
– Lithuania	*)	101**)	98
– whole Group	529	465	435
Profit before extraordinary items per employee (whole Group)	9.0	10.6	10.0

\*) data has not been collected

\*\*\*) Senukai's net sales are included in Kesko's figures starting from 13 March 2003

**Kesko Group's domestic purchases by country in 2004**

	Own country *) EUR million	%	Other countries EUR million	%
Finland	4,520.5	79.6	1,158.7	20.4
Sweden	60.7	55.9	44.6	44.1
Estonia	268.7	82.6	56.7	17.4
Latvia	71.9	69.7	31.3	30.3
Lithuania	109.3	40.6	160.0	59.4
Other countries	14.4	46.6	16.5	53.4
	5,045.5	77.5	1,467.8	22.5

\*) The figure for Finland covers purchases from Finland, the figure for Estonia covers purchases from Estonia, etc.

**Employee pension and health insurance**

The Kesko Sickness Fund provides statutory sickness insurance for Group subsidiaries and Kesko-related units in Finland. The Sickness Fund covers about 10,600 employees. Sickness insurance contributions paid by the Sickness Fund totalled EUR 7.7 million in 2004 (EUR 6.9 million in 2003).

The Kesko Pension Fund is responsible for pension contributions, based on the Employees' Pensions Act, of those employees of Kesko Corporation, the division parent companies, and some other organisations close to Kesko that are members of the Fund's Department B. The Varma Mutual Pension Insurance Company is responsible for the corresponding pension contributions of employees of other subsidiaries. The Pension Fund also has a Department A, which was closed on 8 May 1998, that provides extra benefits. Employees who are covered by Department A have access to benefits under certain conditions, such as an early retirement pension, for production-related reasons.

In 2004, the Kesko Pension Fund paid about EUR 47.2 million (EUR 45.5 million) in pensions to 3,189 people (3,123). The Pension Fund covered 4,145 (3,800) Kesko Group employees at year-end, with Department A covering 1,105 (1,200) people. Retirement age trends are presented on page 55 under 'Social responsibility'.

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

**Suppliers of goods and services**

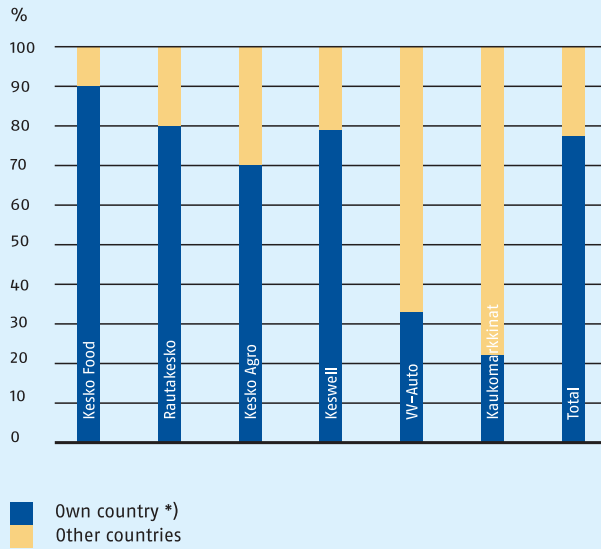
Kesko had about 14,400 suppliers of goods and services in Finland and 5,200 in other countries in 2004. These figures include active suppliers responsible for supplying goods and services valued at a minimum of EUR 1,000.

Kesko's purchases of goods and services totalled EUR 6.5 billion, of which Finnish suppliers accounted for 69.4% or EUR 4.5 billion, while purchases from other countries accounted for 30.6% or EUR 2.0 billion. Purchases from Finnish suppliers increased by over one percent, and purchases from other countries by about 19%.

As Kesko's operations outside Finland have increased considerably, the traditional breakdown between suppliers in Finland and other countries does not convey the proper idea of the proportion of the Group's domestic purchases. The accompanying tables detail the proportion of domestic purchases and imports in the Group by country and by division parent company. The situation in Finland is also presented separately by division parent company.

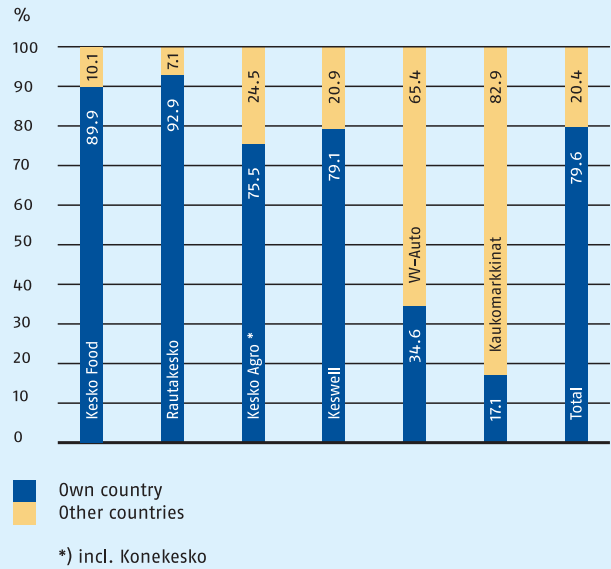
The proportion of domestic purchases was the highest in food - an average of 90% - and the differences between Finland, Estonia and Latvia were insignificant. Domestic purchases ac-

Proportion of Kesko Group's domestic purchases by division in 2004



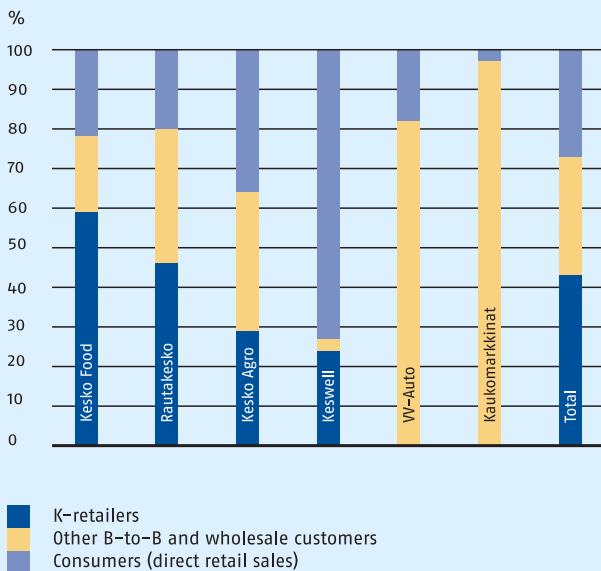
\*) The figure for Finland covers purchases from Finland, the figure for Estonia covers purchases from Estonia, etc.

Proportion of Kesko Group's domestic purchases by division in Finland in 2004



\*) incl. Konekesko

Breakdown of Kesko Group's sales in 2004



land were, in fact, slightly bigger than shown by the statistics, because purchases by the Baltic and Swedish subsidiaries from other countries also include purchases from Finland.

Kesko's 10 largest suppliers accounted for 23.1% of the Group's purchases (22.0% in 2003), and its 100 largest suppliers for 52.2% of purchases (50.7%). Of the 10 largest suppliers, eight represented the Finnish food industry and two were German car manufacturers. The 100 largest suppliers included 12 suppliers from outside Finland.

Kesko paid over 99% of its invoices within the agreed time periods. As no accurate statistics are available, this figure has been estimated on the basis of the penalty interests paid (EUR 117,000).

K-retailers made 87.7% of their purchases from Kesko, and 12.3% from other suppliers, mainly regional and local suppliers. K-retailers' purchases from Kesko totalled about EUR 3.2 billion, and direct purchases from others amounted to about EUR 396 million.

### Breakdown of economic benefits by region

The operations of Kesko and K-retailers benefit Kesko's partners and employees in Finland and other countries. The graph on page 26 shows how these benefits are spread across Finland's regions.

More detail on Kesko's purchases from Finnish suppliers has been provided this year than for 2003, and information now covers EUR 4.0 billion of the total sum of EUR 4.5 billion. The remaining EUR 500 million are largely linked to suppli-

counted for an average of 80% in the hardware and builders' supplies trade; exceeding 90% in Finland, however. Also in Keswell, which mainly operates in Finland, domestic purchases accounted for 80%. As statistics are based on the invoicing party's domicile, they do not give a clear picture of the production countries of the goods. The Group's purchases from Fin-



## Local purchases valued at EUR 400 million

Efficient use of the chain's common basic product selection and marketing efforts, together with high-quality implementation of the entire chain concept, are key factors contributing to maintaining and strengthening the competitiveness of K-retailers.

K-stores sell many other products outside the basic selection provided by Kesko for its chains, however. Regional and local differences in demand and supply have a major impact on individual stores. K-retailers know their market area and extend their chain selection with their own store-specific products, designed to meet the needs of their customers.

Kesko is also the principal supplier of K-retailers' store-specific purchases. K-retailers made nearly 88% of all their purchases from Kesko in 2004, and K-food retailers slightly over 90%. About 10% of purchases, valued at nearly EUR 400 million, are made directly from regional and local suppliers, who send the goods and invoices direct to the stores.

Retailers Heikki and Laila Kalliala of K-supermarket Perniö, a former K-market that joined the K-supermarket chain in autumn 2004, estimate that their store carries about 3,000 store-specific products in addition to Kesko's basic selection. They purchase a large proportion of these from Kesko, but also have many local suppliers of bread, meat, processed meat, vegetables, root vegetables, potatoes, flour, juices, jams, and dried spices, in Perniö, Kemiö, Salo, and Turku. The Kallialas have 14 regular local suppliers, and buy local food to a tune of about EUR 300,000 a year.



*Pekka Grundström, a farmer from Perniö, supplies potatoes to the local K-supermarket Perniö on a regular basis.*

**Breakdown of economic benefits from Kesko's and K-retailers' operations by Finnish regions in 2004 (EUR million)**

Region	Kesko's purchases of goods	K-retailers' direct purchases of goods 1)	Kesko's and K-retailers' investments	Salaries paid by Kesko	Salaries paid by K-retailers 2)	Taxes paid by K-retailers 3)	Total
Southern Karelia	3.6	12.2	8.2	4.6	7.7	0.9	37.2
Southern Ostrobothnia	163.5	21.3	1.9	3.5	6.6	0.8	197.6
Southern Savo	40.8	10.9	5.3	1.8	8.0	1.3	68.1
Eastern Uusimaa	97.4	4.6	0.1	1.1	4.7	0.5	108.4
Kainuu	5.0	7.8	7.0	2.3	3.7	0.5	26.3
Kanta-Häme	68.1	20.6	0.6	4.5	10.1	1.5	105.4
Central Ostrobothnia	47.2	5.7	1.4	2.4	2.8	0.6	60.1
Central Finland	43.7	14.4	26.9	6.6	12.8	1.5	105.9
Kymenlaakso	7.4	10.6	0.5	4.4	8.3	1.0	32.2
Lapland	13.1	18.1	1.2	1.8	13.2	2.3	49.7
Pirkanmaa	295.4	31.1	7.5	17.9	24.6	3.5	380.0
Ostrobothnia	52.3	11.4	3.7	4.4	6.1	0.7	78.6
Northern Karelia	24.7	7.5	1.3	3.6	6.2	1.1	44.4
Northern Ostrobothnia	37.6	24.8	10.7	12.9	19.0	2.0	107.0
Northern Savo	86.1	19.3	3.3	6.7	13.3	2.0	130.7
Päijät-Häme	62.8	9.9	0.7	5.6	8.3	1.5	88.8
Satakunta	103.0	13.5	3.5	4.2	9.7	1.1	135.0
Uusimaa	2,249.2	87.0	33.9	196.6	72.1	11.3	2,650.1
Varsinais-Suomi	543.9	41.9	7.4	18.5	22.2	4.2	638.1
Åland	21.4	*)	3.2	-	*)	*)	24.6
<b>Total</b>	<b>3,966.2</b>	<b>372.6</b>	<b>128.3</b>	<b>303.4</b>	<b>259.4</b>	<b>38.3</b>	<b>5,068.2</b>

\*) data has not been collected

1) figures include purchases by 949 K-retailers

2) figures include salaries paid by 1,029 K-retailers

3) figures include taxes paid by 884 K-retailers and real estate taxes paid by Kesko

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

	2002	2003	2004
Suppliers of goods			
– Finland	4,486	4,485	4,521
– other countries	1,135	1,675	1,993
Suppliers of services	92	98	110
Suppliers of capital goods	185	259	170
Personnel (salaries and other benefits)	281	316	355
Shareholders (dividends) *)	54	91	274
Tax authorities (income and real estate taxes)	44	60	50
Social security (pension and social security expenses)	67	75	83
Support for the public good	2	2	2

\*) dividends paid during the financial year

ers without sufficient location information. It has been possible to break down purchases by the location of the supplier only, although production might have taken place in several locations. As a result, the purchase figures for the southern area of Uusimaa are higher than in reality.

All salaries and real estate taxes paid by Kesko have been broken down by municipality. Income tax, on the other hand, has not, as this is the responsibility of the tax authorities. Compared to other figures, real estate taxes are such a small item that they were combined with the taxes paid by K-retailers.

Only those K-retailers that are customers of Vähittäiskaupan Tilipalvelu VTP Oy are included in the analysis of salaries and taxes, and they account for between 80% and 85% of the Group's consolidated net sales. K-retailers' direct purchases from local suppliers are now included. Because it was not possible to specify these purchases on the basis of invoicing addresses, the statistics have been prepared on the assumption that purchases have been made from within the region in question.

Absolute figures do not fully illustrate the differences between regions, but must be related to population numbers, in particular when estimating the level of services. The amount of salaries and taxes per inhabitant (graph on page 22) illus-

trates the K-Alliance's input in each region's service network, with the exception of Uusimaa, where the figures include the Kesko Group administration and a major part of division parent companies' personnel. Capital expenditure could also be proportioned in the same way, provided that the time period under review is longer than one year.

**Financial support**

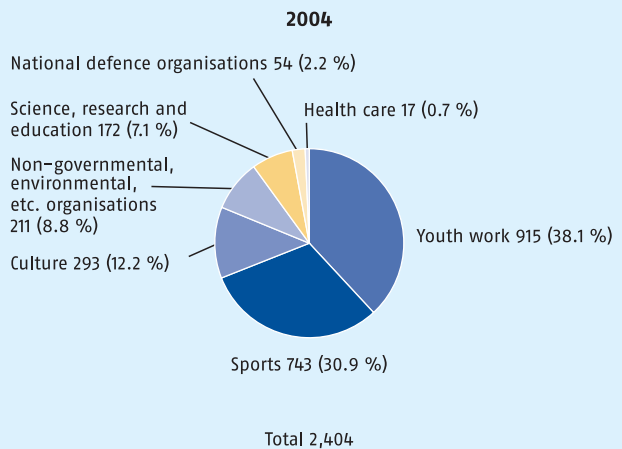
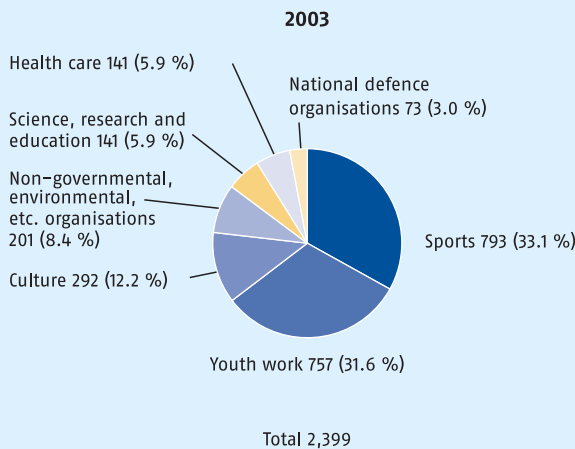
Kesko and its subsidiaries support a number of mainly nationwide organisations that work for the good of society. In many cases, support is based on reciprocal co-operation, in which Kesko is not only a sponsor, but also an active player. Kesko directs its support primarily at areas associated with everyday family life. Supporting socially responsible activities and sustainable development in Kesko's operating environment is also important to Kesko.

Drawing a line between donations, sponsorship and marketing is often difficult. When pure marketing measures are left out of the calculations, the financial support provided by the Kesko Group for the public good in 2004 amounted to EUR 2.4 million, the same as in 2003. The proportion of Kesko's support for youth work grew to 38.1% (31.6% in 2003) - with the Young Finland Association, the Finnish Science Centre Heureka and the Children's Day Foundation being the most important partners - whereas the proportion going to sports decreased to 30.9% (33.1% in 2003). The proportion of science, research and education increased, that of culture and non-governmental and environmental organisations remained unchanged, and that of national defence organisations and health care decreased.



*Kesko presented scholarships to talented young athletes and art students for the seventeenth time in May 2004. From the left: President and CEO Matti Honkala, Chairman of the Board Heikki Takamäki, and Kiira Korpi, a figure skater from Tampere, representing the Finnish Figure Skating Association.*

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



## Guide for active children's parents



*Home Economist Leena Korkalainen prepares a fruit salad recipe for the guide in the K-test kitchen.*

Increasing the everyday physical activities of children and families with children, and encouraging children and families to adopt healthy eating habits, lies at the heart of co-operation between the K-Alliance and the Young Finland Association. The Association's 'Sports Adventure Around the Globe' campaign has promoted physical exercise for hundreds of thousands of schoolchildren aged under 12 over the last three years. The campaign was expanded to focus on the need for rest and a varied diet in 2004. 177,000 children participated in the 2004 campaign organised by K-food stores and the Young Finland Association.

As part of the 2004 Sports Adventure, children were given scorecards for noting down their daily physical activities, the number of meals they had each day, and how long they slept. Similar themes were also highlighted in a 'Parents' Guide' distributed by schools to parents, and designed to help parents keep track of their children's daily activities and make any improvements needed.

Providing the right kind of energy for growing, physically active children is essential to their health. The recipe pages of the Parents' Guide were drawn up by and tested at the K-test

kitchen. The guide stresses the importance of an even supply of energy based around five meals a day. Fun, easy-to-prepare, wholesome alternatives - 18 recipes in all plus five good snacks - were included, together with instructions on how to plan a balanced meal and an energy comparison of different snacks (STRIP study by the University of Turku). A revised edition was published in March 2005, highlighting the importance of ingredients in total energy and fat intake as well as the quality of fat.

The 2004 Parents' Guide also contained a coupon for a free bag of Pirkka snack carrots from a K-food store. Nearly 200,000 bags of snack carrots were collected from K-food stores during the campaign, between 15 March and 15 April 2004.

- Only one third of children exercise sufficiently. Between 10% and 20% of children are completely passive, and the number is growing.
- The recommended amount of physical activity is 2 hours per day.
- 10-20% of all children are overweight, and over 5-6% are fat.
- Only 20% of schoolchildren have a proper meal at school every day. Pupils who do not eat well easily get tired.
- Grade six pupils typically sleep between 30 minutes and an hour less than the recommended nine hours.

## Environmental performance

### Key environmental performance in 2004

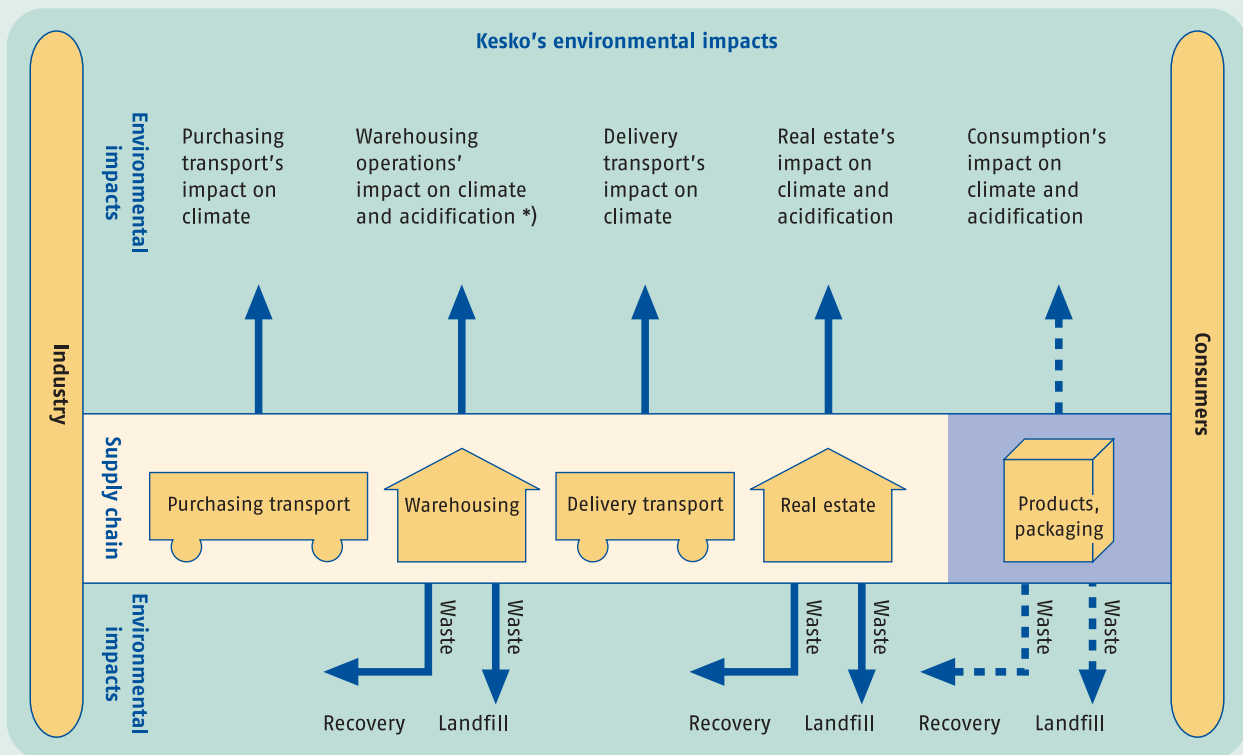


- Environmental certificates of Kesped and Kesko Food logistics were renewed
- Total consumption of electric and heat energy decreased
- In real estate covered by the energy-saving agreement, specific consumption fell in all store types.
- Greenhouse gas and acidification emissions generated decreased in Finland
- Relative proportion of packaging in the total imports continued to decrease
- Waste recovery rate in Finnish distribution centres was 89.4%, and in Anttila's warehouse 91.4%
- K-environmental store diplomas were awarded to 71 stores
- Kesko's Corporate Responsibility Report for 2003 was ranked the best in the world in the trading sector
- Kesko joined the WWF programme for protecting the Baltic Sea

- Energy data from Kesko's real estate outside Finland was not as extensive as for the previous year
- Number of kilometres driven and emissions per each cubic metre delivered increased by nearly 10% in Kesped transportation
- Amount of waste included in statistics increased considerably in Kesko Food's Estonian operations
- Four exceptional situations were notified at the Hamina terminal of Kaukomarkkinat to the authorities

*Jarmo Möttönen, a sales assistant and wastewater expert at K-rauta Rauta-Otra in Tampere.*





\*) included in real estate's impact

Kesko's activities burden the environment both directly and indirectly. Direct environmental impact comes from the purchasing, warehousing, handling and transportation of goods, the construction and use of real estate, and waste management. Indirect environmental impact results from the manufacture, use, and disposal of products and packaging.

This section primarily covers work related to direct environmental impact. As Kesko has reported on its environmental performance since 1997, a great deal of information and experience has already been amassed in this field. Indirect impact is also discussed, but measuring performance in these areas is more difficult.

Environmental work is at an early stage in Kesko's subsidiaries outside Finland. The most progress has been made in monitoring energy consumption, and some transportation and waste statistics are also now available. Co-operation with Sweden's ICA has started in the Baltic countries, and decisions on environmental systems and related activities are expected during 2005. ICA's policies and systems are very similar to those of Kesko, which provides a good basis for progress.

### Environmental system and data management

Kesko's environmental management is based on the company's own environmental policy, the International Chamber of

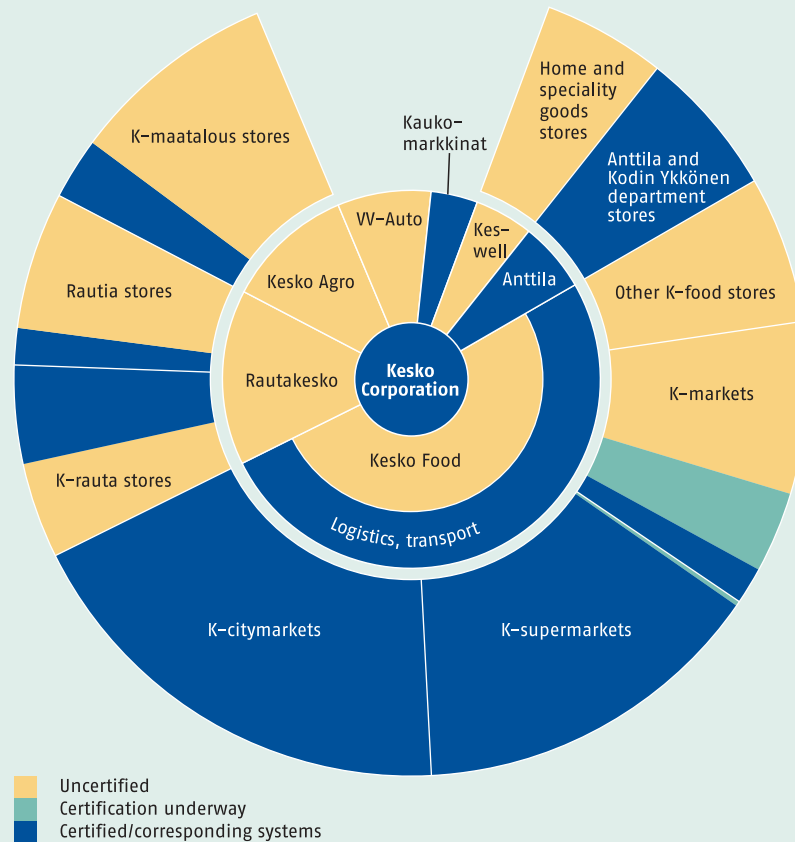
Commerce's principles of sustainable development, and the ISO 14001 standard. The environmental system has been certified in units with major environmental impact:

- Kesko Food Ltd's logistics operations
- the transport and forwarding company, Kesped Ltd
- Anttila Oy's central unit, mail order sales, and NetAnttila operations
- all Anttila and Kodin Ykkönen department stores
- real estate management and maintenance (certificate held by YIT Kiinteistötekniikka Oy, which is now responsible for these outsourced operations).

The environmental certificates awarded to Kesped and Kesko Food's logistics operations were renewed in 2004. The emphasis in auditing was placed on environmental indicators of transportation, terminal operations, and environmental operations at the warehouses.

Kaukomarkkinat Oy employs an environmental system based on the ISO 14001 standard, although it has not been certified. Preparations were started in respect of Kesko Food's logistics operations in the Baltic countries for the implementation of the ISO 14001 system, but completion was postponed due to the start-up of Kesko Food's and ICA AB's joint venture, Rimi Baltic AB, at the beginning of 2005. Kesko's main office build-

### Coverage of environmental management system in relation with volume of operations



ing at Katajanokka in Helsinki and Kesko Food's central warehouses in Hakkila, Vantaa, together with the Turku distribution centre, have adopted an environmental programme for office work developed by Kesko (see page 45). K-stores' environmental management is based on a variety of inputs, including the K-environment store manual, division-specific training programmes, and best practices documented on the intranet. The K-environmental store model forms part of the chain concept employed in the largest K-food stores (see page 43).

## Real estate operations

### Construction

The value of Kesko's real estate investments in Finland in 2004 totalled approximately EUR 61 million, and in other countries approximately EUR 27 million. When operating on this scale, applying eco-efficient construction methods is important to ensure that environmental issues are given sufficient priority in investments. Kesko has long used a 'core and shell' model to facilitate cost control during a building's life-cycle, by dividing a building into a long-term shell and a rap-

idly changing business core. Allocating investments either to the real estate shell or the business operations core helps ensure that construction embodies eco-efficient principles.

Special development areas set in 2004 included real estate data management and construction guidelines. A project designed to optimise life-cycle costs in store site construction was initiated in the autumn.

Extensive updating of real estate data systems has improved Kesko's ability to monitor and optimise life-cycle costs and energy consumption. Kesko participated in two technology development projects, eProm and eKyy, co-ordinated by RAKLI, the Finnish Association of Building Owners and Construction Clients. They aimed at improving data management in networked real estate business operations.

The update of construction guidelines gave particular emphasis to the need to take premises-specific conditions into account, as well as energy efficiency. A precise understanding of these requirements creates a solid basis for optimising energy consumption. Energy monitoring during a building's use ensures that energy consumption data is correct and that the response to unexpected changes can be fast.

### Structural safety

Kesko continued safety inspections of the load-bearing structures in premises it operates in 2004. By the end of the year, inspections of load-bearing structures in accordance with the construction industry's joint recommendations had been carried out at 64 sites, and inspections of suspended ceilings at 84 sites. Inspections were carried out by structural engineering experts from JP-Kakko Oy, and by structural designers responsible for new projects and modernisation projects. Some minor damage and defects were identified in the inspections, and resulted in further surveys and repairs. Kesko has reported the inspection results to RAKLI.

### PromisE classification of premises

Kesko has participated in a joint project by the Ministry of Environment, MOTIVA, and RAKLI to develop an environmental building classification system ('PromisE'). Under this system, store premises criteria have been divided into four groups: human health (with a 25% weighting), use of natural resources (15%), ecological impact (40%), and management of environmental risks (20%). Points are given for measurement results, and buildings rated on a scale of A to E designed to indicate the environmental performance of a property in the same way as the energy classification applied to household appliances. Category A is the most demanding category, achieved by 1-2% of premises. About 10% of premises have the potential to be graded Category B. Category C is also above-average. Category E is equivalent to normal current performance. If the points given to even one of the criteria fall short of Category E, no classification is given.

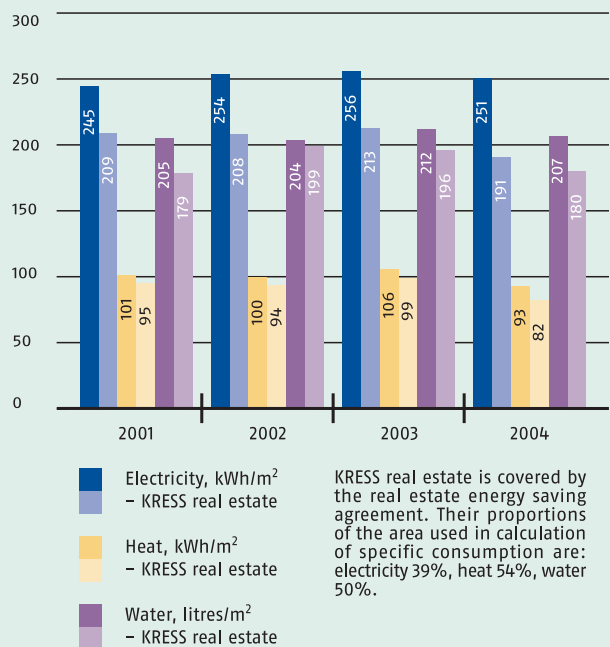
Kesko Real Estate commissioned a PromisE classification on three premises in 2004. K-citymarket Seppälä in Jyväskylä was graded Category B, thanks to the use of natural light and well-optimised energy efficiency. K-citymarket Kaakkuri in Oulu and K-citymarket Kutomo in Forssa both rated Category C. At the Oulu site, environmental impact is taken into account more comprehensively than normally, in accordance with current construction guidelines. In Forssa, the building's poorer thermal insulation capacity compared to modern construction has been compensated for by the environmental value obtained by reusing an old building.

### Environmental risks of land use

A basic survey of contaminated land areas was started at Kesko in 2002, and additional studies and remediation needs revealed were carried out in 2003. Since then, new studies have been made in connection with construction work or real estate transactions.

Contaminated land areas were identified in three projects in Finland in 2004. Remedial action was taken at two of these sites during construction. The present use of the third

### Specific consumption of electricity, heat and water in the real estate owned or leased by Kesko in Finland in 2001-2004



site does not necessitate remediation. One soil study was carried out in Latvia, and site found to be clean. No new sites were acquired in other countries in 2004.

### Energy and water consumption

Real estate owned or leased by Kesko totalled slightly over 3.0 million square metres as of the end of 2004, of which 2.57 million square metres were in Finland. The total area fell by 4.9% during the year. In terms of energy consumption, the most important real estate categories are K-citymarkets, K-supermarkets, K-markets, Anttila department stores, and office and warehouse buildings.

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

The coverage of multi-energy monitoring (electricity, heat, and water) improved in 2004, and was extended to about 70% of Kesko's real estate in Finland. 1% of premises are covered by partial multi-energy monitoring, and in 21% electricity consumption only is monitored. Consumption at premises outside the system is evaluated by type of property based on the specific

*Continued on page 34*





consumption of the premises monitored.

Energy saving was adopted as the theme of the year in Kesko's real estate operations during 2004. Consumption monitoring was improved by enhancing the EnerKey system - by starting to produce benchmarking reports for retailers, for example, - and training K-environmental store personnel in energy savings. The total savings achieved in energy costs during the year amounted to 9-10% in premises covered by the YIT management contract. Some of the savings can be attributed to the cold summer, when less electric energy than normal was used for refrigeration. As the price of electricity also remained slightly lower than in previous years, actual savings totalled some 5-6%.

The combined electricity consumption of Kesko and the K-retailers operating in Kesko's premises totalled 638 GWh in 2004, a reduction of 4.3% on 2003. When the reduction in floor area that took place during the year is taken into account, consumption remained unchanged. The specific consumption of Anttila department stores per square metre dropped by 7%, that of K-rauta stores by 6%, and that of K-city-markets by 3%, whereas the specific consumption of K-supermarkets rose by 3% and that of K-markets by 8%. In real estate covered by the KRESS real estate and construction energy-saving agreement, specific consumption fell in all store types.

Heat consumption totalled 259 GWh, a reduction of 15.2% over 2003. If temperature adjustments are taken into account, the reduction was 9.9%. Total specific consumption fell by 12% in the buildings where the figure could be calculated, and in K-citymarkets by nearly 14%. In KRESS buildings, specific consumption fell by an average of nearly 15%.

Water consumption stood at 548,077 cubic metres, 7.9% less than in 2003. Specific consumption fell by an average of

2.6%. In KRESS buildings, specific water consumption also dropped more than average, by 4.6%.

Monthly consumption data from Kesko's real estate outside Finland was compiled in the form of Excel spreadsheets and sent to Energiakolmio for reporting to obtain monthly consumption figures. Very extensive data was received from Estonia and Latvia. As data obtained from Sweden was insufficient and virtually non-existent from Lithuania, energy consumption in these countries was estimated for emission purposes employing the 2003 specific consumption figures for the real estate used in 2004. Consumption of electricity, heat, and water increased considerably more (14-20%) than the area of real estate (8%) in Estonia and Latvia.

The primary energy used by Kesko was equivalent to approximately 0.4% of Finland's total energy consumption (Statistics Finland, Energy in Finland 2003, Finland in Figures). Electricity accounted for around 0.7% (www.energia.fi, December 2004 express statistics), and heat for about 0.8% (www.energia.fi, advance information for 2004) of total consumption in Finland.

#### Environmental profile of energy

JP-Talotekniikka Oy has calculated Kesko's environmental profiles for 2004. In contrast to previous years, nuclear power has now been added alongside renewable and non-renewable energy sources in the breakdown of the consumption of primary energy. Nuclear energy was previously included under non-renewable energy sources. The calculation, which includes a comparison with the energy protocol contained in the GRI reporting guidelines, has been published in full at www.kesko.fi as an attachment to the corresponding part of this report.

Kesko supplied 523 GWh of the total electricity used in Fin-

#### Environmental impacts of electricity supplied by Kesko to the K-Alliance in 2002-2004

	Unit	2002	2003	2003 *)	2004 **)	Change 2003/2004
Volume	GWh	509	518	518	523	0.9 %
Primary energy	PJ	3.7	4.1	3.6	3.8	5.5 %
- non-renewable	PJ	2.9	3.5	1.6	1.4	-12.5 %
- nuclear energy	PJ	***)	***)	1.6	1.8	12.5 %
- renewable	PJ	0.7	0.6	0.4	0.6	50.0 %
Environmental impacts						
- climate change	tn CO <sub>2</sub> eq	127,455	129,520	118,505	98,310	-17.0 %
- acidification	tn SO <sub>2</sub> eq	308	348	268	240	-10.4 %
- ozone in lower atmosphere	tn C <sub>2</sub> H <sub>4</sub> eq	7.1	8.9	10.0	10.1	1.0 %
- radioactive waste	tn	0.44	0.70	0.51	0.58	13.7 %

\*) figures for 2003 have been updated to correspond to the actual emissions in electricity production

\*\*) figures for 2004 are based on emission data for 2003

\*\*\*) nuclear power was previously included in non-renewable energy but is now reported separately

#### Consumption and environmental profile of heat and electrical energy in the real estate owned or leased by Kesko in Finland in 2002–2004

	Unit	2002			2003 **)			2004			Change *) 2003/2004
		Heat	Electricity	Total	Heat	Electricity	Total	Heat	Electricity	Total	
Volume	GWh	282	644	926	306	667	973	259	638	897	-7.8%
Primary energy	PJ	1.1	4.8	5.9	1.2	4.8	5.9	1.0	4.7	5.7	-3.9%
- non-renewable	PJ	0.9	3.8	4.8	0.9	1.7	2.6	0.9	1.8	2.7	9.7%
- nuclear energy	PJ	***)	***)	***)	-	2.0	2.0	-	2.2	2.2	8.5%
- renewable	PJ	0.2	1.0	1.2	0.2	0.8	1.0	0.2	0.7	0.9	-15.8%
Environmental impacts											
- climate change	tn CO <sub>2</sub> eq	70,874	160,827	231,702	75,582	118,552	194,134	65,103	98,346	163,449	-15.8%
- acidification	tn SO <sub>2</sub> eq	227	418	645	248	268	516	209	240	449	-13.0%
- ozone in lower atmosphere	tn C <sub>2</sub> H <sub>4</sub> eq	5.5	9.7	15.2	6.1	10.0	16.1	5.1	10.1	15.2	-5.6%
- radioactive waste	tn	-	0.67	0.67	-	0.75	0.75	-	0.77	0.77	2.2%

\*) combined change in heat and electricity

\*\*) figures for 2003 have been updated to correspond to the actual emissions in electricity consumption (year 2004 has been calculated based on data for 2003)

\*\*\*) nuclear power was previously included in non-renewable energy but is now reported separately

#### Consumption and environmental profile of heat and electrical energy in the real estate owned or leased by Kesko in the Baltic countries and Sweden in 2004

	Unit	Sweden		Estonia		Latvia		Lithuania	
		Electricity	Heat	Electricity	Heat	Electricity	Heat	Electricity	Heat
Volume	MWh	3,943	5,244	39,164	11,514	24,743	8,848	13,155	11,345
Primary energy	PJ	0.03	0.04	0.61	0.10	0.14	0.04	0.18	0.04
- non-renewable	PJ	0.01	0.02	0.00	0.00	0.08	0.00	0.00	0.00
- nuclear energy	PJ	0.00	0.03	0.61	0.10	0.06	0.04	0.05	0.04
- renewable	PJ	0.02	0.00	0.00	0.00	0.00	0.00	0.13	0.00
Environmental impacts									
- climate change	tn CO <sub>2</sub> eq	79	72	40,304	7,775	3,662	2,226	1,118	2,569
- acidification	tn SO <sub>2</sub> eq	0.22	0.46	310.06	54.83	9.15	4.29	7.15	2.00
- radioactive waste	tn	0.01	0	0	0	0	0	0.04	0

Energy consumption data of Sweden and Lithuania for the 2004 real estate has been calculated on the basis of the 2003 specific consumption.

land (638 GWh), while K-retailers purchased the remaining 115 GWh themselves. The environmental profile of electricity supplied by Kesko is based on the information provided by energy companies, whereas the environmental profile of the electricity purchased by K-retailers is based on average Finnish data. The district heat profile used is the average Finnish figure.

No emission calculations covering electricity production in 2004 for the calculation of Kesko's indicators were available from the energy companies. As a result, the data is generally for 2003, and in some cases even older. Because the structure of energy generation varies from year to year - 2003, for instance, was a poor year for hydropower and 2004 a good year - and Kesko can change its electricity suppliers, calculating the environmental profile on the basis of old data reduces the reliability of the results. This can be seen in the enclosed table, which illustrates emissions related to Kesko's

electricity purchases by presenting two different figures for 2003. The first figures are based on generating data for 2002, while the second ones have been updated on the basis of actual emission figures for generation in 2003. The figures for 2004 have been calculated on the basis of the emission figures for 2003. The correct figures will be updated in the online edition of this report as soon as generating data for 2004 has been obtained from the energy companies.

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

Kesko puts its electricity supply contracts out to competitive tender every year. Fortum Markets was the main supplier in 2004, and was responsible for 67.2% of supply, com-

## Kesped Ltd's distribution figures 2002–2004

Distribution centre	tons/load			change 03/04 %	km/load			change 03/04 %	m <sup>3</sup> /load		change 03/04 %	
	2002	2003	2004		2002	2003	2004		2002	2003		2004
Helsinki	6.5	6.1	6.7	10.7	112	117	151	29.1	17.7	19.2	21.0	9.3
Tampere	5.6	7.4	7.7	4.8	121	145	206	42.6	15.9	16.9	22.1	30.8
Turku	5.2	5.0	6.0	18.4	119	101	96	-4.8	14.5	15.1	15.7	3.7
Kuopio	9.4	7.9	8.0	0.8	260	240	217	-9.8	26.0	23.7	22.8	-4.0
Oulu	7.0	6.4	7.6	19.5	243	276	244	-11.6	19.3	19.1	17.6	-7.5
Jyväskylä	-	5.4	4.8	-11.0	-	118	146	23.8	-	13.0	11.1	15.0
Mikkeli	-	-	5.8	-	-	-	236	-	-	-	18.1	-
Whole Kesped	6.4	6.3	6.8	8.2	140	144	165	14.6	17.7	18.4	19.4	5.1

Note! Tons, kilometres and cubic metres have been rounded in the table, but percentage changes have been calculated from unrounded figures.

pared to 45.2% in 2003. The second largest supplier was Helsinki Energy (18%). About 40% of the electricity supplied by Fortum was produced by nuclear power, which was reflected in a reduction in emissions to air and an increase in the amount of radioactive waste.

The relative combined share of Kesko and K-retailers of total greenhouse gas emissions in Finland remained unchanged at about 0.3% in 2004.

The consumption of primary energy in electricity generation in Sweden, Latvia, and Lithuania is based on information provided by the International Energy Association (IEA) and specific consumption information from Eurelectric. The figures for Estonia are based on environmental profiles of electricity and district heat provided by Eesti Energia AS.

In respect of heat energy, consumption of primary energy in all these countries is based on IEA statistics, and specific emissions have been evaluated on the basis of the specific emissions of primary energy sources.

Foreign premises accounted for less than 15% of Kesko's total real estate, 11% of real estate-related electricity consumption, 12% of heat consumption, and about 26% of greenhouse gas emissions in 2004. Energy monitoring and emission calculations outside Finland involve major uncertainties compared to operations in Finland.

Electricity consumption in the Kesko Group as a whole fell by about 1.5%, and heat energy consumption by 12%. Climate warming-related emissions fell by 16%, and acidifying emissions by 20%. The amount of radioactive waste increased slightly.

## Transport

Kesped improved the efficiency of distribution to K-food stores in co-operation with Kesko Food in 2004 through a number of measures, including the introduction of a terminal in Mikkeli. Deliveries to the largest K-stores were increasingly handled from the central warehouse in Vantaa, which increased the number of distribution kilometres per volume unit delivered.

As in 2003, transport statistics and emission calculations have included distribution carried out by external operators used in Finland and Kesko Food's distribution in Estonia, in addition to Kesped operations. No statistics are yet available on other countries.

No reliable statistics are available on purchasing transportation, nor on trunk transportation between Kesko's central warehouse and distribution warehouses. About 70% of domestic goods for Kesko Food's warehouses are bought at 'ex works' prices, allowing Kesko Food to decide on the mode of transport used. In most cases, transportation is handled by Kesko Food's trucks returning from trunk shipments or deliveries, which means that these purchases are included in the figures for distribution kilometres.

Kesped transported 85,019 loads to K-retailers and other Kesko's customers in 2004 (97,226 loads in 2003), representing 576,000 tons of goods (609,000 tons). The total distance driven was 14.1 million kilometres (14.0 million). An average load totalled 6,777 kilos (6,261 kilos) and 19.4 m<sup>3</sup> (18.4 m<sup>3</sup>) of goods. The average distance driven per load was 165.4 kilometres (143.7 kilometres).

The volumetric efficiency of loads increased by an average of over 5%. In the Tampere distribution area, the figure increased by 31%. The average driving distance per load rose by 15%. The number of kilometres driven per each cubic metre delivered increased by nearly 10% after falling for a number of years in succession.

Contract transport companies drove over 3.3 million kilometres (3.5 million) delivering Kesko goods - mainly transporting meat, processed meat, and convenience foods. This figure is based on the information provided by transport companies as a proportion of the total distances driven. It has not been possible to compile sufficiently accurate statistics on the loads, cubic metres, and tons involved in this transportation.

The number of kilometres driven in Estonian distribution operations totalled 2.2 million, an increase on the 1.7 million

### Energy consumption and primary emissions in delivery transport

	Transport 1,000 km	Energy consumption MWh	CO <sub>2</sub>	CO	Emissions, tons HC	NO <sub>x</sub>	Particles
<b>2002</b>							
- Kespel	14,871	71,226	18,884	9	6	198	3
- Anttila	494	2,366	627	0.3	0.2	6.6	0.1
<b>2003</b>							
- Kespel	13,967	66,895	17,736	9	6	186	3
- outsourced transport	3,544	10,976	2,911	5	3	29	1
- Anttila	502	2,404	638	0.3	0.2	6.7	0.1
- Kesko Food, Estonia	1,668	*)	1,669	*)	*)	*)	*)
<b>2004</b>							
- Kespel	14,061	67,346	17,855	9	6	187	3
- outsourced transport	3,340	10,327	2,739	4.7	2.6	27.4	1
- Anttila	521	2,498	662	0.3	0.2	7.0	0.1
- Kesko Food, Estonia	2,204	*)	2,193	*)	*)	*)	*)

\*) data has not been collected

kilometres driven in 2003, and mainly attributable to the start of meat, processed meat, and convenience food distribution. The number of loads was 14,059 (10,356), and an average of 156.8 kilometres (161.1 kilometres) were driven per load.

Anttila's transportation consisted of 10,200 loads and 521,000 kilometres driven, representing an increase of nearly 4%.

Kesko is responsible for only part of the warehousing and transportation of products sold by Rautakesko, Kesko Agro, and Keswell (excluding Anttila) to K-retailers, so transportation statistics for them cannot be presented in the same way as for Kesko Food and Anttila.

The total volume of imports forwarding by Kespel was 324,400 tons, an increase of 9.6% over 2003. Transportation from within Europe was handled by trucks, semi-trailers, and containers, and from outside Europe by containers only. Kesko Food accounted for 72% of all imports.

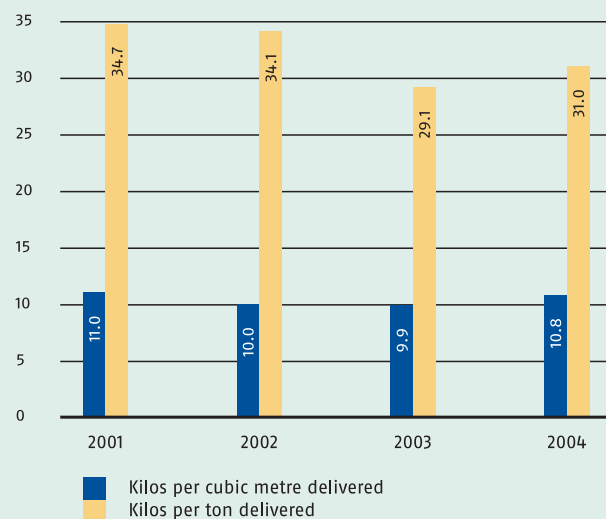
Export deliveries, mainly to Sweden, the Baltic countries, and Russia, were handled by trucks. The total volume of export forwarding by Kespel, excluding grain, was 4,000 tons (15,000 tons in 2003).

### Transport emissions

The emissions associated with deliveries by Kespel and other transport companies have been calculated according to the kilometres driven, as no fuel consumption data is available. The calculation is based on the emission factors and definitions contained in the LIISA 2002 model produced by the Technical Research Centre of Finland, VTT.

VTT has updated its calculation model and now provides

CO<sub>2</sub> emissions in Kespel Ltd's distribution compared with delivery volumes



co-efficients by truck type, engine category, and driving speed category. Fleet definitions for Kespel's calculation have been made using the EURO2 co-efficients (for models produced between 1996 and 1998), and for other operators on the basis of the average age of the company's fleet.

22% of Kespel's transportation is made by trucks, with a volumetric efficiency of 50%, and 78% by full trailers, with a

*Continued on page 39*

## Learning about recycling



*Grade seven students from Ala-Malmi comprehensive school visited the Malmi K-citymarket in Helsinki to learn about the operating principles of an environmental store. The students and their teacher, Ulla Tiainen, were received by Mikko Salmia.*

A nationwide project, 'Let's Recycle', is being implemented in co-operation with K-food retailers and Finnish biology and geography teachers during the 2004-2005 school year.

Intended for grade seven pupils, the project is designed to help children understand how what they do, what they eat, and what they buy impacts the environment, and show them how they can contribute to sustainable development.

As part of the project, pupils assume responsibility for waste management at home for a week. Pupils' duties include filling in a follow-up form and noting down ideas on the amount and type of waste generated, and the opportunities for recycling it. Another aim of the project is to have as many school classes as possible visit a local K-environmental store, guided by the K-retailer, to learn about recycling and preventing waste being generated.

The 'Let's Recycle' week is part of a more comprehensive subject in the school curriculum covering responsibility for the environment, wellbeing, and a sustainable future. Participation is voluntary for schools. The Minister of the Environment, Jan-Erik Enestam, has agreed to be the patron of the event, which is being arranged by the association of biology and geography teachers (BMOL) and Kesko Food Ltd. The recycling week is organised locally by teachers and K-retailers. As of the end of 2004, over 12,000 pupils from across Finland had taken part in a 'Let's Recycle' week. The plan is to continue co-operation during 2005-2006 school year.

**Recoverable and reusable packaging sent back in Kesko Food's return logistics (1,000 pcs)**

	2000	2001	2002	2003	2004
Aluminium cans	12,700	14,100	15,300	20,000	20,100
Disposable bottles	2,000	2,200	2,000	2,100	1,959
Deposit bottles	1,002	922	923	833	764
Transbox cases	3,900	4,735	5,050	5,702	5,506

**Reusable transport packaging sent back to Keswell's central warehouse (number of uses)**

	2000	2001	2002	2003	2004
Crates	94,545	99,273	92,324	95,000	94,000
Borrowed cases	39,000	39,000	36,270	35,500	35,500
Return pallets	222,000	240,000	223,200	240,000	250,000
Cardboard collars	11,865	7,500	6,000	6,000	*)
Long furniture pallets	13,000	15,600	15,600	7,500	7,500

\*) data has not been collected

volumetric efficiency of 70%. Urban traffic accounts for 70% and rural traffic for 30% of transportation by truck, while 70% of full trailer transportation is undertaken in rural areas.

69% of outsourced deliveries are made by trucks, and 31% by semi- or full trailers. Urban driving accounts for 70% of truck transportation, and 20% for other transportation. Assumed volumetric efficiencies are the same as for Kesped.

Anttila's calculations are based on general factors applicable to all trucks. In respect of transportation in Estonia, emission calculations are based on the Greenhouse Gas Protocol included in the GRI guidelines. The Protocol does not contain the calculation of any other emissions. Trucks accounted for 58% (47% in 2003) of the kilometres driven in 2004, which was due to the start of meat, processed meat, and convenience food transportation. The use of semi- and full trailers also increased.

The relative CO<sub>2</sub> emissions of Kesped's transportation operations increased by 6.3% per ton and 9.6% per cubic metre. This increase in emissions can mainly be attributed to the fact that the average number of kilometres increased more than the volumetric efficiency of loads. The relative amount of carbon monoxide, hydrocarbon, and particle emissions generated by outsourced transportation services was higher than with Kesped, because it mainly consisted of urban truck trips.

### VOC emissions at Kaukomarkkinat's Hamina terminal

Loading, unloading, and storage operations at Kaukomarkki-

nat's Hamina terminal generate emissions of volatile organic compounds (VOC). These are estimated by an annual calculation based on the US Environmental Protection Agency's (EPA) TANKS 4.0 program. Calculated VOC emissions from the terminal's tanks in 2004 were 33.3 tons (32.4 tons in 2003), and emissions during loading 11.0 tons (12.2 tons). The bulk of emissions (41.6 tons) were generated when handling methanol - 32.2 tons from tanks and 9.4 tons from ships. The target limit set for these emissions in the terminal's environmental programme for 2004 - the same as in 2003, or 0.08 kilos per each ton handled and stored - was achieved. The quantity of products stored and handled fell by about 7% over 2003.

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

Carbon dioxide emissions are among the key indicators of Kesko's environmental impact. Kesko does not have sufficiently accurate information about all the carbon dioxide emissions associated with its operations, however. It is difficult, for example, to compile statistics for purchasing and trunk transportation, import transportation, fuel consumption, or business travel by air or train by Kesko personnel in the required detail. As some of Kesko's divisions have outsourced their warehousing or manufacturers supply goods direct to K-stores, transportation data is not included in Kesko's statistics. Due to the numerous inaccuracies and possible mistakes associated with calculating the Group's carbon dioxide balance, it has been decided to cease calculating

## waste management statistics, Finnish operations (tons)

	Kesko Food			Keswell			***) Rautakesko+Kesko Agro		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Waste for recovery									
- energy waste	322	363	359	11	39	48	116	69	59
- wood waste	512	437	764	51	53	57	157	197	159
- metal	109	166	152	3	17	7	15	19	25
- film plastic	267	327	248	*)	20	21	6	-	-
- corrugated board	5,084	5,097	4,887	427	437	468	147	162	176
- paper	239	193	174	40	54	60	20	29	7
Landfill waste									
- organic waste	931	967	874	4	6	10	19	19	10
- mixed waste	793	787	833	60	94	64	126	115	127
Hazardous waste	-	9	7	-	14	7	*)	17	43
<b>Total</b>	<b>8,304</b>	<b>8,346</b>	<b>8,299</b>	<b>600</b>	<b>734</b>	<b>742</b>	<b>606</b>	<b>627</b>	<b>606</b>
Recovery, % **)	90.5	90.6	89.9	90.0	87.2	91.4	79.2	81.7	79.0

\*) data is inaccurate or has not been collected

\*\*) organic waste has been included in the recovery percentage

\*\*\*) Rautakesko's statistics contain uncertainties resulting from outsourced warehousing

this information until further notice.

A summary of the emissions associated with energy used in Kesko and K-stores premises and distribution is presented on page 6. The information covers the majority of the emissions caused by Kesko, giving a good picture of their scale and enabling them to be related to the Group's net sales.

### Use of materials

Kesko continues to work actively in Finnish producer associations and international standardisation organisations to improve the standardisation of packaging, the use of environmentally sound materials, and reduce the amount of materials used. Kesko can play an important role in determining the packaging materials and quantities used in connection with its house brands in particular.

Kesko Food's logistics services have published a CD-ROM manual on packaging principles in this connection.

Calculating the packaging data for Kesko's divisions for 2004 was still mainly based on import forwarding statistics. The total amount of materials used in packaging imported or packed by Kesko increased by 6.5%, from 31,392 tons to 33,448 tons. As the amount of imports increased by nearly 9.6%, the relative proportion of packaging continued to decrease.

### Waste management and recycling

The KELO model has continued to be used at Kesko Food to produce statistical data on waste management at all distribution centres, and the company's waste management operator, L&T, has automatically transferred data into the KELO model.

The amount of waste generated by Kesko Food's warehous-

### Packaging materials in products imported by Kesko to the Finnish market (tons) and their share of the total weight of the products (%)

	2002	2003	2004
Fibre	21,048	20,352	22,698
Plastic	3,973	3,843	3,717
Metal	3,244	2,781	3,828
Glass	1,432	1,320	1,855
Wood	2,007	2,096	1,350
Total	31,704	31,392	33,448
Share of packaging, %	11.4	10.6	10.3

es in 2004 totalled 8,299 tons, comparable to the figure in 2003. The total amount in relation to each cubic metre of material supplied - 3.86 kilos, excluding the 1.59 kilos of corrugated board collected by return logistics from K-stores - also remained essentially unchanged. The target for 2004 was to keep the relative amount of mixed waste unchanged, which was not quite achieved. The amount of mixed waste totalled 0.39 kilos per cubic metre delivered (0.36 kilos in 2003). The amount of wood waste nearly doubled, as the number of disposable pallets increased, and pallet recycling was not as efficient as in 2003. The waste recovery rate dropped from 90.6% to 89.9%.

The total amount of waste at Anttila's central warehouse remained unchanged, but the recovery rate rose from 87.2% to 91.4%. The total amounts of waste at Rautakesko's and Kesko Agro's warehouses fell slightly, but the amount of

Continued on page 43



## Recycling waste plastic

Kesko Food has enhanced the efficiency of its warehousing operations by introducing separate recycling streams for a number of different types of waste, including waste plastic. The majority of the latter is PE-LD<sup>1)</sup> film, generated when unpacking goods and packing items for onward distribution.

Beginning in 2001, Kesko Food has sent waste plastic from its warehouses to a specialist treatment company, Muovix Oy, based in Riihimäki. Muovix recycles film, plastic pallets, crates, canisters, bottles, reels, and other thermo-plastic packaging into raw material for manufacturing. Kesko Food supplied 248,000 kilos of waste film from its warehouses to Muovix for recycling in 2004.

The waste plastic film generated by Kesko Food's warehouses is ideal for recycling, as it does not contain any major impurities - such as food, sand, wood, or hazardous waste - none of which are permitted in raw material intended for re-use. Minor impurities, such as labels, are not a problem, however. Waste plastic generated in agriculture, in contrast, is usually unsuitable for recycling, as it is too dirty.

Recycled plastic is used to manufacture products sold at K-maatalous stores for agricultural supplies, include fencing materials, electric fence poles, well covers, plant supports, and walls and floor gratings for animal enclosures. Recycled plastic can be machined in the same way as wood, and can be used to replace treated timber in a number of applications, as it is highly durable and hard-wearing.

Fence poles were the most popular product produced from recycled plastic sold in K-maatalous stores in 2004, and a total of some 6,000 were sold. Other good sellers included board materials and grate components.

<sup>1)</sup> Polyethylene, low molecular weight



Marko Nummela's pig house (Farmi Nummela Oy in Koski) has poles and gratings made of plastic recycled by Muovix.

## Recycling treated wood to generate energy



*Jussi Hakkarainen picking up pressure-treated wood for recycling from K-rauta Lielähti in Tampere.*

Recycling pressure-treated wood began in Finland in spring 2001 in response to the fact that timber pressure-treated against rot must not be burnt or dumped. Consumers taking pressure-treated wood waste to a landfill or waste treatment centre, from where it is sent for use in energy generation, are charged a handling fee. Pressure-treated wood can only be burnt in plants that have received an appropriate environmental permit and recover the metal compounds contained in the wood preservatives from the gaseous emissions and ash produced during combustion. The hardware and builders' supplies stores of the K-Alliance launched a voluntary pressure-treated wood recycling programme to coincide with the introduction of the new legislation. Demolite Oy, set up by the wood treatment industry in Finland, is responsible for recycling the waste received under the programme.

Receiving hazardous waste in this way is part of the customer service provided by the K-Alliance's hardware and builders' supplies stores across Finland. Many K-rauta and Rautia stores have special skips or other containers for col-

lecting pressure-treated wood, and these often fill up quickly during the summer. Stores accept green salt-impregnated and brown creosote-impregnated wood in lots of under one cubic metre from private consumers. Larger lots have to be delivered directly to a waste facility. A total of 437 tons of pressure-treated wood was recycled through K-Alliance's hardware and builders' supplies stores during 2004. A total of some 20,000 tons of new pressure-treated wood was sold by them over the same period.

In line with the K-environmental store concept, K-rauta and Rautia outlets provide consumers with guidance on how best to use pressure-treated wood. Good-quality untreated wood used in outside porches and fencing, where wood does not come into contact with the ground, for example, can last for decades. Pressure-treated wood is graded into three categories, depending on the preservatives used: copper-based preservatives are used in Class C wood, copper-chrome compounds in Class CC wood, copper-chrome-arsenic compounds in Class CCA wood. K-stores only sell more environmentally compatible Class C materials.

mixed waste increased by 10%, and the amount of hazardous waste - including nearly all waste generated by the repair and maintenance of agricultural and other machinery - by over 150%. As Rautakesko outsourced its warehousing (to the present Logia Oy), the figures for 2003 were estimated on the basis of the waste generated at one warehouse, while the figures for 2004 were calculated in relation to the volume on the basis of the 2003 data. Consequently, Rautakesko's share of the waste statistics contains uncertainties.

Waste statistics for Kesko Food's operations in Estonia were available for the second time. They are not comparable with Finnish statistics, however, as Estonian operations relate to retailing, while Finnish waste statistics relate to distribution centres. The amount of waste increased in 2004 considerably, mainly because the 2003 data for the country's new K-citymarkets, which started operations during 2003, only covered part of the year. The amount of waste totalled 15,466 tons in 2004 (5,418 tons in 2003), of which board and paper accounted for 8,398 tons (2,284 tons), mixed waste 3,605 tons (2,775 tons), organic waste 3,423 tons (359 tons) and plastic 40 tons (no separate collection in 2003). 404 tons (107 tons) of waste was collected at the Jüri distribution centre.

The improved efficiency of the separate collection of board and paper (54% of the total waste stream) and the reduction in the proportion of mixed waste from 50% to 23%, thanks to the start of organic waste collection in the Säästumarket chain, were all positive aspects of waste management in Kesko's Estonian operations in 2004.

Waste statistics were not yet available for any other subsidiaries outside Finland.

No essential changes took place (see page 39) in the number of packages - over 28 million in all - supplied by Kesko Food's return logistics for recovery and reuse, nor in the recycling of Keswell's transport packaging.

### Product-related developments

Kesko's division parent companies have co-operated with suppliers to improve the environmental properties of products and packages for many years. As environmental impacts must be assessed over the entire life-cycle, achieving clear-cut results has been difficult, however.

Kesko Food offered a selection of around 450 organic products and around 200 products with environmental labelling as of the end of 2004, unchanged from the figures for the end of 2003. There were 33 organic products in the Pirkka range, and their sales increased by some 20% over 2003, which can be attributed, to a large extent, to the introduction of new Pirkka organic vegetables and root crops. Some organic products - such as milk and meat - are delivered to K-stores directly from suppliers. As a result, Kesko's own sales statistics do not show the true market share of organic prod-

ucts. The market share for fruit and vegetables, mainly sold from the Kesko warehouses, is relatively exact, at between 2% and 2.5%, but even here retailers buy organic vegetables from local producers outside Kesko's range.

The major producers of the fruit and vegetables imported by Kesko Food have obtained EUREPGAP certificates, granted by an independent agency for fulfilling the traceability, product safety, and environmental requirements set for production by EUREP (Euro-Retailer Produce Working Group), by the end of 2004. The letters GAP refer to a good agricultural practice. No certification statistics were available when this report was prepared.

Kesko Food's Finnish suppliers of vegetables must belong to the Finnish Horticultural Products Society (KK) and be entitled to use the society's seed leaf symbol. The Society has drawn up a set of guidelines entitled 'Good production practices' for growers, and their implementation was assessed in winter 2004-2005 through self-evaluations produced by growers themselves. The Society's summary of the study will be completed in spring 2005.

Rautakesko offers a wide selection of products featuring environmental, energy, or emission category labelling. Certified timber - mainly with FFCS certification - accounted for around 95% of the sawn goods sold by Kesko in 2004. The proportion of garden furniture made of FSC-certified hardwood has been increasing every year. The supply of heat-treated timber is increasing, but it still accounts for only a small proportion of total sales. In all, 437 tons of impregnated timber were recycled through K-rauta and Rautia stores, up 45% on 2003. See the case story on page 42 for more information on this development.

The 2004 'Eco-car of the Year', selected on criteria covering fuel consumption, carbon dioxide emissions, and other regulated exhaust gas emissions by a jury from Motiva Oy and the Tuulilasi motoring magazine since 1996, was the Volkswagen Passat 1.9 TDI Diesel, imported by VV-Auto Oy. The Volkswagen Golf 1.9 TDI Diesel was ranked second in the eco-car comparison of 2005.

### K-environmental stores

The K-environmental store operating model was updated and is now incorporated into the chain concepts for Kesko Food's K-citymarket, K-supermarket, and K-market. All K-citymarkets and nearly all K-supermarkets were K-environmental stores as of the end of 2004. Environmental training and auditing in the K-market chain is aimed at ensuring that all stores in the chain have a diploma by the end of 2006. Basic training in stores was reorganised, and regular training on a variety of themes was started. Kesko started working with a new partner, Bureau Veritas Quality International (BVQI), which will audit food stores applying for the diploma. BVQI

*Continued on page 45*

## Wastewater expertise developed at K-rauta and Rautia



*Jarmo Möttönen, a sales assistant at K-rauta Rauta-Otra in Tampere, giving advice to Paavo Laakkonen.*

New wastewater legislation introduced in Finland in January 2004 brought tougher regulations covering wastewater treatment in lightly populated areas. Treatment efficiency must meet the new standards immediately in respect of new properties and modernisation projects, while old properties have until 2014 to bring treatment up to the new standards. A review of wastewater systems must be produced for all properties between 2006 and 2008.

A million Finns live in areas not covered by centralised drainage and wastewater treatment systems. In addition, a million people in holiday cottages cannot use centralised systems for at least part of the year. Inadequately treated wastewater in lightly populated areas contributes to the eutrophication of waterways, which is a major problem in Finland and throughout the Baltic region.

The Rautia and K-rauta chains anticipated the introduction of the new legislation, and developed a wastewater expert concept, based on a combination of training, local networking, and internal and external marketing. Rautakesko's House Technology and Electricity Department defined the products and servic-

es to be included, and trained some 400 employees. In addition to training, contacts were established with the relevant local monitoring authorities and with local professional treatment system specialists to create an expert networking capability.

Wastewater-related information was brought together in a guide for consumers. This covers not only treatment-related products, but also updates readers on the requirements associated with the new legislation, and provides information on local engineers, equipment installation specialists, and service providers, together with data on the tax breaks available for people modernising their home systems. The guide also includes a wealth of tips on how to deal with waste at home or at holiday cottages. Rautia highlighted its expertise in the area and the requirements on consumers brought by the new legislation in TV and radio advertising in spring and summer 2004.

By the end of 2004, around half of the stores in both chains had been awarded a 'Wastewater Expert' diploma for their success in meeting a detailed set of training, quality, and operational criteria. Further work to extend wastewater expertise will continue in 2005.

**K-environmental stores at 31 December 2004****Chain**

<b>K-environmental store diplomas</b>	<b>K-environmental stores</b>	<b>Share of K-environmental stores out of the chain's total sales, %</b>	<b>New K-environmental stores in 2005 (target)</b>
K-citymarket	51	100.0	**)
K-supermarket	144	97.5	6 **)
K-market	48	14.4	100
K-extra	2	*)	*)
K-pikkolo	2	*)	*)
K-rauta	17	51.4	*)
Rautia ***)	14	20.0	*)
K-maatalous	9	23.0	*)
<b>K-environmental store diplomas, total</b>	<b>287</b>		
<b>ISO 14001 certificates</b>			
Anttila/Kodin Ykkönen department stores	33	100.0	**)

\*) no data available

\*\*\*) all stores of the chain

\*\*\*) 5 of all Rautia environmental stores also operate as K-maatalous stores

will also carry out repeat audits annually in K-environmental stores selected by sampling. Key environmental issues will be taken into account in concept measurements.

In the K-rauta and Rautia chains, chain management work focuses on developing the stores' operating model in cooperation with the K-environmental store development team of each chain. The teams consist of retailers and store employees responsible for environmental affairs. Hardware and builders' supplies stores and agricultural stores co-operate with the Environmental School of Finland (SYKLI) in auditing work. Repeat audits are made every three years.

To win a diploma, retailers, hypermarket or department store directors, employees responsible for environmental affairs, and all personnel need to be trained, and a comprehensive environmental audit passed. Audits focus on evaluating whether a store meets the detailed requirements set in the K-environmental store checklist. In addition to training, these cover areas such as product selection and labelling, prevention of the generation of in-store waste, waste recycling, recycling services and environmental information offered to customers, in-store energy management, and practices followed in cleaning, offices and rest areas. See the case story on page 46 for more information.

A total of 71 new diplomas were granted in 2004, of which 53 went to K-food stores, three to K-rauta stores, three to Rautia stores, four to combined Rautia/K-maatalous stores, and eight to K-maatalous stores. The target was 73 new diplomas. A total of 41 repeat audits were carried out in K-food

stores in the spring, and 23 in the autumn. The corresponding figures for K-rauta stores were five and four. There were 287 K-environmental stores as of the end of the year (221 in 2003). A breakdown by chain can be found in the table above.

A target of 100 new diplomas for K-markets has been set for 2005, raising the total number in the chain to about 150 by the end of the year. Kesko Food will start a 'K-environmental Store of the Year' competition, to motivate stores to further enhance their environmental work, to identify best practices, and reward top performance. The best practices will be used in developing the K-environmental store concept, and will be communicated to all K-food stores.

The K-rauta and Rautia chains made their first 'Corporate Responsibility Action of the Year' awards in 2004. K-rauta Rauta-Otra in Nekala, Tampere was recognised for developing a purchasing policy of less environmentally hazardous products with the help of a new warehousing management programme and for promoting environmentally sound construction. Rautia Toikkonen of Ylöjärvi - and Office Clerk Ritva Heinisuo in particular - were recognised for the first aid given after a traffic accident. The awards will be continued in 2005.

**Environmental office work programmes**

The 'ViherNokka' environmental programme for office work was introduced at Kesko's main office building in Helsinki in 2003, together with the 'ViherHakkila' programme at Kesko Food's central warehouses. The programme was extended to the Turku distribution centre in 2004, under the title 'ViherTurku'.

*Continued on page 47*

## K-environmental stores improve waste sorting



*Pasi Virtanen of Kesped loading reusable pallets and corrugated board for his return load from K-supermarket Hertta.*

Kesko Food took part in a material efficiency and waste minimisation project (RESOPT) organised by the University of Oulu in early 2005. This was aimed at clarifying how the K-environmental store diploma has promoted environmental management in the grocery retailing sector, and what concrete measures have been introduced to improve the efficiency of waste sorting and reduce energy consumption. A total of 15 K-citymarket and K-supermarket stores within a 150-kilometre radius of Oulu were selected for the study. Ten stores replied to the questionnaire, of which five stated that actions required by the diploma had been in place at their locations since 2004, and that comparative numerical data for earlier periods was not, therefore, available.

Reducing product wastage is a key issue in preventing waste being generated in the first place. To reduce the amount of organic waste, stores focus their efforts on ensuring that fruit and vegetables are not damaged during storage, transport, or display. Ensuring that the correct temperature is used in refrigerated cabinets and cold rooms is also important for keeping products fresh. Many stores order fruit and vegetables on a daily basis, which makes the job of judging product volumes correctly easier. Energy consumption can be reduced by cleaning and maintaining systems, machinery, and equip-

ment regularly. Stores make use of energy-saving measures in respect of refrigerated cabinets in particular. Care is taken to ensure that frozen food cabinets are not over-filled and that they are covered appropriately during the night. Managing the time lighting comes on also saves energy.

A clear reduction in the amount of mixed waste generated, thanks to improved sorting procedures, was seen at two stores that had had a K-environmental store diploma for three years. Particular efforts had been made at these outlets to separate out organic and energy waste streams. K-supermarket Superetu in Oulu succeeded in reducing its mixed waste by more than 60% between 2002 and 2004. K-citymarket Raksila, also in Oulu, achieved a similar improvement, cutting its volume of mixed waste between 2003 and 2004 by 50%. These reductions in the amount of mixed waste have been reflected in lower waste handling charges, as the tariffs imposed on energy waste and organic waste are smaller than those imposed on mixed waste. The ultimate success of a K-environmental store is dependent, however, on how well waste management is organised in the local community. Stores in the Raahe area have not been able to achieve as good results as those in Oulu, for example, as the local municipality only started sorting waste streams in 2005.

The target was to create uniform instructions and practices for waste segregation, energy savings, paper consumption, and office purchases. Both of the two programmes include a written manual and material on Keskonet, Kesko's internal intranet.

A spring quiz was organised on the intranet in May, where respondents answered questions and presented their ideas on waste segregation and reducing paper consumption, for example. Kesko continued to participate in the collection of binders in the Greater Helsinki area, supplied about 3,000 recycled plastic binders to schools in Helsinki, and hundreds of recycled magazines to health centres, hospitals, and retirement homes. The main office building participated in Finland's National Energy Savings Week, publishing new items on energy savings issues, prepared in co-operation with Motiva Oy, on the in-house intranet daily.

Although office work has only a small impact on the environment in terms of Kesko's overall impact, these programmes are an important part of environmental work, as they shape people's attitudes and bring environmental protection closer to the daily work of the Group's employees.

### Stakeholder co-operation and communications

Kesko continued to maintain close contacts with its stakeholder groups in the area of environmental activities during 2004.

Contacts with the Finnish and EU authorities were primarily maintained through the Environmental Committee of the Federation of Finnish Commerce and Trade. Kesko had a representative on the environmental committee of EuroCommerce, on the environmental committee of the International Chamber of Commerce, and in the UNEP trading sector group.

Kesko representatives participated in the work of several organisations and associations in Finland, including the Finnish Food Marketing Association, the Finnish Standards Association SFS, the Finnish Society of Refrigeration, the Finnish Packaging Association, producer communities responsible for the recycling of packaging materials, and a producer community that is starting recycling electrical and electronic scrap.

Co-operation also continued with suppliers to promote organic foods and various recycling systems.

Kesko continues to be a supporting member of the Finnish Association for Nature Conservation, which edited the Finnish section of the Worldwatch Institute's 'State of the World 2004' publication with Kesko's support. In spring 2004, Kesko joined 'Operation Mermaid', a WWF Finland programme for protecting the Baltic Sea, and WWF arranged a training event for Kesko people on the same theme. A Kesko representative was elected to the Executive Committee of WWF Finland.

Working with teachers of biology and geography, K-food retailers implemented the 'Let's recycle' project at comprehensive schools. See the case story on page 38 for more information. Over 12,000 pupils had participated in the project

by the end of 2004. The project will continue during the 2005-2006 school year.

Kesko's overall reporting was judged the best in the annual comparison of environmental and corporate responsibility reports carried out by 'Elinkaari', the Finnish Forum of Environmental Experts, in autumn 2004. Kesko's Annual Report was judged the best annual report, but its Corporate Responsibility Report was not ranked among the five best individual reports of this type.

The United Nations Environmental Programme, UNEP, has arranged a global comparison of environmental and corporate responsibility reports (Global Reporters Survey), carried out by the British consulting company SustainAbility Ltd since 1994. Standard & Poor's, a provider of credit ratings and investment consulting, took part in comparison work for the first time in 2004.

Kesko's Corporate Responsibility Report was ranked the best in the trading sector, and 14th overall. No other Finnish companies ranked among the 100 best worldwide. Kesko's Corporate Responsibility Report was ranked 30th two years earlier in the same comparison, and the best in the trading sector.

### Environmental risks, damage, and incidents

The Group's environmental systems include a measure of environmental risk management capability fully compliant with the ISO 14001 standard. Managing environmental risks is also part of Kesko's security plan. The greatest risk to a company operating in the trading sector is fire, and Kesko has provided all its personnel with the instructions and training needed to meet this contingency. Risks relating to land contamination are discussed on page 32. Kaukomarkkinat Oy's terminal operations in Hamina include the transportation and intermediate warehousing of oil and chemical products and raw materials involving a number of environmental risks. The terminal is covered by an environmental permit and submits regular reports on its operations to the authorities.

Four exceptional situations occurred at the Hamina terminal in 2004 that required separate official notification to the authorities. An incident involving the derailment of three tank wagons containing methanol required the participation of the accident research centre in the investigation. After the accident, EUR 170,000 were invested at the terminal area in new rails and a drain basin of reinforced concrete. Corrective measures have been taken in respect of all shortcomings, and no legal action resulted. Rapid-response clean-up work prevented more extensive contamination of the soil or waterways. A total of 33.1 tons of absorbent waste was transported to Ekokem for treatment.

No environmental damage or incidents requiring the authorities to be notified occurred in other parts of the Group.

## Social performance



### Key social performance in 2004



- Proportions of fixed-term and part-time employees decreased in Finland and other countries
- Kesko's attraction as an employer improved
- Job satisfaction remained unchanged in Finland, fell in the Baltic countries and improved in Sweden
- Money spent in occupational health service increased by 12% per employee
- Proportion of women in middle management continued to grow in Finland
- Input in training decreased in terms of duration but increased in terms of money



- Staff turnover in Finland was higher than in 2003
- Number of sick days per employee increased in Finland, but decreased in Sweden and Estonia
- Average retirement age dropped

*K-retailer Marko Jakonen from Askola.*



The rapid structural development of the Kesko Group continued in 2004. Subsidiaries outside Finland accounted for over 38% of the Group's personnel at the end of the year, compared with 35% at the end of 2003 and 20% at the end of 2002. The proportion of Group employees in retailing increased to over 70%, and the average age of employees dropped as the proportion of retail subsidiaries outside Finland increased. The acquisition of the Asko and Sotka furniture store chains, agreed in October and implemented in January 2005, brought over 700 new employees to the Group. Most of these work in Finland, but Asko and Sotka also operate stores in Sweden, Estonia, and Latvia.

### Employment and turnover

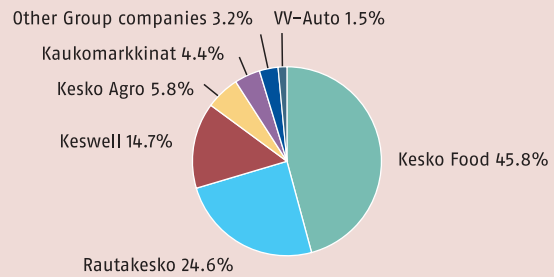
The Kesko Group had 19,469 or 89.8% permanent employees and 2,212 or 10.2% fixed-term employees as of the end of 2004. 1,087 employees on long-term leave are included in these figures. The proportion of fixed-term employees is higher at the end of the year when staff figures are calculated due to the Christmas season. The 465 employees of joint venture Pikoil Oy are not included in these figures or in the sickness, training and other statistics presented later on these pages.

Part-time employees accounted for 27.8% of all Group personnel. The majority of these worked for retail companies in Finland. The proportion of all Group employees in retailing was 70.6%.

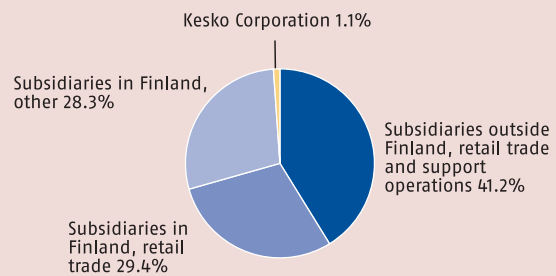
Employment trends in Finland and in subsidiaries in other countries are presented in the table below, which shows that the proportions of both fixed-time and part-time employees have slightly decreased in Finland and elsewhere.

The Group employed 4,720 new people in Finland during 2004, 3,398 of whom in retailing. Kesko subsidiaries outside Finland employed 2,527 new people. A total of 4,135 employees left the Group in Finland, of whom 2,939 worked in retailing. Staff turnover in Finland was 23.9%, excluding summer employees (the difference in relation to the number of personnel at the end of the year), a little higher than in 2003 (22.0%). A total of 1,798 employees left the Group's sub-

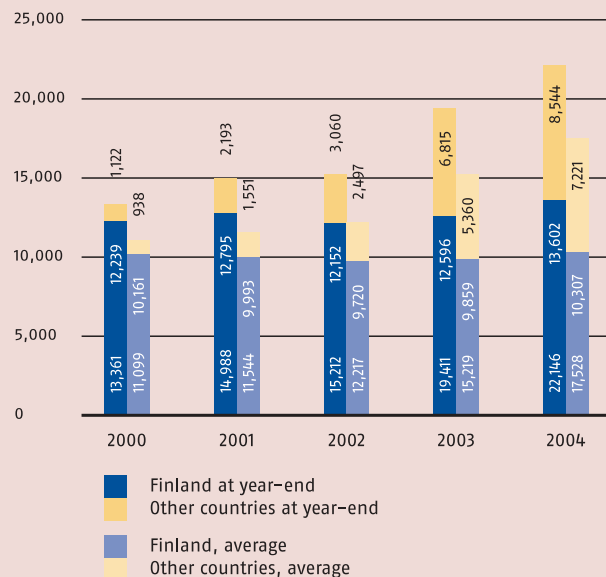
**Breakdown of Kesko Group employees by division at 31 December 2004**



**Breakdown of Kesko Group employees by operations at 31 December 2004**



**Number of Kesko Group employees**



**Fixed-time and part-time employment in 2002-2004**

	2002	2003	2004
Fixed-time employees of all personnel at year-end, %			
- Finland	17.3	18.6	16.2
- subsidiaries in other countries	1.4	3.1	1.1
- whole Group	14.1	12.9	10.2
Part-time employees of all personnel at year-end, %			
- Finland	41.1	41.3	40.1
- subsidiaries in other countries	9.9	8.8	8.7
- whole Group	34.9	29.8	27.8

## Personnel statistics for 2004, breakdown by country

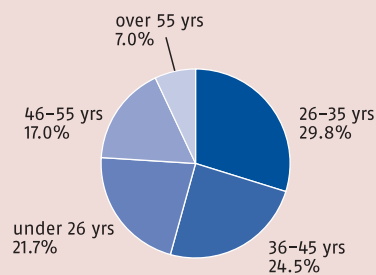
	Finland	Estonia	Latvia	Lithuania (***)	Sweden
Men	5,094	575	411	93	367
Women	8,043	1,698	1,055	42	219
Total, at year-end	13,137	2,273	1,466	135	586
In 2004, average	10,054	2,141	1,248	126	386
New employment, number	4,720	1,015	1,196	67	249
Employment ended, number	4,135	760	849	31	168
– terminated by employer	59**)	73	35	3	–
Turnover rate, %	23.9	30.7	36.5	23.0	37.7
Sick days	130,620	28,807	14,363	158	3,676
– per person	9.9	12.7	9.8	1.2	6.3
– per million working hours	7,382	7,645	6,540	708	5,426
Salaries paid, EUR million	296.0	13.0	7.0	25.7	11.0
– average annual salary, EUR	29,441	6,203	5,600	7,988	28,473
Vocational training, %	57	79	46	12	74
Higher education with degree, %	18	19	35	84	3
Training days per person	1.2	3.1	1.9	1.0	3.8
– expenses, EUR per person	543	158	124	583	403
Unionisation rate, %	36.5	–	–	–	33.1

\*) data has not been collected or is inaccurate

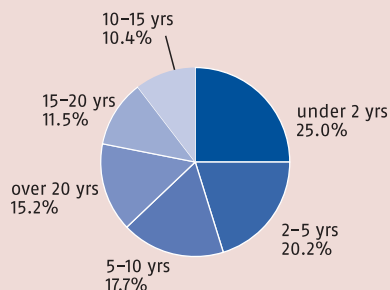
\*\*) data not available on retail companies

\*\*\*) Lithuanian statistics available on Kesko Agro only, except for salaries that include all companies, a total of 3,223 persons.

## Age breakdown of Group employees in Finland in 2004



## Duration of employment in Finland at 31 December 2004



subsidiaries in other countries. Turnover rates by country varied between 23% and 38%. Turnover rates were available for Lithuania only for Kesko Agro.

The most common reason for terminating employment with Kesko in Finland was a fixed-term contract, accounting for about 60% of departures. Elsewhere, employees leaving was the reason behind 84% of departures. Some 5% of employment contracts in Finland and about 6% elsewhere terminated for production- and financial-related reasons or other reasons based on the Contracts of Employment Act. In Finland, 169 persons retired during 2004; no employees elsewhere have yet reached retirement age.

The Kesko Group had 997 summer employees in Finland and 225 in other countries, the majority in retailing and warehousing.

A total of some 450 vacancies were advertised on Kesko Group's internal labour market via the company's intranet.

## Average age and duration of employment

The age breakdown of Group personnel in Finland is presented in the chart above.

Slightly over half of employees are now younger than 36, while those over 55 account for only 7%. The average age of personnel has dropped in parallel with the increase in the role of retailing in Group employment.

The average age of employees is even younger in subsidiaries outside Finland - in the food trade, the average age is slightly under 30 and in the hardware and builders' supplies trade around 30. The highest average age is found in the

### Personnel's job satisfaction in companies outside Finland (scale 1-5)

	Sweden		Estonia		Latvia		Lithuania	
	2003	2004	2003	2004	2003	2004	2003	2004
Own job	3.56	3.91	3.84	3.97	4.10	4.00	4.17	4.08
Superior's performance	3.73	3.87	3.90	3.84	3.93	3.83	4.08	3.94
Unit's operations	3.68	3.74	3.92	3.79	4.00	3.79	4.20	3.93
Chain's operations	3.67	3.75	4.06	3.80	4.17	3.74	4.25	4.03
Average	3.65	3.81	3.89	3.87	4.01	3.87	4.14	3.99
Number of respondents	230	261	1,198	342	576	226	71	101
% of personnel	49.5	48.6	62.1	79.0	60.6	67.7	75.5	70.1

Kesko Food was not included in the survey this time, because at the time the survey was carried out it was uncertain when the joint venture, to be established with ICA AB, would start operations. Senukai of Lithuania did not participate.

agricultural supplies and machinery trade, where it is 32 in Lithuania, 34 in Latvia, and 35 in Estonia.

The average duration of employment contracts in Finland was a few days over 9 years at the end of 2004, unchanged from 2003. A breakdown of employment contracts is presented in the chart on page 50, which shows that 1,919 employees or 15.2% of all had worked for the Group for over 20 years.

The short history of subsidiaries outside Finland means that the longest employment contracts current there are less than 10 years. Most employees, or 63%, have worked for Kesko for less than two years, and only 6% for more than five years.

### Kesko's profile as an attractive employer

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

Four studies were carried out in 2004: two (Universum and Helia) that surveyed student opinions, one among young professionals at the early stages of their job career (Universum), and one among specialists and middle management (Taloustutkimus).

Kesko's ranking improved slightly in the student surveys compared to previous results. Students of business administration ranked Kesko 22nd out of the 100 companies included in the Universum survey, and 8th in the Helia survey. Respondents listed the large number of different jobs on offer at Kesko, its interesting products and services, its positive approach to corporate responsibility, and in-house training as particular Kesko strengths. They wanted Kesko to highlight more international jobs, the opportunities for learning on the job, and its trainee programmes.

Young professionals (with a university education either in economics or technology and with one to eight years of work experience) were more interested in Kesko than students. Kesko improved its position from 17 to 14 among people who had studied business administration. Respondents

### Personnel's job satisfaction in Finnish companies (scale 1-5)

	2000	2001	2002	2003	2004
Own job	3.71	3.73	3.72	3.71	3.79
Superior's performance	3.74	3.82	3.82	3.79	3.80
Unit's operations	3.63	3.73	3.78	3.76	3.76
Kesko's operations	3.61	3.60	3.71	3.70	3.68

connected attributes such as 'market success', 'sound performance' and 'good corporate culture' with Kesko. 248 respondents out of the total of 1,018 said that they might consider working for Kesko, and 49 ranked Kesko as one of Finland's five most attractive employers.

In the group of specialists and middle management Kesko's overall rating reached 7.60; this compares with 7.32 in the previous study in 2002). 19% of those who evaluated the trading sector said that they might apply for a job at Kesko. Kesko was rated higher than average in terms of career opportunities, financial standing, reliability, and overall value in building a career. Management culture, employment benefits and opportunities in building an international career were rated below average.

### Management quality

A good physical, mental, and social working environment is a prerequisite for the wellbeing and good performance of employees. Kesko believes that job satisfaction surveys are the most important and useful tool for evaluating the quality of management and the development of the work environment. Kesko's annual survey measures people's satisfaction with their job, the performance of their superiors, and the operations of their unit and of Kesko as a whole. The survey was carried out during autumn 2004 in all the countries where Kesko operates, implemented by TNS Gallup Oy/Retail.

### Job satisfaction unchanged in Finland

As the content and reporting of the survey were revised in 2004, the results are not fully comparable with those from previous years. Special emphasis in the update of the survey was put on the following areas: motivational factors, encouraging initiative, discussion and management style, team spirit and common understanding, commitment to the company and one's own job, factors contributing to improved working ability and wellbeing, and Kesko's human resource policy and core competencies. Questions were revised to correlate with those in surveys covering Kesko's external image as an employer.

The number of respondents to the survey was slightly higher than in 2003, accounting for 68.3% of all employees. The results for the past five years are presented in the table on page 51. Ratings given to different areas by employees remained similar to those given in previous years. The highest ratings were given to awareness of the goals linked to one's own work and unit, and understanding the importance of customer satisfaction. The most important areas that could benefit from improvement according to respondents included internal mobility opportunities and personnel welfare.

### All operations outside Finland not included in the survey

Outside Finland, the response rates varied from 48.6% to 79%. Comparisons with previous years are difficult because Kesko Food's operations in the Baltic countries were excluded from the survey because the competition authorities had yet to announce their decision on the plan to launch a joint venture with ICA AB. Senukai in Lithuania was also excluded. Job satisfaction fell in terms of all basic indicators in the Baltic countries, with the exception of satisfaction with one's own work, which improved in Estonia. The overall figures for the Baltic countries remained nevertheless slightly higher than those for Finland. In Sweden job satisfaction improved in all areas, slightly exceeding the Finnish level.

### Many evaluation practices

Management quality is also evaluated regularly, using a variety of different surveys. Kesko's annual customer satisfaction survey indicates how both external and internal customer relations are developing. All Group units carry out annual team-based self-evaluations, using the criteria developed by the Finnish Quality Award. An in-house quality competition, arranged every other year, is linked to this evaluation. The evaluation of managerial practices and related development plans at senior executive level started in autumn 2002, and has also been introduced for managers at other levels.

The selection of an 'Employee of the Month' and a 'Manager of the Year' continued in 2004. These selections, based on proposals made by employees, are intended to highlight individuals who set a good example in promoting Kesko's values. The practice has also been extended to Group companies outside Finland.

Personnel can give feedback on operations in their own units, and directly to senior management through the Kesko intranet, which features a 'direct channel', 'mail to the President and CEO' and a discussion channel, where employees can comment and make proposals on matters related to Kesko either directly or anonymously. Management replies to feedback are published via the intranet's 'direct channel', while the President and CEO replies personally.

### Health and safety

Statistics on sickness absence are compiled for all Group companies. Information covering the reasons for absence is not as accurate for companies outside Finland as it is for those in Finland, however.

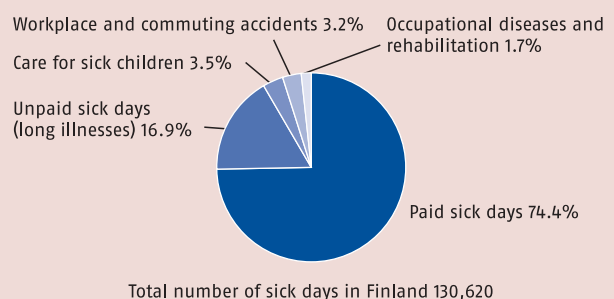
### Sick days in Finland

The total number of sick days in Finland in 2004 was 130,620, or 9.9 days per employee, or 7,382 days per million working hours. In terms of working hours, the figure represented an increase of 21.7%. This was partly due to more accurate registering of short absences in Kesko Food's logistics operations. The graph below shows the main reasons for sickness absence. Compared to 2003, the proportion of unpaid, long illnesses and care for sick children decreased, while the proportion of paid illnesses and sick days caused by workplace accidents and rehabilitation increased.

### Sick days in other countries

Subsidiaries outside Finland recorded 47,004 sick days, equivalent to 10.5 days per person or 6,846 days per million working hours. The number of working hours is the same as in Finland, or 1,760 hours per year. Outside Finland, the relative figures of sickness absence fell by an average of 8%. In Sweden, the drop was 28% and in Estonia 16%, whereas in Latvia absence increased by 14%. A country-specific breakdown is presented in the table on page 50.

#### Sickness absence in 2004 (Finnish operations)



## Aiming for zero accidents

Kesko Food's warehousing operations represent a particular challenging arena in terms of safety at work. Warehouse personnel work in three shifts, the work itself is very physical, and the working environment involves a lot of internal traffic flows. All these factors represent safety risks for personnel, unless working practices and training are designed to address these dangers.

Kesko Food's Logistics Unit has been very active in developing high standards of safety performance. Training for 'safety at work cards' was started in 2003, and the unit was the first logistics business in the trade sector to join the Zero Accident Forum in 2004. By the end of March 2005, a total of 67 Kesko employees and personnel from partner companies working at Kesko Food locations had completed this course. The target is to ensure that all logistics production managers and induction personnel have completed this training by the end of 2006.

A wellbeing at work project was also launched in logistics operations in 2004, aimed at improving employees' overall ability to carry out their job responsibilities. This is a three-year project and is being implemented in co-operation with Kesko's Occupational Health Care Service.

Kesko Food's zero accident philosophy is not limited to Kesko's own locations, but extends more widely. Kesko Food believes that:

- All accidents are preventable
- Even one accident is one accident too many
- Nobody ever plans to have an accident
- It is always possible to identify the causes of an accident. Once identified, problems should be eliminated
- Studying accidents helps us understand why they happen and prevent them happening again
- We should learn from our mistakes
- Everybody is responsible for warning their colleagues about dangers, using the appropriate discrepancy forms, for example.

A total of 394 discrepancy forms were filed in 2004, and all resulted in corrective action being taken. 'Near misses' were also recorded. A total of 286 suggestions for improving operations and safety were filed, of which around half resulted in people receiving recognition for their initiative.

The results of this work can already be seen. Kesko Food's Kuopio terminal, for example, has recorded two successive years of accident-free operation (2003 and 2004), and only one minor incident has taken place at the Oulu terminal over the last two years.



*New personnel are introduced to safety at work issues as part of their induction training. Heidi Wiceen outlines some key concepts of quality assortment to Kim Talonpoika at Central Warehouse 2 in Hakkila.*

### Prevention of workplace accidents

All Finnish companies in the Group are covered by Kesko's safety at work organisation. Labour protection managers, committees, and delegates operate on a company-specific, region-specific, or premises-specific basis. Particular effort has been devoted to reducing the number of accidents in warehouses in the 'Zero Accidents' programme, illustrated by the case on page 53. There were 529 workplace accidents in Finland in 2004 (507 in 2003), 102 of which were commuting accidents. The accidents caused 3,975 (3,985) sick days in all. There were 30 accidents and 225 absence days per million working hours.

### Occupational health service

Kesko's in-house Occupational Health Service Unit served approximately 6,000 Kesko Group employees during 2004, over 5,200 of whom were seen at the Group's own health stations. Occupational health services for retail personnel in Finland and for all companies in other countries are mainly bought in from outside providers. Kesko's occupational health service focuses on wellbeing at work and on activities that maintain employees' work capabilities. In recent years, these activities have accounted for over 40% of occupational health activities. Kesko's occupational health service spent EUR 402 per person in 2004 (EUR 359 in 2003) on promoting employees' work capabilities and health care. No corresponding information concerning retailing companies in Finland or companies in other countries is available.

Where required, Kesko's occupational health service participates in care and treatment guidance for employees abusing intoxicants, and trains managers to handle problematic situations involving intoxicants, with prevention being the primary target. HIV tests are only made in connection with medical treatment, not during initial or normal employment health check-ups.

### Salaries and other benefits

The average annual salary of Kesko employees in Finland was EUR 29,441 in 2004 and EUR 8,102 in other countries. For country-specific information, see the table on page 50, which does not include the operations of Kaukomarkkinat outside Finland. The number of employees used in this calculation is the Group's average number of personnel. Because the operations of the Kesko Group are very diverse, with around 650 different job titles, average salary is not a very good indicator of salary level and structure, however.

### Bonuses

About EUR 5.5 million, accounting for nearly 1.9% of Kesko's total payroll, were paid in bonuses for 2004. The Group's bonus system applies to all personnel of Kesko Corporation and its Finnish subsidiaries, with the exception of retail stores, where bonuses are only paid to managers in Anttila department stores and K-citymarkets. The key factors contributing to payment of a bonus to an employee are the over-

all performance of the Group and the person's division, sales and performance within their own unit or their development, and customer satisfaction. The job satisfaction of personnel is another contributing factor for managers. In addition to the Group's bonus system, subsidiaries - both in Finland and elsewhere - have their own bonus systems. Companies outside Finland paid nearly EUR 3.4 million in bonuses for 2004, accounting for about 5.9% of the total payroll.

### Stock options

The top management - comprising some 50 executives of the Kesko Group - have a performance-based bonus system, approved by Kesko Corporation's Board of Directors, in which the maximum bonuses vary depending on the profit impact of the job up to amounts corresponding to a sum equivalent to salary for between two and six months.

Kesko has two stock option schemes. When the stock option scheme for 2000 for top and middle management was announced, it covered nearly 600 employees. The scheme's share subscription period will end on 31 March 2006. The 2003 Annual General Meeting approved a new stock option scheme, mainly for top management (the current 50 and possible new employees recruited to similar positions). The subscription period for this scheme will end, depending on stock option, at the end of April 2008, 2009, or 2010. Both stock option schemes can be consulted at [www.kesko.fi](http://www.kesko.fi) (Investors/Share information).

### Fringe benefits

Fringe benefits continued to increase in Finland. A total of 669 (619 in 2003) employees in Finland had a company car at the end of 2004, and 2,694 employees had a company telephone. In respect of company housing, the Kesko Pension Fund, the major lessor of dwellings to Kesko employees, sold over 900 rental flats to Mutual Insurance Company Pension Fennia and to the VVO Group in summer 2004. This was accompanied by an agreement to start co-operation to guarantee the continuation of existing rental contracts and the future availability of rental flats to Kesko employees. No statistics are available on fringe benefits in companies outside Finland.

The Kesko Staff Club arranges a wide range of recreational activities for personnel, and makes a valuable contribution to enhancing the working environment for Kesko employees. The annual budget of the Club has remained at about EUR 0.5 million in recent years. A total of seven holiday cottages are available for rent to employees, and their occupancy rate was nearly 100% in 2004. Subsidiaries outside Finland spent approximately EUR 88,000 on staff leisure and recreational activities.

### Pensions

A total of 169 people (151 in 2003) retired from the Kesko Group in 2004. Of these, 74 (56) were members of the Kesko Pension Fund, while 95 (95) were insured by Varma-Sampo.

#### Women and men by employee category in Finland at 31 December 2004

	Women number	%	Men number	%	Total number
Top management	6	13.3	39	86.7	45
Middle management	123	24.1	388	75.9	511
Superiors, specialists	636	55.4	513	44.6	1,149
Workers, office workers	7,005	63.7	3,998	36.3	11,003
Total	7,770	61.1	4,938	38.9	12,708

429 employees, mainly part-timers for the Christmas season, are not included in the figures.

#### % of women by employee category in Finland in 2000–2004

	2000	2001	2002	2003	2004
Top management	8.3	10.2	10.4	8.9	13.3
Middle management	18.1	19.1	22.2	23.9	24.1
Superiors, specialists	54.6	55.8	56.8	58.2	55.4
Workers, office workers	63.4	64.8	65.5	64.3	63.7
Total	60.5	62.1	62.8	61.9	61.1

The figure includes employees on partial retirement and partial disability pensions. Occupational retraining was arranged for 18 (10) employees who were unable to continue in their previous jobs or whose working ability was at risk due to illness.

The number of employees who retired on full pension on health grounds increased by 24 over 2003. The number of early retirement pensions granted by Department A of the Pension Fund on production or economic grounds totalled 25, in line with the average during the past five years.

The average retirement age of employees covered by pension decisions made by the Kesko Pension Fund dropped to 56.8 years (57.4), whereas it remained unchanged (57.4) in Varma-Sampo decisions. The average retirement age of people in the Finnish national employee pension scheme has been 57.8 – 58.0 years in recent years.

The average pension paid by the Kesko Pension Fund – EUR 47.2 million to 3,189 persons in all – was EUR 1,233 per month in 2004.

### Equality

Kesko's equality plan was drawn up in 1996, and its implementation is reviewed annually. Targets include promoting the equal application of women and men to open positions, promoting equal opportunities for training and advancement, promoting equality in salaries, and eliminating attitudes that hinder equality. The plan can be consulted at [www.kesko.fi](http://www.kesko.fi) (Jobs).

Statistics prepared at the end of 2004 show that 61.1% (61.9% in 2003) of Kesko Group employees in Finland were women, and 38.9% (38.1%) were men. In companies outside Finland, the proportion of women was higher, 67.6%. The figures for the Senukai DIY chain, where the proportion of men is higher than in food stores, are not included here.

There were six women in top management in 2004, equivalent to 13.3% of the total. In 2004, one of the eight members of the Board of Directors was a woman, and there was one woman member on the seven-member Corporate Management Board.

Women accounted for 24.1% (23.9% in 2003) of middle management in Finland. This proportion has increased every year since 2000, when the statistics were first published, when the figure was 18.1%. The proportion of women in other management and specialist positions dropped to 55.4% (58.2%). In subsidiaries outside Finland, women accounted for 27% of middle management and 37% of other management and specialist positions. Differences between individual countries were insignificant. There were no women in top management in Kesko companies outside Finland. The fact that there are no statistics available for Senukai distorts these average figures, however.

The number of women in supervisory positions is significant in retail subsidiaries. 85% of department managers in K-citymarket hypermarkets and 75% of department managers in Anttila department stores are women.

Kesko's implementation of equality was rated at 3.57 (3.60) on a scale of 1-5 in the annual job satisfaction survey.

## Nearly 100 new K-retailers every year



*Marko Jakonen started as a retailer at K-market Monninkylä in Askola in October 2004. He has enjoyed working with food for over a decade – first at the meat and fish department of K-citymarket Hyvinkää, then as a part of UN peacekeeping forces, and after that as a cook and a chef. He started the K-retailer trainee programme when working for K-pikkolo Lautasaari in Helsinki.*

Between 100 and 150 retailer changes take place in the K-store chain every year. In the majority of cases, nine out of ten, retailers transfer to a new K-store site. Other reasons include retirement, fixed-term leave, or a change of career.

To ensure that Kesko always has sufficient retailer resources, the K-Alliance co-ordinates systematic training programme. Based around the K-retailer trainee programme, this focuses on practical training in a K-store guided by a tutor retailer, training at the K-instituutti training centre, and themed regional trainee seminars. The programme is tailored to the needs of participants and lasts 6, 12, or 24 months. The aim is to link all training with the apprenticeship system and the Vocational Entrepreneur Exam (YAMTU). After completing the programme, trainees are included in Kesko's retailer reserve until a store site opens up, and usually continue working at their tutor store until then.

Most of those accepted into the K-retailer trainee programme already work at a K-store, but the number of students from outside the K-Alliance is on the increase. Wherever trainees come from, the emphasis in training future K-retailers is on encouraging an entrepreneur-driven approach, a commercial mind-set, initiative, co-operation skills, the ability to see and manage the bigger picture, a commitment to self-development and developing your team, an outgoing personality, a genuine wish to understand customers, and plenty of natural good sense. Retail experience is not necessary, but business training is an absolute plus.

Nearly 100 people aiming to become K-retailers pass through the programme every year. A total of 80 new K-retailers began their entrepreneurial career with Kesko in 2004, 59 as food retailers, six as sports retailers, three as shoe retailers, seven in hardware and builders' supplies, and five in home technology.

This rating improved every year from 1996 to 2003.

No statistics on equality on other grounds than gender have been produced by Kesko.

### Training

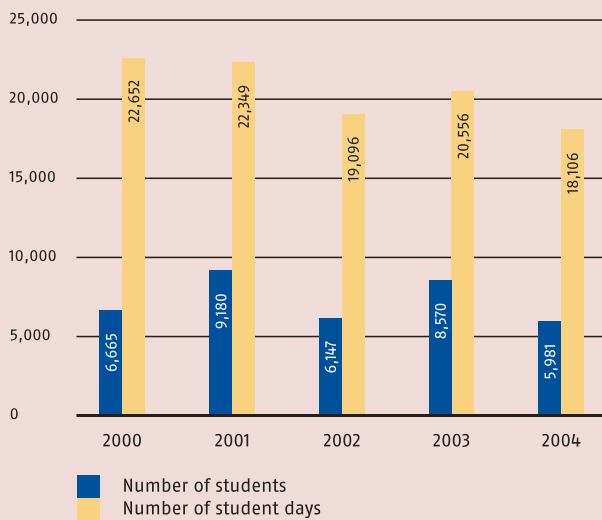
Statistics have been prepared regarding Kesko employees' basic training in Finland with the exception of retailing companies. Of the 4,893 people included in Kesko's statistics, 57% have medium-level vocational training and 18% have a degree from an institution of higher education.

In companies outside Finland, Estonia and Sweden had the highest proportion of employees with a vocational training background, both higher than Finland. In Lithuania, 84% of Kesko Agro's employees have a higher education degree. A breakdown by country is presented on page 50.

A total of 11,650 working days, or 1.2 days per employee (calculations are based on the average number of personnel), were spent on supplementary training in Finland. A total of EUR 5.6 million or EUR 543 per employee was spent on training. As the figures for 2003 were 1.6 days and EUR 528 per em-



Number of students at the K-instituutti in 2000–2004



ployee, the input in terms of money increased, but in terms of duration decreased in 2004. Around 86% of training was internal, including training at the K-instituutti. The number of training days in companies outside Finland - no information on Senukai available - totalled 10,426, or 2.9 days per employee. EUR 0.7 million, or EUR 182 per employee, was spent in training. Internal training accounted for about 60%.

The K-instituutti training centre provided courses for about 5,981 Kesko employees, K-retailers, and K-store staff in 2004. This compares to 8,570 in 2003. The number of study days totalled 18,106 (20,556). The numbers of students vary from year to year, depending on whether large training programmes are offered, such as those related to the introduction of the euro in 2001. In 2004, the most extensive single training project was the introduction of a new enterprise resource planning system and related practices in K-food stores. The content of the retailer training programmes, offered since the establishment of the K-instituutti in 1952, was revised in co-operation with Kesko Food's Retailer Reserves Unit. For more information on retailer training, see the case on page 56.

9,300 students, of whom 1,900 were Kesko employees (including personnel from Kesko's retailing companies), participated in Master Assistant training programme arranged by the K-Retailers' Association, mainly through distance learning. The programme is also offered in nearly 100 business colleges and polytechnics, most often during the final year of courses. Some 2,500 students from educational establishments took part in training in 2004; business studies students from the Äänekoski Learning Centre in central Finland achieved the best results.

## Activities in employer organisations

Kesko is a member of the Commercial Employers' Association in Finland, the Swedish Commercial and Service Employers' Association, and the Eesti Kaupmeeste Liit, a member of the Estonian Employers' Central Organisation. SIA Kesko Food is a member of the Latvian Trade Association. The unionisation rate is very low in the Baltic countries today, and no binding, collective agreements covering complete industries have yet been concluded.

Kesko's President and CEO acted as Chairman of the Employers' Confederation of Service Industries until autumn 2004, and actively contributed to the merger of the Confederation of Finnish Industry and Employers and the Employers' Confederation of Service Industries into the Confederation of Finnish Industries. The Federation of Finnish Commerce and Trade and the Commercial Employers' Association in Finland decided to terminate their separate operations within a transition period of two years and establish a new central organisation known as the Federation of Finnish Commerce at the beginning of 2005. Kesko's representatives also played an important role in these merger negotiations.

## Co-operation with employee representatives

A total of 36.5% (37.3% in 2003) of Kesko Group employees in Finland were unionised in 2004, mainly as members of the Service Union. In Sweden, unionisation was 33.1% (15.0%). In the Baltic countries, only a few employees belonged to trade unions.

Kesko has a company-specific shop steward system in place at all major subsidiaries in Finland. Kesko Food Ltd continues to have site-specific shop stewards in Tampere and Turku. Due to the organisational reform, Kesko Food Ltd's shop stewards in Oulu and Kuopio were transferred to Kesped Ltd in autumn 2004, but represent, like shop stewards of Tampere and Turku, the employees of other division parent companies in their districts, however. Kesko Food Ltd has two chief shop stewards, while other companies have one.

International Group-level co-operation started in compliance with the Act on Co-operation within Undertakings in 2004. The meeting arranged in 2004 was attended by the representative of the personnel from Sweden.

Finnish district courts had five cases (three in 2003) and the court of appeal two cases (one) pending in 2004 concerning disputes at Kesko Group Finnish companies related to termination of employment and changes in discounts granted to employees. With the exception of two, all cases are still pending in courts. One case was decided in Kesko's favour, and an amicable settlement was reached in the other one. No corresponding data has been collected for foreign companies.

## Social quality control of suppliers



### Key performance in social quality control in 2004



- Kesko's direct import from so-called high-risk countries decreased slightly
- Kesko became a member of a European organisation promoting social audits - 33 trade chains are involved
- UNICEF project in India terminated - nearly 10,000 children started attending school



- Number of suppliers with SA 8000 certification grew by a fifth, which fell short of the target
- Working conditions of only 54,000 employees have been verified with certifications

Kesko is indirectly responsible for the working conditions and terms of employment of the employees that participate in the manufacture of the products it purchases. This social responsibility applies to purchases of goods from the poorest developing countries in particular. National working condition legislation in these countries does not meet the standards of international agreements in all respects, and the supervision of existing regulations is minimal. Kesko's target is to ensure that the working conditions of its suppliers comply at a minimum with national legislation or international conventions, depending on which ensures a better position for employees. This target cannot be achieved in a short time. Every improvement, no matter how small, however, is a step towards socially sustainable development.

### Managing social risks

Monitoring social quality is part of Kesko's risk management covering import purchases, and covers many countries and product categories in which defects relating to working conditions and terms of employment have been observed in international surveys. Kesko considers this risk group as consisting of 37 countries, and the product groups actively monitored include coffee, fruit, flowers, clothing, home textiles, carpets, shoes, toys, and furniture. Implementation of the monitoring system is the responsibility of the purchasing units handling these product groups in Finland. A corresponding procedure has not yet been introduced for direct purchases by subsidiaries outside Finland.

Kesko's purchases from suppliers in risk areas in 2004 totalled EUR 110 million (EUR 116 million in 2003); and these imports accounted for 1.7% of Kesko's total purchases and 9.5% of Kesko's total imports into Finland. A breakdown of imports by division parent company is detailed in the section on economic responsibility, on page 24.

In addition to its own imports, Kesko also buys goods produced in high-risk countries from other importers operating in Finland and through international purchasing groups. These imports mainly consist of international branded products, for which much attention has been given to ensuring the social quality of their manufacture in recent years. Kesko estimates that the value of these purchases is approximately similar to that of its own high-risk imports, which means that Kesko's purchases from high-risk countries as a whole account for about 4% of its total purchases. No reliable statistics are available on this.

### Ethical purchasing principles

Kesko published its principles of socially responsible trading (see [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility)) in spring 2000. These are based on the International Labour Organisation's key conventions and the UN Universal Declaration of Human Rights

#### Kesko's own direct imports \*) in 2004

Country	Value of imports (EUR million)
Germany	72.8
Sweden	46.5
China	44.9
Italy	43.9
France	35.7
Holland	35.6
Denmark	35.6
Spain	26.7
Costa Rica	18.8
Belgium	17.0
Japan	15.0
....	
Turkey	10.8
Estonia	9.6
United States	8.9
Thailand	7.3
India	6.7
Vietnam	6.3
South Africa	5.5
Taiwan	5.4
Bangladesh	5.2
Poland	5.1

\*) direct imports do not include imports by VV-Auto Oy or Kaukomarkkinat Oy

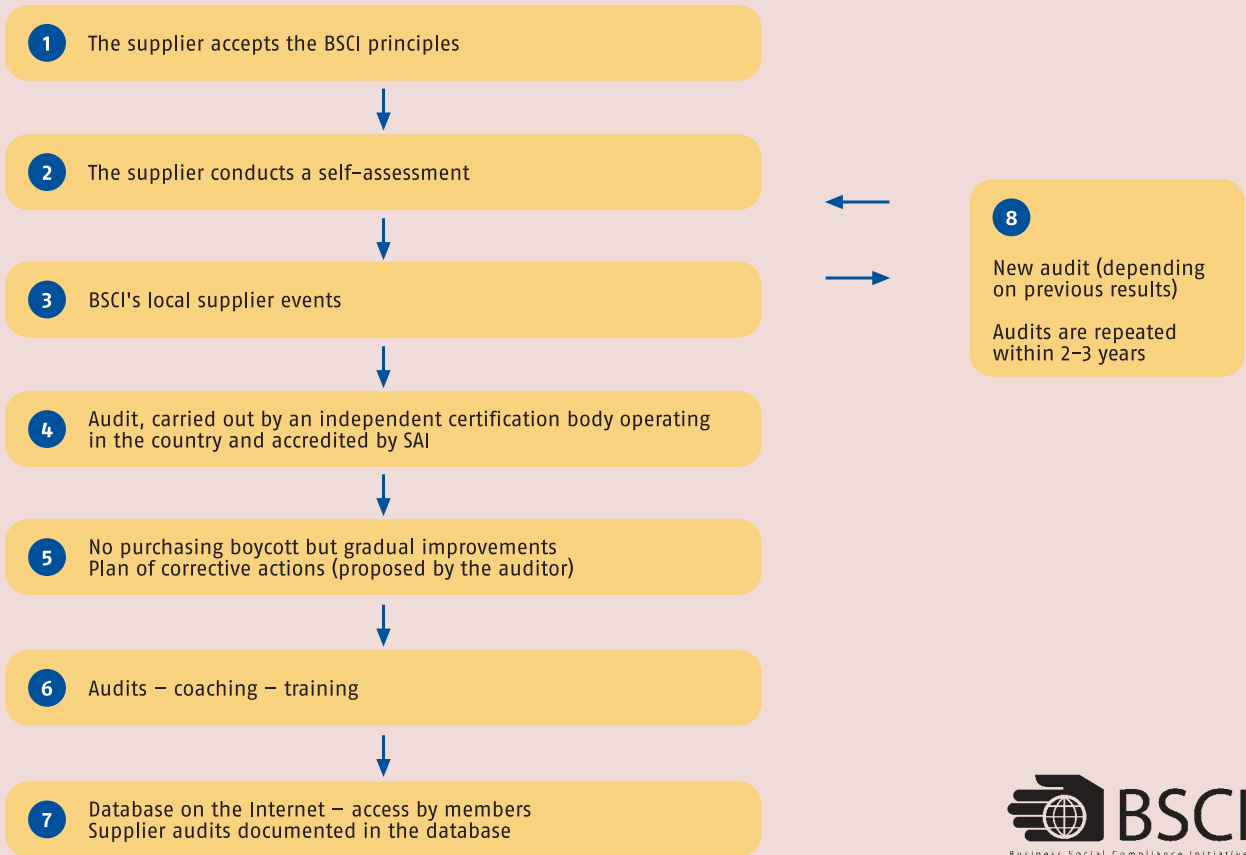
and Convention on the Rights of the Child. The international Social Accountability SA 8000 standard is based on these regulations, and Kesko has recommended the adoption of this standard to its suppliers, and has stated that it will favour companies that have obtained SA 8000 certification. Certifications can be granted by bodies (e.g. BVQI, SGS, DNV, and Intertek) that have been approved by Social Accountability International (SAI), which developed the standard and monitors the operations of these bodies.

#### SA 8000 certification is too slow

The use of SA 8000 certification has progressed slowly in the export industries of developing countries. Small and medium-sized companies have considered the requirements of the standard regarding management systems and minimum wages laborious to implement, and the large number of personnel interviews required has resulted in high certification costs. Purchasing companies have not developed joint co-operation to promote SA 8000, preferring to work individually. Kesko's small purchasing volumes have not been sufficient to convince manufacturers of the importance of certification. Consequently, the results have been poor.

Some large trading companies have conducted inspections of working conditions, and auditing co-operation at a national level has started in Germany, France, and Britain, for

### BSCI auditing process



instance. Although the principles followed in these audits have been the same as in SA 8000, there have been differences in how they have been carried out. As a result, a large Chinese clothing factory can be visited by as many as 50 auditors a year, all checking the same things, but each in their own way.

#### Co-operation between European trade companies gets under way

A number of other trade chains in addition to Kesko have been working for the introduction of a joint auditing approach that would eliminate overlapping work - and this was finally launched in 2004, when a group of European trade chains established the Business Social Compliance Initiative (BSCI) in Brussels to promote social audits. The operating model of the BSCI is based on the system that has been used by the German Import Trade Association since 2003. Kesko became a member of the BSCI at the beginning of 2005 and has committed itself to promote the implementation of the BSCI Code of Conduct in its own purchasing. A Kesko repre-

sentative has been elected to the BSCI Executive Committee.

The BSCI principles (see [www.bsci-eu.org](http://www.bsci-eu.org)) are similar to those used by Kesko earlier. BSCI auditing is designed to guarantee the same basic rights for employees as the SA 8000 standard, and employs the same auditors. If a company that has passed the BSCI audit implements a management system complying with the SA 8000 standard and the other best practice requirements, it can be granted SA 8000 certification. Kesko will now promote primarily a BSCI audit of its suppliers, but still recommends SA 8000 certification as the ultimate goal in social quality.

#### Monitoring in practice

Social quality control is part of an import buyer's job description at Kesko, in the same way as monitoring environmental quality, products' physical quality, and product safety are. Buyers are not, however, responsible for company audits; suppliers must carry these out using local, independent auditors and cover the associated costs. As buyers are responsible for

promoting the implementation of audits, they need to have basic information on the relevant international standards. When Kesko started systematic auditing in 2000, basic training covering the ILO conventions and the SA 8000 standard was arranged for buyers. Since then, training has been provided annually for buyers through half-day courses. Kesko has prepared an internal handbook on social quality control for buyers, which contains detailed instructions on co-operation between Kesko and its suppliers to improve working conditions.

When Kesko became a member of the BSCI, training events were arranged for buyers of imported goods covering the BSCI model. Buyers were given the BSCI manual together with Kesko's own revised manual for import buyers, and contact personnel were appointed in Kesko and in purchasing units to maintain Kesko's supplier data in the common BSCI databank.

### Transition period for old suppliers – immediate auditing required for new suppliers

Starting from January 2005, Kesko buyers have started to introduce the BSCI approach to old suppliers involving social risks, and informed them that Kesko and other BSCI members - 33 European trade chains at the end of 2004 - will require an approved BSCI audit in the future. No fixed transition period has yet been determined. BSCI members already have considerable joint market strength to introduce these requirements, but no agreement has been reached as yet on the inclusion of French and British trade chains, for example. Kesko estimates that BSCI membership will double over the next two years and that the number of audits will increase to such an extent that it will be possible to concentrate purchases from audited suppliers. When new suppliers are selected in risk areas, BSCI auditing is already a condition for starting a business relationship.

### Self-assessment provides the foundation for an audit

The audit process starts when a supplier informs a Kesko buyer in writing that he accepts BSCI principles and orders an audit from a jointly agreed certification body.

Before an actual audit, the supplier goes through all BSCI requirements with the help of a detailed self-assessment form to correct any potential shortfalls in advance. Audits take an average of two days, depending on the size of the company, and consist of an interview with company management, checking of documentation, production, and housing premises, and staff interviews. The results and any rectification needs are discussed with company management at the closing meeting of the audit, and a continuation plan for corrective measures with a timetable is drawn up. In repeat audits, only the points identified for correction previously are checked.

When all the requirements have been met, the auditor

#### Main elements of SA 8000 and BSCI audits

- Compliance with legislation and agreements
- Freedom of association and collective bargaining
- Discrimination
- Compensation
- Working hours
- Health and safety at work
- Child labour
- Forced labour
- Basic issues of environmental protection

draws up a final report and sends it to the supplier and Kesko. The supplier can choose to give the report to other BSCI members as well. The time taken from starting self-assessment to completion of the final report is between six and 12 months, depending on how sweeping changes are called for. Audits must be repeated within three years of the first audit.

### Supplier information in a common database

Kesko's BSCI contact person enters a supplier's identification data in the common BSCI database after the supplier has ordered an audit. The auditing company enters the supplier's audit data in the database and a summary of the audit report when the final audit has been completed.

BSCI members can search the database to see if their present or potential suppliers have been audited, thereby avoiding double work.

### Only a few additional SA 8000 certifications

A total of 572 companies in 45 countries with 364,000 employees had a SA 8000 certificate (see [www.sa-intl.org](http://www.sa-intl.org)) as of the end of 2004, compared with 354 in 2003. The industries and countries most heavily represented were clothing and textiles, and Italy, China, India, and Brazil.

Kesko had 23 suppliers with SA 8000 certification in 16 different countries and one with the SQ certificate (SQ = Socially Qualified, the flower sector's own social certification equivalent to SA 8000), with a total of 54,000 employees, as of the end of 2004. This figure is little different from the 19 certified companies with 47,000 employees at the end of 2003.

As the launch of the BSCI approach started at Kesko in early 2005, no results have been obtained so far. Only a few of Kesko's buying units had time to check the auditing status of their present suppliers in the BSCI database by the end of March 2005. In addition to companies with SA 8000 certification, the database contains information on 29 Kesko's suppliers with a BSCI audit under way: 18 in China, six in India, four in Vietnam, and one in Bangladesh. The total number of com-

**Kesko's suppliers with SA 8000 certificates by country**

Country	Certificates	Employees
China	6	9,400
India	2	260
Vietnam	2	800
Italy	2	550
Bangladesh	1	900
Costa Rica	1	3,000
South Africa	1	350
Guatemala	1	1,200
Honduras	1	700
Indonesia	1	10,000
Kenya *)	1	4,000
Colombia	1	4,300
Mauritius	1	1,470
Pakistan	1	12,000
Panama	1	4,800
Finland	1	250

\*) Flower sector's SQ certification that corresponds the SA 8000 certification

**Kesko's suppliers with SA 8000 certificates by product group**

Product group	Certificates	Employees
Foods	8	25,820
Clothing	6	4,760
Toys	5	6,600
Home goods	5	16,800

panies in the BSCI database was 2,300, most of which have been transferred from the system previously used in Germany. As audit entries in the database remained insufficient in March, it was impossible to draw up more accurate statistics.

A meeting of BSCI members in November 2004 estimated that the total number of audited companies could rise to about 5,000 by the end of 2005. Suppliers' interest in BSCI audits is reflected in the fact that presentation events arranged by the BSCI in China and India in March 2005 attracted some 800 suppliers invited by BSCI members.

**Co-operation between Finnish importers**

The 'Network to Advance Social Responsibility in Importing' continued operations under the umbrella of the Central Chamber of Commerce and Kesko's chairmanship. The network comprised 18 companies, including all major food trading groups and many clothing and shoe manufacturers and importers, as of the end of 2004. The operations, principles, and

**Country of origin of the Fair Trade products sold at K-stores**

Coffee	Mexico
Tea	Tansania
Cocoa	Dominican Republic
Chocolate	Dominican Republic
Honey	Chile, Guatemala, Uruguay
Sugar	Paraguay
Bananas	Ecuador
Oranges	Egypt, South Africa
Pineapple	Costa Rica
Juice	Cuba
Muesli	Brazil, South Africa, Pakistan and Uganda

members of the network can be consulted at [www.kauppamari.fi](http://www.kauppamari.fi), International/Social Responsibility in Reporting.

The network arranged a one-day training course, including a presentation of the BSCI model, for its members' buyers, which attracted 90 participants, in May 2004. As a result of the negotiations within the network and with the BSCI Secretary General, Intrade Partners and Stockmann, together with Kesko, joined the BSCI as members at the beginning of 2005. A related press conference was arranged in Helsinki in November 2004.

**Fair Trade products**

Sales of Fair Trade products worldwide in 2004 increased by some 32% compared to 2003, totalling about EUR 475 million, according to preliminary estimates. Sales of Fair Trade products in Finland rose by 4%, to nearly EUR 8 million. Sales of cocoa increased by 66%, tea by 40%, and coffee by 7%. Bananas, coffee, and tea continued to be the most popular Fair Trade products, and Fair Trade bananas retained their approximately 5% share of the market.

This sales data is based on information provided by the Finnish Fair Trade Labelling Organisation. No statistics are available on the value of these products sold through K-stores.

New Fair Trade products introduced in 2004 were oranges, muesli, and 100% fruit juice. Grapes and avocados were added at the beginning of 2005. All groups of Fair Trade products are represented in Kesko's product range. Organic coffee, organic tea, and 100% mango-orange juice are included in Kesko's Pirkka range. The Fair Trade products sold at K-stores and their countries of origin are shown in the table above.

Suppliers of products competing with Fair Trade products

- typically larger, global companies - have also focused on developing the environmental and social responsibility of their own operations. Dutch certification bodies have developed social certification covering the flower trade, for example, and this has been linked with the Fair Trade label in some European countries. Coffee producers have set up their own social projects, such as Common Codes for the Coffee Community, the Utz Kapeh foundation, Sara Lee's and Starbuck's purchasing principles, and International Coffee Partners in which Finland's Paulig is a member. EUREPGAP certification is gaining ground among fruit producers (see page 43). Banana producer Chiquita has made the most progress in applying international standards and certifications (see the case report on page 64 for more details). Although no public information has been provided on these projects so far, it seems clear that environmental and social quality are becoming key competitive factors in an increasing number of product groups.

### The UNICEF project in India

Kesko has financed a project mediated by UNICEF Finland and implemented by UNICEF India's Mumbai office, with a total of USD 115,000, since 2000. Kesko's financing terminated at the end of 2004, as agreed, but the project will continue in India.

The project was initially implemented in the town of Bhiwandi, and later in the town of Malegaon as well. Both are centres of the weaving industry and employ around 70,000 children according to UNICEF estimates. As part of the project, field workers from UNICEF and other non-governmental organisations - about 40 people in all - surveyed families' finances, diet, the availability of clean water, sicknesses, children's work, and their opportunities to attend school. The target is to make working children start school at least on a part-time basis, and enable small children to attend school full-time from the beginning. Assistance has been given to older children in getting vocational training. Adult girls have been taught to read and learn the skills they need for family care. Self-help groups have been started for housewives to promote skills in home economics, nutrition, and self-employment. Negotiations have been carried out with employers to improve the conditions of children at work and have resulted in the length of children's working hours being cut and children being moved to easier and less dangerous work.

Thanks to the project, 1,400 children now attend preparatory training prior to starting school. About 2,300 children attend school either on a part-time or a full-time basis, and over 500 receive vocational training. Over 700 people past school age have received reading or vocational training and now go to work. A total of 850 brothers and sisters of working children attend preparatory school, while over 900 attend school, and nearly 2,100 receive vocational training. Reading and writing



*Fair Trade Pirkka juice being given the taste test at K-supermarket Musta Pekka in Helsinki.*

skills have been taught to 700 girls who are now adults, and 79 independent entrepreneurs have started businesses. The project has seen the creation of 67 housewife groups, attended by 760 members in all, as of the end of 2004. The groups have helped nearly 800 women to employ themselves, with help from a little start-up money from jointly collected funds.

The programme has also included health and tuberculosis tests and vaccinations for over 3,300 working children and 11,000 other children, of whom 2,800 have been sent for treatment.

The project has taught Kesko what kinds of problems lead to children working, how working children can gradually shift from work to school, how brothers and sisters of working children can bypass work altogether and start school normally, and the importance of literacy and other education for the future of poor families' children.

## Chiquita focusing on certification



*Chiquita has built housing for its plantation workers in Costa Rica that workers can later buy on an instalment basis.*

Chiquita, the world's largest producer of bananas, was accused of polluting the environment and neglecting the rights of employees in the early 1990s. Chiquita decided to face the challenge this represented by introducing international standards and independent monitoring in its operations.

Chiquita launched a programme of systematic environmental work in the mid-1990s. The company selected the Rainforest Alliance ([www.ra.org](http://www.ra.org)), a nature conservation organisation, to inspect and certify all Chiquita's own plantations within its Better Bananas programme (BBP). This was completed by the end of 1999. Certificates have been revised annually, using both agreed audits and spot checks. In addition to its own plantations, the company's contract growers have also been audited, and 79% of them now have BBP certification. Plantations in Costa Rica, Colombia, and Panama al-

so have EUREPGAP certification, and those in Costa Rica ISO 14001 certification as well.

Chiquita has calculated that it saved around USD 9 million through its environmental actions in 2003 compared to 1997. Over half of this sum (USD 5 million) resulted from reduced chemical usage, and USD 4 million from pallet recycling - Chiquita recycles 60% of the 1 million pallets it uses in its trade with Europe.

Chiquita started developing social quality issues in 2000. A set of working condition principles was drawn up in 2000, and a decision taken to have audits based on the SA 8000 standard. Kesko was launching its own SA 8000 quality control system around the same time, and sent an inquiry to Chiquita, receiving a very rapid response. Kesko was the first customer to ask these kinds of questions concerning the company's working conditions, according to George Jaksch, Chiquita's Senior Director of Corporate Responsibility and Public Affairs, interviewed in Kesko's Pirkka magazine (3/2004).

SA 8000 certification of Chiquita's plantations, implemented by the BVQI and Intertek, proceeded faster than expected. Plantations in Costa Rica were certified in 2002, in Colombia and Panama in 2003, and in Guatemala and Honduras in 2004. In all, certification now covers 14,000 employees. The company sold its plantations in Colombia in summer 2004, but the new owner has committed himself to continuing certification.

Even before SA 8000 certification, Chiquita signed a framework agreement with two international trade unions, IUF (International Union of Food Workers) and COLSIBA (Latin-American Coordination of Banana Workers Unions), in 2001. Thanks to improvements in working conditions and agreement practices, the number of strike days against Chiquita dropped by 70% from 2001 to 2003.

Despite experiencing major financial difficulties in the early part of the current decade, Chiquita has remained committed to impartial environmental and social quality monitoring.

Chiquita has been recognised for its open communications policy by the UN Environmental Programme UNEP, which ranked the company 18th in 2002 and 36th in 2004 in its comparison of corporate responsibility reports (Global Reporters Survey).



## Other responsibility areas

In addition to economic, social, and environmental responsibility, GRI considers corporate responsibility as including product safety and corporate security, compliance with marketing and competition regulations, privacy protection, political relations, and attitude to bribes.

### Product safety

Product safety is related to all aspects of Kesko's business. It is particularly important in the food trade, where Kesko Food's Product Research Unit has supervised the operations of manufacturing companies, analysed product composition and quality, and suggested improvements to manufacturers for decades.

In addition to food products, the unit also controls the quality of certain non-food products and home and speciality goods. In the case of Kesko's private labels, such as Pirkka, the Product Research Unit acts as a product developer partner, working in close co-operation with manufacturers. The unit, together with its K-test kitchen, employs 21 people.

### Supplier and product audits

In 2004, the Product Research Unit audited 63 suppliers (53 in 2003), of which 28 (37) were Finnish and the remaining from 14 other countries. These companies mainly included suppliers of Kesko's house brands, and were audited in compliance with Kesko Food's audit protocol. The improvements suggested mainly related to the planning of production facilities and hygiene.

A total of 9,434 (7,280) product samples were analysed, of which 7,577 were food products, 904 non-food products, and 655 home and speciality goods. The number of new products continued to decline, while the number of product development samples of private label products rose. A total of 1,267

product lots and other self-control samples were analysed. The laboratory conducted eight inter-calibration audits, to compare analysis accuracy between several laboratories. The results of these were within accepted tolerances.

The consumer service section of the Product Research Unit received 17,131 (15,023) items of feedback during the year. Some 70% of these were product complaints, and 20% questions concerning products. Feedback also included thanks, ideas, and suggestions. The bulk of contacts took place by phone (10,452), but the number of e-mail messages reached nearly 4,000. Answers were given to all feedback.

### Recalls unchanged

A total of 30 (31) product recalls took place in 2004, most related to defective quality or taste, or a manufacturing or packaging error. Eleven recalls covered Kesko Food's house brand products. In the other cases, the Product Research Unit assisted manufacturers in recalls. Two recalls were food alert cases, involving potential health hazards. All such cases are notified to the relevant national authorities.

### Detailed guidelines on packaging information

The Product Research Unit is also responsible for monitoring the information put on packaging. Based on EU directives, Finnish legislation, and official recommendations, Kesko Food has prepared guidelines for the Group's house brands and own imports. Nutritional information is always included - package size and space permitting - on house brand products, although it is not always required by law. Any allergenic ingredients are indicated on house brand goods, in addition to obligatory information, even when these ingredients may only find their way into a product accidentally through cross-contamination during the production process. The country of origin is always marked on imported house brand products, and the manufacturer's name and domicile on domestic products.

Instructions for package labelling information also specify how the swan flag symbol, the seed leaf flag symbol, the key flag symbol, the Nordic environmental label, the 'Wash Right' marking, the Luomu organic product label, and symbols indicating packaging material recycling are to be used. These guidelines can be consulted at [www.kesko.fi](http://www.kesko.fi) (Responsibility/Product safety).

### Participation in the legislative process

The Product Research Unit participates in several legislation and development projects concerning food quality and safety at the national and international level. Where required, the unit prepares and publishes Kesko Food's views on current issues.

The unit arranged two stakeholder events on genetic engineering, featuring panels of experts, to discuss the current situation and future prospects in the field, in autumn 2004. Kesko

#### Major manufacturing countries of Pirkka products

	% of products	% of sales
Finland	54.4	68.3
Germany	12.0	6.4
Denmark	5.4	5.0
Netherlands	5.0	3.8
Sweden	4.0	2.3
Italy	3.9	2.3
France	3.3	2.3
Belgium	2.6	1.9
Thailand	1.8	1.5
Spain	1.8	1.3

There were about 1,300 Pirkka products at the end of 2004.

*Continued on page 67*

## Information on hazardous chemicals



*The product safety sheet database provides information on many different products, including Pinotex wood finishes.*

Chemical legislation in Finland requires all hazardous chemicals to be classified, marked, and packaged appropriately. Products of this type are sold at nearly all outlets selling hardware and builders' supplies. Manufacturers are responsible for producing product safety data sheets to provide users with more detailed information on subjects such as active ingredients, hazards to people and the environment, flammability, whether a substance is explosive, guidance on how to use products safely, and instructions on first aid measures and how best to dispose of products. Chemical legislation also requires retailers in outlets selling products marked as hazardous to provide B-to-B customers with the appropriate product safety data sheets when requested and to show the sheet to consumer customers.

The product safety data sheets for all hazard-labelled products sold by Rautakesko were included in an electronic database in summer 2004. The database can be accessed via the K-rauta and Rautia intranets, and at [www.yrityspalvelu.fi](http://www.yrityspalvelu.fi).

Users can search the database by product name, EAN code, or active ingredient. The database enables users to check whether a product contains a substance that could cause an allergic reaction, for instance. Should an accident occur, the appropriate first aid instructions can also be located very rapidly. Product safety data sheets can be printed out in-store for customers, or they can access the database online at home and print out or download what they need.

Kesko Agro, Rautakesko, and Kesko Food jointly arranged two training events on hazardous chemicals for Kesko personnel in February 2005, focusing on the legislation covering these chemicals and the procedures to be followed when storing and transporting them. A total of 42 Kesko people attended the events.

Food's stand on genetic engineering was revised in late 2004 to allow the company to include GMO products that have been deemed safe in officially recognised tests in its offering. No such products have yet been offered to Kesko. Kesko's stand can be consulted at [www.kesko.fi](http://www.kesko.fi) (Responsibility/Product safety).

### Corporate security

Security operations within the Kesko Group are designed to ensure the safety and security of people, property, information, reputation, and the environment against accidents, damage, and crime, and to guarantee uninterrupted operations. Security operations support the implementation of Kesko's strategic targets and are a natural part of its business activities. Security representatives have been appointed to Kesko's division parent companies' management, and a network of contact personnel covering the entire Group is in the process of being created. Kesko's security organisation supports the Group's business units by providing them with expert services.

The main emphasis in 2004 was on improving security and safety awareness. Security training, guidelines, general security information, and the number of security audits and controls were increased. A decision was made to recognise activities that significantly promote security with an annual 'Security Action of the Year' award. The 2004 award was granted to exemplary first aid and life-saving work. A new information security manager was recruited to the IT Management Unit in the summer, and Kesko became a member of the Information Security Forum, the world's leading expert organisation in corporate information security. A security management team, comprising key operations managers, was set up in Anttila Oy in the spring. Improving the security of product deliveries during the night was identified as a major development area.

To comply with the new Act on Labour Protection, Kesko carried out a Group-wide online assessment of job hazards in summer 2004. Personnel in Finland filled in a questionnaire on their views on matters related to safety and security, working conditions, workload, managers' activities, induction, training, and the working environment. A total of 4,703 Kesko employees responded to the questionnaire, 82% of whom proved satisfied with the prevailing situation. The best ratings were given to working methods, procedures for dealing with the threat of disturbance and violence, and working equipment and premises. Most room for improvement was identified in ergonomic issues, including draught and temperature, in retailing and warehouse operations.

### Marketing and competition regulations

One of Kesko's functions is to plan and implement the marketing programmes for the K-retailer chains. Kesko and K-retailers operate within a vertical agreement relationship to ensure that marketing takes place in compliance with the national competition law.

The Act on Competition Restrictions was amended as of 1 May 2004. Exemptions had been granted to Kesko's division parent companies to determine the basic selection of goods on offer in K-store chains and set maximum retail prices. Un-

der the amended Act, companies are required to evaluate themselves on the acceptability of their agreements and practices from the viewpoint of competition legislation, taking competition regulations, legal practices, and competition authorities' guidelines into account. Exemptions granted by 30 April 2004 will remain in force as follows: Kesko Food Ltd's exemption terminated on 31 December 2004, while Rautakesko Ltd's, Kesko Agro Ltd's, and Keswell Ltd's exemptions will remain in force until 31 December 2005.

In August 2004, the Finnish Competition Authority wrote to Kesko, suggesting that the K-market and K-neighbourhood store chains, and the K-extra chains, had fixed maximum prices for other grocery products than those covered by the exemptions valid at the time between 1997 and 2000 and 1999 and 2000 respectively. The K-Alliance's operations were based on mutual horizontal retailer co-operation until the end of 2000, after which vertical agreements were adopted. The Finnish Competition Authority argued that Kesko had demanded that the prices determined in its horizontal chain organisations be observed in chain stores, and proposed to the Market Court in February 2005 that a sanction of EUR 100,000 be imposed on Kesko. The case is still pending.

Kesko Food Ltd and ICA Baltic AB received permission from the EU competition authorities to merge their business operations in the Baltic countries into a joint venture on 15 November 2004. The Indoor Group Ltd was transferred to Keswell Ltd's ownership on 21 January 2005, after the Finnish, Swedish, Estonian, and Latvian competition authorities had approved the acquisition. A complaint associated with the transaction is pending at the Finnish Market Court.

The Helsinki District Court dismissed a case brought by eight former K-citymarket retailers against Kesko concerning alleged unfair termination of agreements in March 2004, which had been pending since 2001. The case has been forwarded to the Court of Appeal.

### Privacy protection

The Plussa customer loyalty system of K-store chains in Finland is managed by a Kesko subsidiary, K-Plus Oy. At the end of 2004, Plussa cards were held by over 3.1 million people in more than 1.6 million households.

The customer information provided by Plussa cardholders forms a customer database that is used, with customers' permission, for customer relationship management, customer contacts, and marketing of the Plussa scheme. Cardholders' purchasing patterns are registered in the form of sum totals of purchases, unless customers expressly forbid such information-gathering. This information can be used for direct mail marketing purposes by Plussa partners included in the scheme. Plussa partners who receive this information are not allowed to pass it on to third parties.

Under the requirements of the Personal Data Act, everyone maintaining a customer database must register an official description, which is a public document. The file for K-Plus Oy can be consulted, in Finnish, at [www.plussa.com](http://www.plussa.com).

K-Plus Oy is required to ensure that the customer infor-



mation it holds is only used for the purposes specified in the official file description. Information on individual customers is protected by instructions given to personnel and technical means. Customer data is only disclosed to third parties if required by law.

The Plussa.com consumer portal became the first Finnish consumer web service to receive the international Qweb certificate, a mark of reliability and high quality, granted by SFS-Inspecta Sertifiointi Oy, in March 2004. The purpose of certification is to ensure the security and rights of users. Operations audits cover ethical principles, privacy protection, IT security, and the quality of business processes. The certificate is valid for one year, and auditors will monitor the certified portal every three months. The Qweb certificate was renewed as part of an audit carried out in February 2005.

Since the beginning of 2004, Plussa cardholders have had the opportunity to donate sums corresponding to the Plussa points they have accrued to Kesko's main corporate responsibility partners, which were the Young Finland Association and UNICEF Finland in 2004. Donations in 2004 were modest, and totalled EUR 145 to Young Finland Association and EUR 2,654 to UNICEF. Increased flexibility was introduced into the system at the beginning of 2005 and the choice of recipients increased to include WWF Finland (protection of the Baltic Sea), the Cancer Society of Finland (consulting service), and the Finnish War Veterans' Association. Support for the Young Finland Association is directed to schoolchildren's afternoon club activities, while donations to

UNICEF during early 2005 went to child victims of the tsunami catastrophe in Asia.

### Political relations

Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to legislative work. Kesko is particularly active in the Central Chamber of Commerce, the Federation of Finnish Commerce and Trade (the Federation of Finnish Commerce, as of the beginning 2005), and the Confederation of Finnish Industries EK. The Federation of Finnish Commerce and Trade is a member of EuroCommerce, which represents trade interests to the EU Commission and the European Parliament. Kesko also belongs to UGAL, the EU organisation of independent retailers, which promotes its members' interests both directly and through EuroCommerce. EuroCommerce has many times appointed a Kesko expert to represent the organisation on EU working groups, most recently to the group responsible for dealing with corporate responsibility in the European Union.

Trade and industry activities are not yet as well organised in the Baltic countries as in Finland. Sector and central organisations, and chambers of commerce, have already been established, however, and Kesko's memberships in these are listed under 'Activities in employer organisations' on page 57. Kesko has provided expert assistance to many ministries in areas such as implementing EU directives concerning the environment.

Kesko's financial support to political parties in Finland in 2004 amounted to EUR 26,304. No support was given to parties in other countries. In addition to direct support, corresponding advertising in Finnish party newspapers amounted to EUR 23,000. The amount is included under 'non-governmental and environmental organisations' in the table entitled 'Kesko's support for the public good' on page 27.

### Attitude to bribes

Kesko has always opposed the giving and taking of bribe in any shape or forms. Kesko's position in this area has been included in 'Our working practices - Ethical principles for personnel', the most recent version of which was published in 2002. The guide, which can be consulted at [www.kesko.fi](http://www.kesko.fi) (Responsibility), has been published in Finnish, Swedish, English, Russian, and all the Baltic languages. It has been distributed to all Group personnel and presented at meetings arranged for personnel at all levels of the Kesko organisation. The issue has been discussed at training events for senior management. The Internal Audit Unit has paid particular attention to assessing systems designed to prevent malpractices and financial losses. No cases of malpractice were identified during 2004.

Kesko's ethical purchasing principles, which have been distributed mainly to suppliers operating in developing countries, make a corresponding clear statement about Kesko's opposition to bribery.

Kesko is a member of Transparency International, Finland.

#### Ranking of the countries where Kesko operates in the corruption index of Transparency (scale 1-10)

1.	Finland	9.7
3.	Denmark	9.5
6.	Sweden	9.2
15.	Germany	8.2
16.	Hong Kong	8.0
31.	Estonia	6.0
42.	Hungary	4.8
44.	Lithuania	4.6
57.	Latvia	4.0
67.	Poland	3.5
71.	China	3.4
90.	Russia	2.8
102.	Vietnam	2.6

Corruption Perceptions Index,  
Transparency International 2004

## Comparison of the report with guidelines of the Global Reporting Initiative

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
<b>Vision and strategy</b>					
1.1	Vision of sustainable development	Yes	8	Vision and strategy of corporate responsibility	
1.2	Statement from the CEO	Yes	3	Review by the President and CEO	
<b>Organisational profile</b>					
2.1-2.8	Basic information of the company	Yes	5	Key facts about the Kesko Group	
2.9	List of stakeholders	Yes	10	Stakeholder analysis	
<b>Report scope</b>					
2.10	Contact persons for the report	Yes	72		
2.11	Reporting period	Yes	2	Contents of the report	
2.12	Previous report	Yes	2	Contents of the report	
2.13-2.16	Boundaries of report	Partly	2	Contents of the report	Specification of performance by country does not yet cover all operations.
<b>Report profile</b>					
2.17	Decisions not to apply GRI principles	No			A decision made to apply the GRI guidelines.
2.18	Criteria used in accounting for costs and benefits	No			No cost/benefit analyses have been made.
2.19	Significant changes in measurement methods applied	Yes		Environmental performance	Description with each indicator.
2.20.-2.21	Policies and practices in internal and external assurance	Partly	2	Contents of the report	Internal auditing has not been described.
2.22	Obtaining additional information	Yes		(Internet version)	Links in the relevant parts of the printed report.
<b>Governance structure and management systems</b>					
3.1.-3.2	Structure of organisation/board	Yes	14	Corporate governance	
3.3.-3.4	Board-level processes in corporate responsibility management	No			No processes have been defined separately, corporate responsibility is integrated in all management.
3.5	Linkage between executive compensation and corporate responsibility	No			No such indicators are included in the compensation.
3.6	Key responsible individuals	Partly	72	Contact information	The list is not complete, but includes key persons for reporting.
3.7	Mission, values, operating principles	Yes	13	Principles and management systems guiding the approach to corporate responsibility	
3.8	Mechanisms for shareholder recommendations or opinions	No			The procedure has not been described in the report –normal public limited company procedure

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
<b>Stakeholder engagement</b>					
3.9.–3.12	Stakeholder identification, consultations	Yes	10	Stakeholder analysis	Changes caused by stakeholder co-operation not included in the report.
<b>Policies and management systems</b>					
3.13	Addressing a precautionary approach	No			Risk management and addressing a precautionary approach are not included in this report.
3.14	Endorsement to external initiatives, charters, etc principles	Yes	15	Management systems	
3.15	Memberships in associations and organisations	Yes	11	Key areas of influence	
3.16–3.17	Supply chain management, indirect impacts	Partly	32, 43, 58	Energy purchases, developments in product trade, social quality	The analysis of indirect economic impacts incomplete.
3.18	Changes in operations	Yes	20	Investments and store network	
3.19–3.20	Management systems, certification	Yes	30, 58	Environmental system and data management, social quality control of suppliers	
<b>Comparison of GRI content</b>					
4.1	Identification of GRI guidelines	Yes	69		
<b>Economic performance indicators</b>					
EC1	Net sales	Yes	5	Kesko's business operations	
EC2	Geographic breakdown of markets	Yes	18	Economic performance/General	Further information available at <a href="http://www.kesko.fi">www.kesko.fi</a> (Annual Report 2004)
EC3	Goods and services purchased	Yes	5, 23	Suppliers of goods and services	
EC4	Payments in acc. with terms	Yes	24	Suppliers of goods and services	
EC5	Total payroll, pensions, etc.	Yes	22, 23	Salaries, social security expenses... Employee pension and health insurance	
EC6	Interests and dividends paid	Partly	18	Economic development from the viewpoint of shareholders	Interests paid have not been specified. Information in the financial report.
EC7	Changes in retained earnings	No			Not specified, information in the financial report.
EC8	Taxes paid	Yes	22	Salaries, social security expenses and taxes	
EC9	Subsidies received	No			No subsidies referred to by GRI
EC10	Donations to community, civil society, etc.	Yes	27	Financial support	
EC13*	Indirect economic impacts	Yes	23, 24	Suppliers of goods and services Breakdown of economic benefits by region	
<b>Environmental performance indicators</b>					
EN1	Materials use	Yes	39	Use of materials	Note! These are packaging materials.
EN2	Use of waste from external sources	No			A trading company does not use recycled waste in the way referred to by GRI.
EN3+EN4	Energy use (direct/indirect)	Yes	32	Energy and water consumption	Unit of measure KWh and its multipliers MWh and GWh.
EN5	Water use	Yes	32	Energy and water consumption	
EN6+EN7	Impact on biodiversity	No			No analysis has been made of land areas from the viewpoint of biodiversity.

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
EN8	Greenhouse gas emissions	Yes	34, 37	Environmental profile of energy Transport emissions Carbon dioxide balance of the Group	In transport, for Finland and Kesko Food's Estonian operations only.
EN9	Ozone	Yes	34	Environmental profile of energy	Ozone in lower atmosphere in G <sub>2</sub> H <sub>4</sub> equivalents.
EN10	Acidification	Yes	34	Environmental profile of energy	
EN11	Waste	Partly	39	Waste management and recycling	For Finland and Kesko Food's Estonian operations.
EN12	Discharges to water	No			Not relevant in Kesko's operations.
EN13	Spills of chemicals, oils, etc.	Yes	47	Environmental risks, damage, and incidents	Minor connection to Kesko's operations.
EN14	Environmental impacts of products	No			Being a trading company, Kesko produces no products.
EN15	Reclaimable products	No			Kesko participates in recovery systems, but the information referred to by GRI applies to manufacturers.
EN16	Environmental damages	Yes	47	Environmental risks, damage, and incidents	For Finland.
EN17*	Initiatives to use renewable energy	Yes	31	Real estate operations	
EN34*	Environmental impacts of transportation	Yes	37	Transport emissions	For Finland and Kesko Food's Estonian operations.
<b>Social performance indicators</b>					
LA1+LA2	Employment statistics	Yes	22, 49	Job development, employment	
LA3+LA4	Labour/management relations, negotiation procedures	Yes	57	Activities in employer organisations Co-operation with employee representatives	
LA5–LA8	Health and safety	Partly	52	Health and safety	Assessment of compliance with ILO guidelines not included Information of subcontractors' accidents (e.g. construction) not included.
LA9	Training and education	Partly	56	Training	Specification by personnel group for Finland only.
LA10+LA11	Diversity and opportunity	Yes	55	Equality	
LA12*	Non-mandatory employee benefits	Yes	54	Salaries and other benefits, Pensions	
LA17*	Specific policies and programmes for skills management or life-long learning	Yes	56	Training	
HR1–HR7	Human rights	Partly	58	Social quality control of suppliers	Human rights questions are not relevant in Kesko's own operations, but they are discussed concerning suppliers operating in developing countries.
S01	Operations in community	No			No process description of stakeholder co-operation.
S02	Policy on bribery	Partly	68	Attitude to bribes	No comparison with the OECD document included.
S03,S05*	Political contributions	Yes	68	Political relations	
S04*	Awards received	Yes	47	Stakeholder co-operation and communications	
PR1+PR2	Customer health and safety	Yes	65	Product safety	
PR3	Respect for privacy	Yes	67	Privacy protection	
Also:			51 67 24	Quality of management Corporate security Breakdown of economic benefits by Finnish region	

\*) an optional additional indicator

## Contact persons in corporate responsibility

The list gives contact information about the persons who primarily provide additional information on different areas of the report. The list does not include all Kesko employees who have participated in editing this report. Kesko's telephone number from outside Finland is +358 10 5311. E-mail address = firstname.lastname@kesko.fi

Name	Title	Unit
<b>Development, coordination, responsibility for editing the report</b>		
Jouko Kuisma	Head of Corporate Responsibility	Corporate Responsibility
Ulla Rehell	Senior Manager	Corporate Responsibility
<b>Indicators of economic responsibility</b>		
Pauli Alajoki	Accounting Manager	Corporate Accounting
Suvi Vertanen	Controller	Corporate Accounting
Pekka Niva	Store Site Director	Kesko Food Ltd/Retail Services
Antti Mansikka	GIS Planner	Kesko Food Ltd/Retail Services
Jukka Pokki	Investor Relations Manager	Investor Relations
<b>Indicators of environmental responsibility</b>		
Satu Kuoppamäki	Real Estate Information Manager	Kesko Real Estate
Toni Pelin	Environmental and Safety Specialist	Kesko Food Ltd/Logistics
Toni Tynkkynen	Environmental Specialist	Kesped Ltd
Marja-Riitta Jarva	Environmental Manager	Kesko Food Ltd/Customer Relationship Process
Juha Korttesalmi	Environmental Manager	Anttila Oy
Marja Ola	Environmental Specialist	Rautakesko Ltd/Development
Sari Koskinen	Environmental Specialist	Rautakesko Ltd/Development
Virpi Kantoluoto	Environmental Specialist	Kesko Agro Ltd/Development
Nina Rintanen	Environmental Assistant	Kaukomarkkinat Oy
Katarina Perkkiö	Project Assistant	Office Services
<b>Indicators of social responsibility</b>		
Lea Heikkinen	Development Manager	Human Resources
Mikko Myyryläinen	HR Controller	Human Resources
Päivi Sariola	Financial Manager	Pension Insurance and Occupational Health
<b>Social quality control system</b>		
Jouko Kuisma	Head of Corporate Responsibility	Corporate Responsibility
<b>Product safety</b>		
Matti Kalervo	Product Research Manager	Kesko Food Ltd/Product Research
<b>Corporate security</b>		
Juha Pietarinen	Security Director	Corporate Security
<b>Privacy protection/customer loyalty system</b>		
Tapio Pesonen	Financial Services Manager	K-Plus Oy
<b>External relations</b>		
Erkki Heikkinen	Senior Vice President	External Relations



## Assurance statement

### To the management of Kesko Corporation

At the request of the management of Kesko Corporation we have performed the procedures agreed with you and enumerated below with respect to the Kesko Corporation's Corporate Responsibility Report 2004 (the Report). Kesko Corporation's management has prepared the Report and is responsible for the collection and presentation of the information within it. This independent assurance report should not be used on its own as a basis for interpreting Kesko Corporation's performance in relation to its non-financial policies.

### Scope of our work

Our engagement was undertaken in the framework of the International Standard on Assurance Engagements 3000 (revised) applicable to assurance engagements other than audits or reviews of historical financial information. Also, the Global Reporting Initiative Sustainability Reporting Guidelines 2002 together with the AA1000 Framework have been used as sources of the criteria for the assurance of Corporate Responsibility Report.

Our scope covered the assurance of the information content of the Report. Our review process involved the main steps outlined below.

- Assess the data management procedures used to compile and report information presented in the Report focusing this year on the purchasing systems.
- Assess the completeness, accuracy and comparability of the information presented.

### Summary of our work performed

About used practices and procedures for data generation we interviewed the responsible persons in Vähittäiskaupan Tili-

### Translation from the Finnish original

palvelu VTP Oy and, as spot checks in Rautakesko and Kiinteistökesko.

The assessment of the reported information was based on the initial data of the reported functions made available to us. We also interviewed persons responsible for generating such data. The interviews and information received in connection with last year's assurance process was also used as a basis of our work.

### Our most significant findings

We recommended in our assurance statement regarding the 2003 Report the enlargement of the reporting scope so that the corporate responsibility indicators and different functions are reported comprehensively in all countries of operation. The analysis of the economic responsibility has been deepened and the reporting of the break down of economic well-being covers now also K-retailers. However, the goal regarding the reporting coverage has not yet been reached in all countries of operation.

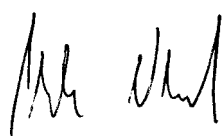
The reporting content has enlarged and the volume of the reported data increased. We recommend that attention will be paid to the data management control to ensure the availability together with the quality and the reliability of the reported data also in the future.

### Our conclusions


The Kesko Corporation's Corporate Responsibility Report 2004 provides, in all material respects, the performance of Kesko Corporation's corporate responsibility for the year ended 31 December 2004. The areas of the Report covered already in the previous years follow the reporting structure in due form. The information of the Report is prepared in a sufficient and an appropriate manner.

Helsinki, 15 April 2005

PricewaterhouseCoopers Oy  
Authorised Public Accountants



Pekka Nikula  
Authorised Public Accountant



Sirpa Juutinen  
Senior Manager,  
Sustainable Business Solutions

## Definitions of terms

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

**Return on invested capital (ROI), % =**

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

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

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

**Gearing ratio, % =**

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

**Market capitalisation** = share price x number of shares

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

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

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

**CO<sub>2</sub>** = carbon dioxide = affects climate change ('greenhouse effect')

**CO<sub>2</sub> eq.** = carbon dioxide equivalent, the amount of different gases whose combined impact on the greenhouse effect corresponds to the amount of carbon dioxide mentioned

**SO<sub>2</sub>** = sulphur dioxide equivalent (affects acidification)

**C<sub>2</sub>H<sub>4</sub>** = ethene (affects the ozone content of the lower atmosphere)

**CO** = carbon monoxide or coal gas

**HC** = hydro carbons

**NO<sub>x</sub>** = nitrogen oxides

**Transbox case** = reusable transport case made of plastic

**KRESS real estate** = premises in the sphere of Real Estate and Construction Sector Energy Saving Agreement (KRESS), for which savings targets related to the specific consumptions of electricity and heat have been set.

Kesko's Corporate Responsibility Report is available in Finnish and English and can be ordered by mail from Kesko Corporation, Communications, Satamakatu 3, FI-00016 Kesko, Finland by e-mail from [viestinta@kesko.fi](mailto:viestinta@kesko.fi) or by phone from +358 1053 22404. You can also order and read the report on Kesko's web site at [www.kesko.fi](http://www.kesko.fi).

The report has been edited by Kesko's Corporate Responsibility Unit (Jouko Kuisma and Ulla Rehell) in co-operation with Mainostoimisto Rauta advertising agency (Tapio Heickell and Anne Soikkeli). Photos: Jari Härkönen, except for p. 27 Adolfo Fera, p. 63 Jef Mañon and p. 64 Maija-Liisa Ihanus.

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