

*Corporate responsibility report*  
*Building for a better tomorrow*

**2003**



**KESKO**

## Contents of the report

Kesko's fourth corporate responsibility report has again been prepared on the basis of the 'Sustainability Guidelines on Economic, Environmental and Social Performance' drawn up by the Global Reporting Initiative (GRI), and the content structure of the report has not moved away from that of previous years. The titles of the report are selected from Kesko's starting-points and do not follow the order of presentation or the numbering of titles provided by the GRI. As a publisher, Kesko does not - despite the GRI guidelines - take a stand on whether the report is in accordance with the GRI guidelines. Any deviations from GRI guidelines and any shortcomings in presenting its core indicators are noted in the comparison published at the end of the report.

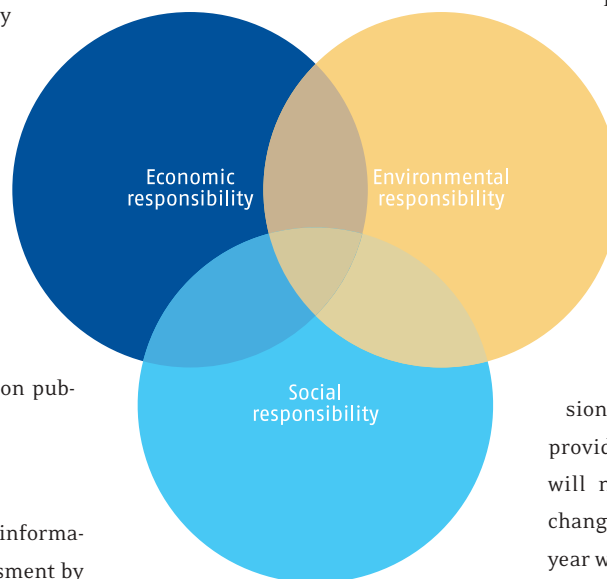
### GRI core guidelines

The report begins with basic information about Kesko and an assessment by Kesko's top management of the present status and future prospects for corporate responsibility. Kesko's values, operating principles guiding responsibility, strategies and management systems are described in brief, as are its corporate governance and stakeholders systems. The main focus is on the indicators of economic, social and environmental performance, which are now a little more numerous and more specific. Some statistics, for instance, on the breakdown of economic benefits per region in Finland are now included. A summary table of the key indicators has also been drawn up. At the end of the report, there is a description of other areas of responsibility, such as activities promoting product safety and pri-

vacy protection. Definitions of the most important terms and a list of the key contact persons are also included.

### More foreign operations included

The report for 2002 contained, for the first time, some statistics on the Group's foreign subsidiaries. The assurance statement of the report included a



recommendation of universally connecting the functions abroad under the same performance indicators. The indicators of economic and social responsibility are now specified by country in all the cases where the figures fulfil the qualitative requirements set for reporting. The implementation of environmental systems in foreign subsidiaries is, however, at such an initial stage that indicators can be provided for some areas of activities only.

### Information about K-retailers, too

Kesko acts in close co-operation with K-retailers, based on chain agreements

between the parties. The report also presents information concerning K-stores when this is integrally related to Kesko's reporting and complements the total picture of the relations of Kesko and K-retailers with society.

### Assurances for online and printed reports

An electronic version of the printed report containing some complementary information is available on Kesko's Internet pages. The additional information provided by the Internet pages has been marked in the corresponding parts of the printed report. The electronic report for each year is presented on the Internet pages as it is at the moment of publication, in the version for which the assurance has been provided. The information presented will not be updated afterwards. All changes in the information during the year will be presented in the report published the following year.

As in the previous year, an assurance statement has been provided for the printed and electronic versions in both Finnish and English. The assurance provider is the Sustainability Services unit of PricewaterhouseCoopers Oy, Kesko's audit firm. The assurance statement is published at the end of this report.

The report covers performance in 2003, with some information about January-March 2004 included. The previous report, covering the year 2002, was published in May 2003. The following report, for 2004, will be published in spring 2005.

## Review by the President and CEO

The value survey made at Kesko in autumn 2003 shows that the personnel considers values important and would like them to be discussed even more thoroughly from the viewpoint of their duties. This is a clear message to the management that employees are prepared to commit themselves to the values as far as their connection with everyday work is understandable and acceptable.

Bearing corporate responsibility is considered to be one of Kesko's values that is best implemented. The other three values are ranked as more important, but they also contain elements of responsible operations. Employees feel that the standards and guidelines concerning responsibility are so good that acting in accordance with the value is easy. There is wide unanimity that corporate responsibility is every employee's duty. This shows that responsibility has become a self-evident part of Kesko employees' daily work, and of our operating practices.

Kesko has many years of experience in measuring the performance of economic, social and environmental responsibility. We have continued to find room for improvement in the operations themselves and in measuring them. The third party assurance statement has helped us to specify the collection of data and the interpretation of results. The implementation of the SAP operations control system sets new demands on the calculation and statistical systems serving corporate responsibility. Extending reporting to cover our foreign operations presents a major challenge for us. Inevitably, there are and will be some drawbacks in our collection of data. However, we recognise them and are committed to gradually eliminate them.

Although collecting data that illustrates responsibility is challenging, it is also both important and rewarding. Im-



portant because the indicators in this area are necessary for the management of an up-to-date business. Rewarding because the impacts of the work are reflected in the company's economic performance and reputation. A precise impact on the profit remains hard to define with current information and comparisons with other companies are not easy either. Fortunately, there are neutral comparisons available. Experts who assess the performance of listed companies have considerably increased the use

of indicators of sustainability in their own analyses. At Kesko we can be pleased that the results of our work are valued by Dow Jones, Storebrand and Ethibel, for instance. Any investors seeking companies that bear responsibility hardly miss the fact that the two last-mentioned organisations have named Kesko as the best company in the sector.

**Matti Honkala**  
President and CEO  
Kesko Corporation

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## Basic information about the Kesko Group

### Kesko's business operations

Kesko is Finland's biggest trading sector group. Its main market area is Finland, but in accordance with its strategy, the Group has expanded its operations to neighbouring countries: Sweden, the Baltic countries and Russia. In addition, 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 the respective K-retailers. Kesko also has its own retail outlets: home and speciality goods and agricultural stores in Finland, hardware and builders' supplies stores in Sweden as well as food, hardware and builders' supplies and agricultural stores in the Baltic countries. Moreover, in Finland Kesko has started testing the Cassa discounter stores and owns Pikoil Oy, which is responsible for K-pikkolo stores, on a fifty-fifty basis with Fortum Corporation. Kesko's subsidiary VV-Auto Oy imports cars.

Of the Group's net sales of EUR 7.1 billion in 2003, 53% came from the food trade. Foreign operations accounted for 11.7% (8.3% in 2002).

Kesko works in close chain co-operation with the K-retailers. There were 1,378 K-retailers at the end of 2003. The K-Alliance had 1,789 retail stores in Finland and 107 in other countries, and their sales totalled EUR 7.9 billion.

### Kesko's shareholders

Kesko is a listed company, with 28,761 shareholders at the end of 2003. The proportion of A shares of the total share capital was 34.8% and 84.2% of all votes. The corresponding percentages for B shares were 65.2% and 15.8%. 20

largest shareholders calculated by the number of votes held 35.0% of all votes and 18.5% of all shares. During the year, the shareholdings of foreigners decreased from 20.6% to 16.8%, entitling to 4.1% of all votes.

At the end of 2003, the market capitalisation of A shares was EUR 578 million and that of B shares EUR 825 million, with the total market capitalisation of the company being EUR 1,403 million.

### Personnel

In 2003, Kesko had 15,219 employees on average, of whom 5,360 (35.2%) worked for Kesko's foreign subsidiaries. The total number of employees increased by 3,002 (24.6%) over 2002. The growth abroad was 114.7% and in Finland 1.4%. In the average figures, part-time jobs have been converted into full-time jobs according to working hours. At the end of the year, the total number of employment relationships was 19,411, which was 4,199 more than the year before. 68.4% of the personnel worked in retailing.

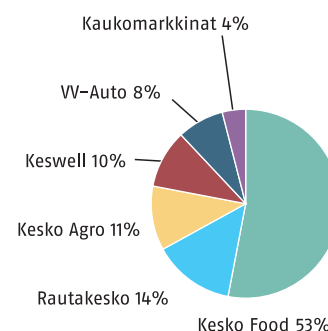
### Real estate

At the end of 2003, the Kesko Group owned or leased 3,109,000 square metres of real estate and premises in all. Out of this area, Kesko owned 1,157,000 square metres in Finland and 148,000 square metres abroad. Warehouses, offices and other premises accounted for over a quarter of this area, with store premises accounting for the rest. The total floor area of premises leased for use, consisting mainly of retail stores, was 1,546,000 square metres in Finland and 258,000 square metres abroad. The majority of the store premises owned or leased in Finland have been rented to the K-retailers.

### Suppliers of products and services

In 2003, Kesko bought products at about

### Breakdown of Kesko's net sales in 2003



EUR 6.2 billion and services at about EUR 98 million. Active Finnish suppliers - about 14,500 in all - accounted for 72.8% and foreign suppliers - 4,500 in all - for 27.2% of Kesko's purchases. The main countries from which goods were imported were Germany, China, Italy, Sweden, Denmark, France and Spain.

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

### Customers

The K-retailers accounted for 46.1% of Kesko's sales. On average, the K-retailers made 88.5% of all their purchases (86.3% in 2002) and 90.8% of their food purchases (90.3% in 2002) from Kesko. Wholesale customers - hotels, restaurants, service stations, kiosks, construction companies, etc. - accounted for 31.6% of Kesko's sales. The remaining 22.3% went via Kesko's retailing subsidiaries directly to consumers.



## Key indicators of corporate responsibility for 2001–2003

Indicators of economic responsibility	2001	2002	2003
Net sales (EUR million)	6,214	6,466	7,070
Profit before extraordinary items (EUR million)	86	110	162
Return on invested capital (%)	6.6	7.6	10.9
Dividends paid (EUR million)	90	54	91
Investments (EUR million)	206	185	259
Equity ratio (%)	53.6	53.3	51.7
Salaries and fees (EUR million)	267	281	316
Income taxes (EUR million)	30	42	58
Number of personnel (average)	11,544	12,217	15,219
Purchases from suppliers (EUR million)	5,439	5,714	6,258
Support to organisations operating for the public good (EUR million)	2.4	1.9	2.4
Households within 1 km of a K-food store (%)	46.4	*)	45.3

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

\*) data has not been collected

Indicators of environmental responsibility	2001	2002	2003
Use of electrical energy in real estate (GWh) <sup>1)</sup>	628	644	730
Use of heat energy in real estate (GWh) <sup>1)</sup>	290	282	337
Use of water in real estate (m <sup>3</sup> ) <sup>1)</sup>	546	545	713
Emissions from the production of electrical and heat energy used			
– climate change (tn CO <sub>2</sub> eq) <sup>1)</sup>	293,509	231,702	311,095
– acidification (tn SO <sub>2</sub> eq) <sup>1)</sup>	742	645	1,229
– ozone in lower atmosphere (tn C <sub>2</sub> H <sub>4</sub> eq) <sup>1)</sup>	15.2	15.2	17.5
Distribution transport			
– loads <sup>2)</sup>	117,125	116,260	117,782
– kilometres (1,000 km) <sup>3)</sup>	17,840	15,365	19,700
– tons <sup>4)</sup>	658,552	697,000	609,000
– use of energy (MWh) <sup>5)</sup>	85,447	73,592	80,275
– emissions (tn) <sup>5)</sup>			
– carbon dioxide	22,654	19,511	22,954
– carbon monoxide	11	9	14
– hydrocarbons	7	6	9
– nitric oxides	238	205	222
Use of materials/waste (tn)			
– materials in imported packaging	25,250	31,704	31,392
– waste in distribution warehouses <sup>6)</sup>	10,066	9,510	15,125
– of which for recovery (%) <sup>6)</sup>	85.8	89.7	89.8
– radioactive waste from production of electricity purchased <sup>1)</sup>	0.54	0.67	0.96

<sup>1)</sup> figures for 2001–2002 for Finland only, figures for 2003 for the whole Group.

<sup>2)</sup> figures for 2001–2002 for Kesped and Anttila distribution, the figure for 2003 also includes Kesko Food's distribution in Estonia.

<sup>3)</sup> as above, but kilometres for 2003 also include outside transport companies used by Kesko Food.

<sup>4)</sup> in all years Kesped distribution only.

<sup>5)</sup> figures for 2001–2002 for Kesped and Anttila distribution, the energy calculation for 2003 also includes outside transport companies and emissions for 2003, moreover, Kesko Food's distribution in Estonia.

<sup>6)</sup> figures for 2001–2002 for Finland only, the figure for 2003 also includes Kesko Food's operations in Estonia, except for in calculation of recovery percentage.

Indicators of social responsibility	2001	2002	2003
Job satisfaction (scale 1–5)			
– own job	3.73	3.72	3.71
– superior's performance	3.82	3.82	3.79
– unit's operations	3.73	3.78	3.76
– Kesko's operations	3.60	3.71	3.70
Employee turnover <sup>1)</sup>			
– new	3,800	5,189	6,650
– left	3,500	5,064	5,162
– retired	194	254	151
Average age of employees (years)			
– in Finland	*)	35.1	35.0
– in foreign units <sup>1)</sup>	*)	30.2	33.0
Average duration of employment in Finland (years) <sup>2)</sup>	11.8	11.3	9.0
Sickness absences (work days per person)			
– in Finland	7.8	7.9	8.4
– in foreign units <sup>1)</sup>	*)	9.1	10.9
Funds used for health care (per person, EUR) <sup>3)</sup>	328	340	359
Average annual salary (per person, EUR)			
– in Finland	24,917	26,280	29,155
– in foreign units <sup>4)</sup>	11,605	10,275	8,211
Training days per person			
– in Finland	1.7	1.5	1.6
– in foreign units <sup>1)</sup>	*)	1.2	1.5
Investment in training (per person, EUR) <sup>1)</sup>	598	445	453
Social quality control of purchases			
– suppliers in developing countries included in statistics	220	236	247
– total number of employees in above companies	225,000	221,500	263,000
– companies with SA 8000 certification	11	17	19
– number of employees in companies with SA 8000 certification	19,000	30,700	47,000

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

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

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

<sup>4)</sup> data for the whole Group

\*) data has not been collected

# Vision and strategy of corporate responsibility

Kesko's vision and mission highlight the viewpoint of a service company. As profit divisions have been incorporated and the focus shifted to core business operations, the development and production of various trading services has become Kesko's principal business. Development work requires the formation of networks and partnerships with other experts in the sector.

Responsibility is an essential part of Kesko's values and strategies. Trading is based on confidence between the buyer and the seller. Long-standing operations are only possible if customers have confidence in the products and services offered by the seller and in his operating practices.

Responsibility for economic operations has been Kesko's most important operating principle throughout its history. Kesko has made a profit and paid dividends in nearly every year of its operations. Good financial management has also enabled responsible operations in environmental and social issues.

The Corporate Management Board approved the first vision of the future factors in Kesko's corporate responsibility in spring 2001 and made some revisions in spring 2003. The vision will be assessed every second year, unless a clear need for change is identified at other times.

## Vision of key factors in corporate responsibility

### General

During this decade, globalisation will accelerate the concentration of companies, foreign investment and competition across national borders. Progress in the development of international trade regulations will be slow, increasing pressure for responsible self-regulation by companies. The interest of in-

vestors in the operating ethics of companies will grow as performance indicators are developed. Other stakeholders also demand versatile and open information about company operations, which will increase the provision of corporate responsibility indicators and reporting to complement financial statements. The use of the indicators in inter-company benchmarking requires special reliability from reporting, making independent assurances a necessity.

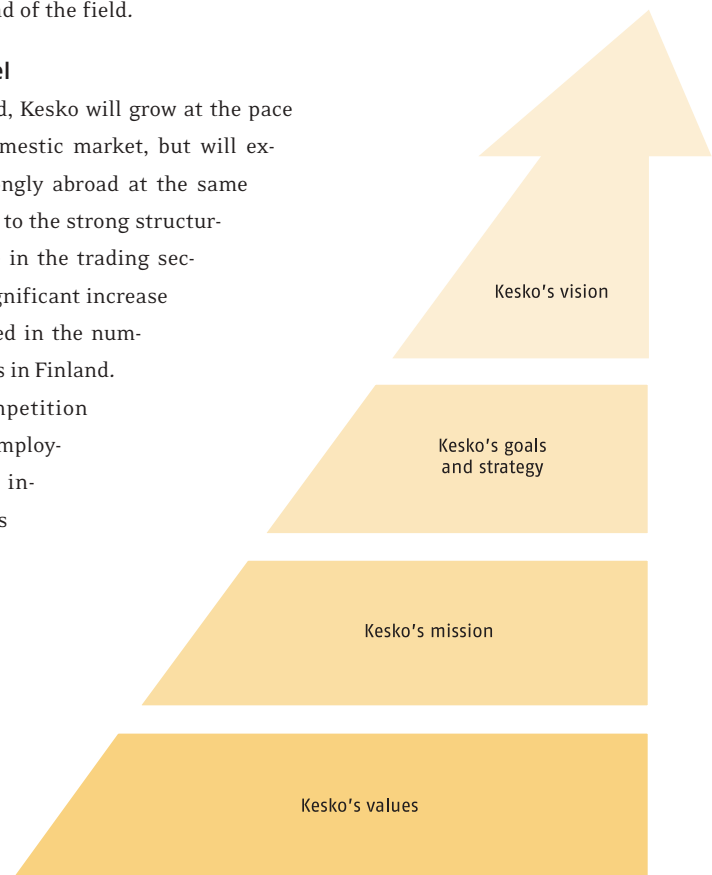
### Economy

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

### Personnel

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

baby-boomers retire. The values and appreciation of the company and its brands contribute to the attraction of the job. Kesko's corporate responsibility actions interest the new generation now entering working life and thereby facilitate recruitment. The problems associated with the performance and job pressures of ageing employees will be prevented with systematic job rotation and training. In occupational health care, too, the emphasis is on preventive work, the targets being a reduction in the number of disability pensions and a rise in the average retirement age.





### Trading services

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

### Consumers

As the supplies of products and services grow, consumers making purchasing decisions will have, besides more options, also more influence to affect the trading structure and supply of goods. The role of the media in consumer business will grow, too. An increasing number of consumers will want information on the origin, safety and production conditions of merchandise, which will require from Kesko an active management of the purchasing chain and open and active communications. Kesko and the K-retailers can affect consumers' wellbeing and quality of life by their actions in general, and by their product policies, selections and monitoring. In communications and marketing, safety, reliability and ethics will gradually rival price.

### Stakeholder co-operation

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

organisations, the authorities and other decision-makers, and will participate in diverse national and international organisations in its own sector and in business in general.

### Strategies

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

The key points of Kesko's strategy are presented in the table. More detailed information about the strategy is available in Kesko's annual report. The annual report can also be read on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Investor information).

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

#### Kesko's strategy

##### 1. Growth

- expansion in the Nordic and Baltic countries, particularly in the food, hardware and builders' supplies, and agricultural and machinery trade
- store site investments to meet the demand for services
- continuous development of store types

##### 2. Efficiency

- overall management of the operations chain, integration of the wholesale and retail trade
- increasing international purchasing co-operation
- concentration on core competencies

##### 3. Versatility

- diversified channels and product lines
- varied selected markets
- wide network of partners in various business sectors

##### 4. Locality

- retailer entrepreneurship and deep customer knowledge
- extensive store network

##### 5. Responsibility

- economic, social and environmental responsibility

# Kesko's principles and management systems guiding corporate responsibility

Since the mid-1990s, all Kesko Group units have acted according to value and quality management systems. In the improved management system, introduced in 2002, the importance of values in providing the basis for all operations was increasingly highlighted. The values were also specified and the ethical principles of personnel, 'Our working practices', were revised to correspond the new values. Kesko's values and working practices have also been translated from Finnish into other languages used within the Group, namely Swedish, Estonian, Latvian, Lithuanian, Russian and English. Separate training material is available to support their adoption. The K-retailers also adopted the corresponding values and principles within their own management.

'Our working practices - ethical principles' can also be found on Kesko's

Internet pages at [www.kesko.fi](http://www.kesko.fi) (Kesko in brief/Corporate citizenship).

### Kesko's values

Bearing corporate responsibility forms the foundation of the Group's operations and exceeding customers' expectations is essential to its business operations. Kesko strives to be the best operator in its sector. Creating a good working community is crucial in the implementation of commercially and socially important values.

Since spring 2002, the values have been discussed at all the Group units' employee and training events. A survey of the personnel's views of the importance and implementation of the values was conducted via the intranet and mail in Kesko's units in Finland in November-December 2003. Martti Puohiniemi, Doctor of Social Science, car-

ried out the survey. The number of responses received was 2,428, making the response rate 37%. Three group discussions were also arranged. The perceived importance and implementation of the values are presented in the figure.

According to the survey, Kesko employees feel that both the importance and the implementation of all four values exceed the average. Creating a good working community is considered the most important value, the implementation of which is at the same time rated the poorest. Bearing corporate responsibility is considered to be the value that is best implemented, but least important.

Working communities are continuously improved at Kesko, but corporate culture does not change in a moment. The result also shows how stable the values are. Real values change very slowly, after many years of work.

85% of respondents agreed that bearing corporate responsibility is every employee's duty. Group discussions revealed that as Kesko has provided good guidelines and standard operational procedures in issues that fall under corporate responsibility, it is easy to operate in accordance with the value - so easy in fact that employees do not necessarily think about the value they are implementing at work.

75% of survey respondents think that discussion about values is really important. There remains room for improvement though, as only 44% think that the values have been thoroughly discussed from the viewpoint of their own duties.

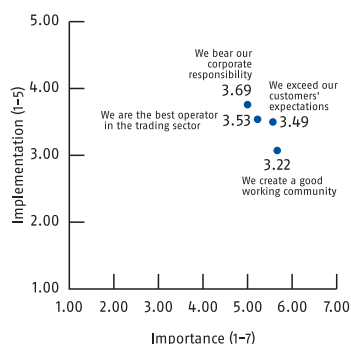


The implementation of values can be measured in many ways. The figure includes some examples of the indicators used.

### Corporate governance statement

Kesko's corporate governance statement is updated on a regular basis, and it is available on the company's Internet

### Perceived importance and implementation of Kesko's values



pages at [www.kesko.fi](http://www.kesko.fi) (Investor information). The statement valid in spring 2004 has been published in full in Kesko's annual report for 2003, on pages 49-54. The following update, based on the new corporate governance recommendation for listed companies, will be made in summer 2004.

Kesko Corporation's Board of Directors consists of eight members, three of whom are K-retailers in normal business relations with the Kesko Group. Kesko Corporation's President and CEO Matti Honkala is a member of the Board of Directors. The Board of Directors has established no committees or appointed no Board members specialised in corporate responsibility. The Board of Directors will handle the corporate responsibility report in the spring after it has been completed and other related issues included in its duties when necessary.

Kesko Group has a Corporate Management Board, the Chairman of which is Kesko Corporation's President and CEO and the members of which are the Presidents of the major division parent companies, the Corporate Executive Vice President responsible for Finance and the Senior Vice Presidents responsible for Administration and Corporate Communications. The Corporate Management Board has no authority based on legislation or the Articles of Association, but it is an advisory body appointed by the Managing Director, responsible

for dealing with the development projects comprising the whole Group as well as Group-level principles and practices. In addition, the Corporate Management Board also participates in the preparation of the matters to be handled by Kesko Corporation's Board of Directors.

In the company organisation, the Senior Advisor and Senior Manager who are responsible for the development and coordination of corporate responsibility at the Group level are from the Corporate Communications and External Relations unit. The unit's director is a member of the Corporate Management Board.

Indicators of corporate responsibility have been partly included in the units' profit-sharing system (indicators of job satisfaction, customer satisfaction and recycling performance, for instance).

### Management systems

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

At present, Kesko Food is gradually adopting a quality system, based on the EFQM / ISO 9000 structure, which is documented in Kesko Food's intranet. It is estimated that the system will be mostly completed 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 the quality system that complies with the ISO 9000 standard and the in-house control system approved by the authorities. Kesko Food's subsidiary Kespro Ltd has a certified ISO quality system.

The environmental system complying with the ISO 14001 standard has been adopted in all the units with major environmental impacts. More information about certifications within the system is given in the environmental re-

sponsibility section on page 24. The environmental policy is available on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Environment and responsibility/Environmental responsibility).

The purchasing units carry out quality control with the help of the international Social Accountability SA 8000 standard in their trading relations involving social risks, mainly in imports from developing countries. More information about social quality control is available from page 48 onwards. Kesko's purchasing principles can be found on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Environment and responsibility/Economic and social responsibility).

### Key areas and methods of influence

With active and target-oriented operations, Kesko can achieve results that benefit society and stakeholder groups.

Growth in purchases for goods and services creates wellbeing for the supplier companies and their employees, which increases the tax income of municipalities and the state, providing more funds for the development of social security and services. For shareholders, responsible and profitable operations mean a steady growth in the share value and a good dividend yield. Maintaining a comprehensive store network and having retailer entrepreneurship as a local resource secures services near consumers.

Continuous improvements in environmental performance include, for instance, more efficient use of energy, a relative drop in emissions, preventing the generation of waste, increasing recovery, and improving the environmental properties of both products and packaging.

Improvements in the quality of management increase employees' job satisfaction and motivation. Through co-operation, the working conditions of suppliers operating in developing countries are being improved, in small steps. The emphasis is on the prevention of

employees' problems at individual level both in our own operations and throughout the purchasing chain.

Supporting the institutions and associations related to Kesko's operations promotes services and wellbeing in society and communities nearby. Kesko hopes that these kinds of projects will lead to interactive co-operation and will provide Kesko with information about the wishes and expectations of stakeholder groups.

Participation in national and international economic and trading sector development is part of corporate responsibility. Kesko's representatives carry out this work in the following national and international organisations and groups:

- Employers' Confederation of Service

- Industries in Finland (chair in Board)
- Federation of Finnish Commerce and Trade (vice chair in Board)
- Central Chamber of Commerce (vice chair in Board)
- Finnish Business & Society network (Board)
- 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
- 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 chair in Board)

- International Chamber of Commerce ICC (environmental committee, corporate responsibility committee, National Committee of Finland: chair in Board)
- United Nations Environmental Programme UNEP (trading sector group)
- CIES - The Food Business Forum (food safety working group).

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



## Quality and customer-orientation are the cornerstones of Kespro's operations

Since 1997, Kesko has arranged internal quality prize competitions that are based on the requirements and practices of the Finnish Quality Award. The quality prize for 2003 went to Kespro Ltd. The jury gave particular praise to Kespro's systematic operations and customer-orientation.

At Kespro, quality management provides a framework for all management and operations. In 2003, the ISO 9002 certificate earlier awarded to delivery sales was revised to comply with the ISO 9001 standard. The Vantaa and Jyväskylä wholesale outlets also have the ISO 9001 certification. Future targets include certi-

**New generation wholesale outlets meet customers' wishes for a faster delivery rhythm, wider product selection and more customer-specific sales service. Waitress Leila Tainio is laying the table for lunch at the Vanajanlinna restaurant, one of the system's customer restaurants.**

fication of all Kespro's business units.

The indicators of quality at Kespro are customer and job satisfaction, delivery accuracy, and process efficiency. Responsibilities and authorisations have been delegated to the district units that operate with a close customer interface. All feedback is registered and handled in accordance with the quality system. The customer is also given information on the outcome.

Development needs in the operations are assessed with the help of weekly customer satisfaction enquiries and customer meetings. In 2003, the number of customer visit reports totalled 3,165. In addition to customer surveys, Kespro collects customer feedback with the help of unit-specific customer councils, and various customer and fair events.

## Stakeholder analysis

The company's financial performance is usually considered from the shareholders' point of view. When estimating performance in terms of corporate responsibility, there are several stakeholder groups with their own expectations which may also be contradictory. A responsible company must be able to balance between different expectations, to allow all stakeholder groups to feel that the company has succeeded in

its corporate relations.

A stakeholder analysis and action plans are included in the units' annual and long-term planning. Success in co-operation is measured in many different ways. The table below presents Kesko's activities concerning each stakeholder group, their expectations concerning Kesko, and the indicators to assess performance.

A documented practice would be

needed for monitoring some of the contacts and the results achieved. The target of the unit in charge of developing corporate responsibility is to create such a process description and indicators of stakeholder co-operation for the units in 2004 that would enable a better assessment of the results from co-operation between authorities and non-governmental organisations.

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, 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 Securities Market Act and other information. Annual report, corporate responsibility report, Internet pages, stock exchange and other releases, presentation material, news conferences, services of regional communications officers.	Open, diverse, reliable and fast communications.	Daily media monitoring, corporate communications surveys, comparisons ('competitions') of annual reports, investor communications, corporate responsibility reports.



## Corporate responsibility performance in 2003



### Key economic performance in 2003

- Group profit reached an all-time high
- Number of shareholders increased by 3,000
- Dividend yield was high
- Breakthrough into sustainability indexes
- Largest investments of all times
- Reduction in the number of K-food stores in Finland nearly stopped
- Proportion of large stores in K-food trading increased by 2.5 percentage points
- Number of employees nearly doubled abroad and increased slightly in Finland
- Relative proportion of fixed-term and part-time employees dropped
- Purchases from Finland remained unchanged, purchases from abroad increased considerably
- Total support for the public good increased, the proportion allocated to youth work increased, while the proportion to sports decreased
- Statistics by region on the economic wellbeing produced by Kesko were prepared for the first time

Executive Assistant Päivi Ahlgren of the Legal Affairs unit making arrangements for the meeting of Kesko's Board of Directors.



## Economic performance

### General

Kesko Group's net sales in 2003 totalled EUR 7,070 million, representing an increase of 9.3%. Growth in Finland was 5.2% and in foreign countries 54.7%. VV-Auto and Rautakesko recorded the best increases in Finland, while Rautakesko achieved the best sales growth abroad, becoming market leader in the Baltics when it acquired the majority shareholding in Lithuania's largest hardware and building supplies company. Kesko Food and Kesko Agro also considerably expanded their operations in the Baltic countries.

The Group's profit before taxes grew by 47.3% to EUR 161.6 million. All divisions were profit-making. The operating profit of Kesko Food, the biggest division parent company, dropped by 6.9% to EUR 56.3 million, because of major invest-

ments in marketing, information systems and store sites. Other divisions, except for Kesko Agro and Kaukomarkkinat, improved their profits.

The following analysis handles Kesko's economic performance from the viewpoint of different stakeholder groups. Other financial indicators and the development of business operations in 2003 can be found in Kesko's annual report. The corresponding information is also given on Kesko's Internet pages ([www.kesko.fi](http://www.kesko.fi)), at 'Investor information'.

### Economic development from the viewpoint of shareholders

Kesko has been listed on the Helsinki Exchanges since 1960 with the B share (previously ordinary share) and since 1999 also with the A share (previously exclusive share). The share series differ from each other only as to the votes they entitle to. Each A share entitles the holder to 10

votes and each B share to one vote.

At the end of 2003, the total number of shares was 91,190,500, of which 34.8% were A shares, entitling to 84.2% of votes. The corresponding percentages for B shares were 65.2% and 15.8%. Kesko has two stock option schemes for management (for 2000 and 2003). Presuming that shares are subscribed for with all of these stock options, the number of B shares will increase by 7,640,000 shares by the end of the subscription period in 2010.

### More shareholders

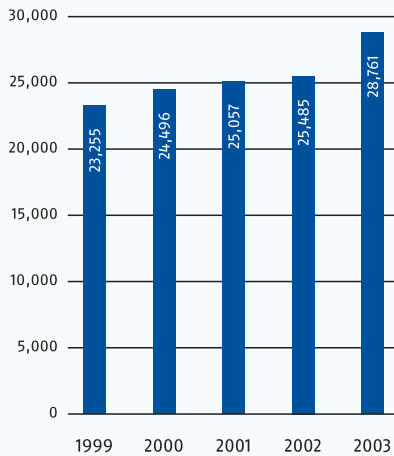
At the end of 2003, Kesko had 28,761 shareholders, over 3,000 more than the year before. The number has increased every year since 1999. In recent years, the ownership structure has remained relatively unchanged. In 2003, the proportion of foreign shareholders dropped from 20.6% to 16.8%, accounting for 4.1% of the votes. On 13 February 2004,

Profitability of operations						
	2001	+/-	2002	+/-	2003	+/- %
Net sales, EUR million	6,214	-1.5	6,466	4.1	7,070	9.3
Gross margin, %	12.5		12.3		12.8	
Profit before extraordinary items, EUR million	86	-31.7	110	27.9	162	47.3
Profit before extraordinary items, %	1.4		1.7		2.3	
ROI (return on invested capital), %	6.6		7.6		10.9	

Kesko's net sales by division and market area in 2003 (EUR million)								
Division	Finland	Sweden	Estonia	Latvia	Lithuania	Russia	Other	Total
Grocery trade	3,517		210	36			3	3,766
Hardware and builders' supplies trade	674	78	45	21	171	4	2	995
Agricultural trade	462		34	36	36		8	576
Machinery trade	162		5	4	4		17	192
Home and speciality goods trade	703		9	10			4	726
Car trade	545		10				3	558
Kaukomarkkinat	202	8	9	3	5	9	49	285
Total	6,265	86	322	110	216	13	86	7,098

The figures include EUR 28 million of the Group's internal business that have been eliminated in the financial statements.

Shareholders at 31 December



the combined shareholding of the K-Retailers' Association, its branch clubs and the Foundation for Vocational Training in the Retail Trade reached 10.1% by number of votes. More detailed informa-

tion about Kesko's shareholders and trends in share prices is available on Kesko's Internet pages ([www.kesko.fi](http://www.kesko.fi)) at 'Investor information'.

**High dividend yield**

Since its establishment Kesko has generated profits and paid dividends every year except 1967. For the past ten years the annual yield (dividend and appreciation) of Kesko's B shares has averaged 10.7%, and for the past five years 8.9%. For the past five years the dividend yield has averaged 9.9%. According to its dividend policy, Kesko distributes at least a third of its earnings per share as dividends, or half if the equity ratio exceeds 50%. During the past five years, the average dividends have been 135.4% of the earnings per share.

Kesko's share price performance has been relatively steady and followed the general trends in trading sector

prices on the stock exchange. In 2003, the price of Kesko's A share increased by 11.0% and the price of the B share by 14.7%, compared with a rise of 4.4% in the Hex general index of the Helsinki Exchanges and a rise of 16.2% in the weighted Hex portfolio index. At the end of 2003, the market value of A shares was EUR 578 million and the market value of B shares EUR 825 million. After many years of undervaluation, the market capitalisation exceeded the book value of shareholders' equity at the end of 2003.

**Plenty of information for the markets**

Kesko continually produces accurate, open and up-to-date information for the markets to serve as a basis for the setting of Kesko's share price. The aim is to make Kesko's activities better known, to increase the transparency of

**Kesko in sustainability indexes**

**Dow Jones STOXX Sustainability Index**

The Dow Jones pan European sustainable development index that includes 178 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 that includes 309 companies.

**Nordic Sustainability Index**

The index that was initiated by the Nordic Council evaluates the performance of the 500 largest companies listed on the Nordic stock exchanges in the area 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**

The index is an initiative of Dutch investment companies Kempen Capital Management and SNS Asset Management for companies with a market value of under EUR 2 billion. Out of 1,700 companies, the index includes 69 companies from 12 countries.

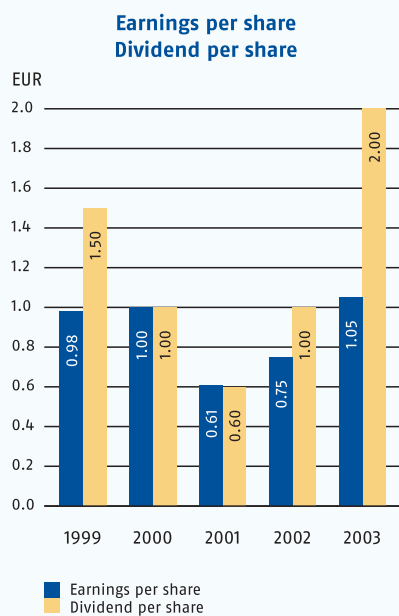
**Storebrand SRI**

The Norwegian banking group Storebrand has surveyed 86 trading sector companies and selected the 30 best ones in the area of environmental and social responsibility for its funds. In the comparison published in spring 2003, it ranked Kesko first in the overall assessment and environmental responsibility, and second in social responsibility.

**Ethibel Investment Register**

Ethibel is a Belgian consultancy agency for ethical investments which screens companies at the request of ethical investment funds and maintains for them 'a register of social-ethical companies'. Over 200 companies, frontrunners and the best companies in their sectors, are enlisted in the register. In the trading sector comparison made in autumn 2003, Kesko was ranked the best one.





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

investor information and to make Kesko more attractive to investors. The principle of objectivity is observed in all investor communications. All investor information is primarily published on Kesko's Internet pages in Finnish, Swedish and English ([www.kesko.fi](http://www.kesko.fi)). Kesko's Internet pages were ranked the best pages for investors in Finland both in 2002 and 2003 in a competition arranged by the Finnish Foundation for Share Promotion, the Finnish Society for Financial Analysts and Talouselämä magazine.

Kesko publishes the printed annual report in Finnish, Swedish and English. Kesko's financial statements and three interim reports are included in the TradeMaker stakeholder magazine, which is sent to all shareholders. Kesko arranges press conferences for analysts and the media when announcing its annual and interim results. In 2003, the press conferences concerning six-month and yearly results were also sent as Internet webcasting transmissions. An event giving background information for analysts was arranged in June. In au-

tumn, Kesko participated in the Sijoitus-Invest Fair in Helsinki. Road show trips were made to the United States and to London, Paris and Frankfurt in Europe. About 80 individual meetings for about 200 analysts and investors were arranged at home and abroad.

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

During 2003, several independent experts comparing the performance of listed companies ranked Kesko among the best companies in the world judged by the indicators of sustainability. The accompanying table gives a summary of these rankings.

### Investments and store network

In 2003, Kesko's investments totalled EUR 259 million, or 3.7% of net sales. Out of this amount, which was an all-time high, EUR 205.5 million was invested in store sites and business acquisitions. Foreign investments accounted for 30.2% of the total (36.9% in 2002). Kesko's investments have financial impacts, above all, on the business operations of construction companies, services companies in the construction sector and suppliers of fixtures, equipment and information systems.

### New stores and changes

In 2003, inputs in the K-food store network in Finland included the opening of

three new K-citymarkets, eight K-supermarkets and 18 K-pikkolos. At the end of 2003, Pikoil Oy, the joint venture of Kesko Food Ltd and a Fortum subsidiary Neste Marketing Ltd, had a total of 46 K-pikkolo neighbourhood stores and K-pikkolo service station stores. The target is to expand the network to comprise 200 stores. There were 192 store type changes caused by the chain reform in which two store types replaced the three smallest ones.

### Number of K-food stores nearly unchanged

At the end of the year, the number of K-food stores in Finland was 1,110, which was 14 less than the year before. Of all food stores, 570 were small (K-extras, K-pikkolos and others). In addition, many of the 344 K-markets have an area of under 400 square metres and belong to those small food stores that are allowed to trade all year on Sundays. Large outlets, i.e. K-citymarkets, accounted for 33.9% (31.4% in 2002) of K-food stores' sales in Finland. In February 2004 Kesko opened the first Cassa stores to test the hard discounter concept.

The K-food stores were located in 391 of Finland's 446 municipalities (see the accompanying table). At the end of 2003, 45.3% of all Finns lived under one kilometre away from the nearest K-food store (specification by province in the accompanying table). At the end of 2001, the corresponding figure was 46.4%.

There were 679 K-speciality stores in Finland. No essential changes took

Investments and assets	2001	2002	2003
Investments, EUR million	206	185	259
Investments, % net sales	3.3	2.9	3.7
Equity ratio, %	53.6	53.3	51.7
Debt to equity ratio, %	46.4	46.7	48.3
Gearing ratio, %	12.7	13.9	16.2

## Number of K-food stores in Finnish municipalities

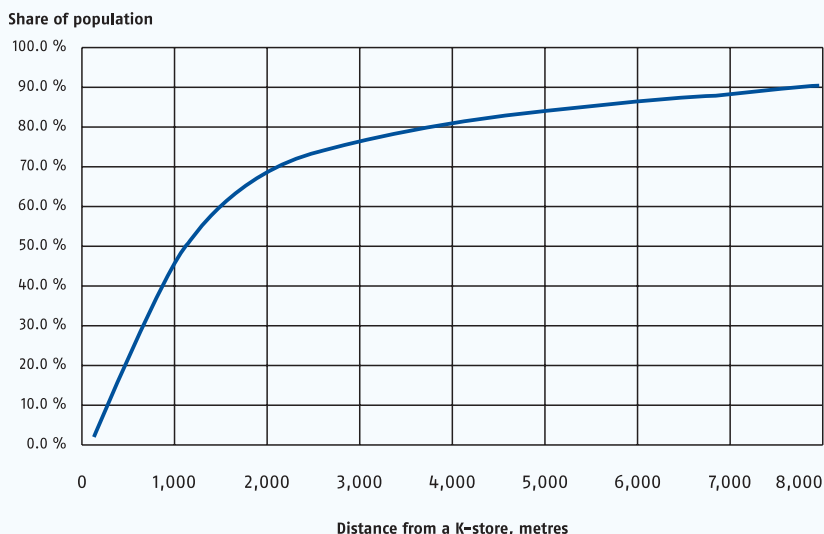
K-food stores	Municipalities			% of all municipalities		
	2001	2002	2003	2001	2002	2003
10 or more	15	14	13	3.3	3.1	2.9
7-9	13	13	14	2.9	2.9	3.1
5-6	24	24	26	5.4	5.4	5.8
3-4	70	66	70	15.6	14.7	15.7
2	111	110	106	24.8	24.6	23.8
1	165	165	162	36.8	36.8	36.3
none	50	56	55	11.2	12.5	12.3

## Inhabitants at a distance of under one kilometre from a K-food store (%)

	2000	2003
Province of Southern Finland	56.4	54.9
Province of Åland	49.8	48.1
Province of Western Finland	41.3	37.6
Province of Eastern Finland	43.6	42.6
Province of Oulu	41.1	38.7
Province of Lapland	35.0	32.5
Whole Finland	47.3	45.3

Source: Statistics Finland, Square Database 2003 (population by statistics square of 250 m x 250 m)  
 Kesko Food's store register on 31 December 2003 (stores located according to Genimap Oy's Roads of Finland 2003)  
 Distances: the 'crow fly' distance from each statistical square to the nearest K-food store

## Distance of population from a K-food store in Finland



place in the network. The number of Musta Pörssi stores increased by five.

## Growth abroad

The number of K-rauta stores in Sweden remained unchanged. Two new Citymarkets and one agricultural and machinery centre were opened in Estonia and three new Citymarkets, ten Supernetto hard discounters and one agricultural and machinery centre in Latvia. In Lithuania, a majority shareholding was acquired in Senukai, the country's biggest hardware and building supplies company. Senukai has 10 own Superstores and the Partnership network of 50 stores in Lithuania, and one own store in Riga, Latvia.

## Job development

At the end of 2003, the Kesko Group had 19,411 employees, an increase of 4,199 on the previous year. This comprised 12,596 (+444) employees in Finland and 6,815 (+3,755) abroad. The average number of employees during the year was 15,219 (+3,002), of whom 9,859 (+139) worked in Finland and 5,360 (+2,863) abroad. The increase in the year-end numbers of employees was 21.6% and the increase in the average 19.7%. The average number is calculated monthly from all employees with permanent or fixed-term contracts, excluding those on long-term leave. Part-time jobs are converted into full-time according to working hours.

## Most new jobs in the Baltics

Employee numbers increased most in the Baltic countries where Kesko Food, Rautakesko and Kesko Agro expanded their operations. The increase was the biggest in Lithuania where the majority shareholding was acquired in the Senukai hardware and building supplies chain. Senukai employed 2,753 persons at year-end. The openings of new K-citymarkets and the conversion of two Anttila department stores into K-citymarkets increased the number of Kesko Food personnel in Finland. Keswell Ltd's sub-

sidiary Interwell Oy got 100 new employees when the company bought the sports business operations of Rea Rintamäki Oy in August. In Kesko Food's logistics, the number of employees also increased by more than 100.

The biggest decrease in the number of personnel - 143 employees of whom 78 had to be given notice - was caused by the reform in Citymarket Oy's business operations system, in which the home and speciality goods business was organised in three product lines instead of the previous five. Outsourcing of service and support activities also continued on a small scale. At the end of the year about 700 persons in total worked in outsourced operations.

#### Proportion of part-timers dropped

At year-end, 16,914 (87.1% of) employees were permanent, while 2,497 (12.9%) were on fixed-term contracts. The 876 people who were on long-term leave are here included as permanent employees. The proportion of part-time employees dropped to 29.8% from 34.9% in the previous year, which was mainly due to the fact that Senukai, which was largely responsible for the increase in the Baltic countries, employs hardly any part-timers. Most of the part-time jobs in Finland were in retailing companies. Of all Group employees 68.4% work in the retail trade.

K-stores, retailers included, employ about 21,500 people in all. As there are one or more K-stores in nearly every Finnish municipality, and Kesko has premises in nearly 60 municipalities, the about 34,000 jobs offered by the K-Alliance contribute to the wellbeing of people practically throughout the whole of Finland. In the Baltic countries, Kesko is the biggest Finnish and at the same time the biggest foreign employer.

#### Salaries, social security expenses and taxes

In 2003, Kesko Group salaries, according to the income statement, totalled

#### Personnel expenses (EUR million)

	2001	2002	2003
Salaries and fees	267	281	316
- of which profit bonus *)	-	8.5	10.0
Social security expenses			
- pension expenses	40	42	43
- other social security expenses	26	25	32

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

#### Taxes (EUR million)

	2001	2002	2003
Income taxes to Finland	30.0	41.0	54.7
Income taxes abroad	-	0.6	2.8
Real estate taxes to Finland	2.0	2.6	2.5

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

	2001	2002	2003
Net sales per employee on average			
- Finland	583	610	635
- Sweden	*)	*)	226
- Estonia	*)	*)	173
- Latvia	*)	*)	136
- Lithuania	*)	*)	101**)
- whole Group	538	529	465
Profit before extraordinary items per employee (whole Group)	7.4	9.0	10.6

\*) data has not been collected

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

EUR 315.8 million, pension expenses EUR 43.2 million and other social security expenses EUR 31.5 million. Foreign operations accounted for EUR 42.7 million of salaries.

The whole Group's income taxes totalled EUR 57.5 million, of which EUR 2.8 million were paid abroad. Kesko paid EUR 2.5 million in real estate taxes to 116 municipalities in Finland in all.

K-retailers paid about EUR 261 million in salaries and about EUR 38 million in taxes. The figures include those K-retailers whose bookkeeping and wage calculation is done by Vähittäiskaupan Tilipalvelu VTP Oy. The data is estimated to cover about 80-85% of the K-retailers' total business volume. As for partnerships, the accuracy of tax data is not as high as for business names and limited

liability companies. Statistics do not show the taxes on salaries drawn by the K-retailers themselves. Consequently, the combined tax data of the K-retailers contains plenty of inaccuracies, and the data must be considered as illustrative of the size category only.

### Employee pension and health insurance systems

The Kesko Sickness Fund is responsible for the statutory sickness insurance of Group subsidiaries and Kesko-related units in Finland. The Sickness Fund covers over 10,600 employees. In 2003, sickness insurance contributions paid by the Sickness Fund totalled EUR 6.9 million.

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 who are members of the Fund's department B. Varma-Sampo is responsible for the corresponding pension contributions of employees of other subsidiaries. The Pension Fund also has a department A, closed on 8 May 1998, that provides extra benefits. Those employees who are mem-

bers of department A have available to them, on certain conditions, for instance an early retirement pension, granted for production reasons.

In 2003, the Kesko Pension Fund paid about EUR 45.5 million in pensions to 3,123 people. The Pension Fund covered nearly 3,800 Kesko Group employees at year-end, with department A covering about 1,200 persons.

Foreign subsidiaries all arrange their own employee pension and health insurances, observing the legislation and practices of the country in question.

### Suppliers of goods and services

In 2003, Kesko's purchases from Finnish suppliers totalled EUR 4,485 million, while purchases from abroad totalled EUR 1,675 million. The value of purchases from Finland remained at the level of the previous year, and those from abroad increased by 47.5%. This information applies to the whole Group. The growth in purchases from abroad can mainly be attributed to the rapid expansion of the Group's foreign operations and the considerable growth in car sales in Finland.

These figures do not show the pro-

portion of domestic products sold, as Kesko registers purchases from importers operating in Finland as domestic. Correspondingly, for instance Estonian subsidiaries' purchases from Estonia are registered in the Group as purchases from abroad, although the products are domestic from the point of view of Estonian operations. We intend to enhance our statistics to describe the ratio between domestic and foreign purchases for each country separately.

The ten largest suppliers accounted for 22.0% of Kesko's purchases (24.8% in 2002), and the hundred largest for 50.7% (no change). Out of the ten largest suppliers, six represented the Finnish food industry, two the agricultural supplies business and two were German car suppliers.

K-retailers concentrated 88.5% of their purchases in Kesko, and bought the remaining 11.5% from outside Kesko, to a large extent from regional and local suppliers. K-retailers' purchases from Kesko totalled about EUR 3.3 billion, so direct purchases from nearby areas amounted to about EUR 400 million. The figure is only indicative, as Kesko has no specification on K-retailers' pur-

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

	2001	2002	2003
Suppliers			
– Finland	4,325	4,486	4,485
– foreign countries	1,008	1,135	1,675
Suppliers of services	75	92	98
Suppliers of capital goods	206	185	259
Personnel			
(salaries and other benefits)	267	281	316
Shareholders (dividends *)	90	54	91
Tax authorities			
(income and real estate taxes)	32	44	60
Social security (pension and social security expenses)	66	67	75
Support for the public good	2	2	2

\*) dividends paid during the financial year



**Breakdown of economic benefits from Kesko's and K-retailers' by Finnish regions in 2003 (EUR million)**

Region	Kesko's purchases of goods	Salaries and fringe benefits paid by Kesko	Real estate taxes paid by Kesko	Salaries paid by K-retailers (1,057 firms)	Taxes paid by K-retailers (926 firms)	Total
Southern Karelia	2.9	3.7	0.12	7.4	0.9	15.0
Southern Ostrobothnia	124.1	3.5	0.09	7.0	1.2	135.9
Southern Savo	43.4	2.7	0.05	7.0	1.2	54.4
Eastern Uusimaa	17.5	1.4	0.01	4.9	0.5	24.3
Kainuu	4.2	1.4	0.02	3.3	0.7	9.6
Kanta-Häme	72.4	4.6	0.13	10.5	1.2	88.8
Central Ostrobothnia	64.2	3.0	0.04	3.3	0.6	71.1
Central Finland	45.5	4.9	0.22	13.6	1.8	66.0
Kymenlaakso	11.3	6.7	0.05	8.9	1.1	28.1
Lapland	11.5	1.8	0.06	12.6	2.3	28.3
Pirkanmaa	216.0	17.4	0.22	23.8	3.5	260.9
Northern Karelia	41.0	4.0	0.06	7.0	2.1	54.2
Northern Ostrobothnia	41.9	12.5	0.11	18.9	1.9	75.3
Northern Savo	71.7	6.5	0.20	12.9	2.0	93.3
Päijät-Häme	75.1	6.3	0.19	10.4	1.2	93.2
Satakunta	96.8	4.2	0.07	9.6	1.0	111.7
Uusimaa	2,371.4	178.2	0.69	72.7	10.8	2,633.8
Ostrobothnia	55.1	4.4	0.11	4.9	0.5	65.0
Varsinais-Suomi	534.0	20.2	0.18	22.7	3.5	580.6
Åland	16.9	-	*)	*)	*)	16.9
<b>Total</b>	<b>3,916.9</b>	<b>287.4</b>	<b>2.5</b>	<b>261.4</b>	<b>37.8</b>	<b>4,506.4</b>

\*) data has not been collected

chases from outside Kesko available.

Kesko bought services, mainly from Finnish providers, at EUR 98 million. Investments, which amounted to EUR 259 million (see page 17), are also counted among wellbeing generated by the company. Foreign investments accounted for 30.2% of all investments and amounted to EUR 78 million.

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 50,000).

### Breakdown of economic benefits by region

The operations of Kesko and K-retailers produce economic wellbeing for their co-operation partners and employees in Finland and abroad. The above table presents a breakdown of these benefits in Finland by region.

The calculation was prepared now for the first time, and not all informa-

tion could be included. Nearly 13% of goods purchases (about EUR 570 million) are not included, only the largest suppliers of services are included, and the breakdown of investments has been left out. Income taxes paid in Finland are not included in the statistics, as their distribution among municipalities is carried out by the tax administration. Only those K-retailers who are customers of Vähittäiskaupan Tilipalvelu VTP Oy are included in the figures (salaries, taxes), and their proportion of combined net sales is around 80-85%. It was not possible to specify K-retailers' direct purchases from local suppliers, as Kesko does not have such data available.

Goods purchases could only be broken down by the supplier's invoicing location, even if production might have taken place in several locations. Therefore Uusimaa's proportion of purchasing figures is slightly higher than in reality.

For the above reasons about EUR 1.2-1.3 billion, representing over one fifth of

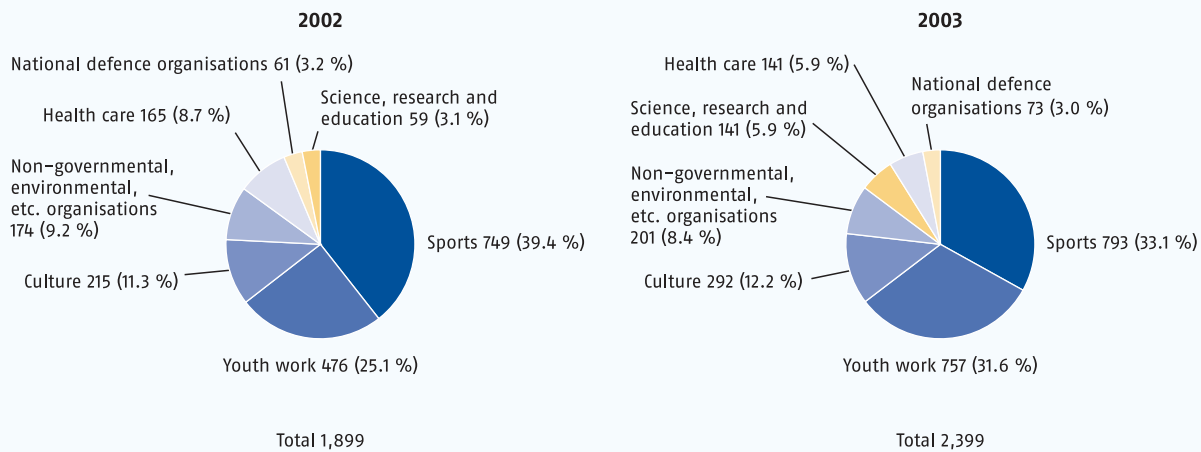
the total economic benefits produced by Kesko and K-retailers for Finland, are not specified here. Our target is for the calculation to include all of Kesko's purchases and investments in the report for 2004.

### Financial support

Kesko and its subsidiaries have for decades given support to various, mainly nationwide, organisations that work for the good of society. More and more often, support is based on reciprocal co-operation, in which Kesko is not only a sponsor but also an active player. In accordance with its sponsoring principles, Kesko directs support primarily at targets that encourage people of different ages to think, solve problems and create something new. Affecting the everyday life of families with children, supporting socially responsible activities close to Kesko's operating environment and sustainable development are important to Kesko.

Drawing a line between donations,

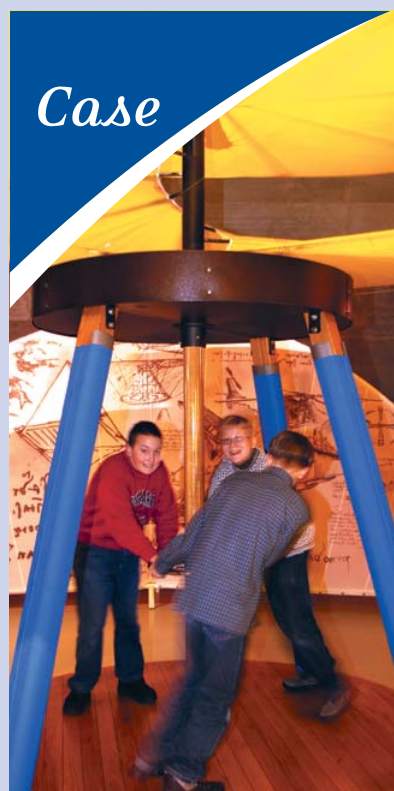
**Kesko's support for the public good (EUR 1,000)**



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 2003 amounted to about EUR 2.4 million. One third of this amount was given to sports and physical exercise organisa-

tions and clubs (alpine skiing, football, ice hockey, scholarships for young athletes). Likewise nearly one third was donated to youth work - with the Young Finland Association and the Finnish Science Centre Heureka being the most important partners - and about 12% to culture (e.g. the Tapiola Choir, the Tall

Ships' Races and various music events). The proportion of Kesko's support going to youth work, science and education slightly increased, whereas the proportion going to sports and health care decreased.



Case

## The Kipinä science contest for classes 1-6

The Heureka Science Centre, Kesko and the Association of Class Teachers have developed in co-operation a science contest for year 1-6 comprehensive school classes. The theme that changes with the Heureka exhibition themes was flying in the first contest in 2003. The Kipinä contest aims to give pupils the joy of discovery and make them familiar with science while encouraging the class to work as a team. Entries to the Kipinä contest come from whole classes working together. The jury consists of representatives of Heureka, Kesko and the Association of Class Teachers. Inventing and working as a team provide the most important basis for the evaluation. Other criteria include the ingenuity and novelty of the entry.

The winner of the 2003 contest was class 3B of Vaunukangas school in Tuusula with the entry 'I wish I could fly'. The second prize was jointly won by class 1B of Kyrölä school in Järvenpää and the combined preschool group and class 2 of Saimaanharju school. The winning class had dealt with different flying-related issues for the project, using lessons in Finnish, mathematics, handicrafts and environmental and science education, and ending up with the idea of a hot air balloon.

Prizes were given to all entries. The winning class was awarded a trip to Heureka and Kesko's Central Warehouse in Vantaa and, in accordance with the theme, a visit to Finnair.

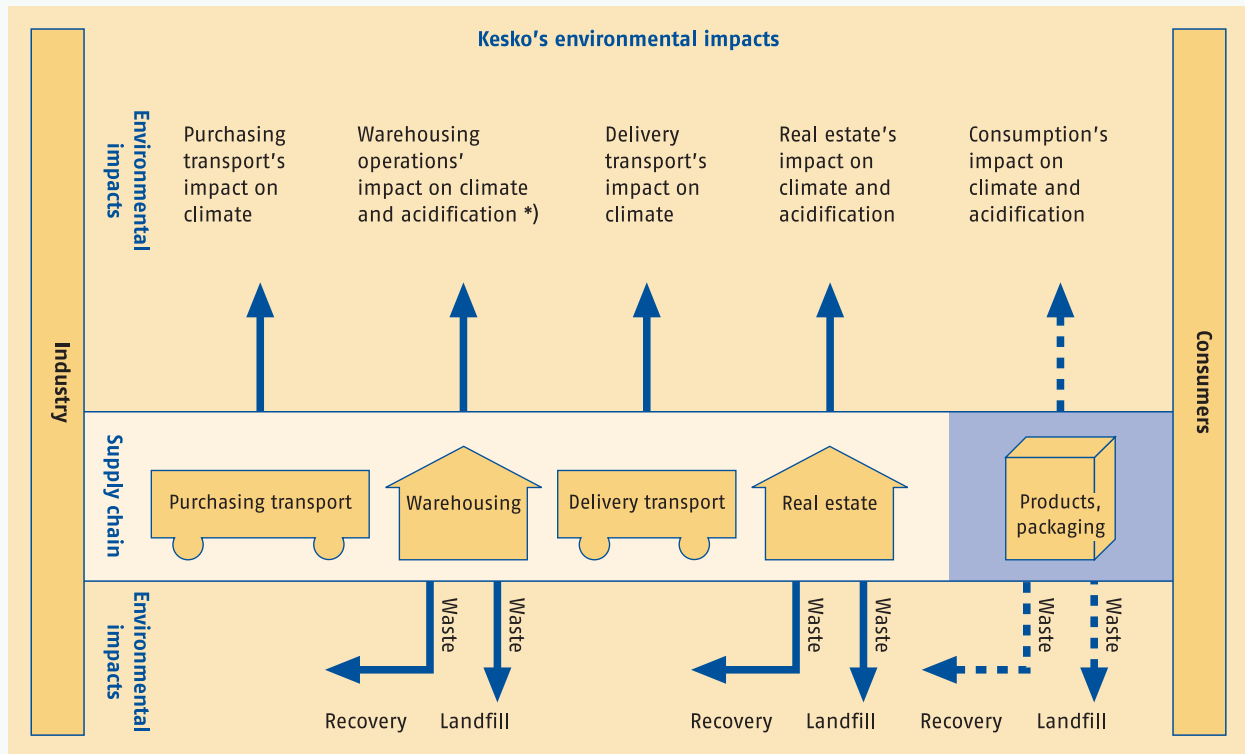
## Environmental performance



### Key environmental performance in 2003

- The ISO 14001 certification of Anttila and Kodin Ykkönen department stores progressed faster than estimated
- More efficient use of natural light was piloted in construction
- Specific consumption of energy increased
- Premises in foreign countries were included in energy monitoring
- Relative emissions in distribution transportation decreased
- Waste recovery rate continued to rise
- The proportion of packaging of imported volume decreased
- K-environmental store diplomas were awarded to 71 stores
- An environmental programme for office work was established

Store Planner Jari Salmela (back) and Store Site Director Pekka Niva (front) checking the drawings of a new store.



\*) included in real estate's impact

The most significant of Kesko's own direct environmental impacts come from warehousing, handling and transportation of goods, construction and use of real estate, and waste management. Indirect environmental impacts result from the manufacture and use of products sold and their packaging.

This section primarily deals with work concerning direct environmental impacts. As Kesko has reported on its environmental performance since 1997, a great deal of information and experience has been gained. Indirect impacts are also discussed here, but measuring performance in these areas is more difficult.

In Kesko's foreign companies, environmental work is at an initial stage. The most progress has been made in monitoring energy consumption, and some transportation and waste statistics are also now available.

### 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 the units with major environmental impact:

- Kesko Food Ltd's logistics
- Kesped Ltd, transport and forwarding company
- Anttila Oy's central unit and NetAnttila mail order operations
- all Anttila and Kodin Ykkönen department stores
- real estate management and maintenance (certificate held by YIT Kiinteistötekniikka Oy, to whom the operations have been outsourced).

The certificates awarded to Kesko Food logistics and Kesped in 2001 were renewed in January 2004. Preparations concerning the ISO 14001 system have commenced in Kesko Food's logistics in the Baltics. The final implementation will be made by the joint venture of Kesko Food and ICA AB and will begin in summer 2004.

Kaukomarkkinat Oy uses an environmental system based on the ISO 14001 standard, but it has not, however, been certified. Kesko's main office building at Katajanokka, Helsinki and Kesko Food's central warehouses in Hakkila, Vantaa adopted an environmental programme for office work in 2003 (see page 36). K-stores' environmental management is based on the operating concept of the K-environment store diploma (see page 35).

The attached graph illustrates the



Annele Siltanen returning her used TV set to electronics recycling through Kodin Ykkönen department store in Espoo. Warehouse Worker Petri Kalinainen receives the appliance.

## Anttila Oy's environmental year 2003

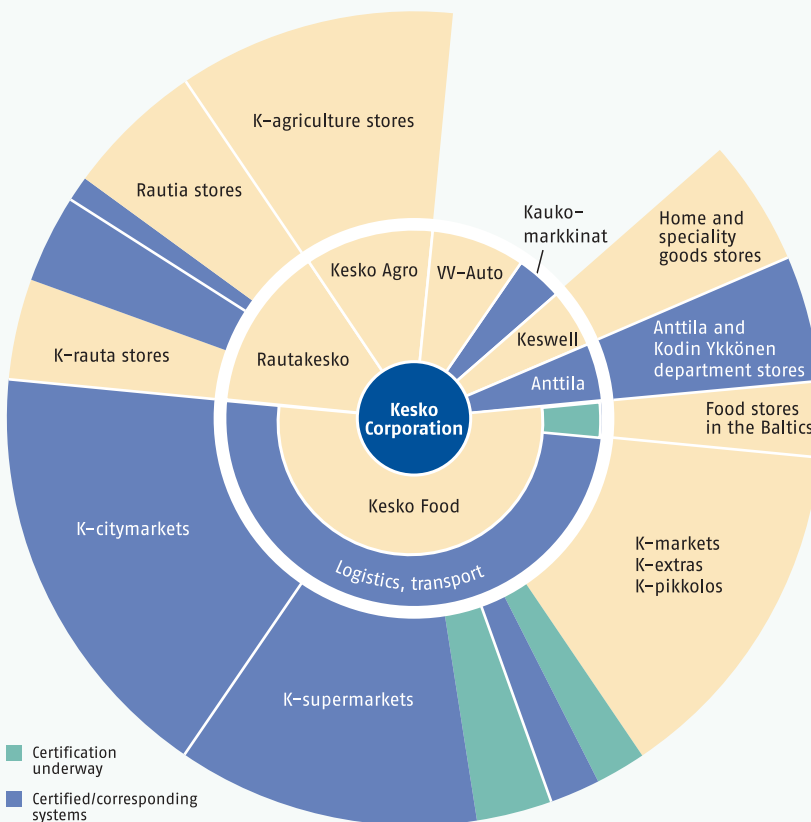
During 2003, the Hämeenkylä distribution centre and ten Anttila department stores were certified in accordance with the ISO 14001 standard. By the end of the year, all Kodin Ykkönen and more than 70% of Anttila department stores had had their systems certified. The operations of the NetAnttila online store have also been certified. The building of the environmental management systems at Anttila Oy has proceeded faster than expected. The remaining seven department stores and the mail order business were certified in March 2004.

The environmental target for the year 2003 was to decrease energy consumption at Anttila Oy by 5% compared with the 2002 figures. Electricity consumption dropped at Kodin Ykkönen department stores for home goods and interior decoration by 6.7% and at Anttila department stores by 5.5%. This was achieved

by guiding the personnel towards the energy-saving use of lights and electric appliances and with revised control of lighting. The efficiency in co-operation with other interest groups in the premises was also improved.

In addition to energy savings, focal areas in environmental concerns included the optimisation of the use of the packaging material in co-operation with the distribution centre and the purchasing organisation, and the development of waste management to increase the collection of energy waste. In packaging materials, activities were focused on the prevention of excessive packaging, one example of which is the packing of sheets manufactured for Anttila Oy with paper straps.

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



coverage of the environmental management system in relation with the volume of the operations. The indicator is net sales, presented in the graph as an area.

The KELO (short for sustainable logistics in Finnish) environmental data management model of Kesko's logistics chain was used, for example, to produce Kesko Food's waste management and return logistics statistics. This model's automatic data transfer between the logistics warehouses in Hakkila, Vantaa and the waste management company was introduced at the beginning of 2003. Extending the use of KELO to comprise other logistical operations and Kesko's other units requires that its compatibility with the SAP information management system introduced in Kesko be improved. The aim is to make the decision on the development plans during 2004.

### Eco-efficiency in construction

The value of Kesko's real estate invest-



## Case

Major carbon dioxide emissions in Kesko's operations are generated from the energy consumption in the use of premises. In the planning of the K-citymarket hypermarket to be completed in Seppälä, Jyväskylä in spring 2004, the importance of energy efficiency was emphasised both in lighting and in other technical systems of the building. Above all, new solutions were sought for lighting as it accounts for

## K-citymarket at Seppälä, Jyväskylä focuses on energy efficiency

about 30% of all electricity consumption in K-citymarket type premises.

A decision was made to use indirect natural light through 14 continuous windows that are tilted and face North-East. This way the building will, after cooling at night, benefit from the morning sun. On the other hand, tilting provides shade to light openings, preventing unnecessary thermal radiation. Natural light can replace general lighting completely in summer, and some of the artificial lighting on bright winter

days, too. No corresponding solution has been previously tested in Finland in wide-frame hypermarkets and it is expected to bring energy savings of about 20% in lighting.

The investment costs of the technical system selected for the K-citymarket at Seppälä were above average, but conversely, maintenance costs will be lower. Calculations on the payback period show that the lower energy consumption should compensate for the extra investment in less than five years.

ments in Finland in 2003 totalled about EUR 111 million and in other countries about EUR 27 million. The quantities are considerable by Finnish standards, which has made Kesko focus on the further development and use of eco-efficient construction. The basis of this is that the entire life cycle of the real estate is taken into account - starting from site acquisition to the supposed demolition of the building. The goal is to optimise energy, alteration and other costs during the building's life cycle for environmental and economic reasons.

In 2003, the special pilot target in eco-efficient construction was the K-citymarket hypermarket in Seppälä, Jyväskylä and its use of natural light for reducing energy consumption in lighting.

Kesko has actively participated in the joint project started in 2000 between the Ministry of Environment, RAKLI, Motiva and the real estate companies to develop an environmental classification of buildings. The resulting PromisE environmental classification reached the trial stage at the end of 2002. The trial stage revealed that the definitions and limit values of the prac-

tice concerning consumption of electricity in store premises in particular need further specification. The task is not easy as stores differ considerably from each other, both in their size and operations. The enhancement of the practice will continue in 2004, when it will be specified and expanded to also cover new construction projects.

### Environmental risks of land use

The additional study and remediation needs, as revealed in the survey that looked at possibly contaminated land areas, started in the summer of 2002 and were mainly carried out in 2003. New studies were made in connection with construction work or real estate deals in Finland in six projects, two of which were found to be contaminated and underwent a remediation process. Other sites were found to be clean or so little contaminated that their present use does not necessitate remediation.

In Estonia, environmental surveys were made in two sites, which were found to be clean. In Latvia, one soil study was made and found that there was no need for remediation in the

present use. In other Baltic building projects, groundwater surveys revealed that no further studies were needed. In Sweden, studies were made in three sites, which were all found to be clean.

### Energy and water consumption

The real estate owned or leased by Kesko totals over 3.1 million square metres, of which 2.7 million square metres are in Finland. From the viewpoint of energy consumption, the most important real estate categories are K-citymarkets, K-supermarkets, Anttila department stores, and office and warehouse buildings.

Energy consumption is monitored with the EnerKey system of Energiakolmio Oy. The system enables automation of monitoring in the places where the electricity company has an hour-based measurement terminal. In most buildings the distance reading of terminals takes place via the telephone network at least six times a month. Readings from the manually monitored meters are collected by maintenance companies.

In 2002-2003, the emphasis was on expanding consumption monitoring and increasing its accuracy. About 63% of all



real estate in Finland is now included in multi-energy monitoring (electricity, heat and water). Electricity consumption is monitored in 85% of premises. Consumption in premises outside this system has been evaluated by the type of real estate based on the specific consumption of the premises monitored.

The combined electricity consumption of Kesko and the K-retailers operating in Kesko's premises in 2003 was 667 GWh, an increase of 3.5% over the previous year. The total consumption of heat was 306 GWh, an increase of 8.4% over 2003. The consumption of water - 595,258 cubic metres in all - increased by 6.8%. The increase in consumption can mainly be attributed to the increase in real estate, with the focus on energy-consuming food stores, while many warehouse type buildings that use less energy were sold during the year. The cold first months of the year also had the effect of increasing the consumption of heat energy, while the hot summer, on the other hand, added water consumption when considerable amounts

of water were used for cooling purposes.

The trends in specific consumption are presented in the accompanying graph. Premises in the sphere of Real Estate and Construction Sector Energy Saving Agreement (KRESS) have been specified in the calculation.

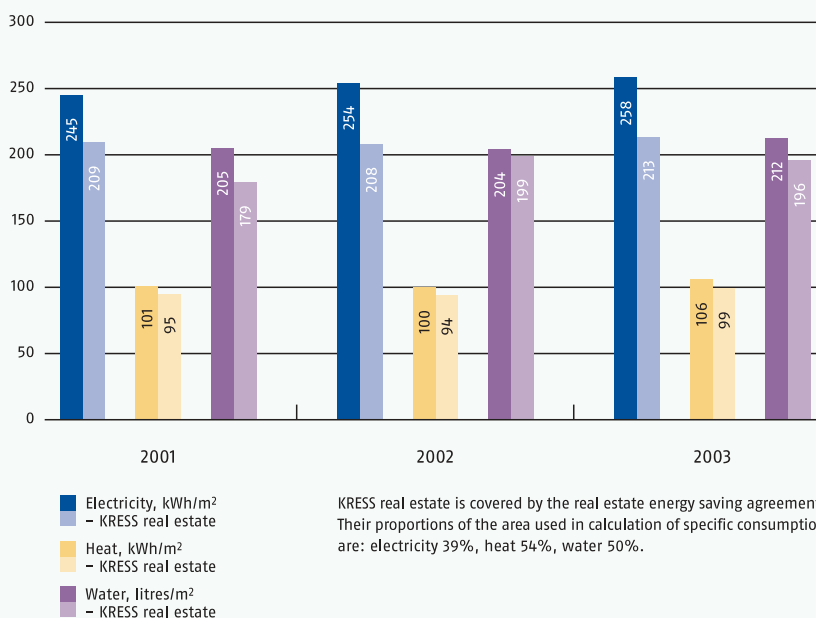
Information about electricity consumption was obtained from 83% of Kesko's foreign premises, and information about heat and water consumption, too, from 59% of them. Foreign premises used 63 GWh of electrical energy, 31 GWh of heating energy and 121,162 cubic metres of water. No comparison with previous years is available. As in Lithuania most of the premises were included in monitoring during the year 2003, no consumption figures are available for the whole year.

Kesko's proportion of the total consumption in Finland remained at the level of 2002. The primary energy used was about 0.4% of the total consumption of energy in Finland (Statistics Finland: Energy in Finland 2002, Finland in Figures). Electricity accounted for about

0.8% (www.energia.fi, January 2004 express statistics), and heat for about 1.0% (www.energia.fi, 2002 statistics) of the total consumption in Finland.

Year 2004 has been named as the theme year for energy savings in Kesko's real estate operations. ABB Kiinteistöpalvelut Oy which is responsible for the management and maintenance of Kesko's real estate was sold to YIT Kiinteistötekniikka Oy in September 2003. The most important development target in co-operation with YIT is more efficient use of consumption monitoring. The purpose is to react faster than before to exceptionally high consumption figures and continue investments in energy-efficient technology. Investments will be based on energy audits, made in accordance with the Motiva model in 34 premises - mainly K-citymarkets - in 2001-2002. The average annual savings potential of the investments already implemented and to be implemented in the near future on the basis of the audits is EUR 120,000 - 140,000, while the average payback time is six months.

**Specific consumption of electricity, heat and water in the real estate owned or leased by Kesko in Finland in 2001-2003**



## Environmental profile of energy

Proventia Oy has calculated the environmental profiles for 2003 using the 'benefit sharing method' of the previous years. The calculation that includes a comparison with the energy protocol of the GRI reporting guidelines has been published in full on Kesko's Internet pages at www.kesko.fi as an attachment to the corresponding part of this report.

Out of the total consumption of electricity (667 GWh), Kesko supplied 518 GWh and K-retailers purchased the remaining 149 GWh themselves. The environmental profile of electricity supplied by Kesko is based on the information given by energy companies, whereas the environmental profile of the electricity purchased by K-retailers is based on the Finnish average data. The profile of district heat used is the average Finnish district heat.

Competitive tendering is arranged for Kesko's electricity suppliers every year. In 2003, the main supplier was Fortum Markets (45.2%) and the second largest was Helsinki Energy (37.8%), compared with 2002 when Espoon Sähkö was the largest supplier (61.5%), and the share of Helsinki Energy was 25.8%. This also changed the environmental profile of electricity. In 2002, electricity purchased by Espoon Sähkö from Nordpool was produced by water power to a considerable extent. Now its proportion dropped, whereas the proportion of electricity produced by nuclear power and fossil fuels increased. As Kesko buys 78% of the K-Alliance's electricity, the environ-

mental profile of the total consumption largely depends on the electricity suppliers chosen by Kesko.

In 2003, the relative combined share of Kesko and K-retailers out of the total greenhouse gas emissions in Finland remained unchanged at about 0.3%.

For premises abroad, country-specific environmental profiles of energy production have been used to calculate the environmental impacts of electricity consumption, based on national statistics and the emission co-efficients provided by the international energy association IEA and IPCC (Intergovernmental Panel on Climate Change). Environmental impacts of heat consump-

tion include both district heat and the natural gas and oil used directly for heating real estate.

Foreign premises accounted for 13% of Kesko's total real estate, about 9% of the real estate's total energy consumption and about 22% of greenhouse gas emissions.

In Sweden, average electricity is mainly produced by water and nuclear power, which reduces carbon dioxide and acidifying emissions well below the level of other countries. The large proportion of biofuel explains the small greenhouse emissions of district heat.

In Estonia, most energy production is based on coal, which explains high

#### Environmental profile of electricity supplied by Kesko to the K-Alliance in 2001–2003

	Unit	2001	2002	2003	Change 2002/2003
Purchasing	GWh	494	509	518	1.8%
Primary energy	PJ	3.8	3.7	4.1	10.9%
– non-renewable	PJ	3.5	2.9	3.5	22.2%
– renewable	PJ	0.2	0.7	0.6	–20.4%
Environmental impacts					
– climate change	tn CO <sub>2</sub> eq	173,430	127,455	129,520	1.6%
– acidification	tn SO <sub>2</sub> eq	399	308	348	12.8%
– ozone in lower atmosphere	tn C <sub>2</sub> H <sub>4</sub> eq	7.5	7.1	8.9	25.3%
– radioactive waste	tn	0.42	0.44	0.70	59.4%

#### Consumption and environmental profile of heat and electrical energy in the real estate owned or leased by Kesko in Finland in 2001–2003

	Unit	2001			2002			2003			Change *) 2002/2003
		Heat	Electricity Total		Heat	Electricity Total		Heat	Electricity Total		
Volume	GWh	290	628	918	282	644	926	306	667	973	5.0%
Primary energy	PJ	1.2	4.8	6.0	1.1	4.8	5.9	1.2	5.4	6.6	11.9%
– non-renewable	PJ	1.0	4.5	5.5	0.9	3.8	4.8	1.0	4.5	5.5	17.2%
– renewable	PJ	0.2	0.3	0.5	0.2	1.0	1.2	0.2	0.8	1.0	–15.8%
Environmental impacts											
– climate change	tn CO <sub>2</sub> eq	72,865	220,644	293,509	70,874	160,827	231,702	75,582	166,698	242,280	4.6%
– acidification	tn SO <sub>2</sub> eq	234	508	742	227	418	645	248	447	695	7.8%
– ozone in lower atmosphere	tn C <sub>2</sub> H <sub>4</sub> eq	5.7	9.5	15.2	5.5	9.7	15.2	6.1	11.4	17.5	15.3%
– radioactive waste	tn	–	0.54	0.54	–	0.67	0.67	–	0.9	0.9	34.3%

\*) combined change in heat and electricity

### Consumption and environmental profile of heat and electrical energy in the real estate owned or leased by Kesko in the Baltics and Sweden in 2003

	Unit	Sweden Electricity	Heat	Estonia Electricity	Heat	Latvia Electricity	Heat	Lithuania Electricity	Heat
Volume	MWh	3,459	4,601	33,453	10,432	12,532	4,267	13,123	11,317
Primary energy	PJ	0.027	0.036	0.530	0.051	0.080	0.018	0.182	0.041
- non-renewable	PJ	0.020	0.022	0.530	0.051	0.041	0.018	0.179	0.041
- renewable	PJ	0.007	0.014	0.000	0.000	0.039	0.000	0.003	0.000
Environmental impacts									
- climate change	tn CO <sub>2</sub> eq	76	63	56,259	3,818	2,386	2,064	1,586	2,563
- acidification	tn SO <sub>2</sub> eq	0.2	0.4	435.6	33.1	46.7	11.5	4.1	2.0
- ozone in lower atmosphere	tn C <sub>2</sub> H <sub>4</sub> eq	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- radioactive waste	tn	0.0	0.0	0.0	0.0	0.0	0.0	0.06	0.0

acidifying and greenhouse gas emissions. In Latvia, most energy is produced by water, while the rest is natural gas and oil. Lithuania also uses some natural gas and oil, but nuclear power accounts for some 70% there.

### Transport

Kesko's warehousing and distribution networks were reorganised in 2002-2003. Warehousing of groceries was, to some extent, centralised in Southern Finland near production and imports, and warehouses concentrated on different product categories. Terminal operations and distribution were partially outsourced, and deliveries to all K-citymarkets and K-supermarkets were transferred to distant deliveries from the central warehouse in Vantaa. Rautakesko's warehousing was transferred to Finland Post.

The impacts of structural changes on the indicators for 2002 could not yet be accurately specified. Accuracy improved in 2003 when transportation statistics were also obtained from outside operators, and these were included in emission calculations. A survey of the co-operation partners' level of operations and development needs was also underway, to be followed by audits in 2004. For the first time, statistics were also prepared for the loads, kilometres driven and CO<sub>2</sub> emissions of Kesko Food's transportation in Estonia.

About 70% of domestic goods for Kesko Food's warehouses are bought at the so-called 'ex works' price, when Kesko Food decides on the form of transport. In most cases this is handled by Kesko Food's lorries returning from delivery transportation. No reliable statistics are available on purchasing transportation, nor on the so-called trunk transportation between the central warehouse and distribution warehouses.

Kesko's subsidiary Kespel Ltd accounted for nearly 80% of Kesko's distribution deliveries in Finland. Kespel owns 25 distribution lorries and also uses 300 contract lorries. In 2003, Kespel transported 97,226 loads to K-retailers and other Kesko's customers (106,061 loads in 2002), representing 609,000 tons of goods (683,000 tons). The total distance driven was 14.0 million kilometres (14.9 million). One load contained an average of 6,261 kilos and 18.4 cubic metres of goods. The average distance driven per single load was 143.7 kilometres.

The volumetric efficiency of loads increased by an average of 4%, with the greatest increases in the Helsinki and Turku distribution areas. The average driving distance per load rose by 2.5%. The number of kilometres driven per each cubic metre delivered has reduced every year since 2000.

Contract transport companies

drove 3.5 million kilometres of Kesko deliveries. The calculations are based on the information given by these companies on the proportion of Kesko deliveries of their total distances. It has not been possible to compile sufficiently accurate statistics on the loads, cubic metres and tons of this transportation.

The number of kilometres driven in Estonian distribution totalled nearly 1.7 million. The number of loads was 10,356, and an average of 161.1 kilometres were driven per single load.

Anttila's transportation consisted of 10,200 loads and 502,000 kilometres driven, representing an increase of 2%.

The total volume of import forwarding by Kespel Ltd was 296,000 tons, an increase of 6% over the previous year. Transportation from within Europe was handled by lorries, semi-trailers and containers, and from outside Europe by containers only. Kesko Food accounted for 75% of all imports.

Export deliveries, mainly to Sweden, the Baltic countries and Russia, were handled by lorries. The total volume of export forwarding by Kespel, grain trade excluded, was 15,000 tons, a decrease of 17% over the previous year.

### Transport emissions

The emissions in Kespel's and other transporters' deliveries are calculated

## Kesped Ltd's distribution figures in 2001–2003

Distribution centre	tons/load				km/load				m <sup>3</sup> /load			
	2001	2002	2003	change 02/03 %	2001	2002	2003	change 02/03 %	2001	2002	2003	change 02/03 %
Helsinki	6.0	6.5	6.1	-6.7	129	112	117	4.8	18.7	17.7	19.2	8.4
Tampere	6.1	5.6	6.7	19.8	180	121	136	12.5	18.3	15.9	15.7	-1.5
Turku	4.9	5.2	5.0	-3.8	119	119	101	-14.6	14.9	14.5	15.1	4.1
Kuopio	7.6	9.4	7.9	-15.7	259	260	240	-7.7	24.8	26.0	23.7	-8.7
Oulu	6.2	7.0	6.4	-8.6	238	243	276	13.5	19.6	19.3	19.1	-1.0
Whole Kesped	6.1	6.4	6.3	-2.8	163	140	144	2.5	18.9	17.7	18.4	4.0

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

according to the kilometres driven, as no fuel consumption data is available. The calculation is based on the emission factors and definitions of the LIISA 2002 model by VTT, the Technical Research Centre of Finland.

In vehicle definitions, EURO<sub>2</sub> factors (for models produced in 1996-98) have been used for Kesped's fleet and the average age of other companies' fleet.

22% of Kesped's transportation is made by lorries, whose volumetric efficiency is 50%, and 78% by full trailers, whose volumetric efficiency is 70%. Ur-

ban traffic accounts for 70% of transportation by lorries, while 70% of full trailer transportation is undertaken in the countryside.

69% of outsourced deliveries are made by lorries and 31% by semi or full trailers. In lorry transportation, urban driving accounts for 70% and in other transportation for 80%. Assumed volumetric efficiencies are the same as with Kesped.

Anttila's calculations are based on the general factors in all lorries.

In Estonian transportation, emission calculations are based on the Greenhouse Gas Protocol to be included in the GRI guidelines. The Protocol does not contain the calculation of any other emissions. Lorries account for 47% of kilometres driven, and semi and full trailers for 53%.

The relative CO<sub>2</sub> emissions of Kesped's transportation decreased for the third year in succession both in terms of tons and cubic metres. With outsourced transportation, the relative amount of carbon monoxide, hydrocarbon and particle emissions was higher than with Kesped, because their transportation mainly consisted of urban driving by lorries.

### VOC emissions at Kauko-markkinat's Hamina terminal

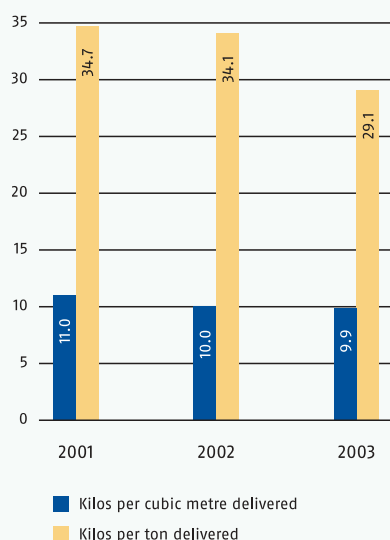
Loading, unloading and storage operations at Kauko-markkinat's Hamina ter-

minal generate volatile organic compounds (VOC emissions), which are estimated by the annual calculation based on the US Environmental Protection Agency's (EPA) TANKS 4.0 program. In 2003, imputed VOC emissions from tanks were 32.4 tons (38.3 tons in 2002) and emissions during loading 12.2 tons (12.3 tons). Most of the emissions (41.9 tons) generate from handling methanol - 31.3 tons from tanks and 10.6 tons from ships. Compared with the year 2002, methanol emissions reduced by about 12% due to the better volumetric efficiency of the tanks. The terminal's environmental programme has set the target limit of these emissions at under 0.1 kilos per ton handled and stored. The target was achieved in 2003, when the ratio was 0.08 kilos per ton.

### The Group's carbon dioxide emissions

Carbon dioxide emissions are among the key indicators of Kesko's environmental impact. In two previous years, Kesko has calculated the carbon dioxide balance of all its operations using the 'Green Index', developed in Sweden for comparing emissions of listed companies. However, Kesko has not had accurate information about purchasing and trunk transportation, import transportation, fuel consumption or the personnel's business

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



### 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>2001</b>							
– Kesped	17,303	82,878	21,973	11	7	231	3
– Anttila	536	2,569	681	0.3	0.2	7.2	0.1
<b>2002</b>							
– Kesped	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>							
– Kesped	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	*)	*)	*)	*)

\*) data has not been collected

travel by air, for instance. Because the Green Index calculation method has not gained uncontested acceptance and the result would be inaccurate due to insufficient basic data, Kesko has decided to cease calculating the carbon dioxide balance for the time being. The information given in this report regarding real estate and transportation covers the majority of the emissions caused by Kesko, so their size category is known and comparable with the net sales.

### Use of materials

Kesko continues its active work in Finnish producer associations and international standardisation organisations, aiming for packaging standardisation, the use of environmentally sound materials and a reduction in the amount of materials used. In 2003, Kesko Food's logistics published a CD-ROM manual on logistical packaging principles, with the purpose of providing guidance and harmonisation for decisions related to packaging at Kesko Food in general and the design of house brand packaging in particular.

Calculations of the packaging data of Kesko's divisions for 2003 are still mainly based on import forwarding sta-

tistics. The total amount of materials in packaging imported or packed by Kesko decreased by 1% from 31,704 tons to 31,392 tons. As the amount of imports increased by nearly 7% at the same time, the relative proportion of packaging of the total imported volume again took a downward turn.

In Kesko Food, reusable Transbox cases were used 5.7 million times, representing an increase of 13% over the previous year. The number of disposable bottles collected increased, while the number of reusable bottles decreased slightly. The number of aluminium cans returned in Kesko's loads totalled 20 million, which was 31% more than the year before.

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

	2001	2002	2003
Fibre	17,226	21,048	20,352
Plastic	3,149	3,973	3,843
Metal	2,333	3,244	2,781
Glass	1,006	1,432	1,320
Wood	1,927	2,007	2,096
<b>Total</b>	<b>25,641</b>	<b>31,704</b>	<b>31,392</b>
Share, %	10.2	11.4	10.6

There are not as yet any corresponding statistics available for foreign companies.

### Waste management and recycling

At Kesko Food, the KELO model has produced statistical data on waste management in all distribution centres. Since the beginning of 2003, the waste management operator L&T at the Vantaa logistics warehouses has automatically transferred data into the KELO model, which has made it increasingly easy to monitor waste management.

The amount of waste from Kesko Food's warehouses totalled 8,346 tons,



## Waste management statistics, Finnish operations (tons)

	Kesko Food			Keswell			Rautakesko+Kesko Agro		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Waste for recovery									
- energy waste	341	322	363	-	11	55	95	116	69
- wood waste	620	512	437	30	51	53	159	157	197
- metal	333	109	166	2	3	17	25	15	19
- film plastic	185	267	327	*)	*)	20	17	6	-
- corrugated board	5,278	5,084	5,097	436	427	437	23	147	162
- paper	210	239	193	39	40	54	50	20	29
Landfill waste									
- organic waste	791	931	967	3	4	6	30	19	19
- mixed waste	997	793	787	84	60	77	211	126	115
Hazardous waste	-	-	9	-	-	14	*)	*)	17
<b>Total</b>	<b>8,755</b>	<b>8,304</b>	<b>8,346</b>	<b>594</b>	<b>600</b>	<b>733</b>	<b>610</b>	<b>606</b>	<b>627</b>
Recovery, % **)	88.6	90.5	90.6	85.9	90.0	89.5	65.5	79.2	81.7

\*) data is inaccurate or has not been collected

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

which was at the same level as the previous year. The total amount in relation to cubic metres supplied (2.17 million) was 3.87 kilos, which includes corrugated board collected by return logistics from K-stores. If the corrugated board were excluded, the figure would be 1.5 kilos. The target for 2003 was a relative decrease in the amount of mixed waste, which was achieved. The amount of mixed waste dropped by 6 tons and was 0.36 kilos per cubic metre delivered (0.37 kilos in 2002). The amount of wood waste decreased considerably, as broken pallets were repaired effectively and disposable pallets were also recycled. More scrap metal than usual was generated as the high-bay storage and shelves were replaced in Central Warehouse 2. The waste recovery rate rose from 90% to 90.6%.

The amount of mixed waste continued to decrease at Rautakesko's and Kesko Agro's warehouses, though more building waste than usual generated from their refurbishment. No essential changes took place at Anttila's central warehouse.

The first waste statistics were available from Kesko Food's operations in

## Reusable packaging sent back to Keswell's central warehouse (number of reuses)

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

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

	1999	2000	2001	2002	2003
Aluminium cans	12,500	12,700	14,100	15,300	20,000
Disposable bottles	1,500	2,000	2,200	2,000	2,100
Deposit bottles	890	1,002	922	923	833
Transbox cases	4,200	3,900	4,735	5,050	5,702

Estonia. They are not comparable with Finnish statistics, as Estonian operations consist of retailing, while Finnish waste statistics concern distribution

centres. In Estonia, waste segregation remains limited when compared with Finland, because no corresponding recovery systems are available. The total



Metal packaging waste collected by Kesko is sent to Kuusakoski's premises in Vantaa for further treatment.

## Metal packaging recycled for recovery

Hundreds of tons of metal waste suitable for recycling are generated annually in stores and institutional kitchens: food tins, metal cans, aluminium trays and tubes, screw caps, crown corks, and various metal closures and straps. The target to recycle 50% of metal by 2008 also challenges the trading sector.

In co-operation with Mepak-Kierrätys Oy, Kesko implemented an 11-month recycling project for metal packages from eight food stores and institutional kitchens. The project aimed to discover the readiness of retail stores and institutional kitchens to recycle metal packaging, and to obtain quantitative information on the amount of waste generated. The project also wanted to look into the possible risk factors in recycling and the cost structure of the return logistics of metal packaging.

Recycling relied on Kesko's existing logistics: metal waste was taken in Kesko Food's return transport to the cen-

tral warehouse and from there for further treatment at Kuusakoski Oy. The same return logistics have been utilised for years in the recycling and recovery of goods returned by customers to stores, such as cardboard, roll-containers, pallets, cans and alcohol bottles.

The trial helped us to create an efficient return logistics model, which will continue to be used in 2004 by stores included in the test. Participating retailers considered it important that the metal waste was flexibly picked up from stores as part of other goods traffic and that it brought financial benefits, in addition to a positive environmental impact.

No scrap-metal, electronic scrap or paint cans were accepted for the collection.

amount of waste was 5,418 tons, of which cardboard and paper accounted for 2,284 tons, organic waste for 359 tons and mixed waste for 2,775 tons. Components are not clean but may include plastic or wood. There may be organic waste among mixed waste, as collection of organic waste is only carried out in Citymarkets and SuperNetto stores. Only 107 tons of waste was collected at the Jüri distribution centre.

Waste statistics were not yet available on any other foreign subsidiaries.

The Helsinki Metropolitan Area Council Waste Management awarded the 2003 Natural Resource Saver prize to K-supermarket Hertta in Helsinki. The prize is awarded annually to a company or representative of general gov-

ernment in the greater Helsinki area that has succeeded to considerably reduce the amount of waste generated and therefore saved natural resources. In 2001 the corresponding prize went to Kesko Food Ltd and in particular to its central warehouse in Vantaa.

### Developments in the products trade

For many years, Kesko's division parent companies have co-operated with suppliers to decrease the environmental impacts of products and packages. As environmental impacts must be assessed for the entire life-cycle, the achievement of unambiguous results has been difficult.

In 2000-2002, Kesko Food participated in the survey project 'Environmental

impacts in the food basket - FOOD-CHAIN' as one of the main sponsors. The survey was implemented by VTT Chemical Technology and Agrifood Research Finland's natural resources research unit. One of the products studied was the Pirkka potato flour manufactured for Kesko by Finnamyl. The results of the survey were published in spring 2003.

In 2003 Kesko participated in the preliminary stage of the research project concerning recycling opportunities and methods of textile fibres, charting the existing systems at home and abroad. The project was initiated by the Tampere University of Technology's Fibre Material Science unit. After the pre-charting, a decision was made to inter-

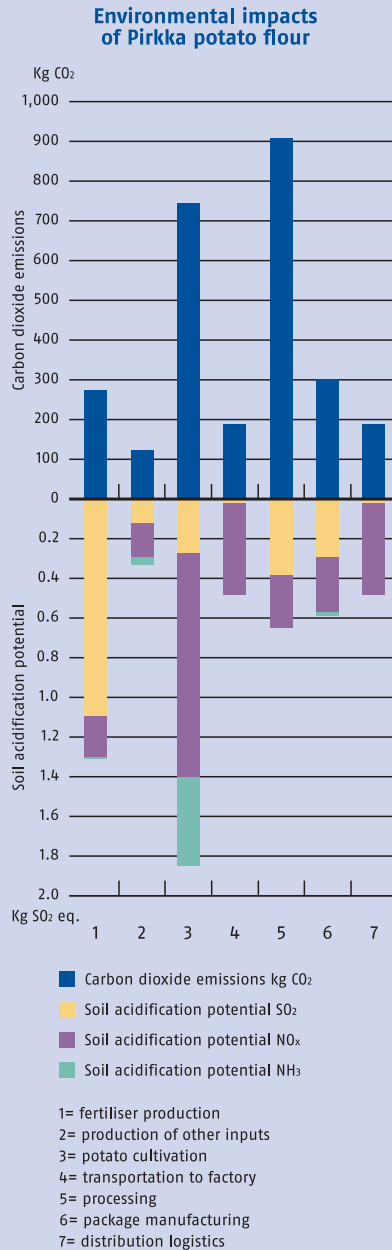
## Case Food-chain project: Environmental impacts of Pirkka Potato Flour

The Foodchain project of 2002-2003 studied the environmental impacts of a food basket containing four foodstuffs. One of the products studied was Pirkka potato flour. The project was based on real production chains of foodstuffs and its purpose was to provide such information about environmental impacts during the whole life cycle that would also give support to consumers making their purchasing decisions. The study looked into the environmental burden of the production of Pirkka potato flour during its whole life cycle starting from the production of farm inputs and ending with the distribution of a finished product to stores.

In the production of Pirkka potato flour, major factors contributing to the acidification were potato cultivation and the production of fertilisers and their raw materials. In cultivation, nitrogen oxide emissions of agricultural machinery had the largest impact, while in fertiliser production, sulphur dioxide emissions had the largest impact.

Potato cultivation also had the greatest impact on the climate warming potential, about 35% of total emissions. Processing accounted for 25% of the warming potential. Greenhouse emissions of cultivation consisted of the carbon dioxide emissions in cultivation and the nitrous oxide emissions caused by fertilisation.

The study also compared the quantity of carbon dioxide emissions and



greenhouse gas emissions in the production of one kilo of potato flour with the emissions of a car (default consumption rate is 8 l of petrol per 100 km). According to calculations, the CO<sub>2</sub> emissions in the production chain of one kilo of potato flour corresponded to the CO<sub>2</sub> emissions of a drive of about two kilometres by car, while the greenhouse gas emissions totalled a drive of about three kilometres. (Source: Voutilainen et al., 2003)

Read more at: [www.mtt.fi/foodchain](http://www.mtt.fi/foodchain)

rupt the project for the time being, as a sufficient number of willing parties for its implementation could not be found.

In autumn 2003, Kesko was invited to participate as an expert in the so-called 'Yardstick' project of the Finnish Environment Institute, the purpose of which is to promote measuring and illustrating the environmental impacts of the products well-known to consumers. Besides the Finnish Environment Institute, participants in the project that will last until 2005 are the Consumer Research Centre, the Agrifood Research Finland, and the Finnish Game and Fisheries Research Institute.

At the end of 2003, Kesko Food had about 450 organic products and about 200 products with environmental labelling. The numbers remained at the level of the previous year.

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

K-food stores again succeeded excellently in the 'Organic Store of the Year' competition arranged by Finfood LUOMU - all finalists of the year 2003 were K-stores. Organic products account for 2% of the total sales of K-market Kaisaniemi of Helsinki, which won the category for small stores.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. Suppliers of board and timber buy their raw materials increasingly from certified forests. In 2003, the proportion of certified timber of sawn goods sold by Kesko was 90%. The share of garden furniture made of FSC certified hardwood has

been increasing year by year. The supply of heat-treated timber is increasing, but its proportion of total sales remains small. In all, 300 tons of impregnated timber were recycled through K-rauta and Rautia stores.

Since 1996, the jury of Motiva Oy and Tuulilasi magazine has selected 'the Eco-car of the Year'. The main criteria include fuel consumption, carbon dioxide emissions and other regulated exhaust gas emissions. The 2004 'eco-car' is the Volkswagen Passat 1.9 TDI Diesel, imported by VV-Auto Oy. The eco-cars of 2002 (Audi A2 1.2 TDI Diesel) and 2001 (Volkswagen Polo Classic 1.9 TDI Diesel) also belong to VV-Auto Oy's range.

### K-environmental stores

The recognition given to the K-environmental store diploma by the United Nations Environmental Programme UNEP and the International Chamber of Commerce ICC in summer 2002 encouraged K-retailers to focus on environmental actions. 42 new diplomas were granted in the spring and 29 in the autumn, which meant that the total number fell slightly short of the target of 75 diplomas. At the end of 2003, there were 221 K-environmental stores.

The numbers of diplomas by chain are presented in the attached table. All K-citymarkets have the diploma. The figure is also high in the K-supermarket chain where stores with the diploma accounted for 79% of the chain's total sales.

The target set for 2004 is 73 new diplomas. The system will be reformed and expanded during the year, and the new plans will be published in autumn 2004.

Getting the diploma requires that the retailer, the hypermarket or department store director, the employees responsible for environmental affairs and the whole personnel are trained, and that a comprehensive environmental audit is passed. In the audit, made by a neutral professional, an estimate is made as to whether



At events for a great number of participants, catering generates a large amount of waste that can be reduced through careful planning.

## K-team event's environmental profile

The K-Retailers' Association arranges an annual K-team event for K-retailers and K-store personnel. The event includes a product exhibition, the finals of the Master Sales Assistant training and many kinds of programmes and get-togethers. The 2003 event was held on 1 November at the Turku Fair and Congress Centre and attracted 3,500 participants.

The K-Retailers' Association wanted to analyse the environmental load caused by the event so that environmental issues could be better taken into account when planning future events on a similar scale. The survey was conducted by JP-Talotekniikka Oy of the Jaakko Pöyry Group. The environmental profile consisted of the transportation involved, the electricity and heat energy used and the waste generated at the Fair and Congress Centre.

Bus and train transportation to the event was arranged from various parts of Finland. 36% of visitors chose the transportation provided, while the rest travelled mainly by car. The distances driven to and from the event totalled nearly 150,000 kilometres. During the event, about 28 MWh of electricity, 32

MWh of heat and 106 m<sup>3</sup> of water were consumed. Nearly 5 tons of mixed waste, 0.6 m<sup>3</sup> of glass waste and 3.0 m<sup>3</sup> of cardboard waste were generated.

The total consumption of primary energy was 1,015 GJ. Carbon dioxide emissions were 52 tons, nitrogen oxide emissions 312 kilos, sulphur dioxide emissions 45 kilos and particle emissions 32 kilos. The biggest environmental load was generated by transportation of people, above all from transportation by car. The production of electricity needed for the event caused the most particle emissions. In addition to calculating the environmental profile, observations were also made on the proportion of disposable tableware in the total amount of waste.

In Finland, events of this size can only be arranged in a few cities, so the location cannot be selected on environmental grounds alone. In the future, the environmental impact of the K-team event can be reduced for instance by increasing the proportion of transportation provided, searching for opportunities to save energy, reducing the amount of waste, increasing sorting on the site and increasing waste recovery.



K-environmental stores on 31 December 2003			
Chain	K-environmental stores	Share of K-environmental stores out of the chain's total sales, %	New K-environmental stores in 2004 (target)
<b>K-environmental store diplomas</b>			
K-citymarket	50	100.0	1 <sup>***)</sup>
K-supermarket	101	78.9	42 <sup>***)</sup>
K-market	40	15.5	30
K-extra	5	2.3	**)
K-pikkolo	2	*)	**)
K-rauta	14	44.3	*)
Rautia	7	11.8	*)
K-agriculture	2	*)	*)
K-environmental store diplomas, total	221		
<b>ISO 14001 certifications</b>			
Anttila/Kodin Ykkönen department stores	33	100.0	

\*) no data available

\*\*\*) K-market, K-extra, K-pikkolo: total target 30 stores

\*\*) all stores of the chain

the store fulfils the detailed requirements set for awarding the diploma.

### Environmental office work programmes

The 'ViherNokka' environmental programme for office work was introduced in Kesko's main office building at Katajanokka in May 2003, and under the title of 'ViherHakkila' at Kesko Food's central warehouses' office work in October 2003. The target was to create uniform instructions and practices for waste segregation, energy savings, paper consumption and office purchases.

Both of the two programmes have a manual and related pages on Keskonet, Kesko's intranet site. Segregation instructions for all waste have been revised and specified, and a colour code system has been adopted to help assorting. Instructions also show waste cycles and responsibilities, and the pages contain hints for saving energy, recommendations concerning purchases, links, news and a feedback channel.

In 2003, the programme was complemented with several other projects.

These involved participation in the national energy savings week, collection of electronic scrap and sending unnecessary office supplies to the recycling centre, outdated office paper to kindergartens for drawing paper and magazines to hospitals and retirement homes.

The target for 2004 includes establishing the environmental programme in all office work. The intention is to raise the waste recovery rate, while the success in assortment will be monitored together with the waste management company, and a new method developed for monitoring paper consumption.

Though the impacts of office work on the environment are not essential from the point of Kesko's environmental activities, the programme affects attitudes, bringing environmental protection close to every Kesko employee's work. The programmes received an honorary mention in Kesko's competition for quality actions in November 2003.

### Stakeholder co-operation and communications

During the year, Kesko continued to

maintain close contacts with stakeholder groups related to its environmental activities.

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

Co-operation with suppliers for the benefit of organic foods and various recycling systems continued.

Kesko continued as a supporting member of the Finnish Association for Nature Conservation and the main sponsor of the family activity project. The three-year project ended at the close of the year, and as from 2004 nature clubs and events for families will continue as part of the Association's standard programme. The Association edited the Finnish section of the Worldwatch Institute's publication 'State of





Case

## A near miss with chemicals at the Hamina terminal

The Hamina terminal of Kaukomarkkinat Oy is located at the Port of Hamina, which specialises in handling liquid goods and provides transit services for industrial raw materials. The products arrive mainly in tank wagons from Russia and are transported to customers in tank lorries or ships. Annually, more than 500,000 tons of flammable liquids and acids go through the terminal. Some of them have been classified as

hazardous to the environment.

In accordance with the Seveso Directive, the Hamina terminal has been classified as a facility with major accident hazards. The level of operations and safety management is monitored with regular inspections by the authorities. The terminal is committed to keeping all emergency instructions updated, and has prepared instructions for and assessed risks of all its operations with

Ship loading is supervised by specialised pumpmen Veijo Joffel (front) and Risto Apo.

impacts on the environment and safety. In 2003, the operations of the terminal caused no such leakage to the environment of which the terminal should have been obliged to notify in compliance with its environmental permit.

In January 2003, an individual case of a 'near miss' occurred with a chemical leak. On 12 January 2003 at 8.40 hours, when a ship was being loaded, a dock guard noticed something yellowish in the icy slush between the ship and the dock. The guard immediately informed the ship's personnel and the Environmental Manager of Kaukomarkkinat. Loading was interrupted at 9.15 hours and the local authorities were invited to the place following the emergency instructions.

Investigations revealed that the welding seam of the valve on the ship deck had a small split, out of which some substance was leaking into the sea. Being lighter than water the substance remained on the surface of water and slush, from where it was easy to remove with a suction lorry. Cleaning measures were carried out during the day before the ship left. It was estimated that some dozens of litres of the substance had leaked among the slush.

the World 2004' with Kesko's support.

The co-operation project on the application of the GRI reporting guidelines in food sector companies' environmental reporting, relating to the quality strategy work of the Finnish food chain, was completed in the spring. Pro Agria's quality unit was responsible for the implementation of the project, and Kesko's representative acted as the chairman of the project steering group.

Kesko's overall reporting was judged as the second best in the annual comparison of environmental and corporate responsibility reports by 'Elinkaari', the Finnish Forum of Environmental Experts in autumn 2003.

### Environmental risks, damage and incidents

The management of environmental risks is part of Kesko's security plan. The greatest risk to a company operating in the trading sector is fire, and the required instructions and training have been given to personnel to meet this contingency. Risks relating to the contamination of land areas are discussed on page 26. Kaukomarkkinat Oy's terminal operations in Hamina include the transportation and intermediate warehousing services of products and raw materials of the oil and chemical industries involving environmental risks.

The terminal is bound by the envi-

ronmental permit and submits reports about its operations to the authorities. The environmental management systems of the Group include a level of preparedness for environmental risk management that is fully compliant with the ISO 14001 standard.

No such environmental damage or incidents occurred in the Group in 2003 that would have required a notification to the authorities. Smaller leakages, mainly from valves, occurred at the Hamina terminal eight times. Immediate actions were taken to repair leakages and to prevent subsequent ones.

## Social performance



### Key social performance in 2003

- Proportion of foreign subsidiaries out of all personnel reached 35%
- Turnover of personnel in Finland dropped from 25% to 22%
- The most common reason for ending a job in Finland was a fixed-term contract
- Proportion of jobs terminated by Kesko was 6%
- Job satisfaction by country remained at the same level of the previous year
- Sick absences increased slightly both in Finland and abroad
- Number of job accidents decreased
- Number of retirements nearly halved and the average retirement age grew
- Number of training days per person increased slightly
- Proportion of women in middle management and superior/specialist categories increased
- Unionisation of employees decreased in Finland and Sweden

Warehouse Worker Toni Koskelin in Kesko Food's freezer warehouse, Vantaa

The company's social responsibility is demonstrated, for instance, in the mental and physical wellbeing of personnel, job satisfaction, implementation of equality and focus on training. Job satisfaction is reflected in the average length of employment, and the attraction as a workplace tells us what kind of image the company has among outsiders.

Kesko divides its social performance reporting into two parts: indicators of responsibility concerning corporate personnel, and the working conditions of personnel employed in the supply chain of our products. We now have more statistical and research data available on corporate personnel for each country. Data regarding the supply chain has been obtained from major suppliers in developing countries.

**Structural change continued**

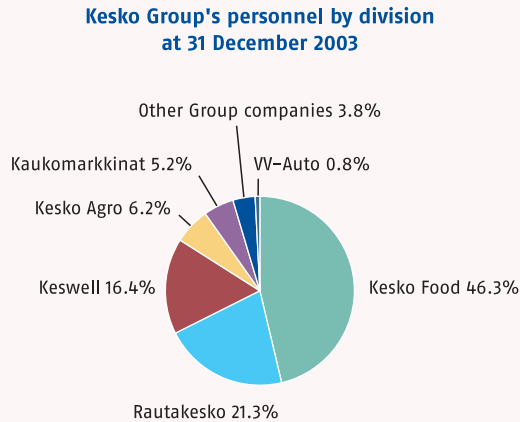
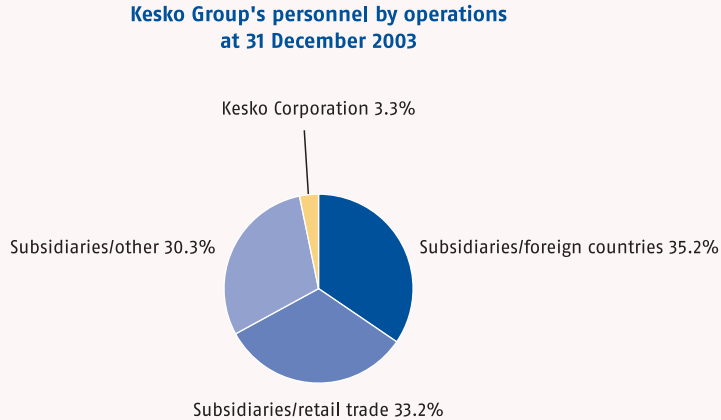
The fast structural change in Kesko Group personnel continued in 2003. Foreign subsidiaries' proportion of the whole personnel grew to 35%, compared with 20% at the end of 2002 and 8% at the end of 2000. The proportion of Group employees in retailing increased to over 68%.

**Number of employees**

At the end of 2003, the number of Kesko Group personnel was 19,411 (compared with 15,212 in 2002). There were 12,596 (12,152) employees in Finland and 6,815 (3,060) abroad. The breakdown of personnel by country is presented in the table on page 40.

The average number (for the calculation method, see page 18) of personnel during the year was 15,219 (12,217), of whom 9,859 (9,720) worked in Finland and 5,360 (2,497) abroad.

Including fixed-term and part-time employees, the Group employed 4,412 new people in Finland, 3,140 of whom for retailing. Foreign subsidiaries employed 2,238 new people, and the acquisition of a majority shareholding in Senukai,



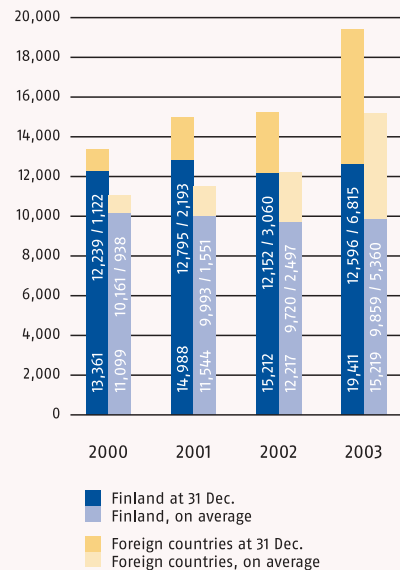
Lithuania increased the number by 2,753. Other than the number of personnel, no additional Senukai employee statistics were available for this report.

Correspondingly, 3,908 employees left the Group in Finland, of whom about 2,670 worked in retailing. The turnover in Finland was about 22% (excluding summer employees, the difference in relation to the number of personnel at the end of the year), compared with 25% in 2002.

During the year, 1,254 employees left the Group's foreign subsidiaries. Turnover rates are available by country except for Lithuania.

Kesko Group had 1,113 summer employees in Finland and 217 abroad, most of whom worked in retailing and ware-

**Number of Kesko Group's personnel**



## Personnel statistics, breakdown by country in 2003

	Finland	Estonia	Latvia	Lithuania ***)	Sweden	Sweden+Baltics total
Men	4,790	516	390	*)	295	1,272
Women	7,806	1,581	740	*)	166	2,524
Total, at 31 Dec.	12,596	2,097	1,130	2,861	461	6,549
Total, average	9,859	1,863	808	2,147	381	5,199
New employment, number	4,412	1,021	966	58	193	2,238
Employment ended, number						
– fixed-term	2,311	81	38	12	–	131
– terminated by employer	221	83	18	–	9	110
– resignation by employee	1,225	480	356	12	165	1,013
– retired	151	–	–	–	–	–
– total	3,908	644	412	24	174	1,254
Turnover, %	22.0	25.7	35.2	***)	37.7	***)
Sick days	105,261	29,746	8,181	519	3,130	41,576
– per person	8.8	14.2	7.2	4.8	6.8	10.9
– per million working hours	6,067	9,072	5,753	2,863	4,668	7,487
Salaries and fees, EUR million	287.4 *****)	11.0	5.7	16.2	9.8	42.7
– average annual salary, EUR	29,155	5,903	7,017	7,533	25,754	8,211
Vocational training, %	58	40 **)	35	15	*)	*)
Higher education with degree, %	17	48 **)	20	81	*)	*)
Training days per person	1.6	2.0	3.4	*)	0.5	1.5
– expenses, EUR per person	528	162	111	593	226	166
Unionisation rate, %	37	–	–	–	15	*)

\*) data has not been collected or is inaccurate

\*\*\*) data concerning hardware, builders' suppliers and agricultural stores only

\*\*\*\*) in Lithuanian statistics, only personnel and salary data of Senukai are included. Other data for Kesko Agro only. In addition, there were 266 employees in other countries.

\*\*\*\*\*) salary expenses in bookkeeping (differ slightly from salaries paid, due to accrual, for instance). Figures for Finland also include fringe benefits.

housing. During the year there were about 450 vacancies at Kesko Group's internal market (on the Intranet).

### Average age and duration of employment

At the end of December 2003, the average age of Group personnel in Finland was 35 years (same as the year before) and abroad 33 years. The average age was the lowest in subsidiaries engaged in retailing. People usually start working relatively young in the retailing sector and the turnover rate is higher than in the wholesale business.

The average duration of employment relationships effective in Finland was a few days short of 9 years. As a deviation from previous years, statistics also include retailing companies, which lowers the average. The longest employment relationships on average were in Kesko Corporation, VV-Auto Oy and Rautakesko Ltd. 28.4% of all employment periods had lasted for less than two years, while 13.2% had lasted for over 20 years.

As foreign subsidiaries have only been established in recent years, employment relationships are still short. K-rauta

stores in Sweden have the longest as the first of these were established in 1996.

### Reasons for terminating employment

The most common reason for ending a job in Finland was a fixed-term contract - accounting for 61% - and abroad the employees leaving their jobs - 81%. In 221 cases in Finland, less than 6% of the total number, and in 110 cases abroad, representing 9% of the total number, employment was terminated for production and financial reasons or other reasons based on the Contracts of Employment Act.



78 staff had to be given notices when Citymarket Oy reorganised its home and speciality goods business into three product lines instead of the former five. Citymarket Oy is a retailing company, which runs the home and speciality goods business of 50 K-citymarket hypermarkets in 38 localities. Employee arrangements did not apply to the grocery business of the K-citymarket chain operated by independent K-retailers. 151 persons retired during the year.

### Kesko's attraction as a workplace

In Finland, Kesko's attraction as a workplace is monitored in several surveys both among students and the working population. Regular surveys are also conducted into Kesko's employer image among top decision-makers and influential persons.

In 2003, particular emphasis was

placed on one survey describing the opinions of students (Universum) and two surveys conducted among the working population (Universum and Talentum).

The Universum student survey comprised 120 organisations, and there were 2,510 respondents from 19 educational establishments (universities and polytechnics). 1,000 of the respondents were students of business administration, among whom Kesko rose from rank 32 to 31.

In the Universum survey, Kesko's attraction among young professionals who had worked for about three years (more than half of them had a degree in business administration) dropped from rank 12 to 17. In the Talentum survey in which respondents work in sales, marketing, financial administration and IT duties, Kesko's attraction increased from rank 47 to 20 (63 companies were included in the ranking).

Kesko's strengths listed by the students included sound economy, market success, interesting products and services, the great number of different duties, growing challenges at work and internal training. They presented wishes that international duties, opportunities for learning on-the-job and the trainee programmes should be emphasised.

### Quality of management

Kesko personnel's job satisfaction is monitored annually through a written job satisfaction survey. In Finland and Sweden, the survey was carried out by TNS Gallup Oy/Retail and in the Baltics by the Latvian Fontes R&I. The surveys contents were identical in all countries. The K-rauta stores in Sweden have been included in the survey since 2001, and the Baltic companies since 2002. The most recently acquired company of the Group, Senukai in Lithuania, has not

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

	1999	2000	2001	2002	2003
Own job	3.66	3.71	3.73	3.72	3.71
Superior's performance	3.67	3.74	3.82	3.82	3.79
Unit's operations	3.49	3.63	3.73	3.78	3.76
Kesko's operations	3.61	3.61	3.60	3.71	3.70

7,272 respondents (66.5%) in 2003.

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

	Sweden		Estonia		Latvia		Lithuania	
	2002	2003	2002	2003	2002	2003	2002	2003
Own job	3.65	3.56	3.80	3.84	4.08	4.10	4.14	4.17
Superior's performance	3.72	3.73	3.96	3.90	4.09	3.93	4.04	4.08
Unit's operations	3.71	3.68	3.89	3.92	4.00	4.00	4.03	4.20
Chain's operations	3.83	3.67	3.99	4.06	4.00	4.17	4.16	4.25
Average	3.69	3.65	3.88	3.89	4.06	4.01	4.07	4.14
Number of respondents		230		1,198		576		71
% of personnel		49.5		62.1		60.6		75.5

Survey contents were identical in Finland and in all other countries. Senukai of Lithuania was not yet included.



yet been included in the survey.

In the survey, respondents were asked, on a scale of 1-5, to assess their own jobs (19 statements), their superiors' performance (18 statements), their performance and development discussion (2 statements), their unit's operations (21 statements), Kesko's (or the local subsidiary's) operations (16 statements), the development of operations and atmosphere (4 statements) and the handling of survey results (2 statements). Personnel also evaluated the management of some affairs related to their employment and employee benefits (the wage level, shopping benefits, occupational safety, staff facilities, health care, training, staff restaurant, etc.). The outcome of this survey contributes to superiors' profit bonus.

In Finland, employees' satisfaction with Kesko's operations remained practically unchanged. The highest ratings were given to commitment to the targets of the unit and overall satisfaction with the superior's performance. The most important improvement areas included opportunities to influence the development and planning of the employee's own work, internal mobility opportunities and the development and training of personnel.

The results by country remained at the level of the previous year. The best results were reached in Lithuania, where the survey covered only the personnel of Kesko Agro. In Estonia and Latvia, job and company satisfaction increased, while the superior's performance was ranked slightly below the level of the previous year but still remained higher than in Finland. In Sweden, employees' satisfaction with their own job and the company decreased, but the average ratings nearly reached the level of the previous year.

A summary of the survey results and response rates are presented in the attached table. Because of the differences in corporate cultures, for exam-

ple, the results in various countries are not fully comparable.

Management quality is evaluated with many surveys on a regular basis. The annual customer satisfaction survey is used to see how both external and internal customer relations are developing. All Group units make annual self-evaluations in teams, using the criteria of the Finnish Quality Award. An in-house quality competition has been linked to this evaluation. In 2003 the winner was Kespro Ltd. The evaluations of managers' practices and related development plans started in autumn 2002 and they have also been introduced for superiors at other levels.

The selection of an 'Employee of the Month' and a 'Manager of the Year' continued in 2003. These selections, based on personnel proposals, are intended to highlight individuals who set a good example in promoting Kesko's values. This practice will be continued and it has been extended to Group companies abroad.

Personnel can give feedback on corporate operations in their own units, and also directly to top management. The 'Keskonet' intranet has a channel entitled 'mail to the President and CEO' and a 'direct channel' where employees may, anonymously or by giving their

name, comment and make proposals on matters related to Kesko. Management replies to feedback on the direct channel. The President and CEO gives personal replies to the mail he receives.

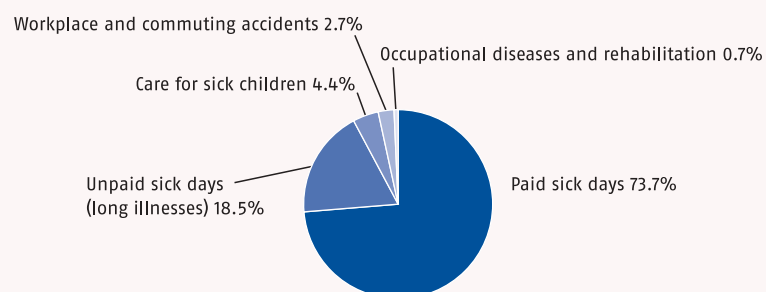
## Health and safety

Since 2002, statistics on sickness absence has also been covered in the foreign operations of the Group. However, the breakdown of reasons for absence is not as accurate in foreign statistics as it is for Finland.

In Finland, the total number of sick days in 2003 was 105,261, i.e. 8.8 days per person or 6,067 days per million working hours. Compared with 2002, the figures increased slightly, partly also due to the fact that the notification practice was changed. In the attached graph, sickness absence is presented by reason. The proportion of unpaid, long illnesses increased over the previous year. The number of sick days caused by workplace or commuting accidents decreased by over 400 on the previous year.

In foreign subsidiaries, the total number of sick days in 2003 was 41,576, which represented 10.9 days per person or 7,487 days per million working hours. In the calculation, the number of working hours is the same as in Fin-

Sickness absence in 2003 (Finnish operations)



Total number of sick days in Finland 105,261

land, that is 1,760 hours per year. Absenteeism increased since 2002, which was partly due to the more established system used in statistics reporting.

The work safety organisation covers all Finnish companies of the Group. The occupational health and safety manager, committees and delegates work for one company, district or real estate. The safety work has been particularly successful in warehouses where the number of accidents has decreased.

Kesko's own occupational health service unit served 6,000 Kesko Group employees, 5,200 of whom were seen at the Group's own health stations. Retailing companies in Finland and all companies abroad purchase occupational health services from outside providers. Kesko's occupational health service focuses on wellbeing at work and on activities that maintain physical and mental fitness. In recent years, these activities have accounted for over 40% of occupational health operations. In 2003, Kesko's occupational health service used EUR 359 per person for the maintenance of physical and mental fitness and health care. No corresponding information concerning retailing companies in Finland and all companies abroad is available.

If required, Kesko's occupational health service participates in care and treatment guidance for employees abusing intoxicants and provides training to superiors for handling problematic situations involving intoxicants with prevention being the primary target. HIV tests are only made in connection with medical treatment, not at normal employment and health check-ups.

### Salaries and other benefits

In 2003, the average annual salary of Kesko employees in Finland was EUR 29,155 and in foreign countries EUR 8,211 (for country-specific information see the table on page 40). The number of employees used in the calculation is the average number of personnel. Because Kesko



Warehouse Worker Richard Jung moves baby food jars to a raised shelf in Kesko Food's warehouse, Vantaa.

## Case

## Recognised input in work safety and ergonomics

The Finnish Ergonomics Society granted their ergonomics prize for 2003 to Kesko Food's logistics for its important work for the development of warehouse work safety and ergonomics. The TOP online learning programme developed for Kesko Food's work induction process helped to create uniform teaching methods for the warehouse work ergonomics and safety training. The programme was developed by a large number of Kesko Food workers, superiors and professionals in work safety and occupational health.

The TOP programme, which is available on Kesko Food's intranet, helps the personnel to learn to assess the importance of their work from the viewpoint of work safety, ergonomics and productivity. The programme consists of five parts dealing with the logistics chain, warehouse and terminal work, safe working with machines, manual lifting at work and danger evaluation of one's own work. Virtual examples, games and animated pictures support learning. Practical exercises are also set in the parameters studied online. The programme was introduced in autumn

2002, and nearly 800 warehouse workers and superiors have since been trained to be TOP experts. The target is to have all of the people working in Kesko Food's warehouses - approximately 1,200 - trained by the end of 2004.

Inspired by the ergonomics prize, a contest was arranged in late autumn 2003 for the personnel of the logistics unit, with the purpose of finding new ideas on how to reduce the physical load of the work and to promote work safety. The contest prize was the sum of EUR 1,000 received from the Finnish Ergonomics Society. Prizes were given to five best proposals for improving ergonomics at work, all of which led to immediate actions. The proposal made by Petri Tynkkynen who is in charge of placing the products in the warehouse resulted in the shelf places of baby food jars being raised by 40 cm from the floor. Improving the ergonomics of shelving arrangements facilitates the picking of high-demand items and reduces the burden of work postures on employees' backs.

#### Women and men by employee category in Finland at 31 December 2003

	Women Number	%	Men Number	%	Total number	%
Top management	4	8.9	41	91.1	45	0.4
Middle management	119	23.9	379	76.1	498	4.0
Superiors, specialists	636	58.2	457	41.8	1,093	8.7
Workers, office workers	7,047	64.3	3,913	35.7	10,960	87.0
Total	7,610	61.9	4,686	38.1	12,596	100.0

Group's operations are very diverse with an estimated 650 different job titles, the average salary is not a very good indicator of salary level and structure.

About EUR 10 million in bonuses under the profit-sharing system, accounting for about 3.2% of the total payroll, were paid for 2003. The bonus system applies to all personnel of Kesko Corporation and its domestic subsidiaries, with the exception of retail stores, in which bonuses are only paid to superiors of Anttila department stores and K-citymarkets. Key factors contributing to the bonus are the total performance of the Group and the division, the sales and performance of own unit or their development, and customer satisfaction. Various process indicators can also be applied. For management, the job satisfaction of personnel is another contributing factor. In addition to the Group's profit-sharing system, subsidiaries - both in Finland and other countries - have their own bonus systems. The top management of the Group - comprising some 50 executives of the Kesko Group - have a profit-sharing system in which the maximum amounts of bonuses vary depending on the profit impact of the job up to amounts corresponding to a salary of 2-6 months.

Kesko has two stock option schemes. When the year 2000 stock option scheme for the top and middle management was announced it comprised nearly 600 persons. The share subscription period of the scheme will end on 31 March 2006. The 2003 Annual General

Meeting approved a new stock option scheme for about 50 persons in the top management of Kesko Group and to Kesko Corporation's wholly-owned subsidiary Sincera Oy. Kesko's Board of Directors will decide on the distribution of the stock options held by Sincera to the management employed by or to be recruited by Kesko. These subscription periods will end, depending on stock option, at the end of April 2008, 2009 or 2010. Both of the stock option schemes are presented on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Investor information/Shares and shareholders).

In 2003, fringe benefits increased slightly in Finland. 619 (576 in 2002) employees had a company car, 826 (809) employees had a company dwelling and 2,083 (1,989) employees had a company telephone. No statistics are available on fringe benefits in foreign companies. Seven holiday cottages were rented for employees and their occupancy rate was nearly 100%.

Supporting the Kesko Staff Club, which arranges recreational activities for personnel, promotes wellbeing in the working community. The annual budget of the Club has remained at about EUR 0.5 million in recent years. No corresponding data is available for foreign subsidiaries.

#### Pensions

In 2003, 151 people (254 in 2002) retired from Kesko Group. Of these, 56 (122) were members of the Kesko Pension Fund and

95 (132) were insured by Varma-Sampo. The figure includes those employees on partial retirement and partial disability pensions who have valid job contracts. Occupational retraining was arranged for 10 (18) employees who, due to illness, were not able to continue in their previous jobs or whose working ability was at risk. There were no retirements in foreign subsidiaries.

Members of department A of the Pension Fund have an option of early retirement arrangements on certain production and economical terms. In 2003, the number of early retirement pensions granted by the Pension Fund decreased by 27. The number of employees who retired on full pension on health grounds decreased by 22 over the previous year.

The average retirement age in Kesko Pension Fund pension decisions rose to 57.4 years (56.1). In Varma-Sampo decisions, the retirement age also rose to 57.4 years (57.2).

In 2003, the average pension paid by the Kesko Pension Fund - to 3,123 persons in all - was EUR 1,213 per month.

The Pension Fund has been financing the production of dwellings since 1965. At the end of 2003, the Pension Fund owned 914 (825) dwellings, of which about half were rented to Kesko employees.

#### Equality

Since 1996, Kesko Corporation and all of its Finnish subsidiaries with over 30 employees have participated in an equality plan, the implementation of



## Järvelän Rauta and social responsibility

Järvelän Rauta, which belongs to the Rautia chain, has shown social responsibility for over several years by employing people with impaired work capacity. Experiences have been very pos-

itive. The present store staff include Pia Ranta-aho and Ulla Viljanen.

Pia and Ulla have no actual contracts of employment with Järvelän Rauta but instead have special con-

Pia Ranta-aho (front) and Ulla Viljanen appreciate being part of Järvelän Rauta's working community.

tracts with the municipality in the open work programme. The money paid for the work is not called a salary but an incentive payment, which does not affect the person's pension. Working hours vary according to the person's working capacities and duties.

Pia has worked for Järvelän Rauta for a year. Her duties include product shelving, archiving and light cleaning. Pia has enjoyed the work which has also given her more confidence: she has moved to live by herself and learnt to take care of her own business independently.

Ulla has worked for the store for three years, giving a helping hand at the café connected to the store. She finds the job interesting and likes her co-workers. Previously, Ulla worked for the sheltered workshop. At Järvelän Rauta she is part of an 'ordinary' working community, something that she appreciates.

Retailer Sirpa Kaalikoski has been very pleased with Pia's and Ulla's input. The question is not, however, about the profitability of their work only. Sirpa says that Pia and Ulla have brought much joy and positive attitude to the working community, and broadened its set of values.

which is evaluated annually. The plan is available on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Kesko as an employer/Basic information and principles).

According to year-end statistics, 61.9% (62.8% in 2002) of Kesko Group employees in Finland were women and 38.1% (37.2%) were men.

There were four women in top management, representing a proportion of 8.9%. During the first months of 2004,

two more women have been recruited to top management. One of the eight members of the Board of Directors is a woman, as is one of the seven Corporate Management Board members.

In middle management in Finland, the proportion of women is 23.9% (22.2% in 2002), while in superiors and specialists the proportion is 58.2% (56.8%). In both of these categories, the proportion of women has increased every year since

2000 when the statistics were first published. In subsidiaries engaged in retailing, the share of women in supervisory positions is significant. Statistics show that 88% of department managers in K-citymarket hypermarkets and 80% of department managers in Anttila department stores are women.

In the 2003 job satisfaction survey, the implementation of equality was ranked at 3.6 (on a scale of 1-5), the same



**Women by employee category in Finland in 2000–2003**

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

**Training days by employee category (data for Finland only)**

	Training days Total	Per person
Top management	287	6.4
Middle management	1,365	2.7
Superiors, specialists	3,195	2.9
Workers, office workers	10,893	1.0
Total *)	15,740	1.6

\*) The total figure is calculated on the basis of the average number of personnel, while the breakdown by category is based on the number of personnel at year-end.

as in 2002. Until now, the mark had improved every year since 1996. Satisfaction with equality was highest among personnel at retailing companies (3.7).

In foreign companies, 64.9% of employees were women and 35.1% were men. In 2002, the proportion of women was 58.1%. The figure includes the foreign offices of Kaukomarkkinat Oy. There are no women in the top management of foreign companies. In middle management in Latvia women accounted for 15.8% and in superiors and specialists 75.2% (excluding data from Kesko Agro). No comparable information is available for other countries as the job system applied in Finnish companies has not yet been adopted for all foreign companies and equality statistics are only available for a small part of the operations.

No statistics on equality on other grounds than gender have been prepared at Kesko.

## Training

Statistics have been prepared regarding Kesko employees' basic training in Finland, with the exception of retailing companies. Of the 4,598 persons included in the statistics, 58% have medium-level or lowest high-level vocational training and 17% have a degree from an institution of higher education.

In Latvian subsidiaries, employees with a degree from institutions of higher education account for 20% and those with vocational training for 35%. For Estonia, corresponding information is available on hardware, builders' supplies and agricultural trade only - there 48% of employees have a degree from an institution of higher education, while 40% have vocational training. In Lithuania, as many as 81% of Kesko Agro's employees have a higher education degree. No education statistics are available for Sweden.

According to the statistics, a total

of 15,740 working days, or 1.6 days per employee (calculations are based on the average number of personnel), were spent on complementary training in Finland. The attached table presents complementary training by job category. In Finland, about 83% of training was internal, including training at the K-instituutti. The number of training days in foreign companies was 8,272, or 2.2 days per employee. Internal training accounted for about 60%.

The K-instituutti training centre provided courses for about 8,570 employees in 2003, representing a growth of 39% over 2002. The number of student workdays totalled 20,556.

In 2003, competence management systems and tools and their practical implementation were developed further. The resources of K-instituutti's Development Services were strengthened in order to support these goals and Kesko's other change projects. Online learning was increasingly included in training programmes.

15,676 K-Alliance employees, of whom 1,047 were Kesko employees (including personnel from K-citymarkets and Anttila department stores), participated in the Master Assistant training arranged by the K-Retailers' Association. The training is mainly organised as distance learning. Training is also arranged in many business colleges, in which the total number of students was 4,842.

## Unionisation

37.3% (39.6% in 2002) of Kesko Group employees in Finland are unionised, mainly in the Service Union United. In the retailing sector, the rate was 41.8% (43.6%). The figure consists of employees whose union membership fee is taken from their salary. In Sweden, 15.0% (17.3%) of the local subsidiary's employees are unionised. In the Baltic countries, the unionisation rate is very low.

Kesko is a member of the Commer-



cial Employers' Association in Finland, in Handelns Arbetsgivareorganisation (HAO, part of the 'Svensk Handel' central organisation) in Sweden, and in Eesti Kaupmeeste Liit, a member of the Estonian Employers' Central Organisation, in Estonia. In Latvia SIA Kesko Food is a member of the Latvian Trade Association. In Estonia - as in other Baltic countries - the unionisation rate is at present so low both among employers and employees that no binding, collective agreement covering the whole sector exists.

Kesko has a company-specific shop steward system, adopted by all major subsidiaries. However, Kesko Food Ltd continues to have some office-specific shop stewards who also represent the employees of other division parent companies in their operating districts. Kesko Food Ltd has two chief shop stewards, while other companies have one.

International Group-level co-operation (a European Works Council) started in compliance with the Act on Co-operation within Undertakings. Participants of the first international co-operation meeting of the Group, arranged on 11 February 2004, included a representative of K-rauta AB from Sweden.

In 2003, the district courts had three cases (two in 2002), the court of appeal one case (none) and the labour court one case (none) concerning employment disputes at Kesko Group's domestic companies. The disputes in the district court and the court of appeal concerned termination of employment, whereas the dispute in the labour court concerned the strike arranged by the Kesko department of the Service Union United. By the end of the year, no decision had been taken in one of the disputes at the district court, while in the other disputes decisions had been made in favour of Kesko. No corresponding data has been collected for foreign companies.



Content Provider Tero Laatikainen (front) and IT Trainee Niklas Bergström participated in the development of the online training project in hygiene competence at K-instituutti.

## Online training creates experts in food hygiene

The Ministry of Social Affairs and Health decree on the competence in food hygiene required from those working in food premises and the testing of this competence entered into force in 2002. New workers have been required to pass the test or the exam since the beginning of 2003. Old employees have to give the corresponding proof by the end of 2004.

The K-instituutti training centre has arranged training and testing events in hygiene competence throughout Finland since the decree entered into force. So far about 4,000 people have completed the required training and passed the test.

The challenge in the trading sector is the implementation of the hygiene training for a great number of people and maintaining their competence. As

an alternative to events arranged in various parts of Finland, K-instituutti has developed an online course in hygiene competence to enable learning irrespective of time and place. Key subject areas in this web training include legislation, microbiology, food poisonings, hygienic working practices, personal hygiene and the requirements of in-house control. There are exercises for each section and questions the students can use to test their learning. The links supplied give an opportunity to gain more in-depth information about various subject areas. The present decree does not allow the students to take the hygiene competence test online, but they have to attend a supervised testing event.

## Social quality control of suppliers



### Key performance in social quality control in 2003

- Kesko's direct imports from so-called high-risk countries increased by 43%
- The number of suppliers with SA 8000 certification increased by just two, which fell short of the target
- Certified suppliers had 47,000 employees, which exceeded the target
- In the UNICEF India project, financed by Kesko, the number of children attending school doubled.

Kesko is indirectly responsible for the working conditions and terms of the employees who participate in the manufacture of the products it purchases. This social responsibility applies to purchases of goods from the poorest developing countries above all. In these countries national working condition legislation or its supervision is not always up to the standards of international agreements, which means an insufficient level of protection for employees. Kesko's target is to ensure that its suppliers at least comply with the national legislation or the international key working condition conventions, depending on which alternative ensures a better position for employees. The target is ambitious and cannot be reached in a short time. However, every single improvement, no matter how small, is an important step towards socially sustainable development.

Besides Kesko's own actions, this section gives information on joint projects by European trading chains, because their progress considerably affects Kesko's opportunities to achieve results in social quality control.

### Ethical principles for Kesko's purchasing

In spring 2000 Kesko published its principles of socially responsible trading (see [www.kesko.fi/Environment and responsibility/Economic and social responsibility](http://www.kesko.fi/Environment%20and%20responsibility/Economic%20and%20social%20responsibility)). They are based on the International Labour Organisation's key conventions and the UN Universal Declaration of Human Rights and Convention on the Rights of the Child. The international Social Accountability SA 8000 standard (see [www.sa-intl.org](http://www.sa-intl.org)) is based on these regulations, and Kesko recommends the adoption of this standard to its suppliers. The companies that adopt the standard can seek an independent certification for their operations, proof that they fulfil the interna-

tional basic workplace standards. Social Accountability International, which has developed the standard, authorises certification bodies (e.g. DNV, SGS and BVQI) to carry out SA 8000 certifications and supervises their operations.

Social certification can be compared with the certification of quality and environmental systems in the sense that the company manufacturing the products or having them manufactured does not assure its compliance with the quality requirements, but verification is carried out by an independent, accredited auditor. Social certificates indicate that the minimum requirements of working life are fulfilled, compared with national legislation and international standards. The adoption of standards and their certification are voluntary, which means that working life standards can be met even without any certifications. The adoption of social standards is best suited to companies in developing countries and for those companies in developed countries whose subcontracting chains largely extend to developing countries. Corresponding social risks do not occur in Finland or most other developed countries, where legislation has been taken further than the minimum requirements of ILO and the negotiation and supervision mechanisms work.

### Supervision in practice

Social quality control is part of the buyer's job description, just like the control of environmental management, the product's physical quality and product safety. For this purpose, Kesko's buyers of imported products participated in basic training in the ILO conventions and the SA 8000 standard in 1999-2001. The corresponding training is arranged for new buyers in spring 2004, in March and May. For buyers, Kesko has prepared an internal handbook on social

#### Kesko's own direct imports \*) in 2003

Country	Value of imports (EUR million)
Germany	85.1
China	45.7
Italy	43.9
Sweden	38.9
Denmark	37.6
France	35.8
Spain	34.1
Holland	32.3
Japan	22.4
Costa Rica	19.9
....	
United States	8.6
Estonia	8.0
Turkey	6.9
India	6.7
Brazil	6.1
Vietnam	6.0
Taiwan	5.8
South Africa	5.6
Thailand	4.9

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

quality control, which contains detailed instructions for the co-operation between Kesko and its suppliers to improve working conditions.

Buyers are unable to control working conditions in practice. They usually visit suppliers once or twice a year, and the visits are short meetings with people who are responsible for sales. Buyers do not speak the local language and cannot therefore interview the personnel or read documents related to working conditions. Getting acquainted with the national legislation is also impossible. Therefore supervision must be submitted to local, independent experts who speak the language of the employees and are familiar with both the national legislation and international conventions. To promote certification, Kesko co-operates with Bureau Veritas Quality International (BVQI). The buyer's duties include collecting from suppliers the basic information needed for

quality control, personally presenting Kesko's principles and the content of the SA 8000 standard, and keeping the idea of implementing the standard and certification continuously alive.

At Kesko, the supervision of social quality is part of the risk management of import purchases. Supervision covers many countries and product categories in which defects relating to working conditions and terms have been noted. Kesko considers this risk group to consist of 35 countries, and the product groups under control include coffee, fruit, clothing, home textiles, carpets, shoes, toys and furniture. In 2003, Kesko's purchases from the countries in question totalled EUR 116 million (EUR 81 million in 2002). These imports accounted for 1.9% of Kesko's total purchases, 6.9% of Kesko's total imports and 17.3% of Kesko's imports from outside the EU.

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, in which much attention has been paid in recent years to ensuring the social quality control of their manufacture. Kesko estimates that these purchases amount to approximately the same as its own high-risk imports described above. No reliable statistics are available on this. If the estimate is correct, Kesko's imports from high-risk countries account for about 4% of its total purchases. The certificates granted to companies producing international branded goods are monitored in the same way as Kesko's own imports.

### Slow progress

SA 8000 certification has progressed slowly both globally and among Kesko's suppliers. There are many reasons for the slow progress. The standard re-

Country	Certificates	Number of employees
China	6	9,400
India	2	260
Bangladesh	1	900
Costa Rica	1	3,020
South Africa	1	350
Indonesia	1	10,000
Italy	1	36
Columbia	1	4,315
Mauritius	1	1,470
Pakistan	1	12,000
Panama	1	4,783
Finland	1	250
Vietnam	1	450

Product group	Certificates	Number of employees
Foods	6	23,938
Clothing	5	4,414
Toys	5	6,600
Home goods	3	12,286

mains unknown to small and medium sized companies in particular, its implementation and certification are considered expensive, and small companies have no previous experience on the use of other standards. There is no documentation, written operating principles or management systems available, and the competence needed for this kind of work is not easy to gain. If reaching the certification level necessitates significant changes in operations, they cannot be implemented all at once but must instead be realised gradually.

The commercial pressures of small buyers like Kesko do not lead to changes in the enormous mass of global trade. On a large scale, social quality can only be improved with large purchasing volumes. So far, however, only a few large

trading companies and firms for which branded goods are manufactured have demanded neutral certification from their suppliers. This is also partly due to the fact that only a few consumers are interested in the manufacturing conditions of products, and there is no reliable product labelling for this purpose available. Therefore manufacturers feel that the demand for independent certification is small and do not obtain it even if their operations might fulfil the requirements of the standard.

By the end of February 2004, the worldwide register kept by SAI (see [www.sa-intl.org](http://www.sa-intl.org)) included only 354 companies with the SA 8000 certificate, compared with 203 in February 2003. The certifications represented 39 different sectors in 39 countries. The busi-





Fair Trade bananas ready to be picked in Ecuador.

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

Coffee	Mexico
Tea	Tanzania
Cocoa	Dominican Republic
Chocolate	Dominican Republic
Honey	Paraguay
Sugar	Paraguay
Bananas	Ecuador
Oranges	Egypt
Pineapple	Costa Rica

ness sectors with the most representations were clothing and textiles, and the countries were Italy (75 certificates), Brazil (50) and China (49).

At the end of 2003, Kesko's buyers had at their disposal written replies concerning working conditions and terms from 247 companies with a total of 263,000 employees in 33 countries. Information has been received from virtually all companies with whom trading is regular. In cases where Kesko's purchases are small and irregular, it is difficult to receive any reply. Small suppliers included, the companies in the sphere of Kesko's social quality control have about 300,000 employees in all. This figure has remained more or less unchanged in recent years.

In 2003, four of Kesko's suppliers received the SA 8000 certificate. Two that had received certificates earlier were eliminated from the statistics, as there was no trading with them during the year. At the end of the year, Kesko had 19 suppliers with the SA 8000 certificate, employing a total of 47,000 staff. The year before, there were 17 cer-

tificates and 30,700 employees. The target for 2003 was 30 certificates and 40,000 employees, so the number of companies fell short of the target, whereas the number of employees was exceeded. Only about 15% of the long-term target - ensuring the working conditions of about 300,000 employees - has so far been reached.

At regular intervals Kesko's buyers establish which suppliers are preparing the implementation of the standard and where and when certificates are expected. The lack of certification cannot, as such, be regarded as a sign of poor working conditions. All activities improving working conditions and terms are important, and they are being continuously made on a small scale. No big leaps can be expected in one year, and ten new certificates a year looks like a realistic annual target.

#### Co-operation between Finnish importers

The 'Network to advance Social Responsibility in Importing' continued operations in the Central Chamber of Com-

merce under Kesko's chairmanship. During the year the network arranged two member meetings, provided members with related information, and maintained contacts with the news media on issues concerning the ethical principles of imports. Unlike Germany, France or Britain, no co-operation has been sought in Finland for supplier audits, but each member has implemented social quality control in its own way, observing jointly accepted principles.

At the end of 2003 the network comprised 16 companies, including all major food trading groups and many clothing and shoe manufacturers and importers. Operations, principles and members are presented on the Internet pages of the Central Chamber of Commerce ([www.kaupakamari.fi/keskuskaupakamari](http://www.kaupakamari.fi/keskuskaupakamari)).

#### Fair Trade products

It is estimated that the total sales of Fair Trade products in the world increased by about 30% to EUR 360 million in 2003. In Finland, Fair Trade products were sold at about EUR 7.5 million, that is, at less than EUR 1.5 per



person. The relative sales are largest in Switzerland, about EUR 10 per person. The data is based on the information given by the Finnish Fair Trade Labelling Organisation. There are no statistics available on the value of K-stores' sales.

The products available and their countries of origin are shown in the attached table. Kesko's selections include all Fair Trade product groups. Bananas continue to be the most important Fair Trade product, and their share of total sales of bananas increased slightly. Oranges were launched on the market in February 2004. In Finland, sales of Fair Trade coffee remain small compared to many Central European countries. Sales of tea grew by 20%.

### The UNICEF project in India

Since 2000, Kesko has financed a project mediated by UNICEF Finland and implemented by UNICEF India's Mumbai office, with a total of USD 85,000 to prevent the use of child labour in the town of Bhiwandi. The financing will continue until the end of 2004.

In the project, the field workers of UNICEF and other non-governmental organisations survey the families' finances, diet, availability of 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, to have small children attend school full-time right from the beginning, and to assist older children to have vocational training. Adult women who have never had an opportunity to attend school are taught to read and learn skills they need for family care. Self-help groups have been started for housewives where they learn about home economics, nutrition and self-employment.

2003 was a difficult year for the Bhiwandi weaving industry in particular, because it no longer received state

support for its electricity consumption. Many factories closed down, and the number of children working in the area dropped, because children moved to work elsewhere or returned to the countryside. To some extent the difficulties companies experienced increased the school attendance of children. During the year, the project was extended to the town of Malegaon, where diagnostic tests of and treatment for tuberculosis were added to the programme.

During the year the project helped 657 more working children to attend school either on a part-time or a full-time basis. Including the children who had earlier started school, those moved from preparatory training to proper school attendance, and the sisters or brothers of those working children who had already started school, the number of children attending school under the project at the end of 2003 was 1,655 in Bhiwandi and 816 in Malegaon. Training groups for adult women had 699 participants, and there were 52 housewife groups, each of which had 20 members. Over 3,000 children were tested for tuberculosis. Over 700 of them were found to have this disease for which they are now getting regular treatment.

The scale of the project has more than doubled during the year, so the results achieved can be considered good and the operating system feasible even on a wider scale. The English language annual report of the project is accessible via the online version of this report.

Through UNICEF Finland, Kesko also participates in the campaign to promote the global education of girls. The funds raised in Finland will be used to promote girls' education in Nepal. Since the beginning of 2004, cardholders in the Plussa customer loyalty system have been able to donate the money accrued for their purchases in the form of Plussa points to this project.

## Review of co-operation in European imports

The review is written by Jouko Kuisma, Kesko's representative in EuroCommerce, CSR experts.

### Closer co-operation between buyers worldwide

Many companies and trading chains that have products manufactured for them have had their own purchasing principles ('Code of Conduct') for years. All of them have been prepared on the basis of the same international working life agreements and are more or less similar in their basic content. Besides buyers, many companies also have special personnel who supervise the working conditions of suppliers and subcontractors. Some co-operate with non-governmental organisations or local offices of ILO, while others have audits made by independent certification bodies. In spite of the fact that the importance of social quality has largely been recognised, international understanding on its verification has not yet been reached.

The SA 8000 standard is the only international tool which has been prepared in co-operation between many experts and the representatives of trade unions and non-governmental organisations. No significant progress has, however, been made in its implementation, though international certification bodies have devoted much competence to the issue. There is no disagreement about the basis of the standard, but large European trading companies consider the administrative section too heavy and expensive. The required management system is considered bureaucratic, and the number of personal interviews is seen as unnecessarily high, which increases auditing costs.

In some European countries trading chains have had co-operation projects that search for efficient, cost-effective solutions to the social auditing of suppliers. The target is to avoid overlapping audits and exchange audit information between buyers. The same

certification bodies as for the SA 8000 standard have mainly been selected to conduct audits. These audits do not, however, include certifications, as the administrative requirements of the standard are not complied with. The aim at this stage is to gain information for the companies' own risk management and quality control. No consumer information - 'a social quality guarantee' - is yet being planned.

In France, co-operation is made within FCD, the central federation of commerce. In Germany, the co-operation model has been developed in AVE, the foreign trade association of the retail trade, and it contains detailed, standard-like manuals for buyers, suppliers and auditors alike. AVE has also implemented some working life development projects in developing countries, in co-operation with the German Ministry of Foreign Affairs. The British 'Ethical Trading Initiative' differs from the rest in the respect that besides business companies its members include trade unions and non-governmental organisations, and it gets some public funding.

Though the principles of the above national co-operation projects are approximately similar to each other, their practical implementations differ, for instance as to the breakdown of costs and the exchange of information. About 1,500 audits have already been conducted in these three projects, comprising mainly clothing and consumer goods manufacturers in the Far East. From Kesko's viewpoint, particular progress has been made in the sense that auditing has been given to an outside, independent certification body. If common practices could be adopted in all respects, the number of certificates would considerably increase from the level reached with SA 8000 so far.

### A European agreement?

Negotiations on the all-European social quality assurance system have been con-

ducted in EU organisations in Brussels - in the Foreign Trade Association (FTA) and EuroCommerce, the trade representation to the EU. The problem with the FTA is that only some of the organisations and companies that represent the imports trade of the EU countries are its members. The FTA aims at creating - in co-operation with Social Accountability International (SAI) - a European social standard that would deviate from SA 8000 only as far as administrative provisions are concerned. Members of EuroCommerce include, in addition to the FTA, all other important parties, but the purpose of EuroCommerce is not to develop and administer standards, but to represent European trade to the European Commission and Parliament.

It is expected that a solution will be found during 2004. Kesko has suggested in the EuroCommerce working group that EuroCommerce and the FTA make a proposal to the SAI on changing some points of the SA 8000 standard that have been criticised. No decision had been made on the matter by March 2004. Social standards are also discussed in the EU Multi Stakeholder Forum on CSR, a working group set up by the European Commission, due to publish its final report in June 2004. Kesko has a representative in this working group.

When the trading sector is considering its operating practices, international industry organisations have been developing their social quality control. The World Federation of the Sporting Goods Industry (WFSGI), for instance, has had ethical operating principles for a long time, the clothing sector has several international co-operation projects underway, and most recently the International Council of Toy Industries (ICTI) has prepared detailed operating principles with a special focus on work safety, on the basis of which factories conduct independent audits.

## Other responsibility areas

The guidelines of the Global Reporting Initiative suggest that companies should, besides economic, social and environmental performance also report about other work regarding corporate responsibility. Such issues include 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 lines of Kesko's business. It calls for particular attention in the food trade, as such faults have occurred globally in food production from time to time, which Kesko wants to avoid in every way. Therefore Kesko has emphasised product safety for decades by auditing industrial operations, analysing product compositions and quality features and by suggesting improvements to manufacturers.

At Kesko Food, the main responsibility lies with the Product Research unit. In addition to food products, the unit controls the quality of certain non-food products and home and speciality goods. In the case of Kesko's house brand products like Pirkka, the Product Research unit acts as a product developer in close-knit co-operation with manufacturers. The unit and its K-test kitchen employ 21 people.

### Supplier and product audits

In 2003, the product research unit audited 53 suppliers (39 in the previous year), of which 37 (29) were Finnish. The audited companies mainly include suppliers of Kesko's house brands and are selected in accordance with Kesko Food's self control plan. Auditing is carried out in compliance with Kesko Food's own protocol. In most cases, improvement proposals relate to the planning of production facilities and hygiene.

In 2003, a total of 7,280 (8,820) product samples were analysed, of which 5,873 were food products, 650 non-food products, 733 home and speciality goods and 21 flowers. Nearly three quarters of the samples were imported and one quarter domestic. Nearly 15% of the samples were catering products and the rest consisted of retail products. An increasing proportion of the samples were suggestions for new Kesko house brand products. The number of new food products dropped slightly, whereas the number of new home and speciality goods grew more than sevenfold compared with 2002. The number of product comparisons decreased considerably over the previous year. A total of 1,571 product lot and other own control samples were analysed. The number of analyses totalled 15,378 (17,216). The laboratory conducted eight intercalibration audits (comparisons of analysis accuracy between several laboratories) and the results were within the accepted tolerance. Based on consumer complaints, 2,020 samples were analysed.

The consumer service maintained by the Product Research unit received 15,023 (13,642) feedback contacts during the year. Feedback was mainly product complaints and questions, but also included thanks, ideas and proposals. The most common contact channel - in 9,279 cases - was telephone. Answers were given to all feedback.

### Recalls when required

During the year, there were 31 (26) product recalls, most of them caused by defective quality or taste, or a manufacturing flaw. 12 of the recalls were Kesko Food's house brand products. In the other cases, the product research unit assisted manufacturers in recalls. Two of them were so-called food alert cases in-

volving potential health hazards. In such cases national supervising authorities are always notified.

### Detailed guidelines on package markings

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

Instructions for package label information also determine the use of the swan flag symbol, the seed leaf flag symbol, the key flag symbol, the Nordic environmental label, the 'Wash Right' marking, the Luomu organic product label and the use of recycling symbols. These guidelines can be read on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Environment and responsibility/Product safety).

### Participation in current projects

The Product Research unit participates in several projects and organisations promoting food quality and product legislation on the national and international levels. If required, the unit prepares and publishes Kesko Food's views on current issues, for instance on genetic engineering and acrylamide in foods. The stand on genetic engineer-

## Case

On Friday, 4 April 2003, 336 boxes of Pirkka rainbow trout casserole were packed in packages bearing the product name of Pirkka chicken casserole. The mistake was due to the change in the production programme at the manufacturing plant. The products were distributed to stores on Monday, 7 April 2003.

At lunchtime on Tuesday, 8 April 2003, K-citymarket Vaasa noticed that the store had received Pirkka chicken casserole packs that contained rainbow trout casserole. K-citymarket Vaasa informed Kesko's Consumer Service at 11.50 hours and the Consumer Service

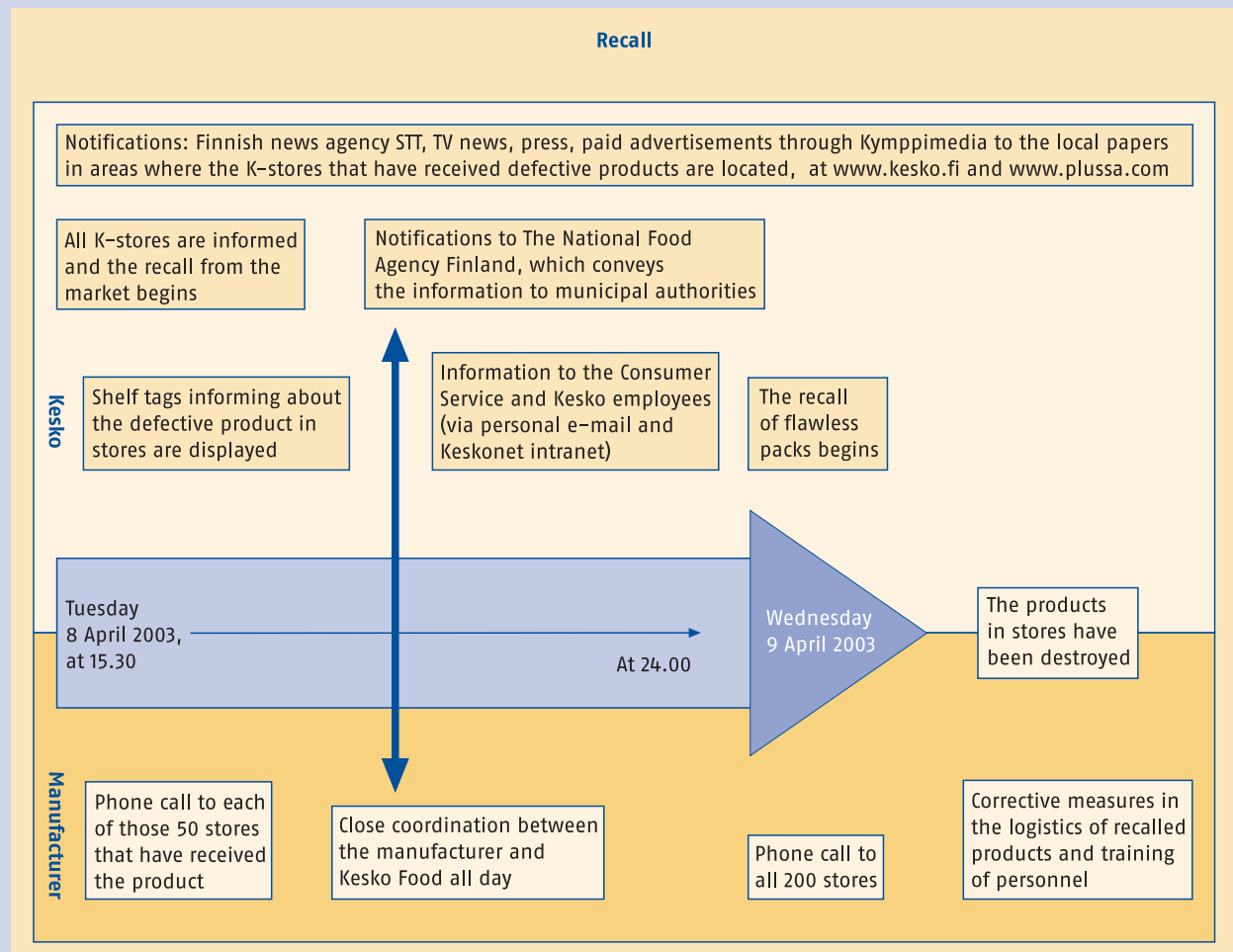
## A serious product mistake – a recall of Pirkka chicken casserole from 250 K-stores

immediately informed the research chemist responsible for the product category about the matter. The chemist started closer examinations with the product manufacturer, those responsible for the category at the purchasing department and K-citymarket Vaasa. The research chemist also contacted the allergy association to find out how serious the possible danger situation would be for consumers with fish allergy. Because people with fish allergy could, in the most serious cases, suffer a fatal reaction (an anaphylactic shock), the Product Research Manager started the product recall process at 15.30 hours, which is necessitated in Kesko Food's self control plan in

cases of serious product mistakes.

On Wednesday, 9 April 2003, it appeared that Pirkka chicken casserole in correct packs with the same dates as on defective ones had also been delivered to about 200 K-stores. In order to stabilise the situation and to avoid confusion, a decision was made to also recall the flawless packs.

The situation was considered closed after the last sell-by date (23.4.2003) on this lot had passed, when it was stated that the recall and information concerning it had been effective. Some products in defective packages had ended up with consumers, but no serious allergy cases had been reported to the authorities.



ing includes the regulations on labelling and traceability, stating that Kesko keeps a close eye on the development of the legislation and research data. According to the stand, Kesko does not prevent such products from being launched on the market when their safety has been proved and they have been marked appropriately. However, no ingredients of genetically modified origin are allowed in Kesko's own branded products. The stands are available in full on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Environment and responsibility/Product safety).

### Corporate security

Security operations within the Kesko Group aim at securing people, property, information, reputation and the environment against accidents, damages and crime and ensuring undisturbed operations in advance. Security operations support the implementation of Kesko's strategic targets and are a natural part of business. The Corporate Management Board approved Kesko's new security policy in 2003.

Corporate security consists of the following areas: rescue operations, occupational safety, criminal and environmental safety, crisis and continuation planning, as well as personnel, premises, real estate and information security. Employees responsible for security matters have been appointed to Kesko's division parent companies' management and a network of contact persons covering the whole Group is being created. Kesko's security organisation supports the business operations units providing them with expert services in the sector. Responsibility for security at the practical level covers employees, superiors and unit management alike.

### Marketing and competition regulations

One of Kesko's functions is to plan and implement the marketing programmes

of the K-retailer chains. Kesko and the K-retailers operate in a so-called vertical agreement relationship, in which marketing actions are carried out in compliance with exemptions granted by the Finnish Competition Authority on the basis of the Promotion of Competition Act.

In 2001, the Finnish Competition Authority granted an exemption to Kesko Food, according to which it could, on certain conditions, set the maximum retail prices to some of the products sold at K-food stores. Retailers can, if they wish, sell the products at lower prices. The exemption was valid until 31 December 2003. On 30 June 2003, Kesko Food applied for a new exemption. However, the Authority did not have time to handle the application before the end of the year so it decided on 23 December 2003 to extend the validity of the exemption granted in 2001 until 30 April 2004. The new exemption, valid until the end of 2004, was granted on 16 April 2004. Starting from the beginning of May, the competition legislation in the EU will change in such a way that exemptions will no longer be granted, but companies have to evaluate themselves on the acceptability of their agreements and practices from the viewpoint of competition legislation, taking competition regulations, legal practices and Commission guidelines into account. The exemptions granted by 30 April 2004 will remain in force during the time given in the decision.

Kesko's foreign subsidiaries themselves act as retailers, which is why this kind of permission is not needed. Their marketing and advertising actions are carried out in compliance with the marketing, consumer protection and price marking regulations and complementary guidelines of each country. In Finland, these include the guidelines issued by the Consumer Ombudsman based on decisions made by the Market Court and the Consumer Ombudsman, and/or nego-

tiations with the Federation of Finnish Commerce and Trade. The guidelines can be read on the Internet pages of the Consumer Agency at [www.kuluttajavirasto.fi](http://www.kuluttajavirasto.fi) (Legislation and Guidelines).

In 2003, neither the Finnish Competition Authority, the Consumer Ombudsman nor the Market Court gave any decisions concerning Kesko or the K-retailer chains in any breaches of marketing or competition regulations.

### Privacy protection

A Kesko subsidiary, K-Plus Oy, maintains and manages the customer loyalty system of the K-store chains. On 31 October 2003, the development of Plussa cards' payment and credit card properties was transferred to Nordea Rahoitus Oy when Kesko sold all the shareholding of K-Luotto Oy which had earlier been responsible for the operations. At the end of 2003, Plussa cards were held by about 2.9 million people in 1.6 million households. The programme only includes the Group's operations in Finland.

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

By virtue of the Personal Data Act, every customer register keeper must have an official file description, which is a public document. K-Plus Oy's file description can be read in Finnish on the Internet pages of the Plussa service at [www.plussa.com](http://www.plussa.com).



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

In March 2004, the Plussa.com consumer portal became the first Finnish consumer web service to receive the international Qweb certificate, granted by SFS-Inspecta Sertifiointi Oy. The purpose of the certification is to ensure the security and rights of the service users. Operations audits include ethical prin-



ciples, privacy protection, IT security and the quality of business processes. The certificate is valid for one year, and auditors will monitor the certified pages every three months.

The reform of the Plussa system at the end of 2003 offered cardholders an opportunity to donate the sum corresponding to the Plussa points they have accrued to Kesko's main partners of corporate responsibility. In 2004 these partners are the Young Finland Association and UNICEF Finland. The results of this collection will be included in Kesko's corporate responsibility report starting from 2004.

### Political relations

Kesko takes an active role in legislative work concerning trade and industry in Finland and the European Union. Influence is exercised via the Central Chamber of Commerce, the Federation of Finnish Commerce and Trade and its branch organisations, and the Employers' Confederation of Service Industries. The Federation of Finnish Commerce and Trade is a member of EuroCommerce, the retail, wholesale and international trade representation to the EU Commission and the European Parliament. In addition, Kesko belongs to UGAL, the EU organisation of groups of independent retailers that safeguards its members' interests directly or via EuroCommerce. EuroCommerce has appointed many Kesko experts as its representatives for EU working groups, most recently for the group involved with corporate responsibility in the European Union.

In the Baltic countries, industry and commerce have been subject to organisation under branch and central organisations only in recent years. Chambers of commerce have also been established in a global manner. As in Finland, Kesko has joined the branch organisations and chambers of commerce in the Baltic countries. Labour organisation membership is presented on page 47.

In 2003, Kesko's financial support to political parties amounted to EUR 22,240 in Finland and EUR 2,300 in Latvia. No support was given to parties in other countries. The support does not contain advertising in party newspapers. The amount is included under 'non-governmental and environmental organisations' in the table 'Kesko's support for the public good' (page 22).

### Attitude to bribes

Kesko has always assumed a strictly negative attitude to bribes - be it accepting or offering them. The principles

#### Ranking of Kesko's operating countries on the Transparency Corruption Index (scale 1-10)

1.	Finland	9.7
3.	Denmark	9.5
6.	Sweden	9.3
16.	Germany	7.7
33.	Estonia	5.5
40.	Hungary	4.8
41.	Lithuania	4.7
57.	Latvia	3.8
64.	Poland	3.6
66.	China	3.4
86.	Russia	2.7
100.	Vietnam	2.4

Corruption Perceptions Index, Transparency International, 2003

concerning this issue have been communicated to personnel in, for instance, the guidebook 'Our working practices - the ethical principles of personnel', the most recent version of which was published in 2002. The guidebook has been published in Finnish, Swedish, English, Russian and all Baltic languages. It has been distributed to all Group personnel and the subject matter has been presented orally in units' own meetings. The guidebook can be read on Kesko's Internet pages at [www.kesko.fi](http://www.kesko.fi) (Kesko in brief/Corporate citizenship).

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

Kesko became a member of Transparency International Suomi - Finland, established in 2003.

## 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	Basic information about the Kesko Group	
2.9.	List of stakeholders	Yes	13	Stakeholder analysis	
<b>Report scope</b>					
2.10.	Contact persons for the report	Yes	61		
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		(Internet version)	Links in the relevant parts of the printed report.
3.3.–3.4.	Board-level processes in corporate responsibility management	No			No processes have been defined separately, corporate responsibility is integrated in all management.
3.5.	Linkage between executive compensation and corp. responsibility	No			No such indicators are included in the compensation.
3.6.	Key responsible individuals	Partly	61	Contact information	The list is not complete, but includes key persons for reporting.
3.7.	Mission, values, operating principles	Yes	10	Principles and management systems guiding corporate responsibility	
3.8.	Mechanisms for shareholder recommendations or opinions	No			The procedure has not been described in the report – normal public limited company procedure.

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
<b>Stakeholder engagement</b>					
3.9.–3.12.	Stakeholder identification, consultations	Yes	13	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	No			Information available at <a href="http://www.kesko.fi">www.kesko.fi</a> (e.g. environmental policy)
3.15.	Memberships in associations and organisations	Yes	12	Key areas and methods of influence	
3.16.–3.17.	Supply chain management, indirect impacts	Partly	26,33,48	Energy purchases, developments in product trade, social quality	The analysis of indirect economic impacts incomplete.
3.18.	Changes in operations	Yes	17	Investments and store network	
3.19.–3.20.	Management systems, certification	Yes	24, 48	Environmental system and data management, social quality control of suppliers	
<b>Comparison of GRI content</b>					
4.1.	Identification of GRI guidelines	Yes	58		
<b>Economic performance indicators</b>					
EC1	Net sales	Yes	5	Kesko's business operations	
EC2	Geographic breakdown of markets	Yes	15	Economic performance/General	Further information available at <a href="http://www.kesko.fi">www.kesko.fi</a> (Annual Report 2003)
EC3	Goods and services purchased	Yes	5, 20	Suppliers of products and services	
EC4	Payments in acc. with terms	Yes	21	Suppliers of products and services	
EC5	Total payroll, pensions, etc.	Yes	19, 20	Salaries, social security expenses... Employee pension and health insurance systems	
EC6	Interests and dividends paid	Partly	15	Economic development from the viewpoint of shareholders	Interests paid have not been specified. Information in the financial report.
EC7	Changes in retained earnings	No			Not specified, information in the financial report.
EC8	Taxes paid	Yes	19	Salaries, social security expenses and taxes	
EC9	Subsidies received	No			No subsidies referred to by GRI.
EC10	Donations to community, civil society, etc.	Yes	21	Financial support	
<b>Environmental performance indicators</b>					
EN1	Materials use	Yes	31	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	26	Energy and water consumption	Unit of measure KWh and its multipliers MWh and GWh.
EN5	Water use	Yes	26	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	27, 29	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	27	Environmental profile of energy	Ozone in lower atmosphere in C <sub>2</sub> H <sub>4</sub> equivalents.
EN10	Acidification	Yes	27	Environmental profile of energy	
EN11	Waste	Partly	31	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	36	Environmental risk, 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	36	Environmental risks, damage and accidents	For Finland.
EN34x	Environmental impacts of transportation	Yes	29	Transport emissions	For Finland and Kesko Food's Estonian operations.
<b>Social performance indicators</b>					
LA1+LA2	Employment statistics	Yes	18, 39, 40	Job development, Number of employees, Reasons for terminating employment	
LA3+LA4	Labour/management relations, negotiation procedures	Yes	46	Unionisation	
LA5-LA8	Health and safety	Partly	42	Health and safety	Assessment of compliance with ILO procedure guidelines not included. Information of subcontractors' accidents (e.g. construction) not included.
LA9	Training and education	Yes	46	Training	Specification by personnel group for Finland only.
LA10+LA11	Diversity and opportunity	Yes	44	Equality	
LA12x	Non-mandatory employee benefits	Yes	43, 44	Salaries and other benefits, Pensions	
HR1-HR7	Human rights	Partly	48	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	57	Attitude to bribes	No comparison with the OECD document included.
S03,S05x	Political contributions	Yes	57	Political relations	
S04x	Awards received	Yes	35, 36	K-environmental stores, Stakeholder co-operation and communications	
PR1+PR2	Customer health and safety	Yes	54	Product safety	
PR3	Respect for privacy	Yes	56	Privacy protection	
Also:			41 56 21	Quality of management Corporate security Breakdown of economic benefits by Finnish region	

## Contact persons in corporate responsibility

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

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<b>Development, coordination, responsibility for editing the report</b>		
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Ulla Rehell	Senior Manager, Corporate Responsibility	Corporate Communications and External Relations
<b>Indicators of economic responsibility</b>		
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Pekka Niva	Store Site Director	Kesko Food Ltd/Retail Services
Antti Mansikka	GIS Planner	Kesko Food Ltd/Retail Services
Jukka Pokki	Investor Relations Manager	Corporate Communications and External Relations
<b>Indicators of environmental responsibility</b>		
Johanna Saarivuo	Real Estate Development Manager	Kesko Real Estate
Timo Jäske	Development Manager	Kesko Food Ltd/Logistics
Marja-Riitta Jarva	Environmental Manager	Kesko Food Ltd/Customer Relationship Process
Merja Saarinen	Environmental Manager, K-environmental stores	Kesko Food Ltd/Customer Relationship Process
Juha Kortesalmi	Environmental Manager	Anttila Oy
Marja Ola	Environmental Specialist	Rautakesko Ltd/Development
Sari Koskinen	Environmental Specialist	Rautakesko Ltd/Development
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Toni Tynkkynen	Environmental Specialist	Kesped Ltd
Nina Rintanen	Environmental Assistant	Kaukomarkkinat Oy
<b>Indicators of social responsibility</b>		
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Mikko Myyryläinen	HR Controller	Human Resources
Saara Halko	Office Supervisor	Pension Insurance and Occupational Health
<b>Social quality control system</b>		
Jouko Kuisma	Senior Advisor, Corporate Responsibility	Corporate Communications and External Relations
<b>Product safety</b>		
Matti Kalervo	Product Research Manager	Kesko Food Ltd/Product Research
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Juha Pietarinen	Security Director	Corporate Security
<b>Privacy protection</b>		
Tapio Pesonen	Financial Services Manager	K-Plus Oy
<b>Corporate communications</b>		
Erkki Heikkinen	Senior Vice President	Corporate Communications and External Relations



## Assurance statement

Translation from the Finnish original

### To the management of Kesko Corporation

At the request of the management of Kesko Corporation we have reviewed the Kesko Corporation Corporate Responsibility Report 2003 (the Report) in order to provide assurance on its information contents. Kesko Corporation's management has prepared the Report and is responsible for the collection and presentation of the information within it. This assurance statement in itself cannot be taken as a basis for interpreting Kesko Corporation's performance in relation to its non-financial policies.

### Scope and method of our work

There are currently no statutory requirements in Finland relating to the preparation, publication or independent assurance of corporate responsibility reports. The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 2002 have been referred to as one criterion for corporate responsibility report assurance.

Our scope covered the assurance of the information content of the report. Our review process involves the main steps outlined below.

- Assess the level of implementation as regards to Kesko Corporation strategy and management principles in the area of corporate responsibility, especially in the new reporting areas and in the foreign functions.
- Assess the data management procedures used to compile and report information presented in the Report.
- Assess the completeness, accuracy and comparability of the information presented.

Our work consisted of the interviews with the responsible persons about used practices, and procedures for data generation in Finnish functions and on Jüri logistics center in Estonia. The assessment of the information was based on the initial data delivered to us from the functions reported, as well as interviews with the persons responsible for generating such data. The interviews and information got from last year's assurance were also used as a basis of our work.

### Our conclusions

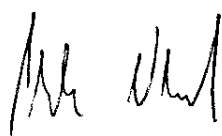
Our conclusions and observations based on our work are outlined below.

This is Kesko Group's fourth year of full corporate responsibility reporting and the Report follows mainly the reporting structure of previous years in due form. We recommended in the last year's Assurance Statement to connect the functions abroad universally under the same performance indicators. Now more detailed information about the Baltic functions has been reported, and regarding domestic activities, new indicators like statistics by the Finnish regions on the economic wellbeing produced by Kesko Corporation have been added. Further, the Report gives now a more complete picture of Kesko's performance by presenting some cases. However, the scope of the corporate responsibility reporting could still be further complemented within Kesko Corporation, especially in those countries where the reporting does not yet cover all performance indicators and functions.

The Kesko Corporation Corporate Responsibility Report 2003 provides a balanced representation of Kesko Corporation's performance in the area of Corporate Responsibility. Furthermore, the information in the Report is presented in an appropriate manner.

Helsinki, 13 April 2004

PricewaterhouseCoopers Oy  
Authorised Public Accountants



Pekka Nikula  
Authorised Public Accountant



Sirpa Juutinen  
Global Risk Management Solutions

## Definitions of terms

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

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

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

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

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

**Gearing ratio, % =**

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

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

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

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

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

**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.

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Kesko's corporate responsibility report is available in Finnish and English and can be ordered by mail from Kesko Corporation, Corporate 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 Communications (Jouko Kuisma and Ulla Rehell) in co-operation with the environmental team of Mainostoimisto Rauta advertising agency (Tapio Heickell and Anne Soikkeli).

Photos: Jari Härkönen, except for p.14, 23 and 38 Petri Artturi Asikainen, p.35 Mauri Ratilainen, p.48 Mikkel Østergaard/Gorilla and p.51 Max Havelaar France/Kaare Viamose.

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