



2006

Corporate Responsibility Report

Contents

Contents of the report	1	Kesko's CO ₂ emissions	49
Review by the President and CEO	3	Use of materials	49
Key facts about the Kesko Group	4	Waste management and recycling	50
Kesko Group's key indicators of corporate responsibility for 2004–2006	6	Product-related developments	50
Vision of corporate responsibility	8	K-environmental stores	52
Risks and opportunities	10	Stakeholder cooperation and communications	52
Stakeholder engagement	13	Environmental risks, damage, and incidents	53
Determining materiality	18	Social performance	54
Governance	19	Kesko's approach to human resources management	55
Kesko's policies, principles, and management systems related to corporate responsibility	22	Goals and performance	56
Values	22	Employment and employee turnover	56
Ethical principles – 'Our working practices'	22	Average age and duration of employment	57
Principles for Corporate Responsibility	22	Recruitment and job rotation	57
Group-wide objectives for 2007	23	Kesko's profile as an attractive employer	57
Management systems	23	Emphasis on leadership	58
Senior management training	24	Job satisfaction	58
Reporting	25	Equality	60
Online information collection and reporting system	25	Competence development and training	60
Economic performance	26	Health and safety	62
Kesko's approach to economic responsibility	27	Salaries and other benefits	63
Kesko as a public company	27	Pensions	64
Investments and the store network	30	Activities in employer organisations	64
Job development	31	Cooperation with employee representatives	64
Salaries, social security expenses, and taxes	31	Social quality control of suppliers	66
Employee pension and health insurance	31	Scale of the issue	67
Suppliers of goods and services	31	Principles of socially responsible trading	67
Breakdown of economic benefits	33	Tools for monitoring social compliance	67
Financial support	35	Results of social auditing	70
Environmental performance	38	Development projects	71
Kesko's approach to environmental management	39	Other responsibility areas	72
Goals and performance	39	Product safety	72
Real estate operations	40	Privacy protection	73
Construction and maintenance	40	Marketing and competition regulations	74
Structural safety	41	Political relations	75
PromisE classification	41	Attitude to bribery	75
Environmental risks associated with land use	41	Comparison of the report with the GRI guidelines	76
Monitoring energy and water consumption	43	Contact personnel in corporate responsibility	81
Energy and water consumption in 2006	43	Independent Assurance Statement, csrnetwork Ltd	82
Environmental energy profile	45	Independent Assurance Report, PricewaterhouseCoopers Oy	84
Transport	46	Definitions of terms	
Transport emissions	48		



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

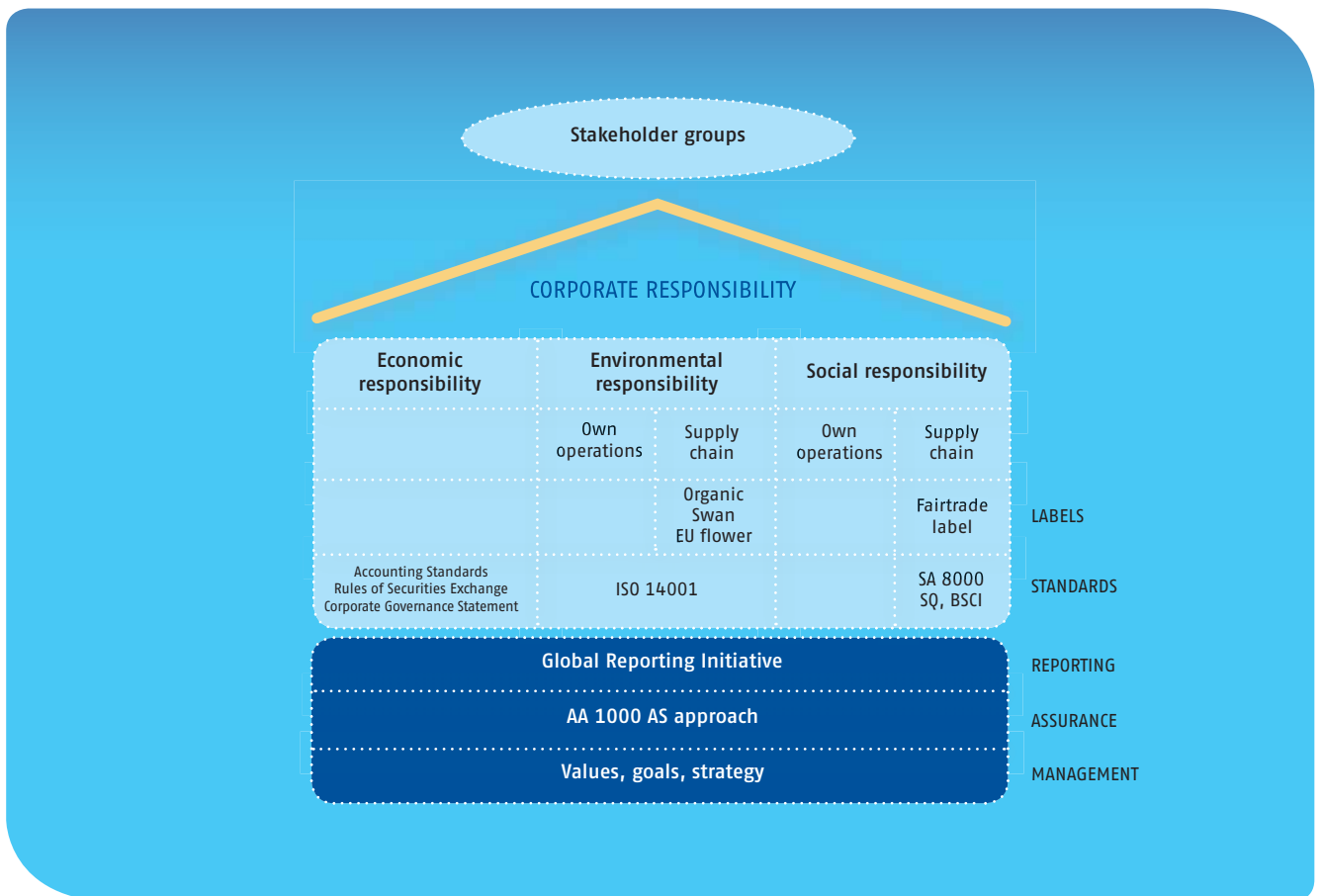
Contents of the report

This report is Kesko's seventh Corporate Responsibility Report and has been prepared on the basis of the 'Sustainability Guidelines on Economic, Environmental and Social Performance' drawn up by the Global Reporting Initiative (GRI). As the third version of the GRI Guidelines (G3) was launched in October 2006, some changes have been made in the structure of the report. Due to the late publication of the G3 Guidelines, Kesko's individual performance indicators continue to follow the G2 Guidelines. However, our reporting principles, standard disclosures, including disclosures on management approach, follow the requirements set out in G3 as appropriate. The text does not follow the order of presentation and headings in the GRI G3 analysis in all respects, however. Any deviations from the GRI guidelines, together with any shortcomings in presenting its G2 core indicators, are noted in the comparison published at the end of the report. As Kesko does not fully follow the requirements set out in the G3 Guidelines, Kesko does not state the level to which it has applied the GRI Reporting Framework. Further, as in previous years, Kesko does not claim that the report is in accordance with the GRI G2 guidelines. We would prefer to rely on an independent assurance provider - approved by GRI - to make such a statement of compliance. There is, however, no such system currently available.

Reporting structure

The report begins with a presentation of basic information about Kesko describing the organisational profile. An assessment by senior management regarding Kesko's vision of corporate responsibility and related strategy follows. This assessment covers Kesko's key achievements and improvement areas in 2006, together with our understanding of future developments. Kesko's performance against goals is discussed, as well as the key risks and opportunities, focusing on issues specific to the retailing sector. Corporate governance, commitments, and our overarching management approach follow, together with the company's values, policies, principles, and management systems guiding corporate responsibility.

In late 2006, Kesko arranged an internal workshop to define the issues most material to Kesko; see page 18. The results of this workshop are presented in this report. However, as stakeholders' views were not systematically captured in this analysis, the results were not used to exclude those indicators reported in previous years, and which now scored low in the materiality test. After stakeholder engagement has been taken into account, Kesko's printed report will focus in depth only on issues deemed as material either to Kesko or its key stakeholders. Performance on other indicators measured by Kesko will be discussed at www.kesko.fi/responsibility.



This year, 42 of the 50 GRI G2 core indicators and 9 additional indicators are included in the report. A summary table of the key indicators is presented on pages 6-7. A description of other areas of responsibility, such as activities promoting product safety and privacy protection, can be found at the end of the report. A glossary of the most important terms and a list of key contact persons are also included.

Inclusion of international operations continues to increase

Kesko follows the principles for reporting boundary and disclosure levels defined in the GRI Boundary Protocol. The coverage of performance indicators of the Group's subsidiaries outside Finland is not complete, however, compared to indicators reported for domestic operations. The first indicators of corporate responsibility for foreign operations were obtained for 2002 and coverage has increased continuously. For the 2006 reporting period, we have obtained energy consumption, waste management, and transportation statistics from nearly all companies, apart from Rautakesko's operations in Russia.

As the disposal of Kesko Food's 50% shareholding in Rimi Baltic AB to ICA Baltic AB was completed on 18 December 2006, this will be the last year Kesko includes this information in its corporate responsibility reporting. Kesko's Annual Report 2006 treats Rimi Baltic as a discontinued operation, and financial indicators for both 2005 and 2006 have been adjusted accordingly. In this report, too, financial information is presented in compliance with the IFRS. The treatment of Rimi Baltic indicators in other respects has been specified in the text.

In Finland, environmental data continues to be unavailable on the Indoor Group, which was acquired in 2005.

Information about K-retailers

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

The Accountability Rating™ results included

In late 2006, Kesko asked AccountAbility and Kesko's assurance provider, csrnetwork, to benchmark its corporate responsibility based on its 2005/2006 disclosures. This report has not been part of the disclosures assessed, nor have the benchmark results influenced the report content, apart from the rating results presented in this report below and on pp. 9, 14, 17, 19 and 24.

The assessment using The Accountability Rating™ tool compared Kesko's accountability with the world's 50+ largest companies in terms of revenue^{*)} and with the leading retailers in Europe. It measured Kesko's performance in six domains: stakeholder engagement, governance, strategy, performance management, assurance, and public disclosure.

Kesko's overall score was 55 out of 100. Kesko outperformed the G-50+ average of 34 by 21 points, and would have been placed within the top ten companies (ranking 8th) in the global Accountability Rating list. Kesko's score was also highest of any European retailer at the time of the analysis.

Assurances for online and printed reports

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

An assurance statement has been provided for the printed and electronic versions of the report in Finnish and English since 2002. For the 2006 reporting period, Kesko has commissioned two assurance providers. csrnetwork (UK) has provided independent assurance for Kesko's report, apart from economic information. The assurance of economic performance has been conducted by the Sustainable Business Solutions unit of PricewaterhouseCoopers Oy, Kesko's auditors. Both statements are published at the end of the report. The assurance statement provided by csrnetwork refers to the English version of the report, and the Finnish translation is provided by Kesko.

The report covers performance in 2006, with some information for the first two months of 2007. The previous report, covering 2005, was published in April 2006. The following report, for 2007, will be published in spring 2008.

The Accountability Rating results™ for Assurance:

The Assurance domain looks for a rational approach to securing appropriate assurance for the claims made in the company's external reports.

- Kesko's scoring for the 2005 assurance cycle is 21 points. Assurance has emerged as a key issue in the Accountability Rating with just 27 of the G-50+ companies having their reports externally verified. The average score for the G-50+ companies is 10 points and for the Top 10 companies 34 points.
- A summary of the main findings:
The 2005 statement does not disclose clearly whether the assurance provider was free to select sites and interviews. Furthermore, it does not assess Kesko's processes for identifying material issues, responsiveness to stakeholders or the company's performance against targets.

^{*)} The assessment covered the Fortune Global 50, the world's 50 largest companies by revenue, plus 14 other companies. In addition to that top 10 companies from the 2005 Accountability Rating™ were also included.

Review by the President and CEO

2006 was a successful year for Kesko. Consolidated net sales rose by over 10% and our operating profit before non-recurring items reached a record level. All of the Group's divisions recorded a profitable performance, and Kesko's share price rose to the highest level that it has ever traded at over our 45-year history as a listed company.

Achieving financial performance in a responsible way is very important, and Kesko has established itself as a pioneer in doing just that in numerous international assessments of good corporate responsibility. The World Economic Forum recently chose Kesko for the third time running for 'The Global 100 Most Sustainable Corporations' list, and Kesko continues to be ranked the best in its field worldwide in Dow Jones Sustainability Indexes for 2006/2007. A transparent approach to communications on our performance and our capability to respond to the expectations of our stakeholders, endorsed by independent and impartial assurance, is a cornerstone of Kesko's approach to accountability. Kesko's selection as the company that reports most responsibly in the retail sector worldwide by a study commissioned by the United Nations Environment Programme for the third time in succession only further confirms that we are doing excellently in this respect.

We are naturally proud of the fact that our efforts have received such international recognition, but at the same time we are also aware of the demands that Kesko's rapid international expansion, for example, will bring. We have not progressed as well as we would have liked in developing environmental systems outside Finland, and the measurement of our performance in these markets still does not meet all our quality requirements. We have also not progressed as far as our targets expected we would in monitoring the social quality dimension of our suppliers based in risk countries. In this respect, therefore, we cannot be satisfied.

We have to take our success in accountability and our performance to a high level wherever we operate. The Corporate Responsibility Advisory Board established a year ago has played an important role in creating Group-wide management tools, models, and target-setting. The Corporate Management Board approved a set of general principles covering the Group's corporate responsibility in January 2007, together with an updated environmental policy, and established a number of priority areas for developing Kesko's corporate responsibility efforts. I believe that these will help us in our work in these areas outside Finland in particular.

2006 was also an unseasonably warm year in Europe. With no production-related operations of our own, Kesko's direct impact on global warming at national level is minimal. We account for some 0.8% of Finland's total electricity consumption, for example, and around 0.2% of the country's greenhouse gas emissions. Carbon dioxide, - at over 270,000 tons in 2006 - is our most significant environmental emission, and one that we need to work to reduce. One of our priority areas in 2007 will be to draw up a climate change target programme for Kesko to guide our efforts in respect of energy consumption and the methods used to generate the energy that we purchase. We want to be part of the solution in combating this global problem.

Our customers' interest in the environmental and social impact of the products and services they purchase is growing all the time, as is their interest in healthy living, healthy nutrition, and wellbeing. Our studies show that around half of Finnish consumers consider themselves to be people who look after their health and welfare on an active basis. Kesko's task is to ensure that the products we sell meet all the relevant demands related to physical, social, and environmental quality and product safety, regardless of where they are produced. Given the broad range of Kesko's operations, this is very demanding and takes time, but we are convinced that our responsible approach will secure our future competitiveness and long-term profitability. Management has an important role to play here. Our training programme for senior management and upcoming management talent this year will focus on developing our responsible management and how to measure the performance of our business using responsibility indicators as well as financial ones.

A responsible approach to business is an integral part of Kesko's values, operating strategies, management, and everyday work. As a result, we take it very seriously, and are committed to continuing to be a pioneer in the field into the future.

MATTI HALMESMÄKI
President and CEO
Kesko Corporation



Key facts about the Kesko Group

Kesko's business operations

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

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

In December 2006, Kesko Food sold its 50% shareholding in Rimi Baltic AB to ICA Baltic AB, part of the Swedish ICA Group. Rimi Baltic also acquired the food trade properties owned by Fiesta Real Estate AS, an Estonian subsidiary of Kesko. The property transactions took effect at the beginning of January 2007.

The Group's net sales amounted to €8.7 billion in 2006, of which 41% were generated in food trade. Net sales outside Finland represented 20.6% of total net sales (20.0% in 2005).

Kesko works in close chain cooperation with the K-retailers in Finland, which numbered 1,294 at the end of 2006. Kesko also had approximately 250 other retailer partners in the Asko, Sotka, Tähti Optikko, Byggmakker and Senukai chains. The K-Group had 1,860 retail stores

in Finland and 187 in other countries. Their sales totalled €10.5 billion (€9.5 billion in 2005), of which €2.3 billion were generated outside Finland.

Kesko's shareholders

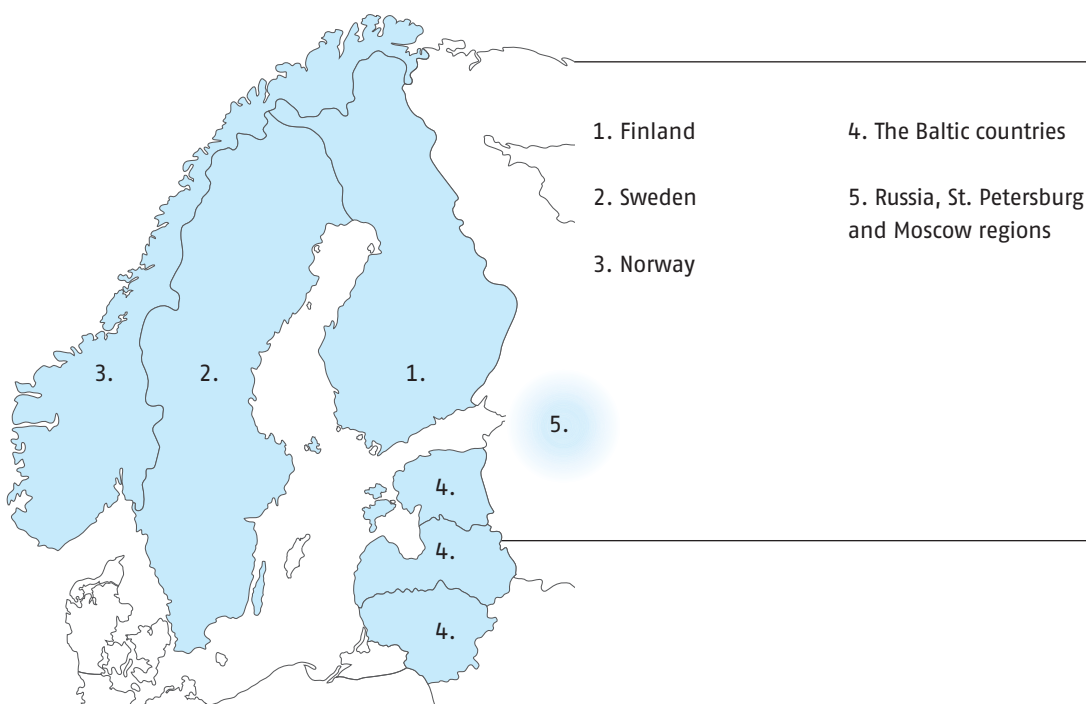
Kesko is a listed company, and had 28,414 shareholders at the end of 2006. Series A shares accounted for 32.5% of the company's total share capital and 82.8% of all votes. The corresponding percentages for B shares were 67.5% and 17.2%. The company's 20 largest shareholders, calculated by number of votes, held 35.8% of all votes and 20.9% of all shares. Shares held by non-Finnish shareholders increased from 27% to 33%, equivalent to 7.1% of all votes.

The market values of A shares was €1,220 million at the end of 2006 and that of B shares €2,633 million. Total market capitalisation stood at €3,852 million, an increase of €1,534 million on 2005.

Personnel

Converted into full-time employees, the Kesko Group had an average of 23,756 employees in 2006. The figure includes half of the employees of the Rimi Baltic AB joint venture. Compared with the 2005, this represented an increase of 618 in Finland and 1,833 in other countries. At the end of the year, the total number of employment contracts was 23,755 (26,608), of which 14,149 (14,377) covered personnel in Finland and 9,606 (12,271) in other countries. Approximately three quarters of employees worked in retailing.

KESKO'S MARKET AREAS



Real estate

The Kesko Group owned or leased 3,503,000 m² of real estate and premises at the end of 2006, which was 2% less than in 2005. Rimi Baltic is not included in the figures. Kesko owned 810,000 m² in Finland, and 185,000 m² in other countries. Square metres reported here represent net floor area. Warehouses and offices accounted for over a quarter of this area, with store premises accounting for the rest. The total floor area of leased premises, consisting mainly of retail stores, was 2,012,000 m² in Finland and 496,000 m² outside Finland. The majority of store premises owned or leased in Finland are rented to K-retailers.

Product and service suppliers

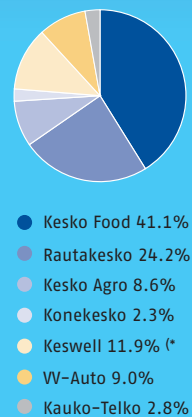
Kesko bought products and services valued at approximately € 7.3 billion in 2006.

The number of active suppliers totalled about 24,400. Approximately 11,800 of these operate in Finland, accounting for 70% of the total purchases, while over 6,300 active suppliers operate in the Group's other operating countries. The main countries from which goods were imported into Finland were Germany, China, Sweden, France and the Netherlands.

The most important joint purchasing organisations in which Kesko participates include AMS Sourcing BV and Agentrics LLC in the grocery trade, EuroMat in the hardware and builders' supplies trade, Intersport International Corporation in the sports trade, and ElectronicPartner International in the home technology trade.

^{*)} Keswell Ltd was merged into Kesko Corporation in September 2006.

KESKO GROUP'S NET SALES BY DIVISION IN 2006

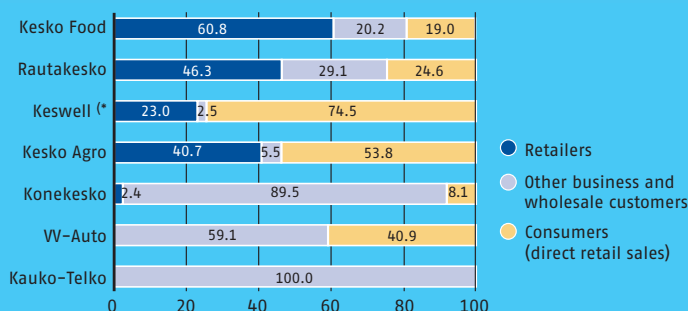


Customers

Retailers accounted for 43% of Kesko's sales in 2006. On average, K-retailers made 87.9% of their total purchases (88.0% in 2005), and 90.6% of their food purchases (90.4% in 2005) from Kesko.

B-to-B customers - institutional kitchens, building companies, VV-Auto dealers, agricultural entrepreneurs, manufacturers and others - accounted for 26% of Kesko's sales. Direct sales to consumers through Kesko's own retail stores accounted for 31%.

BREAKDOWN OF KESKO GROUP'S NET SALES IN 2006, %



Kesko Group's key indicators of corporate responsibility for 2004–2006

INDICATORS OF ECONOMIC RESPONSIBILITY

	2004	2005	2005	2006
	IFRS	IFRS	IFRS ¹⁾	IFRS
Net sales, € million	7,509	8,322	7,922 ¹⁾	8,749 ¹⁾
Profit before taxes, € million	241	239	236 ¹⁾	358 ¹⁾
Return on invested capital, %	14.3	12.5	12.5	22.6
Dividends paid, € million	274	95	95	107
Investments, € million	192	454	367 ¹⁾	251 ¹⁾
Equity ratio, %	44.2	42.3	42.3	47.0
Salaries paid, € million	353	419	400	460
Income tax, € million	56	50	49	107
Personnel, average	17,257	21,305	21,305	23,756
Purchases from suppliers, € million	6,514	7,103	7,103	7,347
Support to organisations operating for the public good, € million	2.4	2.2	2.2	2.3

¹⁾ Information on continuing operations in 2005 relevant to financial indicators only.

^{*} The figure covers continuing operations only.

INDICATORS OF ENVIRONMENTAL RESPONSIBILITY

Use of electrical energy in real estate, GWh ¹⁾	719	919 ^{**)}		962
Use of heat energy in real estate, GWh ¹⁾	296	299		316
Use of water in real estate, 1,000 m ³ ²⁾	669	650		682
Emissions from the production of electrical and heat energy used				
climate change, tn CO ₂ eq ¹⁾	263,117	254,367 ^{***)}		250,252
acidification, tn SO ₂ eq ¹⁾	824	1,353 ^{***)}		1,398
radioactive waste from production of electricity purchased ¹⁾	0.54	0.79		0.88
Distribution transport				
loads ³⁾	109,278	117,571		117,000
kilometres, 1,000 km ⁴⁾	20,126	16,149		17,020
tons ³⁾	576,000	579,800		586,600
carbon dioxide emissions ⁵⁾	23,438	25,360		22,240
Use of materials/waste, tn				
materials in packaging imported to Finland	33,448	29,331		30,812
waste in distribution warehouses in Finland	9,647	8,916		8,545
of which for recovery, % ⁶⁾	89.4	89.8		89.2
waste in distribution warehouses in companies outside Finland	¹⁾	18,358		35,300

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

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

³⁾ No load and ton statistics are available on foreign transportation or transportation outsourced in Finland. Tons delivered by Keslog were reported incorrectly in the Corporate Responsibility Report for 2005. The figures have been corrected here.

⁴⁾ No distance information is available on pallet transportation outsourced in Finland. Transport emissions of foreign transportation are calculated on the basis of fuel consumption, apart from Senukai where kilometres are reported. Keslog's kilometres were reported incorrectly in the Corporate Responsibility Report for 2005. The figures have been corrected here.

⁵⁾ Companies included in the calculations during the years 2004–2006 are summarised in the table 'CO₂ emissions in delivery transportation' on p. 47.

⁶⁾ Figures include organic waste.

¹⁾ Data has not been collected or is inaccurate.

^{**)} Electricity consumption by Rimi Baltic Estonia was reported incorrectly in 2005. The figures have been corrected here.

^{***)} Environmental profile of energy production has been updated to correspond to the actual production profiles in 2005.

INDICATORS OF SOCIAL RESPONSIBILITY

	2004	2005	2006
Job satisfaction in Finland, scale 1-5			
- own job	3.79	3.82	3.82
- superior's performance	3.80	3.84	3.81
- unit's operations	3.76	3.78	3.76
- Kesko's operations	3.60	3.58	3.58
Employee turnover			
- new	7,247	8,568	10,790
- left	5,943	7,055	8,050
- retired	169	177	140
Average age of employees			
- in Finland	)	)	35.8
- in other countries)))
Average duration of employment in Finland, years	9	9	9
Sickness absences per person (work days)			
- in Finland	9.9	9.7	9.6
- in other countries ¹⁾	10.5	8.0	8.6
Funds used for health care per person, € ²⁾	402	427	420
Average annual salary per person, €			
- in Finland	29,411	28,944	29,383
- in other countries	8,102	9,081	13,964
Training days per person			
- in Finland	1.2	1.8	1.5
- in other countries ³⁾	2.9	1.0	0.5
Spending on training per person, € ⁴⁾	448	370	254
Social quality control of purchases			
- suppliers in developing countries included in statistics	300	350	350
- total number of employees in above companies	280,000 ^{*)}	300,000 ^{*)}	300,000 ^{*)}
- companies with SA 8000 certification	24	24	28
- number of employees in companies with SA 8000 certification	54,000	54,000	60,000
- suppliers included in the BSCI audit process	31	42	27

¹⁾ Data for Byggnakker (Norway) incomplete.

²⁾ Includes only funds used by Kesko's in-house Occupational Health Service Unit.

³⁾ Data for Rautakesko AS (Estonia), K-rauta Ab (Sweden) and Byggnakker (Norway) unavailable.

⁴⁾ Data for Byggnakker (Norway) unavailable.

⁾ Data has not been collected.

^{*)} An estimate, as statistics have been transferred to the common BSCI database, from where data on the employee numbers of Kesko's suppliers cannot yet be obtained.

Vision of corporate responsibility

Corporate responsibility at Kesko is voluntary, measurable work, based on the Group's corporate values, policies, goals, and strategy. Performance in the areas of economic, social and environmental responsibility is enhanced in accordance with the expectations of key stakeholder groups. Although the concept of corporate responsibility is commonly used, the content is not sufficiently clear in all contexts. At Kesko, we prefer to talk about responsible business operations or responsibility to stakeholders.

For Kesko, responsibility is an essential part of day-to-day work and company management. Our performance in terms of responsibility must be measured and improvement targets set for them in order to ensure continuous progress. More accurate measurements also help rationalise operating practices and lower costs, particularly in the areas of environmental and social responsibility.

Public, transparent reporting of results is particularly important for large listed companies trading internationally. Increasing globalisation has made many stakeholders keep a closer eye on corporate responsibility. If stakeholders feel that companies resort to irresponsible means to make profits, they will demand stricter control from society or exercise pressure on them to achieve the improvements they want. Voluntary, proactive measures, and exceeding minimum standards, enable pioneering companies to avoid such conflicts and at the same time pull ahead of those that react slowly and wait for the legislative authorities to set the pace.

Our thinking behind the concept of responsibility

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

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

Our vision of the key issues

Kesko's corporate responsibility efforts are based on the Group's values and vision of corporate responsibility. The Corporate Management Board assesses Kesko's vision approximately every other year. The vision outlined below has been drawn up from the viewpoint of the Finnish market and was approved in March 2005.

General

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

Shareholders and investors

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

Personnel

The proportion of net sales accounted for by operations outside Finland in the Kesko Group's total net sales will continue to grow. In Finland, Kesko's personnel numbers can be expected to increase mainly due to acquisitions, and the competition for new employees will intensify as the baby-boomer generations retire. Companies that offer good job satisfaction and varied responsibilities and op-

opportunities for career development are the most likely to succeed here. Corporate values and responsible corporate behaviour are valuable - young jobseekers clearly favour companies with a good reputation. Kesko's reputation as a responsible company benefits the company in its recruitment, both in Finland and the neighbouring areas. With smaller numbers of people on the job market, we need to put more emphasis on older employees and continue to reduce their performance pressures. Occupational health care needs to give more emphasis to preventive work, reducing the number of people taking disability pensions and raising the average retirement age.

Product and service suppliers

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

Consumers

Consumer interest in corporate responsibility is continuing to increase, despite the fact that purchasing decisions are strongly based on price. Responsibility is seen as embracing high-quality products, the maintenance of services, good human resources policies, high standards of environmental protection, a proactive approach to equality, and improving the working conditions of employees in manufacturing operations. As the supply of products and services grows, consumers will have more options, and more influence in shaping trade and the supply of goods. This leverage is more often used to penalise for clear failures than to reward for good performance.

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

Cooperation with the authorities and other organisations

Kesko has received much recognition for its work, which has given it a number of opportunities for making its voice heard on both the national and international level. To continue to lead the way and shape developments, Kesko must actively monitor and anticipate changes in society and make its expertise available to others in the industries in which it operates and society as a whole. To do this, Kesko is committed to maintaining continuous contact with non-governmental organisations, the authorities, and other decision-makers, and to participating in a wide range of national and international organisations in its own sector and in business in general.

The Accountability Rating™ results for Strategy:

In the Strategy domain, the rating is seeking evidence that non-financial performance is integrated into the core business strategy.

- Kesko's total score of 69 is 15 points higher than the G-50+ average but 14 points below the Top 10 average of 83
- A summary of the main findings:

Main characteristics of corporate responsibility strategy including strategy for future growth are described. Expectations of stakeholders are detailed, as well as Kesko's activities in response to these expectations. However, there is no clear indication what role these expectations have played in overall strategic considerations.

Economic impacts arising from Kesko's strategy are discussed in detail. The impacts arising from environmental and social issues have been addressed less thoroughly. Significant impact areas such as sustainable sourcing practices, animal welfare, and the promotion of healthy eating should be included as strategic issues in Kesko's sustainability reporting.

Risks and opportunities

The Kesko Group applies enterprise risk management methods. Critical risks are identified, assessed, managed, and monitored using a strategy- and business-based approach. The objective of risk management is to ensure the fulfilment of the Group's customer promises, the improvement of shareholder value, good profit performance, the ability to pay dividends, and the continuation of business. Efficient risk management is a competitive advantage for Kesko.

The Group's risk management policy can be consulted at www.kesko.fi/investors. The policy is based on the COSO ERM¹ Integrated Framework and the Helsinki Stock Exchange's Corporate Governance Recommendation for Listed Companies.

Responsible management delivering performance improvement is seen as an opportunity, and the Group's drivers for responsibility are discussed on p. 8 (Vision of corporate responsibility). Promoting healthy living has been identified as a key opportunity. A case study where Finnish consumer behaviour was analysed on the basis of the content of their food basket is presented on p. 11. According to this study, approximately half of Finnish consumers focus on healthy nutrition and lifestyle.

Principles of risk management

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

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

Risks and their management

Kesko's risk mapping process is discussed under management systems on p. 24. The risks addressed within the Kesko Group in 2006 and their management are presented below.

Risks related to delivering the customer promise

The price-quality ratio is a key competitive factor. If Kesko does not succeed here, it will not achieve sales targets. Enhancing price competitiveness calls for improvements in the efficiency of operations throughout the delivery chain, from the supplier to the store shelf. There are several programmes underway to improve cost efficiency and total management of the operations chain, which serve to increase price competitiveness and consumer-customers' satisfaction with retail stores' offering and selection.

The competitiveness of the customer loyalty system is of great importance. An update of the customer loyalty system is underway. A risk involved is that the objectives set for customer satisfaction and loyalty will not be achieved. An essential success factor is how well Kesko succeeds in conveying customer benefits to customers. The technical implementation of the update is also demanding. Careful testing is done to ensure undisturbed introduction of the systems and efficient data transfer between the various parties. Kesko's customer loyalty programme and privacy protection are discussed on pp. 73-74 (Other responsibility areas).

Kesko's goal is to provide safe products for its customers. A failure in the quality assurance of the delivery chain or in product control may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard. In order to manage this risk, the Product Research Unit supervises manufacturing companies and controls the quality of products. Each store's self-control practices ensure that regulations and rules concerning foodstuffs are observed. The practice of recalling products ensures that defective products are withdrawn from sale quickly. Read more on product safety on pp. 72-73 (Other responsibility areas).

Risks characteristic of the trading sector

The entrance of new foreign competitors to the market and company mergers and acquisitions can change the competitive situation rapidly. By operating in several sectors of the trade, Kesko reduces its dependence on any single sector. The responses to tightening competition include investments in store sites and improvements in services. New concepts are developed to improve the efficiency and attractiveness of stores to consumers.

Strong private label brands and value-added services produced for customers are an important competitive tool.

In business divisions that are strongly dependent on individual principals, changes in a principal's strategy concerning distribution channel solutions can mean a reduction in or loss of business. Good market shares and growing sales create a basis for good relations with principals. Operations are developed in cooperation with prin-

¹ COSO ERM refers to the Enterprise Risk Management (ERM) - Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in September 2004. The framework defines essential ERM components, suggests a common ERM language and provides clear direction and guidance for enterprise risk management.

cipals, with the aim of providing them with the best distribution channel option.

Store sites are a strategic competitive factor. Considerable amounts of capital are tied up in store properties for decades. Local competitive situations can change rapidly, and there is a risk that operations at store site will become unprofitable. This risk is managed by long-term planning of the store network, by careful preparation of each store site investment decision, and by applying a sell-lease back approach. When arranging construction, Kesko aims to ensure that the use of each store site can be flexibly changed, should the need arise. Contracts made on leased properties also take flexibility into account. Kesko's core and shell construction model and the LCA-based approach on construction and maintenance are discussed on p. 40 (Environmental performance).

The retail trade involves a high risk of shrinkage. Shrinkage can result from spoilage or breakage of goods, theft, or other malpractice, for example. Shrinkage is managed in the Group by steering and monitoring the entire operations chain more effectively and by adopting the best practices of each division.

Risks related to internationalisation

International expansion aims at growth. The risks inhere include different cultures and business practices and fast growing operating environments. As operations expand in new countries, the significance of these risks is increasing. Finnish retail trade operating processes and control practices cannot always be introduced as such outside Finland. Integrating the operations of acquired businesses may present a risk of losing local competence or of failing to exploit it. Risks related to acquisitions are managed by planning the integration carefully, ensuring sufficient resources, and by the method of implementing and monitoring the acquisition. The efficient steering of operations and the achievement of synergy benefits require common practices across country and organisational boundaries.

Risks related to personnel

Competition for skilled employees has intensified in the labour market. Implementation of strategies requires competent and motivated personnel. There is a risk that the trading sector will not attract the most skilled people.



Case

YOUR FRIDGE TELLS A LOT ABOUT WHAT YOU EAT

Kesco Food recently analysed Finns' eating habits using the FoodStyle classification method. Based on an analysis of people's shopping baskets, the system covered 62 K-stores and some 220,000 households. The 1,974 products included in the analysis represented around 50% of Kesko Food sales. For modelling purposes, each product was comprehensively profiled to define its role on the table and in the kitchen. The attributes used were linked to products' health - related aspects (fat and fibre content, proportion of added vitamins, etc.), the ease with which they can be used (heat-and-eat, pre-prepared), and packaging (ready-to-heat, easy-open/close packs). Over 50 attributes were used by the nutritionists involved in the study.

The FoodStyle classification has provided Kesko Food with valuable data on the composition of its customers' shopping baskets. The 'virtual fridges' developed on the basis of the classification are split into three main categories and eight subcategories. Based on this information, over half of the Finnish population is made up of people who prioritise taking care of themselves and favour healthy foods. FoodStyle information helps retailers understand the needs of their customers better and manage their product range more appropriately. Where it is clear from the statistics, for example, that customers are becoming increasingly interested in healthy options, a retailer can easily promote these types of products. The information generated by analysis can also be used in developing marketing material to ensure that it targets customer expectations more appropriately. ^{*)}

Data from shoppers' till receipts has been collected on an expanded basis from the beginning of 2007 at 575 K-stores, which will enable full use of the FoodStyle system to begin from mid-2007.

^{*)} Privacy protection is discussed on p. 73.

Specialisation increases dependence on the competence of individuals. In updating strategies, the competencies required to implement a strategy are identified, and personnel plans are drawn up on that basis. Kesko's attraction as an employer is enhanced by cooperation with educational institutions and the new K-trainee programme, and by systematic internal and external communications. Kesko's reputation as a responsible company and a forerunner in the area of sustainability will benefit the company in its recruitment. Job satisfaction surveys are used to assess the needs for HR development. Human resources management at Kesko is discussed on pp. 54-65.

Risks related to continuity of operations

Trading sector operations rely on extensive information systems and networks. Any factor preventing or limiting their use could cause major losses in sales and profit. The starting point in Kesko's continuity planning is the longest tolerable interruption in business. Ensuring the continuity of operations depends, above all, on trustworthy business partners, reliable systems, proper documentation and back-up systems.

Security actions and preparation play a key role in preventing the risks of damage and accident. Group-wide and appropriate insurance is obtained to cover financial losses and interruptions in operations.

Risks related to legislation

Compliance with legislation, regulations, agreements and Kesko's ethical principles - 'Our working practices' - is an important basic value. Due to its reputation as a responsible company, Kesko is followed closely by the public.

Non-compliance may result in fines, compensation for damages and other financial losses, and a loss of confidence or reputation, cost of which is impossible to estimate. The Group has specific compliance programmes to avoid this. Self-assessments are made in matters concerning competition legislation. Contractual risks are managed by harmonising agreements and agreement-making processes.

The goal of Kesko's Corporate Communications Unit is to produce and publish reliable information at the right time. If some information published by Kesko proves to be wrong or a release fails to meet regulations, this may result in investors and other stakeholder groups losing confidence and in possible sanctions. Further pressure is put on the accuracy of financial information by the tightening of information disclosure schedules and the dependence on information systems. These risks are minimised by careful scheduling and control of the process and by ensuring proper resources and sufficient competence.

Financial risks

With respect to financial risks, the Group observes a uniform financial policy that has been approved by Kesko's Board of Directors. The Corporate Treasury Unit is responsible centrally for Group funding, liquidity management, relations with providers of finance, and the management of financial risks. Financial risks include the currency risk, the interest rate risk, the liquidity risk, the credit risk and commodity risks. Further information about them is available in Note 43 on page 116 of Kesko's Annual Report 2006.

Stakeholder engagement

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

Stakeholder process

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

The table on page 16 presents stakeholder groups' expectations concerning Kesko's responsibility, Kesko's activities to meet them, and the indicators used to assess the Group's performance.

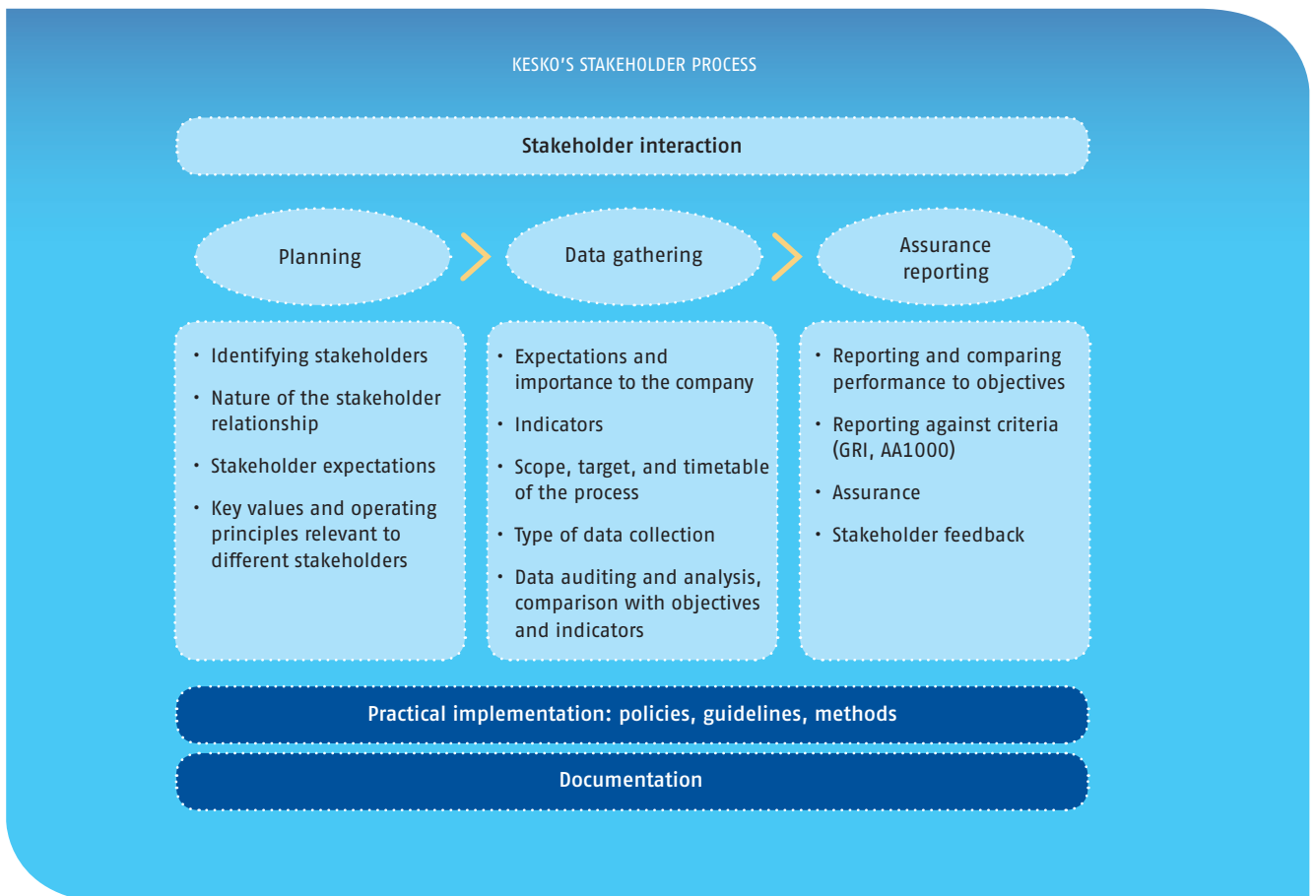
Systematic regional stakeholder meetings in the form of an invitation seminar known as 'Kesko's Day', organised in autumn 2006, are discussed on page 17.

Giving customers a voice

Customers are seen as one of Kesko's key stakeholder groups, and customer satisfaction with the Group's performance is measured systematically. Kesko's major retail chains all set quantitative customer satisfaction targets annually, based on the satisfaction levels obtained through external satisfaction surveys conducted by professional research companies. Customer satisfaction with the K-Plussa loyalty programme is measured twice a year. Mystery shopping is also used to measure store-level performance and customer service. Subsidiaries have direct lines for customer feedback. Comments and requests can be forwarded to the Kesko Group by emailing the Corporate Communications Unit.

Active engagement with NGOs

Responsible purchasing principles were one of the key areas discussed with various environmental non-governmental organisations in 2006. As a retailer, Kesko recognises its key role in facilitating sustainable production and consumption by offering sustainable alternatives. At



the same time, however, Kesko faces the fact that sustainability is often not the key driver behind the purchasing decisions of the average customer. Nevertheless, Kesko continues to strive to offer more sustainable alternatives in a number of product groups.

Finnish representatives of Greenpeace, Friends of the Earth, the Finnish Association for Nature Conservation, and the Finnish Nature League visited Kesko in April to discuss the targets of their joint campaign for ending the use of endangered tropical hardwood in garden furniture and other wooden products, including flooring materials, and ensuring that all timber sold should carry the FSC label. Similar meetings were held at the same time in the other Nordic countries. Following these discussions, the Kesko Group announced a set of purchasing principles covering wood and wood products of tropical origin. Under these, Kesko prefers purchasing wood and wood products that are FSC-certified or carry the Nordic Ecolabel, or such species as eucalyptus, acacia, and the rubber tree that can be cultivated in tropical conditions. Endangered species from rainforests will be avoided. The discussions with WWF Finland, Greenpeace, and the other NGOs referred to above continued throughout the year, aimed at resulting in a set of Kesko principles for sustainable purchases of all solid wood and wood products. These are expected to be published in spring 2007.

Sustainable fishing and seafood have been the other main interest area of NGOs, and Kesko participated in a survey on the sustainability of fish and fish products sold in Finnish supermarkets organised by Greenpeace in summer 2006. For more on this, see p. 51. Kesko's principles for sustainable fishing are being developed together with WWF Finland, Kesko's main partner in issues relat-

ed to environmental protection, with the assistance of the global WWF network and knowledge gained through the Greenpeace survey. These principles are also expected to be published in spring 2007.

Members of the Association for Animal Rights contacted Kesko in spring 2006 asking the company to stop selling items with fur decorations. As stores belonging to the K-Group do not sell fur, and the number of items on shelves with fur decorations was extremely limited, the company felt that it was not the right target audience for the request. In Kesko's opinion, the Group's policy against fur and breeding of animals would not have the type of influence in society wished by the Association. Animal breeding is also a legal entrepreneurship in Finland and under statutory supervision. As a result, no Kesko policy on fur or fur animal breeding was published. Stores selling a few products with fur decorations were advised to inform the consumer of the fur origin. The members of the Association have repeated their request for policy throughout the year, and some demonstrations outside Anttila stores have taken place.

Commitments and key areas of influence

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

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

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

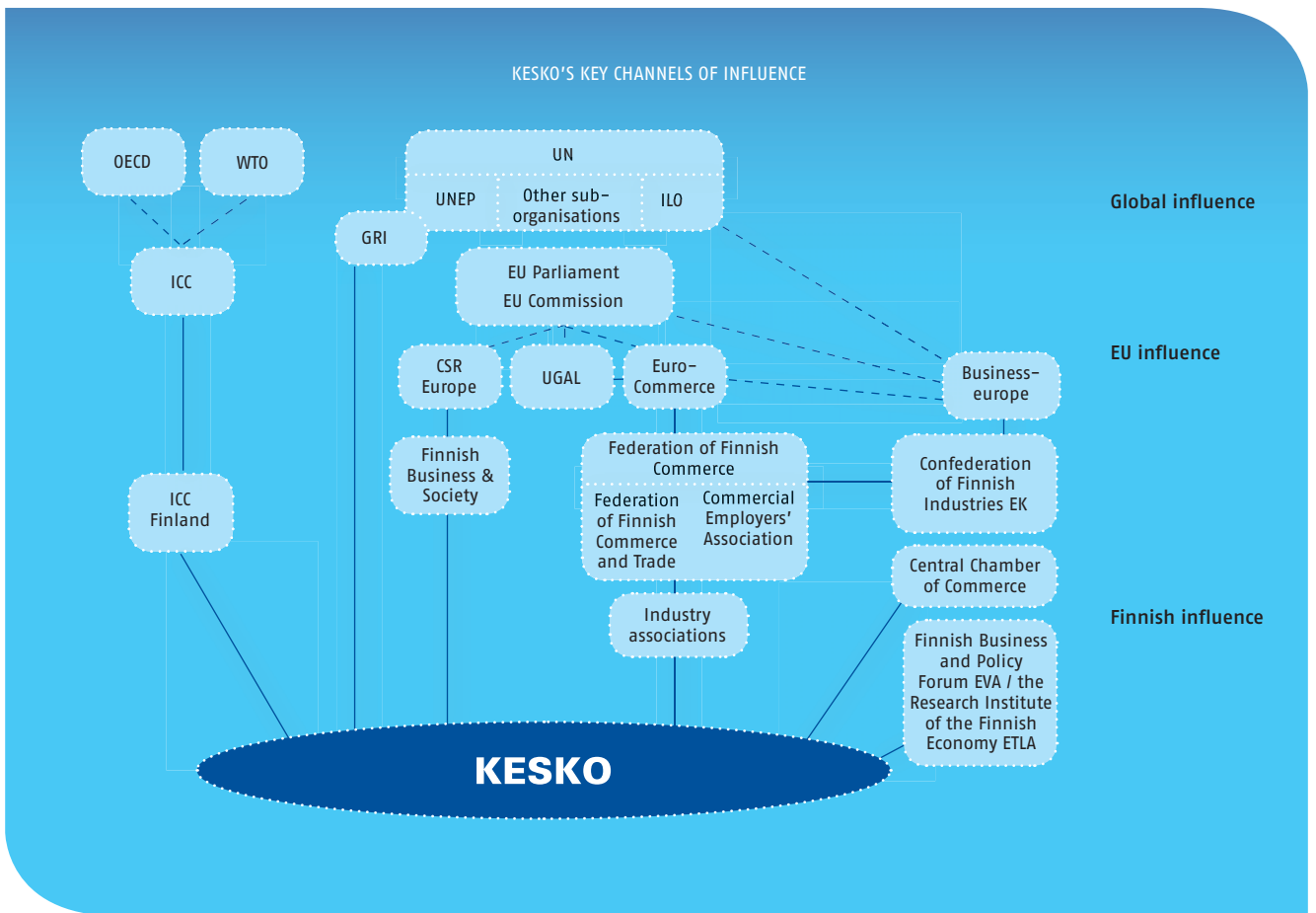
Improvements in the quality of management increase employees' job satisfaction and motivation. Cooperation with suppliers in developing countries is gradually helping to improve local working conditions. The emphasis is on the prevention of employees' problems at individual level, both in our own operations and throughout the purchasing chain.

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

The Accountability Rating™ results for Stakeholder Engagement:

In the Stakeholder Engagement domain the Rating is seeking evidence of systematic engagement with stakeholders, linked into core business decision-making processes.

- Kesko's total score of 56 is 30 points above the G-50+ average and four points higher than the Top 10 average of 52.
- A summary of the main findings:
Stakeholder groups are identified and presented systematically in a table format, while also disclosing the expectations of each stakeholder group. A process or rationale for identifying these stakeholders and their expectations is not disclosed, however. Various mechanisms for stakeholder engagement are discussed, including mechanisms for internal engagement within Kesko personnel. For ensuring the anonymity of whistleblowers a mechanism operating independently of Kesko's control should be developed.



Organisational participation

Participation in national and international efforts to develop the trading sector and the economy as a whole forms part of corporate responsibility. Kesko has been involved in these types of efforts through numerous national and international organisations and groups for decades. In 2006, these instances connected with corporate responsibility included:

- Confederation of Finnish Industries EK (Vice Chairman)
- Central Chamber of Commerce (Board member, Chairman of the Network to Advance Social Responsibility in Importing)
- Federation of Finnish Commerce (Board member)
- Association for Finnish Work (Council member)
- Finfood (Board member)
- Finnish Business & Society network (Board member)
- EuroCommerce, the retail, wholesale and international trade representation to the EU (members of the Environmental Committee and CSR Experts)
- UGAL, EU organisation of groups of independent retailers (Board member, member of the team of legal experts)
- Business Social Compliance Initiative BSCI (member of the Representative Committee)
- International Chamber of Commerce ICC (members of the Commission on Environment and Energy and Commission on Business in Society, National Committee of Finland: Board member)
- CIES - The Food Business Forum (members of the International Committee in Supply Chain Management and International Food Safety Initiative).

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

Specification of key stakeholder groups

Stakeholder group	Stakeholders' expectations concerning Kesko	Kesko's activities	Indicators in the implementation of expectations
Authorities (EU, state, local authorities)	Strict compliance with legislation. Good tax-paying ability, stable employment. Maintenance of a comprehensive store and distribution network.	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. Cooperation with the local authorities for developing and maintaining the store network.	Amount of taxes paid, number of jobs, payroll, investments, structure and regional coverage of the store network.
Personnel	Activities that maintain and develop job satisfaction and safety. Results that contributes to the appreciation of job and workplace. In-service training, promotions, permanent jobs.	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.	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	High annual dividend yield. Management of corporate governance, social and environmental risks.	Contacts with shareholders (TradeMaker magazine for stakeholders) and representatives of the capital market. Plenty of information about financial performance and operations, usually on web pages. Competitive dividend policy.	Number and structure of shareholders, share trading, annual dividend yield.
Suppliers of products and services	Business growth, good liquidity, long-term business relationships.	Goods from agricultural producers, manufacturers, and importers. Store network planning and construction services. Furnishings, equipment, supplies, information systems, training and advertising for own and K-retailers' business.	Development and breakdown of purchases by country/area. Number of suppliers, concentration of purchases. Terms of payment of invoices.
K-retailers and wholesale customers	K-retailers expect competitive store sites, retail concepts, selections and prices as well as services and other solutions contributing to competitiveness. Wholesale customers expect competitive prices and service.	Vertical cooperation agreement between Kesko and K-retailers. Kesko is responsible for developing the Group's operating system and retail concepts, for store sites, information systems, marketing, training, etc. Kesko also sells and delivers products to many wholesale customers.	Customer satisfaction surveys. Concentration of K-retailers' purchases in Kesko. Trends in K-chains' market shares. Development of sales to wholesale customers.
Consumers	Overall responsibility, easy shopping, help and advice. Opportunities to make ethical consumption choices, recycling etc. services.	In cooperation with the K-retailer chains, retail concepts, product selections, marketing campaigns that interest and satisfy customers. Plussa customer loyalty programme, Pirkka magazine for customers, customer feedback systems.	Customer satisfaction surveys. Trends in K-chains' sales and market shares. Corporate image surveys. Amount and quality of feedback.
Non-governmental organisations and trade unions	Overall responsibility, clear operating principles and sourcing policies, reliable results reporting, open and regular communications.	Presentation of activities, contacts in the preparation and implementation of operating principles, policies and systems. Cooperation agreements, financial support to socially important organisations and institutions.	Corporate image surveys. Amount and breakdown of support going towards the public good.
News media	Open, comprehensive, reliable and fast communications.	Information about operations required by the Rules of the Securities Exchange and other information. Annual Report, Corporate Responsibility Report, Internet pages, stock exchange and other releases, presentation material, news conferences, services of district communications officers.	Daily media monitoring, corporate communications surveys, comparisons ("competitions") of annual reports, investor communications, corporate responsibility reports.

The Accountability Rating results™ for Public Disclosure:

In the Public Disclosure domain, the Rating is seeking evidence that the information disclosed to the public on the company's non-financial performance meets stakeholders' needs.

- Kesko score of 72 is 35 points above the G-50+ average and six points above the Top 10 average of 66.
- A summary of the main findings:
Kesko disclosed its approach to reporting, however, a discussion on how the main subjects of the 2005 report were chosen should be included. Non-financial reporting in the 2005 Annual Report receives full score for the clarity of reporting against a broad scope of material, non-financial issues including risks. Performance reporting against policies should be disclosed in accordance with targets set in the previous year.

Case

REGIONAL VIPS GET TOGETHER AT A KESKO DAY SEMINAR

Kesko organised seminars for regional VIPs in five cities around Finland in October and November 2006, entitled 'The role of the regions: vitality and innovations'. Held in Lahti, Jyväskylä, Pori, Seinäjoki, and Oulu, the seminars attracted 800 participants, including municipal and regional decision-makers, the authorities, key people from trade and industry, customers, and other stakeholders.

Kesko's President and CEO, Matti Halmesmäki, spoke at all the events on the Group's plans in Finland's different regions and cooperation with stakeholders. Kesko invited prominent national business leaders and editors-in-chief of regional newspapers to act as guest speakers on regional success factors.

The speakers highlighted commerce as a crucial player in maintaining and developing the vitality of the country's regions and municipalities. Commerce, for its part, is dependent on the success of other business. The ability to adapt rapidly to change, develop versatile business structures and dynamic regional centres, and promote decentralised universities and strong regional newspapers were all described as central to ensuring regional vitality and innovation.

Kesko and K-retailers benefit Finnish regions by purchasing goods, investing locally, and providing employment and paying salaries and taxes. The scholarships awarded to 50 students at polytechnics at the seminars and valued at €25,000 were a concrete reminder of the contribution Kesko makes to the local community.

One of the speakers in Lahti was Mr Leif Fagernäs, Director General of the Confederation of Finnish Industries EK, who analysed preconditions for the growth of Finnish economy.



Determining materiality

The third version of the GRI guidelines encourages companies to focus on material issues in their responsibility reporting. In late 2006, Kesko organised an internal workshop on materiality comprising representatives of Human Resources, Corporate Communications, the Kesko Pension Fund, Real Estate Maintenance, Corporate Responsibility, divisional environmental specialists, and a Purchasing Director from Kesko Food. Material issues were defined as those scoring highly on two criteria: having significant current or potential impact on the company, or being of significant concern to stakeholders

Identification of material issues

The identification of material issues was based on a list of issues originating from Kesko's Corporate Responsibility Report for 2005, the GRI, and investor surveys, such as the Dow Jones Sustainability Index. This list of issues was supplemented with potential stakeholder concerns and expectations, which are described more thoroughly on page 16, together with the list of Kesko's main stakeholder groups. Among these groups, shareholders, investors, consumers, and the media were classified as the

main target audience for Kesko's Corporate Responsibility Report, and their concerns were given priority when analysing the issues.

Prioritisation of issues

The issues identified were rated on a qualitative scale (very high, high, medium, low) in terms of their perceived current and potential impact on the company and level of concern to stakeholders. Each rating category was based on a specific criterion. The criteria for determining the level of impact on the company included financial impact, impact on brand and reputation, legal non-compliance and fines, as well as impact on operations. The criteria for determining the level of concern to stakeholders took into account impact on society or the environment, stakeholder priorities, relation to the company's activities, potential non-compliance with company policies and commitments, as well as the impact on stakeholders' judgments about the company's sustainability performance. The materiality matrix is presented in the table below:

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

Governance

Kesko Corporation's Annual General Meeting elected seven members, including one woman, to the company's Board of Directors on 27 March 2006. Their term, as prescribed in the Articles of Association, started on 27 March 2006 and will expire at the close of the 2009 Annual General Meeting. The term deviates from the one-year term of office recommended in the Corporate Governance Recommendation for Listed Companies published jointly by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, which entered into force on 1 July 2004 ("Corporate Governance Recommendation"). Four members are independent of the company; three members are dependent on the company and are all K-retailers with a chain agreement with a Kesko Group company. All Board members are independent of significant shareholders of the company as referred to in the Corporate Governance Recommendation. All members of the Board of Directors are non-executives. The Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year.

Mechanisms for shareholders to provide recommendations to a company's highest governing body are contained in the Finnish Companies Act, and give shareholders the right to ask the Board of Directors questions at a General Meeting, and the Board of Directors is generally duty-bound to answer such questions. In addition, shareholders may make proposals at a General Meeting on which there might be a vote. Each shareholder or shareholders owning at least 10% of the shares in a company may request an Extraordinary General Meeting to be convened to consider a proposal he/she/they makes/make to a General Meeting.

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

The Board of Directors established an Audit Committee in April 2004, and a Compensation Committee in March 2005. Both Committees have three members. The Audit Committee is responsible for preparing matters relating to the monitoring of the Kesko Group's financial position, the supervision and control of reporting, and risk management, while the Compensation Committee is responsible for matters relating to the compensation and appointment of the President and CEO and other Group management, as well as the preparation of matters concerning other compensation systems. Neither of the Committees has any independent decision-making power, but the Board makes decisions based on the presentations made by the Committees.

No Board members have been appointed with specific responsibility for corporate responsibility matters. Compensation of Board members is not linked to the Group's performance in the area of corporate responsibility. The Board of Directors reviews the Group's Corporate Respon-

sibility Report in the spring after it has been completed, and any other related issues raised by the Corporate Management Board or by the Corporate Responsibility Advisory Board as deemed necessary.

The responsibilities of the Board of Directors can be consulted at www.kesko.fi (Investors).

Kesko's Corporate Governance Statement is updated regularly, and the most recent update can be consulted at www.kesko.fi (Investors), where the Annual Report for 2006 is also available.

The Kesko Group has a Corporate Management Board, the Chairman of which is Kesko's President and CEO. Its members are the Corporate Executive Vice President, Deputy to the President and CEO, the Presidents of the major division parent companies, and the Senior Vice Presidents responsible for Finance, Human Resources and Corporate Communications. Two members are women. The Corporate Management Board has no authority based on legislation or the Articles of Association. It acts instead as an advisory body, and is responsible for reviewing Group-wide development projects and Group-level principles and practices. The Corporate Management Board also participates in the preparation of matters considered by Kesko Corporation's Board of Directors and takes a stand on corporate responsibility issues proposed by the Corporate Responsibility Advisory Board. In spring 2007, the Corporate Management Board adopted the Kesko Group's principles for corporate responsibility, the K-Group's revised environmental policy, and responsibility objectives for the Kesko Group. Read more on p. 23.

The Accountability Rating™ results for Governance:

In the Governance domain, the Rating is seeking evidence that the company has embedded the consideration of stakeholders' material issues at the most senior levels and in their corporate policy frameworks. It includes also a detailed evaluation of board level governance controls and structures to ensure accountability at the highest levels of the company.

- Kesko's total score of 51 is ten points higher than the G-50+ average but 13 points lower than the Top 10 average of 64.
- A summary of the main findings:
 - Board committees (audit and compensation) are described in the Annual Report, but information from charters such as membership requirements, reporting responsibilities and meeting schedules is not publicly available. The mechanisms ensuring that the directors have skills and knowledge guiding non-financial decision-making have not been disclosed. Further, there is no evidence of stakeholders or their views playing a role in the Board's decision-making process. Kesko discloses two key policies on environment and ethical purchasing principles, however, policies governing economic issues or internal social policies are not disclosed.

Risk Management Steering Group

Risk management is part of the Group's management system. Responsibility for the practical implementation of risk management lies with the Group's division parent companies and units, which have appointed persons responsible for risk management. A revised risk management policy for the Group was approved by the Board of Directors in March 2006, and can be consulted at www.kesko.fi (Investors). Identified risks and their management is discussed on pp. 10-11 (risks and opportunities) and on p. 24 (policies and management systems).

Kesko has also established a Risk Management Steering Group, chaired by the President and CEO and comprising the General Counsel, the Senior Vice President, CFO, the Director of Internal Audit, divisional representatives, and the Chief Risk Officer. The Steering Group promotes the implementation of risk management practices in all of Kesko's divisions as part of the company's management system.

Corporate Responsibility Advisory Board and Environmental Steering Group

The Corporate Management Board established a Corporate Responsibility Advisory Board in January 2006 comprising seven members drawn from Kesko's management, representing various areas of corporate responsibility (representatives of Kesko Food, Rautakesko, Kesko Agro, Keswell, Human Resources, Real Estate Services and Corporate Communications Units). The Advisory Board, chaired by the Corporate Executive Vice President, met four times in 2006. The main focus during the year was agreeing the Group's strategy and objectives for corporate responsibility in the light of the development needs identified in the Corporate Responsibility Development

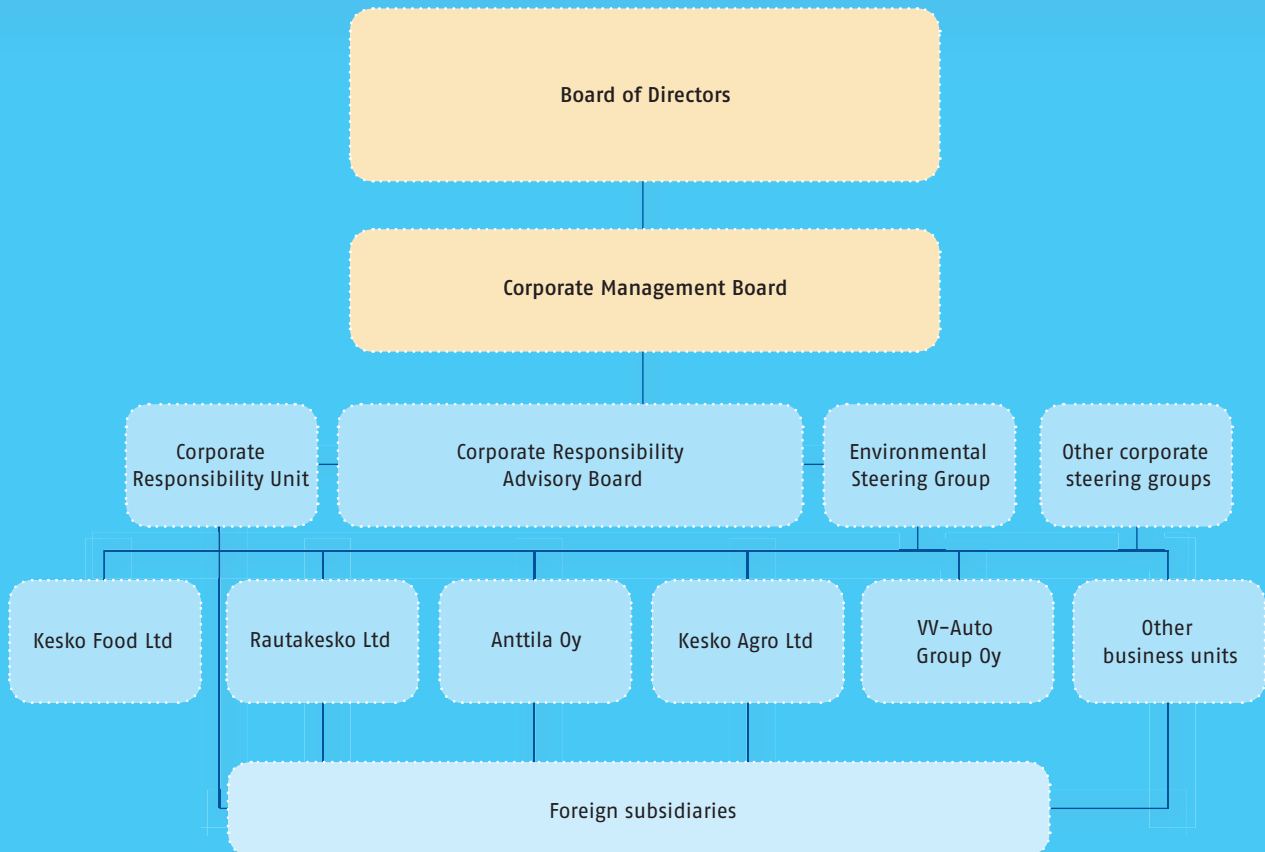
Programme for 2006-2008, and agreeing the operating principles and systems required for Group-wide implementation, including monitoring. Other issues handled at Advisory Board level included the approval of the Kesko Group's Principles for Corporate Responsibility, the revision of the K-Group's Environmental Policy, and approval of the principles for the sustainable due diligence process.

An Environmental Steering Group has also been appointed, chaired by the Group's senior manager responsible for corporate responsibility, and comprising divisional environmental managers and specialists, together with maintenance, human resources, and product safety managers, as appropriate. The main responsibilities of the Steering Group include developing environmental management systems based on the guidelines given by the Advisory Board, promoting the sharing of best practise, following environmental and chemical legislation and the joint implementation of new Group-wide requirements, such as WEEE, RoHS, and REACH. The Steering Group met twice in 2006.

The Corporate Responsibility Unit, comprising three members, is responsible for the development and coordination of corporate responsibility at Group level. The unit comes under the Corporate Development function, headed by the Corporate Executive Vice President, Deputy to the President and CEO.

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

Organisation of Corporate Responsibility at Kesko



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

The Kesko Group has operated in line with the Group's value, quality, and environmental management systems since the mid-1990s. The management system was updated in 2002 to further highlight the importance of values in underpinning all our operations. As part of closer chain cooperation, Kesko and K-retailers have agreed to follow the same values and ethical principles, and as Kesko's international expansion proceeds the practice will also be introduced in subsidiaries outside Finland.

Above and beyond the Group's strategy and management system, Kesko's corporate policies guide planning and operations at all business levels. They cover administration, human resources, environmental issues, communications, financial management, real estate, financing, security, and risk management. The Group's overarching policies, principles, and management systems affecting our approach to corporate responsibility are discussed below. Sector-specific policies - such as the K-Group's environmental policy - are discussed under the relevant sections on economic, environmental, and social performance.

Values

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

A survey of employees' views of the importance of Kesko's values and how they are reflected in operations was conducted in the Group's Finnish units in late 2003. The plan was to repeat the survey in Finland in autumn 2006 and conduct a corresponding survey in subsidiaries outside Finland and K-stores for the first time. This was

postponed, however, mainly due to revision work on Kesko's Ethical Principles and Code of Conduct.

A number of Kesko's performance indicators are used to measure how well the Group implements its values in its overall approach to corporate responsibility. The illustration below gives some examples of these indicators.

Ethical principles - 'Our working practices'

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

A revision team comprising members of Human Resources, Corporate Communications, Strategic Development, and Corporate Responsibility was established in spring 2006 to develop a more formal Code of Conduct for the Kesko Group and update the present Our Working Practices booklet with targeted examples of day-to-day ethical dilemmas for various personnel groups. The revised booklet, with supporting e-learning material in all the Group's languages, is expected to be available in spring 2007.

Principles for corporate responsibility

Together with the formal Code of Conduct, the Kesko Group's overarching principles for corporate responsibility

Values

We exceed our customers' expectations



- internal and external customer satisfaction surveys

We are the best operator in the trading sector



- development of net sales, market share, and profit
- customer surveys
- investor surveys

We create a good working community



- job satisfaction survey
- internal customer satisfaction survey
- sickness absences, accident statistics
- equality statistics, training statistics, etc.

We bear our corporate responsibility



- customer, decision-maker and media surveys
- sustainability indexes

were also finalised in 2006. These principles illustrate the Group's approach and objectives in all three areas of corporate responsibility, together with the Group's external commitments. Under these principles, Kesko endorses:

- UN Universal Declaration of Human Rights
- UN Convention of the Rights of the Child
- ILO's key conventions, listed on p. 67
- OECD Guidelines for Multinational Corporations
- ICC Business Charter for Sustainable Development
- ICC principles against corruption and bribery
- Global Compact, to be signed in spring 2007

The principles for corporate responsibility are supported by more detailed Group-level policies, such as the environmental policy, all listed in the Code of Conduct. The Corporate Management Board approved these principles in January 2007 and they are applicable in all the Group's operating countries. They have also been presented to the Board of the K-Retailers' Association, which will formally approve them once the Code of Conduct and the revised Our Working Practices booklet has been published. After formal approval, K-retailers will adopt them in their own operations.

Due to the rapid international expansion of the Kesko Group, standard operational procedures for including sustainability-related issues in the due diligence process and for the systematic implementation of corporate responsibility in foreign operations were launched in late 2006. These procedures will be initially tested in spring 2007.

The present version of 'Our Working Practices', together with the principles for corporate responsibility, can be consulted at www.kesko.fi (Responsibility). Kesko's Code of Conduct will be published there, together with the launch of the revised edition of 'Our Working Practices', later in spring 2007.

Group-wide objectives for 2007

Targets in the area of corporate responsibility have traditionally been defined at divisional level in the Kesko Group, see p. 39. However, in order to streamline and target-orient activities further, Group-wide objectives were approved by the Corporate Management Board in January 2007 for the first time. These objectives include:

- Providing responsible management training for all senior management and potential management personnel, covering some 200 people in all
- Strengthening the integration of responsibility-related issues and performance measures in the Group's management model, including risk management
- Creating a Group action plan against climate change
- Implementing environmental management systems in foreign operations
- BSCI-auditing of suppliers operating in risk countries according to schedules agreed with the BSCI Board
- Promoting healthy eating habits
- Continuing as the sector leader in the Dow Jones Sustainability Index.

Management systems

Kesko's management system is used to plan and manage the Group's operations to reach its goals. The system highlights the importance of prioritising customer orientation, people management, promoting participation and cooperation, greater efficiency, and developing competitiveness and added value. Corporate responsibility is not treated as a separate issue in management terms, rather all plans and activities related to it are included in the management system in the same way as other operations. This will be further strengthened following the approval of the new objectives by the Corporate Management Board.

Goals

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

The most satisfied customers – growing customer value



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

Excellent practices, stores and services



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

Competent and motivated people



- Management by values
- Systematic development of competencies

Good performance – increasing shareholder value



- Return on equity 12%
- Return on invested capital 12%
- Growth in Finland in excess of market growth
- Proportion of international operations on the increase

Risk mapping is part of the annual risk management cycle and is conducted at divisional and corporate unit level as part of strategy updates. This includes a review of specific risks and areas, including strategic risks, and other business risks such as responsibility-related risks linked to compliance with statutory requirements or Kesko's ethical principles, for example. In addition to these project-specific analyses, other risk analyses are also produced throughout the year. Risk prioritisation is conducted by the Corporate Management Board and by the Risk Management Steering Group. Risks are reported to the Audit Committee twice yearly, and once a year to Kesko's Board of Directors, which also evaluates the effectiveness of the Group's risk management efforts annually. Key risks affecting the Group are discussed on pages 10-12 (risks and opportunities) and in the Corporate Governance section of Kesko's Annual Report 2006.

Kesko's management system includes quality evaluation, which is carried out by units in the form of annual self-assessment, based on the criteria of the Finnish Quality Award. A competition for the Group's internal quality prize is arranged every second year, and the 'Quality Action of the Year' competition annually. Quality actions recognised in 2006 were the recycling of plastic cores organised by Kesko Agro Ltd and Oy FL Pipe Ab, where the annual target of recycling 140,000 kg of cores was exceeded, and the customer relationship management procedures of Tähti Optikko, focusing on quality service and effective customer contact.

The quality control of groceries and home and speciality goods for which Kesko Food's Product Research Unit is responsible is based on an ISO 9000 quality system and a self-control system approved by the authorities. The Product Research Unit also assists K-retailers in implementing and maintaining their respective self-control systems. Kespro Ltd has a certified ISO quality system, and the Hamina Terminal was ISO 9000-certified in January 2007.

An environmental management system complying with the ISO 14001 standard has been adopted in Kesko units impacting the environment to a significant extent. Environmental management in K-stores is based on the K-environmental store concept. Compliance with the latter is monitored through independent audits. More information about certifications within the system is given under Environmental Performance on p. 39, and about K-environmental stores on p. 52. Kesko's revised environmental policy can be consulted at www.kesko.fi (Responsibility).

Quality control in respect of purchasing, particularly that with a risk component, such as imports from developing countries, is carried out in compliance with the principles of the European-based Business Social Compliance Initiative and the international Social Accountability SA 8000 standard. More information about social quality control can be found from page 66 onwards, and information on the principles followed in imports from developing countries can be found at www.kesko.fi (Responsibility/Purchasing principles).

The Group's human resources management, including occupational health care and preventative measures for health and safety, are discussed on pp. 62-63.

Senior management training

Corporate responsibility training for senior management and management potential personnel was launched in spring 2007. This one-day training forms part of the Kesko Group's senior manager training modules and is compulsory for all those covered, numbering some 200 people in all. Six training sessions will be held in spring 2007, one for Kesko's international personnel. These will focus on helping participants:

- understand the role responsibility plays in target-oriented work in day-to-day operations;
- recognise concrete development measures and commit themselves to fulfilling them as part of business plans and as part of individual development plans for personal management skills;
- include performance measures linked to corporate responsibility as part of business performance measures and part of units' score cards;
- embed management built on responsibility and Group values as a natural part of business management and leadership.

Managers participating in the training programme will forward their individual development plans, target-setting, and indicators to the Corporate Responsibility Advisory Board by November 2007, which will report on progress to the Corporate Management Board.

The Accountability Rating results™ for Performance Management:

In the Performance Management domain, the Rating is seeking evidence that the company's policy and strategy on non-financial issues is translated into management systems, processes and products.

- Kesko's score of 59 is 44 points above the G-50+ average and three points above the Top 10 average of 56.
- A summary of the main findings:
Kesko shows an excellent example of clear allocation of responsibility in non-financial issues within the company and describes how far management of non-financial issues is removed from the Board of Directors. Various systems for sustainability management are discussed. However, there is only little evidence that stakeholder engagement is included in the management framework. Kesko states clearly that management must be target-oriented. No disclosure of such targets was available in the 2005 CR report.

Reporting

Kesko has followed the reporting recommendations of the Global Reporting Initiative since the publication of the first generation of Guidelines. In line with the principles of quality management and a balanced scorecard, Kesko believes that where performance can be measured, clear targets can be set and management improved. GRI guidelines have provided Kesko with a good basis for analysing its corporate responsibility, developing responsibility indicators, and reporting progress in this area to the public at large.

Kesko joined the Organisational Stakeholders, a network established by GRI, at the beginning of 2005, and a Kesko representative was invited to join the GRI working group on indicators. The work of the latter was completed in October 2006, when the third generation of GRI Guidelines was published.

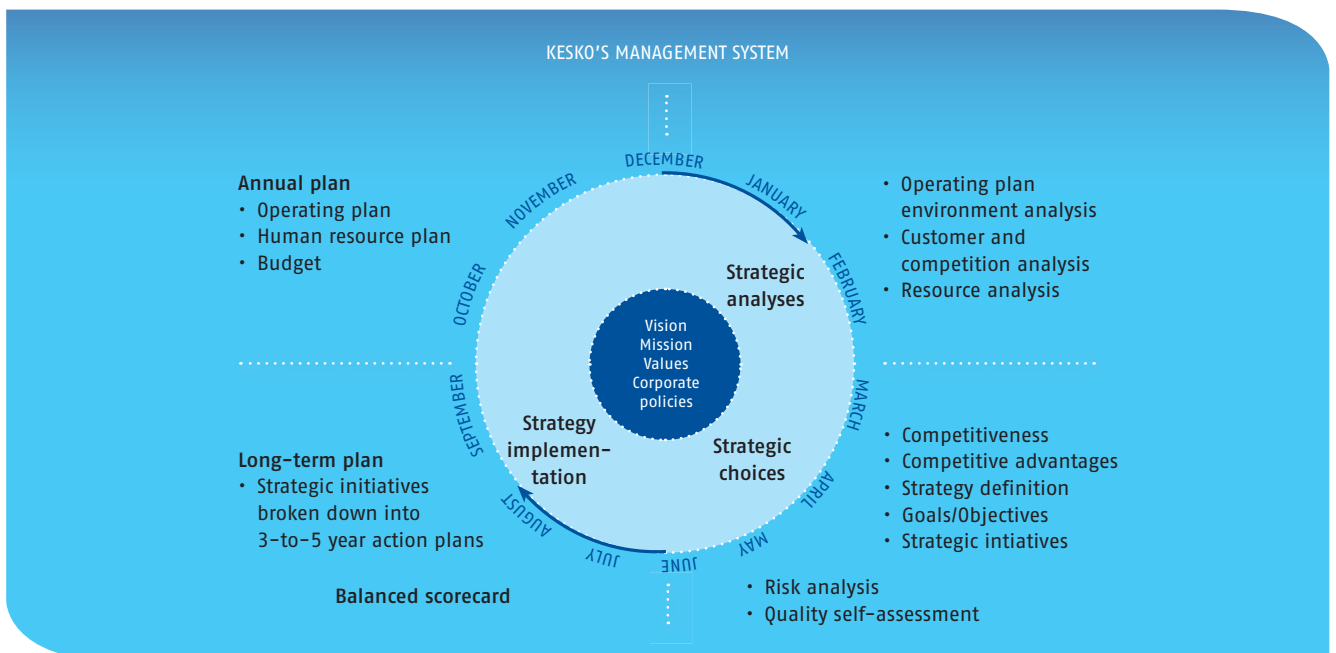
Progress made in the areas of environmental and social responsibility also has a financial impact. In a company like Kesko, successful environmental activities usually mean cost savings. However, Kesko considers that recommendations concerning environmental accounting are still relatively imprecise,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

Independent assurance promotes the continuous development of the processes behind corporate responsibility management and improves the reliability of reported information and the accuracy of individual indicators – and an assurance has been provided for Kesko’s Corporate Responsibility Report since 2002.

Online information collection and reporting system

Kesko and its Finnish division parent companies adopted an online system for collecting and reporting on corporate responsibility in 2005. The system collects and combines responsibility data from various organisational levels and from specified source systems in a form required by the GRI guidelines. The system follows the indicators defined in G2, and an update to G3 is expected to take place during 2007.

A web-based consumption monitoring system, known as ‘EnerKey’ and supplied by Energiakolmio Oy (more information on page 43), is one of the main source systems on consumption information, and transfers data from some 700 stores monthly. Other important source systems, such as waste and personnel information, are also expected to be integrated by the end of 2007, once the Group-wide SAP project for personnel data compilation has been completed, and decisions for streamlining waste management at divisional level have been made. Once the integration of waste information has been completed, the maintenance of the KELO system will be terminated (see page 50) and all waste data, including that from individual stores, will be compiled using the new reporting system.



Economic performance



KEY ECONOMIC PERFORMANCE IN 2006

- + Profit reached an all-time high.
- + Market capitalisation increased by 66%.
- + Kesko was rated the best in the retailing sector in the Dow Jones Sustainability Index.
- + Kesko was listed among the 100 best companies in the world in terms of sustainable development.
- + Purchases from Finnish and foreign suppliers increased.
- + K-retailers' purchases from local suppliers increased from €361 million to €468 million.
- + Number of K-food stores increased by 30.
- + Number of jobs grew both in Finland and other countries.
- Proportion of domestic goods in Pirkka products sales dropped from 62.5% to 59.0%.
- Disposal of Rimi Baltic AB reduced the economic benefit provided by Kesko in the Baltic countries.

Kesko's approach to economic responsibility

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

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

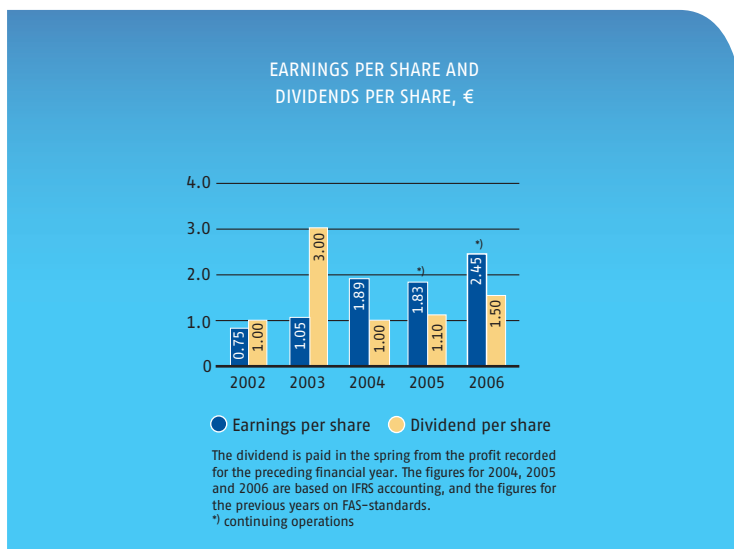
In addition to the indicators in compliance with the GRI recommendation, in the economic performance section Kesko also reports about developments in its store network and the breakdown of economic benefits between various stakeholder groups. The statistics presented do not contain target definitions concerning geographic coverage of operations, neighbourhood stores' sales percentages or ratios between domestic production and imports. In the market economy, trends in these types of issues depend on consumers' wishes and behaviour, which Kesko must adapt to and which must be anticipated. Kesko considers that presenting this kind of structural development to stakeholders on an open basis is also an important part of economic responsibility.

Kesko as a public company

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

Kesko's share capital as of 31.12.2006 was €195,039,850, and the total number of shares was 97,519,925. The number of shares increased by 1,035,999 due to share subscriptions based on the expired option scheme of 2000 and the ongoing option scheme of 2003. As of the end of 2006, A shares accounted for 32.5% of all shares, entitling holders to 82.8% of all votes. The corresponding percentages for B shares were 67.5% and 17.2%.

Kesko currently has one share option scheme for management, dating from 2003. In the event that all the op-



PROFITABILITY OF OPERATIONS

	2004	2005 ¹⁾	2006 ¹⁾
Net sales, € million	7,509	7,922	8,749
Gross margin, %	13.3	14.0	14.6
Profit before taxes, € million	241	236	358
Profit before taxes, %	3.2	3.0	4.1
ROI (return on invested capital), %	14.3	12.5	22.6

¹⁾ continuing operations

tions are exercised by the end of the subscription period in 2010, the total number of shares will increase by 1,800,000, representing 1.8% of the share capital and 0.5% of all votes.

Broad shareholder base

The number of Kesko's shareholders has been steady in recent years. The number of shareholders increased slightly after 2000, but decreased somewhat in 2005 (29,339) and 2006 (28,414).

The distribution between different shareholder groups has also remained relatively stable. The most significant

change has been the growth in the proportion of foreign shareholders, who accounted for 33% of total share capital (27% in 2005 and 23% in 2004) and 49% of B shares (40% in 2005 and 35% in 2004) as of the end of 2006. Finnish households have traditionally been a significant shareholder group and accounted for over 26% of the total as of the end of 2006. The proportion of K-retailers and other private enterprises has remained at around a quarter.

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

According to the shareholder register maintained by Rematch Investor Relations, Kesko had over 200 Finnish and foreign institutional shareholders, accounting for approximately one third of B shares, as of the end of 2006. These institutions administer 630 investment funds holding Kesko shares. 35 of these funds were Finnish and the remaining some 600 were foreign. Some 200 German funds form the largest single group of foreign owners.

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

High long-term dividend yield

Kesko has generated profits and paid a dividend every year since it was founded in 1941, with the exception of 1967. For the past 10 fiscal years, the annual yield (dividend and appreciation, dividends reinvested) of Kesko's B shares has averaged 19%, and 38.9% for the past five years. The effective dividend yield has averaged 8.8% during the past five years.

Under the Group's amended dividend policy dating from 2005, Kesko distributes at least half of its earnings per share as dividends, taking the company's financial position and operating strategy into account. This has been exceeded during the past five years, and average dividends have been 114% of earnings per share.

Kesko's share price performance has clearly exceeded the Helsinki Stock Exchange's OMX Helsinki All Share and weighted OMX Helsinki CAP Indexes over the last five years. The price of Kesko's B share has more than tripled since 2001. The clear upward trend continued in 2006, when the A share appreciated by 59% and the B share by 67%. The OMX Helsinki All Share Index rose by 18% and the OMX Helsinki CAP Index by 25% over the same period.

Kesko's market capitalisation has grown considerably since 2000, almost tripling since 2003 to reach some €3.9 billion at the end of 2006. A shares accounted for €1,220 million of this total and B shares for EUR 2,632 million.

Impartial investor communications

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

Kesko observes the principle of impartiality in its investor communications, and publishes all investor information, primarily via the Internet, in Finnish, Swedish, and English (www.kesko.fi). A printed Annual Report is published in Finnish, Swedish, and English. The annual financial statements release and three Interim Reports are included as special sections of Kesko's TradeMaker stakeholder magazine, which is mailed to all shareholders. In addition, the company maintains a mailing list of non-shareholder recipients of the Annual Report and the TradeMaker magazine.

Comprehensive information for investors

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

Kesko arranged press conferences when announcing its 2005 results and three interim results in 2006. The conferences were webcast in Finnish and English via the Internet. A seminar on corporate responsibility and responsible investing, together with a Capital Market Day concentrating on Kesko's international expansion, were held in autumn 2006.

Kesko participated in the Sijoitus-Invest Fair in Helsinki in the autumn, when Kesko's stand was visited by around 1,600 investors. In the spring, the traditional road show for around 10 major institutional investors was organised in Finland. Additionally, in parallel with the announcement of the interim results, information events for brokerage companies' customers were held. Road show visits totalling 14 days in all were also made to Italy, Britain, Ireland, the Netherlands, Norway, France, Sweden, Germany, Switzerland, and the United States.

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

Kesko has been ranked among the world's most sustainable companies in several international comparisons in recent years. In 2006, Kesko was rated the best company in the retail sector in the Dow Jones Sustainability Indexes for the third year in succession. Kesko's key rankings are presented on the following page.

Kesko in sustainability indexes

Dow Jones Sustainability Index

The DJSI World Index lists more than 300 companies (the top 10% in the DJ World Index), and the pan-European index some 160 companies (the top 20% in the DJ STOXX 600 Index). Reviews are carried out by SAM Group of Switzerland and cover all areas of corporate responsibility. Kesko is listed in both of the indexes, DJSI World and DJSI STOXX. In the review for 2007, Kesko continues to be the best in its sector (retailing) in the world index. No separate list of the order among European companies was published.

The best ratings for Kesko were again given for economic responsibility procedures, environmental efficiency, the enhancement of human capital, and corporate responsibility reporting. Innovative development of private labels was also highly appreciated. Kesko is the only Finnish company that achieved sector leadership in the world indexes for 2006/2007.

The Global 100 Most Sustainable Corporations

'The Global 100 Most Sustainable Corporations' list was launched for the first time during the World Economic Forum in Davos in January 2005. Kesko has been included in the list, drawn up by Innovest Strategic Value Advisors Inc. on the basis of performance in existing leading sustainability indexes in the three years the list has been produced. In 2007, a total of 1,800 companies were evaluated. The indicators used for comparing companies relate to their performance on strategic governance, environmental and social responsibility and human capital issues. Kesko received the third highest points of all in the area of human capital. No overall points were given to companies. All the 100 best companies were awarded the highest quality rating of AAA.

Kempen/SNS Smaller Europe SRI Index

This index is an initiative of two Dutch investment companies, Kempen Capital Management and SNS Asset Management, and is designed for companies with a market value of under €2 billion. The index was launched in 2003, when 69 companies from 12 countries were listed. The assessment was repeated in autumn 2005 and Kesko again received a pass status in spring 2006.

Ethibel Investment Register

Ethibel is a Belgian consultancy agency that screens companies at the request of ethical investment funds and maintains a register of 'social-ethical companies'. Over 200 leading companies are listed. Kesko was ranked number one in the trading sector comparison made in autumn 2003 and again in the 2005 comparison. Stock at Stake, the research agency of Ethibel, merged with the Vigeo of France at the end of 2005.

Nordic Sustainability Index

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

Storebrand SRI

The Norwegian banking group Storebrand restructured its analysis methods to focus more extensively on high-risk industries in February 2007. As Food and Staples retailing industry no longer belong to the target group, the 'Best in Class' status granted to the Kesko Group in 2003 was withdrawn from the Food and Staples industry area as a whole. The Kesko Group continues to be qualified for investment by Storebrand and is a member of Storebrand's investment universe.



Investments and the store network

Kesko's investments in continuous operations in 2006 totalled €251 million, equivalent to 2.9% of net sales (4.6% for continuous operations in 2005). Finnish investments accounted for €189 million, and those in other countries for €62 million. Investments in store sites totalled €187million and business acquisitions €16.2million. Business acquisitions included the acquisition of Audi and Volkswagen business operations from Stockmann Auto Oy Ab. Other investments totalled €48 million.

Kesko's investments have a positive financial impact on construction companies, service companies in the construction sector, and suppliers of fixtures, equipment, and information systems. Investments in Finland are included in the 'Breakdown of economic benefits by region' on page 35.

New stores and changes

Two new K-supermarkets and one new K-citymarket were opened in Finland in 2006. The number of K-markets increased by 39 partly due to the chain reform, which started in 2005. In the reform 26 Cassa stores -Kesko's discounter concept-started to operate as part of the K-market chain under the name K-market Cassa.

In the home and speciality goods trade, the most important store site investments took place in the Greater Helsinki area. New Asko and Sotka stores were opened in the Porttipuisto shopping centre in Vantaa, together with a Musta Pörssi store and a Kodin Ykkönen department store. Budget Sport, a new store format based on cost-effective operations and low prices, was opened in May 2006 in Tammisto in Vantaa.

Number of K-food stores increased slightly

At the end of 2006, the number of K-food stores totalled 1,071 outlets, which was 30 more than at the end of 2005. 437 of these were small units.

K-food stores were located in 371 of Finland's 431 municipalities. Large outlets, or K-citymarkets, accounted for 36.2% (same as in 2005) of K-food stores' sales in Finland.

There were 708 K-speciality stores, a decrease of 40 on 2005. As a result, the total number of K-stores in Finland decreased by 10 on 2005.

Major changes outside Finland

The disposal of Kesko Food's 50% shareholding in Rimi Baltic to ICA Baltic was completed on 18 December 2006. Rimi Baltic AB started operations at the beginning of 2005 and had subsidiaries in Estonia, Latvia, and Lithuania, and a total of 204 stores operating under the hypermarket, supermarket, and discounter concepts in 2006. The sales of Rimi Baltic AB totalled €1,088 million and the business had an average staff of 8,210.

Rautakesko has 14 of its own K-rauta stores in Sweden, and one store operated by a retailer entrepreneur, four stores in Estonia, and five of its own stores in Latvia, together with one partnership K-rauta store. In Lithuania, Senukai, of which Rautakesko holds a majority, has 14 Senukai stores and 76 partnerships. Byggmakker Norge was acquired in Norway in July 2005. The chain consists of 20 of its own stores and 98 retailer entrepreneurs operating under the chain agreement. In 2005, Kesko, also acquired the Stroymaster chain, which consists of seven

INVESTMENTS AND ASSETS

	2004	2005	2006
Investments, € million	192	367	251
Investments, % of net sales	2.6	4.6	2.9
Equity ratio, %	44.2	42.3	47.0
Gearing ratio, %	37.0	42.4	11.9

NUMBER OF K-FOOD STORES IN FINNISH MUNICIPALITIES

K-food stores	Municipalities			% of all municipalities		
	2004	2005	2006	2004	2005	2006
10 or more	12	11	13	2.7	2.5	3.0
7-9	10	12	10	2.3	2.8	2.3
5-6	20	15	23	4.5	3.5	5.3
3-4	72	74	66	16.2	17.1	15.3
2	94	95	95	21.2	22.0	22.0
1	177	169	164	39.9	39.1	38.1
none	59	56	60	13.3	13.0	13.9
Municipalities in all	444	432	431	100.0	100.0	100.0

hardware and builders' supplies stores in the St. Petersburg area. As of August 2006, the stores have operated under the K-rauta brand. The proportion of the foreign operations of the whole Rautakesko Group's net sales was 61.3% in 2006.

Kesko Agro had 13 stores in the Baltic countries, an increase of one on 2005.

Job development

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

The average number of Kesko Group employees, converted into full-time employees, totalled 23,756, an increase of 2,451 on 2005. 50% of the employees of the joint venture Rimi Baltic AB, or 4,105, are included in Kesko's figures. The corresponding figure for continuing operations excluding Rimi Baltic AB was 19,651 (17,449).

Employee numbers increased on the average by 618 in Finland, which can be attributed to Kesko Food's acquisition of 100% ownership of Pikoil Oy, businesses acquired by VV-Auto, and the establishment of two new Anttila department stores.

Outside Finland, the increase was 1,833 employees, which was mainly due to the expansion of Rautakesko's business operations in many countries.

Kesko had 23,755 employment contracts at the end of December 2006, of which 14,149 (14,337) were in Finland and 9,606 (12,271) elsewhere. The decrease outside Finland can be attributed to the disposal of the Rimi Baltic business.

Kesko Agro started rationalisation negotiations towards the end of 2006 and related decisions were made in 2007.

At the end of the year, approximately 700 people worked in outsourced operations, including areas such as IT management, real estate management, postal services, and security.

K-retailers employed about 23,000 people in all, including retailers themselves. As there are one or more K-stores in 371 Finnish municipalities and Kesko has premises in more than 60 municipalities, the over 37,000 jobs offered by the K-Group make an important contribution to the economy across Finland.

Salaries, social security expenses, and taxes

In 2006, Kesko Group salaries recognised in the income statement totalled €460 million, pension expenses €39 million, and other social security expenses €44 million. Operations outside Finland accounted for €110 million of total salaries. Share options recognised as expenses totalled €2 million.

Income tax paid by the Group as a whole totalled €107 million, of which €5 million was paid outside Finland. Real estate taxes paid to 118 municipalities in Finland totalled €3.2 million, compared with €0.4 million in other countries.

K-retailers paid €259 million in salaries and €33 million in taxes. These figures include K-retailers whose bookkeeping and salaries are handled by Vähit-

täiskaupan Tilipalvelu VTP Oy, and which are estimated to account for between 80% and 85% of the total business volume of K-retailers. Statistics do not show the taxes paid on salaries drawn by K-retailers themselves. As a result, the combined tax data on K-retailers should be considered as essentially illustrative.

Employee pension and health insurance

In Finland, the Kesko Pension Fund is responsible for pension contributions, based on the Employees' Pensions Act, of those employees of Kesko Corporation, the division parent companies, and some other corporations close to Kesko that are members of the Fund's Department B. In 2006, the Varma Mutual Pension Insurance Company was responsible for the corresponding pension contributions of employees of other subsidiaries. The Pension Fund also has a Department A, which was closed in 1998, and which provides extra benefits. Employees covered by Department A have access to some pension benefits not offered on the basis of the Employees' Pensions Act, such as an early retirement pension for production-related reasons.

The Pension Fund covered 3,779 employees of the Kesko Group and corporations close to Kesko at the end of 2006 (3,881 at the end of 2005), with Department A covering 889 (976) of the total. In 2006, the Kesko Pension Fund paid €52.0 million (€49.6 million) in pensions to 3,318 people (3,284). Details on the retirement age of employees and other statistics are presented on page 64 under 'Social Performance'.

The proportion of the Kesko Pension Fund increased considerably at the beginning of 2007, when 12 of Kesko's subsidiaries transferred their pension insurance contributions based on the Employees' Pensions Act from Varma or Ilmarinen to the responsibility of the Kesko Pension Fund. These transfers increased the membership in the Kesko Pension Fund by 4,860 and the number of pensioners by 330.

The Kesko Sickness Fund provides statutory sickness insurance for the employees of Kesko Group corporations, and covers about 10,900 employees. Sickness insurance contributions paid by the Sickness Fund totalled €8.3 million in 2006 (€8.2 million in 2005).

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

Suppliers of goods and services

In 2006, Kesko had about 24,400 suppliers providing goods and services valued in excess of €1,000. Approximately 11,800 of these operate in Finland, about 6,300 in the Group's other operating countries, and about 6,200 elsewhere.

Kesko's purchases of goods and services totalled €7,347 million, of which the purchases of Kesko's Finnish companies from suppliers operating in Finland accounted for €5,139 million or 69.9% of the Group's total purchases (66.4% in 2005). The purchases of Kesko's compa-

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

	2004	2005	2006
Salaries and fees	353	400	460
- of which bonuses ¹⁾	5.5	5.5	6.2
Social security expenses			
- pension expenses	5	39	39
- other social security expenses	36	36	44
Share options granted	2	3	2

¹⁾ paid for the financial year in 2004, and in the financial year since 2005

TAXES, € MILLION

	2004	2005	2006
Income taxes paid in Finland	43.5	46.4	101.8
Income taxes paid in other countries	3.1	3.0	5.3
Real estate taxes paid in Finland	3.2	3.4	3.2

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

	2004	2005	2006
Average net sales per employee			
- Finland	638	592	600
- the other Nordic countries	295	506	555
- the Baltic countries	132	112	139
- entire Group	428	385	445
Profit before taxes per employee	13.7	13.5	18.2

nies outside Finland from suppliers in their home countries accounted for €729 million or 9.9% (13.0%), and those from other countries for €1,479 million, or 20.2% (20.6%). Purchases and supplier numbers by operating country are shown in the attached table below. The relative proportion of suppliers operating in Finland increased slightly, while the proportion of suppliers in Kesko's other operating countries decreased, because Rimi Baltic AB is treated as a discontinued operation in Kesko's financial statements, and its purchases are no longer included in the Baltic statistics.

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

Kesko's 10 largest suppliers accounted for 22.1% of the Group's purchases (22.9% in 2005), and its 100 largest suppliers for 50.7% of purchases (48.9%). Of the 10 largest suppliers, eight were Finnish food manufacturers and two were German car manufacturers. Among the 100 largest suppliers, there were 14 such foreign suppliers from which the purchases are included in imports statistics. In addition, large suppliers also included many import companies and Finnish subsidiaries of foreign companies, which are registered in purchase statistics as suppliers operating in Finland.

The Kesko Group's Finnish companies made 82.4% of their purchases from suppliers operating in Finland. In the calculation for 2005, importers accounted for about 16% of these purchases. No corresponding calculation was made for 2006, but the share is assumed to have remained unchanged. Based on this assumption, purchases from importing companies operating in Finland totalled €820 million (€741 million). While Kesko's own direct imports were €1,098 million (€1,086 million), the total value of import purchases in Kesko's operations in Finland amounted to

KESKO GROUP'S PURCHASES BY COUNTRY IN 2006

	Purchases from these			Purchases from these		
	Number of suppliers in the country	€ million	%	Number of suppliers in other countries	€ million	%
Finland	11,812	5,139	82.4	4,310	1,098	17.6
Sweden	1,549	110	85.3	198	19	14.7
Norway	258	232	98.3	45	4	1.7
Estonia	1,217	97	63.0	383	57	37.0
Latvia	935	59	40.1	326	88	59.9
Lithuania	1,812	137	41.3	858	195	58.7
Russia	401	85	98.8	6	1	1.2
Other countries	176	9	34.6	79	17	65.4
Total	18,160	5,868	79.9	6,205	1,479	20.1

Companies from which Kesko purchased goods for at least €1,000 in 2006 are included as suppliers. Statistics cover continuing operations only, i.e. Rimi Baltic AB is not included.

€1,918 million, or 30.8% (31.5%) and that of domestic purchases €4,319 million, or 69.2% (68.5%). These figures should be considered as only indicative, as statistics are available for companies rather than products.

Kesko had about 1,600 private label Pirkka products as of the end of 2006, following the introduction of over 100 new products during the year. 49.0% (48.5%) of Pirkka products were manufactured in Finland, and their sales accounted for 59% (62.5%) of total Pirkka sales. The table on page 33 gives some examples of the proportion of Finnish products in different categories.

Kesko Food had 338 (332) Euro Shopper products sourced through the European AMS alliance in its selection. 27% of their sales were of Finnish origin.

Breakdown of economic benefits

The operations of Kesko and K-retailers benefit their personnel, shareholders, partners, and employees, as well as municipalities and states. The graph and map on p. 34 show how these benefits are divided by stakeholder group and market area (Finland, the other Nordic countries, the Baltic countries, and Northwest Russia). It is not possible to show the breakdown of dividends paid in the same way, beyond stating that non-Finnish investors held 33% of Kesko's shares at the end of 2006.

PIRKKA PRODUCTS OF DOMESTIC ORIGIN IN 2006

Product group	Proportion of domestic products of total Pirkka sales
Meat, fresh and frozen	98.7
Fish	62.7
Processed meat	90.6
Ready-to-eat foods	95.0
Fruit and berries	1.4
Vegetables and root crops	75.3
Milk products	100.0
Yoghurt, pudding etc.	33.2
Edible fats	10.7
Cheese	31.0
Frozen foods	44.7
Ice cream	42.9
Cereal products	35.6
Canned foods	23.0
Juices	84.3
Baby foods and drinks	100.0
Confectionery	41.2
Soft drinks	100.0
Tissue paper	98.3
Personal hygiene	49.1
Washing and cleaning products	36.4
Total	59.0
Proportion of total number of Pirkka products	49.0



Case

NUMBER OF K-RETAILERS ON THE INCREASE AGAIN

The number of members in the K-Retailer's Association rose in 2006, to stand at 1,294 at the end of the year, 43 more than in 2005. This marks something of a shift, as membership levels have been on the decrease since the 1960s, due to structural changes in the retail sector. There have been only a few exceptions to this trend, when new retailer chains have joined the K-Group, such as the Rautia chain in 1998, for example.

Around 80 new K-retailers start business annually in a normal year, but this figure rose to 126 in 2006. Of these, 106 were food retailers, eight Intersport retailers, four shoe retailers, two home electronics retailers, and six sell building and/or agricultural supplies. The average age of these new K-retailers is 36, and 66% of them are men and 34% women. In practice, however, couples normally run a business.

Around 140 K-retailers on average end their career with Kesko annually, typically because they have reached retirement age or have decided to switch jobs. In 2006, however, only 83 K-retailers retired or switched.

Before getting their first store, the majority of new K-retailers participate in the K-retailer trainee programme. 2006 was something of an exceptional case in the sense that 17 former Spar retailers joined K-chains after the Spar chain in Finland was bought by the SOK cooperative. One such new K-retailer is Tomi Huuho. He began working in the local T-supermarket in Klaukkala as a schoolboy, and after completing his military service he took the T-Group's retailer training programme at the Hämeenkylä Institute and bought his first store in Klaukkala at the age of 24. In 1996, Huuho and his business partner, Jouni Monto, opened a new SuperSpar store in Klaukkala alongside their SparMarket in Nurmijärvi. In 2006, the SuperSpar was converted into K-supermarket Brunni.

Despite working long hours in his store, Tomi Huuho has always had time for holding responsible positions in organisations such as the Spar-Retailers Association, the Commercial Employer's Association, Employers' Confederation of Service Industries in Finland, and the Federation of Finnish Enterprises.

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

	2004	2005	2006
Suppliers of goods and services			
- Finland	4,521	4,718	5,139
- other countries	1,993	2,363	2,208
Suppliers of capital goods & acquisitions	192	367	251
Personnel (salaries and other benefits)	353	400	460
Shareholders (dividends) ¹⁾	274	95	107
Tax authorities (income and real estate taxes)	56	53	111
Social security (pension and social security expenses)	41	74	83
Support for the public good	2	2	2

¹⁾ dividends paid during the financial year

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

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

Specifications now cover €4.9 billion of the total sum of €5.1 billion of Kesko's purchases. The remaining over €200 million are largely linked to suppliers without an unambiguous postal address or related to annual purchases of less than €1,000. It has only been possible to break down purchases by suppliers' invoice addresses, despite the fact that production might have taken place in several locations. As a result, the purchase figures for the Uusimaa region are higher than in reality. As stated before, statistics also include import companies, most of which are located in Uusimaa.

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

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

K-retailers' direct purchases from regional producers totalled €468 million (€361 million in 2005), which means that the proportion of local suppliers in store-specific selections has increased. In some regions, K-retailers' direct purchases were considerable. In these cases, there are only a few suppliers with a production volume sufficient to supply Kesko's nationwide chains, and K-retailers buy products from smaller suppliers for their store-specific selections. Kesko's warehouse selections also include a number of small suppliers' products for the same purpose.

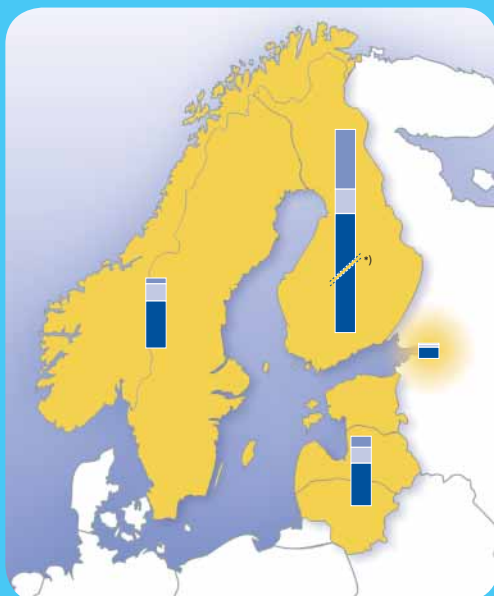
Absolute figures do not fully illustrate the differences between regions, but must be related to population numbers, in particular when estimating service levels. The figures for salaries and taxes per inhabitant, shown on

BREAKDOWN OF ECONOMIC BENEFITS BY MARKET AREA, € MILLION

	Purchases	Investments	Salaries and taxes	Total
Finland	5,139	189	455	5,783
Other Nordic countries	389	15	44	448
Baltic countries	334	25	61	420
Russia	85	21	10	116

Purchases: figures also include Kesko's imports into Finland from these countries
 Investments: both acquisitions and other investments
 Salaries and taxes: companies' income and real estate taxes

¹⁾ The column illustrating purchases has been shortened



- Purchases
- Investments
- Salaries and taxes

BREAKDOWN OF ECONOMIC BENEFITS FROM KESKO'S AND K-RETAILERS' OPERATIONS BY FINNISH REGION IN 2006, € MILLION

Region	Kesko's purchases of goods	K-retailers' direct purchases of goods ¹⁾	Kesko's and K-retailers' investments	Salaries paid by Kesko	Salaries paid by K-retailers ²⁾	Taxes paid by K-retailers ³⁾	Total
Southern Karelia	18.7	13.9	0.4	4.5	7.9	0.8	46.2
Southern Ostrobothnia	228.1	33.6	0.2	1.8	8.6	1.0	273.3
Southern Savo	38.8	15.3	-	1.2	7.6	1.0	63.9
Eastern Uusimaa	17.5	7.1	8.9	1.3	4.9	0.5	40.2
Kainuu	9.5	7.0	0.4	2.3	3.2	0.4	22.8
Kanta-Häme	72.1	26.7	8.4	3.6	9.9	1.0	121.7
Central Ostrobothnia	100.2	7.2	7.2	2.5	2.6	0.5	120.2
Central Finland	91.9	20.9	0.3	6.1	12.2	1.4	132.8
Kymenlaakso	25.9	12.7	0.1	5.4	8.3	1.0	53.4
Lapland	17.0	35.8	4.4	2.7	12.6	1.9	74.4
Pirkanmaa	296.5	32.4	2.7	10.8	23.7	3.0	369.1
Ostrobothnia	48.9	8.4	0.3	3.3	5.2	0.5	66.6
Northern Karelia	37.7	10.2	4.6	3.0	7.0	1.8	64.3
Northern Ostrobothnia	79.1	23.9	9.6	13.5	16.9	1.5	144.5
Northern Savo	116.7	21.4	15.5	5.3	13.8	2.1	174.8
Päijät-Häme	96.6	15.9	0.2	10.6	8.2	0.7	132.2
Satakunta	105.4	16.6	0.4	3.1	10.0	0.7	136.2
Uusimaa	2,877.4	114.2	125.2 ¹⁾	236.7	74.7	10.4	3,431.6
Varsinais-Suomi	581.0	45.3	0.6	13.2	21.8	2.9	664.8
Åland	16.2	**)	-	-	**)	**)	16.2
Total	4,875.2	468.5	189.4	330.9	259.1	33.1	6,149.2

¹⁾ of the investments, €78 million can be divided between regions, the rest €111.4 million are entered into Uusimaa's figures

** data has not been collected

¹⁾ figures include purchases by 964 K-retailers from 1 Dec. 2005 till 30 Nov. 2006

²⁾ figures include salaries paid by 962 K-retailers from 1 Dec. 2005 till 30 Nov. 2006

³⁾ figures include taxes paid by 821 K-retailers in the fiscal periods having ended between 1 Oct. 2005 and 30 Sept. 2006

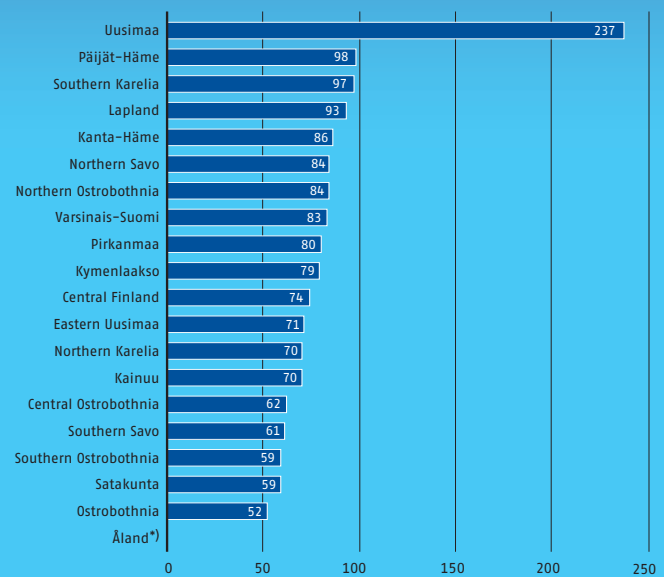
this page, illustrate the K-Group's human resource input in each region's infrastructure. The figures for Uusimaa are not comparable in this respect, as they include the Kesko Group's administrative functions and a major part of the personnel of the division parent companies. Investments could also be shown in the same way, provided that the time period under review is longer than one year.

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

Financial support

Kesko and its subsidiaries support a number of organisations that work for the good of society in Finland. In many cases, support is based on reciprocal cooperation, in which Kesko is not only a sponsor, but also an active player. Kesko directs its support primarily to areas associated with the everyday life of families with children.

SALARIES AND TAXES PAID BY FINNISH REGIONS IN 2006 IN PROPORTION TO THE POPULATION, EUROS PER CAPITA

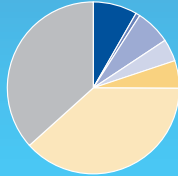


¹⁾ data has not been collected

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

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

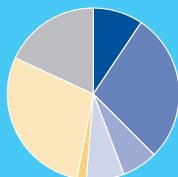
2005



- Health care 185 (8.3%)
- Veteran organisations 18 (0.8%)
- Non-governmental and environmental organisations 148 (6.6%)
- Science, research and education 93 (4.2%)
- Culture 115 (5.2%)
- Sports 854 (38.3%)
- Youth work 819 (36.7%)

Total 2,232 (100%)

2006



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

Total 2,260 (100%)

Supporting socially responsible activities and sustainable development in Kesko's operating environment is also important to Kesko.

Drawing a line between donations, sponsorship, and marketing is often difficult. When purely marketing measures are left out of the calculations, the financial support provided by the Kesko Group for the public good in 2006 amounted to €2.3 million (€2.2 million in 2005). Nearly half of this went to sports and youth work. Veteran organisations received an exceptionally large donation, when the K-citymarket chain sold iron rings wrought in 1940 in the Year 2006 Veterans of Our Wars fund-raising campaign. The funds collected - over €610,000 - were donated in full to four veteran organisations. Kesko Food's district centres had approximately 120 regional and local recipients of support.

No detailed information has yet been collected on the corresponding activities of subsidiaries outside Finland, but some examples highlight developments.

Rimi Baltic continued to focus its sponsorship on projects involving children, in line with company policy. The company made contributions valued at €74,000 to projects of this type in the region in 2006.

In Estonia, the main sponsorship recipient was the Tallinn Helen School for disabled children, where nearly one third of all Estonian children with sensory disabilities study. The aim of the campaign was to collect €16,000 for the renovation of two classrooms and to equip them with special learning aids for disabled children. Almost €5,000 came from the purchases of Rimi Baltic's kitchen products, when 1% of each purchase made in the kitchen department was donated directly to the Helen School. Rimi Baltic also donated advanced toys worth €1,600 for blind children. The total donation was the biggest ever given to the School since it was opened in 2002.

In Estonia, Rimi Baltic also took part in building two modern playgrounds in the capital city of Tallinn, together with the municipal authorities. The aim of these projects is to develop a healthy living environment for the local com-

munity. As reported last year, the company intends to continue building playgrounds in the rate of a couple a year. The other playground in the city centre was especially designed for schoolchildren and teenagers, with novelty attractions for children aged between 6 and 15.

In Latvia, Rimi Baltic participated for the fourth year in succession in a fund-raising drive to support the local university children's hospital. The target in 2006 was to build a parents' house for those parents having their children hospitalised for a longer period. With the company's help, a playground was also constructed in the hospital area, and ear, nose and throat department was renovated. Altogether, Rimi Baltic's contributions totalled €28,600.

Cooperation with a Latvian charity organization - Zie-tov.lv - was started in summer 2006. Monthly changing projects have included for example the donation of 173 backpacks and other school items for children of poor families. In Lithuania, similar support for 120 families, all members of the Lithuanian Large Families Association, was organised before the start of the new school year.

Kesko's awards for sustainable development 2006

Kesko's awards for sustainable development in 2006 totalled €20,000 and were granted to six applicants.

A €6,000 award was granted to eco-efficiency consultant Michael Lettenmeier from Asikkala.

A €4,000 award went to Raini Kiukas from Tampere, a founding member of the Global Dry Toilet Club of Finland who has promoted the dry-toilet technology, and to Kestovaiappayhdistys, an association that promotes the use of reusable nappies, from Helsinki/Riihimäki.

€2,000 awards were granted to the Hollola Upper Secondary School, the ice-hockey club Juniori-Kalpa from Kuopio and the Local Agenda of the Residents of Jyväskylä, JAPA (Jyväskylän Asukkaiden Paikallisagenda JAPA ry).

The jury consisted of representatives of the Finnish National Commission on Sustainable Development, WWF Finland, the Finnish UN Association, the Confederation of Finnish Industries and Kesko. As in previous years, the jury valued work done for children, young people and young families. This is the fifth time Kesko has granted awards for sustainable development - the total number of awardees is 32.



Case

90,000 CHILDREN ON THE GO

Kesko Food supported the Young Finland Association's 'Let's get the toes tapping' campaign organised for the fourth time in the last two weeks of October 2006. All day care centres, dayminders, and playschools in Finland were invited to participate, and the number of participants this time around was record-high: 9,000 day care groups, 16,000 educators, and 90,000 children, equivalent to around half of all children in day care.

The Young Finland Association's aim is to increase children's daily exercises to two hours, as recommended by the Early Education Council. Two hours of active exercise a day is the basis for keeping in good health and learning key physical skills, and exercises should be part of the everyday schedule for young children. The campaign offers plenty of support material for educators, and a comic character is used to help motivate children. Kesko has sponsored the printed guidebook with exercise and snack tips, distributed to parents.

The Young Finland Association is one of Kesko's major partners among organisations that work for the good of society. The common target of the partnership is to increase the physical exercise and overall health of children and young people. 'Let's get the toes tapping' was one of four campaigns the association and Kesko carried out in 2006.

In Marjala day care centre in Helsinki, it is easy to get the toes tapping!

Environmental performance



KEY ENVIRONMENTAL PERFORMANCE IN 2006

- + Total electricity consumption in Finland remained unchanged compared to 2005 and the consumption of K-supermarkets, K-citymarkets, and Anttila department stores decreased.
- + Proportion of electricity generated from non-renewable natural resources continued to drop: a - 46% change between 2004 and 2005 and an estimated -17% change between 2005 and 2006.
- + Divisional targets and performance at store level published for the first time.
- + Average waste recovery rate in Finnish distribution centres remained at a high level, 89%, and at 97.7% in Anttila.
- + Kesko's Corporate Responsibility Report for 2005 was ranked the best in the world in the trading sector in the Global Reporters Survey 2006.
- + 91% of producers of imported fruit and vegetables have the EurepGAP certificate for good agricultural practices.
- No progress in the implementation of environmental management systems in operations outside Finland.
- Flaws in data quality regarding environmental performance figures from foreign operations.
- A fire at a shopping centre in Gävle, Sweden, destroyed the K-rauta store.
- In relation to the volume of operations, the amount of waste generated in foreign operations continued to be considerably larger than that generated in Finland.
- Implementation of the environmental concept in the K-market chain has been slow compared to the target.

Kesko's approach to environmental management

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

The K-Group's revised environmental policy can be consulted at www.kesko.fi (Responsibility).

The environmental management system had been certified in all units with significant direct environmental impact by the end of 2006, apart from the Hamina Terminal, which employs an environmental system based on the ISO 14001 standard, although it has not been certified. Kesko Food Ltd's logistics operations and the transport and forwarding company, Keslog Ltd, have had their operations certified under separate ISO 14001 management systems. As Kesko Food revised its logistics operations as of January 2006, by transferring warehousing to Keslog Ltd (formerly Kespel Ltd), these two separately ISO 14001-certified environmental management systems were combined. The new certificate covers Central Warehouses 1 and 2 in Vantaa, the frozen food warehouse in Vantaa, the warehouse in Turku, and the terminals in Vantaa, Tampere, Oulu, Kuopio, Turku, Mikkeli, and Jyväskylä.

Other units having ISO 14001 certification are:

- Anttila Oy's central unit, mail order sales, and NetAnttila operations
- all Anttila and Kodin Ykkönen department stores
- real estate management and maintenance (certificate held by YIT Kiinteistötekniikka Oy, which is partly responsible for these outsourced operations).

Kesko Food transferred all its return logistics terminal operations to Lassila & Tikanoja (L&T) in summer 2005. The terminal sends recyclable material returned from stores for further treatment and other returned components for reuse. The terminal is not included in Kesko's or L&T's environmental systems as yet. Its performance, in terms of the volumes of recycled materials it handles, is included in Kesko's Corporate Responsibility Report, however.

Kesko's Real Estate Services Unit signed an agreement with Ovenia Oy on the management and maintenance of some 220 premises in southern Finland as of the beginning of 2006. Like Kesko, Ovenia is covered by the KRESS

energy-saving agreement between MOTIVA and the Ministry of Trade and Industry. Ovenia Oy has defined its own environmental strategy, together with objectives for 2006-2009. One of Ovenia's key objectives is to support customers' environmental management systems and their defined targets.

Kauko-Telko Group employs an environmental system based on the ISO 14001 standard, although it has not been certified. Kesko's main office building in Katajanokka in Helsinki and Kesko Food's central warehouses in Hakkila in Vantaa, together with the Turku distribution centre, have adopted an environmental programme for office work developed by Kesko.

K-stores' environmental management is based on a variety of inputs, including the K-environmental store manual, division-specific training programmes, and best practices documented on the intranet. Specific training activities in 2006 are discussed in more detail on p. 49. The K-environmental store model currently forms part of the chain concept employed in the largest K-food stores (see page 52). Under the K-Group's revised environmental policy, all business operations having significant impact on the environment must include the K-environmental store concept as part of their chain requirements in future.

The K-environmental store manual for Rautakesko's operations has been translated into English, to help introduce the K-rauta chain's environmental management system in its foreign subsidiaries. Although initial steps towards implementing the K-environmental store concept in Sweden have been taken, major work remains to be done in 2007 and 2008. Parts of the system developed for K-maatalous stores in Finland will be tested in Kesko Agro's Baltic operations.

Goals and performance

Kesko's Group-level objectives are discussed under Kesko's policies, principles, and management systems on corporate responsibility on p. 23. Units with ISO 14001 certification have all set their targets in line with the requirements defined in the standard. A summary of these targets, drawn from Keslog Ltd's environmental management system, is listed in the table on p. 40. All Keslog Ltd's distribution centres also have targets regarding the efficiency of transportation measured as km/load, tons/load, or m³/load. The performance of transportation centres is discussed on p. 46 in the table 'Keslog Ltd's distribution figures for 2004-2006'. Individual targets per functional operation, such as maintenance and energy monitoring, are discussed under the relevant heading.

In respect of Anttila warehouses, the target recycling rate of 97.3% was slightly exceeded, and the total amount of waste fell by 5% although the volumes (m³) of incoming goods rose by 10.3%. The target of reducing total electricity consumption at warehouses by 2% was not met. The 2.8% increase in electricity consumption correlates with the increased number of working hours.

Anttila and Kodin Ykkönen department stores have set their own individual targets in line with divisional targets. 62% of stores reached their target for electricity savings, and 89% for reducing waste volumes. Many department stores share their waste management with other local operators, which presents a number of challenges in respect of appropriate segregation. More emphasis will

EXAMPLES OF KESLOG LTD'S ENVIRONMENTAL GOALS AND PERFORMANCE IN 2006

Goal	Target	Performance
Optimisation of delivery transportation	Measured as a specific €/m ³	Domestic delivery: fell short of target by 0.8%
Optimisation of international purchasing transportation	Measured as a specific €/tn	Fell short of target by 4.3%
Reducing consumption of electricity at Central Warehouse 1	2% reduction	Target met, 10% reduction in consumption measured as €/m ³
Reducing the amount of energy waste and maintaining the 2005 level of mixed waste at Central Warehouse 2	Energy waste: 2.5% reduction	Target not met: amount of energy waste increased by 2% and mixed waste by 1% due to increased delivery volumes.
Reducing mixed waste at the frozen food warehouse and increasing the volumetric efficiency of trunk loads	Mixed waste: 15% reduction Volumetric efficiency: 4.5% increase	Amount of mixed waste dropped by 63% due to segregation of organic waste Target for volumetric efficiency was met.
Environmental training in selected terminals	Training organised in Kouvola, Pakkala, Pori, Maarianhamina, and the return logistics terminal	Training was organised in all selected terminals

be put on the segregation and recycling of plastics in 2007.

Real estate operations

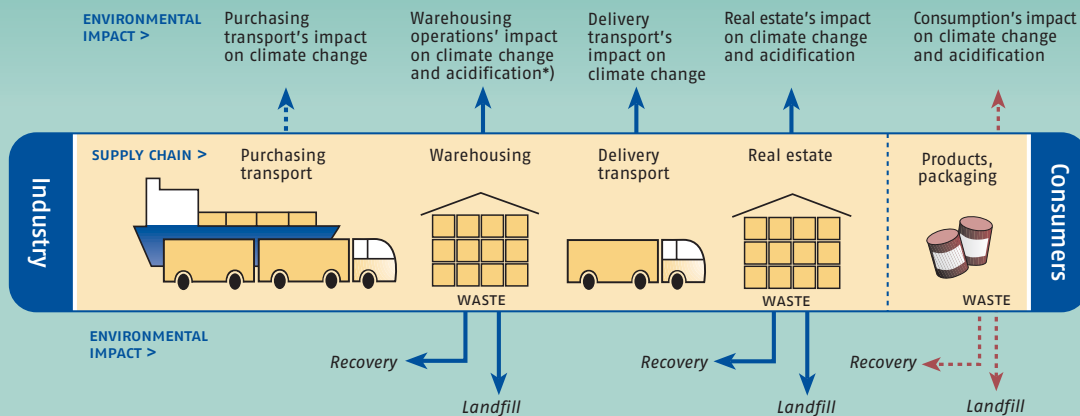
Construction and maintenance

Kesko's construction operations are based on following the target levels and technical specifications set for different types of business operations, covering areas such as indoor climate and essential technical quality requirements. The 'core and shell' model is utilised in specifications, which facilitates cost control during a building's life-cycle by dividing a building into a long-term shell and a flexible business core. Specifications also include em-

pirical maintenance knowledge gained as a building owner-user, in order to ensure the best LCA-based practise is followed.

The value of Kesko's store site investments in 2006 totalled approximately €218 million. This includes investments in Rimi Baltic AB, a joint venture in which Kesko held a 50% shareholding sold in December 2006. Rimi Baltic is reported as a discontinued operation in the 2006 financial statements, and all investments relating to Rimi Baltic have been excluded from investments related to continuing operations for 2006 and 2005. The figure of €218 million is comparable to the value of real estate investments reported in the Corporate Responsibility Re-

KESKO'S ENVIRONMENTAL IMPACT



*) included in the impact associated with real estate

port for 2005, but not comparable to figures reported in previous years, because store site investments in 2005 and 2006 also include investments in existing properties.

A browser-based management system known as 'Tampuuri' has been in use for monitoring the maintenance of Kesko's real estate in Finland since 2006. 'Tampuuri' includes Kesko-defined target levels for different types of business operations, covering areas such as quality requirements for mechanical and electrical services. 'Tampuuri' is supported by a data warehouse, known as 'Ryh-ti®', containing information on the repairs related to property maintenance. Using these two systems, it is possible to monitor building management and repairs related to property maintenance in real time. 'Quick fix' repairs are also minimised, as maintenance is systematic and based on identified needs. Kesko's aim is to use the technical systems concerned as efficiently as possible with appropriately dimensioned building management to guarantee ideal conditions for customers, personnel, and products. Systems like this make it possible to optimise investments related to property maintenance that support business operations.

Kesko's experts participated in several working groups organised by RAKLI, the Finnish Association of Building Owners and Construction Clients, and in the ESPA project devoted to developing energy-saving services for energy-intensive customer groups in the non-industry real estate sector.

Structural safety

In accordance with joint recommendations produced by the Finnish construction industry and new regulations that became effective in 2006, Kesko continued carrying

out systematic safety inspections of the load-bearing structures at its premises in Finland. Repairs of faults discovered in load-bearing structures continued in cooperation with the authorities at two large premises in 2006. In addition to internal risk management procedures for major construction projects, external structural inspectors are employed to meet the new standards required under building licence procedure and new design methods.

PromisE classification

Kesko used a building classification system known as 'PromisE' between 2002 and 2004 for evaluating its premises. In 2006, the Ministry of Environment, Motiva, RAKLI, and the Finnish Real Estate Federation launched a competition for premises that had used the PromisE tool, to increase environmental awareness in the real estate and construction sector and increase the use of the PromisE tool. Kesko participated in this competition through K-citymarket Seppälä in Jyväskylä, which was granted Category B status in 2004, thanks to the use of natural light and well-optimised energy efficiency. In autumn 2006, K-citymarket Seppälä was re-evaluated to ensure that daily operations continue to meet the same standards. This was confirmed and the store was again granted Category B status.

K-citymarket Seppälä was nominated as one of the three finalists in the Environmental Project of the Year, but was not selected as the winner.

Environmental risks associated with land use

Surveys of contaminated land are made annually in connection with construction work or real estate transactions. Contaminated land was identified at one construc-



Case

NEW ENERGY-EFFICIENT BANANA RIPENING PLANT

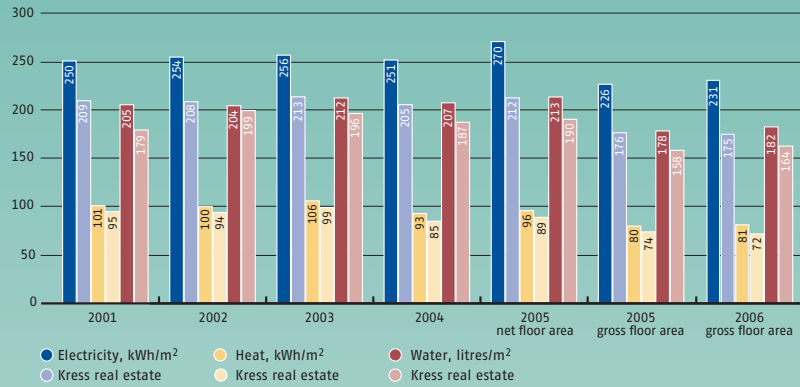
A new, modern banana ripening plant was opened at the end of 2006 at Kesko Food's Central Warehouse 1 at Hakkila in Vantaa. This has replaced an old unit dating from 1992 and a six-room facility built in Tampere at the end of the 1980s, both of which had come to the end of their service life. New capacity was also called for.

During the planning stage, Kesko staff visited some of Europe's newest ripening plants and drew on Chiquita's expertise in the field. Competitive bidding was arranged, and the winner was Koeltechniek Dorenbos from Holland. The new plant was built in the old G Hall at Hakkila, which had served as a frozen food warehouse, amongst other duties. The new facility occupies 1,100 m² and has a nameplate weekly processing capacity of over 37,000 crates of bananas, 30% higher than before.

The biggest advantage of the new facility is reliability. Consumption of gas is also lower, as the new facility is more airtight. Energy efficiency is better, because the new blowers are adjustable and only half the equipment needs to be used when the space is underutilised. Energy will also be saved in logistics now that the Tampere plant has been closed. Better air circulation improves banana quality. Maintenance is also more efficient, as the new plant sends alarms automatically to service personnel.

Bananas take from four to eight calendar days to ripen. The process begins with balancing the temperature of the fruit, after which ripening is started with the addition of ethylene gas. This generates heat in the fruit, and surplus ethylene is removed and the correct temperature, humidity, and carbon dioxide balance adjusted to control the length of the process and the quality of products. Bananas gain their distinctive yellow colour when their starch is converted into fructose.

SPECIAL CONSUMPTION OF ELECTRICITY, HEAT AND WATER IN THE REAL ESTATES OWNED OR LEASED BY KESKO IN FINLAND 2001–2006



KRESS real estates is covered by the real estate energy saving agreement.

Their proportions of floor areas used in the calculations of specific consumptions are: electricity 28%, heat 27%, and water 28%.

CONSUMPTION AND ENVIRONMENTAL PROFILE OF HEAT AND ELECTRICAL ENERGY IN THE REAL ESTATE OWNED OR LEASED BY KESKO IN FINLAND, 2004–2006

	Unit	2004			2005 ¹⁾			2006 ¹⁾			Change, % ²⁾ 2005/2006
		Heat	Electricity	Total	Heat	Electricity	Total	Heat	Electricity	Total	
Volume	GWh	259	638	897	286	734	1,020	291	729	1,021	0.02
Primary energy	PJ	1,0	5.5	6.5	1.15	4.62	5.77	1.17	4.54	5.71	-1.06
non-renewable	PJ	0,85	1.2	2.05	1.00	0.81	1.82	1.02	0.69	1.71	-6.03
nuclear energy	PJ	-	1.68	1.68	-	1.82	1.82	-	1.83	1.83	0.8
renewable	PJ	0,2	2.5	2.7	0.14	1.99	2.13	0.15	2.02	2.16	1.59
Environmental impacts											
climate change	tn CO ₂ -eq.	65,103	140,269	205,372	63,000	113,814	176,814	64,126	97,402	161,528	-8.56
acidification	tn SO ₂ -eq.	209	227	436	200	239	438	204	169	373	-14.79
lower atmosphere											
ozone	tn C ₂ H ₄ -eq.	5.1	5.3	10.4	5.74	8.91	14.65	5.83	7.20	13.03	-11.05
nuclear fuel used	tn	-	0.49	0.49	-	0.55	0.55	-	0.50	0.5	-9.67

¹⁾ figures for 2005 have been updated to correspond to the actual emissions in electricity consumption, and figures for 2006 are based on emission data for 2005

²⁾ combined change in heat and electricity

ENVIRONMENTAL IMPACTS OF ELECTRICITY SUPPLIED BY KESKO TO THE K-GROUP, 2001–2006

	Unit	2001	2002	2003	2004	2005 ¹⁾	2006 ¹⁾	Change, % ³⁾ 2005/2006
Primary energy	PJ	3.8	3.7	3.6	4.6	3.3	3.30	2.6
non-renewable	PJ	3.5	2.9	1.6	1.1	0.5	0.50	-17.1
nuclear energy	PJ	**)	**)	1.6	1.4	1.3	1.3	6.6
renewable	PJ	0.2	0.7	0.4	2.2	1.4	1.50	7.7
Environmental impacts								
climate change	tn CO ₂ -eq.	173,430	127,455	118,505	110,003	96,160	83,377	-13.3
acidification	tn SO ₂ -eq.	399	308	268	227	133	124	-6.7
lower atmosphere ozone	tn C ₂ H ₄ -eq.	7.5	7.1	10.0	5.3	5.3	5.2	-1.5
nuclear fuel used ⁴⁾	tn	0.42	0.44	0.51	0.39	0.38	0.37	-3.7

¹⁾ figures for 2005 have been corrected to correspond to actual emissions. Figures for 2006 are calculated on the basis on emission data for 2005

²⁾ nuclear power was previously included in non-renewable energy but is now reported separately

³⁾ change % calculated with unrounded figures

⁴⁾ nuclear waste was reported in 2001–2003

tion project in Finland in 2006, and remedial action was undertaken. No remedial actions were undertaken at premises outside Finland in 2006.

Major remediation work took place at one VV-Auto site, where leakage from old oil tanks had resulted in contamination of the soil. A total of 550 tons of contaminated soil were removed in 2006, and remediation work is continuing in spring 2007.

Kesko has continued annual ground water quality control sampling on site where remedial action was carried out in 1998. A ground water analysis conducted in 2006 indicated that there is no further need to continue monitoring.

Monitoring energy and water consumption

Energy and water consumption calculations have been presented in relation to the heated gross area of premises in Finland instead of their net floor area since 2005. Kesko's Corporate Responsibility Report for 2005 presented data for both net and gross floor areas, but from now on data will be presented only for gross floor areas. This approach will provide greater comparability of specific consumption with the statistics generally used in the field in Finland, published by Motiva for example, and will illustrate true consumption patterns more accurately. For premises outside Finland, only information based on net floor area is available.

The gross floor area owned or leased by Kesko totalled 3.3 million square metres in Finland as of the end of 2006, and 2.8 million square metres as net floor area. The surface area calculated as gross floor area has slightly decreased (0.5%). The net floor area totalled 3.8 million square metres, of which one million square metres were outside Finland. These figures include Rimi Baltic premises abroad.

In terms of energy consumption, the most important real estate categories are K-citymarkets, K-supermarkets, K-markets, Anttila department stores, and office and warehouse buildings. Consumption monitoring is as inclusive as possible for these properties. The aim has been to ensure that monitoring includes properties from all categories to increase the accuracy of total consumption calculations as far as possible. The target is to increase the coverage of multi-energy monitoring in premises managed by Kesko to 80% in 2007 and to 100% by the end of 2008.

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

The coverage of multi-energy monitoring (electricity, heat, and water) remained at the same 64% level as in 2005, mainly because work on including the premises in the Asko and Sotka chains proceeded more slowly than expected. Electricity consumption alone was monitored at 13% of premises, mainly not owned by Kesko. Consumption at premises outside the system is evaluated by the type of property, based on the specific consumption of the premises monitored.

Energy and water consumption in 2006

The combined electricity consumption of Kesko and the K-retailers operating in Kesko's premises in Finland totalled slightly under 729 GWh. When the small decrease in gross floor area is taken into account, total electricity consumption remained unchanged compared to 2005.



Case

RECOVERING DRINK CANS THROUGH RETURN LOGISTICS

The popularity of canned drinks is growing all the time. A total of 154 million cans were sold in Finland in 2004, of which 139 million were recycled. This figure rose to 236 million in 2005, when 206 million were recycled. Similar growth continued in 2006, driven by the reduced tax on cans, the weight benefits of aluminium, and increased marketing.

K-food stores and Kesko's Horeca customers account for a considerable share of the Finnish can recovery business. There are more than 1,200 bottle and can return machines in K-food stores, and many K-store and Horeca customers send their empty cans for recovery as part of the return loads of Kesko deliveries.

Approximately 13 million cans were recovered through Kesko's return logistics in 2000. This rose to 33 million in 2005, and 54 million in 2006. Despite these growing volumes, additional transport has not been required, as they have been handled as part of normal return deliveries.

The cans collected in this way are taken to Kesko's terminals, where they are combined and sent to control stations, where they are baled for delivery to recycling plants. Here, they are melted down and rolled into plate for use in producing new cans. Recycled aluminium is identical to virgin material, and offers major energy savings. In terms of logistics, aluminium cans are highly efficient as they save space in warehousing, transport, and storage.

Sales of canned drinks are expected to continue growing, as the drink package tax will be completely abolished in Finland at the beginning of 2008. The recycling of PET (Polyethylene terephthalate) bottles will start at the same time, bringing new challenges for Kesko's return logistics.

ENERGY CONSUMPTION IN KESKO AND RIMI BALTIC PROPERTIES OUTSIDE FINLAND, 2005–2006

	Sweden		Norway		Estonia				Latvia				Lithuania			
	Kesko subsidiaries		Kesko subsidiaries		Kesko subsidiaries		Rimi Baltic		Kesko subsidiaries		Rimi Baltic		Kesko subsidiaries		Rimi Baltic	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Consumption of purchased electricity, GWh	9.2	10.6	9.0	10.4	5.6	5.6	42.6 ¹⁾	47.4	4.6	7.6	68.8	74.9	12.0	27.7	33.0	48.6
Consumption of self-generated electricity, GWh					0.1	0.03										
Consumption of purchased heat, GWh	0.6	1.7	0.6	0.6	**)	0.3	**)	**)	**)	**)	**)	**)	0.6	4.4	**)	**)
Consumption of self-generated heat, GWh		0.5		0.4	0.9	0.9			2.0	4.4			8.5	11.8		
Total energy use, GWh	9.8	12.8	9.6	11.3	6.6	6.8	42.6	47.4	6.6	12.0	68.8	74.9	21.1	43.9	33.0	48.6
Consumption of water, m ³	1,073	3,102	680	****)	4,474	5,261	****)	****)	10,378	10,909	****)	****)	29,320	49,663	****)	****)

¹⁾ Figure reported in the Corporate Responsibility Report for 2005 was incorrect

**) Purchased heat could not be separated from purchased electricity

****) Consumption data insufficient

****) No water consumption data available

ENVIRONMENTAL PROFILE OF ENERGY CONSUMPTION IN KESKO AND RIMI BALTIC PROPERTIES OUTSIDE FINLAND, 2005–2006

Unit	Sweden		Norway		Estonia			Latvia		Lithuania			Total			
	Kesko subsidiaries		Kesko subsidiaries		Kesko subsidiaries		Rimi Baltic ²⁾	Kesko subsidiaries		Rimi Baltic	Kesko subsidiaries		Rimi Baltic			
	2005	2006	2005	2006	2005 ¹⁾	2006	2006	2005 ¹⁾	2006	2006	2005 ¹⁾	2006	2006	2005	2006	
Purchased volume	GWh	9.8	12.3	9.6	11	48.3	5.9	47.4	73.4	7.6	74.9	45.6	32.1	48.6	186.6	239.9
Primary energy	PJ	0.076	0.095	0.038	0.043	0.764	0.09	0.751	0.468	0.048	0.478	0.627	0.052	0.676	1.973	2.582
non-renewable	PJ	0.008	0.014	0.004	0.004	0.764	0.09	0.751	0.239	0.025	0.244	0.063	0.052	0.066	1.097	1.247
nuclear energy	PJ	0.049	0.056	0	0	0	0	0	0	0	0	0.553	0.341	0.598	0.601	0.995
renewable	PJ	0.019	0.025	0.034	0.039	0	0	0	0.229	0.024	0.234	0.011	0.007	0.012	0.293	0.340
Environmental impacts																
climate change	tn CO ₂ -eq.	303	362	81	91	61,457	7,284	60,378	10,638	1,099	10,862	2,725	2,435	2,820	75,203	85,332
from own																
production	tn CO ₂ -eq.	0	0.135	0	0.103	218	171	0	413	890	0	1,719	2,361	0	2,350	3,392
acidification	tn SO ₂ -eq.	0.55	0.72	0.28	0.32	628.6	74.8	617.5	271.44	28.1	277.2	14.36	11.6	15.1	915.2	1,025.3
nuclear fuel used	tn	0.04	0.05	0	0	0	0	0	0	0	0	0.199	0.12	0.22	0.24	0.38
Rimi Baltic's share of consumption and emissions, %								89			91			64		

¹⁾ Kesko subsidiaries and Rimi Baltic were reported together in 2005. In 2006, Rimi Baltic is reported separately, due to its discontinuating nature.

²⁾ CO₂ emissions for Rimi Baltic Estonia were reported incorrectly in the Corporate Responsibility Report for 2005.

The 10% increase in specific consumption at K-citymarkets recorded in 2005 was replaced by a decrease of 1% calculated as total consumption. A similar change in total consumption patterns was also recorded for K-supermarkets (decrease of 6%) and Anttila department stores (decrease of 5%). The total consumption of K-markets and other small food stores increased by almost 30%. This increase was comparable to the 22% increase of gross floor area, however. In real estate covered by the KRESS real estate and construction energy-saving agreement, total electricity consumption increased by 8 GWh (5%), which is comparable to the increase in gross floor area. Specific consumption of K-supermarkets and K-rauta stores fell by almost 10%, and for K-citymarkets by some 2%.

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

Heat consumption totalled 291 GWh, an increase of 2% over 2005. Specific consumption increased by 1.4% on average. The increase at K-markets was 11%. These figures are absolute and not temperature-adjusted. Temperature-adjusted consumption data for comparable properties shows a similar trend: standardised consumption rose by 2% on 2005.

Water consumption stood at 613,000 cubic metres, 1% more than in 2005. Total specific consumption increased by an average of 2%, and in KRESS buildings by 4%.

Total water consumption in K-supermarkets decreased by 7%, compared with an increase of 4% in K-citymarkets and 1% in Anttila department stores.

The three largest K-food store chains (K-citymarkets, K-supermarkets, and K-markets) accounted for 64% of the Kesko Group's total electricity consumption, 63% of water consumption, and 59% of heat consumption.

The primary energy used by Kesko in Finland in 2006 was equivalent to approximately 0.4% of total national energy consumption (1,366 PJ in 2005 according to Statistics Finland's energy statistics). Electricity used at Kesko's Finnish premises accounted for around 0.8% (85 TWh according to www.energia.fi/ 2005 statistics), and district heat for about 0.9% (31.3TWh in 2005 according to Statistics Finland) of total consumption in Finland.

Energy monitoring and related emission calculations were initiated during 2005 in Kesko's companies outside Finland. Due to the lack of systematic measurement, which would normally be embedded in environmental management systems, the quality of data on foreign operations is not as accurate as in Finland and the figures for 2006 should be treated as indicative.

Foreign subsidiaries purchased a total of 240 GWh of electricity and district heat compared to 187 GWh in 2005. The consumption of purchased energy (157 GWh) reported in 2005 was incorrect due to a mistake in Rimi Baltic consumption figures for Estonia. This increase in energy consumption is attributable to the increase in heated net floor areas: in Latvia, Rautakesko's heated net floor area increased by 70% and in Lithuania, Senukai's heated floor area doubled. Rimi Baltic alone consumed 171 GWh in 2006, an increase of 18%, compared to the increase in net floor area of 6%. Consumption of heat energy generated by subsidiaries themselves totalled 18 GWh (11 GWh) in the Baltic countries. Energy consumption figures in Russia are not included. Rimi Baltic accounted for approximately 90% of Kesko's total electricity consumption in Estonia and Latvia, and for 64% in Lithuania.

Environmental energy profile

Energiakolmio Oy has calculated Kesko's environmental profiles for 2006. The calculation, which includes a comparison with the energy protocol contained in the GRI reporting guidelines, has been published in full at www.kesko.fi as an attachment to this report.

Kesko supplied 534 GWh or approximately 73% of the total energy used by the K-Group in Finland, an increase of around 4% on 2005. K-retailers purchased the remaining 196 GWh themselves.

As in previous years, no environmental profile for 2006 for calculating Kesko's indicators was available from energy utilities in January 2007. As a result, the 2005 environmental profile obtained from the Group's main suppliers has been used for Kesko's calculations. For the electricity purchased by K-retailers themselves, the average 2005 environmental profile of electricity consumed in Finland has been used. Kesko's indicators for 2005, which for the 2005 report had to be calculated on the basis of the 2004 environmental profile, have now been updated to correspond to

actual emissions in 2005. A corresponding update was made in the 2004 figures a year earlier.

The environmental impact of the generation of district heat has been assessed on the basis of generation and emissions information published by Statistics Finland in 2005.

The basis for calculating nuclear waste was changed in 2005. The calculation is now based only on the amount of nuclear energy used, as energy suppliers have a statutory obligation to report this indicator. Kesko has previously included all waste generated in the fuel cycle in the amount of nuclear waste. The amount of nuclear waste published in this report between 2004 and 2006 has been calculated using the new basis.

The tables on p. 42 present the environmental impact associated with generating all the electricity purchased by Kesko and the electricity and heat used in all real estate managed by Kesko - including electricity purchased by K-retailers - between 2004 and 2006. For the reasons given above, the figures for 2006 and the changes between 2005 and 2006 are only indicative.

The number of Kesko electricity suppliers continued to drop: from 10 to five in 2005, and from five to four in 2006. The share accounted for by Fortum Markets Oy rose from 82% to 86%, and the second-largest supplier was RAO Nordic Oy, with a share of 9.9%. The share accounted for by Pohjois-Karjalan Sähkö Oy (nearly 11% in 2005) dropped to 4%. Energiakolmio's environmental profile calculation for 2006 revealed that the proportion of electricity generated from renewable natural resources and nuclear power of Kesko's purchases continued to increase, and the proportion of electricity generated from non-renewable natural resources dropped by 17% compared to 2005.

In respect of the electricity supplied by Kesko, the updated figures for 2005 reveal that the proportion of electricity generated from non-renewable natural resources dropped by 46% compared to the estimated figure of 35% presented in the 2005 report.

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

It can be estimated that the relative combined share of Kesko's and K-retailers' electricity and heat consumption of total greenhouse gas emissions in Finland was about 0.2% in 2006 (approx. 69 million tons in 2005, www.energia.fi).

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

Foreign premises, Rimi Baltic included, accounted for approximately 26% of Kesko's total real estate (Rimi Baltic accounted for about 33% of all foreign premises), 20% of combined electricity and heat consumption, and 35% of greenhouse gas emissions. As a result of an error in the energy consumption of Rimi Baltic Estonia for 2005, also greenhouse gas emissions were reported incorrectly. Based on the corrected calculations, greenhouse gas emission from foreign operations increased by 14% over 2005.

Energy consumption in the Kesko Group in Finland and other countries combined increased by about 8%, whereas climate warming-related emissions decreased by about 2%, and acidifying emissions by about 23%. In respect of climate warming-related emissions in particular, the above shortcomings in the calculation of the environmental energy profile must be taken into account. The amount of radioactive waste increased by 58% due to the expansion of operations particularly in Lithuania, described above.

Transport

As in 2005, transport statistics and emission calculations for 2006 included distribution carried out by external operators employed in Finland ('+2' carriers in refrigerated transportation) in addition to Keslog operations. Data on

transportation in foreign subsidiaries is slightly less comprehensive than in 2005, although kilometres driven by Senukai's operations in Lithuania are now included.

No reliable statistics are available on purchasing transportation or on trunk transportation between Kesko's central warehouse and distribution warehouses or on direct distribution between central warehouses and stores outside their distribution areas. In the case of the latter, these are handled by both Keslog's contract drivers and outside companies, which means that only some of the material carried is Kesko Food-related.

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

Keslog transported 115,272 loads to K-retailers and other Kesko's customers in 2006 (111,656 loads in 2005), representing 586,608 tons of goods (579,785 tons). The total distance driven was 13.8 million kilometres (13.2 million). An average load totalled 5,089 kilos (5,193 kilos) and 14.9 m³ (14.7 m³) of goods. The average distance driven per load was 120 kilometres (118 kilometres).

KESLOG LTD'S DISTRIBUTION FIGURES 2003-2005

Distribution centre	km/load	km/load	km/load	km/load	t/load	t/load	t/load	t/load	m ³ /load	m ³ /load	m ³ /load	m ³ /load
	2003	2004	2005 ¹⁾	04/05	2003	2004	2005 ¹⁾	04/05	2003	2004	2005 ¹⁾	05/06
	development				development				development			
Helsinki	117.0	151.1	96.2	- 36.3%	6.1	6.7	4.3	- 35.7%	19.2	21.0	12.7	- 39.3%
Tampere	145	206.5	180.8	- 12.4%	7.4	7.7	8.5	9.9%	16.9	22.1	22.6	2.2%
Turku	101.4	96.5	87.6	- 9.3%	5.0	6.0	5.8	- 3.0%	15.1	15.7	14.8	- 5.3%
Kuopio	240	216.8	198.2	- 8.6%	7.9	8.0	8.0	0.2%	23.7	22.8	23.0	0.9%
Oulu	276	243.6	256.3	5.2%	6.4	7.6	6.9	- 9.3%	19.1	17.6	18.6	5.4%
Jyväskylä	118	145.5	60.9	- 58.1%	5.4	4.8	3.9	- 19.1%	13	11.1	9.2	- 17.2%
Mikkeli	-	251.0	153.9	- 38.7%	-	5.8	7.8	33.1%	-	18.1	24.0	33.1%
Total Keslog	114.4	165.4	118.0	- 28.7%	6.3	6.8	5.2	- 23.4%	18.5	19.4	14.7	- 24.4%

¹⁾ Figures for Helsinki distribution centre were reported incorrectly in 2005. These figures have now been corrected.

KESLOG LTD'S DISTRIBUTION FIGURES 2004-2006

Distribution centre	km/load	km/load	km/load	km/load	t/load	t/load	t/load	t/load	m ³ /load	m ³ /load	m ³ /load	m ³ /load
	2004	2005 ¹⁾	2006	05/06	2004	2005 ¹⁾	2006	05/06	2004	2005 ¹⁾	2006	05/06
	development				development				development			
Helsinki	151.1	96.2	99.6	3.5%	6.7	4.3	4.4	2.7%	21.0	12.7	13.8	8.7%
Tampere	206.5	180.8	179.7	- 0.6%	7.7	8.5	8.1	- 4.9%	22.1	22.6	21.5	- 4.9%
Turku	96.5	87.6	76.1	- 13.1%	6.0	5.8	5.1	- 12.3%	15.7	14.8	14.2	- 4.4%
Kuopio	216.8	198.2	186.7	- 5.8%	8.0	8.0	6.7	- 16.1%	22.8	23.0	19.3	- 16.1%
Oulu	243.6	256.3	258.7	0.9%	7.6	6.9	6.8	- 0.8%	17.6	18.6	18.4	- 0.8%
Jyväskylä	145.5	60.9	55.9	- 8.2%	4.8	3.9	3.3	- 15.1%	11.1	9.2	7.8	- 15.0%
Mikkeli	251.0	153.9	174.3	13.2%	5.8	7.8	7.9	1.4%	18.1	24.0	24.4	1.4%
Total Keslog	165.4	118.0	120.0	1.7%	6.8	5.2	5.1	- 2.0%	19.4	14.7	14.9	1.9%

¹⁾ Figures for Helsinki distribution centre were reported incorrectly in 2005. These figures have now been corrected.

Unfortunately, the performance figures reported for Keslog (formerly Kesped) in 2005 were incorrect for the Helsinki terminal, due to human error, and the indicators for transportation efficiency reported in 2005 were misleading. The errors have been corrected in this report and the table on p. 46 for 2003-2005 has been calculated with the updated information.

The average distance driven per load decreased by almost one third, and for each cubic metre and ton delivered by some 20% in 2005. These major changes in performance figures were due to structural changes and the reorganisation of Keslog's operations in 2005. The introduction of the Mikkeli terminal in late 2004 reduced the number of kilometres driven in the Helsinki distribution area by some 440,000 km (7%) in 2005. However, the simultaneous launch of the Pakkala refrigerated terminal in early 2005 increased transportation volumes in the Helsinki area. The volume of services purchased from external transportation companies in respect of pallet transportation increased in the Helsinki distribution area in 2005, which meant that the quantities of goods transported were recorded in Keslog's statistics, but the kilometres driven could not be allocated to Kesko.

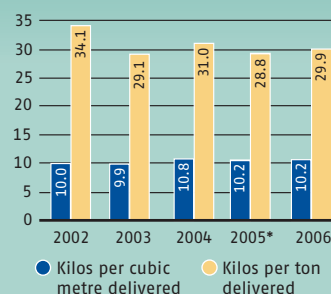
Minor structural changes continued in 2006, when transportation of frozen goods was started at all terminals outside Greater Helsinki. Although these changes affected the efficiency of individual terminals, their impact on Keslog's overall performance was slightly positive, as the average volumetric efficiency of loads measured as m³/load increased by some 2%.

Contract transport companies (+2 drivers) drove nearly 2.5 million kilometres (2.7 million) delivering Kesko Food goods - mainly meat, processed meat, and convenience foods. The decrease in distance covered was mainly due to the transfer of Tampere area +2 distribution. This figure is based on the information provided by transport companies as a proportion of the total distances driven. It has not been possible to compile sufficiently accurate statistics on the loads, cubic metres, and tons involved in this transportation. Kesko Food and Valio also cooperate in the transport area and the proportion of total transport covered by this cooperation is not known.

Anttila's transportation totalled approximately 10,800 loads and 540,000 kilometres driven, an increase of 25% over 2005. The majority of Anttila's transportation (84%) is handled by Keslog. In previous years, Keslog's share of Anttila's transportation has not been deducted from Anttila's transportation figures, thus some double counting has taken place. Warehousing and transportation of products sold by Rautakesko, Kesko Agro, and Keswell (excluding Anttila) to K-retailers were mainly handled by external service suppliers, and similar statistics to those available for Kesko Food's and Anttila's transportation are not available.

Statistics regarding foreign subsidiaries' transportation include Norway, the entire Rimi Baltic Group, Rautakesko in Latvia, and Senukai's transportation in Lithuania. Companies in Sweden, Kesko Agro Latvia, and Kesko Agro Estonia were not able to deliver transportation data for 2006. Rimi Baltic's outsourced transportation is also included. Compilation of statistics on kilometres driven and quantities delivered still involves incon-

CO₂ EMISSIONS IN KESLOG LTD'S DISTRIBUTION COMPARED WITH DELIVERY VOLUMES



* Figures reported in 2005 were incorrect, due to mistake in total kms driven. Figures now corrected.

CO₂ EMISSIONS IN DELIVERY TRANSPORT 2004-2006, TONS

	2004	2005	2006
Keslog's delivery transportation	17,859.6	16,722.7	17,558.0
Outsourced transportation	2,739.0	2,351.0	2,232.0
Anttila	662.2	666.3	687.2
Finland Total	21,260.8	19,739.9	20,477.2
Kesko Agro, Estonia	)	45.0)
Rimi Baltic AB, Estonia, own transportation ¹⁾	2,193.0	1,955.1	1,888.2
Rautakesko, Estonia)))
Estonia total, own transportation	2,193.0	2,000.1	1,888.2
Kesko Agro, Latvia	)	51.8)
Rautakesko, Latvia	)	289.7	252.5
Rimi Baltic AB, Latvia, own transportation	)	2,126.7	2,011.4
Latvia total, own transportation	)	2,468.1	2,263.9
Senukai, Lithuania	)	)	675.1
Kesko Agro, Lithuania)))
Rimi Baltic, Lithuania, own transportation	)	967.3	1,283.3
Lithuania total, own transportation	)	967.3	1,958.4
K-Rauta AB	)	21.3)
Sweden total	)	21.3)
Byggmakker Norge AS	)	160.2	147.4
Norway total	)	160.2	147.4
Rimi Baltic's outsourced transportation:			
Estonia	)	)	2,307.8
Latvia	)	)	2,420.9
Lithuania	)	)	2,415.5
Grand total	23,453.8	25,357.0	33,879.3

¹⁾ data has not been collected

²⁾ data for 2004 covers Kesko Food's distribution in Estonia

sistencies and uncertainties, which is why only emission data has been recorded in the table above.

The total volume of imports forwarding by Keslog was 283,044 tons, a decrease of 8.9% over 2005. Transportation within Europe was handled by trucks, semi-trailers, and containers, and from outside Europe by containers only. Kesko Food accounted for 75% of all imports.

Transport emissions

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

Volumetric efficiencies applied in Keslog's calculation were 50% for truck transportation and 70% for full trailer transportation. The assumed proportion of truck transportation is 22%, of which 30% is considered to be rural traffic and 70% urban traffic. Full trailer transportation accounted for 78%, of which 30% was urban traffic and 70% rural traffic.

59% of outsourced deliveries were made by trucks, and 41% by semi- or full trailers. Urban deliveries accounted for 70% of truck transportation, and 30% for other transportation. Assumed volumetric efficiencies are the same as for Keslog.

Anttila's calculations are based on general factors applicable to all trucks, taking replacements in the truck

WASTE MANAGEMENT STATISTICS OF FINNISH OPERATIONS, TONS

	Kesko Food			Anttila **)			Rautakesko		Kesko Agro ***)	
	2004	2005	2006	2004	2005	2006	2005	2006	2005	2006
Waste for recovery										
energy waste	359	455	481	48	49	43	43	46	16	17
wood waste	764	902	797	57	103	83	140	152	26	14
metal	152	145	186	7	10	15	5	7	14	15
film plastic	248	237	253	21	25	25	3	9		
corrugated board	4,887	4,378	4,180	468	422	425	136	119	25	20
paper	174	153	168	60	52	4	1	1	5	7
glass									0	0
confidential waste					3	5				
Landfill waste										
organic waste	874	574	498	10	7	7			10	5
construction waste							89	73		
mixd waste	833	760	728	64	18	16	1	0	41	47
Hazardous waste										
WEEE waste	7	3	5	7	1	3	0	0	45	43
Total	8,298	7,607	7,296	742	708	675	417	406	182	167
Recovery, % ¹⁾	90.0%	90.0%	90.0%	91.4%	97.5%	97.7%	78.3%	82.04%	77.4%	72.1%

¹⁾ Organic waste is included in the recovery percentage

** Anttila's construction waste and furniture waste sent for recovery are both included in the wood waste for 2005 and 2006

*** Waste statistics for Rautakesko and Kesko Agro have been reported separately since 2005

WASTE MANAGEMENT STATISTICS FOR OPERATIONS OUTSIDE FINLAND, TONS

	Sweden		Norway		Estonia			Latvia				Lithuania				
	Kesko subsidiaries		Kesko subsidiaries		Kesko subsidiaries		Rimi Baltic		Kesko subsidiaries		Rimi Baltic		Kesko subsidiaries		Rimi Baltic	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Landfill waste	215	203	768	747	468	671	2,622	1,778	287	538.0	4,320	17,894	²⁾	575	2,371	393
Waste for recovery	1,034	1,373	715	887	49	105	310	1,372	382	²⁾	2,220	5,646	²⁾	1,600	1,023	1,434
Hazardous waste	52	79	2	10	10	10	-		8	²⁾			17	4		0
Total	1,301	1,655	1,485	1,644	527	786	2,932	3,150	677	538.0	6,540	23,540	1,502	2,179	3,394	1,827
Recovery, %	79.5	87.7	48.1	54.6	9.4	14.6	10.6	43.6	¹⁾	²⁾	33.9	24.0	²⁾	73.6	30.1	78.5

Figures for Rimi Baltic include cardboard and plastic collected from stores

¹⁾ As components for recovery also include packaging materials associated with products sold, the recovery percentage has not been calculated

²⁾ As data of waste segregation into recovery and landfill is unavailable, only hazardous waste and/or the total amount are given

fleet into account. CO₂ emissions of Anttila's transportation operations organised by Keslog are included in Keslog's statistics.

The total CO₂ emissions of Keslog's transportation operations increased by 5%. The relative CO₂ emissions remained the same per cubic metre and increased by 4% per tonne. Total carbon monoxide, hydrocarbon, and particulate emissions also increased by 5%.

Carbon dioxide emissions for foreign transportation are now available for the second year. Comparison with 2005 has not been conducted, however, as the reporting does not yet cover all companies abroad. Rimi Baltic's share of foreign companies' transportation, excluding outsourced transportation, continues to be considerable, and their emissions account for some 87% of the total emissions by Kesko's foreign companies.

Kesko's CO₂ emissions

Carbon dioxide emissions are among the key indicators of Kesko's environmental impact. Kesko does not have sufficiently accurate information about all the carbon dioxide emissions associated with its operations, however. It is difficult, for example, to compile statistics for purchasing and trunk transportation, on fuel consumption related to delivery transport in Finland, or business travel by air or train by Kesko personnel in the detail required. Annual business travel by car totals approximately 14 million kilometres. As some of Kesko's division parent companies have outsourced their warehousing and

PACKAGING MATERIALS IN PRODUCTS IMPORTED BY KESKO INTO FINLAND, TONS AND THEIR PROPORTION OF THE TOTAL WEIGHT OF PRODUCTS, %

	2002	2003	2004	2005	2006
Fibre	21,048	20,352	22,698	19,615	22,745
Plastic	3,973	3,843	3,717	3,276	2,646
Metal	3,244	2,781	3,828	3,295	2,818
Glass	1,432	1,320	1,855	1,343	1,128
Wood	2,007	2,096	1,350	1,802	1,471
Total	31,704	31,392	33,448	29,331	30,812
Proportion of packaging, %	11.4	10.6	10.3	9.4	10.9

transportation, and some manufacturers supply goods directly to K-stores, transportation data is not included in Kesko's statistics. Due to the numerous possible inaccuracies associated with calculating the Group's carbon dioxide balance, it has been decided not to calculate this information until further notice.

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

Use of materials

Kesko has interpreted the GRI guidelines' indicator on the use of materials to cover the amount of packaging materials imported and packed by Kesko that, in accord-

Case

GRASSROOTS TRAINING ON THE ENVIRONMENT

The K-environmental store concept includes two phases of training: basic training prior to receiving a diploma, and complementary training on specific themes subsequently. Basic training is normally organised for groups of stores in the same region, together with store-specific sessions, especially in when new or revamped stores are opened or reopened.

Basic training has been built around two important questions: why do we need an environmental approach in our stores, and how can we implement it successfully in practice.

Serving customers more effectively and staff concerns about the environment are important motivators. People generally have a basic understanding of environmental issues and the will to make a contribution, but often find it difficult to link scientific information with everyday practical work. This is why training at K-environmental stores is very much of the grassroots type.

The food chain has a significant impact on the environment, and energy use impacting climate change is linked to store, warehouse, and transportation operations. Eutrophication is mainly due to primary production, freezing can affect the ozone layer, packaging protects products but causes waste, and ordinary plastic bags do not degrade, for example. Trainers explain the main issues involved, and concentrate on good energy use and recycling, discussing the advantages of ecolabels, organic, and Fairtrade products, and environmental marketing. At the end of training, everybody defines their own sphere of responsibilities and plans the first practical actions needed.

In 2006, basic training was given in 12 seminars for around 200 employees, and the entire staff was trained in one new K-citymarket and one new K-supermarket before opening.

Erja Mähönen, an independent consultant on environmental issues, has trained hundreds of K-retailers and employees as part of the K-environmental diploma programme since 1997.



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

	2001	2002	2003	2004	2005	2006
Aluminium cans	14,100	15,300	20,000	22,243	33,434	54,662
Disposable bottles	2,200	2,000	2,100	1,959	2,111	2,124
Deposit bottles	922	923	833	738	730	708
Transbox crates	4,735	5,050	5,702	5,506	5,206	4,885

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

	2001	2002	2003	2004	2005	2006
Crates	99,273	92,324	95,000	94,000	94,000	94,000
Roll containers	-	-	-	-	6,000	30,000
Leased cases	39,000	36,270	35,500	35,500	35,500	35,500
Return pallets	240,000	223,200	240,000	250,000	250,000	262,500
Long furniture pallets	15,600	15,600	7,500	7,500	16,000	19,000

ance with the EU packaging directive, should be reported annually to the authorities.

Packaging statistics for 2006 continue to be calculated mainly on the basis of import forwarding statistics. The amount of materials, specified in the table on p. 49, increased by 5% from 29,331 tons in 2005 to 30,812 tons in 2006, while the volume of imports decreased by 8.9%. The relative proportion of packaging of the total amount of materials rose from 9.4 in 2005 to 10.9%.

Kesko continues to work actively in Finnish producer associations and standardisation organisations to improve the standardisation of packaging, the use of environmentally sound materials, and reduce the amount of materials used. Kesko can play an important role in determining the packaging materials and quantities used for its house brands in particular. Kesko Food's logistics services have published a CD-ROM manual on packaging principles, and a revised version will be published in spring 2007.

Waste management and recycling

The KELO model continues to be used by Kesko Food to produce statistical data on waste management at distribution centres, and some units use semi-automatic data transfer into the KELO model with the company's waste management operator, L&T.

The amount of waste generated by Kesko Food's warehouses in 2006 totalled 7,296 tons, a decrease of 4% on 2005. As in 2005, most of the change can be attributed to the decrease in the amount of corrugated board collected by return logistics from K-stores, as K-retailers passed on more corrugated board to local operators. The total amount in relation to each cubic metre of material supplied (2.1 million) dropped to 3.40 kilos from 3.62 kilos in 2005. The figure includes the corrugated board collected from K-stores, excluding 1.45 kilos (1.54 kilos) of waste per ton supplied.

Segregation was slightly improved on 2005, which was reflected in the increased amount of energy waste and the decrease in mixed waste. The amount of mixed waste totalled 0.34 kilos (0.36 kilos) per cubic metre delivered. Construction and maintenance work conducted at ware-

houses (new banana ripening facility and NH₃ station) increased the amount of metallic waste. The amount of wood waste started to decrease, as broken disposable pallets were again sold for recycling. The total waste recovery rate (including organic waste) remained at 90.0%, unchanged from 2005.

The Anttila distribution centre continued to show excellent performance on recycling, as the recovery rate rose to 97.7%. The amount of mixed waste was further cut by 11%, compared to a 72 % reduction in 2005. Construction and furniture waste was also supplied for recovery. A total of 52 tons of waste electrical and electronic equipment were collected from Anttila and Kodin Ykkönen department stores through distribution centres for recycling in 2006.

Waste amounts for Rautakesko decreased by 3% and the recovery rate rose by almost 4%. Kesko Agro's waste amounts decreased by 8% but the recovery rate decreased by 5%.

Comprehensive waste statistics on Kesko's subsidiaries outside Finland were available for the first time in 2005. In these summary statistics, waste has only been broken down into landfill, recovery, and hazardous waste. As segregation and statistics are not as accurate as in Finland and the other Nordic countries, the recovery percentages presented in the table for the Baltic countries must be considered as indicative only. Rimi Baltic is presented separately, because the amount of waste generated in food stores is considerably higher than in hardware and builders' supplies or agricultural stores. In addition to waste generated in warehousing and distribution, the figures for Rimi Baltic, like those for Kesko, include corrugated board (5,768 tons) and plastic (586 tons) collected from stores via return transportation and sent on for recovery.

The number of packages supplied by Kesko Food's return logistics for recovery and reuse remained relatively unchanged, but the number of beverage cans collected increased from 33 million to 55 million. The number of recycled roll containers rose five-fold in Anttila's warehouse operations. This was due to the increase in the total number of roll containers, as well as the opening of a new department store.

Product-related developments

Kesko's division parent companies have cooperated with suppliers to improve the environmental properties of products and packages for many years. The Corporate Responsibility Unit has participated in several national development projects promoting the practical measurement of the environmental impact of production and consumption. As environmental impact must be assessed over the entire life-cycle, achieving clear-cut results has been difficult, and implementation has progressed slowly.

The selection and marketing definitions related to organic and Fairtrade products and environmentally labelled products are included in K-food stores' chain concepts. Kesko Food offered a selection of around 500 organic products and around 700 products with environmental labelling as of the end of 2006. These numbers depend on the size of the store, however. There were 33 organic, five Fairtrade, and 25 products with environmental labelling in the Pirkka range. Some organic products - such as milk and meat - are delivered to K-stores directly from suppliers, and K-retailers buy organic vegetables from producers outside Kesko's range. Consequently, it is

difficult to obtain reliable information about the actual market shares of organic products in the retail business.

Pirkka Luomu organic carrot puree was chosen as the Organic Product of 2007 in January 2007. The selection was made by an expert jury assembled by Luomuliitto, an association that promotes organic farming in Finland. Pirkka organic carrot puree was the first private label to win the Organic Product of the Year competition. It is also the first organic processed vegetable product distributed and sold throughout Finland. The product is made of domestic organic carrots; carrots of equal size are packed whole and sold as Pirkka organic carrots and those that do not meet the size requirement are used to make the puree. The package protects the product, ensuring hygiene and long shelf-life. A special printing system has contributed to a decrease in the amount of plastic packaging material used.

The volume of organic products sold by retailers in Finland has been declining and a couple of Kesko's suppliers ceased organic production. Despite this trend, Kesko Food supported the sales of organic products by reducing the price of 200 organic products in 2006 and by promoting Pirkka organic products on TV in connection with the Pirkka 20-year campaign. Kesko Food's weekly RuokaPirkka paper distributed through K-food stores also dedicated one edition to organic products.

Sales of organic, Fairtrade, and products with environmental labelling in the Pirkka range increased by around 40%, driven to a large extent by the successful launch of Pirkka Fairtrade roses.

Most producers - representing around 91% of total imports of these products - of the fruit and vegetables imported by Kesko Food have obtained EurepGAP certification, granted by an independent agency for fulfilling the traceability, product safety, and environmental requirements set for production by EUREP (Euro-Retailer Produce Working Group). The letters GAP refer to good agricultural practices. The remaining 9% of imports come from Polish, Hungarian, and Egyptian producers that have also started preparing for certification. Kesko Food reported the same ratio of EurepGAP and non-EurepGAP producers in 2005. In practise, the number of certified producers has increased, but as the volume of imports has also increased, the ratio has remained unchanged.

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

Special attention in Finland was given to the sustainable sourcing of house label fish products, including shellfish. The raw material used in EuroShopper fish fingers was changed from Baltic Sea cod to cod sourced from the Barents Sea, and two products under development were cancelled as their raw materials were regarded as unsustainable.

Another example of sustainable choices are reusable nappies, which were included in the K-citymarket range in 2006, see case below.



Case

REUSABLE NAPPIES – A SUSTAINABLE CHOICE IN K-CITYMARKETS

Kesko recognised six promoters of sustainable development with special awards in spring 2006. One of these was Kestovaippayhdistys, an association devoted to promoting the use of reusable nappies. The association distributes information on modern reusable nappies and provides support to the personnel and customers of health centres and maternity hospitals, organises courses, and discusses nappy issues in the media and other forums. The association has more than 500 individual members and almost 70 corporate members, most of which are micro-companies run by women. The association maintains 20 activity groups throughout Finland that participate in fairs and other events and organise presentations, campaigns, and courses. Although most communication takes place through the association's web site, a print magazine and guide have also been published.

Disposable nappies are the biggest single source of domestic waste at landfill sites. A child requires some 5,000 disposable nappies over the time he or she is in nappies, and 250,000 disposable nappies are used in Finland every year. Each child generates 1,500 kg of nappy waste, which can take up to 500 years to disintegrate. The number of reusable nappies required by a child, in contrast, is only between 30 and 50, and the same nappies can be recycled. Although even reusable nappies place some burden on the environment, when producing cotton and when they are washed, the level of impact on the water system is minimal in areas with wastewater treatment plants.

Feedback received by Kesko's K-citymarket chain, particularly through the website of the customer club the chain runs for parents of young children, has shown a lot of interest in reusable nappies. Since summer 2006, K-citymarkets now have a wide range of reusable nappies and related accessories on offer at competitive prices.

Konsta, son of Heli Korhonen, the treasurer of the Kestovaippayhdistys association, is an experienced introducer of reusable nappies.

Rimi Baltic has cooperated with the Ministries of Agriculture and farmer organisations in the Baltic countries to promote the awareness and commercial use of national quality labels. These ensure quality, safety, and traceability. Products labelled in this way often consists of local food, and some foods are organic. In Estonia, Rimi Baltic sells 122 products with the Estonian Taste Label and 63 with an Approved Taste Label. The range in Latvia includes 156 products with the Green Spoon - Latvian Quality Label, and 52 organic products with the EkoAgros label in Lithuania.

Rautakesko offers a wide selection of products featuring environmental, energy, or emission category labelling. Certified timber - mainly with FFCS certification - accounted for over 80% of sawn goods sold by Kesko. In all, 634 tons of impregnated timber were recycled through K-rauta and Rautia stores. Tropical hardwood products accounted for less than 2% of Rautakesko's total sales of wood and wood products. In spring 2006, Kesko stores had some products on sale originating from endangered rain forests species. After the launch of Kesko's sourcing policy for tropical hardwood in summer 2006, garden furniture supplied by Kesko subsidiaries for summer 2007 should all be either FSC-certified or originate from species that can be cultivated in tropical conditions.

K-rauta and Rautia continued their 'Mould Trap' project, together with the Pulmonary Association 'Heli' under a new agreement effective between 2007 and 2008 that will see Rautakesko donate building supplies for renovating and repairing mould-affected homes. Experts from Heli arranged three information sessions at Rautia stores and two at K-rauta stores in 2006, advising customers and store personnel about mould problems.

K-environmental stores

The K-environmental store operating model is incorporated into the chain concepts for Kesko Food's K-citymarkets, K-supermarkets, and K-markets. All K-environmental store personnel receive basic training in environmental issues, and supplementary training on different themes is arranged annually. The special theme for 2006 was organic food. Bureau Veritas Quality International (BVQI) audits each store at the introduction of the K-environmental store concept, and makes repeat audits in stores selected by annual sampling. The number of completed audits totalled 80 by the end of 2006, and 31 audits were ongoing. Audits focus on evaluating whether a store meets the detailed requirements set out in the K-environmental store checklist. In addition to training, these cover areas such as product selection and labelling, prevention of the generation and recycling of in-store waste, recycling services, and consumption-related environmental information offered to customers, in-store energy management, and cleaning practices. Some of the requirements are also included in the chains' concept measurements.

All K-citymarkets and all K-supermarkets, except for three of the latter, were K-environmental stores as of the end of 2006. The K-market chain set a target in 2004 that all stores in the chain would be K-environmental stores by the end of 2006. In accordance with the reorganisation implemented by Kesko Food in 2005, all small stores are now centralised under the guidance of the K-market chain unit, and the chain has been forced to slow down

implementation of the environmental concept in its stores. The target of 100 new K-environmental stores by the end of 2006 was not achieved, as only 51 new diplomas were granted to K-markets. The current target is to increase the number of 148 K-environmental stores to a total of 200 stores by the end of 2007.

Chain management work in the K-rauta and Rautia chains focuses on developing store operating models in cooperation with the K-environmental store development team at both chains. These teams consist of retailers and employees responsible for environmental issues. Hardware and builders' supplies stores and agricultural stores cooperate with the Environmental School of Finland (SYKLI) in auditing work. Repeat audits are made every three years. The number of K-environmental stores increased by 14 in the K-rauta, Rautia, and K-maatalous chains. As of the end of 2006, the number of K-environmental stores totalled 411.

As of the beginning of 2006, Rautakesko started planning the introduction of the K-environmental store concept in its foreign operations. Although no detailed timetable has yet been decided, the pilot stores should start implementing the concept in late 2007.

Stakeholder cooperation and communications

Kesko continued to maintain close contacts with its stakeholder groups in the area of environmental activities during 2006.

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

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

Cooperation also continued with suppliers to promote organic foods and various recycling systems.

Kesko continues to be a supporting member of the Finnish Association for Nature Conservation. Kesko cooperated with WWF Finland in 'Operation Mermaid', a programme for protecting the Baltic Sea, and Kesko continued to have a representative on the Executive Committee of WWF Finland.

K-food retailers continued their cooperation with teachers of biology and geography, started in 2004. The 'Let's recycle' project for grade 7 comprehensive school pupils involves approximately 9,000 participants. Some 25,000 pupils have participated in the project between 2004 and 2006.

Kesko's awards for sustainable development are presented on page 37.

Kesko did not participate in the annual comparison of corporate responsibility reports for 2006 arranged by the Association of Environmental Management and other or-

ganisers in Finland. This was due to structural changes in the competition, which now includes a significant participation fee. In line with the company's principles, Kesko only participates in competitions and ratings organised by independent parties that are transparent in their evaluation and carry no participation fee. These structural changes were also reflected in the number of companies participating in the comparison, as the number of reports evaluated dropped from 46 in 2005 to 22 in 2006. Historically, Kesko's ranking in this comparison has been very high. Kesko's overall reporting has been judged the best in Finland four times, and was ranked second in 2003.

Kesko's ratings in sustainability indexes and other comparisons are presented on page 29.

Subsidiaries outside Finland also maintain contacts with their local stakeholders. Kesko Agro, for example, continued to support the professional skill competition arranged for young Estonian farmers, a similar model farm competition in Lithuania, and cooperated with a farmers' advisor organisation and a university's agricultural faculty in Latvia.

Environmental risks, damage, and incidents

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

The premises of K-rauta in Gävle, Sweden were destroyed in a fire at the shopping centre late Sunday evening on 13 August 2006. The fire, which started from the loading deck of a nearby store where wooden pallets were stored, is suspected to be arson, but investigations are still ongoing. Customers of the ICA food store operating at the shopping centre were evacuated, and also the local neighbourhood as a precautionary action. K-rauta was closed at the time of the fire. K-rauta Gävle is not the owner of the destroyed premises, and has not participated in the investigations conducted by the local authorities.

Risks relating to soil contamination are discussed on page 41. Kauko-Telko Ltd's terminal operations in Hamina include intermediate warehousing of chemicals representing industrial raw materials, some of which are classified as hazardous to the environment. In accordance with the SEVESO directive, the terminal has been defined as an installation involving major accident hazards, and it submits regular reports on its operations to the authorities. Two incidents took place at Hamina in 2006. In both cases, chemical spills were sprayed on the face of pump men. Thanks to emergency showers and eye-wash stations, these incidents did not cause any permanent eye injuries. One person had to visit an outpatient clinic, however, and the severity of the problem meant that it had to be reported to the authorities.

Apart from the fire in Gävle in Sweden, no other environmental damage or accidents appeared in the reports of Kesko's foreign subsidiaries.



Case

E-LEARNING HELPS IMPROVE CHEMICAL SAFETY

The new EU regulatory framework on chemicals known as REACH, due to come into force on June 1, 2007, will place extra demands on K-stores selling building and agricultural supplies in particular. Personnel will need to be aware of which products are covered by REACH, the health and safety issues involved, and how chemicals should be marked. Staff will also need to be able to provide customers with a wider range of information to guarantee their safety and wellbeing.

Parallel to REACH, a project led by the United Nations has developed the Globally Harmonised System of classification and labelling of chemicals (GHS) to replace the existing system. Implementation of GHS will take a number of years.

Chemical safety and product labelling are not new issues for K-stores. Existing chemical safety legislation has also required personnel to know the risks and safety measures associated with the chemicals they sell, and stores are obliged to declare their inventory of chemicals if it exceeds a given limit. To ensure that all K-stores have access to the information needed, Kesko has organised e-training on chemicals for store personnel for some time. Rautakesko has planned an e-learning module for personnel selling building and home improvement supplies, and Kesko Agro for those selling agricultural supplies. This training forms part of the K-Institute's e-learning programme, and all employees involved in selling the products in question need to take it.

The e-learning programme helps students identify, classify, and measure the volume of chemicals on their sites, and fill out official declarations. It is also designed to raise personnel's awareness of chemical safety issues and advice customers. E-learning will probably be used in future training linked to implementation of the REACH and GHS systems.

Simon Israel, who sells paints and other interior products in K-rauta Oulunkylä in Helsinki, likes to keep himself up-to-date on the products in the store.

Social performance



KEY SOCIAL PERFORMANCE IN 2006

- + Number of employment contracts terminated for production- and financial-related reasons decreased in Finland, but increased abroad.
- + Job satisfaction improved in Estonia and Lithuania, remained unchanged in Finland and Latvia, and declined in Sweden.
- + Employee satisfaction with equality improved.
- + Number of sick days as a proportion of working hours decreased in Finland, but increased abroad.
- + Number of accidents increased in Finland, but their seriousness decreased.
- + The average retirement age of employees increased in Finland.
- Fixed-term and part-time employees accounted for a larger proportion of personnel in Finland. Elsewhere, the proportion of fixed-term and part-time employees decreased slightly.
- Kesko's attractiveness as an employer to students and young professionals declined. However, the results of the survey are not fully comparable to previous years.
- The proportion of employees covered by annual performance and development reviews decreased slightly in Finland.
- The investment in training declined in 2006, both in terms of time spent on training and financially.

Kesko's approach to human resources management

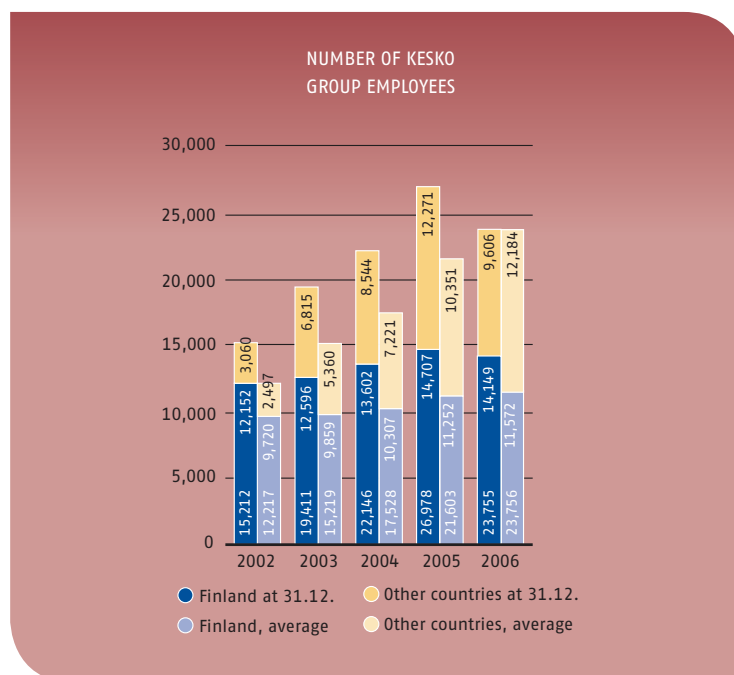
Kesko's HR strategy was updated in 2006, to establish the focal HR areas for 2006-2009. The Corporate HR Unit is responsible for implementation of the strategy.

Critical HR management success factors include:

- Kesko's and stores' good reputation as employers
- responsible value-driven leadership
- efficient performance management and motivation of immediate superiors
- ensuring that the right people are in the right jobs
- competitive compensation and benefits
- competence management and broad-ranging development within the Group's chains
- capable and committed key people
- a good balance between work and private life, wellbeing at work
- an efficient HR function that supports business operations

The Corporate HR Unit has defined development projects linked to each of these critical success factors. These include extending job satisfaction surveys to cover all retail stores by 2009, updating the bonus system, and enhancing Kesko's profile as an employer internally as well as externally.

The Kesko Group HR policy is being revised, and is expected to be completed in spring 2007, when the Kesko Group's new Code of Conduct will be issued.



Managers play an important role in human resources management at Kesko, and are supported by the Group's HR units and specialists responsible for developing guidelines, procedures, and other management tools. Human resources are managed according to the life-cycle model, which covers human resource planning, recruitment, competence development, performance management, creation of a good working community, and termination of employment.

PERSONNEL STATISTICS FOR 2006, BY COUNTRY

	Finland	Estonia	Latvia	Lithuania	Russia	Sweden	Norway
Total personnel as of 31.12.	14,149	540	944	4,597	1,114	836	670
Average	11,572	567	833	4,374	795	735	549
New employees, number	5,216	224	441	3,096	1,167	406	240
Contracts of employment terminated, number	4,270	162	299	2,534	357	289	139
terminated by employer	137	21	11	137	0	141	*)
Summer employees	751	61	27	238	0	106	*)
Turnover rate, %	24.9	18.7	28.8	49.9	32.0	21.9	20.7****)
Sick days	135,735	3,326	5,747	45,805	7,899	6,020	6,267*****)
per person	9.6	6.2	6.1	10.0	7.1	7.2	9.4*****)
per million working hours	6,665	2,348	3,415	5,184	5,018	4,654	6,485*****)
Salaries paid, € million	340	6.7	9.6	41.3	8.0	19.7	24.2
average annual salary, €	29,383	11,898	11,513	9,453	10,123	26,831	44,086
Vocational training, %	61	44	61	13**)	38	*)	*)
Higher education with degree, %	19	44	29	23	47	*)	*)
Training days per person	1.5	3.8**)	2.3	0.2	0.1	*)	*)
expenses, € per person	354	412	232	17	*)	264	*)
Unionisation rate, %	38.2	-	-	-	-	*)	26.9

*) data not available

***) data for Rautakesko AS not available

****) data for Senukai not available

*****) Including summer workers

*****) Incomplete data

Data for Rimi Baltic not available

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

Goals and performance

Kesko's strategic human resources goals are presented in the table above, together with the performance indicators linked to these goals. Performance is discussed under the relevant headings.

Employment and employee turnover

The Kesko Group had 20,864 permanent employees and 2,370 fixed-term employees as of the end of 2006, equivalent to 89.8% and 10.2% of the total. 927 people on long-term leave, such as parental leave, are included as permanent employees. Due to the Christmas season, the proportion of fixed-term employees is higher at the end of the year than at other times.

Part-time employees accounted for 28.6% of all Group personnel. The majority of these worked for retail companies in Finland. Approximately three-quarters of all Group employees work in retailing. Kauko-Telko's 521 employees are not included in these statistics. In Rimi Bal-

tic, there were 10,165 employees as of the end of 2006, of which 9,132 or 89.8% were full-time employees.

Employment trends in Finland and foreign subsidiaries show that the proportion of both fixed-term and part-time employees has increased in Finland and in the Group as a whole, but decreased slightly elsewhere.

The Group employed 5,216 new employees in Finland and 5,574 in other countries during 2006. A total of 4,270 employees left the Group in Finland, and 3,780 in other countries. Staff turnover in Finland was 24.9%, excluding summer employees (the difference in relation to the number of personnel at the end of the year), which is approximately the same as in 2005 (24.2%). The average turnover rate outside Finland was 38.5%, but the differences between companies were large, varying between 16% and 51%. Staff turnover in Rimi Baltic was 14.4%.

The most common reason for terminating employment with Kesko in Finland was a fixed-term contract, accounting for about 44% of departures. Elsewhere, the reason for approximately 64% of departures was employees leaving the company. About 3% (137) of employment contracts in Finland and about 9% (310) elsewhere were terminated for production and financial reasons or other reasons based on the Contracts of Employment Act. The corresponding figures in 2005 were 256 and 123, respectively. During 2006, 140 people retired in Finland and one elsewhere. Details are not available for Byggmakker, Rimi Baltic, or Senukai.

The Kesko Group had 750 summer employees in Finland and 432 in other countries, the majority in retailing and warehousing. This figure is not available for Byggmakker.

FIXED-TERM AND PART-TIME EMPLOYMENT IN 2002-2006

	2002	2003	2004	2005	2006 ¹⁾
Fixed-term employees as a % of all personnel as of 31.12.					
Finland	17.3	18.6	16.2	14.1	16.5
Other countries	1.4	3.1	1.1	1.0	0.9
Entire Group	14.1	12.9	10.2	8.2	10.2
Part-time employees as a % of all personnel as of 31.12.					
Finland	41.1	41.3	40.1	37.1	42.0
Other countries	9.9	8.8	8.7	9.0	8.8
Entire Group	34.9	29.8	27.8	24.3	28.6

¹⁾The figures for 2006 do not include Kauko-Telko and are not fully comparable to previous years

Average age and duration of employment

The age breakdown of Group personnel in Finland is presented in the accompanying chart. Over half of employees are now younger than 36, while those over 55 account for only 8%. The average age of personnel has remained unchanged for the last two years.

Employees are, on average, even younger in subsidiaries outside Finland, and aged 29 in Sweden, 33 in Norway, 34 in Estonia, 32 in Lithuania and Latvia, and 27 in Russia.

The average duration of employment contracts in Finland was around nine years as of the end of 2006, unchanged from 2005. A breakdown of the duration of employment contracts is presented in the accompanying chart, which shows that 1,936 or 13% of employees had worked for the Group for over 20 years.

The short history of subsidiaries outside Finland means that the longest employment contracts current there are less than 15 years. Over 70% of employees have worked for the Group for less than two years, and only 11% for more than five years.

These statistics are not available for Byggmakker, Rimi Baltic, or Senukai.

Recruitment and job rotation

Kesko recruits about 5,300 new employees annually. Approximately 1,500 of these are permanent and the rest are hired for a fixed term, as seasonal help, for example. Kesko's international working community includes nearly 700 different job titles. In-house job rotation makes it possible to offer a great variety of different career alternatives.

Major HR risks include the shortage of sales personnel in Finland and that of experts in Russia and the Baltic countries. The efficiency of the K-Group's internal labour market, coupled with well-managed job rotation, will be of

crucial importance in the near future, therefore. Some 500 people moved internally from one job to another in 2006.

Recruitment in the K-Group is supported by the K-trainee programme and the K-retailer trainee programme. The Group recruited 18 recent graduates to the K-trainee programme out of some 1,100 applicants in 2006 for training for various managerial and specialist positions. About 100 people complete the K-retailer trainee programme every year.

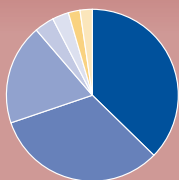
Kesko's profile as an attractive employer

Kesko's target is to be the most attractive workplace in the trading sector. In addition to increasing the commitment and job satisfaction of current Group employees, Kesko wants to be seen as an interesting option by other trading professionals and students. To meet this target, Kesko is continuing to further develop its cooperation with educational institutions, participates in recruiting fairs, and presents the K-Group as an employer at various events. Kesko monitors how it is perceived as an employer in Finland through a number of surveys conducted among students and the young working population. Regular surveys are also conducted on Kesko's employer profile among top decision-makers and other influential people in society.

Six studies were carried out in 2005: two surveyed student opinion (Universum and Talentum), two surveyed the general working population (Universum and Talentum), and one decision-makers (Taloustutkimus). In addition, the EVTEK-Mercuria Business School conducted a survey among business students.

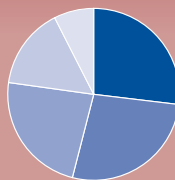
Kesko's ranking has risen among students since 2000, with the exception of 2006. Respondents ranked Kesko 42nd (30th) out of the 100 companies included in the Uni-

BREAKDOWN OF KESKO GROUP EMPLOYEES BY DIVISION AS OF 31 DECEMBER 2006, %



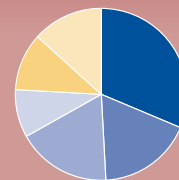
- Rautakesko 37.3%
- Kesko Food 32.5%
- Keswell 18.9%
- Kesko Agro 3.7%
- VW-Auto 3.1%
- Kauko-Telko 2.2%
- Other Group companies 2.3%

AGE BREAKDOWN OF PERSONNEL IN FINLAND IN 2006, %



- under 26 yrs 26.9%
- 26-35 yrs 27.1%
- 36-45 yrs 23.2%
- 46-55 yrs 15.3%
- over 55 yrs 7.5%

DURATION OF EMPLOYMENT IN FINLAND IN 2006, %



- under 2 yrs 31.3%
- 2-5 yrs 17.8%
- 5-10 yrs 17.7%
- 10-15 yrs 9.0%
- 15-20 yrs 10.8%
- over 20 yrs 13.3%

versum survey. In the Talentum survey, respondents included university students in addition to commercial and technical students, for the first time. The research methods used were also different. Only those who already knew the company assessed its attractiveness as an employer in 2006. Kesko was ranked 53 (32) in the Talentum survey. Students considered Kesko a reliable, stable, and relatively interesting employer that offers a range of jobs, but not in a very dynamic sector. Some described Kesko as slightly old-fashioned and too large.

In the survey conducted by the EVTEK-Mercuria Business School, business students found Kesko very attractive as an employer. Although Kesko's sector is not seen as the most exciting, students saw the company as the most interesting employer in its category.

Senior white-collar employees and top decision-makers were generally more critical towards companies than students. Kesko was ranked 28 (26) among young professionals (Universum/business graduates, career of 1-8 years), and 39 (42) among senior white-collar employees (Talentum). Kesko's ranking declined slightly compared to 2005 in the Universum survey, although a larger proportion of young professionals chose Kesko as their ideal employer. Young professionals consider Kesko a stable, reliable, trustworthy, and efficient company, but also as large and inflexible, in the same way as students.

In the VIP survey that assessed the opinions of managers in large companies, organisations, municipalities, and government agencies, Kesko's reputation as an employer fell slightly short of the average, both in the comparison of large companies (40 in all) and that covering

trading sector companies. The figures remained relatively unchanged from 2005.

Emphasis on leadership

A uniform management system built on corporate values is essential for long-term operational development. Management is responsible for ensuring that Kesko operates in compliance with the Group's values. Annual performance and development reviews are one of the key tools used for efficient performance management and motivating leadership. Reviews covered 74% of the Group's employees in Finland in 2006 (76% in 2005).

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

The programme's themes in 2006 concentrated on the delivery of our customer promise, and how to exceed it, managing internal and external cooperation in the common value network, and self-management, together with personal growth as a manager. The main theme for 2007 will be responsible management. For more on this, see p. 24.

Job satisfaction

A good working community is a prerequisite for employee wellbeing and excellent performance. Progress in this ar-

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

	2002	2003	2004	2005	2006
Own job	3.72	3.71	3.79	3.82	3.82
Superior's performance	3.82	3.79	3.80	3.84	3.81
Unit's operations	3.78	3.76	3.76	3.78	3.76
Kesko's operations*	3.71	3.70	3.60	3.58	3.58

*The results for 2002 and 2003 are not comparable to the results for 2004, 2005 and 2006

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

	Sweden			Estonia			Latvia			Lithuania			Norway	Russia
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2006	2006
Own job	3.91	3.97	3.86	3.79	4.09	4.15	4.00	4.14	4.11	4.08	3.88	4.10	3.95	4.14
Superior's performance	3.87	3.74	3.65	3.84	3.96	4.02	3.83	3.98	4.04	4.08	3.94	3.70	3.66	4.13
Unit's operations	3.74	3.79	3.63	3.79	3.95	4.06	3.79	3.99	3.99	3.93	3.71	3.85	3.66	4.23
Company's operations	3.75	3.76	3.70	3.80	4.01	4.06	3.74	4.02	3.97	4.03	3.65	3.73	3.68	3.96
Average	3.81	3.82	3.71	3.87	4.00	4.08	3.87	4.03	4.05	3.99	3.73	3.88	3.79	4.17
Number of respondents	261	380	547	342	377	449	226	398	596	101	116	149	346	666
% of employees	48.6	51.0	53.0	79.0	74.0	79.0	67.7	60.0	64.0	70.1	68.0	76.0	51.0	66.0

ea is monitored through a regular job satisfaction survey that has been used in Kesko since 1996, and covers Kesko's indicators for management quality. The survey measures people's satisfaction with their job, the performance of their managers, the operations of their units, and of Kesko as a whole. The results of the survey are used in developing unit and Group operations directly linked to employee wellbeing and the workplace.

Job satisfaction unchanged in Finland

Job satisfaction has remained relatively unchanged over the last five years. The results are presented in the table on the left.

In Finland, 9,387 employees, accounting for 69.9% of all personnel, responded to the survey, which was exactly the same as in 2005. The survey did not include employees on long-term leave.

Employees' satisfaction with their jobs and with Kesko's operations remained unchanged from 2005 in Finnish companies, whereas satisfaction with the performance of managers and unit's operations decreased slightly. The changes were very small, however. The strengths listed in 2006 were people's awareness of their own and their unit's targets, the high perceived level of customer satisfaction, and the Group's focus on environmental issues. Satisfaction with internal mobility opportunities has improved over the years, but is still seen as a development target, as are communications between employees and management and general employee wellbeing.

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

Almost all foreign subsidiaries covered

Outside Finland, the response rates increased slightly, except for Lithuania, and varied between 51% and 79%. The survey was not carried out in Senukai in Lithuania. Job satisfaction improved in the Group's Estonian and Lithuanian companies, remained unchanged in Latvia, and decreased in Sweden on average. The survey was carried out in Norway and Russia for the first time in 2006.

Other evaluation practices

Management quality is evaluated regularly through a number of other surveys. Kesko's annual customer satisfaction survey indicates how both external and internal customer relations are developing. Both contribute to the bonuses paid at unit level. Group units carry out annual team-based self-evaluations, using the criteria developed by the Finnish Quality Award. An in-house quality competition, arranged every other year, is linked to this evaluation.

Personnel can give feedback on operations in their units, and directly to senior management, through the Kesko intranet in Finland, which features a 'direct channel', 'mail to the President and CEO', and a discussion channel, where employees can comment on and make proposals on matters related to Kesko, either openly or anonymously.



Case

SHOULD WE TALK?

Anttila's HR manager, Sini Syväjärvi, and Staff Development Manager, Eeva Kukkonen, conducted a series of on-site training sessions at Anttila's department stores at the beginning of 2005. When asking participants about improvements they would like to see, it quickly became apparent that people wanted a tool that would help them resolve conflicts in interpersonal relations.

These discussions led to a simple model known as Should we talk? – based on one of Kesko's values: 'We create a good working community'. Living up to this value means that we work in an open, interactive community that respects people and encourages everybody to be enterprising and lead a full life.

The model describes the characteristics of a good working community, explains the basic rules of working with other people and behaving at work, and defines what is meant by harassment and how it can be prevented. Harassment is a key issue – legislation on occupational safety requires employers to eliminate harassment. 'The Should we talk?' model gives advice to those who feel they are being harassed, and to managers whose employees claim harassment.

The model has proved very successful and helped solve a number of conflicts in the workplace and prevented new ones developing. This success has been reflected in Anttila's annual job satisfaction survey, which indicates that company personnel have not experienced any harassment or other mistreatment.

'The Should we talk?' model was awarded an honourable mention in Kesko's internal quality contest in December 2005. The model is now in use across the Group, and can easily be adapted to the needs of different units.

Ari Puusniekka and Pasi Korhonen strongly agree that most conflicts can be avoided through open discussion.

GENDER BY EMPLOYEE CATEGORY IN FINLAND AS OF 31 DECEMBER 2006

	Women, number	%	Men, number	%
Top management	7	15.6	38	84.4
Middle management	141	24.7	431	75.3
Superiors, specialists	778	48.7	818	51.3
Workers, office workers	7,927	64.4	4,388	35.6
Total	8,853	60.9	5,675	39.1

PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY IN FINLAND 2002-2006

	2002	2003	2004	2005	2006
Top management	10.4	8.9	13.3	14.3	15.6
Middle management	22.2	23.9	24.1	23.6	24.7
Superiors, specialists	56.8	58.2	55.4	54.8	48.7
Workers, office workers	65.5	64.3	63.7	63.4	64.4
Total	62.8	61.9	61.1	60.8	60.9

Management replies to feedback are published via the intranet's 'direct channel', while the President and CEO replies personally. Outside Finland, Senukai has an 'Ethical Committee', which consists of five management representatives and meets, where necessary, to consider complaints and problems presented by employees. The committee received no complaints in 2006.

Equality

The Kesko Group and its Finnish division parent companies and subsidiaries have company-specific equality plans including objectives for improvement based on national equality legislation. These were prepared in 2005-2006 and cover areas such as recruitment, career development and training, compensation, and work-family in-

teraction. In addition to gender equality, the plans also cover other aspects of equality, such as equality between people of different ages and cultural backgrounds. Employees' experience of equality has been monitored as part of the job satisfaction survey since 1996.

As of the end of 2006, a total of 60.9% (60.8% in 2005) of Kesko Group employees in Finland were women, and 39.1% (39.2%) were men. In companies outside Finland, employee statistics are male-dominated - the proportion of men was 61%, except in Rimi Baltic, where woman accounted for 87% of employees.

There were seven women in top management in 2006, equivalent to 15.6% of the total. In 2006, one of the seven members of the Board of Directors was a woman, and there were two women on the nine-member Corporate Management Board.

As Kesko introduced a new position evaluation system in 2006, the data on the proportion of men and women in various employee categories is not fully comparable to previous years. Women accounted for 24.7% (23.7% in 2005) of middle management in Finland. This proportion has increased every year since 2000, with the exception of 2005. The proportion of women in management and specialist positions dropped to 48.7% (54.8%).

The proportion of women in middle management was 29.6% in Estonia, 36.6% in Latvia, 25.9% in Lithuania, and 59.3% in Russia. Women in superior or expert positions accounted for 22.5% of employees in Estonia, 30.3% in Latvia, 33.3% in Lithuania, and 65.6% in Russia. Statistics are not available for K-rauta AB in Sweden, Byggnakker, Rimi Baltic, or Senukai.

The Ministry of Welfare in Latvia awarded Rimi Baltic Latvia a prize for the 'Gender Equality Index', an initiative of the Ministry. Rimi Baltic Latvia was regarded as the country's friendliest company for both genders.

The number of women in supervisory positions is significant in retail subsidiaries. 81% of department managers in K-citymarket hypermarkets and 74% of department managers in Anttila department stores are women.

In Finland, Kesko's implementation of equality was rated at 3.60 (3.58) on a scale of 1-5 in the annual job satisfaction survey. This rating has improved every year since 1996, except for 2004.

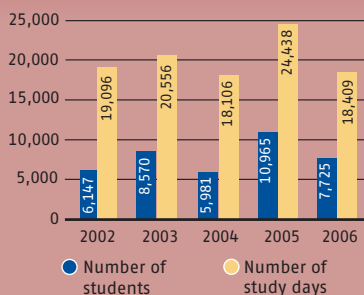
Kesko has produced no statistics on equality on other grounds than gender.

Competence development and training

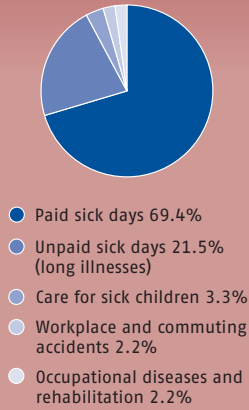
The objective of Kesko's personnel development and training is to develop the core competencies needed to implement the Group's business strategies and the customer promises of its chains.

Statistics are available for all Kesko employee basic training in Finland, with the exception of retailing companies. Of the 4,924 people included in Kesko's statistics, 20% have basic education, 61% have medium-level vocational training, and 19% have a degree from an institution of higher education.

NUMBER OF STUDENTS AT THE K-INSTITUUTTI



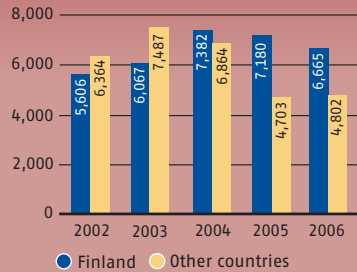
SICKNESS ABSENCE IN 2006 (FINNISH OPERATIONS), %*



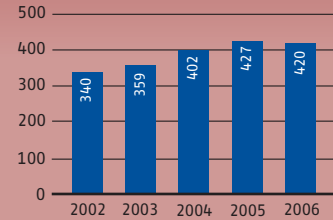
Total number of sick days in Finland: 135,735

* For Kauko-Telko, only the total number of sick days is available

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



KESKO'S SPENDING ON OCCUPATIONAL HEALTH SERVICE IN FINLAND (KESKO'S IN-HOUSE OHS UNIT)



The percentage of employees with a degree was higher in the Baltic countries and Russia than in Finland - 44% in Estonia, 29% in Latvia, 23% in Lithuania, and 47% in Russia. No statistics are available for Sweden, Norway, or Rimi Baltic.

A total of 17,100 working days or 1.5 days per employee - based on the average number of personnel - were devoted to supplementary training in Finland. A total of €4.1 million or €354 per employee was spent on training. As the figures for 2005 were 1.8 days and €370 per employee, training declined in 2006. Around 80% of training was internal, including training at the K-instituutti.

The main competence development programmes in Finland included:

- 'What are we having today?' training for K-food stores employees, over 2200 participants
- Anttila's Best Service training, 2,800 participants
- Kesko Food Commerce's 'Kesko CBM Master' training, 300 participants
- Performance-driven sales management training in K-rauta, 160 participants
- Workplace trainers training in the K-citymarket, Anttila, and K-supermarket chains, over 300 participants

The number of training days in companies outside Finland totalled 3,589 or 0.5 days per employee, costing €695,796 or €95 per employee. Internal training accounted for 44%. In 2006, employees received training in sales, marketing, and leadership, as well as warehousing and logistics, among other things. Rimi Baltic AB and Byggmakker are not included in these figures. The data for training days is not available for Rautakesko AS in Estonia or K-rauta AB in Sweden.

Rimi Baltic continued its internal management training programme launched in 2005 for young graduate employees aimed at increasing the company's in-house future management potential. The seven-month training period included work in stores, operations, logistics, and the supply chain, category management, and marketing. Rimi Baltic also supports professional competence and personal development at all levels. A total of 60 employees graduated in 2006 and five finalised their master's thesis, 32 their bachelor's degree, six graduated from college, and 17 from high school.

The K-instituutti training centre provided courses for 7,725 Kesko employees, K-retailers, and K-store staff in 2006. This compares to 10,965 in 2005. The number of study days totalled 18,409 (24,438). Student numbers vary from year to year, depending on whether large training programmes are offered. In 2006, the largest training programme in terms of number of students was 'What are we having today?' for K-food stores. The SAP training related to Kesko Food's and K-stores' operations control system, which was ongoing during 2005, was completed in summer 2006. This led to a decrease in the number of students in 2006 compared to 2005. The K-instituutti has close to 20 e-learning courses for the Group's companies and chains.

A total of 15,755 students, of whom 897 were Kesko employees (including personnel from Kesko's retailing companies), participated in the Master Assistant training arranged by the K-Retailers' Association, mainly through distance learning. As in previous years, the programme was also offered in about 100 business colleges and polytechnics, most often during final year courses. Some 6,000 students from educational institutions took part in training in 2006, and the best average results were achieved at the South Karelia Adult Education Centre.

Health and safety

The promotion of occupational welfare is an important part of Kesko's personnel strategy and the continuous development of operations.

Sick leave in Finland

Kesko collects work-related health and safety statistics, together with absence statistics due to illness. Statistics on contractors are not collected. Indicators presented per million working hours and as a percentage of total working days are calculated based on the average number of employees, while others are based on the number of employees at the end of the year.

The number of work-related incidents in Finland totalled 397 (392 in 2005), and 105 (97) accidents took place on the way to work or return home. One occupational illness was reported to the Group's insurers. No fatal accidents took place. The lost time incident rate per million working hours was 19.5. The severity of incidents, as calculated in terms of days lost per incident, dropped by 13%. The number of sick days caused by incidents at the workplace or during commuting in Finland totalled 3,040, equivalent to 0.2 days per employee and unchanged from 2005.

The total number of sick days in Finland was 135,735 or 9.6 days per employee (9.7 days in 2005) – or 6,665 days per million working hours. As the number of annual working hours is 1,760 in Finland, the figure represented a decrease of 7.2%.

According to the Confederation of Finnish Industries EK, the average sickness absence rate in the Finnish service sector in 2005 was 3.8% of theoretical working hours. The corresponding figure for industry was 6.5%. Taking a 7.5-hour working day as the basis for calculations, Kesko's absence rate in Finland was 5.0% (5.5% in 2005). The sick days of part-time employees are entered as full days in Kesko's statistics. If they were entered as hours, the indicators for sickness absence would be slightly lower.

The graph on page 61 shows the reasons for sickness absence. Compared to 2005, the major changes were a 15.3% decrease in the number of unpaid sick days resulting from long illnesses, and a 8.8% decrease in the number of paid sick days, both calculated on the basis of working hours.

Several employee wellbeing projects contributed to the decline in the number of short sick leaves in 2006. These include, for example, Rautakesko's Timantti programme, Kesko Food's Ilo programme, and the 'On the move' campaign, which covers the entire K-Group.

The number of paid and unpaid sick days used for rehabilitation increased by 19.7%. Rehabilitation focused on 'ASLAK' vocation-specific early rehabilitation courses. Eight new groups began in 2006, and all six courses started in 2005 continued in 2006. In addition, four TYK courses aimed at maintaining working capacity among employees with diseases reducing their work capabilities began in 2006.

Kesko Group companies in Finland have occupational health and safety committees based on Finnish occupational safety and health legislation.

The graph on page 61 shows the development in the number of sick days per million working hours between 2002 and 2006. As the accuracy of the statistics has improved over the years, this has increased the number of sick days to some extent, making comparisons more difficult. Accuracy increased in the recognition of unpaid sick days in 2005, for example.

Sick leave in other countries

Subsidiaries outside Finland recorded 75,064 sick days, equivalent to 8.6 days per person (8.0 days in 2005) or 4,802 days (4,703 days) per million working hours. Absence accounted for 3.6% of working days in 2006, which is less than the number of sick days in Kesko's Finnish operations. In Rimi Baltic, there were 10.7 sick days per employee. Country-specific details are presented in the table on page 55. The number of annual working hours is 2,030 in Estonia, 2,020 in Latvia and Lithuania, 1,980 in Russia, and 1,760 in Sweden and Norway.

Relative sickness absence rose in 2006, but the figures for different years are not completely comparable. Byggmakker's 670 employees were included in the statistics for 2006.

Occupational health service

Kesko's in-house Occupational Health Service Unit served approximately 5,900 Kesko Group employees in 2006 in the Greater Helsinki area, Oulu, Turku, Kuopio, and Tampere in Finland, over 5,300 of whom were seen at the Group's own health clinics in Greater Helsinki. The Unit employs six company doctors, 12 occupational health nurses, three occupational physiotherapists, and three secretaries/receptionists. Kesko also has an occupational psychologist employed by another unit in the organisation. Some Kesko Group companies buy occupational health services in from outside providers.

A total of €4.1 million was spent on occupational health care in Finland in 2006. Around €2.1 million of this sum was paid for by the Social Insurance Institution of Finland.

The total spending on promoting employees' work capabilities and health care was €304 per person in Finland in 2006. Of the total spending on services from outside service providers, 35% was used in activities maintaining employees' work capabilities and preventing illnesses. The corresponding figures for Kesko's in-house occupational health service are €420 and 45%.

The Occupational Health Service Unit assists Kesko's retail companies in questions related to workplace ergonomics. The Occupational Health Service Unit and Kesko Food started cooperation in 2006 to utilise the unit's knowledge of ergonomics in store design. The most common development needs identified in workplace surveys conducted by the Occupational Health Service Unit are improving check-out desk ergonomics, adjusting store fittings, and improving the safety and ergonomics of small warehouse spaces.

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

Occupational health care targets for 2007 include:

- Integrating the reporting and processing of sick leave into a systematic procedure in all companies and units.
- Harmonising joint meetings between managers, employees, and occupational health care personnel.
- Introducing drug testing as part of initial health check-ups for certain categories of employees in areas such as IT, occupational health care, security, and drivers.

Salaries and other benefits

The average annual salary of Kesko employees in Finland was €29,383 in 2006, €34,208 in the other Nordic countries, and €10,006 in the Baltic countries and Russia - based on the Group's average number of personnel. The corresponding figure for Rimi Baltic was €5,560. Although fringe benefits are taxable income for employees, they are not included in salaries but recognised as other expenses. Company car-related expenses, for example, are booked as car expenses.

Because the operations of the Kesko Group are very diverse, with nearly 700 different job titles, average salary is not a very good indicator of employees' salary level and structure. Comparisons between the salaries of men and women are not very meaningful either, due to the different nature of people's duties. The Group structure has also changed so much both in Finland and elsewhere that comparisons with previous years do not illustrate trends in salaries.



Case

A NEW CAREER SUPPORTED BY THE KESKO PENSION FUND

Pentti Leskinen worked at Kesko's regional warehouse in Kuopio for 27 years. For the last six of those years, he was Kesko Food's shop steward in Kuopio and participated actively in national meetings.

Leskinen had had problems with his back since the end of the 1980s, and in spring 2002 had to take a long sick leave because of his back, even though he was doing little warehouse work at this stage. Kesko Food started reorganising its warehousing and deliveries of fresh food around this time, and the Kuopio fresh food warehouse was closed in summer 2002. Following the closure, Leskinen decided retraining was the solution for him and started a three-year training programme at the Ingman Handicraft and Arts Institute, specialising in renovation and restoration work. The Kesko Pension Fund paid the costs of his training, and provided him with benefits equal to disability pension plus one third. After completing the course, Leskinen took a half-year entrepreneurship course on his own behalf.

In February 2006, Pentti Leskinen saw a TV programme on 'husband renting', which featured Petteri Ikonen from Tampere, who had started to offer practical household services via the Internet a couple of years earlier. The demand for services of this type has been growing rapidly over the last few years, due to favourable changes in tax deductions. Today, there are more than 20 rental husbands around Finland, and many of them work full time. Pentti Leskinen joined the team in June, serving customers in Kuopio and nearby Siilinjärvi and Maaninka.

The Kesko Pension Fund has launched 30 similar retraining initiatives over the last few years. Eight of these have led to new jobs, some are still ongoing, while some participants have exited the programme. Leskinen's training was successful for both parties. Leskinen himself is very satisfied with his new profession. The work is full of variety, his customers are mostly elderly women living alone or old folk needing help in their everyday chores, and positive feedback is easy to get. For the Kesko Pension Fund, the costs were approximately one quarter of what his disability pension would have cost.

Pentti Leskinen renovating a fence for an elderly client.

Bonuses

Some €6.2 million was paid in spring 2006 in Finland in the form of bonuses under the bonus system for 2005, accounting for 1.8% of the total payroll. The Group's bonus system applies to all personnel of Kesko Corporation and its Finnish subsidiaries, with the exception of retail stores, where bonuses are only paid to managers in Anttila department stores and K-citymarkets. In 2006, a sales bonus system was also piloted among K-citymarket employees. The Indoor Group also has its own system. The key factors contributing to the payment of a bonus are the overall performance of the Group and the division, sales and performance within a person's unit, and customer satisfaction. The job satisfaction of personnel is another contributing factor for managers.

In addition to the Group's bonus system, subsidiaries in Finland and elsewhere have their own bonus systems. The bonus systems of companies outside Finland are not necessarily comparable to the Finnish ones. Companies outside Finland paid nearly €4.2 million in bonuses for 2006, accounting for about 4.9% of the total payroll. These figures are not available for Byggmakker or Senukai.

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

Share options

Kesko had two share option schemes in 2006. The share subscription period of the 2000 stock option scheme for management ended on 31 March 2006. The 2003 Annual General Meeting approved a new share option scheme, mainly for top management (the current 50 executives and possible new employees recruited to similar positions). The subscription period for this scheme will end, depending on share option, at the end of April 2008, 2009, or 2010. The scheme can be consulted at www.kesko.fi (Investors).

Personnel expenses in the financial statements for 2006 included share options granted to the value of €2.1 million.

Fringe benefits

Fringe benefits increased slightly in Finland in 2006. A total of 795 (748 in 2005) employees had a company car, and 2,820 (2,760) employees had a company telephone. The Group had no company housing. No statistics are available on fringe benefits in companies outside Finland.

The Kesko Staff Club arranges a wide range of recreational activities for personnel, and contributes to enhancing the working environment for Kesko employees. The annual budget of the Club is about €0.5 million, and activities are divided between the main club and 11 district clubs. The club at Katajanokka in Helsinki, for example,

runs 17 leisure circles, ranging from culture, music, glass art, and porcelain painting to many types of physical activities. A total of seven holiday cottages are available for rent to employees, and their occupancy rate was virtually 100% in 2006. Subsidiaries in Estonia and Latvia spent approximately €120,000 on staff leisure and recreational activities. Data for Lithuania, Sweden, and Norway is not available.

Pensions

A total of 140 people (177 in 2005) retired from the Group in 2006. Of these, 59 (87) were members of the Kesko Pension Fund, while 81 (90) were insured by Varma-Sampo. The figure includes employees on partial retirement and partial disability pensions. Occupational retraining was arranged for 26 (16 in 2005) employees unable to continue in their previous jobs or whose working ability was at risk due to illness. Only one person retired in a company outside Finland.

The number of employees who retired on full pension on health grounds decreased by 9 to 57 in 2006. The number of early retirement pensions granted by Department A of the Pension Fund on production- or economic-related grounds totalled 10, which is clearly less than the average over the past five years.

The average retirement age of employees covered by pension decisions made by the Kesko Pension Fund increased to 58.1 years (56.3), and in Varma-Sampo decisions to 55.0 years (54.7). This increase in average age can be attributed to the new Pension Act, which enables employees to retire at their own discretion between the age of 63 and 68. In the case of the Kesko Pension Fund, a few employees that continued to work until the age of 63 or even 65, and the fact that there were not many young people retiring on disability pensions, increased the average retirement age. The average retirement age of people in the Finnish national employee pension scheme was 58.6 years (2005).

The average pension paid by the Kesko Pension Fund - €52 million to 3,318 people in all - was €1,305 per month in 2006.

Activities in employer organisations

Kesko is a member of the Federation of Finnish Commerce, the Swedish Commercial and Service Employers' Association, and NHO - the Confederation of Norwegian Enterprise. Rautakesko's and Kesko Agro's subsidiaries were not members of any organisations in the Baltic countries. The unionisation rate is very low in the Baltic countries, and no binding, collective agreements covering any industries have yet been concluded.

Kesko's President and CEO is a member of the Confederation of Finnish Industries EK's Board of Directors and one of the Confederation's three Deputy Chairmen.

Cooperation with employee representatives

A total of 38.2% (33.7% in 2005) of Kesko Group employees in Finland were unionised in 2006, mainly as mem-

bers of Service Union United PAM, based on membership fees deducted from salaries. In Norway, the unionisation rate was 26,9%. Only a few employees belonged to trade unions in the Baltic countries and Russia. Data for K-Rauta AB in Sweden and Senukai is not available.

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

Kesko managers and experts belonging to AKAVA, the Confederation of Unions for Academic Professionals in Finland, have a registered association that acts as their cooperative body and promotes their interests. Their collective bargaining organisation at AKAVA is the Delegation of Professional and Managerial Employees (YTN).

National cooperation meetings are arranged twice a year. The international Group-level European Works Council (EWC) meets once a year, and was attended by representatives from Finland, Sweden, Lithuania, and Estonia in 2006. The representative from Latvia was unable to attend. An international one-day HR Summit was organised for the Group's HR specialists, at which repre-

sentatives from Kesko and outside experts shared their views on HR management in an international company.

Finland's Court of Appeal had one case and the Court of Arbitration one case pending in 2006 concerning disputes at Finnish companies in the Kesko Group related to termination of employment. The Court of Appeal decided the case in favour of Kesko, while the Court of Arbitration decided the case in favour of the former employee. The Court of First Instance had six cases pending in 2006, of which four were related to termination of employment, one to compensation of travelling expenses, and one to changes in discounts granted to employees. Of these one case related to termination of employment was found in favour of Kesko at the end of 2006 and two were settled in the beginning of 2007. The case regarding travelling expenses was found in favour of the employee and the case regarding employee discounts was settled at the beginning of 2007. One case related to termination of employment is still pending.

The statistics regarding employment disputes in operations outside Finland include only open cases that are financially material. According to these statistics, there was one employment dispute case pending at the end of 2006 - related to violation of an employment contract by the employee.



Case

'GOOD DEED OF THE YEAR' AWARD GOES TO CITYMARKET

Service sector trade union, Service Union United (PAM), presented its 'Good Deed of the Year' award to Citymarket in 2006 for its innovative approach to the working hours of its part-time employees. This enables part-timers to increase the numbers of hours they work a week. Citymarket, a Kesko Food subsidiary, runs the non-food sections and checkouts of K-citymarkets, and employs 3,200 people at 54 K-citymarkets. The food sections of K-citymarkets are always run by independent K-retailers.

Part-timers expressed their interest in increasing their weekly working hours in 2005, and an initiative was negotiated between Citymarket's chief shop steward and an employer representative. It soon became clear during negotiations that increasing average hours would benefit both parties. When existing employees work extra hours, they become more motivated and committed to their work, and employers gain a more skilled and dependable workforce.

The first studies on part-timers' working hours were made at the beginning of 2006; and site-specific shop stewards and store managers are responsible for local implementation.

Occupational safety representative Jonne Sassi, who works in the leisure department, Eija Kykkänen from the home goods department, and Citymarket Oy's Chief Shop Steward Leila Tilvis checking their upcoming shifts.

Social quality control of suppliers



KEY SOCIAL QUALITY PERFORMANCE IN 2006

- + Market strength of BSCI cooperation increased, as the number of member companies rose from 50 to 63.
- + The BSCI Food Module was tested and completed, enabling auditing of primary production to start in early 2007.
- + Pirkka Fairtrade roses have been a big success and a promising example for launching similar Fairtrade products.
- Kesko has not succeeded in promoting BSCI audits, and the results were far from satisfactory.
- BSCI has not been able to convince major British and French retailers to join.
- Suppliers experienced more cases of non-compliance during their initial audit than expected.

Scale of the issue

Direct purchases by Kesko's Finnish companies from suppliers in risk areas in 2006 totalled €78 million (€84 million in 2005). These imports accounted for 1.1% of Kesko's total purchases and 7.9% of Kesko's total imports into Finland. Around 72% of imports come from EU countries. Outside the EU, Kesko's most important supplier countries in risk areas are China (€57 million), Costa Rica (€16 million), and India (€8 million).

In addition to its own direct imports, Kesko also buys goods produced in high-risk countries from other importers operating in Finland (see page 32) and through international purchasing groups. These imports mainly consist of international branded products that have been the subject of much attention in respect of the social quality of their manufacture in recent years. Kesko cannot present reliable statistics on the country of origin of these imports, but estimates that their value is approximately similar to that of its own high-risk imports, which means that Kesko's purchases that originate in high-risk countries as a whole account for about 2% of its total purchases.

Kesko's subsidiaries outside Finland have not yet introduced a corresponding procedure for their direct imports. As their parent companies buy from distant countries on a centralised basis, subsidiaries have only a few foreign suppliers, mainly in the EU. For country-specific imports, see page 32.

Principles of socially responsible trading

Kesko published its first principles of socially responsible trading (see www.kesko.fi (Responsibility) in spring 2000. According to these principles, Kesko wants to ensure that suppliers comply, at a minimum, with national labour protection legislation. In cases where international labour standards - mainly the key conventions of the International Labour Organization (ILO) - ensure a better position for employees than national legislation, suppliers are required to comply with international norms.

Kesko joined the Business Social Compliance Initiative (BSCI, www.bsci-eu.org), a group of European retail chains promoting social audits in developing countries, at the beginning of 2005. As a BSCI member, Kesko has committed itself to promoting the implementation of the BSCI Code of Conduct in its own purchasing. The BSCI Code requirements are similar to Kesko's own earlier principles. A slightly amended and stricter BSCI Code of Conduct will come into force in April 2007.

Tools for monitoring social compliance

Kesko started monitoring social compliance in spring 2000, after first testing all phases of the procedure in 1999. The SA 8000 Social Accountability standard, the only auditable social standard at that time, was chosen as the major tool for monitoring. Kesko's buyers were given basic training covering the ILO conventions and the SA 8000 standard, and started presenting the certification procedure to their suppliers in risk areas. As only a few retailers in Europe and the U.S. had committed themselves to SA 8000 at this stage, Kesko could not require SA 8000 certification as a pre-condition for doing business, but announced that it would favour certified suppliers.

Since then, numerous product- and sector-based models have been developed, by buyers and suppliers, to improve social compliance in the supply chain. The SA 8000 standard has not proved suitable for everyone, unfortunately, unlike the ISO 14001 environmental management standard, which has proved much more successful in this sense. Although all existing models do not comply with Kesko's requirements - in areas such as maximum working hours allowed, for example - people's awareness of the problems in the supply chain has grown, and the position and working conditions of employees have improved in many ways.

Most existing monitoring schemes cover the working conditions of the employees of Kesko's suppliers, even where Kesko does not participate directly in the schemes concerned. This makes it increasingly difficult to report on how many suppliers actually comply with the Group's social requirements. The major schemes and Kesko's relationship with them are briefly reviewed below.

SA 8000 Social Accountability standard

SA 8000 is a standard developed by Social Accountability International SAI (see www.sai-intl.org), based on the Universal Declaration on Human Rights and the Convention on the Rights of the Child by the United Nations and the key conventions of the ILO. The standard is developed and governed on a multi-stakeholder basis, involving non-governmental organisations, trade unions, universities, and business and certification body representatives. Certification is granted by international certification bodies accredited and monitored by SAI. The procedure corresponds to those used in connection with the ISO 9000 and 14000 standards.

Of the available monitoring tools, SA 8000 is the most demanding, and the most expensive, and complies completely with Kesko's principles. As of the end of September 2006, there were 1,112 SA 8000 certifications in force, compared to 881 at the end of 2005. The list of certified facilities can be consulted at the SAI website (www.sai-intl.org).

Business Social Compliance Initiative (BSCI)

BSCI is a business initiative promoted by European retail chains encouraging the use of social audits in cooperation with SAI. BSCI audits are carried out by SA 8000 auditors, and are designed to guarantee the same basic rights for employees as the SA 8000 standard. If a com-

MAIN ELEMENTS OF SA 8000 AND BSCI AUDITS	
Auditing areas	Corresponding ILO convention
Compliance with legislation and agreements	
Freedom of association and collective bargaining	87, 98 and 135
Discrimination	100 and 111
Compensation	26 and 131
Working hours	1 and 14
Health and safety at work	154 and recommendation 164
Child labour	79, 138, 141 and 182
Forced labour	29 and 105
Basic environmental protection	

RESULTS OF BSCI AUDITS IN DIFFERENT AREAS IN 2006, % OF AUDITED COMPANIES



Initial audits were carried out at 601 companies, and re-audits at 140 companies. Percentages concerning residence halls have been calculated only for companies with residence halls. These represent 46% of all audited companies.

pany that has passed the BSCI audit implements a management system complying with the SA 8000 standard, it can be granted SA 8000 certification. BSCI procedure includes a self-assessment tool for suppliers, which aims at correcting critical issues in advance and saving time during auditing.

BSCI is part of the activities of the Foreign Trade Association (FTA) in Brussels and does not have a legal status of its own. The governing bodies and working groups consist of member company representatives only. For stakeholders such as NGOs and trade unions, BSCI offers the opportunity to participate in Stakeholder Dialogue meetings held annually. As of the end of 2006, BSCI had 63 members, and 2,370 suppliers, either already audited or progressing towards auditing, in its database. A total of 741 BSCI audits were completed in 2006. The database is for members only, and suppliers do not receive a public certificate for having passed a BSCI audit. BSCI completed an auditing module for primary production at the end of 2006, and agreed on coordination work between BSCI and EUREPGAP certification.

BSCI audits comply with all Kesko's requirements - and Kesko promotes BSCI auditing to its suppliers, although it still recommends SA 8000 certification as the ultimate goal in social quality.

EUREPGAP certification

EUREP (Euro-Retailer Produce Working Group) is a global organisation of food retail chains, agricultural producers, and processing companies that has developed traceability, product safety, and environmental norms for primary production. EUREPGAP (EUREP Good Agricultural Practice) certificates are granted by a neutral certification body.

EUREPGAP has now included social issues in its audit procedure, although on a relatively small scale. EUREPGAP and BSCI agreed in late 2006 that if a farmer or packing company passes a BSCI audit, this will be sufficient to secure EUREPGAP certification in respect of social performance.

EUREPGAP certification is an internal quality control tool for EUREP members, including Kesko. Certificates are not published. There were approximately 65,000 EUREPGAP-certified fruit and vegetable growers around the world as of autumn 2006.

Fairtrade Certification

Fairtrade Labelling Organisations International (FLO), together with the FLO-Cert GmbH certification body, monitors the social compliance of approximately one million small and medium-sized producers in 50 countries. Fair-

trade sales are estimated to have totalled approximately USD 1.5 billion worldwide, and around €20 million in Finland, in 2006.

The Fairtrade certification procedure is comparable to EUREPGAP certification and the BSCI Food Module, although the farms monitored are much smaller on average. The major difference between Fairtrade and other schemes is that farmers are guaranteed a minimum price that is higher than the world market price, and required to invest in local social infrastructure. The International Fairtrade Certification Mark - the Fairtrade label - is the only social label that is known and accepted worldwide. The SA 8000 system, for example, does not include a product label.

Kesko Food Ltd is a licence holder of the Finnish Fairtrade Labelling Organisation for its Pirkka range, and sells all categories of Fairtrade products that are available in Finland.

Other initiatives

The major UK and French retailers have their own social compliance initiatives that operate outside the BSCI umbrella.

The major UK chains are members of the Ethical Trading Initiative (ETI) and share information on social audits

through the Sedex databank. ETI's Code of Conduct is similar to those of BSCI and Kesko, and a supplier that passes an audit would also comply with Kesko's requirements. Kesko cannot access ETI audit reports, however, as it is not a member of ETI/Sedex. The Sedex databank can store information on audits based on other codes as well.

Twelve super-/hypermarket chains in France cooperate on a common Code of Conduct, audit scheme, and database through the French national retail federation (FCD). The data collected is not public. The French code does not comply with all aspects of ILO conventions, and passing an FCD audit is insufficient to meet Kesko's requirements.

The US-originated monitoring system for the garment industry, known as WRAP (Worldwide Responsible Apparel Production), is very similar to the BSCI model, and puts a lot of emphasis on self-assessment and uses the same international certification bodies, together with some local companies. As WRAP is not as demanding as SA 8000 and BSCI, in areas such as child labour, working hours, and compensation, a WRAP certificate does not comply with Kesko's requirements. The WRAP databank is only available to members.

Most of the world's major toy manufacturers are located in China today and belong to the International Council

Case

VIETNAMESE SUPPLIERS JOIN A THREE-YEAR QUALIFICATION PROJECT

Kesko has chaired the Responsible Importers Network, which operates under the umbrella of the Finnish Central Chamber of Commerce, since it started in 2001. Kesko launched an initiative to start a joint development and training project for Vietnamese suppliers as part of the network's work in 2005.

Following extensive negotiations, the original plan was converted into a tripartite project including the Trade Union Solidarity Centre in Finland and the Central Organisation of the Finnish Trade Unions, in addition to importers. The majority of the budget is funded by the Development Aid Programme of the Finnish Foreign Ministry.

A similar structure was established in Vietnam by the local Ministry of Labour, trade unions, and the Chamber of Commerce. Project management was provided by Apheda, a development agency owned by Australia's trade unions with 20 years experience in Vietnam. Apheda has been responsible for bringing in the research, training, consulting and auditing companies needed.

The project started in June, with a seminar in Ho Chi Minh City, explaining the targets of the project, the basic requirements of BSCI audits, and how to improve quality and profitability through better working conditions to over 50 participants. The 22 companies that joined the programme then went through two initial surveys, analysing their business performance and employee satisfaction.

The initial BSCI audits will be carried out at companies' plants in spring 2007, followed by a second training session on the corrective actions needed. The project's consultants will support the companies to carry out the changes needed, and a second audit will take place at the end of 2007. This will be followed by final surveys studying the effects of the project on business results and job satisfaction.

Half of the participating companies supply Kesko, which sees the project as a model that can be implemented elsewhere to help improve the social quality of imports from the developing world. Two other Finnish business partners, Stockmann and Tuko, are involved in the project.

The project's Steering Committee includes Mr Tran Thanh Hai, Vice President of the Federation of Labour, Ho Chi Minh City, and Ms Nguyen Thi Thanh Hai, Head of the Foreign Employment Management Division, at the Department of Labour, Invalids and Social Affairs.



of Toy Industry (ICTI), which also has an auditable Code of Conduct for its members. The ICTI Code is very detailed in respect of occupational health and safety, but does not include the ILO conventions on working hours and overtime. The BSCI and ICTI have negotiated mutual recognition on a number of occasions, but shortcomings in the ICTI model still mean that ICTI audits do not comply with BSCI's/Kesko's requirements.

A lot of work is being done in the food sector to improve conditions on farms, although the results of all the initiatives under way are not yet published in a transparent way. Coffee has been the subject of particular attention, and many initiatives and certification systems have appeared in recent years. These have included the Common Code for the Coffee Community founded by the major brands, International Coffee Partners (Paulig, Löfbergs Lila, Tchibo, Lavazza), the Rainforest Alliance and Utz Kapeh (nowadays Utz Certified) certifications, and the Starbuck's Code. The Ethical Tea Partnership includes Tetley, Twinning's, and Unilever; while the chocolate and cocoa industry is promoting the International Cocoa Initiative, and the flower industry GAP and social quality SQ certification.

Results of social auditing

The numerous tools available for monitoring suppliers' compliance with national legislation and international labour standards cover the same core issues of working conditions and terms of employment, but the minor differences between them cause confusion and force suppliers into multiple auditing. SA 8000 and BSCI have failed

as yet to eliminate the problem of multiple audits. Most retailers no longer maintain their own codes and monitoring systems, however, which is a positive development.

In reporting on its social quality performance in the supply chain, Kesko can only provide exact data on SA 8000 certifications, BSCI audits, and Fairtrade producers.

SA 8000 results

As Kesko has concentrated on promoting the BSCI model to its suppliers, progress on SA 8000 was minor. Four new certifications - two in China, one in the Philippines, and one in Croatia - were secured in 2006. This brings the total to 28 certifications in 18 different countries, with a total of 60,000 employees.

The SAI Advisory Board met at Kesko headquarters in Helsinki in September, and Kesko was one of the sponsors and speakers at the SAI Annual Conference in Finlandia Hall.

Kesko will continue to introduce SA 8000 certification to suppliers as the ultimate goal and the last step of the BSCI audit (part C, best practice) during 2007.

BSCI results

Kesko's objective for 2006 was to have 50 suppliers covered by BSCI audits, but this was not achieved, mainly because the procedure has proved much more time-consuming than expected.

At the beginning of 2006, 42 Kesko suppliers had been entered in the BSCI database, either by Kesko or another BSCI member. This registration should mean that the company has started or is about to start BSCI auditing. Many of these had to be eliminated from the database at the end of the year, however, as no audits had been taken.

The time taken between deciding to be audited and passing an audit should not take more than a year. However, if a supplier carries out a thorough self-assessment, identifies many cases of non-compliance, and decides to take all the necessary corrective actions before the initial audit, the process may take longer than a year. As a result, Kesko has decided not to enter suppliers in the database before it is clear that they are committed to proceeding, typically after they have completed the self-assessment phase.

As of the end of 2006, Kesko had 27 suppliers in the BSCI database, of which only six have been audited. The total amount of employees involved is around 20,000, of which audited companies account for around 5,000.

This is unsatisfactory and has prompted Kesko to consider a more efficient way to internally organise the social monitoring of its suppliers. Planning was started in November 2006 and the suggestions for improvement will be discussed by the Corporate Responsibility Advisory Board and the Corporate Management Board during spring 2007. Kesko has restated its target of achieving 50 audits, this time during 2007. In food Kesko will focus on fruit and vegetable suppliers that already have EurepGAP certification and can now be audited against the BSCI Food Module.

Kesko's representatives have been active in the BSCI organisation, as members of the Representative Committee, the Pilot Group (technical development of the model), and the Food Module Working Group. Kesko personnel have also participated in workshops in Spain and in negotiations with French FCD members, and introduced

EXAMPLES OF KESKO'S OWN DIRECT IMPORTS IN 2006 ¹⁾

Country	Value of imports, € million
1. Germany	71.6
2. China	57.5
3. Sweden	46.8
4. France	38.9
5. Netherlands	38.4
6. Denmark	33.8
7. Italy	31.9
8. Estonia	30.5
9. Spain	27.8
10. Belgium	18.9
11. Costa Rica	16.1
12. Great Britain	11.3
13. Japan	8.9
14. Poland	8.8
15. India	8.1
16. United States	8.0
17. Turkey	7.9
18. Lithuania	7.5
19. Portugal	6.6
20. Vietnam	6.5

¹⁾ figures include direct imports forwarded by Keslog, no imports by W-Auto Oy or by Kauko-Telko Ltd

BSCI audits as part of the Vietnamese project being coordinated by Finnish importers.

Fairtrade products

All categories of Fairtrade products – 48 in all – were represented in Kesko's product range in 2006, five in the Pirkka range.

The most important new Fairtrade products introduced in 2006 were Pirkka Fairtrade roses from Kenya (see case). As of the end of the year, Kesko had 28 Fairtrade suppliers in 24 countries, employing a total of 91,000 people.

As Kenyan Fairtrade roses have been such a success, Kesko will start selling two other Fairtrade flowers in its Pirkka range from spring 2007: carnations from Colombia and large roses from Ecuador.

Other initiatives

As many of the large suppliers exporting to Europe supply not only BSCI members but also ETI and FCD members, which have store concepts and product ranges similar to those of Kesko, it is likely that some of Kesko's suppliers participate in these parallel schemes. The same goes for toy producers, most of which implement the ICTI Code, and food sector initiatives.

Overall results

Taking SA 8000 and Fairtrade certifications and BSCI audits into account, Kesko has had a direct influence on the working conditions of 83 supplier companies and the around 170,000 people they employ to date.

The other initiatives linked to Kesko's supply chain have resulted in improvements, particular in respect of global labour standards. A rough estimate would be that around 100 Kesko suppliers are involved in one way or the other, but there is no means of measuring this more accurately. Although Kesko's own achievements have been modest, the overall picture now looks much more satisfactory than it did two or three years ago.

Development projects

Kesko chairs a three-year supplier qualification programme in Vietnam (see case on p. 69), which includes BSCI audits in participating supplier companies.

Cooperation with UNICEF is continuing, and Kesko donated €20,000 to the project by the Finnish UNICEF started in Vietnam in 2006. Cardholders in the K-Plussa customer loyalty programme can donate money accrued from their purchases in the form of Plussa points. UNICEF's share of these donations totalled €8,870 in 2006.



Case

PIRKKA FAIRTRADE ROSES – TRUE FAST-SELLERS

Kesko sells 48 different Fairtrade products. Five of these have been sold under Kesko's Pirkka brand – organic coffee, organic tea, 100% orange-mango juice, fresh pineapple and roses – and combining the Fairtrade label with the Pirkka brand has been a positive experience. As cut flowers have been a popular part of the Fairtrade range in many European countries, Kesko decided to introduce Fairtrade roses to the Pirkka product family last year, and sales began in September 2006.

The major rose farm supplying Kesko is Oserian, south of Lake Naivasha in Kenya, owned by the Dutch family Zwager, who have grown roses and other cut flowers for 25 years. The farm produces 400 million flowers a year and employs 5,000 workers. Other farms supplying Kesko include Liki, Longonot, and Ravine. All these farms have MPS environmental and social certification, Fairtrade certification, and have been audited against the ETI Base Code for ETI members in the UK. The farms recycle the water in their process many times and purify it before returning it back to nature.

Roses are cut at Oserian on Monday morning, packed on the spot into Pirkka wrapping – 10 roses in each – cooled and transported by truck to Nairobi Airport, from where they are flown overnight to Amsterdam. On Tuesday, the wholesaler in Amsterdam puts the flowers into water buckets to let them absorb plenty of water, which guarantees their lasting quality. On Wednesday, the flowers start their journey by road through Germany, Denmark, and Sweden to Finland, and are ready for display in K-stores on Friday.

Kesko had imported roses from Kenya for K-stores before, but sales did not come close to the levels achieved by Pirkka Fairtrade roses. Estimated sales for the first year were 4 million roses, but 3.2 million were sold in the first four months alone. This will generate an annual Fairtrade premium that the farm gets on top of its export price of around €70,000. The local council in Kenya, consisting of management and worker representatives, plan to use the money for repairing schools in the farm area, buying equipment, granting scholarships, improving the health centre and the local water supply, and acquiring computers for the farm's hobby and training centre.

Samuel Okoth at the Oserian farm says that timing is important when cutting roses, to ensure that customers enjoy high-quality flowers even after their long trip to Finland.

Other responsibility areas

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

Product safety

Product safety is closely linked to all of Kesko's business. It is particularly important in the food trade, where safety is highlighted both by means of legislation and statutory control and by companies' voluntary activities.

Legislative environment and Kesko's policies

Kesko's actions in the field of product safety are regulated through various laws. In 2006, the most significant changes in the legislative environment were the new Finnish Food Act, which came into force in March, and the updating of the Finnish Medicines Act. The new Food Act affects Kesko Food's operations in many ways; it will standardise the municipal control of foodstuffs and update the approval practices of new food stores among other things. After updating in February 2006, the Medicines Act now allows nicotine substitution products to be sold in grocery stores, kiosks, and service stations. In K-stores, these products have been placed near to checkouts, so that cashiers can constantly monitor them. Special attention is paid to ensuring the age of young customers buying these products.

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

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

In its Stand on Genetic Engineering, Kesko states that it keeps a close eye on the development of the legislation concerning the use of genetic engineering and the latest data and products available. Special attention is paid to products offering added value to consumers. Kesko's decisions on selections are based on consumers' needs and wishes. The food selections of stores shall be wide and comprehensive, providing consumers with many alternatives to choose from. Kesko can include in its ranges such

the way required by authorities. Currently Kesko's house brand products (Pirkka, Euro Shopper, Rico, Costa Rica) are totally GMO-free, and K-food stores do not sell any other GMO products either.

Kesko Food's Product Research

Kesko Food's Product Research ensures the quality of the products purchased by Kesko, develops the Group's own brands, coordinates self-control, keeps abreast of food legislation, and is responsible for recipe and consumer services. In addition to food products, the unit also controls the quality of some non-food products and home and specialty goods. In the case of Kesko's house brands, the Product Research Unit acts as a product developer partner, working in close cooperation with Kesko's buyers and product manufacturers. The Product Research unit has 20 regular employees.

Rimi Baltic AB has product safety units in all the Baltic countries, where they employ 21 people in all. The company also has a quality team, which serves the entire Baltic sales area, supervising the quality of house brand products.

Supplier and product audits

In 2006, the Product Research Unit audited 40 suppliers (58 in 2005), of which 21 were Finnish and the remaining 19 from eight other countries. These companies mainly included suppliers of Kesko's house brands, and were audited in compliance with Kesko Food's audit protocol. The improvements suggested mainly related to the planning of production facilities and hygiene.

A total of 9,739 (8,809) product samples were analysed. Over half of samples were product development samples of house brand products. The number of samples related to new products was 1,982 in 2006 (1,952 in 2005). A total of 1,277 (1,193) batch control and other self-control samples were analysed. The laboratory conducted seven inter-calibration audits, to compare analysis accuracy between several laboratories. The results of these were within accepted tolerances.

Product recalls

The Product Research Unit is also responsible for product recalls, which numbered 36 (35) during the year. Most of them related to defective quality or taste, or a manufacturing or packaging error. 18 (21) recalls covered Kesko Food's house brand products. In the other cases, the Product Research Unit assisted manufacturers in recalls. Three of them was public product recalls, in which case the defect or error may involve potential health hazards. All such cases are notified to the relevant national authorities.

Rimi Baltic AB adopted uniform crisis management guidelines concerning all the Baltic countries in 2005 which aim to ensure a fast simultaneous recall in all operating countries. There were 29 recalls in Estonia, 223 in Latvia, and 124 in Lithuania. Nearly half of all recalls related to defective packaging information. A total of 19 recalls in the Baltic countries covered Rimi Baltic's house brand products.

Customer feedback

The consumer service section of the Product Research Unit in Finland received 19,322 (18,697) items of feedback during the year. Customer contacts have been increasing year by year. Some 75% of contacts were product complaints, and almost 20% questions concerning products. Feedback also included thanks, ideas, and suggestions. The bulk of contacts took place by phone (11,045) and e-mail (6,275). Answers were given to all feedback. More than 1,300 product samples or wrappings were sent to the consumer service; most of them were analysed by the unit and roughly one third was sent to the manufacturer for analysis.

There are no corresponding statistics available on Rimi Baltic AB's product research.

Increasing the level of preparedness

In spring 2006, a number of dead wild birds infected by the H5N1 virus were found in countries close to Finland. In connection with preparing the retail sector for avian flu, Kesko's readiness to act in exceptional situations was improved and key processes for the continuity of operations were surveyed. Protection of the food chain from potential viral infection was highlighted as particularly important.

Participation in the legislative process

Representatives of the Product Research Unit participate in several legislation and development projects concerning food quality and safety at the national and international level, including the Global Food Safety Initiative

started by CIES - the Food Business Forum, the EU/Codex hygiene and package labelling workgroups, the expert group on biotechnology under the Advisory Committee on Foodstuffs, the ministry of Agriculture and Forestry's research working group, and the working groups of the Finnish Food Marketing Association. Respectively, speciality goods research representatives of the Product Research Unit participate in two ISO/TC working groups: Domestic washing and drying procedures for textile testing, and Care labelling code using symbols. When required, the unit prepares and publishes Kesko Food's views on current issues.

Privacy protection

The Plussa customer loyalty system operated by K-store chains and Plussa partners is managed by a Kesko subsidiary, K-Plus Oy, and is limited to Finnish operations. As of the end of 2006, approximately 3.4 million people in more than 1.8 million households held Plussa cards. Nordea Finance Finland Ltd provides payment and credit services for the system.

The customer information provided by Plussa cardholders forms a customer database that is used, with customers' permission, for improving the service capabilities of partners belonging to the programme, customer relationship management, customer contacts, and marketing purposes.

Cardholders' purchasing patterns are registered on the basis of product categories. More detailed information is evaluated by customer group rather than individually. Customers can expressly forbid the use of their product

Case

NUTRITION CODE SERVICE HELPS PROMOTE HEALTHY EATING HABITS

The K-supermarket chain has been the first food retailer in Finland to offer its loyal customers the possibility of studying the nutritional value of the food they buy via their home PC, working together with Tuulia International Ltd.

A customer can join the Nutrition Code service by having a K-supermarket attach an EAN code sticker to their K-Plussa loyalty card. When paying for their purchases, the code will send information to www.ravintokoodi.fi, and customers can then check how their purchases fall into different food categories, how much energy they contain, and the nutrition value of what they have bought. The software also compares people's shopping basket to the recommendations given by the State Nutrition Board in 2005. The service is ideal for everyone interested in their health, particularly those keen to lose weight, for example.

Customers pay €0.20 per purchase summary for having the information on their shopping basket recorded in the system. No charge is made for accessing the service via the Internet. The service is fully protected, and the system does not collect or process personal data on users.

Customers using the system regularly over a month can receive a reasonably accurate overview of the health-related impact of their food purchases, according to Eero Toivainen, Managing Director of Tuulia International Ltd.

The family of Pirjo Ylitalo, a teacher living in Kauniainen, is always on the move, and family members have long liked to keep an eye on what they eat in terms of things like fat and carbohydrates. The Nutrition Code service has helped the family to control their consumption of salt and sugar even more accurately, and alerted them to fruit yoghurts that include more sugar than they realised.



category information. If they decide to do so, data on their purchasing is not registered or used in planning the range of goods on sale, nor is the information used for direct mail marketing purposes. Customers can also request that no information at all is registered on their purchases, and only make use of the immediate benefits they receive from using their Plussa card. In these cases, purchasing data is not entered into the Plussa system and customers cannot receive any benefits accruing from Plussa points. Some 4,000 customers in 2006 requested that their purchasing data not be recorded.

As a registrar, K-Plus Oy is required to ensure that the customer information it holds is only used for the purposes specified. Information on individual customers is protected by instructions given to personnel and various technical means. Personnel processing personal information on customers, for example, do not have access to product category information, and vice versa. Customer data is only disclosed to third parties if required by law.

Every registrar must have a register description under the terms of the Finnish Personal Data Act, and the register description for K-Plus Oy can be consulted, in Finnish, at www.plussa.com.

Marketing and competition regulations

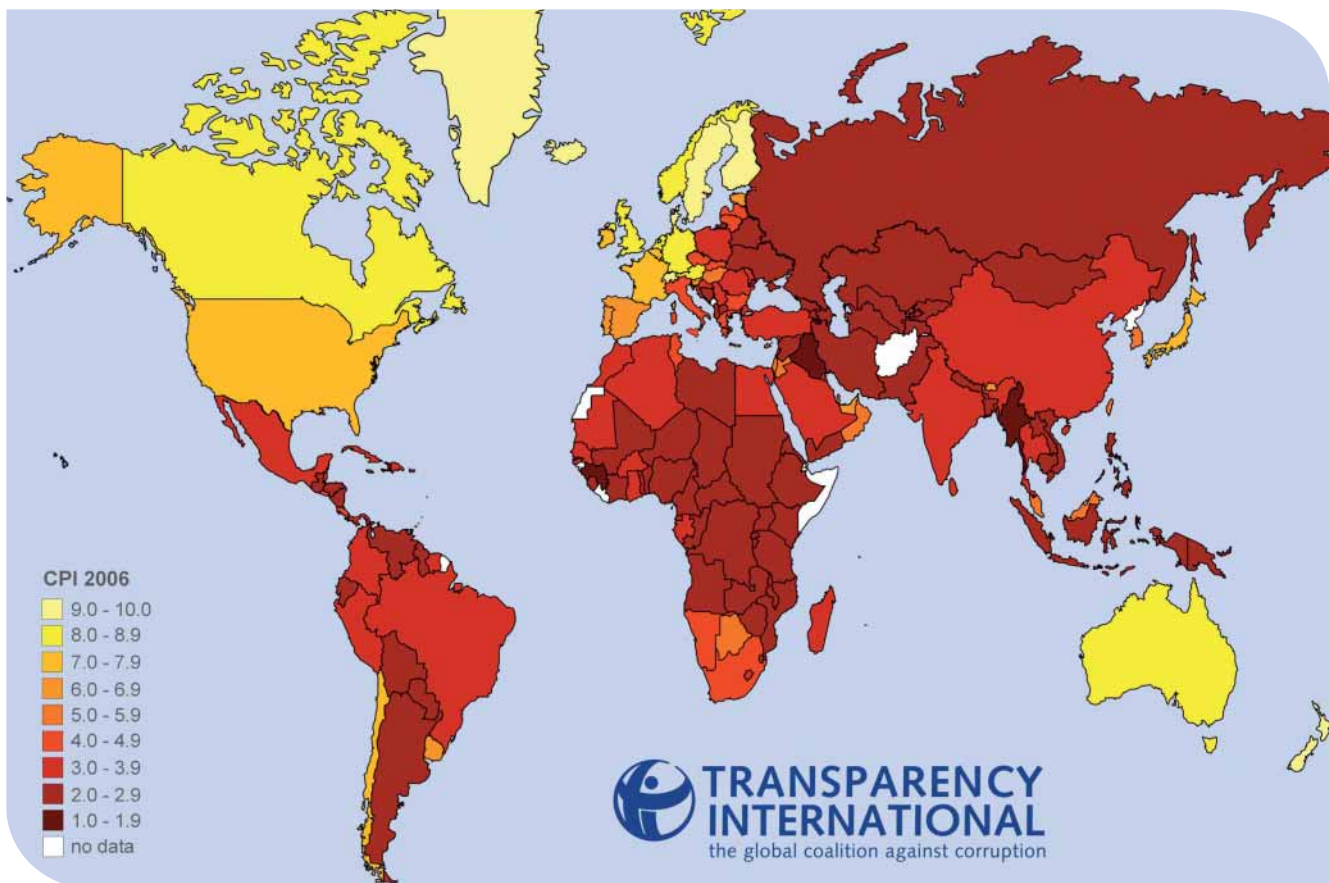
Kesko's functions include deciding the basic selections of the K-retailer chains, setting the maximum retail prices for some of the chain selection products sold by K-retail-

ers, which prices retailers are allowed to undercut, and planning and implementing the marketing programmes for the K-retailer chains. Kesko and K-retailers operate within a vertical relationship to ensure that marketing and other cooperation takes place in compliance with competition legislation.

After the amendment of the Act on Competition Restrictions as of 1 May 2004, the Finnish Competition Authority no longer grants exemptions to Kesko's division parent companies to set the maximum retail prices in K-retailer chains and to determine their chain selections. Consequently, companies are required to evaluate the acceptability of their agreements and practices from the viewpoint of competition legislation themselves, taking competition regulations, legal practice, and competition authorities' guidelines into account.

In August 2004, the Finnish Competition Authority sent a draft proposal to Kesko, suggesting that Kesko had exceeded the limits for maximum pricing permitted in the exemption in the K-market and K-extra store chains in the late 1990s. At that time, the operations of the K-Group were based on mutual horizontal K-retailer cooperation. The Finnish Competition Authority proposed to the Market Court in February 2005 that a sanction of €100,000 be imposed on Kesko. The Market Court had not issued its finding on the matter by the end of 2006.

The Court of Appeal ruled in its decision made on 14 June 2006 that Kesko had a legal basis in the agreements



to terminate the contracts of eight former K-citymarket retailers, and that the notice period was reasonable. The Court of Appeal dismissed the retailers' compensation claims relating to wholesale pricing. The Court of Appeal ordered Kesko to compensate the claimants a total of €0.4 million for failing to pay chain rebates for 2001 during which they were given notice. The Supreme Court dismissed all petitions for leave to appeal against the decisions made in June by the Court of Appeal on 22 December 2006.

Political relations

Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to legislative work. Kesko is particularly active in the Finnish Central Chamber of Commerce, the Federation of Finnish Commerce and its associations, and the Confederation of Finnish Industries EK. The Federation of Finnish Commerce is a member of EuroCommerce, which represents trade interests to the EU Commission and the European Parliament. Kesko also belongs to UGAL, the EU organisation of independent retailers, which promotes its members' interests both directly and through EuroCommerce. EuroCommerce has often appointed a Kesko expert to represent the organisation on EU working groups and meetings, most recently at the meeting of the EU Multistakeholder Forum on CSR working group in December. A chart on Kesko's key channels of influence is shown on page 15.

Kesko's subsidiaries in Sweden and Norway are members of national employer organisations in these countries. In the Baltic countries, trade and industry activities are not yet as highly organised as in Finland, although sector and central organisations, and chambers of commerce have been established. Kesko's memberships in these are listed under 'Activities in employer organisations' on page 64. Kesko has provided expert assistance to ministries in the Baltic countries, in areas such as planning the implementation of EU directives concerning the environment.

Kesko gave no political financial support in any country in 2006. Advertising of a supportive nature in Finnish party newspapers amounted to €22,700. The amount is included under 'non-governmental and environmental organisations' in the table entitled 'Kesko's support for the public good' on page 36.

Attitude to bribery

Kesko has always opposed the giving and taking of bribes in any shape or form. Kesko's position in this area has been included in 'Our working practices - Ethical principles for personnel', the most recent edition of which has been in use since 2002. The guide, which is currently being revised, can be consulted at www.kesko.fi (Responsibility). It has been published in Finnish, Swedish, English, Russian, and all the Baltic languages, and has been distributed to all Group personnel and presented at meetings arranged for personnel at all levels of the Kesko organisation. The issue has been discussed at training events for senior management. The Internal Audit Department has paid particular attention to assessing systems designed to prevent malpractices and financial losses. No cases of malpractice were identified during 2006.

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

Kesko is a member of Transparency International, Finland. Among Kesko's operating countries listed in the Transparency International Corruption Perceptions Index 2006, Estonia, Latvia, China, Russia, and Poland, in particular, have improved their scores, while the scores of Hungary, Lithuania, Vietnam, and Belarus dropped compared to 2005.

KESKO'S OPERATING COUNTRIES IN THE TRANSPARENCY CORRUPTION PERCEPTIONS INDEX

	Scale 1-10
1. Finland	9.6
4. Denmark	9.5
6. Sweden	9.2
8. Norway	8.8
15. Hong Kong	8.3
16. Germany	8.0
24. Estonia	6.7
41. Hungary	5.2
46. Lithuania	4.8
49. Latvia	4.7
61. Poland	3.7
70. China	3.3
111. Vietnam	2.6
121. Russia	2.5
151. Belarus	2.1

Transparency International 2006

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

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
Profile					
1. Strategy and analysis					
1.1.	CEO's statement	Yes	3	Review by the President and CEO	
1.2.	Key impacts, risks, and opportunities	Yes	8 10 14	Our vision of the key issues in corporate responsibility Risks and opportunities Commitments and key areas of influence	
2. Organisational profile					
2.1-2.10.	Basic information on the company	Yes	4	Key facts about the Kesko Group	
3. Report parameters					
Report profile					
3.1.	Reporting period	Yes	1	Contents of the report	
3.2.	Previous report	Yes	1	Contents of the report	
3.3.	Reporting cycle	Yes	1	Contents of the report	
3.4.	Contact persons	Yes	81	Contact personnel in corporate responsibility	
Report scope and boundary					
3.5.	Process for defining report content	Yes	1 18	Contents of the report Determining materiality	
3.6.	Boundary of the report	Yes	1	Contents of the report	
3.7.	Limitations on the scope or boundary of the report	Yes	1 6	Contents of the report The Kesko Group's key indicators of corporate responsibility 2004-2006	Project timeline for providing complete coverage of all indicators not included.
3.8.	Basis for reporting on joint ventures, subsidiaries, leased facilities etc.	Yes	1	Contents of the report	
3.9.	Data measurement techniques and the bases of calculations	Yes		The data measurement techniques and the basis for calculations are noted in connection with the information concerned	
3.10.	Explanation of the effect of any re-statements of information provided in the previous reports	Yes	1	Contents of the report The explanations are also noted in connection with the information concerned	
3.11.	Significant changes from previous reporting periods	Yes	1	Contents of the report	
3.12.	GRI Content Index	Yes	76	Comparison of the report with the guidelines of the Global Reporting Initiative	
Assurance					
3.13.	Policy and current practice with regard to external assurance	Yes	1 82	Contents of the report Assurance statements	

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
4. Governance, commitments, and engagement					
4.1.	Governance structure of the organisation	Yes	19	Governance	
4.2.	Independence of the Chair of the highest governance body	Yes	19	Governance	
4.3.	Number of independent members in the highest governance body	Yes	19	Governance	
4.4.	Mechanism for shareholder recommendations or directions	Yes	19	Governance	
4.5.	Linkage between compensation for the highest governance body, senior managers, and executives and the organisation's performance	Yes	19	Governance	
4.6.	Processes for the highest governance body to ensure conflict of interest are avoided	Yes	19	Governance	
4.7.	Expertise of the members of the highest governance body for guiding the organisation's strategy on corporate responsibility	No			
4.8.	Internally developed values, principles and codes of conduct relevant to corporate responsibility	Yes	22	Kesko's policies, principles, and management systems related to corporate responsibility	
4.9.	Procedures of the highest governance body for overseeing the organisation's identification and management of corporate responsibility performance, incl. risks	Yes	10 19	Risks and opportunities Governance	
4.10.	Processes for evaluating the highest governance body's own performance	Yes	19	Governance	
Commitments to external initiatives					
4.11.	Addressing a precautionary approach	Partly	72	Product safety	Kesko's Product Research Unit monitors products to ensure their quality and safety. However, the precautionary approach itself (as introduced in Article 15 of the Rio Principles) is not included in the units control procedures.
4.12.	Externally developed corporate responsibility initiatives to which the organisation subscribes	Yes	22	Principles for corporate responsibility	
4.13.	Memberships in associations	Yes	15	Organisational participation	
Stakeholder engagement					
4.14.	List of stakeholder groups engaged by the organisation	Yes	13	Stakeholder engagement	
4.15.	Basis for identification and selection of stakeholders	Yes	13	Stakeholder engagement	
4.16.	Approaches to stakeholder engagement	Yes	13	Stakeholder engagement	
4.17.	Key topics and concerns highlighted by stakeholders	Yes	13 18	Stakeholder engagement Determining materiality	

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
5. Management Approach and Performance Indicators					
	Management approach to economic responsibility	Partly	27	Kesko's approach to economic responsibility	Kesko's approach to economic responsibility management is not reported separately for each economic aspect defined in the G3 Guidelines. Instead, an overall description of Kesko's approach to economic responsibility is included in the report.
Economic performance indicators					
EC1	Net sales	Yes	4	Kesko's business operations	
EC2	Geographic breakdown of markets	Yes	4	Key facts about the Kesko Group	Further information available in Kesko's Annual Report and at www.kesko.fi .
EC3	Goods and services purchased	Yes	31	Suppliers of goods and services	
EC4	Payments in acc. with terms	No			
EC5	Total payroll, pensions, etc.	Yes	31	Salaries, social security expenses, and taxes	
			31	Employee pension and health insurance	
EC6	Interests and dividends paid	Partly	28	High long-term dividend yield	Interest paid has not been specified. Information in the financial report.
EC7	Changes in retained earnings	No			Information in the financial report.
EC8	Taxes paid	Yes	31	Salaries, social security expenses, and taxes	
EC9	Subsidies received	No			No subsidies referred to by GRI.
EC10	Donations to community, civil society etc.	Yes	35	Financial support	
EC13*	Indirect economic impacts	Yes	33	Breakdown of economic benefits	

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
	Management approach to environmental responsibility	Partly	39	Kesko's approach to environmental management	Kesko's approach to environmental management is not reported separately for each environmental aspect defined in the G3 Guidelines. Instead, an overall description of Kesko's environmental management is included in the report.
Environmental performance indicators					
EN1	Materials use	Yes	49	Use of materials	Only packaging material is included
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	43	Energy and water consumption in 2006	
EN5	Water use	Yes	43	Energy and water consumption in 2006	
EN6+EN7	Impact on biodiversity	No			No analysis has been made of land areas from the viewpoint of biodiversity.
EN8	Greenhouse gas emissions	Yes	45 48	Environmental energy profile Transport emissions	
EN9	Ozone	Yes	45	Environmental energy profile	Ozone in the lower atmosphere in G ₂ H ₄ equivalents.
EN10	Acidification	Yes	45	Environmental energy profile	
EN11	Waste	Yes	50	Waste management and recycling	
EN12	Discharges to water	No			Not relevant in Kesko's operations.
EN13	Spills of chemicals, oils, etc.	Yes	53	Environmental risks, damage, and incidents	
EN14	Environmental impacts of products	No			Kesko produces no products.
EN15	Reclaimable products	No			Kesko participates in recovery systems, but the information referred to by GRI applies only to manufacturers.
EN16	Environmental damages	Yes	53	Environmental risks, damage, and incidents	
EN17*	Initiatives to use renewable energy sources and increase energy efficiency	Yes	40	Real estate operations	
EN18*	Environmental impacts of transportation	Yes	48	Transport emissions	

GRI GUIDELINES		KESKO'S REPORT			
CODE	GRI CONTENT	INCLUDED	PAGE	REPORT TITLE	SHORTCOMINGS/DEVIATIONS
	Management approach to social responsibility	Partly	55	Kesko's approach to human resources management	Kesko's approach to the management of social responsibility is not reported separately for each social aspect defined in the G3 Guidelines. Instead, an overall description of Kesko's human resources management is included in the report. Social quality control of suppliers and management of product safety, together with procedures for protecting customers' privacy, are disclosed.
Social performance indicators					
LA1+LA2	Employment statistics	Yes	31 56	Job development Employment and employee turnover	
LA3+LA4	Labour/management relations, negotiation procedures	Yes	64 64	Activities in employer organisations Cooperation with employee representatives	
LA5-LA8	Health and safety	Partly	62	Health and safety	Assessment of compliance with ILO procedure guidelines not included. Information of subcontractors' accidents not included.
LA9	Training and education	Yes	60	Competence development and training	
LA10+LA11	Diversity and opportunity	Yes	60	Equality	
LA12*	Non-mandatory employee benefits	Yes	63 64	Salaries and other benefits Pensions	
LA17*	Specific policies and programmes for skills management or life-long learning	Yes	58 60	Emphasis on leadership Competence development and training	
HR1-HR7	Human rights	Partly	54 66	Social performance Social quality control of suppliers	Not all indicators relevant to Kesko's operations: discussed as for product purchases.
S01	Operations in community	Partly	13 35	Stakeholder engagement Financial support	A description of stakeholder process is provided but shortcomings in the measurement of results remain.
S02	Policy on bribery	Partly	75	Attitude to bribery	No comparison with the OECD document included.
S03,S05*	Political contributions	Yes	75	Political relations	
S04*	Awards received	Yes	65	Social performance	
S06*, S07*	Competition and pricing	Yes	74	Marketing and competition regulations	
PR1+PR2	Customer health and safety	Yes	72	Product safety	
PR3	Respect for privacy	Yes	73	Privacy protection	
Also:				Job satisfaction	

* an optional additional indicator

Contact personnel in corporate responsibility

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

NAME	TITLE	UNIT
Development, coordination, responsibility for editing the report		
Jouko Kuisma	Head of Corporate Responsibility	Corporate Responsibility
Ulla Rehell	Senior Manager	Corporate Responsibility
Marjut Lovio	Corporate Responsibility Advisor	Corporate Responsibility
Indicators of economic responsibility		
Pauli Alajoki	Accounting Manager	Corporate Accounting
Suvi Vertanen	Chief Accountant	Corporate Accounting
Antti Mansikka	GIS Analyst	Kesko Food Ltd/Retail Services
Jukka Pokki	Investor Relations Manager	Investor Relations
Indicators of environmental responsibility		
Jari Suuronen	Maintenance Manager	Real Estate Maintenance
Jari Pihlajamaa	Maintenance Manager	Real Estate Maintenance
Toni Pelin	Environmental Logistics Specialist	Kesko Food Ltd/Supply Chain Management
Toni Tynkkynen	Environmental Specialist	Keslog Ltd
Marja Ola	Environmental Specialist	Rautakesko Ltd/Sourcing and Logistics
Sari Koskinen	Environmental Specialist	Rautakesko Ltd/Sourcing and Logistics
Virpi Kantoluoto	Environmental Specialist	Kesko Agro Ltd/Development
Katarina Perkkiö	Project Assistant	HR and Office Services
Indicators of environmental responsibility		
Sari Kulmala	Senior HR Manager	Human Resources
Mikko Myyryläinen	HR Controller	Human Resources
Maija Fast	HR Development Officer	Human Resources
Lea Heikkinen	Development Manager	Human Resources
Päivi Sariola	Financial Manager	Pension Insurance and Occupational Health
Social quality control system		
Jouko Kuisma	Head of Corporate Responsibility	Corporate Responsibility
Product Safety		
Matti Kalervo	Product Research Manager	Kesko Food Ltd/Product Research
Corporate security and risk management		
Juha Pietarinen	Chief Risk Officer	Corporate Risk Management
Privacy protection/customer loyalty system		
Tuulikki Markkula	Customer Relationship Director	K-Plus Oy
Corporate Communications		
Paavo Moilanen	Senior Vice President	Corporate Communications

Independent Assurance Statement

Scope and objectives

Kesko commissioned csrnetwork to provide independent assurance on the sustainability information within the Kesko Corporate Responsibility Report 2006 (The Report). The objective of the assurance process was to check claims and review the arrangements for the management of social and environmental issues and the systems for collection of data. csrnetwork took account of the principles underlying the AA1000 Assurance Standard in designing the assurance process. Economic information presented in the report is excluded as it is the subject of a separate assurance process by PriceWaterhouseCoopers Oy.

Responsibilities of the management of Kesko and the assurance providers

The management of Kesko has the sole responsibility for the preparation of the Report. This statement represents our independent opinion. We were not involved in the preparation of any part of the Report. Under a separate contract with Kesko, we have benchmarked its previous Corporate Responsibility report using our Accountability benchmark Rating™ (www.accountabilityrating.com). This is the first year that we have acted as Kesko's independent assurance providers. A statement of impartiality relating to our contract with Kesko will be made available on request. The opinion expressed in this assurance statement should not be relied upon as the basis for any financial or investment decisions. The independent assurance team for this contract comprised Mark Line, Richard Hughes and Anne Euler. Further information, including a statement of competencies relating to the team can be found at www.csrnetwork.com.

Method

Basis of our opinion

Our work was designed to gather evidence on which to base our conclusions and to provide a limited level of assurance. We undertook the following activities:

- We conducted interviews in Helsinki with a selection of senior managers responsible for areas of management. The objective of these discussions was to understand Kesko's governance arrangements and management priorities.
- The scope of our work included interviews with managers that were selected by Kesko relating to the following functions and operations: Anttila Purchasing and Distribution Centre, Keslog, Real Estate, K-rauta in Sweden and the following parts of Kesko Food: Purchasing, Product -Research, Environmental Store Concept, Warehouse Operations and Return Logistics Centre. During these visits we reviewed the systems used to generate data for the report, and checked a sample of recent data. We also discussed corporate responsibility management arrangements.
- We reviewed full 12-month sustainability data collated at the corporate level, and key claims made in the Report. The external assurance team worked in parallel with, but independently from, Kesko's internal data

validation processes. We interviewed managers responsible for internal data validation, reviewed their work processes and undertook sample checks on consolidated sustainability data.

- We undertook an assessment of the company's reporting and management processes against the principles of materiality, completeness and responsiveness as described in the AA1000 Assurance Standard.
- We undertook a survey of Kesko purchasing managers to assess their management of corporate responsibility risks. We also facilitated a workshop to help Kesko assess the materiality of the issues that it faces.
- We reviewed a draft and final version of The Report to identify key claims. We reviewed these claims with the managers responsible for drafting the report.
- We did not undertake any interviews with external stakeholders as part of this work.
- The English language version of the report was used as the basis for the assurance. The Finnish version of the assurance statement was translated by Kesko.

Opinion

Completeness

Kesko has started to embed processes for identifying stakeholder expectations across its Group operations, however these are not yet systematic. These processes would benefit from further development in order to provide a sound basis for identifying new and emerging issues.

On the basis of the method and scope of work undertaken and the information provided to us by Kesko, and with the exceptions stated below:

For CO₂ emissions data from delivery transport:

- We are not aware of any material reporting units which have been excluded from the group data, beyond those specified in the Report.
- Nothing has come to our attention that causes us to believe that the data have not been properly collated from information reported at operations level.
- We are not aware of any errors that would materially affect the group data.

For social performance, energy and waste management data:

- We are not aware of any material reporting units which have been excluded from the group data, beyond those specified in the Report.
- Nothing has come to our attention that causes us to believe that the data have not been properly collated from information reported at operations level.
- We are not aware of any errors that would materially affect the group data. However, as data relating to non-Finnish operations are not covered within the scope of a formal management system, and no formal training has taken place, we have less confidence in it.
- Social performance data for operations outside of Finland is collated manually at Group level; automating this process would reduce the potential for error that we observed in the draft report.

Materiality

Kesko has piloted an internal process for making decisions around materiality of Corporate Responsibility issues, based upon management understanding of stakeholder priorities. The next step is to include stakeholder views more systemically, and use the outputs to influence the contents of future reports. This Report includes coverage of all the issues identified as high or very high on the matrix.

Kesko plans to move its reporting to align with GRI G3 which will promote greater flexibility in its selection of indicators for reporting in the future, on the grounds of materiality.

Responsiveness

Kesko has a stated aim to remain as sector leader in the Dow Jones Sustainability Index. In line with this goal, group wide objectives for 2007 were approved by the Corporate Management Board in January 2007 and these objectives were informed by the management view of stakeholder priorities, although not using a formal process.

Recommendations for Future Reporting

We recommend that Kesko continues to develop its work on materiality by:

- Consulting on the outputs with internal and external stakeholders and seeking their endorsement.
- Using dialogue to identify and prioritise additional issues.
- Using the matrix to prioritise future report content and plans for wider communications.

Future reports should include greater commentary on responsible lobbying and sustainable sourcing of palm oil.

Recommendations for Future Management

Kesko should explore the business and sustainability benefits of a wide ranging climate change strategy, addressing its own operations, the source of electricity supply, promotion of products offering greater energy efficiency and the benefits of local sourcing. The strategy should build upon the work of Keslog to optimise loads and Real Estates work for improved energy efficiency and undertake preventative maintenance.

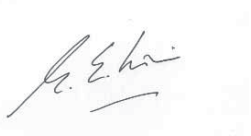
Kesko should continue to develop its data systems prioritising the generation of data from its foreign operations. Consistency of data between countries, divisions and reporting years should be enhanced by training, making greater use of guidance notes, peer review of data at Divisional level, and improved documentation of methodologies used to generate data.

We make the following additional recommendations, some of which align with group wide objectives:

- Introduce group performance targets (e.g. energy usage).
- Implement Environmental Management Systems for foreign operations.
- Expand performance contracts for senior management to cover additional corporate responsibility criteria.
- Increase the rate of BSCI audits, in order to meet the BSCI target at the end of 2008 and reflect upon whether the focus on high risk suppliers and the promotion of BSCI is going far enough and fast enough.

csrnetwork™
making csr a reality

Bath, UK
March 2007



Mark Line
Director



Richard Hughes
Associate

Independent Assurance Report

Translation from the Finnish original

TO THE MANAGEMENT OF KESKO CORPORATION

We have been engaged by the management of Kesko Corporation to provide assurance on their 2006 Corporate Responsibility Report ("the Report") for the year ended 31 December 2006, with respect to the following information therein:

- The corporate responsibility performance in the area of economic responsibility, as reported in the section titled "Economic performance" on pages 26-37; and
- The comparison of the economic responsibility indicators in the Report with the economic responsibility indicators outlined in the Global Reporting Initiative Sustainability Reporting Guidelines 2002, as reported in the section titled "Comparison of the report with the guidelines of the Global Reporting Initiative" on page 78.

The management of Kesko Corporation is responsible for the preparation of the Report and the information and assessments contained therein. Our responsibility is to express a conclusion about the subject matter information based on the limited assurance engagement.

This assurance report is made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone other than Kesko Corporation for our work, for this report, or for the conclusions that we have reached.

Engagement Approach

We have performed an independent assurance engagement on Kesko Corporation's 2006 Corporate Responsibility Report with respect to the information defined above. Other information in the Report is outside the scope of our engagement.

The Global Reporting Initiative Sustainability Reporting Guidelines 2002 have been used as a source of the criteria against which the subject matter of the assurance engagement has been evaluated.

Our engagement was performed in accordance with the Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information".

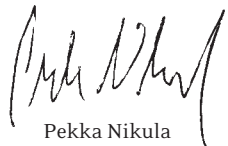
We have planned and performed our evidence gathering procedures to obtain sufficient appropriate evidence on which to base our conclusion. For a limited assurance engagement the evidence gathering procedures are more limited than for a reasonable assurance engagement, and thus less assurance is obtained from it than in a reasonable assurance engagement.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the subject matter information of the assurance engagement does not give a balanced and appropriate view of Kesko Corporation's corporate responsibility performance in the area of economic responsibility, in all materials respects, based on the above mentioned assurance criteria.

Helsinki, 30 March 2007

PricewaterhouseCoopers Oy



Pekka Nikula
Authorised Public Accountant



Sirpa Juutinen
Director, Sustainable Business Solutions

Definitions of terms

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

Return on invested capital (ROI), %	= $\frac{\text{profit before extraordinary items} + \text{interest expense and other finance costs}}{\text{balance sheet total} - \text{non-interest-bearing liabilities (average during the year)}} \times 100$
Equity ratio, %	= $\frac{\text{shareholders' equity} + \text{minority interest}}{\text{balance sheet total} - \text{advances received}} \times 100$
Gearing ratio, %	= $\frac{\text{interest-bearing debt} - \text{marketable securities} - \text{cash on hand and balances with banks}}{\text{shareholders' equity} + \text{minority interest}} \times 100$
Market capitalisation	= share price x number of shares
Primary energy	= available in resources in their natural state; divided into renewable and unrennewable energy
GWh	= gigawatt hour = a million kilowatt hours (kWh)
1 kWh	= 3.6 MJ = 3,600 kJ (in GRI guidelines the unit for measuring energy is joule or J)
CO ₂	= carbon dioxide = affects climate change ('greenhouse effect')
CO ₂ eq.	= carbon dioxide equivalent, the amount of different gases whose combined impact on the greenhouse effect corresponds to the amount of carbon dioxide mentioned
SO ₂	= sulphur dioxide equivalent (affects acidification)
C ₂ H ₄	= ethene (affects the ozone content of the lower atmosphere)
Transbox crate	= reusable transport case made of plastic
KRESS real estate	= premises in the sphere of the Real Estate and Construction Sector Energy Saving Agreement (KRESS), for which savings targets related to specific consumptions of electricity and heat have been set



441 014
Printed matter

Kesko's Corporate Responsibility Report is available in Finnish and English and can be ordered from Kesko Corporation, Corporate Communications, Satamakatu 3, FI-00016 Kesko, Finland, or by phone from +358 1053 22404. The report can also be read and ordered at www.kesko.fi.

The report has been edited by Kesko's Corporate Responsibility Unit (Jouko Kuisma, Ulla Rehell and Marjut Lovio). Photos: Jari Härkönen, except for pp. 3 and 11 Kirsi Salovaara, p. 17 Heikki Tuuli, p. 63 Anneli Leskinen, p. 65 Elina Ketola, pp. 66 and 71 Matti Remes and p. 69 Sharon KC. Layout: Spokesman Oy Printed by: Libris Oy, Helsinki 2007 Paper: Multi Art Matt. The paper produced and the printers have been granted the right to use the Nordic Swan environmental label.

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Kesko Corporation, Satamakatu 3, FI-00016 Kesko, Helsinki, Finland
Telephone +358 10 5311, www.kesko.fi