



KESKO'S
ANNUAL REPORT 2018

SUSTAINABILITY



SUSTAINABILITY

This section describes highlights in sustainability and the objectives and progress of our responsibility programme, and provides key sustainability indicators in accordance with GRI standards.

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Sustainability in K Group

Sustainability is a strategic choice for us and integrated into our day-to-day activities. Our sustainability work is guided by Kesko's sustainability strategy, responsibility programme, general corporate responsibility principles, the K Code of Conduct, and our ethical purchasing principles.

Our sustainability strategy focuses on customers

Our sustainability strategy, established in spring 2018, focuses our sustainability efforts increasingly on our customers. We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living. We will increasingly engage our customers in our sustainability work.

Our responsibility programme reflects our objectives

The themes of our responsibility programme:

- Good corporate governance and finance
- Customers
- Society
- Working community
- Responsible purchasing and sustainable selections
- Environment



Kesko is the most sustainable trading sector company in the world.



"Kesko participates in the UN Global Compact initiative and is committed to observing ten generally accepted principles concerning human rights, labour standards, the environment and anti-corruption in all of its operating countries."

Mikko Helander,
President and CEO



Highlights 2018

Where we have been successful



Electric car charging network paves the way for the new age of mobility

By bringing electric car charging points to our stores across Finland, we make new mobility solutions easily accessible to our customers. We opened 13 new fast charging stations in 2018, and the K Charge network now comprises 49 charging stations. By the end of 2019, the K Charge network will comprise over 70 charging stations with nearly 400 charging points.



Support for Finnish farmers with 'Thank the Producer' products

We continue to work to improve appreciation for Finnish food and the livelihood of Finnish farmers. To help farmers struggling with the exceptionally dry weather in summer 2018, we focused on our 'Thank the Producer' operating model in the autumn. Branded products by five Finnish food companies joined the model at the end of the year. We will pay an additional sum of €650,000 directly to the food producers for 2018.



More solar power plants on K-store rooftops

Solar power is an excellent source of electricity for food stores, which tend to consume the most electricity for refrigeration equipment in the summer when the plants' production is at its highest. During 2018, 10 new solar power plants were added to the rooftops of K-stores. Investments will continue in 2019. With more than 30 solar power plants, K Group is the biggest producer and user of solar power in Finland.



Tighter targets for recycling and reducing plastics

The reduction of plastic and recycling of plastic waste were hot topics among our customers throughout 2018. We want to encourage our customers to choose alternative shopping bags, and therefore plastic, paper and biodegradable bags are now priced the same in all K-food stores. In our updated plastics policy, we set even tighter targets for recycling and for reducing and avoiding the use of plastics.

What we continue to work on

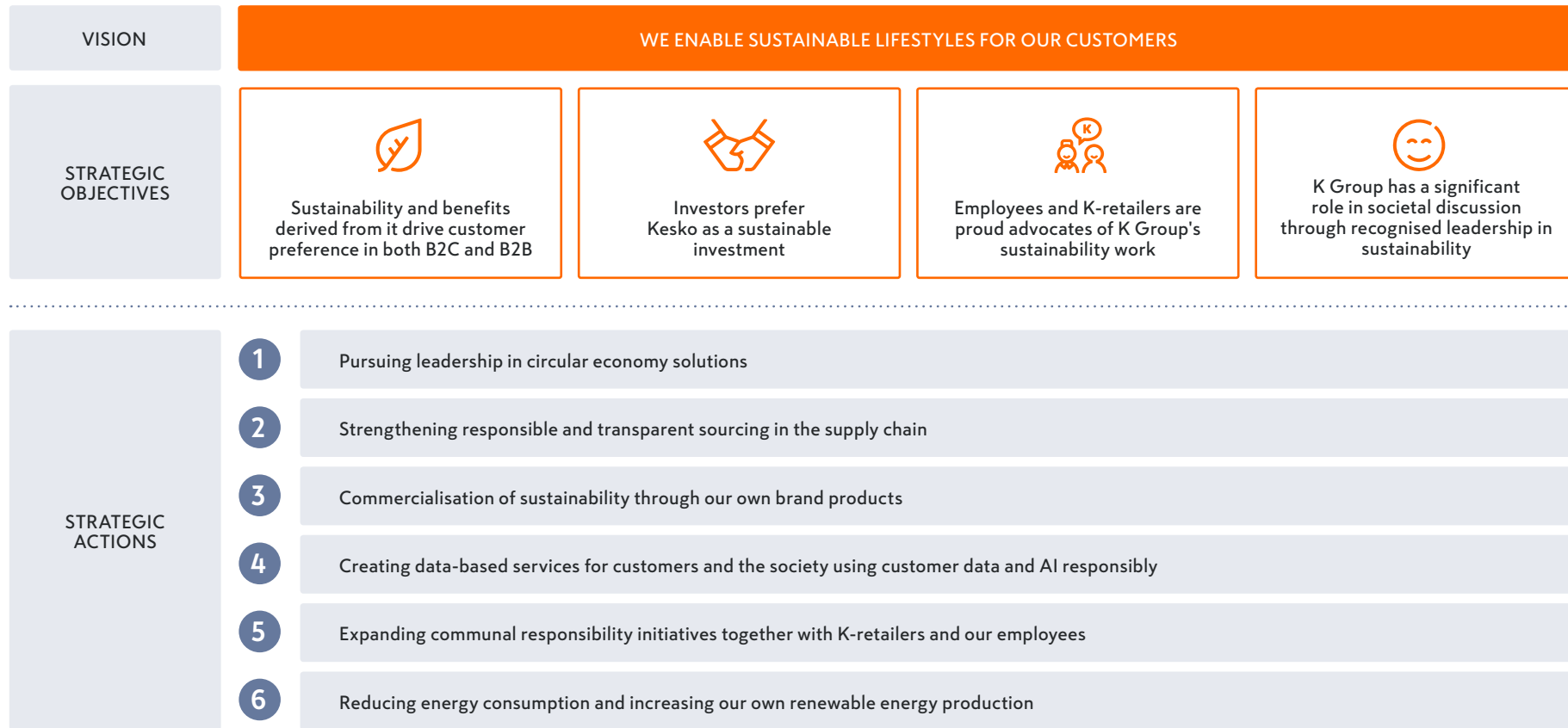


Making sustainability part of the everyday lives of our customers

One of the challenges in our sustainability work has been drawing customer attention to sustainability issues and making related efforts part of their everyday lives. In our strategy update in spring 2018, we made customers the focal point of our sustainability work. We will increasingly focus our actions on promoting good, sustainable lives for our customers, engaging our customers more in the process.

Sustainability strategy 2018–2022

Our sustainability strategy, established in spring 2018, focuses our sustainability efforts increasingly on our customers.



Stakeholder engagement

K Group is a major international and local operator, and our activities have an impact on the whole society. We work in close co-operation with our various stakeholders, and encounter 1.5 million customers every day at our stores. We examine the views and expectations of our stakeholders regularly and develop our operations accordingly.



“Our most important stakeholders are future generations. The decisions we make today will have an impact for decades to come. This includes our strategic objectives, climate work, human rights commitment, and long-term efforts to improve sustainability in our supply chain. We are committed to promoting the UN Sustainable Development Goals in our operations.”

Matti Kalervo,
Vice President of Corporate Responsibility

KEY STAKEHOLDERS	ENGAGEMENT AND CHANNELS FOR INTERACTION	KEY AREAS OF INTEREST AND CONCERN FOR STAKEHOLDERS IN 2018	RESPONDING TO STAKEHOLDER EXPECTATIONS
Customers	<ul style="list-style-type: none"> • Daily customer encounters • Customer service channels and applications • Customer surveys • Social media 	<p>Our customers are concerned about plastic ending up in seas and elsewhere in nature. Customers have asked us to reduce the use of plastic in stores. Building and technical trade customers are interested in improved energy efficiency and renewable energy solutions such as solar and wind power and heat pump solutions.</p>	<p>In our updated plastics policy, we set even tighter objectives for recycling and for reducing and avoiding the use of plastics.</p> <p>Read more about our plastics-related actions and energy advice.</p>
Investors, shareholders, analysts and other representatives of capital markets	<ul style="list-style-type: none"> • General Meeting • Results announcements • Press conferences • Investor web pages and other digital channels • Investor meetings • Surveys and assessments 	<p>In investor meetings, we were asked what we are doing to mitigate climate change. Investors were also interested in our range of electric cars and our electric car charging network.</p> <p>In terms of ESG, there was increased interest towards issues related to good corporate governance among our bigger shareholders.</p>	<p>In 2017, we set science based targets for reducing emissions from our facilities, transportation, and supply chains.</p> <p>Read more about our climate work.</p>
Personnel	<ul style="list-style-type: none"> • Performance and competence: personnel surveys, performance reviews and daily interaction • Co-operation with personnel • Organisational communication and feedback and discussion channels for personnel • SpeakUp reporting channel • K Code of Conduct 	<p>In personnel meetings and communication channels there was a lot of interest towards the new K Group headquarters K-Kampus, which will be completed in spring 2019. Personnel members were curious about the work spaces and tools, changes in our ways of working, parking arrangements and exercise possibilities.</p>	<p>Personnel members have been actively involved in designing K-Kampus and new ways of working. Information on K-Kampus is regularly provided in personnel briefings, the K-Kampus Yammer group, and the intranets. Managers received training on new ways of working in autumn 2018, and training for the entire personnel is arranged in early 2019.</p>

KEY STAKEHOLDERS	ENGAGEMENT AND CHANNELS FOR INTERACTION	KEY AREAS OF INTEREST AND CONCERN FOR STAKEHOLDERS IN 2018	RESPONDING TO STAKEHOLDER EXPECTATIONS
Retailers and store staff	<ul style="list-style-type: none"> • Retailer events and meetings • Digital communication channels and common trade magazine • Responsible operating principles for K-retailers and K-stores (K Code of Conduct) • K Group's joint trade event K-Team Päivät 	<p>Challenges related to the availability of skilled staff in the trading sector and the importance of developing staff competencies were topics discussed by K-Retailers' Association and the retailers.</p> <p>The use of plastics in products raises questions in stores. In discussions with Kesko, retailers stressed the need for more easily understandable and informative packaging labelling and packaging recyclability.</p>	<p>We improved on-the-job guidance and organised new training for those conducting it. All training offered to our trading sector professionals can now be found under one portal at www.k-academy.fi.</p> <p>In our plastics policy, we set targets for improving packaging labelling and the recyclability of packaging.</p>
Suppliers and service providers	<ul style="list-style-type: none"> • Meetings with suppliers and partner events • K Code of Conduct and Principles and Practice of Socially Responsible Trading • Co-operation in accordance with fair trading practices • Audits and training 	<p>The future of Finnish food production and the plight of Finnish food producers following an exceptionally hot and dry summer were discussed in 2018.</p>	<p>We continued our work to increase appreciation for Finnish food and improve the livelihood of Finnish farmers. Read more about our 'Thank the Producer' operating model.</p>
Society (media, authorities, non-governmental and other organisations, trade unions)	<ul style="list-style-type: none"> • Meetings • Media events and enquiries • Activities in organisations • Enquiries from NGOs 	<p>The rights of girls and women were discussed especially in connection with Plan International's Girls Takeover event.</p> <p>The campaign calling for a Finnish law on mandatory human rights due diligence, initiated by Finnwatch, increased interest towards human rights and supply chains.</p> <p>The media paid close attention to the impact changes in Finnish alcohol legislation had on the sales of alcoholic beverages, and public discussion on a possible ban on selling energy drinks to minors.</p>	<p>We took part in Girls Takeover, and made the promotion of gender equality part of our responsibility programme.</p> <p>We took part in the campaign calling for a Finnish law on mandatory human rights due diligence and shared news on our work to promote human rights.</p> <p>The changes in alcohol legislation resulted in an expansion of products by microbreweries in our stores, and an increase in the sales of non-alcoholic beverages. K Group is in favour of setting a legal age limit on sales of energy drinks to prevent adverse effects.</p>




Opportunities and risks

Key opportunities and risks related to Kesko's operating environment are described in this section.

[Read more about operating environment >](#)

	OPPORTUNITIES	RISKS
<p>Economic operating environment</p> <p>Our three strategic growth areas are the grocery trade, the building and technical trade, and the car trade. In terms of growth, we want to increase our market share in the Finnish grocery trade, grow our building and technical trade in Northern Europe, strengthen our market leadership in the Finnish car trade, and develop our digital services.</p>	<ul style="list-style-type: none"> • Customer orientation, quality and competitive prices lend us a competitive advantage. • Our strong financial position provides excellent opportunities for growth and for developing our operations. • In the building and technical trade, the market is changing, and consequently B2B trade is growing in relation to B2C trade. 	<ul style="list-style-type: none"> • Intense price competition and cyclical fluctuations could weaken business profitability. Failure to deliver on quality and service would reduce customer satisfaction. • Misjudgements in acquisitions and divestments and unexpected changes in the market could result in financial losses. • Operating models for the building and technical trade might not adapt to changes in customer segments.
<p>Purchasing and human rights</p> <p>Customers must be provided with increasingly detailed information on the origins and manufacturing methods of products. We ensure responsibility and product safety in the supply chain.</p>	<ul style="list-style-type: none"> • By co-operating with product and service providers who share our values, goals and operating practices, we improve transparency and promote sustainability in the whole supply chain. Our efforts to improve sustainability in the supply chain increase stakeholder trust in us. 	<ul style="list-style-type: none"> • Irregularities in the management of social or environmental responsibility in the supply chain could cause human rights violations, environmental damage, financial losses, and loss of stakeholder trust and negatively affect our sustainability work and its credibility. • A failure in product safety control or in the quality assurance of the supply chain could result in financial losses, the loss of customer trust or, in the worst case, a health hazard to customers.
<p>Digital services and management by information</p> <p>As our strategy states, we aim to offer our customers the best digital services in the trading sector.</p>	<ul style="list-style-type: none"> • By combining online sales and digital services with our comprehensive store network, we enable excellent customer service in K Group. • We offer a seamless customer experience in all channels by utilising data analytics and service design. • We use customer data and research to develop a more personal customer experience and store-specific business ideas. 	<ul style="list-style-type: none"> • Challenges related to the profitability of online trade include the efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online trade. • Cyber threats directed at digital services and information systems increase risks related to business continuity and customer data. • Constant evolution of online trade and digital services presents special challenges to the rapid development of new services and their integration into existing operating models and systems. • Growth in online trade or changes in the market situation mean there is a risk that the profitability of a chain relying on physical stores or a store site will weaken.

	OPPORTUNITIES	RISKS
 <p>Impacts of climate change</p> <p>Stakeholders, especially customers and investors, expect companies to take actions to mitigate the impacts of climate change. All Kesko divisions can offer customers solutions that help them reduce their climate impact, as living, food and mobility are the biggest sources of greenhouse gases in private consumption.</p>	<p>Sustainable lifestyles</p> <ul style="list-style-type: none"> By offering environmentally friendly products and services and using packaging and shelf labelling and customer communications, we can help customers make purchase decisions that help mitigate climate change. Key actions include increasing the use of plant-based foods, reducing food waste at home, energy-efficient appliances, use of home renovation to improve energy usage, low-emission cars, and charging points for electric cars. Our extensive neighbourhood store network and the additional services available at the stores reduce transport emissions as customers can get to the store by foot, bike or using public transport. <hr/> <p>Energy sources</p> <ul style="list-style-type: none"> In line with our energy strategy, the electrical power sold by Kesko to K-retailers and the electrical power used by Kesko are 100% renewable. The energy efficiency of Kesko's store sites and offices is industry best. The most significant means of improving energy efficiency in stores are remote control and maintenance, LED lighting, solar power and refrigeration equipment solutions such as condensation heat recovery and the use of carbon dioxide as the refrigerant. <hr/> <p>Extreme weather phenomena</p> <ul style="list-style-type: none"> The building and technical trade division can act as an expert in construction that takes account of extreme weather phenomena, and supply related materials. <hr/> <p>Regulation</p> <ul style="list-style-type: none"> By committing to voluntary actions before regulation requires them, we can act as a forerunner in sustainability and offer our customers sustainable solutions (e.g. the Green Deal for plastic bags, circular economy solutions, K Charge network). 	<ul style="list-style-type: none"> We do not sufficiently stand out as the most sustainable trading sector company and cannot offer our customers products and services that support a sustainable lifestyle. Failures to implement environmental responsibility could weaken our profitability and reputation. <hr/> <ul style="list-style-type: none"> If our choice of energy sources and investments prove inefficient, it can have a negative impact on our profitability and reputation. <hr/> <ul style="list-style-type: none"> Climate change will increase the risk of extreme weather phenomena and affect food production in Finland and elsewhere. The impacts of climate change may result in unexpected damage or business interruptions. <hr/> <ul style="list-style-type: none"> Climate change may result in regulation-related risks, such as permit procedures or costs arising from emission pricing and taxation. The implementation of the EU and Finnish Government climate and energy policy will affect energy solutions and may raise energy prices.

Good corporate governance and finance

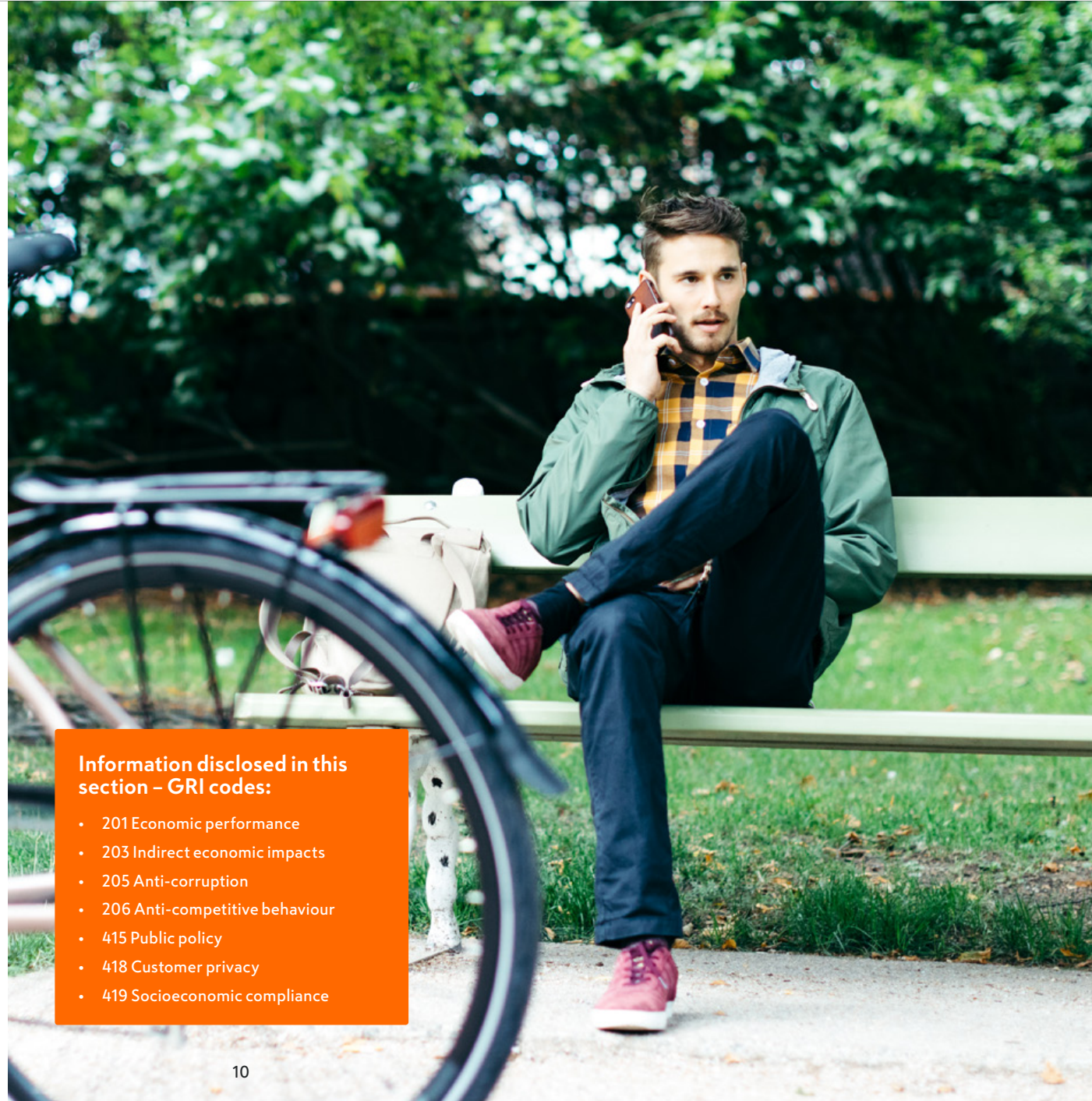
Responsible business and good corporate governance are crucial for achieving good and sustainable financial results.

Kesko and K-retailers are significant employers, tax payers and product and service providers. Through our supply chain, we indirectly create jobs globally in product development, factories, farms and logistics, for example.

Our common K Code of Conduct is used to ensure that everyone in K Group has the same understanding of the values and principles that guide our daily work. We select our business partners with care and require that they also operate responsibly.

We follow proper personal data processing practices and comply with legislation in all our operations everywhere.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 201 Economic performance
- 203 Indirect economic impacts
- 205 Anti-corruption
- 206 Anti-competitive behaviour
- 415 Public policy
- 418 Customer privacy
- 419 Socioeconomic compliance

Our operations create added value for various stakeholders

201-1

Kesko's operations generate economic benefits for various stakeholder groups in Kesko's operating countries and market areas. Key stakeholder groups include shareholders, customers, personnel, retailers, suppliers of goods and providers of services and the society. Kesko promotes the growth of welfare throughout its supply chain, including developing countries.

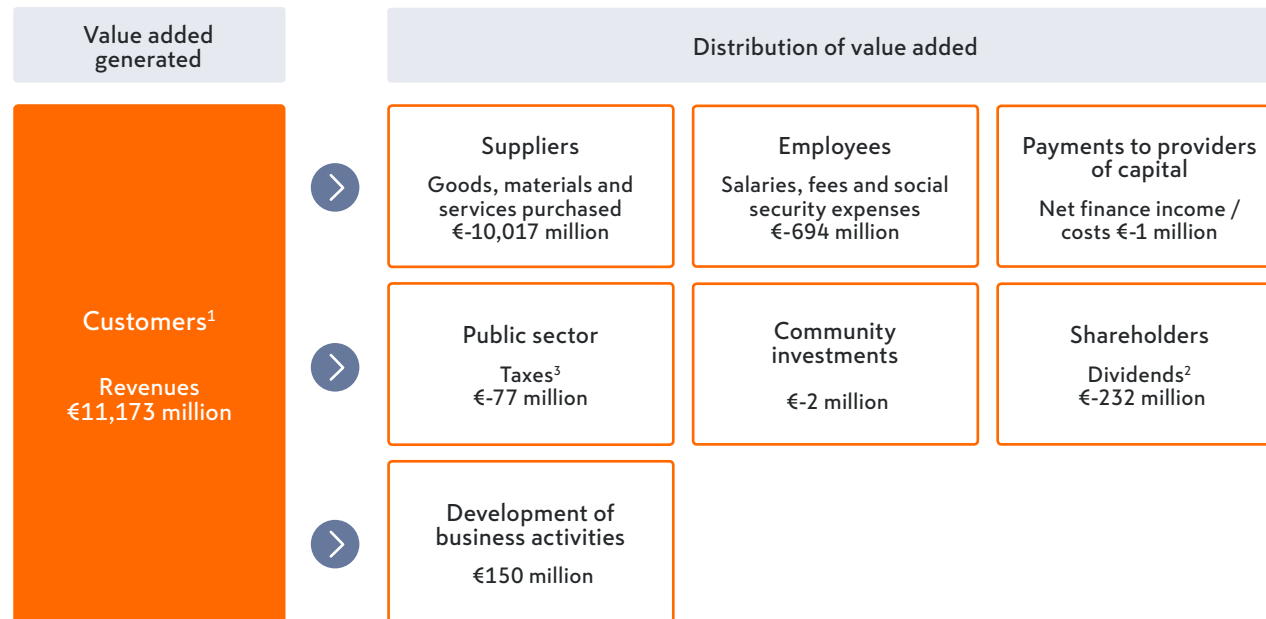
This section depicts cash flows between Kesko and its stakeholders, as well as the distribution of economic value added between stakeholder groups. The most important cash flows comprise revenue from customer purchases and retailer operations, purchases from suppliers of goods and providers of services, dividends to shareholders, salaries and wages paid to personnel, taxes and capital expenditure.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Return on capital

OBJECTIVE	PROGRESS IN 2018
Kesko's objective is to achieve a 14% comparable return on capital employed and a 12% comparable return on equity.	We were able to meet the 14.0% target level for comparable return on capital employed set in 2015. Our comparable return on equity was 11.7%.

Economic benefits from Kesko's operations to stakeholders



¹ Incl. net sales and other operating income

² Proposal to the General Meeting

³ Incl. income taxes, real estate taxes and net worth taxes

We pay steady dividends

Kesko has approximately 41,000 shareholders. In the long term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko's Board of Directors proposes to the Annual General Meeting to be held in April 2019 that a total dividend of €232 million be paid for the year 2018, which would represent 145.2% of earnings per share and 95.8% of comparable earnings per share. In 2018, Kesko distributed a total of €219 million as dividends, which represented 84.9% of earnings per share and 96.6% of comparable earnings per share.

Financial assistance received from government

201-4

In 2018, Kesko Group received financial assistance of €1.0 million from the public sector. This amount mainly consists of assistance received in Finland (€0.6 million) and Sweden (€0.4 million). Most of the public sector assistance in Finland is related to investments in solar power.

Read more about
[Kesko's purchases](#)

Most of the economic benefits from Kesko's operations to suppliers of goods

€ million		Continuing operations		Group
		2018	2017	2016
Customers ¹	Revenues	11,173	11,278	10,879
Value added generated		11,173	11,278	10,879
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-10,017	-10,065	-9,839
Employees	Salaries, fees and social security expenses	-694	-738	-723
Payments to providers of capital	Net finance income/costs	-1	2	-1
Owners	Dividend	-232 ²	-219	-199
Public sector	Taxes ³	-77	-60	-50
Community investments	Donations	-2	-2	-2
Development of business operations		150	197	67

The data is based on audited figures. The presentation method for 2017 has been changed from the previous year.

¹ Incl. net sales and other operating income

² Proposal to the General Meeting

³ Incl. income taxes, real estate taxes and net worth taxes

Economic benefits from Kesko's operations by market area in 2018

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes ¹	Total
Finland	5,860	226	394	83	872	7,434
Other Nordic countries	915	161	73	23	75	1,248
Baltic countries, Poland and Belarus	743	31	107	14	127	1,021
Other countries	1,400					1,400
Total, continuing operations	8,918	418	574	120	1,074	11,104

¹ Taxes include income taxes, real estate taxes, value-added taxes, excise duties, car taxes, customs duties, net-worth taxes and withholding taxes.

We are a significant tax-payer

203-2

Kesko is a service sector company which has significant indirect impacts on the production, use and recyclability of products.

Kesko and K-retailers together form K Group. Purchases by K Group have economic impacts on suppliers of goods and service providers, including an increase in the number of jobs. Purchases from local producers affect regional business activities. The salaries, taxes, employee benefit expenses and capital expenditure paid by K Group have impacts on regional economic welfare.

Kesko operates in eight countries, and engages in both retail and wholesale operations. Our principle is that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations.

In 2018, the income taxes paid by Kesko to Finland totalled €63.7 million and to other countries €8.3 million.

Taxes by country in 2018

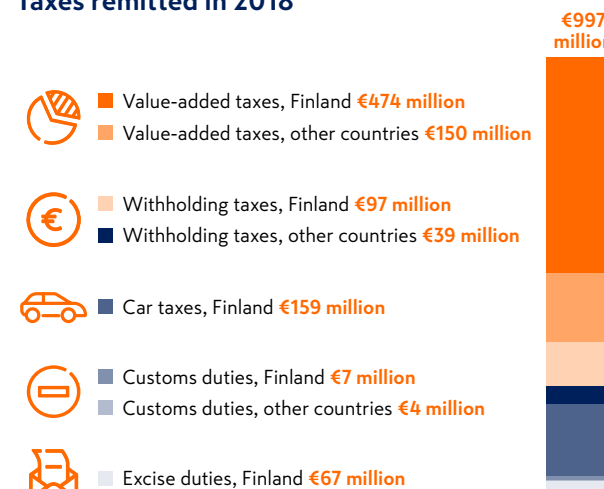
€ million, continuing operations	Income taxes	Real estate and property taxes	Car taxes	Customs duties	Excise duties
Finland	63.7	4.2	159.0	6.8	67.3
Sweden	0.0	0.3	-	0.1	-
Norway	2.5	0.0	-	0.0	-
Estonia	1.0	0.0	-	0.2	-
Latvia	0.0	0.1	-	0.0	-
Lithuania	3.4	0.0	-	2.4	-
Poland	0.0	-	-	0.1	-
Belarus	1.4	0.5	-	1.3	-
Total	72.0	5.2	159.0	10.7	67.3

The Group's effective tax rate was 20.5%. Kesko paid €4.2 million in real estate taxes and net-worth taxes to Finland and €1.0 million to its other operating countries in 2018.

Kesko collects, reports and remits also indirect taxes, such as value-added taxes and excise duties. Kesko remits value-added taxes to tax recipients in its capacity as a company selling goods and services. In 2018, Kesko remitted value-added taxes in Finland to the amount of €474.4 million, and €150.2 million in other countries. Kesko remits car taxes, and excise duties on confectionery, alcohol and soft drinks, for example. In 2018, Kesko remitted excise duties in Finland to a total amount of €67.3 million.

Kesko's measurable indirect impact on society, such as its employment impact, increased municipal tax income, or income in the producer and supply chain, is evaluated case-by-case, in connection with the establishment of a new store, for example.

Taxes remitted in 2018



Taxes payable in 2018



Both personnel and business partners must comply with the K Code of Conduct

205-1 205-2 205-3

Risks related to corruption are discussed as part of Kesko Group's risk management. Key risks are identified, assessed, managed, monitored and reported regularly as part of business operations in all operating countries. This includes risks related to corruption. In 2018, we also conducted a separate group-level compliance risk assessment, in which we assessed risks related to corruption from the perspective of legislation and regulation. The most significant risks related to corruption were related to construction projects and the purchasing of goods and services.

Kesko's anti-corruption principles are included in the K Code of Conduct guidelines published in 2016. The guidelines and website have been published in the languages of all our operating countries. Kesko employees and business partners have their own versions of the K

Code of Conduct. All Kesko Group personnel are obliged to annually confirm their compliance with the K Code of Conduct. We have prepared a mandatory eLearning package for employees to internalise the K Code of Conduct.

Kesko's contracting parties are also required to comply with the K Code of Conduct. According to Group guidelines, a K Code of Conduct contract clause is to be added to all agreements under which the Group companies purchase products or services from outside the Group.

In 2018, the prevention of malpractice was one of the focus areas for Kesko's corporate security function. During the year, individual cases of suspected malpractice came to our knowledge and the corporate security unit investigated them.

Kesko has a Group-wide SpeakUp channel through which employees and business partners can report any violations of the K Code of Conduct. During 2018, 11 notices were submitted through the SpeakUp channel (2017: 38), related

to, e.g. managerial work, customer service at the stores, phishing messages, and Kesko's partnerships with its suppliers.

In 2018, no corruption related lawsuits against any Kesko Group company came to our knowledge. A litigation for claiming damages from a former employee on the basis of suspected criminal offence was commenced in 2018.

We comply with anti-competitive laws and regulations

206

No authority rulings or legal actions regarding anti-competitive behaviour, anti-trust, and monopoly practices were reported in 2018.

Political contributions

415

We do not make monetary donations to political parties.

In election years, political parties and candidates are given equal opportunities to arrange campaign events in the yards and entrance halls of our stores.

Customer privacy is of utmost importance to us

418

In 2018, there were no cases concerning breaches of customer privacy or loss of customer data.

We always comply with the law

419

There were no breaches of laws or regulations in the social and economic area in 2018.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: K Code of Conduct

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
All of our personnel act in compliance with the K Code of Conduct.	The entire personnel is obligated to annually commit to compliance with the K Code of Conduct. In 2018, 79% of personnel signed the annual confirmation.	We will continue to make the annual confirmation process more systematic and promote commitment to the K Code of Conduct through managerial work, training and continuous visibility.
We organise regular training on the K Code of Conduct.	In 2018, we arranged K Code of Conduct sessions in subsidiaries in Estonia, Latvia and Lithuania, focusing especially on corruption and fraud-related issues. The K Code of Conduct eLearning programme has been completed by 7,800 people (10/2016-12/2018).	The K Code of Conduct eLearning will be updated in autumn 2019.

Customers

Our value, *The customer and quality – in everything we do*, places customers at the centre of our operations.

Over 1,100 K-retailers provide a significant competitive advantage for us. We develop our store network and services based on customer expectations.

Our customers can be confident that whenever they shop in a K Group store, they are making a responsible choice.

We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living.

We offer products and services that promote health and wellbeing. We enable convenient shopping for our customers.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 203 Indirect economic impacts



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Customers

	OBJECTIVE	PROGRESS IN 2018
Dialogue with customers	We constantly engage in a dialogue with customers in stores and social medial channels. We conduct surveys on customer satisfaction and brand and utilise customer views in the development of our responsibility work.	To map out customer expectations for K Group's sustainability and the most important areas of sustainability for our customers, we conducted a survey in the Kylä customer community.
Consultation services to customers	We offer our customers multichannel information on our products and services.	K-Rauta's free-of-charge renovation service Remonttineuvonta expanded and now also answers questions related to yards and gardens. K Consumer Service responds to consumer feedback concerning the own brand products (Pirkka, K-Menu, Euro Shopper) and own imports of the grocery trade division. In 2018, K Consumer Service responded to 24,337 contacts made.
Wellbeing	We offer products and services that promote health and wellbeing.	In line with our vegetable commitment, we encourage our customers to eat more vegetables. In 2018, some 400 K-food stores had dedicated veggie shelves. We organised 270 vegetable campaigns, which covered more than 1,200 vegetable products. We introduced 42 fruit and vegetable products into our selections during 2018. Intersport offered training on different sports and activated customers in stores by offering tips from experts and product testing as well as training programmes for different skill levels.
Sustainable consumption	We help our customers make sustainable choices.	To help our customers reduce their consumption of plastics and recycle plastics, we actively communicated on plastic-related issues in our channels and stores. We are building a nationwide network of electric car charging points in Finland.
Digital services	We offer the best digital services to K Group's customers in all divisions.	Our online sales of groceries grew significantly, and 66 additional stores (in a network of 156 stores) now offer online sales. We continued to develop the K-Ruoka online service and mobile app based on customer needs, utilising the latest technological innovations such as AI-based solutions. The new version of the OnnShop online store application has caused sales and customer satisfaction to grow in technical wholesale in Finland, Sweden and Estonia. The OnniApp mobile app makes shopping easier in Onninen Express stores.
Management by information	Each K-store is tailored to meet local customer demand based on customer data. Using marketing based on customer data, we can offer our customers the best customer experience in the trading sector.	We improved support for management by information in K-food stores by offering more versatile, real-time, better quality data. With the tools provided, K-food stores can better manage store operations and store-specific business ideas. The number of stores utilising data grew by more than 50% in 2018. Our objective is to further develop tools for store management and utilise customer insight and artificial intelligence (K AI) more extensively in, e.g. selection management and marketing. We continued the automation of marketing processes and promoted the use of data and artificial intelligence in marketing targeting and personalisation.

An extensive store network and additional services to customers

203-1

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 46% of Kesko's net sales in 2018. At the end of 2018, Kesko had over 1,100 independent K-retailer entrepreneurs as partners. Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled €12.9 billion (VAT 0%) in 2018. K Group employs around 41,000 people.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. The share of B2B trade has grown and it accounted for 36% of net sales in 2018. Own retailing accounted for 18% of net sales.

K Group has an extensive network of K-food stores in Finland. Most municipalities in the country have a K-food store. Some 1.2 million customers visit K-food stores every day.

Especially outside growth centres, retail stores can offer community services which may otherwise be scarcely available. In 2018, the following services were available at K-food stores:

- Cashback services at all K-food stores
- Parcel and postal services at nearly 900 stores
- Nearly 200 K Charge charging points for electric cars
- Over 400 Rinki eco take-back points.

Our investments have an impact on the whole society

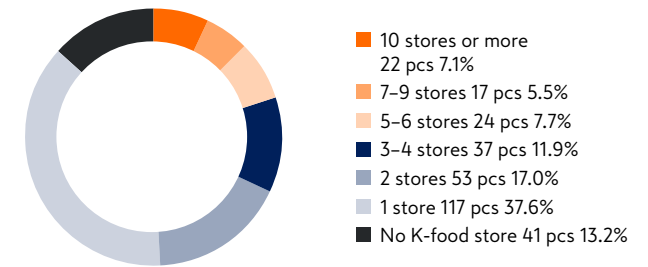
Kesko's capital expenditure has a positive financial impact on the operations of building firms, building sector service companies, and suppliers of fixtures, equipment and information systems, for example.

The capital expenditure for Kesko's continuing operations in 2018 totalled €418 million (2017: €334 million), or 4.0% (2017: 3.2%) of net sales. The store site network

is a strategic competitive factor for K Group. In 2018, capital expenditure on store sites was €112 million (2017: €240) million. Capital expenditure in foreign operations accounted for 46.0% (2017: 10.3%) of total capital expenditure.

In addition to Kesko, K-retailers invest in e.g. store fixtures. These figures included, K Group's total capital expenditure in Finland in 2018 was around €408 million.

K-food stores in Finnish municipalities at 31 Dec. 2018



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Additional services at our store locations

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We want to enable more convenient services for our customers.	We brought parcel pick-up points close to the homes of customers of over 130 additional K-stores. In total, pick-up points (Matkahuolto and Schenker) were opened in nearly 400 K-stores during the year.	We will launch new added value services that make everyday life easier for our customers. The MobilePay payment app will be available for use in 1,200 K Group stores during 2019.
	We launched a new service for online shoppers that enables parcels from all online stores globally to be directed to a specific automatic pick-up point in a K-store of the customer's own choosing.	We will expand the parcel service for online shoppers across Finland.

Society

Our mission is to create welfare responsibly for all our stakeholders and for all society.

Most of the economic benefit generated by Kesko's operations flows to suppliers of goods. Purchasing local products and services creates economic benefits for Kesko's home country and promotes local work.

We want to actively take part in public discussion and develop new solutions. In our communications, we are increasingly emphasising sustainability actions by our stores that are meaningful to our customers.

We sponsor nationwide projects in Finland that are connected to the everyday lives of children and young people, promote the quality of living and sustainability, and bring joy to as many people as possible.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 201 Economic performance
- 204 Procurement practices

By providing support we increase wellbeing in society

201-1

We sponsor nationwide projects in Finland that are connected to the everyday lives of children and young people, promote the quality of living and sustainability, and bring joy to as many people as possible.

Kesko's community investments

€ 1,000	2018	2017	2016
Non-governmental, environmental and other organisations	299	231	412
Sports (adults)	603	1,145	891
Youth sports and other youth work	203	144	56
Science, research and education	69	50	67
Culture	45	32	14
Health	596	459	270
Veteran organisations and national defence	22	113	3
Total	1,836	2,174	1,713

In addition, Veikkaus Oy contributed an estimated combined revenue of €110-115 million to the Ministry of Education and Culture, the Ministry of Social Affairs and Health, and the Ministry of Agriculture and Forestry, generated from the sales of games by Veikkaus points of sale located at K-stores. The estimate is based on the average breakdown of each euro spent on games in 2018. The estimate has been calculated by Veikkaus Oy. The Ministry of Agriculture and Forestry, the Ministry of Education and Culture, and the Ministry of Social Affairs and Health distribute the revenue in its entirety to beneficiaries in Finland.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Donations, sponsoring and charity

OBJECTIVE	PROGRESS IN 2018
We focus primarily on sponsoring nationwide projects in Finland that are connected to the everyday lives of children and young people, promote the quality of living and sustainability, and bring joy to as many people as possible.	<p>K-food stores collected a record €586,000 in the Finnish Cancer Foundation's 2018 Pink Ribbon (Roosa nauha) campaign.</p> <p>Some 280 volunteers and 18 K-retailers took part in the events of the second year of WWF Finland and K Group's K Fishpaths collaboration.</p> <p>Plan International Finland and K Group's project in Thailand came to an end: 1,143 children of migrant workers were educated in learning centres and 34 suppliers trained in social responsibility issues.</p>

In the K Fishpaths collaboration, we restore habitats for endangered fish.



Majority of purchases are from Finnish suppliers

204-1

Kesko assesses the economic benefit it generates by reporting its purchases by operating country and the company's country of domicile. Kesko also reports both Kesko's and K-retailers' direct purchases of goods in Finland by region.

Most of the economic benefit generated by Kesko's operations – approximately 86% of Kesko's net sales – flows to suppliers of goods, from which purchases were valued at €8.9 billion in 2018. The purchases of all Kesko companies from suppliers operating in Finland totalled €5.9 billion, accounting for 65.7% (2017: 65.0%) of the Group's total purchases.

In 2018, Kesko had around 23,700 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, around 10,600 operated in Finland, around 10,200 in Kesko's other operating countries, and around 2,900 elsewhere.

The 10 largest suppliers accounted for 26.3% (2017: 26.4%) of the Group's purchases of goods, and the 100 largest suppliers for 59.3% (2017: 59.8%). Of the 10 largest suppliers, 6 were Finnish food industry companies, 2 import companies operating in Finland, and 2 German car manufacturers.

The purchases of goods by Kesko Group's Finnish companies totalled €7.2 billion. Of these purchases, 81.1% were from suppliers operating in Finland and 18.9% from other countries. Some of the suppliers operating in Finland are import companies, and reliable statistics cannot be compiled on the origin of goods supplied by them.

Kesko's purchases by operating country in 2018

	Suppliers of goods and services in operating country	Purchases from suppliers of goods		Suppliers of goods and services in other operating countries	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	10,259	5,806	81.1	2,301	1,352	18.9
Sweden	1,723	211	86.4	203	33	13.6
Norway	2,724	513	97.8	189	12	2.2
Estonia	1,233	71	51.0	479	69	49.0
Latvia	1,233	54	39.9	502	82	60.1
Lithuania	419	127	31.6	213	274	68.4
Poland	1,056	212	95.9	71	9	4.1
Belarus	678	57	60.6	386	37	39.4
Total	19,325	7,050	79.1	4,344	1,867	20.9

Kesko's purchases by company's and supplier's country of domicile in 2018

Company's country of domicile	Supplier's country of domicile									Total
	€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus	
Finland	5,806	165	11	33	6	6	25	7	1,099	7,158
Sweden	10	211	5	1	-	0	3	-	14	244
Norway	1	7	513	-	-	-	-	-	4	524
Estonia	18	2	1	71	4	3	7	-	34	140
Latvia	12	0	-	7	54	6	6	0	50	137
Lithuania	11	2	-	14	35	127	45	4	162	400
Poland	1	0	-	0	-	-	212	-	8	221
Belarus	0	0	-	-	0	2	5	57	30	93
Total	5,860	386	529	127	100	143	304	68	1,400	8,918



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Local production

OBJECTIVE	PROGRESS IN 2018
We support local producers.	To help farmers struggling with the exceptionally dry weather in summer 2018, we focused heavily on our 'Thank the Producer' operating model. Branded products by five Finnish food companies joined the model at the end of the year. We will pay an additional sum of €650,000 directly to the food producers for 2018. We organised 7 Local Food Dates around Finland, giving over 400 K-retailers and 170 local food producers a chance to meet and establish a collaboration.

Kesko is actively increasing the amount of local purchases and encourages K-retailers to include products from local producers in their selections. In 2018, K-retailers' direct purchases from Finnish regions totalled €777.6 million. Finnish food producers play a crucial role in K Group's grocery trade and the share of local food in store selections is growing.

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2018

Region	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure ¹	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	Total
€ million							
Åland	44.6	-	0.3	0.5	-	-	45.3
Southern Karelia	9.5	10.6	6.8	6.0	14.0	0.5	47.2
Southern Ostrobothnia	243.6	54.4	5.2	5.5	14.1	1.1	323.8
Southern Savo	49.6	19.1	6.3	4.9	11.8	1.4	93.2
Kainuu	12.7	10.2	2.0	1.6	7.1	0.7	34.2
Kanta-Häme	58.0	44.2	6.3	6.5	13.6	1.1	129.7
Central Ostrobothnia	53.4	20.7	3.2	2.4	4.5	0.5	84.7
Central Finland	50.2	26.3	11.3	8.9	20.4	1.8	118.9
Kymenlaakso	41.9	6.8	16.4	6.3	13.0	1.0	85.5
Lapland	17.7	25.8	8.7	6.4	22.9	2.5	84.0
Pirkanmaa	268.1	39.8	31.1	34.6	45.0	3.5	422.1
Ostrobothnia	140.1	11.4	5.3	6.6	11.5	0.9	175.8
Northern Karelia	31.8	25.5	6.8	5.4	11.6	1.6	82.7
Northern Ostrobothnia	147.3	66.6	18.7	22.2	30.1	2.8	287.6
Northern Savo	235.5	56.3	6.3	12.1	23.2	1.9	335.3
Päijät-Häme	146.5	27.8	7.6	10.4	14.5	1.1	207.9
Satakunta	214.4	43.4	10.8	7.5	18.4	1.1	295.5
Uusimaa	3,341.4	189.2	225.7	323.6	147.7	17.5	4,245.0
Varsinais-Suomi	699.8	99.7	29.7	30.3	44.0	5.2	908.8
Total	5,806.2	777.6	408.4	501.6	467.3	46.2	8,007.4

¹ Incl. increase in lease liabilities of K-retailers' equipment

The figures are for those K-retailers whose accounts and payroll are managed by Vähittäiskaupan Tilipalvelu VTP Oy, representing around 95% of K-retailers' total business volume.

Working community

The foundation of our operations is our professional and committed personnel. We provide them with diverse career and development opportunities in various positions.

We aim to be the most attractive workplace in the trading sector. Equal opportunities, justice and non-discrimination are important principles that we are determined to observe.

As the operating environment changes, continuous development of the personnel's skills will play an increasingly important role. The prerequisite for wellbeing and success at work is that each employee knows the targets set for their work, receives feedback on their performance and experiences success at work.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 201 Economic performance
- 401 Employment
- 402 Labour/Management relations
- 403 Occupational health and safety
- 404 Training and education
- 405 Diversity and equal opportunity
- 406 Non-discrimination
- 407 Freedom of association and collective bargaining



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Employer image

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We are the best employer in the trading sector in terms of job satisfaction.	Ranking 18 th , K Group improved its position in the Universum Ideal Employer Ranking survey (up by 7 positions). More than 6,000 people responded to the Pulse survey for personnel; development was seen in the primary development areas: provision of feedback, development opportunities at K Group and employer image.	We will continue to promote the agreed measures and monitor the progress of the results with a more extensive personnel survey at the end of 2019.

Half of our employees work in Finland

401-1

In 2018, Kesko had an average of approximately 19,579 (2017: 22,077) full-time equivalent employees in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. 50.2% of the personnel were based in Finland and 49.8% in the other operating countries.

Changes in the number of Kesko employees

	2018	2017	2016
Finland at 31 Dec.	11,878	12,327	14,845
Other operating countries at 31 Dec.	11,523	12,656	12,811
Total at 31 Dec.	23,401	24,983	27,656
Finland, average	9,822	10,691	10,714
Other operating countries, average	9,757	11,386	11,762
Total, average	19,579	22,077	22,476

Fixed-term and part-time employments at Kesko

	2018	2017	2016
Fixed-term employees of total personnel at 31 Dec., %			
Finland	14.1	14.2	12
Other operating countries	6.7	4.8	6.1
Whole Group, total	10.5	9.4	9.2
Part-time employees of total personnel at 31 Dec., %			
Finland	33.6	40.8	43.9
Other operating countries	11.8	7.8	6.7
Whole Group, total	22.9	24.1	26.7

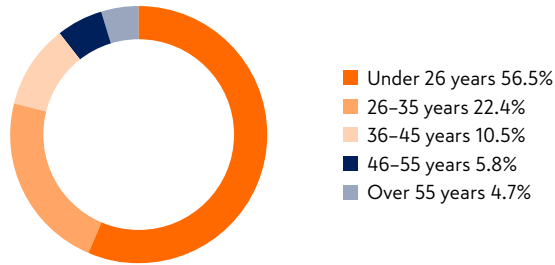
Kesko's personnel statistics for 2018 analysed by operating country

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of personnel at 31 Dec.	11,878	1,016	1,273	735	850	4,016	775	2,858
Average number of personnel in 2018	9,822	918	681	679	700	3,361	772	2,647
Number of new employments ¹	4,240	389	139	395	469	2,479	134	1,154
- women	2,217	122	31	157	146	1,103	20	439
- men	2,023	267	108	238	323	1,376	114	715
Number of terminated employments ¹	4,801	373	270	349	436	2,395	139	1,266
- women	2,954	126	64	142	107	943	14	454
- men	1,847	247	206	207	329	1,452	125	812
Terminated by employer, %	4.0	2.0	29.0	6.0	24.0	2.0	22.0	0.0
Total turnover rate, %²	30.0	37.0	19.0	34.0	46.0	60.0	17.0	44.0

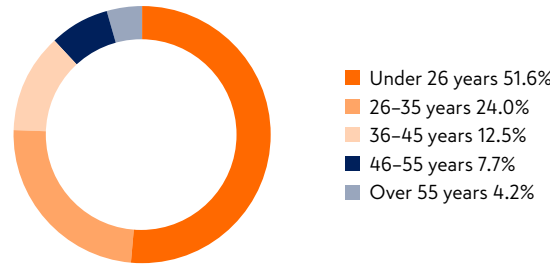
¹Including summer employees ²Excluding summer employees

When calculating the number of terminated employments, each employee is included only once, whereas one person may have several new employments included in the total number.

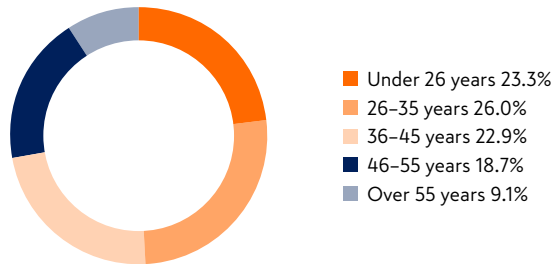
Recruits, age distribution 2018, %



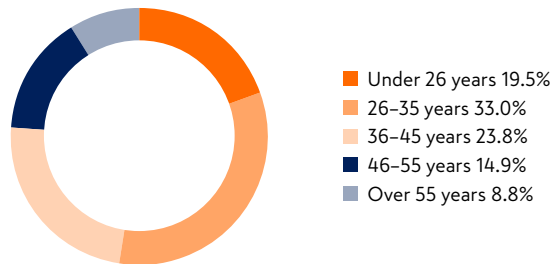
Terminated employments, age distribution 2018, %



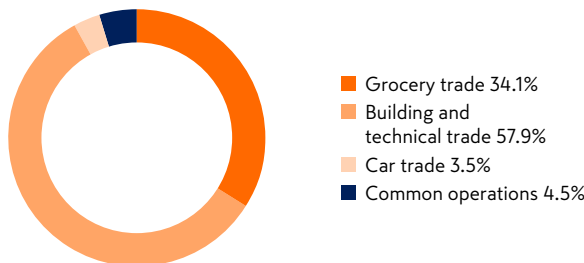
Age distribution of Kesko personnel in Finland in 2018, %



Age distribution of Kesko personnel in the other operating countries in 2018, %



Distribution of Kesko personnel by division at 31 Dec. 2018, %



Towards a new career

Internal job rotation opens up possibilities for various career options. In Finland, approximately 1,569 (2017: 1,992) internal transfers took place, while the combined figure for the other operating countries was 2,361 (2017: 2,637) (figures excluding internal transfers within K-Market Oy).

In 2018, the New Job operating model was established for situations where an employee's working capacity is permanently reduced compared to the requirements of the current job, and the employee is no longer capable of returning to do the job.

In Finland, K Group's recruitment is supported by the [K Trainee](#) and [retailer coaching programmes](#).

We offer comprehensive personnel benefits

401-2

In Finland, all personnel are subject to statutory pension security and benefits concerning parental leaves. In Finland, both the permanent and temporary personnel have statutory insurance against occupational injuries and occupational diseases.

In addition, we offer our personnel occupational health care services, retirement benefits, versatile shopping benefits in K Group stores and the staff store as well as an opportunity to lease a car.

In all operating countries, we support our employees' leisure activities in different ways. The Finnish companies, for example, provide benefits for physical exercise, cultural activities and the commuting, which in 2019 expands to cover wellbeing services.

Some of the companies operating in Estonia, Latvia and Lithuania also give financial support to their employees through different situations in life, such as when a child is born, during a child's first year at school, in the event of the death of a close relative and in other special situations.

Performance bonuses and share compensation plan

The performance bonus schemes cover all personnel, with the exception of sales assistant jobs and jobs covered by other types of bonus or commission systems. The indicators of the performance bonus scheme include, for example, the Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on the role, personal performance bonus targets may also be set. In spring 2018, around €15.1 million (2017: €11.4 million) was paid in Finland in bonuses under the 2018 performance bonus schemes, accounting for approximately 3.5% (2017: 3.0%) of the total payroll.

In 2018, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland, €16.1 million (2017: €18.1 million)
- In the other operating countries, €4.5 million (2017: €5.2 million)

The maximum performance bonus amounts vary depending on the profit impact of the person's role and are equivalent to 10-67% of the person's annual salary.

Kesko operates a share-based compensation scheme for some 130 members of management and other specified key personnel. Read more about the [share compensation plan](#).

Pensions

201-3

New pensions were granted to 193 people (2017: 291) in Kesko Group in Finland. Of these, 32 were disability pensions (2017: 25), of which 15 (2017: 15) were partial disability pensions. Rehabilitation benefit is a form of fixed-term disability pension granted with the aim that the employee is rehabilitated and returns to working life. Rehabilitation benefits were granted for the purpose of retraining or work trials to 93 people (2017: 111), who were at a clear risk of losing their working capacity within a few years. The average retirement age of employees in 2018 was 61.9 (2017: 61.7). The average retirement age for old-age was 63.7 (2017: 63.3) and the age for disability pension was 47 (2017: 46.5). In the other operating countries 21 (2017: 29) employees retired.

The Group has several pension arrangements in different operating countries. In Finland, statutory pension provision for personnel is organised through pension insurance companies and voluntary supplementary pension provision is mainly organised through Kesko Pension Fund. At the end of 2018, the Pension Fund had 2,581 members, 579 of whom were active members and 2,002 were pensioners.

The statutory pension provision organised through a pension insurance company is a defined contribution plan. The supplementary pension provision organised by Kesko Pension Fund is a defined benefit plan. On 31 December 2018, the defined benefit plan obligation was €254.2 million (2017: €266.6 million), which is fully covered. Calculated under IFRS, the surplus amount was €148.0 million on 31 December 2018 (2017: €207.5). Calculated under IFRS, the Group's total pension expenses represent 12.9% (2017: 14.3%) of the total payroll. Read more in the financial statements section, [note 3.8](#).



In the subsidiaries in other countries, pensions are arranged in compliance with local provisions and practices, and are defined contribution plans.

We take care of the safety of our employees

403-1

Labour protection activities are arranged separately for each company, region or place of business in compliance with local legislation. Labour protection activity in Finland has been made more effective by establishing regional committees and by combining worker health and safety committees in the Greater

Helsinki region in preparation for the move to common operating premises.

In 2018, we launched a Group-level labour protection group in Finland to strengthen the role of labour protection and to develop occupational health cooperation and to share best practices in the field of occupational safety.

Outside the Nordic countries, labour protection matters are handled by OHS (Occupational Health and Safety) committees. In 2018, we investigated the practices and indicators and needs for cooperation related to

occupational wellbeing, health and safety and together shared the best practices in Norway and Poland.

Kesko's HR functions arrange occupational safety training for Kesko employees and K-retailers. Group companies also arrange training sessions tailored to their specific needs.

Occupational health service helps maintain working capacity

403-2

Within Kesko Group, the occupational health service's normal operations include providing advice and counselling related to employees' health and wellbeing at work, analysing health risks related to work and preventing illnesses, and providing treatment – even in the event of serious illnesses – in collaboration with primary health care practitioners and specialist health care providers.

In Finland, 12,260 (2017: 12,600) Kesko Group employees were covered by Kesko's own occupational health services. Kesko's occupational health service provides occupational health services for employees in the Greater Helsinki area and purchases occupational healthcare from one provider for employees elsewhere in Finland. Centralised and target-oriented management enables consistent content, operating methods and results in occupational health service. In other countries, occupational health care is arranged in compliance with local legislation and practice.

A total of €5.5 million (2017: €6.2 million) was spent on occupational health care in Finland in 2018. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €2.8 million (2017: €3.5 million) of this sum. In 2018, Kesko's occupational health service spent €447 (2017: €494) per employee on maintaining the personnel's working capacity and providing medical care.



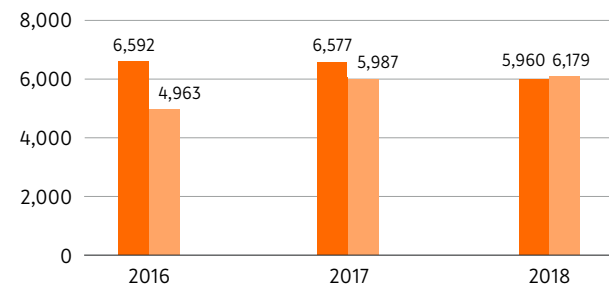
**PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Occupational wellbeing and working capacity**

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We will improve work motivation and job satisfaction.	Kesko initiated an extensive K Work programme, which means a new, unified way to work within K Group. In the first stage of the programme, the new ways to work will be communicated to approximately 2,500 K Group employees in specialist positions.	In 2019, principles which concern those doing specialist work in K Group, will be taken into use step by step irrespective of the location. These practices concern, for example, work done in multiple locations, working time monitoring and knowledge work tools.
We will reduce the number of sick leave absences, accidents at work and numbers for premature retirement due to disability.	We developed processes to serve as a basis for the forthcoming technical OHS solution, the purpose of which is to anticipate risks related to working capacity and to develop working capacity management. In Finland, we initiated the evaluation of systematic, psycho-social load Kesko's occupational health care offered the employees interested in their health and wellbeing new coaching related to nourishment, mental health and physical condition in which artificial intelligence is utilised to some extent. A total of 224 persons participated in this coaching.	K Group will introduce an OHS solution and new processes compliant with it. We will continue with the services that worked best in the trials in 2018 and pilot as new solutions those which prove functional in our new K-Kampus main office building.

Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables on the right. In the other countries, a total of 92 injuries occurred resulting in sickness absences of more than three days in 2018. The corresponding figure in Finland was 248. In 2018, the sickness absence rate in the Group companies in Finland was 4.3% of hours worked (2017: 4.6%). Approximately 76.2% (2017: 75.1%) of sickness absences were short-term absences, i.e. paid sick days. In the other countries, the sickness absence rate was 5.1% (2017: 4.7%).

Trend in number of sick days

Sick days/million working hours



■ Finland
■ Other operating countries

Kesco's contribution to occupational health care, Finland

	2018	2017	2016
€/person	447	494	499

Injuries and occupational diseases in Finland

	2018	2017	2016
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	181	226	227
Commuting injuries	67	79	81
Injury rate ¹ /million working hours	13	11	10
Average degree of injury severity, days	31.6	20.9	15.8
Suspected occupational diseases	3	2	1
Occupational diseases	2	1	2
Sick days due to occupational injuries, commuting injuries and occupational diseases	8,040	6,473	5,744
Per employee	0.8	0.6	0.5

The calculation method: small injuries, i.e. those leading to absence of less than three days, are not included in the figures. Statistics do not include contractors.

¹ Excl. small injuries and commuting injuries, calculated with actual working hours

Sickness absences by country in 2018

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of sick days	110,408	10,845	6,014	8,020	8,233	52,260	8,721	25,662
Per employee	11.2	11.8	8.8	11.8	11.8	15.5	11.3	9.7
Per million working hours	5,960	6,712	5,018	5,819	5,822	7,697	5,431	4,771

The calculation method: sick days per employee have been calculated on the average number of employees during the year.

An operating environment in transition calls for continuous competence development

404-1 404-2

Systematic, business-driven development of personnel is a critical factor for future success. The transformation of the trading sector and digitalisation have created needs for new competences.

Key areas of competence building in K Group are:

- Leadership and management
- Digitalisation
- Customer experience; sales, service and product competences

Manager training programmes

In 2018, we renewed our manager training programmes: we started a training programme for new managers and the middle management of the international programme. A tailored management training was initiated for the K-Citymarket chain, with the objective of more than 300 store managers obtaining specialist vocational qualifications in management.

Training for the Let's Talk About Work operating model is part of the occupational ability management training for managers, which also was renewed.

Digital competences

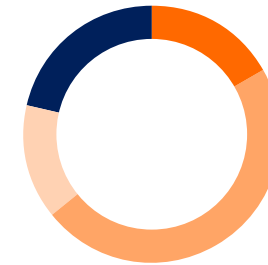
In 2018, we arranged info sessions targeted at the whole personnel on service design and artificial intelligence, and agile development trainings for management groups and specialists.

Training hours and costs in 2018

	2018	2017
Training hours¹		
Finland	58,191	56,055
Other countries	64,331	71,991
Training hours per employee¹		
Finland	5.9	5.2
Other countries	6.6	6.3
Training costs, € million		
Finland	2.7	3.3
Other countries	0.4	0.5
Training costs per employee, €		
Finland	277	310
Other countries	45	45

¹ 2017 excludes Bygghandelen AS and Onninen AS Norway, Onninen AB and K-Rauta AB Sweden, and OOO Onninen Russia.

Distribution by education at 31 Dec. 2018, %



- Comprehensive school 16.8%
- Upper secondary vocational education 47.6%
- Lower university degree 14.3%
- Higher university degree 21.3%

Bygghandelen AS, Norway, K-Rauta AB and Onninen AB, Sweden not included.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Competence development

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We conduct an annual performance and development review with every employee.	Discussing the objectives and development were continued as a systematic part of the performance management model. Approximately 80% of our employees have discussed their objectives and development with their manager.	We will systematically continue to implement these discussions and guidance.
We will regularly train our managers.	A total of approximately 830 managers took part in manager training.	All managers in the K Group go through a common half-day manager training. The training discusses the principles of K Way.

We organise social media training sessions to deepen the expertise of those K Group employees with social media as an essential part of their job description.

Training for store personnel

We provide store personnel with professional training in the form of coaching and e-learning, as well as an opportunity to complete vocational degrees. All training information has been compiled into a single portal at www.k-academy.fi/.

In 2018, we launched a new Workplace coach training for store personnel and trained more than 300 workplace coaches for various chains.

Performance and career development reviews and performance assessment as tools for job satisfaction

404-3

Our personnel is given feedback on their performance and development opportunities in annual performance and development reviews. Target setting, performance and development reviews and performance evaluations are carried out at all Kesko Group companies and operating countries.

Performance reviews evaluate the person's performance during the past period and set targets for the next one. In development discussions we discuss the employee's competencies and motivation, career wishes, quality and development of manager work and the entire working community. Finally, a personal development plan is created for the employee.

We monitored the actualisation of performance reviews in a personnel survey carried out at the end of 2017. The response rate to the personnel survey was 71%. 80% of the respondents state that they had discussed their targets and development with their manager during the past year.

The purpose of development discussion is to give feedback on the person's performance during the previous year, support their development and encourage them to improve their performance. Uniform criteria ensure a fair performance and skills review for all employees. A systematic and effective performance review gives important information and forms a basis for other HR processes.

The personnel survey is among the key tools for improving the quality of internal operations and manager work. The entire personnel is given the chance to take part in the survey – it is conducted simultaneously in Kesko Group and in some K-stores in Finland and other operating countries.

The revised personnel survey was carried out most recently in the latter half of 2017. Action plans were created in early 2018, and the progress of selected development initiatives was monitored later with the Pulse survey that had over 6,000 respondents. Positive development was seen in the primary development areas: provision of feedback, development opportunities at K Group and employer image.



**PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Performance management**

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We know the targets set for our work and receive feedback on our performance.	According to the latest personnel survey, 74% of our personnel receive feedback on their performance in attaining their own targets. Target-based bonus schemes cover practically the entire personnel.	We will continue the systematic deployment of performance management and will revise the bonus schemes.

We promote equal opportunities and diversity

405-1 406-1

Zero-tolerance of discrimination

Equal opportunities, justice, non-discrimination and equality are important principles that are observed at Kesko. Kesko Corporation and its subsidiaries in Finland draw up statutory company-specific HR, training, equality and non-discrimination plans and define objectives for improvement.

Kesko has established the TASY gender equality working group in accordance with the non-discrimination plan, which handles matters related to non-discrimination and equality within the Group. The working group includes representatives of the employer, personnel and labour protection functions as well as employees interested in the matter. The working group analyses recruitment, career development and training, remuneration and the reconciliation of work and family life. Combating discrimination is at the core of the group's activities. To better identify and prevent discrimination, we will train 'TASY activists' for Kesko.

In 2018, we participated in a large campaign against discrimination (#eisyryji) which sought to change attitudes and reduce discrimination in Finnish working life. Companies participating in the campaign commit to promoting a non-discriminatory work culture that is open for all. We also participated in the Day as a Director campaign arranged by the Junior Chamber International Finland, where 40 students were given the opportunity to find out about the work of K Group's managers.

No cases of discrimination were reported to us in 2018.

Diverse working community

In autumn 2018, we participated in [Plan International's Girls Takeover](#) event and added promotion of gender equality as a new objective in our responsibility programme. Gender equality involves strengthening the rights and opportunities of women and girls throughout our supply chain and improving women's opportunities to advance to management posts. Our aim is to increase the proportion of women in management, and in K-Citymarkets, for example, 81% of department managers are women.

According to [the diversity policy of Kesko's Board of Directors](#), Kesko seeks to have a balanced representation

of genders on the Board. In 2018, women accounted for two out of the seven members of the Board of Directors and one out of the eight members of the Group Management Board.

We have started several programmes in recent years to employ young people and people from special groups, and employing them has become a permanent operating model. So far, more than 4,700 young people in this target group have been hired to K Group through work trials, salary support and apprenticeship training.

In the future, immigrants will be an increasingly important target group for recruitment into service duties in the retail



sector. At present, the highest number of people with immigrant background are employed in the stores and warehouses of K Group.

Employing people with immigrant background will require new operating methods – for example, the needs of people whose first language is not Finnish, must be taken into account in guidelines and management.

People of various ages are an asset

In Finland, the average age of employees was 37 in 2018. In the other countries, the average age of employees varied from 26 to 46 years.

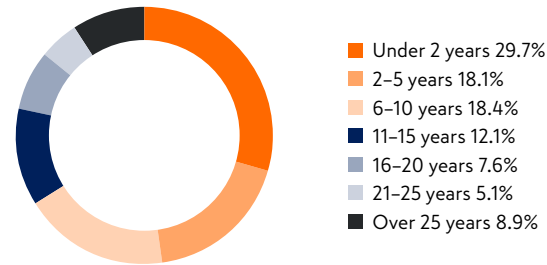
Long careers are not rare: 1,062 employees in Finland have worked at Kesko for over 25 years. In Finland, 33.8% of the employees have worked at Kesko over 10 years and 66.2% under 10 years, and in the other countries the figures were 22.5% and 77.5%, respectively.

We promote the realisation of pay equality

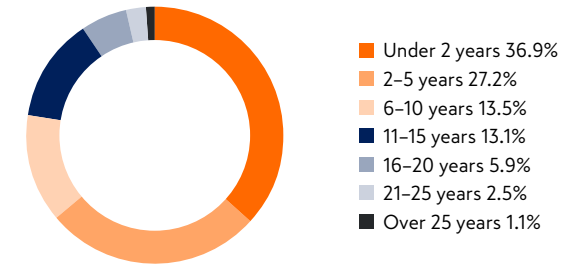
405-2

The average annual salary of Kesko employees was €39,523 in Finland, €45,299 in the other Nordic countries, and €10,781 in the Baltic countries, Poland and Belarus. As Kesko Group operates in many lines of business, the average salary is not a good indicator of salary level or structure. The wage groups and tables specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality.

Years of service in Finland in 2018, %



Years of service in the other operating countries in 2018, %



Percentage of women and men of personnel

	Women	Men
Kesko's personnel		
Finland	51.8	48.2
Other operating countries	43.6	56.4
Managers		
Finland	46.1	53.9
Other operating countries	37.2	62.8

Percentage of women by employee category, Finland

	2018	2017	2016
Top management	28.6	28.3	24.1
Middle management	23.3	22.6	20.0
Managers and specialists	46.8	45.2	41.9
Workers and white-collar employees	53.5	58.4	64.4
Total	51.8	55.5	60.1

Percentage of women by employee category, other countries

	2018	2017	2016
Top management	12.5	0.0	0.0
Middle management	42.3	56.2	49.1
Managers and specialists	51.8	49.1	48.4
Workers and white-collar employees	39.3	41.6	47.2
Total	43.6	46.7	47.8

The figures also include those called to work on demand

Besides the role and its requirements, the salary of a specialist is determined by competence, experience, performance and results. Kesko uses the HAY job grade classification system. In jobs classified based on job grades, in higher and middle management jobs the women's salary is 99% of men's salary in comparable jobs, and 96% with manager and specialist positions, respectively. As a whole, women's salary is 97% of men's salary in comparable jobs.

Equality in remuneration is considered as part of annual company-specific equality plans. Gender is not a factor which influences remuneration, and no significant differences between comparable jobs have been detected. Equality plans strive to promote salary equality in jobs where comparisons can be made.

Freedom of association as an important value

407-1

Employees' freedom of association is a central characteristic of a welfare society. Kesko respects its personnel's freedom of association.

The freedom of association or the right to collective bargaining is not seen to be at risk in Kesko's operating countries within the EU (Finland, Sweden, Estonia, Latvia, Lithuania and Poland) or in Norway.

Out of the total personnel, 47% are covered by collective agreements.

So far, no binding industry-wide collective agreements have been drawn up in the Baltic countries and Poland.

The control of the association of suppliers' employees in high-risk countries and corrective actions are included in social responsibility audits.

Periods of notice and restructuring situations

402-1

Kesko complies with local legislation in all of its operating countries. In Finland, the key statutes governing restructuring situations are included in the Act on Co-operation within Undertakings, which stipulates that the employer must provide reasonable notice of decisions for consideration on the basis of negotiations. The collective agreement for the trading sector does not specify any minimum notice periods applying to restructuring situations.

In Sweden, the statutory minimum notice period in the event of organisational changes is 8–24 weeks depending on the nature of the change. The collective agreement applying to operations in Sweden also does not specify minimum notice periods for restructuring situations. No specific minimum notice period for organisational changes is defined in Norway, but both legislation and the collective agreement stipulate that personnel shall be informed of organisational changes at the earliest opportunity.

In Estonia and Latvia, the minimum notice period in restructuring situations is four weeks. The corresponding notice period in Belarus is eight weeks. There are no collective agreements in these operating countries.

In Poland, the notice period with permanent and temporary employments varies from two weeks to three

months depending on the duration of employment. The same periods of notice are valid in restructuring situations as well.

In all its operating countries, Kesko applies the notice periods specified in local labour legislation. In Finland, the notice period is from two weeks to six months depending on the duration of employment.

Responsible purchasing and sustainable selections

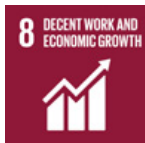
Our products are verified, safe and responsibly produced. We offer an extensive selection of own brand products with responsibility labelling.

The Product Research Unit's laboratory monitors the product safety and quality of the own brand products and own imports in the grocery trade.

We monitor and develop responsibility in supply chains with suppliers' factory audits and responsibility trainings.

We guide the sourcing of products containing raw materials identified as critical, such as palm oil and soy, with our sustainability policies.

We promote the following UN Sustainable Development Goals:



Information disclosed in this section – GRI codes:

- 412 Human rights assessments
- 414 Supplier social assessment
- 416 Customer health and safety
- 417 Marketing and labelling





**PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Sustainability policies guiding our sourcing**

OBJECTIVE	PROGRESS IN 2018
<p>Fish and shellfish policy</p> <p>Our selections do not include species on the red list of the WWF Finland's Seafood Guide. When making decisions concerning selections, we favour sustainable stocks of fish and MSC- and ASC-certified suppliers.</p>	<p>Our fish and shellfish policy based on the WWF Finland's Seafood Guide has been in effect for 10 years. The retail selection of Kesko's grocery trade included 200 MSC-certified fish products and 9 ASC-certified products. Kespro's HoReCa selection had a total of 168 MSC-certified products and 9 ASC-certified products.</p>
<p>Palm oil policy</p> <p>By 2020, the palm oil in our own brand groceries will be 100% sustainably produced (CSPO).</p>	<p>Some 99.2% of the palm oil in Kespro's Menu food products sold in 2018 was sustainably produced (CSPO), of which 0.2% was Identity Preserved, 82.0% Segregated, 13.7% Mass Balance, and 4.1% RSPO credits. Some 67% of the palm oil in Pirkka and K-Menu food products sold in 2018 was sustainably produced (CSPO), of which 44% was Segregated, 45% Mass Balance, and 2% RSPO credits.</p>
<p>Soy policy</p> <p>By 2020, the ingredients of soy origin in grocery trade's own brand food products and the soy fodder used in the production of products of animal origin will be 100% responsibly produced, and be either RTRS or ProTerra certified.</p>	<p>The soy used as an ingredient in Kespro's Menu food products sold in 2018 was 74.2 % responsibly produced. The soy used as an ingredient in Pirkka and K-Menu food products sold in 2018 was 2.2% responsibly produced.</p>
<p>Timber and paper policy</p> <p>By 2025, there will be only sustainable origin timber and paper products in Kesko's product range. Timber and paper products will be FSC or PEFC certified or made of recycled materials. In the grocery trade, the policy applies to our own brand products.</p>	<p>Kesko's building and technical trade has been awarded the PEFC certificate, which covers sawn pine and spruce timber and processed timber as well as the wholesale distribution of MDF boards in Finland (percentage-based method). The average PEFC certification percentage in 2018 was 88.5% for pine and 85.6% for spruce.</p> <p>Of the timber and paper products in the grocery trade's Pirkka and K-Menu ranges, 51% contained sustainable raw material. In Kespro's Menu range, 17% of timber and paper products contained sustainable raw material.</p>
<p>Plastics policy</p> <p>In the plastics policy updated in 2018, we placed more stringent targets for the recycling, reduction and avoidance of plastic.</p>	<p>We accelerated the reduction of plastic by setting the same price for plastic, paper and biodegradable bags in all K-food stores. We removed microplastics from our own brand detergent products. Read more</p>
<p>Animal welfare policy</p> <p>When making decisions concerning selections, we take the well-being of farm animals into account. From the start of 2026, we will no longer accept eggs from furnished cages into Kesko's selections.</p>	<p>In spring 2018, we compiled our principles concerning products of animal origin into an animal welfare policy.</p>



Efforts to promote human rights

412-1 412-2

In 2016, we published our [statement of commitment on human rights and impact assessment](#) in compliance with the UN's Guiding Principles on Business and Human Rights. We review the human rights assessment every three years, for the next time in 2019.

The K Code of Conduct guidelines include a section on [human rights](#). The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 7,800 people by the end of 2018. Awareness of the K Code of Conduct is regularly promoted through communications and K Code of Conduct training sessions.

The training sessions in responsible purchasing discuss the implementation of human rights in global supply chains. In 2018, we organised the training for those engaged in purchasing in Kespro. The training sessions discussed the amfori BSCI Code of Conduct principles, the assurance process in purchasing from high-risk countries, and the social responsibility assessment systems approved by Kesko and sustainability policies guiding sourcing.

In 2018, we participated in Plan's Girls Takeover event, highlighting the status of girls and women in our supply chains. We promoted work on gender equality as part of our responsibility programme and made a commitment to strengthen the rights and opportunities of women and girls in all of our operations and supply chains.

In 2018–2019, we participate in the corporate responsibility law campaign initiated by Finnwatch, calling

for a Finnish law on mandatory human rights due diligence, obliging companies to avoid and to reduce the negative human rights impacts in their operations.

Suppliers' social responsibility audits

414-1 414-2

Special focus on high-risk countries

In the risk assessment of supply countries, we utilise the [amfori's countries' risk classification](#) based on Worldwide Governance indicators published by the World Bank. In 2018, direct purchases from suppliers in high-risk countries totalled €105 million (2017: €106 million) and accounted for approximately 1.2% (2017: 1.2%) of Kesko's total purchases. Direct imports from high-risk countries accounted for approximately 14.5% (2017: 13.9%) of Kesko's total imports into Finland. The figures concern direct purchases in Finland; no statistics are available on direct imports from high-risk countries in Kesko's other operating countries.

The largest high-risk countries of import are shown on the map [on page 36](#). We publish the list of manufacturers of clothes, accessories, shoes and bags of our own brands and own imports located in high-risk countries annually [on our website](#). In 2018, to improve the transparency of the supply chain, we added the addresses of the factories to the list.

Social responsibility assessment of suppliers in high-risk countries

Kesko is a member of amfori, an association dedicated to promoting sustainable trade, and takes part in [amfori BSCI](#). Kesko utilises global social responsibility audit and certification systems, primarily amfori BSCI audits, in the assessment of suppliers in high-risk countries.

Kesko also accepts [other assessment systems of social responsibility](#), if their criteria correspond to those of amfori BSCI auditing and if the audit is conducted by an independent party. As part of the sourcing cooperation between Kesko's grocery trade and ICA Global Sourcing, Kesko also accepts the ICA Social Audit. In this case, however, suppliers are required to adopt third-party audit approved by Kesko after a maximum of two ICA Social Audits.

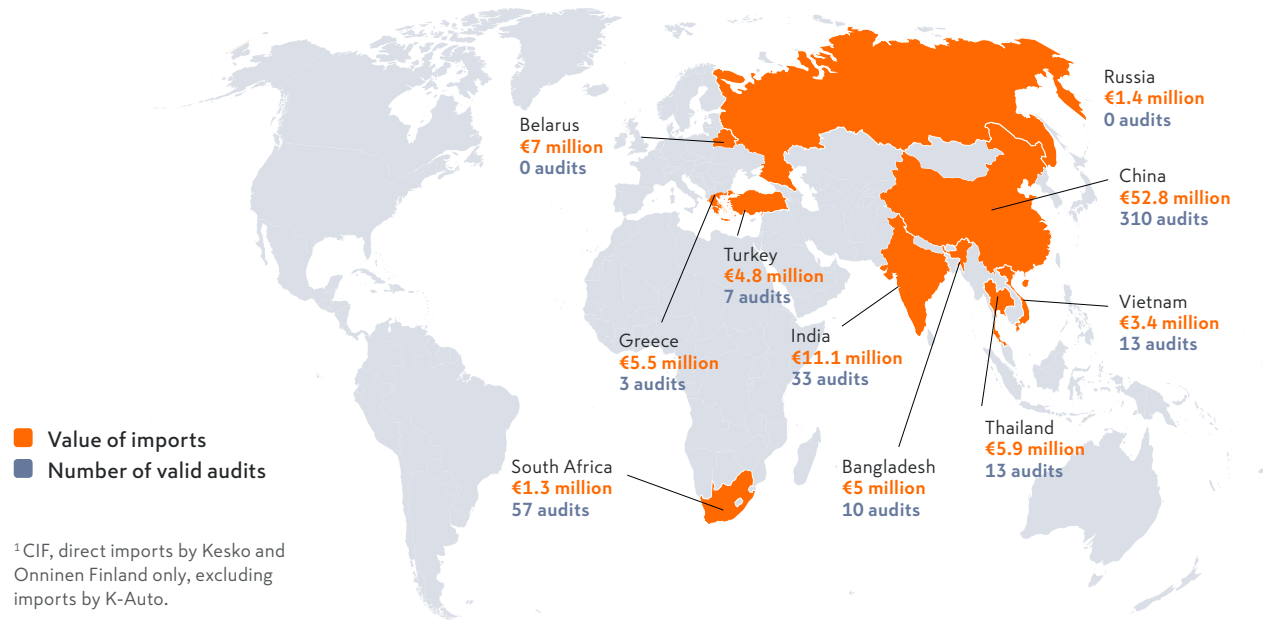
Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when the cooperation begins. Kesko's grocery trade requires all of its suppliers in high-risk countries to have an approved audit when the cooperation begins.

Some of Kesko's suppliers are amfori members themselves also and thus promote amfori BSCI audits in their own supply chains. In 2018, we purchased work clothing from two Nordic suppliers for K-Rauta, Neste K, K-Supermarket, K-Market and K-Citymarket chains. Part of the work clothes were manufactured in high-risk countries in factories with three valid amfori BSCI audits and one SA8000 certification.

Social responsibility audits and certifications of suppliers in high-risk countries

Social responsibility assessment system	Jan 1 2019, total	Jan 1 2018, total
amfori BSCI	300	291
SA8000	12	15
SMETA	136	30
SIZA	54	22
Fairtrade	21	11
Rainforest Alliance	14	0
ICTI Ethical Toy Program	8	5
For Life	12	0
Fair for Life	1	0
WIETA	1	1
ICA Social Audit	26	45

Suppliers' social responsibility audits in Kesko's 10 largest high-risk countries of import¹



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Supply chain

OBJECTIVE	PROGRESS IN 2018
The social responsibility of the production of own direct imports from high-risk countries has been assured.	A total of 190 of Kesko's suppliers' factories or plantations in high-risk countries underwent full amfori BSCI audits. In addition, 135 suppliers' factories or plantations underwent amfori BSCI follow-up audits. At the beginning of 2019, Kesko's suppliers in high-risk countries had a total of 585 valid social responsibility audits.
We assure the responsibility of the ingredients (Tier 2) of own brand Pirkka and K-Menu food products.	In 2015, we began the investigation of the ingredients and risk analysis of Pirkka and K-Menu food products. In 2015–2018, a risk analysis has been carried out on a total of 2,240 food products under Kesko's own brands.
We identify and take account of water risks in our supply chain.	We conducted an extensive survey on the water risks related to our own avocado purchases. On the basis of the investigation covering 280 primary producers, we will be able to focus our purchases more in areas with the lowest water risk. Purchases from the most problematic area, Petorca, Chile, were terminated.

Results of amfori BSCI audits

In 2018, a total of 190 (2017: 157) of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 135 (2017: 146) suppliers' factories or plantations underwent amfori BSCI follow-up audits.

The results of the 2018 amfori BSCI audits of Kesko's suppliers' factories and farms are shown on page 38. The majority of the deficiencies occurred in observance of working time regulations, management practices, and matters related to salaries. Corrective actions and monitoring are included in the audit process.

In accordance with the amfori BSCI operating model, a full audit is conducted at factories every two years to assess every field of the auditing protocol. If a factory receives an audit result of C, D or E, a follow-up audit within 12 months must be arranged to assess the deficiencies identified in the full audit and the corrective measures implemented.

Kesko does not terminate co-operation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2018, we were obligated to terminate cooperation with 14 factories because a consensus could not be reached with the factories regarding necessary corrective measures.

Suppliers' responsibility training sessions

In 2018, as part of ICA Global Sourcing (IGS) purchase collaboration, Kesko and IGS organised responsibility training targeted to shoe suppliers in Shanghai, China. The training session discussed Kesko's social responsibility requirements to suppliers, the factory auditing process and the product quality and safety requirements. A total of 16 shoe suppliers took part in the training.

In 2018, 16 suppliers of Kesko took part in responsibility trainings targeted to suppliers organised by amfori BSCI. The topics in the amfori BSCI trainings included the auditing process, responsible recruitment, occupational health and safety, working hours and remuneration as well as participation and protection of employees.

Bangladesh Accord

[Kesko joined the Bangladesh Accord](#) agreement in 2018. The purpose of the Accord – Accord on Fire and Building Safety in Bangladesh – agreement is to improve electric, fire and building safety in ready-made garment factories in Bangladesh through inspection, training and corrective measures. In 2018, all 7 ready-made garment factories in Bangladesh producing for K-Citymarket's mywear brand were included in the Accord process.

Fairtrade premiums to develop local communities

Kesko's grocery trade has had an extensive collaboration agreement with Fairtrade Finland for 20 years. In 2018,

Kesko's grocery business selections included 322 (2017: 300) Fairtrade products, 23 of which were Pirkka products (2017: 37) and 4 were Kespro's Menu products (2017: 4).

In 2018, a total Fairtrade premium of €915,909 for social development projects was generated by products sold by Kesko's grocery trade (2017: €719,225). The products generating the largest Fairtrade premiums were Fairtrade flowers, coffee and bananas.

The most popular Fairtrade products in K-food stores are flowers, and the most popular Fairtrade product in Finland is the Pirkka Fairtrade rose. In 2008–2018, a total of more than €2 million was generated as Fairtrade premiums for social development projects in local communities from Fairtrade flowers sold by K-food stores. The Fairtrade premiums have been used for the renovation and extension of a school and a day care centre and for purchasing kitchen accessories such as kitchen stoves in the local communities.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Own brand products with responsibility labelling

OBJECTIVE	PROGRESS IN 2018		
We offer an extensive selection of own brand products with responsibility labelling.	Grocery trade's Pirkka range: <ul style="list-style-type: none"> • 286 Hyvää Suomesta - Produce of Finland products • 153 Key Flag symbol products • 123 Organic products • 111 Seed leaf label products • 86 Nordic Swan label products • 23 Fairtrade products • 48 UTZ-certified products • 40 MSC-certified fish products • 4 ASC-certified fish products • 5 Finnish Allergy label products • 3 EU Ecolabel products 	Kespro's Menu range: <ul style="list-style-type: none"> • 12 Hyvää Suomesta - Produce of Finland products • 27 Key Flag symbol products • 8 Organic products • 21 Seed leaf label products • 20 Nordic Swan label products • 4 Fairtrade products • 10 UTZ-certified products • 25 MSC-certified fish products • 3 ASC-certified fish products • 1 Finnish Allergy Label products 	Building and technical trade's Cello range: <ul style="list-style-type: none"> • 1,006 Key Flag symbol products • 30 Nordic Swan label products • 262 Finnish Allergy Label products • 63 M1 label products

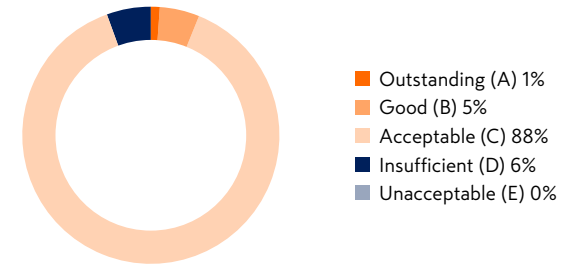
amfori BSCI audit results by area in 2018

Full audits	Outstanding	Good	Acceptable	Insufficient	Unacceptable
Social Management System and Cascade Effect	● 3%	● 4%	● 17%	● 74%	● 2%
Workers' Involvement and Protection	● 39%	● 36%	● 23%	● 2%	● 0%
The Rights of Freedom of Association and Collective Bargaining	● 98%	● 2%	● 0%	● 0%	● 0%
No Discrimination	● 87%	● 9%	● 4%	● 0%	● 0%
Fair Remuneration	● 26%	● 59%	● 14%	● 1%	● 0%
Decent Working Hours	● 12%	● 0%	● 9%	● 77%	● 2%
Occupational Health and Safety	● 61%	● 27%	● 2%	● 8%	● 2%
No Child Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Special Protection of Young Workers	● 97%	● 1%	● 1%	● 0%	● 1%
No Precarious Employment	● 92%	● 7%	● 1%	● 0%	● 0%
No Bonded Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Protection of the Environment	● 64%	● 22%	● 12%	● 2%	● 0%
Ethical Business Behaviour	● 79%	● 18%	● 1%	● 1%	● 1%

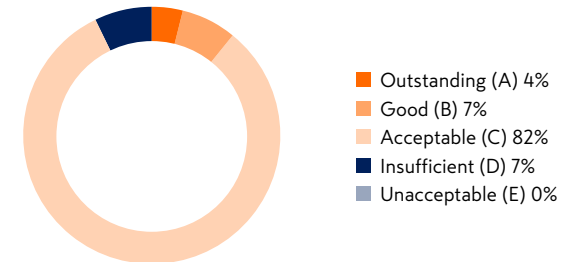
Follow-up audits	Outstanding	Good	Acceptable	Insufficient	Unacceptable
Social Management System and Cascade Effect	● 1%	● 8%	● 11%	● 78%	● 2%
Workers' Involvement and Protection	● 57%	● 28%	● 13%	● 1%	● 1%
The Rights of Freedom of Association and Collective Bargaining	● 100%	● 0%	● 0%	● 0%	● 0%
No Discrimination	● 87%	● 9%	● 3%	● 1%	● 0%
Fair Remuneration	● 28%	● 47%	● 23%	● 1%	● 1%
Decent Working Hours	● 14%	● 6%	● 0%	● 76%	● 4%
Occupational Health and Safety	● 66%	● 26%	● 1%	● 5%	● 2%
No Child Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Special Protection of Young Workers	● 99%	● 0%	● 1%	● 0%	● 0%
No Precarious Employment	● 97%	● 3%	● 0%	● 0%	● 0%
No Bonded Labour	● 99%	● 1%	● 0%	● 0%	● 0%
Protection of the Environment	● 73%	● 15%	● 11%	● 1%	● 0%
Ethical Business Behaviour	● 87%	● 8%	● 3%	● 1%	● 1%

A Outstanding B Good C Acceptable D Insufficient E Unacceptable

amfori BSCI audit results in 2018, full audits



amfori BSCI audit results in 2018, follow-up audits



If the supplier underwent more than one amfori BSCI audit during 2018, the results of the latest audit only are presented.

Plan and K Group's collaboration in Thailand ended with excellent results

The four-year collaboration enabled the children of migrant workers to enter local schools and developed working conditions at Thai fishing factories.

The 2015-2018 collaboration between Plan and K Group aimed at improving the working conditions of Cambodian migrant workers in Thailand's fishing industry and enabling their children to go to school.

The collaboration was part of a larger project, SEAS of Change, funded by the Swedish International Development Cooperation Agency (SIDA) in Thailand and Cambodia.

More than 1,100 migrant workers' children educated in learning centres

An important part of the work was providing advice to Cambodian families before they decided to move to Thailand. Between 2015 and 2018, Plan and K Group and their partners provided support to some 6,000 members of migrant families in Thailand and some 3,500 in Cambodia.

Special learning centres established at the beginning of the project have provided education to 1,143 children (593 girls and 550 boys) between the ages of 4 and 17. The children have been taught the local language and other skills that enable them to move on to study at public schools in Thailand. As a result, 283 children (113 girls and 170 boys) have transitioned to public schools.

K Group entered the collaboration because it wanted to promote the responsibility of its Pirkka fish and shellfish products and know the whole supply chain all the way to the fishing communities.

amfori BSCI training for suppliers as part of the collaboration

As part of the collaboration, K Group and Plan also organised social responsibility training for suppliers, to help the suppliers understand what social responsibility audits like amfori BSCI are about, and how the audits can help improve operations in the suppliers' factories and working conditions for their staff.

The general training covered the amfori BSCI Code of Conduct, UN and ILO human rights and labour conventions, and the Thailand national labour protection legislation. The in-depth training gave the suppliers tools for their own promotion and supervision of social issues. Over the course of 4 years, 34 suppliers were given training.

1,143

children attended the learning centres

283

children transitioned to Thai schools

52%

of the children in the learning centres are girls

34

suppliers were trained on social responsibility

2

training events on human rights and labour conventions

1

advanced training on how to promote social responsibility



We care for the health and safety of our customers

416

The activities of our Product Research include assessing the impacts of products on health and safety. Manufacturers of our own brand food products must have international certifications that assure product safety. The standards we approve include: BRC, IFS, FSSC 22000 and GlobalGAP. In 2018, the total number of certified suppliers was 553 (2017: 581). This number also includes old audits conducted according to our own audit guidelines.

A total of 7,678 product samples were analysed (7,350 in 2017). Most of them were related to the product development of own brands. A total of 2,300 own control samples were analysed (2017: 2,395).

As proposed in [The EC White Paper](#) on Nutrition, Overweight and Obesity-related Health Issues, sugar, saturated fat and salt were reduced in more than 150 Pirkka products during the period 2007–2013. The health

aspects of new Pirkka products are taken into account at the product development stage. The National Nutrition Council of Finland published its nutrition commitment operating model in June 2017. The nutrition commitment is the Finnish contribution to the EU [Roadmap for Action on Food Product Improvement](#) framework's reformulation programme.

In August 2017, we joined the [nutrition commitment](#) by making a vegetable commitment, which encourages our customers to increase their use of vegetables through the following actions, which extend to the year 2020:

- We set a target that by 2020, at least 400 K-food stores will have dedicated 'veggie shelves' for vegetable protein products. In August 2017, some 200 K-food stores had a veggie shelf. At the end of 2018, a veggie shelf was already in approximately 400 K-food stores.
- We will organise at least 250 vegetable-related campaigns at K-food stores each year (2018–2020). In 2018, we organised 270 vegetable campaigns with more than 1,200 vegetable products.
- We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2018, we added 42 new fruit and vegetable products to our selections.

We take measures against food frauds in accordance with the VACCP plan (Vulnerability Assessment and Critical Control Points). The VACCP plan contains an assessment of the probability of encountering food frauds and a monitoring plan to protect us against such frauds. Product groups identified as critical control points are subjected to normal product and supplier controls but also regular analytic monitoring to detect any frauds.

In 2018, we made 178 (2017: 140) product recalls in the grocery trade. Forty-six of these recalls concerned our own brand products (2017: 33). In other cases, our Product Research Unit assisted the product manufacturers in the recall. If a defect or error in a product might have health impacts, a public recall is carried out. In 2018, this happened twice for our own brand products (2017: 4).

In the building and technical trade, we made two recalls in K-Rauta in 2018 (2017: 2) and two in Onninen (2017: 3).

A vehicle manufacturer must launch a recall campaign if a serious error or deviation that needs repairing is detected in one of their models or a part thereof. A serious error or deviation is one that poses a hazard to road safety or significant harm to the environment or health. As a rule, this kind of a fault or defect would result in a rejection in a vehicle inspection.

In 2018, a total of 48 recall campaigns were launched for brands represented by K-Auto (Volkswagen passenger cars and utility vehicles, Audi, SEAT, Porsche and MAN).

In 2018, there were no legal proceedings or fines associated with product safety or health in Kesko.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Product safety

OBJECTIVE

The product safety of K Group's selections is verified.

PROGRESS IN 2018

The Product Research laboratory and test kitchen analysed a total of 7,678 product samples. 522 suppliers of Kesko's own brands of food products have international audit certifications that assure product safety.

Marketing communication and product information

Package labelling helps consumers in making responsible choices

417-1

On the product labelling of its own brand products and imports, we comply with all related legislation. Key regulations include:

- Food product labelling: EU food information regulation [\(EU\) No 1169/2011](#) and complementary acts
- Product labelling related to safe use of consumer goods: Directive [2001/95/EC](#) on general product safety (and related corresponding national legislation in Kesko's operating countries)
- Warning labelling for chemicals: CLP regulation [EC 1272/2008](#) on the classification, labelling and packaging of chemicals
- Labelling for electrical equipment: various product segment specific directives (and related corresponding national legislation in Kesko's operating countries)
- Toy labelling: Directive [2009/48/EC](#) on toy safety (and related corresponding national legislation in Kesko's operating countries)
- Package labelling for cosmetics: Regulation [EC 1223/2009](#) on cosmetic products

We indicate the name and location of the manufacturer on all Finnish Pirkka products and on all K-Menu products. On foreign Pirkka products, we indicate the name of the country of manufacture. On all own brand products of K-Citymarket and Kesko's building and technical trade, we indicate the country of origin.

We disclose the country of origin of meat in accordance with regulation [EU No 1337/2013](#). We label meat and dairy as ingredients in accordance with the national decree [MMM 218/2017](#).

In addition to statutory package labelling, we add voluntary labelling to inform the consumer of matters related to product responsibility. Such labelling may include organic labels and ecolabelling, as well as labelling indicating social responsibility.

We add material symbols on the packaging of own brand products of Kesko's grocery trade. These symbols help and guide consumers to recycle packaging materials.

We add warning labelling of chemicals that are hazardous to the environment in accordance with the CLP regulation.

If a product has faulty labelling, we will withdraw it from sales

417-2

In 2018, there were 8 product recalls of Kesko's own brand products resulting from defective product labelling (2017: 9).

In 2018, Kesko Senukai Latvia was given a fine of €280 for shortcomings in the chemical information in product labelling.

We observe good marketing manners

417-3

In 2018, no advertisements of Kesko or its subsidiaries were subject to processing by The Council of Ethics in Advertising, and there were no breaches of legislation or voluntary principles to be reported.



Responsible sales of alcohol and tobacco

The Finnish law allows us to sell alcohol drinks with a maximum of 5.5% alcohol by volume and tobacco products. The sales require a store-specific licence. The law prohibits selling these products to people under 18 years of age.

We verify the age of all customers who purchase alcohol or tobacco and appear younger than 30. This way, we can ensure that we do not sell alcohol or tobacco to minors. In 2018, our cashiers verified the customer's age in 2,008,876 cases of alcohol purchase and in 1,152,770 cases of tobacco purchase. Based on these verifications, we had to decline 14,760 alcohol purchases and 10,808 tobacco purchases.

Our cashiers must participate in training on age limits and take a test on the topic. The age limit training consists of basic information on age limits for sales and descriptions and rehearsals of various situations. After passing the final test, the cashier earns a certificate called an 'age limit passport'.

Environment

We are committed to international climate summit goals regarding the mitigation of global warming. We promote the sustainable use of natural resources throughout our supply chains.

We have set ambitious emission targets for our operations and supply chain. We will reduce emissions through the use of renewable energy, energy-efficiency at the stores, and efficient logistics.

We will reduce the use of plastics and promote plastics recycling. We create operating models that prevent plastics from ending up in water bodies and elsewhere in nature.

We reduce food waste in our stores and utilise inevitable organic waste. We help our customers reduce their environmental impact.

We promote the following UN Sustainable Development Goals:



- Information presented in this section – GRI codes:**
- 301 Materials
 - 302 Energy
 - 303 Water
 - 304 Biodiversity
 - 305 Emissions
 - 306 Effluents and waste
 - Food waste

We mitigate climate change

We participate in mitigating climate change by increasing renewable energy purchases and own production and increasing energy efficiency. We aim to achieve a 10% increase in energy efficiency by 2023.

Read [more about the impacts of climate change on Kesko's operations](#).

Renewable electricity

302-1

All electricity purchased by Kesko for use in K-stores and other Kesko properties has been produced with renewable energy since the beginning of 2017.

In 2018, we purchased 580 GWh of renewable electricity based on hydropower (58%) and bioenergy (42%) with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries. About 493 GWh of the renewable energy was delivered by Kesko. The rest of the renewable energy was purchased elsewhere by K-retailers but it was used by Kesko.

Total energy consumption

In 2018, our energy consumption in all operating countries totalled 4,051 TJ (including properties and logistics).

Energy consumption of properties in Finland

At the end of 2018, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and 1,233 store sites. In terms of energy consumption, the most significant properties include K-Citymarkets, K-Supermarkets and large wholesale and storage buildings.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Renewable energy

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We will purchase 100% renewable electricity in Finland.	In 2018, we purchased 580 GWh of renewable electricity based on hydropower and bioenergy with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries.	
We will increase the production of solar power for our own use.	At the end of 2018, 27 solar power plants had been installed on the rooftops of commercial properties managed by Kesko. A total of 4.1 GWh of electricity was produced with solar power for own use in K-food stores. At the end of 2018, the annual electricity production capacity of our solar power plants was approximately 8 GWh.	In spring 2019, four new solar power plants will be taken into use.

The majority of properties used district heat, but in addition 2.5% of the heat energy was produced by fuels. In 2018, the heat energy self-produced with natural gas and oil at properties in Finland totalled 30.5 TJ (8,483 MWh).

Calculation methods and electricity and heating consumption statistics by property type as well as changes in properties in Finland are available in the [Energy consumption tracking](#) and [Environmental profile](#) reports.

Energy consumption in properties in other operating countries

The heat energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (671 MWh) and peat (136 MWh) were also used for heating. In 2018, the fuels used for self-produced heat and electricity totalled 70 TJ (19,481 MWh).

Subsidiaries outside of Finland report their fuel and purchased energy consumptions to Kesko and statistics per country are compiled from this data. The heat energy data is not reported for some properties (10 properties in Sweden and Latvia), because it is included in the lease or data is not available.

Energy consumption of properties

Finland	2018	2017
Electricity ¹ (MWh)	493,347	504,459
District heat (MWh)	328,842	323,461
Fuel for self-produced heat (MWh)	8,483	10,978
Total energy consumption (MWh)	830,672	838,898
Total energy consumption (TJ)	2,990	3,020

Other operating countries ²	2018	2017
Electricity (MWh)	71,392	80,186
District heat (MWh)	16,862	17,719
Fuel for self-produced electricity (MWh)	0	4,055
Fuel for self-produced heat (MWh)	19,481	32,247
Total energy consumption (MWh)	107,735	134,207
Total energy consumption (TJ)	388	483

All operating countries	2018	2017
Total energy consumption (MWh)	938,407	973,105
Total energy consumption (TJ)	3,378	3,503

¹ Includes only electricity, which is delivered by Kesko, and which is used in Kesko properties and also in K-stores where K-retailers buy the electricity from Kesko

² The 2018 data excludes Russia

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2018:

- Renewable: 2,374 TJ (68%)
- Nuclear power: 46 TJ (1%)
- Non-renewable: 1,052 TJ (31%)

Fuel consumption

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 667 TJ in 2018 (2017: 645 TJ). The fuel used was diesel. In 2018, the total distance driven by Kesko Logistics was 42.7 million km (2017: 41.6 million km).

Energy consumption was calculated using data on kilometres driven, volumetric efficiencies and the transportation fleet. The calculation was made according to [the Lipasto calculation system of the VTT Technical Research Centre of Finland](#).

Other countries have mostly outsourced logistics operations. In 2018, the logistics in Sweden, Poland and Estonia consumed 5.7 TJ of fuel (diesel and gas).

A total of 771 TJ of fuels from non-renewable sources were used for transportation as well as self-produced heat and electricity of properties. In addition, 2.4 TJ of renewable fuels were consumed.

Energy intensity

302-3

The cold chain and the need for heated premises in food stores and warehouses require greater amounts of energy in comparison with other business sectors.

The calculation methods for the properties in Finland are available in the [Energy consumption tracking report](#).

Specific consumptions of energy, properties managed by Kesko

kWh/br-m ²	2018	2017
Specific consumption of electricity	210	214
Specific consumption of district heat	88	86

More efficient use of energy

302-4

We participate in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement. In accordance with the agreement, we commit ourselves to making energy saving measures with the amount equivalent to 7.5% of 2015 energy consumption amount. All K Group store chains in Finland are included in the agreement.

The target of our energy strategy is to achieve a 10% increase in energy efficiency by 2023, for example, by renewing refrigeration systems and lighting.

Joint use and reuse of pallets

Reusable pallets are used in our stores for the transportation of fresh products. IFCO RPCs enable us to actively protect the environment and promote a more sustainable supply chain of fresh products. In 2018, a total of 721,306 reusable IFCO containers were transported through us. In 2018, our energy saving compared to single-use packages amounted to 16,050 GJ.

Energy savings through work clothing service

In 2018, the work clothing service of Kesko Logistics, Onninen and Kesko car trade saved, compared to washing in households (calculated based on 15,000 pieces of clothing), approximately 24,240 kWh of energy and approximately 765,000 l of water.

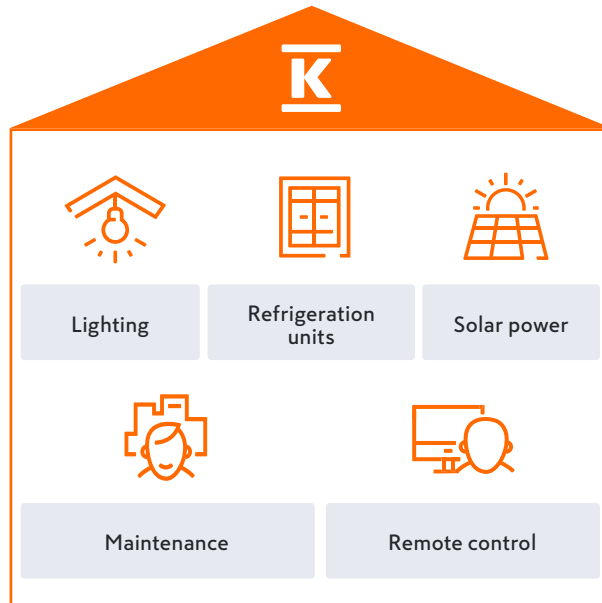
With Lindström's industrial towel service, in the course of the year approximately 4,000 kg of hazardous waste was extracted from wiper cloths and absorption mats that came from Kesko's car trade units. The hazardous waste extracted from the cloths is shipped through Ekokem to be reused as energy.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Energy efficiency in stores

OBJECTIVE	PROGRESS IN 2018
During the agreement period 2017–2025: We commit ourselves to making energy saving measures with the amount equivalent to 7.5% of 2015 energy consumption amount.	Up to this point, installed solar energy and the reported actions will allow annual energy savings of 28.7 GWh, which is 36% of the target for 2025. Calculation includes electricity, heating, fuels and district cooling.

Energy solutions in K-stores



1. Lighting

LED lights are used in all lighting solutions of property development projects. Adjustable, correctly directed LED-lighting can help save up to 60% of electricity consumed compared to traditional fluorescent tube and metal halide lighting solutions. Switching to LED lighting will reduce the electricity consumption of lighting by approximately 40 KWh/m², resulting in annual savings of approximately €5,000 to €50,000 a year, depending on the size of the store.

2. Renewing the refrigeration system

In food stores, the consumption of refrigeration systems can account for more than half of the total electricity

consumption at small store sites. Condensation heat from refrigeration units is recovered at nearly all K-food stores, which means that additional heat energy is needed only during very low sub-zero temperatures. Heat pumps are, whenever possible, utilised with condensation energy.

In nearly 200 K-food stores, carbon dioxide recovered from industrial processes is used as the refrigerant in their refrigeration units. Carbon dioxide is an environmentally friendly refrigerant.

Old systems, which use R404A as refrigerant, will be converted into energy efficient, environmentally friendly carbon dioxide based systems by 2030.

3. Solar power

Solar power is an excellent energy source to provide electricity for stores, since the electricity consumption of food stores is greatest during the summer, when the stores and their refrigeration equipment require a lot of electricity for cooling.

The solar panels installed on rooftops of K-food stores cover around 10-15% of the stores' annual electricity consumption. On a sunny summer day, solar power can cover as much as 60% of the food store's current consumption. The life cycle of a solar power plant is as long as 35 years.

At the end of 2018, 27 solar power plants had been installed on the rooftops of commercial properties managed by Kesko. A total of 4.1 GWh of electricity was produced with solar power for own use in K-food stores. At the end of 2018, the annual electricity production capacity of our solar power plants was approximately 8 GWh.

We will continue to invest in solar power in 2019: four new solar power plants are under construction and will be taken into use during spring 2019. After the introduction of these solar power plants, the total power of our solar power plants will amount to approximately 11.3 MWp, and the estimated annual production will be approximately 9.6 GWh.

4. Maintenance process

Real Estate Managers help K-stores in making energy consumption more efficient and with long-term planning. Renovation programmes contain estimates of the refurbishment that should be made within 5 to 10 years.

The task of Energy Managers who support Real Estate Managers is to carry out consumption comparison surveys and to investigate the reasons for deviations in consumption, and to make energy efficiency investment proposals and project plans. Energy Managers report the impact of the energy saving measures taken.

5. Remote monitoring

The set points of properties can be changed from the remote management centre as required, which also enables rapid response to disturbances. Setting the correct running times and set points is the easiest and most effective way to improve energy efficiency.

At the end of 2018, 276 sites with significant energy consumption were connected to the remote monitoring centre. An expert at the monitoring centre supports maintenance personnel in technical matters around the clock.

Water

We monitor water consumption and its impact

303-1

The most significant impacts from water consumption are caused by imported products for sale which originate from areas suffering from water scarcity or contamination. Due to the large consumption of imported processed goods and the virtual water footprint associated with them, almost half (47%) of the water footprint of Finnish consumption falls outside of Finland.

Our objective is to identify the water basins most affected by water scarcity or contamination issues in our supply chain. The results will be used to plan actions. In 2018, [we conducted an extensive survey on the water risks related to our own avocado purchases](#). Read more at 304-2.

Properties managed by Kesko use water from municipal water supplies in all operating countries. In addition, a few wells are in use on properties in Estonia, Lithuania and Belarus. However, water from these wells accounts for only a minor portion (2.6%) of total water consumption and is thus reported with the municipal water consumption. Waste water from Kesko's operations goes to municipal sewer systems.

Water consumption by country

m ³	2018	2017
Finland	1,055,406	977,989
Sweden	8,369	6,777
Norway	5,888	144
Estonia	9,001	7,421
Latvia	10,714	9,210
Lithuania	44,839	39,780
Poland	4,476	4,754
Belarus	54,570	51,047
Total	1,193,263	1,127,137

In 2018, water consumption increased in Finland especially in the following property groups: K-Citymarkets, K-Supermarkets, Neste K service stations and office and warehouse buildings. Water consumption statistics by property type and changes in the property portfolio in Finland are available in the [Energy consumption tracking report](#).

The water consumption data from other countries is compiled from figures reported by the companies, which are based on water billing or consumption data. At some properties located in leased premises, water consumption is included in the lease and data is not available for reporting (36 properties in Sweden, Norway and Latvia).



We promote sustainable use of natural resources

304-2

We identify biodiversity impacts and opportunities in our operations. The objective is to reduce adverse biodiversity impacts in the supply chain and to take part in projects that promote biodiversity in co-operation with other operators.

Supply chain

Our greatest impacts on biodiversity occur throughout the life cycle of the products on sale. Raw materials critical to biodiversity in Kesko's supply chain include fish and shellfish, timber, palm oil, and soy. Their sustainable sourcing is guided by sustainability policies.

In 2018, we conducted an extensive survey on the water risks related to our own avocado purchases. The aim of the survey was to identify the areas in the supply chain which have problems related to scarcity or contamination of water.

It takes as much as 400 to 2,000 litres of water to grow one kilo of avocados. Therefore, the water footprint of avocado farming is significant. As part of the risk assessment, we used WWF's water risk tool to individually examine all the 280 primary producers around the world from which Kesko purchases avocados for K-food stores. Among other things, the assessment showed us that water risks may vary considerably within a country or a region.

On the basis of the survey, we will increasingly put emphasis on purchases from areas with the least water risks. Purchases from the most problematic area, Petorca, Chile, were terminated in 2018.

All avocados purchased by Kesko are GlobalGAP certified. The environmental requirements of GlobalGAP certification include a requirement on good water use.

Evaluation of suppliers' environmental responsibility

We are a member of amfori, an organisation that promotes sustainable business, and therefore recommend an amfori BEPI evaluation for evaluating the environmental responsibility of suppliers from high-risk countries. At the end of 2018, 21 of our suppliers in high-risk countries participated in the BEPI process. Our goal is to have 30 suppliers in high-risk countries in the BEPI process by the end of 2019.

K-Kampus goes Green Office

In autumn 2018, we joined the WWF Green Office network and will build a Green Office compliant environmental system in our new headquarters at K-Kampus. K Group's Green Office payments support WWF Finland in its efforts to protect the Baltic Sea.

We restore habitats

304-3

K Fishpaths

In 2017, we began a multi-year collaboration extending to 2021 with the environmental organisation WWF Finland to save endangered migratory fish populations. With the **K Fishpaths** collaboration we aim to remove barriers and create spawning grounds in a spirit of co-operation with local operators, landowners, local K-retailers and volunteers.

Store sites

We build store sites only in areas planned by municipalities for business properties. Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2018, Kesko did not have any sites for restoration in Finland.

Kesko does not have any protected habitats of its own.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Biodiversity

OBJECTIVE

K Fishpaths collaboration with WWF Finland: We will remove at least 50 barriers preventing endangered migratory fish from swimming upstream and create at least 100 spawning grounds in Finland between 2017 and 2021. We will increase awareness of the endangered nature of migratory fish and arrange volunteer events.

PROGRESS IN 2018

During the second season of K Fishpaths collaboration, we concentrated especially on improving the spawning grounds and habitat for trout. We built more than 100 gravel grounds for spawning and opened 3 barriers, freeing as much as an additional 30 km of new spawning grounds and habitat formerly inaccessible to fish. A total of approximately 280 volunteers and 18 local K-retailers participated in the work organised at 8 locations. The trout were observed to have returned to the areas restored during the first season.

Emissions

Kesko reports direct and indirect (Scope 1 and 2) greenhouse gas (GHG) emissions from its operations according to the GHG Protocol standard.

- Scope 1: GHG emissions caused by fuel consumption for producing heat and electricity at properties managed by Kesko and for transportation of goods directly controlled by Kesko.
- Scope 2: GHG emissions caused by generation of electricity purchased by Kesko and district heating consumed in properties managed by Kesko.

Direct and energy indirect GHG emissions (Scope 1 and 2)

305-1 305-2

Scope 1

In 2018, the Scope 1 emissions of Kesko in Finland increased due to the increased total kilometres driven for transportation of goods by Kesko Logistics.

Emissions from logistics in the other operating countries were reported for Sweden, Poland and Estonia. Most of the logistics in the other operating countries are outsourced.

The transportation of goods for Kesko's grocery trade in Finland is managed by Kesko Logistics. The logistics' emissions from its own transportation and from those under its direct control were calculated based on data including kilometres driven, volumetric efficiencies and the transportation fleet. The calculation was made according to [the Lipasto calculation system of the VTT Technical Research Centre of Finland](#). The emissions for logistics

Scope 1 and 2 GHG emissions

Tonnes CO ₂ -eq	2018	2017
Direct (Scope 1)	45,139	48,219
Finland	40,679	38,506
logistics (Kesko Logistics)	38,634	35,801
self-produced heat (natural gas and oil)	2,045	2,705
Other operating countries	4,460	9,713
logistics (Sweden, Poland and Estonia)	386	1,870
self-produced heat and electricity (natural gas, oil, peat and timber ¹)	4,074	7,843
Indirect (Scope 2)	80,822	82,421
Finland	60,232	55,004
purchased electricity (market-based)	0	0
purchased electricity (location-based) ²	80,909	91,224
purchased district heat (location-based)	60,232	55,004
Other operating countries	20,590	27,417
purchased electricity (location-based)	17,084	22,803
purchased district heat (location-based)	3,506	4,614
Total	125,961	130,640
Finland, Scope 1 and 2 total	100,911	93,510
Other operating countries, Scope 1 and 2 total	25,050	37,130

¹ The biogenous CO₂ emission figure of the timber used for heating one facility in Belarus is reported in Scope 1, because its proportion of the total fuel quantity is insignificant (671 MWh).

² Following the GHG Protocol standard, the location-based emission figure for electricity consumption in Finland has been reported. The market-based figure is used for the emissions totals.

operations in other countries were calculated based on fuel consumption.

Scope 2

In 2018, Kesko purchased for use in all K-stores and other Kesko properties in Finland, 580 GWh of renewable electricity based on hydropower (58%) and bioenergy

(42%) with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries. Read more [at Energy](#).

The calculation principles and more detailed calculations for Scope 1 and 2 emissions attributed to properties managed by Kesko can be found in the [Environmental profile for Finland](#) and the [Other operating countries](#) reports.

Other indirect (Scope 3) GHG emissions

305-3

Tonnes CO ₂ -eq	2018	2017
Upstream		
Purchased goods and services	7,300,300	7,698,000
Capital goods (buildings)	29,600	33,500
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	30,200	30,900
Transport and distribution of goods	6,500	14,400
Waste	11,600	10,300
Business travel	3,500	3,100
Employee commuting	18,100	20,800
Downstream		
Customer commuting (shopping trips)	149,100	164,900
Use of sold products	1,993,400	1,771,000
End-of-life treatment of sold products	45,400	38,600
Franchises (retailer entrepreneurs)	92,900	102,700

The greatest other indirect emissions of Kesko are caused in the supply chain of the products for sale (75%), in the use phase of the products (21%) and by the shopping commutes of customers (2%).

The Scope 3 calculation principles can be found in the [Kesko Scope 3 Report](#).

GHG emissions intensity

305-4

The Scope 1 and 2 greenhouse gas emissions intensity is calculated based on net sales (€10,383 million in 2018), and the average number of employees (19,995 in 2018).

	2018	2017
Based on net sales (tonnes CO ₂ e / € million)	12.1	12.2
Based on average number of employees (tonnes CO ₂ e / person)	6.3	5.9

Aim to reduce GHG emissions

305-5

Science Based Targets

Kesko is the first Finnish company to set climate targets approved by the Science Based Targets initiative. The emissions targets set in line with two degree climate warming were approved in June 2017.

Kesko aims to achieve the ambitious emission goals by increasing the use of renewable energy and by improving energy efficiency.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME

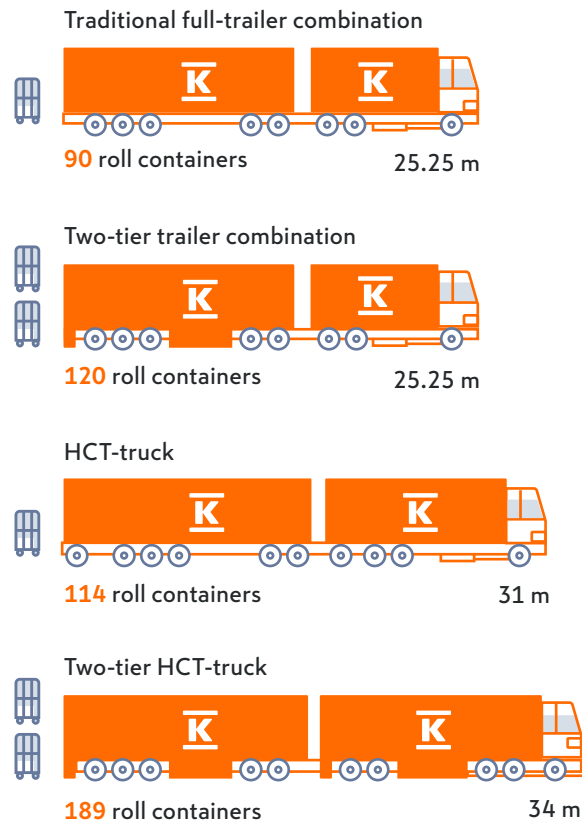
Science Based Targets

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
We commit to reduce our direct and indirect (Scope 1 and 2) emissions 18% by 2025 from base year 2015.	Scope 1 and 2 emissions increased by 12% from base year 2015, due to the acquisitions of Suomen Lähikauppa and Onninen in 2016.	We aim to systematically reduce Scope 1 and 2 emissions.
In addition, we are committed to reduce our supply chain emissions (Scope 3) so that 90% of Kesko's key suppliers will set their own GHG emissions reduction targets by 2025.	Out of Kesko's key suppliers of 2018, 30% had set their own emission reduction targets.	

Logistics

The target of Kesko Logistics is to reduce emissions relative to the net sales index by 10% during 2012–2020 from the 2011 base year. By the end of 2018, the relative emissions had decreased by 16.8% from the base level. In 2018, the relative emissions decreased by 0.7% in comparison to 2017. However, the absolute emissions increased slightly due to the increase in kilometres driven by logistics.

Efficient logistics fleet



The 2018 emissions were calculated using the emission rates of EURO 5 engines.

We reduce the emissions of Kesko Logistics through long-term work:

- Efficiency of logistics: centralised distribution, optimisation of delivery routes and high volumetric efficiency
- Efficient reverse logistics: collection of purchase loads, carrier trays, pallets, roll containers, cardboard and recycled bottles and cans on the return route
- Economical driving courses: all of Kesko Logistics' more than 500 contract drivers have been trained
- New replacements in the vehicle fleet

Scope 3 emission reductions

Products for sale

The greatest indirect emissions of Kesko are caused in the supply chain and during the use phase of the products for sale. These emissions can be influenced by offering selections of products and services causing less emissions and by customer communications.

Environmental impacts of food choices

By reducing the amount of animal-based products and household food waste consumers can reduce the environmental impact of their food consumption.

The number of plant-based Pirkka products increased by 41 new products in 2018 and the selection now numbers over 170.

Our selection includes three products which reduce the environmental burden on the Baltic Sea, two kinds of Pirkka archipelago fish patties made from Baltic Sea bream and Pirkka Parhaat Benella rainbow trout farmed in Finland whose fodder is based on Baltic herring and sprat caught from the Baltic Sea as raw material.

Housing solutions

The building and technical trade offers consumers and business customers diverse product selections and expertise for improving the energy efficiency of building and renovation projects. K-Rauta stores provide a free renovation support channel for customers with advice for energy saving, and renovation and repair work.

Electric cars are gaining ground

Kesko's selection includes 11 plug-in hybrid car models (PHEV) and 3 electric cars. In addition, the selection includes 11 car models using natural gas or biogas as fuel. In 2018, the registrations of Volkswagen, Audi and Porsche plug-in hybrids in Finland increased 20.1% compared to 2017.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Logistics emissions

OBJECTIVE	PROGRESS IN 2018
We will reduce emissions of Kesko Logistics' transportations relative to the net sales index by 10% from the 2011 base year by 2020.	The relative emissions decreased by 16.8% from the level of 2011 base year. In 2018, the relative emissions decreased by 0.7% compared to 2017.

Customer shopping commutes

The emissions caused by customer shopping commutes are a significant source of indirect emissions for Kesko. The majority of shopping commutes are made by car.

Kesko is building an extensive network of electric vehicle charging points adjacent to K Group stores in order to progress the electrification of cars. At the end of 2018, Kesko provided nearly 200 electric and hybrid K charging points adjacent to our stores.

In 2018, we launched a carsharing pilot in which passenger cars and vans were brought for lease to the yards of K-Supermarkets and K-Rauta stores.

K Group offers Finland's most comprehensive network of neighbourhood stores with the best services. When the nearby neighbourhood store offers a selection suited for its customers, shopping commutes are shortened and can be travelled more often by foot, bicycle or public transportation, especially in cities. The extra services available at K-stores reduce emissions caused by customer commuting, because many errands can be run during the same shopping trip. Increasingly, online shopping also reduces customer commuting.

Employee commuting

We want to support our employees to discover healthy, environmentally friendly ways of commuting. We encourage our personnel to try out alternative means of commuting (such as public transport, cycling, walking and running).

In 2018, we designed solutions for responsible commuting especially in view of the employees who will move to our

new office at K-Kampus. We paid attention to public transport connections, financial support for commuting and the availability of carsharing and bikesharing. K-Kampus will have a bicycle parking area, 10 shared bicycles for on-the-job errands as well as a drying room, showers and dressing rooms for employees to support mobility.

Business travel

At the end of 2018, Kesko had 508 company cars in use in Finland (2017: 668).

- 1 ethanol-fueled car (2017: 2)
- 281 petrol-fueled cars (2017: 329)
- 225 diesel-fueled cars (2017: 336)
- 1 natural gas car (2017: 1)

According to Kesko's company car policy, Kesko's company cars have an emission level below 150 g CO₂/km. The employees' pay share will be discounted by 10% of the tax value if the emission level of the company car is below 105 g CO₂/km. In 2018, the average emission level was 121 g CO₂/km (2017: 122 g CO₂/km). The emissions caused by company cars in Finland totalled 2,297 tonnes CO₂ (2017: 2,477 tonnes CO₂). This calculation also includes private use of company cars.

In 2018, the air miles of Kesko employees travelling for business totalled 9.8 million (2017: 9.8 million). Encouraging the use of virtual meetings is one of the ways Kesko endeavours to decrease the amount of air travel. The amount of virtual meetings increased by approximately 11% compared to 2017. In 2018, a total of 77,312 hours of virtual meetings were held (2017: 69,858 hours). At the

end of 2018, K Group had 18 video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 338 hours (2017: 1,494).

Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions

305-7

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2018 caused:

- NO_x emissions: 138 tonnes (2017: 134 tonnes)
- SO₂ emissions: 122 tonnes (2017: 119 tonnes)
- Tonnes of radioactive waste produced by nuclear power: 0 tonnes (2017: 0 tonnes)

The calculation principles and more detailed calculations are available in the [Environmental profile](#) report.

The particulate emissions in 2018 for Kesko's logistics in Finland were:

- NO_x emissions: 166 tonnes
- SO₂ emissions: 0.2 tonnes

We want to be a forerunner in circular economy solutions

Shifting to a circular economy requires increasingly efficient circulation of materials. We provide customers with diversified recycling services for waste and discarded items and develop innovative circular economy solutions in co-operation with other operators.

Stringent targets for the recycling, reduction and avoidance of plastic

In the plastics policy updated in October 2018, we implemented more stringent targets for the recycling, reduction and avoidance of plastic. By the end of 2025, we will reduce the amount of plastic in all packages of, and the packages will become recyclable. We will increase the amount of products and packages made of recyclable plastic in our own brands.

In 2018, we accelerated the reduction of plastic by setting the same price for plastic, paper and biodegradable bags in all K-food stores. We removed microbeads from our own brand detergent products.

To bear our responsibility as a retailer, we joined [The New Plastics Economy Global Commitment](#) in autumn 2018.

Read more [about our activities to reduce plastic](#).

Recycling points for customers in Finland

301-3

In December 2018, there were 405 (2017: 399) Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 193 (2017: 173) eco take-back points. Our aim is to introduce collection of plastic at

all Rinki eco take-back points adjacent to all other K-food stores by the end of 2022.

Since 2017, Pirkka ESSI circular economy bags have been made from plastic recycled by customers.

In connection with our stores, customers can also return deposit beverage containers, batteries and accumulators, WEEE, impregnated timber and discarded clothing for recycling.

Kesko Logistics' centralised collection services

In 2018, cardboard and plastic bales were centrally directed by Kesko's grocery trade for industry reuse. Around 3,355 tonnes of cardboard (2017: 2,912) and 48 tonnes of plastic (2017: 54) were collected.

The reverse logistics operations of Kesko Logistics transport beverage containers and boxes from stores for reuse and recovery.

Packaging collected by Kesko Logistics in Finland for recovery and reuse

1,000 pcs	2018	2017
Aluminium cans	89,913	87,676
PET bottles	67,157	60,606
Recyclable glass bottles	12,267	12,305
Reusable crates	21,059	20,241

Circular economy agreement for stores in Finland

Since 2016, all our food as well as building and home improvement stores in Finland have had the opportunity to participate in the national centralised Circular Economy Agreement. The target is to increase the efficiency of recycling at our stores and advance the circular economy.

At the end of 2018, a total of 585 stores (2017: 426) participated in the Circular Economy Agreement. The recovery rate of the waste generated in these stores was 100% (2017: 100%) and the recycling rate was around 69% (2017: 67%).

From ham fat to biodiesel

In 2018, we took part for the third time in the Ham Trick campaign in which customers could take fat from roasting their Christmas hams to collection points at K-food stores for the production of renewable diesel. The collection was extended from K-Citymarkets to K-Supermarkets and K-Markets. A total of 185,000 households participated in the campaign.

Packages and items returned by customers to recycling points at K Group stores in Finland

	2018	2017
Deposit aluminium cans (million pcs)	387	374
Deposit recyclable plastic bottles (million pcs)	138	120
Deposit recyclable glass bottles (million pcs)	32	30
Batteries and accumulators (tonnes)	293	303
WEEE (tonnes)	152	68
Lead-acid accumulators, K-Rauta (tonnes)	0	0,8
Impregnated timber, K-Rauta (tonnes)	915	859
Used clothing, UFF recycling points (tonnes)	3,553	3,460

Waste for recovery

306-2

Our objective is to minimise and recover all waste from our operations.

Tonnes	2018	2017
Non-hazardous waste	29,812	36,401
Recycling/recovery	24,395	26,917
Landfill	5,417	9,484
Hazardous waste	1,563	1,404
Recycling/recovery	996	983
Hazardous waste treatment	567	421
Total	31,375	37,805

Waste recovery rates

The recovery rate includes all waste except waste to landfill. The type of waste treatment was determined by the waste management company.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Waste recovery

OBJECTIVE	PROGRESS IN 2018
Our objective is to minimise and recover all waste from our operations.	According to statistics, the recovery rate for waste management in Finland was nearly 100% and in the other operating countries it was 65% (includes hazardous waste treatment). The waste recovery rate for stores included in the circular economy agreement in Finland was 100%.

Waste: Finland, Sweden and Norway

Tonnes	Finland		Sweden		Norway	
	2018	2017	2018	2017	2018	2017
Non-hazardous waste	15,831	17,469	2,822	3,533	919	723
Recycling/recovery	15,820	17,467	2,598	3,182	895	723
Landfill	11	2	224	351	24	0
Hazardous waste	289	354	160	227	733	511
Recycling/recovery	177	258	3	7	517	494
Hazardous waste treatment	112	96	157	220	216	17
Total	16,119	17,823	2,982	3,760	1,652	1,234
Recovery rate %	99.93	99.99	92	91	99	100

The 2018 data excludes Konekesko Finland.

Waste: Estonia, Latvia and Lithuania

Tonnes	Estonia		Latvia		Lithuania	
	2018	2017	2018	2017	2018	2017
Non-hazardous waste	859	924	1,545	911	5,895	5,973
Recycling/recovery	793	834	193	171	2,966	2,657
Landfill	66	90	1,352	740	2,929	3,316
Hazardous waste	55	37	13	9	170	166
Recycling/recovery	4	1	0	0	155	125
Hazardous waste treatment	51	36	13	9	15	41
Total	914	961	1,558	920	6,065	6,139
Recovery rate %	93	91	13	20	52	46

Waste: Poland and Belarus

Tonnes	Poland		Belarus	
	2018	2017	2018	2017
Non-hazardous waste	413	404	1,528	1,494
Recycling/recovery	137	127	992	293
Landfill	276	277	536	1,201
Hazardous waste	18	17	125	82
Recycling/recovery	18	17	123	81
Hazardous waste treatment	0	0	2	1
Total	432	421	1,653	1,576
Recovery rate %	36	34	68	24

We reduce food waste

We reduce food waste through co-operation throughout the whole food chain, from primary production to the end user. Our objective is to reduce K Group's identified food waste by 13% from the 2016 level by 2021.

Food waste prevention

Our primary means of reducing food waste is selection management. K-food stores maintain selections that suit their customer base, and complement the selections through forecast-based requirements planning. Efficient transport and store logistics, a self-control system and staff training also help to prevent waste. The optimisation and continuous development of packaging features play a key role in reducing waste.

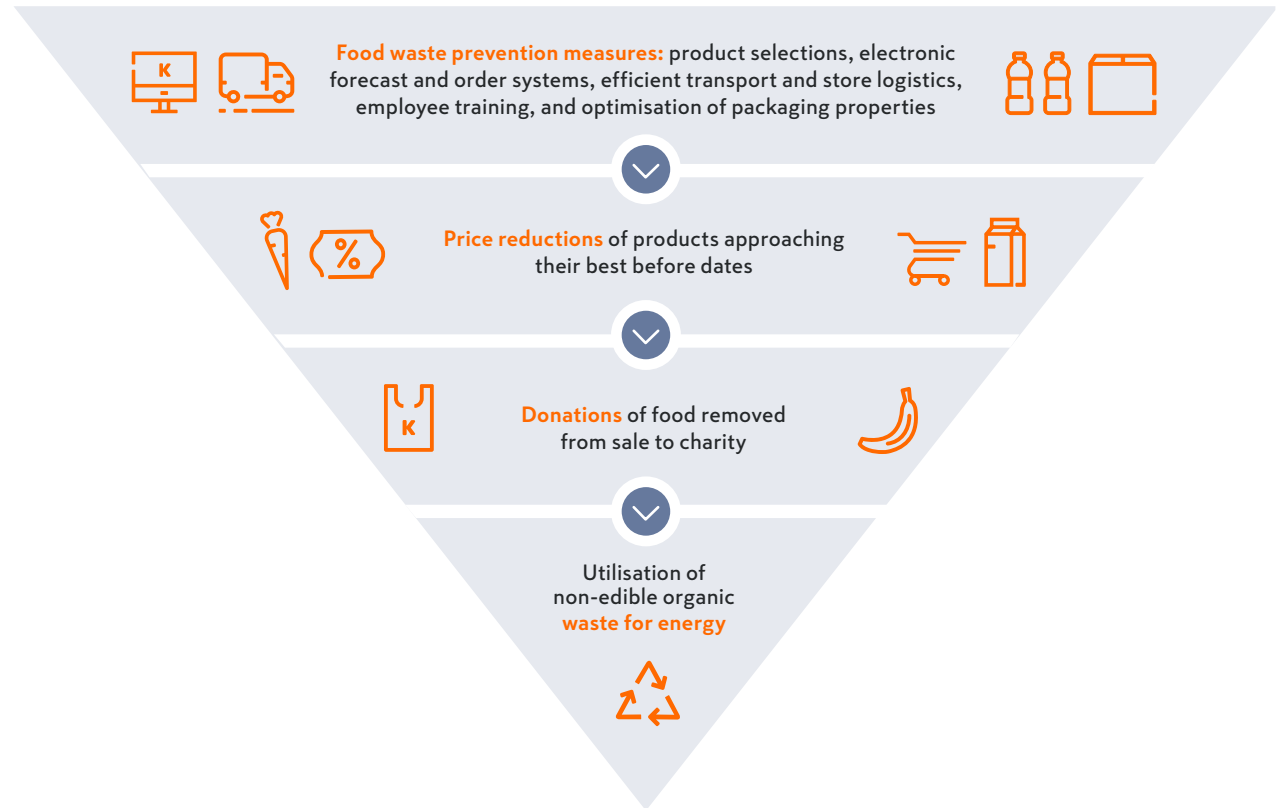
At the store

Stores are instructed to pay special attention to the expiration dates of fresh foods and foods with short expiration times. As a product's 'best before' or 'use by' date approaches, K-food stores can sell the product at a discount. The deregulation of store opening hours in Finland in 2016 has had an impact on food waste: as stores are open for longer, sales are steadier and there is less waste.

ResQ Club app to reduce food waste

With the ResQ Club waste food app, K-food stores can sell food products nearing their expiry dates to consumers. ResQ Club started cooperation with the first K-food stores in May 2018, and in December 2018 the ResQ Club waste food application was already in use at 71 K-food stores across Finland. This operating model reduces waste, and at the same time customers have the opportunity to buy food at reduced prices. In some of the K-food stores, which have

K Group food waste hierarchy



taken the application into use, they have managed to cut down food waste to about one sixth of what it used to be.

Food donations

Some 90% of K-food stores donate edible food products they no longer can sell to local charities, which then distribute the products as food aid to those in need. In

2018, the amount of food products donated to charities by K-food stores was 5% higher than the year before. Some food waste is also given to farms for animal feed.

Biogas from food waste

We co-operate with Gasum in producing biogas from inedible food waste collected from K-food stores. The biogas produced is transmitted to Gasum's gas network, and then utilised as energy in the production of new Pirkka products. Three manufacturers of Pirkka products are included in the operating model.

Biogas produced from inedible organic waste, which is collected from about 200 K-food stores and the Kesko Logistics central warehouse, is utilised as energy in the production of new Pirkka products. In 2018, some 4,000 tonnes of organic waste (2017: 4,000) was turned into some 3,000 MWh of biogas (2017: 3,000). CO₂ emissions were reduced by 600 tonnes compared to natural gas (emission factor 198 g CO₂/kWh) and by 800 tonnes compared to fuel oil (emission factor 267 g CO₂/kWh).

Household food waste

K-ruoka.fi's food waste pages inform our customers on how to reduce food waste. The K-ruoka mobile app helps our customers plan their grocery shopping by offering personalised benefits, store-specific offers, a smart

shopping list and about 8,000 K-ruoka.fi recipes. At the end of 2018, the app had approximately 600,000 users.

We surveyed the consumers' attitude towards food waste in an online survey performed in the Kylä customer community in late 2018. Of the 738 respondents, the majority try to avoid discarding food and 84% actively try to avoid the generation of food waste. One out of 10 (11%) households does not throw food into the rubbish bin at all.

Food waste from K-food stores

	2018	2017
Identified food waste (tonnes)	18,931	19,511
Identified food waste in proportion to sales	1.65%	1.72%
Development of food waste in proportion to sales (from base year 2013)	-7.3%	-7.1%



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Food waste

OBJECTIVE	PROGRESS IN 2018	PLANS FOR 2019
Our objective is to reduce K Group's identified food waste by 13% from the 2016 level by 2021.	Food waste decreased by 7.3% from the previous 2013 base level. Compared to 2017, food waste at K-stores decreased by 3%. K-food stores donated 5% more food to charity compared to 2017.	We signed in a commitment for materials efficiency in the food industry in February 2019. The objective of the companies participating in this commitment is to reduce the amount of food waste by 13% and to increase the recycling rate of waste to 78%.

Management approach

GOOD CORPORATE GOVERNANCE AND FINANCE		CUSTOMERS
Material aspects	<ul style="list-style-type: none"> Economic performance Indirect economic impacts Anti-corruption Anti-competitive behaviour Compliance Grievance mechanisms for impacts on society Customer privacy 	<ul style="list-style-type: none"> Customer health Product safety
Policies and commitments	<p>Accounting policies Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the EU.</p> <p>Corporate Governance principles Risk management principles Good trading principles in the food chain K Code of Conduct Data protection policy</p>	<p>K-food stores and K-Rauta stores employ the K-responsibility concept.</p>
Monitoring and control systems	<p>Financial reporting and planning Compliance: compliance programmes Prevention of malpractice: internal audit, K Code of Conduct Risk management Customer privacy</p>	<p>The Product Research Unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade.</p>
Programmes, projects and initiatives		<p>In the building and home improvement store operations, the assessment of a store's operational responsibility comprises the store's annual self-assessment, the criteria defined in the responsible store concept, and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko. Food store operations utilise the Hymy quality review system.</p> <p>The service level, recognition and image of Kesko's chains are regularly monitored in brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plussa customer loyalty programme and the grocery trade's own brand products. Store-level customer satisfaction is measured by customer satisfaction surveys and the mystery shopping method in food stores and building and home improvement stores.</p>
Grievance mechanisms	<p>Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel. SpeakUp reporting channel.</p>	<p>Plussa.com K Consumer Service Chains' customer feedback systems</p>
Boundaries	<p>Corporate governance: Kesko Finance: Kesko</p>	<p>Customer health and safety: Kesko's own brand products and own imports Product and service information: Kesko's own brand products and own imports Marketing communications: Kesko Compliance: Kesko</p>

SOCIETY		RESPONSIBLE PURCHASING AND SUSTAINABLE SELECTIONS
Material aspects	Procurement practices	Information and compliance of products and services Customer health and safety Assessment of suppliers' working conditions Human rights Marketing communications
Policies and commitments	Kesko requires that its business partners act in compliance with the K Code of Conduct . We add a K Code of Conduct contract clause to agreements signed by Kesko Group companies under which the Group companies purchase products or services from parties outside the group. Good trading principles in the food chain.	Kesko's purchasing principles Sustainability policies Kesko's policy on chemicals for home textiles, clothing, leather goods, shoes and upholstered furniture
Monitoring and control systems	Changes in the operating environment and in K Group are taken into account by adjusting objectives, operating principles, monitoring systems and/or resources.	Certification and audit systems related to production in high-risk countries approved by Kesko Supplier agreements require that suppliers and service providers comply with the principles of the K Code of Conduct and the amfori BSCI Code of Conduct . Kesko's grocery trade requires that the manufacturers and producers of its own brand products have an international food safety certification. Kesko's grocery trade approves the following audit procedures: BRC, IFS, ISO/FSSC 22000, SQF1000/2000 and GlobalGAP or Laatutarha. The Product Research Unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade. All of our food product operations have a self-control plan in place. The testing laboratory is T251 and has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard. The assessment of a store's responsible operations comprises the store's annual self-assessment, the criteria defined in the store's quality system and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko.
Programmes, projects and initiatives	Thank the Producer	amfori BSCI Accord - Accord on Fire and Building Safety in Bangladesh amfori BSCI Sustainable Wine Programme The Center for Child Rights and Corporate Social Responsibility Plan International and K Group's collaboration to support Thai fishing industry migrant workers
Grievance mechanisms	SpeakUp reporting channel	K Consumer Service Chains' customer feedback systems SpeakUp reporting channel
Boundaries	Economic performance: Kesko Indirect economic impacts: K Group Purchase practices: K Group	Compliance: Kesko Product safety: Kesko's own brand products and own imports Social responsibility of procurement (1st tier): Kesko

WORKING COMMUNITY		ENVIRONMENT
Material aspects	<p>Employment</p> <p>Labour/management relations</p> <p>Occupational health and safety</p> <p>Training</p> <p>Diversity and equal opportunity</p> <p>Equal remuneration</p> <p>Labour practices grievance mechanisms</p>	<p>Energy</p> <p>Water</p> <p>Biodiversity</p> <p>Emissions</p> <p>Waste</p> <p>Food waste</p>
Policies and commitments	<p>K Code of Conduct</p> <p>HR policy</p> <p>Diversity policy</p>	<p>K Group's environmental and energy policy</p> <p>UN Global Compact initiative</p> <p>UN Sustainable Development Goals</p> <p>The New Plastics Economy Global Commitment</p> <p>Sustainability policies</p>
Monitoring and control systems	<p>Occupational health and safety and HR</p>	<p>EnerKey.com system</p> <p>All of Onninen's operations in all operating countries are ISO 14001 certified.</p> <p>The operations of Kesko Logistics are ISO 14001 certified.</p> <p>In the food stores and building and home improvement stores, environmental management is based on the K-responsibility concept.</p>
Programmes, projects and initiatives	<p>Well-being at work programme</p> <p>Youth work at K Group</p>	<p>Science Based Targets</p> <p>Retail sector energy efficiency agreement for 2017-2025</p> <p>amfori Business Environmental Performance Initiative (BEPI)</p> <p>RSPO</p> <p>RTRS</p> <p>Green Office</p> <p>K Fishpaths</p>
Grievance mechanisms	<p>Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel.</p> <p>SpeakUp reporting channel</p>	<p>SpeakUp reporting channel</p>
Boundaries	<p>Working community Kesko</p>	<p>Energy and water: Kesko</p> <p>Biodiversity: Kesko</p> <p>Emissions: Scope 1 and 2: Kesko; Scope 3: K-stores and supply chain</p> <p>Waste: Finland: Kesko's warehousing operations, office operations and stores; other operating countries: warehousing operations and stores</p> <p>Food waste: Kesko's grocery trade division and K-food stores</p>

Reporting principles

Reporting principles in accordance with the GRI standards

Since 2000, Kesko has annually reported on its corporate responsibility actions in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The Sustainability section in Kesko's Annual Report is prepared in accordance with the GRI standards and it covers the key areas of economic, social and environmental responsibility. For each reported standard, the [GRI index](#) refers to the year of the version used.

Kesko applies in its operations the AA1000 AccountAbility Principles: stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders.

Kesko has taken account of the ISO 26000 standard as a source document providing guidelines for corporate responsibility.

This report has been prepared in accordance with the GRI Standards: Core option. Topic-specific Disclosures are reported with respect to the material topics for Kesko. A comparison of the contents of the report and the GRI standards is given in the [GRI index](#).

The report is published in Finnish and in English. The report is published online in PDF format.

Assurance of reporting

An independent third party, PricewaterhouseCoopers Oy, has provided assurance for the numerical data on economic, social and environmental responsibility in the Finnish-language Sustainability section of the Annual Report. The congruence between responsibility information presented in the Finnish and English versions has been checked.

The conclusions, observations and recommendations by PricewaterhouseCoopers Oy are detailed in the [assurance report](#). The assurance is commissioned by the operative management of Kesko Corporation.

Global Compact reporting

The report describes Kesko's progress on the 10 principles of the Global Compact initiative. The [GRI index](#) shows which General Disclosures and Topic-specific Disclosures have been used for evaluating performance in fulfilling human rights, labour rights, environment principles and anti-corruption principles.

Integrated annual report

Kesko takes account of the IIRC (International Integrated Reporting Council) <IR> Framework in its annual reporting.

Report stakeholders

Various stakeholders use the report as their source of information when assessing Kesko's results in the different areas of responsibility. The most important target groups for the report include investors, shareholders, analysts and rating agencies, as well as society (the media, authorities, educational establishments and NGOs).

Reporting period and contact information

This report describes the progress and results of responsibility work in 2018. It includes some information from January and February 2019.

The report for 2017 was published in March 2018.

The report for 2019 will be published in the spring of 2020.

Further information on the topics covered in the report can be obtained from [Kesko's contact persons](#).

GRI-index

KD = Kesko's direction
SU = Sustainability

CG = Corporate Governance
FS = Financial Statements

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
GRI 102 GENERAL STANDARD DISCLOSURES							2016
102-1	Name of the organisation	KD 3					
102-2	Activities, brands, products and services	KD 5					
102-3	Location of headquarters	KD 3					
102-4	Location of operations	KD 3					
102-5	Ownership and legal form	KD 3					
102-6	Markets served	KD 3					
102-7	Scale of the organisation	KD 3					
102-8	Information on employees and other workers	SU 23-24		There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work. There are no significant seasonal fluctuations in the number of employees.	x		
102-9	Supply chain	SU 20					
102-10	Significant changes to the organisation and its supply chain	KD 6-8					
102-11	Precautionary Principle or approach	SU 8-9					
102-12	External initiatives	kesko.fi Principles of corporate responsibility					
102-13	Membership of associations	kesko.fi Activities in organisations					
102-14	Statement from senior decisionmaker	KD 6-8					
102-15	Key impacts, risks and opportunities	KD 11, SU 8-9					
102-16	Values, principles, standards, and norms of behaviour	kesko.fi K Code of Conduct				x	
102-17	Mechanisms for advice and concerns about ethics	kesko.fi Reporting concerns and instances of non-compliance				x	
102-18	Governance structure	CG 5					
102-19	Delegating authority	CG 14-15, kesko.fi Sustainability governance					
102-20	Executive-level responsibility for economic, environmental and social topics	EVP, CFO; EVP, Human Resources, Corporate Responsibility and Regional Relations		Both are members of the Group Management Board.			

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
102-21	Consulting stakeholders on economic, environmental, and social topics	SU 6-7					
102-22	Composition of the highest governance body and its committees	CG 5-11					
102-23	Chair of the highest governance body	CG 5-11					
102-24	Nominating and selecting the highest governance body	CG 5-11					
102-25	Conflicts of interest	CG 5-11		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.			
102-26	Role of highest governance body in setting purpose, values, and strategy	CG 5-11					
102-28	Evaluating the highest governance body's performance	CG 5-11	Only the Board's self-assessment has been reported.				
102-29	Identifying and managing economic, environmental, and social impacts	CG 5-11					
102-30	Effectiveness of risk management processes	CG 16-17					
102-31	Review of economic, environmental, and social topics	CG 16-17					
102-32	Highest governance body's role in sustainability reporting	CG 7					
102-33	Communicating critical concerns	CG 10, CG 15					
102-35	Remuneration policies	CG 20-28					
102-40	List of stakeholder groups	SU 6-7					
102-41	Collective bargaining agreements	SU 32			x		
102-42	Identifying and selecting stakeholders	SU 6-7					
102-43	Approach to stakeholder engagement	SU 6-7					
102-44	Key topics and concerns raised	SU 6-7					
102-45	Entities included in the consolidated financial statements	FS 43-44, FS 107-109					
102-46	Defining report content and topic Boundaries	SU 59					
102-47	List of material topics	kesko.fi Materiality assessment of corporate responsibility					

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
102-48	Restatements of information	No significant changes.		Changes reported in connection with topic-specific information. The divested Russian building and home improvement trade operations are reported as discontinued operations and are not included in the figures for the Group's continuing operations in the financial statement. The comparison data for the 2017 income statement, statement of cash flows and certain performance indicators have been adjusted.			
102-49	Changes in reporting	No significant changes.					
102-50	Reporting period	SU 59					
102-51	Date of most recent report	SU 59					
102-52	Reporting cycle	SU 59					
102-53	Contact point for questions regarding the report	kesko.fi Contacts, responsibility					
102-54	Claims of reporting in accordance with the GRI Standards	SU 59					
102-55	GRI content index	SU 60-66					
102-56	External assurance	SU 67-68					
GRI 103 MANAGEMENT APPROACH							2016
103-1	Explanation of the material topic and its Boundary	SU 56-58					
103-2	The management approach and its components	SU 56-58					
103-3	Evaluation of the management approach	SU 56-58					
TOPIC-SPECIFIC CONTENT							
Topic-specific content is reported regarding aspects identified as material.							
ECONOMIC IMPACTS							
201	Economic performance					8	2016
201-1	Direct economic value generated and distributed	SU 11-12, SU 19					
201-2	Financial implications and other risks and opportunities due to climate change	SU 9		Monetary evaluations or realisations have not been reported for risks and opportunities. Information is not available, as climate change is difficult to estimate.		x	
201-3	Defined benefit plan obligations and other retirement plans	SU 25-26					
201-4	Financial assistance received from government	SU 12					

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
203	Indirect economic impacts					9	2016
203-1	Infrastructure investments and services supported	SU 17					
203-2	Significant indirect economic impacts	SU 13					
204	Procurement practices					16	2016
204-1	Proportion of spending on local suppliers	SU 20-21					
205	Anti-corruption					16	2016
205-1	Operations assessed for risks related to corruption	SU 14	The number and percentage of business units have not been reported. Information is not available as the risks related to corruption are part of a wider assessment of business risks.	Risks related to corruption are discussed as part of Kesko's risk management. Key risks are identified and assessed regularly throughout the year.	x		
205-2	Communication and training about anti-corruption policies and procedures	SU 14	Percentages have not been reported by personnel group or geographical region. Information is not available.		x		
205-3	Confirmed incidents of corruption and actions taken	SU 14			x		
206	Anti-competitive behaviour					16	2016
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	SU 14					
ENVIRONMENTAL IMPACTS							
301	Materials					13	2016
301-3	Reclaimed products and their packaging materials	SU 52	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
302	Energy					13	2016
302-1	Energy consumption within the organisation	SU 43-44			x		
302-2	Energy consumption outside the organisation	SU 49-51	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		x		
302-3	Energy intensity	SU 44			x		
302-4	Reduction of energy consumption	SU 44-45			x		
303	Water					6	2018
303-1	Water withdrawal by source	SU 46			x		

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
304	Biodiversity					15	2016
304-2	Significant impacts of activities, products, and services on biodiversity	SU 47			x		
304-3	Habitats protected or restored	SU 47			x		
305	Emissions					13	2016
305-1	Direct (Scope 1) GHG emissions	SU 48			x		
305-2	Energy indirect (Scope 2) GHG emissions	SU 48			x		
305-3	Other indirect (Scope 3) GHG emissions	SU 49			x		
305-4	GHG emissions intensity	SU 49			x		
305-5	Reduction of GHG emissions	SU 49-51		The emissions change is calculated considering also other factors than emission reduction actions.	x		
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	SU 51			x		
306	Effluents and waste					13	2016
306-2	Waste by type and disposal method	SU 53			x		
	Food waste					12	
-	Food waste	SU 54-55		Material topic without applicable standard.	x		
SOCIAL IMPACTS							
401	Employment					8	2016
401-1	New employee hires and employee turnover	SU 23-24		In new employees, total number by age group, rate by gender and rate by region is not reported. In employee turnover, total number by age group and rate by gender is not reported.	x		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	SU 24-25 , kesko.fi Benefits and rewards	Benefits exceeding the statutory level have not been reported in detail. Practices vary in different operating countries.				
402	Labour/Management relations					8	2016
402-1	Minimum notice periods regarding operational changes	SU 32	Arrangements compliant to legislation. Legislation does not define minimum notice periods at the precision required by GRI.		x		

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
403	Occupational health and safety					3	2016
403-1	Workers' representation in formal joint management-worker health and safety committees	SU 26	Not reported by percentages.				
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	SU 26-27	Not reported by gender or by country.				
404	Training and education					4	2016
404-1	Average hours of training per year per employee	SU 28-29	Not reported by gender and employee category. Information not available.		x		
404-2	Programmes for upgrading employee skills and transition assistance programmes	SU 28-29					
404-3	Percentage of employees receiving regular performance and career development reviews	SU 29	Not reported by gender and employee category. Information not available.		x		
405	Diversity and equal opportunity					10	2016
405-1	Diversity of governance bodies and employees	SU 31-32	Not reported by age category. Information not available.		x		
405-2	Ratio of basic salary and remuneration of women to men	SU 30-31			x		
406	Non-discrimination					10	2016
406-1	Incidents of discrimination and corrective actions taken	SU 30-31			x		
407	Freedom of association and collective bargaining					8	2016
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	SU 32			x		
412	Human rights assessments					16	2016
412-1	Operations that have been subject to human rights reviews or impact	SU 35		The human rights assessment and commitment apply to all of Kesko's divisions and operating countries.	x		
412-2	Employee training on human rights	SU 35	Total number of employees trained has been reported. Information about number of hours and percentage of employees trained is not available.		x		

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	MOST MATERIAL SDG	STANDARD VERSION
414	Supplier social assessment					8	2016
414-1	New suppliers that were screened using social criteria	SU 35-38	The percentage of suppliers screened has not been separately reported out of new suppliers but out of all suppliers in high-risk countries.				
414-2	Negative social impacts in the supply chain and actions taken	SU 35-38					
415	Public policy					16	2016
415-1	Political contributions	SU 14			x		
416	Customer health and safety					3	2016
416-1	Assessment of the health and safety impacts of product and service categories	SU 40	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	SU 40					
417	Marketing and labelling					12	2016
417-1	Requirements for product and service information and labelling	SU 41	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
417-2	Incidents of non-compliance information and labelling	SU 41					
417-3	Incidents of non-compliance concerning marketing communications	SU 41					
418	Customer privacy					16	2016
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	SU 41					
419	Socioeconomic compliance					16	2016
419-1	Non-compliance with laws and regulations in the social and economic area	SU 41					



Independent Practitioner's Assurance Report

(Translation from the Finnish original)

To the Management of Kesko Corporation

We have been engaged by the Management of Kesko Corporation (hereinafter also the Company) to perform a limited assurance engagement on the economic, social and environmental performance indicators for the reporting period 1 January 2018 to 31 December 2018 disclosed in the "Sustainability" section of "Kesko's Annual Report 2018". In terms of the Company's GRI Standards reporting and GRI Standards Content Index, the scope of the assurance has covered economic, social and environmental disclosures listed within the Topic-specific Standards as well as General Disclosures 102-8, 102-41 and 102-54 (hereinafter CR Information).

Furthermore, the assurance engagement has covered Kesko Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

Management's responsibility

The Management of Kesko Corporation is responsible for preparing the CR Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Sustainability Reporting Standards of the Global Reporting Initiative. The Management of Kesko Corporation is also responsible for

such internal control as the management determines is necessary to enable the preparation of the CR Information that is free from material misstatement, whether due to fraud or error.

The Management of Kesko Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in AccountAbility's AA1000 AccountAbility Principles Standard 2008.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the CR Information and on the Company's adherence to the AA1000 AccountAbility Principles based on the procedures we have performed and the evidence we have obtained. We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the CR Information is free from material misstatement.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with the Company, this Standard requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles and that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the CR Information, and about the Company's adherence to the AA1000 AccountAbility Principles. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the CR Information and an assessment of the risks of the Company's material nonadherence to the AA1000 AccountAbility Principles.

Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material corporate responsibility topics as well as assessing the CR Information based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as one site in Sweden.

- Interviewing employees responsible for collecting and reporting the CR Information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Kesko Corporation's CR Information for the reporting period ended 31 December 2018 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

Furthermore nothing has come to our attention that causes us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

When reading our assurance report, the inherent limitations to the accuracy and completeness of corporate responsibility information should be taken into consideration.

Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Kesko Corporation for our work, for this report, or for the conclusions that we have reached.

Observations and recommendations

Based on the procedures we have performed and the evidence we have obtained, we provide the following observations and recommendations in relation to Kesko Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Inclusivity:** The Company has processes in place for stakeholder inclusivity, collection of feedback and stakeholder engagement. During the past reporting period, the Company has involved various stakeholders in its sustainability work. We recommend that the Company continues to involve its stakeholders in its sustainability work and make extensive use of its sustainability reporting also in other communication.
- **Materiality:** The Company has a process in place to evaluate and determine the materiality of corporate responsibility aspects. The materiality assessment was last renewed in 2012. The Company then defined 6 themes and 18 corporate responsibility topics. During the reporting period the Company continued to focus its corporate responsibility work and reporting on those themes. We recommend that the Company continues developing the materiality assessment work and focusing on the material themes in its reporting.
- **Responsiveness:** The Company takes its stakeholders' expectations into account in its operations and responds to them through the continuous development of its activities. We recommend that the Company would raise centrally and consistently its key sustainability projects and achieved results to its stakeholders.

Practitioner's independence, qualifications and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility strategy and management, social and environmental issues, as well as the relevant industry knowledge, to undertake this assurance engagement.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Helsinki 1 March 2019

PricewaterhouseCoopers Oy

Enel Sintonen
Partner, Authorised Public
Accountant
Assurance Services

Sirpa Juutinen
Partner
Sustainability &
Climate Change

