



*Corporate
Responsibility Report* **2005**

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

Contents of the report

As in previous years, Kesko’s sixth Corporate Responsibility Report has been prepared on the basis of the ‘Sustainability Guidelines on Economic, Environmental and Social Performance’ drawn up by the Global Reporting Initiative (GRI). No essential changes have been made in the structure of the report, as the guidelines have remained unchanged. The text does not follow the order of presentation and headings in the GRI analysis in all respects, however. Any deviations from GRI guidelines, together with any shortcomings in presenting its core indicators, are noted in the comparison published at the end of the report. Kesko does not claim that the report is in accordance with GRI guidelines, preferring to rely on an independent assurance provider, to whom GRI has given its approval and directions, to make such a statement of compliance.

GRI core guidelines

The report begins with a presentation of basic information about Kesko and an assessment by Kesko’s management of the company’s key achievements and improvement areas in 2005. Kesko’s corporate responsibility goals and vision, and stakeholder analysis follow, together with the company’s values, strategy, principles, and management systems guiding corporate responsibility. The main focus is on economic, social, and environmental performance indicators, which are again slightly more comprehensive than those presented previously. A total of 42 of the 50 GRI core indicators and nine additional indicators are included in the report. A summary table of the key indicators is included (see pages 6-7). A description of other areas of responsibility, such as activities promoting product safety and privacy protection, can be found at the end of the report. A glossary of the most important terms and a list of key contact personnel are also included.

International operations covered partially

The first indicators of corporate responsibility regarding the Group’s subsidiaries outside Finland were obtained for 2002. In the areas of economic and social responsibility, statistics in this report are

now very comprehensive. The implementation of environmental systems in subsidiaries outside Finland is still under way. However, we have obtained waste management, transportation and energy consumption statistics from nearly all companies and have been able to make more comprehensive calculations of emissions. We expect to be able to include all information now unavailable in 2006-2007. Information concerning economic responsibility, personnel numbers and corresponding of the joint venture, Rimi Baltic AB, are reported according to Kesko’s ownership, while other indicators are for the whole company. In Finland, environmental data is unavailable on Indoor Group, which was acquired in 2005.

Information about K-retailers

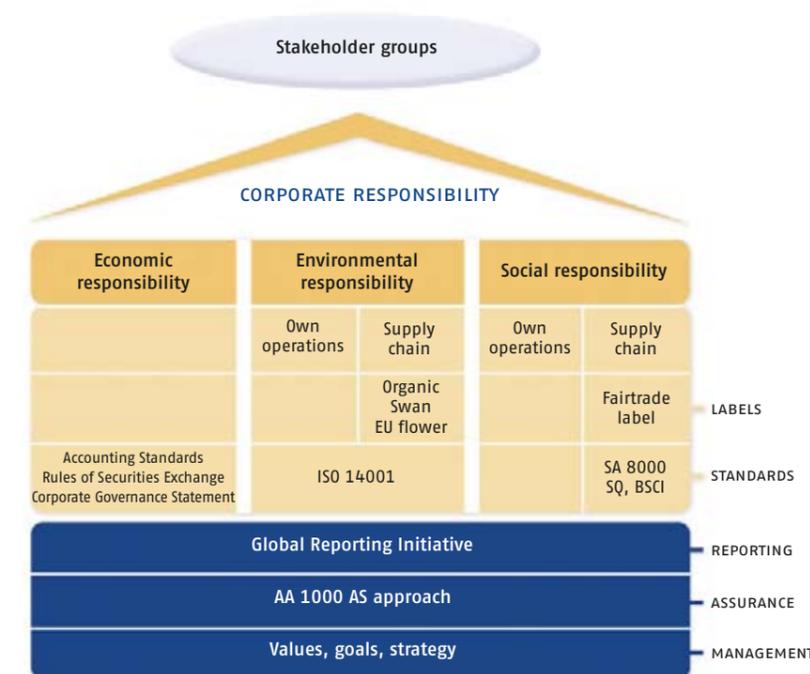
Kesko operates in close cooperation with K-retailers, based on chain agreements between retailers and Kesko. The report presents information concerning K-stores when this is integrally related to Kesko’s reporting and complements the overall picture of the relations between Kesko and K-retailers with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

Assurances for online and printed reports

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

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

The report covers performance in 2005, with some information for the first three months of 2006. The previous report, covering 2004, was published in May 2005. The following report, for 2006, will be published in spring 2007.



Review by the President and CEO

Kesko strengthened its position in comparisons evaluating listed companies' corporate responsibility in 2005. Both Dow Jones and Ethibel named Kesko the leading company in the world in the retailing sector, and Innovest rated Kesko Food the best company in its global analysis of food and drug retailers. As Innovest had also previously included Kesko in the 'The Global 100 Most Sustainable Corporations' list, published by the World Economic Forum, we have good reason to be proud of the respect our performance has engendered among the international investment community.

The world's leading pension funds will publish their joint 'Principles of Responsible Investments' in spring 2006. Time will tell how these principles will affect the portfolios of pension funds and other investors, and how sustainability indexes will be used in decision-making. I believe that information on corporate responsibility is needed, and that the impact of reliable indexes on investments will increase. It is important, therefore, for Kesko to maintain its reputation and position as a frontrunner in this area.

Comparisons provide us with material for analysing our strengths and weaknesses. Although the overall level of our performance is good, there is still room for improvement. Our Group-level objectives are not yet fully measurable, we have yet to assess how responsibility is linked to our economic performance, and we have not made sufficient progress outside Finland, including those companies acquired in 2005.

As our Group expands and becomes more international, the importance of management systems, indicators, and reporting systems in guiding the operations will become more important. We have recently established a Corporate Responsibility Steering Group to define the extent and profit targets of our corporate responsibility - 'our management vision' - and to ensure that our line organisation is committed to this vision. We have started a three-year development programme and introduced an online information system for corporate responsibility reporting to further increase the reliability of our per-

formance. I believe that these activities will contribute to consistent high quality in all our units.

While our approach to responsibility is well-known and recognised in the business world, K-store customers do not yet know much about it. Customers' interest in the environmental and social impacts of consumption, and their willingness to act in a responsible way, look set to continue to increase. Our marketing commu-

nications and daily customer service needs to provide them with practical information and solutions that can help them here. I hope that this year we will make progress in this area in particular.

MATTI HALMESMÄKI
President and CEO
Kesko Corporation



Jouko Kuisma, Head of Corporate Responsibility (in the centre) discussing Kesko's international sustainability index performance with Juhani Järvi, Corporate Executive Vice President (left) and Matti Halmesmäki, President and CEO.

Key facts about the Kesko Group

Kesko's business operations

Kesko is Finland's largest trading group, and also operates in Sweden, Norway, the Baltic countries, and Northwest Russia. The Group's subsidiary, Kaukomarkkinat Oy, also operates in many other countries, including Denmark, Germany, Poland, China, and Vietnam.

Kesko's division parent companies - Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd, and Keswell Ltd - are responsible for store sites, purchasing, logistics, store concepts, and chain cooperation with K-retailers. Kesko also has its own retail outlets; see www.kesko.fi (Consumers). Kesko Food and ICA AB of Sweden own Rimi Baltic AB, a grocery retailer in the Baltic countries, on a 50/50 basis. Kesko's VV-Auto Oy subsidiary imports cars and also operates as a dealer in Helsinki and Turku.

The Group's net sales totalled €8.3 billion in 2005, of which 46% were generated in the food trade. Net sales outside Finland represented 20.0% of total net sales (14.6% in 2004).

Kesko works in close chain cooperation with K-retailers in Finland, which numbered 1,290 at the end of 2005. Kesko also had approximately 250 other retailer partners in the Asko, Sotka, Tähti Optikko, Byggmakker and Senukai chains. The K-Alliance had 1,789 retail stores in Finland and 369 in other countries. Their sales totalled €9.5 billion (€8.4 billion in 2004), of which €1.8 billion were generated outside Finland.

Kesko's shareholders

Kesko is a listed company, and had 29,339 shareholders at the end of 2005. Series A shares accounted for 32.9% of the company's total share capital and 83.1% of all votes. The corresponding percentages for B shares were 67.1% and 16.9%. The company's 20 largest shareholders, calculated by number of votes, held 35.8% of all votes and 20.9% of all shares. Shares held by non-Finnish shareholders increased from 23.2% to 27.0% in 2005, equivalent to 7.1% of all votes.

The market capitalisation of A shares was €770 million as of the end of 2005, and that of B shares €1,550 million. Total

market capitalisation stood at €2,320 million, an increase of €605 million on 2004.

Personnel

Converted into full-time employees, Kesko Group had an average of 21,603 employees in 2005. The figure includes half of the personnel employed by Rimi Baltic AB. Compared to 2005, this represented an increase of 945 in Finland and 3,130 in other countries. At the end of the year, the total number of employment contracts was 26,978 (22,146), of which 14,707 (13,602) covered personnel in Finland and 12,271 (8,544) in other countries. Approximately three quarters of employees worked in retailing.

Real estate

Kesko Group owned or leased 3,438,000 m² of real estate and premises at the end of 2005, which was 14% more than in 2004. Rimi Baltic AB is not included in the figures. Kesko owned 948,000 m² in Finland, and 163,000 m² in other countries. Warehouses and offices accounted for over a quarter of this total, with store premises accounting for the rest. The total floor area of leased premises, consisting mainly of retail stores, was 1,845,000 m² in Finland and 482,000 m² outside Finland. The majority of store premises owned or leased in Finland are rented to K-retailers.

Product and service suppliers

Kesko bought products and services valued at approximately €7.1 billion in 2005.

The number of active suppliers totalled about 25,000. Approximately 11,000 of these operate in Finland, accounting for 66% of total purchases, while nearly 8,000 active suppliers operate in the Group's other operating countries. The main countries from which goods were imported into Finland were Germany, Sweden, China, Italy, France, and Holland.

Kesko is a member of the following international purchasing organisations: Associated Marketing Services AMS (groceries), EuroMat (building and interior decoration products), Intersport International (sports goods), EP International

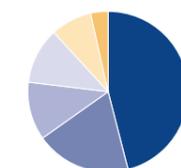
(home electronics), and Agentrics LLC (former World Wide Retail Exchange, a B-to-B Internet marketplace).

Customers

Retailers accounted for 40% of Kesko's sales in 2005. On average, K-retailers made 88.0% of their total purchases (87.8% in 2004), and 90.4% of their food purchases (90.0% in 2004) from Kesko.

Wholesale customers - hotels, restaurants, catering kitchens, service stations, kiosks, construction companies, and others - accounted for 29% of Kesko's sales. Direct sales to consumers through Kesko's own retail stores accounted for 31%.

Breakdown of Kesko's net sales in 2005



Kesko's market areas



1. Finland, 2. Sweden, 3. Norway, 4. The Baltic countries, 5. Russia, St. Petersburg area

Key indicators of corporate responsibility for the Kesko Group 2003-2005

Indicators of economic responsibility

	2003	2004	2005
	FAS	IFRS	IFRS
Net sales, € million	7,070	7,517	8,322
Profit before taxes, € million	162	241	239
Return on invested capital, %	10.9	14.3	12.5
Dividends paid, € million	91	274	95
Investments, € million	259	192	454
Equity ratio, %	51.7	44.2	42.3
Salaries paid, € million	316	353	419
Income tax, € million	58	47	49
Personnel, average	15,219	17,528	21,603
Purchases from suppliers, € million	6,258	6,514	7,103
Support to organisations operating for the public good, € million	2.4	2.4	2.2

Indicators of environmental responsibility

Use of electrical energy in real estate, GWh ¹⁾	730	719	889
Use of heat energy in real estate, GWh ¹⁾	337	296	299
Use of water in real estate, 1,000 m ³ ²⁾	713	669	650
Emissions from the production of electrical and heat energy used			
climate change, tn CO ₂ eq ¹⁾	262,949	263,117	272,707
acidification, tn SO ₂ eq ¹⁾	1,050	824	1,000
Distribution transport			
loads ³⁾	117,782	109,278	117,571
kilometres, 1,000 km ⁴⁾	19,700	20,126	14,100
tons ³⁾	609,000	576,000	722,784
carbon dioxide emissions, tn	22,943	23,438	23,778
Use of materials/waste, tn			
materials in packaging imported into Finland	31,392	33,448	29,331
waste in distribution warehouses in Finland	9,573	9,647	8,916
of which for recovery, % ⁵⁾	89.8	89.4	89.8
waste in distribution warehouses in companies outside Finland	*)	*)	18,358
radioactive waste from production of electricity purchased ⁶⁾	0.96	0.54	0.79

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

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

³⁾ no load and ton statistics are available on foreign transportation or transportation outsourced in Finland

⁴⁾ no distance information is available on pallet transportation outsourced in Finland, or on Rimi Baltic or Norgros, where transport emissions are calculated on the basis of fuel consumption

⁵⁾ figures include organic waste

⁶⁾ in Finland the amount of nuclear energy used, elsewhere the amount of radioactive waste

*) data has not been collected or is inaccurate

Indicators of social responsibility

	2003	2004	2005
Job satisfaction in Finland, scale 1-5			
own job	3.71	3.79	3.82
superior's performance	3.79	3.80	3.84
unit's operations	3.76	3.76	3.78
Kesko's operations	3.70	3.68	3.64
Employee turnover ¹⁾			
new	6,650	7,247	8,568
left	5,162	5,943	7,055
retired	151	169	177
Average age of employees			
in Finland	35.0	*)	35.0
in other countries ¹⁾	33.0	*)	31.0
Average duration of employment in Finland, years ²⁾			
	9.0	9.0	9.0
Sickness absences per person (work days)			
in Finland	8.4	9.9	9.7
in other countries ¹⁾	10.9	10.5	8.0
Funds used for health care per person, € ²⁾			
	359	402	427
Average annual salary per person, €			
in Finland	29,155	29,411	28,944
in other countries	8,211	8,102	9,081
Training days per person			
in Finland	1.6	1.2	1.8
in other countries ¹⁾	1.5	2.9	1.0
Spending on training per person, € ²⁾			
	453	448	370
Social quality control of purchases ²⁾			
suppliers in developing countries included in statistics	247	300	350
total number of employees in above companies	263,000	280,000**)	300,000**)
companies with SA 8000 certification	19	24	24
number of employees in companies with SA 8000 certification	47,000	54,000	54,000
suppliers included in the BSCI audit process	-	31	42

¹⁾ data for Rimi Baltic unavailable

²⁾ data for Finland only

*) data has not been collected or is inaccurate

**) statistics have been transferred to the common BSCI database, from where data on the employee numbers of Kesko's suppliers cannot yet be obtained

Vision of corporate responsibility

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

As late as the end of the 1990s, responsibility was assessed from the viewpoint of reputation risk management and ensuring a positive corporate image. Today,

responsibility has become an essential part of day-to-day work and company management. Results must be measured and improvement targets set to ensure continuous progress. More accurate measurements also help rationalise operating practices and lower costs, particularly in the areas of environmental and social responsibility.

Public, transparent reporting of results is important, particularly for large listed companies trading internationally. Increasing globalisation has seen many stakeholders keep a closer eye on corporate responsibility. If stakeholders feel that companies resort to irresponsible means to make profit, they will demand

stricter control from society or exercise pressure on them to achieve the improvements they want. Voluntary, proactive measures, and exceeding minimum standards, allow pioneering companies to avoid such conflicts and at the same time pull ahead of those that react slowly and wait for legislators to set the pace.

Our thinking behind the concept of responsibility

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

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

Our vision of the key issues in corporate responsibility

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

General

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

Shareholders and investors

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

Personnel

The proportion of net sales accounted for by operations outside Finland in the

Kesko Group's total net sales will continue to grow. In Finland, Kesko's personnel numbers can be expected to increase mainly due to acquisitions, and the competition for new employees will intensify as the baby-boomer generations reach retirement age. Companies that offer good job satisfaction and varied responsibilities and career opportunities are the most likely to succeed here. Corporate values and responsible corporate behaviour are valuable - young jobseekers clearly favour companies with a good reputation. Kesko's reputation as a responsible company benefits the company in its recruitment both in Finland and elsewhere. With smaller numbers of people on the job market, we need to put more emphasis on older employees and continue to reduce the pressures on their performance. Occupational health care needs to give more emphasis to preventive work, reducing the number of people taking disability pensions and raising the average retirement age.

Product and service suppliers

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

Consumers

Consumer interest in corporate responsibility is continuing to increase, despite the fact that purchasing decisions are strongly based on price. Responsibility is seen as embracing high-quality products, the maintenance of services, good human resources policies, high standards of environmental protection, a proactive ap-

proach to equality, and improving the working conditions of employees in manufacturing operations. As the supply of products and services grows, consumers will have more options and more influence in shaping trade and the supply of goods. This leverage is more often used to penalise clear failures than reward good performance.

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

Cooperation with the authorities and other organisations

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



Stakeholder analysis

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

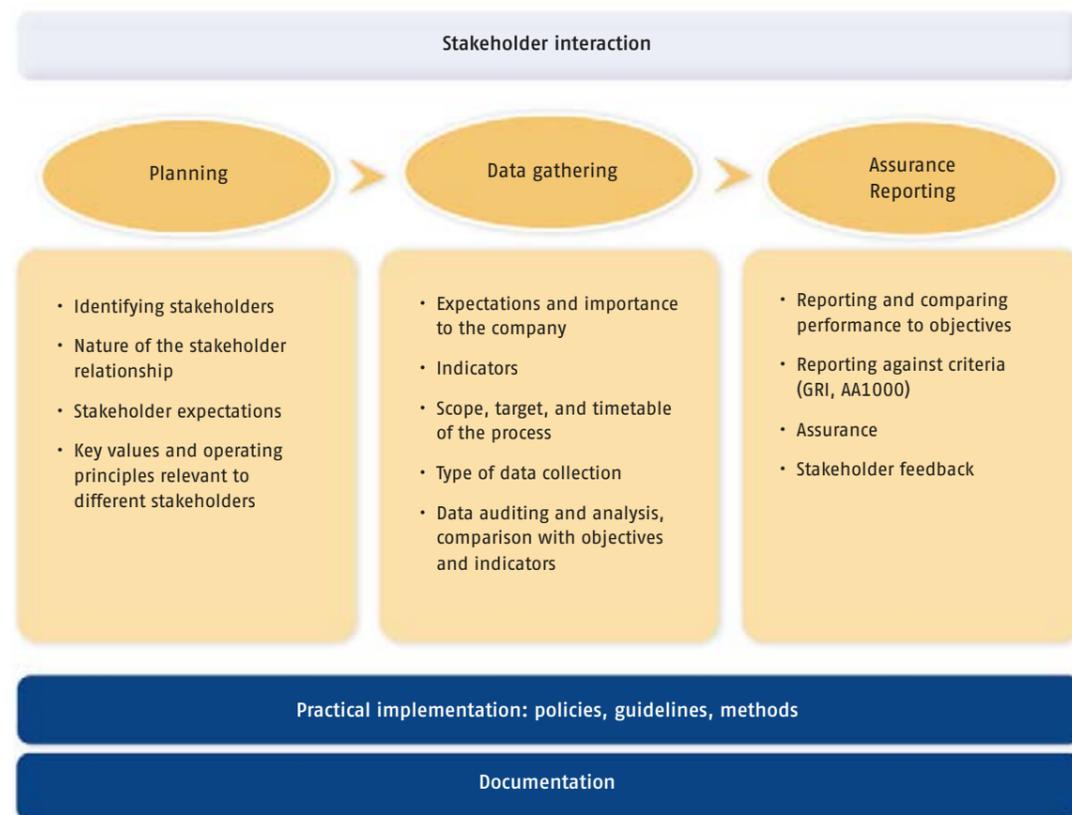
benefit from cooperation in developing its operations, Kesko and its stakeholders need to interact on a regular, systematic, and measurable basis.

Preparing a stakeholder analysis is included in the annual planning of Kesko's management system. The Corporate Responsibility Development Unit has prepared a stakeholder process description (see below) to facilitate the structuring

and planning of cooperation. Measuring, documenting, and reporting results gained in stakeholder interaction is a challenging task, and much still remains to be done in this area.

The table on page 11 presents stakeholder groups' expectations concerning Kesko's responsibility, Kesko's activities designed to meet them, and the indicators used for assessing performance.

Kesko's stakeholder process



Details on Kesko's key stakeholder groups

Stakeholder	Stakeholders' expectations concerning Kesko	Kesko's activities	Indicators
Authorities (EU, state, local authorities)	Strict compliance with legislation. Good tax-paying ability, stable employment. Maintenance of a comprehensive store and distribution network.	Practical expertise for developing the operational base of the trading sector and economy. Direct and indirect taxes and fees contributing to the wellbeing of society. Cooperation with the local authorities in developing and maintaining the store network.	Amount of taxes paid, number of jobs, payroll, investments, structure and regional coverage of the store network.
Personnel	Activities that maintain and develop job satisfaction and safety. Performance that contributes to the appreciation of employees' work and role in the workplace. In-service training, career development, permanent jobs.	Participation of personnel in the planning and development of operations. Improving the quality of management. Maintenance of work ability, in-house job rotation, continuous training, promotion of wellbeing in the workplace, motivating pay.	Job satisfaction survey, performance and appraisal discussions, in-house customer satisfaction survey. Statistics on employment disputes turnover, absenteeism, accidents, training, retirement age. Employer profile.
Shareholders	High annual dividend. Good management of corporate governance, and social and environmental risks.	Contacts with shareholders (TradeMaker magazine for stakeholders) and capital market players. Comprehensive information on financial performance and operations, generally through the Web. Competitive dividend policy.	Number and structure of shareholders, share trading, annual dividend yield, listings in sustainable development indexes, trading sector comparisons.
Suppliers of products and services	Business growth, good liquidity, long-term business relationships.	Goods from agricultural producers, manufacturers, and importers. Store network planning and construction services. Furnishings, equipment, supplies, information systems, training, and advertising for Kesko's own business and that of K-retailers.	Development and breakdown of purchases by country/area. Number of suppliers, concentration of purchases. Terms of payment of invoices.
K-retailers and wholesale customers	K-retailers expect competitive store sites, retail concepts, product selections, and prices, as well as services and other solutions contributing to competitiveness. Wholesale customers expect competitive prices and service.	Vertical cooperation agreement between Kesko and K-retailers. Kesko is responsible for developing the Group's operating system and retail concepts, for store sites, information systems, marketing, training, etc. Kesko also sells and delivers products to many wholesale customers.	Customer satisfaction surveys. Concentration of K-retailers' purchases in Kesko. Trends in the market shares of K-chains. Development of sales to wholesale customers.
Consumers	Overall responsibility, easy shopping, assistance, and advice. Opportunities to make ethical consumption choices, recycling and other services.	Providing retail concepts, product selections, and marketing campaigns in cooperation with the K-retailer chains that interest and satisfy customers. Plussa customer loyalty programme, Pirkka magazine for customers, customer feedback systems.	Customer satisfaction surveys. Trends in the sales and market shares of K-chains. Corporate image surveys. Amount and quality of feedback. Development in the number and sales of 'ethical' products.
Non-governmental organisations and trade unions	Overall responsibility, clear operating principles, reliable results reporting, open and regular communications.	Presentation of activities, and a proactive approach to contacts when drafting and implementing operating principles and systems. Cooperation agreements, financial support to socially important organisations and institutions.	Corporate image surveys. Amount and breakdown of support for the public good.
Media	Open, comprehensive, reliable, and fast communications.	Information about operations required by the rules of the Securities Exchange and other information. Annual report, corporate responsibility report, Internet pages, stock exchange and other releases, presentation material, news conferences, services of regional communications officers.	Daily media monitoring, corporate communications surveys, participation in annual report, investor communications, and corporate responsibility report comparisons.

Key areas of influence

Kesko can achieve much that benefits society and its stakeholder groups through active, target-driven operations

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

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

Improvements in the quality of management increase employees' job satisfaction and motivation. Cooperation with suppliers in developing countries is helping to improve local working conditions. Both in our own operations and through

out the purchasing chain, the emphasis is on preventing employees' problems at individual level.

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

Responsible activities in organisations

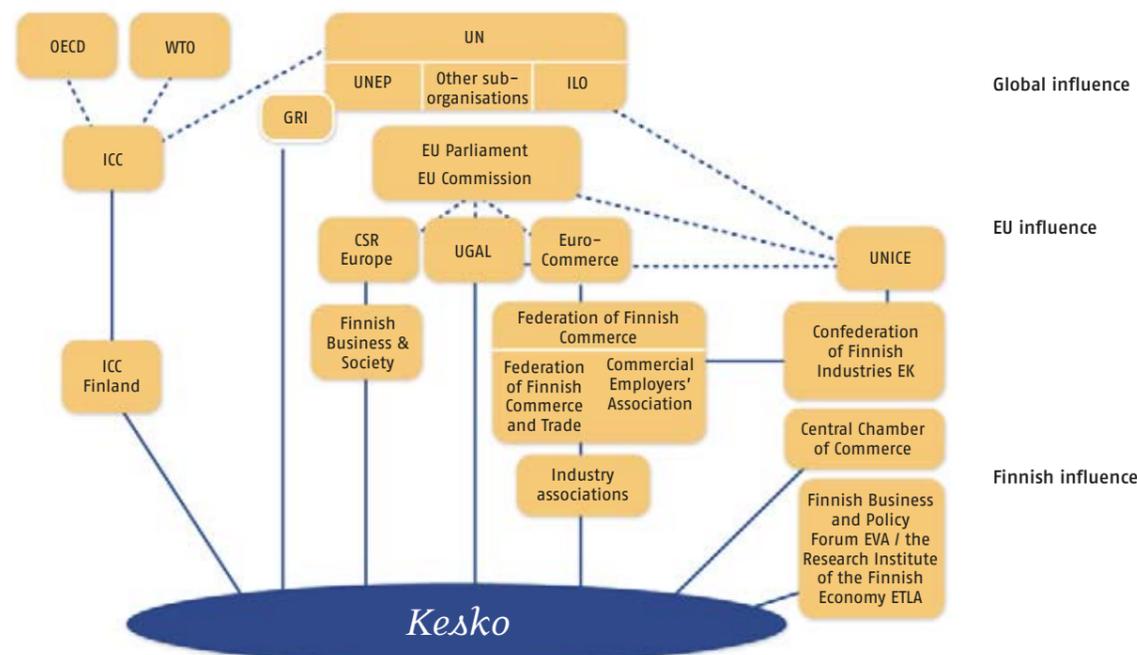
Participation in national and international efforts to develop the trading sector and the economy as a whole forms part of corporate responsibility. Kesko has been involved in these types of efforts through numerous national and international organisations and groups for decades. In 2005, these included:

- Confederation of Finnish Industries EK (Vice Chairman)
- Central Chamber of Commerce (Board member, Chairman of the Social Responsibility in Importing network)
- Federation of Finnish Commerce (Board member)

- Association for Finnish Work (Board member)
- Finfood (Chairman)
- Finnish Business & Society network (Board member)
- EuroCommerce, the retail, wholesale and international trade representation to the EU (environmental committee and CSR experts)
- UGAL, EU organisation of groups of independent retailers (Vice Chairman, member of the team of legal experts)
- Business Social Compliance Initiative BSCI (Board member)
- International Chamber of Commerce ICC (members of the environmental committee and corporate responsibility committee, National Committee of Finland: Board member)
- CIES - The Food Business Forum (members of the Supply Chain Management, Food Safety and Food Business in Society programmes).

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

Kesko's key channels of influence



Case

GETTING NOISE POLLUTION UNDER CONTROL AT A LOGISTICS TERMINAL

The logistics terminal in question is located at Hakkila in Vantaa and handles pallets, skips, and boxes that are returned for reuse, together with materials destined for recycling, such as cans and board. Handling this type of material is an integral part of efficient retail logistics today, and part of Kesko's commitment to environmental responsibility. The volumes of items for reuse or recycling processed annually by Kesko nationally in Finland are considerable. Some 33 million cans were recycled in 2005, for example, and over five million Transbox crates.

Material from across southern Finland is handled at the Hakkila Return Logistics Terminal, which separates and grades it into separate streams and forwards it on to recycling companies. Commissioned in summer 2005, the terminal deals only with material for recycling and reuse from retail stores and hotels, restaurants, and institutional kitchens.

Although carrying out a very necessary function in terms of efficient recycling and reuse, a terminal such as this inevitably generates noise pollution as a result of truck traffic, loading and unloading, and separating operations. Housing on the site has been demolished and a number of changes made to the existing structures for Kesko's recycling operations. The building permit for these changes was applied for by the previous owner of the site, which meant that its future use as a returns terminal by Kesko, and the nature of this operation, were not fully appreciated by nearby residents. As the original permit application described the building as a warehouse – with repair, garage, storage, and office space – the use it is now put to was seen as a major change of usage by residents, who demanded that operations should be ended because of the noise nuisance in August 2005.

To reduce the level of noise, Kesko applied for a permit to build new loading and unloading docks, and transfer board baling equipment to the other side of the building. The plan was also to shift night-time operations in their entirety from the Vanha Porvoontie side of the site, closest to residents, to an inner part of the site. The permit for these changes was granted and work on the modifications was started at the end of 2005. Local residents appealed the permit, but this was rejected by the Vantaa city authorities on 28 February 2006.

Kesko had already introduced measures designed to reduce noise levels, particularly at night, during the summer and autumn of 2005 prior to starting on these structural changes. These included barring heavy vehicles from the gates on Vanha Porvoontie at night and redirecting traffic through Central Warehouse 2. Night-time operations have also been curtailed, by banning the use of forklift trucks in open areas, concentrating pallet deliveries to stores between 6 in the morning and 10 at night, and by allowing vehicles picking up glass for recycling to come on site only after midday. Additional sound insulation has also been added to the floors and walls of the terminal. Unfortunately, it has proved impossible to observe all the new guidelines, and some element of night-time noise remains.

On the basis of noise level measurements and modelling work, Kesko believes that, following the completion of the measures listed in the company's permit, the noise level resulting from the operations of the returns terminal and its impact on the nearby residential area will be below guideline levels.



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

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

Values

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

A survey of employees' views of the importance of Kesko's values and how they are reflected in operations was conducted in the Group's Finnish units in late 2003. This indicated that Kesko employees feel

that all four values are important and have been well implemented. A good working environment was seen as the most important single value, and employees said that it was also the one in respect of which there is still the most improvement to be made. Corporate responsibility is considered the value best reflected in operations, but is seen as the least important of the four. The plan is to repeat the survey in Finland in autumn 2006, and conduct a corresponding survey for the first time in subsidiaries outside Finland and in K-stores.

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

Ethical principles – 'Our working practices'

Kesko's ethical principles covering its personnel – 'Our Working Practices' – have

been in use since 1999, and were revised in 2002 to reflect the Group's new values. An 'Our Working Practices' booklet provides detailed guidance on practical matters related to working in accordance with our values. The guide has been translated into Swedish, Estonian, Latvian, Lithuanian, Russian, and English. Separate training material has been developed to support the adoption of the Group's ethical principles and values. K-retailers have also adopted the same values and principles. We plan to conduct an assessment of how well these principles are recognised in connection with the above value survey in autumn 2006.

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

Goals

The Group's goals guide how the goals and objectives for its divisions and chains are set and how strategies are implemented.

Corporate responsibility forms part of excellent practices, and other goals supporting responsible activities include exceeding customers' expectations, developing best practices in the sector, and management by values.

Strategy

Information about Kesko's strategy can be found in the company's Annual Report, which can be consulted online at www.kesko.fi (Investors).

Corporate responsibility is reflected in the development of leadership, competencies, the store network, business operating systems, chain concepts, and brands. Kesko aims at controlled growth and offering investors a steadily growing return. A systematic approach to risk management and diversified operations provide a good foundation for a stable cash flow and solid earnings- and dividend-generating capacity. Good financial management has also contributed to responsible operations in environmental and social issues. Kesko has been, and intends to continue to be, a pioneer in the trading sector in corporate responsibility, something that has been reflected in 'the best in the sector' rating received in the Dow Jones Sustainability Indexes.

Corporate policies

Above and beyond the Group's strategy and management system, Kesko's corporate policies guide planning and operations at all business levels. They cover

administration, human resources, environmental issues, communications, financial management, real estate, financing, security, and risk management. Kesko's values-driven approach to corporate responsibility is included in our corporate policies and principles, particularly in respect of administration, human resource, and environmental policies.

Corporate Governance Statement and organisation

Kesko's Corporate Governance Statement is updated regularly, and can be consulted at www.kesko.fi (Investors) and in the Annual Report for 2005. The most recent update was made on the basis of the Corporate Governance Recommendation for Listed Companies issued in summer 2004.

Since the 2005 Annual General Meeting, Kesko Corporation's Board of Directors has consisted of seven members, elected for three-year terms rather than the recommended one-year term of office. Four members were independent of the company. The term of all present members will expire at the close of the 2006 Annual General Meeting.

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

The Kesko Group has a Corporate Management Board, the Chairman of which is Kesko's President and CEO. Its members comprise the Corporate Executive Vice President, Deputy to the President and CEO; the Presidents of the major division parent companies; and the Senior Vice Presidents responsible for Finance, Human Resources and Corporate Communications. The Corporate Management Board has no authority based on legislation or the company's Articles of Association. It acts as an advisory body appointed by Kesko's President and CEO, which is responsible for dealing with Group-wide development projects and Group-level principles and practices. The Corporate Management Board also participates in the preparation of matters that are considered by Kesko Corporation's Board of Directors.

The Corporate Responsibility Unit, responsible for the development and coordination of corporate responsibility at Group level, was organised under Corporate Development, headed by the Corporate Executive Vice President, Deputy to the President and CEO from 1 April 2005. In January 2006, the Corporate Management Board established a Corporate Responsibility Steering Group, comprising seven members drawn from Kesko's management, representing different areas of corporate responsibility (representatives of Kesko Food, Rautakesko, Kesko Agro, Keswell, Human Resources, Real Estate Services, and Corporate Communications). The responsibilities of the group,

Kesko's values



Goals



chaired by the Corporate Executive Vice President, include outlining stakeholders' expectations concerning Kesko's corporate responsibility, defining the strategy for responsibility, agreeing on the operating principles and systems required for their implementation, and monitoring the implementation of decisions in the Group's various unit. The group's work will start in spring 2006, with the discussion and implementation of Kesko's corporate responsibility development programme for 2006-2008.

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

Management systems

Kesko's management system is used to plan and manage the Group's operations to ensure that its goals are attained. The system highlights the importance of prioritising customer orientation, people management, promoting participation and cooperation, greater efficiency, and developing competitiveness and economic value added. Corporate responsibility is not treated as a separate issue in management terms, rather all plans and activities related to it are included in the different

stages of the management system in the same way as all other operations.

Kesko's management system includes quality evaluation, which is carried out by units in the form of annual self-assessment, based on the criteria of the Finnish Quality Award. A competition for the Group's internal quality prize is arranged every second year, and the 'Quality Action of the Year' competition annually. The quality actions recognised in 2005 were Anttila Oy's 'Best Service' concept, Keswell Ltd's IT news flash campaign, and Kesko Food Ltd's Logistics' H.Y.M.Y. programme. K-supermarket Länsitori in Tampere was the winner in the small enterprises and business units category in the 2005 Finnish Quality Award competition.

Kesko Food is gradually adopting a quality system based on the EFQM / ISO 9000 standard. It was expected that the system, documented in Kesko Food's intranet, would have been largely completed in 2005, but updating resulting from organisational changes in Kesko Food has slowed down progress. The quality control of groceries and some home and speciality goods for which Kesko Food's Product Research Unit is responsible is based on an ISO 9000 quality system and a self-control system approved by the authorities. Kesko Ltd has a certified ISO quality system.

An environmental management system complying with the ISO 14001 standard has been adopted in all Kesko units that impact the environment to a significant extent. Environmental management in K-stores is based on the K-environmental store concept. Compliance with the latter is monitored through independent audits. More information about certifications within the system is given on page 31, and about K-environmental stores on page 43. Kesko's environmental policy can be consulted at www.kesko.fi (Responsibility). In its environmental policy, Kesko has committed itself to the Business Charter for Sustainable Development published by the International Chamber of Commerce ICC.

Quality control in respect of purchasing, particularly that with a risk component, such as imports from developing countries, is carried out in compliance with the principles of the European Business Social Compliance Initiative and the international Social Accountability SA 8000 standard. More information about social quality control/accountability can be found beginning on page 56, and information on the principles followed in imports from developing countries can be found at www.kesko.fi (Responsibility/Purchasing principles).

Reporting

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

Progress made in the areas of environmental and social responsibility also has a financial impact. Successful environmental activities usually mean cost savings in a company like Kesko. However, Kesko considers that recommendations concerning environmental accounting are still relatively imprecise, and has not started monitoring environmen-

tal income, costs, and investments in this way.

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

Online information collection and reporting system

Kesko and the Finnish division parent companies adopted an online system for collecting information and reporting on corporate responsibility in 2005. The system has been designed to improve the efficiency and systematic nature of collecting information on corporate responsibility and reporting processes, and enable the more efficient use of responsibility performance indicators in monitoring day-to-day operations and Kesko's management system.

The system consists of a data collection module, based on Kesko's organisational structure, and separate reporting and analysis tools. The system collects

and combines responsibility data from various organisational levels and from separately specified source systems in a form required by GRI guidelines. The system has been tailored for Kesko's operating sector environment - the indicator of materials use, for instance, complies with the reporting requirements of the packaging waste directive. The calculation of emissions from energy consumption and transportation has also been automated in the system.

The most important separate source system to be integrated into the reporting system was EnerKey, a web-based consumption monitoring system supplied by Energiakolmio Oy (more information on page 34). This has enabled consumption and area information on approximately 600 properties owned or leased by Kesko to be automatically transferred monthly to the corporate responsibility reporting system, thereby making more detailed monitoring of chain-specific consumption and targets possible. In respect of other important source systems, such as waste and personnel information, the objective is to integrate them by the end of 2006.



Economic performance

Key economic performance in 2005



- Profit remained at the high level recorded in 2004.
- Market capitalisation increased by one third.
- Investments reached an all-time high.
- Kesko was chosen as the best in its sector in the Dow Jones Sustainability Indexes.
- Kesko was listed among the 100 best companies in the world in terms of sustainable development.
- Kesko Food was ranked the best food retailer in the world in the Innovest sustainability analysis.
- Employee numbers increased in Finland and other countries.
- Purchases from Finnish and foreign suppliers increased.
- Kesko had 11,000 suppliers of goods and services in Finland and 8,000 in other operating countries.
- Number of K-food stores dropped by 43.
- Proportion of small stores in the K-food business continued to decrease.
- Proportion of domestic purchases in Pirkka product sales decreased from 68.3% to 62.5%.
- Kesko's support for the public good was 7% below 2004.

Introduction

Indicators of economic responsibility in compliance with the GRI recommendation are generally also included in the company's financial statements. The analysis of economic responsibility presented here complements analysis elsewhere by showing how the economic benefits generated by Kesko are divided between its stakeholders.

Purchases from goods and services providers account for the majority of the economic benefits generated by the operations of Kesko and K-retailers, while salaries paid to company personnel also account for a significant proportion. Kesko's purchases are divided into domestic and import purchases in all the Group's operating countries - as difficult as making such a breakdown today is - and benefits generated in Finland are also broken down by region. Statistics on retail service coverage reflect the migration of population that has taken place within the country in recent years and how Kesko's store network has adapted to this change. Kesko's operations outside Finland have also grown to such an extent that it has become possible to describe the economic benefits they generate as well.

Share performance

Kesko has been listed on the Helsinki Stock Exchange since 1960, when its B shares were listed. Kesko's A share was listed in 1999. The share series differ from each other only as to the votes they entitle to. A shares entitle the holder to 10 votes each and B shares to one vote. Nearly all trading on the Stock Exchange takes place in B shares. In recent years, the difference in share prices has evened out and the premium generated by the additional votes of A shares has nearly disappeared.

Kesko's two share option schemes for management, dating from 2000 and 2003, have increased the company's share capital and number of shares. Before the schemes, the share capital was €180.4 million and the total number of shares, 90,213,400. Assuming that all the share options are exercised by the end of the subscription periods in 2010, the total number of shares will increase by 7,640,000, representing 7.74% of the company's share capital and 1.99% of votes.

At the end of 2005, A shares accounted for 32.9% of all shares, entitling holders to 83.1% of votes. The corresponding percentages for B shares were 67.1% and 16.9%.

Broad shareholder base

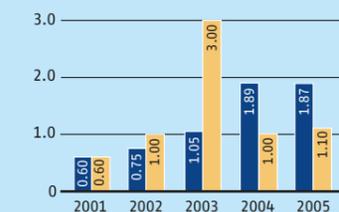
The number of Kesko's shareholders has increased steadily since 2000. However,

the rate of growth levelled out in 2005, and Kesko had 29,339 shareholders at the end of the year, compared to 29,801 in 2004.

The proportion of non-Finnish shareholders continued to increase, accounting for 27% of the total share capital (23% in 2004) and 40% of B shares (35% in 2004) at the end of the year. Non-Finnish owners were the largest shareholder category in B shares. Finnish households accounted for over 28% of the total, unchanged from previous years. K-retailers and other private companies continue to represent around a quarter of shareholders.

The Kesko Pension Fund, Vähittäiskaupan Takaus Oy, and the K-Retailers' Association, all closely linked to Kesko, which now hold 3-4% of all shares and 7-9% of votes each, have been major shareholders for many years. Insurance companies, banks, and other similar institutional investors have also been Kesko shareholders for decades. According to the international Investor Relations Global Limited (IRG) shareholder register, Kesko had over 160 Finnish and overseas institutional shareholders, accounting for approximately 30% of B shares, at the end of 2005. These institutions administer around 550 investment funds that have invested in Kesko's shares. Approximately 40 of these funds were Finnish, and the remaining over 500 are based

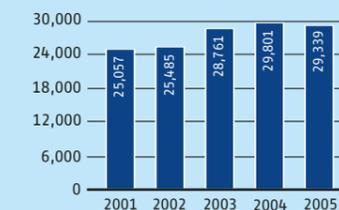
Earnings per share and dividend per share, €



● Earnings per share ● Dividend per share

The dividend is paid in the spring from the profit recorded for the preceding financial year. The figures for 2004 and 2005 are based on IFRS accounting, and the figures for the previous years on FAS standards.

Number of shareholders at year-end



Profitability of operations

	2003		2004		2005	
	FAS	+/- %	IFRS	+/- %	IFRS	+/- %
Net sales, € million	7,070	9.3	7,509	6.2	8,322	10.8
Gross margin, %	12.8		13.3		14.2	
Profit before taxes, € million	162	47.3	241	39.3	239	-1.1
Profit before taxes, %	2.3		3.2		2.9	
ROI (return on invested capital), %	10.9		14.3		12.5	

Divisional net sales by market area in 2005, € million

	Finland	Baltic countries	Other	
			Nordic countries	Other countries
Kesko Food	3,417	405	-	8
Rautakesko	780	393	395	42
Kesko Agro	672	170	57	41
Keswell	934	26	11	4
VV-Auto	675	4	1	9
Kaukomarkkinat	192	21	25	52
Total	6,670	1,019	489	156
Total, %	80%	12%	6%	2%

The figures include €12 million of the Group's internal business that have been eliminated in the financial statements.

KESKO IN SUSTAINABILITY INDEXES

Dow Jones Sustainability Index

The DJSI World Index lists more than 300 companies (the top 10% in the DJ World Index), and the pan-European index 155 companies (the top 20% in the DJ STOXX 600 Index). Reviews are carried out by SAM Group of Switzerland and cover all areas of corporate responsibility. Kesko was rated the best in the retailing sector, both in Europe and the world, in the 2006 indexes.

Nordic Sustainability Index

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

Kempen/SNS Smaller Europe SRI Index

This index is an initiative of two Dutch investment companies, Kempen Capital Management and SNS Asset Management, and is designed for companies with a market value of under €2 billion. The 2003 index listed 69 companies from 12 countries out of a potential total of 1,700 companies. The assessment was repeated in autumn 2005.

Storebrand SRI

The Norwegian banking group Storebrand has surveyed 86 trading sector companies and selected the 30 best performers

in the area of environmental and social responsibility for its funds. Kesko was ranked first in Storebrand SRI's overall assessment and in terms of environmental responsibility, and second in terms of social responsibility in spring 2003. The assessment has not been repeated.

Ethibel Investment Register

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

The Global 100 Most Sustainable Corporations

'The Global 100 Most Sustainable Corporations' list has been launched during the World Economic Forum in Davos in January 2005 and 2006. In both years, Kesko has been included in the list drawn up by Innovest Strategic Value Advisors Inc. on the basis of performance in existing leading sustainability indexes. In addition to economic, environmental, and social responsibility, Innovest's evaluation highlighted companies' ability to link these issues to their corporate strategies as factors contributing to profitability and added value.



elsewhere, including some 200 German funds.

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

High long-term dividend yield

Kesko has generated profits and paid dividends every year since it was founded in 1941, with the exception of 1967. For the past 10 years, the annual yield (dividend and appreciation, dividends reinvested) of Kesko's B shares has averaged 21%, and 34% for the past five years.

The dividend yield for the past five years has averaged 10.1%. Under its dividend policy, established in 2005, Kesko distributes at least half of its earnings per share as dividends, taking however the company's financial position and operating strategy into account. This has

been clearly exceeded during the past five years, and average dividends have been 141% of earnings per share.

Kesko's share price performance has clearly exceeded the trends on the Helsinki Stock Exchange's OMX Helsinki All Share and weighted OMX Helsinki CAP Indexes over the past five years. The price of Kesko's B share has more than doubled since the beginning of 2001. This clear upward trend continued in 2005, with the A share appreciating by 28% and the B share by 33%. The OMX Helsinki All Share Index rose by 31% and the OMX Helsinki CAP Index by 30% over the same period.

Kesko's market value has grown considerably during the past three years, following modest development during the first years of the new millennium. The company's market capitalisation has nearly doubled since 2002, and reached

some €2.3 billion at the end of 2005. A shares accounted for €770 million of this total, and B shares for €1,550 million.

Impartial investor communications

In line with its IR strategy, Kesko continually produces accurate and up-to-date information for the markets as a basis for valuing Kesko's share price. The aim is to make Kesko's activities better known and to increase the transparency of investor information, and the attraction of Kesko as an investment.

Kesko follows the principle of impartiality in its investor communications and publishes all investor information primarily on its Internet pages in Finnish, Swedish, and English (www.kesko.fi). Kesko's web pages have been ranked the best online pages for investors in Finland in the competition organised by the Finnish Foundation for Share Promotion, the

Finnish Society for Financial Analysts, and Talouselämä magazine in 2002 and 2003, and the second best in 1999, 2001, 2004, and 2005.

Kesko publishes its printed Annual Report in Finnish, Swedish, and English. The annual financial statements release and three Interim Reports are produced as special sections of the TradeMaker stakeholder magazine, which is mailed to all shareholders. In addition, the company maintains a mailing list of other recipients of the Annual Report and TradeMaker. Kesko's financial communications were ranked the second best in the 2005 Company Disclosure and Financial Reports competition organised by the Helsinki Stock Exchange and Finland's leading daily, Helsingin Sanomat. Kesko has been among the top three every year since 2002.

Meeting investors

Kesko arranged press conferences for the media and analysts when announcing its 2004 results and its three interim results in 2005. The conferences were webcast in Finnish and English via the Internet. Capital Market Days were arranged in April and November to provide background information for analysts.

Kesko participated in the Sijoitus-Invest Fair in Helsinki in the autumn, where about 1,800 investors visited Kesko's stand. Kesko also participated in events organised by the Finnish Foundation for Share Promotion and Arvopaperi magazine in eight Finnish cities, attracting over 1,000 private investors. Road show visits, extending over 11 days in all, were made to the United States, Canada, Britain, Ireland, France, Holland, Norway, and Sweden.

Kesko observes a two-week silent period before publishing information on its

Investments and assets

	2003	2004	2005
	FAS	IFRS	IFRS
Investments, € million	259	192	454
Investments, % of net sales	3.7	2.6	5.4
Equity ratio, %	51.7	44.2	42.3
Debt to equity ratio, %	48.3	55.8	57.7
Gearing ratio, %	16.2	37.0	42.4

results. Outside these periods, analysts' and investors' questions are answered by telephone, e-mail, and at investor meetings.

In the vanguard of sustainable companies

Kesko has been ranked among the top sustainable companies in several international comparisons in recent years - and was rated the best company in the retailing sector in the Dow Jones Sustainability Indexes for the entire world and for Europe in 2005. Kesko's key rankings can be found in the box on page 20.

Investments and the store network

Kesko's total investments in 2005 reached an all-time high of €454 million, equivalent to 5.4% of net sales (2.6% in 2004). Finnish investments accounted for €183 million, and those in other countries for €271 million or 59.7%. Investments in store sites totalled €141 million, and in business acquisitions €261 million. Business acquisitions included Indoor Group Ltd (the Asko and Sotka chains) in Finland, Rimi Baltic AB (merging Kesko Food's and ICA's Baltic operations on a 50/50 basis) in the Baltic countries, Norgros AS (the Byggmakker chain) in Norway, and the Stroymaster DIY chain in Russia. Other investments totalled €52 million.

Kesko's investments have a positive financial impact on construction companies, service companies in the construction sector, and suppliers of fixtures, equipment, and information systems. Investments in Finland are included in the 'Breakdown of economic benefits' on page 25.

New stores and changes

Two new K-citymarkets (Raahe and Nokia) and four K-supermarkets (Oulunsalo, Runosmäki in Turku, and Kamppi and Lauttasaari in Helsinki) were opened in Finland in 2005. A total of 63 stores changed type as part of the chain reform, and 14 Cassa stores were opened to further test the discounter concept. Kesko Food Ltd acquired Neste Marketing Ltd's 50% holding in Pikoil Oy, becoming the sole owner of the company in November. Pikoil had 55 Neste K-pikkolo and 48 Neste Quick Shop service stations and 27 Neste Motorest restaurants as of the end of the year.

In the home and speciality goods sector, the most important store site investments took place in the Greater Helsinki area. New Asko and Sotka stores were opened in Lommila, Espoo and Roihupelto, Helsinki. An Anttila department store, an Intersport Megastore, a K-kenkä shoe store, and a Musta Pörssi store were opened in the Sello shopping centre in

Number of K-food stores in Finnish municipalities

K-food stores	Municipalities			% of all municipalities		
	2003	2004	2005	2003	2004	2005
10 or more	13	12	11	2.9	2.7	2.5
7-9	14	10	12	3.1	2.3	2.8
5-6	26	20	15	5.8	4.5	3.5
3-4	70	72	74	15.7	16.2	17.1
2	106	94	95	23.8	21.2	22.0
1	162	177	169	36.3	39.9	39.1
none	55	59	56	12.3	13.3	13.0
Municipalities in all	446	444	432	100.0	100.0	100.0

Leppävaara, Espoo; and an Anttila department store and a Musta Pörssi store in Kamppi, Helsinki.

Number of K-food stores increased slightly

At the end of 2005, the number of K-food stores totalled 1,041 outlets, which was 43 less than in 2004. 475 (549) of these were small units (K-extras, K-pikkolos, and others). The number of K-markets increased by 32.

K-food stores were located in 376 of Finland's 432 municipalities. 44.7% of all Finns as of the end of 2005 lived less than one kilometre from the nearest K-food store. The accompanying table illustrates the density of the K-food store network. With the exception of the Åland Islands, the average distance has increased compared to 2000, but the changes have been small between 2003 and 2005. Distances have decreased slightly in the provinces of Western Finland and Lapland.

Large outlets - or K-citymarkets - accounted for 36.2% (35.3% in 2004) of the sales of K-food stores in Finland.

The number of K-specialty stores increased by 80 on 2004 to 748. This was virtually entirely the result of the transfer of the Asko and Sotka chains to Kesko ownership in January 2005. The total number of K-stores in Finland grew by 37 compared to 2004.

Big changes outside Finland

Rimi Baltic AB, a joint venture between Kesko Food Ltd and ICA AB, began operations at the beginning of 2005. Rimi Baltic has subsidiaries in Estonia, Latvia, and Lithuania, and operates a total of 177 hypermarket, supermarket, and discounter stores. In 2004, Kesko Food had 84 stores in the Baltic countries. The

sales of Rimi Baltic AB totalled €808 million in 2005, and staff averaged 8,208. In line with the 50/50 ownership structure of the company, half of these figures are booked in Kesko's accounts.

Rautakesko has 14 K-rauta stores in Sweden, four stores in Estonia, and three stores in Latvia. Senukai, which is majority-owned by Rautakesko, has 13 Senukai stores and 76 partnerships in Lithuania. The Byggmakker chain of Norgros AS in Norway, acquired in July 2005, consists of 20 company stores and 113 retailer entrepreneurs operating under the company's chain agreement.

In July, Kesko also acquired the Stroy-master chain, which consists of five hardware and builders' supplies stores in the St. Petersburg area.

These acquisitions increased the net sales of Rautakesko's foreign subsidiaries by 98%, and their proportion of Rautakesko Group's overall net sales to 52%.

Kesko Agro had 12 stores in the Baltic countries, one less than in 2004.

Job development

The number of jobs in the Kesko Group continued to increase in 2005, both in Finland and elsewhere.

The average number of Kesko Group employees, converted into full-time employees, totalled 21,603, an increase of 4,075 on 2004. 50% of the employees of Rimi Baltic AB, or 4,104, are included in Kesko's figures.

Employee numbers increased by 945 in Finland, of which 690 resulted from the acquisition of Indoor Group and approximately 100 from the expansion of VV-Auto's retail sales.

In other countries, the start-up of Rimi Baltic AB increased the average number

of Kesko Food's employees by 1,800. Rautakesko's personnel increased by 1,400: 761 in Lithuania, 258 in Norway due to the acquisition of Norgros AS, and 93 in Russia due to the acquisition of Stroymaster.

Kesko had 26,978 employment contracts at the end of 2005, of which 14,707 were in Finland and 12,271 elsewhere. This represented an increase of 4,832 employees in all, 1,105 in Finland and 3,727 elsewhere.

Kesko Food started rationalisation negotiations with employees in the spring and launched other measures aimed at enhancing operations in Finland, aimed at generating annual savings of approximately €20 million. These negotiations led to a reduction in personnel numbers of nearly 80, through early retirement and other arrangements. In addition, 73 employees had to be made redundant. No corresponding reductions took place in other units.

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

K-retailers employed about 23,000 people in all, including retailers themselves. As there are one or more K-stores in nearly every Finnish municipality, and Kesko has premises in more than 60 municipalities, the nearly 38,000 jobs offered by the K-Alliance make an important contribution to the economy across Finland. Including Rimi Baltic AB, the Kesko Group is the largest foreign employer in the Baltic countries.

Salaries, social security expenses, and taxes

Kesko Group salaries recognised in the income statement totalled €419 million in

2005, pension expenses €39 million, and other social security expenses €39 million. Operations outside Finland accounted for €94 million of total salaries. Share options recognised as expenses totalled €3.1 million.

Income tax paid by the Group as a whole totalled €49 million, of which €3 million was paid outside Finland. Real estate taxes paid to 118 municipalities in Finland totalled €3.2 million, compared to €0.2 million in other countries.

K-retailers paid €253 million in salaries and €36 million in taxes. These figures include K-retailers, whose bookkeeping and salaries are handled by Vähittäiskaupan Tilipalvelu VTP Oy, and which are estimated to account for between 80% and 85% of the total business volume of K-retailers. Statistics do not show the taxes paid on salaries drawn by K-retailers themselves. As a result, the combined tax data on K-retailers should be considered as essentially illustrative.

Employee pension and health insurance

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

Act, such as an early retirement pension for production-related reasons.

The Pension Fund covered 3,881 employees of the Kesko Group and related corporations at the end of 2005 (4,145 at the end of 2004), with Department A covering 976 (1,105) of the total. In 2005, the Kesko Pension Fund paid €49.6 million (€47.2 million) in pensions to 3,284 people (3,129). Details on the retirement age of employees and other statistics are pre-

sented on page 53 under 'Social responsibility'.

The Kesko Sickness Fund provides statutory sickness insurance for the employees of the Kesko Group and related corporations, and covers about 10,900 employees. Sickness insurance contributions paid by the Sickness Fund totalled €8.2 million in 2005 (€7.7 million in 2004).

Subsidiaries outside Finland arrange their own employee pension and health

Personnel expenses, € million

	2003 FAS	2004 IFRS	2005 IFRS
Salaries and fees	316	353	419
of which profit bonuses *)	10.0	5.5	5.5
Social security expenses			
pension expenses	43	5	39
other social security expenses	32	36	39
Share options granted	-	1.9	3.1

*) paid for the financial year in 2003 and 2004, and in the financial year since 2005

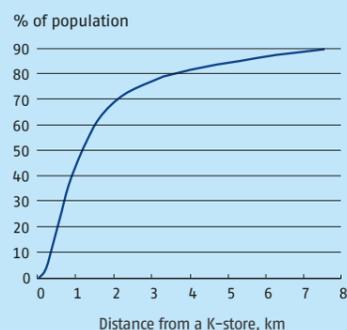
Taxes, € million

	2003 FAS	2004 IFRS	2005 IFRS
Income taxes paid in Finland	54.7	43.5	46.4
Income taxes paid in other countries	2.8	3.1	3.0
Real estate taxes paid in Finland	2.5	3.2	3.4

Labour productivity, € 1,000

	2003 FAS	2004 IFRS	2005 IFRS
Average net sales per employee			
Finland	635	638	592
the other Nordic countries	226	295	506
the Baltic countries	134	132	112
entire Group	465	428	385
Profit before non-recurring items per employee	10.6	11.6	9.8

Distance of population from a K-food store in Finland



Inhabitants living less than one kilometre from a K-food store, %

	2000	2003	2005
Province of Southern Finland	56.4	54.9	54.2
Province of Åland	49.8	48.1	50.2
Province of Western Finland	41.3	37.6	37.7
Province of Eastern Finland	43.6	42.6	41.7
Province of Oulu	41.1	38.7	37.4
Province of Lapland	35.0	32.5	33.0
Whole Finland	47.3	45.3	44.7

Source: Statistics Finland, Square Database 2005. Population structure 31.12.2004 (population by statistical square of 250 m x 250 m). Kesko Food Ltd: K-food stores operating in 2005 (located according to Genimap Oy's Roads of Finland, as the crow flies distance from each square to the nearest K-food store)

Kesko Group's purchases by country in 2005

	Number of suppliers in the country	Purchases from these		Number of suppliers in other countries	Purchases from these	
		€ million	%		€ million	%
Finland	11,028	4,718	81.3	3,760	1,086	18.7
Sweden	559	76	76.0	87	24	24.0
Norway	258	232	98.3	45	4	1.7
Estonia	1,441	183	75.3	368	60	24.7
Latvia	2,188	193	79.8	473	49	20.2
Lithuania	2,975	193	49.2	939	199	50.8
Russia	363	35	92.1	6	3	7.9
Total	18,812	5,630	79.8	5,678	1,425	20.2

Case

FINNISH K-CITYMARKET CAMPAIGN REFLECTED IN CONSUMER ATTITUDES

Products from both small, local suppliers and national manufacturers across Finland were highlighted at K-citymarkets between 29 September and 8 October 2005. The campaign was designed to focus on the benefits of choosing Finnish products in encouraging employment, and was carried out in cooperation with various organisations dedicated to promoting Finnish food and domestic producers.

Some 40 national suppliers and around 450 small and medium-sized companies took part in the campaign. These held product demonstrations and tastings, and provided customers with information about natural Finnish products and farm tourism services.

The campaign was prominently promoted in the media: through a four-page colour insert placed in the country's national daily, Helsingin Sanomat, and regional papers, and through TV spots. Campaign products were highlighted with special shelf labelling. Stores also featured special posters and materials at check-outs to attract customers' interest.

The campaign had a significant impact on consumer attitudes, according to a subsequent study commissioned from Taloustutkimus Oy. This showed that while 15% of consumers said they consciously increased their purchases of Finnish products prior to the campaign, this figure had risen to 26% following the campaign. In the case of those deciding everyday food and non-food purchases, this figure went from 16% to 29%.

The most common reasons given by respondents for increasing their purchases of Finnish products included supporting Finnish employment or businesses (34%), reliability and safety (30%), a desire to favour buying Finnish (28%), and quality and freshness (27%). A total of 1,173 people aged over 15 were interviewed prior to the campaign, and 502 people afterwards.

An extensive network of organisations were involved in addition to the K-city-market chain, including Finfood, the Association for Finnish Work, the Finnish Horticultural Products Society, the Central Union of Agricultural Producers and Forest Owners, Arctic Flavours, Pro Agria, and Laatuketju. The campaign material prominently featured the well-known logos of many of these organisations and their various initiatives.

Finnish products were the theme of a promotion in K-citymarkets in autumn 2005. Karri Himberg, Store Manager of K-citymarket Jumbo, can be seen here arranging a display of campaign products.



insurance cover, within the context of local legislation and practice.

Suppliers of goods and services

Kesko had about 25,000 suppliers providing goods and services valued in excess of €1,000 in 2005. Approximately 11,000 of these operate in Finland, about 8,000 in the Group's other operating countries, and about 6,000 elsewhere.

Kesko's purchases of goods and services totalled €7.1 billion in 2005, of which suppliers operating in Finland accounted for 66.4% or €4.7 billion. Purchases from other Kesko operating countries accounted for 13.0% or €920 million, and those from other

countries for 20.6% or €1,460 million. The details behind these figures by country are shown in the table on page 23.

Kesko's 10 largest suppliers accounted for 22.9% of the Group's purchases (23.1% in 2004), and its 100 largest suppliers for 48.9% of purchases (52.2%). Of the 10 largest suppliers, eight were Finnish food manufacturers and two were German car manufacturers. Kesko's 100 largest suppliers included 11 suppliers from outside Finland.

Kesko's Finnish companies made 81.3% of their purchases from suppliers operating in Finland. Importers accounted for 15.7% of these purchases. This calculation is based on a list of suppliers covering 81% of purchases, and on the assumption that the proportion of imports is similar in the remaining 19%. When Kesko's own direct imports of €1,086 million and purchases of €741 million from importers operating in Finland are combined, the total value of imports in Kesko's Finnish operations comes to €1,827 million, or 31.5%, while the value of domestic purchases totals €3,977 million, or 68.5%. These figures should be considered as only indicative, as statistics are available for companies rather than products.

Pirkka products of domestic origin

Product group	Proportion of domestic products, %
Fruit and vegetables	68.3
vegetables and root crops	74.2
fruit and berries	9.1
Perishables	76.2
meat	94.0
ready-to-eat foods	89.5
fresh bread	59.1
fish	47.7
Processed perishables	52.5
milk products	92.3
ice cream	67.7
frozen foods	40.5
edible fats	28.6
Processed foods	28.8
baby foods and drinks	100.0
crisp bread and rusks	60.0
biscuits	39.3
canned foods	23.2
pet foods	9.4
Beverages and confectionary	56.2
soft drinks	100.0
juices	82.1
confectionary	46.2
snack products	33.3
Non-food items	44.4
tissue paper	77.8
tableware	76.7
washing and cleaning	24.4
personal hygiene and care	11.7
Home and speciality goods	34.6
children's clothing	100.0
books and stationery	45.0
cleaning and home care	31.3
lamps and electrical supplies	0.0
Total	48.5
Total % of combined sales	62.5

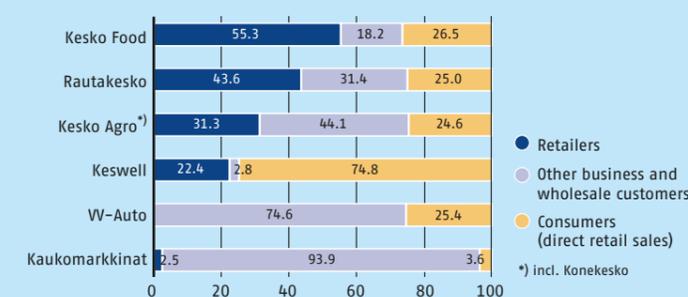
Kesko had 1,484 private label Pirkka products as of the end of the year, following the introduction of 229 new products. 48.4% of Pirkka products were manufactured in Finland, and their sales accounted for 62.5% of total Pirkka sales. The table on page 24 gives some examples of the proportion of Finnish products in different categories.

Kesko Food had 332 Euro Shopper products sourced through the European AMS alliance in its selection, 21% of which were manufactured in Finland.

Breakdown of economic benefits

The operations of Kesko and K-retailers benefit their personnel, shareholders, partners, and employees, as well as municipalities and states. The graph and map below show how these benefits are divided by stakeholder group and market area (Finland, the other Nordic countries, the Baltic countries, and Northwest Russia). It is not possible to show the breakdown of dividends paid in the same way, beyond stating that non-Finnish investors held 27% of Kesko's shares at the end of 2005.

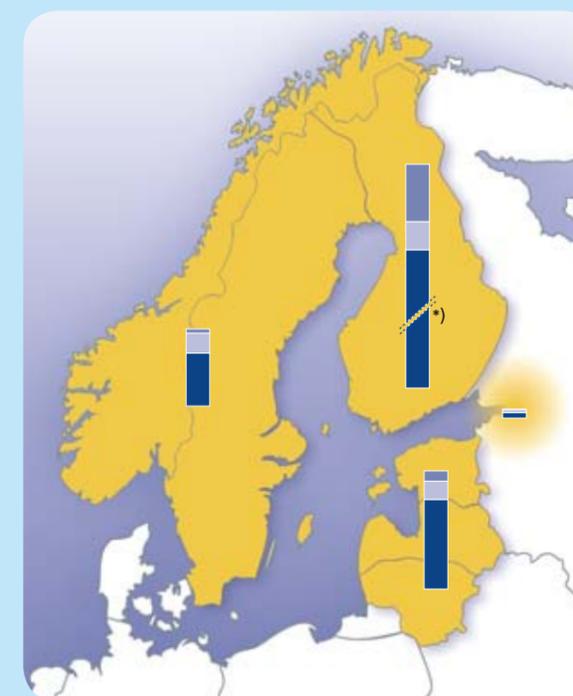
Breakdown of the Kesko Group's net sales in 2005, %



Breakdown of economic benefits by market area, € million

Market Area	Salaries and taxes			Total
	Purchases	Investments	Salaries and taxes	
Finland	4,718	183	375	5,276
Other Nordic countries	344	130	28	502
Baltic countries	583	120	67	770
Northwest Russia	35	20	1	56

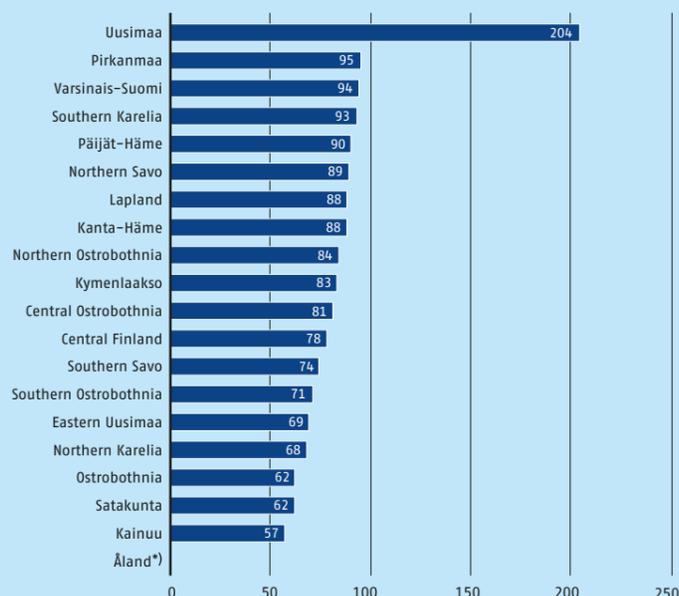
Purchases: figures also include Kesko's imports into Finland from these countries
 Investments: both acquisitions and other investments
 Salaries and taxes: companies' income and real estate taxes



● Purchases
 ● Investments
 ● Salaries and taxes

*) The column illustrating purchases has been shortened, otherwise it would be eight times as high as the one for the Baltic countries.

Salaries and taxes paid by Finnish regions in 2005 in proportion to the population



*) data has not been collected

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

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

The benefit from Kesko's purchases, K-retailers' direct purchases from local suppliers, salaries and taxes (for Kesko, real estate taxes only) paid by Kesko and K-retailers, and investments in Finland has been divided by region.

More details on Kesko's purchases are provided for 2005 than for 2004, and now

cover €4.5 billion of the total sum of €4.7 billion. The remaining €200 million are largely linked to suppliers without an unambiguous postal address or related to annual purchases of less than €1,000. As it has only been possible to break down purchases by suppliers' invoice addresses, despite the fact that production might have taken place in several locations. The purchase figures for the Uusimaa region around Helsinki are higher than in reality.

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

Only those K-retailers that are customers of Vähittäiskaupan Tilipalvelu VTP Oy are included in the analysis of salaries and taxes. They account for between 80%

and 85% of the Group's consolidated net sales. Because it was not possible to specify K-retailers' direct purchases on the basis of invoicing addresses, the statistics have been prepared on the assumption that purchases have been made from within the region in question.

Absolute figures do not fully illustrate the differences between regions, but must be related to population numbers, in particular when estimating service levels. The figures for salaries and taxes per inhabitant, shown in the graph on page 26, illustrate the K-Alliance's human resource input in each region's infrastructure. The figures for Uusimaa are not comparable in this respect, as they include Kesko Group's administrative functions and a major part of the personnel of the division parent companies. Investments could also be shown in the same way, provided that the time period under review is longer than one year.

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

Financial support

Kesko and its subsidiaries support a number of organisations that work for the good of society in Finland. In many cases, support is based on reciprocal

Breakdown of economic benefits from Kesko's and K-retailers' operations by Finnish region in 2005, € million

Region	Keskos purchases of goods	K-retailers' direct purchases of goods ¹⁾	Kesko's and K-retailers' investments	Salaries paid by Kesko	Salaries paid by K-retailers ²⁾	Taxes paid by K-retailers ³⁾	Total
Southern Karelia	7.4	13.3	4.7	3.9	7.5	1.3	38.1
Southern Ostrobothnia	224.9	21.9	1.9	4.5	8.1	1.2	262.5
Southern Savo	36.0	12.5	0.6	2.6	7.4	2.0	61.1
Eastern Uusimaa	57.3	3.4	4.9	1.3	4.9	0.7	72.5
Kainuu	4.1	6.9	0.1	1.5	3.0	0.4	16.0
Kanta-Häme	67.3	23.0	0.8	4.1	9.4	1.2	105.8
Central Ostrobothnia	71.9	6.5	0.2	2.7	2.5	0.5	84.3
Central Finland	71.3	13.5	0.8	7.2	12.1	1.6	106.5
Kymenlaakso	16.2	10.5	0.3	5.9	8.3	1.2	42.4
Lapland	8.4	15.1	12.3	1.9	12.1	2.3	52.1
Pirkanmaa	272.6	31.3	23.5	16.4	23.8	3.9	371.5
Ostrobothnia	63.0	6.6	0.1	5.7	4.3	0.7	80.4
Northern Karelia	30.9	7.2	0.8	3.6	6.7	1.1	50.3
Northern Ostrobothnia	61.1	24.5	18.4	12.1	17.5	2.3	135.9
Northern Savo	82.6	19.0	1.7	7.4	13.1	1.9	125.7
Päijät-Häme	106.9	14.3	0.3	7.6	9.5	0.8	139.4
Satakunta	100.1	12.9	2.1	4.4	9.3	0.9	129.7
Uusimaa	2,621.4	85.8	16.0	190.5	72.7	12.2	2,998.6
Varsinais-Suomi	581.6	33.2	13.9	18.7	21.0	3.3	671.7
Åland	19.7	*)	-	-	*)	*)	19.7
Total	4,504.7	361.4	103.4	302.0	253.2	39.5	5,564.2

*) data has not been collected

1) figures include purchases by 882 K-retailers

2) figures include salaries paid by 961 K-retailers

3) figures include taxes paid by 839 K-retailers and real estate taxes paid by Kesko



Case

PURCHASES FROM REGIONAL PRODUCERS CONTRIBUTE TO LOCAL DEVELOPMENT

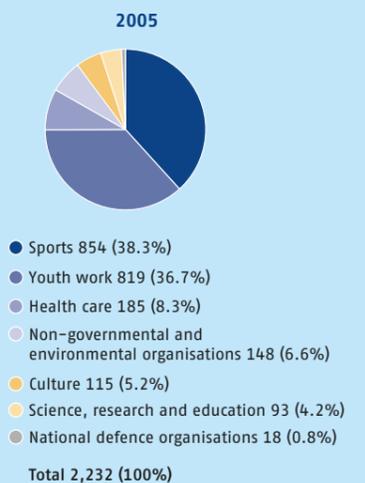
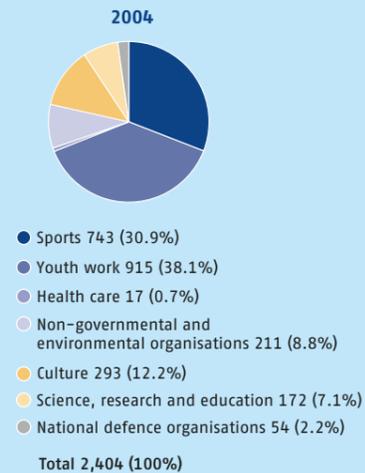
Juustoportti, based in Jalasjärvi in western Finland, became a Pirkka supplier around three years ago. The company produces Pirkka-brand Mozzarella, soured full-cream milk, and yoghurt, as well as Menu-brand products, such as bread cheese for catering customers. A major product development project between the company and Kesko Food resulted in the launch of the first functional food products under the Pirkka brand in 2005 in the shape of Pirkka Reducol yogurts. These are the first private brand yogurts in the EU to contain plant sterols and stanols.

A family-owned company, Juustoportti has been in operation for 40 years, and is one of Finland's most modern dairies. The company employs some 80 permanent employees, and processed 17 million litres of milk in 2005. Juustoportti is a major employer in the local community, a fact that was recognised with the award of the regional 'Where there's a will, there's a way' Prize in 2005 – for the company's contribution to local employment, economic success, innovation, and the public good. The company was awarded the title of 'National Entrepreneur of the Year' in 2004.

Juustoportti recorded net sales of €17 million in 2005; sales to Kesko accounted for some 20% of this total. Recent investments valued at around €1 million have focused on new refrigeration and packaging systems aimed at improving overall operational efficiency and doubling production of bread cheese. While the company will continue to highlight the value of quality Finnish milk and a skilled workforce in its success, further progress in the future will call for building an international network and closer partnerships, says Managing Director Timo Keski-Kasari.

This has been reflected in Juustoportti's work in developing product processing, packaging services, and logistics as a means of improving the efficiency of its overall operational chain and reducing wastage at retail outlets. Kesko has played an important part in this work. A new terminal concept for Kesko deliveries will be introduced on a phased basis in spring 2006, and a new type of prepacked cheese concept is to be tested in the near future as well.

Kesko's support for the public good in Finland, € 1,000, %



cooperation, in which Kesko is not only a sponsor, but also an active player. Kesko directs its support primarily to areas associated with the everyday life of families with children. Supporting socially responsible activities and sustainable development in Kesko's operating environment is also important to Kesko.

Drawing a line between donations, sponsorship, and marketing is often difficult. When pure marketing measures are left out of the calculations, the financial support provided by the Kesko Group for the public good in 2005 amounted to €2.2 million (€2.4 million in 2004). Three quarters of this went to sports and youth work. The proportion of the former increased slightly, while that of the latter decreased. Kesko Food's district centres

had approximately 120 regional and local recipients of support.

No detailed information has yet been collected on the corresponding activities of subsidiaries outside Finland, but some examples highlight developments. Kesko Agro has supported farmer organisations, agricultural colleges and universities, and schools for the visually and aurally handicapped children in the Baltic countries. Prior to the acquisition of Senukai by Kesko, the Rakauskas family, who continue to own a holding in the company, had a non-profit fund separate from the company, known as the 'Senuku Charity and Support Fund', and this continues to operate. The case on page 29 provides information on sponsorship activities coordinated by Rimi Baltic.

Economic benefits from Kesko's operations for various stakeholder groups, € million

	2003 FAS	2004 IFRS	2005 IFRS
Suppliers of goods and services			
Finland	4,485	4,521	4,718
other countries	1,675	1,993	2,363
Suppliers of capital goods & acquisitions	259	192	454
Personnel (salaries and other benefits)	316	353	419
Shareholders (dividends)*	91	274	95
Tax authorities (income and real estate taxes)	60	56	52
Social security			
(pension and social security expenses)	75	41	78
Support for the public good	2	2	2

* dividends paid during the financial year

Case

RIMI BALTIC'S SPONSORSHIP PROJECTS IN THE BALTIC COUNTRIES

Kesko Food's and ICA AB's joint venture in the Baltic countries, Rimi Baltic, focuses its sponsorship on projects involving children, in line with company policy. The company made contributions valued at just under €66,000 to projects of this type in the region in 2005.

In Estonia, Rimi Baltic took part in building playgrounds in the Haaberst and Lasnamäe districts of Tallinn, together with the municipal authorities and local housing companies. The playgrounds are close to the company's stores and reinforce Rimi Baltic's emphasis on being a good neighbour in its local communities. The company intends to continue building playgrounds at the rate of a couple a year.

In Latvia, Rimi Baltic contributed €10,100 to an exercise event for women and children held on International Women's Day, and designed to promote the importance of a healthy lifestyle. A collection drive was organised in 40 stores in support of the local university children's hospital. This generated €11,825, which was used to purchase Internet-connected computers for the hospital's library, which children can use to study and keep in contact with their family and friends.

In Lithuania, Rimi Baltic participated in a local charity's Christmas collection to provide Christmas food for the less well-off. The company also donated a 50-litas gift voucher for Rimi Baltic stores to 350 families; and supported school attendance among children of large families by donating a backpack and other items to 150 children beginning school for the first time.

The proceeds generated by the collection organised at Rimi Baltic's stores for the university children's hospital in Latvia were used to purchase computers, books, and sweets and fruit for patients and staff. Māris Krupenkovs, Rimi Baltic AB's Country Manager, Latvia (right) can be seen here handing the donation to Doctor Džeimss Rozītis and Director Dzintars Mozgis.



President and CEO Matti Halmesmäki is seen here with representatives from the WWF Finland and the Finnish UN Association. Anneli Alfthan, Head of Marketing, and Elisabeth Rehn, Chairperson of the Board of Trustees, represented WWF Finland (on the left), and Sirpa Pietikäinen, Chairperson, and Helena Laukko, Executive Director, the Finnish UN Association.

Environmental performance

Key environmental performance in 2005



- Compilation of statistics on environmental performance started in subsidiaries outside Finland.
- Number of kilometres driven and emissions were lower in Kesped's transportation business. An increase in outsourced pallet transportation makes comparisons more difficult, however.
- Relative proportion of packaging in total imports continued to decrease.
- Relative amount of mixed waste generated in Kesko Food's warehouses declined.
- Average waste recovery rate at Finnish distribution centres was 89.8%, and 97.5% within Anttila.
- Nearly all producers of imported fruit and vegetables are EurepGAP-certified for good agricultural practices.
- K-environmental store diplomas were awarded to 56 stores.
- Kesko's Corporate Responsibility Report for 2004 was ranked the best in Finland.
- Specific consumption of electricity and water increased at Finnish locations.
- Greenhouse gas and acidification emissions generated by Kesko activities increased in Finland.
- The amount of waste generated in overseas operations was considerably larger than that generated in Finland in relation to the volume of operations.
- Implementation schedule of the environmental concept in the K-market chain had to be slowed down.
- More than 200 tons of wastepaper was generated at offices.

Introduction

The key areas of Kesko's environmental responsibility include energy consumption related to real estate and transportation and associated emissions, as well as waste generated in warehousing and distribution operations. A proportion of this impact comes within Kesko's own direct environmental responsibility, and efforts to reduce this impact need to be consistent, systematic, and target-oriented. Part of Kesko's environmental impact is indirect, which makes achieving - and measuring - results more difficult.

Environmental systems - both standardised and those developed by the company for its own needs - are important tools for Kesko and K-stores. Target-oriented environmental management creates good opportunities for cost savings as well. It will be possible to achieve considerable savings in waste and energy costs in the future in countries where the local infrastructure is still developing. Kesko's subsidiaries outside Finland have already started compiling environmental statistics and are developing their systems on the basis of experience gained in Finland.

Environmental system

Kesko's environmental management is based on the company's own environmental policy, the International Chamber of Commerce's principles of sustainable development, and the ISO 14001 standard. As of the end of 2005, the environmental system had been certified in all units with major environmental impact:

- Kesko Food Ltd's logistics operations - the transport and forwarding company, Kesped Ltd
 - Anttila Oy's central unit, mail order sales, and NetAnttila operations
 - All Anttila and Kodin Ykkönen department stores
 - Real estate management and maintenance (certificate held by YIT Kiinteistötekniikka Oy, which is responsible for these outsourced operations).
- Kesko Food revised its logistics operations as of 1 January 2006. Kesko Food's warehousing operations were transferred

to Kesped Ltd, which was renamed Keslog Ltd. Keslog's operations include foreign transportation, forwarding, purchasing transportation, warehousing and terminal operations, and distribution transportation. A new delivery chain control unit was also established, mainly to develop store logistics, requirements planning, logistics operating systems, and supplier cooperation. In line with these organisational changes, the plan is to combine the environmental systems related to logistics and Kesped during 2006.

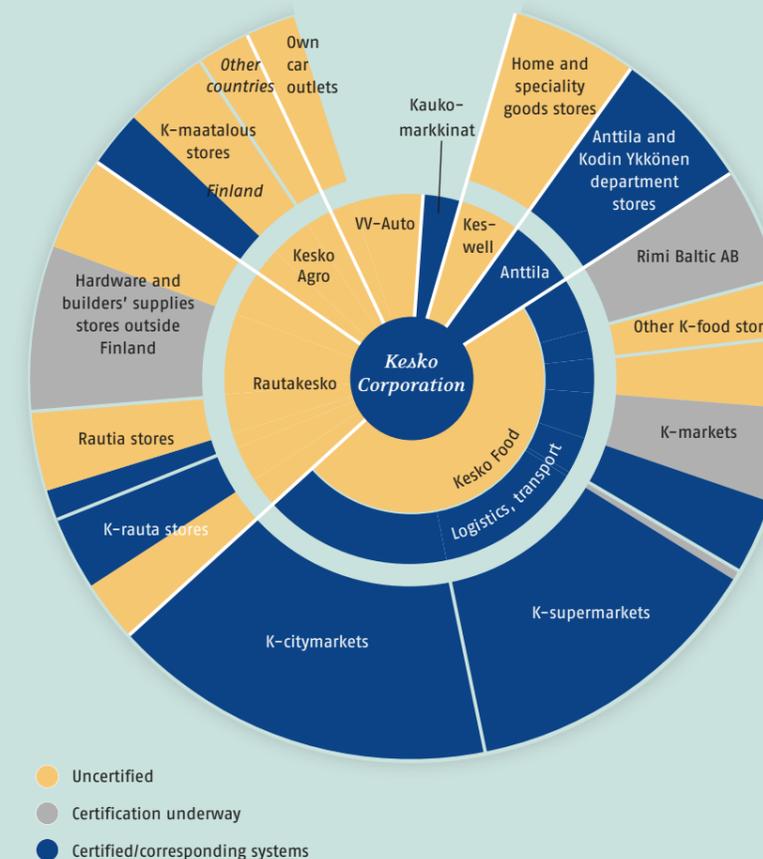
Kesko Food transferred all its return logistics terminal operations in the Greater Helsinki area to Lassila & Tikanoja (L&T) in summer 2005. The terminal sends all recyclable material returned from stores for further treatment and other returned components for reuse. The terminal is not included in Kesko's or L&T's environmental systems at the moment.

Kesko's Real Estate Services Unit signed an agreement with Ovenia Oy covering the management and maintenance of some 220 properties in Southern Finland as from the beginning of 2006. Like Kesko, Ovenia is covered by the KRESS energy-saving agreement coordinated by MOTIVA and the Ministry of Trade and Industry, and its own environmental strategy is expected to be completed by the end of 2006.

Kaukomarkkinat Oy employs an environmental system based on the ISO 14001 standard, although it has not been certified. Kesko's main office building in Katajanokka in Helsinki and Kesko Food's central warehouses in Hakkila in Vantaa, together with the Turku distribution centre, have adopted an environmental programme developed by Kesko for office work (see page 43).

K-stores' environmental management is based on a variety of inputs, including

Coverage of environmental management system in relation to volume of operations



the K-environment store manual, division-specific training programmes, and best practices documented on the company's intranet. The K-environmental store model forms part of the chain concept employed in the largest K-food stores (see page 43).

Rautakesko started introducing the K-rauta chain's environmental management system in its foreign subsidiaries in 2006, and appropriate components of the system developed for K-maatalous stores in Finland will be tested in Kesko Agro's Baltic operations. Rimi Baltic AB aims to assess the environmental systems used by its parent companies during 2006 and start building corresponding systems of its own.

Real estate operations

Construction and maintenance

Kesko continues to use the 'core and shell' model in construction, which facilitates cost control during a building's life-cycle by dividing a building into a long-term shell and a flexible business core. Allocating investments either to the real estate shell or business operations helps ensure that construction embodies eco-efficient principles.

The value of Kesko's store site investments in 2005 totalled approximately €141 million. The figure is not comparable to the value of real estate investments reported in previous years, as store site

investments also include investments in existing properties.

Kesko defined target levels for its different types of business operations, covering areas such as quality requirements for the mechanical and electrical services used in buildings in 2004. Work continued in this area in 2005, with the focus on maintenance management in line with the defined quality level requirements. Work started on building the 'Tampuuri' management system acquired for monitoring the maintenance of Kesko's real estate. This system makes it possible to monitor building management and repairs related to property maintenance in real time. The aim is to use the technical systems concerned as efficiently as possible. The system has been in full use in Kesko's real estate operations since the beginning of 2006.

Kesko's experts actively participated in several working groups organised by RAKLI, the Finnish Association of Building Owners and Construction Clients, including commenting on the legislation and regulations being prepared on the basis of the EU's Energy Efficiency Directive.

Structural safety

In accordance with joint recommendations produced by the construction indus-

try, Kesko completed safety inspections of the load-bearing structures at all its major premises by the end of January 2005. Some minor damage and defects were identified, and resulted in further surveys and repairs. Kesko has reported the inspection results to RAKLI. Based on input from these inspections, Kesko has issued more detailed technical instructions, and now employs an outside structural inspector on major construction projects. Particular attention is also paid to safety know-how and the professional mind-set of designers, supervisors, and construction consultants.

PromisE classification of premises

Kesko participated in a joint project led by the Ministry of Environment, Motiva, and RAKLI to develop an environmental building classification system ('PromisE') in 2002-2004. K-citymarket Seppälä in Jyväskylä was granted Category B status in 2004, thanks to its use of natural light and well-optimised energy efficiency. K-citymarket Kaakkuri in Oulu and K-citymarket Kutomo in Forssa both rated Category C. At the Oulu site, environmental impact was taken into account more comprehensively than normally, in accordance with current construction guidelines. In Forssa, the building's poorer thermal insulation capacity compared to

modern structures has been compensated for by the environmental value obtained by reusing an old building. No PromisE classifications were made in 2005.

Environmental risks associated with land use

Some surveys of contaminated land are made annually in connection with construction work or real estate transactions. Contaminated land was identified in four projects in Finland in 2005, and remedial action was undertaken at three of these. Further studies were under way at the fourth site in spring 2006. Studies were carried out at six sites outside Finland, and some surface soil was removed at one of these locations.

Monitoring energy and water consumption

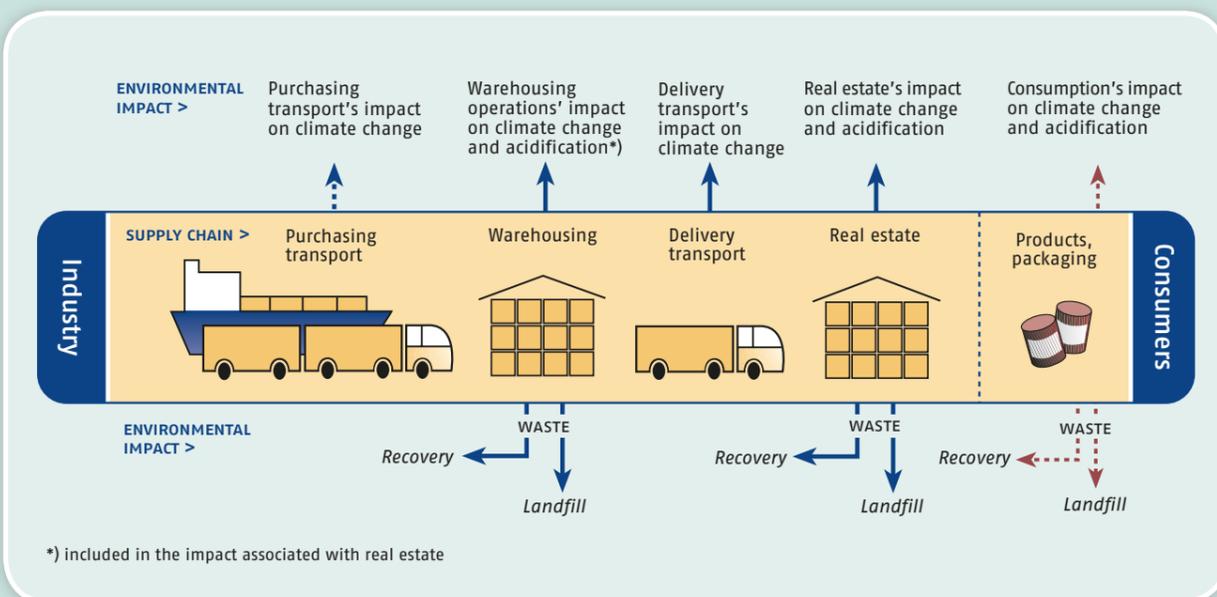
Real estate owned or leased by Kesko totalled slightly over 3.4 million square metres as of the end of 2005, of which nearly 2.8 million square metres were in Finland. The total gross area amounted to over 3.7 million square metres. Most of the 14% increase in surface area in Finland in 2005 can be attributed to the acquisition of Indoor Group, that is, the Asko and Sotka chains.

The comparability of specific consumption with the general statistics published by Motiva, for example, improved in autumn 2005, when specific consumption figures were presented in relation to the heated gross area of properties instead of net floor area for the first time.

Correct floor areas were verified from the construction drawings of some properties. The specific consumption figures for 2004 have been revised to correspond to more accurate specific consumption figures. Data for 2005 is given for both net and gross floor areas.

In terms of energy consumption, the most important types of sites are K-citymarkets, K-supermarkets, K-markets, Anttila department stores, and office and warehouse buildings. Consumption monitoring is carried out as widely as possible at these properties. The aim has been to ensure that monitoring includes properties in all categories to maximise the accuracy of total consumption calculations.

Kesko's environmental impact



Case

TRANSFORMING AN OLD SPINNING MILL INTO A K-FOOD STORE

The K-supermarket in Lauttasaari in Helsinki occupies a building that was originally designed in 1950 as a dyeing shop and packing department for a local spinning mill, Helsingin Villakehräämö. Today's 2,000 m² store is located where the mill itself used to be. Business has been an integral part of life in the Vattuniemi area of Lauttasaari for over 50 years, and local residents can recognise the site's original identity from the 62-metre chimney, which is a protected structure, in the middle of the site.

The premises are well-located for retail purposes, and the design of the premises made it easy to adapt them to new use. Design work was started in January 2004 and a construction permit for the modifications to the buildings was granted in April 2005. K-supermarket Lauttasaari held its official grand opening six months later in November 2005. During the project, the space on the ground floor was converted into a complete retail store, with refrigerated storage, space for storing bottles for recycling, and office space, while the storage area in the basement was partially converted into car parking. New space totalling 230 m² was built in the inner part of the site to give the store an integrated and extensive checkout area. A new use was also found for the mill's old chimney, which is now used to provide ventilation for the car park, which has places for 67 vehicles. This has proved an excellent solution, as it avoided the need to build separate ventilation ducting from the car park, and the heat from the flow of air in the chimney helps keep it in better condition than it would be if it stood cold and unused. What used to be the boiler-room has been converted into a ventilation systems room, while the old air raid shelter has been modernised to meet current standards.

As with its greenfield construction projects, Kesko uses a 'core and shell' approach with its conversion projects. This divides a building into a long-term shell, which houses 'business cores' that can be changed and slotted in and out as needs change. This approach is an ideal way of managing the lifecycle costs of retail premises. Kesko has previously employed this sustainable approach to converting old industrial premises in Ruoholahti in Helsinki and in Forssa.



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

The scope of multi-energy monitoring (electricity, heat, and water) decreased from 70% to 64% in 2005, mainly because the premises of the Asko and Sotka chains were not yet included. Electricity consumption alone was monitored in 15% of premises, primarily not owned by Kesko. Consumption at premises outside the system is evaluated by type of property, based on the specific consumption of the premises monitored.

Energy and water consumption in 2005

The combined electricity consumption of Kesko and the K-retailers operating in Kesko's premises in Finland totalled 734 GWh, an increase of 15% on 2004. When the increase in net floor area during the year is taken into account, consumption per square metre rose by nearly 8% on average. The specific consumption of K-citymarkets rose by 10%, that of K-supermarkets by 6%, and that of Anttila department stores by 2%. The specific consumption of K-markets and other small food stores fell by 3%, in contrast, and that of office and warehouse buildings by 7%. In the case of real estate covered by the KRESS real estate and construction energy-saving agreement, the specific consumption of K-citymarkets and K-supermarkets increased, whereas that of office and warehouse buildings fell. Revised data on floorspace has raised specific consumption figures to some extent.

Heat consumption totalled 286 GWh, an increase of 10% over 2004. Specific consumption increased by 3% on average. The increase in K-citymarkets was nearly 16%, whereas the figure for Anttila department stores declined by nearly 18%. Revised floorspace figures have affected changes in the specific consumption of heat more than real changes in consumption. Temperature-adjusted consumption data for comparable properties shows

that standardised consumption fell by 3% on 2004.

Water consumption stood at 604,000 cubic metres, 11% above the figure for 2004. Total specific consumption increased by an average of 3%, and in KRESS buildings by 1%. Water consumption in K-citymarkets increased by 11%, and declined by 7% in K-markets and 9% in Anttila department stores.

The three largest K-food store chains (K-citymarkets, K-supermarkets, and K-markets) accounted for 59% of the K-Alliance's total electricity and water consumption, and 52% of heat consumption.

The primary energy used by Kesko in Finland in 2005 was equivalent to approximately 0.4% of total energy consumption (1,480 PJ in 2004 according to Statistics Finland's energy statistics). Electricity used at Kesko's Finnish premises accounted for around 0.8% (87,025 GWh according to www.energia.fi/ 2005 statistics), and district heat for about 0.9% (31.6 TWh in 2004 according to Statistics Finland) of total national consumption.

Energy monitoring and associated emission calculations were largely started outside Finland during 2005. Foreign subsidiaries purchased a total of 157 GWh of electricity and district heat. It proved impossible to identify how much electricity was used for heating premises. Consump-

tion of thermal energy generated by subsidiaries themselves totalled 11 GWh in the Baltic countries. Rimi Baltic accounted for approximately 70% of Kesko's total electricity consumption in Estonia and Lithuania, and for over 90% in Latvia.

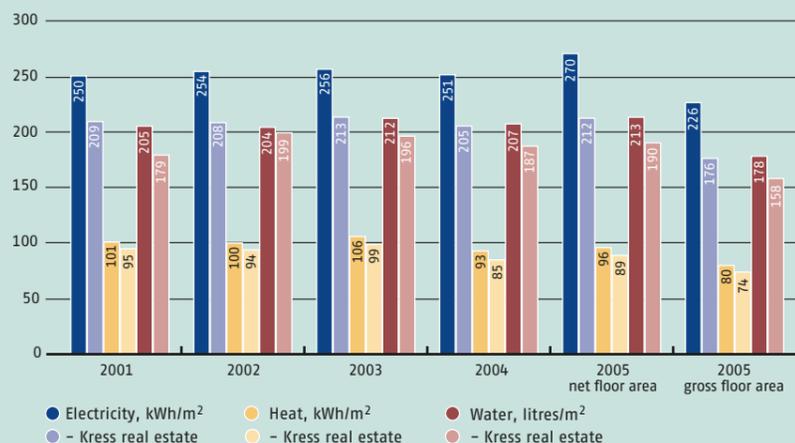
Environmental energy profile

Energiakolmio Oy has calculated Kesko's environmental profiles for 2005. The figures, which include a comparison with the energy protocol contained in the GRI reporting guidelines, have been published in full at www.kesko.fi as an attachment to this report.

Kesko supplied 512 GWh or approximately 70% of the total energy used by the K-Alliance in Finland, a decrease of around 2% on 2004. K-retailers purchased the remaining 220 GWh themselves.

No environmental profile for 2005 for calculating Kesko's indicators was available from energy utilities in March 2006. As a result, the 2004 environmental profile obtained from each supplier has been used for Kesko's calculations. For electricity purchased by K-retailers themselves, the average 2004 environmental profile of electricity consumed in Finland has been used. Kesko's indicators for 2004, which had to be calculated on the basis of the 2003 environmental profile for the 2004 report, have now been updated to corre-

Specific consumption of electricity, heat and water in the real estate owned or leased by Kesko in Finland, 2001-2005



KRESS real estate is covered by the real estate energy saving agreement. The proportions of floor areas used in the calculation of specific consumption are: electricity 34%, heat 45%, and water 45%.

spond to actual emissions. A corresponding update was made in the 2003 figures in 2004.

The data on district heat is even older - and environmental impact has been assessed on the basis of 2003 data published by Statistics Finland and the specific emissions for 2003 reported by Adato Energia, the information and training company of the Association of Finnish Energy Industries.

The basis used for calculating nuclear waste was also changed in 2005, and the calculation is now based only on the amount of nuclear energy used, as energy

utilities have a statutory obligation to report this indicator. Kesko had previously included all waste generated in the fuel cycle. The amount of nuclear waste in 2005 and the updated 2004 figure have been calculated using the new formula.

The tables below present the environmental impact related to the generation of all the electricity purchased by Kesko and the electricity and heat used in all real estate managed by Kesko - including electricity purchased by K-retailers - between 2003 and 2005. The figures for 2005 and the changes between 2004 and 2005 are only indicative, as explained above.

The number of Kesko electricity suppliers dropped from 10 to five in 2005. The share of Fortum Markets Oy rose from 67% to 82%, while the second-largest supplier was Pohjois-Karjalan Sähkö Oy, which accounted for nearly 11%. No purchases were made from Helsinki Energy Oy, which accounted for 18% of the electricity supplied to Kesko in 2004. Energiakolmio's environmental profile calculation for 2005 revealed that the proportion of electricity generated using renewable resources and nuclear power increased, while the amount of electricity generated using non-renewable resources dropped

Consumption and environmental profile of heat and electrical energy in the real estate owned or leased by Kesko in Finland, 2003-2005

	Unit	2003			2004**)			2005**)			Change *) 04/05
		Heat	Electricity	Total	Heat	Electricity	Total	Heat	Electricity	Total	
Volume	GWh	306	667	973	259	638	897	286	734	1,020	13.7%
Primary energy	PJ	1.2	4.8	5.9	1.0	5.5	6.5	1.15	6.41	7.56	16.3%
non-renewable	PJ	0.9	1.7	2.6	0.85	1.2	2.05	0.95	1.15	2.10	2.7%
nuclear energy	PJ	-	2.0	2.0	-	1.68	1.68	-	1.97	1.97	17.6%
renewable	PJ	0.2	0.8	1.0	0.2	2.5	2.7	0.14	3.26	3.40	26.0%
Environmental impacts											
climate change	tn CO ₂ eq	75,582	118,552	194,134	65,103	140,269	205,372	63,000	170,006	233,006	13.5%
acidification	tn SO ₂ eq	248	268	516	209	227	436	200	272	472	8.2%
lower atmosphere											
ozone	tn C ₂ H ₄ eq	6.1	10.0	16.1	5.1	5.3	10.4	5.73	8.91	14.64	40.8%
nuclear fuel used***)	tn	-	0.75	0.75	-	0.49	0.49	-	0.55	0.55	12.2%

*) combined change in heat and electricity
 **) figures for 2004 have been updated to correspond to the actual emissions in electricity consumption, and figures for 2005 are based on emission data for 2004
 ***) nuclear waste was reported in 2003

Environmental impacts of electricity supplied by Kesko to the K-Alliance, 2001-2005

	Unit	2001	2002	2003	2004 *)	2005 *)	Change ***) 2004/2005
Primary energy	PJ	3.8	3.7	3.6	4.6	4.8	4.9%
non-renewable	PJ	3.5	2.9	1.6	1.1	0.8	-35.4%
nuclear energy	PJ	**)	**)	1.6	1.4	1.4	-0.5%
renewable	PJ	0.2	0.7	0.4	2.2	2.6	16.5%
Environmental impact							
climate change	tn CO ₂ eq	173,430	127,455	118,505	110,003	112,314	2.1%
acidification	tn SO ₂ eq	399	308	268	227	190	-19.6%
lower atmosphere ozone	tn C ₂ H ₄ eq	7.5	7.1	10.0	5.3	5.6	5.1%
nuclear fuel used****)	tn	0.42	0.44	0.51	0.39	0.38	-3.3%

*) figures for 2004 have been corrected to correspond to the actual emissions. Figures for 2005 have been calculated on the basis on emission data for 2004
 **) nuclear power was previously included in non-renewable energy but is now reported separately
 ***) change in % has been calculated from unrounded figures
 ****) nuclear waste was reported 2001-2003

Energy consumption in Kesko and Rimi Baltic properties outside Finland in 2005

	Sweden		Norway		Estonia		Latvia		Lithuania		
	Kesko sub-sidiaries	Norway Kesko sub-sidiaries	Kesko sub-sidiaries	Rimi Baltic	Total	Kesko sub-sidiaries	Rimi Baltic	Total	Kesko sub-sidiaries	Rimi Baltic	Total
Consumption of purchased electricity, GWh	9.2	9.0	5.6	12.9	18.5	4.6	68.8	73.4	12.0	33.0	45.0
Consumption of self-generated electricity, GWh			0.1		0.1						
Consumption of purchased heat, GWh	0.6	0.6	*)	*)	*)	*)	*)	*)	0.6	*)	0.6
Consumption of self-generated electricity, GWh			0.9		0.9	2.0		2.0	8.5		8.5
Total energy use, GWh	9.8	9.6	6.6	12.9	19.5	6.6	68.8	75.4	21.1	33.0	54.1
Consumption of water, m ³	1,073***)	680***)	4,474	**)		10,378	**)		29,320	**)	

*) Purchased heat could not be separated from purchased electricity

***) No water consumption data available for Rimi Baltic

****) Consumption data for Sweden and Norway insufficient

Environmental profile of energy consumption in Kesko and Rimi Baltic properties outside Finland in 2005, electricity and heat combined

	Unit	Sweden	Norway	Estonia	Latvia	Lithuania	Total
Volume	GWh	9.8	9.6	18.5	73.4	45.6	156.9
Primary energy	PJ	0.076	0.038	0.294	0.468	0.627	1.503
non-renewable	PJ	0.008	0.004	0.294	0.239	0.063	0.608
nuclear energy	PJ	0.049	0	0	0	0.553	0.601
renewable	PJ	0.019	0.034	0	0.229	0.011	0.293
Environmental impact							
Climate change	tn CO ₂ eq	303	81	23,605	10,638	2,725	37,351
own fuel	tn CO ₂ eq			218	413	1,719	2,350
Acidification	tn SO ₂ eq	0.55	0.28	241.43	271.44	14.36	528.07
Radioactive waste	tn	0.039	0	0	0	0.199	0.238
Rimi Baltic's proportion of consumption and emissions			70%	94%	73%		

compared to 2004. The correct figures will be updated in the online edition of the report as soon as generating data is completed in summer 2006. The specific emissions of electricity imported from Russia in 2005 will have a considerable impact on the 2005 profile, according to Fortum Markets.

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

Given the above limitations, it can be estimated that Kesko's and K-retailers' electricity and heat consumption accounted for about 0.2% of Finland's total

greenhouse gas emissions in 2005 (about 82 million tons in 2004, www.energia.fi), a slight decrease on 2004.

Outside Finland, figures on the consumption of primary energy in electricity and heat generation in Estonia, Latvia, Lithuania, Sweden, and Norway are based on country-specific statistics on energy generation and statistics prepared by the International Energy Association (IEA). Specific electricity-related emissions are based on Eurelectric statistics, and assessments of district heat emissions are based on the energy sources used. Specific emissions for the nuclear energy consumed are estimated at 4.25 g per MWh, regardless of country. The figures for carbon dioxide emissions from Kesko's in-house generation are based on the OECD / IEA instruc-

tions and the IPCC 1996 Good Practices Guide. Acidifying emissions from Kesko's in-house generation have not been calculated, as the main fuel used is natural gas.

Premises outside Finland, Rimi Baltic included, accounted for approximately 26% of Kesko's total real estate (Rimi Baltic accounted for about 34% of all foreign premises), 14% of combined electricity and heat consumption, and 15% of greenhouse gas emissions. Comparisons with 2004 are not meaningful as the figures for 2005 include Norway, Senukai in Lithuania, and the operations of Rimi Baltic.

The energy consumption of the Kesko Group in Finland and other countries combined increased by about 17%, climate warming-related emissions by about 4%,

and acidifying emissions by about 21%. In respect of climate warming-related emissions in particular, the shortcomings in the energy environmental profile figures referred to above must be taken into account. The amount of radioactive waste increased by 46%, due to the increased scope of coverage outside Finland, particularly in Lithuania, as indicated above.

Transport

As in 2004, transport statistics and emission figures for 2005 included distribution carried out by external operators employed in Finland ('+2' carriers in refrigerated transportation) in addition to Kesped operations. Much more information is now available on transportation by subsidiaries outside Finland as well.

No reliable statistics are available on purchasing transportation, or on trunk transportation between Kesko's central warehouse and distribution warehouses. About 70% of domestic goods for Kesko Food's warehouses are bought at 'ex works' prices, allowing Kesko Food to decide on the mode of transport used. In

most cases, transportation is handled by Kesko Food's trucks returning from trunk shipments or deliveries, which means that these purchases are included in the figures for distribution kilometres.

Kesped's operations were further reorganised in 2005. The opening of the Mikkeli terminal in late 2004 reduced the number of kilometres driven in the Vantaa distribution area, while the opening of the Pakkala refrigerated terminal in early 2005 increased transportation volumes in the same area. The volume of services bought from external transportation companies in respect of pallet transportation increased in the Vantaa distribution area, which means that the quantities of goods transported are recorded in Kesped's statistics, but kilometres driven in respect of these small part loads could not be allocated to Kesko.

Kesped transported 107,571 loads to K-retailers and other Kesko's customers in 2005 (85,019 loads in 2004), representing 722,784 tons of goods (576,000 tons). The total distance driven was 11.9 million kilometres (14.1 million). An average load to-

talled 6,719 kilos (6,777 kilos) and 19.5 m³ (19.4 m³) of goods. The average distance driven per load was 110.9 kilometres (165.4 kilometres).

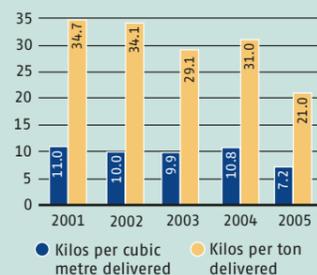
The average volumetric efficiency of loads remained unchanged. The size of the average distance driven per load and cubic metre delivered decreased by one third, compared to an increase of 15% per load and 10% per cubic metre in 2004. Much of the reason for this change can be attributed to the increase in pallet transportation outsourced by the Vantaa warehouses and to other structural changes.

Contract transport companies (+2 drivers) drove nearly 2.7 million kilometres (3.3 million) delivering Kesko Food goods - mainly meat, processed meat, and convenience foods. This figure is based on information provided by transport companies as a proportion of the total distances they drove in 2005. It has not been possible to compile sufficiently accurate statistics on the loads, cubic metres, and tons covered by this type of transportation. Kesko Food and Valio also cooperate in the transport area, but the role of this as



The K-supermarket in the Kolmuss shopping centre in Vuosaari, Helsinki is expanding and is due to become a K-citymarket soon. Planning Manager Harri Fast (left) and Construction Manager Kimmo Leivo on the site.

CO₂ emissions in Kesped Ltd's distribution compared with delivery volumes



a proportion of total transportation has not been detailed.

Anttila's transportation remained at approximately 10,000 loads and 520,000 kilometres driven. The warehousing and transportation of products sold by Rautakesko, Kesko Agro, and Keswell (excluding Anttila) to K-retailers were mainly handled by external service suppliers, and no statistics comparable to those for Kesko Food's and Anttila's transportation are available.

Considerably more information is now available on the transportation carried out by subsidiaries outside Finland. Sta-

tistics include companies in Sweden and Norway, the entire Rimi Baltic, Kesko Agro in Estonia and Latvia, and Rautakesko in Latvia. The statistics on kilometres driven and quantities delivered still feature some inconsistencies and uncertainties, however, which is why only emission data has been recorded in the table below. As a result of the merger of Kesko's and ICA's operations in the Baltic countries, several changes were made in Rimi Baltic's transportation systems during 2005, including the reorganisation of refrigerated storage and transportation, supplier connections, and import terminal operations.

The total volume of imports forwarded by Kesped was 310,700 tons, a decrease of 4.2% over 2004. Transportation from European locations was handled by trucks, semi-trailers, and containers, and from outside Europe by containers only. Kesko Food accounted for 75% of all imports.

Export deliveries, mainly to Sweden, the Baltic countries, and Russia, were handled by trucks. The total volume of exports forwarded by Kesped, excluding grain, was 4,210 tons (4,000 tons in 2004).

Transport emissions

The emissions associated with deliveries by Kesped, other Finnish transport companies, and Swedish and Baltic subsidiaries have been calculated according to the kilometres driven, as no fuel consumption data is available. The figures for Finnish transportation is based on the emission factors and definitions contained in the LIISA 2002 model produced by the Technical Research Centre of Finland, VTT. Information is provided on coefficients by truck type, engine category,

and driving speed. Emissions associated with deliveries by Rimi Baltic and Norgros have been calculated on the basis of the fuel used, and in the case of other foreign subsidiaries on the basis of kilometres driven, in accordance with the GHG Protocol - Mobile Guide.

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

62% of outsourced deliveries are made by trucks, and 38% by semi- or full trailers. Urban driving accounts for 70% of truck transportation, and 20% for other transportation. Assumed volumetric efficiencies are the same as for Kesped.

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

The relative CO₂ emissions of Kesped's transportation operations decreased by 32% per ton and 33% per cubic metre. Carbon monoxide, hydrocarbon, and particulate emissions also decreased. As reported above, this decrease in emissions can mainly be attributed to the fact that the actual number of kilometres required for Kesko's deliveries cannot be included in the statistics. The environmental impact of changes can be assumed to be positive, as pallet transportation made on behalf of Kesko has generally improved the volumetric efficiency of transport companies' loads and very seldom called for carrying extra loads. There are, however, no calculations available on this.

No comparative data is available on transportation-related emissions for companies outside Finland in respect of earlier years. Rimi Baltic's figures, for instance, do not yet include indicators linked to transportation volume. Rimi Baltic accounts for a considerable proportion of transportation carried out outside Finland, and the company's emissions account for some 90% of the total emissions of Kesko's overseas companies.

Kesko's CO₂ emissions

Carbon dioxide emissions are among Kesko's key environmental impact indicators. Kesko does not have sufficiently accurate

information on all the carbon dioxide emissions associated with its operations, however. It is difficult, for example, to compile statistics in sufficient detail on purchasing and trunk transportation, on the amount of fuel used in delivery transport in Finland, or business travel by air or train by Kesko personnel. Annual business travel by passenger car totals approximately 14 million kilometres. As some of Kesko's division parent companies have outsourced their warehousing and transportation, and some manufacturers supply goods direct to K-stores, transportation data is not included in Kesko's statistics. Due to the numerous possible errors and inaccuracies associated with calculating the Group's carbon dioxide balance, it has been decided not to calculate this information until further notice.

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

Use of materials

The GRI guidelines' indicator on the use of materials refers to the amount of packaging materials imported and packed by Kesko that needs to be reported to the authorities annually under the EU packaging directive.

Packaging statistics for 2005 were calculated mainly on the basis of import forwarding statistics, as previously. The amount of materials, detailed in the table below, decreased by 12.3% from 33,448 tons in 2004 to 29,331 tons in 2005, while the volume of imports decreased by 4.2%. The relative proportion of packaging of

the total amount of materials dropped from 10.3% in 2004 to 9.4%.

Corresponding figures have been calculated in the Baltic companies, but no summary for 2005 could yet be obtained for this report.

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

Waste management and recycling

The KELO model continues to be used at Kesko Food to produce statistical data on waste management at all distribution centres. Some units transfer data semi-automatically into the KELO model in cooperation with the company's waste management operator, L&T.

The amount of waste generated by Kesko Food's warehouses in 2005 totalled 7,607 tons, a decrease of 8% on 2004. Most of the change can be attributed to the decrease in the amount of corrugated board collected by return logistics from K-stores, as K-retailers passed more corrugated board to local operators. The total amount in relation to each cubic metre of material supplied (2.1 million) dropped to 3.62 kilos, from 3.86 kilos in 2004. The figure includes the corrugated board collected from K-stores. Excluding this, the amount of waste totalled 1.54 kilos (1.56 kilos) per ton supplied.

Segregation improved compared to 2004, which was reflected in an increased amount of energy waste and a decrease in

CO₂ emissions in delivery transport 2003-2005, tons

	2003	2004	2005
Kesped's delivery	17,725	17,844	15,143
Outsourced transport	2,911	2,739	2,351
Anttila	638	662	667
Finland, total	21,274	21,245	18,161
Kesko Agro, Estonia	*)	*)	45
Rimi Baltic AB, Estonia ¹⁾	1,669	2,193	1,955
Estonia, total ²⁾	1,669	2,193	2,000
Kesko Agro, Latvia	*)	*)	52
Rautakesko, Latvia	*)	*)	290
Rimi Baltic AB, Latvia	*)	*)	2,127
Latvia, total	*)	*)	2,469
Lithuania, total (Rimi Baltic AB) ³⁾	*)	*)	967
Sweden, total (K-Rauta AB)	*)	*)	21
Norway, total (Norgros AS)	*)	*)	160
Total	22,943	23,438	23,778

*) data has not been collected

¹⁾ data for 2003 and 2004 is not available on Kesko Food Ltd's distribution in Estonia

²⁾ Estonian statistics exclude Rautakesko's distribution in Estonia

³⁾ Lithuanian statistics exclude Kesko Agro's and Senukai's distribution

Kesped Ltd's distribution figures 2003-2005

Distribution centre	km/load			development 04/05 %	tons/load			development 04/05 %	m ³ /load			development 04/05 %
	2003	2004	2005		2003	2004	2005		2003	2004	2005	
Helsinki	117	151	83	-44.9	6.1	6.7	6.9	1.8	19.2	21.0	20.5	-2.1
Tampere	145	206	181	-12.4	7.4	7.7	8.5	9.9	16.9	22.1	22.6	2.2
Turku	101	96	88	-9.2	5.0	6.0	5.3	-11.1	15.1	15.7	14.8	-5.3
Kuopio	240	217	198	-8.6	7.9	8.0	8.0	0.1	23.7	22.8	23.0	0.9
Oulu	276	244	256	5.2	6.4	7.6	6.9	-9.2	19.1	17.6	18.6	5.4
Jyväskylä	118	146	61	-58.1	5.4	4.8	3.9	-19.1	13.0	11.1	9.2	-17.2
Mikkeli	-	236	154	-34.7	-	5.8	7.8	33.8	-	18.1	24.0	32.7
Total, Kesped	144	165	111	-32.8	6.3	6.8	6.7	-0.9	18.4	19.4	19.5	0.5

NB: Although tons, kilometres, and cubic metres have been rounded off in the table, percentage changes have been calculated from unrounded figures.

Packaging materials in products imported by Kesko into Finland, tons and their proportion of the total weight of products, %

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

mixed waste levels. The amount of mixed waste totalled 0.36 kilos (0.39 kilos) per cubic metre delivered. The amount of organic waste decreased, as centralisation of fruit and vegetable storage made it easier to forecast warehouse turnover and reduce wastage. The amount of wood waste continued to increase, as broken disposable pallets were no longer sold on. As these pallets are now crushed and sent for incineration, one option would be to include them in energy component statistics. The total waste recovery rate (including organic waste) remained at 90.0%, the same as in 2004.

The amount of board at Anttila's distribution centre decreased considerably, and successful waste segregation ensured that the amount of mixed waste decreased by 72%, from 64 tons to 18 tons. Construction and furniture waste was sent for recovery, for example. A total of 19 tons of waste electrical and electronic equipment were collected from Anttila and Kodin Ykkönen department stores through distribution centres for recycling between August and December. The recovery rate rose to 97.5%.

Rautakesko's and Kesko Agro's waste statistics have been published together

previously, but are now provided separately. Waste amounts and recovery rates remained at 2004 levels in these two companies.

Comprehensive waste statistics on Kesko's subsidiaries outside Finland were available for the first time in 2005. Waste has only been broken down into landfill, recovery, and hazardous waste for these summary statistics. As segregation and statistics are not as accurate in all the Baltic countries as in Finland and the other Nordic countries, the recovery percentages presented for the Baltic countries must be considered as indicative

only. Rimi Baltic is presented separately, as the amount of waste generated in food stores is considerably higher than in hardware and builders' supplies or agricultural stores. In addition to waste generated in warehousing and distribution, the figures for Rimi Baltic, like those for Kesko, include corrugated board (3,363 tons) and plastic (190 tons) collected from stores using return transportation and sent on for recovery.

The amount of packaging supplied by Kesko Food's return logistics for recovery and reuse remained relatively unchanged, but the volume of beverage cans collected increased from 22 million to 33 million (see page 40). No essential changes took place in the recycling of Keswell's transport packaging.

Product-related developments

Kesko's division parent companies have cooperated with suppliers to improve the

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

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

Reusable transport packaging returned to Keswell's central warehouse (number of uses)

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

Waste management statistics of Finnish operations, tons

	Kesko Food			Anttila			Rauta-kesko	Kesko Agro
	2003	2004	2005	2003	2004	2005	2005	2005
Waste for recovery								
energy waste	363	359	455	39	48	49	43	16
wood waste	437	764	902	53	57	102**)	140	26
metal	166	152	145	17	7	10	5	14
film plastic	327	248	237	20	21	25	3	-
corrugated board	5,097	4,887	4,378	437	468	422	136	25
paper	193	174	153	54	60	55	1	5
Landfill waste								
organic waste*)	967	874	574	6	10	7	-	10
mixed waste	787	833	760	94	64	18	90	41
Hazardous waste								
	9	7	3	14	7	2	0.35	45
SER waste								
						19	0.09	
Total	8,346	8,299	7,607	734	742	709	418	182
Recovery, %*)	90.6	89.9	90.0	87.2	91.4	97.5	78.3	77.5

*) Organic waste is included in the recovery percentage.

***) Anttila has sent 6 tons of construction waste and 20 tons of furniture waste for recovery, both included in wood waste.

Waste statistics for Rautakesko and Kesko Agro have been presented together in previous years but are reported separately since 2005.

Waste management statistics for operations outside Finland in 2005, tons

	Sweden	Norway	Estonia		Latvia			Lithuania			
	Kesko sub-sidiaries	Kesko sub-sidiaries	Kesko sub-sidiaries	Rimi Baltic	Total	Kesko sub-sidiaries	Rimi Baltic	Total	Kesko sub-sidiaries	Rimi Baltic	Total
Landfill waste	215	768	468	2,622	3,090	287	4,320	4,607	2)	2,371	2)
Waste for recovery	1,034	715	49	310	359	382	2,220	2,602	2)	1,023	2)
Hazardous waste	52	2	10	-	10	8	-	8	17	-	17
Total	1,301	1,485	527	2,932	3,459	677	6,540	7,217	1,502	3,394	4,896
Recovery, %	79.5	48.1	9.4	10.6	10.4	1)	33.9	36.1	2)	30.1	2)

Figures for Rimi Baltic include cardboard and plastic collected from stores.

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

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



Case

RECYCLING PLASTIC CORES FROM AGRICULTURAL STRETCH FILM

Kesko Agro Ltd and Oy FL Pipe Ab began working together with nine K-maatalous stores to collect and recycle the plastic cores used in rolls of stretch film in autumn 2005. All the stores that volunteered to join the project were K-environmental stores. The feedback from the trial has now been collated and will be used for a larger-scale collection system to be introduced in 2006. The aim is to extend the network of participants involved, and make collection standard practice.

Polypropylene cores manufactured by FL Pipe and used by companies such as Rani Plast at the heart of rolls of stretch film are ideal for recycling. Cores are collected and shredded at a plant at Kaustinen, after which they can be used as raw material for producing new cores. The latter can be produced from up to 100% recycled material. By returning used cores to their local K-maatalous store, farmers can make a useful contribution to plastics recycling, while the stores involved help promote a more environmentally aware approach to waste.

The challenge for stores has been to encourage their personnel and their customers to come on board. Sales personnel need to tell customers about recycling opportunities, for example, while warehouse personnel need to ensure that only the right types of cores are sent for recycling and that the process runs efficiently. Kesko Agro and FL Pipe are also marketing the idea more generally to increase its visibility in the farming community.

The trial phase of the project generated a modest 5,000 kg of waste cores, but the system has the potential to produce up to 140,000 kg annually. A 70% collection rate is seen as realistic. Establishing and developing the system is expected to take between three and five years.

The organisers are planning to arrange a competition for participants in 2006, with a spa trip for two as the prize. The competition form will include listing the number of cores returned, to enable how the project is progressing around the country to be monitored.

Case

ESCAPING THE MOULD TRAP

Some 200 homes seriously infested by mould and mildew are identified annually in Finland. Eliminating the problem, and making the homes habitable again, calls for the input and skills of a number of experts. As part of efforts to help combat the problem, Rautakesko signed an agreement with the Pulmonary Association Heli in January 2005. Under this, Rautakesko will donate building supplies for renovating and repairing affected homes to the 'Mould Trap' project, jointly run by Heli and Asumisterveysliitto AsTe ry, an organisation dedicated to helping people deal with health and housing-related problems. Rautakesko's assistance goes to families entitled to receive state assistance in eliminating health hazards in the home. Rautakesko donated some €3,000 in 2005, and donations will continue in 2006. The plan is to renovate around 15 homes a year during the first phase of the project.

Experts from Heli survey applicants' homes and draw up a repair plan, and monitor that the repairs needed are carried out correctly. They also train Rautakesko personnel and arrange joint info-sessions at stores to advice people with mould problems about the issues that need to be taken into account and the types of repair that require specialist assistance to ensure success. Training events will be started in 2006.

The Virtanen family from Valkeakoski was one of the first participants to receive Rautakesko assistance. The family bought their house, which was built in the 1970s, in 1998. Although surface moisture readings were taken at the time, a more thorough going study of the house's structures was not made. The repeated illnesses of the family's children that followed after the Virtanens moved in, however, indicated that something was wrong. Investigations showed that their home had multiple problems; the thermal insulation of the outside walls on the building's ground floor proved to be completely mould-infested, for example. Repair plans were drawn up with the help of Heli and AsTe experts, but work only started on implementing them in 2004 after the liability questions involved had been resolved.

The repairs needed proved very extensive. In addition to removing mildewed mineral wool insulation, the underlying load-bearing walls had to be demolished and rebuilt in sections to ensure that the first floor was safe. A new ventilated floor had to be installed above the building's damp load-bearing base slab to eliminate the danger posed by moisture rising through the structure and creating new problems. The project was largely completed by the end of 2005, enabling the family to look forward to a normal life from now on.

Anu and Jani-Pekka Virtanen's seven-year battle against mould in their home is virtually over with the exception of some minor finishing work.



environmental performance of products and packaging for many years. The Corporate Responsibility Unit has participated in several national development projects aimed at promoting the measurement of environmental impact related to production and consumption. As environmental impact must be assessed over the entire life-cycle, achieving clear-cut results has been difficult and their implementation has progressed slowly.

The selection and marketing definitions concerning organic and Fairtrade products and products with environmental labelling are included in K-food stores' chain concepts. Kesko Food offered a selection of around 500 organic products and around 500 products with environmental labelling as of the end of 2005. Both of these figures, the latter in particular, increased on 2004, although the increase in products with environmental labelling can be attributed mainly to more accurate statistics practice. There were 34 organic products in the Pirkka range. It was estimated that the sales growth in Pirkka and other organic products continued to exceed the average, but no accurate statistics are available. Some organic products - such as milk and meat - are delivered to K-stores directly from suppliers, and K-retailers buy organic vegetables not included in the Kesko range from producers directly. Consequently, it is difficult to obtain reliable information about the actual market share of retail organic products.

Seven out of the 11 stores in the finals of the Organic Store of the Year competition arranged by Finfood Luomu were K-stores. The winners were K-citymarket Jumbo of Vantaa in the large store category and K-market Härmälä of Tampere in the medium-sized store category.

Most producers of the fruit and vegetables imported by Kesko Food - representing around 91% of total imports of these products - have obtained EurepGAP certification, granted by an independent agency for fulfilling the traceability, product safety, and environmental requirements set for production by EUREP (Euro-Retailer Produce Working Group). The acronym GAP refers to good agricultural practices. The remaining 9% of imports come from Polish, Hungarian, and Egyptian producers, who have started preparing for certification.

Kesko Food's Finnish suppliers of vegetables must belong to the Finnish Horti-

cultural Products Society (KK) to use the society's seed leaf symbol. The Society has drawn up a set of guidelines entitled 'Good production practices' for growers.

Rimi Baltic has cooperated with the ministries of agriculture and farmer organisations in the Baltic countries to promote the awareness and commercial use of national quality labels. These labels ensure the quality, safety, and traceability of production, which often consists of local food, and some foods are organic. In Estonia, Rimi Baltic sells 177 products under the Estonian Taste Label, and 101 with an Approved Taste Label. The range in Latvia includes 143 products with the Green Spoon - Latvian Quality Label, and 7 organic products with the EkoAgros label in Lithuania. The ranges in Lithuania also include Environmental Protection Club (EPC) -labelled washing powder and detergents.

Rautakesko offers a wide range of products featuring environmental, energy, or emission category labelling. Certified timber - mainly with FFCS certification - accounted for over 90% of sawn goods sold by Kesko. In all, 600 tons of impregnated timber were recycled through K-rauta and Rautia stores, up 37% on 2004. Rautakesko cooperated with the WWF's Operation Mermaid in its 'Wastewater Expert' campaign to protect the Baltic Sea and participated in the 'Mould Gap' project organised by the Pulmonary Association Heli. See the case story on page 42 for more information.

K-environmental stores

The K-environmental store operating model is incorporated into the chain concepts for Kesko Food's K-citymarkets, K-supermarkets, and K-markets. The entire personnel of K-environmental stores receive basic training on environmental issues, and supplementary training on a variety of themes is arranged annually. The special theme for 2005 was energy savings. Bureau Veritas Quality International (BVQI) audits each store when it introduces the K-environmental store concept, and carries out repeat audits in stores selected by annual sampling. Audits focus on evaluating whether a store meets the detailed requirements set out in the K-environmental store checklist. In addition to training, these cover areas such as product selection and labelling, prevention of the generation of in-store waste and promoting the recycling of this waste, recycling services and consumption-related environmental information offered to customers, in-store energy management, and cleaning practices. Some of the requirements are also included in the chains' concept measurements.

All K-citymarkets and K-supermarkets, except for four of the latter, were K-environmental stores as of the end of 2005. The K-market chain targeted having all stores in the chain as K-environmental stores by the end of 2006 in 2004. In line with the reorganisation implemented by Kesko Food in 2005, all small stores are centralised under the guidance of the K-

market chain unit, which will lead to changes in the store network. As a result, the chain has been forced to slow down its implementation schedule of the environmental concept in stores. The current target is to increase the number of 92 K-environmental stores by 100 during 2006.

Chain management work in the K-rauta and Rautia chains focuses on developing the stores' operating model in cooperation with the K-environmental store development teams of both chains. These teams consist of retailers and employees responsible for environmental issues. Hardware and builders' supplies stores and agricultural stores cooperate with the Environmental School of Finland (SYKLI) in auditing work. Repeat audits are carried out every three years. The number of K-environmental stores increased by



The symbol of the K-environmental store.

K-environmental stores at 31 December 2005

Chain	K-environmental stores	Share of K-environmental stores out of the chain's total sales, %	New K-environmental stores in 2006 (target)
K-environmental store diplomas			
K-citymarket	53	100	**)
K-supermarket	146	97	**)
K-market	92	25	100
K-pikkolo	1	*)	*)
K-rauta	17	54	*)
Rautia ***)	22	28	*)
K-maatalous	13	39	*)
K-environmental store diplomas, total	343		
ISO 14001 certificates			
Anttila/Kodin Ykkönen department stores	33	100	**)

*) no data available

***) all stores of the chain

****) 4 Rautia environmental stores also operate as K-maatalous stores

Case

LOOKING FOR NEW WAYS OF SAVING ENERGY

A 'K-environmental Store of the Year' competition was organised among the various chains of Kesko Food in 2005 around the theme of energy conservation. The competition was designed to highlight the best energy-saving practices in store chains and motivate stores to continuously develop their work for a better environment. The title of 'Energy Saver of the Year 2005' was awarded to K-citymarket Kotka, K-supermarket Toijala, and K-market Härmälä in Tampere. Each of the winners received €1,000 to use for general recreational purposes.

Participants described measures that they have taken to save energy on the competition form, after which Kesko Food reviewed the progress the stores in question had made in energy usage since 2003 and in using the EnerKey energy monitoring system. When the results of this analysis were in, two finalists were selected from each chain, and on-the-spot audit visits carried out.

In selecting the winners, particular attention was given to the specific energy-saving measures that each store has implemented, and to the proactive input of retailers, department store managers, and personnel in developing environmental work. The savings achieved in energy consumption have largely been generated in day-to-day procedures and operations. Air conditioning and interior lighting, for example, have been programmed to coordinate with opening hours more effectively, spot lighting has been reduced, and the brightness of general space lighting reduced during cleaning and shelving, while lights in storage and staff areas are turned on only when needed. Observing maximum fill levels in frozen food cabinets has also been underlined, as well as the need to defrost this equipment regularly. Cleaning chilled cabinets and radiators regularly, and using water with an eye to avoiding waste are also important. All of the winning stores had carried out these measures in an exemplary way.

Good examples of the original energy-saving practices implemented by the finalists in the competition include eliminating cold drink displays that are not part of a store's concept, more appropriate lighting of exterior areas at night, reducing excessively high water temperatures in hot water systems, turning off PC displays at night, and using automatic lighting in toilets.

K-market Härmälä in Tampere outshone itself in coming up with numerous ways of working designed to promote a more sustainable environment in 2005. It was awarded a K-environmental store diploma, won the 'Organic Store of the Year Competition' in its category of medium-sized grocery outlets, and was named 'K-environmental Shop of the Year' in the K-market category. Retailer Ritva Salonen and Markku Pönkä, responsible for environmental affairs, are seen here checking temperatures in the fruit and vegetable department.



eight in the Rautia chain, and by four in the K-maatalous chain during 2005.

Rautakesko started planning the introduction of the K-environmental store concept in its operations outside Finland at the beginning of 2006. No exact timetable has yet been decided. Plans have also been made by Rimi Baltic, drawing on the fact that the company's other owner, ICA AB, has an environmental store concept similar to the Finnish K-concept in use in Sweden. No decisions have yet been made at Rimi Baltic.

Environmental office work programmes

The 'ViherNokka' environmental programme for office work has been in use at Kesko's main office building in Helsinki since 2003, together with the 'ViherHakkila' programme at Kesko Food's central warehouses. The programme was extended to the Turku distribution centre in 2004, where it is known as 'ViherTurku'. The target has been to create uniform instructions and practices for waste segregation, energy savings, paper consumption, and office purchases. Both of the two programmes include a written manual and material on Kesko's intranet.

Environmental programmes have an established position in office work. Reducing waste volumes did not meet expectations in Kesko's main office building in 2005, due to numerous repairs and removals at the premises. More than 5,000 folders were sent for recycling in the Greater Helsinki area, and a truckload of surplus office equipment was sent for recycling as part of office reorganisation. The practice of sending recycled magazines to hospitals, health centres, and retirement homes continued.

A multi-function office equipment project was started in the main building in summer 2005 to assess printers and methods. This revealed that equipment was aging and that both personal printers and copiers were underutilised. The goal is to continue centralising printing by reducing the number of personal printers and replacing dedicated copiers on each floor with multi-function equipment incorporating printing, copying, scanning, and telefax capabilities. The volume of material should be reduced, thanks to the adoption of duplex printing and copying as standard features. Scanning will also reduce printing needs, as more docu-

ments can be saved and sent in electronic form.

Kesko's offices used 6 million sheets of A4 paper (19 tons) and 5.2 million envelopes in 2005. One third of all paper was used for copying and two thirds for printing. Waste paper included 44 tons sent for recycling, 134 tons sent for secure disposal, and 34 tons of office paper. A total of some 30 million email messages were received and sent. Given that the annual consumption of envelopes at Kesko was 10-11 million at the end of the 1990s, it can be seen that emails today account for more than half of mail needs.

Stakeholder cooperation and communications

Kesko continued to maintain close contacts with its stakeholder groups in the area of environmental activities during 2005.

Contacts with the Finnish and EU authorities were primarily maintained through the Environmental Committee of the Federation of Finnish Commerce and Trade (now the Federation of Finnish Commerce). Kesko had a representative on the Advisory Committee of the Finnish Environmental Institute, on the Executive Group of Environmental Labelling (Ministry of Trade and Commerce and SFS), on the Environmental Committee of Euro-Commerce, and on the energy and environmental committee of the International Chamber of Commerce.

Kesko representatives participated in the work of several organisations and associations in Finland, including the Finnish Food Marketing Association, the Finnish Standards Association SFS, the Finnish Packaging Association, the Finnish Society of Refrigeration, Elävä kaupunki-

keskustary (Living Downtown Association in Finland), and producer communities responsible for recycling packaging materials and electrical and electronic scrap.

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

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

K-food retailers continued the programme of cooperation with teachers of biology and geography started in 2004. The 'Let's Recycle' project for grade 7 comprehensive school pupils involved approximately 9,000 participants.

Representatives of Kesko's Corporate Responsibility Unit gave around 50 lectures on Kesko's work in the areas of environmental and corporate responsibility at universities, institutes of higher education, polytechnics, and other organisations.

Kesko's overall reporting was judged the best in Finland in the annual comparison of corporate responsibility reports arranged by the Association of Environmental Management and others for the fourth time. In 2003, Kesko was ranked second.

Kesko's ratings in sustainability indexes and other comparisons are presented on page 20.

Subsidiaries outside Finland also maintained contacts with their local stakeholders. Kesko Agro, for example,

has supported a professional skills competition for young Estonian farmers, a similar competition for farms in Lithuania, and cooperated with the Latvian farmers' advisor organisation and a university agricultural faculty.

Environmental risks, damage, and incidents

The Group's environmental systems include an environmental risk management capability fully compliant with the ISO 14001 standard. Managing environmental risks is also part of Kesko's security plan. The greatest risk to a company operating in the trading sector is fire, and Kesko has provided all its personnel with instructions and training needed to meet this contingency. Risks relating to soil contamination are discussed on page 33. Kaukomarkkinat Oy's terminal operations in Hamina include intermediate warehousing of industrial raw materials, some of which are classified as hazardous to the environment. In accordance with the SEVESO directive, the terminal has been defined as an installation involving major accident hazards, and it submits regular reports on its operations to the authorities.

No environmental emissions occurred at the Hamina terminal in 2005 that would have required a statutory report under the facility's environmental permit.

No environmental damage or accidents were reported by Kesko's subsidiaries outside Finland.

Social performance

Key social performance in 2005

+	-
<ul style="list-style-type: none"> Fixed-term and part-time employees accounted for a smaller proportion of personnel in Finland and the entire Group. Job satisfaction improved in Estonia and Latvia, remained unchanged in Finland and Sweden, and declined in Lithuania. Employees' satisfaction with equality improved. Number of sick days as a proportion of working hours dropped. Number of accidents and their seriousness decreased. Money spent on occupational health service increased by 6% per employee. More time was spent on training, but less money. 	<ul style="list-style-type: none"> Number of employment contracts terminated for production- and financial-related reasons increased on 2004. Number of summer employees declined in Finland, and increased elsewhere. Kesko's attraction as an employer remained unchanged among students and declined among young professionals. Average retirement age dropped. Proportion of women in middle management took a slight downward turn after increasing for many years but continued to increase in senior positions, however.

Introduction

Kesko has direct social responsibility for the wellbeing of its own personnel and indirect responsibility for the wellbeing of the people working in its purchasing chain. Indicators of social responsibility reflect the state and development of the working community from a number of viewpoints. Kesko's job satisfaction survey assesses the opinions of employees about the company, the performance of their superiors, their working conditions, salaries and social benefits, equality, job enjoyment, and many other issues. Statistics on the duration of employment contracts, turnover of personnel, sickness, workplace accidents, supplementary training, and retirement complement the picture on how successful management has been.

Employment and employee turnover

Kesko Group had 24,779 or 91.8% permanent employees and 2,199 or 8.2% fixed-term employees as of the end of 2005. 1,374 people on long-term leave, 1,124 of whom were on parental leave, are included as permanent employees. Due to the Christmas season, the proportion of fixed-term employees is higher at the end of the year than at other times.

Part-time employees accounted for 24.3% of all Group personnel. The majority of these worked for retail companies in Finland. Approximately three quarters of all Group employees work in retailing.

Employment trends in Finland and foreign subsidiaries are presented in the table on page 48, which shows that the proportion of both fixed-term and part-time employees has remained unchanged in foreign subsidiaries and continued to decrease in Finland, and consequently in the Group as a whole.

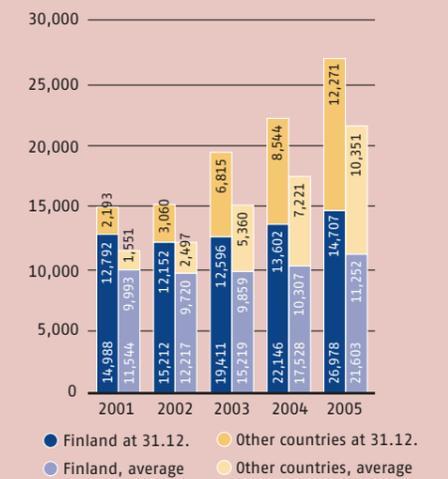
The Group employed 4,522 new people in Finland and 4,046 in other countries during 2005. A total of 4,302 employees left the Group in Finland, and 2,753 in other countries. Staff turnover in Finland

was 24.2%, excluding summer employees (the difference in relation to the number of personnel at the end of the year), which is approximately the same as in 2004 (23.9%). The average turnover rate outside Finland was 33.3%, but the differences between companies were large, varying between 11% and 48%. Turnover rates were not available for Norgros AS or Rimi Baltic AB.

The most common reason for terminating employment with Kesko in Finland was a fixed-term contract, accounting for about 46% of departures. Elsewhere, the reason for approximately 55% of departures was employees leaving the company of their own volition. About 6% (256) of employment contracts in Finland and about 19% (123) elsewhere were terminated for production and financial reasons or other reasons based on the Contracts of Employment Act. During 2005, 177 persons retired in Finland and one elsewhere. Details are not available for Pikoil, Norgros AS, Rimi Baltic AB, or Senukai.

The Kesko Group had 748 summer employees in Finland and 244 in other countries, the majority in retailing and warehousing.

Number of Kesko Group employees



Personnel statistics for 2005, breakdown by country

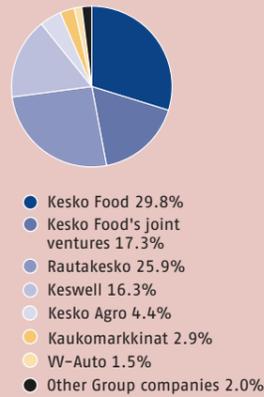
	Finland	Estonia	Latvia	Lithuania	Russia	Sweden	Norway
Total personnel at 31.12.	14,707	443	654	4,410	266	744	612
In 2005, average	11,252	415	515	4,009	111	518	258
New employees, number	4,522	121	502	2,735	300	388	*)
Contracts of employment terminated, number	4,302	148	208	2,142	55	200	*)
terminated by employer	256	5	4	*)	7	91	*)
Summer employees of the total	748	61	34	47	0	102	*)
Turnover rate, %	24.2	19.6	26.6	46.9	22.3	13.2	*)
Sick days	142,163	3,089	4,973	39,116	1,051	4,032	*)
per person	9.7	7.0	7.6	8.9	4.0	5.4	*)
per million working hours	7,180	3,685	4,782	4,854	4,782	4,422	*)
Salaries paid, € million	326	5.3	25.6	33.0	1.5 (***)	15.8	12.6
average annual salary, €	28,944	8,741	**)	7,988	13,072	28,473	48,746
Vocational training, %	59	45	68	*)	27	*)	*)
Higher education with degree, %	19	49	28	24	59	*)	*)
Training days per person	1.8	2.1	3.6	0.4	1.3	1.9	*)
expenses, € per person	370	325	187	48	26	254	*)
Unionisation rate, %	33.7	-	-	-	-	38.0	29.0

*) data has not been collected or is inaccurate

**) Kesko's share of Rimi Baltic AB's salaries has been recognised in Latvia, and it was not possible to calculate the average salary in Latvia

***) Personnel numbers and salary data for Russia also include ZA0 Kestroy. In other respects the data is for the Stroymaster chain only. Data for Rimi Baltic AB and Keswell subsidiaries outside Finland is not available, except for salaries.

Breakdown of Kesko Group employees by division at 31 December 2005



Age breakdown of personnel in Finland in 2005



Duration of employment in Finland in 2005



A total of some 500 vacancies were advertised on the Kesko Group's internal labour market via the company's intranet.

Average age and duration of employment

The age breakdown of Group personnel in Finland is presented in the chart below. Nearly half of employees are now younger than 36, while those over 55 account for only 9%. The average age of personnel has dropped in parallel with the increase in the role of retailing in Group employment, although this was no longer the case in 2005.

Employees are, on average, even younger in subsidiaries outside Finland: under 34 years of age in Estonia, 32 in Lithuania, 31 in Latvia, and under 28 in Russia.

The average duration of employment contracts in Finland was just over 9 years at the end of 2005, unchanged from 2004. A breakdown of the duration of employment contracts is presented in the chart on this page, which shows that 1,847 or 14% of employees had worked for the Group for over 20 years.

The short history of subsidiaries outside Finland means that the longest employment contracts current there are less than 10 years. Over 50% of employees have worked for the Group for less than two years, and only 14% for more than five years.

Statistics are not available for Pikoil, Norgros AS, Rimi Baltic AB, or Senukai.

Kesko's profile as an attractive employer

Kesko monitors how it is perceived as an employer in Finland through a number of surveys conducted among students and the young, working population. Regular surveys are also conducted into Kesko's

employer profile among top decision-makers and other influential people in society.

Five studies in all were carried out in 2005: two surveyed student opinion (Universum and Talentum), two surveyed the general working population (Universum and Talentum), and one decision-makers (Taloustutkimus).

In the student surveys, Kesko's ranking remained at 2004 levels. Respondents ranked Kesko 30th (30th) out of the 100 companies included in the Universum survey, and 32nd (34th) in the Talentum survey. Students considered Kesko a reliable, stable, and relatively interesting employer, which offers versatile jobs, but not in a very dynamic sector. Some described Kesko as slightly old-fashioned and too large.

Young professionals (with a polytechnic or university education in economics or technology) were generally more critical towards companies than students. Kesko's position among young professionals (Universum / career of 4-5 years) was ranked 26 (14), and 42 (34) among senior white-collar employees (Talentum). Kesko's position in terms of employer profile dropped slightly among young professionals in 2005 but the overall image of Kesko as an employer has developed positively since 2000. Young professionals consider Kesko a stable, reliable, trustworthy, and efficient company, but also as large and inflexible, in the same way as students.

In the VIP survey that assessed the opinions of managers in large companies, organisations, municipalities, and government agencies, Kesko's reputation as an employer fell slightly short of the average rate, both in the comparison of large companies (40 in all) and that covering trading sector companies. The estimates remained relatively unchanged from 2004.

Fixed-term and part-time employment in 2002-2005

	2002	2003	2004	2005
Fixed-term employees as a % of all personnel at 31.12.				
Finland	17.3	18.6	16.2	14.1
other countries	1.4	3.1	1.1	1.0
entire Group	14.1	12.9	10.2	8.2
Part-time employees as a % of all personnel at 31.12.				
Finland	41.1	41.3	40.1	37.1
other countries	9.9	8.8	8.7	9.0
entire Group	34.9	29.8	27.8	24.3

Management quality

Employees regard 'We create a good working community' as Kesko's most important value.

A good physical, mental, and social working environment is a prerequisite for the wellbeing and good performance of employees. Kesko believes that job satisfaction surveys are the most important and versatile tool for evaluating management quality and the development of the working environment. Kesko's annual survey measures people's satisfaction with their job, their superiors' performance, the operations of their units, and of Kesko as a whole. The survey that was carried out during autumn 2005 in all the countries where Kesko operates was implemented by TNS Gallup Oy/Retail in Finland and by Fontes Latvija in other countries.

Job satisfaction unchanged in Finland

Job satisfaction has remained relatively unchanged during the past five years. However, as the survey was revised in 2004, the results are not fully comparable with those from previous years. The results are presented in the table on page 50.

In Finland, 8,598 employees, accounting for 69.9% of all, responded to the survey, which was slightly more than in 2004 (68.3%). The survey did not include employees on long-term leave or Pikoil Oy, which was transferred to Kesko Food in full in November 2005.

Employees' satisfaction with their jobs has slightly improved over the years in Finnish companies, whereas satisfaction with Kesko's operations has slightly decreased since 2002. The changes have been very small, however. The strengths listed in 2005 were the positive development in superiors' performance, people's satisfaction with their work and their unit's targets, the high perceived level of customer satisfaction, and the Group's focus on environmental issues. Satisfaction with internal mobility opportunities has decreased for several years, and was now rated at 3.05. Employees' confidence in Kesko's future outlook decreased from 3.91 to 3.75.

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

Case

PROMOTING BEST WORKPLACE PRACTICES

The job satisfaction survey carried out among Kesko Group employees annually forms part of Kesko's indicators of management quality, and its results are used in developing the workplace and the wellbeing of employees across the Group. Job satisfaction has been monitored and measured since 1996. The survey was updated in 2004, to improve comparability with studies on Kesko's external employer profile.

The role and importance of managers, and the way they do their job, are important factors in determining the quality of employees' working lives. The job satisfaction survey measures employees' empirical experience, however, and translating this information into numerical data is difficult. The need for statistical reliability also means that hundreds of replies are needed, which is not always feasible in every workplace. Numerical results are not an end in themselves, however, and job satisfaction studies should be seen as one tool among many for developing the working environment. To establish how the results of job satisfaction surveys are used in practice, and how well they serve the needs of managers in running their teams, 20 Kesko Food managers were interviewed in spring 2006 as part of the company's wellbeing at work programme. The interviews were carried out by Kesko's Occupational Psychologist, Janne Riste. The interviews were treated confidentially and have not been reported on separately.

The role of the occupational psychologist in the interviews was to assist managers in interpreting the results of the job satisfaction survey, help them identify significant information, and recognise areas that call for development work. His job was also to act as a sounding board for managers and as someone with whom managers could discuss their view of things and their own feelings, and to test various ways of working together and feedback options.

Although respondents to the job satisfaction survey believe that progress has been made in making use of its results in the Kesko Group over the years, they also feel that there is still room for improvement. A summary report of recognised best practices has been produced, and its findings are reviewed at Kesko Food's Management Workshop in April 2006, with the aim of enhancing managers' capabilities, providing managers with better tools, and thereby promoting the wellbeing of the entire working community.

Tuulikki Markkula, Customer Relationship Director of K-Plussa, and Janne Riste, Occupational Psychologist, analysing the results of the job satisfaction survey.



All foreign subsidiaries not included in the survey

Outside Finland, the response rates dropped slightly, except for Sweden, and varied between 51% and 74%. The survey was not carried out in Senukai in Lithuania or in Rautakesko's new subsidiaries acquired during the year (Norgros AS, Stroymaster). Rautakesko aims to extend the survey to include all its foreign subsidiaries in autumn 2006. A corresponding survey has been carried out in Rimi Baltic AB, but this was not comparable with Kesko's survey. In 2003, Kesko Food's then subsidiaries in Estonia and Latvia were included in Kesko's survey.

Job satisfaction improved in all areas in the Group's Estonian and Latvian companies, decreased in Lithuania, and remained unchanged in Sweden on average.

Other evaluation practices

Management quality is also evaluated regularly through many other surveys. Kesko's annual customer satisfaction survey indicates how both external and internal customer relations are developing. All Group units carry out annual team-based self-evaluations, using the criteria developed by the Finnish Quality Award. An in-house quality competition, arranged every other year, is linked to this evalua-

tion. An evaluation of managerial practices and related development plans at senior executive level started in autumn 2002, and has also been introduced for managers at other levels.

It was concluded that the system of electing an 'Employee of the Month', in use for many years, had come to the end of its useful life in 2005. The number of proposals had declined, and it was decided to discontinue the practice in spring 2005. The intention is to identify new - but not necessarily corresponding - ways of recognising this type of action during 2006. The practice of selecting a 'Manager of the Year' continues.

Some Group companies outside Finland have a similar 'Employee of the Month' system.

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

five management representatives and meets regularly to consider complaints and problems presented by employees.

Health and safety

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

Sick leave in Finland

The total number of sick days in Finland in 2005 was 142,163, or 9.7 days per employee calculated from the number of employees at year-end (9.9 days in 2004) - or 7,180 days per million working hours. In terms of working hours, the figure represented a decrease of 2.8%. The most accurate indicator would be the percentage of the total hours of absence of the total planned number of working hours. In Kesko's statistics, sick days of part-time employees are entered as full days. If they could be entered in hours, the indicators for sickness absence would be slightly smaller than those now given.

The graph on page 52 shows the reasons for sickness absence. Compared to 2004, the major changes were a 10.5% decrease in the number of paid sick days, and a 32.2% increase in the number of sick days resulting from unpaid, long illnesses, both calculated on the basis of working hours.

Three employee wellbeing projects contributed to the decline in the number of short sick leaves, the most important of which was Kesko Food Logistics' H.Y.M.Y. programme (see the case on page 51). Long sickness allowance periods related

Job satisfaction of personnel in Finnish companies (scale 1-5)

	2001	2002	2003	2004	2005
Own job	3.73	3.72	3.71	3.79	3.82
Superior's performance	3.82	3.82	3.79	3.80	3.84
Unit's operations	3.73	3.78	3.76	3.76	3.78
Kesko's operations	3.60	3.71	3.70	3.68	3.64

Job satisfaction of personnel in companies outside Finland (scale 1-5)

	Sweden			Estonia			Latvia			Lithuania		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Own job	3.56	3.91	3.97	3.84	3.97	4.09	4.10	4.00	4.14	4.17	4.08	3.88
Superior's performance	3.73	3.87	3.74	3.90	3.84	3.96	3.93	3.83	3.98	4.08	3.94	3.71
Unit's operations	3.68	3.74	3.79	3.92	3.79	3.95	4.00	3.79	3.99	4.20	3.93	3.71
Chain's operations	3.67	3.75	3.76	4.06	3.80	4.01	4.17	3.74	4.02	4.25	4.03	3.65
Average	3.65	3.81	3.82	3.89	3.87	4.00	4.01	3.87	4.03	4.14	3.99	3.73
Number of respondents	230	261	380	1,198	342	377	576	226	398	71	101	116
% of employees	49.5	48.6	51.0	62.1	79.0	74.0	60.6	67.7	60.0	75.5	70.1	68.0

Sweden: K-rauta AB, Asko Möbler
 Estonia and Latvia: Rautakesko, Kesko Agro, Anttila, Indoor Group
 Lithuania: Kesko Agro



Case

CUTTING SICKNESS ABSENCE LEVELS

Kesko Food launched the H.Y.M.Y. programme in its logistics operations towards the end of 2004 in response to higher levels of repeat sickness absence and general absence from work. This type of absence has a direct impact on profitability and process efficiency, and creates extra work for those who have to cover for their absent colleagues. Cases of repeated absence from work affect around 15% of logistics personnel, and account for over 25% of all absence from work.

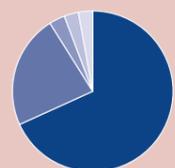
The H.Y.M.Y. acronym means Smile in Finnish, and is an abbreviation of the Finnish for 'A Happy Workplace Motivates All of Us'. The programme will run between 2005 and 2007 and is aimed at improving employee wellbeing and job satisfaction in Kesko Food's logistics operations and cutting sickness absence to 2000 levels. A special four-stage capability development tool has been developed for the programme, covering motivational discussions, two job capability discussions, and a dedicated health check-up. Employees are not expected to go through all four stages if the reasons for their problems can be identified at an early stage.

In addition to this development tool, the H.Y.M.Y. programme also relies on recognising the key roles played by individuals, jobs, the workplace, individual competence, and management in shaping how people experience their workplace. All these issues will be discussed with employees during the course of the programme. Particular areas discussed in 2005 included employees' potential for influencing developments at work, the general ground rules affecting the workplace, and the potential for flexibility. Special theme issues of the programme's special employee publication, which appears around four times a year, are to be produced. Two issues of a second employee publication were produced under the umbrella of the programme in 2005, reviewing progress made to date.

A total of 120 job capability discussions had been held with employees by the end of 2005, focusing on various factors linked to the physical stress associated with people's work. These have been addressed by improving such things as workplace ergonomics and introducing new ancillary equipment. New types of flexibility have also been introduced, by extending employees' opportunity for switching shifts with their colleagues, doing alternative work, or working a shorter week. The programme succeeded in reducing sickness absence levels in 2005, when the relevant index fell to 141, from 146 in 2004. The number of accidents at work also fell, with 32 fewer accidents of this type in logistics in 2005 than in 2004. As the total number of hours worked fell by 14%, the number of accidents per million hours worked was 5% lower than in 2004, and the level of related absences from work was 16% lower.

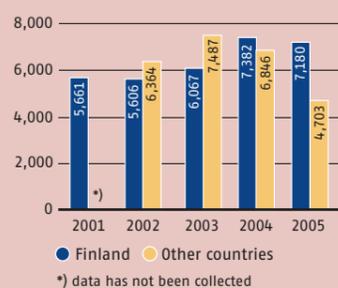
Back exercise groups organised by the Occupational Health Care Unit are popular at the Hakkila Central Warehouse in Vantaa. Participants receive information on factors affecting their health and how best to maintain their physical fitness. Exercises are designed to teach people how to know their bodies better and carry out their work safely, particularly with regard to lifting and carrying loads. Janne Ristekallio, Marko Kanerva, and Kimmo Virtanen can be seen here at one of the sessions.

Sickness absence in 2005 (Finnish operations)

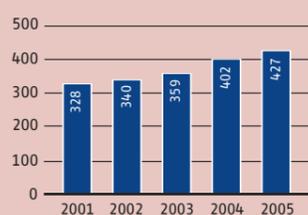


- Paid sick days 68.7%
 - Unpaid sick days 23.0% (long illnesses)
 - Care for sick children 3.2%
 - Workplace and commuting accidents 2.9%
 - Occupational diseases and rehabilitation 2.2%
- Total number of sick days in Finland: 142,163

Trends in the number of sick days, sick days per million working hours



Kesko's spending on occupational health service in Finland, € per person



to employees transferred to disability pension as a result of rationalisation increased the number of unpaid sick days. The number of paid and unpaid sick days used for rehabilitation increased by 38.4%. Rehabilitation focused on the 'ASLAK' courses (an abbreviation for vocation-specific early rehabilitation). Six new groups began in 2005, and some of the five courses started in 2004 continued in 2005. Occupational diseases presented in the graph with rehabilitation resulted in only 14 sick days.

The table alongside shows how the number of sick days per million working hours has developed between 2001 and 2005. The accuracy of the statistics has improved over the years, which has increased the number of sick days to some extent, while making comparisons between years more difficult. Accuracy increased in the recognition of unpaid sick days in 2005.

Sick leave in other countries

Subsidiaries outside Finland recorded 52,261 sick days, equivalent to 8.0 days per person (10.5 days in 2004) or 4,703 days (6,846 days) per million working hours. The details by country are presented in the table on page 47. The number of annual working hours per employee is 2,030 in Estonia, 2,020 in Latvia and Lithuania, 1,980 in Russia, and 1,760 in Sweden.

Relative sickness absence fell in 2005, but the figures for different years are not completely comparable. Kesko Food's Baltic operations included in the 2004 statistics were combined with Rimi Baltic in 2005, and the 4,000 Senukai employees in Lithuania were included in the statistics for 2005.

According to the breakdown of reasons of absence, care for sick children accounted for more days in overseas companies than in Finland, varying from 4.8% in Latvia to 17.0% in Sweden. Absence due to accidents was higher in the Baltic countries than in Finland and lower in Russia. Accidents caused no absence in Sweden. Due to the small number of personnel there, however, the figures are not directly comparable to the Finnish ones.

Norgros AS and Rimi Baltic AB are not included in these statistics. Rimi Baltic has started calculating sick days in Estonia and Lithuania. Absence accounted for 5.5% of working days in 2005, which is

approximately equal to the number of sick days in Kesko in Finland.

Prevention of workplace accidents

Kesko has devoted particular effort to preventing workplace accidents in logistics warehousing operations involving physical three-shift work in busy environments in recent years. Thanks to training for 'safety at work' cards, the 'Zero accident' programme and the wellbeing at work project, the total number of accidents in the Group's Finnish companies dropped by 8.2% at the workplace and by 4.9% during commuting. Their seriousness declined from 7.4 sick days to 6.8 days. There were no fatal accidents in 2005.

Occupational health service

Kesko's in-house Occupational Health Service Unit served approximately 5,900 Kesko Group employees in 2005, over 5,300 of whom were seen at the Group's own health clinics. The Unit employs six company doctors, 13 occupational health nurses, three occupational physiotherapists, and three secretaries/receptionists. Kesko also has an occupational psychologist employed by another unit in the organisation. Occupational health services for retail personnel are mainly bought in from outside providers.

Kesko's occupational health service focuses on wellbeing at work and on activities that maintain employees' work capabilities. These activities have accounted for over 40% of the unit's total volume in recent years. Kesko's occupational health service spent €427 per person in Finland in 2005 on promoting employees' work capabilities and health care. This sum has been steadily increasing in recent years (see the table on page 52).

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

Salaries and other benefits

The average annual salary of Kesko employees in Finland was €29,944 in 2005,

€34,323 in the other Nordic countries, and €6,926 in the Baltic countries - based on the Group's average number of personnel. Although fringe benefits are taxable income for employees, they are not included in salaries but recognised as other expenses. Company car-related expenses, for example, are booked as car expenses.

Because the operations of the Kesko Group are very diverse, with around 650 different job titles, average salary is not a very good indicator of employees' salary level and structure. Comparisons between the salaries of men and women are not very meaningful, either, due to the different nature of people's duties. The Group structure has also changed so much, both in Finland and elsewhere, that comparisons with previous years do not illustrate trends in salaries. As Rimi Baltic AB has not divided its total amount of salaries by country, the figure used here is the average for all the Baltic countries (see the table on page 47).

Bonuses

About €5.5 million was paid in spring 2005 in the form of bonuses under the profit-sharing system for 2004, accounting for nearly 1.9% of the total payroll. As bonuses are now paid at the end of March, no information on the bonuses for 2005 could be included in this report. The Group's bonus system applies to all personnel of Kesko Corporation and its Finnish subsidiaries, with the exception of retail stores, where bonuses are only paid to managers in Anttila department stores and K-citymarkets. Indoor Group also has a system of its own. The key factors contributing to the payment of a bonus are the overall performance of the Group and the division, sales and performance within a person's unit or their development, and customer satisfaction. The job satisfaction of personnel is another contributing factor for managers.

In addition to the Group's profit-sharing system, subsidiaries in Finland and elsewhere have their own bonus systems. Companies outside Finland paid nearly €3.4 million in bonuses in 2005 for 2004, accounting for about 5.9% of the total payroll. Due to payment dates, no information on the bonuses paid for 2005 could be included in this report.

Senior management - comprising some 50 executives of the Kesko Group - have a performance-based bonus system,

approved by Kesko Corporation's Board of Directors, in which maximum bonuses vary, depending on the profit impact of each person's job, equivalent to sums corresponding to between two and six months' salary.

Share options

Kesko had two share option schemes in 2005. When the share option scheme for top and middle management for 2000 was announced, it covered nearly 600 employees. The scheme's share subscription period ended on 31 March 2006. The 2003 Annual General Meeting approved a new share option scheme, mainly for top management (the current 50 executives and possible new employees recruited to similar positions). The subscription period for this scheme will end, depending on share option, at the end of April 2008, 2009, or 2010. Both option schemes can be consulted at www.kesko.fi (Investors/Share information).

Personnel expenses in the financial statements for 2005 included share options granted to the value of €3.1 million.

Fringe benefits

Fringe benefits increased slightly in Finland. A total of 748 (669 in 2003) employees had a company car, and 2,760 (2,694) employees had a company telephone. The Group had no company housing, as the Kesko Pension Fund, the major lessor of dwellings to Kesko employees, sold over

900 rental flats to Mutual Insurance Company Pension Fennia and to the VVO Group in 2004. Rental contracts continued unchanged, however. No statistics are available on fringe benefits in companies outside Finland.

The Kesko Staff Club arranges a wide range of recreational activities for personnel, and contributes to enhancing the working environment for Kesko employees. The annual budget of the Club is about €0.5 million, and activities are divided between the main club and 11 district clubs. The club at Katajanokka in Helsinki, for example, runs 17 leisure circles, ranging from culture, music, glass art, and porcelain painting to many types of physical activities. A total of seven holiday cottages are available for rent to employees, and their occupancy rate was virtually 100% in 2005. Subsidiaries outside Finland spent approximately €260,000 on staff leisure and recreational activities.

Pensions

A total of 177 people (169 in 2004) retired from the Group in 2005. Of these, 87 (74) were members of the Kesko Pension Fund, while 90 (95) were insured by Varma-Sampo. The figure includes employees on partial retirement and partial disability pensions. Occupational retraining was arranged for 16 employees who were unable to continue in their previous jobs or whose working ability was at risk due to

Gender by employee category in Finland at 31 December 2005

	Women number	%	Men number	%	Total number
Top management	7	14.3	42	85.7	49
Middle management	119	23.6	384	76.4	503
Superiors, specialists	655	54.8	541	45.2	1,196
Workers, office workers	6,720	63.4	3,879	36.6	10,599
Total	7,501	60.8	4,846	39.2	12,347

Percentage of women by employee category in Finland in 2001-2005

	2001	2002	2003	2004	2005
Top management	10.2	10.4	8.9	13.3	14.3
Middle management	19.1	22.2	23.9	24.1	23.6
Superiors, specialists	55.8	56.8	58.2	55.4	54.8
Workers, office workers	64.8	65.5	64.3	63.7	63.4
Total	62.1	62.8	61.9	61.1	60.8

Pikoil Oy and 1,084 employees, mainly part-timers for the Christmas season, are not included.

illness. Only one person retired in a company outside Finland.

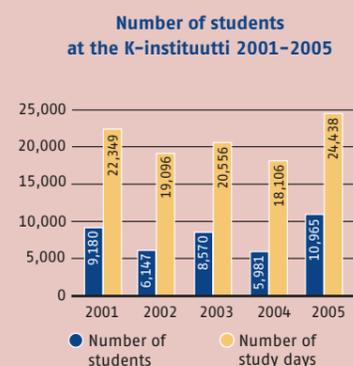
The number of employees who retired on full pension on health grounds increased by 8 to 66 in 2005. The number of early retirement pensions granted by Department A of the Pension Fund on production- or economic-related grounds totalled 24, in line with the average over the past five years.

The average retirement age of employees covered by pension decisions made by the Kesko Pension Fund dropped to 56.3 years (56.8), and in Varma-Sampo decisions to 54.7 years (57.4). This decrease in average age can be attributed to some young people retiring on disability pensions and, in the case of Varma-Sampo, the new Pension Act that enables employees to retire at their own discretion between the age of 63 and 68. The average retirement age of people in the Finnish national employee pension scheme has been 57.8 - 58.0 years (2004).

The average pension paid by the Kesko Pension Fund - €49.6 million to 3,284 people in all - was €1,259 per month in 2005.

Equality

Kesko's equality plan was drawn up in 1996, and its implementation is reviewed annually. Company-specific equality plans were prepared in late 2005, based on the Act on Equality amended on 1 June 2005. Targets include promoting the



Expenditure on supplementary training in Finland

	2001	2002	2003	2004	2005
Training days per person	1.9	1.5	1.6	1.2	1.8
Euros spent on training per person	598	445	528	543	370

No data on training days is available for Pikoil

equal application of women and men to vacant positions, equal opportunities for training and advancement, equality in reaching different organisational levels, and equality in salaries and other terms of employment.

As of the end of 2005, a total of 60.8% (61.1% in 2004) of Kesko Group employees in Finland were women, and 39.2% (38.9%) were men. The figures for Pikoil Oy and some fixed-term employees are not included here. In companies outside Finland, employee statistics became male-dominated in 2005 - the proportion of men was 64.8% - as food store employees were transferred under Rimi Baltic AB. No figures for Norgros AS are available.

There were seven women in top management in 2005, equivalent to 14.3% of the total. In 2005, one of the seven members of the Board of Directors was a woman, and there were two women on the nine-member Corporate Management Board.

Women accounted for 23.7% (24.1% in 2004) of middle management in Finland. Except for 2005, this proportion has increased every year since 2000, when corporate responsibility statistics were first published and the figure was 19.1%. The proportion of women in management and specialist positions dropped slightly to 54.8% (55.4%). There are no corresponding statistics available for companies outside Finland.

The number of women in supervisory positions is significant in retail subsidiaries. 82% of department managers in K-citymarket hypermarkets and 74% of department managers in Anttila department stores are women.

Kesko's implementation of equality was rated at 3.60 (3.57) on a scale of 1-5 in the annual job satisfaction survey. This rating has improved every year since 1996, except for 2004.

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

Training

Statistics are available for Kesko employees' basic training in Finland with the exception of retailing companies. Of the 5,004 people included in Kesko's statistics, 59% have a medium-level vocational qualification and 19% have a degree from an institution of higher education. The proportion of the latter has increased annually by approximately one percentage point. The corresponding figures for 2001 were 59% and 15%.

The percentage of employees with a higher education degree was higher in the Baltic countries and Russia than in Finland - 40% in Estonia, 28% in Latvia, 26% in Lithuania and 64% in Russia. No figures are available for Sweden, Norway, and Rimi Baltic AB.

A total of 19,833 working days, or 1.8 days per employee - based on the average number of personnel - were spent on supplementary training in Finland. A total of €4.2 million or €370 per employee was spent on training. As the figures for 2004 were 1.2 days and €543 per employee, the input in terms of duration increased in 2005, but declined in financial terms. Around 77% of training was internal, including training at the K-instituutti.

The number of training days in companies outside Finland totalled 6,100 or 1.0 days per employee, costing €590,000 or €99 per employee. Internal training accounted for 44%. Rimi Baltic AB and Norgros AS are not included in these figures. Rimi Baltic started an internal trainee programme for its young employees with an academic degree in 2005, with the aim of increasing the company's in-house potential for future managerial duties. The company also granted 29 scholarships to its employees for continuing their academic studies and signed an agreement with the Tallinn University of Technology to launch a new study programme focusing on retailing. Under this, Rimi Baltic will provide training jobs for 75 of the programme's students.

The K-instituutti training centre provided courses for 10,965 Kesko employees, K-retailers, and K-store staff in 2005. This compares to 5,981 in 2004. The number of study days totalled 24,438 (18,106). Student numbers vary from year to year, depending on whether large training programmes are offered. Two such programmes were organised in 2005: the SAP training events related to Kesko

Food's trading practices development and introduction of an operations control system, and the chains' 'K - a sign of something better' training events organised for the Group's chains.

A total of 15,258 students, of whom 811 were Kesko employees (including personnel from Kesko's retailing companies), participated in the Master Assistant training arranged by the K-Retailers' Association, mainly through distance learning. As in previous years, the programme was also offered in about 100 business colleges and polytechnics, most often during the final year courses. Some 5,500 students from educational establishments took part in training in 2005, and the best average results were achieved at the Häme Polytechnic Wetterhoff.

Activities in employer organisations

Kesko is a member of the Federation of Finnish Commerce (established as a result of the merger of the Federation of Finnish Commerce and Trade and the Commercial Employers' Association in Finland), the Swedish Commercial and Service Employers' Association, and NHO - the Confederation of Norwegian Enterprise. Rautakesko's and Kesko Agro's subsidiaries were not members of any organisations in the Baltic countries. The organisation and unionisation rate is very low

in the Baltic countries, and no binding, collective agreements covering any industries have yet been concluded.

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

Cooperation with employee representatives

A total of 33.7% (36.5% in 2004) of Kesko Group employees in Finland were unionised in 2005, mainly as members of Service Union United PAM. The statistics cover only those employees whose membership fees are charged from their salaries. In Sweden, unionisation was 38% (33.1%), and 29% in Norway. Only a few employees belonged to trade unions in the Baltic countries and Russia.

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

Kesko managers and experts belonging to AKAVA, the Confederation of

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

National cooperation meetings are arranged twice a year. Representatives of three new EU countries - Estonia, Latvia, and Lithuania - participated in international Group-level cooperation (European Works Council, EWC) for the first time in 2005. A representative from Sweden has attended the meetings in 2004 and 2005.

Finnish district courts had four cases (five in 2004) and the Court of Appeal three cases (two) pending in 2005 concerning disputes at Finnish companies in the Kesko Group related to termination of employment and changes in discounts granted to employees. All cases at the district courts in 2005 were decided in Kesko's favour, and in one case the plaintiff abandoned the claim. The Court of Appeal found completely in Kesko's favour in one case, and virtually completely in the Group's favour in another.

There were no employment disputes leading to legal proceedings in Group companies elsewhere.



Shop stewards held an European Works Council meeting on 7 March 2006. Participants included (clockwise in front from the right) Monica Klavsjö, Petri Järvinen, Helena Nenonen, Pekka Kankaanrinta, Pirjo Roti (interpreter), and Asta Mockuvienė.

Social quality control of suppliers

Key performance in social quality control in 2005

+	-
<ul style="list-style-type: none"> • Kesko's direct imports from high-risk countries decreased slightly • Market strength of BSCI cooperation increased as the number of member companies grew from 33 to 50 • The BSCI system for food production auditing was nearly completed – Kesko has been included in the planning group • The BSCI agreed on common audit targets for 2006–2008 • Kesko has 43 Fairtrade products in its selection, four in the Pirkka range 	<ul style="list-style-type: none"> • The number of suppliers with SA 8000 certification did not grow, as Kesko concentrated on promoting BSCI audits • BSCI audits took off slowly – the new operating system requires new outlining • Kesko's suppliers must also have other BSCI members as customers; no progress is possible with Kesko alone • Suppliers had many deficiencies at their initial audit, according to BSCI statistics

Introduction

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

As a buyer of home and speciality goods, Kesko is so small by global standards that it alone cannot persuade suppliers to carry out changes. Active cooperation with other European retail chains helps Kesko achieve better results in its own purchasing operations and offers good opportunities for influencing the development of labour protection and social quality in production in developing countries more widely than through its own business activities alone.

Managing social risks

Monitoring social quality is part of Kesko's risk management covering import purchases, and embraces many countries and product categories in which shortcomings relating to working conditions and terms of employment have been observed in international surveys. Kesko considers this risk group as consisting of 37 countries, and the product groups actively monitored include fruit, vegetables, flowers, clothing, home textiles, carpets, shoes, toys, and furniture. This group consists of approximately 350 suppliers with around 300,000 employees in all. Implementation of the monitoring system is the responsibility of the purchasing units handling these product groups in Finland. A corresponding procedure has not yet been introduced for direct purchases by subsidiaries outside Finland.

Direct purchases by Kesko's Finnish companies from suppliers in risk areas in 2005 totalled €84 million (€110 million in 2004). Imports accounted for 1.4% of Kesko's total purchases and 7.7% of Kesko's total imports into Finland.

In addition to its own imports, Kesko also buys goods produced in high-risk countries from other importers operating in Finland (see page 24) and through international purchasing groups. These imports mainly consist of international branded products that have been the subject of much attention in respect of the social quality of their manufacture in recent years. Kesko estimates that the value of these purchases is approximately similar to that of its own high-risk imports, which means that Kesko's purchases from high-risk countries as a whole account for about 3% of its total purchases.

No reliable statistics are available on this.

Ethical purchasing principles and tools

Kesko published its principles on socially responsible trading (see www.kesko.fi/responsibility) in spring 2000. These are based on the International Labour Organisation's key conventions and the UN Universal Declaration of Human Rights and Convention on the Rights of the Child. The international Social Accountability SA 8000 standard, introduced in 1998, is based on these regulations, and Kesko has recommended the adoption of this standard to its suppliers, and has stated

that it will favour companies that have obtained SA 8000 certification. Certifications can be granted by bodies, such as BVQI, SGS, DNV, and Intertek that have been approved by Social Accountability International (SAI) which developed the standard and monitors the operations of these bodies.

SA 8000 certification is too slow

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

A total of 881 companies worldwide, employing 508,000 employees, had SA 8000 certification as of the end of 2005. Certifications covered 50 countries, with the most in Italy (324 companies), India (125), China (119), Brazil (87), Pakistan (52), Vietnam (30), and Thailand (16).

Cooperation between European trade chains gets under way

A number of other trade chains in addition to Kesko have been working for the introduction of a joint auditing approach that would eliminate overlapping work – and this was finally launched in 2004, when a group of European chains estab-

lished the Business Social Compliance Initiative (BSCI) in Brussels to promote social audits. The BSCI operating model is based on the system that was used by the German Import Trade Association in 2002–2003. Kesko became a member of the BSCI at the beginning of 2005 and has committed itself to promoting the implementation of the BSCI Code of Conduct in its own purchasing. A Kesko representative was elected to the BSCI Executive Committee at the same time. BSCI membership increased from 33 to 50 companies during 2005. Swedish and Dutch textile importing organisations also remain members.

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

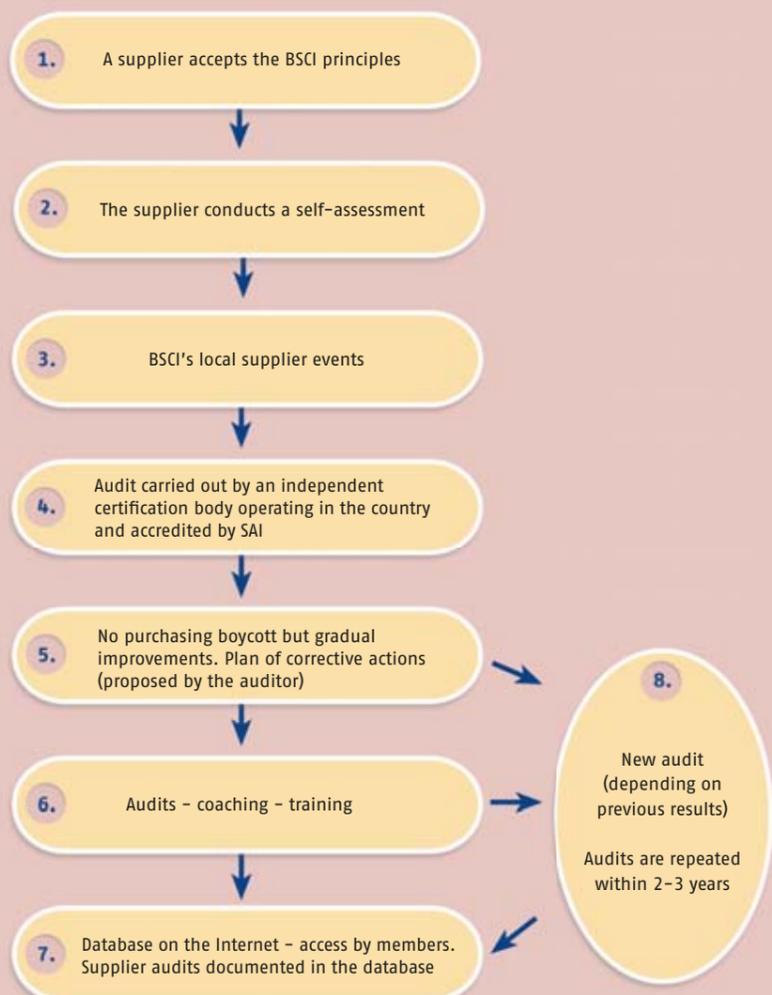
Monitoring in practice

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

Main elements of SA 8000 and BSCI audits

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

BSCI auditing process



audits, they need to have basic information on the relevant international standards. When Kesko started systematic auditing in 2000, basic training covering the ILO conventions and the SA 8000 standard was arranged for buyers. Since then, training has been provided annually for new buyers through half-day courses. Buyers use Kesko's internal handbook, which contains detailed instructions on cooperation between Kesko and its suppliers to improve working conditions.

When Kesko became a member of the BSCI, training events were arranged for buyers of imported goods covering the BSCI model. Buyers were given the BSCI

manual, together with Kesko's own revised manual for import buyers, and contact personnel were appointed in purchasing units to maintain Kesko's supplier data in the common BSCI databank.

Self-assessment provides the foundation for an audit

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

Prior to an actual audit, a supplier goes through all the BSCI requirements in his company with the help of a detailed

self-assessment form to correct any potential shortfalls in advance. Audits consist of an interview with company management, checking documentation, production, and housing premises, and staff interviews. The results and any rectification needs are discussed with company management at the closing meeting of an audit, and a continuation plan for corrective measures, with a timetable, is drawn up. In repeat audits, only the points identified for correction previously are checked.

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

A common database of audit information

When a supplier has requested an audit, Kesko's BSCI contact person enters their identification data in the common BSCI database. The auditing company then enters the supplier's auditing progress in the database on a phased basis, and a summary of the audit report when the final, approved audit has been completed.

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

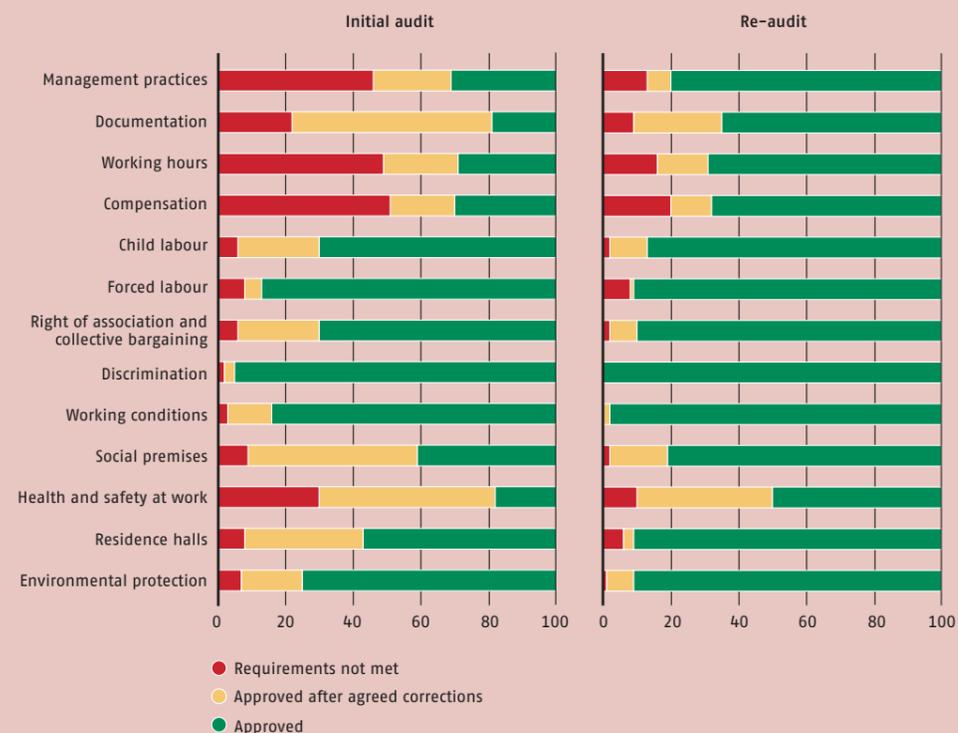
BSCI audits in 2005

Introduction of the BSCI model started at Kesko and other BSCI members - excluding German members that had started before - in early 2005. Because the approach was new for suppliers, the BSCI arranged several briefings during the year, to which members invited their own suppliers. Ten events arranged in China, India, Bangladesh, and Turkey attracted 748 suppliers in all.

Many shortcomings in the first round of audits

The BSCI database included 2,700 suppliers as of the end of 2005. Initial audits were carried out at 755 companies with 340,000 employees, and the first re-audits in 171 companies in 2005. The accompanying graphs illustrate the results of

Results of BSCI audits in different areas in 2005, % of audited companies



Initial audits were carried out at 755 companies, and re-audits at 171 companies. Percentages concerning residence halls have been calculated only for companies with residence halls. These represent 30% of all audited companies.

these audits in various areas. Initial audits revealed deviations from BSCI requirements in a great many companies, particularly in respect of salaries, working hours, management practices, occupational health and safety, and documentation. Most of the deficiencies were corrected by the time of re-audits, but some problems seemed to persist with working hours, salaries, and occupational health and safety.

Audit results suggest that suppliers in developing countries still need plenty of support, training, and time to meet all the requirements set by BSCI members on working conditions. Many developing countries already have training and consulting companies, which train suppliers in the development of social quality, recruited either by suppliers themselves or their customer companies. National and intergovernmental development projects have also been started. Kesko, for exam-

ple, will participate in a three-party development project to be started in Vietnam in late spring 2006. Most funds for the project will come from development cooperation aid provided by the Finnish government.

BSCI members agreed a joint target in autumn 2005 of persuading two thirds of their own direct suppliers in high-risk countries to carry out an initial BSCI audit at a minimum by the end of 2008.

Kesko's BSCI results modest so far

Kesko had 23 suppliers with SA 8000 certification in 16 different countries and one with the SQ certificate (SQ = Socially Qualified, the flower sector's own social certification equivalent to SA 8000), with a total of 54,000 employees, as of the end of 2005. This figure was unchanged from 2004.

42 Kesko suppliers, who had started or were about to start BSCI auditing, had

been entered in the BSCI database as of the end of 2005. Of these, 22 are in China, 10 in India, five in Vietnam, two in Bangladesh, two in Pakistan, and one in Taiwan. The process is progressing slowly - only one of the above companies has passed the BSCI audit, an initial audit has been made in one, and two have obtained SA 8000 certification.

Kesko's objective for 2006 is to have 50 suppliers covered by BSCI audits, including the 13 suppliers included in the development project in Vietnam. BSCI operations will be expanded to cover foodstuffs - both primary production and processing - in summer 2006, when Kesko Food will set its own objectives for food supplier audits. The first related briefings will be arranged in Morocco and Spain in May 2006. Rautakesko has started an assessment of high-risk suppliers as part of its development programme covering foreign purchases. After the assessment has been

completed, the same BSCI practice will be applied for purchases in all countries where Rautakesko operates. The Finnish parent company will be responsible for most imports, however.

The experience gained from applying the SA 8000 standard is also useful in promoting BSCI audits. Kesko alone is too small a buyer to interest its suppliers in promoting social quality and commissioning BSCI audits. Results can be obtained only when a supplier has several BSCI members as customers and all of them make similar demands. In the future, it will be impossible to tell exactly which BSCI members have been the catalyst for an audit of a common supplier – the most important thing is that the social quality of the company has improved and that all members have received information through the joint system that the requirements have been met.

Cooperation between Finnish importers

The 'Network to Advance Social Responsibility in Importing' continued operations under the umbrella of the Central Cham-

ber of Commerce and Kesko's chairmanship during 2005. The network comprised 19 companies, including all the country's major food trading groups and many clothing and shoe manufacturers and importers, as of the end of 2005. The operations, principles, and members of the network can be consulted at www.kauppakamari.fi, International/Social Responsibility in Importing/Member Companies.

The operations of the network focused on cooperation between the Finnish members of the BSCI and the development and training project to be organised in Vietnam together with the Department of Development Cooperation of the Ministry of Foreign Affairs, the Trade Union Solidarity Centre of Finland, and the Central Organisation of Finnish Trade Unions. The audit phase of the project, to be initiated in spring 2006, will be made using the BSCI model. The target for spring 2006 is to increase the number of BSCI members in Finland as food sector audits start.

Fairtrade products

Sales of Fairtrade products worldwide in 2004 are estimated to have totalled approximately US 1 billion. Sales continued to increase rapidly in 2005, and sales volumes in all the Nordic countries rose by several tens of percent. Sales of Fairtrade products in Finland rose by about 60%, to nearly €12.9 million. Sales of bananas increased by 105%, pineapple by 104%, oranges by 31%, and coffee by 15%. Bananas, coffee, and tea continued to be the most popular Fairtrade products, and

Fairtrade bananas increased their market share from 5% to approximately 7%. This sales data is based on information provided by the Finnish Fairtrade Labelling Organisation. No statistics are available on the value of these products sold through K-stores.

New Fairtrade products introduced in 2005 included grapes, avocados, lemons, and fresh pineapple. All groups of Fairtrade products, 43 in all, are represented in Kesko's product range. Organic coffee, organic tea, 100% mango-orange juice, and fresh pineapple are included in Kesko's Pirkka range. The Fairtrade products sold at K-stores and their countries of origin are shown in the table below.

Suppliers of products competing with Fairtrade products – typically global companies – have also focused on developing the environmental and social responsibility of their own operations. Dutch certification bodies have developed social certification covering the flower trade, for example, and this has been linked with the Fairtrade label in some European countries. Coffee, tea, and cocoa producers have set up their own social projects, and EUREPGAP certification is gaining ground among fruit producers (see page 42). The world's leading banana producer, Chiquita, had adopted SA 8000 certification and the Rainforest Alliance environmental certification. Although no public information has been provided on these projects so far, it seems clear that environmental and social quality are becoming key competitive factors in an increas-

ing number of product groups. The range of Fairtrade products is expected to further increase in 2006.

UNICEF project completed

A five-year Kesko project mediated by UNICEF Finland and implemented by UNICEF India's Mumbai office – which helped approximately 10,000 children attend school either on a part-time or a full-time basis instead of working in weaving factories – was completed at the end of 2004.

A new UNICEF project connected to Kesko's responsibility efforts was sought in 2005, but nothing suitable has yet been identified.

Kesko continued to participate in UNICEF Finland's campaign to promote the global education of girls. Cardholders in the K-Plussa customer loyalty programme can donate money accrued for their purchases in the form of Plussa points. These donations to UNICEF exceeded €5,000 in 2005.

Kesko, K-retailers, and Kesko staff supported the child victims of the tsunami catastrophe in Asia by donating approximately €50,000 to UNICEF, which was used to supply school boxes to Indonesia and Sri Lanka. Some donations were also made through the Finnish Red Cross.

Case

FROM AN OX-DRAWN CART TO THE SHELVES OF A K-STORE

Pirkka-brand Fairtrade fresh pineapples were added to the selection of fruit on offer at K-stores in October 2005. They are grown on 280 family farms belonging to the Asoproagroín Association in Costa Rica. The cooperative was founded in 2001 and sold its first Fairtrade pineapple in 2003. In addition to pineapples, the members of the cooperative also produce oranges.

Pineapple plants produce a harvest every 14 months, and Asoproagroín plantations grow the crop year-round. Pineapples are normally harvested from individual farmers once or twice a year. Following harvesting, the pineapples are shipped weekly from the farms using a system of joint transportation to the port of Limon on Costa Rica's Atlantic coast, an eight-hour trip away by road. The entire annual crop of between eight and 10 farmers is needed to fill one container. Emiliano Medina Ruiz farms pineapples on a 1.5-hectare plot of land. His pineapples travel from his smallholding in the hills near the border with Nicaragua to the nearest main road by ox-drawn cart. He likes the idea of his pineapples ending up on the shelves of a K-store and in a family's fruit dish in faraway Finland.

The Fairtrade label guarantees that farmers are paid a fair price for their produce that always covers their farming costs and sustenance. Producers are also paid a Fairtrade bonus for social projects. Costa Rican pineapples have a guarantee price of €0.60 a kilo. The Fairtrade bonus has been used to buy materials for 80 schools in the region. The aim is also to develop the farmers' agricultural methods and research and train them in production- and quality control-related matters.

José Luis Bolaños, who is responsible for the Association's pineapple exports, says that the biggest benefit for the association of the Fairtrade system is that its long-term buyer and seller relationships and guaranteed price enables farmers to ride out the large fluctuations in world market prices that are typical of the market today. The fairtrade bonus is also an important benefit in providing education for the young and training for farmers, he says.

Text and photo: Tuulia Syvänen, Finnish Fair Trade Association

Pirkka pineapples are grown on family farms in Costa Rica. Pickers can be seen here on one of the farms belonging to the Asoproagroín Association.



Examples of Kesko's own direct imports* in 2005

Country	Value of imports, € million
1. Germany	77.8
2. China	48.8
3. France	39.1
4. Denmark	35.4
5. Sweden	34.6
6. Italy	33.5
7. Holland	30.2
8. Spain	22.6
9. Costa Rica	17.4
10. Belgium	16.2
11. Poland	11.5
12. Estonia	11.0
13. Great Britain	10.5
14. Turkey	8.3
15. India	8.3
16. Portugal	8.2
17. Vietnam	7.7
18. United States	7.3
19. Taiwan	5.2
20. Thailand	5.1

*) figures include direct imports forwarded by Kespéd Ltd, no imports by VW-Auto Oy or by Kaukomarkkinat Oy

Countries of origin of the Fairtrade products sold at K-stores

Coffee	Mexico (Pirkka organic coffee), Bolivia, Ecuador, Honduras, Peru, Tanzania
Tea	Tanzania (Pirkka organic tea), India, Sri Lanka, Tanzania
Cocoa	Dominican Republic
Chocolate	Dominican Republic
Honey	Guatemala, Mexico
Sugar	Paraguay
Bananas	Ecuador, Costa Rica
Oranges	Egypt, South Africa
Pineapple	Costa Rica (Pirkka fresh pineapple)
Grapes	South Africa
Juice	Cuba (Pirkka 100% orange-mango juice)
Avocado	Mexico, Bolivia, Ecuador, Honduras, Peru, Tanzania
Muesli	Brazil, South Africa, Pakistan, Uganda

Other responsibility areas

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

Product safety

Product safety is related to all of Kesko's business. It is particularly important in the food trade, where safety is highlighted both by means of legislation and statutory control and by companies' voluntary activities. Kesko Food's Product Research Unit has supervised the operations of manufacturing companies, analysed product composition and quality, and suggested improvements to manufacturers for decades. In addition to food products, the unit also controls the quality of some non-food products and home and speciality goods. In the case of Kesko's private labels, such as Pirkka, the Product Research Unit acts as a product developer partner, working in close cooperation with Kesko's buyers and product manufacturers. The unit, together with its K-test kitchen, employs 20 people.

Rimi Baltic AB has product safety units in all the Baltic countries, where they employ 21 people in all. The company also has a quality team, which serves the entire Baltic sales area, supervising the quality of private label products. Quality control at distribution centres has focused on harmonising fruit and vegetable quality specifications and adopting good operating practices. As part of product safety, Rimi Baltic AB has created company-wide standards for stores' technical systems - refrigeration equipment in particular - packaging and cleaning operations, and pest control.

Supplier and product audits

The Product Research Unit audited 58 suppliers in 2005 (63 in 2004), of which 29 were Finnish and the remaining 29 from 12 other countries. These companies mainly included suppliers of Kesko's house brands, and were audited in compliance with Kesko Food's audit protocol. The improvements suggested mainly re-

lated to the planning of production facilities and hygiene.

A total of 8,809 (9,434) product samples were analysed. The number of product development samples of private label products increased, accounting for more than half of all analyses. The number of new products took an upward turn; samples doubled over 2004. A total of 1,193 (1,267) batch control and other self-control samples were analysed.

The laboratory conducted eight intercalibration audits, to compare analysis accuracy between laboratories. The results of these were within accepted tolerances.

The consumer service section of the Product Research Unit in Finland received 18,697 (17,131) items of feedback during the year. Customer contacts have been increasing year by year, and have more than doubled in four years. Some 70% of contacts took the form of product complaints, and 20% questions concerning products. Feedback also included thanks, ideas, and suggestions. The bulk of contacts took place by phone (11,125) and e-mail (5,279). Answers were given to all feedback. More than 2,600 product samples or wrappings were sent to the consumer service; most of these were analysed by the unit and fewer than half were sent to the manufacturer for analysis.

No corresponding statistics are available as yet on Rimi Baltic AB's product research.

Increased number of recalls

The Product Research Unit is also responsible for product recalls, which numbered 35 (30) during the year. Most related to defective quality or taste, or a manufacturing or packaging error. 21 (11) recalls covered Kesko Food's house brand products. The Product Research Unit assisted manufacturers in respect of the other recalls. One of these was a public product recall, related to a potential health hazard. All such cases are notified to the relevant national authorities.

Rimi Baltic AB adopted uniform crisis management guidelines concerning for the Baltic countries in 2005, designed to

ensure a fast simultaneous recall across the region. There were 22 recalls in Estonia, 357 in Latvia, and 93 in Lithuania. In Latvia, nearly half of all recalls related to defective packaging information. A total of 13 recalls in the Baltic countries covered Rimi Baltic's private label products.

Detailed guidelines on packaging information

The Product Research Unit is also responsible for monitoring information on packaging. Based on EU directives, Finnish legislation, and statutory guidelines, Kesko Food has prepared guidelines for its house brands and its own imports. These guidelines exceed statutory requirements in some areas. For instance, nutritional information is always included - package size and space permitting - on house brand products. Any allergenic ingredients are indicated on house brand goods, in addition to statutory information, even when these ingredients may only find their way into a product accidentally through cross-contamination during the production process. The country of origin is always marked on imported house brand products, and the manufacturer's name and domicile on domestic products.

Instructions for package labelling information also specify how different symbols relating to domestic origin, environmental aspects, and recycling are to be used. These guidelines can be consulted at www.kesko.fi (Responsibility/Product safety).

Participation in the legislative process

Representatives of the Product Research Unit participate in several legislation and development projects concerning food quality and safety at the national and international level, including the Global Food Safety Initiative started by CIES - the Food Business Forum, EU/Codex hygiene and package labelling workgroups, the expert group on biotechnology set up by the Advisory Committee on Foodstuffs, the Ministry of Agriculture and Forestry's research working group on quality strategy, and the working groups of the Finnish Food Marketing Association. When re-

quired, the unit prepares and publishes Kesko Food's views on current issues.

Risk management and corporate security

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

In the organisational change implemented in 2005, the then Internal Audit Unit and the Corporate Security Unit were restructured, and matters related to corporate security now come under the new Risk Management Unit. The unit steers, develops, and supervises the K-Alliance's comprehensive risk management, is responsible for developing and maintaining the required tools, assists and trains Group units in risk management issues, and reports on the implementation of risk management. Internal Audit, which became an independent unit in the reorganisation, assesses and ensures the efficiency of the Group's risk management.

The Group established a Risk Management Steering Group at the same time. This is chaired by the Group's President and CEO, and its members include the Senior Vice President, CFO; the General Counsel; the Audit Executive; representatives of the Group's divisions, and the Chief Risk Officer as Secretary. The steering group discusses and monitors risks, and promotes the implementation of risk management in all divisions as part of Kesko's management system.

Kesko's Board of Directors has defined risk management as one of the responsibilities of the Audit Committee.

Case

BALBIINO READY TO BECOME A PIRKKA SUPPLIER

The first deliveries of one-litre packs of Pirkka vanilla ice cream, produced by Estonian-based Balbiino, will arrive in K-stores in Finland in April 2006. Balbiino-brand ice cream has been available in Finland since summer 2005, and from summer 2006 onwards, K-stores will not only stock Pirkka-brand Balbiino ice cream, but 17 other Balbiino ice cream products as well.

Located in Tallinn, Balbiino was founded in 1995 and employed over 200 people in 2005. The company has a 42% share of the Estonian ice cream market, and generates net sales of some €21 million. In addition to Finland and the Baltic countries, Balbiino exports ice cream to Germany and the UK, and produces snack-size packs under the Euro Shopper and Alpenrose brands for customers in the Baltic countries, including Kesko's local joint venture, Rimi Baltic. Exports account for 30% of net sales. All of Balbiino's main ingredients - cream, butter, skimmed milk, and whey - are sourced locally in Estonia.

Balbiino was selected as the new supplier of Pirkka vanilla ice cream in autumn 2005, and began close cooperation with Kesko Food's Product Research specialists from May the same year to ensure that it met the quality, hygiene, and safety requirements associated with Pirkka products. Although vanilla ice cream is Balbiino's main product, Finnish tastes are slightly different from those in Estonia, so some work was needed to meet Finnish product specifications.

Every Pirkka product goes through a ten-point product development programme (see [www.kesko.fi/Responsibility/Product safety](http://www.kesko.fi/Responsibility/Product%20safety)). Auditing manufacturers is a key factor in assuring the quality of Pirkka products, and the first audit of Balbiino's plant took place at the end of May 2005. This identified shortcomings in the labelling and handling of allergens, and product recall procedures. The need for improving the training of employees in the appropriate use of protective clothing was also highlighted. As the majority of Balbiino's employees are Russian-speaking, the plant was requested to provide all work-related instructions in both Estonian and Russian.

A follow-up audit was carried out in February 2006 to see if the corrective measures had been implemented. Balbiino had carried out the changes indicated and had also prepared for international BRC food safety certification. This requires the introduction of a HACCP system*, a documented quality management system, and management systems covering product, process, and personnel management in the plant environment. Balbiino passed the BRC certification audit in March 2006.

*HACCP: Hazard Analysis and Critical Control Point systems are designed to guarantee the safety of all stages of the food manufacturing process. For further information, see www.elintarvikevirasto.fi/english

The use of protective clothing is one of the points checked during plant audits. Production Line Operative Dagmar Tintse is employed manufacturing Alpenrose ice creams.



Marketing and competition regulations

Kesko's functions include deciding the basic selections of K-retailer chains, setting the maximum retail prices for some of the chain selection products sold by K-retailers, which prices the retailers are allowed to undercut, and planning and implementing the marketing programmes for K-retailer chains. Kesko and K-retailers operate within a vertical relationship to ensure that marketing and other cooperation takes place in compliance with competition legislation.

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

of competition legislation themselves, taking competition regulations, legal practices, and competition authorities' guidelines into account. Kesko Food Ltd's exemption terminated on 31 December 2004, while Rautakesko Ltd's, Kesko Agro Ltd's, and Keswell Ltd's exemptions remained in force until 31 December 2005.

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

As Indoor Group Ltd was transferred to Keswell Ltd in January 2005, an appeal

Kesko's operating countries in the Transparency Corruption Perceptions Index

	scale 1-10
2. Finland	9.6
4. Denmark	9.5
6. Sweden	9.2
8. Norway	8.9
15. Hong Kong	8.3
16. Germany	8.2
27. Estonia	6.4
40. Hungary	5.0
44. Lithuania	4.8
51. Latvia	4.2
70. Poland	3.4
78. China	3.2
107. Vietnam	2.6
107. Belorussia	2.6
126. Russia	2.4

Transparency International 2005

associated with the transaction was made to the Market Court, which dismissed the appeal on 21 December 2005.

The cases that eight former K-citymarket retailers brought against Kesko concerning alleged unfair termination of agreements in 2001 were still pending at the Court of Appeal as of the end of 2005. The Helsinki District Court dismissed the cases in March 2004. There were six corresponding contract disputes concerning the K-market and Andiamo chains pending at the District Court, brought to court in 2001-2006.

Privacy protection

The Plussa customer loyalty system operated by K-store chains and Plussa cooperation partners is managed by a Kesko subsidiary, K-Plus Oy. The system is limited to Finnish operations. At the end of 2005, Plussa cards were held by approximately 3.2 million people in more than 1.7 million households. The payment and credit services for Plussa cards are provided by Nordea Finance Finland Ltd.

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

According to the Personal Data Act, every registrar must have a register description. The register description for K-Plus Oy is available, in Finnish, at www.plussa.com.

As a registrar, K-Plus Oy is required to ensure that the customer information it holds is only used for the purposes specified in the description. Information on individual customers is protected by instructions given to personnel and by technical means. Customer data is only disclosed to third parties if required by law.

SFS-Inspecta Sertifiointi granted the international Qweb certificate for reliable

online service to Plussa.com in June 2005. The purpose of certification is to ensure the security and reliability of web services.

Political relations

Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to legislative work. Kesko is particularly active in the Finnish Central Chamber of Commerce, the Federation of Finnish Commerce and its associations, and the Confederation of Finnish Industries EK. The Federation of Finnish Commerce is a member of EuroCommerce, which represents trade interests to the EU Commission and the European Parliament. Kesko also belongs to UGAL, the EU organisation of independent retailers, which promotes its members' interests both directly and through EuroCommerce. EuroCommerce has often appointed a Kesko expert to represent the organisation on EU working groups and meetings, most recently on the conference dealing with corporate responsibility, organised by the UK when it held the chairmanship of the EU. A chart on Kesko's key channels of influence is shown on page 12.

Trade and industry activities are not yet as highly organised in the Baltic countries as in Finland. Sector and central organisations, and chambers of commerce have been established, however, and Kesko's memberships in these are listed under 'Activities in employer organisations' on page 55. Kesko has provided expert assistance to ministries in the Baltic countries, in areas such as planning the implementation of EU directives concerning the environment.

Kesko gave no political financial support in any country in 2005. Advertising of a supportive nature in Finnish party newspapers amounted to €19,700. The amount is included under 'non-governmental and environmental organisations' in the table entitled 'Kesko's support for the public good' on page 28.

Attitude to bribery

Kesko has always opposed the giving and taking of bribes in any shape or form. Kesko's position in this area has been included in 'Our working practices - Ethical principles for personnel', the most recent

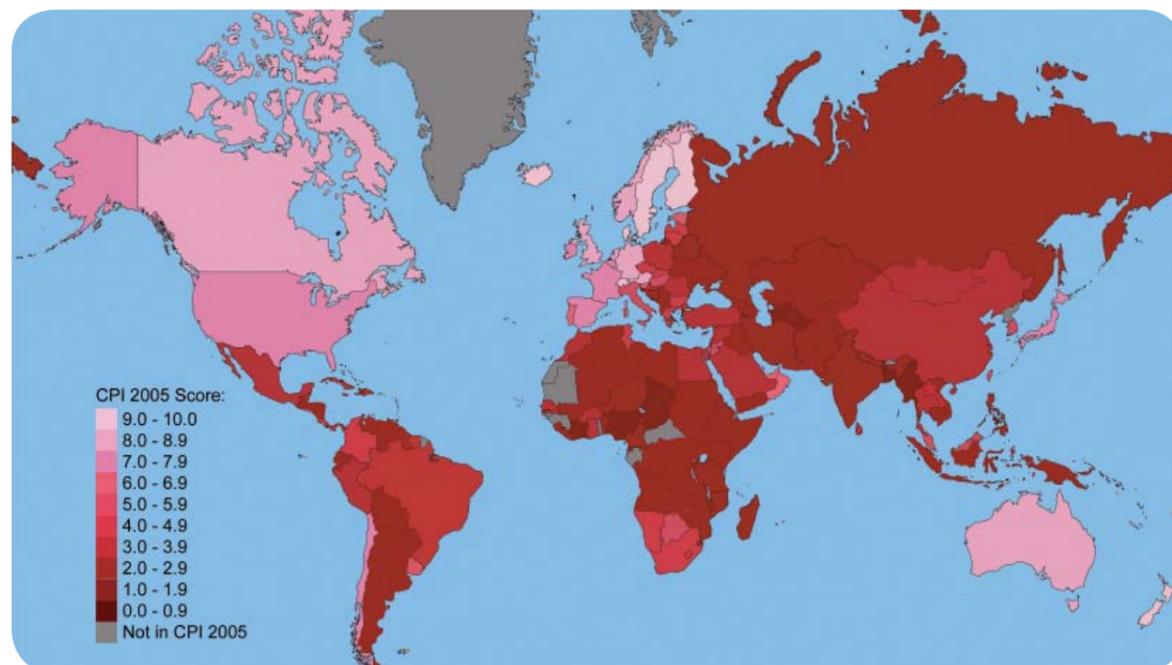
version of which has been in use since 2002. The guide, which can be consulted at www.kesko.fi (Responsibility), has been published in Finnish, Swedish, English, Russian, and all the Baltic languages, and has been distributed to all Group personnel and presented at meetings arranged for personnel at all levels of the Kesko organisation. The issue has been discussed at training events for senior management. The Internal Audit Department has paid particular attention to assessing systems designed to prevent malpractices and financial losses. No cases of malpractice were identified during 2005.

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

Kesko is a member of Transparency International, Finland. Among Kesko's operating countries listed in the Transparency International Corruption Perceptions Index 2005, Hong Kong, Estonia, Hungary, Lithuania, and Latvia slightly improved their scores, while the scores of Poland, China, and Russia, in particular, dropped compared to 2004.



Corruption Perceptions Index 2005



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

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
Vision and strategy					
1.1.	Vision of sustainable development	Yes	8	Vision of corporate responsibility	
1.1.	Statement from the CEO	Yes	4	Review by the President and CEO	
Organisational profile					
2.1-2.8	Basic information of the company	Yes	5	Key facts about the Kesko Group	
2.9.	List of stakeholders	Yes	10	Stakeholder analysis	
Report scope					
2.10.	Contact persons for the report	Yes	69	Contact persons in corporate responsibility	
2.11.	Reporting period	Yes	3	Contents of the report	
2.12.	Previous report	Yes	3	Contents of the report	
2.13.-2.16.	Boundaries of report	Yes	3	Contents of the report	
Report profile					
2.17.	Decisions not to apply GRI principles	No			Kesko applies the GRI guidelines.
2.18.	Criteria used in accounting for costs and benefits	No			No cost/benefit analyses have been made.
2.19.	Significant changes in measurement methods applied	Yes		Environmental performance	Description with each indicator.
2.20.-2.21.	Policies and practices in internal and external assurance	Partly	3	Contents of the report	Internal auditing has not been described.
2.22.	Obtaining additional information	Yes	(Internet version)		Links in the relevant parts of the printed report.
Governance structure and management systems					
3.1.-3.2.	Structure of organisation/board	Yes	15	Corporate Governance Statement and organisation	
3.3.-3.4.	Board-level processes in corporate responsibility management	Yes	15	Corporate Governance Statement and organisation	Duties of the Board of Directors have been defined.
3.5.	Linkage between executive compensation and corp. responsibility	No			No such indicators are included in the compensation.
3.6.	Key responsible individuals	Partly	69	Contact personnel in corporate responsibility	The list includes only the key personnel for reporting purposes.
3.7.	Mission, values, operating principles	Yes	14	Principles and management systems guiding our approach to corporate responsibility	
3.8.	Mechanisms for shareholder recommendations or opinions	No			A normal public limited company procedure – has not been described in the report
Stakeholder engagement					
3.9.-3.12.	Stakeholder identification, consultations	Yes	10	Stakeholder analysis	

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
Policies and management systems					
3.13.	Addressing a precautionary approach	Partly	62	Risk management and corporate security	Information about the contents and organisation of risk management.
3.14.	Endorsement to external initiatives,	Yes	16	Management systems charters, etc. principles	
3.15.	Memberships in associations	Yes	12	Key areas of influence and organisations	
3.16-3.17.	Supply chain management, indirect impacts	Yes	34, 40, 56	Energy purchases, Product-related developments, Social quality control	
3.18.	Changes in operations	Yes	21	Investments and store network	
3.19-3.20	Management systems, certification	Yes	16, 31	Management systems, Environmental system	
Comparison of GRI content					
4.1.	Identification of GRI guidelines	Yes	66	Comparison of the report with the GRI guidelines	
Economic performance indicators					
EC1	Net sales	Yes	5	Kesko's business operations	
EC2	Geographic breakdown of markets	Yes	19	Economic performance	Further information available in Kesko's Annual Report and at www.kesko.fi
EC3	Goods and services purchased	Yes	5, 23	Suppliers of goods and services	
EC4	Payments in acc. with terms	No			On the basis of penalty interests, it can be estimated that 99% of invoices are paid on time.
EC5	Total payroll, pensions, etc.	Yes	22, 23	Salaries, Employee pension and health insurance	
EC6	Interests and dividends paid	Partly	19	Share performance	Interest paid has not been specified. Information in the financial report.
EC7	Changes in retained earnings	No			Information in the financial report.
EC8	Taxes paid	Yes	22	Salaries, social security expenses, and taxes	
EC9	Subsidies received	No			No subsidies referred to by GRI
EC10	Donations to community, civil society, etc.	Yes	27	Financial support	
EC13*)	Indirect economic impacts	Yes	25	Breakdown of economic benefits	
Environmental performance indicators					
EN1	Materials use	Yes	39	Use of materials	Only packaging materials are reported.
EN2	Use of waste from external sources	No			A trading company does not use recycled waste in the way referred to by GRI.
EN3+EN4	Energy use (direct/indirect)	Yes	34	Energy and water consumption	
EN5	Water use	Yes	34	Energy and water consumption	

*) an optional additional indicator

GRI guidelines		Kesko's report			
Code	GRI content	Included	Page	Report title	Shortcomings/deviations
EN6+EN7	Impact on biodiversity	No			No analysis has been made of land areas from the viewpoint of biodiversity.
EN8	Greenhouse gas emissions	Yes	34, 38	Environmental profile of energy Transport emissions	
EN9	Ozone	Yes	34	Environmental energy profile	Lower atmosphere ozone in C ₂ H ₄ equivalents.
EN10	Acidification	Yes	34	Environmental energy profile	
EN11	Waste	Yes	39	Waste management and recycling	
EN12	Discharges to water	No			Not relevant in Kesko's operations.
EN13	Spills of chemicals, oils, etc.	Yes	45	Environmental risks, damage, and incidents	Minor connection to Kesko's operations.
EN14	Environmental impacts of products	No			Kesko produces no products.
EN15	Reclaimable products	No			Kesko participates in recovery systems, but the information referred to by GRI applies to manufacturers.
EN16	Environmental damages	Yes	45	Environmental risks, damage, and incidents	
EN17*)	Initiatives to use renewable energy sources and increase energy efficiency	Yes	32	Real estate operations	
EN18*)	Environmental impacts of transportation	Yes	38	Transport emissions	
Social performance indicators					
LA1+LA2	Employment statistics	Yes	22, 47	Job development, Employment	
LA3+LA4	Labour/management relations, negotiation procedures	Yes	54, 55	Activities in employer organisations, Cooperation with employee representatives	
LA5-LA8	Health and safety	Partly	50	Health and safety	Assessment of compliance with ILO procedure guidelines not included. Information on subcontractors' accidents not included.
LA9	Training and education	Yes	54	Training	
LA10+LA11	Diversity and opportunity	Yes	53	Equality	
LA12*)	Non-mandatory employee benefits	Yes	52, 53	Salaries and other benefits, Pensions	
LA17*)	Specific policies and programmes for skills management or life-long learning	Yes	54	Training	
HR1-HR7	Human rights	Partly	56	Social quality control	Not relevant in Kesko's operations; suppliers' human rights are discussed as for product purchases.
S01	Operations in community	Partly	10, 27	Stakeholder analysis, Financial support	A description of the stakeholder process is provided but shortcomings in measuring results remain.
S02	Policy on bribery	Partly	65	Attitude to bribery	No comparison with the OECD document included.
S03,S05*)	Political contributions	Yes	65	Political relations	
S04*)	Awards received	Yes	44	Stakeholder cooperation and communications	
PR1+PR2	Customer health and safety	Yes	62	Product safety	
PR3	Respect for privacy	Yes	64	Privacy protection	
Also:			48	Quality of management	
			62	Risk management and corporate security	

*) an optional additional indicator

Contact personnel in corporate responsibility

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

Name	Title	Unit
Development, coordination, responsibility for editing the report		
Jouko Kuisma	Head of Corporate Responsibility	Corporate Responsibility
Ulla Rehell	Senior Manager	Corporate Responsibility
Indicators of economic responsibility		
Pauli Alajoki	Accounting Manager	Corporate Accounting
Suvi Vertanen	Controller	Corporate Accounting
Antti Mansikka	GIS Analyst	Kesko Food Ltd/Retail Services
Jukka Pokki	Investor Relations Manager	Investor Relations
Indicators of environmental responsibility		
Jari Suuronen	Building Technology Expert	Kesko Food Ltd/ Retail Services
Toni Pelin	Environmental Logistics Specialist	Kesko Food Ltd/ Supply Chain Management
Toni Tynkkynen	Environmental Specialist	Keslog Ltd
Merja Saarinen	Environmental Specialist	Kesko Food Ltd/ Supply Chain Management
Juha Kortessalmi	Environmental Manager	Anttila Oy
Marja Ola	Environmental Specialist	Rautakesko Ltd/Sourcing and Logistics
Sari Koskinen	Environmental Specialist	Rautakesko Ltd/Sourcing and Logistics
Virpi Kantoluoto	Environmental Specialist	Kesko Agro Ltd/Development
Katarina Perkkio	Project Assistant	HR and Office Services
Indicators of social responsibility		
Lea Heikkinen	Development Manager	Human Resources
Mikko Myrskyläinen	HR Controller	Human Resources
Päivi Sariola	Financial Manager	Pension Insurance and Occupational Health
Social quality control system		
Jouko Kuisma	Head of Corporate Responsibility	Corporate Responsibility
Product safety		
Matti Kalervo	Product Research Manager	Kesko Food Ltd/Product Research
Corporate security and risk management		
Juha Pietarinen	Chief Risk Officer	Corporate Risk Management
Privacy protection/customer loyalty system		
Tapio Pesonen	Financial Services Manager	K-Plus Oy
Corporate communications		
Paavo Moilanen	Senior Vice President	Corporate Communications
External relations		
Erkki Heikkinen	Senior Vice President	External Relations

Assurance statement

At the request of the management of Kesko Corporation we have performed the procedures agreed with you and enumerated below with respect to the Kesko Corporation's Corporate Responsibility Report 2005 (the Report). Kesko Corporation's management has prepared the Report and is responsible for the collection and presentation of the information within it. This independent assurance report should not be used on its own as a basis for interpreting Kesko Corporation's performance in relation to its non-financial policies.

Scope of our work

Our engagement was undertaken in the framework of the International Standard on Assurance Engagements 3000 (revised) applicable to assurance engagements other than audits or reviews of historical financial information. The Global Reporting Initiative Sustainability Reporting Guidelines 2002 together with the principles of AA 1000 Assurance Standard have also been used as sources of the criteria for the assurance of the Report.

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

- Assess the data management procedures used to compile and report information presented in the Report
- Detailed assurance activities
- Assess the completeness, accuracy and comparability of the information presented

Separately reported information on Rimi Baltic and Senukai were excluded from the scope of our work.

Summary of our work

Our work consisted of interviews with the responsible persons about used practices, and procedures for data generation in Kesko Corporation and business divisions. We addressed specific attention to the new reporting software. Specific spot checks were made for Case examples chosen by us and selected activities of Kesko Food, Kespel and Keswell. Inter alia the consumption and waste data were checked. The interviews and information received from last year's assurance process were also used as a basis of our work. The assessment of the information was based on material of the reported functions delivered to us.

Our most significant findings

Kesko Corporation has emphasised Corporate Responsibility in its strategy, which also sets requirements for the level and scope of the reporting. The processes and responsibilities in corporate responsibility reporting are mainly clearly established and the report concentrates on material issues. The new integrated reporting software will make the data management processes more efficient in the future and provides for utilising this information in the business management processes also on shorter time frames. We recommend that the role of business divisions' management concerning Corporate Responsibility will be widened further.

The content of the report has further enlarged with regard to activities of foreign countries. However, in the data there are still some partial shortages, which are identified in the report. We recommend that the reporting of activities in different countries will be further standardised and the reporting scope widened.

The domestic waste statistics are in significant extent based on data, which is received from suppliers and which is handled and assured in Kesko business divisions. We recommend that the supplier data management will be made more efficient by improving the instructions and standardising the procedures.

Our Conclusions

Based on our general review work described in this statement, nothing has come to our attention that causes us to believe that the Kesko Corporation's Corporate Responsibility Report 2005 in all material respects, based on the aforementioned assurance criteria, is not giving balanced and appropriate view of the performance of Kesko Corporation's corporate responsibility. Nothing has come to our attention that causes us to believe that the areas, covered already in the previous years, are not comparable with the Report of year 2005.

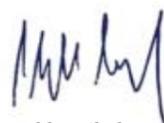
Definitions of terms

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

Return on invested capital (ROI), %	=	$\frac{\text{profit before extraordinary items} + \text{interest expense and other finance costs}}{\text{balance sheet total} - \text{non-interest-bearing liabilities (average during the year)}} \times 100$
Equity ratio, %	=	$\frac{\text{shareholders' equity} + \text{minority interest}}{\text{balance sheet total} - \text{advances received}} \times 100$
Debt to equity ratio, %	=	$\frac{\text{debt} + \text{provisions}}{\text{balance sheet total} - \text{prepayments received}} \times 100$
Gearing ratio, %	=	$\frac{\text{interest-bearing debt} - \text{marketable securities} - \text{cash on hand and balances with banks}}{\text{shareholders' equity} + \text{minority interest}} \times 100$
Market capitalisation	=	share price x number of shares
Primary energy	=	available in resources in their natural state; divided into renewable and unrenovable energy
GWh	=	gigawatt hour = a million kilowatt hours (kWh)
1 kWh	=	3.6 MJ = 3,600 kJ (in GRI guidelines the unit for measuring energy is joule or J)
CO ₂	=	carbon dioxide = affects climate change ('greenhouse effect')
CO ₂ eq.	=	carbon dioxide equivalent, the amount of different gases whose combined impact on the greenhouse effect corresponds to the amount of carbon dioxide mentioned
SO ₂	=	sulphur dioxide equivalent (affects acidification)
C ₂ H ₄	=	ethene (affects the ozone content of the lower atmosphere)
Transbox crate	=	reusable transport case made of plastic
KRESS real estate	=	premises in the sphere of the Real Estate and Construction Sector Energy Saving Agreement (KRESS), for which savings targets related to specific consumptions of electricity and heat have been set

Helsinki, 5 April 2006

PricewaterhouseCoopers Oy



Pekka Nikula
Authorised Public Accountant



Sirpa Juutinen
Director, Sustainable Business Solutions

Joutsenmerkki

Kesko's Corporate Responsibility Report is available in Finnish and English and can be ordered from Kesko Corporation, Corporate Communications, Satamakatu 3, FI-00016 Kesko, Finland, or by phone from +358 1053 22404. The report can also be read and ordered at www.kesko.fi.

The report has been edited by Kesko's Corporate Responsibility Unit (Jouko Kuisma and Ulla Rehell). Photos: Jari Härkönen, except for p. 8 Studio Blick, p. 28 Heikki Tuuli, p. 61 Tuulia Syvänen, p. 63 Ulla Rehell. Layout: Spokesman Oy. Printed by: Libris Oy, Helsinki 2006. Paper: Cyclus (100% recycled paper). The paper produced and the printers have been granted the right to use the Nordic Swan environmental label.

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The trade maker

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