



SUSTAINABILITY

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KESKO'S YEAR 2017

RESPONSIBILITY PROGRAMME

STRATEGY

SUSTAINABILITY

FINANCIAL
STATEMENTS

CORPORATE
GOVERNANCE

Kesko's responsibility programme contains both short-term and long-term objectives

The programme has six themes:

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

2017 Highlights and Challenges

Highlights

Science Based Targets for emissions



We were the first Finnish company to set science based targets for reducing emissions from our properties, transportation, and supply chains. To achieve these ambitious targets, we will increase the use of renewable energy and improve our energy efficiency.

[Find out more.](#)

Renewable electricity 100%



Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy. The electricity has a Guarantee of Origin and, in 2017, was produced with Finnish bioenergy. [Find out more.](#)

K Fishpaths



In August 2017, we began a multi-year collaboration with the environmental organisation WWF Finland to save endangered migratory fish. We will map out areas in Finland to find obstacles in migratory fish spawning grounds, and in a spirit of cooperation with landowners, local K-retailers and volunteers, make the spawning grounds once again accessible to fish. [Find out more.](#)



Challenges



Supply chains

We purchase and sell responsibly and support our customers in making sustainable choices. Our goal is to know the supply chains of all of our products and to ensure they are sustainable. This is challenging, as our selections comprise tens of thousands of products purchased from around the world. Moreover, food products, for example, often contain a multitude of different ingredients. We pay special attention to human rights issues and working conditions within the supply chain. Suppliers are monitored especially in countries where the risk of violations of these rights is the greatest.

[Find out more.](#)



Professional and committed personnel

K Group, i.e. Kesko and the K-retailers, employs approximately 42,000 people. Roles range from jobs at stores to retailer entrepreneurship and expert and manager positions in various fields. Professional, committed personnel forms the basis for all our operations. Tightening competition for skilled labour requires active development of employer image, performance and competence management, and maintaining employee wellbeing and working ability.

[Find out more.](#)

Good corporate governance and finance

We are committed to our operating principles. Together, we generate economic value added.

- The K Code of Conduct steers all our operations.
- We follow good corporate governance principles.
- Together, we improve financial profitability.



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
K Code of Conduct	All of our personnel act in compliance with the K Code of Conduct.	As of 2017, we oblige the entire personnel to annually confirm their compliance with the K Code of Conduct guidelines . By the end of 2017, 65% of personnel had made the annual confirmation.	We updated Our Responsible Working Principles guidelines in 2016. The new guidelines were named the K Code of Conduct and were published in the languages of all our operating countries in October 2016. We named 20 K Code of Conduct ambassadors as the messengers and contact persons. We will update all new and renewed employment contracts to include a clause about the requirement for personnel to familiarise themselves and comply with the K Code of Conduct. We will add a K Code of Conduct contract clause to all agreements signed by Kesko Group companies. As of 2017, we oblige the entire personnel to annually acknowledge their compliance with the K Code of Conduct guidelines.	From the beginning of 2015, all of Kesko's Russian business companies have had their own anti-corruption policies. We decided to update Our Responsible Working Principles guidelines in 2016.
	GRI 205-1 , 205-2 , 205-3	We organise regular training on the K Code of Conduct.	We continued to communicate and implement the K Code of Conduct in practice according to the annual plan. Some 20 K Code of Conduct ambassadors in different operating countries have been appointed to act as messengers and contact persons. Kesko's Legal Affairs, Risk Management and Internal Audit organised K Code of Conduct training in the subsidiaries in Norway, Poland and Sweden in 2017. The events focused especially on corruption and fraud-related issues. The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 8,867 people by the end of 2017.	The online training on responsibility, which was published in 2015 and directed at all Kesko employees, describes Our Responsible Working Principles. As part of the ongoing responsibility training, a training event on Our Responsible Working Principles was organised for the key employees of Kesko's company in Belarus in 2015.
	GRI 205-1 , 205-2 , 205-3			

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Return on capital	Kesko's objective is to achieve a 14% comparable return on capital employed and a 12% return on equity.	In 2017, the comparable return on capital employed was 12.2% and the comparable return on equity was 10.9%.	The comparable return on capital employed was 11.9%, and the comparable return on equity was 9.8%.	The comparable return on capital employed was 11.7%, and the comparable return on equity was 8.2%.
Human rights	We respect human rights and take them into account in all our operations. GRI 412-1 , 412-2	We followed up our human rights assessment by conducting a review of working conditions in the supply chain of grapes in collaboration with the Trade Union Solidarity Centre of Finland (SASK). The human rights assessment will be reviewed every three years, with the next review taking place in 2019.	We published our human rights assessment and human rights commitment on our website . We will review and update it every three years. We will construct our operating models so that respect for human rights is observed in all our operations.	We continued to assess human rights related impacts in accordance with the UN Guiding Principles on Business and Human Rights. During the extensive report work, we heard the thoughts of customers and personnel as well as employees in high-risk countries' factories on human rights and how well they are realised in K Group's operations.



Economic performance

201-1 Direct economic value generated and distributed

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

The following tables show cash flows between Kesko and its stakeholders, as well as the distribution of economic value added between stakeholder groups. The most important cash flows comprise revenue from customers and retailers, purchases from suppliers of goods and providers of services, dividends to shareholders, salaries and wages paid to personnel, taxes and capital expenditure.

In June 2017, Kesko sold Indoor Group, which is responsible for the Asko and Sotka furniture trade chains, and the K-maatalous agricultural business. K-maatalous is consolidated into Kesko Group up until 31 May 2017 and Indoor Group up until 30 June 2017.

In April 2016 Kesko acquired Suomen Lähikauppa Oy, in June 2016 Onninen Oy and in December 2016 Oy Autocarrera Ab. Suomen Lähikauppa Oy (currently K-Market Oy) has been consolidated into Kesko Group as of 12 April 2016, Onninen Group as of 1 June 2016 and Oy Autocarrera Ab as of 1 December 2016. In 2016, Kesko disposed of the Russian grocery trade and the Russian Intersport business. The Russian grocery trade business is included in the figures until 30 November 2016.

In February 2018, Kesko announced it will discontinue its building and home improvement trade operations in Russia. The Russian building and home improvement trade operations are included in the 2017 figures.

Further information on the structural changes is available in [note 3.2](#) to the financial statements.

[The consolidated income statement](#), [the consolidated statement of financial position](#) and [the consolidated statement of cash flows](#) can be read in full in [the Report by the Board of Directors and financial statements section](#).

ECONOMIC BENEFITS FROM KESKO'S OPERATIONS TO STAKEHOLDERS



¹ Incl. net sales and other operating income

² Proposal to the General Meeting

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

ECONOMIC BENEFITS FROM KESKO'S OPERATIONS TO STAKEHOLDER GROUPS

€ million		2017	2016	2015
Customers ¹	Revenues	11,467	10,879	9,479
Value added generated		11,467	10,879	9,479
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-10,221	-9,839	-8,593
Employees	Salaries, fees and social security expenses	-759	-723	-545
Payments to providers of capital	Net finance income/costs	1	-1	-7
Owners	Dividend	-219 ²	-199	-248
Public sector	Taxes ³	-63	-50	-92
Community investments	Donations	-2	-2	-1
Development of business operations		205	67	-7

The data is based on audited figures.

¹ Incl. net sales and other operating income

² Proposal to the General Meeting

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

The division of the economic benefit generated by Kesko and K-retailers to Finnish regions is presented under **Society** in the Responsibility programme.

Additional information on employee benefit expenses can be found in **note 2.4** of the financial statements.

Dividend policy

According to its dividend policy, Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking into account, however, the company's financial position and operating strategy. Kesko's Board of Directors proposes to the General Meeting to be held in April 2018 that a total dividend of €219 million be paid for the year 2017, which would represent 84.9% of earnings per share and 96.6% of comparable earnings per share. In 2017, Kesko distributed a total of €199 million as dividends for the 2016 profit, which represented 201.3% of earnings per share and 99.5% of comparable earnings per share.

Further information on the financial statements' **indicators** and Kesko **shares and shareholders** can be found in the Report by the Board of Directors and financial statements section.

ECONOMIC BENEFITS FROM KESKO'S OPERATIONS BY MARKET AREA IN 2017

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes ¹	Total
Finland	5,821	299	440	98	814	7,472
Other Nordic countries	1,008	3	65	22	61	1,159
Baltic countries and Poland	534	22	87	9	103	756
Russia and Belarus	210	25	29	9	17	289
Other countries	1,388					1,388
Total	8,961	350	621	138	995	11,065

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

201-2 Financial implications and other risks and opportunities for the organisation's activities related to climate change

One of the themes of Kesko's responsibility programme is mitigating the progress of climate change. In June 2017, the **Science Based Targets** initiative approved the emission targets set by Kesko through which Kesko shows its commitment to the target of below 2°C global warming, as set by the Paris Climate Agreement.

Kesko's operations are surveyed regularly by risk assessments, which also cover changes that may be necessitated by climate change. The Group's risk map, the most significant risks and uncertainties, as well as changes in and management responses to them are discussed by the Kesko Board's Audit Committee when the interim reports and financial statements are handled.

[Read more about our risk management and control practices.](#)

Climate change presents physical and regulatory risks and opportunities as well as risks and opportunities affecting reputational factors

Physical impacts

- Extreme weather phenomena, such as storms and heavy rains, have consequences for the built environment. Physical risks are related to both the physical store network and logistics. Unusual weather patterns can cause interruptions in operations or problems in the availability of products and changes in sales, particularly in the building and technical trade.
- Climate change can affect the procurement sources and availability of products both within and outside Europe. Due to drought and desertification, water has become less available in many countries, reducing the productive potential of local economies. Agricultural production will suffer if desertification and rising sea levels reduce arable land area. Drought or floods may destroy agricultural harvests. Intensifying competition for raw materials may lead to higher prices.
- The availability of energy sources and emission limits may affect energy prices.
- Accidents and epidemics resulting from natural phenomena can cause damage or business interruptions that cannot be prevented.

Regulation

- Climate change may have an impact in terms of risks involved in regulation, such as various permit procedures, or costs arising from emission pricing and taxation.
- The implementation of the EU and Finnish Government climate and energy policy will affect energy solutions and may increase energy prices, adding to pressures for energy savings and energy self-sufficiency.

Customers

- Customers are paying increasing attention to issues related to sustainability. Environmentally friendly products, corporate responsibility communications, retail stores' K-responsibility concept and package labelling can help customers make purchasing decisions that mitigate climate change. Any failures to implement responsible practices in this area may weaken Kesko's reputation.
- Kesko takes part in the development of circular economy by offering recycling services at its stores and by taking part in innovative initiatives such as the [Ham Trick campaign](#) or the [manufacture of Pirkka products using biogas made from inedible biowaste](#) collected from K-food stores.

Opportunities and risks related to climate change are also described in the report's

[Operating environment / Opportunities and Risks section.](#)

201-3 Coverage of the organisation's defined benefit plan obligations

The Group operates several pension plans in its different operating countries. In Finland, statutory pension provision for personnel is organised through pension insurance companies and voluntary supplementary pension provision is mainly organised through Kesko Pension Fund's department A. At the end of the year, the number of employees eligible to receive supplementary retirement benefits from department A was 2,651.

The statutory pension provision organised through a pension insurance company is a defined contribution plan. The supplementary pension provision organised by Kesko Pension Fund is a defined benefit plan. As at 31 December 2017, the defined benefit plan obligation was €266.6 million (€302.3 million in 2016), which is fully covered. Calculated under IFRS, the surplus amount was €207.5 million as at 31 December 2017 (€164.7 million in 2016). Calculated under IFRS, the Group's total pension expenses represent 13.9% of the amount of salaries (13.6% in 2016). Read more in the financial statements section, [note 3.8](#).

In the other countries, pensions are arranged in compliance with local legislation. The former pension plan operated in Norway was classified as a defined benefit plan, but the related liability expired during the financial year 2017.

201-4 Financial assistance received from government

In 2017, the Group received financial assistance of €1.4 million from the public sector. This amount mainly consists of assistance received from Finland (€1.1 million) and from Sweden (€0.3 million). The majority of public sector assistance in Finland is related to investments in the utilisation of solar power.

Indirect economic impacts

203-2 Significant indirect economic impacts, including the extent of impacts

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

Purchases by Kesko and the retailers have economic impacts on the suppliers and service providers, such as an increase in the number of jobs. Furthermore, purchases from local producers affect regional business activities. The salaries, taxes, social security expenses and capital expenditure paid by Kesko and retailers have impacts on regional economic welfare.

In 2017, Kesko operated in nine countries in which it is engaged in both retail and wholesale. On 16 February 2018, we announced we would discontinue our building and home improvement trade operations in Russia.

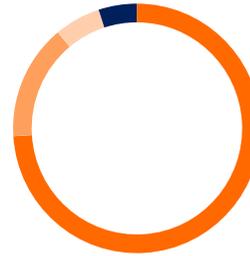
It is one of Kesko's principles that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations.

Kesko is a significant tax payer. In 2017, the income taxes paid by Kesko to Finland totalled €46.5 million and to other countries €9.7 million. The Group's effective tax rate was 17.9%. Kesko paid €3.7 million in real estate taxes and net worth taxes to Finland and €2.8 million to its other operating countries in 2017.

Kesko collects, reports and remits also indirect taxes, such as value-added taxes and excise duties. Kesko remits value-added taxes to tax recipients in its capacity as a company selling goods and services. In 2017, Kesko's value-added taxes payable in Finland amounted to €410.3 million, and €129.2 million in other countries. Kesko remits car taxes and excise duties on, for instance, confectionery, alcohol and soft drinks. In 2017, Kesko remitted excise duties in Finland to a total amount of €61.1 million.

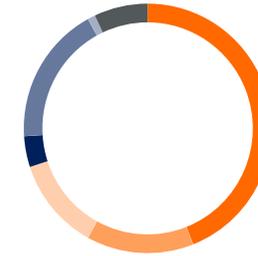
Kesko's measurable indirect impact on society, such as its employment impact, increased municipal tax income, or income in the producer and supply chain, is evaluated case-by-case, in connection with the establishment of a new store, for example.

Taxes payable 2017



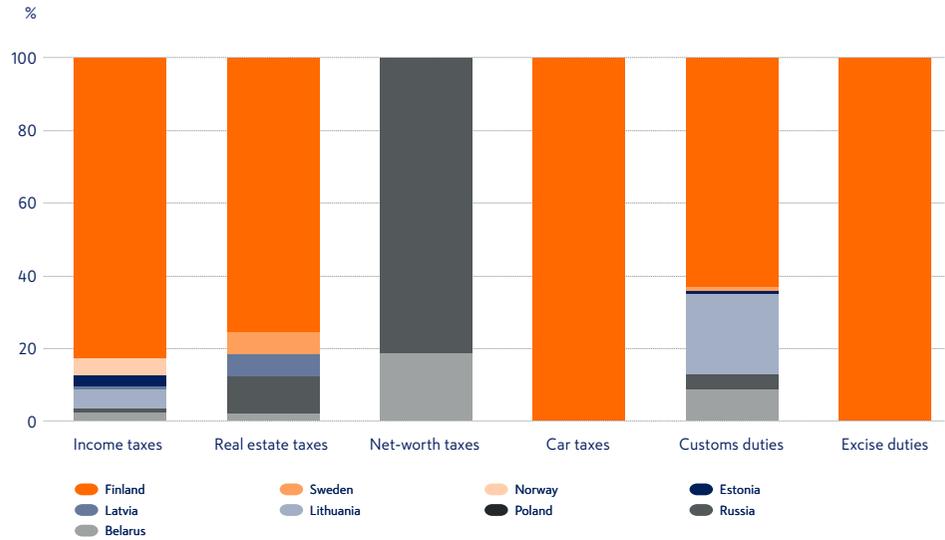
- Income taxes, Finland €47 million (€32 million) 74%
- Income taxes, other countries €10 million (€10 million) 15%
- Real estate taxes, Finland €4 million (€4 million) 6%
- Real estate and net-worth taxes, other countries €3 million (€4 million) 5%

Taxes remitted in 2017



- Value-added taxes, Finland €410 million (€380 million) 44%
- Value-added taxes, other countries €129 million (€110 million) 14%
- Withholding taxes, Finland €115 million (€111 million) 12%
- Withholding taxes, other countries €35 million (€31 million) 4%
- Car taxes, Finland €170 million (€178 million) 18%
- Customs duties, Finland €7 million (€7 million) 1%
- Customs duties, other countries €4 million (€7 million) 0%
- Excise duties, Finland €61 million (€67 million) 7%

Taxes by country in 2017



Anti-corruption

205-1 Operations assessed for risks related to corruption,

205-2 Communication and training about anti-corruption policies and procedures,

205-3 Confirmed incidents of corruption and actions taken

Risks related to corruption are discussed as part of Kesko Group's risk management. Key risks, including risks related to corruption, are identified, assessed, managed, monitored and reported regularly as part of business operations in all operating countries.

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

Kesko has prepared a mandatory eLearning package for its employees to smoothly internalise the K Code of Conduct.

Kesko arranges K Code of Conduct sessions in its companies: in 2017, such events were organised in the Norwegian, Polish and Swedish subsidiaries. The events focused largely on corruption and fraud-related issues.

In 2017, the prevention of malpractice was one of the focus areas for Kesko's corporate security function. During the year, individual cases of suspected malpractice came to our knowledge and the corporate security unit assisted in investigating them.

Towards the end of 2016, Kesko introduced the Group-wide SpeakUp channel through which employees and business partners can report any violations of the K Code of Conduct. During 2017, 38 notices were submitted through the SpeakUp channel, related to e.g. managerial work, store staff and customer service, and Kesko's partnerships with its suppliers.

In 2017, no corruption related lawsuits against any Kesko Group company came to our knowledge.

Anti-competitive behaviour

206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices

In August 2017, Kesko Senukai Latvia received a €920,618 fine for breach of competition law regulations.

Labour/management relations

402-1 Minimum notice periods regarding operational changes

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

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

Russian legislation states that personnel must be informed of restructuring 8.5 weeks before the new structure takes effect. For major organisational changes concerning more than 20% of the personnel, the authorities must also be informed 8–12 weeks prior to the change. In Estonia and Latvia, the minimum notice period in restructuring situations is four weeks. The corresponding notice period in Belarus is eight weeks. There are no collective agreements in these operating countries.

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

Non-discrimination

406-1 Incidents of discrimination and corrective actions taken

There were no pending incidents of discrimination in 2017.

Freedom of association and collective bargaining

407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk

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

Out of the total personnel, 44% are covered by collective agreements.

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

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

Human rights assessments

412-1 Operations that have been subject to human rights reviews or impact assessments

In September 2016, Kesko published its statement of commitment on human rights and impact assessment in compliance with [the UN's Guiding Principles on Business and Human Rights](#).

The extensive survey involved listening to the views of customers, personnel and high-risk country factory workers on human rights and on the implementation of human rights in K Group's operations. The survey covered the customers of all of Kesko's lines of business, and personnel in Finland. Surveys in high-risk countries were carried out in China, India, Bangladesh and the Philippines. [Read more about Kesko's commitment and impact assessment.](#)

In November 2017, Kesko followed up the assessment by publishing a study on working conditions in the supply chain of grapes in Brazil, South Africa and India. The study showed that the human rights of workers involved in the picking, packaging and transport of grapes are vulnerable to violations. Kesko has proposed expanding amfori BSCI audits to cover also logistics in high-risk countries. [Read more about the study.](#)

412-2 Employee training on human rights policies or procedures

The K Code of Conduct guidelines include [a section on human rights](#). The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 8,867 people by the end of 2017. Awareness of the K Code of Conduct is regularly promoted through communications and training arranged by K Code of Conduct ambassadors. An article related to the #metoo campaign was published in December 2017 on intranets in Kesko's operating countries, noting the K Code of Conduct guideline "We treat one another equally" and giving instructions on what to do if people notice inappropriate behaviour at the workplace.

Trainings in responsible purchasing continued in 2017. The trainings focused on the implementation of human rights in global purchasing chains. A total of three trainings were organised in Finland for people engaged in purchasing in Kesko's grocery trade and building and technical trade. One training was held for the personnel of the Kesko Onninen Purchasing Office in Shanghai, China. The training sessions discussed the amfori BSCI Code of Conduct principles, the assurance process in purchasing from high-risk countries, and the social responsibility assessment systems approved by Kesko. The trainings will continue in 2018.

Public policy

415-1 Political contributions

In election years, political parties and candidates are given equal opportunities to arrange campaign events in the yards and entrance halls of K Group stores. In addition, Kesko may participate in economic and tax policy seminars arranged by political parties, on content basis at its discretion and without indicating partiality.

Kesko does not make monetary donations to political parties. In 2017, Kesko did not participate in political parties' seminars subject to a charge and did not publish commercial advertisements in party newspapers.

Non-compliance concerning marketing communications

417-3 Incidents of non-compliance concerning marketing communications

Kesko constantly monitors the amendments to legislation and authorities' recommendations related to marketing communications and provides information about them to the staff responsible for marketing in each unit.

In 2017, there were no advertisements by Kesko or its subsidiaries submitted for consideration by the Council of Ethics in Advertising or any incidents of non-compliance with legislation or voluntary principles.

In June 2017, the Consumer Ombudsman imposed a prohibition order with a notice of a conditional fine in a matter concerning Intersport Finland Oy's offer marketing in 8/2016-1/2017.

Kesko Senukai Lithuania received a caution from authorities in 2017 for sending direct marketing to one customer who had prohibited it.

Customer privacy

418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data

In 2017, no information leaks or other personal data breaches were detected.

Compliance

419-1 Non-compliance with laws and regulations in the social and economic area

There were no non-compliance with laws and regulations in the social and economic area in 2017.

GRI management approach

Material aspects

- Economic performance
- Indirect economic impacts
- Anti-corruption
- Anti-competitive behaviour
- Compliance
- Grievance mechanisms for impacts on society
- Customer privacy

We generate economic value added

At Kesko, economic responsibility refers to the good management of finances, the efficient use of resources, as well as generating stable, long-term economic benefits for the various stakeholders. Kesko's operations generate economic benefits for shareholders, personnel, retailers, suppliers of goods and services and their employees and customers, as well as municipalities and states.

The K Code of Conduct and reputation management

Different aspects of responsibility, such as the ethicality of production and sourcing, the fair and equal treatment of employees and environmental protection are increasingly important for customers. Kesko's attitude to bribery and other malpractice is absolutely uncompromising. Responsible working principles are essential for building trust between Kesko, K-stores, our customers and our business partners.

Public policy

Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to social development and legislative work. Kesko does not donate funds to political parties.

Customer privacy

Customers' personal data is, for instance, processed in various personal data registers and online stores' customer registers that are collected for the implementation of marketing activities. Furthermore, Kesko manages and maintains the K-Plussa customer loyalty system, operated by K-chains and K-Plussa partners. Using the information received from the K-Plussa customer loyalty system, we can develop and tailor our operations to better suit our customers' needs. Taking care of our customers' privacy is of utmost importance to us.

Policies, principles and commitments

Accounting policies

- Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union.

Corporate Governance principles

- Kesko's decision-making and corporate governance are guided by [Kesko's values](#) and the [K Code of Conduct](#) guidelines. Decision-making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board and its Committees and the rules and guidelines of Nasdaq Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for Listed Companies that entered into force on 1 January 2016.

Risk management principles

- The [risk management policy](#) confirmed by the Board of Directors guides risk management in Kesko.

Good trading practices

- Kesko's grocery trade and Kespro are committed to good trading practices.

K Code of Conduct

- The K Code of Conduct is used to ensure that everyone at Kesko has the same understanding of the values and principles that guide our daily work. The principles are the same for every Kesko employee in all our operating countries. We also expect our business partners to operate responsibly.

Data protection policy

- The data protection policy defines how Kesko Group strives for compliance with the law in the processing of personal data and a high level of data protection in all of its operations and operating countries.

Monitoring and control systems

Financial reporting and planning

- Kesko's financial reporting and planning are based on the Kesko Group's management system. The Group's financial development and achievement of financial objectives are monitored by financial reporting covering the entire Group.

Compliance

- Kesko runs compliance programmes to ensure that Kesko employees are familiar with the key laws relating to operations and act in compliance with them. For Kesko, knowledge of and compliance with competition laws is of primary importance.

Prevention of malpractice

- The Kesko Group's Internal Audit monitors and secures the functioning and efficiency of management, supervision, risk management and corporate governance in the Kesko Group. Kesko's Internal Audit pays special attention to the efficiency of controls that prevent malpractice and financial losses. Kesko organises K Code of Conduct training in its various companies. The events focus especially on corruption and fraud-related issues.

Risk management

- Kesko has a uniform risk assessment and reporting system. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised on the basis of their significance by evaluating their impact in financial terms and probability. When assessing the impact of materialisation, the impacts on reputation, people's wellbeing and the environment are considered in addition to the impact in euros. Risk management measures are assigned persons in charge who are responsible for planning, implementing and monitoring the measures. The measures defined are added in action plans and monitoring systems. Kesko's Internal Audit has annually assessed the functioning and efficiency of Kesko's risk management system.

Privacy protection

- Personal data collected for various purposes on the grounds defined in the Finnish Personal Data Act form separate person registers. For example, the customer information of K-Plussa cardholders forms a customer database that is used, with the customer's permission, for managing customer relationships, for customer contacts and the marketing purposes of the companies that have joined the K-Plussa system. K-Plussa customers can prohibit the connection of product or product group level information to their identified customer relationship. In compliance with the Personal Data Act, the file description is available in Finnish at www.plussa.com.
- Data controllers ensure that customer information is only used for the purposes specified in the file description. Information on individual customers is secured by issuing instructions to personnel and by using technical systems. Customer data is only disclosed to third parties if required by law.

Responsibilities and resources

- Kesko's Corporate Governance structure is presented at [Kesko's Corporate Governance principles](#)
- Group Legal Affairs Unit
- Internal Audit Unit
- Risk Management and Corporate Security Unit
- K Digital Unit

Grievance mechanisms

Through Kesko's intranet, employees can give feedback and ask questions concerning operations not only in their own units but also directly to top management. Feedback can be given openly or anonymously.

SpeakUp is a confidential reporting channel meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to Kesko's persons in charge.

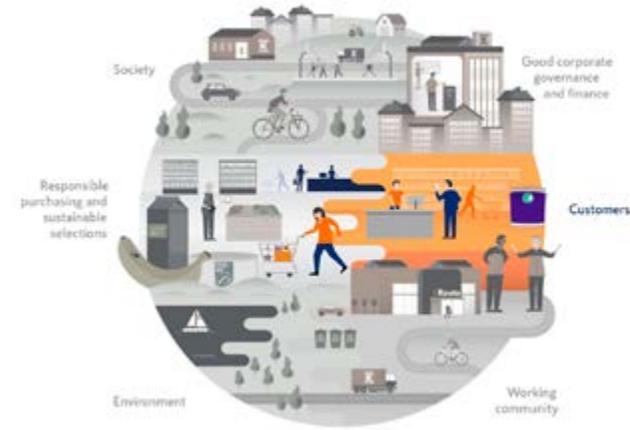
Boundaries

Corporate governance	Kesko
Finance	Kesko

Customers

We offer sustainable products and multi-channel services

- We make people's lives more convenient and easier.
- We offer healthy products and services that promote wellbeing.
- We develop the multi-channel aspect of our store network based on our customers' expectations.
- We encourage our customers to make sustainable choices.



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Dialogue with customers	We constantly engage in dialogue with customers in stores and social medial channels. We conduct surveys on customer satisfaction and brand and utilise customer views in the development of our responsibility work.	<p>Listening to our customers and utilising feedback are key factors in Kesko's strategy when it comes to improving customer experience. We offer our customers an easy-to-use digital feedback channel Hymy. Some one million customer contacts happen through Hymy each year.</p> <p>We are testing Kylä, a new type of customer community, to get our customers proactively involved in the development of our operations and services. Read more: Stakeholder perspective.</p> <p>In the spring of 2017, we conducted a qualitative study concerning K Group's competitive advantage and strong corporate responsibility to find out what responsible and reliable operations of a trading sector company mean to Finnish consumers. We used the findings to further develop our operations.</p>	<p>The human rights assessment generated invaluable information for developing customer services. We will investigate the possibility of implementing the suggestions we received.</p> <p>We carried out an extensive study among grocery trade experts, retailers, suppliers and K-Plussa customers on the expected food trends and phenomena of 2017.</p> <p>The significance of social media channels in customer interaction has grown. In 2017, we will more actively listen to our customers' opinions and carry out more systematic and focused communication within social media communities.</p>	As part of Kesko's human rights assessment, we heard the stakeholders' views on how well they thought human rights were realised, for example, in customer service situations. The online questionnaire was directed at both majority representatives as well as special groups. Kesko was assessed as slightly higher than the average Finnish company in the materialisation of a variety of human rights issues. However, the assessment given by special groups was, with regards to certain aspects (e.g. unrestricted access, accessibility, personnel diversity), considerably poorer when compared to the answers given by majority representatives.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Consultation services to customers	We offer our customers multi-channel information on our products and services.	<p>In September, K-Rauta launched in Finland the Remonttineuvonta renovation consultation service, an example of a multichannel advice service for customers.</p> <p>K Consumer Service responds to consumer feedback concerning the own brand products (Pirkka, K-Menu, Euro Shopper) and own imports of the grocery trade division. In 2017, K Consumer Service gave 22,218 responses.</p> <p>Our key customer communication channels are K Group's social media channels and Pirkka Media, which comprises Pirkka magazine and the digital channels Pirkka.fi and Pirkka's Facebook, Twitter and Instagram. Pirkka magazine has a readership of 1.7 million (Kansallinen Mediatutkimus, a national media survey, autumn 2016 / spring 2017).</p>	Customer feedback received through the new customer feedback system, launched in summer 2016, increased significantly. The K Group's customer magazine Pirkka was revamped. The K Consumer Service was contacted 19,619 times.	The K Consumer service was contacted 19,770 times. Information about good products and responsible actions was given in stores and marketing with the help of the K-responsibility concept and its slogan 'Let's do good. Together.'
Welfare	We offer products and services that promote health and wellbeing.	<p>In 2017, we began work to build a new health and wellbeing store chain Hehku together with the pharmaceutical distributor Oriola. Our goal is to establish a chain of 100 Hehku stores and an online store. If legislation changes, we will expand the business to also include the sale of pharmaceuticals. The first Hehku stores opened in January-February 2018.</p> <p>We joined the National Nutrition Council of Finland's nutrition commitment by making a vegetable commitment, which encourages K-food store customers to increase their use of vegetables through the following actions, which extend to year 2020:</p> <ul style="list-style-type: none"> • By 2020, at least 400 K-food stores will have a "veggie shelf" for vegetable protein products. In 2017, 250 K-food stores had dedicated veggie shelves. • We organise at least 250 vegetable-related campaigns at K-food stores each year (2018-2020). In 2017, K-food store chains organised 240 vegetable campaigns. • We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2017, we added 55 new fruit and vegetable products to our selections. 	<p>In addition to the recipe search function, the K-food mobile app gives the user suggestions about the most popular recipes made with seasonal ingredients. K-stores launched veggie shelves. The product reformulation policy (less salt, sugar and fat) is to be updated in 2017.</p> <p>Cello indoor and outdoor paints received the Swan label. Onninen Norway provides welfare technology-related solutions. Intersport organised sports training during different seasons.</p>	In 2015, K-ruoka.fi produced the Keveämpi arki customer programme consisting of recipes and ideas that promote a healthier lifestyle and well-being. Intersport's sports training offered expert tips, inspiring content and exercise programmes for people of different fitness levels.



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Sustainable consumption	We help our customers make sustainable choices.	<p>In accordance with our plastics policy, we create operating models that prevent plastics from ending up in water bodies and elsewhere in the environment. We strive to increase awareness of the environmental impacts of plastic waste through active communications in customer channels and at our stores. In 2017, we removed environmentally harmful microbeads from all our own brand cosmetic products. During 2018, microplastics will also be removed from all our own brand detergents. The Pirkka ESSI circular economy bags were introduced to K-food stores' shopping bag selections at the start of 2017. The bags are made of over 90% recycled materials, around half of which is plastic packaging separately collected from households.</p> <p>In 2017, we took part in the second Ham Trick campaign, where roasted ham fat is used to produce renewable diesel. K-Citymarkets collected fat from 117,000 households, i.e. 81% of the total fat collected in the campaign.</p> <p>We introduced two products in 2017 that reduce the environmental load on the Baltic Sea: the Pirkka fish patty, which is made from Baltic bream, and the Pirkka Parhaat Benella Rainbow Trout, which is farmed in Finland with feed made from Baltic herring and sprat from the Baltic Sea.</p>	<p>K Group has the most comprehensive neighbourhood store network in Finland. We provide an extensive and free charging network for electric cars. We participated in the Kinkkutomppu campaign which used the roasted ham fat to produce renewable diesel. K-food stores participated in the Food Waste Week campaign organised by the Consumers Union Of Finland. At the start of 2017, Pirkka ESSI circular economy bags were introduced in K-food stores. K-food stores introduced shared vege shelves for all vegetable protein products.</p> <p>We published our soy policy and committed to it; by 2020, all soy used in the production chain of own-brand products will be sustainably produced RTRS or ProTerra certified soy. We published our plastics policy and committed to introducing measures to reduce the consumption of plastic bags.</p>	<p>The K-responsibility concept theme "Let's do good. Together" was an essential part of the communication and marketing of the grocery trade, as well as our building and home improvement stores and agricultural stores. Our building and home improvement stores offered their customers energy efficient and environmentally friendly products and services. K-food stores participated in the Food Waste Week campaign organised by the Consumers Union Of Finland.</p> <p>VV-Auto participated in the Finnish Transport Agency's car scrapping reward trial. The range of electric and hybrid cars available in car dealers widened.</p> <p>As a new service, we started building new charging points for electric and hybrid cars in the most significant store locations.</p>

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Digital services	We offer the best digital services to K Group customers in all divisions.	<p>We utilise artificial intelligence for product and content recommendations in our services, and are improving the customer experience in our digital services. New features in the K-Ruoka mobile application include product information and food purchases via online store. We opened an entirely redesigned online food store and new online stores for Onninen and K-Rauta in Finland. In the car trade, the Caara.fi service was complemented with a new Caara Go service, where you can obtain a car for temporary use, be it a month or a year, for a monthly fee agreed upon beforehand.</p> <p>We launched Student K-Plussa, a loyalty programme for higher education and university level students that offers e.g. a 5% rebate on purchases at K-food stores. Some 20,000 students joined the programme over the first few months.</p> <p>In the autumn of 2017, we began a collaboration with the global online store operator Alibaba to sell Finnish food brands in China. We export Finnish food brands and our own Pirkka products to the growing Chinese market.</p>	<p>Almost 100 K-food stores nationwide offer locally operating online grocery stores and click and collect services. All K-Rauta stores have an online store which also provides a delivery and click and collect service. We developed the K-food mobile app further.</p> <p>We developed a joint online store solution for the business customers of building and home improvement stores and Onninen. We launched a new concept online: a used car store, Caara.fi.</p> <p>We opened a new K Digital unit and recruited dozens of new digital experts. The five trainees that completed the K Digital Trainee programme found employment in various digital positions within the K Group.</p>	<p>Stores' click and collect services became more common. We published a K-food mobile app, which offers personalised benefits and shop-specific offers and a smart shopping list. Sotka's online store was opened.</p>
Management by information	Each K-store is customised to meet its local customer demand by utilising customer data.	<p>We created three new applications for all K-food stores, which support store management by information. New tools combined with our existing customer data-based application that supports store-specific business ideas clearly improve the ability to run stores based on customer insight and data. The number of users for new tools aimed at store management by information has tripled within a year.</p>	<p>The retailers received a new application based on customer data, among other things, that supports store management and offers a tool for targeted product ranges and marketing.</p> <p>We will revamp the K-food store chains. We will revamp our entire hypermarket concept and all K-Citymarkets by the end of 2018. We will revamp the K-Rauta brand in all its countries of operation in stages.</p>	<p>Dozens of new ideas and operational models were tested in K-Myllypuro over a year. The test store's customers and customer jury were asked for feedback on a regular basis. Based on customer wishes, the test store became a K-Supermarket in August 2016. The experiences gathered from the K-Myllypuro test store were used in the planning of the renewal of the K-Market chain.</p>
	Using marketing based on customer data, we offer our customers the best customer experience in the trading sector.	<p>We continued the systematic development of K Group's marketing through marketing process automation and increased investments in the development and utilisation of marketing technologies. Our objective is to utilise customer data better in our marketing so we can offer our customers a better, more personalised customer experience. In 2016, our own team of experts initiated programmatic targeted marketing using customer data, and nearly half of all digital marketing is now programmatic marketing.</p>	<p>We expanded the K Group's targeted marketing using customer data and began carrying out programmatic marketing relying on our own team of experts. Using our customer data, we offer our customers more personalised, interactive and multi-channel services. The revamped K-Plussa loyal customer card ensures personalised, targeted benefits for customers. We developed the K-food mobile app further.</p>	<p>Personalised marketing based on purchase history means that customers receive benefits better suited to them. After purchasing, customers receive service messages, customer questionnaires or personalised offers using their chosen channel.</p>

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Additional services in connection to stores	<p>We want to offer our customers a convenient shopping experience.</p> <p>GRI 203-1</p>	<p>We offer our customers the chance to recycle packaging plastics in 173 RINKI eco take-back points located at K-store premises. To increase shopping convenience, self-service checkouts are available for customers at hundreds of K-food stores.</p>	<p>In connection to K-food stores, there were 396 consumer packaging recycling Rinki eco points, of which 160 also collected plastic. Many eco points also accepted paper and used clothing. All K-food stores have reverse vending machines for returning beverage containers.</p> <p>Core additional services in K-food stores were: Post Office service points in 327 stores, Matkahuolto parcel points in 568 stores, DHL service points in 27 stores, Post Office parcel lockers in 144 stores and Osta & Nosta cash points in 1,011 stores. We provide an extensive and free charging network for electric cars. The Liiteri service tested the rental service for K-Rauta's tools.</p>	<p>There were 255 consumer packaging recycling eco points at K-food stores. 38 eco points collected plastic. Many eco points also accepted paper and used clothing. All K-food stores have reverse vending machines for returning beverage containers. Posti and DHL expanded their operations into K-food stores. DHL Express and the K Group started cooperation which will bring 250-300 DHL service points nationwide in food stores and building and home improvements stores. There were 137 SmartPost self-service parcel lockers at K-stores.</p>



Store network

203-1 Development and impact of infrastructure investments and services supported

Kesko operates in the grocery trade, the building and technical trade, and the car trade. In 2017, Kesko had approximately 1,800 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Belarus and Russia. On 16 February 2018, we announced we would discontinue our building and home improvement trade operations in Russia.

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 43% of Kesko's net sales in 2017. At the end of 2017, Kesko had over 1,100 independent K-retailer entrepreneurs as partners. Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled around €13 billion (VAT 0%) in 2017. K Group employs around 42,000 people.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. B2B trade accounted for 35% of Kesko's net sales in 2017. Kesko's own retailing accounted for 22% of net sales.

Kesko hosts a comprehensive K-food store network in Finland, and there are K-food stores in most Finnish municipalities. K-food stores are visited by around 1.2 million customers every day.

K-food stores in Finnish municipalities at 31 Dec. 2017



Especially outside growth centres, retail stores can offer community services which may otherwise be scarcely available. In 2017, the following services were located in connection with K-food stores:

- Cashback services at more than 1,200 stores
- Parcel and postal services at over 800 stores

The store site network is a strategic competitive factor for K Group. In 2017, Kesko's total capital expenditure in store sites amounted to €256 million (2016: €217 million). Kesko's most significant recent store site project is the new shopping centre, Easton Helsinki, in Itäkeskus, Eastern Helsinki. The capital expenditure is valued at €100 million, with an employment impact of approximately 250 person-years for a period of two years. Easton Helsinki was opened in October 2017 and it offers people in the region the best and most versatile food selections both in the physical store as well as online. Easton is a forerunner in combining digital and physical channels and services. The new shopping centre and its occupants provide employment to some 300 people.

In addition to statutory waste recycling obligations, K-stores provide the following recycling services:

- Collection of impregnated wood.
- Collection of clothing.

Waste statistics are presented under [306-2 Waste](#).

Kesko's community investments are presented under [Society](#) in the Responsibility programme.

GRI management approach

Material aspects

- Customer health
- Product safety



Policies and commitments

The K-responsibility concept is used to tell customers about the store's good deeds and to help them make healthy and sustainable choices easily. The K-responsibility concept is in use in K-food stores and K-Rauta stores.

Customers' needs and consumption behaviour change greatly as new electronic services and, particularly, mobile services become increasingly widespread. Kesko's key strategic objective is to serve customers in all of its divisions by using the opportunities provided by mobile services, online services and digital marketing.

Monitoring and control systems

Kesko Product Research Unit's laboratory monitors the safety and quality of groceries and home and speciality goods sold by K-food stores and K-Citymarket hypermarkets.

In addition to the laboratory, the Product Research Unit includes a test kitchen and K-Consumer Service. The test kitchen's duties include sensory evaluations of products and the testing of their cooking properties. The consumer service provides information on Pirkka products: customers can give feedback on products and ask about various aspects of our products, such as product origins, ingredients, their suitability for different kinds of users and instructions for use and preparation.

Responsibilities and resources

- Kesko's divisions
- Kesko's Product Research Unit
- K-stores

Programmes, projects and initiatives

The home economics teachers in Kesko's grocery trade's marketing unit develop and test hundreds of new food recipes annually. [The recipes in the K-ruoka.fi service](#) include the nutritional content of each dish to make it easier for people to make choices.

In the building and home improvement store operations, the assessment of a store's operational responsibility comprises the store's annual self-assessment, the criteria defined in the store's quality system and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko. Food store operations utilise the Hymy quality review system.

The service level, recognition level and images of Kesko's chains are regularly monitored in brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plussa customer

loyalty programme and the grocery trade's own-brand products. Store-level customer satisfaction is measured by customer satisfaction surveys and the mystery shopping method in food stores and building and home improvement stores.

Grievance mechanisms

- Plussa.com
- K-Consumer Service
- Chain's customer feedback systems

Boundaries

Customer health and safety	Kesko Group – Own-brand products and own imports
Product and service information	Kesko Group – Own-brand products and own imports
Marketing communications	Kesko Group
Compliance	Kesko Group

Society

We contribute to creating a better society

- We create partnerships and participate in developing local communities.
- We develop our business in interaction with our customers.

KESKO'S YEAR 2017



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Local production	We support local producers. GRI 204-1	We organised six local food dates around Finland, giving K-retailers and local food producers a chance to meet and establish a collaboration. K-food stores had 10 'Thank the Producer' products in their selections. Overall, some six million 'Thank the Producer' products were sold during the year, for which we pay more than €350,000 extra to Finnish food producers. K-food stores' 'Even better from Finland' campaign encouraged buying Finnish products. K Group was the main cooperation partner in the 'MTK 100' celebrations (the Central Union of Agricultural Producers and Forest Owners, MTK) nationwide. In our social media channels, we published 'Shared growth stories' on growth-generating collaborations between producers, local entrepreneurs and K-retailers.	K-food stores, K-Rauta stores and Rautia stores participated in the Blue and White Footprint campaign. We organised Local Food Dates in six different locations. K-food stores sold 12 different Pirkka 'Thank the Producer' products for which we paid extra directly to the producer. In 2017, we will be the main cooperation partner in the 'MTK 100' celebrations.	K-food stores, K-Citymarket Oy (home goods), K-Rauta stores and Rautia stores participated in the Blue and White Footprint campaign. We organised Local Food Dates in six different locations. We created the 'Thank the Producer' operating model to highlight the position of producers and increase the appreciation of Finnish production.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Donations, sponsoring and charity campaigns	<p>We participate in projects, which are connected to improving families' daily life and sustainable development.</p> <p>GRI 201-1</p>	<p>In August 2017, we began an extensive multi-year collaboration, K Fishpaths, with the environmental organisation WWF Finland to save and restore endangered migratory fish populations in Finland. Read more in 304-3.</p> <p>We continued our co-operation with the children's rights organisation Plan International Finland to improve the responsibility of the fishing industry and the position of migrant workers in Thailand. A cooperation agreement has been made for the period from 2015 to 2018.</p> <p>The Little Big Deeds model established by K-Retailers' Association and Kesko brings to public attention responsible deeds relevant to our customers. Watch Aino's Room video and Tomi's story video.</p> <p>We took part in the Hyvä Joulumieli Christmas fundraising campaign and the Salvation Army's Christmas Kettle collection. Intersport Finland took part in the Red Nose Day campaign. K-food stores have taken part in the international Pampers-UNICEF vaccine campaign for ten years, and during that time, the funds collected via K-food stores have led to the donation of nearly 10 million tetanus vaccines. K-food stores collected nearly 450,000 euros for the Finnish Cancer Foundation's Pink Ribbon campaign. The cooperation between Pirkka and the Finnish Basketball Association continued, and more than 40,000 children have taken part in Pirkka Little Wolves sports events between 2015 and 2017.</p> <p>K-Plussa customers can choose to donate their Plussa money to charity.</p>	<p>We participated in Red Nose Day, the Good Christmas Spirit collection and the Salvation Army's Christmas Kettle collection. Finland's K-Rauta and the Women's Bank launched cooperation to help Ugandan women in the early phases of entrepreneurs. K-food stores participated in UNICEF's and Pamper's international vaccination campaign and raised funds for almost 900,000 tetanus vaccinations. We participated in the Pink Ribbon campaign with a more significant contribution than before. K-food stores' bottle return raffle's proceeds were donated to the Eväitä Elämälle aid programme by Save the Children. The Finnish Basketball Association and K-food stores cooperated to organise basketball events for over 10,000 children across Finland. We continued our cooperation with Plan to improve the sustainability of Thailand's fishing industry and to improve the status of migrant workers; cooperation has been agreed for the period of 2015-2018. K-Plussa customers can choose to donate their Plussa money to charity.</p>	<p>We participated in Red Nose Day, the Good Christmas Spirit collection, the Salvation Army's Christmas Kettle collection and the Pink Ribbon campaign. K-food stores participated in the UNICEF's and Pamper's international vaccination campaign. K-food stores' bottle return raffle's proceeds were donated to the Eväitä Elämälle aid programme by Save the Children. Together with the Finnish Basketball Association we organised basketball events and Pikkusudet basketball schools for primary school children across Finland. We started a research project with Plan to investigate the status of Cambodian migrant workers in Thailand.</p>



Indirect economic impacts

201-1 Direct economic value generated and distributed – Community investments

KESKO'S COMMUNITY INVESTMENTS

€ 1,000	2017	2016	2015
Non-governmental, environmental and other organisations	231	412	555
Sports (adults)	1,145	891	721
Youth sports and other youth work	144	56	64
Science, research and education	50	67	61
Culture	32	14	32
Health	459	270	12
Veteran organisations and national defence	113	3	5
Political parties and organisations	-	-	8
Total	2,174	1,713	1,457

In addition, Veikkaus Oy contributed an estimated combined revenue of €105-110 million to the Ministry of Education and Culture, the Ministry of Social Affairs and Health, and the Ministry of Agriculture and Forestry, generated from the sales of games by Veikkaus points of sale located at K-stores. The estimate is based on the average breakdown of each euro spent on games in 2017. Due to the merger of Finnish gaming companies on 1 January 2017, the figure is not comparable to the figures of previous years. The estimate has been calculated by Veikkaus Oy. The Ministry of Agriculture and Forestry, the Ministry of Education and Culture, and the Ministry of Social Affairs and Health distribute the revenue in its entirety to beneficiaries in Finland.

204-1 Proportion of spending on local suppliers

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

Most of the economic benefit generated by Kesko's operations – approximately 84% of Kesko's net sales – flows to suppliers of goods, from which purchases were valued at €9.0 billion in 2017. The purchases of all Kesko companies from suppliers operating in Finland totalled €5,821 million, accounting for 65.0% (65.9% in 2016) of the Group's total purchases.

In 2017, Kesko had around 26,300 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, around 12,600 operated in Finland, around 10,900 in Kesko's other operating countries, and around 2,800 elsewhere.

The 10 largest suppliers accounted for 26.4% (24.3% in 2016) of the Group's purchases of goods, and the 100 largest suppliers for 59.8% (54.4% in 2016). Of the 10 largest suppliers, seven were Finnish food industry companies, one an import company operating in Finland, and two German car manufacturers.

The purchases of goods by Kesko Group's Finnish companies totalled €7,175 million. Of these purchases, 80.5% were from suppliers operating in Finland and 19.5% from other countries. It should be noted that because some of the suppliers operating in Finland are import companies, reliable statistics cannot be compiled on the origin of goods supplied by them.

KESKO'S PURCHASES BY OPERATING COUNTRY IN 2017

	Suppliers of goods and services in operating country			Suppliers of goods and services in other countries		
	number	€ million	%	number	€ million	%
Finland	12,330	5,773	80.5%	2,525	1,402	19.5%
Sweden	2,251	248	85.2%	246	43	14.8%
Norway	1,739	574	97.6%	198	14	2.4%
Estonia	1,094	67	53.4%	488	59	46.6%
Latvia	815	26	35.1%	431	48	64.9%
Lithuania	433	115	33.9%	221	225	66.1%
Poland	1,066	136	95.1%	64	7	4.9%
Russia	1,330	133	95.5%	40	6	4.5%
Belarus	702	49	58.5%	368	35	41.5%
Total	21,760	7,122	79.5%	4,581	1,839	20.5%

KESKO'S PURCHASES BY COMPANY'S AND SUPPLIER'S COUNTRY OF DOMICILE IN 2017

Company's country of domicile € million	Supplier's country of domicile										Total
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus	Other countries	
Finland	5,773	157	10	45	5	7	20	1	6	1,152	7,175
Sweden	14	248	5	1	-	0	4	-	-	18	291
Norway	0	9	574	0	-	-	-	0	-	4	588
Estonia	15	2	1	67	5	2	6	-	-	28	126
Latvia	7	0	-	4	26	1	2	0	0	33	73
Lithuania	9	1	0	11	30	115	40	2	4	130	341
Poland	1	0	-	-	0	-	136	-	-	6	143
Russia	3	-	-	1	-	-	0	133	-	3	140
Belarus	0	0	-	-	0	1	4	15	49	14	84
Total	5,821	418	590	129	65	128	213	151	59	1,388	8,961

Kesko is actively increasing the amount of local purchases and encourages K-retailers to include products from near-by producers in their selections. In 2017, K-retailers' direct purchases from Finnish regions totalled €748.4 million.

ECONOMIC BENEFIT GENERATED BY KESKO AND K-RETAILERS TO FINNISH REGIONS IN 2017

Region	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure ¹	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	
€ million							
Åland	38.7	-	0.0	0.2	-	-	39.0
Southern Karelia	8.6	12.7	6.9	6.8	12.1	0.5	47.6
Southern Ostrobothnia	237.1	41.6	7.3	6.0	12.9	0.9	305.9
Southern Savo	47.5	16.5	7.0	5.1	11.6	1.3	88.9
Kainuu	9.3	9.1	2.4	1.8	6.3	0.5	29.4
Kanta-Häme	58.3	35.9	7.4	7.0	12.0	0.9	121.5
Central Ostrobothnia	54.4	18.0	2.0	2.3	4.7	0.5	82.0
Central Finland	61.9	28.2	9.4	10.9	19.3	1.7	131.3
Kymenlaakso	41.0	17.1	9.8	7.9	10.9	1.1	87.8
Lapland	20.7	31.2	11.5	8.6	20.6	1.8	94.4
Pirkanmaa	258.5	41.5	34.4	37.2	36.8	2.7	411.2
Ostrobothnia	159.3	11.8	3.3	7.3	10.0	0.7	192.3
Northern Karelia	31.8	26.9	3.0	5.5	11.4	1.2	79.6
Northern Ostrobothnia	158.9	60.3	17.7	20.4	28.2	2.2	287.8
Northern Savo	192.9	49.0	10.2	12.1	22.3	1.4	287.8
Päijät-Häme	161.0	33.4	7.2	10.9	13.1	1.1	226.9
Satakunta	203.8	41.8	5.0	8.5	16.5	1.0	276.5
Uusimaa	3,301.9	191.2	219.4	307.6	130.2	13.8	4,164.1
Varsinais-Suomi	727.2	82.1	59.5	30.6	38.5	4.4	942.2
Total	5,772.8	748.4	423.4	496.7	417.5	37.6	7,896.4

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

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

In 2014–2017, Kesko and Ruokatieto ry, an association that promotes Finnish food culture, organised Local Food Date (Lähiuokatreffit) events that bring together local food producers and K-retailers. The purpose is networking as well as improving the supply of local products in the K-food stores in the area and thereby supporting Finnish work.

The 'Thank the Producer' operating model provides customers with an easy way to support Finnish food producers. K-food stores had 10 'Thank the Producer' products in their selections, for which K Group paid more than €350,000 extra directly to the food producers in 2017.



Capital expenditure

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

In 2017, Kesko's capital expenditure totalled €350 million (€743 million in 2016), or 3.3% of net sales (7.3% in 2016). Capital expenditure in store sites was €256 million (€217 million in 2016). Capital expenditure in foreign operations accounted for 14.5% (15.2% in 2016) of the total capital expenditure. In 2016, Kesko Group acquired Onninen Oy, Suomen Lähikauppa Oy and Oy Autocarrera Ab. The total capital expenditure on the acquisitions was €445.5 million.

In addition to Kesko, K-retailers make capital expenditures in the fixtures of stores. These figures included, K Group's total capital expenditure in Finland was around €423 million in 2017.

GRI management approach

Material aspects

- Purchase practices

Local presence has an impact on the whole of society

The retail trade plays a significant role in local communities. It serves and employs local people. In addition to the direct employment impact, the retail trade also employs a significant number of people indirectly through suppliers and business partners.

Retailers, supported by Kesko's district organisations, represent local activities. A K-retailer entrepreneur is responsible for his or her store's staff and customer satisfaction. Listening to the wishes of local customers and making use of customer data, K-retailers put together a selection of products and services that meet customer needs. We develop our business through interaction with our customers.

Kesko purchases the majority of the products it sells from Finland and encourages K-retailers to include locally produced products in their selections. The impact of Finnish products on employment is significant; for example, Pirkka products are produced in 175 companies all over Finland.

Policies and commitments

Kesko's grocery trade and Kespro are committed to the grocery store chain's **good trading practices**. Kesko requires that its business partners act in compliance with the **K Code of Conduct**. We add a K Code of Conduct contract clause to agreements signed by Kesko Group companies under which the Group companies purchase products or services from parties outside the Group.

Monitoring and control systems

Changes in the operating environment and in K Group are taken into account by adjusting objectives, operating principles, monitoring systems and/or resources.

Responsibilities and resources

- K-retailers and K-Retailers' Association
- Kesko's district organisations
- Steering group for responsible purchasing and Kesko's buyers
- Division Management Boards

Programmes, projects and initiatives

In September 2017, K Group began to offer a new nationwide student benefit, in which **higher education and university level students receive 10 times the normal Plussa benefit** on purchases. This means a 5% rebate on groceries bought in the previous month. The rebate is paid as Plussa money. K Group wants to enable students to also make high-quality, sustainable consumer choices.

In the renewal of the K-Rauta chain, discarded work clothes, flags and other textiles were collected from 140 stores and recycled. Discarded work clothes from rebranded stores were processed into material that can be utilised, for example, by the car industry.

Grievance mechanisms

- **SpeakUp** reporting channel

Boundaries

Economic performance	Kesko
Indirect economic impacts	K Group
Purchase practices	K Group

Working community

We carry out and offer high-quality work

- We have satisfied employees and competent managers.
- We offer interesting and diverse work as well as development opportunities.
- We are the most attractive workplace in the trading sector.
- We offer a safe and healthy working environment.
- Our personnel act responsibly.



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Employer image	<p>We are the best employer in the trading sector in terms of job satisfaction.</p> <p>GRI 404-3, 405-1, 405-2</p>	<p>According to our personnel survey, 79% of K Group employees would recommend the group as an employer. In the Universum Professionals survey, Kesko's ranking was 25.</p> <p>We continued to employ young people by offering summer jobs to approximately 5,000. As part of the Finland's Mentors project, we carried out a K Trainee Programme.</p> <p>We surveyed views and opinions from current and potential employees, as well as expectations towards K Group as an employer and general expectations of working life. Based on the findings, we redefined our plans for improving employee experience and our recruitment process. We initiated pilots to increase agility in our work practices. We adopted a common operating practice for mapping out employees' career aspirations, skills and competencies and willingness to evolve and take on more challenging positions within the company.</p>	<p>The employee engagement index was 61%. The percentage of employees who would recommend the K Group as an employer has gone up to 68%, according to the personnel survey (56% in the previous survey in 2014). In the Universum Professionals survey, Kesko's ranking was 38.</p> <p>We continued to employ young people by offering summer jobs to approximately 5,500 young people. We organised a K Digital Trainee programme, and, through that, employed five graduates in business development jobs.</p> <p>Together with FIBS we conducted a diversity management starting point analysis in Finland and we will utilise its outcomes to develop our operations.</p> <p>We determined our employer promise and, in accordance with it, we will develop, for example, our cooperation with educational establishments and reinforce our recruitment and induction processes.</p>	<p>We launched the K-job programme, the purpose of which is to provide those aged under 30 with channels to find a job in the K Group. We particularly focused on guiding 'Learn and Earn' trainees, young people in short-term work orientation, and summer employees. In the Universum Professionals survey, Kesko's ranking was 31.</p>

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Performance management	<p>We know the targets set for our work and receive feedback on our performance.</p> <p>GRI 404-3</p>	<p>We introduced a new performance management model and K SuccessFactors, a system supporting the model, for support functions in Finland, Sweden, Norway and Russia. The model comprises target setting linked to strategy and follow up, personal development reviews and development plan, and performance evaluation tied to performance bonus. We will use the model to systematically guide the performance of employees and the organisation to implement our strategy, reward good performance, develop employee competencies, support target achievement, and prepare for future challenges.</p>	<p>In 2017, we launch, in stages, the new performance management model and the K Success Factors systems that support it.</p>	
Wellbeing at work and occupational ability	<p>We improve work motivation and satisfaction.</p> <p>GRI 403-1, 403-2</p>	<p>The key focus area was to develop our Occupational Health and Safety (OHS) operations through management by information supporting business. We systematically monitored key OHS indicators and developed different areas from a business perspective. We launched international OHS and wellbeing principles in K Group.</p> <p>We improved stress management skills among personnel through mindfulness training. We continued health training and introduced wellbeing programmes directed at managers.</p> <p>We launched common occupational safety principles and operating models in Finland, and carried out pilots to improve occupational safety. We streamlined the labour protection organisation to reflect our current operating premises and organisation structure.</p>	<p>The focal point of the wellbeing at work programme was the comprehensive and business-oriented development of OHS (Occupational Health and Safety) operations. We enforced the monitoring of key figures to improve proactive work and to support management by information. Furthermore, we implemented other proactive measures, such as new health training.</p> <p>We also launched an occupational safety project whose aim is to further develop our occupational safety culture and shared operating models. We also made labour protection more systematic and developed the ways in which it is organised.</p> <p>We support our employees' leisure time fitness activities in all our operating countries. The Finnish companies, for example, provide vouchers for physical exercise and cultural benefits.</p>	<p>The focal point of the wellbeing at work programme was to support employees' health and reduce sickness absences, developing safety at work and strengthening the role of labour protection as well as promoting employee engagement and implementing the people principles.</p>
	<p>We reduce sick leave, accidents at work and premature retirement due to disability.</p> <p>GRI 403-2</p>	<p>We continued to focus on decreasing sick leaves, accidents at work and premature retirement due to disability. Although the numbers for premature retirement due to disability are well under control considering the size of the company, we are paying more attention to the management of risks for occupational ability and the related costs.</p> <p>Training for the Let's Talk About Work operating model is part of the occupational ability management training for managers.</p>	<p>We focused on reducing sick leave, accidents at work and premature retirement due to disability. The Let's Talk About Work training for managers continued and over the last five years, more than 1,000 managers have been trained.</p> <p>We piloted work induction services. We will reduce sick leave in the long term with a project which has a systematic take on labour protection and safety at work. We developed a unified accident insurance management model, which we will launch in 2017.</p>	<p>We focused on reducing the number of sick leave and premature retirements due to disability by means of occupational health service activities, the Let's Talk About Work training for managers, work revision, occupational rehabilitation and the work done by the Work Ability Manager working in the OHS team. The Work Ability Manager's activities support the employee's return to work, while considering various options for continuing at work. Sick leave has continued to decrease.</p>

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Skills management	We conduct an annual performance and development review with every employee. GRI 404-3	The performance and development reviews continued and are part of the new performance management model adopted for support functions in Finland, Sweden, Norway and Russia. Read more in Performance management and 404-3 .	The performance and development reviews were used in all Kesko Group companies and operating countries. The performance and development reviews were carried out at least twice, in the spring and/or in the autumn. In 2017, we launch, in stages, the new performance management model and the K Success Factors systems that support it. In the future, we will record the development reviews in the K Success Factors systems.	Performance and development reviews apply to all employees, and in 2015, they were carried out twice: in the spring and in the autumn. The realisation of the discussions was requested in the personnel survey that was conducted in the beginning of 2016. The response rate to the survey was 85%. A total of 80% of employees that responded to the survey had had their reviews carried out during 2015.
	We will regularly train our managers. GRI 404-1 , 404-2	The consistent development of managerial work continued in support of our strategy. Manager training included the K Way training programme for new and experienced managers, the international K Way Middle Management Leader programme, and training related to the performance management model. A total of 727 managers took part in manager training. We will continue to systematically develop our training portfolio to meet future needs. In 2018, we will update our manager training and expand the concept to Poland and Norway.	We continued the K-Way new managers training programmes, K-Way experienced managers training programmes and Let's Talk About Work training programmes. In total, 363 managers participated in these training programmes. The topic for the new Mindfulness training was understanding and training your own mind as well as efficiency. 17 managers from Finland participated in the training. The objective of the new K-Way Middle Management Leader training programme was to strengthen the skills for strategy implementation and business competence. The training programme had a total of 22 participants from all operating countries. In Russia, we started a new K-Way Leader training programme that aims to strengthen management competence and managerial skills in the K Group. The training programme was attended by 12 managers. In 2017, we will continue to organise the K-Way managerial trainings and start a new development programme for top management. We will continue spreading the coaching and mentoring processes that support managerial work.	The emphasis was on the implementation of the K Group's operating principles, challenging situations faced by managers, leading a new team, effective management and how to use the personnel survey results to develop the team. The first training programme promoting the K Group's new management culture was entitled 'K-Way new managers' and was piloted towards the end of the year. Managerial training for Kesko's personnel was taken a total of nearly 700 times. Online training modules for managers were completed approximately 3,700 times.

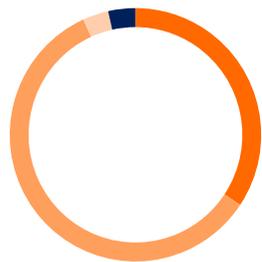


Employment

401-1 New employee hires and employee turnover

In 2017, Kesko had an average of approximately 22,077 (2016: 22,476) full-time equivalent employees in nine countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus. 48% of the personnel were based in Finland and 52% in the other operating countries.

Distribution of Kesko personnel by division at 31 Dec. 2017, %



- Grocery trade 34.4%
- Building and technical trade 58.9%
- Car trade 3.3%
- Common operations 3.5%

CHANGES IN THE NUMBER OF KESKO EMPLOYEES

	2017	2016	2015
Finland at 31 Dec.	12,327	14,845	10,081
Other operating countries at 31 Dec.	12,656	12,811	11,854
Total at 31 Dec.	24,983	27,656	21,935
Finland, average	10,691	10,714	8,300
Other operating countries, average	11,386	11,762	10,655
Total, average	22,077	22,476	18,955

FIXED-TERM AND PART-TIME EMPLOYMENTS AT KESKO

	2017	2016	2015
Fixed-term employees of total personnel at 31 Dec., %			
Finland	14.2	12	11.5
Other operating countries	4.8	6.1	6.1
Whole Group, total	9.4	9.2	8.6
Part-time employees of total personnel at 31 Dec., %			
Finland	40.8	43.9	39.4
Other operating countries	7.8	6.7	8.1
Whole Group, total	24.1	26.7	22.5

KESKO'S PERSONNEL STATISTICS FOR 2017 ANALYSED BY OPERATING COUNTRY

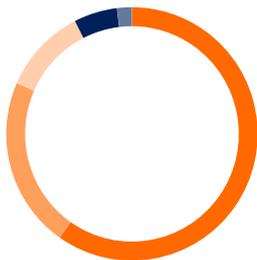
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of personnel at 31 Dec.	12,327	1,058	399	694	702	4,028	786	1,978	3,011
Average number of personnel in 2017	10,691	1,077	383	690	636	3,467	761	1,738	2,633
Number of new employments ¹									
- women	2,656	120	19	171	109	866	16	241	384
- men	1,968	245	53	201	313	1,442	77	247	525
Number of new employments ¹									
- women	4,328	124	32	128	88	870	32	374	363
- men	1,887	257	61	185	264	1,507	111	564	648
Terminated by employer, %	8.0	16.0	6.0	2.0	10.0	11.0	26.0	0.0	0.0
Total turnover rate, %²	38.0	35.0	23.0	32.0	44.0	57.0	18.0	47.0	33.0

¹ Including summer employees

² Excluding summer employees

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

Recruits, age distribution 2017, %



- Under 26 years 59.7%
- 26-35 years 21.8%
- 36-45 years 10.9%
- 46-55 years 5.6%
- Over 55 years 1.9%

Terminated employments, age distribution 2017, %



- Under 26 years 45.6%
- 26-35 years 25.1%
- 36-45 years 13.9%
- 46-55 years 9.5%
- Over 55 years 5.9%

401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees

Kesko Group offers benefits to its personnel in all of the countries in which it operates. In Finland, employees on permanent, fixed-term and part-time contracts are offered the following:

- Occupational health care
- Insurance against occupational injuries and occupational diseases
- Parental leave
- Retirement benefits
- Versatile shopping benefits in K Group stores and staff stores for both employees and Kesko pensioners

In all operating countries, Kesko supports its employees' leisure activities in different ways. The Finnish companies, for example, provide benefits for physical exercise, cultural activities and work commute. Some of the companies operating in Russia, Estonia, Latvia and Lithuania also give financial support to their employees through different situations in life, such as when a child is born, during a child's first year at school, in the event of the death of a close relative and in other special situations. Employees are also provided with a diverse range of shopping benefits that apply in K Group stores and staff shops. A company phone and car are also provided if required for the job.

Performance bonuses and share compensation plan

The performance bonus schemes cover the entire personnel, with the exception of sales assistant jobs and jobs covered by other types of bonus or commission systems. The indicators of the performance bonus scheme include, for example, the Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on role, personal performance bonus targets may also be set. In spring 2017, around €11.4 million (€11.5 million in 2016) was paid in Finland in bonuses under the 2016 performance bonus schemes, accounting for approximately 3.0% (3.7% in 2016) of the total payroll.

In 2017, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland, €18.1 million (€14.5 million in 2016)
- In the other operating countries, €5.2 million (€8.3 million in 2016)

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

Kesko operates a share-based compensation scheme for some 140 members of management and other specified key personnel. Kesko's share-based compensation scheme comprises three share-based incentive plans, which were communicated in a stock exchange release on 2 February 2017. The Performance Share Plan (PSP) consists of individual annually commencing share plans, each with a two-year performance period and a two-year commitment period following the payment of the potential share award. The Bridge Plan is a one-off, four-year plan aimed at covering the transitional phase from Kesko's previous long-term incentive scheme to the new incentive scheme adopted in 2017, with a two-year performance period. The PSP and the Bridge Plan are complemented by a Restricted Share Pool (RSP), a plan that consists of annually commencing share plans. Each RSP includes a three-year commitment period, after which the potentially granted share awards of the individual plan will be paid to the participants in Kesko's B shares, provided that the participant's employment or service relationship with Kesko Group continues until the payment of the awards.

In February 2017, the Board decided to grant a total of 192,822 Company B shares to 130 members of Kesko's management and other key personnel based on the fulfilment of the performance criteria for the 2016 performance period of the share plan.

Pensions

New pensions were granted to 291 people (271 in 2016) in Kesko Group in Finland. The figure includes employees retiring on part-time pensions, partial disability pensions and rehabilitation benefits in addition to those who retired on old-age pensions and disability pensions. Rehabilitation benefit is a form

of fixed-term disability pension granted with the aim that the employee is rehabilitated and returns to working life. Rehabilitation benefits were granted for the purpose of retraining or work trials to 111 people (87 in 2016) who were at a clear risk of losing their working capacity within a few years. The average retirement age of employees in 2017 was 56 (60 in 2016). Notably, the average retirement age for old-age and disability pensions was 62. In the other operating countries 29 (28 in 2016) employees retired.

Occupational health and safety

403-1 Workers' representation in formal joint management-worker health and safety committees

Labour protection activities are arranged separately for each company, region or place of business in compliance with local legislation. Labour protection activity in Finland has been made more effective by testing regional committees and by combining worker health and safety committees in the Greater Helsinki region in preparation for the move to common operating premises. Outside the Nordic countries, labour protection matters are handled by OHS (Occupational Health and Safety) committees. Kesko's HR functions arrange occupational safety training for Kesko employees and K-retailers. Group companies also arranged training sessions tailored to their specific needs.

403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

Within Kesko Group, the occupational health service's normal operations include providing advice and counselling related to employees' health and wellbeing at work, analysing health risks related to work and preventing illnesses, and providing treatment – even in the event of serious illnesses – in collaboration with primary health care practitioners and specialist health care providers. In Finland, 12,600 (15,000 in 2016) Kesko Group employees were covered by Kesko's own occupational health services. Kesko's occupational health service purchases occupational healthcare from one provider for employees in Finland outside the Greater Helsinki area. Centralised and target-oriented management enables consistent content and operating methods in occupational health service. In other countries, occupational health care is arranged in compliance with local legislation and practice.

A total of €6.2 million (€7.5 million in 2016) was spent on occupational health care in Finland in 2017. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €3.5 million (€3.7 million in 2016) of this sum. In 2017, Kesko's occupational health service spent €494 (€499 in 2016) per employee on maintaining employees' working capacity and providing medical care.

KESKO'S CONTRIBUTION TO OCCUPATIONAL HEALTH CARE, FINLAND

	2017	2016	2015
€/person	494	499	359

INJURIES AND OCCUPATIONAL DISEASES IN FINLAND

	2017	2016	2015
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	226	227	93
Commuting injuries	79	81	35
Injury rate ¹ /million working hours	11	10	6
Average degree of injury severity, days	20.9	15.8	16.9
Suspected occupational diseases	2	1	4
Occupational diseases	1	2	0
Sick days due to occupational injuries, commuting injuries and occupational diseases	6,473	5,744	2,166
Per employee	0.6	0.5	0.3

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

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

SICKNESS ABSENCES BY COUNTRY IN 2017

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of sick days	132,608	11,709	4,450	6,557	6,013	35,377	9,199	19,225	42,969
Per employee	12.4	10.9	11.6	9.5	9.5	10.2	12.1	11.1	16.3
Per million working hours	6,577	6,177	6,606	4,682	4,684	5,051	5,808	5,586	8,030

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

Trend in number of sick days



Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables above. In the other countries, a total of 154 injuries occurred resulting in sickness absences of more than three days in 2017. The corresponding figure in Finland was 226. In 2017, the sickness absence rate in the Group companies in Finland was 4.6% of hours worked (4.4% in 2016). Approximately 75.1% (74.7% in 2016) of sickness absences were short-term absences, i.e. paid sick days (the figure does not include the sickness absences of Onninen Oy and K-Market Oy). In the other countries, the sickness absence rate was 4.7% (4.2% in 2016).

Training and education

404-1 Average hours of training per year per employee

TRAINING DAYS AND COSTS IN 2017

	2017	2016	2015
Training days¹			
Finland	7,474	7,421	6,891
Other countries	9,496	11,033	14,614
Training days per employee¹			
Finland	0.7	0.7	0.8
Other countries	0.8	0.9	1.4
Training costs, € million			
Finland	3.3	2.9	2.5
Other countries	0.5	0.9	0.9
Training costs per employee, €			
Finland	310	268	299
Other countries	45	79	87

¹ 2015: Excluding Konsoma JLLC, Belarus and OOO Kesko Real Estate, Russia 2016: excluding Kesko Foor Rus, Russia, OOO OMA Belarus, 2017: Excluding Byggmakker Handel AS and Onninen AS Norway, Onninen AB and K-Rauta AB Sweden and OOO Onninen Rus Russia

Average hours of training per employee totalled 5.2 in Finland in 2017, and 6.3 hours in the other countries.

404-2 Programmes for upgrading employee skills and transition assistance programmes

Systematic, business-driven development of personnel is a critical factor for future success. The transformation of the trading sector and the increase in electronic transactions have created needs for new competencies. Key areas of competence building were:

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

Focus on digital competencies continued. We piloted trainings on LEAN and Agile development methods for management and managers, organised morning sessions for the whole personnel discussing the latest trends in digital development, and set up a digital agent network for the K-Rauta chain to support the implementation of digital services and tools at the stores.

We developed a new training portal for store staff: all training available can now be easily found in K-Academy. We developed customer service in the building and technical trade through a Rautaliiga programme for retailers and staff. For B2B sales, we developed an ABC programme for sales staff in Onninen Express.

The Master Sales Assistant customer service and sales training for all chains was organised for the 57th time. Store personnel were also offered vocational training and the opportunity to obtain vocational qualifications.

Our acquisitions were also reflected in competence building. By the end of 2017, 407 Siwas and Valintatalos had been converted into K-Markets. Each transfer entailed plenty of training for both the retailers and the staff.

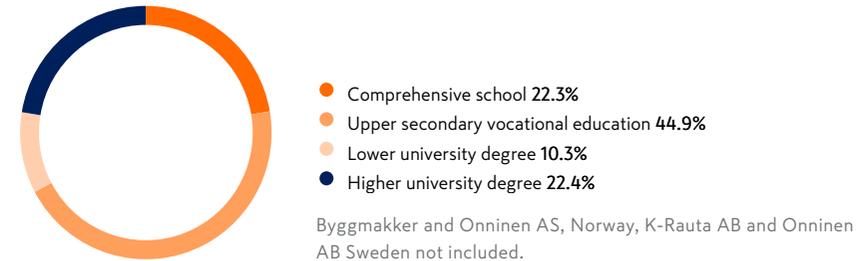
Future K-food retailers are trained in our K-food retailer training. In 2017, 66 new retailers completed the K-food retailer training. As the number of K-Markets grew, there was also an increasing number of retailers who were in charge of multiple stores, and we designed and launched a specific Luotsi leadership training programme to support them. 40 retailers took part in the training during the latter part of the year. The programme will continue on 2018.

We promoted the continuous development of existing retailers' competences by offering supplementary training.

Internal job rotation opens up possibilities for various careers options. In Finland, approximately 1,992 (4,837 in 2016) internal transfers took place in 2017, while the combined figure for the other operating countries was 2,637 (2,923 in 2016) (figures excluding internal transfers within K-Market Oy).

In Finland, K Group's recruitment is supported by the K Trainee and retailer coaching programmes. The seventh K Trainee programme began in May 2017 with 12 trainees, who have obtained permanent positions via the programme.

Distribution by education at 31 Dec. 2017, %



404-3 Percentage of employees receiving regular performance and career development reviews

Performance and career development reviews and performance assessment of key personnel are carried out at all Kesko Group companies and operating countries. In the performance and career development reviews, the performance of the past period is evaluated and targets are set for the upcoming period, including a discussion on the development of the employee, managerial work and the working community. The implementation of performance and career development reviews was surveyed in conjunction with the personnel survey conducted at the end of 2017. The response rate to the personnel survey was 71%. Of the respondents, 80% had discussed their objectives and development with their manager during the past year.

The objective of performance evaluation is to give feedback on performance in the previous year, support the person's development and encourage enhanced performance. Uniform evaluation criteria enable equitable evaluation of performance and competence for all employees. Systematic and effective performance reviews provide important information and form a strong basis for other HR processes.

Job satisfaction

The personnel survey is one of the key tools for developing internal operating practices and developing the quality of managerial work. The whole personnel is given the chance to take part in the survey: the Group's common personnel survey is conducted simultaneously within the Kesko Group and some of the K-stores in Finland and other operating countries. A separate survey has been created for stores that do not take part in the Group's common survey, covering the same issues but comprising less questions.

The survey seeks to identify the commitment of personnel to the organisation, the operating methods that enable good work performance, the implementation of our shared operating principles, the occupational wellbeing of personnel, and satisfaction with the work of immediate managers and management. The survey results are used as the basis for agreeing upon development measures, which are integrated into the annual operational and personnel plan and the implementation of which is monitored.

We made changes to our personnel survey in 2017, adopting a new system that enables result monitoring both at group level and flexibly based on unit needs. In 2017, 13,400 employees from all our operating countries took part in the personnel survey (71% of target group). Results showed positive development in all eight question categories.

Diversity and equal opportunity

405-1 Diversity of governance bodies and employees

Equal opportunities, justice, non-discrimination and equality are important principles that are observed at Kesko. Kesko Corporation and its subsidiaries in Finland draw up statutory company-specific HR, training, equality and non-discrimination plans and define objectives for improvement. At the beginning of 2017, Kesko established the TASY gender equality working group in accordance with the non-discrimination plan, tasked with handling matters related to non-discrimination and equality within the Group. The working group includes representatives of the employer, personnel and labour protection functions. The working group analyses recruitment, career development and training, remuneration and the reconciliation of work and family life.

Of Kesko employees in Finland, 55.5% were women and 44.5% were men. In the other operating countries, the figures were 46.7% and 53.3%, respectively. In Finland, the average age of employees was 37 in 2017. In the other countries, the average age of employees varied from 35 to 46 years.

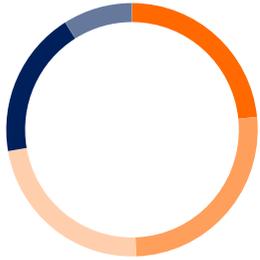
- Lengths of employee careers: under 10 years 66% and over 10 years 34% in Finland and 83% and 17% respectively in the other countries. Long careers are not rare: 1,173 employees have worked at Kesko for over 25 years.

- Two of the seven members of Kesko's Board of Directors were women.
- Two of the nine members of the Group Management Board were women.
- In the subsidiaries engaged in retailing in Finland, the proportion of women in managerial duties was significant: 89% of the department managers at K-Citymarket hypermarkets were women.
- At the end of 2017, 46% of all managers in Finland were women (46% in 2016) and 54% were men (54% in 2016). The corresponding figures for other countries were 47% and 53%, respectively.

In recent years, K Group has initiated projects to employ members of special groups:

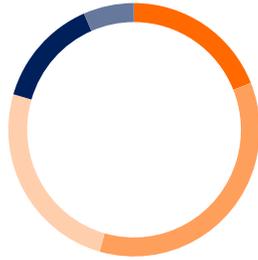
- In 2012, the K-Retailers' Association started a project named 'Many kinds of performers' in collaboration with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent operating model was created for employing people with developmental disabilities. Many of the people with developmental disabilities who were employed as part of the project are still working at K Group.
- In 2013, Kesko and the K-Retailers' Association launched the 'Youth Guarantee in K Group' programme, which aimed to provide a job, a work trial or an apprenticeship in K Group by the end of 2014 for 1,000 young people under 30, who were at high risk of social exclusion. The target group also included young immigrants and young people with disabilities. The employment of young people and special groups continues as a permanent operating model. The support for Kesko's managers and retailers in issues related to employing young people and special groups was moved to Kesko's centralised service centre in 2017. By the end of 2017, more than 3,800 young people from the target group had received a position in K Group with the help of a work trial, pay subsidy or apprenticeship training.

Age distribution of Kesko personnel in Finland in 2017, %



- under 26 years 23.4%
- 26-35 years 26.1%
- 36-45 years 22.8%
- 46-55 years 18.8%
- over 55 years 8.9%

Age distribution of Kesko personnel in the other operating countries in 2017, %



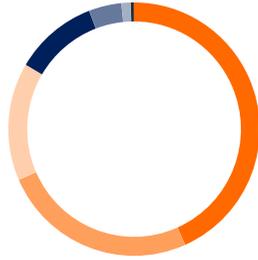
- under 26 years 19%
- 26-35 years 35.5%
- 36-45 years 25.1%
- 46-55 years 14%
- over 55 years 6.5%

Years of service in Finland in 2017, %



- under 2 years 28%
- 2-5 years 18.1%
- 6-10 years 19.6%
- 11-15 years 10.7%
- 16-20 years 8.4%
- 21-25 years 5.8%
- over 25 years 9.5%

Years of service in the other operating countries in 2017, %



- under 2 years 43.3%
- 2-5 years 25.1%
- 6-10 years 15%
- 11-15 years 10.7%
- 16-20 years 4.2%
- 21-25 years 1.2%
- over 25 years 0.4%

Equal opportunity for men and women

405-2 Ratio of basic salary and remuneration of women to men

The average annual salary of Kesko employees was €40,275 in Finland, €44,385 in the other Nordic countries, and €11,680 in the Baltic countries, Russia, Poland and Belarus. As the Kesko Group operates in many lines of business, the average salary is not a good indicator of salary level or structure. The wage groups and tables specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality. Besides the role and its requirements, the salary of a senior clerical employee is determined by competence, experience, performance and results. Equality in remuneration is considered as part of annual company-specific equality plans. Gender is not a factor which influences remuneration, and no significant differences between comparable jobs have been detected. Equality plans strive to promote pay equality in jobs where comparisons can be made.

PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY, FINLAND

	2017	2016	2015
Top management	28.3	24.1	20.0
Middle management	22.6	20.0	21.1
Managers and specialists	45.2	41.9	46.4
Workers and white-collar employees	58.4	64.4	57.8
Total	55.5	60.1	55.4

The figures also include those called to work on demand

PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY, OTHER COUNTRIES

	2017	2016	2015
Top management	0.0	0.0	0.0
Middle management	56.2	49.1	47.7
Managers and specialists	49.1	48.4	54.4
Workers and white-collar employees	41.6	47.2	47.8
Total	46.7	47.8	50.5

2015: Excluding Senukai, Lithuania

GRI management approach

- Employment
- Labour/management relations
- Occupational health and safety
- Training
- Diversity and equal opportunity
- Equal remuneration
- Labour practices grievance mechanisms

Employment and labour and management relations

We want to be the most attractive workplace in the trading sector, with satisfied employees and competent managers. K Group offers varied career and personal development opportunities in a variety of jobs in the trading sector. In restructuring situations, Kesko complies with local legislation in all of the countries.

Health and safety at work

Kesko and K-stores are responsible for providing employees with a safe working environment and appropriate training and guidance for their work.

Development of personnel

Systematic, business-driven development of personnel is a critical factor for future success. The transformation of the trading sector and the increase in electronic transactions have created needs for new competencies.

Key areas of competence building are:

- Leadership and management
- Digitalisation
- Customer experience; sales and service competences.

Diversity and equal opportunities

A pluralist organisation that promotes diversity guarantees equal opportunities, rights and treatment to all. Equality, justice and non-discrimination are important principles which are observed at Kesko throughout the employment relationship. The most suitable person with the most development potential is selected for the job, and applicants are judged according to their competence, skills and accomplishments.

Remuneration

The objective of remuneration in Kesko is to encourage employees to exceed the objectives given and to motivate them to do long-term work in order to meet the goals of K Group. Remuneration is fair and is based on principles that are commonly known.

Policies, principles and commitments

HR management is based on Kesko's values and operating practices and the K Code of Conduct guidelines. Kesko's HR policy defines key operating principles in the various areas of HR management. The HR strategy defines HR management objectives, critical success factors and key development initiatives.

Kesko is a member of [Diversity Charter Finland](#). The operations of Diversity Charter Finland are based on a charter that is signed by all members.

Monitoring and control systems

The personnel's ability to work is protected by creating a safe and supportive working environment. The goal of labour protection is to secure and maintain employees' ability to work and to prevent and avoid occupational injuries, occupational diseases and other physical and mental health hazards arising from work or the working environment.

Responsibilities and resources

- HR Management Board
- Kesko HR
- HR Service Centres
- Every manager



Programmes, projects and initiatives

Wellbeing at work programme

In the development of wellbeing at work, the objective is to increase job satisfaction and motivation, reduce sick leave, increase the retirement age and decrease premature pensions, and enhance the employer image. From 2016–2018, the wellbeing at work programme focuses on:

- Comprehensive development of OHS operations (Occupational Health and Safety) management by information
- Supporting personnel's ability to work and reducing sick leave
- Developing occupational safety models and strengthening the role of labour protection
- Promoting Employee Engagement particularly through managers' work development and ensuring good management in times of change

Employment of disabled people and people with partial work capacity

In 2012, the K-Retailers' Association launched a project called 'Many kinds of performers' in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). Read more in [405-1](#).

Employment of young people

The employment of young people continues as a permanent model in accordance with [the 'Youth Guarantee in K Group'](#) programme.

Grievance mechanisms

- Discussion with manager
- Direct Line feedback channel
- [SpeakUp](#) reporting channel

Boundaries

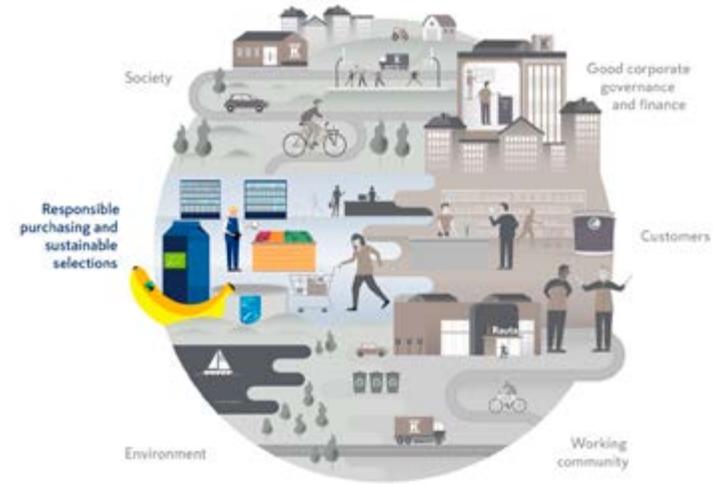
Working community

Kesko

Responsible purchasing and sustainable selections

We purchase and sell responsibly and support our customers in making sustainable choices

- We develop our product selections while listening to customers.
- We ensure responsibility in the supply chain.
- We are accountable for the safety and quality of products.



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Supply chain	<p>The social responsibility of the production of own direct imports from high-risk countries has been assured.</p> <p>GRI 414-1, 414-2</p>	<p>A total of 157 of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 146 suppliers' factories or plantations underwent amfori BSCI follow-up audits. At the beginning of 2018, Kesko's suppliers in high-risk countries had a total of 423 valid social responsibility audits.</p> <p>Two responsibility trainings were arranged for the ICA Global Sourcing (IGS) suppliers: 24 suppliers took part in the Hangzhou training in China and 23 suppliers in the Delhi training in India. As part of our cooperation with Plan International Finland, three amfori BSCI supplier trainings were arranged in Bangkok, Thailand. A total of 25 suppliers from the Thai fishing industry took part in the trainings.</p> <p>Continuing our human rights assessment we conducted a review of working conditions in the supply chain of grapes in collaboration with the Trade Union Solidarity Centre of Finland (SASK).</p>	<p>210 BSCI full audits and 60 BSCI re-audits were conducted in the factories and farms of Kesko's suppliers in high-risk countries. At the beginning of 2017, Kesko's suppliers in high-risk countries had a total of 386 valid social responsibility audits. The social responsibility of the production of Kesko's grocery trade's own direct imports from high-risk countries was 100% assured.</p> <p>Kesko Onninen Purchasing Office (KOPO) started operations in Shanghai, China. Kesko's grocery trade and ICA Global Sourcing launched a sourcing cooperation in the home and speciality trade.</p> <p>As part of the human rights assessment, we conducted a human rights survey at factories in high-risk countries in cooperation with the Trade Union Solidarity Centre of Finland (SASK). The country-specific reports by SASK provided valuable information for the development of our operations. We forwarded the information received to BSCI in order to develop the audit procedure.</p>	<p>Kesko's suppliers in high-risk countries had 200 factories or farms within the scope of the BSCI process. 107 BSCI full audits and 80 BSCI re-audits were conducted in the factories and farms of suppliers in high-risk countries. The social responsibility of the production of Kesko's grocery trade's own direct imports from high-risk countries was 100% assured.</p> <p>We continued our work related to the human rights impact assessment. We published the manufacturing plants of private label and own import clothes, accessories, shoes and bags operating in high-risk countries on our website.</p>

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
	<p>We assure the responsibility of the ingredients (Tier 2) of private label Pirkka and K-Menu food products.</p> <p>GRI 414-1, 414-2</p>	<p>The responsibility of ingredients used in 150 new Pirkka and K-Menu food products was assessed using our own risk analysis tool. Based on the risk analysis, 20 products contained ingredients which require further investigation in terms of the social responsibility of the producer.</p> <p>Our analysis of ingredients in our own brand products received recognition at the annual meeting of amfori (previously Foreign Trade Association, FTA). Thanks to the risk analysis, Kesko was elected among the top three finalists of the FTA member of the year award.</p>	<p>We continued work in order to assure the responsibility of ingredients in the own-brand grocery products. We conducted ingredient risk assessments on 160 new Pirkka or K-Menu food products. Among these, 29 products contained ingredients which require further investigation in terms of responsibility.</p>	<p>Using the risk assessment tool, we started the process of assuring the responsibility of the ingredients of Pirkka and K-Menu products. We established the origin of the ingredients of 1,923 own-brand grocery products. Among these, 233 contained ingredients which require further investigation concerning the responsibility of the ingredient manufacturer based on the risk assessment.</p>
	<p>We identify and take account of water risks in our supply chain.</p>	<p>Our water risk assessment work continued and we aim to use the results to plan actions.</p>	<p>The water risk assessment is in progress and the aim is to use the results to plan actions.</p>	<p>We initiated a water risk assessment for our own brand products in order to identify the water basins most affected by water scarcity and contamination issues in our supply chain. The target is to conclude the water risk assessment in 2016.</p>
Statements and policies	<p>Fish and shellfish: The selections of Kesko's grocery trade and K-food stores do not include species on the red list of the WWF's fish guide. Kesko's grocery trade and K-food stores promote green list species in their selections. When making decisions concerning selections, we favour sustainable stocks of fish and MSC- and ASC-certified suppliers. K Group's fish and shellfish policy has been in effect since 2008.</p>	<p>The retail selection of Kesko's grocery trade included 196 MSC-certified fish products, of which 41 were Pirkka products and 1 K-Menu product. Our selections had 7 ASC-certified products, of which 4 were Pirkka products.</p> <p>Kespro's HoReCa selection had a total of 304 MSC-certified products, of which 30 were Menu products. Kespro's selection had 10 ASC-certified products, of which 2 were Menu products.</p>	<p>The retail selection of Kesko's grocery trade included 178 MSC-certified fish products, of which 37 were Pirkka products. Kespro was granted MSC and ASC traceability certificates. All stages of Kespro's fish and shellfish supply chain have been audited, and Kespro and its certified customer restaurants can use the MSC and ASC ecolabelling in their marketing. Kespro's HoReCa selections included nearly 300 MSC- and ASC-certified products, and the number continues to grow. Kespro's Menu range had more than 25 MSC-certified products and 2 ASC-certified ones.</p>	<p>The Pirkka range included 41 MSC-certified fish products.</p>
	<p>Palm oil: By 2020, all palm oil in our own brand groceries will be responsibly produced (CSPO).</p>	<p>Some 82% of the palm oil in Kespro's Menu food products sold in 2017 was sustainably produced (CSPO), of which 0.2% was Identity Preserved, 74.3% Segregated, 20.7% Mass Balance, and 4.9% RSPO credits.</p> <p>Some 43% of the palm oil in Pirkka and K-Menu food products sold in 2017 was sustainably produced (CSPO), of which 19% was Segregated, 79% Mass Balance, and 2% RSPO credits.</p>	<p>Approximately 34% of the palm oil in our own brand groceries (Pirkka, K-Menu and Kespro's Menu) was certified sustainable palm oil (CSPO).</p>	<p>Approximately 20% of the palm oil in the Pirkka food products was certified sustainable palm oil (CSPO).</p>



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
	<p>Soy: By 2020, all soy used in the production chain of our own brand products will be responsibly produced, and be either RTRS or ProTerra certified. The policy concerns ingredients of soy origin in grocery trade's own brand food products and soy fodder used in the production of products of animal origin.</p>	<p>We reviewed the share of responsibly produced soy in our own brand food products and their supply chain. The soy used in our own brand food products (Pirkka, K-Menu and Kespro's Menu) sold in 2017 and their supply chain was not yet responsibly produced.</p>	<p>We were a founding member in the Finnish soy commitment group, which started operations in February 2016. The members of the Finnish soy commitment group pledge to ensure that by 2020 all the soy used in the production chain of their private label products will be responsibly produced, and be either RTRS or ProTerra certified. The commitment covers both the Finnish production chain and sourcing from other countries. We joined the Round Table on Responsible Soy (RTRS) and thereby committed to promote responsibility in the production chain of soy on a long-term and target-oriented basis.</p>	<p>The objective was added in 2016.</p>
	<p>Timber and paper: By 2025, there will be only sustainable origin timber and paper products in Kesko's product range. Timber and paper products will be FSC or PEFC certified or made of recycled materials. In the grocery trade, the policy applies to our own brand products.</p>	<p>In 2013, Kesko's building and technical trade was awarded the PEFC certificate, which covers sawn pine and spruce timber and processed timber as well as the wholesale distribution of MDF boards in Finland (percentage-based method). The average PEFC certification percentage in 2017 was 89.7% for pine and 85.5% for spruce.</p> <p>Of the timber and paper products in the grocery trade's Pirkka and K-Menu ranges, 54% contained sustainable raw material. In Kespro's Menu range, 14% of timber and paper products contained sustainable raw material.</p>	<p>The average PEFC certification percentage was 91.2% for pine and 84.6% for spruce. We are investigating the opportunities to expand the timber policy to cover the entire Group.</p>	<p>The PEFC certification percentage is announced monthly at Kesko's web pages.</p>

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
	<p>Plastic: We promote the recycling and reuse of plastics. We create operating models that prevent plastics from ending up in the environment. We seek alternatives to plastic as a packaging material. By means of consumer communications, we will increase the sales share of alternative shopping bags (cotton bags, reusable bags and jute bags) and cardboard boxes to 10% by 2025. We look for solutions to replace PVC as a material.</p>	<p>We removed environmentally harmful microbeads from all our own brand cosmetic products. During 2018, microplastics will be removed from all our own brand detergents. The Pirkka ESSI circular economy bags were introduced to K-food stores' shopping bag selections at the start of 2017. The bags are made of over 90% recycled materials, around half of which is plastic packaging separately collected from households. By the end of 2017, small thin plastic bags were only available at checkouts by request for e.g. flowers. We reduced the consumption of small plastic bags by 20% in 2017.</p> <p>We successfully piloted the new wood fibre-based EcoFishBox produced by Stora Enso in K-food stores. Since 2017, K Group gift cards have been made from PVC-free materials. In Onninen Express stores in Finland, regular customers have been handed shopping baskets that the customers can use to carry products to their construction site and bring back the next time they visit the store.</p>	<p>We published our plastics policy in October 2016 and pledged to implement measures aiming at reducing the use of plastic bags. Plastic bags have been subject to a charge in the K Group's grocery stores as well as building and home improvement stores, and, at the beginning of 2017, they became subject to a charge in the agricultural and machinery stores as well as in furniture stores. By the end of 2017, thin small plastic bags will no longer be available at the checkout. Our selections offer alternatives to plastic bags; reusable bags, cotton bags, jute bags as well as paper bags and bags made of recycled plastic. The share of paper bags in the sales of all different shopping bags was approximately 1.5% and that of reusable bags was approximately 1.5%. In spring 2017, we included the Pirkka ESSI circular economy bags made by Amerplast Oy in our selections. They are manufactured from plastic packaging waste recycled by households through the Rinki eco-points. We will discontinue the use of microplastics in our private label cosmetics brand products in 2017. The packaging of our private label cosmetics does not contain PVC. We will discontinue using PVC as the material for Kesko's gift cards in 2017. We will work to eliminate PVC from the material of the K-Plussa card in 2017.</p>	<p>More reusable bag alternatives were added to the grocery store selections: a new Vallila design, a Summer Day bag, and a Red Nose Day bag.</p>
<p>Own brands with responsibility labelling</p>	<p>We offer an extensive selection of own brand products with responsibility labelling.</p>	<p>The Pirkka range had 37 Pirkka Fairtrade products, 116 Pirkka Organic products, 41 Pirkka MSC-certified fish products, 35 UTZ-certified products, 76 Nordic Swan label products, 137 products with the Key Flag symbol, 88 Seed leaf label products, 220 Hyvää Suomesta (Produce of Finland) products, and 5 products with the Finnish allergy label (Allergiatunnus).</p> <p>Kespro's Menu range had 4 Fairtrade products, 5 organic products, 30 MSC-certified products, 2 ASC-certified products, 15 products with the Nordic Swan ecolabel, 10 UTZ-certified products, 21 products with the Key Flag symbol, 4 Hyvää Suomesta (Produce of Finland) products and 23 Seed leaf label products.</p> <p>In the building and technical trade, the Cello range had 411 Key Flag products, 30 Nordic Swan label products, 35 M1 label products, and 116 products with the Finnish allergy label (Allergiatunnus).</p>	<p>The Pirkka range included 36 Pirkka Fairtrade products, 118 Pirkka Organic products, 37 Pirkka MSC-certified fish products, 32 Pirkka UTZ-certified products and 65 Nordic Swan label products. All Pirkka and K-Menu coffees are Fairtrade or UTZ-certified. The Pirkka range includes 15 Fairtrade or UTZ-certified chocolate and baking chocolate products. In 2017, all Pirkka range chocolates will be Fairtrade or UTZ-certified.</p> <p>Kespro's Menu range included 7 Fairtrade products, 5 organic products, 25 MSC-certified products, 2 ASC-certified products, 13 products with the Nordic Swan ecolabel, and 5 UTZ-certified products.</p> <p>All interior and exterior paints in the K-Rauta's Cello range carry the Nordic Swan ecolabel. 62 Cello products carried the M1 label and 105 Cello products had the Allergy Label. 15 products in the PROF range carried the M1 label.</p>	<p>The Pirkka range included 40 Pirkka Fairtrade products, 134 Pirkka Organic products, 41 Pirkka MSC-certified fish products, and 17 Pirkka UTZ-certified products.</p>

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Product safety	The product safety of K Group's selections has been verified. The Product Research Unit's laboratory monitors the product safety and quality of the own brand products and own imports in the grocery trade. All of our food product operations have a self-control plan in place.	The Product Research laboratory analysed 7,350 product samples and conducted 15,076 analyses. In total, 522 suppliers of Kesko's own brands of food products have international audit certifications that assure product safety. The number of own audits was 59.	The Product Research laboratory analysed 7,770 product samples and conducted 17,176 analyses. The product safety of 503 suppliers was verified by means of a certified auditing procedure. The number of own audits was 58.	The Product Research laboratory analysed 8,037 product samples and conducted 20,396 analyses. Seven audits were performed.

GRI [416-1](#), [416-2](#), [417-1](#)



Supplier social assessment

414-1 Suppliers that were screened using social criteria,

414-2 Negative social impacts in the supply chain and actions taken

Purchasing from high-risk countries

In 2017, direct purchases by Kesko's Finnish companies from suppliers in high-risk areas totalled €106 million (2016: €85 million) and accounted for 1.2% (2016: 1%) of Kesko's total purchases. Direct imports from high-risk countries accounted for approximately 13.9% (2016: 11.9%) of Kesko's total imports into Finland. The most significant high-risk countries of import for Kesko's Finnish companies are presented in the map below. No statistics are available on direct imports from high-risk countries in Kesko's other operating countries.

High-risk countries typically produce clothing and home textiles, shoes and other leather goods, furniture, interior decoration items, tools, sports equipment, toys, agricultural products (such as coffee, tea, cocoa, fruit, vegetables, wines) and canned fish, fruit and vegetables.

Kesko annually publishes on its [website](#) a list of factories that operate in high-risk countries manufacturing Kesko's own-brand clothing and shoes to be directly imported by Kesko. The list is updated once a year, most recently on 31 August 2017.

Social responsibility audits of suppliers in high-risk countries

Kesko is a member of amfori, a leading global association dedicated to promoting open and sustainable trade. Kesko takes part in amfori BSCI and recommends the use of amfori BSCI audits in the assessment of social responsibility of suppliers in high-risk countries. Kesko also accepts other assessment systems of social responsibility if their criteria correspond to those of amfori BSCI auditing and if the audit is conducted by an independent party.

As part of the sourcing cooperation between Kesko's grocery trade and ICA Global Sourcing, Kesko also accepts the ICA Social Audit. In that case, however, suppliers are required to adopt a third-party auditing approved by Kesko after a maximum of two ICA audits.

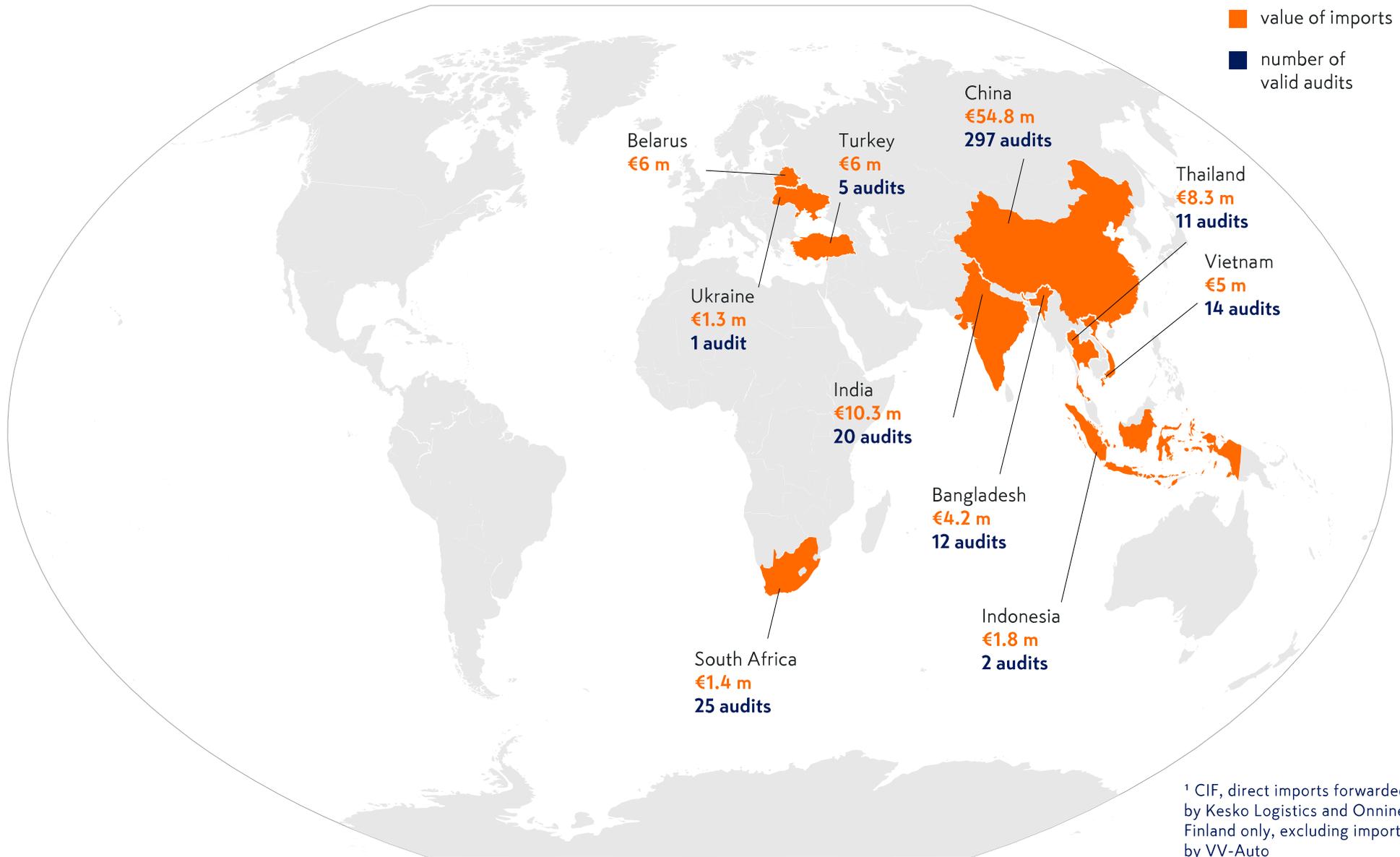
The social responsibility auditing systems accepted by Kesko are listed in the section [Monitoring and control systems](#). Some of Kesko's suppliers are themselves amfori members and thus promote amfori BSCI audits in their own supply chains.

At the beginning of 2018, the factories and farms of Kesko's suppliers in high-risk countries had:

- 291 (start of 2017: 274) valid amfori BSCI audits
- 15 (start of 2017: 13) valid SA8000 certifications
- 30 (start of 2017: 24) valid SMETA audits
- 45 (start of 2017: 24) valid ICA Social Audits
- 22 (start of 2017: 22) valid SIZA audits
- 11 (start of 2017: 11) valid Fairtrade certifications
- 2 (start of 2017: 5) valid ICS audits
- 5 (start of 2017: 11) valid ICTI CARE certifications
- 1 (start of 2017: 2) valid WRAP certification
- 1 valid WIETA certification

Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when the cooperation begins. Kesko's grocery trade requires all of its suppliers in high-risk countries to have been audited. It will not enter into collaboration with new suppliers unless they have passed an acceptable audit.

SUPPLIERS' SOCIAL RESPONSIBILITY AUDITS IN KESKO'S 10 LARGEST HIGH-RISK COUNTRIES OF IMPORT¹



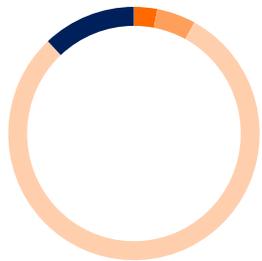
Results of amfori BSCI audits

In 2017, a total of 157 (2016: 210) of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 146 (2016: 60) suppliers' factories or plantations underwent amfori BSCI follow-up audits.

The results of the 2017 amfori BSCI audits of Kesko's suppliers' factories and farms are shown below. The majority of the deficiencies occurred in management practices, observance of working time regulations, and matters related to occupational health and safety. Corrective actions and monitoring are included in the audit process. In accordance with the amfori BSCI operating model, a full audit is conducted at factories every two years to assess every sub-area of the auditing protocol. If a factory receives an audit result of C, D or E, a follow-up audit within 12 months must be arranged to assess the deficiencies identified in the full audit and the corrective measures implemented to address them.

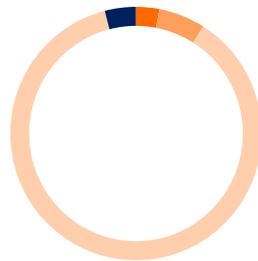
Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2017, Kesko decided to terminate cooperation with six factories due to ambiguities related to social responsibility. A consensus could not be reached with the factories regarding necessary corrective actions.

Kesko's amfori BSCI audit results in 2017, full audits



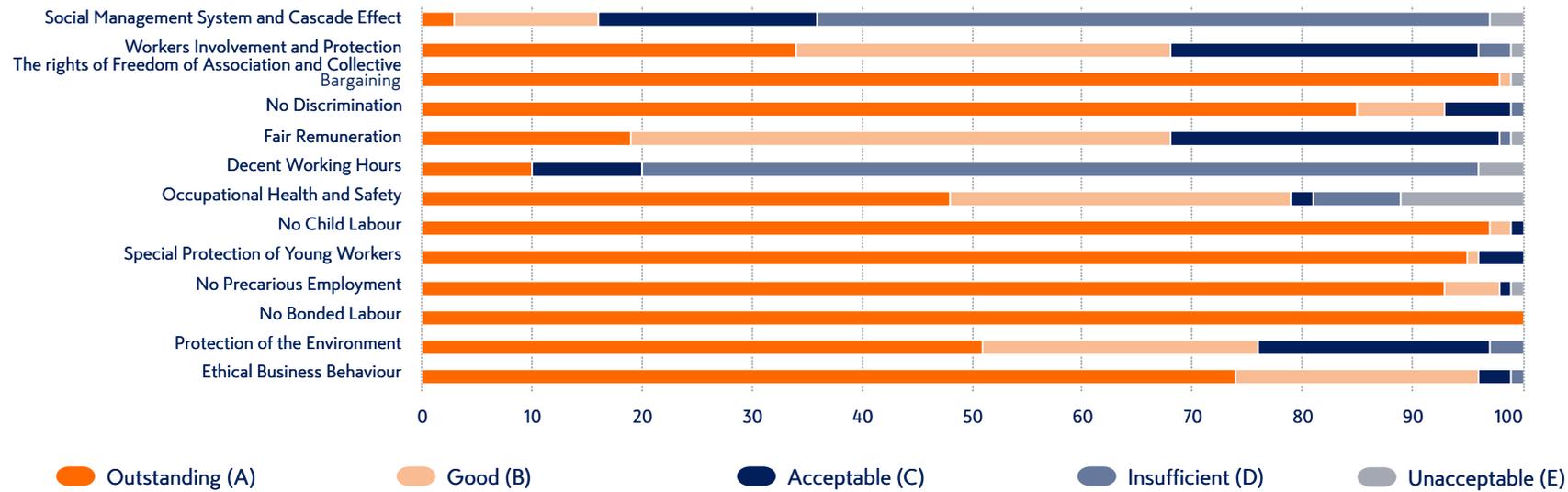
- Outstanding (A) 3%
- Good (B) 5%
- Acceptable (C) 80%
- Insufficient (D) 12%
- Unacceptable (E) 0%

Kesko's amfori BSCI audit results in 2017, follow-up audits



- Outstanding (A) 3%
- Good (B) 6%
- Acceptable (C) 87%
- Insufficient (D) 4%
- Unacceptable (E) 0%

Kesko's amfori BSCI audit results, distribution in different areas in 2017, full audits



Kesko's amfori BSCI audit results, distribution in different areas in 2017, follow-up audits



Fairtrade products

Kesko's grocery trade has an extensive collaboration agreement with Fairtrade Finland. The K-food trade chain concepts and K-retailers determine the selections of Fairtrade products at store level.

- In 2017, Kesko's grocery trade selections included 300 (2016: 367) Fairtrade products, of which 37 (2016: 36) were Pirkka products and 4 (2016: 7) were Kespro's Menu products.
- In 2017, the products sold by Kesko's grocery trade generated Fairtrade premiums for social development projects amounting to €719,225 (2016: €649,459).

In 2017, the products generating the largest Fairtrade premiums were Fairtrade flowers (€271,672), coffee (€224,537) and fruit (€142,975). According to Fairtrade statistics, the Fairtrade coffees sold by Kesko grocery trade in 2017 employed approximately 800 small-scale coffee farmers on Fairtrade's terms.

Kesko and Plan's collaboration in Thailand

Kesko and Plan International Finland, an organisation promoting children's rights, cooperate to improve the responsibility of the Thai fishing industry and the position of migrant workers. The collaboration has been agreed for the period of 2015-2018, and it is part of a larger project funded by the Swedish International Development Cooperation Agency (SIDA) and the American Richard and Helen DeVos Foundation in Thailand and Cambodia.

The project aims to improve the working conditions of Cambodian migrant workers, as well as education and protection for their children in Thailand. The collaboration with Plan also improves the transparency of the supply chain of Kesko's fish products.

As part of the project, two learning centres were established for children of migrant workers in the Rayong and Trat provinces in 2015. The learning centres provide the children with the skills they need to attend public schools in Thailand and support them in continuing their studies. In 2017, 50 girls and 38 boys aged between 4 and 17 were registered at the learning centres. The project helped 40 girls and 60 boys move onto public schools in Thailand. Between 2015 and 2017, a total of 944 children have registered at the learning centres and 212 children have moved onto public schools.

Amfori BSCI training for suppliers continued in 2017: there were two general training sessions and one advanced-level training in Bangkok. A total of 25 suppliers from the Thai fishing industry took part in the trainings. The general training covered the amfori BSCI Code of Conduct, UN and ILO human rights and labour conventions, and the Thailand national labour protection legislation. The advanced training gave the suppliers tools for their own promotion and supervision of social issues. Supplier training will continue in 2018.

Read more about our [collaboration with Plan](#).

Supplier training in China and India

Kesko and the Swedish ICA have worked together on sourcing via ICA Global Sourcing (IGS) in Asia since 2016. The cooperation concentrates on the sourcing of home and speciality goods sold at K-food stores. Assuring the social responsibility of suppliers' factories and securing product quality form a central part of the purchasing process. IGS has offices in China, Hong Kong, Vietnam, Bangladesh and India. The local IGS corporate responsibility team is, together with Kesko, in charge of assuring the social responsibility of factories.

In 2017, responsibility training was arranged for IGS suppliers in Hangzhou, China and Delhi, India. The training covered Kesko's social responsibility requirements for suppliers, the factory auditing process, and requirements related to product quality and safety. Questions from the suppliers concerning responsibility were also addressed.

24 suppliers took part in the Hangzhou training and 23 suppliers in the Delhi training. Representatives of IGS and Kesko's responsibility unit were also present.

Read more about our [cooperation with IGS](#).

Risk assessment of ingredients in Pirkka and K-Menu food products

Kesko's objective is to identify the entire supply chain of products and to assure the social responsibility of their ingredients. The work to analyse the origins of the ingredients of Pirkka and K-Menu food products and related risk analysis began in 2015 and continued in 2017.

The responsibility of ingredients used in 150 new Pirkka and K-Menu food products was assessed in 2017 using our own risk analysis tool. Based on the risk analysis, 20 products contained ingredients which require further investigation in terms of the social responsibility of the producer. Between 2015 and 2017, a risk analysis has been conducted on the ingredients of 2,233 own brand food products.

In summer 2017, Kesko's risk analysis of ingredients in its own brand products received recognition at the annual meeting of amfori (previously Foreign Trade Association, FTA). Thanks to the risk analysis, Kesko was elected among the top three finalists of the FTA member of the year award.

The study of the ingredients of own brand food products will continue in 2018. Based on the results, we intend to decide upon ingredient-specific follow-up measures to promote the sustainability of the supply chains of Pirkka and K-Menu products.

Customer health and safety

416-1 Assessment of the health and safety impacts of product and service categories,

416-2 Incidents of non-compliance concerning the health and safety impacts of products and services

The activities of the Product Research Unit of Kesko's grocery trade include assessing the impacts of products on health and safety. Manufacturers of Kesko's own brand food products must have international certifications that assure product safety. The standards approved by Kesko's grocery trade include: BRC, IFS, FSSC 22000 and GlobalGAP. In 2017, the total number of certified suppliers was 581 (561 in 2016). This number also includes old audits conducted according to Kesko's grocery trade's own audit guidelines.

A total of 7,350 product samples were analysed (7,770 in 2016). Most of them were related to the product development of own brands. A total of 2,395 own control samples were analysed (2016: 2,387).

When developing own brand products, Kesko's grocery trade pays special attention, in line with its strategy, to the health aspects of the products.

As proposed in [The EC White Paper](#) on Nutrition, Overweight and Obesity-related Health Issues, sugar, saturated fat and salt were reduced in more than 150 Pirkka products during the period 2007–2013. The health aspects of new Pirkka products are taken into account at the product development stage.

The National Nutrition Council of Finland published its [nutrition commitment](#) operating model in June 2017. The nutrition commitment is the Finnish contribution to the [EU Roadmap for Action on Food Product Improvement](#) framework's reformulation programme.

K Group joined the nutrition commitment by making a vegetable commitment, which encourages K-food store customers to increase their use of vegetables through the following actions, which extend to year 2020:

- By 2020, at least 400 K-food stores will have dedicated 'veggie shelves' for vegetable protein products. In 2017, some 250 K-food stores had a veggie shelf.
- We will organise at least 250 vegetable-related campaigns at K-food stores each year (2018–2020). In 2017, K-food store chains organised 240 vegetable campaigns.
- We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2017, we added 55 new fruit and vegetable products to our selections.

In 2016 and 2017, a study on the likelihood of food fraud was conducted and a fraud control plan was prepared (Vulnerability Assessment and Critical Control Points, VACCP). 77 threats of fraud were identified. Six of them were assessed to be critical control points, which are analytically monitored by fraud control on a regular basis, in addition to normal product and supplier assurances.

In 2017, there were 140 product recalls in Kesko's grocery trade (99 in 2016). Of these, 33 were Kesko's grocery trade's own brand products (26 in 2016). In the other cases, Product Research assisted the manufacturers in recalls. There were 4 public recalls involving a potential health hazard resulting from product flaws or defects in Kesko's grocery trade's own brand products in 2017 (2 in 2016).

K-Rauta had two (1 in 2016) and Onninen three (4 in 2016) recalls in 2017. Konekesko had one public recall in 2017 (0 in 2016), which constituted the only public recall for the building and technical trade division that year.

In 2017, there were no legal proceedings or fines related to product health or safety.

Marketing communications and product information

417-1 Requirements for product and service information and labelling

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

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

The name and location of the manufacturer are indicated on all Finnish Pirkka products and on all K-Menu products. Foreign Pirkka products carry the name of the country of manufacture. Country of origin is indicated on all own brand products of K-Citymarket and Kesko's building and technical trade.

The country of origin of meat is disclosed in accordance with regulation [\(EU\) No 1337/2013](#). As ingredients, meat and dairy are labelled in accordance with the national decree [MMM 218/2017](#).

In addition to statutory package labelling, voluntary labelling can be added to inform the consumer of matters related to corporate responsibility. Such labelling may include organic labels and ecolabelling, as well as [labelling indicating social responsibility](#).

The own brand products of Kesko's grocery trade bear material symbols on their packaging. These symbols help and guide consumers to recycle packaging materials. Chemicals that are hazardous to the environment have warning labelling in accordance with the CLP regulation.

417-2 Incidents of non-compliance concerning product and service information and labelling

Engine software adjusting nitrogen oxides

In September 2015, the California Air Resources Board (CARB) and the Environmental Protection Agency (EPA) uncovered engine software that adjusted nitrogen oxides in Volkswagen Group's type EA 189 cars with 1.2 litre, 1.6 litre and 2.0 litre diesel engines.

As far as the brands represented by VV-Auto are concerned, the number of such cars in Finland was identified at 53,000. The case applies to all of the brands imported by VV-Auto: Volkswagen, Audi, SEAT and Volkswagen Commercial Vehicles.

The recalls and repairs of Volkswagen, Audi and SEAT 2.0, 1.6 and 1.2 litre EA 189 diesel cars (SEAT service campaign) proceeded at the planned schedule in Finland in 2017.

By the end of the year, a software update was available for all of the approximately 53,000 cars, and some 47,000 cars (88.4%) had been fully updated.

After the corrective measures, the cars meet the requirements of the EU5 emissions standard. The corrective measures do not affect the car's fuel consumption, engine power, CO₂ emissions, driving behaviour or acoustics.

Product recalls resulting from defective product labelling

On the product labelling of its own brand products and imports, Kesko complies with EU and Finnish legislation.

In 2017, there were 39 product recalls resulting from defective product labelling (24 in 2016), of which 9 (7 in 2016) were Kesko's own brand products.



GRI management approach

Material aspects

- Compliance of products and services
- Customer health and safety
- Assessment of suppliers' working conditions
- Human rights
- Marketing communications

Policies, principles and commitments

Responsible purchasing is guided by **Kesko's purchasing principles**.

The principles are based on national labour protection legislation and corresponding conventions of the International Labour Organization (ILO), which are applied when national legislation does not correspond to the same level. In its operations, Kesko pays special attention to human rights issues and working conditions in its supply chain and, in monitoring these, primarily focuses on suppliers in **high-risk countries**. In accordance with the **amfori BSCI** (Business Social Compliance Initiative), high-risk countries are countries and areas where there is a risk of human rights and workers' rights violations. The classification is based on the World Bank's Worldwide Governance Indicators.

Kesko and K Group stores are responsible to the products' end-users for ensuring that the products comply with all the requirements of Finnish and EU legislation, are safe for users and meet quality and other promises. Kesko's product labelling and marketing communications comply with legislative requirements and the recommendations of authorities.

Kesko and K Group stores want to support customers in making sustainable choices and offer a wide selection of products with responsibility criteria.

Kesko's policy on chemicals applies to home textiles, clothing, leather goods, shoes and upholstered furniture. Based on EU and Finnish legislation, it lists the chemicals which are prohibited or the quantity of which is restricted in the products supplied to Kesko. In addition, for substances of very high concern, Kesko sets restrictions that are stricter than those set in legislation.

Kesko's plastics policy promotes recycling and the reuse of plastics. The objective of the operating model is to prevent plastics from ending up in bodies of water and elsewhere in the natural environment.

Various product **group-specific responsibility policies and statements**, such as the palm oil policy, the fish and shellfish statement, the timber and paper policy, and the stand on the sandblasting of jeans, have been prepared to support purchasing operations.

Programmes, projects and initiatives

- **'Principles and Practice of Socially Responsible Trading' guide**

Responsible choices are communicated to customers in stores according to the K-responsibility concept within-store communications, such as shelf labelling and product labelling. The selection and marketing policies of organic, eco-labelled and Fairtrade certified products are included in K-food stores' chain concepts. The K responsibility concept is in use in K-food stores and K-Rauta stores.

In 2016, Kesko joined the **amfori BSCI Sustainable Wine Programme programme**. The programme focuses on improving the social responsibility and environmental responsibility of wine production and its goal is to increase transparency and traceability in wine production.

In 2016, Kesko became a member of **the Centre for Child Rights and Corporate Social Responsibility** (CCR CSR) based in China. The objective of CCR CSR is to prevent and reduce child labour, improve the status of young workers at factories, and make the daily life of migrant worker parents easier. Kesko participates in the Virtual Working Group of the organisation.

Monitoring and control systems

CERTIFICATION AND AUDIT SYSTEMS RELATED TO PRODUCTION IN HIGH-RISK COUNTRIES APPROVED BY KESKO

Certification/Audit system	Product group	Coverage of criteria
amfori BSCI (amfori Business Social Compliance Initiative)	All product groups	Social, limited environmental part
SA8000	All product groups	Social
SMETA	All product groups	Social, limited environmental part
ICS	All product groups	Social
Fairtrade	Agricultural products incl. cotton	Social, environmental
Rainforest Alliance	Agricultural products	Social, environmental
Pro Terra	Agricultural products	Social, environmental
MPS-Socially Qualified	Agricultural products	Social
Soil Association Ethical Trade	Agricultural products	Social
Sustainability Initiative of South Africa SIZA	Agricultural products	Social, environmental
Sustainably Grown	Agricultural products	Social, environmental
UTZ Certified	Coffee, cocoa, tea	Social, environmental
RSPO (Roundtable on Sustainable Palm Oil)	Products containing palm oil	Economic, environmental, social
RTRS (Round Table on Responsible Soy)	Soy	Economic, environmental, social
WIETA	Wines	Social
Vinos de Chile	Wines	Social, environmental
MSC (Marine Stewardship Council)	Caught fish and shellfish	Environmental (sustainable fishing)
ASC (Aquaculture Stewardship Council)	Farmed fish and shellfish	Social, environmental
Florverde Sustainable Flowers	Flowers	Social, environmental
FLA (Fair Labor Association)	Consumer goods	Social
FWF (Fair Wear Foundation)	Clothing	Social
GOTS (Global Organic Textile Standard)	Textiles, hygiene products (organic)	Social, environmental
WRAP (Worldwide Responsible Accredited Production)	Textiles, shoes	Social
IMO Fair for Life	All product groups	Social, economic
FSC (Forest Stewardship Council)	Wood products and timber	Social, environmental

Certification/Audit system	Product group	Coverage of criteria
ICTI CARE	Toys	Social
PEFC (Programme for the Endorsement of Forest Certification)	Wood products and timber	Social, environmental
ICA Social Audit *	Consumer goods	Social

* Conditional approval. A maximum of two IGS audits are approved after which the supplier must adopt amfori BSCI audit or some other approved audit conducted by an independent party.

Supplier agreements require that suppliers and service providers comply with the principles of the **K Code of Conduct** and the **BSCI Code of Conduct**.

Kesko's grocery trade requires that the manufacturers and producers of its own-brand products have an international food safety certification. Kesko's grocery trade approves the following audit procedures: BRC, IFS, ISO/FSSC 22000, SQF1000/2000 and GlobalGAP, IP basic certification for vegetables, or IP-Sigill.

The Product Research Unit's laboratory monitors the quality of products sold by K-food stores and K-Citymarket hypermarkets. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

The assessment of a store's responsible operations comprises the store's annual self-assessment, the criteria defined in the store's quality system and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko.

Grievance mechanisms

- **SpeakUp** reporting channel
- K Consumer Service
- Customer feedback systems of the chains

Boundaries

Compliance	Kesko
Product safety	Kesko –private labels and own imports
Social responsibility of procurement (1st tier)	Kesko

Environment

We mitigate climate change together and promote the sustainable use of natural resources

- We reduce environmental impacts by working together with supply chains.
- We promote development towards a low-carbon circular economy.
- We help our customers reduce their environmental impact.



Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Science Based Targets	We are committed to reducing our Scope 1 and 2 emissions by 18% by 2025, using a 2015 base year.	Scope 1 and 2 emission have increased by 14% from the 2015 base level due to the acquisition of Suomen Lähikauppa and Onninen in 2016.	The objective was set in 2017.	The objective was set in 2017.
	GRI 305-5			
	We are committed to reducing our Scope 3 emissions from the supply chain so that 90% of Kesko's key suppliers will set greenhouse gas emissions reduction targets by 2025.	Of Kesko's biggest suppliers in 2016, 33% had set their own emission targets.	The objective was set in 2017.	The objective was set in 2017.
	GRI 305-5			
Renewable energy	We will purchase 100% renewable electricity in Finland.	All electricity purchased by Kesko in Finland has been produced with renewable energy since the beginning of 2017. We purchase renewable electricity that has the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, the electricity purchased was produced with Finnish bioenergy.	We decided to purchase 100% renewable electricity as from the beginning of 2017.	The objective was set in 2016
	We will increase the production of solar power for our own use.	Kesko had 19 solar power plants located on the rooftops of its store properties. A total of 3.0 GWh of electricity was produced with solar power for the use of K-food stores. The combined power of the plants is approximately 5.5 MWp. We are the biggest producer and user of solar power in Finland.	In June 2016, Finland's largest property-specific solar power plant was completed on the roof of K-Citymarket Tammisto. By the end of 2016, solar power plants were built in two other K-Citymarket stores and nine K-Supermarket stores.	The objective was set in 2016

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Energy efficiency of stores	During the agreement period 2008–2016: We will improve our annual energy efficiency by 65 GWh by 2016.	Objective achieved. As a result of our determined actions , K Group has exceeded the objective and improved its energy efficiency by 67 GWh.	The final results of the agreement will be published by Motiva in summer 2017.	Kesko improved its energy consumption by 64 GWh and achieved 97% of its objective.
	GRI 302-4 During the agreement period 2017–2025: We will reduce our energy consumption by 7.5% by 2025.	At the time of publication of the Annual Report, installed solar energy and the known reported actions will allow annual energy savings of 12.4 GWh, which is 29.6% of the interim target for 2020 and 15.8% of the target for 2025.	Kesko signed a retail sector energy efficiency agreement for 2017–2025. In the action plan, we commit to reducing our energy consumption by 7.5%.	The objective was set in 2016
Logistics emissions	We will reduce the emissions of Kesko Logistics' transports relative to the net sales index by 10% by 2020 from the 2011 level.	The relative emissions had decreased by 16.2% from the base level. In 2017, emissions decreased by 11.2% compared to 2016. The decrease was impacted by new emission factors, which include diesel's bio component share. Emissions decreased even though transport kilometres increased. As in 2016, this can be attributed to the increased number of stores resulting from the acquisition of Suomen Lähikauppa and the conversion of the stores to K-Markets.	The relative emissions had decreased by 1.9% from the base level. In 2016, emissions increased by 3.8% compared to 2015. The increase in emissions can be attributed to the increased number of stores caused by the acquisition of Suomen Lähikauppa. At first, only Kesko's own brand Pirkka products were delivered to the new stores and as the conversion of the stores to K-Markets advanced, refill loads were delivered to the stores as separate deliveries.	Relative emissions have decreased by 5.5% from the starting level due to new solutions in transportation management and fleet organisation. A pilot study on using an extra long Ecotruck on the main logistics route between Vantaa and Oulu. The Ecotruck carries twice as many roll containers as an ordinary trailer combination.
	GRI 305-5			
Food waste	Kesko's grocery trade aims to minimise the food waste resulting from its operations and utilise inevitably accumulated organic waste. By 2020 we will reduce identified food waste relative to sales by 10% from the 2013 level.	K-food stores have reduced food waste by 7.1% from the 2013 base level. Some 90% of K-food stores donate edible food products they no longer can sell to local charities, which then distribute the products as food aid to those in need. The amount of food products donated increased by nearly 930,000 kg from the previous year.	By the end of 2016, K-food stores had reduced identified food waste by 3.5% from the base level. Approximately 90% of K-food stores work together with local charities. The amount of food products donated increased by 1.8 million kg from the previous year.	We started a cooperation with Gasum, Myllyn Paras and Wursti to utilise biogas produced from inedible organic waste collected from retail stores as energy in the manufacture of new Pirkka products. Many K-food stores donate food to charity.
	Food waste	K Group and Gasum cooperate in producing biogas from inedible food waste from K-food stores. Food waste unfit for human consumption is now collected from 200 K-food stores and Kesko Logistics' central warehouse and made into biogas, which is then used as energy in the manufacture of new Pirkka products. Approximately 4,000 tonnes of organic waste was transformed into 3,000 MWh of biogas. CO ₂ emissions were reduced by 594 tonnes compared to natural gas and by 800 tonnes compared to fuel oil.	We continued cooperation with Gasum, Myllyn Paras and Wursti to utilise biogas produced from inedible organic waste collected from retail stores as energy in the manufacture of new Pirkka products. In 2016, approximately 3,700 tonnes of organic waste was transformed into 2,800 MWh of biogas. CO ₂ emissions were reduced by 550 tonnes compared to natural gas and by 740 tonnes compared to fuel oil.	

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Waste recovery	<p>Our objective is to minimise and recover all waste from our operations.</p> <p>GRI 306-2</p>	<p>According to statistics, the recovery rate for waste management in Finland was nearly 100% and in the other operating countries it was 53%. The waste recovery rate for stores included in the circular economy agreement in Finland was 100%.</p> <p>In the renewal of the K-Rauta chain, discarded work clothes, flags and other textiles were collected from 140 stores and recycled. Discarded work clothes from rebranded stores were processed into material that can be utilised, for example, by the car industry.</p>	<p>In Finland, the recovery rate was 99% and in other operating countries, it was 48%. The waste recovery rate of retail stores in southern Finland covered by the waste management agreement was 100%.</p>	<p>The waste recovery rate in the grocery trade was 99%, in the home improvement and speciality goods trade 99.4%, and in the car trade 99.9%. In other operating countries, the waste recovery rate was 46%. The waste recovery rate of retail stores in southern Finland covered by the waste management agreement was around 98%.</p>
Biodiversity	<p>K Fishpaths collaboration with WWF Finland: We will remove at least 50 barriers preventing endangered migratory fish from swimming upstream and create at least 100 spawning grounds in Finland between 2017 and 2021. We will increase awareness of the endangered nature of migratory fish and arrange volunteer events.</p> <p>GRI 304-3</p>	<p>The K Fishpaths collaboration between Kesko and WWF Finland was launched with an extensive media and social media campaign in August 2017. We promoted the collaboration with the slogan “Mating belongs to all”. On social media, the launch campaign reached 900,000 people, and volunteer events received good coverage in local media.</p> <p>In autumn 2017, we cleared nine barriers in rivers and streams around Finland and created 40 new spawning grounds for endangered migratory fish. We carried out restoration work together with local operators and volunteers at six locations. We opened up a total of 20,000 metres of new spawning grounds and habitat.</p> <p>The K Fishpaths collaboration will continue and expand in 2018.</p>	<p>The objective was set in 2017.</p>	<p>The objective was set in 2017.</p>



Energy

302-1 Energy consumption within the organization

Kesco participates in mitigating climate change by increasing renewable energy purchases and own production and increasing energy efficiency.

Renewable electricity

Kesco has purchased electricity produced with 100% renewable energy from the beginning of 2017 in Finland. Kesko purchased 504 GWh of electricity for use in K-stores and other Kesko properties in 2017 with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries. In 2017, the purchased electricity was produced with Finnish bioenergy, which utilises by-products from the forest industry and wood based fuels, for example.

Solar power plants at K-stores

Since 2016, Kesko has made significant investments in the construction of solar power plants. By the end of 2017, Kesko had 19 solar power plants on the rooftops of store properties it manages. A total of 3.0 GWh of electricity was produced with solar power for use in its own stores in 2017. The combined power output of the solar power plants is approximately 5.5 MWp. If three K-retailers' own solar power plants are included, K Group is the biggest producer and consumer of solar power in Finland. Investments in solar power utilisation will continue.

ENERGY CONSUMPTION OF PROPERTIES

Finland	2017	2016	2015
Electricity ¹ (MWh)	504,459	458,690	694,544
District heat (MWh)	323,461	308,924	254,214
Fuel for self-produced heat (MWh)	10,978	5,169	3,406
Total energy consumption (MWh)	838,898	772,783	952,164
Total energy consumption (TJ)	3,020	2,782	3,428

Other operating countries	2017	2016	2015
Electricity (MWh)	80,186	100,928 ²	103,038
District heat (MWh)	17,719	19,350 ²	17,840
Fuel for self-produced electricity (MWh)	4,055	0	-
Fuel for self-produced heat (MWh)	32,247	30,831 ²	26,890
Total energy consumption (MWh)	134,207	151,109	147,768
Total energy consumption (TJ)	483	544	532

All operating countries	2017	2016	2015
Total energy consumption (MWh)	973,105	923,892	1,099,932
Total energy consumption (TJ)	3,503	3,326	3,960

¹ The reporting boundary has changed in 2016, includes only electricity purchased by Kesko

² Figure has been adjusted for improved accuracy since the previous report

Energy consumption in properties in Finland

At the end of 2017, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and approximately 1,246 store sites. The total area of the property portfolio decreased by 4% due to the divestment of Indoor Group.

The majority of properties used district heat, but in addition 3.3% of the heat energy was self-produced. In 2017, the heat energy produced with natural gas and oil at properties in Finland totaled 39.52 TJ (11 GWh).

The electricity consumption of Kesko in Finland includes only electricity purchased by Kesko. Heat consumption is reported for all properties managed by Kesko. Calculation methods and electricity and heating consumption statistics by property type and changes in properties in Finland are available in the [Energy consumption tracking](#) and [Environmental profile reports](#).

Energy consumption in properties in other operating countries

The heat energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (1,467 MWh) and peat (102 MWh) were also used for heating. In addition, a total of 4,055 MWh of electricity was produced with oil in Russia. In 2017, the fuels used for self-produced heat and electricity totaled 130.7 TJ (36.3 GWh).

Subsidiaries outside of Finland report their fuel and purchased energy consumptions to Kesko and statistics per country are compiled from this data. The heat energy data is not reported for some properties (6%, and store sites of Onninen Sweden and Norway) because it is included in the lease or data is not available.

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2017:

- Renewable: 2,315 TJ (63%)
- Nuclear power: 79 TJ (2%)
- Non-renewable: 1,262 TJ (35%)

Fuel consumption of logistics in Finland

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 645 TJ in 2017 (503.9 TJ in 2016). The fuel used was diesel. In 2017, the total distance driven by Kesko Logistics was 34.9 million km (32.3 million km in 2016).

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

Fuel consumption of logistics in other operating countries

Most of Kesko's subsidiaries have outsourced logistics operations. In 2017, the logistics in Estonia and Belarus consumed 25.3 TJ of fuel (diesel and gasoline).

Total energy consumption

In 2017, Kesko's energy consumption in all operating countries totaled 4,173 TJ.

A total of 835.2 TJ of fuels from non-renewable sources were used for transportation as well as self-produced heat and electricity of properties. In addition, 5.3 TJ of renewable fuels were consumed.

302-3 Energy intensity

SPECIFIC CONSUMPTIONS OF ENERGY, PROPERTIES MANAGED BY KESKO

kWh/br-m ²	2017	2016	2015
Finland			
Specific consumption of electricity	214	204	207
Specific consumption of district heat	86	79	76
Other operating countries			
Specific consumption of electricity	73	88	99
Specific consumption of heat	43	44 ¹	43

¹ Figure has been adjusted for improved accuracy since the previous report

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

The calculation methods for the properties in Finland are available in the Energy consumption tracking report. The specific consumptions of properties in the other operating countries are calculated based on the total area of properties (1,160,000 m² in 2017).

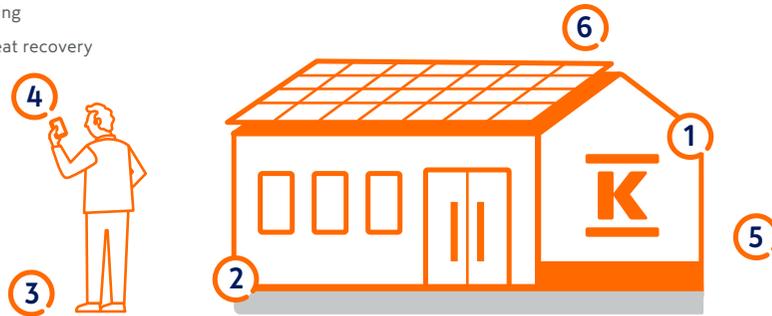
302-4 Reduction of energy consumption

K Group participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement. In accordance with the agreement, K Group commits to reducing its energy consumption by 7.5% through various energy saving measures. All K Group store chains are included in the agreement. At the time of publication of the Annual Report, installed solar energy and the known reported actions will allow annual energy savings of 12.4 GWh, which is 29.6% of the interim target for 2020 and 15.8% of the target for 2025.

During the previous trading sector energy efficiency agreement for the period 2008–2016, K Group was committed to improving its annual energy consumption by 65 GWh by the end of 2016. Due to determined actions K Group was able to surpass the target and improve its energy efficiency by 67 GWh.

ENERGY SOLUTIONS IN K-STORES

- 1 Lighting
- 2 Lids and doors on refrigeration units
- 3 Real estate managers
- 4 Remote monitoring
- 5 Condensation heat recovery
- 6 Solar power



1. Lighting

LED lights are used in all lighting solutions of property development projects. Adjustable, correctly directed LED-lighting can help save up to 60% of electricity consumed compared to traditional fluorescent tube and metal halide lighting solutions.

2. Lids and doors on refrigeration units

In food stores, the consumption of refrigeration systems can account for more than half of the total electricity consumption at small store sites. Lids on freezer chests save 40% of the electricity consumed by uncovered equipment. Doors on dairy and juice cabinets also help save electricity.

3. Real estate managers

Kesko has around 45 Real Estate Managers to help K-stores find ways in which to make their energy consumption more efficient. Regular monitoring, technical supervision and comparison of reports from different properties are used to maintain an optimal level of energy consumption. Real Estate Managers also help stores with long-term planning. Renovation programmes contain estimates of the refurbishment that should be made within five to six years.

4. Remote monitoring

In February 2017, the building automation of 214 Kesko facilities was monitored by a remote energy management centre. The set points of properties and equipment running hours can be changed from

the management centre as necessary, which also enables rapid response to disturbances. Setting the correct running times and set points is the easiest and most effective way to improve energy efficiency. Remote monitoring enables refrigeration equipment to be adjusted for optimum temperatures and defrosting cycles. In addition, deviations can be responded to immediately.

5. Condensation heat recovery

Condensation heat from refrigeration equipment is recovered at nearly all K-food stores, which means additional heat energy is needed only during very low sub-zero temperatures.

Increasingly many K-food stores also save energy by using carbon dioxide recovered from industrial processes as the refrigerant in their refrigeration equipment. Carbon dioxide is an environmentally friendly refrigerant.

6. Solar power

Solar power plants are becoming more widely used on the rooftops of K-stores. The electricity consumption of food stores is greatest during the summer, when the stores and their refrigeration equipment require a lot of electricity for cooling. On a sunny summer day, solar power can cover as much as 60% of the food store's current consumption.

The solar panels installed on K-food store roofs cover around 10–15% of the store's annual electricity consumption. The life cycle of a solar power plant is as long as 35 years. Modern technology enables solar power production even in overcast weather and during wintertime.

Water

Finland has abundant water resources. However, due to the large consumption of imported processed goods and the virtual water footprint associated with them, almost half (47%) of **the water footprint of Finnish consumption** falls outside of Finland. Kesko's most significant impacts from water consumption are thus caused by imported products for sale which originate from areas suffering from water scarcity or contamination.

Kesko has initiated a water risk assessment for its own brand products in order to identify the water basins most affected by water scarcity or contamination issues in its supply chain. The water risk assessment is in progress and results will be used to plan actions.

303-1 Water withdrawal by source

Properties managed by Kesko use water from municipal water supplies in all operating countries. In addition, a few wells are in use on properties in Estonia, Lithuania and Belarus. However, water from these wells accounts for only a minor portion (3%) of total water consumption and is thus reported with the municipal water consumption. Waste water from Kesko's operations goes to municipal sewer systems.

WATER CONSUMPTION BY COUNTRY

m ³	2017	2016	2015
Finland	977,989	933,812	884,081
Sweden	6,777	7,107 ¹	6,354
Norway	144	1,424	1,445
Estonia	7,421	5,922	4,954
Latvia	9,210	9,480	10,128
Lithuania	39,780	40,268	38,472
Poland	4,754	3,100	-
Russia	30,015	84,431	79,755
Belarus	51,047	48,797	43,342
Total	1,127,137	1,134,341	1,068,531

¹ Figure has been adjusted for improved accuracy since the previous report

In K Group's own operations, water is mainly used for cleaning purposes. Maintaining a high level of hygiene is particularly important in food stores and legal requirements for hygiene must be fulfilled. Car wash facilities at Neste K service stations in Finland are big individual consumers of water.

The consumption of water at Finnish properties increased in 2017 especially in shopping centres, VV-Autotalot and K-Supermarkets. Water consumption statistics by property type and changes in the property portfolio in Finland are available in the [Energy consumption tracking report](#).

The divestment of the grocery trade business in Russia at the end of 2016 resulted in a significant decrease in water consumption in Russia in 2017. The water consumption data from other countries is compiled from figures reported by the companies, which are based on water billing or consumption data. At some stores located in leased properties, water consumption is included in the lease and data is not available for reporting (4% of locations in other operating countries). Consumption data is also not available for Onninen's store properties in Sweden and Norway.

Biodiversity

Kesko has identified biodiversity impacts and opportunities in its operations. The objective is to reduce adverse biodiversity impacts in the supply chain and to take part in projects that promote biodiversity in cooperation with other operators. Kesko participates in the [Business & Biodiversity Finland programme](#), organised jointly by the Corporate Responsibility Network FIBS and the Ministry of the Environment Finland.

304-2 Significant impacts of activities, products, and services on biodiversity

Supply chain

Kesko's greatest impacts on biodiversity occur throughout the lifecycle of the products on sale. Raw materials critical to biodiversity in Kesko's supply chain include fish and shellfish, timber, palm oil, and soy. Their sustainable sourcing is guided by [sourcing policies](#). Read more about the objectives of the sourcing policies in [our responsibility programme](#).

In April 2017, Kesko added the Pirkka fish patty to the selections of K-food stores. The Pirkka fish patty is made from bream caught in John Nurminen Foundation's Local Fishing Project, which aims to promote sustainable fishing. Baltic bream has not been used as extensively in consumer products before. The use of bream effectively reduces the environmental burden on the Baltic Sea.

Plastics

K Group's objective is to reduce plastics ending up in water bodies and elsewhere in the environment. K Group is creating operating models to promote the recycling and reuse of plastic.

In its [plastics policy](#) K Group commits to measures to reduce the consumption of plastic bags. In 2017, Kesko removed microbeads from its own brand cosmetic products. K-stores offer consumers the pos-

sibility to recycle packaging plastics in 173 Rinki eco take-back points. [Read more about the progress made regarding the targets of our plastics policy in our responsibility programme.](#)

Food waste and climate change

Minimising food waste throughout the whole food chain from agriculture all the way to the end consumer reduces the need for primary production and thereby impacts on biodiversity. When food ends up in waste, all environmental impacts and emissions from its production, transportation, sales, storage and preparation have been useless.

Climate change also impacts biodiversity, especially as areas of drought expand. Read more about Kesko's diverse efforts to reduce food waste and greenhouse gas emissions in the responsibility programme.

304-3 Habitats protected or restored

K Fishpaths

In August 2017, K Group and the environmental organisation WWF Finland began an extensive **multi-year collaboration** to save and restore Finland's endangered migratory fish populations. Of Finnish migratory fish, the maraena whitefish, salmon, trout and eel are endangered. Their situation is dire because obstacles in rivers and streams are preventing the fish from swimming to suitable spawning grounds. The swimming of fish upstream can be stopped by a single culvert or an old mill dam.

The objective of the K Fishpaths collaboration is to remove such obstacles in a spirit of cooperation with local operators, landowners, K-retailers and volunteers. The removal of a single obstacle may help open up several kilometres of flowing watercourses suitable for spawning. In addition to obstacle removal, the collaboration also involves restoring spawning grounds and habitats for migratory fish. It is estimated there are tens of thousands of such barriers in Finland.

K Group and WWF Finland's objective is to remove at least 50 barriers and to create at least one hundred spawning grounds for endangered migratory fish in Finland between 2017 and 2021. K Fishpaths also aims to increase awareness of the endangered status of migratory fish, and to organise events for volunteer work.

In 2017, nine barriers in rivers and streams around Finland were removed and 40 new spawning grounds for fish created. Restoration took place together with local operators at the Ingarskilanjoki river in Inkoo, Syvänoja in Suomusjärvi, Koirajoki in Tuusniemi, Unterniskanjoki in Imatra, Vaalimaan-

joki in Luumäki and Juottimenoja in Perniö. As a result, a total of 20,000 metres of new spawning grounds and habitat were opened up.

Read the [NGO perspective by WWF Finland.](#)

Store sites

Kesko builds store sites only in areas planned by municipalities for business properties. Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2017, two Kesko sites were restored.

A soil remediation project was carried out at one of Kesko's sites in Vantaa, where a total of approximately 4,049 tonnes of contaminated soil was removed from a 16,700 m² lot. The remediation work was completed when the target concentrations set by the Uusimaa ELY centre were achieved; in other words, when soil exceeding the higher reference values had been removed from the site. Concentrations of contaminants which exceeded the lower reference values but remained below the remediation targets still exist in some areas of the walls and bottoms of excavations. A carwash is being planned for the site, so the contaminant levels that exceed the lower reference values will not require any further action based on the current use of the lot.

Another Kesko site underwent soil remediation measures in Turku. A total of 2,299 tonnes of soil that contained elevated levels of hydrocarbons were removed from a 6,072 m² lot. Based on the residual concentration samples taken from the excavation sites, the north edge of the property still had soil in which the higher reference values for hydrocarbons were exceeded. A bentonite mat was installed as an insulating structure at the pipeline on the wall. The other residual concentration samples did not contain hydrocarbons exceeding the reference values. The soil remediation work was carried out in accordance with the principles agreed on with the City of Turku Environmental Protection Department, and no further environmental engineering measures are necessary in the area.

Kesko does not have protected habitats of its own.

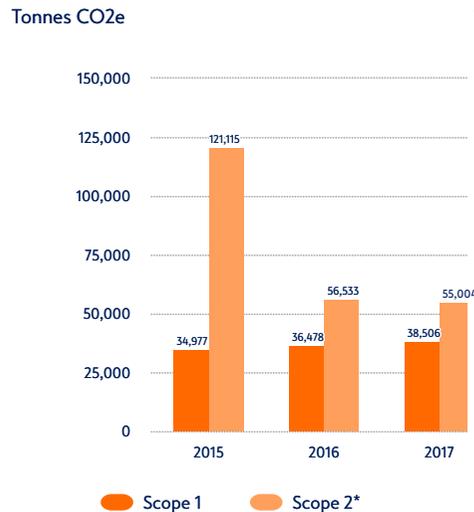
Emissions

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

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

305-1 and 305-2 Direct and energy indirect GHG emissions (Scope 1 and 2)

Scope 1 and 2 emissions, Finland



* The reporting boundary changed in 2016.

Scope 1 and 2 emissions, all operating countries



* The reporting boundary changed in 2016.

SCOPE 1 AND 2 GHG EMISSIONS

Tonnes CO ₂ e	2017	2016	2015
Direct (Scope 1)	48,219	43,002	43,302
Finland	38,506	36,478	34,977
logistics (Kesko Logistics)	35,801	35,079	34,117
self-produced heat (natural gas and oil)	2,705	1,399	860
Other operating countries	9,713	6,524	8,325
logistics (Belarus and Estonia)	1,870	344	1,115
self-produced heat and electricity (natural gas, oil, peat and timber ¹)	7,843	6,180	7,210
Indirect (Scope 2)	82,421	81,963	144,266
Finland	55,004	56,533	121,115
purchased electricity (market-based)	0	0	73,734
purchased electricity (location-based) ²	91,224	95,866	153,087
purchased district heat (location-based)	55,004	56,533	47,381
Other operating countries	27,417	25,430	23,151
purchased electricity (location-based)	22,803	20,218	18,475
purchased district heat (location-based)	4,614	5,212	4,676
Total	130,640	124,965	187,568
Finland, Scope 1 and 2 total	93,510	93,011	156,092
Other operating countries, Scope 1 and 2 total	37,130	31,954	31,476

¹ The biogenous CO₂ emission figure of the timber used for heating one facility in Belarus is reported in Scope 1, because its proportion of the total fuel quantity is insignificant (about 2%).

² Following the GHG Protocol standard, the location-based emission figure for electricity consumption in Finland has been reported. The market-based figure is used for the emissions totals. Location-based emissions are calculated with national emission factors and market-based emissions with energy supplier emission factors.

Scope 1

In 2017, the Scope 1 emissions of Kesko in Finland increased due to the acquisition of Suomen Lähikauppa in 2016 and the continued increase in own production of heat.

Emissions from logistics in the other operating countries were reported for Belarus and Estonia in 2017. Most of the logistics in the other operating countries are outsourced.

The transportation of goods for Kesko's grocery trade in Finland is managed by Kesko Logistics and includes its own transportation and that under its direct control. Kesko Logistics' emissions were calculated based on data including kilometres driven, volumetric efficiencies, and the transportation fleet using the [Lipasto calculation system](#) developed by the VTT Technical Research Centre of Finland. The emissions for logistics operations in Belarus and Estonia were calculated based on fuel consumption.

Scope 2

Kesko has purchased electricity produced with 100% renewable energy from the beginning of 2017 in Finland. The renewable electricity purchased with the Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries was produced with Finnish bioenergy, which utilises by-products from the forest industry and wood based fuels for example.

The emissions from purchased electricity for the other operating countries increased by approximately 13% due to emission factor updates, although electricity consumption decreased significantly due to the divestment of the grocery trade in Russia in 2016.

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

305-3 Other indirect (Scope 3) GHG emissions

SCOPE 3 GHG EMISSIONS

Tonnes CO ₂ e	2017	2016	2015
Upstream			
Purchased goods and services	7,698,000	6,910,000	5,936,000
Capital goods (buildings)	33,500	35,200	18,200
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	30,900	49,400	69,300
Transport and distribution of goods	14,400	18,400	18,300
Waste	10,300	11,400	9,000
Business travel	3,100	3,000	2,700
Employee commuting	20,800	21,000	6,700
Downstream			
Customer commuting (shopping trips)	164,900	157,400	154,400
Use of sold products	1,771,000	1,685,800	852,900
End-of-life treatment of sold products	38,600	36,500	16,300
Franchises (retailer entrepreneurs)	102,700	114,700	22,800

The greatest other indirect emissions of Kesko are caused in the supply chain of the products for sale (78%), in the use phase of the products (18%) and by the shopping commutes of customers (2%).

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

305-4 GHG emissions intensity

The Scope 1 and 2 greenhouse gas emissions intensity is calculated based on net sales (€10,676 million in 2017), the average number of employees (22,077 in 2017) and the area of properties managed by Kesko (4,185,000 m² in 2017).

SCOPE 1 AND 2 GHG EMISSIONS INTENSITY

	2017	2016	2015
Based on net sales (tonnes CO ₂ e / € million)	12.2	12.3	21.6
Based on average number of employees (tonnes CO ₂ e / person)	5.9	5.6	9.9
Based on area of properties managed by Kesko (tonnes CO ₂ e / 1,000 m ²)	31.2	28.5	-

The Scope 2 reporting boundary for 2016 has changed

305-5 Reduction of GHG emissions

Science Based Targets

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

Kesko commits to reduce its direct and indirect (Scope 1 and 2) emissions 18% by 2025 from base year 2015. In addition, Kesko is committed to reduce its supply chain emissions so that 90% of its key suppliers will set their own GHG emissions reduction targets by 2025.

In 2017, the direct and indirect emissions had increased by 14% from base year 2015, due to the acquisitions of Suomen Lähikauppa and Onninen in 2016. Out of Kesko's key suppliers of 2016, 33% had set their own emission reduction targets by the end of 2017.

Renewable energy and energy efficiency

Since the beginning of 2017, Kesko has purchased electricity produced with 100% renewable energy in Finland and invested in solar power plants on the rooftops of its stores in the past few years as well.

[Read more in the Energy section.](#)

K Group participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement and is committed to reducing its energy consumption by 7.5% through various energy savings measures.

During the trading sector energy efficiency agreement for the period 2008-2016, K Group's target was to improve its annual energy consumption by 65 GWh. Due to determined actions K Group was able to surpass the target and improve its energy efficiency by 67 GWh.

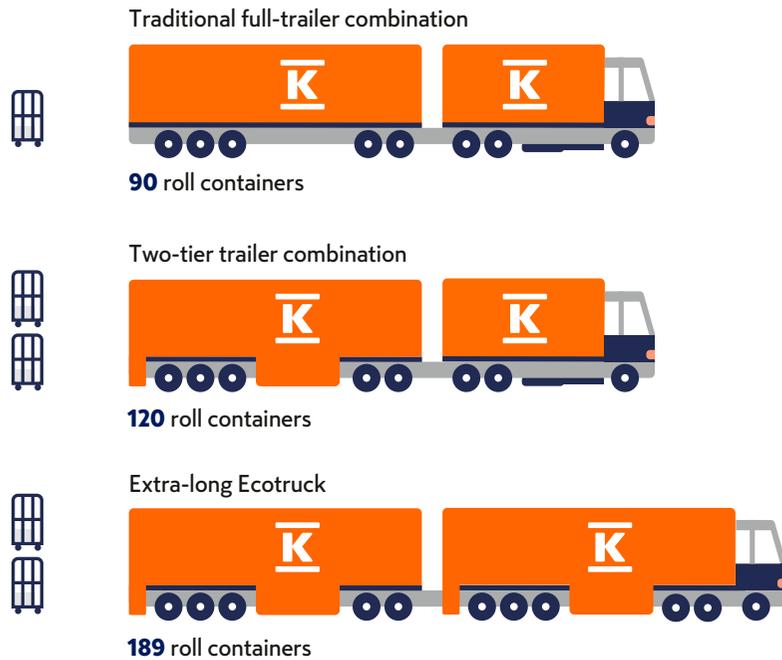
Logistics

The target of Kesko Logistics is to reduce CO₂ emissions relative to the net sales index by 10% during 2012–2020 from the 2011 base year. By the end of 2017, the relative emissions had decreased by 16.2% from the base level. In 2017, the emissions decreased by 11.2% in comparison to 2016. The decrease in emissions was affected by new emission factors, which include the biocomponent of diesel fuel. The emissions decreased while the driven kilometres increased, which was due to the increase in the number of stores resulting from the acquisition of Suomen Lähikauppa and their conversion to K-Markets similar to the previous year.

Kesko Logistics works ambitiously to reduce emissions:

- Efficiency of logistics: centralised distribution, optimisation of delivery routes and high volumetric efficiency
- Efficient reverse logistics: collection of purchase loads, carrier trays, pallets, roll containers and recycled bottles and cans on the return route
- Economical driving courses: all of Kesko Logistics' more than 500 contract drivers have been trained
- New replacements in the vehicle fleet: eleven two-tier trailers and one extra-long HCT 'Ecotruck' in use in long-distance transportation between main warehouses; in 2018 two new HCT-trailers will be added

EFFICIENT LOGISTICS FLEET



Scope 3 emissions reductions

Products for sale

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

Grocery trade

Customers are increasingly aware of the environmental impacts of their consumption choices. By reducing the amount of animal-based products and household food waste consumers can reduce the environmental impact of their food consumption. **Vegan products increased in popularity** in the shopping baskets of Finns in 2017. The number of plant-based Pirkka products increased by 16 new products in 2017 and the selection now numbers over one hundred. By the end of 2017, around 250

K-food stores already had a 'Veggie shelf', which gathers plant-based products in one place to make choosing environmentally friendly products easier for the customer. Additionally, the K-Ruoka media offers diverse recipes and tips for cooking vegetarian meals.

K Group and Gasum cooperate to produce biogas from inedible food waste collected from K-food stores. The inedible organic waste from around 200 K-food stores and the Kesko Logistics central warehouse is utilised as energy in the manufacture of new Pirkka products. In 2017, approximately 4,000 tonnes (3,700 tonnes in 2016) of organic waste was transformed into 3,000 MWh (2,800 MWh in 2016) of biogas. CO₂ emissions were reduced by 594 tonnes compared to natural gas (calculated with emission factor 198 g CO₂/kWh) and by 800 tonnes compared to fuel oil (calculated with emission factor 267 g CO₂/kWh). The cooperation is rapidly growing into a nationwide operating model as the network of biogas plants expands.

In 2017, K Group participated again in the Ham Trick campaign, in which customers could donate fat from roasting their Christmas hams to collection points at K-food stores. The fat was used to make renewable diesel. A total of 44 tonnes of ham fat was collected, of which around 81% was collected at K-Citymarket stores.

Read more about our work to reduce [food waste](#).

Building and technical trade

The building and technical trade offers consumers and business customers diverse product selections and expertise for improving the energy efficiency of building and renovation projects. The K-Rauta stores and Onninen offer environmentally friendly solutions for homes and properties from practical energy saving tips to intelligent energy management systems solutions. These include heating, cooling, solar and wind energy solutions.

Car trade

In February 2018, the selection of VV-Auto included six plug-in hybrid car models (PHEV) and two electric cars. In addition, the selection included seven car models using natural gas or biogas as fuel. In 2017, the registrations of Volkswagen, Audi and Porsche plug-in hybrids in Finland increased 54.1% compared to the previous year.

Customer shopping commutes

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

Kesko is building an extensive network of electric vehicle charging points adjacent to K Group stores in order to progress the electrification of cars. In February 2018, already 23 K Group stores and 13 Neste K service stations offered a total of 121 electric and hybrid charging points for customer use. The aim is to build charging stations at all Neste K stations and 10–15 charging stations at K-Citymarket parking lots annually during the next few years. K Group has the largest private network of electric vehicle charging points in Finland.

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

Employee commuting and business travel

In December 2016, a survey on commuting to work was conducted for the Helsinki area office workers by using the [Helsinki Region Transport \(HSL\) commuting calculator](#). According to the survey, the average emissions per employee were 8.8 kg CO₂/working day. The results of the survey will be used as a basis for developing the employee commuting for Kesko's new K-kampus main office building. An employee commuting plan will be made in order to encourage commuting to the K-kampus which is sustainable and improves the wellbeing of employees.

At the end of 2017, Kesko had 668 company cars in use in Finland (690 in 2016).

- 2 ethanol-fueled cars (6 in 2016)
- 329 petrol-fueled cars (312 in 2016)
- 336 diesel-fueled cars (370 in 2016)
- 1 natural gas car (2 in 2016)

According to Kesko's company car policy, Kesko's company cars have an emission level below 150 g CO₂/km. Since December 2017, the employees' pay share will be discounted by 10% of the tax value if the emission level of the company car is below 105 g CO₂/km. In 2017, the average emission level was 122 g CO₂/km (122 g CO₂/km in 2016) and the emissions from company cars totalled 2,477 CO₂ tonnes (2,648 CO₂ tonnes in 2016). This calculation also includes private use of company cars.

In 2017, the air miles of Kesko employees travelling for business totalled 9.8 million (8.2 million in 2016). Encouraging the use of virtual meetings is one of the ways Kesko endeavours to decrease the amount of air travel. The amount of virtual meetings held via the Skype for Business application has increased by approximately 3% since the previous year. In 2017, a total of 69,858 hours of Skype meetings were held (67,842 hours in 2016). At the end of 2017, the Kesko Group had 28 Videra video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 1,494 hours (1,793 hours in 2016).

305-7 Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2017 caused:

134 tonnes of NO_x emissions (130 t in 2016)

119 tonnes of SO₂ emissions (115 t in 2016)

0 tonnes of radioactive waste (1.2 t in 2016)

The calculation principles and more detailed calculations are available in the [Environmental profile report](#). The figures for 2016 have been adjusted for improved accuracy since the last report. Only CO₂ emissions data is collected for transportation of goods.

Effluents and waste

Circular economy

Shifting to a circular economy requires increasingly efficient circulation of materials. Kesko provides customers with diversified recycling services for waste and discarded items and develops innovative circular economy solutions in cooperation with other operators.

Recycling services for customers

In December 2017, there were 399 Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 173 eco take-back points (160 in 2016). Since January 2017, Pirkka ESSI circular economy bags have been made from plastic recycled by customers.

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

PACKAGES AND ITEMS RETURNED BY CUSTOMERS TO RECYCLING POINTS AT K GROUP STORES

	2017	2016	2015
Deposit aluminium cans (million pcs)	374	378	311
Deposit recyclable plastic bottles (million pcs)	120	116	94
Deposit recyclable glass bottles (million pcs)	30	29	26
Batteries and accumulators (tonnes)	303	289	210
WEEE (tonnes)	68	92	95
Lead-acid accumulators, K-Rauta (tonnes)	0.8	3.5	1.6
Impregnated timber, K-Rauta (tonnes)	859	814	914
Used clothing, UFF recycling points (tonnes)	n/a	3,123	2,915

Kesko Logistics' centralised collection services

Cardboard and plastic bales from 284 K-food stores (236 in 2016) were centrally directed by Kesko's grocery trade for industry reuse in 2017. Around 2,912 tonnes of cardboard (2,806 in 2016) and 54 tonnes of plastic (70 in 2016) were collected.

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

PACKAGING COLLECTED BY KESKO LOGISTICS REVERSE LOGISTICS FOR REUSE AND RECOVERY

	2017	2016	2015
Aluminium cans (1,000 pcs)	87,676	82,169	96,479
Recyclable plastic bottles (1,000 pcs)	60,606	54,648	61,403
Recyclable glass bottles (1,000 pcs)	12,305	11,292	9,462
Reusable crates (1,000 pcs)	20,241	17,893	17,294

Circular Economy Agreement for stores in Finland

Since 2016, all K Group stores in Finland have had the opportunity to participate in a national centralised waste management agreement, which was renamed the Circular Economy Agreement in 2017. The target is to increase the efficiency of recycling at K Group stores and advance the circular economy.

At the end of 2017, a total of 426 stores (139 in 2016) participated in the Circular Economy Agreement. The recovery rate of the waste generated in these stores was 100% (100% in 2016) and the recycling rate was around 67% (66% in 2016).

306-2 Waste by type and disposal method

Kesko's objective is to minimise and recover all waste from its operations.

WASTE IN ALL OPERATING COUNTRIES

Tonnes	2017	2016	2015
Non-hazardous waste	36,401	38,051	27,832
Recycling/recovery	26,917	27,444	18,474
Landfill	9,484	10,607	9,358
Hazardous waste	1,404	774	1,261
Recycling/recovery	983	524	171
Hazardous waste treatment	421	250	1,090
Total	37,805	38,825	29,093

Waste recovery rates

Kesko's waste statistics in Finland mainly cover warehousing operations, while in the other countries, the majority of waste statistics cover store operations. According to statistics, the recovery rate in Kesko's waste management in Finland was nearly 100% in 2017 and in the other operating countries it was 53%. The recovery rate includes all waste except waste to landfill. The type of waste treatment was determined by the waste management company.

WASTE: FINLAND, SWEDEN AND NORWAY

Tonnes	Finland			Sweden			Norway		
	2017	2016 ¹	2015	2017	2016	2015	2017	2016	2015
Non-hazardous waste	17,469	18,366	10,737	3,533	3,479	2,692	723	410	633
Recycling/recovery	17,467	18,204	10,621	3,182	3,220	2,470	723	410	593
Landfill	2	162	116	351	259	222	0	0	40
Hazardous waste	354	273	1,125	227	81	60	511	215	15
Recycling/recovery	258	183	160	7	3	3	494	200	-
Hazardous waste treatment	96	90	965	220	78	57	17	15	15
Total	17,823	18,639	11,862	3,760	3,560	2,752	1,234	625	648
Recovery rate %	99.99	99	99	91	93	92	100	100	94

¹ A small part of the data is based on estimation (0.3% of total waste in Finland)

WASTE: ESTONIA, LATVIA AND LITHUANIA

Tonnes	Estonia			Latvia			Lithuania		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Non-hazardous waste	924	733	680	911	640	612	5,973	3,946	2,605
Recycling/recovery	834	689	608	171	163	156	2,657	2,271	1,699
Landfill	90	44	72	740	477	456	3,316	1,675	906
Hazardous waste	37	27	20	9	5	3	166	152	36
Recycling/recovery	1	1	-	0	-	-	125	119	8
Hazardous waste treatment	36	26	20	9	5	3	41	33	28
Total	961	760	700	920	645	615	6,139	4,098	2,641
Recovery rate %	91	94	90	20	26	26	46	59	66

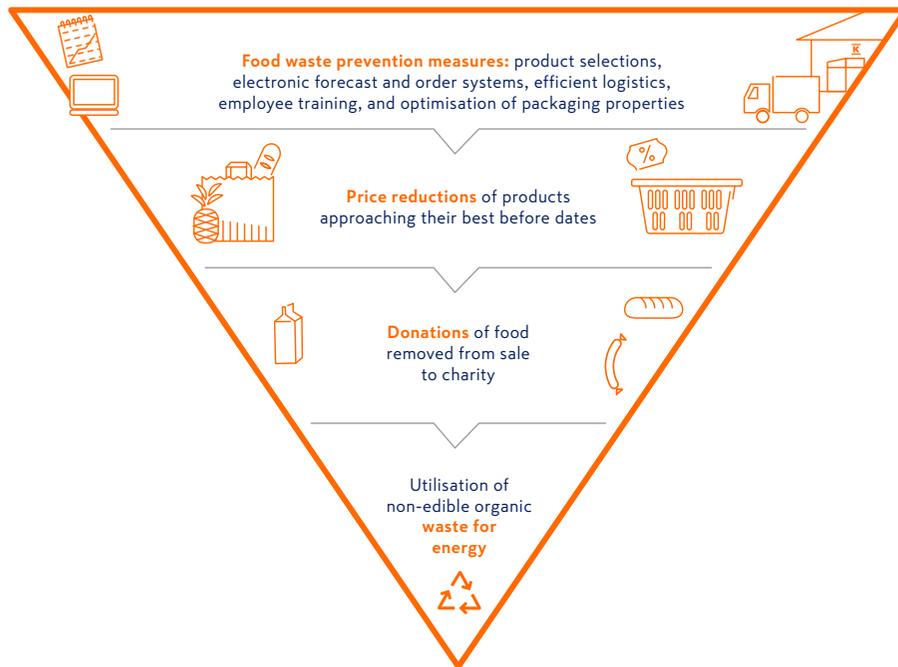
WASTE: POLAND, RUSSIA AND BELARUS

Tonnes	Poland			Russia			Belarus		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Non-hazardous waste	404	218	-	4,970	8,594	8,303	1,494	1,665	1,570
Recycling/recovery	127	51	-	1,463	2,382	2,279	293	55	48
Landfill	277	167	-	3,507	6,212	6,024	1,201	1,610	1,522
Hazardous waste	17	15	-	1	1	1	82	3	1
Recycling/recovery	17	15	-	0	-	-	81	2	0
Hazardous waste treatment	0	-	-	1	1	1	1	0.6	1
Total	421	233	-	4,971	8,595	8,304	1,576	1,668	1,571
Recovery rate %	34	28	-	29	28	27	24	3	3

Food waste

We are reducing food waste through cooperation throughout the whole food chain, from primary production to the end user. K Group's goal is to minimise the food waste resulting from its operations and utilise the inevitably accumulated organic waste. Our objective is to reduce identified food waste relative to sales by 10% from the 2013 level by 2020.

K GROUP FOOD WASTE HIERARCHY



Food waste prevention

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

At the store

Stores are instructed to pay special attention to the expiration dates of fresh foods and foods with short expiration times. As a product's 'best before' or 'use by' date approaches, K-food stores can

sell the product at a discount. The deregulation of store opening hours in Finland in 2016 has had an impact on food waste: as stores are open for longer, sales are steadier and there is less wastage.

Food donations

Some 90% of K-food stores donate edible food products they no longer can sell to local charities, which then distribute the products as food aid to those in need. In 2017, the amount of food products donated increased by nearly 930,000 kg. Some food waste is also given to farms for animal feed.

Energy from organic waste

K Group and Gasum cooperate in producing biogas from inedible food waste collected from K-food stores. By the end of 2017, organic waste was being collected from 200 K-food stores and the Kesko Logistics central warehouse. The biogas produced is transmitted to Gasum's gas network, and then utilised as energy in the production of new Pirkka products. As the biogas transmission network expands, the operating model is quickly becoming nationwide.

In 2017, some 4,000 tonnes of organic waste was turned into some 3,000 MWh of biogas, with three manufacturers of Pirkka products included in the operating model.

FOOD WASTE FROM K-FOOD STORES

	2017	2016
Identified food waste (tonnes)	19,511	20,591
Identified food waste in proportion to sales	1.6%	1.7%
Development of food waste in proportion to sales (from base year 2013)	-7.1%	-3.5%
Share of food aid donations from identified food waste	46%	39%

Household food waste

Households can reduce their food waste through better planning of food purchases. The K-Ruoka mobile app helps customers plan their food purchases by offering personalised benefits, store-specific offers, a smart shopping list and over 6,000 K-ruoka.fi recipes. At the end of 2017, the app had 450,000 users.

K-food stores took part in Food Waste Week in September 2017 with their "To the last crumb" campaign, offering food waste related recipes and tips for food shopping and meal planning.

GRI Management approach

Material aspects

- Energy
- Water
- Emissions
- Wastewater and waste
- Biodiversity
- Food waste

Policies, principles and commitments

K Group's environmental and energy policy covers the operations of the Group and the stores both in Finland and the other operating countries. K Group's key business partners are also expected to observe corresponding environmental management principles.

Environmental management is part of K Group's management system and is based on the ICC Business Charter for Sustainable Development, environmental management standards, as well as requirements set by legislation and the authorities.

Kesko is committed to UN's **Global Compact initiative** and **Sustainable Development Goals**.

Monitoring and control systems

Kesko Group's Corporate Responsibility Advisory Board defines the main policies for environmental work and the target levels. The divisions specify the main policies of their environmental work into environmental action programmes which support their business operations. The action programmes are monitored and updated annually as part of the strategy work.

Kesko's maintenance partners monitor the energy consumption of properties with the help of the EnerKey.com system supplied by Enegia Oy. Enegia remotely reads energy consumption measurement terminals located in properties and records the data in the database by the hour. The consumption figures for properties where the data are collected manually are also saved in the EnerKey system. The EnerKey programme responds to even minor location-specific changes in consumption and sends an alarm to the person in charge.

Water consumption monitoring is part of consumption monitoring in the properties. Kesko's goal is to maintain a high level of water consumption efficiency in all operations.

Environmental systems at Kesko

All of Onninen's operations in all operating countries are ISO 14001 certified.

The operations of Kesko Logistics are ISO 14001 certified.

In the food stores and the building and home improvement stores, environmental management is based on the K-responsibility concept. For K-Citymarkets, K-Supermarkets and K-Markets, the K-responsibility concept is a requirement for inclusion in the chain. A K-responsibility concept inspection is carried out every three years at the K-Rauta stores by an independent external partner.

VV-Auto Group Oy fulfils the requirements of the ISO 9001 quality system and VV-Autotalot Oy fulfils the requirements of the quality and environmental action programme of the Finnish Central Organisation for Motor Trades and Repairs (AKL).

Division of responsibilities and resources

- Group's Corporate Responsibility Advisory Board
- Group's Environmental Steering Group
- Store Sites and Real Estate Unit
- Logistics Units

Programmes, projects and initiatives

In June 2017, Kesko was the first Finnish company to set **Science Based Targets** for reducing emissions from its properties, transportation, and supply chains. Kesko is committed to reducing its Scope 1 and 2 emissions by 18% by 2025, using a 2015 base year, and reducing the Scope 3 emissions from the supply chain so that 90% of Kesko's key suppliers will set greenhouse gas emissions reduction targets by 2025.

Kesko participates in the **retail sector energy efficiency agreement** for 2017–2025. In accordance with the agreement, **Kesko is committed to reducing its energy consumption** by 7.5% by means of various savings measures. The agreement covers all of K Group's store chains. Kesko has joined the amfori **Business Environmental Performance Initiative** (BEPI). Amfori BEPI aims to help member companies in the management of global supply chains and, consequently, in increasing the transparency and risk management of their product supply chains.

Kesko's **timber and paper policy** was updated in June 2017. The objective of the policy is that by 2025 all timber and paper products in Kesko's product range will come from material of sustainable origin.



K Group's **fish and shellfish statement** directs its sourcing of Kesko's grocery trade and Kespro, as well as K-food retailers' sourcing to safeguard the responsible fishing and management of fish.

Kesko's grocery trade is a member of **the RSPO (Roundtable on Sustainable Palm Oil)**. The objective is that by 2020, all palm oil in own brand grocery products will be responsibly produced (CSPO).

Kesko is a founding member of the Finnish soy commitment group. Kesko has become a member in **the RTRS (Roundtable on Responsible Soy)** and made a commitment that by 2020, all of the soy in the production chains of its private label products will be responsibly produced, either RTRS or ProTerra certified soy. The commitment covers both the Finnish production chain and sourcing from other countries.

Grievance mechanisms

SpeakUp reporting channel

Boundaries

Energy and water	Kesko
Biodiversity	Kesko
Emissions	Scope 1 and 2: Kesko; Scope 3: K-stores and supply chain
Waste	Finland: Kesko's warehousing operations; other operating countries: stores
Food waste	Kesko's grocery trade and K-stores



KESKO'S YEAR 2017

RESPONSIBILITY MANAGEMENT

STRATEGY

SUSTAINABILITY

FINANCIAL
STATEMENTS

CORPORATE
GOVERNANCE

Management model

General operating principles guiding responsibility

Corporate responsibility work is based on **Kesko's value, vision and mission**. Corporate responsibility work is guided by **Kesko's strategy, the K Code of Conduct, Kesko's general corporate responsibility principles**, and **Kesko's purchasing principles**.

Kesko's **responsibility programme** contains both short-term and long-term objectives. The programme has six themes: Good corporate governance and finance, Customers, Society, Working community, Responsible purchasing and sustainable selections, and Environment.

Kesko has committed to several international declarations and conventions, the most important of which are:

- The UN Universal Declaration of Human Rights and the UN Convention of the Rights of the Child
- The ILO convention on the Fundamental Rights and Principles at Work
- The OECD Guidelines for Multinational Corporations
- The ICC Business Charter for Sustainable Development and principles against corruption and bribery
- The UN Global Compact initiative
- The UN Sustainable Development Goals
- The purchasing principles of the amfori Business Social Compliance Initiative (amfori BSCI)

Corporate responsibility organisation in Kesko

Corporate responsibility at Kesko is integrated into day-to-day activities that help customers make good choices.

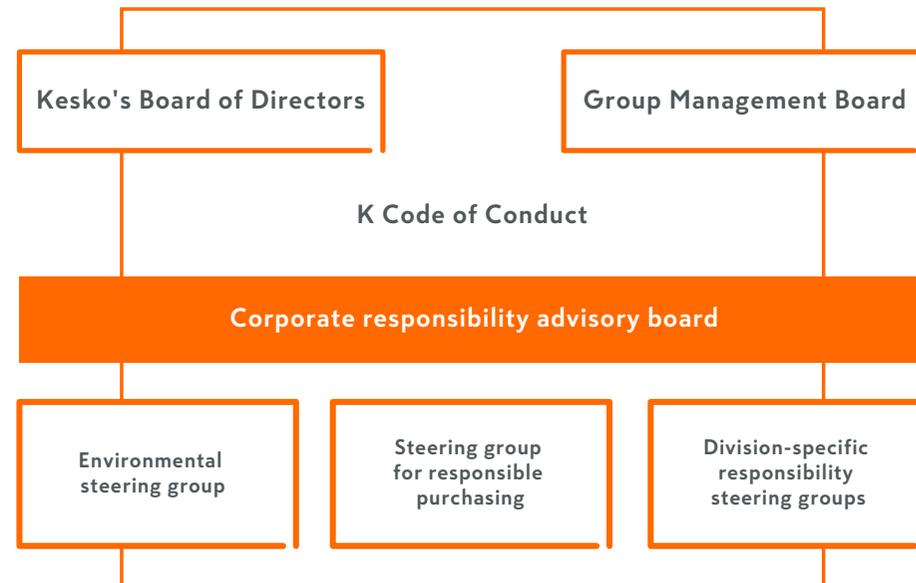
Kesko's Board of Directors and Group Management Board discuss the key principles and reporting.

The corporate responsibility function is headed by the Executive Vice President for human resources, corporate responsibility and regional relations, who is a member of Kesko's Group Management Board. Corporate responsibility is one of the target indicators of his performance bonus.

The Group's Corporate Responsibility Unit, assisted by steering groups, is responsible for the development, coordination and reporting of responsibility work.

The management of each business division is responsible for practical implementation.

CORPORATE RESPONSIBILITY STEERING



Corporate responsibility advisory board

The Vice President for corporate responsibility (Ch.), division representatives, Group representatives

- develops the principles that guide the Group's corporate responsibility
- sets the objectives for corporate responsibility work and monitors their achievement
- steers and coordinates practical measures

Environmental steering group

The Group's Corporate Responsibility Unit (Ch.), divisions' specialist representatives

- develops the Group's environmental management
- promotes the sharing of best practices within the Group
- keeps up with changes in legislation pertaining to environmental responsibility

Steering group for responsible purchasing

The Group's Corporate Responsibility Unit (Ch.), divisions' specialist representatives

- develops the Group's responsible purchasing procedures
- promotes the sharing of best purchasing practices within the Group
- keeps up with changes in legislation pertaining to purchasing and sourcing

Division-specific responsibility steering groups

are, based on the objectives set by the Group-level steering groups, responsible for:

- determining their own responsibility objectives
- implementing them according to the specific characteristics and strategies of their respective divisions



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



Mikko Helander, President and CEO

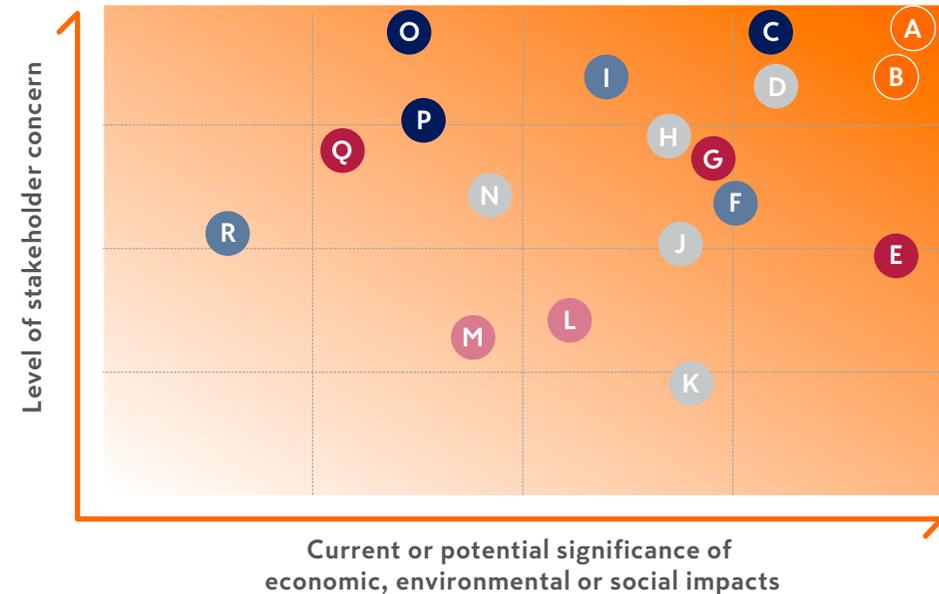
Materiality assessment

The materiality assessment of Kesko's corporate responsibility identifies the key responsibility topics for Kesko and its stakeholders. The materiality assessment guides Kesko's corporate responsibility work and stakeholder work and defines actions to meet stakeholder expectations.

Kesko's material corporate responsibility topics are presented in the matrix below, where the vertical axis shows the level of concern for stakeholders and the horizontal axis the current or potential economic, environmental or social impact of Kesko's operations. The level of concern for stakeholders has been assessed as a whole, which is why the stakeholder specific weightings are not reflected in the matrix.

The materiality assessment was last updated in 2012. In 2017, the **material topics** for reporting were defined in compliance with the requirements of the new GRI standards. The identified topics are included in Kesko's current materiality assessment, and no need was seen to update the materiality matrix.

MATERIALITY MATRIX



Good corporate governance and finance

- A** Financial profitability
- B** Good corporate governance and risk management

Working community

- E** Personnel's competence development
- G** A fair working community
- Q** Changing expectations for work-life

Customers

- H** Promoting wellbeing
- J** Guiding customers
- K** Servitisation of products
- D** Accessibility and multi-channel approach
- N** Shopping safety and security

Responsible purchasing and sustainable selections

- C** Product safety and quality
- O** Sustainable product selections
- P** Human rights and the environmental impacts of production in the purchasing chain

Society

- L** Local approach
- M** Sense of community

Environment

- F** Efficient logistics
- I** Energy and resource efficiency
- R** Promoting sustainable agriculture

UN Sustainable Development Goals and Kesko

We are committed to support the **UN Sustainable Development Goals, the SDGs**, in our operations. The UN Sustainable Development Goals are a worldwide action plan – the 2030 UN Agenda – to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

We promote the UN Sustainable Development Goals in our strategy and sustainability work. Our operations contribute to all of the 17 UN Sustainable Development Goals.

We have recognised three goals as most material for our operations and stakeholders:



SDG 12: Responsible consumption and production at Kesko encompasses sustainability throughout supply chains, selections, customer communications and use of products.

SDG 8: Decent work and economic growth includes issues such as compliance with the K Code of Conduct and Kesko as a responsible employer of 25,000 employees in eight countries. Management of human rights in supply chains as well as promoting domestic production in Finland contribute towards SDG 8 also.

SDG 13: Climate action includes reducing emissions and increasing energy efficiency in our own operations such as store operations and logistics. We also work to reduce emissions in supply chains and selections of products and services as well as to promote more sustainable consumption to customers.

Up to date details of our work towards each of the SDGs can be found at [the Kesko.fi website](https://www.kesko.fi).

The **GRI, UNGC and SDG index** of Kesko's Annual Report includes SDGs for the relevant disclosures. In addition, [the Responsibility Programme](#) connects the appropriate SDGs to each theme.

SUSTAINABLE DEVELOPMENT GOALS



Responsibility path

We at K Group have always believed in the power of sustainability and we have been open-mindedly working towards it for decades. Responsible environmental actions originated at our stores, and over the years, this has expanded to comprehensive corporate responsibility work.





KESKO'S YEAR 2017

GRI REPORT PROFILE

STRATEGY

SUSTAINABILITY

FINANCIAL
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Reporting principles

Reporting principles in accordance with the GRI standards

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

In our operations, we apply the AA1000 AccountAbility Principles: stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders.

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

The Sustainability section of the Annual Report has been divided into three subsections: Responsibility programme, Responsibility management and Report profile. The report is published only online, in Finnish and in English.

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

Assurance of reporting

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

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

Global Compact reporting

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

Integrated Annual Report

Since 2014, Kesko has taken account of the IIRC (International Integrated Reporting Council) <IR> Framework in its annual reporting.

Report stakeholders

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

Reporting period and contact information

This report describes the progress and results of responsibility work in 2017. It includes some information from January to March 2018.

The report for 2016 was published in March 2017.

The report for 2018 will be published in the spring of 2019.

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

GRI, UNGC and SDG Index

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
GRI 102 General Standard Disclosures							2016
102-1	Name of the organisation	Kesko in brief and key indicators					
102-2	Activities, brands, products and services	Divisions					
102-3	Location of headquarters	Kesko in brief and key indicators					
102-4	Location of operations	Kesko in brief and key indicators					
102-5	Ownership and legal form	Kesko in brief and key indicators					
102-6	Markets served	Kesko in brief and key indicators					
102-7	Scale of the organisation	Kesko in brief and key indicators					
102-8	Information on employees and other workers	Responsibility programme/ Working community		There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work. There are no significant seasonal fluctuations in the number of employees. No distribution by gender. Information not available. The aim is to report the information in 2018.	X		
102-9	Supply chain	204-1 Proportion of spending on local suppliers, Responsibility programme/Responsible purchasing and sustainable selections					
102-10	Significant changes to the organisation and its supply chain	Review by the President and CEO					
102-11	Precautionary Principle or approach	Operating environment					
102-12	External initiatives	Responsibility management/ Management model					
102-13	Membership of associations	Activities in organisations					
102-14	Statement from senior decision-maker	Review by the President and CEO					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
102-15	Key impacts, risks and opportunities	Operating environment, Value creation, Stakeholders, Responsibility programme					
102-16	Values, principles, standards, and norms of behaviour	Policies and principles, Responsibility programme/ Good corporate governance and finance			X		
102-17	Mechanisms for advice and concerns about ethics	Notification of concerns and non-compliances			X		
102-18	Governance structure	Corporate Governance Statement 2017					
102-19	Delegating authority	Responsibility management/ Management model					
102-20	Executive-level responsibility for economic, environmental and social topics	EVP, CFO; EVP, Human Resources, Corporate Responsibility and Regional Relations		Both are members of the Group Management Board. Reporting model			
102-21	Consulting stakeholders on economic, environmental, and social topics	Stakeholders					
102-22	Composition of the highest governance body and its committees	Board of Directors, Corporate Governance Statement 2017					
102-23	Chair of the highest governance body	Board of Directors					
102-24	Nominating and selecting the highest governance body	Corporate Governance Statement 2017					
102-25	Conflicts of interest	Corporate Governance Statement 2017, K Code of Conduct		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.			
102-26	Role of highest governance body in setting purpose, values, and strategy	Corporate Governance Statement 2017, Responsibility management/Management model					
102-28	Evaluating the highest governance body's performance	Corporate Governance Statement 2017	Only the Board's self-assessment has been reported.				
102-29	Identifying and managing economic, environmental, and social impacts	Corporate Governance Statement 2017					
102-30	Effectiveness of risk management processes	Corporate Governance Statement 2017					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
102-31	Review of economic, environmental, and social topics	Corporate Governance Statement 2017					
102-32	Highest governance body's role in sustainability reporting	Corporate Governance Principles					
102-33	Communicating critical concerns	Stakeholders, Corporate Governance Statement 2017					
102-35	Remuneration policies	Remuneration Statement 2017					
102-40	List of stakeholder groups	Stakeholders					
102-41	Collective bargaining agreements	Responsibility programme/ Good corporate governance and finance/Freedom of association and collective bargaining			X		
102-42	Identifying and selecting stakeholders	Stakeholders					
102-43	Approach to stakeholder engagement	Stakeholders					
102-44	Key topics and concerns raised	Stakeholders					
102-45	Entities included in the consolidated financial statements	Note 5.2 to the consolidated financial statements					
102-46	Defining report content and topic Boundaries	Materiality assessment, Reporting principles					
102-47	List of material topics	Materiality assessment					
102-48	Restatements of information	Changes reported in connection with topic-specific information.					
102-49	Changes in reporting	No significant changes.					
102-50	Reporting period	Reporting principles					
102-51	Date of most recent report	Reporting principles					
102-52	Reporting cycle	Reporting principles					
102-53	Contact point for questions regarding the report	Contact information					
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles					
102-55	GRI content index	GRI, UNGC and SDG index					
102-56	External assurance	Reporting principles					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
GRI 103 Management approach							2016
103-1	Explanation of the material topic and its Boundary	Boundaries of responsibility programme themes					
103-2	The management approach and its components	Responsibility programme					
103-3	Evaluation of the management approach	Responsibility programme					
Topic-specific content							
Topic-specific content is reported regarding aspects identified as material.							
Economic impacts							
201	Economic performance					8	2016
201-1	Direct economic value generated and distributed	Responsibility programme/ Good corporate governance and finance/Economic performance, Responsibility programme/ Society/Kesko's community investments					
201-2	Financial implications and other risks and opportunities due to climate change	Responsibility programme/ Good corporate governance and finance/Economic performance	Monetary evaluations or realisations have not been reported for risks and opportunities. Information is not available, as climate change is difficult to estimate.		X		
201-3	Defined benefit plan obligations and other retirement plans	Responsibility programme/ Good corporate governance and finance/Economic performance					
201-4	Financial assistance received from government	Responsibility programme/ Good corporate governance and finance/Economic performance					
203	Indirect economic impacts					9	2016
203-1	Infrastructure investments and services supported	Responsibility programme/ Customers/Store network					
203-2	Significant indirect economic impacts	Responsibility programme/ Good corporate governance and finance/Indirect economic impacts					
204	Procurement practices					16	2016
204-1	Proportion of spending on local suppliers	Responsibility programme/ Society/Indirect economic impacts					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
205	Anti-corruption					16	2016
205-1	Operations assessed for risks related to corruption	Responsibility programme/Good corporate governance/Anti-corruption	The number and percentage of business units have not been reported. Information is not available as the risks related to corruption are part of a wider assessment of business risks.	Risks related to corruption are discussed as part of Kesko's risk management. Key risks are identified and assessed regularly throughout the year.	X		
205-2	Communication and training about anti-corruption policies and procedures	Responsibility programme/Good corporate governance/Anti-corruption	Percentages have not been reported by personnel group or geographical region. Information is not available.		X		
205-3	Confirmed incidents of corruption and actions taken	Responsibility programme/Good corporate governance/Anti-corruption			X		
206	Anti-competitive behaviour					16	2016
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Responsibility programme/Good corporate governance/Anti-competitive behaviour					
Environmental impacts							
301	Materials					13	2016
301-3	Reclaimed products and their packaging materials	Responsibility programme/Environment/Effluents and waste	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
302	Energy					13	2016
302-1	Energy consumption within the organisation	Responsibility programme/Environment/Energy			X		
302-2	Energy consumption outside the organisation	Responsibility programme/Environment/Emissions	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		X		
302-3	Energy intensity	Responsibility programme/Environment/Energy			X		
302-4	Reduction of energy consumption	Responsibility programme/Environment/Energy			X		
303	Water					6	2016
303-1	Water withdrawal by source	Responsibility programme/Environment/Water			X		

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
304	Biodiversity					15	2016
304-2	Significant impacts of activities, products, and services on biodiversity	Responsibility programme/Environment/Biodiversity			X		
304-3	Habitats protected or restored	Responsibility programme/Environment/Biodiversity			X		
305	Emissions					13	2016
305-1	Direct (Scope 1) GHG emissions	Responsibility programme/Environment/Emissions					
305-2	Energy indirect (Scope 2) GHG emissions	Responsibility programme/Environment/Emissions	Emissions from district heat in Finland and emissions in the other operating countries have not been reported according to the market-based method because the information was not available.		X		
305-3	Other indirect (Scope 3) GHG emissions	Responsibility programme/Environment/Emissions			X		
305-4	GHG emissions intensity	Responsibility programme/Environment/Emissions			X		
305-5	Reduction of GHG emissions	Responsibility programme/Environment/Emissions			X		
305-7	Nitrogen oxides (NO _x), sulphur oxides (SO _x), and other significant air emissions	Responsibility programme/Environment/Emissions			X		
306	Effluents and waste					13	2016
306-2	Waste by type and disposal method	Responsibility programme/Environment/Effluents and waste			X		
	Food waste					12	
-	Food waste	Responsibility programme/Environment/Food waste		Material topic without applicable standard.	X		
Social impacts							
401	Employment					8	2016
401-1	New employee hires and employee turnover	Responsibility programme/Working community/Employment	Only exit turnover by country reported.		X		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Responsibility programme/Working community/Employment	Benefits exceeding the statutory level have not been reported in detail. Practices vary in different operating countries.				

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
402	Labour/Management relations					8	2016
402-1	Minimum notice periods regarding operational changes	Responsibility programme/Good corporate governance/Labour/Management relations	Arrangements compliant to legislation. Legislation does not define minimum notice periods at the precision required by GRI.		X		
403	Occupational health and safety					3	2016
403-1	Workers' representation in formal joint management-worker health and safety committees	Responsibility programme/Working committee/Occupational health and safety	Percentage of employees has not been reported. Information not available.				
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Responsibility programme/Working committee/Occupational health and safety	Not reported by gender. Information not available. The aim is to report the information in 2018. Reporting does not cover suppliers and service providers.				
404	Training and education					4	2016
404-1	Average hours of training per year per employee	Responsibility programme/Working community/Training and education	Not reported by gender and employee category. Information not available.		X		
404-2	Programmes for upgrading employee skills and transition assistance programmes	Responsibility programme/Working community/Training and education					
404-3	Percentage of employees receiving regular performance and career development reviews	Responsibility programme/Working community/Training and education	Not reported by gender and employee category. Information not available.		X		
405	Diversity and equal opportunity					10	2016
405-1	Diversity of governance bodies and employees	Responsibility programme/Working community/Diversity and equal opportunity, Corporate Governance Statement 2017	Not reported by age category. Information not available. The aim is to report the information in 2018.		X		
405-2	Ratio of basic salary and remuneration of women to men	Responsibility programme/Working community/Diversity and equal opportunity	The ratio of basic salary of men and women has not been reported. Information not available. The aim is to report the information in 2018.		X		
406	Non-discrimination					10	2016
406-1	Incidents of discrimination and corrective actions taken	Responsibility programme/Good corporate governance and finance/Non-discrimination			X		

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
407	Freedom of association and collective bargaining					8	2016
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Responsibility programme/ Good corporate governance and finance/Freedom of association and collective bargaining			X		
412	Human rights assessments					16	2016
412-1	Operations that have been subject to human rights reviews or impact assessments	Responsibility programme/ Good corporate governance and finance/Human rights assessments			X		
412-2	Employee training on human rights policies or procedures	Responsibility programme/ Good corporate governance and finance/Human rights assessments			X		
414	Supplier social assessment					8	2016
414-1	New suppliers that were screened using social criteria	Responsibility programme/ Responsible purchasing and sustainable selections/Supplier social assessment	The percentage of suppliers screened has not been separately reported out of new suppliers but out of all suppliers in high-risk countries.				
414-2	Negative social impacts in the supply chain and actions taken	Responsibility programme/ Responsible purchasing and sustainable selections/Supplier social assessment					
415	Public policy					16	2016
415-1	Political contributions	Responsibility programme/ Good corporate governance and finance/Public policy			X		
416	Customer health and safety					3	2016
416-1	Assessment of the health and safety impacts of product and service categories	Responsibility programme/ Responsible purchasing and sustainable selections/Customer health and safety	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Responsibility programme/ Responsible purchasing and sustainable selections/Customer health and safety					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
417	Marketing and labelling					12	2016
417-1	Requirements for product and service information and labelling	Responsibility programme/Responsible purchasing and sustainable selections/Marketing communications and product information					
417-2	Incidents of non-compliance concerning product and service information and labelling	Responsibility programme/Responsible purchasing and sustainable selections/Marketing communications and product information					
417-3	Incidents of non-compliance concerning marketing communications	Responsibility programme/Good corporate and finance/Non-compliance concerning marketing communications					
418	Customer privacy					16	2016
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Responsibility programme/Good corporate governance and finance/Customer privacy					
419	Socioeconomic compliance					16	2016
419-1	Non-compliance with laws and regulations in the social and economic area	Responsibility programme/Good corporate governance and finance/Socioeconomic compliance					

Independent Practitioner's Assurance Report

(Translation from the Finnish original)

TO THE MANAGEMENT OF KESKO CORPORATION

We have been engaged by the Management of Kesko Corporation (hereinafter also the Company) to perform a limited assurance engagement on the economic, social and environmental performance indicators for the reporting period 1 January 2017 to 31 December 2017 disclosed on Kesko Corporation's website in the "Sustainability" section of "Kesko's Annual Report 2017" (hereinafter CR Information).

In terms of the Company's GRI Standards reporting and GRI content index, the scope of the assurance has covered economic, social and environmental disclosures listed within the Topic-specific Standards as well as Disclosures 102-8, 102-41 and 102-54 of the Universal Standards.

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

Management's responsibility

The Management of Kesko Corporation is responsible for preparing the CR Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Standards of the Global Reporting Initiative. The Management of Kesko Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of the CR Information that is free from material misstatement, whether due to fraud or error.

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

Practitioner's responsibility

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

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

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

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

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material corporate responsibility aspects as well as assessing the CR Information based on these aspects.
- Analysing references to the Company from the reporting period in online media.
- Visiting the Company's Head Office as well as one site in Finland.
- Interviewing employees responsible for collecting and reporting the CR Information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

Furthermore nothing has come to our attention that causes us to believe that Kesko Corporation's CR Information for the reporting period ended 31 December 2017 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

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

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

Observations and recommendations

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

- **Inclusivity:** The Company has processes in place for stakeholder inclusivity, collection of feedback and stakeholder engagement. During the past reporting period, the Company has developed the collection of feedback and customer engagement in digital channels. We recommend that the Company continues to develop its digital activities related to stakeholder inclusivity.
- **Materiality:** The Company has a process in place to evaluate and determine the materiality of corporate responsibility aspects. We recommend that the Company assesses the need to update its materiality assessment taking into consideration changes in the business environment which might have occurred since the last update.
- **Responsiveness:** The Company takes its stakeholders' expectations into account in its operations and responds to them through the continuous development of its activities. During 2017, the Company has further increased the coverage and availability of information on the sustainability and origin of its products. We recommend that the Company further widens the offering of information to customers and other stakeholders on the measures the Company has undertaken to ensure the sustainability of its products.

Practitioner's independence, qualifications and quality control

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

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

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

Helsinki, 5 March 2018

PricewaterhouseCoopers Oy

Enel Sintonen
Partner, Authorised Public Accountant
Assurance Services

Sirpa Juutinen
Partner
Sustainability & Climate Change



Contact persons

This list gives contact information of the people who primarily provide additional information on different areas of the report.

This list does not include all Kesko employees who have participated in editing the report.

Email addresses: firstname.lastname@kesko.fi

Name	Role	Business unit
Development, coordination and responsibility for report editing:		
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Controlling
Riikka Toivonen	Head of K Publicity	Kesko Corporation, Group Identity and Communications
Lena Leeve	Manager, Financial Communications	Kesko Corporation, Group Identity and Communications
Kia Aejmelaeus	Vice President, Investor Relations	Kesko Corporation, Investor Communications
Matti Kalervo	Vice President, Corporate Responsibility	Kesko Corporation, Group Corporate Responsibility
Pirjo Nieminen	Sustainability Specialist	Kesko Corporation, Group Identity and Communications
Financial responsibility:		
Jukka Erlund	Executive Vice President, CFO	Kesko Corporation, Finance, Accounting and IT
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Controlling
Johanna Toivo	Corporate Financial Controller	Kesko Corporation, Group Controlling
Erika Väikkynen	Financial Controller	Kesko Corporation, Group Controlling
Riikka Toivonen	Head of K Publicity	Kesko Corporation, Group Identity and Communications
Lena Leeve	Manager, Financial Communications	Kesko Corporation, Group Identity and Communications
Esko Mansikka	Managing Director	Vähittäiskaupan Tilipalvelu VTP Oy

Name	Role	Business unit
Responsible purchasing:		
Matti Mettälä	Corporate Responsibility Specialist	Kesko Corporation, Group Identity and Communications
Kati Matela	Sourcing and Export Manager	Kesko's grocery trade, commerce
Jari Lahti	Quality Manager	Kesko Corporation, Kespro
Katriina Ahtee	Project Manager	Kesko's grocery trade, commerce
Mikko Myyryläinen	Manager, Sourcing Support and Sustainability	Kesko's building and technical trade, commerce
Product safety:		
Sohvi Vähämaa	Corporate Responsibility Specialist	Kesko Corporation, Group Identity and Communications
Tuuli Luoma	Sourcing and Export Manager	Kesko's grocery trade, commerce
Mia Haavisto	Quality Manager	Kesko Corporation, Kespro
Johanna Teinilä-Kurvinen	Project Manager	Kesko's grocery trade, commerce
Leena Takaveräjä	Manager, Sourcing Support and Sustainability	Kesko's building and technical trade, commerce
Product safety:		
Matti Kalervo	Vice President, Corporate Responsibility and Product Safety	Kesko Corporation, Group Identity and Communications
Heta Rautpalo	Product Research Manager	Kesko's grocery trade, Product Research
Environmental responsibility:		
Minna Saari	Environmental Specialist	Kesko Corporation, Group Identity and Communications
Timo Jäske	Sustainability Manager	Kesko's grocery trade, commerce
Jari Suuronen	Technical Building Services Manager	Kesko's grocery trade, store sites and retailer operations
Jesse Methar	Sustainability Manager	Kesko's building and technical trade, commerce



Name	Role	Business unit
Corporate Governance, Risk Management and Corporate Security:		
Mika Majoinen	Executive Vice President, Group General Counsel	Kesko Corporation, Legal Affairs
Pasi Mäkinen	Senior Vice President, Chief Audit and Risk Officer	Kesko Corporation, Internal Audit and Risk Management
Customer privacy:		
Outi Nylund	Director, K-Plussa and Data-driven Marketing	Kesko Corporation, K Digital
Kaija Kuusimaa	Data Protection Officer	Kesko Corporation, Legal Affairs