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# GRI report

Kesko's Annual Report 2016

## Responsibility highlights in 2016

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**On our new web pages, we present the ways in which we promote the UN Sustainable Development Goals, the SDGs, in our operations.**

[Visit the UN Sustainable Development Goals and Kesko web pages >](#)

2

**We completed a human rights assessment and made a human rights commitment.**

[Read more >](#)

3

**We published the K Code of Conduct for all of our personnel and business partners.**

[Click here to go to the K code of conduct website >](#)

4

**We had solar power plants built on the rooftop of two K-Citymarkets and nine K-Supermarkets.**

[Watch the video >](#)

5

**We published a plastics policy and committed to reduce the consumption of plastic bags.**

[Read more about our actions >](#)

**In 2017, we ranked 25th in the Global 100 list and were the best trading sector company.**

[Click here to go to the list >](#)

# Corporate Responsibility in Kesko's Strategy



"More than before, corporate responsibility coupled with a strong identity and attractive brands is a prerequisite for operation in every line of business."

**Matti Kalervo, Vice President of Corporate Responsibility**

At Kesko, corporate responsibility work is integrated into day-to-day activities.

Corporate responsibility work is based on [Kesko's value, vision and mission](#). Corporate responsibility work is guided by [Kesko's strategy, general corporate responsibility principles, the K Code of Conduct guidelines](#) and [Kesko's purchasing principles](#).

[Kesko's responsibility programme](#) contains 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.

## General operating principles guiding responsibility

Kesko's Group Management Board has approved [the Group's principles of corporate responsibility](#). These principles define the basic economic, social and environmental responsibility promises.

Kesko's commitments to international declarations and conventions are also included in the principles. The most important principles 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 Business Social Compliance Initiative (BSCI)

## Value

The customer and quality – in everything we do

## Vision

We are the customer's choice and the quality leader in the European trading sector

## Mission

We create welfare responsibly for all our stakeholders and the whole society



"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**

## Kesko's responsibility path



## K in Action: Getting to know SDGs from K Group's Christmas calendar

In December 2016, the doors of the advent calendar on Keskonet, the Kesko intranet, revealed surprises never seen before and made the calendar hugely popular. Kesko personnel counted down to Christmas in a community spirit, familiarising themselves with the UN Sustainable Development Goals: every workday a member of Kesko's personnel appeared on a video from behind a calendar door to tell us us how Kesko promotes the UN Sustainable Development Goal of the day in its corporate responsibility work.

Towards the end of November, Kesko had published the [UN Sustainable Development Goals and Kesko](#) web pages. Kesko is committed to supporting the [UN Sustainable Development Goals \(SDGs\)](#) in its operations. The web pages explain how Kesko promotes all of the 17 goals in practice.

But how to get time-pressed people to explore the web pages? This was the problem the Group Corporate Responsibility Unit tried to solve in November when the content was nearly ready.

"Then our Corporate Responsibility Specialists **Sohvi Vähämaa** and **Minna Saari** had a brilliant idea: there is one less working day in December before Christmas Eve than there are UN Sustainable Development Goals, i.e. 17. Why not have an advent calendar on the intranet where one door opens to one SDG each day!" says **Matti Kalervo**, Kesko Vice President, Corporate Responsibility.

### From idea to action

It didn't take long before Sohvi and Minna started to look around K Group for people willing to tell others about the SDGs in an informal Christmas greeting.



"Our wonderful colleagues immediately said a big 'yes' to the idea. We recorded the video greetings with a phone for use on the intranet. Most of them were shot in just one take and were spontaneous and genuine," say Sohvi and Minna.

### Advent calendar became hugely popular

The first door on the intranet opened on 30 November to a video where Jesse Mether, Sustainability Manager of Kesko's building and technical trade, talked about how Kesko promotes SDG 1, No poverty.

"We in K Group create jobs and welfare, both locally and globally," said Mether in his video. He ended by wishing everyone peace and love this Christmas.

"Day after day, colleagues in the offices stopped me to say how much they liked the advent calendar. This was a magnificent way to make busy people stop and think about the actual meaning of the UN Sustainable Development Goals," says Jesse.

We stopped at one goal after the other leading up to Christmas Eve. But the promotion of the UN's Sustainable Development Goals will continue.

"In the future, we will link our work to these goals. For example, our Annual Report, which is coming out in March, will explain how our responsibility programme is linked to the UN Sustainable Development Goals. It's great that UN has published these global goals to be shared by us all: states, businesses, investors, non-governmental organisations and all citizens, says Matti Kalervo.

## We listen to our stakeholders

The assessment of Kesko's operations and corporate responsibility impacts takes account of the key stakeholders:

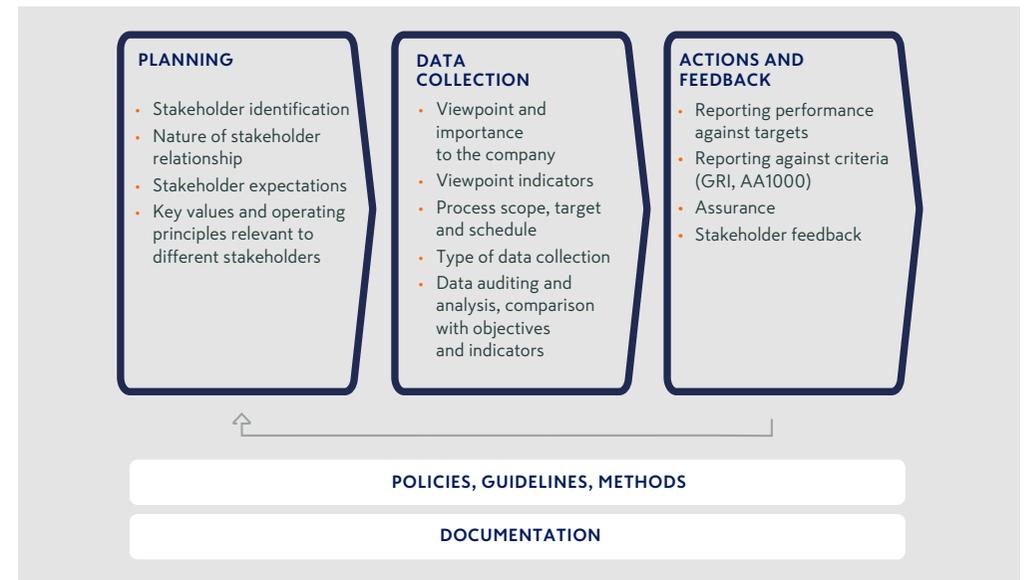
- customers
- investors and Kesko's owners
- Kesko personnel
- retailers and store staff
- suppliers and service providers
- the media
- authorities
- NGOs and other organisations
- trade unions

**The materiality assessment** of Kesko's corporate responsibility guides Kesko's responsibility and stakeholder work. Operations in all areas of responsibility are developed in accordance with the expectations of the key stakeholder groups.

The stakeholder assessment is included in Kesko's management model and operating plans. **Kesko's corporate responsibility vision** is based on taking stakeholders' views into account. Various surveys are regularly conducted to identify stakeholder expectations.

The corporate responsibility function is headed by the Executive Vice President for marketing, communications, corporate responsibility and corporate relations, who is a member of Kesko's Group Management Board. He reports to the Group Management Board on communication with stakeholders on economic, social and environmental responsibility.

### Kesko's stakeholder interaction



### Read our stakeholders' addresses

[K Digital Trainee programme offers a path to exciting career opportunities within the K Group](#)

[Kesko promotes human rights](#)

[Long-established cooperation between Caverion and Onninen is based on high-quality operations and competitiveness](#)

Staying aware of stakeholder expectations requires regular dialogue. The following table describes interaction with the key stakeholder groups:

Key stakeholders	Stakeholder inclusivity and channels of interaction	Response to stakeholder expectations
Customers	<ul style="list-style-type: none"> <li>Daily customer encounters</li> <li>Customer service channels</li> <li>Customer satisfaction surveys</li> <li>Post-shopping surveys</li> <li>Interaction via social media channels (Facebook, Twitter, LinkedIn, Pinterest, Instagram, blogs)</li> <li>Survey and service functions on mobile and online services</li> </ul>	Responsibility is strongly visible to customers in the K Group's consumer brands and stores. Customers have to be able to trust in the quality and safety of products and the fact that their responsible choices start when they enter a K-store.
Investors, owners and analysts	<p>Investors' and shareholders' questions concerning corporate responsibility have increased in recent years. Kesko replies annually to the inquiries of several institutions making sustainability assessments. Examples of events:</p> <ul style="list-style-type: none"> <li>General Meeting</li> <li>Investor meetings</li> <li>Press conferences</li> <li>Capital Markets Day</li> </ul>	Kesko strives to continue and improve its ratings in significant sustainability indices and lists, as they are important neutral evidence of responsible operations. Transparency of reporting and corporate governance principles, as well as ensuring that laws and responsible operating principles are observed, create a solid basis for Kesko's business operations.
Personnel and retailers	<ul style="list-style-type: none"> <li>Personnel survey</li> <li>Performance and development reviews</li> <li>National Works Council meetings</li> <li>Kesko's intranet: country-specific pages: Keskonet Finland, Latvia, Sweden, Russia, Estonia, and Keskonet Global for all</li> <li>Available on Keskonet: feedback channels Direct Line, Mail to the President and CEO, link to SpeakUp reporting channel, discussion column and several blogs</li> <li>Annual K-Team event for K-retailers, K-store staff, Kesko personnel and business partners</li> <li>The K Code of Conduct (in the languages of all our operating countries)</li> <li>Value discussions on the K Code of Conduct guidelines</li> </ul>	Kesko's working community is developing and international. Common values, principles and operating practices provide the basis for our work everywhere. Corporate responsibility is becoming ever more important in creating the employer image. Companies in which job satisfaction is high and that offer versatile jobs and opportunities for career progress are most likely to succeed in attracting and retaining the best employees. K-retailers listen to the wishes of their customers and adapt their selections accordingly. Stores implement responsibility in all operations.
Suppliers and service providers	<ul style="list-style-type: none"> <li>Around 24,600 suppliers and service providers, see <a href="#">204-1 Proportion of spending on local suppliers</a></li> <li>Cooperation in accordance with fair trading practices</li> <li>'Principles and Practice of Socially Responsible Trading' guide</li> <li>Business partner meetings, such as Kesko grocery trade's annual partner info event</li> <li>Audits and training events in high-risk countries</li> </ul>	<p>Diverse networking with suppliers and service providers requires that all parties of the supply chain accept the common values, objectives and operating practices.</p> <p>We are together responsible for ensuring that our customers can rely on our expertise, services and the quality and safety of our products.</p>
Society (the media, authorities, NGOs and other organisations, and trade unions)	<ul style="list-style-type: none"> <li>Meetings</li> <li>Media events and enquiries</li> <li><a href="#">Activities in organisations</a></li> <li>International activities in the BSCI and BEPI initiatives and in the national BSCI group</li> <li>Enquiries from NGOs</li> </ul>	Kesko proactively follows changes in society in close cooperation with its stakeholders. We cooperate and discuss openly with NGOs, authorities and other decision-makers.

# Management model and systems

## 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 marketing, communications, corporate responsibility and corporate 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 advisory board

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

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

## Corporate responsibility steering



**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

**Steering group for local responsibility in operating countries**

The Vice President for corporate responsibility (Ch.), representatives of local subsidiaries in operating countries (other than Finland)

- steers the implementation of the responsibility programme in the other operating countries
- develops local additions to the responsibility programme
- promotes the sharing of best practices within the Group

**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

**Management board for marketing, communications, corporate responsibility and corporate relations**

The Executive Vice President for marketing, communications, corporate responsibility and corporate relations (Ch.), responsible persons of the divisions and the Group functions

- coordinates the processes and objectives of marketing, communications, corporate responsibility and corporate relations

**HR Management board**

The Senior Vice President for HR (Ch.), divisions' representatives, Group representatives

- prepares the Group's HR strategy and common HR policy definitions
- sets common objectives for the HR function and guides and coordinates the achievement of the objectives and practical implementations of HR operations
- guides the development of HR processes and services and monitors the quality and efficiency of HR processes and services

### Certification and audit systems related to production in high-risk countries approved by Kesko

Certification/audit system	Product group	Coverage of criteria	Product label
BSCI (Business Social Compliance Initiative)	All product groups	Social, limited environmental part	No
SA8000	All product groups	Social	No
ETI	All product groups	Social	No
Sedex/SMETA	All product groups	Social, limited environmental part	No
ICS	All product groups	Social	No
Fairtrade	Agricultural products incl. cotton	Social, environmental	Yes
Rainforest Alliance	Agricultural products	Social, environmental	Yes
Pro Terra	Agricultural products	Social, environmental	Yes
MPS-Socially Qualified	Agricultural products	Social	No
Soil Association Ethical Trade	Agricultural products	Social	Yes
Sustainability Initiative of South Africa SIZA	Agricultural products	Social, environmental	No
Sustainably Grown	Agricultural products	Social, environmental	Yes
UTZ Certified	Coffee, cocoa, tea	Social, environmental	Yes
RSPO (Roundtable on Sustainable Palm Oil)	Products containing palm oil	Economic, environmental, social	Yes
RTRS (Round Table on Responsible Soy)	Soy	Economic, environmental, social	Yes
WIETA	Wines	Social	Yes
Vinos de Chile	Wines	Social, environmental	Yes
MSC (Marine Stewardship Council)	Caught fish and shellfish	Environmental (sustainable fishing)	Yes

Certification/audit system	Product group	Coverage of criteria	Product label
ASC (Aquaculture Stewardship Council)	Farmed fish and shellfish	Social, environmental	Yes
Florverde Sustainable Flowers	Flowers	Social, environmental	Yes
FLA (Fair Labor Association)	Consumer goods	Social	No
FWF (Fair Wear Foundation)	Clothing	Social	No
GOTS (Global Organic Textile Standard)	Textiles, hygiene products (organic)	Social, environmental	Yes
WRAP (Worldwide Responsible Accredited Production)	Textiles, shoes	Social	No
IMO Fair for Life	All product groups	Social, economic	Yes
FSC (Forest Stewardship Council)	Wood products and timber	Social, environmental	Yes
PEFC (Programme for the Endorsement of Forest Certification)	Wood products and timber	Social, environmental	Yes
ICA Social Audit *	Consumer goods	Social	No

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

## Environmental systems

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, Rautia and K-maatalous stores by an independent external partner. In 2016, a total of 59 stores were inspected.

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).

# Responsibility programme

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**.

In 2016, we updated the objectives of the responsibility programme by specifying the theme titles, adding objectives that underpin our strategy and our stakeholders' expectations, and removed objectives that have already been achieved or are immaterial. This year, we present the progress of the responsibility programme for the last three years.



# Good corporate governance and finance

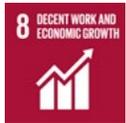
**We are committed to our operating principles. Together, we generate economic value added.**

- 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 2014	Progress of objectives 2015	Progress of objectives 2016
K Code of Conduct	All of our personnel act in compliance with the K Code of Conduct.	Our Responsible Working Principles guidelines are a material part of the induction of new employees. According to a personnel survey, 93.3% respondents have explored the 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.	We updated Our Responsible Working Principles guidelines in 2016. The new guidelines were named the <b>K Code of Conduct</b> 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.
	We organise regular training on the K Code of Conduct.	As part of the ongoing responsibility training, four training events on responsible working principles were organised in 2014 for different divisions in Finland, Latvia, Lithuania and Estonia.	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.	As part of the ongoing responsibility training, a training event on the K Code of Conduct was organised in Suomen Lähikauppa and two Russian subsidiaries in 2016. The events focused largely on corruption and fraud-related issues. The eLearning training targeted at all personnel had been attended by 3,159 people at the end of 2016. We drew an annual plan for 2017 which includes procedures to increase the personnel's awareness of the K Code of Conduct such as communication and training events for every quarter.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Return on capital	Kesko's objective is to achieve a 14% comparable return on capital employed and a 12% return on equity.	The comparable return on capital employed was 9.9% and the comparable return on equity was 7.6%.	The comparable return on capital employed was 11.7%, and the comparable return on equity was 8.2%.	The comparable return on capital employed was 11.9%, and the comparable return on equity was 9.8%.
Human rights	We respect human rights and take them into account in all our operations.	We started to assess human rights related impacts in accordance with the UN Guiding Principles on Business and Human Rights.	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.	We published our human rights assessment and human rights commitment on our <a href="#">website</a> . 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.



## 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's Legal Affairs and Internal Audit have organised value discussions in Kesko subsidiaries with the focus on anti-bribery work.

- **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 annually assesses 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](http://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 Strategy Process Unit
- K-Digital Unit

## Grievance mechanisms

Through Kesko's intranet, employees in all operating countries 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 our 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 2014	Progress of objectives 2015	Progress of objectives 2016
Dialogue with customers	<p>We consult our customers as we develop our corporate responsibility work.</p> <ul style="list-style-type: none"> <li>• Dialogue with customers in stores and social medial channels</li> <li>• Customer satisfaction and brand surveys</li> </ul>	<p>In autumn 2014, we studied stakeholders' views on the focal points of Kesko's value creation through an interview survey.</p>	<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.</p>	<p><b>The human rights assessment</b> 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 <b>study</b> 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>
Consultation services to customers	<p>We offer our customers multi-channel information on our products and services.</p> <ul style="list-style-type: none"> <li>• <a href="#">K-ruoka.fi</a></li> <li>• Pirkka magazine and <a href="#">Pirkka.fi</a></li> <li>• K Consumer Service</li> <li>• <a href="#">Customer feedback channels</a></li> </ul>	<p>The K Consumer service was contacted more than 20,900 times. Kesko Food is going through an extensive project to change the package labelling of its own brand products with the aim of providing consumers with more detailed information on the nutritional content, ingredients and potential allergens.</p>	<p>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.'</p>	<p>Customer feedback received through the new customer feedback system, launched in summer 2016, increased significantly. The K Group's customer magazine <a href="#">Pirkka</a> was revamped. The K Consumer Service was contacted 19,619 times.</p>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Welfare	<p>We offer healthy products and services that promote wellbeing.</p> <ul style="list-style-type: none"> <li>• Healthy food selection in K-food stores</li> <li>• <a href="#">Fruit campaigns</a></li> <li>• Recipes in <a href="#">K-ruoka.fi</a> and Pirkka magazine</li> <li>• Products promoting healthy living and life in K-Rauta and Intersport stores</li> </ul>	<p>The 5,400 recipes in K-ruoka.fi service include the nutritional content of the dish, which makes it easier for people to make choices. Intersport stores organised activity days whose aim was to promote a healthy lifestyle and to encourage people to be active.</p>	<p>In 2015, <a href="#">K-ruoka.fi</a> produced the Keveämpi arki customer programme consisting of <a href="#">recipes</a> and ideas that promote a healthier lifestyle and well-being. Intersport's sports training offered expert tips, inspiring content and <a href="#">exercise programmes</a> for people of different fitness levels.</p>	<p>In addition to the recipe search function, <a href="#">the K-food mobile app</a> gives the user suggestions about the most popular recipes made with seasonal ingredients. <a href="#">K-stores launched vege shelves</a>. The product reformulation policy (less salt, sugar and fat) is to be updated in 2017.</p> <p>Cello indoor and outdoor paints received the <a href="#">Swan label</a>. Onninen Norway provides <a href="#">welfare technology-related solutions</a>. Intersport organised sports training during different seasons.</p>
Sustainable consumption	<p>We help our customers make sustainable choices.</p> <ul style="list-style-type: none"> <li>• <a href="#">Statements and policies</a></li> <li>• <a href="#">Food waste</a></li> </ul>	<p>The K-responsibility concept theme "Let's do good. Together" was an essential part of the communication and marketing of the grocery trade. K-food stores participated in the Food Waste Week campaign organised by the Consumers Union Of Finland.</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>	<p>The K Group has the most comprehensive neighbourhood store network in Finland. We provide an extensive and <a href="#">free charging network for electric cars</a>. We participated in the <a href="#">Kinkkutempu</a> 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, <a href="#">Pirkka ESSI circular economy bags</a> were introduced in K-food stores. K-food stores introduced <a href="#">shared vege shelves</a> for all vegetable protein products.</p> <p>We published <a href="#">our soy policy</a> 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 <a href="#">our plastics policy</a> and committed to introducing measures to reduce the consumption of plastic bags.</p>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Digital services	<p>We offer the best digital services to the K Group's customers in all divisions.</p> <ul style="list-style-type: none"> <li>• Accessibility for special groups</li> <li>• Online stores' centralised distribution</li> <li>• Online stores' producer responsibility and product responsibility</li> </ul>	<p>Online sales of food through ruoka.citymarket.fi were extended to cover the whole Greater Helsinki. The building and home improvement stores and food stores launched click and collect services.</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.</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 <a href="#">the K-food mobile app</a> 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, <a href="#">Caara.fi</a>. Asko's online store was launched at <a href="#">Asko.fi</a>.</p> <p>We opened a new K Digital unit and recruited dozens of new digital experts. The five trainees that completed the <a href="#">K Digital Trainee</a> programme found employment in various digital positions within the K Group.</p>
Management by information	<p>Each K-store is customised to meet its local customer demand by utilizing customer data.</p>	<p>A new test store, K-Myllypuro, was opened in Myllypuro, Helsinki, for testing new store concepts, easier shopping and solutions for product ranges and their customisation.</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>	<p>The retailers received <a href="#">a new application based on customer data</a>, 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>Using marketing based on customer data, we can offer our customers the best customer experience.</p>	<p>We launched a campaign management tool, which we used to produce targeted and unique customer communication. The aim was to launch personalised customer marketing in stages in the wider K Group.</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>	<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. <a href="#">Using our customer data</a>, we offer our customers more personalised, interactive and multi-channel services. <a href="#">The revamped K-Plussa loyal customer card</a> ensures personalised, targeted benefits for customers. We developed <a href="#">the K-food mobile app</a> further.</p>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Additional services in connection to stores	We want to offer our customers a convenient shopping experience.	There were 252 consumer packaging recycling eco points at K-food stores. Many eco points also accepted paper and used clothing. All K-food stores have reverse vending machines for returning beverage containers. There were 137 SmartPost self-service parcel lockers at K-stores.	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.	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. <a href="#">Read more about customer recycling services.</a>  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 <a href="#">charging network for electric cars.</a> <a href="#">The Liiteri service</a> tested the rental service for K-Rauta's tools.



## 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 was first introduced in K-food stores in 2013. The concept was taken into use in K-Rauta stores and its launch in Rautia stores was initiated over the course of 2014. It was introduced in Rautia stores and in the K-maatalous chain in 2015.

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.



Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Local production	We support local producers	K-food stores, Anttila and Kodin1 participated in the Blue and White Footprint campaign. We organised Local Food Dates with the aim of increasing the local product offering in K-food stores.	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.	K-food stores, K-Rauta stores and Rautia stores participated in the <b>Blue and White Footprint campaign</b> . We organised <b>Local Food Dates</b> in six different locations. K-food stores sold 12 different Pirkka <b>'Thank the Producer' products</b> for which we paid extra directly to the producer. In 2017, we will be the main cooperation partner in the 'MTK 100' celebrations.
Sustainable agriculture	We promote sustainable agriculture	The K-maatalous Experimental Farm searched for new alternatives to continue organic studies on grain crops in mainland Finland.	The K-maatalous Experimental Farm cooperated with Nylands Svenska Lantbruksällskapet on organic crop species.	The K-maatalous Experimental Farm made <b>a Baltic Sea commitment</b> with the Baltic Sea Action Group (BSAG). The Experimental Farm's commitment focuses on developing the growing conditions of soil and nutrient measuring practices and equipment.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Donations, sponsoring and charity campaigns	<p>We participate in projects, which are connected to improving families' daily life and sustainable development.</p> <ul style="list-style-type: none"> <li>• Red Nose Day</li> <li>• Good Christmas Spirit</li> <li>• Salvation Army</li> <li>• Pink Ribbon</li> </ul>	<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 Pampers' international vaccination campaign.</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 Pampers' 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>	<p>We participated in <a href="#">Red Nose Day, the Good Christmas Spirit collection and the Salvation Army's Christmas Kettle collection</a>. Finland's K-Rauta and the Women's Bank launched <a href="#">cooperation</a> to help Ugandan women in the early phases of entrepreneurship. K-food stores participated in UNICEF's and Pampers' international <a href="#">vaccination campaign</a> and raised funds for almost 900,000 tetanus vaccinations. We participated in <a href="#">the Pink Ribbon campaign</a> with a more significant contribution than before. K-food stores' <a href="#">bottle return raffle's</a> proceeds were donated to the Eväitä Elämälle aid programme by Save the Children. The Finnish Basketball Association and K-food stores cooperated to organise <a href="#">basketball events</a> for over 10,000 children across Finland. We continued our <a href="#">cooperation with Plan</a> 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>



## 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 nearly 120 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 the 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

K-food stores, K-Citymarket Oy (home goods), K-Rauta stores and Rautia stores participated in the Blue and White Footprint campaign in 2016. The campaign aimed to promote the sales of Finnish products and an awareness of the positive impacts of buying Finnish.

### 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 supervisors.
- 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 2014	Progress of objectives 2015	Progress of objectives 2016
Employer image	We are the best employer in the trading sector in terms of job satisfaction.	The employee engagement index was 53%. In the Universum Professionals survey, Kesko's ranking was 29.	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>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 <a href="#">Universum Professionals survey</a>, 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 <a href="#">K Digital Trainee programme</a>, 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>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Wellbeing at work	We improve work motivation and satisfaction.	The focal point of the wellbeing at work programme was to develop supervision and management and promote occupational health and labour protection cooperation.	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>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><a href="#">Read more</a> about benefits to employees.</p>
Skills management	We conduct an annual performance and development review with every employee.	In the personnel survey, 83% of respondents said that they have had a performance and development review during the past 12 months.	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.	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.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Skills management	We will regularly train our supervisors.	<p>Core tools for developing supervisor work were the Let's Talk About Work training, the Performance Management training, the Employee Engagement training, as well as the new comprehensive online training modules in different sectors of supervisory work. The online training modules for supervisors were taken 2,391 times in total.</p>	<p>The emphasis was on the implementation of the K Group's operating principles, challenging situations faced by supervisors, leading a new team, effective supervision and how to use the personnel survey results to develop the team.</p> <p>The first training programme promoting the K Group's new management culture was entitled 'K-Way new supervisors' and was piloted towards the end of the year. Supervisory training for Kesko's personnel was taken a total of nearly 700 times. Online training modules for supervisors were completed approximately 3,700 times.</p>	<p>We continued the</p> <ul style="list-style-type: none"> <li>• K-Way new supervisors training programmes,</li> <li>• K-Way experienced supervisors training programmes and</li> <li>• Let's Talk About Work training programmes.</li> <li>• In total, 363 supervisors participated in these training programmes.</li> </ul> <p>The topic for the new Mindfulness training was understanding and training your own mind as well as efficiency. 17 supervisors 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 supervisory skills in the K Group. The training programme was attended by 12 supervisors.</p> <p>In 2017, we will continue to organise the K-Way supervisor trainings and start a new development programme for top management. We will continue spreading the coaching and mentoring processes that support supervisory work.</p>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Occupational ability	We reduce sick leave, accidents at work and premature retirement due to disability.	Since the beginning of 2011, approximately 950 supervisors in Finland have been trained using the Let's Talk About Work operating model. The Let's Talk About Work model has been used in almost all companies. In Finland, the percentage of sick leave has been reduced by 11% since 2009 and the percentage of premature retirements due to sickness has reduced by 37% since 2010. Sick leave has reduced by 10% in other countries since 2009.	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 supervisors, 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.	We focused on reducing sick leave, accidents at work and premature retirement due to disability. The Let's Talk About Work training for supervisors continued and over the last five years, more than 1,000 supervisors have been trained.  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.



## Management approach

### Material aspects

- 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 supervisors. The 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. [Read more](#) about minimum notice periods regarding operational changes.

### 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

The systematic and business-driven development of personnel and management is critical for future success. Major changes in the trading sector and the growth of electronic transactions have created the need for new competencies.

Other core areas of competence development have included:

- sales and service competence
- product line specific competitive advantage projects
- safety and responsibility
- leadership
- management.

### 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, 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 Kesko Group and its subsidiaries. Remuneration is fair and is based on principles that are commonly known.

### Labour practices and grievance mechanisms

See [Grievance mechanisms](#)

### 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 supervisor

## 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 2015–2018, 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 supervisors' 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 co-operation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent model was created to provide work for those with intellectual disabilities. Most of the intellectually disabled who were employed during the project still work at the K Group.

In Greater Helsinki, Kesko's Occupational Health Service directs employees to AMI rehabilitation, which promotes mental health. The partial daily allowance can help employees return to work after sick leave. The support provided by pension insurance companies for occupational rehabilitation has been used to promote return to work.

### Employment of young people

In 2013, Kesko and the K-Retailers' Association launched the 'Youth Guarantee in the K Group' programme, which aimed to provide a job, a work trial or an apprenticeship in the K Group for 1,000 young people threatened by social exclusion. The target group also included young immigrants and young people with disabilities. By the end of 2015, more than 2,500 young people had found employment in the form of a work trial, wage support and apprenticeship training. The employment of young people and special groups continues as a permanent model. In 2016, the K-Retailers' Association had a Youth Guarantee coordinator, who gives K-retailers and Kesko's supervisors advice related to the employment and training of special groups and acts as a liaison to the authorities and associations. By the end of 2016, more than 3,200 young people had found employment in the form of a work trial, through wage support and apprenticeship training.

### Grievance mechanisms

- Discussion with supervisor
- Suora Linja 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 2014	Progress of objectives 2015	Progress of objectives 2016
Supply chain	<p>The social responsibility of the production of own direct imports from high-risk countries has been assured.</p> <ul style="list-style-type: none"> <li>• <a href="#">Assessment systems approved by Kesko</a></li> </ul>	<p>Kesko's suppliers in high-risk countries had 284 factories or farms within the scope of the BSCI process. 88 BSCI full audits and 74 BSCI re-audits were conducted in the factories and farms of suppliers in high-risk countries. We started an assessment of human rights impacts.</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>	<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 <a href="#">valid social responsibility audits</a>.</p> <p>The social responsibility of the production of Kesko's grocery trade's own direct imports from high-risk countries was 100% assured. 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 <a href="#">the human rights assessment</a>, we conducted <a href="#">a human rights survey at factories in high-risk countries</a> 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 <a href="#">develop the audit procedure</a>.</p>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Supply chain	We assure the responsibility of the ingredients (Tier 2) of private label Pirkka and K-Menu food products.	We listened to our stakeholders when developing a new risk assessment tool for assuring the responsibility of the ingredients of own-brand grocery products.	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.	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.
	We will reduce the water risk caused by our operations.	We identified the need to determine the water risks caused by our operations. 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 on water consumption are thus caused by imported products for sale, which originate from areas suffering from water scarcity.	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.	The water risk assessment is in progress and the aim is to use the results to plan actions.
Policies	<p><b>Fish and shellfish:</b> 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. The K Group's fish and shellfish policy has been in effect since 2008.</p> <p><b>Palm oil:</b> By 2020, all palm oil in our own brand groceries will be responsibly produced (CSPO).</p>	The Pirkka range included 29 MSC-certified fish products.	The Pirkka range included 41 MSC-certified fish products.	The retail selection of Kesko's grocery trade included 178 MSC-certified fish products, of which 37 were Pirkka products. Kespro was granted <b>MSC and ASC traceability certificates</b> . 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.
		Approximately 13% of the palm oil in the Pirkka food products was certified sustainable palm oil (CSPO).	Approximately 20% of the palm oil in the Pirkka food products was certified sustainable palm oil (CSPO).	Approximately 34% of the palm oil in our own brand groceries (Pirkka, K-Menu and Kespro's Menu) was certified sustainable palm oil (CSPO).

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
	<p><b>Soy:</b> By 2020, all the soy used in the production chain of our private label products will be responsibly produced, and be either RTRS or ProTerra certified.</p> <p>This applies to:</p> <ul style="list-style-type: none"> <li>the ingredients of soy origin of the private label foods</li> <li>soy fodder used in the production of private label products of animal origin</li> <li>soy in the animal feed products sold by the agricultural trade.</li> </ul>	<p>The objective was added in 2016.</p>	<p>The objective was added in 2016.</p>	<p>We were a founding member in the <a href="#">Finnish soy commitment group</a>, 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 <a href="#">Round Table on Responsible Soy (RTRS)</a> and thereby committed to promote responsibility in the production chain of soy on a long-term and target-oriented basis.</p>
	<p><b>Timber:</b> We will ensure the origin and traceability of the timber and wood products sold by the building and home improvement trade. The products made of wood of tropical origin must be either FSC or PEFC certified.</p>	<p>Rautakesko has been granted the PEFC certificate, which covers spruce and pine timber and processed timber, MDF boards' wholesale in Finland (percentage-based method).The certificate is issued on 11 November 2013 and is valid until 11 November 2018.</p>	<p>The PEFC certification percentage is announced monthly at <a href="#">Kesko's web pages</a>.</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>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Policies	<p><b>Plastic:</b> We promote the recycling and reuse of plastic. We create operating models which prevent plastic from ending up in bodies of water and elsewhere in the natural 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 will look for solutions to replace PVC as a material.</p>	<p>The Pirkka reusable bag with the Boulevard design by Vallila was included in K-food stores' selection.</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>We published our <a href="#">plastics policy</a> 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 <a href="#">Pirkka ESSi circular economy bags</a> 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>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Own brands with responsibility labelling	We offer an extensive selection of own-brand products with responsibility labelling	The Pirkka range included 44 Pirkka Fairtrade products, 116 Pirkka Organic products, 29 Pirkka MSC-certified fish products, and 16 Pirkka UTZ-certified products.	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>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>
Product safety	<p>The product safety of the K Group's selections has been verified. The Product Research Unit's laboratory monitors the product safety and quality of the private labels and own imports in the grocery trade. All of our food product operations have a self-control plan in place.</p> <ul style="list-style-type: none"> <li>• <a href="#">The stores' Oiva monitoring results</a></li> </ul>	The Product Research laboratory analysed 8,864 product samples and conducted 20,386 analyses. Forty audits were performed.	The Product Research laboratory analysed 8,037 product samples and conducted 20,396 analyses. Seven audits were performed.	The Product Research laboratory analysed 7,770 product samples and conducted 17,176 analyses. The product safety of 539 suppliers was verified by means of a certified auditing procedure. The number of own audits was 13.



## 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 [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 plastic 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 policy, and the stand on the sandblasting of jeans, have been prepared to support purchasing operations.

### Monitoring and control systems

[Certification and audit systems](#) related to production in high-risk countries approved by Kesko.

Supplier agreements require that suppliers and service providers comply with the principles of the [K Code of Conduct](#) and the [BSCI Code of Conduct](#) links. 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.

## 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 was first adopted in K-food stores in 2013. The concept was taken into use in K-Rauta stores. In 2015, it was adopted by Rautia stores and in the K-maatalous chain.

In 2016, Kesko joined the new BSCI Sustainable Wine Programme pilot programme of the Foreign Trade Association (FTA). 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.

## 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 the environmental impact by working together with the entire supply chain.
- We promote development towards a low-carbon circular economy.
- We help our customers reduce their environmental impact.



Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Renewable energy	We will purchase 100% renewable electricity in Finland.	The objective was set in 2016	The objective was set in 2016	All <b>electricity purchased by Kesko</b> in Finland is renewable since the beginning of 2017. We purchase renewable electricity that has the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, electricity purchases will especially focus on Finnish bioenergy.
	We will increase the production of solar power for our own use.	The objective was set in 2016	The objective was set in 2016	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. By the summer of 2017, a total of 16 solar power plants will be in operation on the rooftops of K Group stores. The new investments will make the K Group the largest <b>producer and user of solar power</b> in Finland.
Energy efficiency of stores	During the agreement period 2008–2016: We will improve our annual energy efficiency by 65 GWh by 2016.	Kesko improved its energy consumption by 59 GWh and achieved 90% of its objective.	Kesko improved its energy consumption by 64 GWh and achieved 97% of its objective.	The final results of the agreement will be published by Motiva in summer 2017.
	During the agreement period 2017–2025: We will reduce our energy consumption by 7.5% by 2025.	The objective was set in 2016	The objective was set in 2016	<b>Kesko signed a retail sector energy efficiency agreement</b> for 2017–2025. In the action plan, we commit to reducing our energy consumption by 7.5%.

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Logistics emissions	<p>We will reduce the emissions of Kesko Logistics relative to the net sales index by 10% by 2020 from the 2011 level.</p> <ul style="list-style-type: none"> <li>We will reduce emissions by the efficient route planning of transport, efficient reverse logistics, two-tier trailers and training in economical driving styles.</li> </ul>	<p>We used nine two-tier trailers in long-distance transportation between our main warehouses. They can transport 30 roll containers, more than the regular trailer combination. All of Keslog's more than 500 contracted drivers have been trained in economical driving.</p>	<p>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.</p>	<p>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.</p>
<b>Science Based Targets</b>	<p>We will set Science Based Targets</p>	-	-	<p>We are committed to setting emission targets approved by the Science Based Targets initiative. The calculation began in December 2016.</p>
Food waste	<p>By 2020 we will reduce identified food waste by 10% from the 2013 level.</p> <ul style="list-style-type: none"> <li><b>We reduce food waste</b> in K-food stores with the help of electronic forecasting and order systems, efficient logistics, employee training, reducing the prices of products approaching their best before dates and optimising packaging properties.</li> </ul>	<p>Many K-food stores also donated food to charity. K-food stores participated in the Food Waste Week organised by the Consumers' Union of Finland in 2014.</p>	<p>We started a <b>cooperation</b> 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.</p>	<p>By the end of 2016, K-food stores had reduced identified food waste by 3.5% from the base level.</p> <p>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.</p> <p>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<sub>2</sub> emissions were reduced by 550 tonnes compared to natural gas and by 740 tonnes compared to fuel oil.</p>

Topic	Objective	Progress of objectives 2014	Progress of objectives 2015	Progress of objectives 2016
Waste recovery	The goal is to minimise the generation of waste in all operations and to recover all waste.	The waste recovery rate of Keslog's main warehouses and terminals was 98% and that of VV-Auto Group nearly 100%. The recovery rate of the waste generated in stores was 96% and the recycling rate was 67%.	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%.	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%.



## Management approach

### Material aspects

- Energy
- Water
- Emissions
- Wastewater and waste
- Biodiversity
- Suppliers' environmental assessments

### Policies, principles and commitments

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

Environmental management is part of the 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.

## Monitoring and control systems

Kesko Group's Corporate Responsibility Advisory Board defines the main policies for environmental work and the target levels for the Group companies, taking into account the environmental impacts of operations and their significance throughout their whole lifecycle and supply chain. The division parent companies and subsidiaries 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.

### Environmental systems at Kesko

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.

## 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

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 the K Group's store chains. Kesko has joined the Foreign Trade Association's (FTA) [Business Environmental Performance](#)

[Initiative](#) (BEPI). 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.

In line with Kesko's building and home improvement sourcing statement, products made of tropical wood must be either FSC or PEFC certified.

The 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
Suppliers' environmental assessments	Suppliers. This aspect has been identified as essential and reporting is under development.

## Other operating countries

In January 2015, a Steering Group for Local Responsibility in Operating Countries was set up to promote responsibility work in operating countries outside Finland. The Steering Group drew up objectives for each of our companies in other operating countries to complement our joint responsibility programme and take local circumstances into account. The progress of these companies in achieving these objectives in 2016 are presented below.

### K-Rauta Russia

Objective	Progress
<p><b>Working community: We perform and offer high-quality work</b></p> <p>Our employees are committed to the Group strategy, sales targets and the development of customer satisfaction.</p>	 <p>In 2016, we implemented the personnel development project "Career development and succession planning". Project participants included 55 members of store and office personnel. The total number of training days was 314.</p>
<p><b>Society: We build a better society together</b></p> <p>Society values the responsibility work done by K-Rauta Russia. Our employees are committed to the responsibility objectives of K-Rauta Russia.</p>	 <p>In 2016, we continued to support children in children's homes, the building of a playground in Moscow and the refurbishment of children's cultural centre in Tula.</p> <p>In 2016, we offered a training job to 12 students.</p> <p>In 2016, some members of the personnel took part in voluntary landscaping of parks in St. Petersburg and Tula.</p>
<p><b>Environment: We jointly mitigate climate change and promote the sustainable use of natural resources</b></p> <p>We reduce the amount of landfill waste. We develop segregation and recycling.</p>	 <p>In 2016, we set up recycling points for customers' used electric batteries in conjunction with the stores in St. Petersburg. Over 800 kg of batteries were collected.</p> <p>In 2016, a campaign for collecting old, plastic flower pots from customers was organised at the stores. Over 20,000 plastic flower pots were collected for recycling.</p>

### K-Rauta Sweden

Objective	Progress
<p><b>Working community: We perform and offer high-quality work</b></p> <p>Responsibility induction and eLearning.</p>	 <p>Responsibility induction discussions will start in spring 2017.</p> <p>Digital EHS (Environment, Health and Safety) manual for stores will be adopted in spring 2017.</p>
<p><b>Mitigation of climate change: We jointly mitigate climate change and promote the sustainable use of natural resources</b></p> <p>We increase the recycling of materials in stores. We reduce energy consumption in stores</p>	 <p>In 2016, we worked on the ISO 14011 environmental system. The objective is to have the system certified in autumn 2017.</p>

### Byggmakker Norway

Objective	Progress
<p><b>Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices</b></p> <p>The product in our selections meet the applicable environmental criteria.</p>	 <p>The timber in the selections will be PEFC certified by the end of 2017.</p> <p>The building materials in the selections have BREEAM NOR classification. At the end of 2016, around 65,000 product articles were included in the NOBB database.</p>
<p><b>Working community: We perform and offer high-quality work</b></p> <p>Our personnel are committed, active and enterprising.</p>	 <p>Trainings will continue in 2017.</p>

## Konekesko Lithuania

Objective	Progress
<p><b>Working community: We perform and offer high-quality work</b></p> <p>We organise corporate responsibility training for all employees. We include our personnel in our corporate responsibility work.</p>	 <p>In 2016, 57% of the personnel completed the responsibility eLearning programme and 78% completed the K Code of Conduct eLearning programme.</p> <p>70% of the personnel participated in the cleaning and exercise days arranged by the company.</p>
<p><b>Society: We build a better society together</b></p> <p>We participate in organisational activities. We provide training opportunities for students. We participate in charity projects.</p>	 <p>Konekesko Lithuania is a member of the following organisations:</p> <ul style="list-style-type: none"> <li>Lietuvos atsakingo verslo asociacija LAVA, a responsibility organisation of Latvian companies. In 2016, Konekesko Lithuania's representative was the Chair of the organisation.</li> <li>Baltic Institute of Corporate Governance BICG</li> </ul> <p>In 2016, training jobs were offered to three students.</p> <p>In 2016, support was given to youth and adult sports and museum activities.</p>

## Konekesko Latvia

Objective	Progress
<p><b>Working community: We perform and offer high-quality work</b></p> <p>We improve the flow of information between management and employees.</p> <p>We take care of the balance between work and private life.</p>	 <p>Representatives of employees participate in the meetings of the management board four times a year. Strategy communications have been enhanced.</p> <p>In autumn 2016, training in conducting performance and development discussions was arranged for middle management. In performance and development discussions, personnel's satisfaction with the flow of information rose to 65% (52% in the previous survey in 2014). Monitoring of overtime and unused holidays has been enhanced. Deviations have been taken up.</p>
<p><b>Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices</b></p> <p>We develop maintenance services. We develop online services.</p>	 <p>The development of the telephone service system for maintenance was completed in 2016. The objective is to develop a mobile application for maintenance service in 2017.</p>
<p><b>Environment: We jointly mitigate climate change and promote the sustainable use of natural resources</b></p> <p>We reduce the electricity consumption of stores.</p>	 <p>Store lights will be replaced by LED lamps in 2017–2018.</p>

## Konekesko Estonia

Objective	Progress
<p><b>Working community: We perform and offer high-quality work</b></p> <p>We focus on performance and development discussions. We organise an eLearning programme in corporate responsibility for supervisors.</p> 	<p>In 2016, the focus continued to be placed on personnel's performance and development discussions and performance appraisals.</p> <p>The set objectives were achieved. Personnel's training was increased. In 2016, the total number of training days was 241 (100 in 2015).</p>
<p><b>Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices</b></p> <p>We give our customers guidance on the properties and technical solutions of machinery and equipment.</p> 	<p>In 2016, the focus continued to be placed on customer guidance and customer events. The customer satisfaction index remained at the previous year's good level (4.1).</p>

## Indoor Estonia

Objective	Progress
<p><b>Environment: We jointly mitigate climate change and promote the sustainable use of natural resources</b></p> <p>We reduce the amount of landfill waste. We improve segregation and recycling.</p> 	<p>In 2016, 14,516 kg of cardboard (32% of purchased packaging cardboard) and 1,509 kg of plastic (34% of purchased packaging plastic) were recycled. By 2019, the objective is to raise the recycling rate of both packaging material to 45%.</p> <p>In early 2016, cooperation with a recycling centre was started. Customers' good condition furniture are accepted to be distributed to those in need. In 2017, the operation will be expanded by publishing newspaper advertisements about recycling activities.</p>
<p><b>Responsible purchasing and sustainable selections: We purchase and sell responsibly and support customers in making sustainable choices</b></p> <p>We harmonise our pricing. We avoid campaigns of excessive length.</p> 	<p>The entire personnel (100%) completed the K Code of Conduct eLearning programme. The trainings will be repeated and continued in 2017.</p> <p>The system development project was continued. The objective is to achieve the Payment Card Industry Data Security Standard certificate in 2017. The online store will be developed to make it more user friendly in 2017.</p>

# Economic impacts

## 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 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 March 2015, Kesko sold the department store chain Anttila Oy. Anttila Oy is consolidated into Kesko Group until 16 March 2015. 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. Further information on the structural changes is available in [note 3](#) 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 [financial statements](#) section.

### Economic benefits from Kesko's operations to stakeholder groups

#### VALUE ADDED GENERATED

##### CUSTOMERS

Revenues  
€10,879 million

#### DISTRIBUTION OF VALUE ADDED

##### SUPPLIERS

Goods, materials and services purchased  
€-9,839 million

##### EMPLOYEES

Salaries, fees and social security expenses  
€-723 million

##### PAYMENTS TO PROVIDERS OF CAPITAL

Net finance income / costs  
€-2 million

##### PUBLIC SECTOR

Taxes  
€-49 million

##### COMMUNITY INVESTMENTS

Donations  
€-2 million

##### OWNERS

Dividend  
€-199 million

##### DEVELOPMENT OF BUSINESS ACTIVITIES

€67 million

### Economic benefits from Kesko's operations to stakeholder groups

€ million		2016	2015	2014
Customers <sup>1</sup>	Revenues	10,879	9,479	9,800
Value added generated		10,879	9,479	9,800
<b>Distribution of value added:</b>				
Suppliers	Goods, materials and services purchased	-9,839	-8,593	-8,828
Employees	Salaries, fees and social security expenses	-723	-545	-614
Payments to providers of capital	Net finance income/costs	-2	-7	-6
Owners	Dividend	-199 <sup>2</sup>	-248	-149
Public sector	Taxes <sup>3</sup>	-49	-92	-54
Community investments	Donations	-2	-1	-1
Development of business operations		67	-7	147

The data is based on audited figures.

<sup>1</sup> Incl. net sales and other operating income

<sup>2</sup> Proposal to the General Meeting

<sup>3</sup> 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 at [203-2](#).

### 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 2017 that a total dividend of €199 million be paid for the year 2016, which would represent 201.3% of earnings per share and 99.5% of comparable earnings per share. In 2016, Kesko distributed a total of €248 million as dividends for the 2015 profit, which represented 243.8% of earnings per share and 146.7% of comparable earnings per share.

### Economic benefits from Kesko's operations by market area in 2016

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes <sup>1</sup>	Total
Finland	5,661	630	428	99	777	7,595
Other Nordic countries	905	3	53	19	51	1,032
Baltic countries and Poland	453	25	70	7	97	653
Russia and Belarus	265	85	35	10	14	409
Other countries	1,305					1,305
<b>Total</b>	<b>8,588</b>	<b>743</b>	<b>587</b>	<b>136</b>	<b>940</b>	<b>10,994</b>

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

Further information on the [financial statements' indicators](#) and [Kesko shares and shareholders](#) can be found in the financial statements section.

### Store network

Kesko operates in the grocery trade, the building and technical trade, and the car trade. Kesko has over 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus.

The K-food store network is comprehensive and there are K-food stores in nearly all Finnish municipalities (see the table below). The K-food stores are visited by around 1.2 million customers every day.

A multi-channel approach is becoming increasingly important in retailing. The growth of e-commerce and electronic services coupled with a comprehensive store site network are a key competitive factor for Kesko. [Read more about the importance of a multi-channel approach.](#)

At the end of 2016, Kesko had over 1,080 independent K-retailer entrepreneurs as partners. Kesko's sales to retailer entrepreneurs accounted for 45.4% of total sales in 2016. Kesko and K-retailers form the K Group, whose retail sales totalled around €12.5 billion (VAT 0%) in 2016. The K Group employs around 45,000 people.

### K-food stores in Finnish municipalities (as at 31 Dec. 2016)

Number of K-food stores	Municipalities in 2016	% of all municipalities
10 or more	29	9.3
7-9	20	6.4
5-6	25	8.0
3-4	44	14.1
2	67	21.4
1	95	30.4
0	33	10.5
<b>Municipalities total</b>	<b>313</b>	<b>100.0</b>

### Employee benefit expenses

€ million	2016	2015	2014
Salaries and fees	575	440	497
Social security expenses			
pension costs	78	55	64
social security expenses	57	43	47
Share-based payments	12	6	6
<b>Total</b>	<b>723</b>	<b>545</b>	<b>614</b>

In 2016, foreign operations accounted for €159 million of total salaries and for €36 million of total pension costs and other social security expenses. In 2016, the Kesko Group employed an average of 22,476 (18,955) people, of whom 10,714 (8,300) were located in Finland and 11,762 (10,655) outside of Finland. The personnel increase was due to the acquisitions completed during the year. At the end of the year, the number of personnel at Suomen Lähikauppa was 3,129, at Onninen it was 3,068 and at AutoCarrera it was 37.

### Kesko's community investments

€ 1,000	2016	2015	2014
Non-governmental, environmental and other organisations	412	555	474
Sports (adults)	891	721	556
Youth sports and other youth work	56	64	244
Science, research and education	67	61	65
Culture	14	32	36
Health	270	12	11
Veteran organisations and national defence	3	5	4
Political parties and organisations	-	8	5
<b>Total</b>	<b>1,713</b>	<b>1457</b>	<b>1,395</b>

In addition, Veikkaus Oy contributed an estimated revenue of €60–65 million to the Ministry of Education and Culture, generated from the sales of games by Veikkaus points of sale located at K-stores. The calculation is based on the average breakdown of each euro spent on games in 2016. The estimate has been calculated by Veikkaus Oy. The Ministry of Education and Culture distributes the total proceeds to Finnish arts, sports, science and youth work.

More detailed information on donation recipients is available in the [responsibility programme](#).

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

One of the key objectives of Kesko's responsibility work is mitigating the progress of climate change. Kesko has committed to set emission targets in line with two degree climate warming and approved by [the Science Based Targets initiative](#). The work to calculate the targets began in December 2016.

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 risk management and control practices >](#)

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

#### Physical impact

- 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 the 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 limitations 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 climate change. 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 contributes to the development of circular economy by providing recycling services in conjunction with stores, and by taking part in circular economy trials, such as the [Kinkku-temppu campaign](#) and the [Liiteri trial](#).
- The K-maatalous Experimental Farm tests the suitability of crop varieties for the Finnish climate. The aim is to help customers choose optimal varieties and cultivation methods for Finnish conditions, also as the climate changes.

Opportunities and risks related to climate change are also described in the report's [our 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 2,717.

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 2016, the plan obligation was €300.4 million (€266.1 million in

2015), which is fully covered. Calculated under IFRS, the surplus amount was €164.1 million as at 31 December 2016 (€176.4 million in 2015). Calculated under IFRS (the Pension Fund's insurance premium is based on a defined benefit plan), the Group's total premium represents 13.6% of the amount of salaries (12.5% in 2015). Read more in the financial statements section, [note 17](#).

In the other countries, pensions are arranged in compliance with local legislation, and there are no defined benefit plans, except in Norway. The number of employees eligible to receive supplementary retirement benefits in Norway is immaterial in proportion to the whole Group.

#### 201-4 Financial assistance received from government

In 2016, the Group received financial assistance of €0.9 million from the public sector. This amount mainly consists of assistance received from Finland (€0.6 million) and from Sweden (€0.3 million).

## Indirect economic impacts

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

Especially outside growth centres, retail stores can offer community services which may otherwise be scarcely available. In 2016, the following were located in connection with K-food stores:

- cashback service at more than 1,000 stores
- over 325 Posti service points
- over 140 Posti automatic parcel pick-up points
- over 560 Matkahuolto parcel pick-up points
- over 25 DHL's automatic parcel lockers

For several upcoming years, Kesko's most significant store site project will be the new shopping centre, Easton Helsinki, being built in Itäkeskus, Helsinki. The capital expenditure of the first phase is valued at €100 million. Its employment impact is about 250 person-years for a period of two years.

The first part of Easton Helsinki will open to customers in autumn 2017. The next part is estimated to be completed in 2019. The capital expenditure of the whole complex is valued at over €200 million.

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 [201-1 Direct economic value generated and distributed](#).

### 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, employee benefit expenses and capital expenditure paid by Kesko and retailers have impacts on regional economic wellbeing.

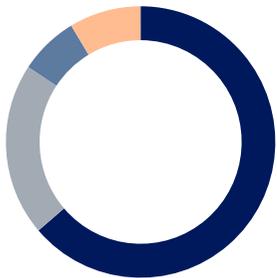
Kesko operates in nine countries in which it is engaged in both retail and wholesale. It is one of Kesko's principles that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations.

Kesko is a significant tax payer. In 2016, the income taxes paid by Kesko to Finland were €31.2 million and to other countries €10.1 million. The Group's effective tax rate was 21.6%. Kesko paid €3.5 million in real estate taxes and net worth taxes to Finland and €4.2 million to its other operating countries in 2016.

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 2016, Kesko remitted value-added taxes in Finland to the amount of €380.3 million, and €110.5 million in other countries. Kesko remits car taxes and excise duties on, for instance, confectionery, alcohol and soft drinks. In 2016, Kesko remitted excise duties in Finland to a total amount of €66.9 million.

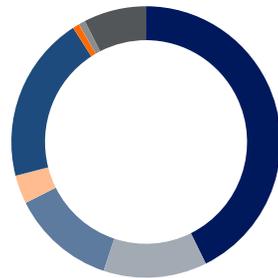
Kesko's measurable indirect impact on society, such as its employment impact, increased municipal tax income, or income in the producer and supply chain, should be evaluated case-by-case, in connection with the establishment of a new store, for example.

**Taxes payable 2016**



- Income taxes, Finland € 31.2 million 63.7%
- Income taxes, other countries € 10.1 million 20.6%
- Real estate taxes, Finland € 3.5 million 7.1%
- Real estate and net-worth taxes, other countries € 4.2 million 8.6%

**Taxes remitted in 2016**



- Value-added taxes, Finland € 380.3 million 42.7%
- Value-added taxes, other countries € 110.5 million 12.4%
- Withholding taxes, Finland € 111.2 million 12.5%
- Withholding taxes, other countries € 30.7 million 3.4%
- Car taxes, Finland € 177.6 million 19.9%
- Customs duties, Finland € 6.7 million 0.8%
- Customs duties, other countries € 6.8 million 0.8%
- Excise duties, Finland € 66.9 million 7.5%

**Taxes by country 2016**

€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Income taxes	31.2		-0.2		0.5	3.6		4.5	1.7
Real estate taxes	3.5	0.3	0.1	0	0.2	0		0.7	0.1
Net-worth taxes								2.6	0.2
Car taxes	177.6								
Customs duties	6.7	0.1	2.6	0.1	0	1.7	0	1.1	1.2
Excise duties	66.9								
<b>Total</b>	<b>285.9</b>	<b>0.4</b>	<b>2.5</b>	<b>0.1</b>	<b>0.7</b>	<b>5.3</b>	<b>0.0</b>	<b>8.9</b>	<b>3.2</b>

**Economic benefit generated by Keko and K-retailers to Finnish regions in 2016**

Region € million	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure <sup>1</sup>	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	Total
Åland	32.2	-	0.0	0.1	-	-	32.4
Southern Karelia	6.8	13.7	6.2	6.2	11.0	0.6	44.4
Southern Ostrobothnia	237.7	30.8	4.9	6.3	12.8	0.7	293.1
Southern Savo	41.9	13.7	9.3	5.3	11.4	1.1	82.8
Kainuu	5.8	7.3	1.7	1.8	6.2	0.4	23.2
Kanta-Häme	52.3	25.7	3.3	7.4	11.2	1.3	101.2
Central Ostrobothnia	53.4	13.6	5.3	2.2	5.0	0.5	80.0
Central Finland	61.2	25.5	7.8	11.7	18.1	1.2	125.6
Kymenlaakso	43.5	15.7	3.8	7.8	10.8	1.3	82.9
Lapland	20.6	24.5	14.4	8.7	18.7	2.0	88.9
Pirkanmaa	262.2	33.0	32.7	34.7	33.2	2.7	398.5
Ostrobothnia	161.5	11.2	2.8	6.7	9.5	0.7	192.4
Northern Karelia	29.1	26.0	2.2	5.3	11.6	1.6	75.8
Northern Ostrobothnia	139.4	43.8	10.1	19.4	26.4	2.4	241.5
Northern Savo	180.5	34.5	5.7	12.0	19.8	1.5	254.0
Päijät-Häme	147.3	25.9	7.8	11.7	12.1	0.8	205.7
Satakunta	160.5	27.0	4.3	8.1	15.3	1.0	216.2
Uusimaa	3,296.7	162.4	604.7 <sup>2</sup>	287.8	120.9	12.5	4,485.1
Varsinais-Suomi	688.5	67.4	11.1	30.2	35.3	4.1	836.7
<b>Total</b>	<b>5,621.2</b>	<b>601.5</b>	<b>738.0</b>	<b>473.8</b>	<b>389.4</b>	<b>36.4</b>	<b>7,860.4</b>

<sup>1</sup> Incl. increase in lease liabilities of K-retailers' equipment

<sup>2</sup> Incl. acquisitions in 2016 (Suomen Lähikauppa, Onninen and AutoCarrera) €445.5 million

The figures are for those K-retailers whose accounts and payroll are managed by Vähittäiskaupan Tilipalvelu VTP Oy, representing around 85% of K-retailers' total business volume.

## Procurement practices

### 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 [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 €8.6 billion in 2016.

In 2016, Kesko had around 24,600 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, around 11,900 operated in Finland, around 10,200 in Kesko's other operating countries, and around 2,500 elsewhere.

The ten largest suppliers accounted for 24.3% (24.2% in 2015) of the Group's purchases of goods, and the 100 largest suppliers for 54.4% (53.1% in 2015). Seven out of the ten largest suppliers were Finnish food industry companies, one import company operating in Finland and two German car manufacturers.

The purchases of all Kesko companies from suppliers operating in Finland totalled €5,661 million, accounting for 65.9% (67.2% in 2015) of the Group's total purchases.

The purchases of goods by Kesko Group's Finnish companies totalled €6,928 million. Of these purchases, 81.1% were from suppliers operating in Finland and 18.9% 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 actively increases the amount of local purchases and encourages K-retailers to include products from nearby producers in their selections. In 2016, K-retailers' direct purchases from Finnish regions totalled €602 million.

In 2014–2016, Kesko and Ruokatieto ry, an association that promotes Finnish food culture, organised Local Food Date (Lähiuokatreffit) events that brought together local food producers and K-retailers. The purpose was 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 sell 12 Pirikka 'Thank the Producer' products for which K Group pays an extra support directly to producers.

### Kesko's purchases by operating country in 2016

	Suppliers of goods and services in operating country	Purchases from suppliers of goods		Suppliers of goods and services in other operating countries	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	11,609	5,621	81.1%	2,304	1,307	18.9%
Sweden	1,573	207	85.1%	238	36	14.9%
Norway	1,434	529	98.2%	100	10	1.8%
Estonia	1,048	65	52.1%	442	59	47.9%
Latvia	764	23	34.5%	467	44	65.5%
Lithuania	384	94	31.3%	189	206	68.7%
Poland	1,263	99	94.6%	61	6	5.4%
Russia	1,657	194	95.9%	30	8	4.1%
Belarus	734	48	61.0%	305	31	39.0%
<b>Total</b>	<b>20,466</b>	<b>6,880</b>	<b>80.1%</b>	<b>4,136</b>	<b>1,708</b>	<b>19.9%</b>

### Kesko's purchases by company's and supplier's country of domicile in 2016

Company's country of domicile	Supplier's country of domicile											
	€ million	Suomi	Ruotsi	Norja	Viro	Latvia	Liettua	Puola	Venäjä	Valko-Venäjä	Muut maat	Yhteensä
Finland		5,621	142	10	51	4	9	12	1	1	1,077	6,928
Sweden		13	207	5	1	0	0	0	-	-	16	243
Norway		0	9	529	-	-	-	-	-	-	0	538
Estonia		15	1	1	65	6	3	6	-	-	28	124
Latvia		4	0	0	7	23	1	2	0	-	29	68
Lithuania		6	1	0	9	24	94	33	1	3	129	300
Poland		0	0	-	-	0	-	99	-	-	5	104
Russia		1	-	-	1	-	-	0	194	-	7	203
Belarus		0	0	-	-	0	1	-	16	48	13	79
<b>Total</b>		<b>5,661</b>	<b>361</b>	<b>545</b>	<b>134</b>	<b>58</b>	<b>109</b>	<b>152</b>	<b>212</b>	<b>52</b>	<b>1,305</b>	<b>8,588</b>

### Capital expenditure

In 2016, Kesko's capital expenditure totalled €743 million (€219 million in 2015), or 7.3% of net sales (2.5% in 2015). Capital expenditure in store sites was €216 million (€167 million in 2015). Capital expenditure in foreign operations accounted for 15.2% (40.2% in 2015) of the total capital expenditure. During the financial year, 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 used by the K-Group. These figures included, the total capital expenditure in Finland was around €738 million in 2016.

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.

## 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 at the Group, division, company and unit levels in all operating countries.

Kesko's anti-corruption principles are included in the [K Code of Conduct guidelines](#) updated 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 annual Value Discussions on the K Code of Conduct in its companies. In 2016, a Value Discussion event was organised in Suomen Lähikauppa and two Russian subsidiaries. They mainly focused on issues related to corruption and malpractice.

In 2016, one of the focus areas in Kesko's risk management and corporate security function was the prevention of malpractice. During the year, individual cases of suspected malpractice came to our knowledge. The Risk Management and 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. In 2016, six incidents were reported via the SpeakUp channel.

In 2016, 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 2016, there were no legal actions, fines or other sanctions relating to anti-competitive laws and regulations.

## Environmental impacts

### Energy

Kesko participates in mitigating climate change by purchasing and producing more of its own renewable energy.

#### Renewable electricity

Kesko has decided to purchase electricity produced **with 100% renewable energy** from the beginning of 2017. Kesko will purchase approximately 540 GWh of electricity in Finland in 2017. The electricity is used in K-stores and other Kesko properties.

Kesko purchases renewable electricity with the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, electricity purchases will especially focus on Finnish bioenergy. Bioenergy is based on, for example, by-products from the forest industry and wood based fuels.

#### Solar power plants at K-stores

In 2016, Kesko made significant investments in the **construction of solar power plants**. In June 2016, Finland's biggest property specific solar power plant was completed on the rooftop of K-Citymarket Tammisto, Vantaa. Additionally, a total of 11 K-Supermarkets and K-Citymarkets had a solar power plant installed on their rooftops by the end of 2016. A total of 210 MWh of electricity was produced with solar power in 2016.

By summer 2017, Kesko will have two more solar power plants installed. After this, Kesko will have 15 solar power plants producing approximately 3,559 MWh annually. The new investments will make the Kesko Finland's biggest producer and consumer of solar power.

[Watch the video on solar power use at K Group >](#)



## 302-1 Energy consumption within the organisation

### Energy consumption of properties

Finland	2016	2015	2014
Electricity <sup>1</sup> (MWh)	458,690	694,544 <sup>2</sup>	754,301
District heat (MWh)	308,924	254,214 <sup>2</sup>	292,453
Fuel for self-produced heat (MWh)	5,169	3,406	4,233
Total energy consumption (MWh)	772,783	952,164	1,050,987
Total energy consumption (TJ)	2,782	3,428	3,784
<b>Other operating countries</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Electricity (MWh)	100,808	103,038	96,231
District heat (MWh)	18,893	17,840 <sup>2</sup>	17,607
Fuel for self-produced heat (MWh)	29,874	26,890 <sup>2</sup>	29,116
Total energy consumption (MWh)	149,575	147,768	142,954
Total energy consumption (TJ)	538	532	515
<b>All operating countries</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total energy consumption (MWh)	922,358	1,099,932	1,193,941
Total energy consumption (TJ)	3,320	3,960	4,299

<sup>1</sup> The reporting boundary has changed in 2016, includes only electricity purchased by Kesko

<sup>2</sup> Figure has been adjusted for improved accuracy since the previous report

### Energy consumption in properties in Finland

At the end of 2016, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and approximately 1,450 store sites. The total area of the property portfolio increased by 16.5% due to the acquisition of Suomen Lähikauppa and Onninen.

The total consumption of heat increased by 22% due to the increased stock of real estate. The majority of properties used district heat, but in addition 1.6% of the heat energy was self-produced. In 2016, the heat energy produced with natural gas and oil at properties in Finland totalled 18.6 TJ (5.2 GWh).

Beginning in 2016, the electricity consumption of Kesko in Finland includes only electricity purchased by Kesko. In previous years, the electricity purchased by retailer entrepreneurs at properties managed by Kesko has been estimated and reported. Heat consumption is reported for 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

During 2016, Kesko's stock of real estate outside of Finland changed significantly due to the acquisition of Onninen and the divestment of the K-food stores in Russia. Onninen operates in Kesko's previous operating countries and additionally in Poland.

The heating energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (950 MWh) and peat (130 MWh) were also used for heating. In 2016, the fuels used for self-produced heat totalled 107.5 TJ (29.9 GWh).

Subsidiaries outside of Finland report their fuel and purchased energy consumptions to Kesko and statistics per country are compiled from this data. The heating energy data is not reported for some properties (5% excluding Onninen's properties) because it is included in the lease or is not available.

### Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2016:

- Renewable: 407 TJ (6%)
- Nuclear power: 5 348 TJ (77%)
- Non-renewable: 1 143 TJ (17%)

### Fuel consumption of logistics in Finland

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 503.9 TJ in 2016. The fuel used was diesel. In 2016, the total distance driven by Kesko Logistics was 32.3 million km (31.1 million km in 2015).

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 2016, the logistics in Estonia consumed 4.1 TJ of fuel (diesel and gasoline).

### Total energy consumption

In 2016, Kesko's energy consumption in all operating countries totalled 3,828 TJ.

A total of 634.1 TJ of fuels from non-renewable sources were used for transportation as well as self-produced heat of properties. In addition, 3.4 TJ of renewable fuels were used.

## 302-3 Energy intensity

### Specific consumptions of energy, properties managed by Kesko

kWh/br-m <sup>2</sup>	2016	2015	2014
<b>Finland</b>			
Specific consumption of electricity	204	207	205
Specific consumption of district heat	79	76	79
<b>Other operating countries</b>			
Specific consumption of electricity	88	99	94
Specific consumption of heat	42	43 <sup>1</sup>	46

<sup>1</sup> 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.

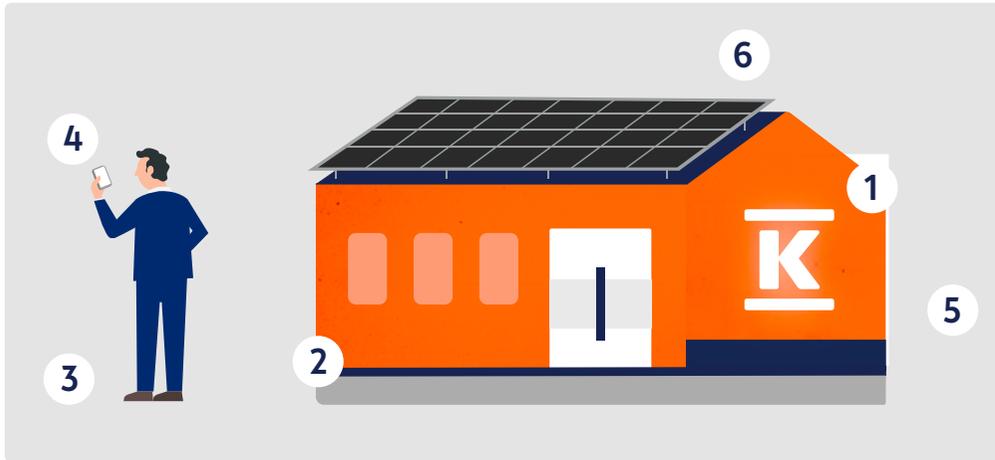
The calculation methods for the properties in Finland are available in the [Energy consumption tracking report](#). The specific consumptions of properties in the other operating countries are calculated based on the total area of properties (1,152,000 m<sup>2</sup> in 2016).

## 302-4 Reduction of energy consumption

The K Group participated in the trading sector energy efficiency agreement for 2008-2016. The K Group was committed to improving its annual energy consumption by 65 GWh by the end of 2016. The final results of the agreement will be published by Motiva in summer 2017.

The K Group is participating in the next action plan of the commerce sector [Energy Efficiency Agreement for the years 2017-2025](#). In accordance with the agreement, the K Group commits itself to reducing its energy consumption by 7.5% through various energy saving measures. All K Group store chains are included in the agreement.

**Energy solutions in K-stores**



**1. Lighting**

By February 2016, LED lights are used in all lighting solutions of property development projects. Adjustable, correctly directed LED-lighting can help save up to 50% 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 40 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 separate 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 204 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.

The remote monitoring of refrigeration systems in stores helped save approximately 3.63 GWh of energy in 2016. 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.

CO<sub>2</sub> refrigeration plants enable the efficient use of condensation energy together with low temperature heating systems. This combination achieves a considerably higher heat energy recovery efficiency compared to the traditional solutions using condensation heat from HFC-refrigeration units.

**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 to be installed on the K-food store roofs will cover around 10–15% of the store's annual electricity consumption.

Information about energy saving efforts by Kesko Logistics can be found in the section [305-5](#).

## 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 and 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. The water consumption from these wells accounts for a minor part (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 is mainly used for cleaning purposes in the K Group's own operations. 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 properties in Finland increased significantly in 2016, which was due to the growth in the number of properties resulting from the acquisition of Suomen Lähikauppa and Onninen. Water consumption statistics by property type and changes in the property portfolio in Finland are available in the [Energy consumption tracking report](#).

### Water consumption by country

m <sup>3</sup>	2016	2015	2014
Finland	933,812	884,081	935,472
Sweden	7,247	6,354	5,504
Norway	1,424	1,445	1,407
Estonia	5,922	4,954	4,876
Latvia	9,480	10,128	11,297
Lithuania	40,268	38,472	38,903
Poland	3,100	-	-
Russia	84,431	79,755	75,056
Belarus	48,797	43,342	39,741
<b>Total</b>	<b>1,134,481</b>	<b>1,068,531</b>	<b>1,112,256</b>

<sup>1</sup>Figure has been adjusted for improved accuracy since the previous report

The growth in the property portfolio due to the acquisition of Onninen caused changes in water consumption also in the operating countries outside of Finland as well as in the new operating country, Poland. 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 not available for reporting (6% of locations in other operating countries, excluding Onninen's properties). Additionally, data was not available for 1% of properties.

## Biodiversity

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

### 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](#).

In October 2016, the K Group committed itself to measures aimed at reducing the consumption of plastic bags, and published a plastics policy. The objective is to reduce plastics ending up in water bodies and elsewhere in the environment.

[Read more about the plastics policy >](#)

Global food production for a growing population is one of the biggest threats to biodiversity in the world. Food security can be improved through sustainable and efficient agricultural practices and minimising food waste.

#### Food waste and climate change

Minimising food waste along the entire food supply 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 emissions from its production, transportation, selling and preparation have been useless. Minimising food waste also reduces related emissions.

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](#).

#### K-maatalous Experimental Farm

The K-maatalous Experimental Farm in Hauho focuses on the development of crop varieties and research for the benefit of sustainable cultivation methods and better domestic food production. The research conducted on the Experimental Farm aims to provide K-maatalous retailers and farmers with solutions tested in Finnish conditions for making productive product choices and optimising their harvests. In Finland, around 80% of K-food stores' purchases are from domestic suppliers, which is why sustainable and vital Finnish agriculture is important to the K Group.

In June 2016, the K-maatalous Experimental farm made a Baltic Sea Commitment to the [Baltic Sea Action Group \(BSAG\)](#). The Experimental Farm tested measuring devices and methods aimed at providing practical ways to measure and monitor the use of nutrients and to assess the soil condition in rapid succession.

Measuring methods promote sustainable agriculture as investments can be optimised according to crop targets and use, soil potential and the requirements of plant varieties. Good soil condition and appropriate fertilisation, as well as transforming nutrients to good crops are important profitability factors for farmers, but also reduce the nutrient leakages to the Baltic Sea. Properly treated soil also sequesters carbon to soil and thus combats climate change.

### 304-3 Habitats protected or restored

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 2016, one Kesko property was restored in Porvoo, from which a total of around 93 tons of contaminated soil material was removed from a site of 3,385 m<sup>2</sup>. No concentrations of hydrocarbons exceeding the guideline level were left in the restored area. The Uusimaa Centre for Economic Development, Transport and the Environment has checked the restoration report and stated that no further soil restoration is needed in the area.

Kesko does not have protected habitats of its own.

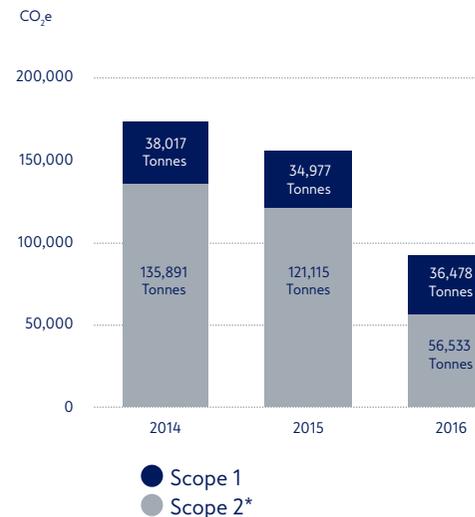
## Emissions

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 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

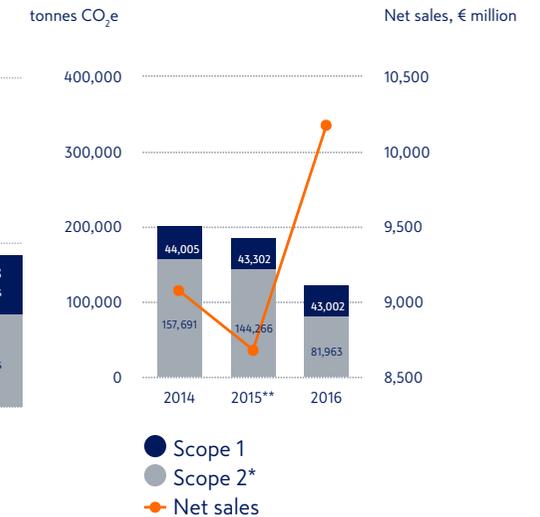
### 305-1 and 305-2 Direct and energy indirect GHG emissions (Scope 1 and 2)

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 2 figure adjusted for improved accuracy since previous report.

**Scope 1 and 2 GHG emissions**

Tonnes CO <sub>2</sub> e	2015	2014
<b>Direct (Scope 1)</b>		
Finland	43,002	44,005
logistics (Kesko Logistics)	36,478	38,017
self-produced heat (natural gas and oil)	35,079	36,915
self-produced heat (natural gas and oil)	1,399	1,102
Other operating countries	6,524	5,988
logistics (Belarus and Estonia)	344	-
self-produced heat (natural gas, oil, peat and timber <sup>1</sup> )	6,180	5,988
<b>Indirect (Scope 2)</b>	81,963	157,691
Finland	56,533	135,891
purchased electricity (market-based)	0	81,495
purchased electricity (location-based) <sup>2</sup>	95,866	165,946
purchased district heat (location-based)	56,533	54,396
Other operating countries	25,430	21,800
purchased electricity (location-based)	20,218	17,362
purchased district heat (location-based)	5,212	4,438
<b>Total</b>	<b>124,965</b>	<b>201,696</b>
Finland, Scope 1 and 2 total	93,011	173,908
Other operating countries, Scope 1 and 2 total	31,954	27,788

<sup>1</sup> The biogenous CO<sub>2</sub> 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%).

<sup>2</sup> 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.

<sup>3</sup> Figure has been adjusted for improved accuracy since the previous report

**Scope 1**

In 2016 the Scope 1 emissions of Kesko in Finland increased due to the acquisition of Suomen Lähikauppa. The new stores caused an increase in logistics and own production of heat.

Emissions from logistics in the other operating countries were reported for Estonia in 2016. The data for Belarus' logistics was not available. Most of the logistics in the other operating countries are outsourced and are partially reported in the Scope 3 emissions.

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 Estonia were calculated based on fuel consumption.

**Scope 2**

In 2016, the emissions from purchased energy in Finland decreased by 53% because of a change in the reporting boundary. Starting from 2016, the emissions caused by electricity purchased by Kesko are reported in Scope 2. The emissions caused by electricity purchased by retailer entrepreneurs are reported in Scope 3 category 14, franchising (retailer entrepreneurs).

Kesko's electricity was supplied by Helsingin Energia from the beginning of 2016 and by Fortum starting from 1 September 2016. The supplied electricity was carbon-free.

The emissions from purchased energy for the other operating countries increased by 10%, which was affected by the acquisition of Onninen.

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 <sub>2</sub> e	2016	2015	2014
<b>Upstream</b>			
Purchased goods and services	6,910,000	5,936,000	5,922,000
Capital goods (buildings)	35,200	18,200	9,900
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	49,400	69,300	76,100
Transport and distribution of goods	18,400	18,300	18,600
Waste	11,400	9,000	10,100
Business travel	3,000	2,700	2,800
Employee commuting	21,000	6,700	7,800
<b>Downstream</b>			
Customer commuting (shopping trips)	157,400	154,400	166,100
Use of sold products	1,685,800	852,900	1,093,900
End-of-life treatment of sold products	36,500	16,300	28,000
Franchises (retailer entrepreneurs)	114,700	22,800	27,800

The greatest other indirect emissions of Kesko are caused in the supply chain of the products for sale (76%), in the use phase of the products (19%) 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 (€10,180 million in 2016), the average number of employees (22,476 in 2016) and the area of properties managed by Kesko (4,381,000 m<sup>2</sup> in 2016).

#### Scope 1 and 2 GHG emissions intensity

	2016	2015	2014
Based on net sales (tonnes CO <sub>2</sub> e / € million)	12.3	21.6	22.2
Based on average number of employees (tonnes CO <sub>2</sub> e / person)	5.6	9.9	10.1
Based on area of properties managed by Kesko (tonnes CO <sub>2</sub> e / 1,000 m <sup>2</sup> )	28.5	-	-

The Scope 2 reporting boundary for 2016 has changed

### 305-5 Reduction of GHG emissions

#### Science Based Targets

Kesko has committed to set emission targets in line with two degree climate warming and approved by the [Science Based Targets initiative](#). The work to calculate the targets began in December 2016.

#### Energy efficiency of properties

Kesko has signed the trading sector energy efficiency agreement and committed to actions to improve its annual energy consumption by 65 GWh during the period 2008–2016. Motiva will publish the results of the agreement period in June 2017.

By increasing solar power Kesko decreases the emissions caused by property. Read more in the [Energy section](#).

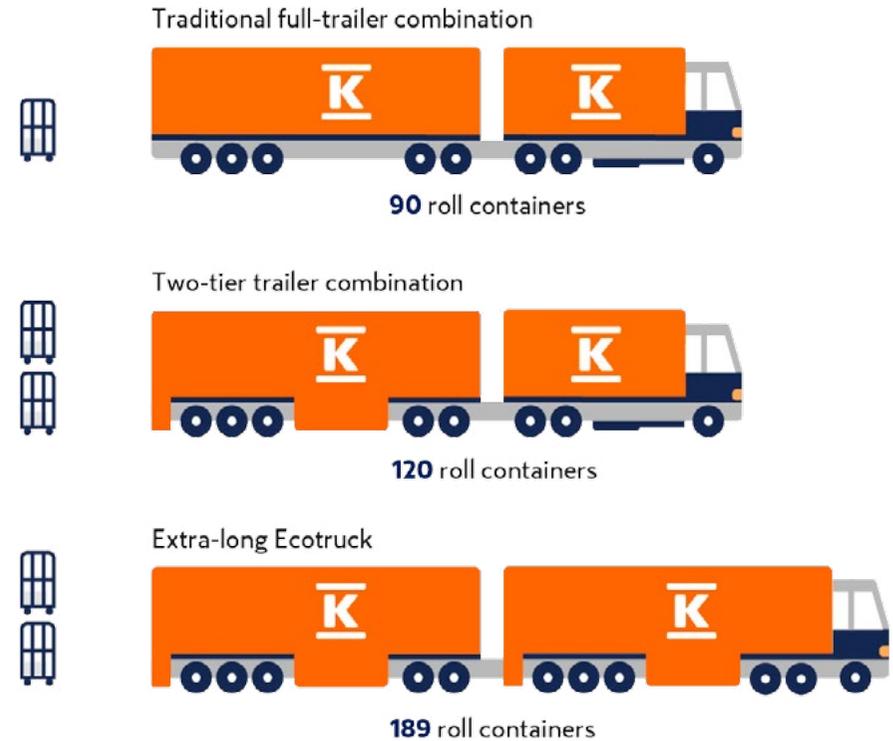
## Logistics

The target of Kesko Logistics is to reduce CO<sub>2</sub> emissions relative to the net sales index by 10% during 2012–2020 from the base year of 2011. By the end of 2016, the relative emissions had decreased by 1.9% from the base level. In 2016, the emissions increased by 3.8% in comparison to 2015. The increase in the number of stores resulting from the acquisition of Suomen Lähikauppa affected the increase in emissions. Kesko's own-brand Pirkka products were delivered to the new stores and conversion of the stores to K-Markets required the delivery of refill loads as separate deliveries.

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 Keslog's more than 500 contract drivers have been trained
- New replacements in the vehicle fleet: nine two-tier trailers and one extra-long Ecotruck in use in long-distance transportation between main warehouses

## 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 becoming 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. The rising popularity of vegetables and plant-based products in Finland was [one of the biggest food trends](#) in 2016. Vegetarian display cabinets were introduced in K-food stores in 2016. The 'Vege' cabinets gather plant-based products in one place in order to make choosing environmentally friendly products easier for the customer. By the end of 2016, already 100 K-food stores included a 'Vege' cabinet. Additionally, the K-Ruoka media offers diverse recipes and tips for cooking vegetarian meals.

#### [Read more about the 'Vege' cabinets >](#)

Kesko encourages customers to reduce food waste accumulated at home. Kesko and the K-food stores participated in the Food Waste Week organised by the Consumers' Union of Finland in September 2016 by offering information, tips and recipes in customer communications for reducing food waste.

Kesko continued the cooperation started in 2015 with Gasum, Myllyn Paras and Wursti to utilise biogas produced from inedible organic waste collected from K-food stores and the Kesko Logistics central warehouse 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<sub>2</sub> emissions were reduced by 550 tonnes compared to natural gas (calculated with emission factor 198 g CO<sub>2</sub>/kWh) and by 740 tonnes compared to fuel oil (calculated with emission factor 267 g CO<sub>2</sub>/kWh).

In 2016, K Group participated in the Kinkkutemppu 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. Customers donated 12,000 kg of ham fat, which was used to produce 10,000 liters of renewable diesel.

#### [Read more about 'Kinkkutemppu' >](#)

Read more about our work to reduce food waste and advance the circular economy in [Effluents and 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.

The sharing economy enables reduction of emissions because less products need to be manufactured when many consumers can use the same product. In 2016, K-Rauta participated in a tool rental service pilot project called Liiteri in the Teurastamo area of Helsinki.

#### [Read more about Liiteri pilot project >](#)

#### Car trade

In February 2017, the selection of VV-Auto included four plug-in hybrid car models (PHEV) and two electric cars. In addition, the selection included five car models using natural gas or biogas as fuel. In 2016, the registrations of Volkswagen and Audi plug-in hybrids in Finland increased 204% 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 March 2017, already 13 K Group stores and 3 Neste K service stations offered electric and hybrid charging points for customer use. Dozens of new charging stations will be built at Neste K service stations along main highways during 2017. 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 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 CO<sub>2</sub>/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 2016, Kesko had 690 company cars in use in Finland (607 in 2015). The number of company cars increased due to the acquisition of Suomen Lähikauppa and Onninen, which resulted in an increase in the number of employees.

- 6 ethanol-fueled cars (12 in 2015)
- 312 petrol-fueled cars (263 in 2015)
- 370 diesel-fueled cars (330 in 2015)
- 2 natural gas cars (2 in 2015)

Kesko's company car policy recommends low-emission car models with an emission level below 150 g CO<sub>2</sub>/km. In 2016, the average emission level was 122 g CO<sub>2</sub>/km (127 g CO<sub>2</sub>/km in 2015) and the emissions from company cars totalled 2,648 CO<sub>2</sub> tonnes (2,367 CO<sub>2</sub> tonnes in 2015). This calculation also includes private use of company cars.

In 2016, the air miles of Kesko employees travelling for business totalled 8.2 million (8.0 million in 2015). 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 43% since the previous year. In 2016, a total of 67,842 hours of Skype meetings were held (47,453 hours in 2015). At the end of 2016, the Kesko Group had 30 Videra video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 1,793 hours (3,812 hours in 2015).

### 305-7 Nitrogen oxides (NO<sub>x</sub>), sulfur oxides (SO<sub>x</sub>), and other significant air emissions

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2016 caused:

- 133 tonnes of NO<sub>x</sub> emissions (212 t in 2015)
- 117 tonnes of SO<sub>2</sub> emissions (179 t in 2015)
- 1.2 tonnes of radioactive waste (1.4 t in 2015)

The changes in comparison to the 2015 figures are due to a change in the reporting boundary. For 2016 the electricity purchased by retailers is not included in Kesko's electricity consumption. The figures for 2015 have been adjusted for improved accuracy since the last report. The calculation principles and more detailed calculations are available in the [Environmental profile report](#).

Only CO<sub>2</sub> emissions data is collected for transportation of goods.

## Effluents and waste

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

### Food waste

The goal of Kesko's grocery trade is to minimise the food waste resulting from its operations and utilize inevitably accumulated organic waste. Read more about the objective in [Kesko's responsibility programme](#).



### Circular economy

Kesko promotes the circular economy by taking part in innovative circular economy projects and by providing customers with diversified recycling services.

### Energy from biowaste

The cooperation with Gasum, Myllyn Paras and Wursti, started in 2015, continued. Biogas made from food waste unfit for human consumption from K-food stores and Kesko Logistics' central warehouse is used as energy in the manufacture of new Pirkka products. In 2016, around 3,700 tonnes of biowaste was turned into 2,800 MWh of biogas.

In 2016, the K Group took part in the 'Kinkkutemppu' campaign in which customers returned fat arising from roasting their Christmas hams to K-stores' recycling points for conversion into renewable diesel. As much as 10,000 litres of renewable diesel was manufactured from the total of 12,000 kg of fat returned by customers.

[Read more about 'Kinkkutemppu' >](#)

### Recycling services for customers

The recycling services on K-store premises make customers' daily lives easier and provide an efficient way for households to recycle discarded goods and consumer packages.

In December 2016, there were 396 Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 160 eco take-back points (2015: 38).

In connection with K Group stores, deposit beverage containers returned by customers, batteries and accumulators, WEEE, lead accumulators, impregnated timber and discarded clothing were also accepted.



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

	2016	2015	2014
 Deposit aluminium cans (million pcs)	378	311	320
 Deposit recyclable plastic bottles (million pcs)	116	94	96
 Deposit recyclable glass bottles (million pcs)	29	26	27
 Batteries and accumulators (tonnes)	289	210	193
 WEEE (tonnes)	92	95 <sup>1</sup>	170
 Lead-acid accumulators, K-Rauta and Rautia (tonnes)	3.5	1.6	4.3
 Impregnated timber, K-Rauta ja Rautia (tonnes)	814	914	1,003
 Used clothing, UFF recycling points (tonnes)	3,123	2,915	2,507

<sup>1</sup> Figure has been adjusted for improved accuracy since the previous report.

In October 2016, the K Group committed itself to take actions in order to reduce the consumption of plastic bags and published a [plastics policy](#). Since January 2017, Pirkka ESSI circular economy bags have been made from plastic recycled by customers

[Read more about ESSI circular economy bag and Kesko's plastics policy >](#)

### Kesko Logistics' centralised collection services

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

Kesko Logistics' reverse logistics transport beverage containers and boxes from stores for reuse and recovery.

### Packaging collected by Kesko Logistics reverse logistics for reuse and recovery

1,000 pcs	2016	2015	2014
 Aluminium cans	82,169	96,479	93,107
 PET bottles	54,648	61,403	54,296
 Recyclable glass bottles <sup>1</sup>	11,292	9,462	9,667
 Reusable crates	17,893	17,294	16,501

## 306-2 Waste by type and disposal method

### Waste in all operating countries

Tonnes	2016	2015	2014
Non-hazardous waste	38,051	27,832	30,699
Recycling/recovery	27,444	18,474	19,675
Landfill	10,607	9,358	11,024
Hazardous waste	774	1,261	164
Recycling/recovery	524	171	-
Hazardous waste treatment	250	1,090	-
<b>Total</b>	<b>38,825</b>	<b>29,093</b>	<b>30,863</b>

The figures for 2015 have been adjusted for improved accuracy

### 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 99% in 2016 and in the other operating countries it was 48%. The recovery rate includes all waste except waste to landfill.

Kesko offers K-retailers in the southern Finland area the opportunity to participate in a centralised waste management agreement. In 2016, 114 K-food stores, 11 building and home improvement stores and 14 other stores participated in the framework agreement. The recovery rate of the waste generated in these stores was 100% (98% in 2015) and the recycling rate was around 66% (67% in 2015).

Based on good experiences and convincing results, it was decided to expand the **centralised waste management agreement** nationwide. In November 2016, an agreement enabling all K Group stores to make recycling more efficient and to adopt the modern circular economy was signed.

### Waste: Finland, Sweden and Norway

Tonnes	Finland			Sweden			Norway		
	2016 <sup>1</sup>	2015	2014	2016	2015 <sup>2</sup>	2014	2016	2015	2014
<b>Non-hazardous waste</b>	18,366	10,737	11,890	3,479	2,692	2,788	410	633	1,022
Recycling/recovery	18,204	10,621	11,525	3,220	2,470	2,206	410	593	1,019
Landfill	162	116	365	259	222	582	0	40	3
<b>Hazardous waste</b>	273	1,125	43	81	60	29	215	15	55
Recycling/recovery	183	160	-	3	3	-	200	-	-
Hazardous waste treatment	90	965	-	78	57	-	15	15	-
<b>Total</b>	<b>18,639</b>	<b>11,862</b>	<b>11,933</b>	<b>3,560</b>	<b>2,752</b>	<b>2,817</b>	<b>625</b>	<b>648</b>	<b>1,077</b>
Recovery rate %	99	99	97	93	92	79	100	94	99

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

<sup>2</sup> The 2015 figures for Sweden have been adjusted for improved accuracy since the previous report

### Waste: Estonia, Latvia and Lithuania

Tonnes	Estonia			Latvia			Lithuania		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>Non-hazardous waste</b>	733	680	631	640	612	545	3,946	2,605	3,545
Recycling/recovery	689	608	392	163	156	127	2,271	1,699	2,430
Landfill	44	72	239	477	456	418	1,675	906	1,115
<b>Hazardous waste</b>	27	20	14	5	3	3	152	36	18
Recycling/recovery	1	-	-	-	-	-	119	8	-
Hazardous waste treatment	26	20	-	5	3	-	33	28	-
<b>Total</b>	<b>760</b>	<b>700</b>	<b>645</b>	<b>645</b>	<b>615</b>	<b>548</b>	<b>4,098</b>	<b>2,641</b>	<b>3,563</b>
Recovery rate %	94	90	63	26	26	24	59	66	69

**Waste: Poland, Russia and Belarus**

Tonnes	Poland			Russia			Belarus		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>Non-hazardous waste</b>	218	-	-	8,594	8,303	8,537	1,665	1,570	1,741
Recycling/recovery	51	-	-	2,382	2,279	1,918	55	48	58
Landfill	167	-	-	6,212	6,024	6,619	1,610	1,522	1,683
<b>Hazardous waste</b>	15	-	-	1	1	1	3	1	1
Recycling/recovery	15	-	-	-	-	-	2	0.1	-
Hazardous waste treatment	-	-	-	1	0.8	-	0.6	0.9	-
<b>Total</b>	<b>233</b>	<b>-</b>	<b>-</b>	<b>8,595</b>	<b>8,304</b>	<b>8,538</b>	<b>1,668</b>	<b>1,571</b>	<b>1,742</b>
Recovery rate %	28	-	-	28	27	22	3	3	3

## Social impacts

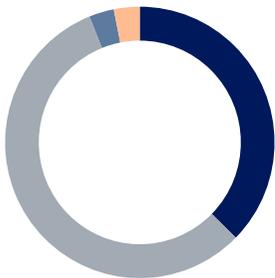
### Employment

#### 401-1 New employee hires and employee turnover

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 (excluding Saele og Holleviks Trading AS and TM Christensen VVS Detajer).

In 2016, Kesko had an average of approximately 22,476 (2015: 18,955) 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% were in the other operating countries.

#### Distribution of Kesko personnel by division at 31 Dec. 2016, %



- Grocery trade 37.4%
- Building and technical trade 56.5%
- Car trade 3%
- Common operations 3.1%

#### Changes in the number of Kesko employees

	2016	2015	2014
Finland at 31 Dec.	14,845	10,081	12,180
Other operating countries at 31 Dec.	12,811	11,854	11,614
Total at 31 Dec.	27,656	21,935	23,794
Finland, average	10,714	8,300	9,580
Other operating countries, average	11,762	10,655	10,396
<b>Total, average</b>	<b>22,476</b>	<b>18,955</b>	<b>19,976</b>

#### Fixed-term and part-time employments at Kesko

	2016	2015	2014
<b>Fixed-term employees of total personnel at 31 Dec., %</b>			
Finland	12.0	11.5	13.9
Companies in other operating countries	6.1	6.1	7.2
<b>Whole Group, total</b>	<b>9.2</b>	<b>8.6</b>	<b>10.7</b>
<b>Part-time employees of total personnel at 31 Dec., %</b>			
Finland	43.9	39.4	43.6
Companies in other operating countries	6.7	8.1	7.1
<b>Whole Group, total</b>	<b>26.7</b>	<b>22.5</b>	<b>25.8</b>

**Kesko's personnel statistics for 2016 analysed by operating country**

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of personnel at 31 Dec.	14,845	1,165	424	714	627	4,170	846	1,981	2,884
Average number of personnel in 2016	10,714	1,028	299	632	521	3,442	486	2,992	2,362
Number of new employments <sup>1</sup>									
- women	3,055	113	14	96	76	1,038	16	1,006	408
- men	2,052	184	33	133	203	1,448	55	800	622
Number of terminated employments <sup>1</sup>	4,696	269	102	187	191	3,330	26	1,585	701
Terminated by employer, %	5.3	10.4	0.0	2.7	2.6	9.3	69.2	8.5	0.4
Total turnover rate, % <sup>2</sup>	20.2	23.1	23.3	17.1	22.8	78.0	3.1	80.0	24.3

<sup>1</sup> Including summer employees

<sup>2</sup> Excluding summer employees

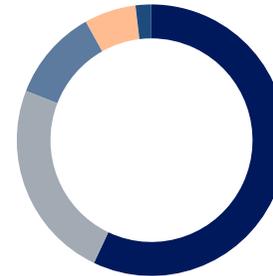
When calculating the number of terminated employments, each employee is included only once, whereas one person may have several new employments included in the total number.

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

The 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

**Recruits, age distribution 2016, %**



- Under 26 years 57.1%
- 26-35 years 23.9%
- 36-45 years 11%
- 46-55 years 6.2%
- Over 55 years 1.9%

In all of the operating countries, Kesko supports its employees' leisure activities in different ways. The Finnish companies, for example, provide vouchers for physical exercise and cultural benefits. 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 remuneration 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 total profits, the sales and profit of the employee's own unit, and customer satisfaction. The job satisfaction of personnel also affects supervisors' performance bonuses. In spring 2016, around €11.5 million (€12.4 million in 2015) was paid in Finland in bonuses under the 2015 performance bonus schemes, accounting for approximately 3.7% (4.0% in 2015) of the total payroll.

In 2016, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland, €14.5 million (€13.1 million in 2015)
- In the other operating countries, €8.3 million (€5.0 million in 2015)

Kesko Group's management and key personnel (approximately 150 individuals) are participants in a performance-based bonus scheme. The maximum bonus amounts vary depending on the profit impact of the person's role and are equivalent to 3–8 months' salary. Kesko operates the 2014–2016 share remuneration scheme covering approximately 150 members of management personnel and other named key individuals. The share remuneration plan has three vesting periods: the 2014, 2015 and 2016 calendar years. The shares awarded as bonuses have a commitment period of three calendar years following each vesting period. During the commitment period, the shares cannot be transferred. In February 2016, the Board decided to grant a total of 140,365 Company B shares to 142 members of management personnel and other named key individuals based on the fulfilment of the vesting criteria for the 2015 vesting period of the share remuneration plan.

### Pensions

New pensions were granted to 271 (168 in 2015) people in the 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 87 (50 in 2015) people who were at a clear risk of losing their working capacity within a few years. The average retirement age of employees in 2016 was 60 (59 in 2015). In the other operating countries, 28 (15 in 2015) employees retired.

## 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.

Employees can ask questions, give feedback and suggest ways to develop matters related to the operations of Kesko or its subsidiaries anonymously using the Direct Line feedback channel on Keskonet, Kesko's intranet. Responses are published on Keskonet for all to see. The Mail for the President and CEO feedback channel on Keskonet also enables the personnel to send their greetings, comments and suggestions directly to the President and CEO. Confidential feedback can also be given via the SpeakUp reporting channel.

## 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. 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, 15,000 (10,200 in 2015) employees were covered by Kesko's own occupational health services. Kesko's occupational health service purchases occupational health care from various service providers for employees in Finland outside Greater Helsinki. Centralised purchasing and target-oriented management enable consistent contents 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 € 7.5 million (€3.7 million in 2015) was spent on occupational health care in Finland in 2016. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €3.7 million (€2.0 million in 2015) of this sum. In 2016, Kesko's occupational health service spent €499 (€359 in 2015) per employee on maintaining employees' working capacity and providing medical care.

### Kesko's contribution to occupational health care, Finland

	2016	2015	2014
€/person	499	359	412

### Injuries and occupational diseases in Finland

	2016	2015	2014
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	227	93	124
Commuting injuries	81	35	32
Injury rate <sup>1</sup> /million working hours	10	6	6
Average degree of injury severity, days	15.8	16.9	17.6
Suspected occupational diseases	1	4	11
Occupational diseases	2	0	0
Sick days due to occupational injuries, commuting injuries and occupational diseases	5,744	2,166	2,751
Per employee	0.5	0.3	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 or the following companies: Vähittäiskaupan Takaus Oy, Vähittäiskaupan Tilipalvelu VTP Oy, the Agricultural Foundation of Trade.

<sup>1</sup> Excl. small injuries and commuting injuries, calculated with actual working hours

### Sickness absences by country in 2016

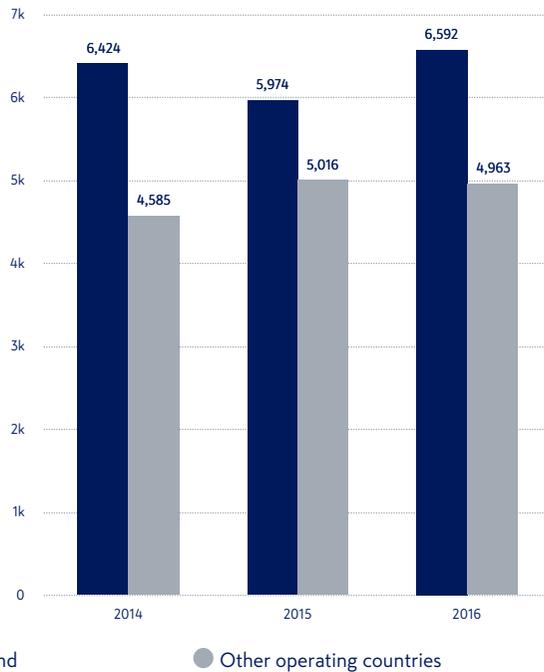
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of sick days	133,211	6,931	4,412	4,105	5,164	33,494	5,258	28,664	27,890
Per employee	12.4	6.7	14.8	6.5	9.9	9.7	10.8	9.6	11.8
Per million working hours	6,592	3,831	8,384	3,199	4,907	4,817	5,201	4,838	5,811

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

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 71 injuries occurred resulting in sickness absences of more than three days in 2016. The corresponding figure in Finland was 227. In 2016, the sickness absence rate in the Group companies in Finland was 4.4% of hours worked (4.4% in 2015). Approximately 74.6% (77.4% in 2015) of sickness absences were short-term absences (paid sick days). In the other countries, the sickness absence rate was 4.2% (3.7% in 2015).

**Trend in number of sick days**

Sick days/million working hours



## Training and education

### 404-1 Average hours of training per year per employee,

### 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. The revised supervisor training programmes have already reached a large proportion of supervisors, and a separate training programme for middle managers was launched in the autumn. Further investments were made in digital thinking as the K Digital Academy training programme was executed for the third time and the K Digital Trainee programme offered trainee placements for recent graduates with a digital orientation. In addition, a mindfulness training course was piloted with good results. Numerous regional social media training courses were held for retailers. Updated and uniform electronic tools for induction were adopted.

Other core areas of competence development included:

- Immediate supervisory work
- Leadership
- Digitality
- Project management
- Interaction and negotiation skills
- Safety and responsibility
- Customer experience; sales and service competences

### Training days and costs in 2016

	2016	2015	2014
<b>Training days<sup>1</sup></b>			
Finland	7,421	6,891	9,083
Other countries <sup>2</sup>	11,033	14,614	14,285
<b>Training days per employee<sup>1</sup></b>			
Finland	0.7	0.8	0.9
Other countries <sup>2</sup>	0.9	1.4	1.4
<b>Training costs, € million</b>			
Finland	2.9	2.5	2.9
Other countries	0.9	0.9	0.8
<b>Training costs per employee, €</b>			
Finland	268	299	298
Other countries	79	87	80

<sup>1</sup> 2015: Excluding Konsoma JLLC, Belarus and OOO Kesko Real Estate, Russia

<sup>2</sup> 2014: Excluding Konsoma JLLC, Belarus. 2015: Excluding Konsoma, Belarus and OOO Kesko Real Estate, Russia

The updated gamified Master Sales Assistant training course offers store personnel a colourful and interesting way of developing their sales skills. Store personnel were also offered vocational training and the opportunity to obtain vocational qualifications. In addition, we trained 91 new workplace instructors for K-stores.

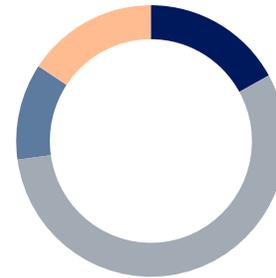
In-house job rotation provides an extensive selection of alternative careers. In Finland, approximately 4,837 (1,800 in 2015) internal transfers took place, while the total figure for the other operating countries was 2,923 (2015 in 2,900).

In Finland, the K Group's recruitment is supported by the K Trainee and retailer coaching programmes. The sixth K Trainee programme ended in October 2016, and five K-trainees graduated from the digitally-oriented programme to take on permanent employments in the K Group. In

2017, a dozen or so talented young people will be sought for inclusion in the K Trainee programme.

Future K-retailers are trained in the retailer coaching programmes. The coaching involves online studies and on-the-job training under a mentor retailer, as well as regional and national on-site training periods. Those completing the programme are qualified to start a career as independent K-retailers. Investments were made in the continuous development of existing retailers' competences by updating the supplementary training for retailers, which includes several targeted training sessions and the more extensive Success Factors training entity, which forms part of the MBA degree.

### Distribution by education at 31 Dec. 2016, %



- Comprehensive school 17%
- Upper secondary vocational education 55.8%
- Lower university degree 11.5%
- Higher university degree 15.7%

Byggnakker, Norway and K-rauta, Sweden not included.

### 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, supervisory work and the working community. Every member of personnel has a performance and career development review, and in 2015, they were carried out twice: in the spring and the autumn. The implementation of performance and career development reviews was surveyed in conjunction with the personnel survey conducted at the beginning of 2016. The response rate to the personnel survey was 85%. 79% of the women who responded to the survey and 82% of the men who responded had had a performance and career development review in 2015. In 2016, they were conducted at least once: in the spring and/or the autumn.

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 supervisory work. The personnel survey is conducted in Kesko Group and some K-stores in Finland at the same time as in other countries. 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 supervisors 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.

## 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 division parent companies and 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, 60% were women and 40% were men. In the other operating countries, the figures were 48% and 52% respectively.
- In Finland, the average age of employees was 41.8 years in 2016. In the other countries, the average age of employees varied from 36 to 46 years.
- Lengths of employee careers: under 10 years: 67% and over 10 years: 33% in Finland and 87% and 13% respectively in the other countries. Long careers are not rare: 1,438 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 engaging in retailing in Finland, the proportion of women in supervisory duties was significant: 87% of the department managers at K-Citymarket hypermarkets were women.
- At the end of 2016, 46% of all supervisors in Finland (51% in 2015) were women and 54% (49% in 2015) were men.

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

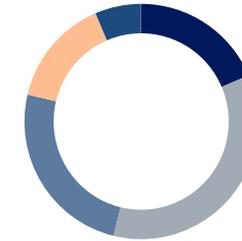
- In 2012, the K-Retailers' Association started a project named 'Many kinds of performers' in collaboration with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent operating model was created for employing people with developmental disabilities. Many of the people with developmental disabilities who were employed as part of the project are still working at the 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 the 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. By the end of 2015, when the Youth Guarantee in K Group programme ended, more than 2,500 young people had found a position with the help of a work trial, pay subsidy or apprenticeship training.
- The employment of young people and special groups continues as a permanent operating model. In 2016, the K-Retailers' Association had a youth guarantee coordinator who provided K-retailers and Kesko's supervisors with advice on employing and training young people and special groups and acted as a liaison to the authorities and associations. By the end of 2016, more than 3,200 young people from the target group had received a position in the K Group with the help of a work trial, pay subsidy or apprenticeship training.

Age distribution of Kesko personnel in Finland in 2016, %



- under 26 years 23.2%
- 26-35 years 26.4%
- 36-45 years 22%
- 46-55 years 19.1%
- over 55 years 9.2%

Age distribution of Kesko personnel in the other operating countries in 2016, %



- under 26 years 18.6%
- 26-35 years 35.2%
- 36-45 years 24.9%
- 46-55 years 14.9%
- over 55 years 6.4%

Years of service in Finland in 2016, %



- under 2 years 25.6%
- 2-5 years 21.6%
- 6-10 years 19.3%
- 11-15 years 11.7%
- 16-20 years 8%
- 21-25 years 4.4%
- over 25 years 9.4%

Years of service in the other operating countries in 2016, %



- under 2 years 42.3%
- 2-5 years 29.7%
- 6-10 years 15.4%
- 11-15 years 8.1%
- 16-20 years 3.4%
- 21-25 years 0.7%
- over 25 years 0.5%

## 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 €38,794 in Finland, €40,313 in the other Nordic countries, and €10,113 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

	2016	2015	2014
Top management	24.1	20	15.6
Middle management	20.0	21.1	18.6
Supervisors and specialists	41.9	46.4	48.2
Workers and white-collar employees	64.4	57.8	61.5
<b>Total</b>	<b>60.1</b>	<b>55.4</b>	<b>58.8</b>

The figures also include those called to work on demand

#### Percentage of women by employee category, other countries

	2016	2015	2014
Top management	0.0	0	0.0
Middle management	49.1	47.7	46.8
Supervisors and specialists	48.4	54.4	54.7
Workers and white-collar employees	47.2	47.8	46.2
<b>Total</b>	<b>47.8</b>	<b>50.5</b>	<b>51.5</b>

2014 and 2015: Excluding Senukai, Lithuania

## Non-discrimination

### 406-1 Incidents of discrimination and corrective actions taken

In 2016, there was one case in the Finnish courts of law in which a Kesko Group company was ordered to pay compensation under the Non-Discrimination Act.

## 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

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

Out of the total personnel, 50% are covered by collective agreements.

So far, no binding industry-wide collective agreements have been drawn up in Russia.

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 on assessment >](#)

[Find out more about Kesko's collaboration with SASK >](#)

#### 412-2 Employee training on human rights policies or procedures

The K Code of Conduct operating guidelines include a [section on human rights](#). The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 3,159 people by the end of 2016. A plan for the year 2017 was drawn up with actions promoting awareness of the K Code of Conduct, such as communications and training events scheduled for each quarter of the year.

The training events in 2016 focused on human rights and their implementation in international purchasing chains. Nine events were arranged for people working in purchasing and sales in different divisions, as well as for the Product Research Unit. The training sessions discussed the assurance process in purchasing from high-risk countries, the BSCI Code of Conduct principles and the social responsibility assessment systems approved by Kesko. Trainings in responsible purchasing will continue in 2017.

## Supplier social assessment

### 414-1 New 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 2016, direct purchases by Kesko's Finnish companies from suppliers in high-risk areas totalled €85 million (€90 million in 2015) and accounted for 1% (1.2%) of Kesko's total purchases. Direct imports from high-risk countries accounted for 11.9% (14.8%) of Kesko's total imports into Finland. The most significant high-risk countries of import of Kesko's Finnish companies are presented in the table below. No statistics are available on direct imports from high-risk countries by Kesko's subsidiaries in other countries.

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

Since 2015, Kesko has published 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 21 June 2016.

**Social responsibility audits of our suppliers in high-risk countries**

Kesko recommends the use of BSCI audits and SA8000 certification in the assessment of social responsibility of suppliers in high-risk countries. Kesko also accepts other social responsibility assessment systems, if their criteria correspond to those of BSCI auditing and 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 BSCI auditing after a maximum of two ICA audits. The social responsibility auditing systems accepted by Kesko are listed under **‘Management models and systems’**. Some of Kesko’s suppliers are themselves members of BSCI and thus promote audits in their own supply chains.

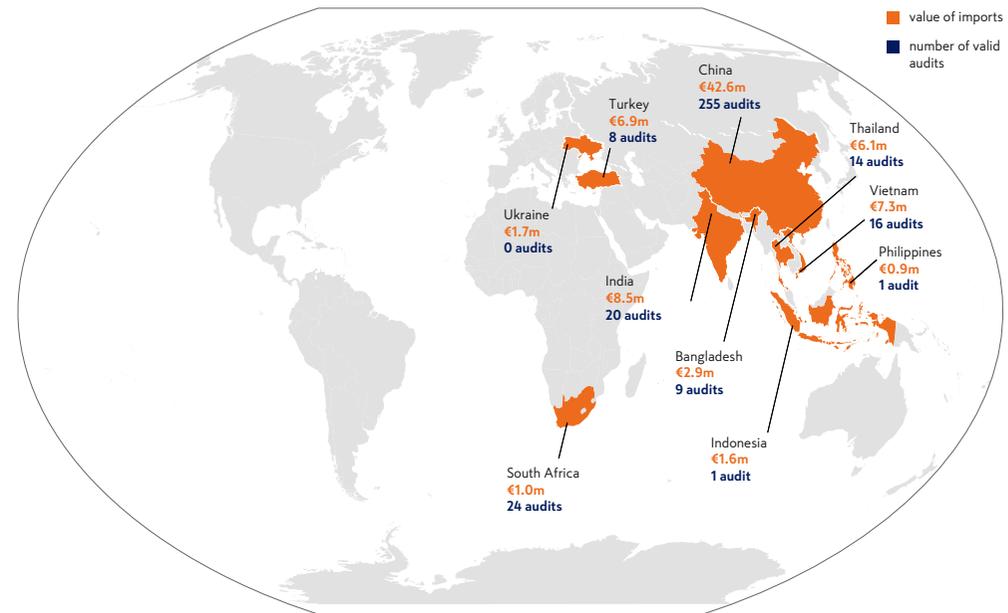
**Kesko’s own direct imports from high-risk countries, 10 largest countries in 2016<sup>1</sup>**

Country	Value of imports, € million
China	42.6
India	8.5
Vietnam	7.3
Turkey	6.9
Thailand	6.1
Bangladesh	2.9
Ukraine	1.7
Indonesia	1.6
South Africa	1.0
The Philippines	0.9

<sup>1</sup> ICIF, direct imports forwarded by Kesko Logistics and Onninen Finland only, excluding imports by VV-Auto

**Suppliers’ social responsibility audits in Kesko’s 10 largest high-risk countries of import**

Direct purchases from suppliers in high-risk countries account for 1% of Kesko’s total purchases



At the beginning of 2017, Kesko's suppliers in high-risk countries had:

- 274 (start of 2016: 200) valid BSCI audits
- 13 (start of 2016: 16) valid SA8000 certifications
- 24 valid SMETA audits
- 11 valid ICTI CARE certifications
- 22 valid SIZA audits
- 11 valid Fairtrade certifications
- 5 valid ICS audits
- 2 valid WRAP certifications
- 24 valid ICA Social Audits

As regards Onninen, the figures only include the BSCI audits of suppliers to the Kesko Onninen Purchasing Office (KOPO) in Shanghai.

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 cooperation begins. Since the beginning of 2016, 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.

The map presented here shows the number of suppliers' valid social responsibility audits and certifications in Kesko's 10 largest high-risk countries of import.

**BSCI audit results**

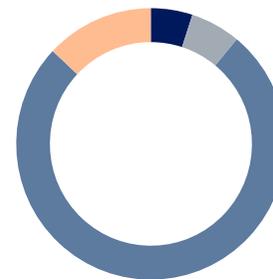
In 2016, suppliers' factories or plantations underwent

- 210 (2015: 107) full BSCI audits
- 60 (2015: 80) BSCI follow-up audits

The results of the BSCI audits of Kesko's suppliers' factories in 2016 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 BSCI's 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.

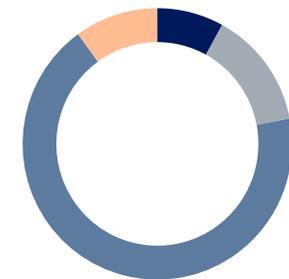
Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2016, it was decided to terminate cooperation with one supplier due to ambiguities related to social responsibility. It was not possible to reach a consensus with the supplier regarding the necessary corrective actions.

**Kesko's BSCI audit results in 2016, full audits**



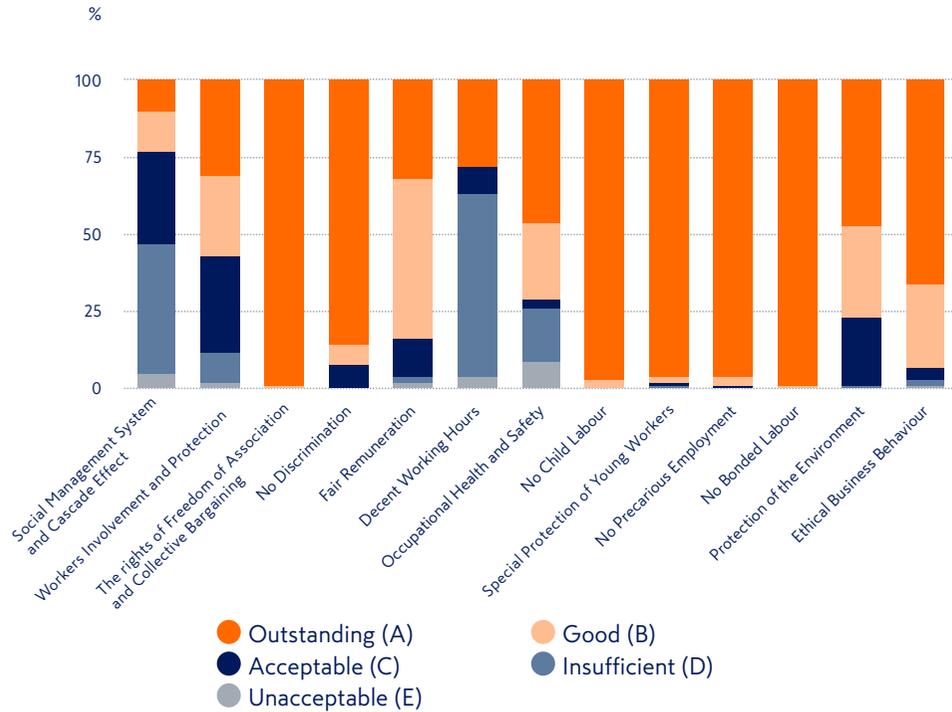
- Outstanding (A) 5%
- Good (B) 6%
- Acceptable (C) 76%
- Insufficient (D) 13%
- Unacceptable (E) 0%

**Kesko's BSCI audit results in 2016, follow-up audits**

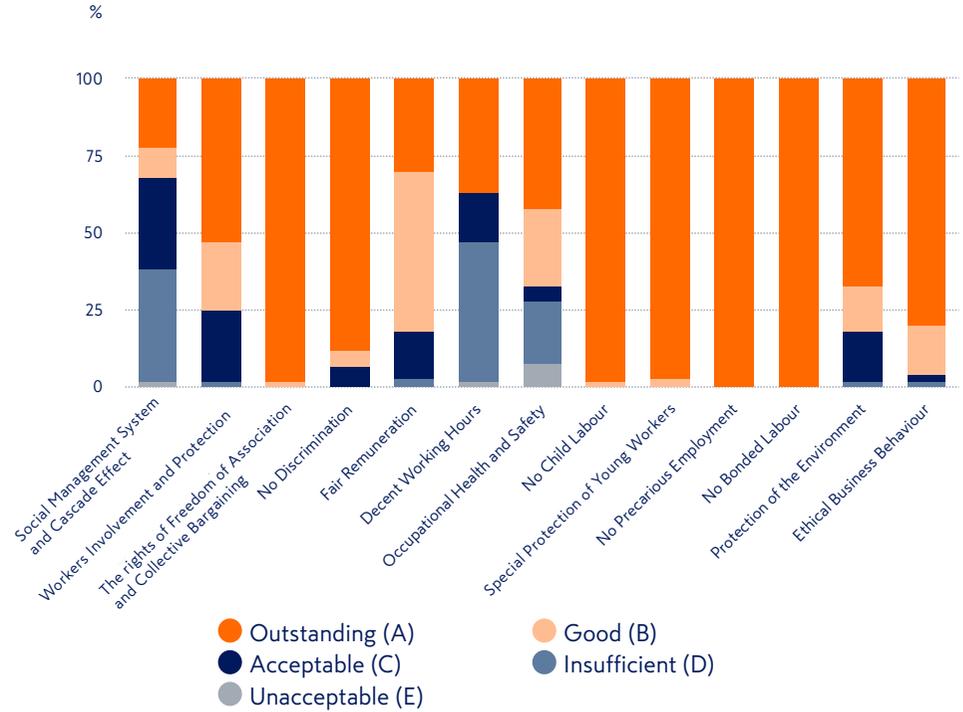


- Outstanding (A) 8%
- Good (B) 14%
- Acceptable (C) 68%
- Insufficient (D) 10%
- Unacceptable (E) 0%

Kesco's BSCI audit results, distribution in different areas in 2016, full audits



Kesco's BSCI audit results, distribution in different areas in 2016, 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 the store level.

- In 2016, Kesko's grocery trade selections included 367 (2015: 212, excluding Kespro) Fairtrade products, of which 36 (2015: 40) were Pirkka products and 7 were Kespro's Menu products.
- In 2016, the products sold by Kesko's grocery trade and Kespro generated Fairtrade premiums for social development projects amounting to €649,459 (2015: €481,405).

In 2016, the products generating the largest Fairtrade premiums were flowers (€268,358), fruit (€135,764) and coffee (€169,635). According to Fairtrade Finland's statistics, the sales of own brand – Pirkka and Menu – Fairtrade coffee alone employed 184 small-scale coffee farmers in 2016 on Fairtrade's terms.

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

Kesko aims to identify the entire supply chain of the products and also verify the sustainability of products' ingredients. Work began in 2015 to analyse the origins of the ingredients in own-brand grocery products, and the sustainability of 1,923 ingredients in Pirkka and K-Menu food products was assessed. The project continued in 2016, when risk analyses were conducted for the ingredients in 160 new own brand food products. In 2016, 29 of the studied products contained ingredients for which additional sustainability investigation will be required. The suppliers will be requested to investigate the social responsibility of the suppliers of these ingredients.

Studies of the ingredients in own-brand food products will continue in 2017. Based on the results, Kesko intends to decide upon ingredient-specific follow-up measures to promote the sustainability of the supply chains of Pirkka and K-Menu products.

### Follow-up study on the impact of a training project for Vietnamese supplier

Kesko was involved in a training project conducted by Union Aid Abroad APHEDA and the Trade Union Solidarity Centre of Finland SASK from 2006 to 2008, with the aim of improving the working conditions in the factories of selected Vietnamese suppliers shipping to Finland and

supporting the factories in implementing the BSCI operating principles. The project involved 13 Vietnamese suppliers and 18 factories.

A follow-up study was conducted in autumn 2016 to gauge the long-term impacts at ten of the factories involved in the project. The aim of the impact assessment was to evaluate the effects of the project on factory working conditions eight years later in terms of occupational health and safety, relations between managers and workers, and environmental management systems.

The results of the impact assessment show that the project had long-term benefits. Almost all of the factories being assessed had continued to improve working conditions after the project finished. In eight years, the factories had made tangible improvements to their working environments, the situation of workers and their environmental systems.

[Find out more about Kesko's collaboration with SASK >](#)

### Collaboration with Plan

Kesko and Plan International Finland, an organisation promoting children's rights, continue their cooperation to improve the responsibility of the Thai fishing industry and the situation of migrant workers. A collaboration agreement has been made for the period from 2015 to 2018. The joint project aims to improve the working conditions of Cambodian migrant workers, as well as education and protection for their children in Thailand. A further goal is to increase transparency in the supply chain.

As part of the project, two learning centres were established for children of migrant workers in the Rayong and Trat provinces in spring 2015. The learning centres provide children from migrant workers' families with the skills they need to attend public schools in Thailand and support them in continuing their studies. In 2016, 159 children aged between 4 and 17 were registered at the learning centres, and 99 children were admitted to school with the help of the project. BSCI training for suppliers began in November 2016. 16 suppliers from the Thai fishing industry took part in the first training event, which was held in Bangkok. The training will continue in spring 2017. Find out more about our collaboration with [Plan](#).

## 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 2016, Kesko did not participate in political parties' seminars subject to a charge and did not publish commercial advertisements in party newspapers.

## 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. It requires manufacturers of its own-brands to have certification that assures international product safety. The standards approved by Kesko's grocery trade include BRC, IFS, FSSC 22000 and GlobalGAP. In 2016, the total number of certified suppliers was 538 (532 in 2015). This number also includes old audits conducted according to Kesko's grocery trade's own audit guidelines.

A total of 7,770 (8,037 in 2015) product samples were analysed. Most of them related to the product development of own brands. A total of 2,387 (2,158 in 2015) own control samples were analysed.

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. Kesko follows the discussion about reformulation restarted by the launch of the **Roadmap for Action on Food Product Improvement** in spring 2016. As the national Finnish targets are likely to be established in 2017, Kesko's grocery trade will revise its reformulation policy statement.

In 2016 and early 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.

Product Research is also responsible for product recalls, which numbered 101 in 2016 (124 in 2015). Of these, 26 (27 in 2015) were Kesko's grocery trade's own-brands; in the other cases, Product Research assisted the manufacturers in recalls. There were two public recalls involving a potential health hazard resulting from product flaws or defects in Kesko's grocery trade's own-brand products in 2016 (3 in 2015).

In 2016, K-Rauta made one product recall in Finland.

Onninen made four recalls in 2016: two in Finland, one in Sweden and one in Poland.

In 2016, 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

As for its own-brand products and own imports, Kesko's grocery trade complies with Regulation [\(EC\) No 1169/2011](#) on the provision of food information to consumers and the supplementary Regulation [\(EC\) No 1337/2013](#) laying down rules for the indication of origin of certain meats. These regulations lay down the rules for providing information on product ingredients, among other things.

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. The country of origin of meat is also indicated in the list of ingredients of Pirkka products that contain meat as one of the main ingredients, although related national legislation is only planned. The country of origin is indicated on all own-brand products of K-Citymarket and Kesko's building and technical trade.

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 packages of Kesko's own-brand chemical products — such as detergents and paints — bear warning labelling in accordance with CLP regulation [EC 1272/2008](#) on the classification, labelling and packaging of chemicals.

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 diesel engines. This software is fitted in EA 189 series 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 is around 53,000. The case applies to all of the brands imported by VV-Auto (Volkswagen, Audi, SEAT and Volkswagen commercial vehicles).

In 2016, the German authority (KBA) approved all technical corrective measures for type EA 189 diesel engines. The 1.2 litre and 2.0 litre diesel engines will get a software update. The 1.6 litre diesel engines will also get a software update and have a "flow rectifier" fitted directly in front of the air mass sensor.

Earlier in the spring of 2016, the German authority confirmed that the technical measures will not impair fuel consumption, engine power, CO<sub>2</sub> emissions, handling or acoustics. The corrective measures will not have an impact on the cars' taxation in Finland, because nitrogen oxide emissions (NO<sub>x</sub>) are not car tax or vehicle tax bases in Finland. After the technical measures have been implemented, the cars will fulfil the applicable type approval emission standards.

In Finland, the importer has sent informative letters to the customers concerned. After receiving the letter, the customer can book an authorised repairer. The corrective measure will take from 30 minutes to one hour, most conveniently in connection with a maintenance visit or tyre change. The corrective measure can only be made at an authorised repairer and it is free of charge to the customer. The customer will be given a certificate to confirm that the corrective measure has been implemented.

If the customer has not received a recall letter before the next vehicle inspection, they can have the car inspected as usual and the corrective measure will be implemented after the inspection.

Due to the great number of different air mass sensors, the recalls will take place on a schedule agreed with KBA. For that reason, all models and engine/gearbox versions are not recalled at the same time.

By the end of 2016, the corrective solution has been available for a total of around 50,000 cars and 25% of them have been corrected.

#### **Product recalls resulting from defective product labelling**

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

In 2016, there were 24 product recalls resulting from defective product labelling (46 in 2015), of which 7(9 in 2015) were Kesko's grocery trade's own-brands.

#### **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 2016, there were no advertisements by Kesko or its subsidiaries submitted for consideration by the Council of Ethics in Advertising nor were there any incidents of non-compliance with legislation or voluntary principles.

In December 2016, the Consumer Ombudsman imposed a prohibition reinforced with a penalty payment in the case concerning Indoor Group Ltd's discount sale marketing in 2014–2015.

## **Customer privacy**

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

In 2016, K-Plus Oy did not detect any leaks of information or other personal data breaches.

The company received one complaint from a customer regarding the deletion of personal data from K-Plus Oy's customer register. The case resulted in the Data Protection Ombudsman contacting the company. The Ombudsman stated that there was no need for an order as referred to in the Personal Data Act because K-Plus Oy had deleted the customer's personal data from its systems.

## **Socioeconomic compliance**

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

In 2016, there were no cases of non-compliance with laws and regulations in the social and economic area.

## 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 GRI report integrated in Kesko's Annual Report is prepared in accordance with the GRI standards and covers the key areas of economic, social and environmental responsibility. For each reported standard, the GRI content index refers to the year of the version used. This report has been prepared in accordance with the 2016 standards.

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.

We have divided the report into four sections: responsibility management, responsibility programme, disclosures, and GRI and UNGC. The report is available in Finnish and in English, and it is published online only.

This report has been prepared in accordance with the GRI Standards: Core option. Topic-specific Standards 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 and UNGC 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 GRI 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 and UNGC index](#) shows which disclosures and Topic-specific Standards have been used for evaluating performance in fulfilling human rights, labour rights, environment principles and anti-corruption principles.

### 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 of the report include investors, owners, analysts and rating agencies, as well as society (the media, authorities, NGOs and other organisations, and trade unions). In the report, we also want to take into account Kesko's other important stakeholders: retailers, personnel, potential employees, suppliers and service providers, and customers.

### Reporting period and contact information

This report describes the progress and results of responsibility work in 2016. It includes some information from January to March 2017.

The report for 2015 was published in March 2016.

The report for 2017 will be published in the spring of 2018.

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

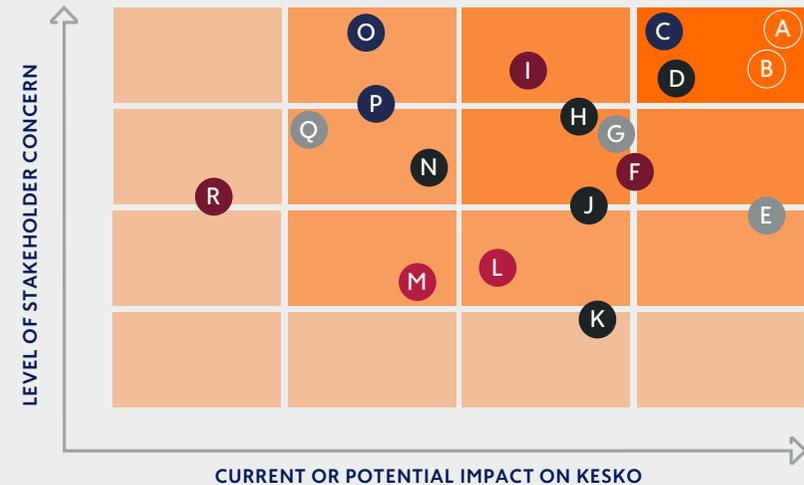
# Materiality assessment

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 impact on Kesko. 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

**Customers**

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

**Society**

- L Local approach
- M Sense of community

**Working community**

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

**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

**Environment**

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

# GRI and UNGC index

Code*	GRI content	Location	Omissions	Further information	Global Compact
<b>General Standard Disclosures</b>					
102-1	Name of the organisation	<a href="#">Kesko in brief</a>			
102-2	Activities, brands, products, and services	<a href="#">Kesko in brief</a> , <a href="#">Divisions</a>		Finnish Alcohol Act 1143/1994, Section 14: "Retail trade of alcoholic beverages containing a maximum of 4.7 percentage by volume ethyl alcohol, which are prepared through fermentation, may be carried on, besides by the State Alcohol Monopoly, by whoever the licensing authority has granted a retail licence." The origin and production conditions of products, food products in particular, and their health outcomes are relatively often topics of public discussion in the media and/or on social media.	
102-3	Location of headquarters	<a href="#">Kesko in brief</a>			
102-4	Location of operations	<a href="#">Kesko in brief</a>			
102-5	Ownership and legal form	<a href="#">Kesko in brief</a>			
102-6	Markets served	<a href="#">Kesko in brief</a>			
102-7	Scale of the organisation	<a href="#">Kesko in brief</a>			

Code*	GRI content	Location	Omissions	Further information	Global Compact
102-8	Information on employees and other workers	<a href="#">Social impacts - Employment</a>	No distribution by gender. Information not available. The aim is to report the information in 2017–2018.	There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work. There are no significant seasonal fluctuations in the number of employees.	X
102-9	Supply chain	<a href="#">Our operating environment, 204-1 Proportion of spending on local suppliers, Responsibility programme/Responsible purchases and sustainable selections</a>			
102-10	Significant changes to the organisation and its supply chain	<a href="#">Review by the President and CEO, Kesko in brief, Divisions</a> , Stock exchange releases on <a href="#">12 April 2016</a> , <a href="#">1 June 2016</a> , <a href="#">30 November 2016</a> , <a href="#">1 December 2016</a>			
102-11	Precautionary Principle or approach	<a href="#">Our operating environment</a>			
102-12	External initiatives	<a href="#">Corporate responsibility in Kesko's strategy</a>			
102-13	Membership of associations	<a href="#">Activities in organisations</a>			
102-14	Statement from senior decision-maker	<a href="#">Review by the President and CEO</a>			
102-15	Key impacts, risks, and opportunities	<a href="#">Our operating environment, How we create value, Stakeholders, Responsibility programme</a>			
102-16	Values, principles, standards, and norms of behaviour	<a href="#">Policies and principles, Responsibility programme: good corporate governance and finance</a>			X
102-17	Mechanisms for advice and concerns about ethics	<a href="#">Notification of concerns and non-compliances</a>			X
102-18	Governance structure	<a href="#">Corporate Governance Statement 2016</a>			
102-19	Delegating authority	<a href="#">Management model and systems</a>			
102-20	Executive-level responsibility for economic, environmental and social topics	<a href="#">EVP, CFO; EVP for marketing, communications, corporate responsibility and corporate relations</a>		Both are members of the Group Management Board. <a href="#">Reporting model</a>	
102-21	Consulting stakeholders on economic, environmental, and social topics	<a href="#">Stakeholders, Corporate Governance Statement 2016</a>			

Code*	GRI content	Location	Omissions	Further information	Global Compact
102-22	Composition of the highest governance body and its committees	<a href="#">Board of Directors, Corporate Governance Statement 2016</a>			
102-23	Chair of the highest governance body	<a href="#">Board of Directors, Corporate Governance Statement 2016</a>			
102-24	Nominating and selecting the highest governance body	<a href="#">Corporate Governance Statement 2016</a>			
102-25	Conflicts of interest	<a href="#">Corporate Governance Statement 2016, K Code of Conduct</a>		Kesko complies with the Finnish Corporate Governance Code for Listed Companies	
102-26	Role of highest governance body in setting purpose, values, and strategy	<a href="#">Corporate Governance Statement 2016, Management model and systems</a>			
102-28	Evaluating the highest governance body's performance	<a href="#">Corporate Governance Statement 2016</a>	Only the Board's self-assessment has been reported.		
102-29	Identifying and managing economic, environmental, and social impacts	<a href="#">Corporate Governance Statement 2016</a>			
102-30	Effectiveness of risk management processes	<a href="#">Corporate Governance Statement 2016</a>			
102-31	Review of economic, environmental, and social topics	<a href="#">Corporate Governance Statement 2016</a>			
102-32	Highest governance body's role in sustainability reporting	<a href="#">Corporate governance principles</a>			
102-33	Communicating critical concerns	<a href="#">Stakeholders, Corporate Governance Statement 2016</a>			
102-35	Remuneration policies	<a href="#">Corporate Governance Statement 2016, Remuneration Statement 2016, Management model and systems</a>			
102-40	List of stakeholder groups	<a href="#">Stakeholders</a>			
102-41	Collective bargaining agreements	<a href="#">Social impacts/Freedom of association and collective bargaining</a>			X
102-42	Identifying and selecting stakeholders	<a href="#">Stakeholders</a>			
102-43	Approach to stakeholder engagement	<a href="#">Stakeholders</a>			
102-44	Key topics and concerns raised	<a href="#">Stakeholders</a>			

Code*	GRI content	Location	Omissions	Further information	Global Compact
102-45	Entities included in the consolidated financial statements	<a href="#">Note 37 to the consolidated financial statements</a>			
102-46	Defining report content and topic Boundaries	<a href="#">Materiality assessment, reporting principles</a>			
102-47	List of material topics	<a href="#">Materiality assessment</a>			
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	<a href="#">Reporting principles</a>			
102-51	Date of most recent report	<a href="#">Reporting principles</a>			
102-52	Reporting cycle	<a href="#">Reporting principles</a>			
102-53	Contact point for questions regarding the report	<a href="#">Contact information</a>			
102-54	Claims of reporting in accordance with the GRI Standards	<a href="#">Reporting principles</a>			
102-55	GRI content index	<a href="#">GRI and UNGC table</a>			
102-56	External assurance	<a href="#">Reporting principles</a>			
<b>Management approach</b>					
103-1	Explanation of the material topic and its Boundary	<a href="#">Boundaries of responsibility programme themes</a>			
103-2	The management approach and its components	<a href="#">Responsibility programme</a>			
103-3	Evaluation of the management approach	<a href="#">Responsibility programme</a>			
<b>Topic specific content</b>					
Topic specific content is reported regarding aspects identified as material.					
<b>Economic impacts</b>					
<b>201</b>	<b>Economic performance</b>				
201-1	Direct economic value generated and distributed	<a href="#">Economic impacts/Economic performance</a>			
201-2	Financial implications and other risks and opportunities due to climate change	<a href="#">Economic impacts/Economic performance</a>	Monetary evaluations or realisations have not been reported.		X
201-3	Defined benefit plan obligations and other retirement plans	<a href="#">Economic impacts/Economic performance</a>			
201-4	Financial assistance received from government	<a href="#">Economic impacts/Economic performance</a>			

Code*	GRI content	Location	Omissions	Further information	Global Compact
<b>203</b>	<b>Indirect economic impacts</b>				
203-1	Infrastructure investments and services supported	<a href="#">Economic impacts/Indirect economic impacts</a>			
203-2	Significant indirect economic impacts	<a href="#">Economic impacts/Indirect economic impacts</a>			
<b>204</b>	<b>Procurement practices</b>				
204-1	Proportion of spending on local suppliers	<a href="#">Economic impacts/Procurement practices</a>			
<b>205</b>	<b>Anti-corruption</b>				
205-1	Operations assessed for risks related to corruption	<a href="#">Economic impacts/Anti-corruption</a>	The number and percentage of assessments have not been reported. Risks related to corruption have not been specified in detail.	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	<a href="#">Economic impacts/Anti-corruption</a>	Percentages have not been reported. Information not available.		X
205-3	Confirmed incidents of corruption and actions taken	<a href="#">Economic impacts/Anti-corruption</a>			X
<b>206</b>	<b>Anti-competitive behaviour</b>				
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	<a href="#">Economic impacts/Anti-competitive behaviour</a>			
<b>Environmental impacts</b>					
<b>301</b>	<b>Materials</b>				
301-3	Materials used by weight or volume	<a href="#">Environmental impacts/Effluents and waste</a>	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.		
<b>302</b>	<b>Energy</b>				
302-1	Energy consumption within the organisation	<a href="#">Environmental impacts/Energy</a>			X
302-2	Energy consumption outside the organisation	<a href="#">Environmental impacts/Emissions</a>	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		X
302-3	Energy intensity	<a href="#">Environmental impacts/Energy</a>			X
302-4	Reduction of energy consumption	<a href="#">Environmental impacts/Energy</a>			X

Code*	GRI content	Location	Omissions	Further information	Global Compact
<b>303</b>	<b>Water</b>				
303-1	Water withdrawal by source	<a href="#">Environmental impacts/Water</a>			X
<b>304</b>	<b>Biodiversity</b>				
304-2	Significant impacts of activities, products, and services on biodiversity	<a href="#">Environmental impacts/Biodiversity</a>			X
304-3	Habitats protected or restored	<a href="#">Environmental impacts/Biodiversity</a>			X
<b>305</b>	<b>Emissions</b>				
305-1	Direct (Scope 1) GHG emissions	<a href="#">Environmental impacts/Emissions</a>			
305-2	Energy indirect (Scope 2) GHG emissions	<a href="#">Environmental impacts/Emissions</a>	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 collected.		X
305-3	Other indirect (Scope 3) GHG emissions	<a href="#">Environmental impacts/Emissions</a>			X
305-4	GHG emissions intensity	<a href="#">Environmental impacts/Emissions</a>			X
305-5	Reduction of GHG emissions	<a href="#">Environmental impacts/Emissions</a>	Review has not been made in CO <sub>2</sub> e tonnes.		X
305-7	Nitrogen oxides (NO <sub>x</sub> ), sulphur oxides (SO <sub>x</sub> ), and other significant air emissions	<a href="#">Environmental impacts/Emissions</a>			X
<b>306</b>	<b>Effluents and waste</b>				
306-2	Waste by type and disposal method	<a href="#">Environmental impacts/Effluents and waste</a>			X
<b>Social impacts</b>					
<b>401</b>	<b>Employment</b>				
401-1	New employee hires and employee turnover	<a href="#">Social impacts/Employment</a>	New employee hires have not been reported by age group. Turnover rate has not been reported by age group and gender. Information is not available. The aim is to report the information in 2017–2018.		X
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	<a href="#">Social impacts/Employment</a>	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
<b>402</b>	<b>Labour/Management relations</b>				
402-1	Minimum notice periods regarding operational changes	<a href="#">Social impacts/Labour/Management relations</a>			X
<b>403</b>	<b>Occupational health and safety</b>				
403-1	Workers' representation in formal joint management – worker health and safety committees	<a href="#">Social impacts/Occupational health and safety</a>	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	<a href="#">Social impacts/Occupational health and safety</a>	Not reported by gender. Information not available. The aim is to report the information in 2017–2018. Reporting does not cover suppliers and service providers.		
<b>404</b>	<b>Training and education</b>				
404-1	Average hours of training per year per employee	<a href="#">Social impacts/Training and education</a>	Not reported by gender and employee category. Information not available.		X
404-2	Programmes for upgrading employee skills and transition assistance programmes	<a href="#">Social impacts/Training and education</a>			
404-3	Percentage of employees receiving regular performance and career development reviews	<a href="#">Social impacts/Training and education</a>	Not reported by gender and employee category. Information not available.		X
<b>405</b>	<b>Social impacts/Training and education</b>				
405-1	Diversity of governance bodies and employees	<a href="#">Social impacts/Diversity and equal opportunities</a>	Not reported by gender and employee category. Information not available. The aim is to report age group information in 2017–2018.		X
405-2	Ratio of basic salary and remuneration of women to men	<a href="#">Social impacts/Diversity and equal opportunities</a>	The ratio of basic salary of men and women has not been reported. Information not available. The aim is to report the information in 2017–2018.		X
<b>406</b>	<b>Non-discrimination</b>				
406-1	Incidents of discrimination and corrective actions taken	<a href="#">Social impacts/Non-discrimination</a>			X

Code*	GRI content	Location	Omissions	Further information	Global Compact
<b>407</b>	<b>Freedom of association and collective bargaining</b>				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	<a href="#">Social impacts/Freedom of association and collective bargaining</a>			X
<b>412</b>	<b>Human rights assessment</b>				
412-1	Operations that have been subject to human rights reviews or impact assessments	<a href="#">Social impacts/Human rights assessment</a>			X
412-2	Negative social impacts in the supply chain and actions taken	<a href="#">Social impacts/Supplier social assessment</a>			X
<b>414</b>	<b>Supplier social assessment</b>				
414-1	New suppliers that were screened using social criteria	<a href="#">Social impacts/Supplier social assessment</a>	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	<a href="#">Social impacts/Supplier social assessment</a>			
<b>415</b>	<b>Public policy</b>				
415-1	Political contributions	<a href="#">Social impacts/Public policy</a>			X
<b>416</b>	<b>Customer health and safety</b>				
416-1	Assessment of the health and safety impacts of product and service categories	<a href="#">Social impacts/Customer health and safety</a>	Percentage calculation model in accordance with the GRI standard is no applicable to Kesko's operations.		
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	<a href="#">Social impacts/Customer health and safety</a>			
<b>417</b>	<b>Marketing and labelling</b>				
417-1	Requirements for product and service information and labelling	<a href="#">Social impacts/Marketing and labelling</a>			
417-2	Incidents of non-compliance concerning product and service information and labelling	<a href="#">Social impacts/Marketing and labelling</a>			
417-3	Incidents of non-compliance concerning marketing communications	<a href="#">Social impacts/Marketing and labelling</a>			

Code*	GRI content	Location	Omissions	Further information	Global Compact
<b>418</b>	<b>Customer privacy</b>				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	<a href="#">Social impacts/Customer privacy</a>			
<b>419</b>	<b>Socioeconomic compliance</b>				
419-1	Non-compliance with laws and regulations in the social and economic area	<a href="#">Social impacts/Socioeconomic compliance</a>			

\* All standards: version 2016.

# 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 2016 to 31 December 2016 disclosed on Kesko Corporation's website in the "GRI report" section of "Kesko's Annual report 2016" (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 Russia.
- 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 2016 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 in various channels and systemized the analysis of feedback received. We recommend that the Company continues to develop its activities related to stakeholder inclusivity.
- **Materiality:** The Company has a process in place to evaluate and determine the materiality of corporate responsibility aspects. During 2016 the Company carried out corporate acquisitions that widened the operations both geographically and division wise. We recommend that the Company assesses the need to update its materiality assessment taking into consideration the possible new aspects and needs for changes deriving from the acquisitions.
- **Responsiveness:** The Company takes its stakeholders' expectations into account in its operations and responds to them through the continuous development of its activities. During 2016, the Company has increasingly identified the further growing expectations regarding corporate responsibility matters from the investor community. We recommend that the Company further develops and widens the utilisation as well as offering of corporate responsibility information to investors.

## 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, 6 March 2017

### PricewaterhouseCoopers Oy

Enel Sintonen  
Partner, Authorised Public Accountant  
Assurance Services

Sirpa Juutinen  
Partner  
Sustainability & Climate Change



**AA1000**  
Licensed Assurance Provider  
000-29

## 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
<b>Development, coordination and responsibility for report editing:</b>		
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Controlling
Riikka Toivonen	Head of Financial Communications	Kesko Corporation, Group Identity and Communications
Lena Leeve	Financial Communications Specialist	Kesko Corporation, Group Identity and Communications
Matti Kalervo	Vice President, Corporate Responsibility	Kesko Corporation, Group Identity and Communications
Pirjo Nieminen	Corporate Responsibility Communications Specialist	Kesko Corporation, Group Identity and Communications
<b>Financial responsibility:</b>		
Jukka Erlund	Senior Vice President, CFO	Kesko Corporation, Accounting, Finance and IT
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Controlling
Tiina Nyrhi	Corporate Financial Controller	Kesko Corporation, Group Controlling
Erika Välikkynen	Financial Controller	Kesko Corporation, Group Controlling

Name	Role	Business unit
Riikka Toivonen	Head of Financial Communications	Kesko Corporation, Group Identity and Communications
Lena Leeve	Financial Communications Specialist	Kesko Corporation, Group Identity and Communications
Esko Mansikka	Managing Director	Vähittäiskaupan Tilipalvelu VTP Oy
<b>Human resources responsibility:</b>		
Matti Mettälä	Executive Vice President, Human resources	Kesko Corporation, Kesko HR
Kati Matela	Specialist, HRIS	Kesko Corporation, Kesko HR / Common Services
Katriina Ahtee	Director, OHS & Wellbeing	Kesko Corporation, Kesko HR / Common Services
Mikko Myyryläinen	Director, HR Services	Kesko Corporation, Kesko HR / Common Services
<b>Responsible purchasing:</b>		
Sohvi Vähämaa	Corporate Responsibility Specialist	Kesko Corporation, Group Identity and Communications
Tuuli Luoma	Product Group Manager	Kesko's grocery trade, commerce
Mia Haavisto	Quality Manager	Kespro Ltd
Johanna Teinilä-Kurvinen	Project Manager	Kesko's grocery trade, commerce
Leena Takaveräjä	Purchasing Manager	Kesko's building and technical trade, commerce

Name	Role	Business unit
<b>Product safety:</b>		
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
<b>Environmental responsibility:</b>		
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 Mether	Sustainability Manager	Kesko's building and technical trade, commerce
Harri Jyränkö	Development Manager	VV-Autotalot Oy
Hannu Pekuri (hannu.pekuri@onninen.com)	Group Development and Quality Manager	Onninen Oy
<b>Corporate governance, risk management and corporate security:</b>		
Anne Leppälä-Nilsson	Executive Vice President, Group Counsel	Kesko Corporation, Legal Affairs
Pasi Mäkinen	Chief Audit Executive	Kesko Corporation, Internal Audit
Ismo Riitala	Vice President, Risk Management and Strategy Process	Kesko Corporation, Accounting, Finance and IT
<b>Privacy protection/customer loyalty system:</b>		
Tapio Näveri	Director, Plussa concept and customer service	Kesko Corporation, K Digital
Kaija Kuusimaa	Corporate Counsel, Privacy Officer	Kesko Corporation, Legal Affairs