

KESKO ANNUAL REPORT
SUSTAINABILITY

SUSTAINABILITY

Kesko's Annual Report 2019 has four sections. This section describes highlights in sustainability and the objectives and progress made in our responsibility programme, and provides key sustainability indicators in accordance with GRI standards.

The responsibility programme as a whole is available on our website.

The following symbols indicate that additional information can be found either in this report or on our website:

[Read more in the Annual Report](#)

[Read more on our website](#)



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HIGHLIGHTS 2019

Progress made in our sustainability work:

NEW ENERGY RECYCLING SYSTEM REVOLUTIONISES ENERGY ECONOMY

A new energy recycling model was developed for K-food stores that can reduce heat consumption by as much as 95%, making a K-food store almost carbon neutral in terms of energy. Motiva awarded the system the Energy Genius of the Year 2019 recognition.

K-OSTOKSET SERVICE HELPS CUSTOMERS MAKE SUSTAINABLE CHOICES

With the data-based K-Ostokset service we want to help our customers understand the impacts of their purchase decisions. In addition to enabling our customers to track their purchases of Finnish products, we developed a carbon footprint calculator that provides information on the carbon footprint of the customer's shopping basket at product category level. K-Ostokset already has over 100,000 service users.



WE BUILT A NATIONWIDE K CHARGE NETWORK AT OUR STORE LOCATIONS

For electric cars to gain popularity it is essential that the charging network is sufficiently extensive. Our K Charge network allows drivers to conveniently recharge their electric car while doing their shopping. In 2019, the K Charge network became the largest fast charging network for electric cars in Finland.

DAY CARE FOR CHILDREN ENABLED MIGRANT FAMILIES TO SPEND THE SUMMER TOGETHER

We want to bear more social responsibility for the wellbeing of the employees in our global supply chain. Together with the international organisation the Center for Child Rights and Corporate Social Responsibility (CCR CSR), we opened a children's summer day care facility for families of migrant workers at a factory in Ningbo, China, which supplies site lighting to Onninen and K-Rauta stores.

What we continue to work on:

CARBON NEUTRAL K GROUP IN 2025

In spring 2019, Kesko's Board of Directors made sustainability and combatting climate change strategic focus areas. We began the preparation of the K Group climate programme and, in February 2020, set a target to be carbon neutral in 2025.



SUSTAINABLE PRODUCTS

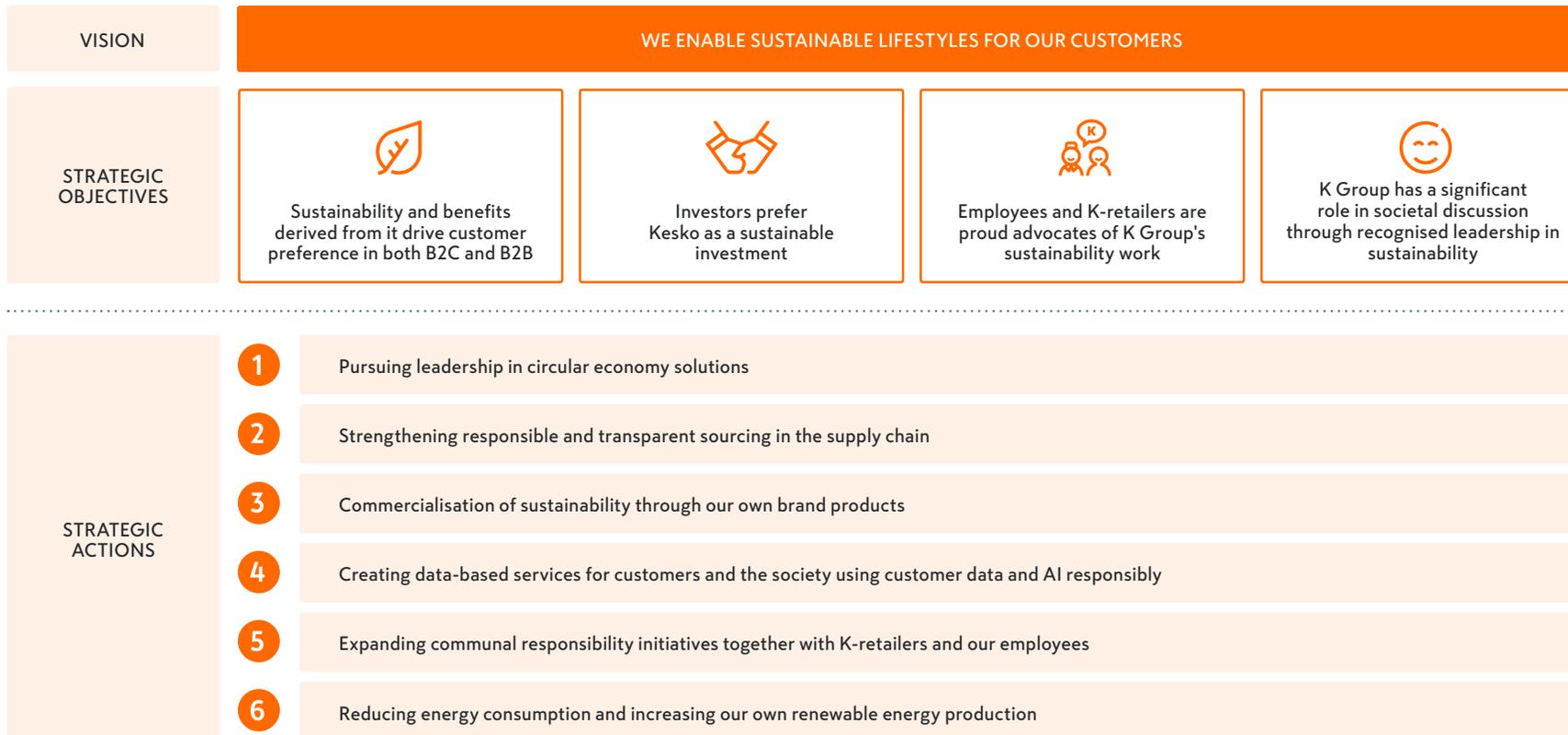
In 2019, we initiated extensive work to identify the products in each division that are sustainable from a climate perspective. We defined sustainable products as those which have a significantly smaller climate impact than comparable products or which are important for adapting to climate change.

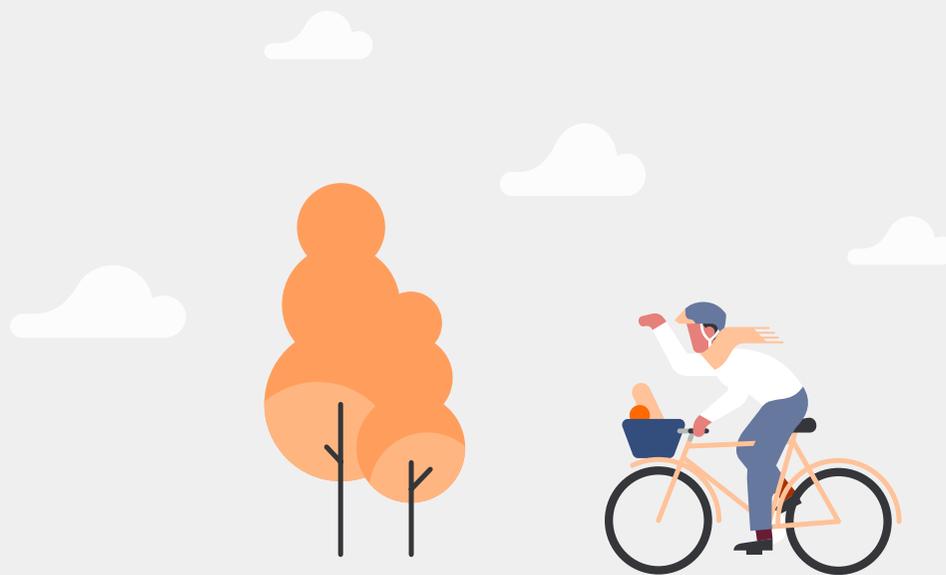


SUSTAINABILITY STRATEGY 2018–2022

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

In spring 2019, Kesko's Board of Directors made sustainability and combatting climate change strategic focus areas.





SUSTAINABILITY THEMES

SOCIETY

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

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

We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living. We offer products and services which allow our customers to make more sustainable choices.



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WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

3 GOOD HEALTH AND WELL-BEING 	8 DECENT WORK AND ECONOMIC GROWTH 	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
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Our operations create added value for various stakeholders

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

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

We pay steady dividends

Kesko has some 41,000 shareholders. In the long term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko's Board of Directors proposes to the Annual General Meeting to be held in March 2020 that a total dividend of €250 million be paid for the year 2019, which would represent 74.8% of earnings per share and 80.3% of comparable earnings per share. In 2019, Kesko distributed a total of €232 million as dividends, which represented 145.2% of earnings per share and 95.8% of comparable earnings per share.

Economic benefits from Kesko's operations to stakeholders

€ million		Continuing operations		
		2019	2018	2017
Customers ¹	Revenues	11,543	11,173	11,278
Value added generated		11,543	11,173	11,278
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-10,150	-9,920	-10,065
Employees	Salaries, fees and social security expenses	-775	-694	-738
Payments to providers of capital	Net finance income/costs	-91	-100	2
Owners	Dividend	-250 ²	-232	-219
Public sector	Taxes ³	-84	-77	-60
Community investments	Donations	-2	-2	-2
Development of business operations		191	148	197

¹ Incl. net sales and other operating income

² Proposal to the General Meeting

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

Data based on figures from the audited consolidated financial statements. In 2019, Kesko adopted the new IFRS 16 Leases accounting standard, which it applies using a retrospective method, so that the figures for 2018 have been restated. The new standard had a significant impact on accounting for leases. In the table above, the adoption of the new standard has decreased services purchased by €100 million (€-96 million) and increased finance costs by €95 million (€99 million) in 2019 and 2018 compared with the previous accounting practice. Figures for 2017 do not include the impact of IFRS 16.

Economic benefits from Kesko's operations by market area in 2019

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes ¹	Total
Finland	5,958	386	420	89	841	7,695
Other Nordic countries	931	244	101	30	81	1,387
Baltic countries, Poland and Belarus	824	56	120	15	130	1,145
Other countries	1,414					1,414
Total	9,127	686	641	135	1,052	11,641

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

Our investments impact the whole society

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

The capital expenditure for Kesko's continuing operations in 2019 totalled €686 million (2018: €418 million), or 6.4% of net sales (2018: 4.0%). The store site network is a strategic competitive factor for K Group. In 2019, capital expenditure on store sites totalled €228 million (2018: €112 million). Capital expenditure for foreign operations accounted for 43.7% (2018: 46.0%) of total capital expenditure. In addition to Kesko, K-retailers invest in e.g. store fixtures. These figures included, K Group's total capital expenditure in Finland in 2019 amounted to some €491 million.

Financial assistance received from government

201-4

In 2019, Kesko Group received financial assistance totalling €2.3 million from the public sector. The sum consists mainly of assistance received in Finland (€1.6 million) and in Sweden (€0.6 million). Most of the public sector assistance received in Finland is related to investments in the charging network for electric cars and to investments in solar power.

Economic benefit generated by Kesko and K-retailers to Finnish regions in 2019

Region € million	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure ¹	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	Total
Åland	46.2	-	0.1	0.2	-	-	46.6
Southern Karelia	13.3	7.2	10.2	5.7	13.6	0.7	50.8
Southern Ostrobothnia	239.7	15.8	4.6	4.4	13.4	1.1	279.0
Southern Savo	50.0	8.7	1.9	3.8	11.6	1.5	77.6
Kainuu	16.2	10.4	2.3	1.2	7.5	1.0	38.6
Kanta-Häme	57.5	17.3	41.2	6.6	13.2	1.1	136.9
Central Ostrobothnia	47.2	5.6	0.5	1.9	4.2	0.5	59.8
Central Finland	49.1	18.4	14.7	8.0	20.7	1.8	112.7
Kymenlaakso	43.3	10.3	4.9	7.7	12.7	1.1	80.0
Lapland	20.1	25.0	18.6	5.3	22.9	3.0	94.9
Pirkanmaa	268.3	36.3	30.8	34.0	46.8	4.3	420.5
Ostrobothnia	159.0	12.5	3.1	5.1	11.6	1.1	192.5
Northern Karelia	34.7	20.1	12.0	5.5	11.9	1.6	85.8
Northern Ostrobothnia	141.7	48.5	27.9	18.1	31.3	3.1	270.6
Northern Savo	230.1	35.6	6.7	12.2	22.3	2.0	308.9
Päijät-Häme	125.6	11.9	15.1	9.8	14.4	1.2	178.1
Satakunta	172.8	31.0	9.1	6.9	19.1	1.6	240.6
Uusimaa	3,464.7	179.6	267.2	301.5	152.4	18.3	4,383.7
Varsinais-Suomi	715.2	91.5	20.0	26.4	45.4	5.9	904.4
Total	5,894.8	585.9	491.2	464.5	475.0	50.8	7,962.1

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

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

We are a significant taxpayer

203-2

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

Kesko and K-retailers together form K Group. Purchases by K Group have economic impacts on suppliers of goods and services, such as better availability of jobs. Purchases from local producers affect regional business activities. The salaries, taxes and employee benefit expenses paid by K Group and K Group's capital expenditure impact regional economic welfare.

In 2019, income taxes paid by Kesko to Finland totalled €65.9 million and to other countries €11.8 million. The Group's effective tax rate was 17.3%. K Group's income tax is discussed in the Financials section in **Note 2.6** of the consolidated financial statements.

Kesko paid €4.9 million in real estate taxes and net-worth taxes to Finland and €1.0 million to its other operating countries in 2019.

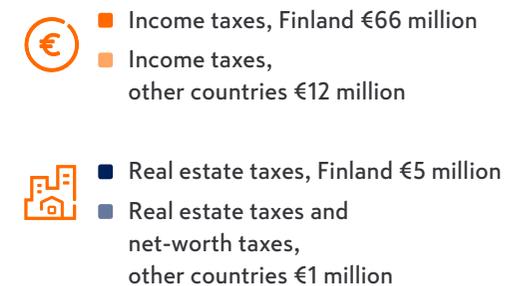
Kesko also collects, reports and remits indirect taxes, such as value-added taxes and excise duties. Kesko remits value-added taxes to tax recipients in its capacity as a company selling goods and services. In 2019, Kesko remitted value-added taxes in Finland to the amount of €462.4 million, and €139.5 million in other countries. Kesko remits car taxes, and excise duties on confectionery, alcohol and soft drinks, for example. In 2019, Kesko remitted excise duties in Finland to a total amount of €71.5 million.

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

Taxes remitted in 2019



Taxes payable in 2019



Our principle is that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations. In Estonia and Latvia, companies pay income tax for distributed profit.

Kesko operates and has personnel in eight countries, and engages in both retail and wholesale operations. Kesko has a permanent place of business in China for its purchasing operations and some other permanent places of business for export projects. The taxes of permanent places of

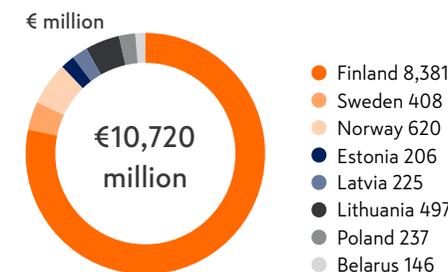
business are paid both in the operating country and in Finland. Taxes are paid in Finland if the income tax base of the operating country is lower than in Finland.

Kesko does not channel its income into low tax base countries (tax havens), nor does Kesko have any subsidiaries in such countries. Kesko's subsidiaries are listed in the Financials section in **Note 5.2** of the consolidated financial statements.

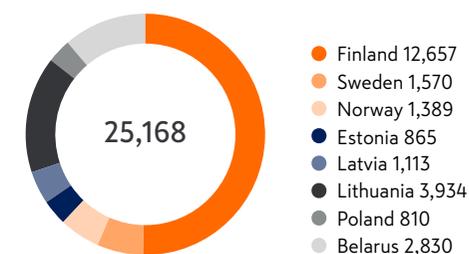
Taxes by country in 2019

€ million, continuing operations	Income taxes	Real estate and property taxes	Car taxes	Customs duties	Excise duties
Finland	65.9	4.9	130.1	6.4	71.5
Sweden	1.9	0.3	-	0.1	0.1
Norway	2.4	0.1	-	0.0	-
Estonia	2.3	0.0	-	0.3	-
Latvia	0.2	0.1	-	0.1	-
Lithuania	3.0	0.0	-	2.8	-
Poland	0.1	0.1	-	0.1	-
Belarus	2.0	0.4	-	1.4	-
Total	77.7	6.0	130.1	11.1	71.6

Net sales by country, continuing operations



Personnel by country at 31 Dec. 2019



An extensive store network and additional services to customers

203-1

Kesko's principal business model on the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 45% of Kesko's net sales in 2019. At the end of 2019, Kesko had over 1,100 independent K-retailer entrepreneurs as partners. Together, Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled €13.3 billion in 2019 (0% VAT). K Group employs around 43,000 people.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. The share of B2B trade grew further on the previous year, and it accounted for 37% of Kesko's net sales in 2019. Kesko's own retailing accounted for 18% of net sales.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Additional services at our stores

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We provide convenient services for our customers.	Parcel pick-up and sending services were brought closer to an increasing number of Finns by opening nearly 100 new service points and 270 parcel lockers at K-stores. We opened the first four automatic collection points for online food purchases. We successfully piloted the use of the Mobilepay application and prepared for its extensive adoption in early 2020.	We will develop and maintain a network of services to ensure that stores and important services for customers continue to be within easy reach in the future as well. We will continue to expand the network of joint automatic pick-up points to allow customers to receive their online shopping from various online stores at one location.

K-food stores in Finnish municipalities on 31 Dec. 2019



- 10 stores or more 22 units 7.1%
- 7-9 stores 17 units 5.5%
- 5-6 stores 24 units 7.7%
- 3-4 stores 37 units 11.9%
- 2 stores 55 units 17.7%
- 1 store 114 units 36.7%
- No K-food store 42 units 13.5%

K Group has an extensive network of K-food stores in Finland. There is a K-food store in most municipalities in the country. Every day, some 1.2 million customers visit K-food stores.

Especially outside growth centres, stores can offer services which may otherwise be scarcely available.

In 2019, the following additional services were available at K-stores:

- Cashback services at all K-food stores
- Parcel and postal services at nearly 1,000 stores
- Charging points for electric cars at nearly 80 stores
- Over 410 Rinki eco take-back points

We comply with anti-competitive laws and regulations

206-1

No authority rulings or legal actions regarding anti-competitive behaviour, anti-trust, and monopoly practices were reported in 2019.

Political contributions

415-1

We do not make monetary donations to political parties.

Customer privacy is of utmost importance to us

418-1

In 2019, we received no complaints from the authorities or our customers regarding the breach of customer privacy.

We always comply with the law

419-1

There were no breaches of laws or regulations in the social and economic area in 2019.

By providing support we increase wellbeing in society

201-1

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

Kesko's community investments

€1,000	2019	2018	2017
Non-governmental, environmental and other organisations	164	299	231
Sports (adults)	597	603	1,145
Youth sports and other youth work	572	203	144
Science, research and education	36	69	50
Culture	71	45	32
Health	792	596	459
Veteran organisations and national defence	7	22	113
Total	2,238	1,836	2,174



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Donations, sponsoring and charity campaigns

OBJECTIVE

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

PROGRESS IN 2019

Together with our customers we raised a record-breaking sum for the Pink Ribbon campaign: over €770,000 for cancer research in Finland.

We were involved in Yrityskylä (Me & My City) activities targeted at 6th grade elementary school pupils in five localities in which the aim is to develop young people's working life skills and increase their knowledge on entrepreneurship and the trading sector.

PLANS FOR 2020

The Finnish Basketball Association and K Group's grocery trade have agreed to continue their cooperation for several years. This cooperation focuses on organising physical activities for primary school children, such as the Pikkusudet (Little Wolves) basketball events and the Pirikka Street Basket tour. Our new pilot will focus on increasing physical activity among secondary school pupils through basketball.

Fishpaths

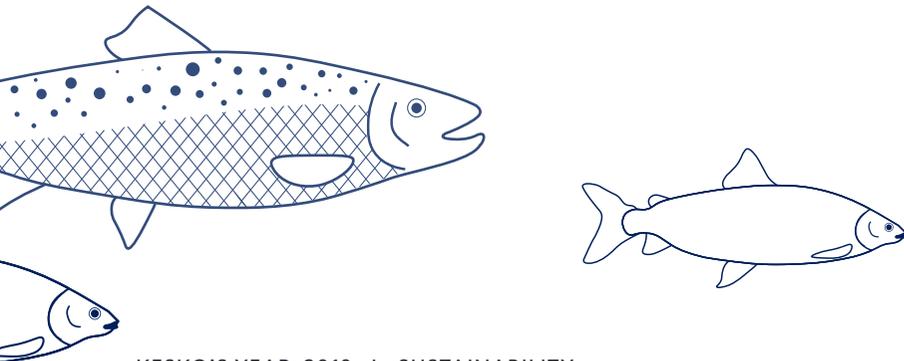
The K Fishpaths collaboration between K Group and WWF Finland is a great example of a company and an environmental organisation working together to create new operating models and promote biodiversity.

*Over
200*
gravel beds
restored

*Over
80 km*
of spawning
grounds and
habitats

*Over
800*
volunteers
signed up

A custom-made culvert donated by Onninen and its partner allows the trout population to swim freely and grow stronger on the Ylösjoki river in Hollola.



MATING BELONGS TO ALL

Over the past three years of K Group and WWF Finland's collaboration, 22 K Fishpaths events have been organised around Finland. In addition to removing obstacles for migration and spawning, gravel beds and habitats for trout are created in rivers and brooks. The communal events bring together local operators, K Group stores, customers and other volunteers.

The K Fishpaths collaboration is already yielding results, as the endangered trout has returned to many of the locations restored in the first years. The collaboration will continue until the end of 2021.

SELECTIONS AND PURCHASING

Our products are researched, safe and responsibly produced. We support local production and offer products from local producers.

Most of our purchases are made from suppliers operating in Finland. In global purchases, we pay special attention to human rights issues and environmental impacts in our supply chains.

We promote sustainability in our supply chains with sustainability policies, suppliers' factory audits, sustainability training and by working in cooperation with international organisations.



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WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

SUSTAINABLE SOURCING GLOBALLY

We promote sustainability in our supply chains with sustainability policies, suppliers' factory audits, sustainability training and by working in cooperation with international organisations.



Fish and shellfish policy



Soy policy



FINLAND

Purchases from Finland
€5.9 billion,
 which is
81%
 of the total purchases.

Thank the Producer



Local Food Dates



Timber and paper policy



Collaboration with Fairtrade



Cocoa policy



Cotton policy

Bangladesh Accord



Social responsibility audits at factories



Suppliers' sustainability training sessions



Palm oil policy

*In 2019, the purchases of goods by Kesko Group's Finnish companies totalled €7.3 billion. Of these purchases, 81.0% were from suppliers operating in Finland and 19.0% from other countries.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Sustainability policies guiding our sourcing - 1 (2)

OBJECTIVE
PROGRESS IN 2019

Fish and shellfish policy

Our selections do not include species on the red list of WWF Finland's Seafood Guide. When making decisions concerning selections, we favour sustainable stocks of fish and MSC- and ASC-certified suppliers.

Our fish and shellfish policy based on WWF Finland's Seafood Guide has been in effect for 11 years. The retail selection of Kesko's grocery trade included 200 (2018: 200) MSC-certified fish products and 30 (9) ASC-certified products. Kesko's HoReCa selection had a total of 226 (2018: 168) MSC-certified products and 25 (9) ASC-certified products. Five K-Supermarket stores were granted the MSC and ASC traceability certificates promoting sustainable fishing and aquaculture.


Palm oil policy

By 2020, the palm oil in our own brand groceries will be 100% sustainably produced (CSPO).

100% (2018: 99.2%) of the palm oil in Kesko's Menu food products sold in 2019 was sustainably produced (CSPO), of which 0.2% was Identity Preserved, 88.3% Segregated, 9.5% Mass Balance, and 2.0% RSPO Credits. 100% (2018: 67%) of the palm oil in Pirkka and K-Menu food products sold in 2019 was sustainably produced (CSPO), of which 34% was Segregated, 60% Mass Balance and 6% RSPO Credits.


Soy policy

By 2020, the ingredients of soy origin in the grocery trade's own brand food products and the soy fodder used in the production of products of animal origin will be 100% sustainably produced, and be either RTRS or ProTerra certified.

100% of the soy used as an ingredient in and the soy fodder used in the production of products of animal origin in Kesko's Menu, Pirkka and K-Menu food products sold in 2019 was sustainably produced.


Timber and paper policy

By 2025, timber and paper products in Kesko's product range will be 100% of sustainable origin, FSC- or PEFC-certified or made of recycled materials. In the grocery trade, the policy applies to our own brand products.

Kesko's building and technical trade has been awarded the PEFC certificate, which covers sawn pine and spruce timber and processed timber as well as the wholesale distribution of MDF boards in Finland (percentage-based method). The average PEFC certification percentage in 2019 was 88.9% (2018: 88.5%) for pine and 83.4% (85.6%) for spruce. Of the timber and paper products in the grocery trade's Pirkka and K-Menu ranges, 24% (2018: 51%) contained sustainable raw material, of which 48% were FSC-certified, 45% PEFC-certified and 8% of recycled materials. In Kesko's Menu range, 31% (2018: 17%) of timber and paper products contained sustainable raw material, of which 71% were FSC-certified and 29% PEFC-certified.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Sustainability policies guiding our sourcing - 2

	OBJECTIVE	PROGRESS IN 2019
<p>Plastics policy</p>	<p>By the end of 2025, all of the packaging used in our own brand products are recyclable, reusable or biodegradable.</p> <p>Our objective is to reduce the amount of plastic contained in the packaging of our own brand products by 20% by the end of 2025.</p>	<p>In 2019, we made innovative changes to the packaging of 26 own brand products of our own. For example, deposits were added to 10 Pirkka squash bottles. In addition, the recyclability of the packaging material of 16 products was improved: In 11 products, black plastic was replaced with other materials, in 3 products PLA plastic was replaced with PET plastic, and the new Pirkka Parhaat bouquets are now wrapped in paper instead of plastic.</p> <p>By the end of 2019, we had reduced the use of plastic in the packaging of our own brand products in Kesko's grocery trade by more than (100 tonnes) 3%. We are on schedule to achieving the goal.</p>
<p>Animal welfare policy</p>	<p>When making decisions concerning selections, we take the well-being of farmed animals into account. From the start of 2026, we will no longer accept eggs from furnished cages into Kesko's selections. In 2019, we updated the animal welfare policy, and we will no longer accept eggs from furnished cages as an ingredient in our own brand products from the start of 2026.</p>	<p>In 2019, we sold some 230 million eggs, of which 57% were furnished cage eggs and 43% were barn eggs, organic and free-range eggs.</p>
<p>Cocoa policy</p>	<p>By the end of 2020, all the cocoa used in Kesko's own brand cocoa drinks, chocolate confectionery products and chocolate baking products will be of sustainable origin. The cocoa used in other own brand products containing cocoa will be 100% of sustainable origin by the end of 2025.</p>	<p>78% of Pirkka and K-Menu cocoa drinks, chocolate confectionery products and chocolate baking products sold in 2019 contained sustainable cocoa. Of the products containing sustainable cocoa, 80% were UTZ-certified and 20% Fairtrade-certified. The Kespro Menu Fairtrade cocoa drink powder was 100% of sustainable origin.</p>
<p>Cotton policy</p>	<p>All of the cotton sourced for our own clothing and home textile brands will be more sustainable cotton by the end of 2024. Sustainable cotton is certified organic cotton, recycled cotton, Better Cotton or Fairtrade cotton. Our own brand clothing and home textiles include K-Citymarket's mywear clothes and myhome home textiles, Pirkka socks and K-Rauta's PROF workwear and Cello interior textiles.</p>	<p>We prepared our cotton policy to be published in March 2020 and set a target for increasing the use of more sustainable cotton in our own brand clothing and home textiles. Kesko is a member of the Better Cotton Initiative (BCI) since March 2020. The Better Cotton Initiative exists to make global cotton production better for the people who produce it, the environment it grows in and the sector's future. Kesko is committed to improving cotton farming practices globally with the Better Cotton Initiative.</p>

The majority of purchases are from Finnish suppliers

204-1

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

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

Most of the economic benefit generated by Kesko's operations – approximately 85% of Kesko's net sales – flows to suppliers of goods, purchases from which were valued at €9.1 billion in 2019. The purchases of all Kesko companies from suppliers operating in Finland totalled €6.0 billion, or 65.3% (2018: 65.7%) of the Group's total purchases.

In 2019, Kesko had around 21,700 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, approximately 9,600 operated in Finland, 10,000 in Kesko's other operating countries, and approximately 2,100 elsewhere.

The 10 largest suppliers accounted for 25.1% (2018: 26.3%) of the Group's purchases of goods, and the 100 largest suppliers for 57.1% (2018: 59.3%). Of the ten largest suppliers, six were Finnish food industry companies, three import companies operating in Finland, and one German car manufacturer.

The purchases of goods by Kesko Group's Finnish companies totalled €7.3 billion. Of these purchases, 81.0% were from suppliers operating in Finland and 19.0% from

other countries. Some of the suppliers operating in Finland are import companies, and reliable statistics cannot be compiled on the origin of goods supplied by them.

Kesko's purchases by company's and supplier's country of domicile in 2019

Company's country of domicile	Supplier's country of domicile									Total
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus	Other countries	
Finland	5,895	183	12	35	3	12	29	9	1,103	7,281
Sweden	12	263	4	2	-	0	2	-	12	295
Norway	3	6	460	-	-	0	-	-	5	475
Estonia	23	1	0	77	4	2	9	-	30	146
Latvia	15	1	-	9	82	14	14	0	45	180
Lithuania	8	2	-	22	47	109	51	4	165	409
Poland	1	0	0	-	-	-	225	-	12	238
Belarus	0	-	-	-	0	0	4	58	41	103
Total	5,958	456	476	146	136	138	333	72	1,414	9,127

Kesko's purchases by operating country in 2019

	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	9,386	5,895	81.0	1,982	1,386	19.0
Sweden	2,716	263	89.0	215	32	11.0
Norway	2,392	460	96.9	139	15	3.1
Estonia	1,046	77	52.4	457	70	47.6
Latvia	1,220	82	45.5	555	98	54.5
Lithuania	409	109	26.7	201	300	73.3
Poland	966	225	94.6	58	13	5.4
Belarus	-	58	56.4	-	45	43.6
Total	18,135	7,169	78.5	3,607	1,958	21.5

We support local producers

Kesko is actively increasing the amount of local purchases and encourages K-retailers to include products from local producers in their selections. In 2019, K-retailers' direct purchases from Finnish regions totalled €585.9 million.

Finnish food producers play a key role in K Group's grocery trade, and the share of locally produced food in the store selections is growing. The Local Food Date events held across Finland for many years have made the path of local food to store shelves smoother. Organised by K Group and Finfood - Finnish Food Information, these events bring together K-retailers and small food producers. From 2014 to 2019, a total of 36 Local Food Date events were held across

Finland, and more than 500 producers and 1,500 retailer representatives participated in them.

The 'Thank the Producer' operating model is one of the ways in which K Group supports Finnish agriculture. The purpose of the operating model is to increase the public's appreciation for Finnish food and its producers. Under the operating model, the consumer price may be slightly higher for the products, which enables K Group to pay an additional payment to the producers. The additional sum is paid directly to the producers. By the end of 2019, products sold under the Thank the Producer model had accrued more than €2.94 million in additional money for farmers.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Local production

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We support local producers	<p>The number of Thank the Producer products was 64 in 2019. The Thank the Producer products sold in 2019 accumulated more than €1.57 million in additional money paid directly to food producers in Finland.</p> <p>In 2019, we organised five Local Food Date events, where a total of 150 different producers and a total of 380 representatives of K-retailers built partnerships.</p>	<p>We aim to double the number of Thank the Producer products in 2020.</p> <p>We will continue to organise Local Food Date events in 2020.</p>

Efforts to promote transparency in global purchasing chains

414-1 414-2

Kesko pays special attention to human rights issues and working conditions in its purchasing chain in countries with the greatest risk of human rights violations. In the risk assessment of supply countries, we utilise **the amfori Country Risk Classification** based on Worldwide Governance indicators published by the World Bank.

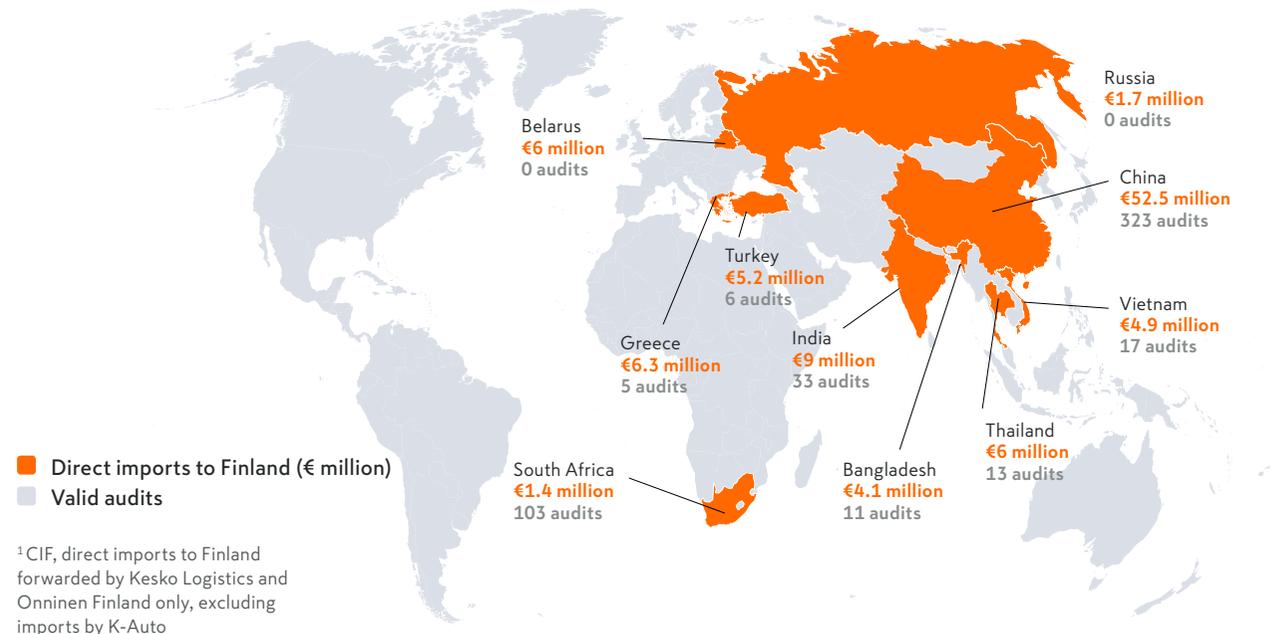
In 2019, direct purchases from suppliers in risk countries totalled €104 million (2018: €105 million) and accounted for approximately 1.1% (2018: 1.2%) of Kesko's total purchases. Direct imports from risk countries accounted for approximately 13.9% (2018: 14.5%) of Kesko's total imports to Finland. The figures concern direct purchases in Finland; no statistics are available on direct imports from risk countries in Kesko's other operating countries.

We publish the list of manufacturers of clothes, accessories, shoes and bags of our own brands and own imports located in risk countries and the addresses of the factories annually on our **website** to improve the transparency of the supply chain.

Social responsibility assessments of suppliers in risk countries

Kesko is a member of amfori, an association dedicated to promoting sustainable trade. We improve the social performance of our supply chain via amfori BSCI. Kesko utilises global social responsibility audit and certification systems, primarily amfori BSCI audits, in the assessment of suppliers in risk countries. Kesko is committed to promoting

Value of Kesko's direct imports and number of social responsibility audits, 10 largest risk countries of import¹



compliance with the amfori BSCI Code of Conduct in its supply chain. According to Group guidelines, an amfori BSCI Code of Conduct contract clause must be added to supplier agreements.

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

audit approved by Kesko after a maximum of two ICA Social Audits.

Our principle in risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when the cooperation begins. Kesko's grocery trade and building and technical trade require all of their suppliers in risk countries to have an approved audit when the cooperation begins.

Some of Kesko's suppliers are also members of amfori and thus promote amfori BSCI audits in their own supply chains.

Results of amfori BSCI audits

In 2019, a total of 180 (2018: 190) of the factories or plantations of Kesko's suppliers underwent full amfori BSCI audits. In addition, 172 (2018: 135) factories or plantations of suppliers underwent amfori BSCI follow-up audits.

The results of the 2019 amfori BSCI audits of Kesko's suppliers' factories and plantations are shown on page 22. The majority of the deficiencies occurred in matters related to working hours, social management systems and workers' involvement and protection. Corrective actions and monitoring are included in the audit process.

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

Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2019, we were obligated to terminate cooperation with nine factories because a consensus could not be reached with the factories regarding necessary corrective measures.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Supply chain

OBJECTIVE	PROGRESS IN 2019
The social responsibility of the production of own direct imports from risk countries has been assured.	A total of 180 (2018: 190) of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 172 (2018: 135) suppliers' factories or plantations underwent amfori BSCI follow-up audits. At the beginning of 2020, Kesko's suppliers in high-risk countries had a total of 733 (2018: 585) valid social responsibility audits.
We assure the responsibility of the ingredients (Tier 2-3) of our own brand Pirkka and K-Menu food products.	In 2015-2018, we conducted an investigation and risk analysis of the origin of the ingredients of 2,240 Pirkka and K-Menu own brand food products. In 2019, we adjusted the risk analysis of the ingredients and decided to concentrate on primary ingredients of Pirkka and K-Menu food products originating from risk countries. We made risk analyses for 904 primary ingredients of Pirkka and K-Menu food products.
We identify and take account of water risks in our supply chain.	We started preparing a survey of water risks related to Pirkka mini plum tomatoes in 2019.

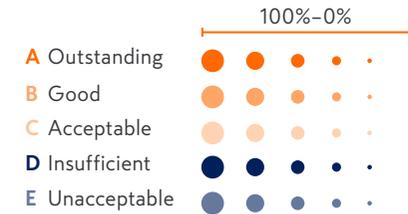
Social responsibility audits and certifications of suppliers in risk countries

Social responsibility assessment system	Jan 1 2020, total	Jan 1 2019, total
amfori BSCI	347	300
SMETA	177	136
SIZA	100	54
SA8000	15	12
Fairtrade	28	21
Rainforest Alliance	22	14
Fair for Life	4	1
For Life	10	12
ICA Social Audit	22	26
ICTI	8	8

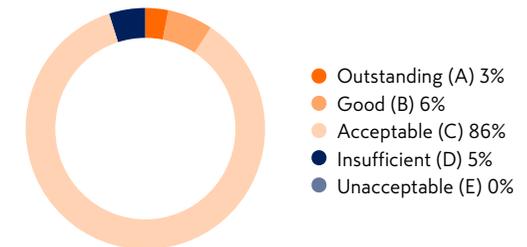
amfori BSCI audit results by area in 2019

Full audits	A		B		C		D		E	
	Outstanding	Good	Acceptable	Insufficient	Unacceptable	Outstanding	Good	Acceptable	Insufficient	Unacceptable
Social Management System and Cascade Effect	● 2%	● 10%	● 12%	● 75%	● 1%					
Workers' Involvement and Protection	● 43%	● 34%	● 21%	● 2%	● 0%					
The Rights of Freedom of Association and Collective Bargaining	● 100%									
No Discrimination	● 91%	● 5%	● 4%							
Fair Remuneration	● 38%	● 53%	● 7%	● 1%	● 1%					
Decent Working Hours	● 13%		● 3%	● 82%	● 2%					
Occupational Health and Safety	● 61%	● 27%	● 4%	● 6%	● 2%					
No Child Labour	● 99%	● 1%								
Special Protection of Young Workers	● 99%	● 1%								
No Precarious Employment	● 95%	● 4%		● 1%						
No Bonded Labour	● 99%	● 1%								
Protection of the Environment	● 67%	● 21%	● 11%	● 1%						
Ethical Business Behaviour	● 88%	● 10%	● 2%							

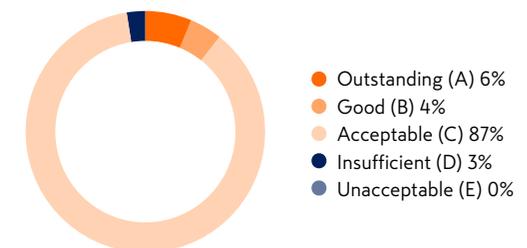
Follow-up audits	Outstanding		Good		Acceptable		Insufficient		Unacceptable	
	Outstanding	Good	Acceptable	Insufficient	Unacceptable	Outstanding	Good	Acceptable	Insufficient	Unacceptable
Social Management System and Cascade Effect	● 4%	● 7%	● 8%	● 80%	● 1%					
Workers' Involvement and Protection	● 58%	● 29%	● 11%	● 2%						
The Rights of Freedom of Association and Collective Bargaining	● 99%	● 1%								
No Discrimination	● 94%	● 4%	● 2%							
Fair Remuneration	● 40%	● 52%	● 7%		● 1%					
Decent Working Hours	● 15%	● 0%	● 5%	● 79%	● 1%					
Occupational Health and Safety	● 70%	● 23%	● 1%	● 5%	● 1%					
No Child Labour	● 99%	● 1%								
Special Protection of Young Workers	● 99%	● 1%								
No Precarious Employment	● 96%	● 4%								
No Bonded Labour	● 99%	● 1%								
Protection of the Environment	● 73%	● 16%	● 11%							
Ethical Business Behaviour	● 91%	● 7%	● 2%							



amfori BSCI results in 2019, full audits



amfori BSCI results in 2019, follow-up audits



If the supplier underwent more than one amfori BSCI audit during 2019, the results of the latest audit only are presented.

Suppliers' sustainability training

Increasing suppliers' awareness of sustainability is important for promoting social responsibility in our supply chains. We annually organise sustainability training sessions for goods suppliers both in-house and through our partners.

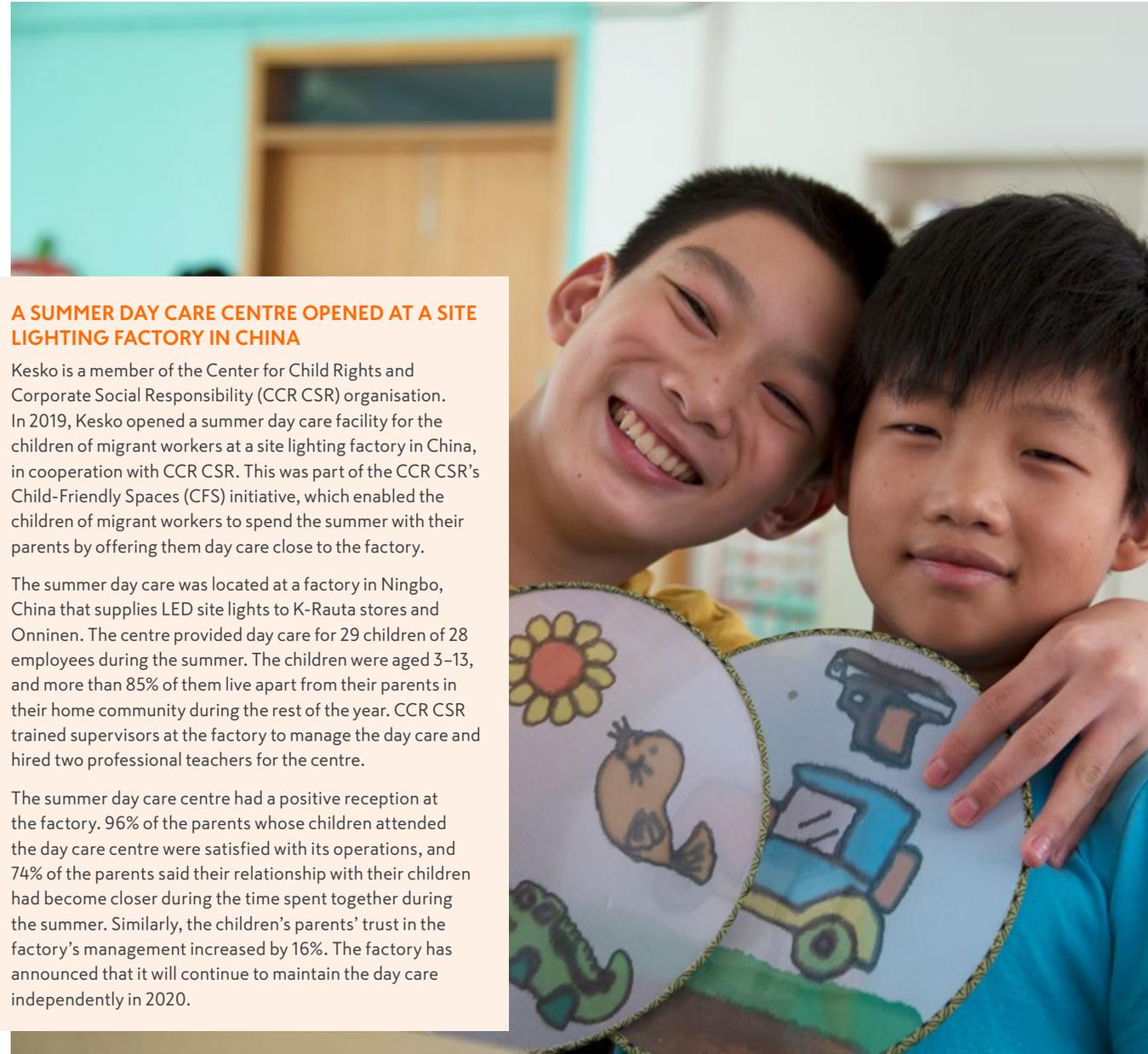
In 2019, as part of ICA Global Sourcing (IGS) purchase collaboration, Kesko and IGS organised a sustainability training in India targeted to local suppliers. The training session discussed Kesko's social responsibility requirements to suppliers, the factory auditing process and the product quality and safety requirements. A total of four suppliers took part in the training.

During the year, Kesko provided sustainability training to two suppliers of Kenkäkesko and one supplier of the building and technical trade.

In 2019, 35 suppliers of Kesko took part in sustainability training sessions targeted to suppliers organised by amfori BSCI. The topics dealt with at the training events were amfori BSCI auditing process, fire and building safety, working hours and remuneration, responsible recruitment, occupational health and safety, women empowerment and workers involvement and protection. In addition amfori BEPI environmental programme was handled in three training events.

Bangladesh Accord

Kesko is a member of the Bangladesh Accord. The purpose of the Accord on Fire and Building Safety in Bangladesh agreement is to improve electric, fire and building safety in ready-made garment factories in Bangladesh through inspection, training and corrective measures. Kesko requires



A SUMMER DAY CARE CENTRE OPENED AT A SITE LIGHTING FACTORY IN CHINA

Kesko is a member of the Center for Child Rights and Corporate Social Responsibility (CCR CSR) organisation. In 2019, Kesko opened a summer day care facility for the children of migrant workers at a site lighting factory in China, in cooperation with CCR CSR. This was part of the CCR CSR's Child-Friendly Spaces (CFS) initiative, which enabled the children of migrant workers to spend the summer with their parents by offering them day care close to the factory.

The summer day care was located at a factory in Ningbo, China that supplies LED site lights to K-Rauta stores and Onninen. The centre provided day care for 29 children of 28 employees during the summer. The children were aged 3–13, and more than 85% of them live apart from their parents in their home community during the rest of the year. CCR CSR trained supervisors at the factory to manage the day care and hired two professional teachers for the centre.

The summer day care centre had a positive reception at the factory. 96% of the parents whose children attended the day care centre were satisfied with its operations, and 74% of the parents said their relationship with their children had become closer during the time spent together during the summer. Similarly, the children's parents' trust in the factory's management increased by 16%. The factory has announced that it will continue to maintain the day care independently in 2020.

the ready-made garment factories in Bangladesh that produce for K-Citymarket's mywear brand to be included in the Accord process. In 2019, six ready-made garment factories in Bangladesh producing for K-Citymarket's mywear brand were included in the Accord process.

Fairtrade premiums to develop local communities

Kesko's grocery trade selections have included Fairtrade products since 1999. In 2019, the retail selection of Kesko's grocery trade included 230 Fairtrade products, 27 of which were Pirkka products (2018: 23). Kespro's selection had a total of 202 Fairtrade products, 4 of which were Menu products (2018: 4).

In 2009–2019, a total of more than €5 million was generated as Fairtrade premiums for social development

projects in local communities from Fairtrade products sold by K-food stores. In 2019, a total Fairtrade premium of €964,807 was generated by products sold by K-food stores and Kespro (2018: €915,909).

The products generating the largest Fairtrade premiums were Fairtrade flower, bananas and coffee. The Fairtrade premiums have been used for the renovation and extension of a school and a day care centre and for purchasing kitchen accessories in the local communities.

Suppliers' environmental assessment

308-1

In 2019, KOPO (Kesko Onninen Purchasing Office), the purchasing office of the building and technical trade in Shanghai, carried out an audit on 35 suppliers with a focus on environmental management and the ISO 14001

environmental system. At the end of 2019, 39 suppliers had a valid ISO 14001 certification.

As part of the IGS (ICA Global Sourcing) purchasing cooperation, we have introduced the IGS Environmental Assessment in which we ask suppliers for information on their energy consumption and sources and their measures taken to reduce energy consumption. In 2019, an IGS Environmental Assessment was carried out on 28 suppliers.

We participate in the amfori BEPI programme, which aims to develop environmental management of suppliers in risk countries. At the end of 2019, 19 of our suppliers in risk countries participated in the amfori BEPI process and 18 had completed the first self-assessment stage. One supplier had passed the BEPI assessment carried out by a third party.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Own brand products with responsibility labelling

OBJECTIVE	PROGRESS IN 2019		
We offer an extensive selection of own brand products with responsibility labelling.	<p>The grocery trade's Pirkka selection:</p> <ul style="list-style-type: none"> • 309 (2018: 286) Hyvää Suomesta (Produce of Finland) products • 183 (153) products with the Key Flag symbol • 201 (123) organic products • 84 (111) Seed leaf label products • 97 (86) Nordic Swan label products • 27 (23) Fairtrade products • 52 (48) UTZ-certified products • 40 (40) MSC-certified fish products • 4 (4) ASC-certified fish products • 9 (5) products with the Finnish allergy label (Allergiatunnus) 	<p>Kespro's Menu selection:</p> <ul style="list-style-type: none"> • 4 (12) Hyvää Suomesta (Produce of Finland) products • 35 (27) products with the Key Flag symbol • 10 (8) organic products • 24 (21) Seed leaf label products • 25 (20) Nordic Swan label products • 4 (4) Fairtrade products • 11 (10) UTZ-certified products • 41 (25) MSC-certified products • 3 (3) ASC-certified products • 1 (1) product with the Finnish allergy label (Allergiatunnus) 	<p>The building and technical trade's Cello selection:</p> <ul style="list-style-type: none"> • 1,027 (1,006) products with the Key Flag symbol • 30 (30) Nordic Swan label products • 267 (262) products with the Finnish allergy label (Allergiatunnus) • 61 (63) M1-certified products

We are committed to promoting the production of more sustainable cotton

Cotton production involves several identified problems related to environmental responsibility, social responsibility and economic responsibility. In 2019, we started our work towards promoting the sourcing of more sustainable cotton for our own clothing and home textile brands. Our own clothing and home textile brands that contain cotton are K-Citymarket's mywear clothes and myhome home textiles, Pirkka socks and K-Rauta's PROF workwear and Cello interior textiles.

In March 2020, we published **Kesko's cotton policy**, under which we are committed to sourcing all of the cotton for our clothing and home textile brands as more sustainable cotton by the end of 2024. Sustainable cotton is certified organic cotton, recycled cotton, Better Cotton or Fairtrade cotton.

Kesko is a member of the Better Cotton Initiative (BCI) since March 2020. The Better Cotton Initiative exists to make global cotton production better for the people who produce it, the environment it grows in and the sector's future. Kesko is committed to improving cotton farming practices globally with the Better Cotton Initiative.

Sustainable products

In 2019, we initiated extensive work to identify the products in each division that are sustainable from the climate perspective.

[+](#) Read more about sustainable products

MSC- and ASC-certified fish counters introduced at five K-Supermarkets

In compliance with K Group's fish and shellfish policy, Kesko's groceries trade, Kespro and K-food stores favour products from sustainable fish stocks and MSC- and ASC-certified suppliers in their selections. In 2019, the fish counters at five K-Supermarkets were awarded the MSC and ASC traceability certificate, which promotes sustainable fishing and aquaculture. The MSC and ASC traceability certificate allows the stores to sell MSC and ASC labelled unpackaged fish and shellfish at their service counters.

The MSC (Marine Stewardship Council) environmental label is awarded to wild fish and shellfish products that are sourced from certified and responsible fisheries. The ASC (Aquaculture Stewardship Council) ecolabel is a certificate awarded to seafood producers and farmed fish that indicates they meet the requirements for socially and environmentally responsible aquaculture. The MSC and ASC labels also indicate that the product can be traced from the fish counter all the way back to its source at sea.

The certifications were conducted by Bureau Veritas, an independent provider of certification services, and the certificates were awarded by MSC Finland. Certifications will also be sought for fish counters at other K-food stores as well. In 2020, the aim is to certify dozens of new fish counters.



Efforts to promote human rights

412-1 412-2

In compliance with its human rights commitment, Kesko respects all internationally recognised human rights. Our sourcing operations are guided by Kesko's ethical purchasing principles, which are based on the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO), the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child.

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 human rights assessment is reviewed every three years by the responsibility management group, with the latest review conducted in autumn 2019.

As part of the human rights assessment in 2016, we conducted a human rights review at factories in the high-risk countries of China, India, Bangladesh and the Philippines in cooperation with the Trade Union Solidarity Centre of Finland SASK. In 2017, we carried out an investigation with SASK into the realisation of human rights in the purchasing chain of grapes in Brazil, India and South America. In 2018, we conducted an extensive survey on the water risks related to our own avocado purchases.

Our **K Code of Conduct** guidelines include a section on human rights. In 2019, we published a new eLearning programme on the K Code of Conduct targeted at the entire

personnel, in which one of the themes is non-discrimination. A total of 4,617 employees had completed the eLearning programme by the end of 2019. Awareness of the K Code of Conduct is regularly promoted through communications and K Code of Conduct training sessions. According to Group guidelines, K Code of Conduct contract clause must be added to all agreements under which the Kesko Group companies purchase products or services from outside the Group.

Kesko has a Employee Equality and Diversity Group in accordance with the non-discrimination plan. The working group includes representatives of the employer, personnel and labour protection functions and handles matters related to non-discrimination and equality within the Group. In 2019, we organised training for the working group members on diversity and inclusion of the personnel. The themes discussed were, for example, prejudices and respectful encounters. In addition, on the working group's recommendation we acted as a partner of Helsinki Pride 2019, taking a stand on the discrimination of sexual and gender minorities.

The regular training sessions in responsible purchasing discuss the implementation of human rights in global supply chains. The training sessions discuss the sustainability policies guiding sourcing, the assurance process in purchasing from high-risk countries, the amfori BSCI Code of Conduct principles and the social responsibility assessment systems approved by Kesko. In 2019, we organised a total of five training sessions for Kesko's grocery trade, for Kesko employees working in purchasing, as well as for Kookkenä retailers.

We care for the health and safety of our customers

416-1 416-2

The activities of our Product Research Unit include assessing the impacts of products on health and safety. Manufacturers of our own brand food products must have international certifications that assure product safety. The standards we approve include: BRC, IFS, FSSC 22000 and GlobalGAP. In 2019, the total number of certified suppliers was 642 (2018: 553). This number also includes audits of local suppliers conducted according to our own audit guidelines (37).

A total of 7,405 product samples were analysed (2018: 7,678). More than 4,000 of the samples were related to the product development of our own brands. A total of 2,478 own control samples were analysed (2018: 2,300).

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 considered at the product development stage.

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

We encourage our customers to increase their use of vegetables

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

- We set a target that by 2020, at least 400 K-food stores will have dedicated 'veggie shelves' for vegetable protein products. In August 2017, some 200 K-food stores had a veggie shelf. By the end of 2019, there was a veggie shelf in approximately 700 K-food stores.
- We will organise at least 250 vegetable-related campaigns at K-food stores each year (2018–2020). In 2019, we organised 279 vegetable-related campaigns with 1,267 vegetable products.
- We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2019, we added 73 (2018: 42) new fruit and vegetable products to our selections.



We monitor product safety

We take measures against food fraud in accordance with the VACCP plan (Vulnerability Assessment and Critical Control Points). The VACCP plan contains an assessment of the probability of encountering food fraud and a monitoring plan to protect us against such fraud. Product groups identified as critical control points are not only subjected to normal product and supplier controls, but also regular analytic monitoring to detect any frauds.

In 2019, we made 156 product recalls in the grocery trade (2018: 178). Of these, 39 concerned our own brand products (2018: 46). In other cases, our Product Research Unit assisted the product manufacturers in the recall. If a defect or error in a product might have health impacts, a public recall is carried out. In 2019, this happened twice for our own brand products (2018: 2).

In the building and technical trade, we made 7 recalls in K-Rauta in 2019 (2018: 2) and 1 in Onninen (2018: 2).

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

In 2019, a total of 57 recall campaigns were launched for brands represented by K-Auto (Volkswagen passenger cars and commercial vehicles, Audi, SEAT, CUPRA, Porsche and MAN).

There were no legal proceedings or fines associated with product safety or health in Kesko in 2019.

Marketing communications and product information

Package labelling helps consumers in making sustainable choices

417-1

We comply with all relevant legislation on the product labelling of our own brand products and imports. Key regulations include:

- Food product labelling: EU Food Information Regulation **(EU) No 1169/2011** and supplementary provisions
- Product labelling related to safe use of consumer goods: Directive **2001/95/EC** on general product safety (and related corresponding national legislation in Kesko's operating countries)
- Warning labelling for chemicals: CLP regulation **EC 1272/2008** on the classification, labelling and packaging of chemicals
- Labelling for electrical equipment: various product segment specific directives (and related corresponding national legislation in Kesko's operating countries)

- Toy labelling: Directive **2009/48/EC** on toy safety (and related corresponding national legislation in Kesko's operating countries)
- Package labelling for cosmetics: Regulation **EC 1223/2009** on cosmetic products

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

We disclose the country of origin of meat in accordance with regulation **EU No 1337/2013**. We label meat and dairy as ingredients in accordance with the national decree MMM 218/2017. We will state the origin of the main ingredient in our own brand food products in accordance with the Commission Implementing Regulation (EU) 2018/775. The regulation will be applied as of 1 April 2020.

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

 [Read more about own brands with responsibility labelling](#)

We add material symbols on the packaging of own brand products of Kesko's grocery trade. During 2019, we also began to add written recycling instructions to our product packaging. These instructions will be added to all packaging to make it easier for consumers to sort their packaging waste correctly.

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

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

417-2

In 2019, there were 4 product recalls of Kesko's own brand products resulting from defective product labelling (2018: 8).

We observe good marketing manners

417-3

In October 2019, the Council of Ethics in Advertising issued a statement of a lacking commercial cooperation mention in an Instagram post by a social media influencer who acted as a partner to Intersport Finland Oy.

In 2019, there were no violations of the law or any other violations of voluntary principles in Kesko's operations.

Responsible sales of alcohol and tobacco

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

We verify the age of all customers who purchase alcohol or tobacco and appear younger than 30. This way, we aim to ensure that no alcohol or tobacco is sold to minors. In 2019, our cashiers verified the age of 3,252,195 (2018: 2,008,876) customers purchasing alcohol and 1,711,473 (2018: 1,152,770) customers purchasing tobacco. Based on these checks, we had to decline 24,864 alcohol purchases (2018: 14,760) and 15,657 tobacco purchases (2018: 10,808).

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

CLIMATE AND ENVIRONMENT

We are committed to international climate summit goals in the mitigation of climate change. We have set science-based emission targets for our operations and supply chain.

We reduce emissions through the use of renewable energy, energy-efficiency at the stores, and efficient logistics.

We promote the sustainable use of natural resources in our supply chains.

We reduce food waste in cooperation with the food supply chain, from primary production to the store.

We also help our customers to reduce their own environmental impacts.



IN THIS SECTION:

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Circular economy and waste management	44
Reducing food waste	46

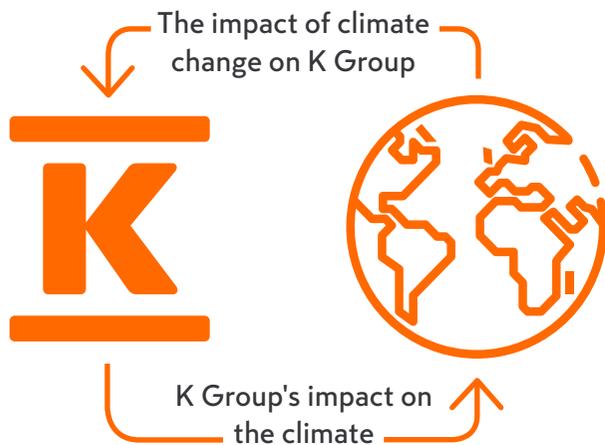
WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:

Climate work to the next level

In spring 2019, Kesko's Board of Directors made sustainability and combatting climate change a focus area for Kesko's strategy.

All K Group divisions have the opportunity to offer customers solutions for reducing their climate impacts, since the biggest sources of greenhouse gas emissions in private consumption are housing, food, and transportation.

In 2019, we conducted a risk assessment of our climate-related risks and opportunities. We identified K Group's impacts on the climate and the effects of climate change on K Group's operations.



Carbon Neutral K Group 2025

We began preparing K Group's climate programme and, in February 2020, we set our target to be carbon neutral K Group in 2025. We will systematically reduce the emissions of our own operations towards our goal of emission-free operations by 2030. Starting in 2025, we will compensate the remaining emissions from our own operations. Our new target is to have emission reduction targets by 2025 for two-thirds of the emissions from direct suppliers.

Carbon neutral grocery store

In 2019, K Group, together with Natural Resources Institute Finland (Luke), developed a model which enables a grocery store to become carbon neutral. The model was piloted in three K-food stores in the autumn. Based on the experiences, the aim is to expand the model to other K-food stores during 2020.

The carbon neutral store operating model defines the carbon footprint of the store's own activities and its footprint reduction target. The aim is to identify and implement actions to reduce the carbon footprint of the store and then calculate the necessary amount of compensation. Our goal is that stores have less and less to compensate for in the future.

[+ Read more about the risks and opportunities](#)

K-Ostokset carbon footprint calculator

With our data-based K-Ostokset service we want to help our customers understand the climate impacts of their purchases. The K-Ostokset application includes a carbon footprint calculator, which provides information on the carbon footprint of the customer's shopping basket at product category level. By the end of January 2020, 100,000 customers were using the K-Ostokset service.

K-Kampus awarded the WWF Green Office certificate

The WWF Finland environmental organisation has granted the prestigious Green Office certificate to K-Kampus, K Group's new headquarters. K-Kampus was designed as an energy-efficient smart building, and the carbon footprint of its waste management is compensated. The themes of the K-Kampus Green Office environmental programme concern matters to further reduce the carbon footprint of the building's users: catering and food waste, recycling and sorting, mobility and purchases.

K GROUP'S CLIMATE IMPACTS

K Group's climate impacts originate from emissions in Kesko's own operations and the value chain, where the highest emissions are generated during the lifecycle of products and services sold by us.

EMISSIONS FROM THE PRODUCTION OF PRODUCTS SOLD

6,100,000 tCO₂e

- The most significant emissions from food come from agriculture.

EMISSIONS FROM KESKO'S OWN OPERATIONS

120,000 tCO₂e

- Kesko's emissions are caused by generation of electricity and heat energy consumed by properties and fuel consumption by Kesko Logistics.

EMISSIONS FROM STORES

- Refrigerants and food waste are significant sources of emissions in K-food stores.
- The estimated emissions from energy consumption in properties managed by K-retailers are **94,000** tCO₂e.

Indirect emissions caused by new building projects, outsourced logistics, production and distribution losses of purchased energy and final treatment of waste amount to a total of approximately **73,000** tCO₂e.

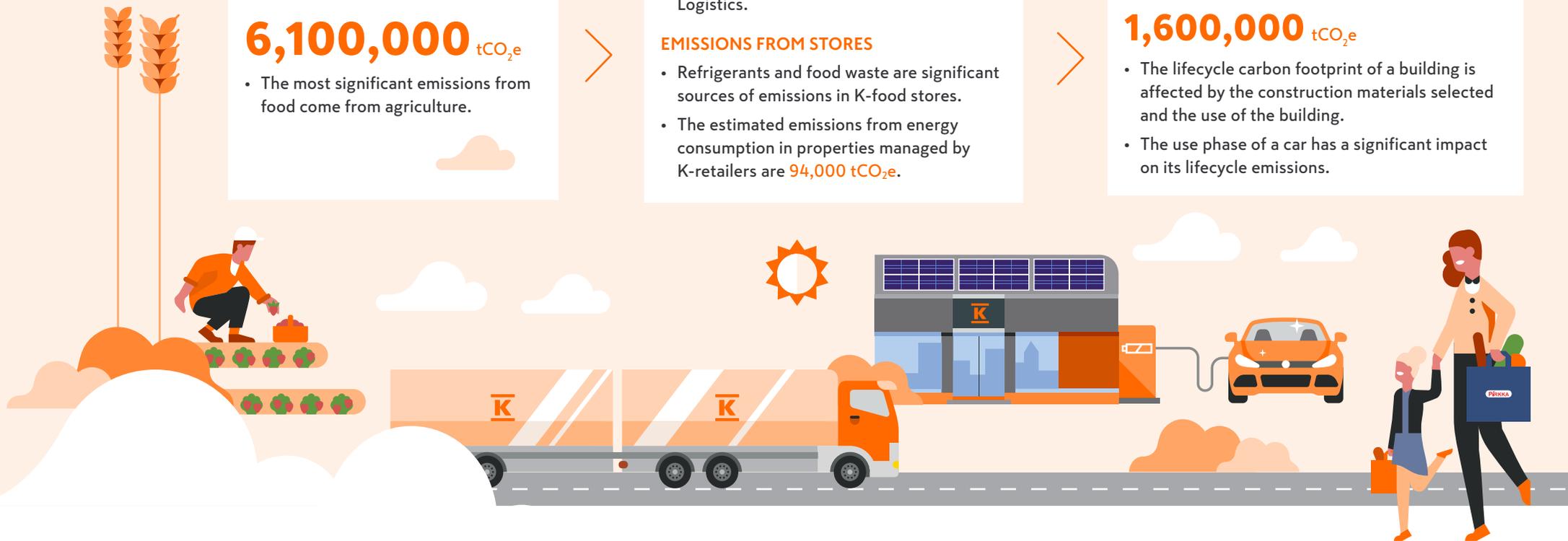
Annual emissions from commuting and business trips made by Kesko's personnel are approximately **21,000** tCO₂e.

Customer shopping commutes cause annual emissions of approximately **141,000** tCO₂e.

EMISSIONS FROM THE USE AND END-OF-LIFE TREATMENT OF PRODUCTS AND SERVICES SOLD

1,600,000 tCO₂e

- The lifecycle carbon footprint of a building is affected by the construction materials selected and the use of the building.
- The use phase of a car has a significant impact on its lifecycle emissions.



Renewable energy and energy efficiency

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

Renewable electricity

302-1

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

In 2019, we purchased 560 GWh of Renewable Energy Guarantees of Origin (REGO). This renewable electricity was produced in the Nordic countries, and 82% of it was produced by hydroelectric power and 18% by bioenergy. Around 488 GWh of the renewable electricity was provided

by Kesko's electricity purchasing company, Ankkuri-Energia Oy. The remainder of the renewable electricity was purchased elsewhere by K-retailers and used by Kesko.

In addition, the electricity used by K Charge stations is produced with Finnish wind power.

Energy consumption of properties in Finland

At the end of 2019, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and 1,247 store sites. The most significant properties in terms of energy consumption include K-Citymarkets, K-Supermarkets and large wholesale and storage buildings.

The majority of properties used district heat and additionally 3.3% of the heat energy was produced with fuels. In 2019, the heat energy self-produced with natural gas and oil at properties in Finland totalled 40.1 TJ (11,136 MWh).

Energy consumption in properties in other operating countries

The heat energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (1,226 MWh) and peat (68 MWh) were also used for heating. In 2019, the fuels used for self-produced heat totalled 74.4 TJ (20,662 MWh).

Energy consumption of properties

Finland	2019	2018
Electricity ¹ (MWh)	488,335	493,347
District heat (MWh)	327,711	328,842
Fuel for self-produced heat (MWh)	11,136	8,483
Total energy consumption (MWh)	827,182	830,672
Total energy consumption (TJ)	2,978	2,990

Other operating countries	2019	2018
Electricity (MWh)	75,620	71,392
District heat (MWh)	16,697	16,862
Fuel for self-produced heat (MWh)	20,662	19,481
Total energy consumption (MWh)	112,979	107,735
Total energy consumption (TJ)	407	388

All operating countries	2019	2018
Total energy consumption (MWh)	940,161	938,407
Total energy consumption (TJ)	3,385	3,378

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



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Renewable energy

OBJECTIVE

We will purchase 100% renewable electricity in Finland.

We will increase the production of solar power for our own use.

PROGRESS IN 2019

In 2019, we purchased 560 GWh of renewable electricity based on hydropower and bioenergy with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries.

In 2019, Kesko had 34 solar power plants installed at properties it manages. A total of 6.8 GWh of electricity was produced with solar power. At the end of 2019, the annual electricity production capacity of our solar power plants was approximately 10 GWh.

Total energy consumption

In 2019, our energy consumption in all operating countries totalled 3,998 TJ (including properties and logistics).

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2019:

- Renewable: 2,413 TJ (72 %)
- Nuclear power: 43 TJ (1 %)
- Non-renewable: 897 TJ (27 %)

Fuel consumption

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 572 TJ in 2019. The fuel used was diesel. In 2019, the total distance driven by Kesko Logistics was 38.9 million km. Energy consumption was calculated using data on kilometres driven, volumetric efficiencies and the transportation fleet according to the **Lipasto calculation system** of the VTT Technical Research Centre of Finland.

Logistics operations in the other operating countries are mostly outsourced. In 2019, logistics in Sweden, Poland, Estonia and Belarus consumed 40.6 TJ of fuel (diesel, petrol and gas).

A total of 723 TJ of fuels from non-renewable sources were used for logistics as well as self-produced heat of

properties. In addition, 4.4 TJ of renewable fuels were consumed.

Energy intensity

302-3

Maintaining the cold chain throughout the grocery trade's logistics and grocery stores requires greater amounts of energy in comparison with other business sectors.

Specific consumptions of energy, properties managed by Kesko in Finland

kWh/br-m ²	2019	2018
Specific consumption of electricity	201	210
Specific consumption of district heat	86	88

Increasing energy efficiency

302-4

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

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

New energy recycling system introduced to K-food stores

The new energy recycling system implemented in 2019 combines a very low-emission refrigeration system that uses a natural refrigerant, a heat pump and recovery systems needed for recycling energy. It utilises the condensation heat generated as a by-product of refrigeration for heating the premises. The innovation can reduce a property's heat consumption by as much as 85–95%, making the store almost carbon neutral instantly in terms of energy.

The concept can be replicated in stores of all sizes. In 2019, the system was installed in 13 of K Group properties. Motiva awarded the system the Energy Genius of the Year 2019 recognition.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Energy efficiency in stores

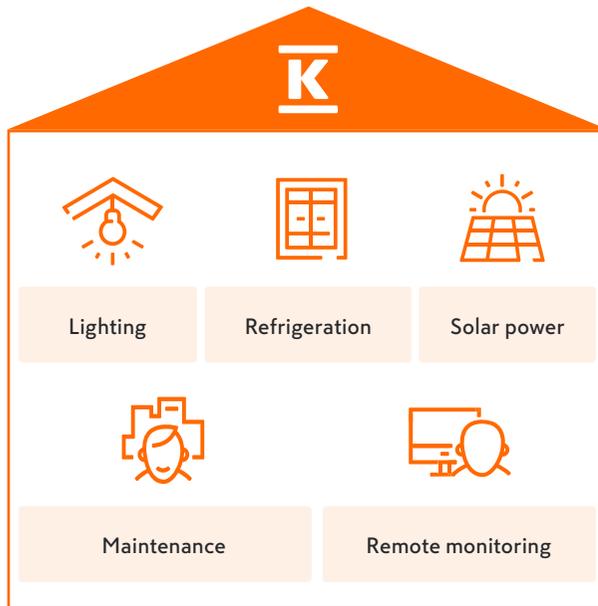
OBJECTIVE

During the agreement period 2017–2025: We commit to making energy saving measures equivalent to 7.5% of our 2015 energy consumption.

PROGRESS IN 2019

Up to this point, we have recorded energy saving measures of 51 GWh, which is 64% of the target for 2025. The calculation includes electricity, heating, fuels and district cooling.

Energy solutions in K-stores



1. Lighting

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

2. Renewing refrigeration systems

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

store sites. Condensation heat from refrigeration units is recovered at nearly all K-food stores, which means that additional heat energy is needed only during very low sub-zero temperatures. A new energy recycling system combines a very low-emission refrigeration system that uses a natural refrigerant, a heat pump and recovery systems needed for recycling energy.

Old systems, which use R404A as refrigerant, will be converted into energy efficient, environmentally friendly carbon dioxide based systems by 2030. At the end of 2019, the refrigeration units at 175 K-food stores used carbon dioxide recovered from industrial processes as the refrigerant, while units at 94 stores used R290 propane. A total of 269 stores used natural refrigerants that complied with the requirements of the EU's F-gas Regulation.

3. Solar power

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

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

At the end of 2019, there were 34 solar power plants installed at stores and properties managed by Kesko. A total of 6.8 GWh of electricity was produced with solar power for own use at K-food stores. At the end of 2019, the annual

electricity production capacity of our solar power plants was approximately 10 GWh.

We will continue to invest in solar power – two new solar power plants are under construction and they will be in use during 2020. After the introduction of these new power plants, the total output of our solar power plants will amount to approximately 12.7 MW_p, and the estimated annual production will be approximately 10.8 GWh.

4. Maintenance process

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

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

5. Remote monitoring

The set points of building automation systems can be changed from the remote management centre as required, which enables rapid reaction to disturbances. Setting the correct running times and set points is one of the easiest and most effective ways to improve energy efficiency. At the end of 2019, 291 sites with significant energy consumption were connected to the remote monitoring centre. An expert at the monitoring centre supports maintenance personnel in technical matters around the clock.

Reducing emissions

We report direct and indirect (Scope 1, 2 and 3) greenhouse gas (GHG) emissions from our operations according to the **GHG Protocol standard**.

Direct and indirect GHG emissions (Scope 1, 2 and 3)

305-1 305-2 305-3

Scope 1

Our Scope 1 emissions are caused by fuel consumption for generating heat at properties managed by Kesko and for the transportation of goods directly controlled by Kesko.

The heat energy at properties was partly self-produced using mostly natural gas and oil.

The transportation of goods for Kesko's grocery trade in Finland is managed by Kesko Logistics. Emissions from logistics in the other operating countries were reported for Sweden, Poland, Estonia and Belarus. Most of the logistics in the other operating countries are outsourced.

Logistics emissions in Finland were calculated based on kilometres driven, volumetric efficiencies and the transportation fleet according to the Lipasto calculation system of the VTT Technical Research Centre of Finland using EURO 6 engine standard emissions. The emissions for logistics operations in other countries were calculated based on fuel consumption.

Scope 1 and 2 GHG emissions

Tonnes CO ₂ -eq	2019	2018
Direct (Scope 1)	47,721	45,139
Finland	40,329	40,679
logistics (Kesko Logistics)	37,659	38,634
self-produced heat (natural gas and oil)	2,670	2,045
Other operating countries	7,392	4,460
logistics (Sweden, Poland, Estonia and Belarus)	2,946	386
self-produced heat (natural gas, oil, peat and timber ¹)	4,446	4,074
Indirect (Scope 2)	72,444	80,822
Finland	51,924	60,232
purchased electricity (market-based)	0	0
purchased electricity (location-based) ²	77,157	80,909
purchased district heat (location-based)	51,924	60,232
Other operating countries	20,520	20,590
purchased electricity (location-based)	17,467	17,084
purchased district heat (location-based)	3,053	3,506
Total	120,165	125,961
Finland, Scope 1 and 2 total	92,253	100,911
Other operating countries, Scope 1 and 2 total	27,912	25,050

¹ The biogenous CO₂ emission figure of the timber used for heating one facility in Belarus is reported in Scope 1, because its proportion of the total fuel quantity is insignificant (1 226 MWh).

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

Scope 2

Our Scope 2 emissions are caused by the generation of electricity purchased by Kesko and district heating consumed in properties managed by Kesko.

[Read more about renewable energy and energy efficiency](#)

Scope 3

Our indirect Scope 3 emissions are caused by the life cycle emissions of sold products and services, such as the primary production of raw materials, the manufacture of products, packaging, transportation and the use of products. In addition, indirect emissions come from such sources as our customers' shopping commutes, our personnel's work commutes and business travel, the final treatment of our waste and the emissions from production and distribution losses of the energy we procure.

Our greatest indirect emissions are caused by the production of the products for sale (76%), in the use phase of the products (19%) and by the shopping commutes of customers (2%).

GHG emissions intensity

305-4

The Scope 1 and 2 greenhouse gas emissions intensity is calculated in relation to net sales (2019: €10,720 million) and the average number of employees (2019: 20,852).

	2019	2018
Based on net sales (tonnes CO ₂ e / € million)	11.2	12.1
Based on average number of employees (tonnes CO ₂ e / person)	5.8	6.3

Other indirect (Scope 3) GHG emissions

Tonnes CO ₂ -eq	2019	2018
Upstream		
Purchased goods and services	6,120,100	7,300,300
Capital goods (buildings)	29,600	29,600
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	26,700	30,200
Transport and distribution of goods ¹	8,400	6,500
Waste	8,300	11,600
Business travel ^{1,2}	2,700	3,500
Employee commuting ¹	18,500	18,100
Downstream		
Shopping commutes by customers ¹	141,200	149,100
Use of sold products	1,523,300	1,993,400
End-of-life treatment of sold products	46,600	45,400
Franchises (K-retailer entrepreneurs)	93,800	92,900

¹ Boundary: Finland

² The boundary has changed in 2019, business travel includes air and car travel

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

305-7

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2019 caused:

- NO_x emissions: 246 tonnes (2018: 252 tonnes)
- SO₂ emissions: 209 tonnes (2018: 214 tonnes)
- Amount of radioactive waste produced by nuclear power: 0,4 tonnes (2018: 0,4 tonnes)

The particulate emissions in 2019 for Kesko's logistics in Finland were:

- NO_x emissions: 11 tonnes
- SO₂ emissions: 0,1 tonnes

Science Based Targets

305-5

We are the first Finnish company to set climate targets approved by the Science Based Targets initiative.

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



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Science Based Targets

OBJECTIVE	PROGRESS IN 2019
We commit to reducing our direct and indirect (Scope 1 and 2) emissions 18% by 2025 from base year 2015.	Scope 1 and 2 emissions were 4% greater compared to the base year due to significant acquisitions in the past few years. Emissions decreased 7% from the previous year.
In addition, we are committed to reducing our supply chain emissions (Scope 3) so that 90% of Kesko's key suppliers will set their own GHG emissions reduction targets by 2025.	Out of Kesko's key suppliers of 2019, 39% had set their own emission reduction targets.

Logistics

In 2019, Kesko Logistics set a target of achieving carbon neutral operations by 2030.

The reduction of emissions at Kesko Logistics is a long-term task:

- Efficiency of logistics: centralised distribution, optimisation of delivery routes and high volumetric efficiency
- Efficient reverse logistics: collection of purchase loads, carrier trays, pallets, roll containers, cardboard and recycled bottles and cans on the return route
- Courses in economical driving: all of Kesko Logistics' more than 500 contract drivers have been trained
- Renewing the vehicle fleet, utilising renewable fuels and increasing use of electric trucks as technology develops



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:
Logistics emissions

OBJECTIVE	PROGRESS IN 2019
The target of Kesko Logistics during 2012–2020 is to reduce emissions relative to the net sales index by 10% from the 2011 base year.	The relative emissions decreased by 24.6% from the level of the 2011 base year. In 2019, the relative emissions decreased by 9.4% from 2018.

Efficient logistics fleet

Traditional full-trailer combination



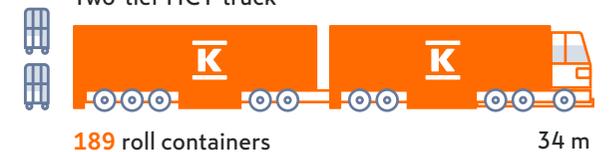
Two-tier trailer combination



HCT-truck



Two-tier HCT-truck



Emission reductions of products for sale

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

We have initiated extensive work to identify our **sustainable products**.

Environmental impacts of food choices

Consumers can decrease the environmental impact of their food choices by reducing the consumption of animal-based products and household food waste. We help our customers understand and decrease the **carbon footprint** of their shopping.

In 2019, we introduced a carbon footprint calculator to our K-Ostokset service. It offers customers information on the carbon footprint of their food purchases at product category level.

We offer a wide selection of plant-based products and **encourage our customers to increase the use of vegetables**.

Housing solutions

The building and technical trade offers consumers and business customers diverse product selections and expertise for improving the energy efficiency of building and renovation projects. K-Rauta stores provide a free

renovation support channel for customers offering advice for energy saving, renovation, and repairs.

Electric cars are increasingly popular

In 2019, our selection included 20 (2018: 11) plug-in hybrid car models (PHEV) and 6 (2018: 3) electric cars as well as 11 (2018: 11) car models using natural gas or biogas as fuel. In 2019, the registrations of Volkswagen, Audi and Porsche plug-in hybrids in Finland decreased by 23%, whereas the registrations of electric cars increased by 63% compared to 2018. The registrations of natural gas or biogas cars increased by 86% compared to 2018.

We have built an extensive network of electric vehicle charging points adjacent to K Group stores in order to advance the electrification of cars. At the end of 2019, the K Charge network had 106 fast charging points and 268 standard charging points at a total of 76 K-stores. The K Charge network is the largest fast charging network in Finland, with standard charging also offered. We also offer three extremely efficient high-power charging (HPC) stations in cooperation with IONITY. The electricity provided at all K Charge stations is produced with Finnish wind power.



SUSTAINABLE PRODUCTS

→ Read more:
[Kesko.fi/sustainableproducts](https://kesko.fi/sustainableproducts)

In 2019, we initiated extensive work to identify the products in each division that are sustainable from a climate perspective. We defined sustainable products as those which have a significantly smaller climate impact than comparable products or which are important for adapting to climate change. Our next goal is to report and monitor the sales of sustainable products.

GROCERY TRADE

- Products compliant with Kesko's sustainability policies
- Products with sustainability certification and labelling
- Plant-based products
- Circular economy products

BUILDING AND TECHNICAL TRADE

- Products reducing energy and emissions
- Renewable energy supply and distribution products
- Sustainably produced timber and wood products
- Products enabling a healthy and sustainable indoor environment

CAR TRADE

- Vehicles with low and zero CO₂ emissions
- Reconditioned parts offered in aftersales business
- Renewable electricity offered to charge hybrid and electric cars at K Charge stations



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.

We have built an extensive network of electric vehicle charging points adjacent to K Group stores in order to advance the electrification of cars.

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

Employee commuting

We want to support our employees in commuting to work in healthy, environmentally friendly ways, such as cycling, walking, running or public transport.

Our new K-Kampus headquarters has a separate parking space for bicycles in the parking garage as well as showers, dressing rooms, a drying room, and a bicycle maintenance space specifically designed for those using physical activity to commute to work.

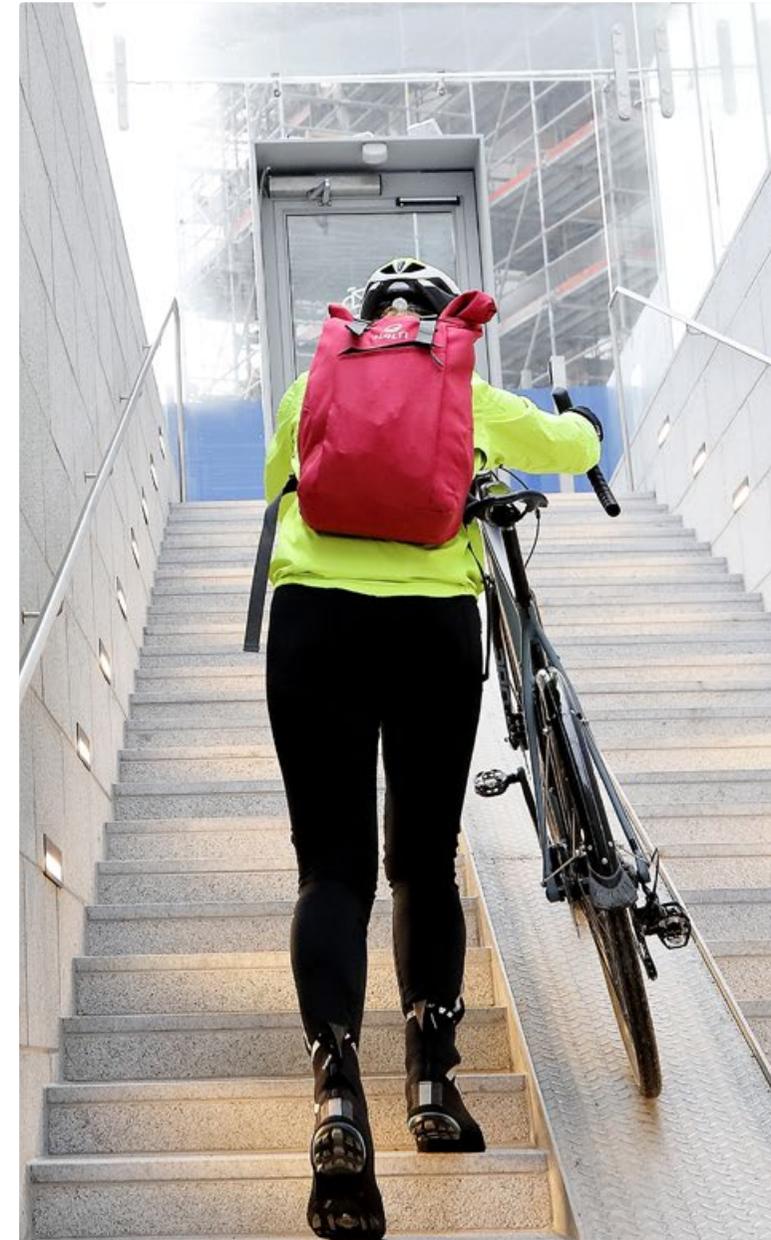
K-Kampus is located next to good public transport connections, which enables the personnel's and visitors' arrival by public transport. Kesko provides an employment benefit to its personnel, which can be used for the payment of public transport.

Business travel

Kesko offers 10 shared bicycles, including some electric bicycles, to the personnel at K-Kampus for work-related errands during the working day.

At the beginning of 2020, we introduced four shared K-Kampus cars, two of which are electric cars, one is a natural gas/petrol hybrid and one is a multi-purpose vehicle.

In 2019, the air miles flown by Kesko employees travelling for business totalled 8.6 million (2018: 9.8 million). We encourage the use of online meetings in order to avoid air travel.



Water and biodiversity

Water

303-1

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

Water risk in the supply chain

All of the own brand fruits and vegetables we import to Finland are GLOBALG.A.P. certified. The environmental requirements of GLOBALG.A.P. certification include a requirement on good water management. Finnish fruits and vegetables meet the requirements of the Finnish Horticultural Products Society's Kotimaiset Kasvikset quality certification.

Our objective is to identify critical products in terms of water risk. By conducting a water risk assessment of these products we identify the water basins most affected by water scarcity or contamination issues in their supply chain. The results of water risk assessments are used to plan actions.

We have conducted a water risk assessment of our avocado sourcing using the WWF's Water Risk Filter tool. On the basis of the assessment, we will increasingly put emphasis on purchases from areas with lesser water risks. In 2019, we

initiated a survey of the water risks in the supply chain of Pirkka mini plum tomatoes.

Water consumption at our properties

Properties managed by Kesko use water from municipal water supplies in all operating countries. In addition, a few wells are in use on properties in Estonia, Lithuania and Belarus. However, water from these wells accounts for only a negligible portion (3.5%) of total water consumption and is thus reported with the municipal water consumption. Waste water from Kesko's operations goes to municipal sewer systems.

Water consumption by country

m ³	2019	2018
Finland	1,036,734	1,055,406
Sweden	7,107	8,369
Norway	12,485	5,888
Estonia	7,762	9,001
Latvia	12,061	10,714
Lithuania	47,512	44,839
Poland	5,206	4,476
Belarus	64,879	54,570
Total	1,193,745	1,193,263

Biodiversity

304-2

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

Supply chain

Our greatest impacts on biodiversity occur throughout the lifecycle of the products sold. Raw materials critical to biodiversity in our supply chain include fish and shellfish, timber, palm oil, soy, cocoa and cotton. The sustainable sourcing of these materials are guided by our **sourcing policies**.

In 2019, the fish counters at five K-Supermarkets were awarded the **MSC and ASC traceability certificate**, which promotes sustainable fishing and aquaculture.

We avoid, reduce and recycle plastic

We create operating models that prevent plastics from ending up in water bodies and elsewhere in the environment. Read more about our **plastics policy** and our progress towards our targets.

We participate in efforts to protect the Baltic Sea

Our selection includes three products which use the abundant fish species of the Baltic Sea as an ingredient or feed, reducing the environmental load on the Baltic. Two Pirkka archipelago fish patty products are made of Baltic bream selectively fished for the purpose of managing fish stocks. In addition, the feed for the Pirkka Parhaat Benella rainbow trout farmed in Finland uses Baltic herring and sprat as raw material. The recycling of nutrients reduces phosphorus load in water bodies and improves the condition of the Baltic Sea.

K-Kampus, the new headquarters of K Group, has been awarded the WWF Green Office certificate. K Group's Green Office payments support WWF Finland in its efforts to protect the Baltic Sea. Moreover, customers can donate their K-Plussa points to WWF Finland as a way of endorsing nature conservation. In 2019, we held a campaign offering customers an easy way to support the work of WWF Finland to mitigate climate change and protect the arctic area. One per cent of gift card sales in K Group stores was disbursed to WWF Finland in cooperation with K Group's partners.

We restore habitats

304-3

K Fishpaths

In 2017, we began a multi-year collaboration extending to 2021 with the environmental organisation WWF Finland to save endangered migratory fish populations. With the

K Fishpaths collaboration we aim to remove barriers to migratory fish spawning grounds and create new spawning grounds in a spirit of cooperation with local operators, landowners, local K-retailers and volunteers. The purpose of the collaboration is also to **increase awareness of the endangered nature of migratory fish.**

Store sites

We build store sites only in areas planned by municipalities for business properties. Surveys of contaminated land are made annually in conjunction with construction work and real estate transactions. In 2019, Kesko did not have any sites for restoration in Finland.

Kesko does not have any protected habitats of its own.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

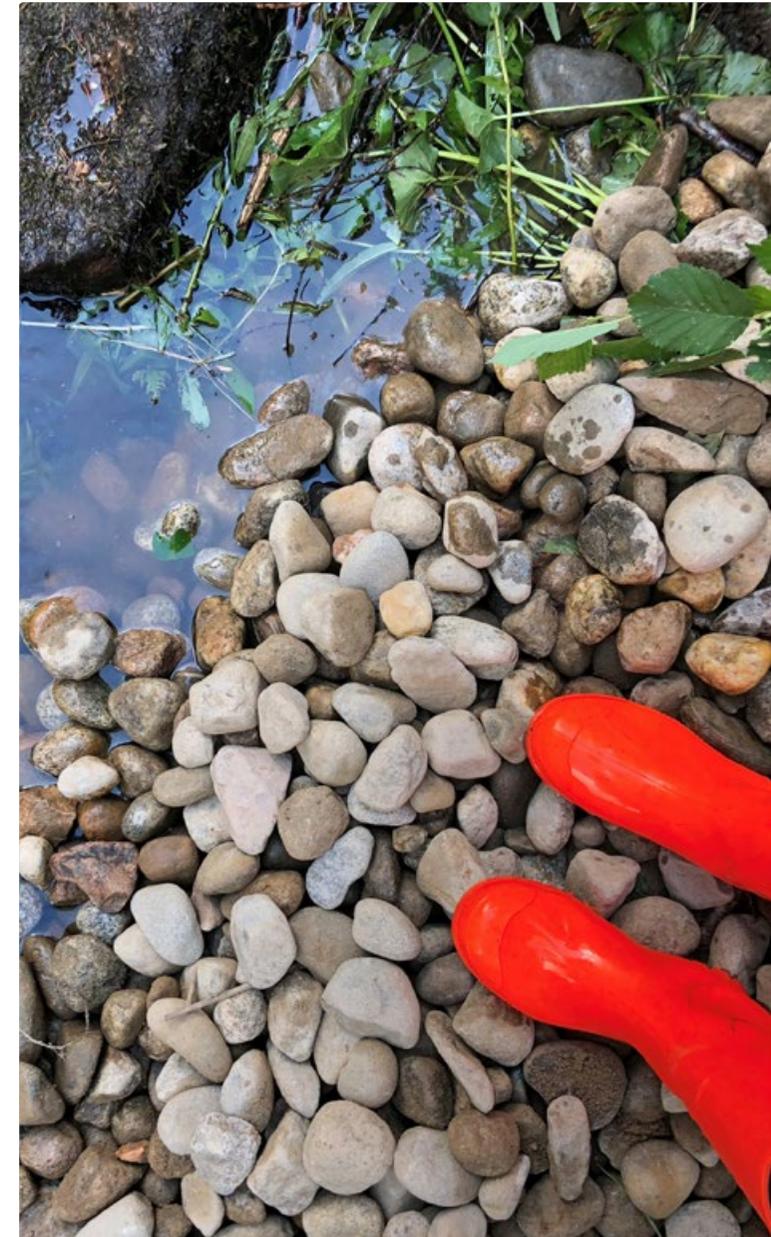
Biodiversity

OBJECTIVE

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

PROGRESS IN 2019

During the third season of the K Fishpaths collaboration, we built more than 60 gravel beds for spawning and opened 7 barriers, freeing as much as an additional 50 km of new spawning grounds and habitat formerly inaccessible to fish. A total of approximately 180 volunteers and 12 local K-retailers participated in the work organised at 7 locations. The trout were observed to have returned to the areas restored during previous seasons.



Circular economy and waste management

The transition to a circular economy requires increasingly efficient circulation of materials. We provide our customers with diverse recycling services for waste and discarded items and develop innovative circular economy solutions in cooperation with other operators.

Stringent targets for the avoidance, reduction and recycling of plastic

In our plastics policy, we have set stringent targets for the avoidance, reduction and recycling of plastic. We are a signatory to The New Plastics Economy Global Commitment.

Kesko Logistics' centralised collection services

In 2019, cardboard and plastic bales were centrally directed by Kesko's grocery trade for industry reuse. Around 3,650 tonnes of cardboard (2018: 3,355) and about 90 tonnes of plastic (2018: 48) were collected.

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

Kesko Logistics' reverse logistics

1,000 pcs	2019	2018
Aluminium cans	86,007	89,913
PET bottles	62,887	67,157
Recyclable glass bottles	9,803	12,267
Reusable crates	21,106	21,059

Circular Economy Agreement for stores in Finland

Kesko and Lassila & Tikanoja offer K Group stores in Finland the opportunity to participate in the national centralised Circular Economy Agreement. The agreement offers K-retailers strong know-how on the changing requirements of waste management. The aim is to prevent the creation of waste, increase the efficiency of recycling and advance the circular economy.

At the end of 2019, a total of 664 stores and K Group business locations (2018: 585) participated in the Circular Economy Agreement. The recovery rate of the waste generated in these sites was 100% (2018: 100%) and the recycling rate was around 74% (2018: 69%). In February 2019, we signed the commitment for materials efficiency in the food industry and set an objective to increase the recycling rate of stores to 78%.

We develop circular economy solutions

We actively develop solutions together with our partners to utilise, for example, production side streams or food waste. We also strive to promote circular economy with packaging design. Read more about our [circular economy innovations](#).

From ham fat to biodiesel

In 2019, we took part in the fourth Ham Trick campaign, where customers took the fat from their roasted Christmas hams to collection points at K-food stores for the production of renewable diesel. An estimate of 204,000 households participated in the campaign, and the collected fat totalled approximately 122 tonnes.

Collection services for our customers in Finland

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At the end of 2019, there were 413 (2018: 405) Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 227 (2018: 193) eco take-back points. Our aim is to introduce collection of plastic at all Rinki eco take-back points adjacent to all other K-food stores by the end of 2022.

In connection with our stores, customers can also return deposit beverage containers, batteries and accumulators, waste electrical and electronic equipment (WEEE) and discarded clothing for recycling.

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

	2019	2018
Deposit aluminium cans (million pcs)	383	387
Deposit recyclable plastic bottles (million pcs)	146	138
Deposit recyclable glass bottles (million pcs)	33	32
Batteries and accumulators (tonnes)	413	293
WEEE (tonnes)	159	152



Read more about our actions to reduce plastic

Waste for recovery

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

Tonnes	2019	2018
Non-hazardous waste	32,128	29,812
Recycling/recovery	26,696	24,395
Landfill	5,432	5,417
Hazardous waste	1,611	1,563
Recycling/recovery	1,234	996
Hazardous waste treatment	377	567
Total	33,739	31,375

Waste recovery rates

In Finland, Kesko's waste statistics mostly cover warehousing operations, whereas in the other countries, most of the waste included in the statistics is generated in stores. The recovery rate includes all waste except waste to landfill. The type of waste treatment was determined by the waste management company.

The recovery rate for reported waste management in Finland was nearly 100% and in the other operating countries it was 69% (includes hazardous waste treatment).

Waste: Finland, Sweden and Norway

Tonnes	Finland		Sweden		Norway	
	2019	2018	2019	2018	2019	2018
Non-hazardous waste	15,934	15,831	2,652	2,822	2,581	919
Recycling/recovery	15,931	15,820	2,503	2,598	2,515	895
Landfill	3	11	149	224	66	24
Hazardous waste	427	289	174	160	560	733
Recycling/recovery	281	177	105	3	520	517
Hazardous waste treatment	146	112	69	157	40	216
Total	16,361	16,119	2,826	2,982	3,141	1,652
Recovery rate %	99,98	99,93	95	92	98	99

Waste: Estonia, Latvia and Lithuania

Tonnes	Estonia		Latvia		Lithuania	
	2019	2018	2019	2018	2019	2018
Non-hazardous waste	1,208	859	1,243	1,545	6,422	5,895
Recycling/recovery	1,108	793	206	193	3,230	2,966
Landfill	100	66	1,037	1,352	3,192	2,929
Hazardous waste	42	55	29	13	266	170
Recycling/recovery	1	4	0	0	214	155
Hazardous waste treatment	41	51	29	13	52	15
Total	1,250	914	1,272	1,558	6,688	6,065
Recovery rate %	92	93	18	13	52	52

Waste: Poland and Belarus

Tonnes	Poland		Belarus	
	2019	2018	2019	2018
Non-hazardous waste	421	413	1,667	1,528
Recycling/recovery	129	137	1,074	992
Landfill	292	276	593	536
Hazardous waste	21	18	92	125
Recycling/recovery	21	18	92	123
Hazardous waste treatment	0	0	0,1	2
Total	442	432	1,759	1,653
Recovery rate %	34	36	66	68

We reduce food waste

We reduce food waste in cooperation with the entire food supply chain, from primary production to the customer. Our objective is to reduce K Group's identified food waste relative to sales by 13% from the 2016 level by 2021.

Food waste prevention

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

At the store

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

The circular economy also plays an important role in reducing food waste. K-stores are exploring numerous ways of utilising their own food waste by turning it into new added value products. Fruits, vegetables and bread going to waste can become raw materials for new jams, juices, smoothies and even beer.

K Group food waste hierarchy



ResQ Club app for reducing food waste

With the ResQ Club waste food app, K-food stores can sell food products nearing their expiry dates to consumers. In 2019, the ResQ Club waste food application was already in use at over 110 K-food stores across Finland. This operating

model reduces the store's waste, and at the same time customers have the opportunity to buy food at reduced prices. Some of the K-food stores which have adopted the application have managed to cut down food waste to about one-sixth of what it used to be.

Food donations

Some 90% of K-food stores donate edible food products they can no longer sell to local charities, which then distribute the products as food aid to those in need. In 2019, the amount of food products donated to charities by K-food stores was 4% higher than the year before. Additionally, some food that would otherwise go to waste is also given to farms for animal feed.

Biogas from food waste

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

Biogas produced from inedible food waste collected from approximately 400 K-food stores and the Kesko Logistics central warehouse is utilised as energy in the production of new Pirkka products. In 2019, some 4,800 tonnes of organic waste (2018: 4,000) were turned into approximately 3,600 MWh of biogas (2018: 3,000). CO₂ emissions were reduced by 716 tonnes compared to natural gas (emission factor 199 g CO₂/kWh) and by 947 tonnes compared to fuel oil (emission factor 263 g CO₂/kWh).

Household food waste

The food waste pages on K-ruoka.fi inform our customers on how to reduce food waste. The K-ruoka mobile app helps our customers plan their grocery shopping by offering personalised benefits, store-specific offers, a smart shopping list and about 8,000 K-ruoka.fi recipes.

During Food Waste Week Finland held in autumn 2019, we organised a food waste chat on Twitter for the second time, giving experts, K Group and customers a chance to discuss food waste and ways of reducing it.

Food waste from K-food stores

	2019	2018
Identified food waste (tonnes)	17,920	18,931
Identified food waste in proportion to food sold (kg)	1.56%	1.65%
Development of food waste in proportion to food sold from base year 2016	-3%	



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Food waste

OBJECTIVE

K Group aims to minimise the food waste resulting from its operations and utilise the inevitably accumulated organic waste. In February 2019, we signed a commitment for materials efficiency in the food industry, and set an objective to reduce our identified food waste in proportion to sales by a minimum of 13% from the 2016 level by the end of 2021.

PROGRESS IN 2019

Food waste decreased by 3% from the previous 2016 base level. Compared to 2018, K-food stores donated 4% more food to charity.

WORKING COMMUNITY

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

Our common guidelines, the K Code of Conduct, ensure that everyone in K Group has the same understanding of the values and principles that guide our everyday work.

Equal opportunities, fairness and non-discrimination are important principles that we have committed to observing.

We aim to be the most attractive workplace in the trading sector, with special focus on developing our corporate culture, leadership, and employee wellbeing.



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WE PROMOTE THE FOLLOWING UN SUSTAINABLE DEVELOPMENT GOALS:



Half of our employees work in Finland

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In 2019, Kesko had an average of approximately 20,852 (2018: 19,579) full-time equivalent employees in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. 48% of the personnel were based in Finland and 52% in the other operating countries.

Towards a new career

Internal job rotation opens up possibilities for various careers options. In 2019, 2,604 internal transfers were made in Finland (2018: 1,569) and 2,124 in the other operating countries in total (2018: 2,361). In 2019, we established a new operating model in Finland for situations where an employee's working capacity is permanently reduced compared to the requirements of the current job, and the employee is no longer capable of returning to do the job.

In Finland, K Group's recruitment is supported by the K Trainee and retailer coaching programmes.

Move to the new K-Kampus main office building

We are modernising Kesko's work environments across Finland. In summer 2019, some 1,800 K Group employees working in specialist positions moved to the new K-Kampus main office building from eight office locations around the greater Helsinki area. In addition to modern facilities, we focus on tools and ways of working that enable open and agile, collaborative work.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Employer image

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We are the best employer in the trading sector in terms of job satisfaction.	Ranking 30th, K Group improved its position in the Universum Ideal Employer Ranking student survey. K Group was up by 17 positions and received an award for being the best climber.	We will continue our systematic work to improve employer image both with our external and internal key stakeholders.
	We expanded our national cooperation network in Finland and launched a new educational institute ambassador model.	We will continue to strengthen our cooperation with selected educational institutions.

Changes in the number of Kesko employees

	2019	2018	2017
Finland on 31 Dec.	12,657	11,878	12,327
Other operating countries on 31 Dec.	12,511	11,523	12,656
Total on 31 Dec.	25,168	23,401	24,983
Finland, average	10,194	9,822	10,691
Other operating countries, average	10,658	9,757	11,386
Total, average	20,852	19,579	22,077

Fixed-term and part-time employments at Kesko

	2019	2018	2017
Fixed-term employees of total personnel on 31 Dec., %			
Finland	14.9	14.1	14.2
Other operating countries	6.9	6.7	4.8
Whole Group, total	10.9	9.4	9.2
Part-time employees of total personnel on 31 Dec., %			
Finland	37.2	40.8	43.9
Other operating countries	13.0	7.8	6.7
Whole Group, total	25.2	24.1	26.7

Kesko's personnel statistics for 2019 analysed by operating country

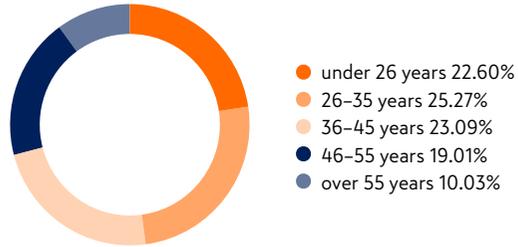
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of personnel at 31 Dec.	12,657	1,570	1,389	865	1,113	3,934	810	2,830
Average number of personnel in 2019	10,194	1,158	1,034	758	925	3,411	799	2,566
Number of new employments ¹	4,152	491	246	528	701	1,680	188	1,199
- women	2,148	174	53	252	252	668	32	508
- men	2,004	317	193	276	449	992	156	691
Number of terminated employments ¹	3,753	432	184	489	654	1,787	131	1,352
- women	2,009	139	41	208	114	659	16	531
- men	1,744	293	143	281	540	1,128	115	821
Percentage of new employments ¹								
- women	51.7	35.4	21.5	47.7	35.9	41.0	17.0	42.4
- men	48.3	64.6	78.5	52.3	64.1	59.0	83.0	57.6
Percentage of terminated employments ¹								
- women	53.5	32.2	22.3	42.5	17.4	36.9	12.2	39.3
- men	46.5	67.8	77.7	57.5	82.6	63.1	87.8	60.7
Terminated by employer, %	3.4	1.4	13.6	9.0	26.8	2.9	21.1	1.6
Total turnover rate, %²	20.1	27.5	13.2	47.7	50.2	44.1	13.3	47.8

¹ Including summer employees

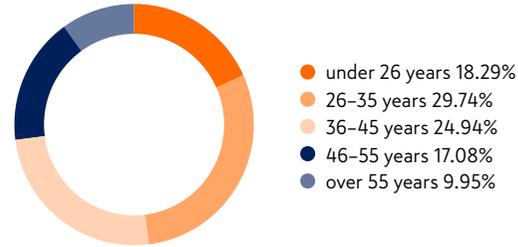
² Excluding summer employees

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

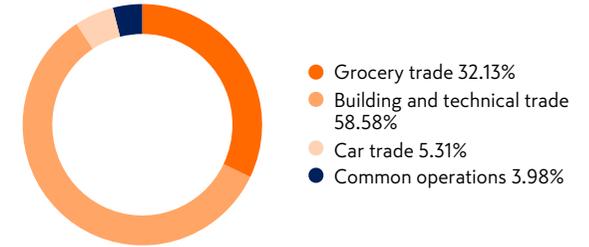
Age distribution of Kesko personnel in Finland in 2019, %



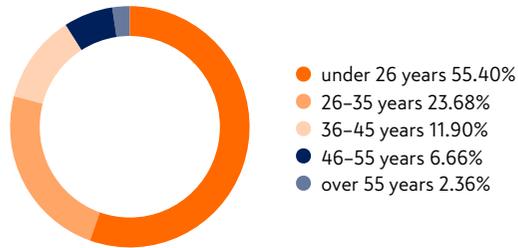
Age distribution of Kesko personnel in the other operating countries in 2019, %



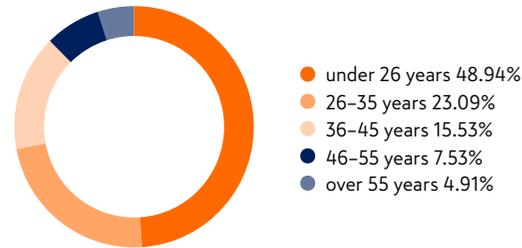
Distribution of Kesko personnel by division at 31 Dec. 2019, %



Recruits, age distribution in 2019, %



Terminated employments, age distribution in 2019, %



We offer comprehensive personnel benefits

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

In addition, we offer our personnel occupational health care services, retirement benefits, versatile shopping benefits in K Group stores and the staff store as well as the possibility for private car leasing for employees. In all operating countries, we support our employees' leisure-time exercise activities in different ways. The Finnish companies provide a benefit for physical exercise, cultural activities and commuting, which in 2019 expanded to cover wellbeing services.

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

Performance bonuses and share compensation plan

The performance bonus schemes cover all personnel, with the exception of sales assistant jobs and jobs covered by other types of bonus or commission systems. The indicators of the performance bonus scheme include, for example, the

Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on the role, personal performance bonus targets may also be set.

In spring 2019, around €18.9 million (2018: €15.1 million) was paid in Finland in bonuses under the 2019 performance bonus schemes, accounting for approximately 4.1% (2018: 3.5%) of the total payroll. In 2019, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland: €19.3 million (2018: €16.1 million)
- In the other operating countries: €3.4 million (2018: €4.5 million)

The maximum performance bonus amounts vary depending on the profit impact of the person's role and are equivalent to 10-100% of the person's annual salary.

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

Pensions

201-3

New pensions were granted to 204 people (2018: 193) in Kesko Group in Finland. Of these, 35 were disability

pensions (2018: 32), of which 14 (2018: 15) were partial disability pensions. Rehabilitation benefit is a form of fixed-term disability pension granted with the aim that the employee is rehabilitated and returns to working life. Rehabilitation benefits were granted for the purpose of retraining or work trials to 50 people (2018: 93), who were at a clear risk of incapacity for work within a few years. The average retirement age of employees in 2019 was 61.3 (2018: 61.9). The average retirement age for old-age was 63.7 (2018: 63.7) and the age for disability pension was 47 (2018: 47). In the other operating countries 35 (2018: 21) employees retired.

[+ Read more about pensions](#)

Occupational health and safety

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Our occupational health and safety management is based on statutory comprehensive risk identification and assessment and monitoring of follow-up of measures. Our objective is continuous comprehensive improvement of occupational safety, in accordance with the ISO 14001 and ISO 45001 standards. In cooperation with business units, annual goals have been set for the Occupational Health and Safety function. The realisation of Group goals is reported to Kesko's Board of Directors. Common occupational health and safety principles are in use in all of operating countries.

In 2020, we will introduce a new working capacity system to support personnel wellbeing, to monitor sickness absences and to anticipate risks of incapacity for work.

Occupational safety risk management part of daily operations

We have improved the personnel's awareness of occupational safety risks and increased the reporting of close call situations with our risk management systems. With jointly set indicators, we have strengthened the occupational safety culture.

The labour protection programme also contains the evaluation of health risks by occupational health care professionals. An evaluation team at the workplace carries out an evaluation of risks that physical work involves. In 2019, the psychosocial load was evaluated as part of the personnel survey.

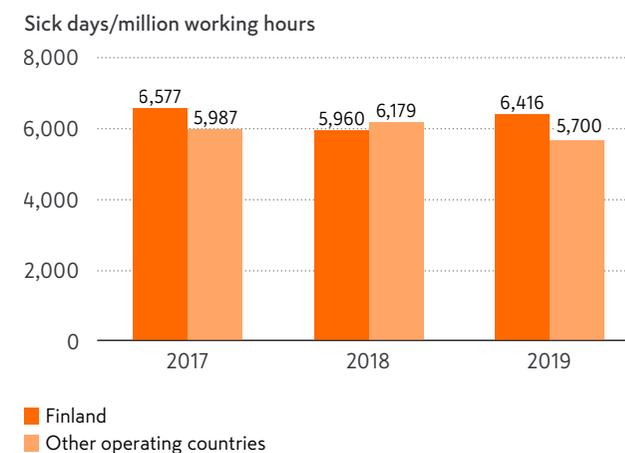
Occupational health plays a key role in maintaining working capacity

Comprehensive occupational health services are based on the legislation of each operating country, with focus on preventive measures. In 2019, the strategic focus areas in occupational health cooperation were management by information, strengthening the K culture, maintaining and improving the personnel's wellbeing at work, and supporting managerial work.

In 2019, 12,002 Kesko Group employees in Finland were covered by occupational health services (2018: 12,261). In Finland, Kesko's occupational health care provides services for employees in the Greater Helsinki area and purchases occupational healthcare services from one provider for employees elsewhere in the country. Kesko makes active use of health care professionals for the prevention of incapacity for work and in maintaining working capacity.

A total of some €5.9 million (2018: €5.5 million) was spent on occupational health care in Finland in 2019. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €2.8 million (2018: €2.8 million) of this sum. In 2019, Kesko's occupational health care spent €492 (2018: €447) per employee on maintaining personnel working capacity and providing medical care.

Trend in number of sick days



Sickness absences by country in 2019

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Belarus
Total number of sick days	123,354	13,682	13,872	8,483	5,494	49,519	8,886	19,938
Per employee	12.1	11.8	13.4	11.2	5.9	14.5	11.1	7.8
Per million working hours	6,416	6,713	7,623	5,513	2,940	7,187	5,347	3,824

The calculation method: sick days per employee have been calculated on the average number of employees during the year. Companies not included in the figures: OU 1A.EE, UAB 1A.LT, Oskar Harju AB, K-Rauta Finland Holding Kaukajärvi Oy, SIA Mobilukss, UABKesko Senukai Digital, Byggvaruhuset Färingsö Trä AB.

Kesko's contribution to occupational health care, Finland

€/person	2019	2018	2017
	492	447	494

In 2019, the sickness absence rate in the Group companies in Finland was 4.6% of hours worked (2018: 4.3%). Approximately 73.2% (2018: 76.2%) of sickness absences were paid short-term absences. In the other countries, the sickness absence rate was 4.8% (2018: 5.1%). Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables on the right. In the other countries, a total of 52 injuries occurred resulting in sickness absences of more than three days in 2019. The corresponding figure in Finland was 163.

Personnel representatives involved in occupational safety and health cooperation

A labour protection group and a cooperation group operate in Kesko. The industrial safety delegates and shop stewards participate in the planning, implementation and follow-up of occupational health and safety matters. The cooperation involves active support for personnel wellbeing at work and proactive identification of risks by the personnel. Realisation of the agreed targets is evaluated on a quarterly basis in all business areas.

Injuries and occupational diseases in Finland

	2019			2018	2017
	Men	Women	Total		
Fatal injuries	0	0	0	0	0
Occupational injuries, excl. commuting injuries	116	47	163	181	226
Commuting injuries	34	39	73	67	79
Injury rate ¹ /million working hours			12	13	11
Average degree of injury severity, days			38.2	31.6	20.9
Suspected occupational diseases	4	1	5	3	2
Occupational diseases	1	0	1	2	1
Sick days due to occupational injuries, commuting injuries and occupational diseases	4,064	4,943	9,007	8,040	6,473
Per employee			0.9	0.8	0.6

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

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

Injuries and occupational diseases in other operating countries

	2019
Fatal injuries	0
Occupational injuries, excl. commuting injuries	52
Commuting injuries	22
Injury rate ¹ / million working hours	4.9
Suspected occupational diseases	0
Occupational diseases	3
Per employee	0.1

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

We invest in personnel wellbeing and occupational safety competence

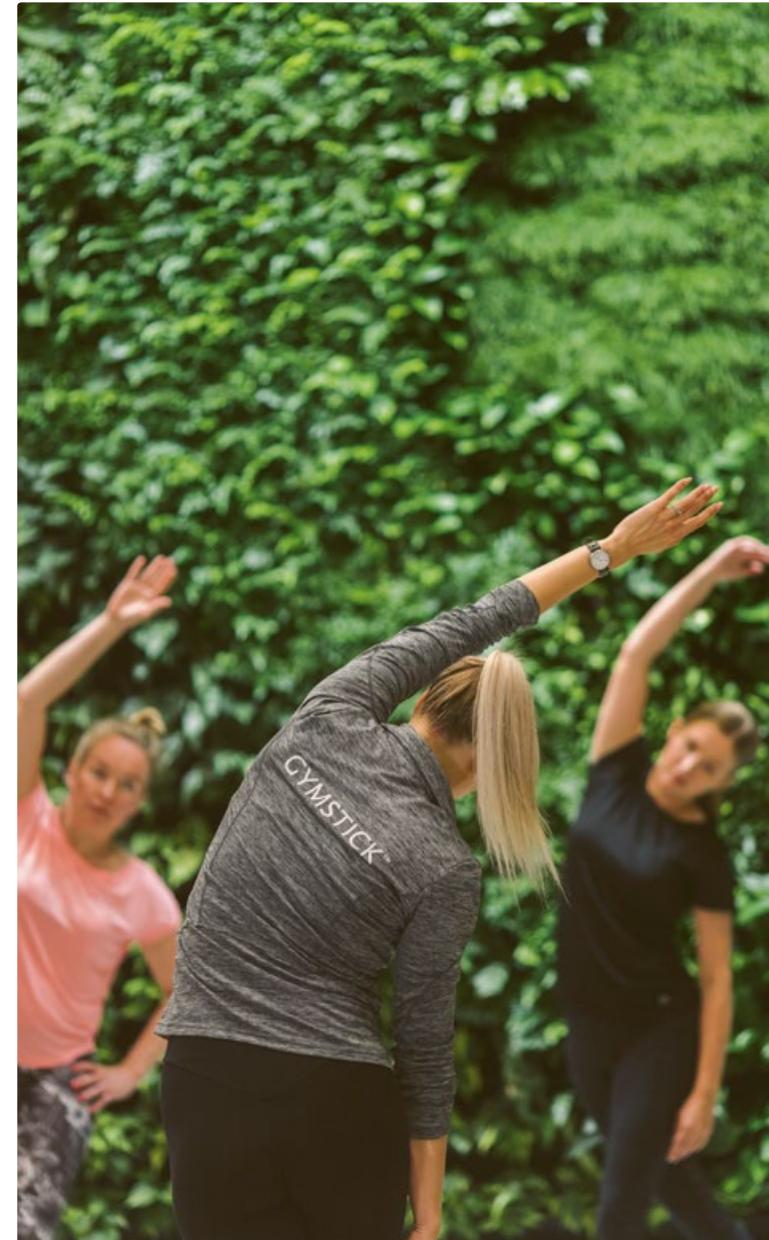
First aid and occupational safety training is organised in all divisions on a regular basis. The personnel have the opportunity to study occupational safety both through coaching and through independent study. Occupational health and safety topics are part of the induction of new employees.

We promote a wholistic approach to employee health and organise various programmes that support wellbeing and health, from wellbeing lectures to more extensive coaching. This includes, for example, training which supports stress management and work-life balance and wellbeing.

Both online examinations and appointments for medical examinations are offered to the personnel at regular intervals.

In 2019, manager competence in factors that contribute to wellbeing and working capacity was increased. At the K-Kampus main office, space solutions that support personnel wellbeing in a variety of ways and the concept of increasing physical activity during work commutes were promoted.

We offer retailers and store personnel occupational safety training and organise occupational safety lectures as part of our cooperation with educational institutions.



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

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We will improve work motivation and job satisfaction.	In Finland, we launched the K Well operating model which emphasises the employees' own opportunities to impact their wellbeing and combines the operating models supporting wellbeing and employer services into a comprehensive package.	We will expand the K Well operating model to business operations and integrate it into manager training, for example. We will place special emphasis on supporting mental wellbeing and services.
We will reduce the number of sick leave absences, accidents at work and numbers for premature retirement due to disability.	We developed a new working capacity management system, updated our working capacity management processes and launched communications of the roll-out of changes as well as manager training. We evaluated the personnel's psychosocial load using common indicators as part of our personnel survey.	In Finland, we will launch a new working capacity management system and new processes. The follow-up of risk of incapacity for work caused by an occupational accident will be implemented in the same process. Norway has its own management system for occupational safety.

An operating environment in transition calls for continuous competence development

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The systematic, business-driven development of personnel competencies is a critical factor for future success. The transformation of the trading sector, digitalisation and continuous changes in working life act as drivers for future development needs.

Key areas of competence building in K Group are:

- Leadership and management
- Knowledge work
- Interaction and self-management skills
- Training for store personnel: sales, service and product competence



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME:

Competence development

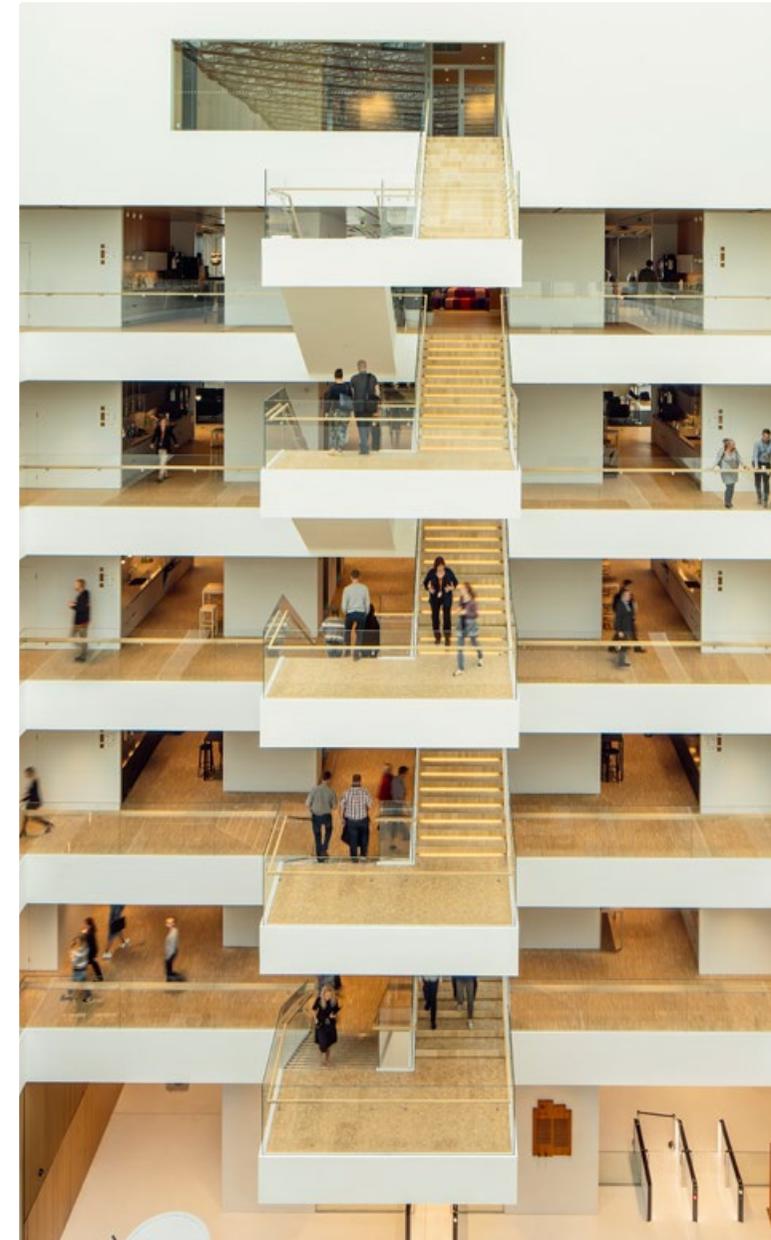
OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We conduct an annual performance and development review with every employee.	Performance and development reviews are a systematic part of our performance management model. Approximately 85% of our employees have discussed their objectives and development with their manager.	We will continue to give guidance and training on performance and development reviews to our managers and personnel.
We regularly train our managers.	In Finland, we arranged training for all managers on our new leadership fundamentals: 1,218 persons took part in the training.	Based on selected focus areas, we will continue to systematically develop managerial work.

Developing leadership and management

Managers are offered a large variety of coaching to support their daily managerial work.

In 2019, we arranged leadership training targeted at all managers in Finland in which Kesko's Group Management Board members acted as coaches and presented Kesko's new leadership fundamentals.

The management training programme initiated in the K-Citymarket chain was completed and more than 300 store managers obtained specialist vocational qualifications in management.



Knowledge work

Knowledge work comprises the development of teamwork tools, collaboration and meeting practices and emphasising the openness of information. Knowledge work practices and the tools chosen for the purpose ease our everyday work and serve the successful implementation of our common strategy. In 2019, we focused on training both in relation to information systems and knowledge work practices.

Self-management and interaction skills

To support wellbeing at work, we focused on self-management and the development of interaction skills. In 2019, we organised training, for example, on self-management, time management, networking and influencing and negotiating skills. We developed an online coaching programme on working life skills directed at young employees at the start of their careers.

Training for store personnel

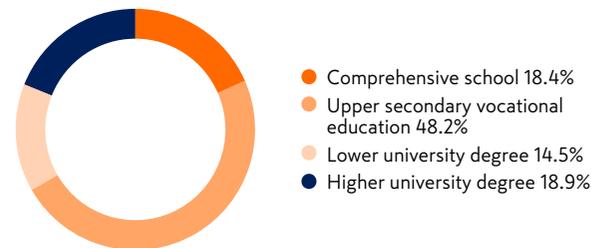
Via K-Academy, we provide store personnel with professional training in the form of coaching and e-learning as well as an opportunity to complete vocational degrees. In 2019, together with our businesses and retailers we developed tailored learning paths for sales assistants, heads of departments and retailers to be applied in various situations. Since 2018, we have been training workplace instructors for stores, and by the end of 2019, more than 700 workplace instructors had been trained.

Training days and costs in 2019

	2019	2018
Training days		
Finland	74,199	58,191
- women ¹	27,281	
- men ¹	30,012	
Other countries	64,890	64,331
- women ¹	25,163	
- men ¹	12,450	
Training days per employee		
Finland	7.3	5.9
- women ¹	4.4	
- men ¹	4.7	
Other countries	6.1	6.6
- women ¹	5.4	
- men ¹	1.8	
Training costs, million €		
Finland	2.3	2.7
Other countries	0.6	0.4
Training costs per employee, €		
Finland	224	277
Other countries	60	45

¹ eLearning trainings not included

Distribution by education at 31 Dec. 2019, %



Sweden and Norway not included



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

404-3

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

In performance and development reviews we discuss the employee's competencies and motivation, career wishes, the quality and development of managerial work and the entire working community. Finally, a personal development plan is created for the interviewee. In 2019, evaluation of the level of professional competencies was introduced as

part of the performance and development reviews. These discussions were used in the creation of development plans.

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

Personnel survey as a tool for developing operations

The personnel survey is among the key tools for improving methods of operation and managerial work and one way of listening to the views of the personnel. In 2019, the Group's

personnel survey was conducted in Finland, Sweden, Norway, Poland and the Baltic States.

10,761 Kesko employees responded to the personnel survey in 2019, giving a response rate of 75%. Questions measuring the psychosocial load of employees and indices reflecting leadership fundamentals in managerial work were added to the survey. Compared to the previous Group level results from 2017, improvement was identified especially in cooperation between teams and units and in development opportunities.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Performance management

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We know the targets set for our work and receive feedback on our performance.	According to the 2019 personnel survey, 93% of our personnel understood how their individual work effort contributed to achieving the common goals of their own unit. Approximately 60% of the personnel received regular feedback from their manager for their work performance.	We will promote the managers' ability to give feedback by focusing on it as part of performance management and manager training. We will develop performance bonus models further to better serve our business operations.

We promote equal opportunities and diversity

405-1 406-1

Zero-tolerance for discrimination

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

Kesko has established an Employee Equality and Diversity Group in accordance with the non-discrimination plan, which handles matters related to non-discrimination and equality within the Group. The Employee Equality and Diversity Group includes representatives of the

employer, personnel and labour protection functions. In 2019, we organised training for members of the working group on diversity and inclusion of personnel. The themes discussed included, for example, prejudices and respectful encounters. In addition, on the working group's recommendation we acted as a partner for Helsinki Pride 2019, taking a stand on the discrimination of sexual and gender minorities.

No cases of discrimination were reported to us in 2019.

Diverse working community

In autumn 2019, we prepared a diversity coaching programme for use by working communities through the development of the employee ambassador model. The most important resourcing on equal opportunities and equality activities was to recruit a personnel responsibility specialist

to coordinate and implement projects under the theme and to prepare a programme on personnel responsibility.

According to the diversity policy of Kesko's Board of Directors, Kesko seeks to have a balanced representation of genders on the Board. At the end of 2019, women accounted for two out of the seven members of the Board and one out of the eight members of the Group Management Board.

We have started several programmes in recent years to employ young people and people from special groups, and employing them has become a permanent operating model. So far, more than 3,100 young people in this target group have been hired to K Group through work trials, salary support and apprenticeship training.

In the future, immigrants will be an increasingly important target group for recruitment into service positions in the retail sector. At present, the highest number of immigrants are employed in the stores and warehouses of K Group.

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

People of various ages are an asset

In Finland, the average age of the employees was 37.4 in 2019. In the other countries, the average age of employees varied from 35 to 45 years.



PROGRESS MADE IN OUR RESPONSIBILITY PROGRAMME: Human rights and equality

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
We respect human rights and consider them in all of our operations.	We reviewed our human rights commitment and assessment . We organised training for members of the Employee Equality and Diversity Group on diversity and inclusion.	As part of the Group's personnel sustainability work we are developing a personnel diversity and inclusion programme by organising, for example, stakeholder hearings.
We promote the implementation of gender equality in our own operations and supply chains.	Together with the Center for Child Rights and Corporate Social Responsibility (CCR CSR), we opened a children's summer day care facility at a factory in China that supplies site lighting to Onninen and K-Rauta stores.	

Long careers are not rare: 1,059 employees in Finland have worked at Kesko for over 25 years. In Finland, 34.7% of the employees have worked at Kesko for over 10 years and 65.3% under 10 years, and in the other countries the figures were 18.8% and 81.2%, respectively.

We promote the realisation of pay equality

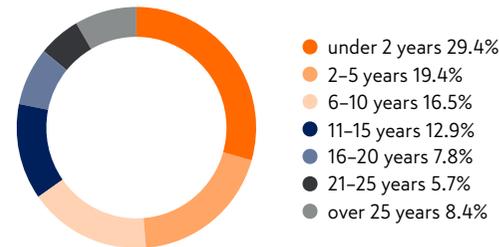
405-2

The average annual salary of Kesko employees was €40,578 in Finland, €38,282 in Sweden, €54,355 in Norway, €17,533 in Estonia, €16,056 in Latvia, €18,219 in Lithuania, €18,881 in Poland and €5,340 in Belarus. As Kesko Group operates in many lines of business, the average salary is not a good indicator of salary level or structure. The wage groups and tables specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality.

Besides the role and its requirements, the salary of a specialist is determined by competence, experience, performance and results. Kesko uses a job grade classification system.

In jobs classified based on job grades, in higher and middle management jobs the women's salary is 97% of men's salary in comparable jobs, and 98% with manager and expert positions, respectively. As a whole, women's salary is 98% of men's salary in comparable jobs.

Years of service in Finland in 2019, %



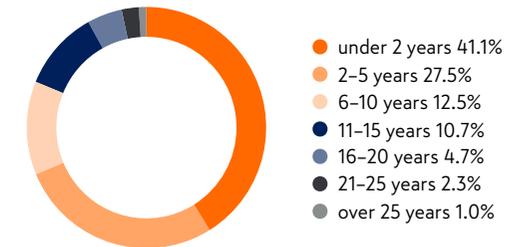
Percentage of women and men of personnel, Finland

	Women	Men
Full-time	35.5	64.5
Part-time	70.8	29.2
Permanent	49.7	50.3
Fixed-term	47.8	52.2
Managers	43.7	56.3

Percentage of women by employee category, Finland

	2019	2018	2017
Top management	27.5	28.6	28.3
Middle management	27.8	23.3	22.6
Managers and specialists	47.1	46.8	45.2
Workers and white-collar employees	50.4	53.5	58.4
Total	49.3	51.8	55.5

Years of service in the other operating countries in 2019, %



Percentage of women and men of personnel, other operating countries

	Women	Men
Full-time	43.8	56.2
Part-time	38.8	61.2
Permanent	44.2	55.8
Fixed-term	30.5	69.5
Managers	41.6	58.4

Percentage of women by employee category, other operating countries

	2019	2018	2017
Top management	12.5	12.5	0.0
Middle management	39.8	42.3	56.2
Managers and specialists	47.4	51.8	49.1
Workers and white-collar employees	36.2	39.3	41.6
Total	40.0	43.6	46.7

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

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

205-1 205-2 205-3

With K Code of Conduct, we ensure that everyone in Kesko has the same understanding of the values and principles that guide our everyday work. The principles are the same for every Kesko employee in all of our operating countries.

We also require our business partners to have responsible operations.

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

Risks related to corruption are discussed as part of Kesko Group's risk management. Key risks are identified, assessed, managed, monitored and reported regularly as part of business operations in all operating countries. This includes risks related to corruption. In 2019, we also

updated a separate group-level compliance risk assessment, in which we assessed risks related to corruption from the perspective of legislation and regulation. The most significant corruption risks are related to real estate and store site projects and the purchasing of goods and services.

Kesko's anti-corruption principles were included in the K Code of Conduct guidelines published in 2016. The guidelines and the website have been published in the languages of all operating countries. Kesko employees and business partners have their own versions of the K Code of Conduct. All Kesko Group personnel are obliged to annually confirm their compliance with the K Code of Conduct. We have prepared an eLearning package for employees to internalise the K Code of Conduct. We also organise K Code of Conduct training each year in Kesko's operating countries for the management of the units and local Group companies with focus on anti-corruption activities.

In 2019, the prevention of malpractice was one of the focus areas for Kesko's corporate security function. None of the cases of suspected malpractice reported during the year was related to corruption.

Through the group-wide SpeakUp channel, employees and business partners can report any violations of the K Code of Conduct. In 2019, 28 notices were submitted through the SpeakUp channel (2018: 11). They were related, among other things, to managerial work, operation of stores and phishing messages received by customers.

In 2019, no corruption related lawsuits against any Kesko Group company came to our knowledge.



PROGRES MADE IN OUR RESPONSIBILITY PROGRAMME: K Code of Conduct

OBJECTIVE	PROGRESS IN 2019	PLANS FOR 2020
All of our personnel act in compliance with the K Code of Conduct.	The entire personnel is obligated to annually commit to compliance with the K Code of Conduct. In 2019, 82% of personnel signed the annual confirmation.	We will continue to make the annual confirmation process more systematic and promote commitment to the K Code of Conduct through managerial work, training and continuous visibility. In Finland, we will pilot the annual confirmation process as part of K Success Factors personnel system.
We organise regular training on the K Code of Conduct.	In October, we published a new refresher eLearning course on the K Code of Conduct in all operating countries. A total of 4,617 employees had completed the eLearning programme by the end of 2019. We arranged K Code of Conduct sessions for Kesko in Sweden and for key persons at Kespro, focusing especially on corruption and fraud-related issues.	We will continue to systematically promote the awareness of the K Code of Conduct through various actions. In addition to the longer K Code of Conduct eLearning course, we aim to publish a shorter refresher course on selected themes every two years. Communications and roll-out are supported by our active group of K Code of Conduct ambassadors.

Freedom of association is an important value

407-1

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

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

The freedom of association is also supported by the newly relaunched EWC (European Work Council) activities in cooperation with the Service Union United PAM. In autumn 2019, an international meeting was organised on EWC activities with Kesko's representatives from Finland, Sweden, Norway, Poland and the Baltic States.

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

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

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

Periods of notice and restructuring situations

402-1

Kesko complies with local legislation in all of its operating countries, or the notice periods specified in collective agreements.

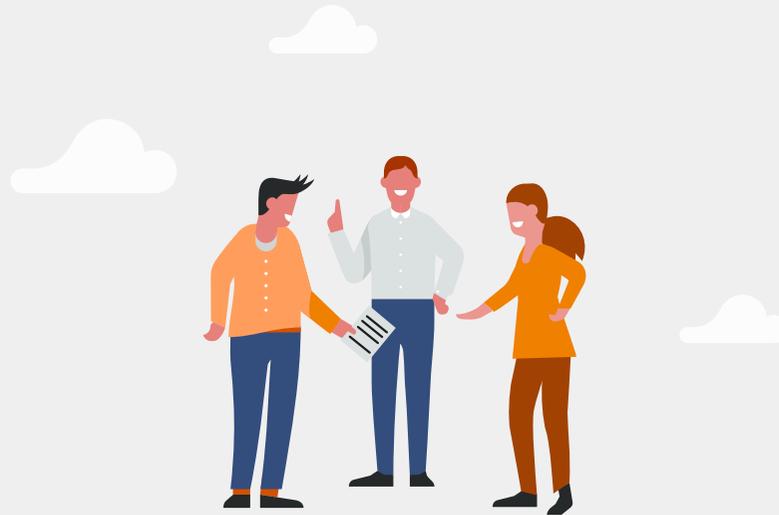
In Finland, the notice period is from two weeks to six months depending on the duration of employment. In Finland, the key statutes governing restructuring situations are included in the Act on Co-operation within Undertakings, which stipulates that the employer must provide reasonable notice of decisions 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 terminations of employment, legislation on public employment and enterprise services has been observed by providing coaching due to protection in the event of restructuring and by providing an adjusted training programme for those who would not be entitled to coaching due to protection in the event of restructuring on the basis of the said legislation.

In Sweden, the statutory minimum notice period in the event of organisational changes is 8–24 weeks depending on the nature of the change. The collective agreement applying to operations in Sweden also does not specify minimum notice periods for restructuring situations.

No specific minimum notice period for organisational changes is defined in Norway, but both legislation and the collective agreement stipulate that personnel shall be informed of organisational changes at the earliest opportunity.

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

In Poland, the notice period with permanent and temporary employments varies from two weeks to three months depending on the duration of employment. The same periods of notice are valid in restructuring situations as well.



SUSTAINABILITY MANAGEMENT APPROACH AND REPORTING

STAKEHOLDER ENGAGEMENT

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



Matti Kalervo
Vice President
of Corporate
Responsibility

“

Our most important stakeholders are future generations. Decisions we make today have an impact for decades to come. We are committed to promoting the UN Sustainable Development Goals in our operations. Emissions targets, renewable energy, electric cars and the K Charge network as well the sustainability policies guiding our purchasing are examples of how we as a big operator can impact the future.



Key stakeholders	Engagement and channels for interaction	Key topics of interest and concern for our stakeholders in 2019	How we have addressed stakeholder expectations
Customers	<ul style="list-style-type: none"> Daily customer encounters Customer service channels and applications Customer surveys Social media 	<p>Conscientious consumption is reflected in K-food stores in the preference for local and ethically produced foods and environmentally friendly choices. Consumers want more information on the climate impact of their food shopping. Sources: The K Group Food Trends 2019 survey and K Group trend review 11/2019</p> <p>According to the 'Suomi Syö 2019' study, people are eating more vegetarian food, and over half of all customers have changed at least one thing related to food and eating for environmental reasons.</p> <p>Onninen sees growing demand for solar power equipment and systems.</p> <p>K-Rauta customers are increasingly interested in the sustainable origin of wood.</p>	<p>K Group is using its Local Food Date events to increase the offering of products by small producers in K-food stores.</p> <p>The K-Ostokset service now enables tracking how much Finnish foods you are buying and the carbon footprint of your food shopping.</p> <p>The sales and selections of plant-based fresh products and meat-replacement proteins grew in K-food stores.</p> <p>Onninen offers a wider selection of solar panel solutions for different customer needs.</p> <p>K-Rauta has committed to increasing the number of PEFC-certified products in its selections. During the year, we communicated to customers issues related to sustainable wood via marketing and communications, for example: https://kesko.fi/en/media/news-and-releases/news/2019/certification-labels-verify-the-sustainable-origin-of-wood-for-customers/</p>
Investors, shareholders, analysts and other representatives of capital markets	<ul style="list-style-type: none"> General Meeting Results announcements Press conferences Investor web pages and other digital channels Investor meetings Surveys and assessments 	<p>Analysts are increasingly incorporating ESG aspects into their equity research.</p> <p>At investor meetings, we were asked what we are doing to mitigate climate change.</p> <p>Investors were also interested in our Science Based Targets for emissions and the progress made in achieving them.</p>	<p>In spring 2019, Kesko's Board of Directors made sustainability and climate change a strategic focus area.</p> <p>Together with the Natural Resources Institute Finland (Luke), we constructed an operating model for a carbon neutral grocery store.</p> <p>We continue our work to reduce our emissions by increasing the use of renewable energy and by improving energy efficiency.</p>
Kesko personnel and potential employees	<ul style="list-style-type: none"> Performance and competence: personnel survey, development discussions and daily interaction Co-operation with personnel Organisational communication and feedback and discussion channels for personnel SpeakUp reporting channel K Code of Conduct Student and recruitment events 	<p>When 1,800 employees moved to the new headquarters on K-Kampus in summer 2019, many questions arose regarding ways of working in a multispace office environment.</p> <p>K-Kampus also attracted a lot of interest at student events. Students were particularly interested in K Group's sustainability work, the K Trainee programme, and digitalisation in the trading sector.</p>	<p>Training and info sessions on new ways of working were arranged for personnel. Personnel satisfaction has been good following the move (4 on a scale of 1 to 5).</p> <p>We expanded the network of institutes of higher education we collaborate with across Finland and adopted a new model for school ambassadors.</p>

Key stakeholders	Engagement and channels for interaction	Key topics of interest and concern for our stakeholders in 2019	How we have addressed stakeholder expectations
Retailers and store staff	<ul style="list-style-type: none"> Retailer events and meetings Electronic communication channels and common trade magazine Responsible operating principles for K-retailers and K-stores (K Code of Conduct) K Group's joint trade event K-Team Päivät 	<p>The availability of skilled store staff continued to be a talking point among retailers.</p> <p>Concerns over climate change have further increased the importance of safe and sustainably produced store selections.</p>	<p>Over 730 workplace coaches for stores were trained in 2018–2019. We continued to develop and promote K Group's shared training portal k-academy.fi. We continued close collaboration with universities of applied sciences.</p>
Suppliers and service providers	<ul style="list-style-type: none"> Meetings with suppliers and partner events K Code of Conduct and Principles and Practice of Socially Responsible Trading Co-operation in accordance with fair trading practices Audits and training 	<p>Topics of interest for grocery trade suppliers included our 'Thank the Producer' operating model, the climate impact of food and stores, plastic packaging and conscientious consumption.</p>	<p>The number of 'Thank the Producer' products grew, and so far the operating model has accumulated over €3 million in support for Finnish food producers.</p> <p>We made changes to the packaging of our own brand products in the grocery trade, significantly reducing the amount of plastic.</p> <p>Together with our suppliers, we are constantly seeking new ways to add easily recyclable or reusable packaging and circular economy products to our selections.</p>
Society (media, authorities, non-governmental and other organisations, and trade unions)	<ul style="list-style-type: none"> Meetings Media events and enquiries Activities in organisations Enquiries from NGOs 	<p>K Group's actions have wide reaching impacts on the society. We want to actively take part in public discussion and develop new solutions.</p> <p>K Group wants to do its part in supporting democracy. In election years, political parties and candidates are given equal opportunities to hold election events in the yards and lobbies of K Group stores. The final decision on campaigning on store premises is always made by the local retailer.</p> <p>In media queries, the biggest sustainability-related topics were climate change, the vegetarian food trend, plant-based protein products and reducing plastic.</p> <p>During the year, we answered enquiries from NGOS regarding e.g. working conditions on coffee and tea farms and the sustainability of clothing brands.</p>	<p>In the spring, we invited representatives from business and politics to our Day of Commerce event to discuss ways to build a more sustainable future together.</p> <p>In connection with the parliamentary and European elections held in Finland in spring 2019, we informed all the parties represented in Parliament and their campaign personnel about our policy. We also posted on various social media channels to increase voter turnout.</p> <p>We actively communicated on sustainability issues in our various channels, e.g. https://kesko.fi/en/media/themes/climate-change/ https://kesko.fi/en/media/themes/smarter-with-plastic/</p> <p>We continued to develop our purchasing processes and improve the transparency of our supply chains. We published a cocoa policy and made preparations for a cotton policy.</p>

MANAGEMENT APPROACH

GOOD CORPORATE GOVERNANCE AND FINANCE		CUSTOMERS
Material aspects	Economic performance Indirect economic impacts Anti-corruption Anti-competitive behaviour Compliance Grievance mechanisms for impacts on society Customer privacy	Customer health Product safety
Policies and commitments	Accounting policies Kesko Group complies with the International Financial Reporting Standards (IFRS) approved for adoption by the EU. Corporate Governance principles Risk management principles Good trading principles in the food supply chain K Code of Conduct Data protection policy	
Monitoring and control systems	Financial reporting and planning Compliance: compliance programmes Prevention of malpractice: internal audit; K Code of Conduct Risk management Customer privacy	Kesko's Product Research Unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade.
Programmes, projects and initiatives		Food store operations utilise the Hymy customer feedback system. The service level, recognition and image of Kesko's chains are regularly monitored in brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plussa customer loyalty programme and the grocery trade's own brand products. Store-level customer satisfaction is measured by customer satisfaction surveys and the mystery shopping method in food stores and building and home improvement stores.
Grievance mechanisms	Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel. SpeakUp reporting channel.	Plussa.com K Consumer Service Chains' customer feedback systems
Boundaries	Corporate governance: Kesko Finance: Kesko	Customer health and safety: Kesko's own brand products and own imports Product and service information: Kesko's own brand products and own imports Marketing communications: Kesko Compliance: Kesko

SOCIETY

Material aspects	Procurement practices
Policies and commitments	<p>Kesko requires that its business partners act in compliance with the K Code of Conduct guidelines. We add K Code of Conduct contract clauses to agreements under which the Kesko Group companies purchase products and services from outside the Group.</p> <p>Good trading principles in the food supply chain.</p>
Monitoring and control systems	Changes in the operating environment and in K Group are taken into account by adjusting objectives, operating principles, monitoring systems and/or resources.
Programmes, projects and initiatives	Thank the Producer
Grievance mechanisms	SpeakUp reporting channel
Boundaries	<p>Economic performance: Kesko</p> <p>Indirect economic impacts: K Group</p> <p>Purchase practices: K Group</p>

WORKING COMMUNITY

<p>Employment</p> <p>Labour/management relations</p> <p>Occupational health and safety</p> <p>Training</p> <p>Diversity and equal opportunities</p> <p>Equal remuneration</p> <p>Labour practices grievance mechanisms</p>
<p>K Code of Conduct</p> <p>HR policy</p>
Labour protection and HR
<p>K Well wellbeing model</p> <p>TASY Employee Equality and Diversity Group</p> <p>Youth employment at K Group</p>
<p>Employees can present questions and ideas for development through their manager as well as anonymously or in their own name using an electronic discussion channel.</p> <p>SpeakUp reporting channel</p>
Working community: Kesko

RESPONSIBLE PURCHASING AND SUSTAINABLE SELECTIONS

Material aspects	<p>Information and compliance of products and services</p> <p>Customer health and safety</p> <p>Assessment of suppliers' working conditions</p> <p>Human rights</p> <p>Marketing communications</p>
Policies and commitments	<p>Kesko's purchasing principles</p> <p>K Group's plastics policy</p> <p>K Group's animal welfare policy</p> <p>Product group specific sustainability policies</p> <p>Kesko's policy on chemicals for home textiles, clothing, leather goods, shoes and upholstered furniture</p>
Monitoring and control systems	<p>Certification and audit systems related to production in high-risk countries approved by Kesko.</p> <p>Supplier agreements require that suppliers and service providers comply with the principles of the K Code of Conduct and the amfori BSCI Code of Conduct.</p> <p>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, among others: BRC, IFS, ISO/FSSC 22000, SQF1000/2000 and GlobalGAP or Laatutarha.</p> <p>The Product Research unit's laboratory monitors the product safety and quality of own brand products and own imports in the grocery trade. All of our food product operations have a self-control plan in place. The laboratory is a T251 testing laboratory that has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.</p>
Programmes, projects and initiatives	<p>The Principles and Practice of Socially Responsible Trading guide</p> <p>The Center for Child Rights and Corporate Social Responsibility</p>
Grievance mechanisms	<p>K Consumer Service</p> <p>Chains' customer feedback systems</p> <p>SpeakUp reporting channel</p>
Boundaries	<p>Compliance: Kesko</p> <p>Product safety: Kesko's own brand products and own imports</p> <p>Social responsibility of procurement (1st tier): Kesko</p>

ENVIRONMENT

<p>Energy</p> <p>Water</p> <p>Biodiversity</p> <p>Emissions</p> <p>Waste</p> <p>Food waste</p>	<p>K Group's environmental and energy policy</p> <p>UN Global Compact Initiative</p> <p>UN Sustainable Development Goals</p>
<p>Group Corporate Responsibility Advisory Board</p> <p>EnerKey.com monitoring system</p> <p>All of Onninen's operations in all operating countries are ISO 14001 certified.</p> <p>The operations of Kesko Logistics are ISO 14001 certified.</p>	
<p>Science Based Targets</p> <p>Action plan for 2017–2025 under the retail sector's Energy Efficiency Agreement.</p> <p>amfori Business Environmental Performance Initiative (BEPI)</p> <p>Kesko's timber and paper policy</p> <p>Kesko's fish and shellfish policy</p> <p>RSPO</p> <p>Finnish soy commitment and RTRS</p>	
<p>SpeakUp reporting channel</p>	
<p>Energy and water: Kesko</p> <p>Biodiversity: Kesko</p> <p>Emissions: Scope 1 and 2: Kesko; Scope 3: K-stores and supply chain</p> <p>Waste: Finland: Kesko's warehousing operations; other operating countries: stores</p> <p>Food waste: Kesko's grocery trade division and K-food stores</p>	

REPORTING PRINCIPLES

Reporting principles in accordance with the GRI standards

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

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

Kesko applies in its operations the AA1000 AccountAbility Principles: stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders. Kesko has taken account of the ISO 26000 standard as a source document providing guidelines for corporate responsibility.

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

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

Assurance of reporting

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

The conclusions, observations and recommendations by PricewaterhouseCoopers Oy are detailed in **the assurance report**. The assurance is commissioned by the operative management of Kesko Corporation.

Global Compact reporting

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

Report stakeholders

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

Reporting period and contact information

This report describes the progress and results of responsibility work in 2019. It includes some information from January and February 2020. The report for 2018 was published in March 2019. The report for 2020 will be published in the spring of 2021.

Further information on the topics covered in the report can be obtained from **Kesko's contact persons**.

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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



GRI INDEX

KD = Kesko's Direction **CG** = Corporate Governance
SU = Sustainability **FS** = Financial Statements

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
GRI 102 GENERAL STANDARD DISCLOSURES						2016
102-1	Name of the organisation	KD 3				
102-2	Activities, brands, products and services	KD 5				
102-3	Location of headquarters	KD 3				
102-4	Location of operations	KD 3				
102-5	Ownership and legal form	KD 3				
102-6	Markets served	KD 3				
102-7	Scale of the organisation	KD 3				
102-8	Information on employees and other workers	SU 49-51		There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work. There are no significant seasonal fluctuations in the number of employees.	x	
102-9	Supply chain	SU 18-19				
102-10	Significant changes to the organisation and its supply chain	KD 6				
102-11	Precautionary Principle or approach	KD 14				
102-12	External initiatives	Kesko.fi Principles of corporate responsibility				
102-13	Membership of associations	Kesko.fi Activities in organisations				
102-14	Statement from senior decisionmaker	KD 7-9				
102-15	Key impacts, risks and opportunities	KD 14, KD 16				
102-16	Values, principles, standards, and norms of behaviour	Kesko.fi K Code of Conduct			x	
102-17	Mechanisms for advice and concerns about ethics	Kesko.fi Reporting concerns and instances of non-compliance			x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
102-18	Governance structure	CG 5				
102-19	Delegating authority	CG 11-12, Kesko.fi Sustainability governance				
102-20	Executive-level responsibility for economic, environmental and social topics	EVP, CFO; EVP, Human Resources, Corporate Responsibility and Regional Relations		Both are members of the Group Management Board.		
102-21	Consulting stakeholders on economic, environmental, and social topics	SU 64-66				
102-22	Composition of the highest governance body and its committees	CG 6-13				
102-23	Chair of the highest governance body	CG 6-13				
102-24	Nominating and selecting the highest governance body	CG 6-13				
102-25	Conflicts of interest	CG 6-13		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.		
102-26	Role of highest governance body in setting purpose, values, and strategy	CG 6-13				
102-28	Evaluating the highest governance body's performance	CG 6-13	Only the Board's self-assessment has been reported.			
102-29	Identifying and managing economic, environmental, and social impacts	CG 6-13				
102-30	Effectiveness of risk management processes	CG 17-18				
102-31	Review of economic, environmental, and social topics	CG 17-18				
102-32	Highest governance body's role in sustainability reporting	CG 9				
102-33	Communicating critical concerns	CG 16				
102-35	Remuneration policies	CG 22-30				
102-40	List of stakeholder groups	SU 64-66				
102-41	Collective bargaining agreements	SU 62			x	
102-42	Identifying and selecting stakeholders	SU 64-66				
102-43	Approach to stakeholder engagement	SU 64-66				
102-44	Key topics and concerns raised	SU 64-66				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
102-45	Entities included in the consolidated financial statements	FS 47-49, FS 113-116				
102-46	Defining report content and topic Boundaries	SU 70				
102-47	List of material topics	Kesko.fi Materiality assessment of corporate responsibility				
102-48	Restatements of information	No significant changes.		Changes reported in connection with topic-specific information.		
102-49	Changes in reporting	No significant changes.				
102-50	Reporting period	SU 70				
102-51	Date of most recent report	SU 70				
102-52	Raportin julkaisutiheys	SU 70				
102-53	Contact point for questions regarding the report	Kesko.fi Contacts, responsibility				
102-54	Claims of reporting in accordance with the GRI Standards	SU 70				
102-55	GRI content index	SU 71-78				
102-56	External assurance	SU 79-81				
GRI 103 MANAGEMENT APPROACH						2016
103-1	Explanation of the material topic and its Boundary	SU 67-69				
103-2	The management approach and its components	SU 67-69				
103-3	Evaluation of the management approach	SU 67-69				
TOPIC-SPECIFIC CONTENT						
Topic-specific content is reported regarding aspects identified as material.						

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
ECONOMIC IMPACTS						
201	Economic performance					2016
201-1	Direct economic value generated and distributed	SU 7-8, SU 12				
201-2	Financial implications and other risks and opportunities due to climate change	KD 14	Monetary evaluations or realisations have not been reported for risks and opportunities. Information is not available, as climate change is difficult to estimate.		x	
201-3	Defined benefit plan obligations and other retirement plans	SU 52				
201-4	Financial assistance received from government	SU 8				
203	Indirect economic impacts					2016
203-1	Infrastructure investments and services supported	SU 11				
203-2	Significant indirect economic impacts	SU 9-10				
204	Procurement practices					2016
204-1	Proportion of spending on local suppliers	SU 18-19				
205	Anti-corruption					2016
205-1	Operations assessed for risks related to corruption	SU 61-62	The number and percentage of business units have not been reported. Information is not available as the risks related to corruption are part of a wider assessment of business risks.	Risks related to corruption are discussed as part of Kesko's risk management. Key risks are identified and assessed regularly throughout the year.	x	
205-2	Communication and training about anti-corruption policies and procedures	SU 61-62	Percentages have not been reported by personnel group or geographical region. Information is not available.		x	
205-3	Confirmed incidents of corruption and actions taken	SU 61-62			x	
206	Anti-competitive behaviour					2016
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	SU 11				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
ENVIRONMENTAL IMPACTS						
301	Materials					2016
301-3	Reclaimed products and their packaging materials	SU 44	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.			
302	Energy					2016
302-1	Energy consumption within the organisation	SU 33-34	At some properties located in leased premises outside Finland, the heat energy data is not reported because it is included in the lease or data is not available.	Energy consumption tracking, 2019 Emissions report, Finland, 2019 The energy consumption data from other countries is compiled from fuel and purchased energy consumption data reported by subsidiaries.	x	
302-2	Energy consumption outside the organisation	SU 37	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		x	
302-3	Energy intensity	SU 34		Energy consumption tracking, 2019	x	
302-4	Reduction of energy consumption	SU 34-35			x	
303	Water					2018
303-1	Water withdrawal by source	SU 42	At some properties located in leased premises outside Finland, water consumption is included in the lease and data is not available for reporting	Energy consumption tracking 2019 The water consumption data from other countries is compiled from water billing or consumption data reported by subsidiaries.	x	
304	Biodiversity					2016
304-2	Significant impacts of activities, products, and services on biodiversity	SU 42			x	
304-3	Habitats protected or restored	SU 43			x	
305	Emissions					2016
305-1	Direct (Scope 1) GHG emissions	SU 36		Emissions report, Finland, 2019 Emissions report, other countries, 2019	x	
305-2	Energy indirect (Scope 2) GHG emissions	SU 36		Emissions report, Finland, 2019 Emissions report, other countries, 2019	x	
305-3	Other indirect (Scope 3) GHG emissions	SU 37		Scope 3 report, 2019	x	
305-4	GHG emissions intensity	SU 37			x	
305-5	Reduction of GHG emissions	SU 38-41			x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	SU 37		Emissions report, Finland, 2019	x	
306	Effluents and waste					2016
306-2	Waste by type and disposal method	SU 45			x	
	Food waste					
-	Food waste	SU 46-47		Material topic without applicable standard.	x	
308	Supplier environmental assessment					2016
308-1	Supplier environmental assessment	SU 24	Not reported by percentage. Information not available.			
SOCIAL IMPACTS						
401	Employment					2016
401-1	New employee hires and employee turnover	SU 49-51	In new employee hires, not reported by age category, and regional ratio not reported. In employee turnover, not reported by age category.		x	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	SU 52, Kesko.fi Benefits and rewards	Benefits exceeding the statutory level have not been reported in detail. Practices vary in different operating countries.			
402	Labour/Management relations					2016
402-1	Minimum notice periods regarding operational changes	SU 62	Arrangements compliant to legislation. Legislation does not define minimum notice periods at the precision required by GRI.		x	
403	Occupational health and safety					2018
403-1	Occupational health and safety management system	SU 53-55				
403-2	Hazard identification, risk assessment, and incident investigation	SU 53-55				
403-3	Occupational health services	SU 53-55				
403-4	Worker participation, consultation, and communication on occupational health and safety	SU 53-55				
403-5	Worker training on occupational health and safety	SU 53-55				
403-6	Promotion of worker health	SU 53-55				
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	SU 53-55				

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
403-8	Workers covered by an occupational health and safety management system	SU 53-55	Does not cover all personnel, hired labour or contractors. Figure and percentage not available.			
403-9	Work-related injuries	SU 53-55	Not reported by injury type. Not reported for hired labour or contractors. Information not available.			
403-10	Work-related ill health	SU 53-55	Not reported by occupational disease. Not reported for hired labour or contractors. Information not available.			
404	Training and education					2016
404-1	Average hours of training per year per employee	SU 56-57	Not reported by gender and employee category. Information not available.		x	
404-2	Programmes for upgrading employee skills and transition assistance programmes	SU 56-57				
404-3	Percentage of employees receiving regular performance and career development reviews	SU 58	Not reported by gender and employee category. Information not available.		x	
405	Diversity and equal opportunity					2016
405-1	Diversity of governance bodies and employees	SU 59	Not reported by age category. Information not available.		x	
405-2	Ratio of basic salary and remuneration of women to men	SU 60-61			x	
406	Non-discrimination					2016
406-1	Incidents of discrimination and corrective actions taken	SU 59			x	
407	Freedom of association and collective bargaining					2016
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	SU 62			x	
412	Human rights assessments					2016
412-1	Operations that have been subject to human rights reviews or impact	SU 26	Information about percentage is not available.	The human rights assessment and commitment apply to all of Kesko's divisions and operating countries.	x	
412-2	Employee training on human rights	SU 26	Information about number of hours and percentage of employees trained is not available.		x	

CODE	GRI CONTENT	LOCATION	OMISSIONS	FURTHER INFORMATION	GLOBAL COMPACT	STANDARD VERSION
414	Supplier social assessment					2016
414-1	New suppliers that were screened using social criteria	SU 20-25	The percentage of suppliers screened has not been separately out of all suppliers in high-risk countries.			
414-2	Negative social impacts in the supply chain and actions taken	SU 20-25				
415	Public policy					2016
415-1	Political contributions	SU 11			x	
416	Customer health and safety					2016
416-1	Assessment of the health and safety impacts of product and service categories	SU 26-28	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.			
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	SU 26-28				
417	Marketing and labelling					2016
417-1	Requirements for product and service information and labelling	SU 28-29	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.			
417-2	Incidents of non-compliance information and labelling	SU 29				
417-3	Incidents of non-compliance concerning marketing communications	SU 29				
418	Customer privacy					2016
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	SU 11				
419	Socioeconomic compliance					2016
419-1	Non-compliance with laws and regulations in the social and economic area	SU 11				

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 2019 to 31 December 2019 disclosed in the "Kesko's Direction" and "Sustainability" sections of "Kesko's Annual Report 2019". In terms of the Company's GRI Standards reporting and GRI Standards Content Index, the scope of the assurance has covered economic, social and environmental disclosures listed within the Topic-specific Standards as well as General Disclosures 102-8, 102-41 and 102-54 (hereinafter Sustainability Information).

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

Management's responsibility

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

enable the preparation of the Sustainability 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 Sustainability 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 Sustainability 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 Sustainability 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 Sustainability 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 Sustainability 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 sustainability topics as well as assessing the Sustainability Information based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as one site in Poland.
- Interviewing employees responsible for collecting and reporting the Sustainability Information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Kesko Corporation's Sustainability Information for the reporting period ended 31 December 2019 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the Sustainability Information is not reliable, in all material respects, based on the Reporting criteria.

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

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

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

Observations and recommendations

Based on the procedures we have performed and the evidence we have obtained, we provide the following observations and recommendations in relation to Kesko

Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Inclusivity:** The Company has processes in place for stakeholder inclusivity, collection of feedback as well as for stakeholder engagement. During the reporting period, the new K-Kampus and the new working methods have improved the Company's opportunities to engage the employees in the sustainability work. We recommend that the Company continues to engage its stakeholders in the sustainability work by ensuring the geographical coverage of the engagement.
- **Materiality:** The Company has a process in place to evaluate and determine the materiality of sustainability topics, and the Company updates its sustainability program regularly. In the next update of the sustainability program, we recommend that the Company ensures that the program is, be relevant matters, also linked to its business strategy.
- **Responsiveness:** The Company is in dialogue with its stakeholders to identify their expectations and develops its operations to respond to them through the continuous development of its activities. We recommend that the Company, when communicating the results of the development work to its stakeholders, takes into account the different needs of its stakeholders and supports them in responding and communicating to them.

Practitioner's independence, qualifications and quality control

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

Our multi-disciplinary team of sustainability and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, sustainability 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 2 March 2020

PricewaterhouseCoopers Oy

Enel Sintonen
Partner, Authorised Public Accountant
Assurance Services

Sirpa Juutinen
Partner
Sustainability & Climate Change

