

## Introduction to the report

In addition to the annual reports, Kesko has published three separate environmental reports for 1997-1999. The report on corporate responsibility is now being published for the first time. Kesko considers wider reporting on corporate responsibility important, and hopes that companies will show widespread commitment to adopting a uniform framework for reporting, in order to facilitate company comparisons. Kesko considers that 'Sustainability Reporting Guidelines on Economic, Environmental and Social Performance' published by the Global Reporting Initiative organisation in summer 2000 best suits this purpose, and has therefore based its reporting on these guidelines (see [www.globalreporting.org](http://www.globalreporting.org)).

Following the guidelines given by GRI, Kesko's report on corporate responsibility gives basic information about Kesko as a company, the senior management's statement on the present situation in issues of responsibility and on the vision for areas of future emphasis, descriptions of related strategies, policies and manage-

ment systems, and a short analysis of stakeholder groups and key areas of impact. Performance Indicators have been arranged under three basic headings: economic, environmental and social elements. Information on development over at least the last three years has been provided, wherever fi-



gures have been available. A summary table of key indicators has been drawn up.

Kesko will not publish a separate environmental report. The report on

corporate responsibility includes most of the results of our environmental activities, but more details are available on Kesko's Internet pages, under 'Environment'. The ethical quality control system presented in the environmental report for 1999 can be found in this report under 'social responsibility', which now includes Kesko personnel, too. The economic responsibility indicators have been compiled from Kesko's financial statements.

Kesko's corporate responsibility report has not been verified by an impartial source. Kesko considers that verification will only become necessary when sufficient structure for international reporting practice – making provision for verification – has been adopted. A significant part of this report is derived from Kesko's audited books and financial statements and from a partly certified environmental system, so, although the figures have not been verified, they are still very reliable.

## Building for a better tomorrow

Responsibility and honest working methods – one of Kesko's seven basic values – oblige us to maintain good relations with society and our stakeholders. Although we have just reached the first stage in our systematic and target-oriented activities in the sphere of corporate responsibility, we have already accomplished many practical things. Our many decades of growth and profitability have enabled us to provide a significant financial contribution to the promotion of social well-being. We have received wide recognition for our work for the environment and have every reason to consider ourselves standard bearers in the ethical quality control of products.

Non-governmental organisations, trade unions and investors have shown a growing interest in corporate responsibility. This interest is natural, and simply heightens the need for continuous interaction between companies and their stakeholders. Companies must recognise the scope of their responsibility, be capable of measuring the results of their responsibility and be willing to report on these in public. In a scenario such as this, performance comparisons can only function if there is consensus – preferably on an international level – regarding contents, indicators and reporting. One of the systems already available is GRI, the Global Reporting Initiative. The UN environmental organisa-

tion UNEP and many major international organisations and associations support the Sustainability Reporting Guidelines devised by GRI. The GRI system also mirrors the approach taken by Kesko's management regarding key indicators of responsibility and reporting on them, which is why we have applied the GRI guidelines when preparing our report.

Although we do not consider ourselves completely ready to fulfil the requirements of international reporting, we want to present our shareholders with an evaluation of the results of responsible operations. Publishing this report is a means to helping us see how our operations are linked to society and to consider our

future areas of focus and targets. Our vision is for corporate responsibility to be considered as a core area of management culture; its results must be measurable and any results published must also be open for verification by outsiders. At Kesko, this can already be seen in the contents of the strategies being built for the future, and in the fact that more international standards are being adopted.

We look forward to receiving a lot of feedback on the ideas and hopes that this first report on corporate responsibility triggers off. There is lively debate on the subject, both nationally and internationally, and the number of reports published is expected to increase significantly in the next few years. We believe that this current transition period will gradually lead to an established method of reporting, which will increase the amount and availability of corporate information, thus facilitating comparison between companies and tracking of their annual progress.

**Matti Honkala**  
**President and CEO**  
**Kesko Corporation**



Matti Honkala, President and CEO (right) and "Kesko Employees of the Month" in 2000.

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# Basic information about Kesko Group

## Kesko as a company

Kesko is a marketing and logistics company, which develops retail concepts and operating systems. The commercial divisions – to be incorporated during 2001 into subsidiaries wholly owned by Kesko – are responsible for marketing, purchases, logistics and store sites as well as for retailing in home and speciality goods, hardware, builders' and agricultural supplies. The groceries trade accounted for a little over half of the Group net sales, which totalled EUR 6,308 million in 2000. Foreign operations accounted for 4.5 percent of the net sales.

Kesko works in close co-operation with K-retailers, who are the most important customer and shareholder group in Kesko. There were 1,622 K-retailers at the end of 2000. The number of K-stores – Kesko's own retail outlets included – totalled 2,017, and their sales were EUR 6.7 billion.

## Kesko's shareholders

Kesko's B shares (formerly ordinary shares) have been listed on the HEX Helsinki Exchanges since 1960, and A shares (formerly exclusive shares) since 1999. The shares differ from each other only with respect to the votes they carry at the General Meeting. Each A share entitles the holder to 10 votes and each B share to 1 vote.

Kesko had 24,496 shareholders at the end of 2000. A shares accounted for 35.2 percent of all shares and 84.4 percent of all votes, while B shares accounted for 64.8 percent of all shares and 15.6 percent of all votes. Foreigners held 18 percent of all shares. K-retailers held a total of 18.8

percent of the shares, and had 38.6 percent of voting rights.

At the end of 2000, the market value of A shares was EUR 538 million and the market value of B shares EUR 629 million, with the total market capitalisation of the company being EUR 1,167 million.

## Personnel

In 2000, the average number of personnel in the Kesko Group was 11,099. Of these, 29 percent worked for the parent company, 42 percent for subsidiaries engaged in retailing and 21 percent for other subsidiaries. A total of 938 employees, i.e., eight percent of the total personnel, worked abroad. The total number increased by 106 persons; an increase of one percent in terms of 1999 figures.

## Real estate

At the end of 2000, Kesko Group owned 1,121,000 square metres of real estate, of which store premises accounted for 750,000 square metres, offices and warehouses for 307,000

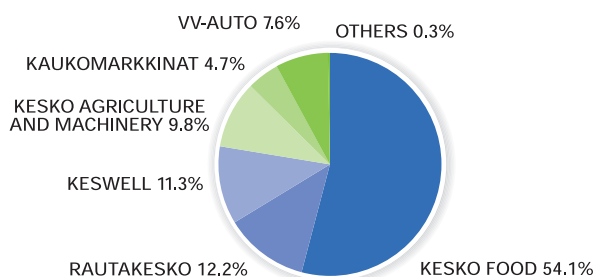
square metres and other premises for 64,000 square metres. The total floor area of the premises rented for use by the Group was 1,445,000 square metres, consisting mainly of retail stores. The majority of the store premises owned or rented have been further rented out to K-retailers.

## Suppliers

In 2000, Kesko bought products and services from about 42,000 companies at the total cost of EUR 5.5 billion. Of these, about 32,000 were Finnish suppliers, accounting for 85.3 percent of Kesko's purchases. Foreign suppliers – about 10,000 in all – accounted for 14.7 percent. The major importing countries were Germany, Spain, Sweden, Japan and Italy.

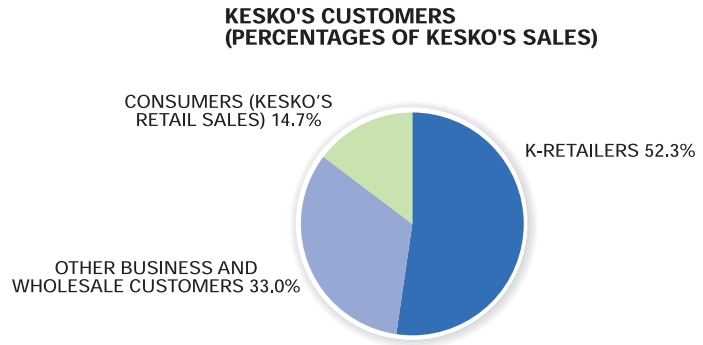
Kesko is a member of the following international purchasing organisations: Associated Marketing Services AMS (groceries), EuroMat (building and interior decoration products), Intersport International (sports goods), EP:International (home electronics) and World Wide Retail Exchange (business-to-business Internet marketplace).

BREAKDOWN OF KESKO'S NET SALES



## Customers

K-retailers, who totalled 1,622 at the end of 2000, accounted for 52.3 percent of Kesko's sales. K-retailers made 86.3 percent of all their purchases from Kesko. Kesko also has about 30,000 other wholesale customers – hotels, restaurants, service stations, kiosks, construction companies etc. – which accounted for 33.0 percent of sales. About 14.7 percent of Kesko's sales are channelled through its own subsidiaries (e.g. Anttila Oy, Citymarket Oy/non-food) directly to consumers.



## Key indicators of corporate responsibility for 1998-2000

Key indicators of Kesko's corporate responsibility have been compiled in this table. The indicators will be presented later in more detail, in the section 'Indicators of corporate responsibility and performance'. Many

of the indicators have been used for a longer period, in which case the comparison is presented over a three year period. With some indicators, no comparison is possible, as the information has either been collected for

the first time or currently has limited scope for comparison. Our purpose is to make the year 2000 a starting-point for the evaluation of Kesko's corporate responsibility performance.

INDICATORS OF ECONOMIC RESPONSIBILITY			
	1998	1999	2000
Net sales (EUR million)	5,992	6,111	6,308
Profit before extraordinary items (EUR million)	133	128	126
Return of invested capital (%)	8.9	8.0	8.5
Dividends for the financial year (EUR million)	60	135	90
Investments (EUR million)	132	202	247
Equity ratio (%)	56.7	56.6	54.7
Salaries and fees (EUR million)	257	261	268
Income taxes (EUR million)	42	39	34
Number of personnel (average)	11,172	10,993	11,099
Number of suppliers	42,000	42,000	42,000
Purchases from suppliers (EUR million)	5,237	5,318	5,522
Contribution to local communities etc. (EUR million)	*)	*)	2

\*) information not available or not fully comparable

## INDICATORS OF ENVIRONMENTAL RESPONSIBILITY

	1998	1999	2000
Use of electric energy in real estate (MWh)	*)	380,000	370,000
Use of heat energy in real estate (MWh)	*)	220,000	205,000
Use of water in real estate (m <sup>3</sup> )	*)	460,000	525,000
Emissions from the production of electric and heat energy used			
- change in climate (tn CO <sub>2</sub> eq)	*)	122,307	190,678
- acidification (tn SO <sub>2</sub> eq)	*)	384	519
- ozone in lower atmosphere (tn C <sub>2</sub> H <sub>4</sub> eq)	*)	7.2	10.2
Distribution transport			
- loads	96,052	101,113	107,162
- kilometres (1,000 km)	16,969	17,073	17,993
- tons	643,146	646,393	658,552
- energy use (MWh)	56,483	56,830	59,891
- emissions (tn)			
- carbon dioxide	15,391	15,485	16,320
- carbon monoxide	61	61	65
- hydrocarbons	22	22	23
- nitric oxides	156	157	166
Use of materials/waste			
- materials in imported packaging (tn)	27,146	28,271	27,971
- waste in distribution warehouses (tn)	3,208	3,401	9,996 **)
- radioactive waste from production of electricity purchased (tn)	*)	5.5	0.2

## INDICATORS OF SOCIAL RESPONSIBILITY

Job satisfaction (scale 1-5)			
- own job	3.68	3.66	3.71
- superior's performance	3.64	3.67	3.74
- unit's operations	3.52	3.49	3.63
- Kesko's operations	3.81	3.61	3.61
Employee turnover			
- new	*)	*)	4,100
- left	*)	*)	3,600
- retired	78	102	99
Sick leave (work days per person)***)	*)	*)	7.7
- caused by accidents	*)	*)	0.5
Funds used for health care (per person, EUR)	271	281	323
Funds used for recreation and hobbies (per person, EUR)	45	46	46
Average annual salary (per person, EUR)	23,004	23,742	24,109
Training days per person ***)	*)	*)	2.0
Investment in training (per person, EUR)	438	497	570
Ethical quality control of purchases			
- companies that replied to Kesko's questionnaire	*)	*)	135
- total number of personnel in those companies	*)	*)	120,000
- companies monitored personally	*)	*)	104
- companies with SA 8000 certification underway	*)	*)	10
- companies that have received SA 8000 certification	*)	*)	1

\*) information not available or not fully comparable

\*\*) waste management statistics for 2000 include corrugated board recovered from K-stores

\*\*\*) calculations cover only part of the Group personnel

## Future of corporate responsibility

In Kesko's management system, implementation of corporate responsibility is reviewed as part of the annual quality estimate, based on the Finnish Quality Prize system. The indicators measuring responsibility have not been separated from other indicators when preparing annual and long-term plans. Nearly all indicators of corporate responsibility included in the reporting recommendations of the Global Reporting Initiative have, however, already been used in Kesko, so we have a sufficient amount of material for describing performance as regards responsibility, too.

In March 2001, the Corporate Management Board approved the following vision, that will be reviewed as soon as enough experience on defining the corporate responsibility and reporting on it has been gained both within the Group and from the outside. The experiences gained will also guide the setting of targets. For the time being, self-evaluation of corporate performance is difficult, as there is not much comparative material available.

### Vision of key factors in corporate responsibility

During this decade, globalisation will accelerate the concentration of companies, foreign investments and competition over national boundaries. Inter-state co-operation in the preparation of international regulations will advance slowly, increasing pressure for responsible self-regulation by companies. Investors – and governments in

particular – will have greater interest in the ethical dimensions of corporate operations as indicators of performance improve.

Being a diversified company that satisfies basic consumers needs, Kesko will maintain steady growth in sales, profit performance, dividend and share value, and good liquidity. This development will secure ever-increasing welfare for Kesko's financial stakeholders and help ensure that Kesko remains a standard bearer in business sector international development, as measured by environmental and social performance. Kesko will mainly grow by expanding abroad, so the majority of new jobs will be created outside Finland. For Finnish suppliers, Kesko's foreign operations will provide new export opportunities, although the product selection will always be based on the supply and demand in this country, specifically.

Kesko bears significant responsibility for the competitiveness of retailing based on private enterprise, which, correspondingly, is a significant factor for Kesko's success. The store sites, business operating systems, information systems, training and other supporting activities provided by Kesko must give K-retailers sufficient added value alongside advantageous purchases, so that they can be different from their competitors and make a profit at the same time. As internal migration continues, the store and distribution networks must be kept exactly the right size to serve customers, while

maintaining financial efficiency.

As the offering of products and services grows, consumers will have more power. The role of the media in consumer business keeps growing, too. An increasing number of consumers want to have information about the origin, safety and manufacturing conditions of products, which requires Kesko to provide detailed management of the purchase chain and open, active communications. Kesko and K-retailers contribute to consumers' well-being and quality of life by means of trading operations in general, and through the decisions, choices and control, as regards the products. In communications and marketing, safety, reliability and ethics are gradually gaining a foothold, alongside the aspect of price.

Competition for new employees will intensify as baby boomers approach retirement age. The values and expectations of the new generation differ from the traditional ones. Employees desire to choose their workplaces as much as employers desire to choose their employees. The appreciation of the company, as well as its brands and products all contribute to the interest in the job itself. In order to outdo the competition Kesko offers interesting, challenging jobs and shows that it looks after its employees. Job pressures and problems related to working capability are prevented by systematic, in-house job rotation and training, and employees are supported and encouraged to seek a balance

between work and leisure.

In order to be a pioneer and leader, Kesko seeks to actively monitor and foresee changes in society, and offers expertise for the benefit of its business sector and for society as a whole. To be able to do this, Kesko has close contacts with non-governmental organisations, authorities and other decision-makers, and actively participates in the operations of national and international organisations in the trading sector and in the economy as a whole.

## Strategies

In 1999, Kesko defined the strategies for its core operations, based on the Group's vision. In accordance with Kesko's 'responsibility' value, these strategies also include areas relating to corporated responsibility.

**Personnel strategy** defines the management methods, systems and tools that will ensure Kesko's success. The personnel's motivation, job satisfaction, continued learning and opportunities to affect common targets are important factors for achieving results and, through results, financial influences are linked to many sectors.

**Logistical strategy** defines how the flow of merchandise from Kesko to customers is controlled as efficiently as possible, also from the viewpoint of Kesko's suppliers and customers. The importance of economic distribution takes on new meaning if one considers that not only does the K-store network cover nearly the whole of Finland but that goods are also delivered to other customers.

**Real estate strategy** provides the basis for Kesko's strong competitive position. Maintaining a wide and profitable store network necessitates both owning store sites and renting them.

**Security strategy** aims at ensuring undisturbed operations and safeguarding people, property, data and the environment from accidents and intended damage.

**Environmental strategy** ensures the systematic progress of environmental activities in all major sectors. Information systems development at Kesko is an important part of environmental activities, and the environmental strategy is, through this, linked to the **information management strategy**, as are many of the other issues above.

## Areas of influence

The following is a list of some of the key areas in which Kesko has a potential to achieve results that would benefit society as a whole:



## Economic performance

- increased products trading means more sales for suppliers, new companies in manufacturing and retailing, more jobs, salaries and other personnel benefits, more taxes to local and central government, funds for enhancing social security and developing society
- new investments and continuous reforms increase demand for construction and related services
- as the share value and yields increase, a steadily progressing target giving high dividends to investors

## Environmental performance

- through continuous improvement of own activities
  - relatively lower energy consumption in transport and real estate = particularly the relative drop in CO<sub>2</sub> emissions
  - decreasing waste, increasing recycling
- co-operation with suppliers
  - linking environmental requirements more closely to purchases = better products during their entire life-cycle, less packaging material, better results from recycling products and packaging

## Social performance

- a safe job for corporate personnel, offering high job satisfaction and versatile care for employees
- affecting working conditions of the suppliers in the products supply chain, step by step = improving working conditions and increasing welfare, particularly in developing countries
- setting an example for spreading a corresponding system to other companies operating in Finland and abroad
- input into activities that prevent social problems

## Development in the trading sector and society as a whole

- expertise for developing the trading sector, the economy, regulations for international trading, the management culture through working in organisations, maintaining active stakeholder connections, etc.
- financial and operational support to the kinds of projects that enhance social and community services and welfare, and that are naturally linked to Kesko's operations



## Kesko's policies and management systems guiding corporate responsibility

Corporate responsibility is outlined and commitment to it is strengthened by means of operating policies and management systems. Kesko has long promoted value, quality and environmental management and ethical operations both in the company and in the products supply chain, so no essential changes are required to the systems.

### Kesko's basic values

Kesko's basic values were defined on the basis of the survey, carried out in 1996, among the personnel and K-retailers. The survey was repeated in late 2000. During these five years, the values of the personnel had not changed much. Responsibility had grown most in importance, which was probably due to Kesko's active work for ethical principles concerning the environment and purchasing.

### Guidebook on Working Practices

Based on these values, Kesko's Guidebook on Working Practices was prepared for in-house use. The guide describes how Kesko employees act with each other, with customers and with other stakeholders, and encourages open discussion of job values and affairs.

### Quality management

Several systems for quality management are applied at Kesko: The quality evaluation based on the criteria for the Finnish Quality Prize has been used as a method of self-evaluation for improving operations since 1996. The Group's internal quality prize competition between units encourages the constant improvement of operations, expertise on all levels and top performance.



In 1998-1999, Kesko's directors and managers – nearly 300 persons in all – attended the KQ quality training, specially tailored to Kesko. The key principles of quality management include defining the purpose, targets, indicators and directions of operations as well as planning and implementing the required measures with the whole personnel. The target is to adopt an expertise management model in 2001-2002.

The Product Research unit, with

its staff of 16, ensures the quality of groceries and some speciality goods. They thoroughly check the operations of the suppliers delivering Kesko's own brands. The unit's operations are based on the quality system complying with the ISO 9000 standard and the in-house control system approved by authorities. Quality assurance involves a wide variety of perspectives including such things as genetic modification, protection of animals, use of hormones in meat production, use of azo dyes in groceries etc.

The ISO 9000 standard is also used at Kespro Ltd, whose quality system was certified in December 2000.

### Environmental management

Kesko's first environmental policy was published 1991. In February 1996, Kesko was the first Finnish trading company to commit to the business charter prepared by the International Chamber of Commerce, for creating sustainable development. The charter incorporates the key principles of environmental management. Immediately after this, Kesko revised its environmental policy and decided to adopt an environmental management system based on the ISO 14000 standard in the units that have major impact on the environ-

ment. So far, the system has been certified for the logistics unit of Kesko Food, the transport and forwarding company Kespel Ltd and the coffee roastery, Viking Coffee Ltd. More information about environmental responsibility is available on page 22 onwards, Kesko's whole environmental policy can be read on Kesko's Internet pages ([www.kesko.fi](http://www.kesko.fi)).

### Principles of socially responsible trading

Supply Chain Management is important in all product lines from the point of view of economic efficiency, but above all from the point of view of safety. Recent food scandals, for instance, have made traceability of food ingredients an important quality factor. In addition to its in-house quality control, Kesko participates in the national food quality programme, which aims at ensuring the high quality of the food chain at all stages.

Thanks to the high-level labour and social welfare legislation, social problems in Finland are few. Therefore, in these issues, the focus is mainly on foreign – particularly non-EU – suppliers. The ethical quality control system published by Kesko in spring 2000 is based on the UN Universal Declaration of Human Rights and the Convention on the Rights of the Child, and on the International Labour Organisation key conventions. The implementation of principles is supervised against the Social Accountability SA 8000 standard, based on these decisions. To further the introduction of the standard, Kesko made a co-operation agreement with Bureau Veritas Quality International in March 2000. More details on ethical quality control are available on page 37 onwards, and the text on ethical principles can be read on Kesko's Internet pages ([www.kesko.fi](http://www.kesko.fi)).

### Participation in the development of the economy and the trading sector

It is important for companies to actively participate in the development of the EU and Finnish legislation and in international trading regulations, in order to have sufficient corporate expertise in decision-making, and to be able to make decisions that can easily be put in practice. Kesko participates in national and international development work through central and industry organisations, including the following:

#### International organisations

- International Chamber of Commerce, ICC:
  - World Council
  - working parties (Environment and Sustainable Development, Business in Society, BioSociety)
  - the Finnish Section (Vice Chair); in addition to the above international groups Finnish background groups (data communications and systems, insurance/safety, transport/logistics)
- CIES - The Food Business Forum
  - Food Safety working group
- UNICE (Union of Industrial and Employers' Confederations of Europe)
  - The Council of Presidents

#### EU organisations

- EU Commission advisory Committee on Commerce and Trade (abolished in November 2000, some expert groups still operating; Kesko participates in the Euro and Competition Legislation Groups)
- EuroCommerce, the Retail, Wholesale and International Trade Representation to the EU (euro, new methods of payment and electronic commerce committees)

- UGAL, EU organisation of groups of independent retailers (Board and working groups)

#### Public administration in Finland

- Euro project, companies' working group (Ministry of Finance)
- EU drafting section on consumer affairs (Ministry of Trade and Industry)
- Chain – transport development programme (Ministry of Transport and Communications)

#### Finnish central organisations

- the Employers' Confederation of Service Industries in Finland (Chair)
- Finnish Federation of Commerce and Trade (Board and Committees; Chair in Taxation and Legal Committees and in the euro working group)
- Central Chamber of Commerce (Board)

#### Industry and district organisations, etc.

- Kesko's representative acts as a Chairman in
- Finnish Food Marketing Association (Board and Foodstuffs Legislation Group)
  - ProGresS development programme for environmental affairs in the real estate and construction sector
  - Helsinki Chamber of Commerce

Kesko is also active in several industry and recycling organisations. A more detailed list with www links is available on the Internet version of this report ([www.kesko.fi](http://www.kesko.fi)).

## Key stakeholders

Kesko Group's operations are very versatile, so corporate responsibility involves many stakeholder groups. Here are brief descriptions of the most important ones:

### Authorities (EU, Finnish state and local authorities)

The European Union and the Finnish government use legislation and other guidance to create the frame-

work for Kesko's operations. Through industry and central organisations, Kesko gives state authorities expert views in the development of industrial policy and regulations concerning the trading sector and the economy. Kesko acts in co-operation with local authorities when developing and maintaining its store network. Kesko contributes to the well-being of society by paying direct taxes and social security contributions and indirectly, by collecting value added taxes and exci-

se taxes, customs duties and by withholding payroll taxes.

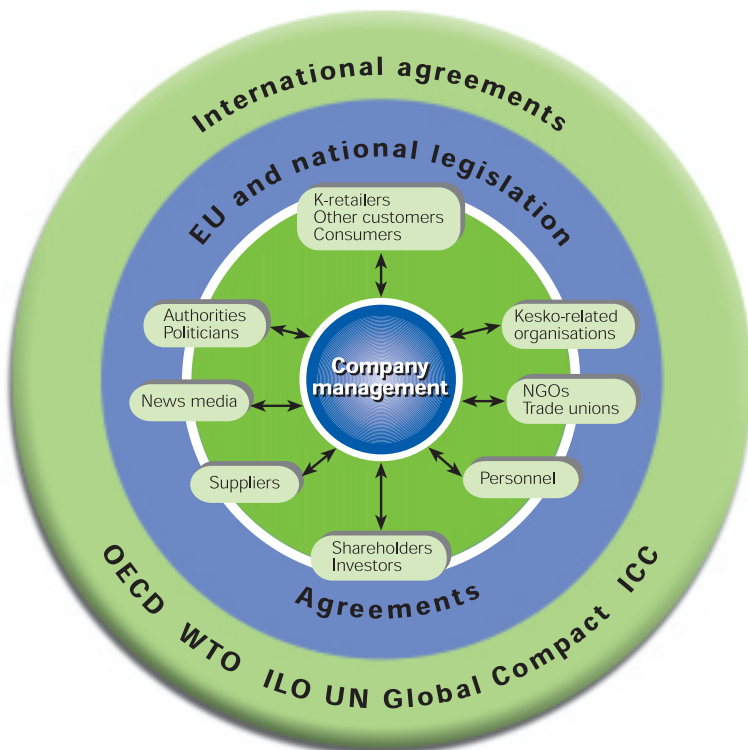
### Suppliers of products and services

Kesko buys consumer goods from Finnish and foreign farmers, manufacturing industry and importers, and sells and distributes them to the K-retailers and other customers. Kesko builds and maintains the K-store network and acquires the furniture, equipment and supplies, information systems and such required by K-retailers for their business operations.

### K-retailers and other customers

Together, Kesko and K-retailers have prepared an operating system based on contractual, vertical co-operation. Kesko is responsible for continuously developing the operating system and retail concepts, for controlling chain operations and for purchasing the products included in the chain product selections. K-retailers, as entrepreneurs, are responsible for the profit, personnel management and implementation of the chain concept in their stores. Kesko takes charge of obtaining store sites, information systems, marketing channels and training for the chain. Kesko's store site operations promote the establishment of new enterprises and the progress of existing entrepreneurs in their career.

Kesko also sells and supplies pro-





ducts to many other customers and carries out regular surveys on K-retailers' and other customers' views on the services offered.

### Consumers

Kesko's co-operation with K-retailers and other business customers serving consumers aims at satisfying consumer needs. For this purpose, Kesko plans and builds retail concepts, product selections and marketing campaigns that interest consumers, and implements them in co-operation with the K-retailer chains. Consumer surveys are widely used to establish customer satisfaction and to improve operations further. The Pirkka customer magazine is distributed free of charge to all households that have the Plussa customer loyalty card.

### Shareholders

Kesko is a listed company whose shares are held by K-retailers, enterprises

and companies, institutions and private investors. Kesko maintains regular contacts with representatives of the capital market and gives its shareholders plenty of information about company operations on its websites and through other media. TradeMaker, Kesko's stakeholder magazine is published four times a year and sent to all of its shareholders.

### Personnel

Kesko promotes the participation of its personnel in the planning and development of operations and focuses on activities that maintain working capabilities and in-house job rotation. Annual surveys are carried out to evaluate the personnel's job satisfaction. Kesko's corporate image and attractiveness as a workplace are assessed by in-Group and external surveys.

### News media

Being a listed company, Kesko disse-

minates information about its operations to shareholders and the general public. Co-operation with news media takes place daily and works in both directions. Kesko orders surveys on a regular basis to find out financial editors' views of Kesko and its communications.

### Non-governmental organisations and trade unions

Kesko maintains regular contacts with consumer, environmental and human rights organisations, for instance when preparing responsibility-related operational policies and individual statements, and when presenting results of its activities. The union with the closest ties to Kesko is the Service Union United, which has a local branch organisation in Kesko. Kesko gives financial support to the work of many socially important organisations and institutions.

## Indicators of corporate responsibility and performance

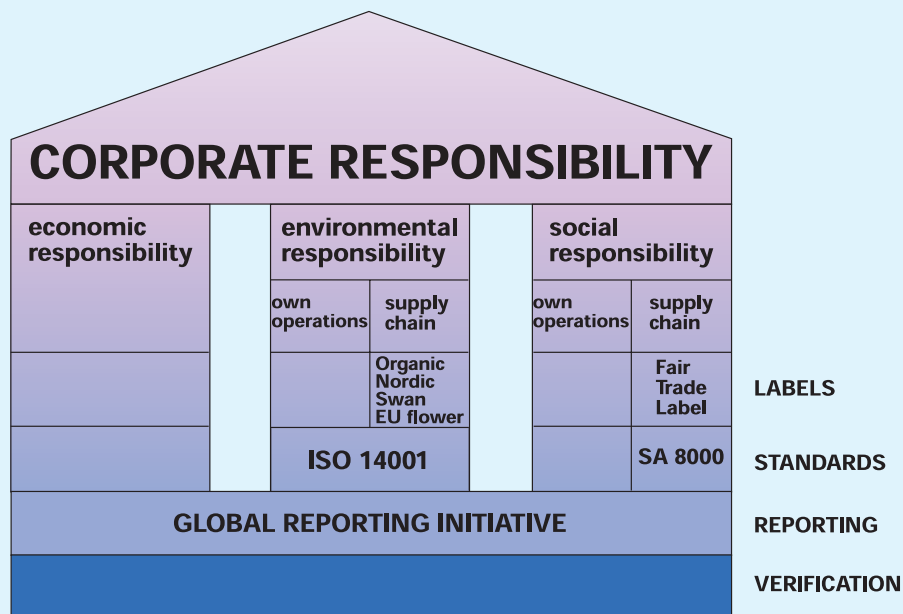


In this report Kesko has compiled – mainly following the framework recommended by the GRI – its key results in areas of corporate responsibility. A significant part of the indicators and results have been used before. When statistics were compiled from areas that had never before been handled in the annual or environmental reports, comparative figures were, in some cases, obtained for several years. In cases where this was not possible though a reasonable amount of work, data is given for 2000 only. The purpose is to give as comprehensive a picture as possible for performance in 2000, which can be considered as a starting-point for systematic monitoring and target setting in corporate responsibility.

### Economic performance

Good economic performance is the basis of responsible operations. It secures the financial well-being of shareholders, suppliers and employees and ensures that the company participates in the development of the well-being of society as a whole, by paying taxes. A strong financial position provides opportunities to focus on environmental and social responsibility, which again contribute to economic performance. So, the three pillars of corporate responsibility are interdependent and should be developed side by side in a balanced way.

Kesko has performed steadily over the decades. The dividends distributed



have exceeded the average of listed companies, many new jobs have been created, and supplier invoices and social obligations have been settled on time. The store network has been undergoing a continuous reform according to anticipated changes in residential areas and consumption habits, not forgetting services in consumers' immediate urban or rural neighbourhood. Kesko has participated in the activities of citizen organisations through intellectual and financial contributions.

The following analysis handles economic performance from the viewpoint of different stakeholder groups. Other financial indicators and the development of business operations for 2000

can be found in Kesko's Annual Report. The corresponding information is also given on Kesko's Internet pages ([www.kesko.fi](http://www.kesko.fi)) "Investor information".

### Economic development from the viewpoint of shareholders

Kesko has generated profits and paid dividends continuously since its establishment in 1940, except for the year 1967. For the last ten years, which include the depression in the early 1990's, the average annual yield (dividend and appreciation) of Kesko's B share has been 8.2 percent and for the last five years, 9.8

percent. For the last five years, the average effective dividend yield has been 6.6 percent. According to the dividend policy specified in 1997, Kesko distributes at least a third of its earnings per share as dividends, or a half if the equity ratio exceeds 50 percent. During the last five years, the dividend has been 81 percent of earnings, on average.

Kesko's share price development has been relatively steady, following the general trend in the trading sector prices. For the last few years, the general index and the weighted portfolio index (Hex 20) have clearly grown faster than Kesko's B share, due to the trends in share prices in information

### PROFITABILITY OF OPERATIONS

	1998	+/-%	1999	+/-%	2000	+/-%
Net sales, EUR million	5,987	+2.1	6,111	+2.0	6,308	+3.2
Gross margin, %	12.3		12.3		12.1	
Profit before extraordinary items, EUR million	133	+13.0	128	-3.5	126	-2.1
Profit before extraordinary items as % of net sales	2.2		2.1		2.0	
Return on invested capital (ROI), %	8.9		8.0		8.5	

technology and Nokia, in particular. The price development of Kesko's A share has exceeded the average in the trading sector and also exceeded the portfolio index at the end of 2000, when share prices in information technology took a strong downturn.

Kesko's market capitalisation has grown slowly over the last five years. The figure was at its highest in early 1998 and 2000, reaching about EUR 1.4 billion and at its lowest in 1996, when it dropped to about EUR 800 million. At the end of 2000, the total market capitalisation of the company was nearly EUR 1.2 billion. That was only about 0.4 percent of the total

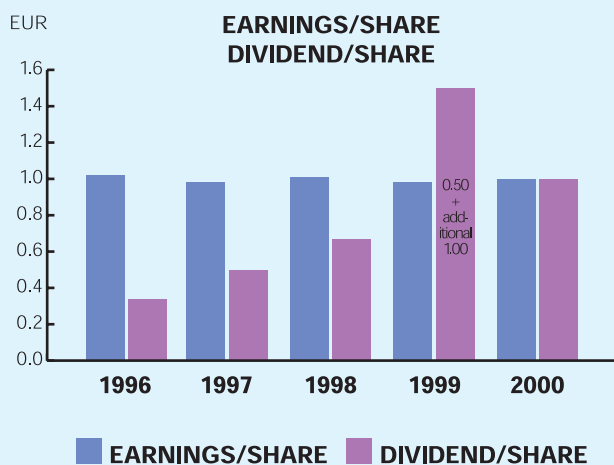
market value of the Helsinki Exchanges, but around one half of the trading sector value. The market capitalisation was 84.5 percent of the book value of total assets, which means that Kesko's share price does not seem to include such growth expectations that have been common in the information technology sector, for instance.

In the early days, Kesko's shareholders consisted mainly of retailers. The listing in 1960 and share issues in the 1970's and 1980's increased and diversified the group of shareholders. At the beginning of 1990's, the number of shareholders exceeded 40,000.

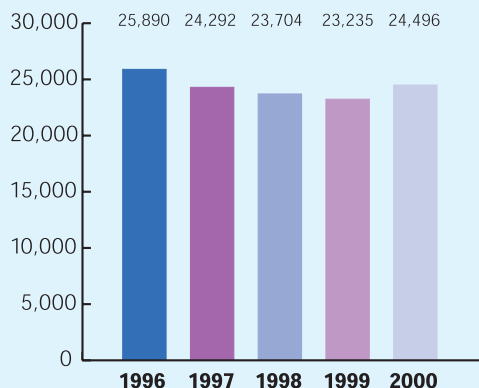
The book-entry securities system, adopted in 1993, provided opportunities for more detailed shareholder monitoring. The number of shareholders dropped in the late 1990's, but rose in 2000, reaching 24,496 by the end of the year.

Following the listing, private persons have been an important shareholder group in Kesko, accounting for about one third of the share capital at the beginning of the 1990's, and for about one quarter at present. K-retailers and other private enterprises have retained their share of nearly 30 percent throughout the last decade, as have financial and insurance institutions, too. The insurance companies Sampo, Pohjola and Ilmarinen have long been among Kesko's major shareholders. Major, established, Kesko-related shareholders continue to include the Kesko Pension Fund, Vähittäiskaupan Takaus and K-Retailers' Association. The abolishment of restrictions concerning foreign ownership in listed companies in 1993 has raised foreign shareholding in Kesko to nearly one fifth of the share capital.

More detailed information about Kesko's shareholders and share trends can be found on the company's Internet pages ([www.kesko.fi](http://www.kesko.fi) "Investor information").



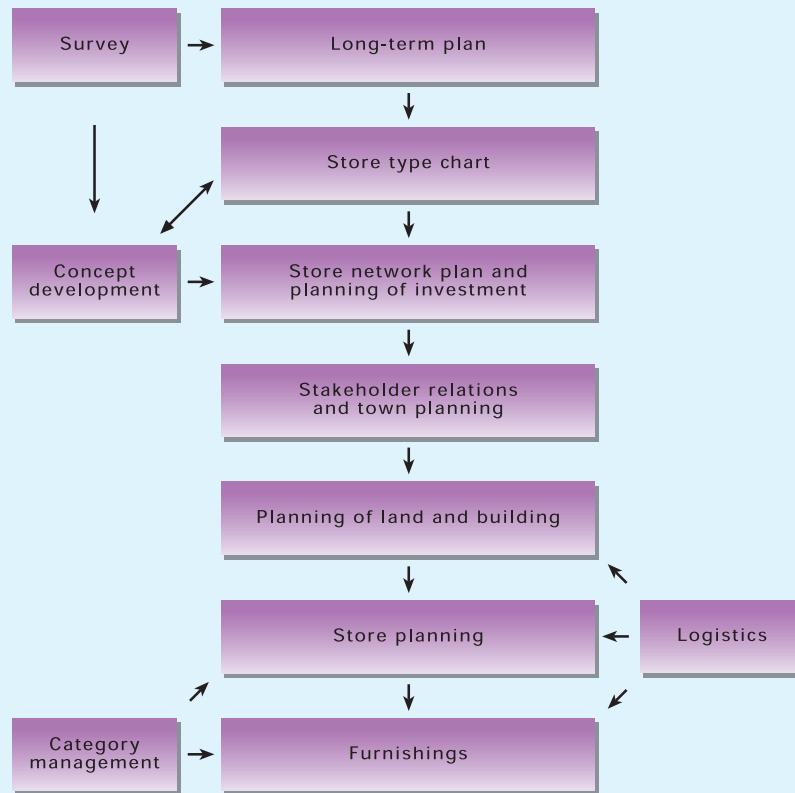
**NUMBER OF SHAREHOLDERS ON 31.12.**



## Investments and store network

In 2000, Kesko Group's investments totalled EUR 247 million, which is 3.9 percent of net sales. This was an all-time high both in monetary and relative terms. Investments in shares and in the real estate, fixtures and information technology of Kesko's wholesale operations and subsidiaries accounted for over one third, while investments in retail stores accounted for two thirds. Over the last five years, investments have accounted for 2.2 to 3.9 percent of

## Kesko Food store site process



### INVESTMENTS AND ASSETS

	1998	1999	2000
Investments, EUR million	132	202	247
Investments, % of net sales	2.2	3.3	3.9
Equity ratio, %	56.7	56.6	54.7
Debt to equity ratio, %	43.3	43.4	45.3
Gearing ratio, %	4.9	1.3	16.3

net sales. Investments have had financial impact on business operations of construction companies, services companies in the construction sector, suppliers of fixtures, equipment and information systems, above all.

Internal migration is strong in Finland and the purchasing power continues to move into growth centres and existing population centres. Consumption habits are also changing. Kesko has responded to these developments by continuous investments in new sto-

re sites, by participating in the construction of new, increasingly popular shopping centres, and by building larger stores for home and speciality goods and hardware trade.

34 new stores were built and over 150 stores renovated by Kesko in 2000. New grocery stores include mainly large supermarkets or small urban centre stores. Hypermarkets, which are the largest outlets, continued to slightly increase their share of the total K-grocery store sales,

reaching 29.7 percent. The percentage is a little smaller than average for Finnish grocery retailing, and considerably smaller than for most Central European countries.

Surveys show that consumers' experiences regarding the availability of retail services have improved over the last few years, despite the growth in the average store size and the reduction in the number of stores. Kesko has done its best to maintain availability by offering, in co-operation



with K-retailers, a nationwide network of stores in different formats and product selections, complemented by the Anttila mail order business and the NetAnttila online department store.

There were 1,249 K-grocery stores at the end of 2000, of which 838 were small stores (K-neighbourhood store, K-extra, Rimi, Pikkolo, K-mobile store and others). The stores were located in 409 towns and municipalities in all, compared with the total of 455 in Finland. Of all Finns, 47.3 percent live at a distance not exceeding one kilometre and 28.7 percent at a distance not exceeding 600 metres from a K-grocery store, which means that the services of K-stores are still, on average, relatively close to customers throughout Finland,

sparsely populated areas included.

Speciality stores, including the Tähti Optikko chain, were 726 in total and fast food restaurants 77 in total.

Kespro Ltd, Kesko's subsidiary serving restaurants and other catering customers, delivered products to 6,000 business customers. Thus, Kesko's distribution services cater for a total of about 8,000 enterprises and cover practically all Finnish towns and municipalities.

### Job development

The number of jobs in the Kesko Group has doubled since 1995. Big changes occurred in 1996–1997, when Kesko acquired Kaukomarkki-

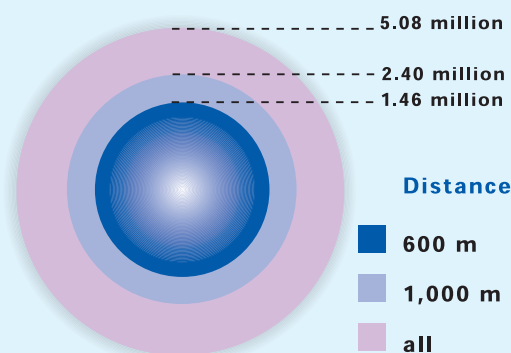
nat Oy, Anttila Oy and Carrols Oy.

At the end of 2000, the Group had 13,361 employees. The average number in 2000 was 11,099 persons, representing a growth of 106 over the previous year. The average number of personnel is calculated by taking into account all employees with permanent or fixed-term contracts and excluding those on long leave (e.g. parental leave). Part-time employees are converted into full-time personnel according to their working time percentage (for instance, an employee working for 30 hours per week is equal to 0.8 persons when converted into full-time personnel).

When the jobs in the Group are roughly divided between wholesale and retail operations, wholesaling accounts for a little fewer than a half of them and retailing for a little over one half. Retailing business includes the Anttila and Kodin Ykkönen department stores, non-food trading of Citymarket department stores, the Carrols restaurants run by Kesko, the K-agricultural stores owned by K-maatalousyhtiöt Oy and the Tähti Optikko outlets owned by Kaukomarkkinat Oy.

Kesko is a nationwide company with operations in 42 localities. About 60 percent of Kesko personnel work in the greater Helsinki area. Outside this area, Kesko has four district centres (Turku, Tampere, Kuopio and Oulu),

### Number of inhabitants at a distance of 600 and 1,000 metres from a K-grocery store in Finland



### NUMBER OF INHABITANTS AT A DISTANCE OF 600 AND 1,000 METRES FROM A K-GROCERY STORE BY PROVINCE

	Inhabitants at a distance of 600 metres	Inhabitants at a distance of 1,000 metres	All	% of inhabitants at a distance of 600 metres	% of inhabitants at a distance of 1,000 metres
Southern Finland	704,323	1,132,301	2,009,074	35.1%	56.4%
Åland	8,319	12,471	25,042	33.2%	49.8%
Eastern Finland	161,207	259,435	595,404	27.1%	43.6%
Western Finland	441,570	744,457	1,803,887	24.5%	41.3%
Oulu	103,682	183,435	446,700	23.2%	41.1%
Lapland	38,014	68,692	196,308	19.4%	35.0%
	1,457,115	2,400,791	5,076,416	28.7%	47.3%

Source: Statistics Finland, population square statistics, 1998  
Kesko Corporation, store register, 2000

each of which have 180–350 employees, 35 Citymarket hypermarkets (with a total of over 2,500 employees) and 28 Anttila department stores (a total of over 1,400 employees). As there are one or more K-stores in nearly every Finnish town and municipality, employing about 25,000 persons in all, the jobs offered by the K-Alliance extend well-being practically throughout Finland.

In 2000, the opening of new Citymarket hypermarkets and Kodin Ykkönen department stores caused an increase in the number of personnel, whereas the disposal of Aleksis 13 Oy and the conversion of some Carrols restaurants into entrepreneur-run outlets reduced the number. The growth was highest in foreign operations, where the personnel totalled 938 at the end of 2000 (compared with 475 in 1999).

At the end of 2000, Kesko outsourced some of its service and supporting operations by selling its advertising agency, the publishing operations of its customer magazines, its in-store television operations and film production, its real estate maintenance services and part of its office services. In March 2001, the corresponding arrangements were made in information management. The arrangements involved a total of about 330 persons, who continued in their jobs under the new employer.

### Salaries, social security expenses and taxes

In 2000, Kesko Group paid salaries of EUR 267.6 million, pension expenses of EUR 21.6 million and other social security expenses of EUR 26.4 million.

Theoretical income taxes totalled

EUR 34.6 million, which tax authorities divide into the localities where the company operates. Kesko paid EUR 2.2 million in real estate taxes to about 100 towns and municipalities.

In addition to direct taxes, Kesko has collected a significant amount of indirect taxes and fees, such as value added taxes, car taxes, alcohol taxes, customs duties, employee payroll taxes, etc. Although these payments cannot be included in the sphere of corporate responsibility proper, Kesko has assumed full responsibility for making all payments and fees to the society on time and in full.

PERSONNEL EXPENSES (EUR million)						
	1998		1999		2000	
Salaries and fees	257	+4.3%	261	+1.6%	268	+2.7%
- of which profit bonus	8.5		5.6		5.4	
Social security expenses						
- pension expenses	38		30		22	
- other social security expenses	26		27		26	

PRODUCTIVITY (EUR 1,000)			
	1998	1999	2000
Net sales per employee	536	556	568
Profit before extraordinary items per employee	11.6	10.5	11.3

TAXES (EUR million)			
	1998	1999	2000
Income taxes to Finland	42	39	34



### Employee pension and health insurance systems

Kesko Sickness Fund is responsible for the statutory sickness insurance of the Kesko Group's subsidiaries and Kesko-related units, covering their total personnel of about 11,000. In 2000, the sickness insurance contributions paid by the Sickness Fund totalled EUR 5.8 million.

Kesko Pension Fund is responsible for the pension contributions, based on the Employees' Pensions Act, of those Kesko Corporation employees who are members of department B. Varma-Sampo is responsible for the corresponding pension contributions for the employees of the subsidiaries. The Pension Fund also has department A (closed on 8 May 1998), which provides extra benefits, including a pension level exceeding the statutory one – a maximum of 66 percent. The employees who are members of department A also have

some pension types outside the statutory system available for them, such as an early retirement pension, granted for production reasons. The Pension Fund covers some 4,300 employees.

In 2000, Kesko Pension Fund paid pension to 2,916 persons, a total of about EUR 37 million. Kesko Pension Fund has made profitable investments in recent years and the pension expenses fall short of the average national level.

In the statutory employment accident insurance system, a higher excess percentage is applied, as prescribed for big employers.

### Suppliers of goods and services

According to Kesko's books, the company had about 32,000 domestic suppliers of goods and services in 2000, and about 10,000 suppliers abroad. Purchases from Finland totalled EUR 4,710 million, while purchases from abroad were EUR 812

million. In fact, the proportion of imported products is higher than shown by the books, because purchases from importers operating in Finland are registered as domestic purchases.

The sphere of economic impact also covers investments which amounted to EUR 247 million. A majority of the funds invested were used for buildings, equipment and information technology.

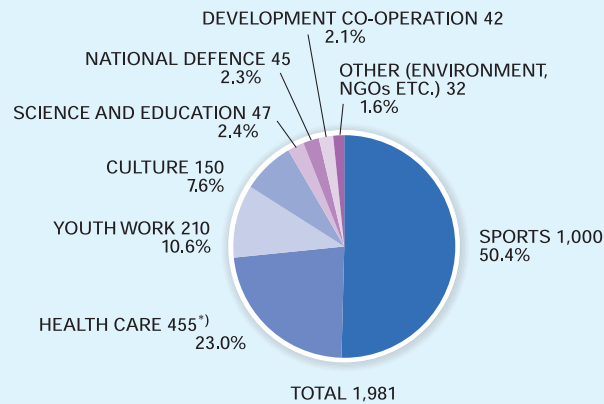
The proportional breakdown of suppliers of Kesko's purchases is revealed by accounts data. In order to assess the impact of Kesko on its suppliers' financial progress, information on Kesko's share of each supplier's sales would be required. So far, this type of all-inclusive survey has not been carried out. The subject is interesting and important, and we intend to collect more detailed information on the subject in the future. As far as suppliers in developing countries are concerned, the work has already been started in connection with ethical quality control (see "Supplier survey underway", page 38).

## Financial support

Kesko and its subsidiaries have traditionally given support to those mainly nationwide organisations and institutions that work for the good of society. In recent years, support has been concentrated on youth and sports organisations, the promotion of a healthy way of life and children's health care. Major donations have been given to nearly one hundred recipients. The K-retailers' co-operation with local organisations, sports clubs etc. has also been extensive.

Drawing the line between donations, sponsoring and marketing is often difficult. When clear marketing measures are left out of calculations, the financial support paid by the Kesko Group in 2000 amounted to two million euros. Half of this amount was directed to sports and physical exercise organisations (e.g. Finnish national alpine skiing teams, the Football Association of Finland, scholarships for young athletes). Over 450,000 euros were donated to health care. K-stores organised two important campaigns for this purpose for customers. The funds raised in the 'Life for Child' campaign were donated to the Godparent operations of the Lastenkliniikka children's hospital and the Finnish Heart Association, and the funds raised by the 'Little Heart' campaign were donated to the K9 intensive care unit for children and the young, at the Helsinki University Hospital. The most important partner in youth operations (EUR 210,000) was the Nuori Suomi (Young Finland) organisation. Through this, Kesko participates in the operations of about fifty sports organisations and afternoon club activities for school children. The Children's Olympics, organised together with Young Finland, attracted about 180,000 children in summer 2000.

## KESKO'S SUPPORT FOR THE PUBLIC GOOD IN 2000 (EUR 1,000)



<sup>\*)</sup> PART OF DONATED FUNDS GIVEN BY K-STORE CUSTOMERS



## Environmental performance



Starting from the year 1997, Kesko has published three environmental reports, which means that comparative information on key environmental impacts is available for several years. In 2000, environmental performance was sharpened considerably when environmental management systems were completed in grocery logistics and transport, and environmental calculation was enhanced in both logistics and real estate operations. Kesko's environmental calculation model monitors the environmental impacts and costs of operations in parallel.

Environmental responsibility is not just a question of decreasing the company's environmental impacts. It also includes environmental co-operation, based on life cycle thinking, with suppliers of products and services. Progress has been made in the supply chain for construction items, in particular. No corresponding development, such as the effort to adopt environmental labelling, has yet been completed in the goods trade.

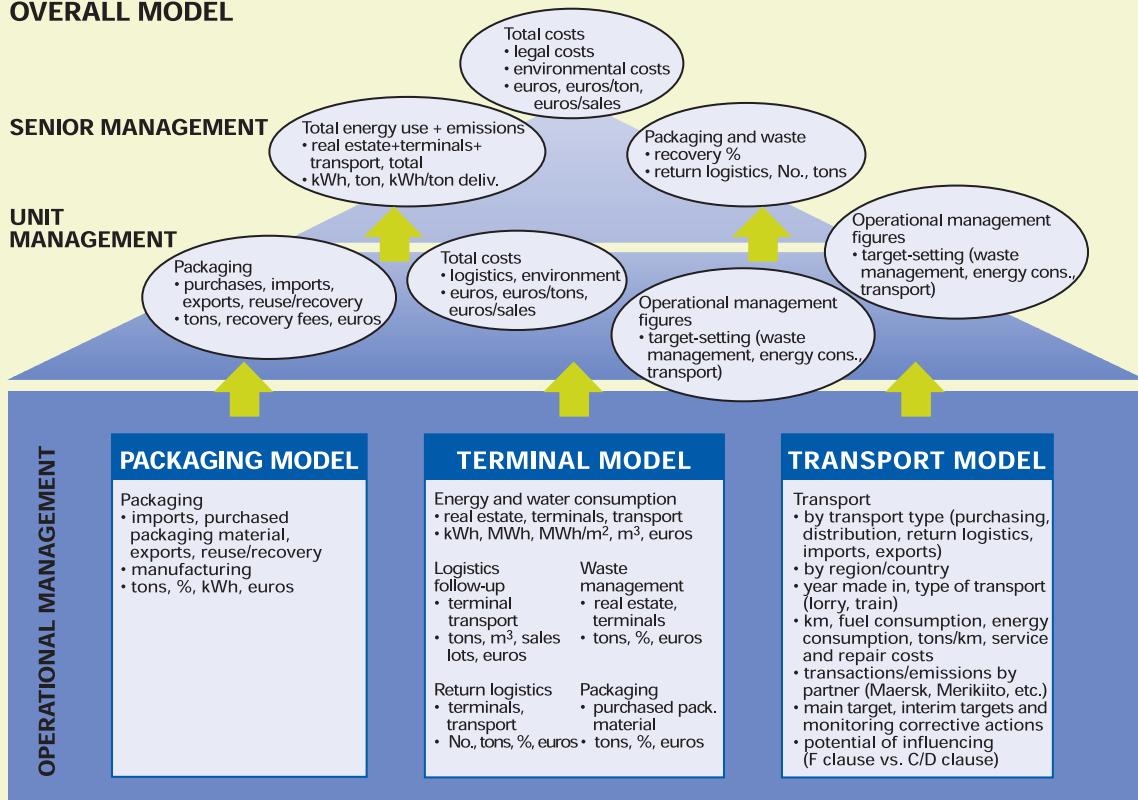
More information on Kesko's environmental performance can be found on our Internet pages.

### General

The adoption of an environmental management system complying with the ISO 14001 standard progressed rapidly at Kesko in 2000, when the Kesko Food's logistical unit and Kesped Ltd, a transport company, completed their system at the end of the year. The

# KELO ENVIRONMENTAL INDICATORS

## OVERALL MODEL



system was certified in March 2001, becoming the first certified environmental system for logistics and transport in the Finnish trading sector, and one of the first in the whole world. The system covers about 1,500 employees. Real estate maintenance services were brought under the influence of certification through outsourcing. At the beginning of 2001 Kesko sold the business operations of its subsidiary Kestra Kiinteistöpalvelut Oy to ABB Kiinteistöpalvelut Oy, which had received the ISO 14001 certificate in 1999. Anttila has also started planning an environmental system based on the ISO 14001 standard. The aim is to first adopt the system in three Anttila department stores and in two Kodin Ykkönen department stores in early 2002, and in other department stores and the Hämeenkylä warehousing complex gradually during 2002-2004. The system will be included in Kesko's environ-

mental calculation model KELO (short for 'sustainable logistics').

The co-operation between Kesko and the K-retailers has been reorganised, and the chain units of the division parent companies will be responsible for managing it. A decision was also made to change the environmental organisation of the K-Alliance to harmonise with the commercial operating model. Each chain unit is now responsible for chain-specific environmental operations, such as environmental store concepts. At the K-Alliance level, environmental operations are guided and co-ordinated by the K-Environmental Working Group set up at the beginning of 2001, to which Kesko's division parent companies and the branch clubs of the K-retailers' Association have each appointed their representative responsible for environmental affairs.

Kesko's third environmental re-

port was published in June 2000. It was given an honorary mention for corporate responsibility reporting by Elin-kaari, the Finnish Association for Environmental Education, which makes annual evaluations of environmental reporting. The points given to Kesko's report were in the range 40-44, and the report ranked highest among trading companies. The previous year, Kesko's points were in the range 30-34, compared with the 100 points maximum. In the same evaluation, Kesko was awarded, together with Fortum, for the best environmental web pages in Finland, being placed in the 80-84 points range.

At the end of 1999, Kesko and seven other listed Finnish companies were included in the Dow Jones Sustainability Group Index. In compiling the index, Dow Jones monitors 2,000 major listed companies, with each sector being represented by 15 percent of the market capitalisation in

that sector. The 10 percent of the companies that best fulfil the requirements in each sector are then included in the index. In 2000, Kesko and three other Finnish companies were dropped from the Dow Jones Index, as their market capitalisation did not reach the size category required for monitoring. Kesko's environmental performance would have been sufficient. For example, in an environmental analysis made by the US company, Innovest Strategic Value Advisors, Kesko ranked first out of 23 companies evaluated in the category 'Global Food Industry' with a rating of AAA.

### **Logistics and real estate are the key areas in environmental activities**

The majority of Kesko's environmental impacts are caused by logistics, including the warehousing, handling and transport of goods, and real estate construction and use. The fuel used in transportation causes emissions to the air, goods handling generates waste, and real estate is needed for warehousing and selling goods. Premises use water and electric and heat energy, the production of which causes emissions to the air.

Significant progress was made in key environmental activities during the year. The completion and certification of the environmental system of the Kesko Food logistics and of Kesko Ltd ensure systematic and target-oriented operations. Part of the environmental calculation system of the logistics chain has already been in use and the aim is to introduce it entirely in 2001. The KELO model includes terminal, packaging and transport systems and an overall system which combines the data collected and calculates the environmental burden and total costs of the entire logistical process. In business construction, there are several development projects underway to

improve eco-efficiency and energy savings. Co-operation with ABB Kiinteistöpalvelut increases environmental expertise in real estate maintenance and helps Kesko strengthen its pioneering position in decreasing energy consumption.

### **Eco-efficient construction**

Kesko applies the principles of eco-efficient construction in all its major new business building projects. Buildings are planned in such a way that the use of natural resources and energy throughout their life cycles, as well as emissions burdening the environment, are kept under control.

Kesko is participating in several research programmes and studies that evaluate environmental impacts and eco-efficiency. The EcoProp programme of the Technical Research Centre of Finland defines environmental targets at the project stage, classifies them for different consumption levels and proportions their impacts to the community structure. The Technical Research Centre of Finland's REKOS programme on eco-efficiency in the construction and real estate sector develops the planning process and creates environmental labelling suitable for business construction while taking different characteristics into account. Kesko could possibly use this labelling in the future in the real estate market, while the retailers using the premises could use it in their environmental communications. The use of life cycle evaluations in technical planning is now being tested in four Citymarket construction projects. Kesko also continues to participate in the real estate and construction sector's ProGresS environmental programme, which develops environmental expertise and makes benchmarking surveys in which Kesko has achieved excellent results.

### **Success in energy savings**

Kesko is striving to perform even better and has adopted the KRESS real estate and construction sector energy saving agreement. This agreement aims to cut the 1998 level of specific heat consumption by 15 percent by 2010 and to turn the growth in specific electricity consumption into decline by 2005. The consumption statistics for 2000 show that these targets have already been reached. However, because of annual changes in temperature and other factors, no final conclusions will be made until the consumption decrease has continued for a period of several years.

The total energy consumption of real estate managed by Kesko varies annually due to changes in buildings and premises. The total floor area of premises used in environmental calculations by ABB Kiinteistöpalvelut Oy amounted to 2,446,704 m<sup>2</sup> (an increase of 1.1 percent over 1999) and the total volume of premises to 11,996,000 m<sup>3</sup> (an increase of 8.1 percent).

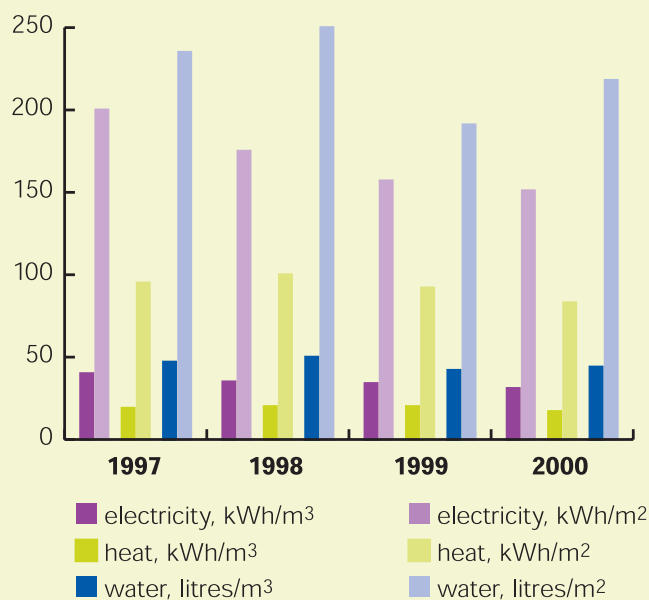
The combined heat energy consumption was 203 GWh, a decrease of 8.6 percent compared with 1999, notwithstanding the growth in total area. The combined electricity consumption was 369 GWh, representing a decrease of 2.6 percent. Specific consumption figures – consumption per square and cubic metre – had also declined.

### **Significant changes in the environmental profile for electricity**

In 2000, Kesko Kiinteistöpalvelut Oy purchased a total of 447 GWh (444 GWh in 1999) of electricity for the use of the K-Alliance. Of this amount, Kesko consumed 369 GWh and other Kesko electricity customers – mainly the K-retailers – 78 GWh. JP-Talotekniikka/ Ympäristöpalvelut has calculated the environmental profile of the

purchased electricity on the basis of the real estate area and energy consumption information provided by ABB and the energy purchasing information provided by Energiakolmio Oy. The so-called ratio system was used when calculating the environmental profile for the electricity published in Kesko's environmental report for 1999. The data for the year 2000 has been calculated using the 'benefit sharing method' which has now become common and gained wide national acceptance. The comparative figures for 1999 have also been converted to comply with this method. The basis of the environmental profile for heat energy has remained the same in both years (the Technical Research Centre of Finland: Average district heating in Finland, 1998).

### SPECIFIC CONSUMPTION OF ELECTRICITY, HEAT AND WATER IN THE REAL ESTATE USED BY KESKO IN 1997 - 2000



### CONSUMPTION AND ENVIRONMENTAL PROFILE OF HEAT AND ELECTRIC ENERGY IN THE REAL ESTATE USED BY KESKO IN 1999 - 2000

	Unit	1999			2000		
		Heat	Electricity	Total	Heat	Electricity	Total
Volume	GWh	222	379	601	203	369	572
Primary energy	PJ	0.9	3.0	3.9	0.8	2.8	3.6
- non-renewable	PJ	0.8	2.5	3.3	0.7	2.5	3.2
- renewable	PJ	0.13	0.45	0.59	0.12	0.25	0.38
Change in climate	tn CO <sub>2</sub> eq	57,456	64,851	122,307	52,638	138,039	190,678
Acidification	tn SO <sub>2</sub> eq	194	189	384	178	341	519
Ozone in lower atmosphere	tn HC <sub>2</sub> H <sub>4</sub> eq	4.2	3.0	7.2	3.8	6.4	10.2
Radioactive waste	tn	--	5.5	5.5	--	0.2	0.2

### ENVIRONMENTAL PROFILE OF ELECTRICITY SUPPLIED BY KESTRA TO K-ALLIANCE IN 1999 - 2000

	Unit	1999	2000
Electricity supplied	GWh	444	447
Primary energy	PJ	3.5	3.4
- non-renewable	PJ	3.0	3.1
- renewable	PJ	0.5	0.3
Change in climate	tn CO <sub>2</sub> eq	75,963	167,511
Acidification	tn SO <sub>2</sub> eq	222	414
Ozone in lower atmosphere	tn HC <sub>2</sub> H <sub>4</sub> eq	3.5	7.8
Radioactive waste	tn	6.5	0.3



## KESPED LTD'S DISTRIBUTION FIGURES IN 1998 – 2000

Distribution centre	tons/load				km/load				m <sup>3</sup> /load			
	1998	1999	2000	99/00%	1998	1999	2000	99/00%	1998	1999	2000	99/00%
Helsinki	6.5	6.0	5.9	-1.0	129	119	124	+4.3	19.4	18.3	18.2	-0.8
Tampere	6.7	6.5	6.1	-6.6	205	197	193	-1.6	18.9	18.8	17.7	-5.8
Turku	5.7	5.5	5.1	-8.6	126	128	125	-2.1	16.4	16.4	15.1	-7.9
Kuopio	7.7	7.8	7.6	-2.0	264	263	262	-0.5	23.6	24.4	24.3	-0.7
Oulu	7.9	7.7	7.3	-5.5	289	285	269	-5.6	23.5	22.9	21.9	-4.4
Kesped total	6.7	6.4	6.1	-3.9	177	169	168	-0.6	19.8	19.3	18.7	-3.0

The environmental profile of the electricity used by the K-Alliance changed significantly during the year. This was due to a change of electricity supplier, made for financial reasons. The main supplier in 1999 (68 percent) was Vattenfall, which uses hydro-electric and nuclear power. The main supplier in 2000 (92 percent) was Helsinki Energy, which accounted for only 17 percent in 1999 and produces electricity mainly by using fossil fuels. Emissions affecting climate change, acidification and ozone in the lower atmosphere here have, on the average, doubled compared with 1999. On the other hand, the amount of radioactive waste in 2000 was less than 4 percent of the amount in 1999.

All environmental indicators of heat energy have improved, because both total consumption and specific consumption have decreased.

The environmental information given by Helsinki Energy applies to the year 2000, whereas the information given by Vantaa Energy is for 1999. The information is comprehensive as to the consumption of primary energy, climate change and acidification. Comparisons of different power plants concerning their effects on ozone in the lower atmosphere and the production of radioactive waste include conceptual differences and inaccuracies.

The electricity supplied by Kestra for the entire K-Alliance accounts for some 0.22 percent of the total impact

on Finnish climate change (Finland's Indicators on Sustainable Development in 2000: [www.vyh.fi](http://www.vyh.fi), Finland's greenhouse gas emissions in 1998) and 0.26 percent of the total consumption of Finland's energy resources. The corresponding proportions of heat and energy consumption in the real estate managed by Kesko were 0.25 percent and 0.28 percent.

More information about energy consumption, the environmental profile of electricity and its calculation can be found on Kesko's Internet pages ([www.kesko.fi](http://www.kesko.fi)).

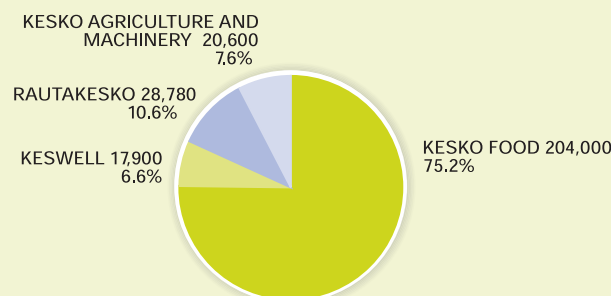
### Transport

With the exception of Anttila, Kesko's subsidiary Kesped Ltd is in charge of all Kesko's transportation. Kesped owns 41 distribution lorries and also uses 214 contract lorries. In 2000, the company transported over 107,000 lo-

ads (an increase of 6 percent) representing 658,500 tons of goods (an increase of 2 percent) to the K-stores and other customers. The total distance driven in distribution transportation was 18 million kilometres (an increase of 5 percent). An average load contained 6,145 kilos and 18.7 cubic metres of merchandise, and the average driving distance per load was 168 kilometres. An average of about 3,300 customers are served each day. The average weight and volume of loads dropped in all distribution areas, because customers have ordered smaller quantities at a time but more frequently than before. The kilometres covered per load increased in Southern Finland and dropped in other areas.

Anttila's transportation was handled by Kesped Ltd and eleven other transport companies. The number of loads totalled 10,200 and the kilometres driven 520,000, representing an increase

### VOLUME OF IMPORTS HANDLED BY KESPED LTD IN 2000 (TONS)



of 17 percent over the previous year. The kilometres per load averaged 51.

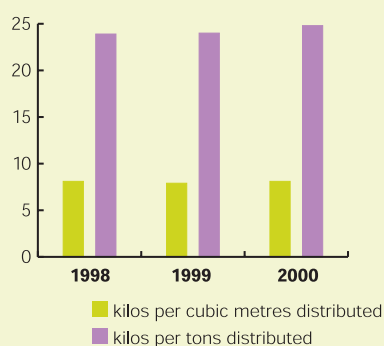
The total volume of forwarding for which Kespel Ltd was in charge amounted to 271,280 tons, an increase of 4.7 percent over 1999. Forwarding transactions totalled 37,000. Transportation from within Europe, which accounted for 76 percent of the total volume, was handled using lorries, semi-trailers and containers, and from outside Europe using containers only. Kesko Food accounted for 75 percent of all imports.

Export deliveries, mainly to Sweden, the Baltic countries and Russia, were handled by lorries. The total volume of exports, grain trade excluded, was 20,000 tons, of which Kesko Food accounted for 43 percent and Rautakesko for 45 percent.

### Emissions in transport

No vehicle-specific fuel consumption statistics on Kespel's transportation or its distribution in urban and regional areas are yet available. Therefore, the energy consumption and emissions in domestic transportation have been calculated by using the average factors studied by the Technical Research Centre of Finland for road traffic ('LIISA', 1999). In the environmental report for 1999 the emission figures were incorrect because of a human error. In this report, the information for 1999

**CO<sub>2</sub> EMISSIONS OF KESPEL LTD'S DISTRIBUTION PER VOLUME UNIT**



has been corrected. Fuel consumption only has been taken into account in the calculations, not fuel production or transportation to outlets.

As vehicle-specific statistics are lacking, the development of energy consumption and emissions only depend on the kilometres driven. As the number of kilometres grew by five percent, the calculated emissions also grew by five percent. The increase per cubic metres and tons distributed was smaller. The emissions of distribution transportation can be decreased by using a more energy-efficient distribution fleet with smaller emissions, by improving the driving style and by enhancing the efficiency of distribution. Improvements in the efficiency of distribution and a decrease in its environmental impact do not depend on

Kesko's activities only. The number of customers to be served, their location and the size of orders significantly affect the final result.

Emissions from energy used by real estate have been discussed before.

Kesko's operations do not cause any significant discharges to water.

### Waste management and recycling

In 2000, the waste management section of the KELO model for environmental calculation in Kesko's logistical chain was in full use in all of Kesko Food's distribution centres. In previous years, information on the amounts of waste at Kesko Food was received from the Hakikila Central Warehouses only. Other units have now also been able to provide more specific statistics. The amount of corrugated board waste is now registered in statistics as a total figure, including the board generated in distribution centres and the board received from K-stores in connection with return logistics. This explains the significant growth in statistics.

As waste management calculation now covers the whole of Finland and some changes concerning statistics techniques have been made, the statistics for 2000 are not fully comparable with previous years. Starting from 2000, the KELO model produces waste mana-

### ENERGY CONSUMPTION AND EMISSIONS IN DOMESTIC DISTRIBUTION TRANSPORT

	Transport 1,000 km	Energy consumption MWh	Emissions (tons)				
			CO <sub>2</sub>	CO	HC	NO <sub>x</sub>	Particles
1998							
- Kespel	16,969	56,483	15,391	61	22	156	14
1999							
- Kespel	17,073	56,830	15,485	61	22	157	14
- Anttila	433	1,441	348	1.4	0.5	3	0.3
2000							
- Kespel	17,993	59,891	16,320	65	23	166	15
- Anttila	519	1,728	418	1.6	0.6	4	0.4

WASTE MANAGEMENT STATISTICS (tons)								
	Foodstuffs				Home and speciality goods			
	1997	1998	1999	2000	1997	1998	1999	2000
Organic waste	154	450	494	660	-	-	-	3
Energy waste	138	355	318	357	334	249	10	30
Wood waste	636	665	785	589	142	135	191	141
Mixed waste	585	569	637	1,159	*	121	126	150
Metal	*	*	*	43	*	*	*	20
Film plastic	*	79	75	113	40	36	23	*
Corrugated board	*	152	175	5421	*	*	*	407
Paper	*	*	*	136	*	*	*	37
	1,513	2,270	2,484	8,478	516	541	350	788
	Builders' and agricultural supplies				Viking Coffee			
	1997	1998	1999	2000	1997	1998	1999	2000
Organic waste	-	-	-	14	71	79	64	75
Energy waste	70	62	33	129	68	54	51	29
Wood waste	83	103	94	143	-	-	-	-
Mixed waste	219	245	195	211	113	49	49	39
Metal	-	-	-	-	-	-	-	-
Film plastic	*	*	*	17	-	-	-	-
Corrugated board	*	*	12	73	-	-	-	-
	372	410	334	587	252	182	164	143

\*) information has not been collected or it is inaccurate

gement statistics that include the operations of nearly the whole of Kesko. For the last four years, the waste management statistics of the Viking Coffee roastery have been calculated on the same basis. The performance of the coffee roastery proves that a target-oriented environmental programme and a certified environmental system can continuously reduce the amount of waste.

### Recycling experiments in electronics and furniture

Kesko is participating in several recycling experiments underway in Finland.

In the national recycling experiment on electrical and electronic appliances started in March 2000, Anttila and Citymarket are involved as representatives of the retail trade, Kauko-markkinat as an importer and Musta Pörssi as both an importer and a retailer. According to the EU draft directive, the consumer should be able to re-

turn a used appliance free of charge to a retail store (replacement purchase) or to a regional reception centre. Kesko intends to have Kesped Ltd fetch the appliances from the K-stores and transport them to Kesko terminals, in which they will be loaded into producers' containers and transported full to the treatment centres of the producer community. The expenses of the national recycling system will be included as recycling fees in the prices of new products. The centres participating in the experiment in the greater Helsinki area, Tampere and Jyväskylä received about 260,000 kilos of used appliances, of which 66,000 kilos were brought to the K-stores. Information on the results of this experiment will be given during spring 2001.

The furniture recycling and reuse project was started in January 2000. Participants include associations and companies in the furniture sector, research institutes, waste management organisations and the National

Technology Agency. The experiment on returning furniture to stores was implemented in October-December. The Kodin Ykkönen department store in Varisto was one of nine furniture stores along the Ring Road III that participated in the experiment. Kodin Ykkönen had earlier accepted used furniture, but it had been transported to the landfill, as there was no system for reuse available. Experiments were conducted to find out the quantity and quality of the furniture to be disposed of, the reuse potential and handling processes of recovered material, as well as the suitability of stores for reception of this material. A reception fee based on estimated costs was charged from customers. The amount of furniture returned during the experiment fell short of expectations. A decision on further activities will be made in 2001.

There are also several recycling experiments underway in hardware stores. Six K-rauta hardware stores are participating in the recycling of plastic

tubes. So far, the amounts have been modest, but the experiment will continue. Opportunities to recycle paint cans have been offered to professional customers in some K-rauta hardware stores. The experiences gained have been positive and the experiment will continue. Starting from the beginning of 2001, some K-rauta and Rautia hardware stores have been participating in the experiment of recycling impregnated wood.

Kesko is an important raw material supplier of Muovix Oy, which started manufacturing plastic products of recycled material mainly for agricultural uses in November 2000.

### Water consumption

Water consumption increased in the real estate managed by Kesko from 460,000 cubic metres to 525,000 cubic metres. The growth was mainly due to the fact that more neighbourhood stores were included in monitoring, and dwellings were added as a category of their own. The high consumption of water in dwellings also slightly increased the average specific consumption of water.

### Use of materials

Kesko continues its active work for packaging standardisation, use of environmentally sound materials and reduction in amounts of materials by operating in Finnish producer institutions and international standardisation organisations.

Evaluations of the packaging data of Kesko's divisions for 2000 have still been mainly based on import forwarding statistics. The total amount of materials decreased by one percent compared with the previous year, although the total value of imports increased. The amount of plastic and glass packaging increased following a decrease in 1999, but remained below the 1998 figures. The amounts of ot-

#### PACKAGING MATERIAL USED FOR PRODUCTS IMPORTED OR PACKAGED BY KESKO (tons) AND THE SHARE OF PACKAGING OF THE TOTAL PRODUCT WEIGHT (%)

	1998	1999	2000
Fibre	18,123	18,591	18,139
Plastic	3,849	3,540	3,800
Metal	2,875	2,899	2,875
Glass	1,433	1,126	1,248
Wood	866	2,114	1,908
Total	27,146	28,271	27,971
Share, %	11.1	10.9	10.3

#### QUANTITY OF RECOVERABLE PACKAGING FROM KESKO FOOD'S RETURN LOGISTICS (million pcs)

	1996	1997	1998	1999	2000
Aluminium cans	6.5	11.0	13.2	12.5	12.7
Disposable bottles	1.1	1.4	1.3	1.5	2.0

#### QUANTITY OF REUSABLE PACKAGING FROM KESKO FOOD'S RETURN LOGISTICS (1,000 pcs)

	1996	1997	1998	1999	2000
Transbox cases	1,200	1,300	3,700	4,200	3,900
Roll containers	1,300	1,400	2,000	2,300	2,400
Return pallets	244	264	342	361	387
Deposit bottles	*	*	936	890	1,002

\* = information not collected

#### QUANTITY OF REUSABLE PACKAGING RETURNED TO RAUTAKESKO'S AND KESKO AGRICULTURE AND MACHINERY'S CENTRAL WAREHOUSES (number of re-uses)

	1998	1999	2000
Crates	9,600	44,300	50,500
Roll containers	83,800	79,200	78,500
Return pallets	181,000	171,000	171,650

#### QUANTITY OF REUSABLE PACKAGING RETURNED TO KESWELL'S CENTRAL WAREHOUSE (number of re-uses)

	2000
Crates	94,545
Borrowed cases	39,000
Return pallets	222,000
Cardboard collars	11,865
Long furniture pallets	13,000

her materials diminished.

The percentage of packaging weight of the total volume imported continued to drop. From 11.4 percent in 1997, the proportion dropped to 10.3 percent in 2000.

In Kesko Food, the amount of reusable packaging continued to increase, with the exception of Transbox plastic cases. In Rautakesko and Kesko Agriculture and Machinery (statistics for 2000 apply for the Builders' and Agricultural Supplies Division) the amounts diminished slightly in all units. Corresponding information on the Home and Speciality Goods Division (now Keswell Ltd) has not been available before. Statistics show that the use of return pallets is relatively higher in building supplies, home and speciality goods than in groceries.

### Co-operation with suppliers

The trading sector bears indirect responsibility for the impact of purchased products on the environment. These impacts are reviewed for the entire life cycle of the products. The operations of suppliers to reduce their environmental impacts are assessed during supplier audits, for example.

The impact of products should be evaluated during their entire life cycles. The task is difficult, because life cycle analyses can, as yet, be applied to only some production. Kesko has worked to increase their use by bilateral co-operation with suppliers and by working with national and international organisations. The latest pilot project in this area is entitled 'Factor X – eco-efficiently to the market'. The target is to find solutions enabling production with the fewest possible natural resources. Kesko Food is participating in the project with a product from its Pirkka range. The resources and brains behind the project include the European Social Fund and several research

institutes, and in Finland, the Dipoli training centre of the Helsinki University of Technology, the Finnish Association for Nature Conservation and the Finnish Environment Institute. The results will be presented at the Eco-Efficiency Fair in spring 2002.

The long-standing work for organic foods and products with environmental labelling has yielded good results. Sales of organic products have increased in the K-stores considerably faster than the average sales and the supply is not sufficient in all product categories. Kesko Food has been able to consolidate the supply of organic foods by complementing the domestic selection with imported products. There are now 45 types of organic fruit and vegetables available throughout the year.

The efforts of the K-stores in the organic products trade were rewarded in 'the Organic Store of the Year 2000' competition arranged by Finfood. Out of 20 stores chosen for the final, 15 were K-stores and the winners in both the small and medium-sized store categories were K-stores.

Kesko's construction unit has also carried out sustained work for improving eco-efficiency during the life cycles of buildings (See Eco-efficient construction, page 24)

### More K-environmental stores

The model developed by Kesko, the K-Retailers' Association and the Finnish Association for Nature Conservation – 'the K-environmental store diploma' – helps the K-stores to reduce the environmental impact of store operations and to guide customers towards more environmentally sound consumption. The requirements of the model – a checklist with about 160 items – are reviewed annually. Until the end of 2000, the K-environmental store diplomas were awarded by the K-Retailers' Association on the recommendation of an outside auditor. Subsequent audits were and will be carried out every two years. At the beginning of 2001, responsibility for the development and management of the K-environmental store model was transferred from the K-Retailers' Association to Kesko's chain units.

K-environmental store diplomas have been awarded for grocery stores since 1998 and for hardware stores since 2000. Follow-up audits complying with revised requirements were carried out in 2000 in all stores that had been awarded the diploma in 1998. All of them passed the new audit, too. In spring 2001, there were 191

K-ENVIRONMENTAL STORES					
Chain	Awarded in				Total in spring 2001
	1998/2000*)	1999	2000	2001	
Citymarkets	3	30	5	3	41
K-superstores	7	28	13	1	49
K-supermarkets	8	19	16	3	46
K-neighbourhood stores	7	16	6	-	29
K-extra stores	2	5	-	-	7
Rimi stores	-	1	-	-	1
Anttila**)	-	1	1	-	2
K-rauta stores	-	-	3	8	11
Rautia stores	-	-	-	5	5
Total	27	100	44	20	191

\*) All stores that received a diploma in 1998 were reviewed in 2000

\*\*\*) K-grocery stores operating in Anttila department stores

K-environmental stores, comprising 175 grocery stores and 16 hardware stores. All Citymarket hypermarkets and half of the superstores have been awarded environmental store diplomas. The list of environmental stores can be found on Kesko's Internet pages ([www.kesko.fi](http://www.kesko.fi)).

Customer opinions of the K-stores' environmental activities were charted in the 'Consumer awareness' study by Infratest Burke at the end of 2000. According to this study, the Finnish grocery stores with the best environmental image of all store chains are the Citymarket hypermarkets, while the K-stores were considered the best of all the trading groups.

### Stakeholder co-operation and communications

During the year, Kesko maintained close contacts with the stakeholder groups of its environmental activities. Contacts with the Finnish and EU authorities were maintained through the Environmental Committee of the Federation of Finnish Commerce and Trade. Development work was carried out with suppliers of organic products, in particular, and Kesko had a representative in the co-operative environmental group of the Federation of Finnish Commerce and Trade and the Confederation of Finnish Industry and Employers. Kesko continued as a supporting member of the Finnish Association for Nature Conservation, and in January 2000 made a co-operation agreement on funding a family education programme organised by the association. Environmental affairs were emphasised in chain advertising, and the K-environmental stores in particular arranged many events and gave out material under an environmental theme. Kesko's environmental activities were also presented to investors.

In November 2000, Kesko gave out environmental prizes totalling FIM

100,000 in recognition of the work done for sustainable development. This time recognition was given mainly to persons and institutions with merits in environmental education of the young:

- Helena Juutilainen from Lahti (founder of the 'Bio Lahti' event, an environmental activist in sports club and organisation level)
- the Southern Ostrobothnia 4-H organisation (recycling of agricultural plastics)
- the Finnish Association for Environmental Education from Helsinki (an international environmental education programme for comprehensive schools)
- Pirkkomaija Heikkilä, a teacher at the Seinäjoki Vocational Education Institute (preparing an environmental system for the institute and applying it in catering sector training).

In spring 2000, the 'Keep Lapland Clean' association nominated Kesko's environmental activities in Lapland as

the Environmental Deed of the Year. In November 2000, the environmental protection prize of the Tampere Junior Chamber of Commerce was awarded to the Lielähti Citymarket in recognition of the work done for ecological building methods, energy savings, the environmental education of personnel and recycling.

### Environmental risks, damages and accidents

Environmental risks are discussed in Kesko's security and safety plan. The greatest risk to a company operating in the trading sector is fire, and the required instructions and training have been given to the personnel to meet this contingency. Environmental management systems include the readiness for environmental risk management complying with the ISO 14001 standard.

No environmental damage or accidents occurred in the Group in 2000.



## Social performance



Social performance consists, on the one hand, of Kesko's investments in its personnel, and, on the other hand, of Kesko's impact on the working conditions and terms of those employed by the supply chain. There is plenty of information available on the composition and opinions of corporate personnel, and the GRI framework has also given ideas for the compilation and analysis of new statistics. Information is being collected about the supply chain, concentrating on suppliers in developing countries for the time being. Kesko is a pioneer in the Nordic countries in introducing a social standard for monitoring the supply chain. Progress in this area is slow. Results crucially depend on how major trading companies in the biggest countries link social requirements with their purchases and how the implementation of social requirements is monitored in practice.

### Quality of management

The job satisfaction of Kesko personnel is monitored annually each November through a job satisfaction survey, in which employees' satisfaction with their own jobs, their superiors' performance, their units' operations and Kesko's operations are evaluated. The survey was now made for the sixth time in its present form and the response rate was 64%. Employees' satisfaction with their own jobs, their superiors' performance and the operations of the units had improved – the

PERSONNEL JOB SATISFACTION (SCALE 1-5)					
	1996	1997	1998	1999	2000
Own job	3.70	3.70	3.68	3.66	3.71
Performance of superior	3.42	3.65	3.64	3.67	3.74
Operations of unit	3.41	3.54	3.52	3.49	3.63
Operations of Kesko	3.84	3.82	3.81	3.61	3.61

results even reached an all-time high. Satisfaction with Kesko's operations, however, remained unchanged. Besides Kesko's operations, room for improvement was seen in the performance of superiors. The results of the job satisfaction survey contribute to superiors' profit bonus.

The value survey of the K-Alliance, made for the first time in 1996, was repeated in 2000. The survey had three target groups: Kesko and its subsidiary personnel, K-retailers and K-store personnel. The results of the survey will be used when developing management and co-operation inside the K-Alliance. The response rate of Kesko personnel was 46%, compared with 42% in 1996. The survey showed that the basic values of the K-Alliance are

stable and change slowly. Respect for other people and responsibility are seen as the most important values at Kesko and its subsidiaries and their importance has continued to grow. Respondents estimated that responsibility is the value that has been best implemented at Kesko. As to respect for other people, respondents felt that the gap between its importance and the practice had widened since the previous survey. The results and actions required have been discussed in the annual management training.

The quality of management was also evaluated in the annual customer satisfaction survey, made for the sixth time in its present form in autumn. The survey is used to discover the K-retailers' opinions of Kesko's services

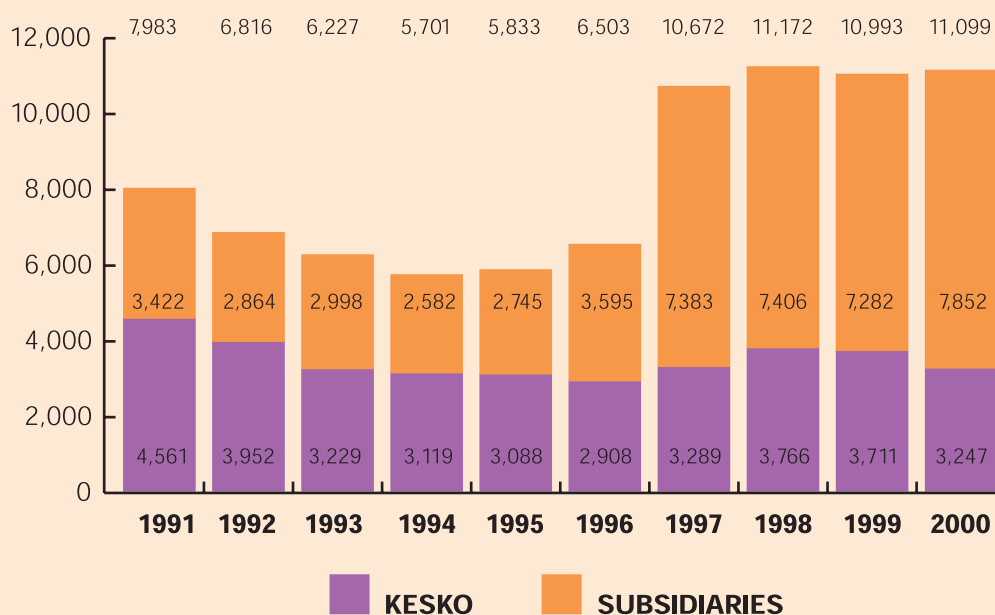
and personnel views of internal customer relations between various units of the Group. All units of the Group annually make self-evaluations in teams using the criteria of the Finnish Quality Prize. During the last four years, an in-house quality competition has been linked to this evaluation. The competition gives an incentive for employees to continuously develop their practices, improve their competence and reach top performance.

Personnel participation in the planning and development of operations has increased transparency and commitment.

### Employee statistics

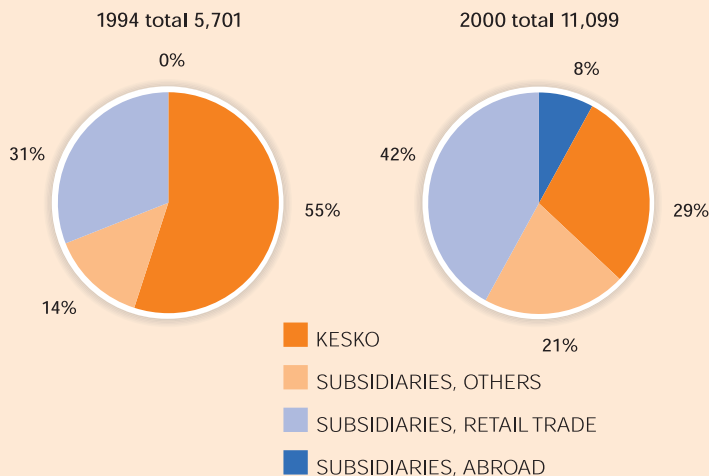
The number and distribution of Kesko Group personnel has changed profoundly since 1994. The number of jobs has nearly doubled. The parent company now accounts for 29 percent of all employees, compared with 55 percent in 1994, while subsidiaries engaged in retailing now account for 42 percent instead of the previous 31 percent and other subsidiaries for 21

**KESKO GROUP, AVERAGE NUMBER OF PERSONNEL**





**CHANGE IN GROUP PERSONNEL STRUCTURE**



percent instead of the previous 14 percent. While in 1994 the Group had only a few employees abroad, the figure is now 8 percent. In 2001, personnel structure will continue to change significantly, as the profit divisions are incorporated into Kesko's wholly-owned subsidiaries.

At the end of 2000, the number of personnel in the Kesko Group was 13,361. The average number of personnel during the year was 11,099 (for the calculation method, see page 18). Including fixed term, part-time and summer employment, Group employment increased by 4,100 persons, of whom nearly 3,200 were employed for retailing operations. All units do not have accurate statistics on summer employees; their estimated total number was 600. In addition to summer workers, about 3,000 employees left the Group, of whom over 2,400 had worked in retailing. About 500 employees changed to new jobs within the Group, and 100 persons retired.

At present, the statistics on employees recruited or that have left are not sufficiently accurate. The target is to improve the collection of data in 2001 to enable an accurate analysis of employment duration and the turnover of personnel. The statistics now available show that the Group's retailing opera-

tions in particular – Citymarket, Anttila, Carrols – offer many fixed-term and part-time jobs, which are continuously in great demand.

In January 2001, the average age of Group personnel was 35.9 years. In subsidiaries engaged in retailing, the average age was 33.9 years (about 30 percent of employees were aged under 25), in other subsidiaries 38.3 years and in the parent company 38.7 years.

Kesko is known better as a company than as an employer. Kesko's attraction as a workplace was studied in the 'Universum' survey carried out among university students. Among students of business administration, Kesko now ranks the 15th compared with the previous ranking of 27th. The most important reason for this improvement has been the company presen-

tation on Kesko's Internet pages, which features Kesko as an employer and lists job openings. Other electronic recruitment channels are also used actively to complement traditional press advertisements.

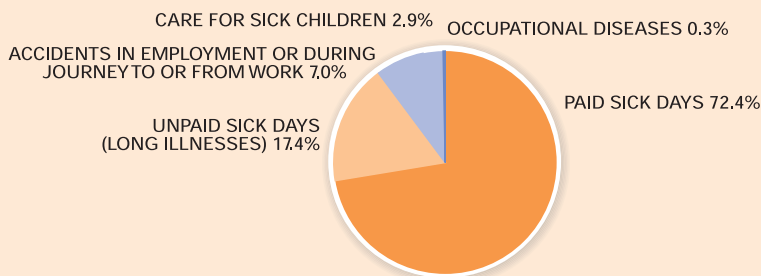
The 'retention rate' as presented in GRI reporting guidelines, i.e. the ratio of those satisfied with their jobs at Kesko to those willing to leave Kesko, is not available because the reasons for leaving the company have not been studied or classified. The GRI guidelines give a reason to consider making these kinds of surveys in the future.

**Health and safety**

Statistics on absenteeism due to illness covered 4,881 employees. Information is not available on subsidiaries engaged in retailing or on Kaukomarkkinat Oy. In 2000, the total number of days employees were absent was 37,482, or 7.7 days per person. The breakdown of the total days away from work into paid and unpaid sick days, accidents, care for sick children and occupational diseases is given in the figure below.

Kesko's own occupational health service unit serves 6,200 employees of the Kesko Group. Occupational health services for the retail sector employees are mainly purchased from outside Kesko. Kesko's occupational health services focus on well-being at work and on activities to maintain physical and mental fitness. The latter have

**ABSENTEEISM DUE TO ILLNESS**



Statistics cover 4,881 employees, who had a total of 37,482 sick days

accounted for over 40% of its operations in recent years. In 2000, Kesko's occupational health services used EUR 323 per person for the maintenance of physical and mental fitness and for health care.

Work safety committees, occupational health service and accident insurance companies are making important preventive work, which can be seen in practice as a drop in the number of accidents. In 2000, the number of sick leave days per person due to accidents was 0.5 on part of the employees included in the statistics. At Kesko, the most accident-prone jobs are in warehousing and transporting.

### Salaries and other benefits

In 2000, the average annual salary of Kesko employees was EUR 24,109. The amount has been calculated on the basis of the average number of personnel (for the calculation method, see page 18). In a group with a diversified structure like Kesko, the average salary is not a very good indicator for describing the salary level and structure. Bonuses paid under the profit-sharing system accounted for two percent of the total payroll.

As to fringe benefits, 364 employees had a company car, 650 employees had a company dwelling and 1,698 employees had a company telephone. Holiday cottages are rented for employees at a low price and their occupancy rate was nearly 100 percent. Kesko's retailing subsidiaries offer discounts on purchases for all Kesko personnel.

The Kesko Staff Club, which arranges recreational activities for the personnel, promotes well-being in the working community. The Club offers a wide range of sporting, cultural and other activities. During the last three years, the annual budget of the Kesko Staff Club has exceeded EUR 500,000.

### Pensions

About 100 persons retire annually through the Kesko Pension Fund. The average amount of annual pension paid in 2000 was EUR 12,747. The long-term trend in the number of pensions granted before the official retirement age has been diminishing. In 2000 the average retirement age was 57 years, compared with 54.7 years in 1996. The number of employees retiring on a full disability pension has especially declined. In the early 1990's, about 50 employees were granted a disability pension each year, while in 1999 the number dropped to 22 and in 2000 to 14.

The focus of Kesko's occupational health services on activities to maintain working capabilities is clearly connected with the change in the number of disability pensions.

### Equality policy

Kesko Corporation and all of its subsidiaries employing over 30 persons participate in an equality plan. The plan was prepared at the beginning of 1996 and its implementation is evaluated annually. The targets of the plan are defined as follows:

1. Promoting equal application of women and men to open positions
2. Promoting equal opportunities for women and men in developing themselves as well as in training and

advancing in their jobs.

3. Promoting the equal distribution of women and men at different levels of the organisation.
4. Promoting the equality of women and men in the salary level and in other terms of employment.
5. Increasing information on men's opportunities to make use of their rights as provided by family policy.
6. Eliminating attitudes that make it difficult to reach equality.

The total plan is available in the web version of this report ([www.kesko.fi](http://www.kesko.fi)).

According to February 2001 statistics, 60.5 percent of employees in the Kesko Group were women and 39.5 percent were men. Women accounted for 8.3 percent of top management, 9.4 percent of senior management and 20.7 percent of lower management. One out of eight Board members is a woman, which is also the case for Corporate Management Board members.

When the equality plan was prepared in 1996, statistics divided according to sex were made. At that time, women accounted for 5.3 percent of top management, and there were no women in the Board of Directors. The division into senior and lower management used at the time has since completely changed and no comparison can be made between 1996 and the present situation.

### SHARES OF WOMEN AND MEN BY CATEGORY (FEBRUARY 2001)

	Women		Men		Total	
	number	%	number	%	number	%
Top management	4	8.3	44	91.7	48	0.4
Senior management	11	9.4	106	90.6	117	1.0
Lower management	82	20.7	314	79.3	396	3.3
Others	7,143	62.5	4,272	37.5	11,420	95.3
Total	7,245	60.5	4,736	39.5	11,981	100.0

In subsidiaries engaged in retailing, the share of women in supervisory positions is significant. In the Group level statistics, the category "others", in which most employees are classified, includes both department managers and department supervisors in retailing companies. Statistics show that 87.6 percent of the 186 department managers in Citymarket hypermarkets are women, 81.8 percent of the 209 department managers in Anttila department stores are women and 42 percent of the 19 managers in Carrols hamburger restaurants run by Kesko are women.

The average annual salary of Group personnel in 2000 was EUR 24,109. No salary comparison between men and women can be made in this report, as only some of Kesko's salary systems list employees by sex. These statistics will improve in the future.

### Training

Since 1975, Kesko has had its own training centre called K-instituutti in Espoo by the lake Siikajärvi. First established by the K-Retailers' Association in 1951, the institute provided courses to about 7,000 employees of Kesko and the K-stores in 2000. A total of over 40 training programmes were provided for sales assistants, retail and Kesko superiors as well as entrepreneurs. The number of student work-days totalled 22,652.

According to the training statistics prepared by Kesko, a total of 20,763 work-days, or an average of two days per employee, were spent in training. Because information from two units are missing from the statistics, the real figure is slightly higher. About 20 percent of training was external and 80 percent internal, including training at the K-instituutti. Employees in the retailing sector accounted for about a half of the total number.

Kesko invested EUR 6.3 million in training, which is the equivalent of EUR 570 per person. The figure has increased by 30 percent over the last two years.

More than one thousand Kesko employees participated in Master Assistant training arranged by the K-Retailers' Association. The training is organised as distance learning. The training is not included in Kesko's training statistics. Last year, a total of 14,000 K-Alliance employees participated in the Master Assistant training, which has been offered for 40 years.

### Unionisation

4,940 of Kesko Group employees are unionised, mainly in the Service Union United. The figure consists of those employees whose union membership fee is withheld from the salary. The unionisation rate is highest in the retailing sector (51.7 percent in Anttila department stores and 50 percent in

Citymarket hypermarkets). In the parent company and VV-Auto Oy the rate is 36.9 percent.

The shop steward system at Kesko was earlier based on the division between various office and store premises. In spring 2001, the shop steward agreement of the parent company was updated to meet the needs of the new division parent companies. All major subsidiaries also have the shop steward system. In work safety organisations, employees have elected delegates for each office and store – some premises also have work safety committees.

There are no statistics on disputes in employment relationships that would cover the whole Group. In 2000, the lower courts had three cases concerning employment disputes in the Kesko Group.



## Ethical quality control of suppliers

The trading sector is indirectly responsible for the production methods of the products purchased. In particular, customers are increasingly interested in the conditions and terms of production in the developing countries. Kesko has wanted to provide the public with as much information as possible on the ethical quality of its products and has developed practices that give a more detailed idea of production conditions. The target is to improve conditions in the long term in co-operation with manufacturers.

### Basis in international agreements

In April 2000, Kesko published its principles of socially responsible trading (see [www.kesko.fi](http://www.kesko.fi), "Kesko in brief"), the feasibility of which had been tested in practice with questionnaires and trial audits. The principles are based on the United Nations Universal Declaration of Human Rights and Convention on the Rights of the Child and on the International Labour Organisation's key conventions. Many large European and American trading and manufacturing companies base their operations on similar principles. The target is to promote the adoption of these minimum standards that have been agreed on in international forums in workplaces if national legislation is lacking or its supervision is insufficient.



As to content, Kesko's principles are uniform with the international Social Accountability SA 8000 standard ([www.sa-intl.org](http://www.sa-intl.org)). Kesko promotes the adoption of the SA 8000 standard by its suppliers, so that as many suppliers as possible can prove with SA 8000 certificates that they fulfil Kesko's ethical requirements. It is necessary to have auditors who are independent, thoroughly trained in the standard requirements, know local legislation and speak the local language, as the majority of SA 8000 auditing consists of interviewing personnel and reading through written documents. Regular monitoring is also necessary. Certification includes control audits every six months and an obligation to renew the certificate after three years.

### Co-operation agreement with BVQI

Suppliers decide themselves on compliance with the standard and on seeking certification. When selecting new

suppliers, Kesko can order a certification body to make an initial assessment of SA 8000 of the candidates, which can be used to avoid taking ethical risks. In March 2000, Kesko passed a global co-operation agreement with Bureau Veritas Quality International on furthering the SA 8000 certification.

Even if Kesko's buyers and other quality control professionals do not themselves monitor the compliance to the standard by their suppliers, the significance of buyers in furthering the adoption of the standard is critical. Corporate culture and working conditions cannot be changed and improved solely by correspondence and sending printed material, but buyers must present the principles to their suppliers personally face-to-face. For this purpose, the training unit of the Bureau Veritas group has planned and implemented SA 8000 basic training for Kesko buyers. By the end of the year, 92 Kesko employees had participated in this training. In spring, buyers also received a handbook on ethical quality control

which contains detailed instructions on how to promote Kesko's principles and on introducing the standard in supplier relations.

### Supplier survey underway

After the buyers had finished their SA 8000 training, a basic supplier survey on implementation of Kesko's ethical requirements was started gradually in autumn 2000. The first stage involves carrying out quality control in 34 countries which, according to international surveys, use child labour and have other social problems in the industry manufacturing the product categories Kesko imports.

The first stage of the survey, which is done in the form of questionnaires that ask for the companies' net sales, number of personnel and subcontractors, working hours, holidays and wage level, was sent to 214 suppliers, of whom 135 had replied by the end of the year. Respondents had a total of about 120,000 employees. Kesko's purchases from these companies totalled USD 50 million, which is about two percent of their combined net sales (range 0.2-9.0 percent). The principles have been discussed face-to-face with 104 companies, and ten companies have progressed to the pre-audit stage of the standard. The first Kesko supplier to receive the SA 8000 certificate was the Spanish supplier of fruit and vegetables, Dole Pascual.

It is expected that the basic survey of about 600 companies will be completed by the end of 2001, after which it will be possible to set more detailed targets for certification progress in 2002. The progress will crucially depend on the extent to which awareness of the standard increases and on the requirements made by the other supplier customers, which are usually bigger than

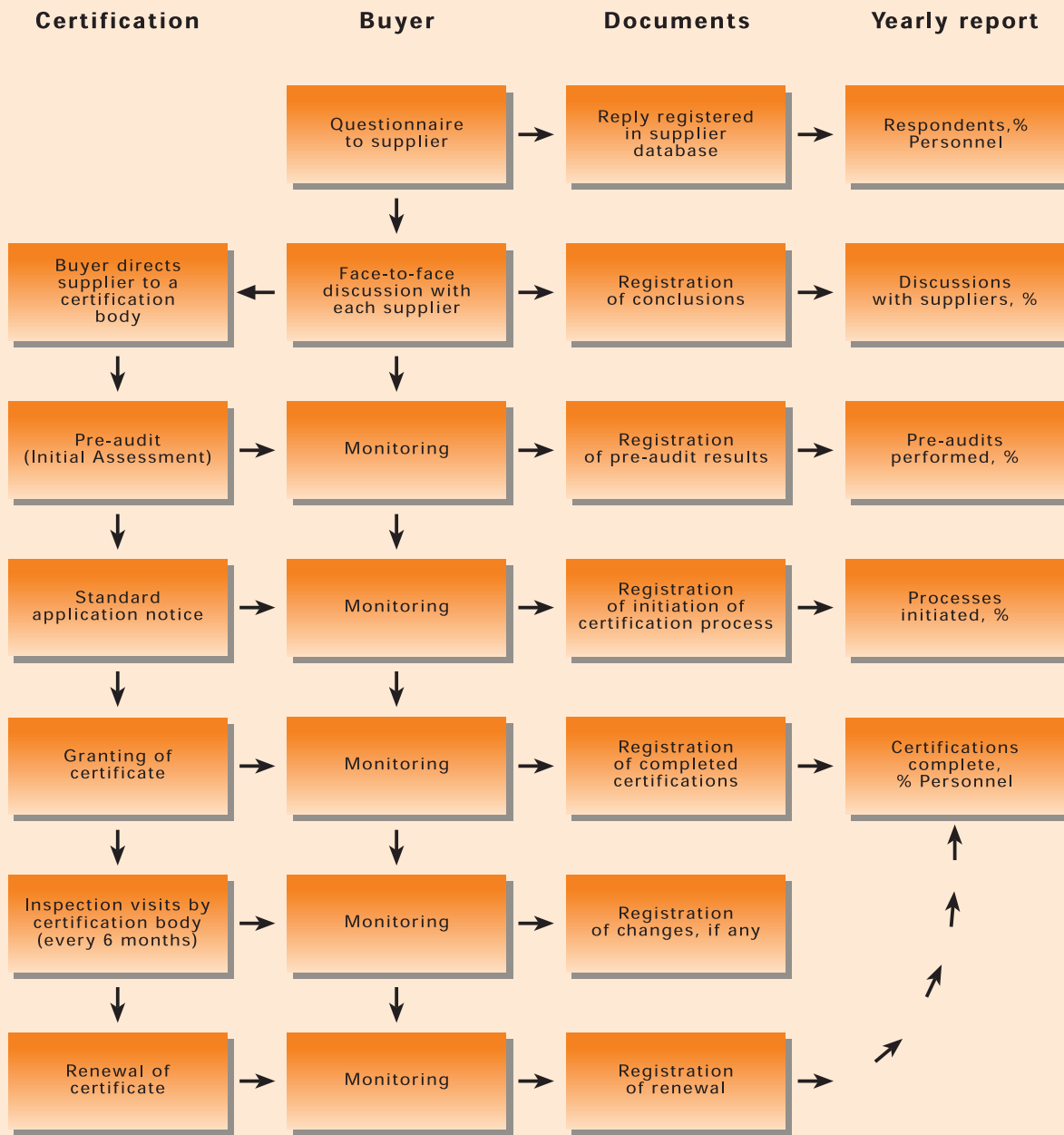
#### KESKO'S OWN DIRECT IMPORT FROM OUTSIDE THE EU IN 2000 (MAJOR COUNTRIES \*)

Country	Imports (EUR million)
China	34
Japan	14
United States	11
Brazil	11
India	9
Taiwan	7
Thailand	6
Vietnam	6
Turkey	4
Hongkong**)	3
Pakistan	3
Colombia	3
Guatemala	3
Philippines	3
Honduras	2
Indonesia	2

\*) do not include goods imported to Finland by others than Kesko

\*\*\*) part of China, but presented as separate in import statistics.

## Ethical principles in purchasing



Kesko. Many of them have published principles similar to Kesko's, but have not required certificates based on independent audits from their suppliers and rely on their own personnel for monitoring. As long as principal customers do not require independent certification, suppliers' motivation for getting one after a small, in-

dividual customer's inquiry is low, even if their operation might fulfil the requirements of the standard.

### A co-operation proposal to Finnish importers

Kesko also seeks to promote the awareness and introduction of the stan-

dard through co-operation with international purchasing groups and associations. For instance it has been agreed that the SA 8000 standard will be used in purchasing co-operation with ICA, from Sweden. The issue will be discussed in purchasing groups during 2001.

In spring 2000, Kesko made a

proposal to all importers operating in Finland that they draw up ethical principles for importing activities. The proposal for common principles has since been formulated by a working group chaired by Kesko and comprising members from six companies, with the aim that their report be published during spring 2001.

Kesko would like to see that a significant number of Finnish importers and manufacturing companies with foreign suppliers commit themselves to principles that promote the introduction of the UN and ILO standards as trade conditions. Kesko has wanted to speed up agreeing on common rules so that, through the voluntary activities of purchasing and manufacturing companies, a majority of the consumer goods sold on the Finnish market would fulfil the international minimum requirements set on production conditions.

The proposal has already yielded results in foodstuffs retailing. The Finnish Food Marketing Association, which has all food retailing groups as its members, drew up ethical standards for foodstuffs purchasing in March 2001.

### Fair Trade products

In co-operation with the Finnish Fair Trade Association, Kesko Food has launched Fair Trade products to the market. Social norms comparable to the SA 8000 standard are observed in their production. Environmental requirements are also set on the products, and the organisation pays their members a steady producer price that exceeds the world market price. Kesko's selections include all the products included in the programme: coffee, tea, cocoa, chocolate, honey, sugar and bananas. The Pirka Organic Coffee roasted by Viking Coffee is the best-selling Fair Trade coffee brand. Information about the

market shares of these products is not yet available.

### Preventive work with UNICEF

The prevention of social problems has been at least as important to Kesko as has been co-operation with its partners to improve working conditions. At the beginning of 2000, Kesko started a three-year co-operation initiative with the UNICEF Finland to assist in preventing the use of child labour. Kesko has provided USD 60,000 to field work in the town of Bhiwandi. The project investigates the opportunities for children to attend school, finds solutions to family financial problems, organises vocational training, etc. Bhiwandi is the centre of the Indian weaving industry, in which 25,000 children are estimated to be working. Kesko will receive the first annual report of the Bhiwandi project in spring 2001.

Kesko also supported UNICEF in 2000 by sending 22,000 UNICEF Christmas cards.



# Terms and calculation of key indicators

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

**Return on invested capital (ROI), % =**

$$\frac{\text{profit before extraordinary items + interest and other financial expenses}}{\text{balance sheet total less interest-free debt (average during the year)}} \times 100$$

$$\text{Equity ratio, \%} = \frac{\text{shareholders' equity + minority interest}}{\text{balance sheet total less advances received}} \times 100$$

$$\text{Debt to equity ratio, \%} = \frac{\text{liabilities + provisions}}{\text{balance sheet total less advances received}} \times 100$$

**Gearing ratio, % =**

$$\frac{\text{interest-bearing liabilities less marketable securities less cash on hand and at bank}}{\text{shareholders' equity + minority interest}} \times 100$$

**Market capitalisation** = share price x number of shares

**GWh** = gigawatt hour = million kilowatt hours (kWh)

**PJ** = petajoule = 1,000,000,000,000 joules

**CO<sub>2</sub>** = carbon dioxide = affects change in climate ("greenhouse effect")

**CO<sub>2</sub> eq.** = carbon dioxide equivalent, the amount of different gases whose combined impact on the greenhouse effect corresponds to the amount of carbon dioxide mentioned

**SO<sub>2</sub>** = sulphur dioxide equivalent (affects acidification)

**C<sub>2</sub>H<sub>4</sub>** = ethene (affects the ozone content of the lower atmosphere)

**CO** = carbon monoxide or coal gas

**HC** = carbon hydrides

**NO<sub>x</sub>** = nitrogen oxides

**Transbox case** = reusable transport case made of plastic



**Kesko's corporate responsibility report** is available in Finnish and English and you can order it by mail from Kesko Corporation, Corporate Communications, Satamakatu 3, FIN-00016 Kesko, by e-mail from [viestinta@kesko.fi](mailto:viestinta@kesko.fi) or by phone from +358 1053 22404. You can also order and read the report at Kesko's web site at [www.kesko.fi](http://www.kesko.fi).

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