



Sustainability Report 2017

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INTRODUCTION

This is Mercada's first sustainability report from the year 2017. The objective was to define **Mercada's sustainability strategy that creates value both for Mercada and its stakeholders**. A total of three sustainability themes and multiple topics related to economical, social and environmental aspects were identified while defining the strategy. This report brings together **Mercada's sustainability strategy, sustainability themes and topics as well as achievements and targets** regarding to sustainability work. The sustainability strategy and the report has been made in co-operation with EcoReal Ltd. Some parts of the report has been made by using selected GRI Standards or parts of their content (see more on the page 17).

MERCADA'S SUSTAINABILITY THEMES



HONEST BUSINESS
We respect stable, predictable and honest business.



CUSTOMERS FIRST
We want to offer the best shopping experience for our customers.



SUSTAINABLE ENVIRONMENT
Our priority is to minimize environmental impacts.

MERCADA IN SHORT

Mercada owns, manages and develops retail sites. The portfolio of Mercada’s retail sites includes three shopping centers and 38 other retail sites used by Kesko Group. Mercada was established in June 2015 when Kesko Oyj divested properties to Mercada. The company operates in Finland and Sweden and it is owned together by Kesko Oyj, Ilmarinen Mutual Pension Insurance Company and Swedish AMF Pensionsförsäkring. Company’s home office is located in Helsinki, Finland. CEO Harri Holmström is Mercada’s only employee and all the other functions are outsourced.

41 number of properties	337 633 SQ.M gross leasable area	50.1 MEUR gross rental income	677 MEUR market value of properties
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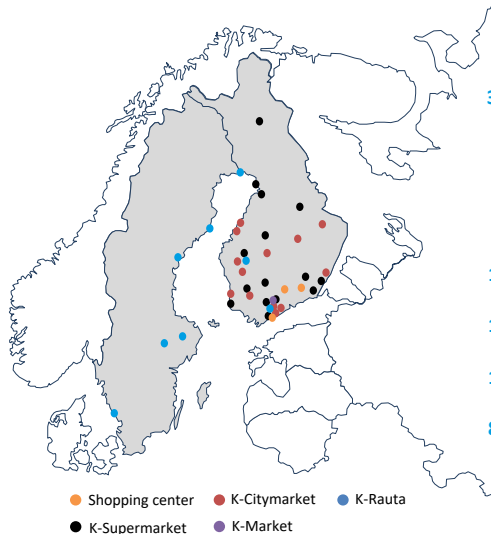
Our **vision** is to offer sustainable retail sites and the best shopping experience for customers.



Our **strategy** is to focus on retail properties. We own, manage and improve retail sites mainly used by Kesko Group.



Our **mission** is to actively develop our property portfolio and increase its value. The objective is in partnership with Kesko to provide retailers premises meeting their needs.



3 x Shopping centers:



16 x **K**Supermarket

13 x **K**CITYMARKET

1 x **K**Market

8 x **K**Rauta

CEO'S INTERVIEW

WHAT ROLE DOES SUSTAINABILITY HAVE IN MERCADA?

Sustainability has a growing significance in Mercada's everyday activities. It creates a long-term value both for us and our stakeholders. We want to plan our operations to be sustainable from the beginning and our sustainability strategy will help us in this path. Our tenants are doing an excellent work related to sustainability and we are very proud of it. Sustainability creates a long-term value both for Mercada and its stakeholders. This is a good basis on which to build.

'SUSTAINABILITY HAS A GROWING SIGNIFICANCE IN MERCADA',
says CEO Harri Holmström

WHAT ARE THE MAIN SUSTAINABILITY THEMES?

Mercada's vision is to offer sustainable retail sites and the best shopping experience for customers. According to our vision, our main sustainability themes are 'honest business', 'customers first' and 'sustainable environment'. This means that our attention is paid in particular to customer satisfaction, customer safety and privacy as well as sustainable tenants. We also work continuously to minimize our environmental impacts.

WHAT ARE THE MAIN SUSTAINABILITY ACHIEVEMENTS?

We are very proud to inform that shopping center Karisma achieved the valued 'excellent' rating on the BREEAM environmental assessment during the year 2017. In addition to this, our main tenant Kesko were ranked as the most sustainable trading sector company in the world. During the year 2017, we also defined our sustainability strategy and started to compile our first sustainability report.

WHAT ARE THE MAIN SUSTAINABILITY TARGETS?

During the year 2018, we pursue to act according to our sustainability strategy. We expect our tenants to be sustainable, but the tenants expect it also from us. The main target is to define common sustainability instructions for the tenants and add them to new leases.



CODE OF CONDUCTS

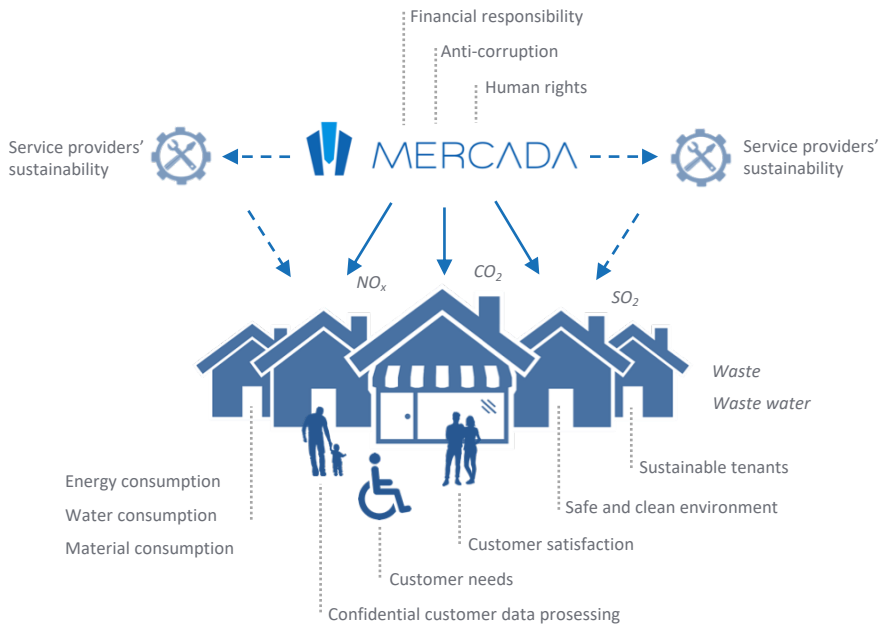
Mercada defined its code of conducts during the year 2017. **Code of conducts outlines the shared guidelines, which the company and its business partners pursue in their every day operations.** Mercada’s code of conduct guidelines are based on Kesko’s K Code of Conduct.

MERCADA’S CODE OF CONDUCTS INCLUDE SIX GUIDELINES OUTLINING THE ENVIRONMENTAL, SOCIAL AND FINANCIAL NORMS AND RESPONSIBILITIES.

WE FOLLOW THE LAWS	WE DO NOT OFFER OR ACCEPT BRIBES	WE TREAT CUSTOMER INFORMATION CONFIDENTIALLY
WE ARE COMMITTED TO FAIR COMPETITION	WE RESPECT HUMAN RIGHTS	WE MINIMIZE ENVIRONMENTAL IMPACTS

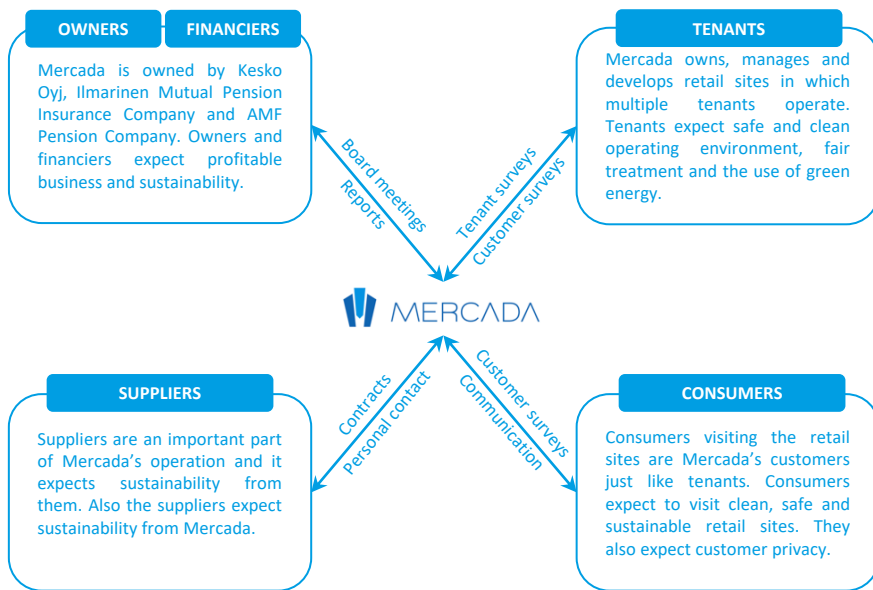
MERCADA'S OPERATING ENVIRONMENT

Mercada identified its operating environment including its stakeholders and impacts on the surrounding society and environment during the year 2017. These aspects together with the code of conducts are the starting point in defining Mercada's most important sustainability themes and topics.




STAKEHOLDER CO-OPERATION

Mercada cooperates daily with its stakeholders towards sustainability. There is five main stakeholders to which Mercada is in contact through various channels. The expectations and interests of these stakeholders are identified below.



SUSTAINABILITY THEMES AND AGENDA 2030

Mercada has identified **three sustainability themes and nine sustainability topics** on the basis of code of conducts, operating environment and stakeholder co-operation. Mercada has also identified **five Agenda 2030 Sustainable Development Goals** set by the United Nations, to which identified sustainability themes and topics are related. Mercada seeks to implement these sustainability themes, topics and goals in its daily business.



HONEST BUSINESS

- Financial Flows
- Anti-corruption
- Human Rights



Mercada promotes sustainable economic growth by practicing an honest business.



CUSTOMERS FIRST

- Customer Satisfaction
- Customer Safety and Privacy
- Sustainable Tenants



Mercada develops high quality and sustainable retail sites which offer the best shopping experience for customers.



SUSTAINABLE ENVIRONMENT

- Energy and Water Consumption
- Waste Efficiency
- Greenhouse Gas Emissions



Mercada invests in green energy, pays attention to responsible consumption and takes climate action.

SUSTAINABILITY STRATEGY



HONEST BUSINESS



CUSTOMERS FIRST



SUSTAINABLE ENVIRONMENT


ACHIEVEMENTS
IN 2017




GOALS
FOR 2018



FINANCIAL FLOWS	ANTI-CORRUPTION	HUMAN RIGHTS
Reporting financial flows and tax payments	Not offering or accepting any bribes	Following the laws and respecting human rights
To report financial flows and tax payments	Zero corruption cases	Zero cases related to violation of human rights

CUSTOMER SATISFACTION	CUSTOMER SAFETY AND PRIVACY	SUSTAINABLE TENANTS
Measuring and improving customer satisfaction	Ensuring customer safety and privacy	Expecting tenants to be sustainable
To increase the number of cafes in shopping centers	Zero neglects of security or leaks of information	Sustainability instructions to new leases

ENERGY AND WATER CONSUMPTION	WASTE EFFICIENCY	GREENHOUSE GAS EMISSIONS
Reducing energy and water consumption	Ensuring waste recycling and reusing	Reducing greenhouse gas emissions
Energy consumption -5% in shopping centers	To maintain the recovery rate of waste	To reduce greenhouse gas emissions

FINANCIAL FLOWS

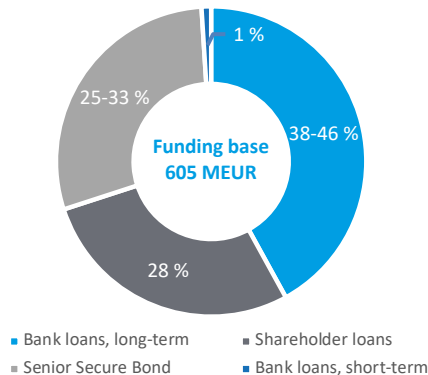
Mercada respects stable and profitable business. The principle is to adhere to transparency in economical actions. That means monitoring and reporting honestly on company's financial flows and tax payments. **Mercada does not implement any tax arrangements with the purpose of tax evasion** and it has no links to tax havens. The payment, collection and accounting of taxes complies with Finnish legislation.

50.1 MEUR
gross rental income
in 2017

677 MEUR
value of properties
in 2017

Cash flows and funding

Mercada's economic development has been stable during the year 2017. The major part of Mercada's cash flow comes from Kesko Group (80 %). The major part of Mercada's funding comes from long-term bank loans. Shareholder loans and senior secure bonds are the second largest source of fund.



ANTI-CORRUPTION AND HUMAN RIGHTS

Mercada follows the laws and is committed to fair competition. Any bribes are not offered or accepted to acquire or maintain the business. Mercada is also committed to respect internationally recognised human rights in all its operations. Human rights violations is not tolerated in any form.



WE FOLLOW
THE LAWS



WE ARE COMMITTED
TO FAIR COMPETITION



WE DO NOT OFFER
OR ACCEPT BRIBES



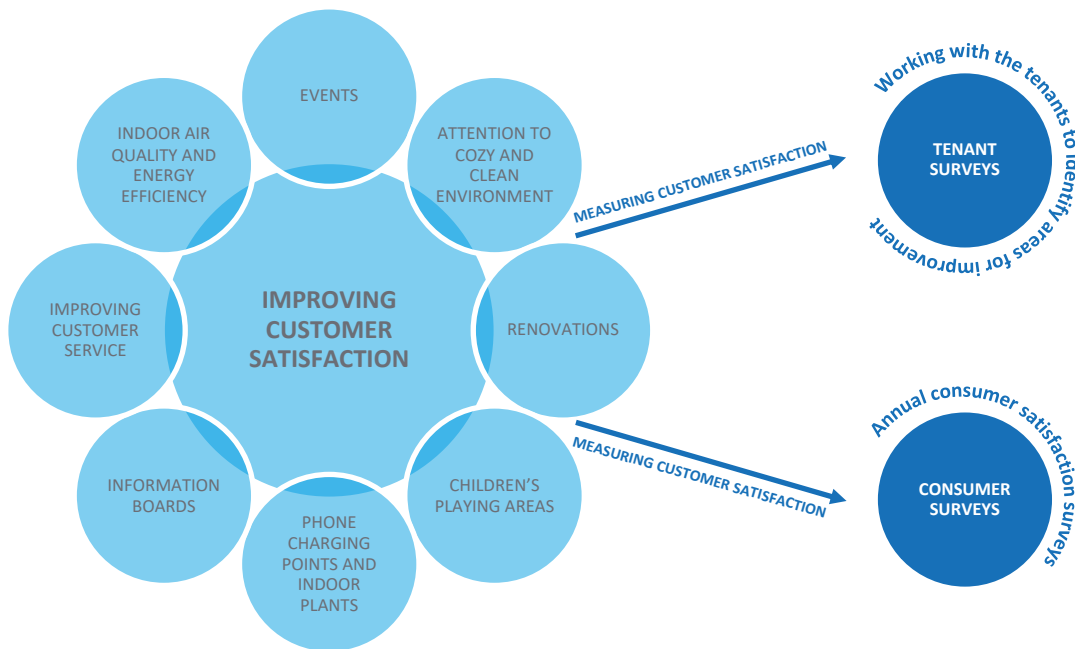
WE RESPECT
HUMAN RIGHTS

Mercada did not become aware of any corruption cases or doubts about it during the year 2017.

Mercada did not become aware of any cases related to violation of human rights during the year 2017.

CUSTOMER SATISFACTION

Mercada knows that **shopping centers are places for more than just shopping**. They are natural meeting places, which provide spaces for local engagement and events. Mercada and its tenants are doing continuous efforts to improve customer satisfaction and to meet customer's needs. During the year 2017, there were multiple projects to improve customer satisfaction. One of the goals for the year 2018 is to increase the number of cafes in shopping centers.



CASE

What? Children's playing area named Papu Park
Why? To improve customer satisfaction
Where? Shopping center Karisma

Papu Park was implemented during 2017

Children's playing area named Papu Park was implemented to shopping center Karisma during the year 2017 to improve customer satisfaction. Shopping centers are places for more than just shopping and Mercada's priority is to make them cozy for people of all ages.

Papu Park stimulates the imagination of children

Papu Park is a free jungle theme indoor playing area for children. It includes climbing and balancing places, a digital wall game, a foam deck and a mobilegame, which works also in the other premises of the shopping center. The main idea of this Papu Park is to entertain, but also stimulate the imagination of children. The playing area was introduced to customers at the beginning of 2018.

CUSTOMER SAFETY AND PRIVACY

Mercada is responsible for its customer's safety, which means that **safe and clean shopping environments are one of Mercada's main priorities.** Mercada aims to ensure the highest level of safety and security for its tenants and visitors. The main idea is to work closely with tenants and authorities on safety issues so that all the safety aspects will be taken into consideration.



Mercada did not become aware of any detected leaks of information or other personal data breaches during the year 2017.

Mercada's one guideline in code of conducts is to **treat customer information confidentially.** Mercada follows all relevant laws and regulations regarding customer privacy. Compliance with data protection principles and functionality with technical systems are monitored continuously. All the new technical systems are also checked before use to ensure customer privacy.

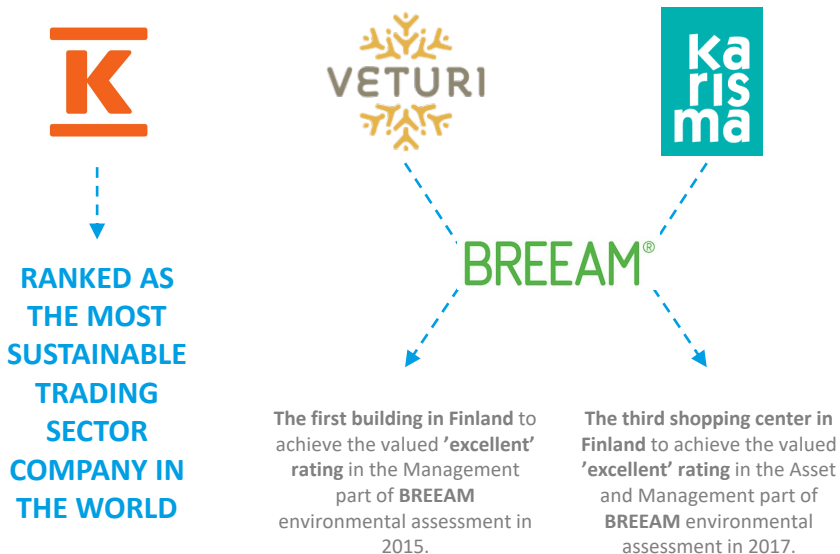


WE TREAT CUSTOMER INFORMATION CONFIDENTIALLY



SUSTAINABLE TENANTS

Mercada's tenants are doing excellent sustainability work. The main tenant **Kesko has been ranked the most sustainable trading sector company in the world** and 31st on the Global 100 Most Sustainable Corporations in the World list. Both **Veturi and Karisma have achieved the valued 'excellent' ratings in the BREEAM** environmental assessment. Mercada expects its tenants to be sustainable, but the tenants expect it also from Mercada. The goal for 2018 is to define common sustainability instructions and add them to new leases.



What? BREEAM certificate
Why? To assess performance
Where? Shopping center Karisma

CASE

Karisma received BREEAM certificate during the year 2017

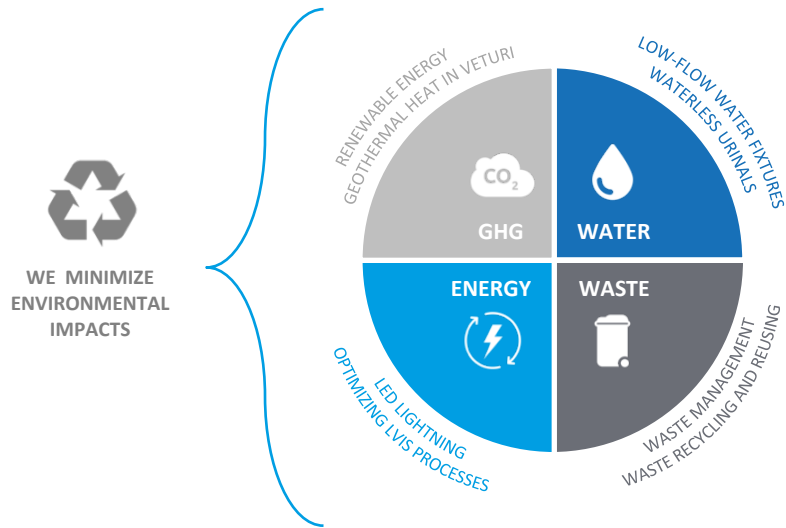
Shopping center Karisma became the third shopping center in Finland to achieve the valued 'excellent' rating in the BREEAM environmental assessment in 2017. The 'excellent' rating in both the Asset and the Management parts achieved in the BREEAM In-Use International classification is a superb result. 'Karisma's maintenance is a perfect example of a long-term work to reduce environmental impacts', says Mercada's CEO Harri Holmström.

What is BREEAM?

BREEAM In-Use International classification is the most widely used environmental rating method worldwide and it assess the performance of buildings against a diverse range of issues. It helps to reduce buildings running costs and improves working and living conditions. BREEAM rating is granted to the building on a scale of Pass, Good, Very Good, Excellent and Outstanding.

MINIMIZING ENVIRONMENTAL IMPACTS

Mercada has recognised that buildings represent a large fraction of global carbon emissions and energy consumption. The real estate sector holds opportunities to reduce energy consumption and operation expenses at the same time. Lower energy costs improve profitability and make properties more valuable and attractive. **Mercada works continuously to reduce its properties energy and water consumptions and it encourages tenants for sustainable solutions.** The goal is to reduce energy consumption of shopping centers at least 5 % during the year 2018.



CASE

What? Energy efficiency project
Why? To reduce energy consumption
Where? Shopping centers Karisma and Veturi

Reducing energy consumption with Nuuka Solutions

Mercada started a new project for reducing energy consumption and improving indoor environment comfort in shopping centers Karisma and Veturi in cooperation with Nuuka Solutions. The goal is to reduce the energy consumption of both shopping centers by at least 5% during the year 2018. This will be done by optimizing heating, ventilation and air conditioning processes. In addition to reducing energy consumption, indoor air conditions will also improve.



CASE

What? Geothermal heat pump
Why? To use renewable energy
Where? Shopping center Veturi

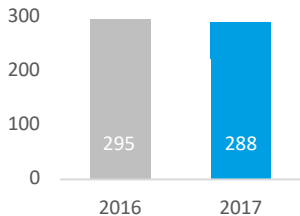
Shopping center Veturi is using renewable geothermal heat

Shopping center Veturi has a geothermal heat pump for central heating and cooling. Most of Veturi's heating energy is produced by geothermal heat. Geothermal heat pump uses the earth as a heat source or a heat sink. It is considered to be renewable energy. Heat pumps offer significant emission reductions potential especially if they are used for both heating and cooling and if the electricity is produced from renewable resources.

ENERGY AND WATER CONSUMPTION

Mercada's continuous work for minimizing environmental impacts is producing results. **The total energy consumption of Mercada's portfolio in 2017 was 97 GWh**, which is 2,2 % less than the year 2016. **The total water consumption in 2017 was approximately 84 tons of cubes**, which is also 1,8 % less than the year before.

ENERGY INTENSITY OF MERCADA'S PORTFOLIO (kWh/sq.m)

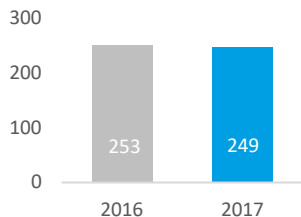


-2.2%

Electricity -1,6%
District heat -4,4%

TOTAL ENERGY CONSUMPTION FROM 2016

WATER INTENSITY OF MERCADA'S PORTFOLIO (l/sq.m)

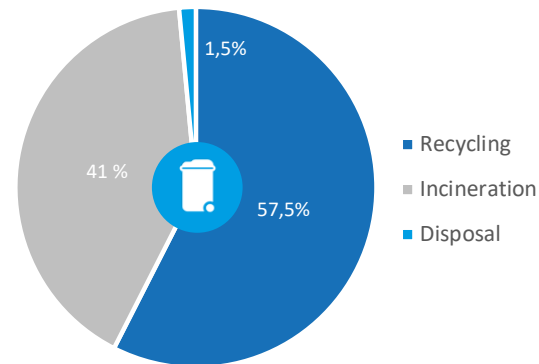


-1.8%

TOTAL WATER CONSUMPTION FROM 2016

WASTE EFFICIENCY

Mercada's has measured the amount of waste in its shopping centers. **Total 631 tons of waste was generated in shopping centers Karisma and Veturi in 2017**, which is 3,5 % more than the year before. However, almost all of the generated waste is recycled or obtained as energy.

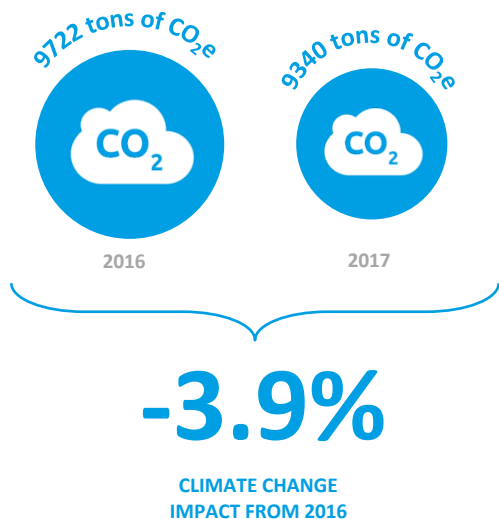


Waste recovery rate

98.5 %

GREENHOUSE GAS EMISSIONS

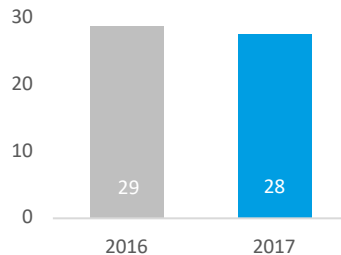
Mercada's work to reduce greenhouse gas emissions is beginning to show results. **The total greenhouse gas emissions of Mercada's portfolio were 9340 tons of CO₂e during the year 2017.** This is 3.9 % less than the year 2016. Approximately **76 % of Mercada's gross leasable area is purchasing its energy from renewable sources.** This is more than six times compared to the year 2016. Before shifting to renewable electricity, these properties used carbon dioxide-free electricity produced from nuclear power. Shifting to renewable electricity decreased the nuclear energy used even 88 %.



76%

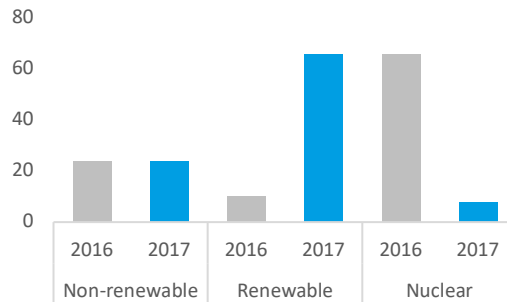
SHARE OF RENEWABLE ELECTRICITY USED

TOTAL GREENHOUSE GAS INTENSITY OF MERCADA'S PORTFOLIO (kgCO₂e/sq.m)



Marked-based GHG emissions

PURCHASED ENERGY FOR MERCADA'S PORTFOLIO IN FINLAND (GWh)



6.6

TIMES MORE RENEWABLE ENERGY USED FROM 2016

-88%

SHARE OF NUCLEAR ENERGY USED FROM 2016

CALCULATION OF DATA

The electricity, heat and water consumption data of Mercada Oy's properties in Finland and Sweden are **mainly based on measured data**. If the measured data consumption was not available, the consumption has been evaluated according to the average specific consumption of real estates in each real estate category. The total greenhouse gas emissions generated by own heat production have been estimated on the basis of the fuel emission factors published by Statistics Finland. The following base data was used for calculating the environmental profile of electricity consumption and municipal heating in Finland and Sweden:

ELECTRICITY (Finland)

MARKET-BASED PURCHASED ELECTRICITY

Properties in Kesko's centralized electricity supply

2016: The environmental profile of Fortum's carbon dioxide-free electricity from year 2015. The electricity supplied was almost entirely produced from nuclear power, and its daily per capita emission factors were: CO₂ 0 g/kWh.

2017: The environmental profile of carbon dioxide-free electricity produced from Finnish biopower, and its daily per capita emission factors were: CO₂ 0 g/kWh.

Properties outside Kesko's centralized electricity supply

2016: The environmental profile of residual distribution calculation determined by the Energy Agency for 2015, the CO₂ emission factor 277,78 g/kWh¹.

2017: The environmental profile of residual distribution calculation determined by the Energy Agency for 2016, the CO₂ emission factor 287,81 g/kWh².

LOCATION-BASED PURCHASED ELECTRICITY

2016: The CO₂ emission factor 209 g/kWh³ for the statistical year 2014, for the average energy acquisition, published by Motiva. The emission factor has been calculated as a moving average for five years taken from the Statistics Finland's database.

2017: The CO₂ emission factor 181 g/kWh⁴ for the statistical year 2015, for the average energy acquisition, published by Motiva. The emission factor has been calculated as a moving average for five years taken from the Statistics Finland's database.

MUNICIPAL HEATING (Finland)

MARKET-BASED AND LOCATION-BASED EMISSIONS

2016: Calculated using the benefit sharing method for district heating joint production areas, the average CO₂ factor is 183 g/kWh⁵.

2017: Calculated using the benefit sharing method for district heating joint production areas, the average CO₂ factor is 176 g/kWh⁶.

PRODUCTION DISTRIBUTION

2016: according to district heating statistics by Finnis Energy⁷.

2017: according to district heating statistics by Finnis Energy⁸.

SOURCES

¹Energy Agency. 2016. Jäännösjakauma vuodelta 2015. <https://www.energiavirasto.fi/-/vuoden-2016-jaannosjakauma-julkaistu>

²Energy Agency. 2015. Jäännösjakauma vuodelta 2014.

http://www.energiavirasto.fi/documents/10179/0/Jaannosjakauma_2015_julkaisu_23_6_2016_Allekirjoitettu-versio.pdf/ed235900-af00-47c6-8e4a-af943ca5b5a1

³Statistics Finland 2014, Motiva 2016

⁴Statistics Finland 2015, Motiva 2016

⁵Finnish Energy, 2014, Motiva 2016

⁶Finnis Energy, 2015, Motiva 2017

⁷Finnish Energy, District heating statistics 2015. <https://www.slideshare.net/energiateollisuus/kaukolmp-2015-graafieina>

⁸Finnish Energy, District heating statistics 2016. <https://www.slideshare.net/energiateollisuus/energiavuosi-2016-kaukolmp-esittelykalvot>

⁹Governant of Mayors, The Emission Factors. http://www.eumayors.eu/IMG/pdf/technical_annex_en.pdf

ELECTRICITY AND MUNICIPAL HEATING (Sweden)

FOR LOCATION-BASED EMISSIONS

2016 and 2017: Calculated using national emission factor for consumed electricity in Sweden 0,023 tCO₂/MWh⁹.

DATA TABLES

TOTAL ENERGY AND WATER CONSUMPTIONS OF MERCADA'S PORTFOLIO

	2017	2016	Change (%)
Electricity (MWh)	74 722	75 908	-1,6
District heat (MWh)	22 543	23 572	-4,4
Total (MWh)	97 265	99 480	-2,2
Water (m ³)	84 020	85 538	-1,8

ENERGY INTENSITY OF MERCADA'S PORTFOLIO (kWh/sq.m)

	2017	2016	Change (%)
Electricity	221,3	224,8	-1,6
District heat	66,8	69,8	-4,4
Total	288,1	294,6	-2,2

PURCHASED ENERGY FOR MERCADA'S PORTFOLIO IN FINLAND (GWh)

	Electricity		District heat	Total
Non-renewable	2017	8,6	15,3	23,9
	2016	8,1	15,8	23,9
Renewable	2017	58,2	7,2	65,4
	2016	2,1	7,8	9,9
Nuclear	2017	7,9	0	7,9
	2016	65,6	0	65,6

GREENHOUSE GAS EMISSIONS OF MERCADA'S PORTFOLIO (tons of CO₂e)

	2017	2016
Direct (Scope 1)		
Natural gas	43	42
Indirect (Scope 2)		
Finland		
purchased electricity (market-based)	5233	5260
purchased electricity (location-based)*	13525	15865
purchased district heat (location-based)	3968	4314
Sweden		
purchased electricity (location-based)	73	83
purchased district heat (location-based)	23	23
Total	9340	9722

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

GREENHOUSE GAS INTENSITY OF MERCADA'S PROPERTIES (kgCO₂/sq.m)

	2017	2016	Change (%)
GHG emissions	27,7	28,8	-3,9

GRI REFERENCES

This report has been made by using selected GRI Standards or parts of their content. This material references:

Disclosures
102-1...102-9, 102-14, 102-40,
102-42...102-44, 102-47 and 102-50
from 102: General 2016

Disclosure
205-3
from 205: Anti-corruption 2016

Disclosures
302-1 and 302-3
from 302: Energy 2016

Disclosures
305-1, 305-2 and 305-4
from 305: Emissions 2016