



**CORPORATE
GOVERNANCE
STATEMENT 2015**

CORPORATE GOVERNANCE STATEMENT 2015

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CORPORATE GOVERNANCE STATEMENT 2015

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 1 February 2016.

This is the separate Corporate Governance Statement, referred to in Recommendation 54 of the Finnish Corporate Governance Code issued by the Securities Market Association effective on 1 October 2010, which refers to the Report by the Board of Directors. This statement and the other information to be disclosed in accordance with the Corporate Governance Code, and the Company's financial statements, the Report by the Board of Directors and the Auditor's Report are available on Kesko's website at <http://www.kesko.fi/en/investor/corporate-governance/>.

Regulations and Corporate Governance Code observed by Kesko

Kesko Corporation ("Kesko" or "the Company") is a Finnish limited liability company in which the duties and responsibilities of management bodies are defined according to Finnish laws. Kesko Group comprises the parent company, Kesko, and its subsidiaries. The Company is domiciled in Helsinki.

Kesko's decision-making and corporate governance are guided by Kesko's values and responsible operating practices. Decision-making and corporate governance are in compliance with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors ("the Board") and its Committees and the rules and guidelines of Nasdaq Helsinki Ltd.

Kesko applies the Finnish Corporate Governance Code for Listed Companies in force at any given time. This statement has been prepared in

compliance with the Finnish Corporate Governance Code 2010 ("Corporate Governance Code"). The Corporate Governance Code 2010 can be read in full at www.cgfinland.fi/files/2012/01/suomen-listayhtioiden-hallinnointikoodi-cg2010.pdf. As provided by the 'Comply or Explain' principle of the Corporate Governance Code, the Company departs from the Corporate Governance Code's recommendation concerning a Board member's term of office.

In autumn 2015, the Securities Market Association published the new Finnish Corporate Governance Code for listed companies, which Kesko adopted as of 1 January 2016. A Corporate Governance Statement in compliance with the new Code will be published in spring 2017. The new Corporate Governance Code can be read at <http://cgfinland.fi/en/>.

Departure from Recommendation 10 of the Corporate Governance Code (Term of Office of the Board of Directors, Recommendation 6 in the new Corporate Governance Code) and explanation for departure

The term of office of Kesko's Board members departs from the one-year term pursuant to Recommendation 10 (Term of Office of the Board of Directors, Recommendation 6 in the new Corporate Governance Code) of the Corporate Governance Code. The term of office of the Company's Board of Directors is determined in accordance with the Company's Articles of Association. The General Meeting decides on amendments to the Articles of Association. According to the Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

A shareholder which, together with related entities,

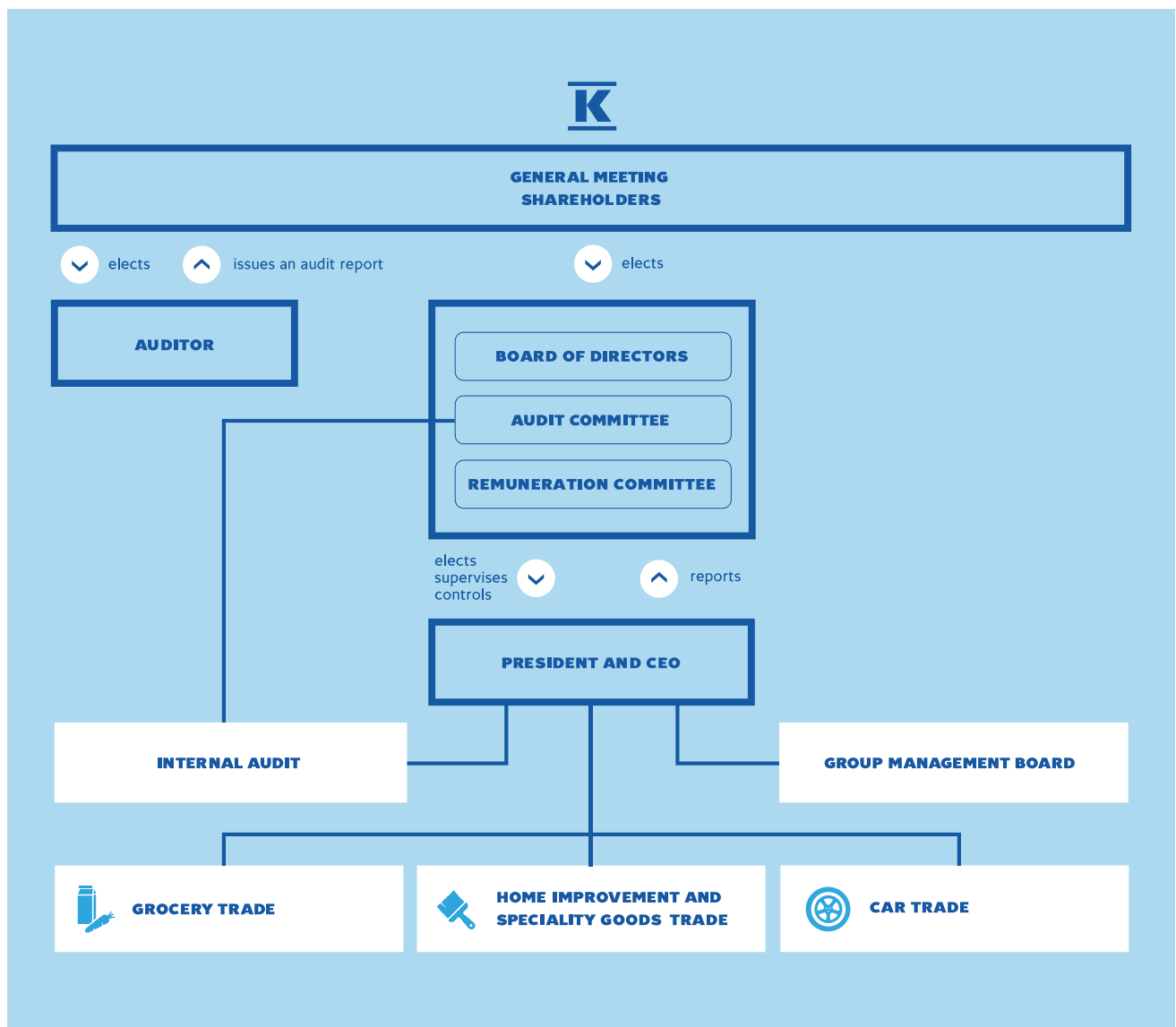
represents over 10% of votes attached to all Kesko shares, has informed the Company's Board of Directors that it considers the term of office of three (3) years good for the Company's long-term development and has not seen any need to shorten the term stated in the Articles of Association.

Kesko Group's Corporate Governance

The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting.

At the Annual General Meeting, the Company's shareholders elect the Company's Board of Directors and the Auditor. Kesko Group is managed by the Board of Directors and the Managing Director, who is the President and CEO. The President and CEO is appointed by the Board of Directors. The Company uses a so-called one-tier governance model.

KESKO GROUP'S CORPORATE GOVERNANCE SYSTEM



The Annual General Meeting is held annually by the end of June, on a date designated by the Company's Board of Directors. The most significant matters falling within the decision-making power of the General Meeting include the election of the Board members and the Auditor, the adoption of the financial statements, the resolution on discharging the Board members and the Managing Director from liability, and the resolution on the distribution of the Company's assets, such as distributions of profit.

The Company has share series A and B, which differ with respect to the number of votes attached to the shares. An A share carries ten (10) votes and a B share carries one (1) vote at the General Meeting. When votes are taken, the proposal for which more than half of the votes were given will normally be the resolution of the General Meeting, as prescribed by the Limited Liability Companies Act.

Shareholders are invited to attend the General Meeting by a Notice of the General Meeting

published on the Company's website. The notice of the meeting and other General Meeting documents, including the Board of Directors' proposals to the General Meeting, are made available to shareholders no later than three weeks prior to the General Meeting at the Company's headquarters and on its website at <http://www.kesko.fi/en/>. The notice of the meeting and the proposals of the Company's Board of Directors to the General Meeting are also published as stock exchange releases.

The Company aims for all members of Kesko's Board of Directors, the President and CEO, and the Auditor to be present at the Annual General Meeting. The minutes of the General Meeting are made available to shareholders at <http://www.kesko.fi/en/> within two weeks of the General Meeting. The resolutions of the General Meeting are also published in a stock exchange release without delay after the meeting.

BOARD OF DIRECTORS

Term of office, composition and independence

Term of office

According to the Articles of Association, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. All Board members are elected by the General Meeting. There are no special procedures concerning the nomination of Board member candidates or their election at the General Meeting, as the number of Board members is resolved and the members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chair and the Deputy Chair from among its members for the whole term of office of the Board.

Composition

The Annual General Meeting held on 13 April 2015 resolved that the Board of Directors is composed of seven (7) members, and the General Meeting of 13 April 2015 elected seven (7) members to the Board:

Esa Kiiskinen, b. 1963, Business College Graduate
Chair of the Board
Chair of the Remuneration Committee
Food retailer
Member of the Board since 30 March 2009.

Mikael Aro, b. 1965, eMBA
Deputy Chair of the Board
Deputy Chair of the Audit Committee and the Remuneration Committee
President and CEO of VR-Group Ltd
Member of the Board since 13 April 2015.

Tomi Korpisaari, b. 1968, Master of Science (Economics)

Retailer, building and home improvement and agricultural trade
Member of the Board since 16 April 2012.

Matti Kyytsönen, b. 1949, Master of Science (Economics)
Member of the Audit Committee
Chair of the Board of Silverback Consulting Oy
Member of the Board since 13 April 2015.

Anu Nissinen
b. 1963, Master of Science (Economics)
Member of the Remuneration Committee
Chair of the Board of Era Content Oy
Member of the Board since 13 April 2015.

Toni Pokela, b. 1973, Secondary School Graduate
Food retailer
Board member since 16 April 2012.

Kaarina Ståhlberg
b. 1966, Master of Laws (Columbia University)
Chair of the Audit Committee
Lawyer, self-employed person
Member of the Board since 13 April 2015.

In accordance with the Articles of Association, the term of office of each member of the Board of Directors will expire at the close of the 2018 Annual General Meeting.

Until 13 April 2015, the Board of Directors was composed of **Esa Kiiskinen**, **Tomi Korpisaari** and **Toni Pokela**, as well as **Seppo Paatelainen** (b. 1944, Master of Science (Agriculture and Forestry), Deputy Chair of the Board, Deputy Chair of the Remuneration Committee and the Audit Committee, member of the Board from 27 March 2006 until 13 April 2015), **Ilpo Kokkila** (b. 1947, Master of Science (Technology), member of the Remuneration Committee, Chair of the Board of SRV Yhtiöt Oyj, member of the Board from 27 March 2006 until 13 April 2015), **Maarit Näkyvä** (b. 1953, Master of Science (Economics), Chair of the

Audit Committee, member of the Board from 1 January 2001 until 13 April 2015) and **Virpi Tuunainen** (b. 1967, Doctor of Science (Economics and Business Administration), member of the Audit Committee, Professor at the Department of Information and Service Economy at Aalto University and Director of Aalto Service Factory, member of the Board from 16 April 2012 until 13 April 2015. The memberships of Paatelainen, Kokkila, Näkyvä and Tuunainen of the Company's Board of Directors ended on 13 April 2015.

Independence

All members of Kesko's Board of Directors are non-executive directors. The Board evaluates the independence of its members on a regular basis in accordance with Recommendation 15 of the Corporate Governance Code (Recommendation 10 of the new Corporate Governance Code).

In 2015, the Board of Directors carried out an independence evaluation on 13 April 2015. Based on that independence evaluation, the Board of Directors considers all its members to be independent of the Company's significant shareholders, and the majority of the members also independent of the Company. A Board member is obliged to provide the Board with necessary information for the evaluation of independence.

The total voting rights in respect of shares in Kesko held by K-Retailers' Association, a significant Company shareholder, exceeded 10% on 23 December 2015. In consequence, Tomi Korpisaari was considered by the Board in its meeting on 11 January 2016 not to be independent of a significant shareholder, because Korpisaari is the Chair of the Board of the K-Retailers' Association.

Board members' independence in 2015

	Independent of the Company	Independent of a significant shareholder
Esa Kiiskinen (Ch.)	No***	Yes
Mikael Aro (Dep. Ch.)*	Yes	Yes
Tomi Korpisaari	No***	Yes****
Matti Kyytsönen*	Yes	Yes
Anu Nissinen*	Yes	Yes
Toni Pokela	No***	Yes
Kaarina Ståhlberg*	Yes	Yes
Ilpo Kokkila**	Yes	Yes
Maarit Näkyvä**	Yes	Yes
Seppo Paatelainen (Dep.Ch.)**	Yes	Yes
Virpi Tuunainen**	Yes	Yes

* As of 13 April 2015

** Until 13 April 2015

*** Each of the companies controlled by Kiiskinen, Korpisaari and Pokela has a chain agreement with a Kesko Group company.

**** In its meeting on 11 January 2016, the Board of Directors considered Tomi Korpisaari not to be independent of a significant shareholder, because he is the Chair of the Board of a significant Company shareholder, the K-Retailers' Association. The total voting interest of the K-Retailers' Association in the Company exceeded 10% on 23 December 2015.

Main duties

Kesko's Board of Directors is responsible for the proper organisation of the Company's administration, operations, accounting and financial management controls. The Board is also responsible for the supervision and control of the whole Kesko Group. The Board of Directors has confirmed a written charter for the Board of Directors' duties, the matters it deals with, its meeting practice and the decision-making procedure. In accordance with the charter, the Board deals with and makes decisions on matters that are financially, operationally or fundamentally significant to the Group.

According to the charter, the Board of Directors' main duties include:

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and rolling forecast, which includes a capital expenditure plan
- adopting the Group's financial and investment policy
- confirming the Group's risk management policy and considering the Group's most significant risks and uncertainties
- reviewing and adopting the consolidated financial statements, interim reports and related stock exchange releases and the Report by the Board of Directors
- deciding on strategically or financially significant individual capital expenditures, business acquisitions, divestments or arrangements, and commitments
- deciding on management authorisation rules
- deciding on the essential structure and organisation of the Group
- appointing and dismissing the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her compensation and other financial benefits
- deciding on the appointments of the Group Management Board members responsible for lines of business, on their compensation and financial benefits

- deciding on the principles of Kesko's remuneration schemes and monitoring the implementation of the remuneration schemes
- making possible proposals to the General Meeting for share or share-based compensation schemes, and making decisions on granting shares or share options under share or share-based compensation schemes, and on the terms and conditions for granting them
- establishing a dividend policy and being responsible for shareholder value performance
- confirming the Company's values
- reviewing the integrated Kesko's Year report
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies' Act or some other, and for duties prescribed by the Finnish Corporate Governance Code for Listed Companies

Decision-making, operation and meetings

The duty of Kesko's Board of Directors is to promote the interests of Kesko and all of its shareholders. The Board members do not represent the parties in the Company that have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him/her (including entities over which he/she exercises control) and the Company. When a vote is taken, the Board's decision will be the opinion of the majority and if a vote results in a tie, the decision will be the opinion supported by the Chair. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

In 2015, the Board held 13 meetings. The Board members' attendance rate at the Board meetings was 100%.

In 2015, the Board of Directors adopted a new strategy for Kesko Group, decided to establish common functions to support the Group's business operations, to strengthen the competitiveness of business operations through closer internal cooperation, and to start the simplification of the

Group's legal structure. For the purpose of improving profitability and competitiveness, the Board of Directors discussed and approved cost saving targets. In respect of strategic issues related to the Group's property ownerships and property management, the Board decided to establish a common real estate investment company jointly with two other investors and to sell properties to this company. The Board also decided on significant business arrangements in line with the Group's confirmed strategy.

As in previous years, the Board reviewed the financial reports and monitored the Group's

financial situation, approved the most significant capital expenditures, monitored the progress of Group-level projects and approved the interim reports and the financial statements prior to their disclosure.

The Board meetings regularly discuss the review by the President and CEO on key topical issues, as well as the reports by the Chairs of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meetings. The Auditor presents his findings to the Board once a year in connection with the review of the financial statements.

Attendance at meetings by members of the Board and its Committees in 2015

	Board member since	Committee membership	Attendance		
			Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Ch)	2009	Remuneration Committee (Ch.)	13/13		3/3
Mikael Aro (Dep. Ch.)*	2015	Audit Committee (Dep. Ch.)	10/10	4/4	
		Remuneration Committee (Dep. Ch.)			1/1
Tomi Korpisaari	2012		13/13		
Matti Kyytsönen*	2015	Audit Committee	10/10	4/4	
Anu Nissinen*	2015	Remuneration Committee	10/10		1/1
Toni Pokela	2012		13/13		
Kaarina Ståhlberg*	2015	Audit Committee (Ch.)	10/10	4/4	
Ilpo Kokkila**	2006	Remuneration Committee	3/3		1/2
Maarit Näkyvä**	2001	Audit Committee (Ch.)	3/3	1/1	
Seppo Paatelainen (Dep. Ch.)**	2006	Audit Committee (Dep. Ch.)	3/3	1/1	
		Remuneration Committee (Dep. Ch.)			2/2
Virpi Tuunainen**	2012	Audit Committee	3/3	1/1	

* As of 13 April 2015

** Until 13 April 2015

Board's Committees

Kesko has the Board's Audit Committee and Remuneration Committee, both of which are composed of three (3) Board members. At the close of the Annual General meeting, the Board elects the Chairs, the Deputy Chairs and the members of the Committees from among its members for one year at a time.

All members of the Audit Committee are independent of the Company and the Company's significant shareholders. In the election of the Audit Committee members, the competence requirements for Audit Committee members have been taken into account.

All members of the Remuneration Committee are independent of the Company's significant shareholder and its majority is also independent of the Company. In the election of the Remuneration Committee members, the competence requirements for Remuneration Committee members have been taken into account.

The Committees regularly assess their operations and working methods and carry out a related self-assessment once a year. The Board has confirmed written charters for the Committees, which contain the main duties and operating principles of the Committees.

The Committees have no independent decision-making power. Instead, the Board makes decisions based on the Committees' preparatory work. The Committee Chair reports on the Committee's work at the Board meeting following the Committee's meeting. Minutes of the Committee meetings are submitted for the information of the Board members.

Kesko's Board of Directors has not established any other committees in addition to the Audit and Remuneration Committees. Nor has the General Meeting appointed any committees or boards.

Audit Committee and its operation

The members of the Audit Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2015, are:

- Kaarina Ståhlberg (Ch.)
- Mikael Aro (Deputy Ch.)
- Matti Kyytsönen

According to its charter, the duties of the Audit Committee are:

- monitoring Kesko Group's financial and funding situation and the process of financial statements reporting
- supervising the Company's financial reporting process
- evaluating the efficiency of the Company's internal control, internal audit and risk management systems
- reviewing the Company's Corporate Governance Statement
- approving the operating instructions, annual audit plan, budget and resources of the Company's Internal Audit and reviewing the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the Company's audit firm
- evaluating the non-audit services provided to Kesko by the audit firm and the audit companies belonging to the same chain
- preparing a proposal to the General Meeting for a resolution on the election of the Company's Auditor and communicating with the Company's Auditor

In 2015, the Audit Committee held five (5) meetings, and the members' attendance rate at the meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller, the Chief Audit Executive and the Group General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on Kesko Group's funding

situation, taxation, information management, risk management and insurances. The Auditor is present at the Committee meetings and presents his audit plan and report to the Audit Committee.

During the year, the Committee reviewed the reports on the Group's financial situation, including the financial statements release and interim reports and made a recommendation to the Board on the review of the interim reports and the financial statements release. In addition, the Committee reviewed the reports of the Group's external and internal audits, risk management and legal affairs, and the Group's adoption of integrated reporting, the impacts of the pension reform on the Group's reporting, the impacts and risks of the strategic business arrangements, the simplification of the Group structure, as well as the changes required by the revised Corporate Governance Code. The Committee also assessed the Auditor's independence and provision of consultation services to the Group. The Audit Committee prepared and submitted a proposal to Kesko's Annual General Meeting 2015 for the election of the Auditor based on the competitive bidding process for Auditors conducted towards the end of 2014.

Remuneration Committee and its operation

The members of the Remuneration Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2015, are:

- Esa Kiiskinen (Ch.)
- Mikael Aro (Deputy Ch.)
- Anu Nissinen

According to its charter, the duties of the Remuneration Committee are:

- preparing matters pertaining to the compensation and other financial benefits and the managing director's service contract of the President and CEO to the Board
- preparing matters pertaining to the compensation and other financial benefits of the Group Management

Board members responsible for lines of business; decisions on the compensation and other financial benefits of the Group Management Board members other than those responsible for lines of business are made by the President and CEO within the limits set by the Chair of the Remuneration Committee

- preparing matters pertaining to the appointment of the President and CEO and the Group Management Board members responsible for lines of business, and identification of their successors
- developing remuneration schemes and preparing them to the Company's Board of Directors, including:
- evaluating the remuneration of the President and CEO and the other executives, and ensuring the appropriateness of the remuneration schemes
- preparing possible share or share-based remuneration schemes
- preparing the granting of shares or share options under the share or share-based remuneration schemes, and preparing their terms and conditions
- reviewing the remuneration statement in connection with the financial statements
- answering questions concerning the remuneration statement at the General Meeting. Questions are primarily answered by the Committee Chair
- preparing the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success

In 2015, the Remuneration Committee held three (3) meetings and the members' attendance rate at the meetings was 88.9%. The Committee prepared, among other things, proposals to the Board for the vesting criteria and the target group of share awards and for the principles of management's performance bonuses. In addition, the Committee discussed, among other things, the remuneration schemes of management and personnel and the development of the schemes, as well as the impacts of the pension reform and possible needs for change at Kesko Pension Fund arising from it.

President and CEO

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Mikko Helander, Master of Science in Technology. He became Kesko's President and CEO on 1 January 2015. Helander was a member of the Group Management Board and Kesko's Executive Vice President from 1 October 2014 until 31 December 2014, and he has been the Chair of the Group Management Board since 1 January 2015.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors and to report to the Board about the developments in the Company's business operations and financial situation. He is also responsible for the Company's day-to-day administration and for ensuring that the financial management has been organised in a reliable manner. The President and CEO also chairs the Group Management Board and the subsidiary Boards essential with regard to business operations.

The President and CEO is elected by the Board of Directors. The Board has decided the terms and conditions of the President and CEO's service contract. A written managing director's service contract, approved by the Board, has been made between the Company and the President and CEO.

Group Management Board

Kesko Group has a Group Management Board, the Chair of which is Kesko's President and CEO.

The Group Management Board does not have any powers under law or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level policies and procedures. In addition, the Group Management Board discusses the Group's and the division parent companies' business plans, profit performance and matters dealt with by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 18–20 times a year.

Group Management Board's members and their areas of responsibility as at 31 Dec. 2015

	Group Management Board member since	Area of responsibility
Mikko Helander, Chair	1 Oct. 2014	Kesko's President and CEO
Jorma Rauhala, President of Kesko Food Ltd	5 Feb. 2013	Grocery trade
Terho Kalliokoski, President of Rautakesko Ltd	17 Mar. 2005	Home improvement and speciality goods trade
Pekka Lahti, President of VV-Auto Group Oy	1 Mar. 2005	Car trade
Jukka Erlund, Senior Vice President, Chief Financial Officer	1 Nov. 2011	Finance and accounting
Matti Mettälä, Senior Vice President	1 Oct. 2012	Human resources
Anne Leppälä-Nilsson, Senior Vice President, Group General Counsel	1 Jan. 2015	Legal affairs
Lauri Peltola, Senior Vice President	2 Mar. 2015	Corporate responsibility, communications and stakeholder relations
Anni Ronkainen, Senior Vice President	20 Apr. 2015	Chief Digital Officer

Insider administration

Kesko's insider regulations

Kesko complies with the insider rules of Nasdaq Helsinki Ltd. Kesko's Board of Directors has confirmed Kesko's insider guidelines for permanent and project-specific insiders. The contents of the guidelines correspond to the insider rules of Nasdaq Helsinki. Kesko's insider guidelines have been distributed to all insiders.

Kesko's permanent insiders and insider registers

In accordance with the Securities Markets Act, Kesko's [permanent public insiders](#) include Kesko's Board members, the President and CEO (managing director), and the audit firm's auditor with principal responsibility for Kesko. Kesko Corporation's Board of Directors has also defined that, in addition to the President and CEO, the other members of the Group Management Board belong to the Company's permanent public insiders. The permanent public insiders and the statutory information about them, about their related parties and about the corporations that are controlled by them, or in which they exercise influence, have been recorded in Kesko's register of public insiders.

Other permanent insiders of Kesko include persons working at any given time in positions defined by the Board of Directors and having access to insider information and who are therefore recorded in the Company's company-specific, non-public insider register. Kesko's company-specific insider register is divided into project registers concerning permanent insiders and possible insider projects and persons participating in their preparation.

The Group's legal affairs function supervises compliance with insider guidelines and maintains the Company's insider registers in cooperation with Euroclear Finland Ltd. At regular intervals, the legal affairs function sends an extract of the information in the insider register to permanent public insiders for checking and reminds permanent insiders about upcoming trading restrictions preceding the publication of financial results and monitors compliance with them and with trading restrictions during possible insider projects.

In 2015, Kesko's permanent insiders were not allowed to acquire or transfer securities issued by the Company and securities or derivative contracts entitling to them during the 21 days preceding the publication of an interim report, and during the 28 days preceding the publication of the financial statements (trading restriction). These publication dates are annually announced in advance in a stock exchange release. It has also been requested that permanent insiders' spouses refrain from trading in Kesko securities or derivative contracts during these trading restriction periods. Furthermore, people involved in possible insider projects, whether included in the insider register or not, are not allowed to trade in Kesko's securities or derivative contracts during an insider project.

As of the beginning of 2016, the duration of permanent insiders' trading restriction prior to result publications is 30 calendar days.

The legal affairs function annually organises training on insider issues and related matters concerning the disclosure obligation of a listed company within the Group.

DESCRIPTION OF THE MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO THE GROUP'S FINANCIAL REPORTING PROCESS

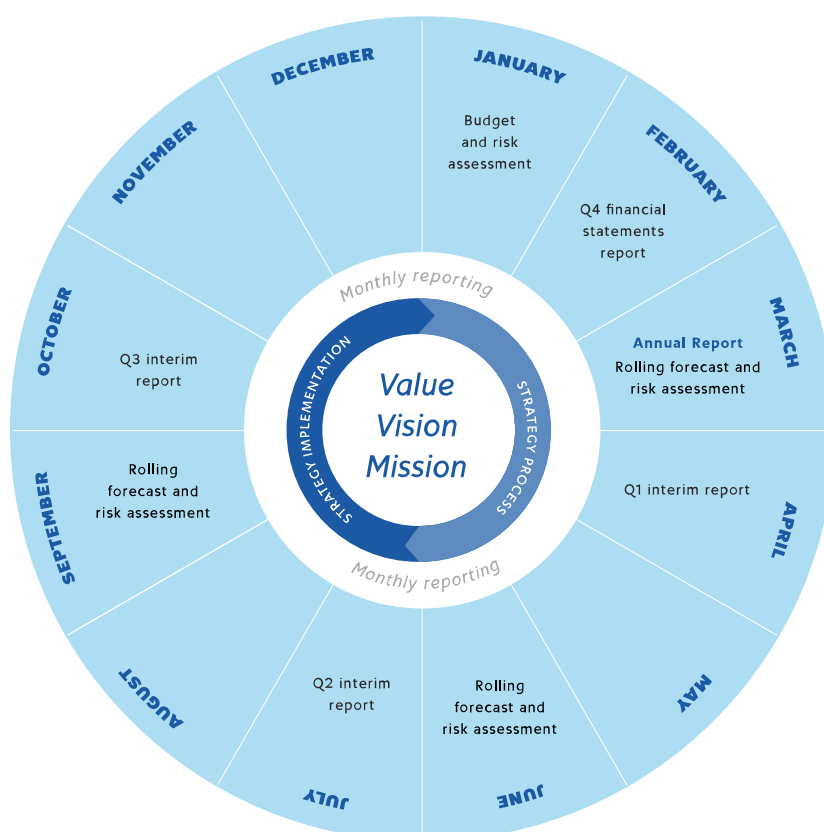
Group's financial reporting and its internal control

Kesko's management model

Kesko's financial reporting and planning are based on Kesko Group's management model. The Group units' financial results are reported and analysed within the Group on a monthly basis, and disclosed

in interim reports published quarterly. Financial forecasts are prepared for quarterly periods, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.

KESKO GROUP'S MANAGEMENT MODEL



Roles and responsibilities

Kesko Group's financial reporting and its supervision is organised in three levels. The subsidiaries analyse and report their figures to the respective divisions, which then report the division-specific figures to Group Accounting. Analyses and controls for ensuring the accuracy of reporting are used at each reporting level.

The accuracy of reporting is ensured with automated and manual controls at every reporting level. The implementation of the analyses and controls is supervised on a monthly basis at the company, division and Group level.

Planning and performance reporting

The Group's financial performance and the achievement of financial objectives are monitored through Group-wide financial reporting. Monthly performance reporting includes Group, division and subsidiary specific results, changes compared to the previous year, comparison with forecasts, and forecasts for the next 12 months. The Group's short-term financial planning is based on forecasts drawn up by the quarter, extending over the following 12 to 15 months. The key financial indicator for growth is sales performance, while those for profitability are operating profit excluding non-recurring items and return on capital employed excluding non-recurring items, monitored monthly in internal reporting. Information on the Group's financial situation is provided in interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Financial planning

Financial planning is carried out at the subsidiary, division and Group level in the form of annual budgeting and a rolling forecast. The forecasts are updated quarterly, and any significant changes are taken into account in the performance forecasts reported monthly.

Performance reporting to the Group's top management

Performance reporting to the Group's top management comprises monthly reports on the subsidiaries', divisions' and the Group's income statements and balance sheet information. Each subsidiary is primarily responsible for the financial reporting and the accuracy of its figures. The controlling function of each division analyses the whole division's figures for which the division's financial management is responsible. The Group is responsible for the whole Group's figures. The key items in the income statement and the balance sheet are analysed monthly at the company, division and Group level, based on documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available and enables real-time responses to possible flaws. Performance reporting to the top management also includes Group level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting

Public performance reporting comprises interim reports, the financial statements release, annual financial statements and monthly sales reports. The same principles and control methods are applied to both public performance reporting and monthly performance reporting. The Audit Committee reviews the interim report and the financial statements and gives a recommendation on their handling to the Board of Directors. The Board approves the interim report and the financial statements before they are published.

Key actions in 2015

Kesko Group completed the project for harmonising the financial management information system, which serves both the Group companies and the K-Group retailers. In Finland and in Russia, the centralisation of the Group companies' financial management routines in the Shared Services Centre continued. The Group's common financial management information system was introduced in the Norwegian building

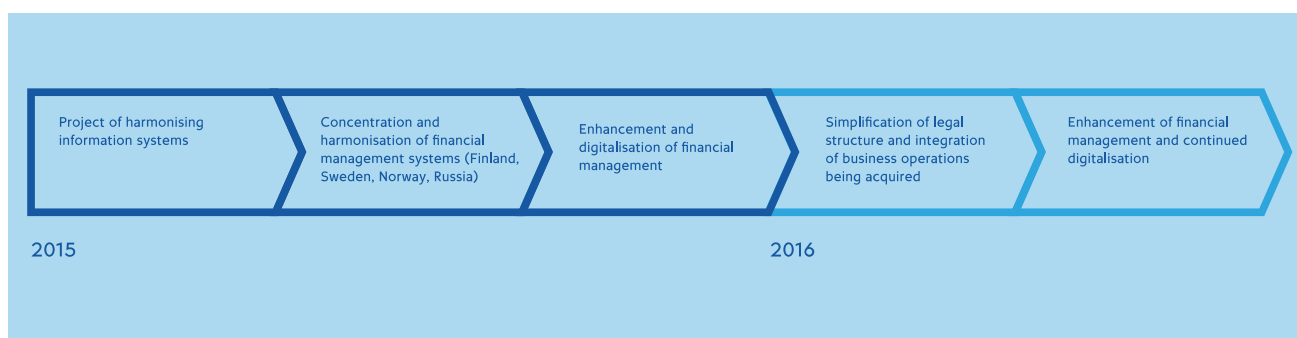
and home improvement trade company, and improving the efficiency of financial management routines and converting them to electronic format was continued in cooperation with the Group companies.

Kesko Group started planning and implementing the simplification of the Group's legal structure.

Key actions in 2016

In 2016, the simplification of the Group's legal structure will continue, and the focus will be on the

integration of the business operations being acquired. In addition, improving the efficiency of the Group companies' financial management and their conversion to electronic format will be continued in both Finland and Russia.



Accounting policies and financial management IT systems

Kesko Group has adopted the International Financial Reporting Standards (IFRS) endorsed by the European Union. The accounting policies applied by the Group are included in the accounting manual, updated as the standards are amended. The manual contains guidelines for separate companies, the parent company, and guidelines for the preparation of the consolidated financial statements.

Kesko Group's financial management information is generated by division-specific enterprise resource planning systems, via a centralised and controlled, shared interface, into the Group's centralised consolidation system, to produce the Group's key financial reports. The key systems used in the production of financial information have been certified and secured by back-up systems, and they

are controlled and checked regularly to ensure reliability and continuity.

Risk management

Kesko's risk management is proactive and an integral part of its management and day-to-day activities. The goal of risk management is to ensure the delivery of customer promises, profit performance, dividend paying capacity, shareholder value, the implementation of responsible operating practices and the continuity of business operations in Kesko Group.

The risk management policy confirmed by Kesko's Board of Directors guides risk management in Kesko Group. The policy defines the goals, principles, organisation and responsibilities of risk management at Kesko Group, as well as its operating practices. In the management of financial risks, the Group's finance policy,

confirmed by Kesko's Board of Directors, is observed.

The business division and Group managements are responsible for the implementation of risk management. Each division has appointed a management board member, usually the finance director, to be responsible for coordinating risk management and providing guidelines within the division and for reporting on risk management responses. Kesko's Internal Audit annually evaluates the efficiency of Kesko's risk management system.

Kesko Group applies a business-oriented and comprehensive approach to risk assessment and risk management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and unit level in all operating countries.

Kesko has a uniform risk assessment and reporting model. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised on the basis of their significance by assessing their impacts in euros and the probability of their realisation. When assessing the impact of realisation, the impacts on reputation, the wellbeing of people and the environment are assessed in addition to the impacts in euros.

In connection with the strategy process, the divisions assess the risks and opportunities concerning each strategy period. Near-future risks are identified and assessed in accordance with the rolling planning framework. Risk assessment also covers the risks concerning the divisions' subsidiaries and those related to significant projects.

A division's risk assessment, which includes a risk map, risk management responses, responsible persons and schedules, is reviewed regularly by the division's management board. The common

functions also assess the risks concerning their respective areas of responsibility.

Risks and management responses are reported in accordance with Kesko's reporting responsibilities. The divisions report on risks and changes in risks to the Group's risk management function on a quarterly basis. Risks are discussed by the risk reporting team, which includes representatives of the divisions and the common functions. On that basis, the Group's risk management function prepares the Group's risk map, which presents the most significant risks and uncertainties and their management.

The Group's risk map, the most significant risks and uncertainties, as well as material changes in and responses to them are reported to the Kesko Board's Audit Committee in connection with reviewing the interim reports and the financial statements. The Audit Committee also evaluates the efficiency of Kesko's risk management system. The Audit Committee Chair reports on risk management to the Board as part of the Audit Committee report.

Kesko's Board discusses Kesko Group's most significant risks and uncertainties. The Board reports on the most significant risks and uncertainties to the market in the financial statements and on material changes in them in interim reports.

Risk management responses in 2015

In Kesko's risk management process, the evaluation of the impacts in euros of the materialisation of risks was developed. Kesko participated in an international peer review on the level of risk management. The risk management, legal affairs and internal audit functions continued organising Value Discussions about Kesko's responsible operating practices. During the year, the adoption of online training tools on safety was continued and the purchasing of security services across division boundaries was enhanced. User right management was enhanced and data security was improved in Kesko's various SAP

environments. A positive trend continued in terms of damages and there were no major single damages.

Focus areas of risk management in 2016

The risk management function will continue working in close cooperation with division parent companies and the common functions in order to ensure the adoption of responsible operating practices, to prevent malpractice, and to develop risk management related to personal safety, business continuity, data security and data protection. One of the most important focus areas is the risk management related to the ongoing acquisitions. Security operations will focus on expanding the use of electronic tools and e-learning programmes. The data security of SAP and other systems will be developed. Jointly with the divisions, the risk management function will organise crisis exercises and training sessions on security. The aim is to expand Group-level insurance programmes further.

In addition, the response programme for 2016 is aimed at achieving cost efficiency in risk

management responses through, for example, centralised purchasing of services and security technology.

Internal control

Internal control is an integral part of management and of ensuring the achievement of business objectives. Through efficient internal control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken. The tools of internal control include policies and principles, work instructions, manual controls and automatic controls built into information systems, follow-up reports, inspections and audits, among other things.

The objective of internal control in Kesko Group is to ensure the profitability, efficiency, continuity and freedom from disruptions of operations, the reliability of financial and operational reporting both externally and internally, compliance with laws and agreements and Kesko's values and operating principles, as well as safeguarding assets, expertise and information.

ROLES AND RESPONSIBILITIES IN KESKO GROUP'S INTERNAL CONTROL



The planning of control measures begins with defining the business objectives and identifying and assessing risks that threaten the objectives. The definition of objectives and the assessment of risks should take account of not only operational objectives, but also the requirements for compliance of operations with laws, and for the accuracy of the information used in decision-making and reporting. Control measures are targeted based on risks, and control measures are selected as appropriate so as to keep the risks under control.

The Board of Directors and the President and CEO are responsible for the organisation of internal control. The management of each division, company and unit is responsible for taking care that efficient and effective control procedures are in place. The divisions annually prepare control plans that contain, among other things, the focus areas and development targets of control. Every Kesko employee is obliged to comply with the responsible working principles and report on any grievances to their supervisor.

Kesko's common functions guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective responsibility areas. Kesko Group's internal audit function assesses and verifies the effectiveness and efficiency of Kesko's internal control, reports on it to the President and CEO and the Audit Committee of Kesko Corporations' Board of Directors and assists management and the Kesko companies in the development of the internal control system. The Audit Committee of Kesko's Board of Directors has confirmed the principles of Kesko's internal control, which are based on good control principles widely accepted internationally (COSO 2013).

Internal audit

Kesko's internal audit function is responsible for the Group's independent evaluation and assurance function required of a listed company, which systematically examines and verifies the efficiency

of risk management, control, management and governance. The Audit Committee of Kesko's Board of Directors has confirmed Kesko's internal audit function's operating instructions.

The internal audit function is organised under Kesko's President and CEO and the Audit Committee, and it reports on its findings and recommendations to the Audit Committee, the President and CEO, the management of the audited operation, and the Auditor. The function covers all of Kesko's divisions, companies and functions. Auditing is based on risk analyses, as well as risk management and control discussions conducted with the Group's and divisions' managements. Meetings with the Auditor are arranged on a regular basis in order to ensure sufficient audit coverage and eliminate overlapping operations.

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The audit plan is modified on a risk basis, if necessary. As necessary, the internal audit function purchases external services for added resources or for the purpose of conducting audit operations which require special expertise. Audits can also make use of the expertise and work contribution of Kesko Group's other specialists.

Internal audit operations in 2015

The key targets of the internal audit operations in 2015 were Kesko's business activities in Russia and related risks. Other focus areas included Kesko's digital services, data security, data protection and related risks. Compliance with Kesko's accounting policies and reporting guidelines was verified and assessed in various audits, with an emphasis on the accuracy of inventory values.

Focus areas of internal audit in 2016

The key focus areas of internal audit operations in 2016 will be the implementation of Kesko's strategies, the ongoing acquisitions, quality programmes, business operations in Russia and related risks, the efficiency of data security and data protection issues.

AUDITING

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland Chamber of Commerce. The Audit Committee submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also evaluates the auditors' operation and services annually. The term of office of the Auditor is the Company's financial year and the Auditor's duties end at the close of the Annual General Meeting following the Auditor's election. As a rule, an audit company belonging to the same chain as the audit firm represented by the Auditor elected by Kesko's General Meeting acts as the Auditor of the Group's foreign subsidiaries.

The Auditor provides Kesko's shareholders with the statutory Auditor's Report in connection with the Company's financial statements and regularly reports on its findings to the Audit Committee of Kesko's Board of Directors.

The Annual General Meeting 2015 elected PricewaterhouseCoopers Oy, Authorised Public

Accountants, as the Company's Auditor, with APA Mikko Nieminen as the Auditor with principal responsibility. He is currently the Managing Director of PricewaterhouseCoopers Oy and the auditor responsible for four Finnish listed companies:

- Kesko
- Finnair
- CapMan
- Okmetic

The General Meeting resolved that the auditor's fee is paid and expenses are reimbursed according to an invoice approved by the Company.

Based on applicable law, a person can act as an auditor with principal responsibility for a company for a maximum of seven (7) consecutive years. The law does not restrict the length of an audit firm's term of office. APA Mikko Nieminen has been the auditor with principal responsibility for the Company since 13 April 2015.

Auditors' fees in 2014-2015 (€1,000)

	2015					Total	2014					Total
	PwC		Other audit firms				PwC		Other audit firms			
	Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies	Total		Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies	Total	
Auditing	220	564	-	42	826	174	705	-	56	935		
Tax consultation	84	14	-	7	105	77	25	1	10	113		
IFRS consultation	9	-	-	-	9	4	6	-	-	10		
Other services	450	135	354	828	1,767	121	164	28	249	562		
Total	763	713	354	877	2,707	376	899	29	314	1,620		