



CORPORATE GOVERNANCE STATEMENT 2017

EN





Corporate Governance Statement 2017

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CORPORATE GOVERNANCE STATEMENT 2017

I. Introduction

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 30 January 2018.

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association effective on 1 January 2016, 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 [kesko.fi/en/investor/corporate-](https://kesko.fi/en/investor/corporate-governance)

governance.

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 the regulations observed in Finland. The parent company Kesko and its subsidiaries form Kesko Group. The Company is domiciled in Helsinki.

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 and its Committees, and the rules and guidelines of Nasdaq Helsinki Ltd.



Corporate Governance Codes Kesko complies with and departures from them

Corporate Governance Code Kesko complies with	The Corporate Governance Code effective on 1 January 2016 (“Corporate Governance Code”)
Website where the Corporate Governance Code is publicly available	http://cgfinland.fi/files/2015/10/hallinnointikoodi2015finweb1.pdf
Corporate Governance Code recommendations from which the company departs	Recommendation 6 (Term of Office of the Board of Directors)
Explanation of and grounds for the departure	<p>The term of office of Kesko’s Board of Directors departs from the one-year term pursuant to Recommendation 6 (Term of Office of the Board of Directors) 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.</p> <p>A shareholder who, 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.</p>



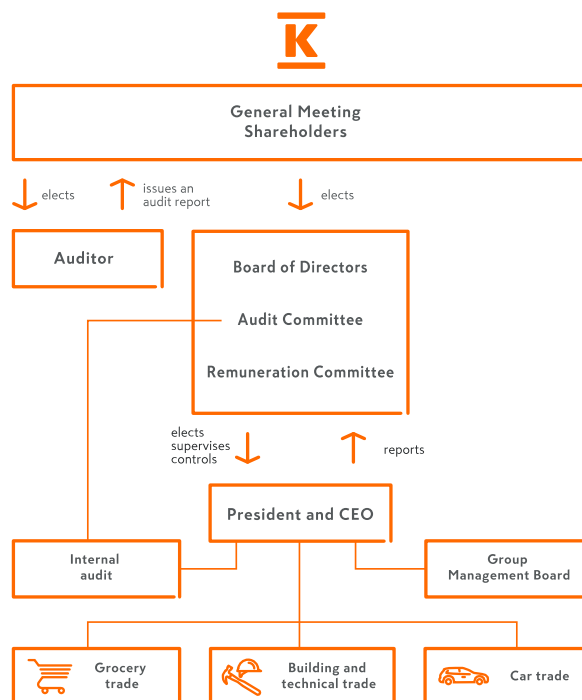
Descriptions Concerning Corporate Governance

Kesko Group's Corporate Governance System

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 Governance Model





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 distribution 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 usually be the resolution of the General Meeting, as prescribed by the Limited Liability Companies Act.

Board of Directors

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 Chairman and the Deputy Chairman from among its members for the whole term of office of the Board.

In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare to the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for

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 www.kesko.fi. The notice of the meeting is also published in a stock exchange release.

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 www.kesko.fi 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.

the Board members.

Board composition and shareholdings

The Annual General Meetings of 13 April 2015, 4 April 2016, and 3 April 2017 resolved that the Board of Directors is composed of seven (7) members.

In 2017, the Board members were **Esa Kiiskinen** (Chairman), **Mikael Aro** (Deputy Chairman), **Jannica Fagerholm**, **Matti Kyytsönen**, **Matti Naumanen**, **Anu Nissinen** and **Toni Pokela**. The Board members were elected by the General Meeting held on 13 April 2015, except for Fagerholm and Naumanen, who were elected by the General Meeting of 4 April 2016 to replace resigned Board members Tomi Korpisaari and Kaarina Ståhlberg.

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

The Board's composition and shareholdings as at 31 December 2017 are presented in the table below.



Board of Directors' composition and shareholdings as at 31 Dec. 2017

Name	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held as at 31 Dec. 2017
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	1,350 A shares held by him and 106,000 A shares held by companies controlled by him
Mikael Aro (Deputy Chair)	1965	eMBA	Senior industry adviser, Triton-Partners	2015	Audit Committee (Deputy Chair) Remuneration Committee (Deputy Chair)	1,000 B shares held by him
Jannica Fagerholm	1961	Master of Science (Econ.)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	None
Matti Kyytsönen	1949	Master of Science (Econ.)	Chairman of the Board, Silverback Consulting Oy	2015	Audit Committee	995 B shares held by him
Matti Naumanen	1957	Trade Technician	Retailer	2016		2,400 A shares held by him and 17,664 A shares held by companies controlled by him
Anu Nissinen	1963	Master of Science (Econ.)	CEO, Digma Design Oy	2015	Remuneration Committee	None
Toni Pokela	1973	eMBA	Food retailer	2012		179,400 A shares held by companies controlled by him

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 10 of the Corporate Governance Code.

In 2017, the Board carried out an independence evaluation in its organisational meeting held after the General Meeting of 3 April 2017. Based on that independence evaluation, the Board considered Toni

Pokela not to be independent of the Company's significant shareholder, the K-Retailers' Association, of which Pokela is the Chairman of the Board. In its independence evaluation, the Board considered the majority of the Board members to be independent of the Company. A Board member is obliged to provide the Board with necessary information for the evaluation of independence.

The Board members' independence is depicted in the table below.



Board members' independence in 2017

	Independent of the Company	Independent of a significant shareholder
Esa Kiiskinen (Chair)	No*	Yes
Mikael Aro (Deputy Chair)	Yes	Yes
Jannica Fagerholm	Yes	Yes
Matti Kyytsönen	Yes	Yes
Matti Naumanen	No*	Yes
Anu Nissinen	Yes	Yes
Toni Pokela	No*	No**

* Companies controlled by Kiiskinen, Naumanen and Pokela each have a chain agreement with Kesko Corporation.

** Pokela is the Chairman of the Board of Kesko's significant shareholder, the K-Retailers' Association.

Description of the operations of the Board of Directors and the main contents of its charter

Kesko's Board of Directors is responsible for the proper organisation of the Company's corporate governance, operations, accounting and financial management controls. It 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 its 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
- approving the Group's treasury 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, half year financial reports and interim reports and related stock exchange releases and the Report by the Board of Directors

- deciding on strategically or financially significant individual capital expenditure, 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 remuneration and other financial benefits
- deciding on the appointments of the Group Management Board members responsible for lines of business, on their remuneration and financial benefits
- deciding on the principles of Kesko's commitment and incentive schemes and monitoring their results
- making possible proposals to the General Meeting for share issue and acquisition authorisations, and making decisions on granting shares or share options under share-based commitment and incentive 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 Annual 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.



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.

Board of Directors' operations in 2017

In 2017, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 100%. The Board meetings regularly discuss the review by the President and CEO on key topical issues, as well as the reports by the Chairmen of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meetings. The Auditor presents their findings to the Board once a year in connection with the review of the financial statements.

As in previous years, in 2017, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditure and divestments and new financing arrangements, monitored the progress of Group-level projects and approved the interim reports, the half year financial report and the financial statements before they were published.

In 2017, the Board monitored the implementation of the new Kesko Group strategy approved in the spring of 2015, further clarified and concretised the chosen strategic policy definitions and made decisions on corporate arrangements in line with the approved strategy, such as the divestments of Indoor Group Ltd, minority holdings in the Baltic machinery trade subsidiaries, and the K-maatalous business. The Board monitored the financial performance of previously made acquisitions and their integration into Kesko Group. In order to improve profitability and ensure competitiveness, the Board has made sure that the planned cost saving targets are met. Moreover, the Board, for example, reviewed Kesko's Annual Report, the results of the K Voices personnel survey, and goodwill impairment testing; decided on the establishment of a new share-based compensation scheme; and approved Kesko Group's Risk Management Policy, insurance principles, the Group's Treasury and investment policy, and real estate strategy.

The Board carried out a self-assessment, conducted via discussions between the Board, the Chairman and each Board member based on a predetermined discussion agenda. Topics covered in the assessment included Group strategy, reporting, risk management, efficiency of Board and Committee work, Group management and contingency planning for Group management, and individual Board member assessments. The Board reviewed a summary of the discussion results in its meeting. Special attention was paid to e.g. the practical implementation of the confirmed strategy throughout the organisation, closer monitoring of strategy implementation, and more extensive handling of risk management issues by the Board. In addition to the summary, each Board member received personal feedback.



Attendance at meetings by members of the Board and its Committees in 2017

	Board member since	Committee membership	Attendance		
			Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Chair)	2009	Remuneration Committee (Chair)	10/10		3/3
Mikael Aro (Deputy Chair)	2015	Audit Committee (Deputy Chair)	10/10	5/5	
		Remuneration Committee (Deputy Chair)	10/10		3/3
Jannica Fagerholm	2016	Audit Committee (Chair)	10/10	5/5	
Matti Kyytsönen	2015	Audit Committee	10/10	5/5	
Matti Naumanen	2016		10/10		
Anu Nissinen	2015	Remuneration Committee	10/10		3/3
Toni Pokela	2012		10/10		

Principles concerning diversity

The diversity policy approved by Kesko's Board of Directors is available at <https://kesko.fi/en/investor/corporate-governance/board-and-its-committees/diversity-policy>. The diversity policy has been approved and published on the website in the following form:

“Diversity is an essential component of Kesko's success, the achievement of Kesko's strategic objectives and good governance at Kesko. This diversity policy describes the objectives in the achievement of diversity in the operations and composition of Kesko Corporation's Board of Directors.

Board size and the election of its members

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. A sufficient number of Board members promotes the diversity of the Board composition, as the areas of expertise and competencies of the Board members are mutually complementary and the Board's independence requirements are satisfied.

The Board members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office of the Board. In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare to the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Planning the Board composition

The composition of Kesko's Board of Directors shall support Kesko's current and future business operations. The Board members are appointed on their merits. One of the essential features in the Board composition is that the Board members' educational backgrounds, experience, professional competencies and age and gender distribution support Kesko's business objectives and enable efficient Board work for Kesko. The Board members shall also be able to devote a sufficient amount of time to Board work.

Kesko aims to achieve a balanced gender distribution in the composition of its Board of



Directors. The composition of the Board shall reflect experience in both national and international business operations. The educational background of the Board members shall represent multiple disciplines and diversity. In addition, Kesko's Board shall include members with strong experience in the trading sector and in-depth knowledge of the retailer business. The achievement of objectives is monitored annually and reported in the corporate governance (CG) statement."

Monitoring the implementation of diversity policy objectives in 2017

In 2017, two of the seven Board members were women, in other words, the proportion of the gender with smaller representation in the Board was approximately 29%. The Board members have diverse and multi-sectoral experience backgrounds and several Board members also have experience in international business. The Board members' educational background is multi-sectoral and diverse (see the descriptions in section "Board of Directors' composition and shareholdings"). Several Board members have experience in the trading sector and the principal occupation of three of the seven Board members is acting as a K-retailer.

Board Committees

Kesko has a 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 from among its members the Committee Chairmen, Deputy Chairmen and 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 on matters based on the Committees' preparatory work. The Committee Chairman reports on the Committee's work at the Board meeting following the Committee's meeting. The Committee Chairman 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

The Board's organisational meeting, held after the Annual General Meeting of 3 April 2017, elected the following Board members as Audit Committee members:

- Jannica Fagerholm (Chairman)
- Mikael Aro (Deputy Chairman)
- Matti Kyytsönen

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

- monitoring Kesko Group's financial situation, 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 for the Company's internal audit function 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 related (non-audit) services to Kesko by the audit firm and its network audit companies
- 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 2017, the Audit Committee held five meetings. Its members' attendance rate at the Committee meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller and the Chief Audit Executive 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 their 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, the half year financial report and the interim reports and updated forecasts, and made a recommendation to the Board on the review of the reports and the financial statements release. The Committee reviewed the reports of the Group's external and internal audits and risk management and the Corporate Governance Statement. The Audit Committee also reviewed the reporting of non-financial information, the organisation of Group risk management and internal audit, goodwill impairment testing, changes to the presentation of financial statements, and Group risk reporting in the financial statements.

The Committee monitored the implementation of the audit plan for internal audit, the Group's preparation for the implementation of new IFRS standards and their impact on the Group's reporting, the progress made in the cyber security development plan, the Group's preparations for the implementation of the new EU general data protection regulation, and additional services purchased from firms of auditors. The Committee also assessed the Auditor's independence and consultation services provided to the Group. The Audit Committee prepared and submitted a proposal to Kesko's Annual General Meeting 2017 for the election of Auditor.

The Audit Committee prepared proposals to the Board

for updates to Kesko Group's risk management policy and insurance principles, and for the Group's treasury and investment policy. The Committee approved the operating instructions and the 2018 audit plan, personnel resources and budget for the Group's Internal Audit.

The Audit Committee assessed its operations as part of the Board's self-assessment Topics that emerged the assessment included more in-depth reporting on units with lower profitability, and the distribution of the Committee's time between financial reporting and other matters to be discussed.

Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 3 April 2017, elected the following Board members as Remuneration Committee members:

- Esa Kiiskinen (Chairman)
- Mikael Aro (Deputy Chairman)
- Anu Nissinen

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

- preparing matters pertaining to the remuneration and other financial benefits of the President and CEO and his/her managing director's service contract to the Board
- preparing matters pertaining to the remuneration and other financial benefits of the Group Management Board members responsible for lines of business; decisions on the remuneration and 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 Chairman of the Remuneration Committee
- preparing matters pertaining to the appointment of a President and CEO and the Group Management Board members responsible for lines of business, and identifying their potential successors, development of remuneration schemes and their preparation to the Board of Directors, including:
 - evaluating the remuneration of the President



and CEO and other management, and ensuring the appropriateness of the remunerations schemes

- preparing possible share or share-based commitment and incentive schemes
- preparing the distribution of shares or share options under the share or share-based commitment and incentive schemes, and preparing their terms and conditions
- reviewing the Remuneration Statement in connection with the financial statements
- answering questions related to the Remuneration Statement at the General Meeting; questions are primarily answered by the Committee Chairman
- preparing the principles for the performance and result criteria of the compensation schemes, and monitoring their implementation and evaluating

their impacts on Kesko's long-term financial success.

In 2017, the Remuneration Committee held 3 meetings. Its members' attendance rate at the Committee meetings was 100%. The Committee prepared, among other things, proposals to the Board for Kesko's new share-based compensation scheme, for the performance criteria and target group of share awards, for the principles of Group performance bonuses for 2018, as well as for the performance bonuses to be paid for 2016 for the President and CEO and Group Management Board members in charge of business lines. The Committee monitored and assessed the implementation of the reform of management's total remuneration. In addition, the Committee discussed, among other things, Kesko's Remuneration Statement. The Remuneration Committee assessed its operations as part of the Board's self-assessment, and based on the assessment, decided to focus more on management contingency planning and competency requirements.

Managing director (President and CEO) and his duties

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Master of Science in Technology Mikko Helander (b. 1960). He became Kesko's President and CEO on 1 January 2015. Helander has also been a member of the Group Management Board and Kesko's Executive Vice President during the period 1 October 2014 to 31 December 2014, and he has been the Chairman 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 developments in the Company's business operations and financial situation. He is also responsible for the Company's day-to-day

governance and he oversees that the financial matters are organised in a reliable manner. The President and CEO also chairs the Group Management Board.

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.

As at 31 December 2017, Helander held a total of 36,091 Kesko B shares. Helander's shareholdings as at 31 December 2017 are also presented in the table under "Group Management Board".

Group management board

Kesko Group has a Group Management Board, the Chairman 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, among other things, 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 12–18 times a year.



Group Management Board members, areas of responsibility and shareholdings as at 31 Dec. 2017

	Group Management Board member since	Area of responsibility	Shares held as at 31 Dec. 2017
Mikko Helander, Chairman	10/01/14	Kesko's President and CEO	36,091 B shares held by him
Jorma Rauhala, President of building and technical trade division, Deputy to President and CEO*	02/05/13	Building and technical trade	20,564 B shares held by him
Ari Akseli, President of grocery trade division**	11/15/17	Grocery trade	7,568 B shares and 81 A shares held by him
Johan Friman, CEO of VV-Auto Group Oy	01/01/17	Car trade	None
Jukka Erlund, Executive Vice President, Chief Financial Officer	11/01/11	Finance and accounting	16,840 B shares held by him
Matti Mettälä, Executive Vice President	10/01/12	Human resources	10,782 B shares held by him
Anne Leppälä-Nilsson, Executive Vice President***	01/01/15	Legal affairs	12,013 B shares held by her
Lauri Peltola, Executive Vice President****	03/02/15	Corporate responsibility, communications and stakeholder relations	6,500 B shares held by him
Anni Ronkainen, Executive Vice President	04/20/15	Chief Digital Officer	6,500 B shares held by her

*Rauhala was appointed President of Kesko's building and technical trade division and deputy to the President and CEO on 15 November 2017. Previously, Rauhala acted as President of Kesko's grocery trade division. Rauhala's predecessor Terho Kalliokoski left Kesko on 15 November 2017, at which time Kalliokoski held a total of 30,903 Kesko B shares.

** Akseli was appointed President of Kesko's grocery trade division on 15 November 2017. His predecessor Jorma Rauhala was appointed President of Kesko's building and technical trade division and deputy to Kesko's President and CEO on 15 November 2017.

***Mika Mäjoinen was appointed Kesko Group General Counsel as of 1 January 2018. Anne Leppälä-Nilsson retired on 31 December 2017, in accordance with her contract.

****Lauri Peltola's membership on the Group Management Board ended on 31 October 2017.



Description of internal control procedures and the main features of risk management systems

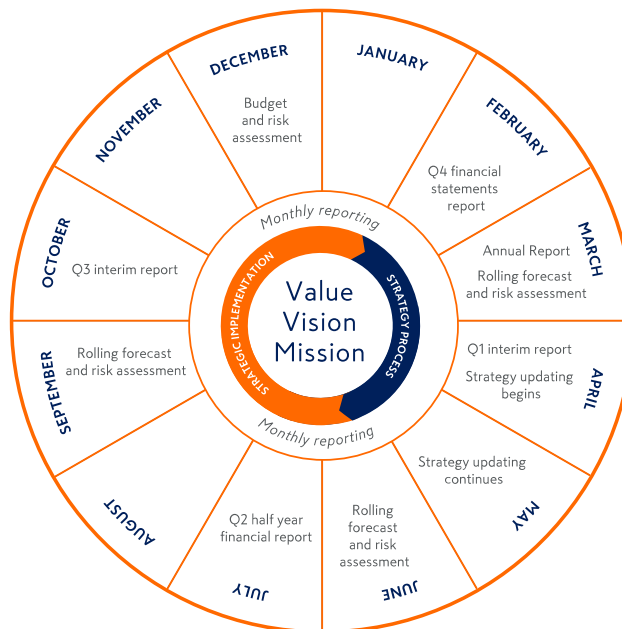
Group's financial reporting

Kesko's management model

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

quarterly in interim reports, the half year financial report and the financial statements release. Financial forecasts are updated quarterly, 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 are organised on three levels. Businesses analyse and report their figures to the divisions, which then report the division-specific figures to Group Accounting. Analyses and controls for ensuring the accuracy of reporting are used on each of the three reporting levels.

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 company, business, division and Group levels.

Planning and performance reporting

The Group's financial development and achievement of financial objectives are monitored by financial reporting covering the entire Group. Monthly performance reporting includes actual Group, division and business 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 annual budgeting and quarterly updated forecasts extending over the following 12 to 15 months. The key financial indicators are sales performance for growth and comparable operating profit and comparable return on capital employed for profitability, monitored by monthly internal reporting. Information on the Group's financial situation is provided in interim reports, a half year financial report and the financial statements release. The Group's sales figures are published monthly.

Performance reporting to the Group's top management

Performance reporting to the Group's top management comprises monthly reports on the Group's, divisions', businesses' and subsidiaries' sales, profits and capital employed, as well as the Group's financial items, cash flows and balance sheet position. The businesses are primarily responsible for financial reporting and the accuracy of 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, capital employed and balance sheet are analysed monthly at business,

division and Group level, based on a 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 management also includes Group-level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting

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

Key actions in 2017

In 2017, the Group's legal structure in Finland was simplified by merging the Kesko Corporation subsidiaries Kesko Food Ltd, K-citymarket Oy and Kespro Ltd into Kesko Corporation. The integration of businesses acquired in 2016 – Onninen Oy, Suomen Lähikauppa and Oy Autocarrera Ab – into Kesko's common financial management systems continued. By the end of the year, 409 Siwa and Valintatalo stores of Suomen Lähikauppa had been converted into K-stores. In connection with the conversion in 2016 and 2017, the stores adopted Kesko Group's information systems and were connected to the Group's centralised financial management. By the end of the financial period, 243 K-Markets had been transferred to retailers.

Key actions in 2018

The harmonisation of the financial management processes of Group companies in Finland will continue in 2018, and common financial management systems will be adopted in all Finnish companies during the year. The remaining stores acquired with Suomen Lähikauppa will be transferred from Kesko to retailers during the first half of 2018. The Group will prepare for the IFRS16 (Leases) standard, which will come into effect on 1 January 2019, by creating a common lease agreement



management and lease accounting system for the Group's leases as part of the financial management systems.

Accounting policies and financial management IT systems

Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union. The accounting policies applied by the Group have been compiled into an accounting manual, updated as the standards are amended. The

manual contains guidelines for separate companies and the parent company, as well as guidelines for the preparation of the consolidated financial statements.

Kesko Group's financial management information is generated from 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.



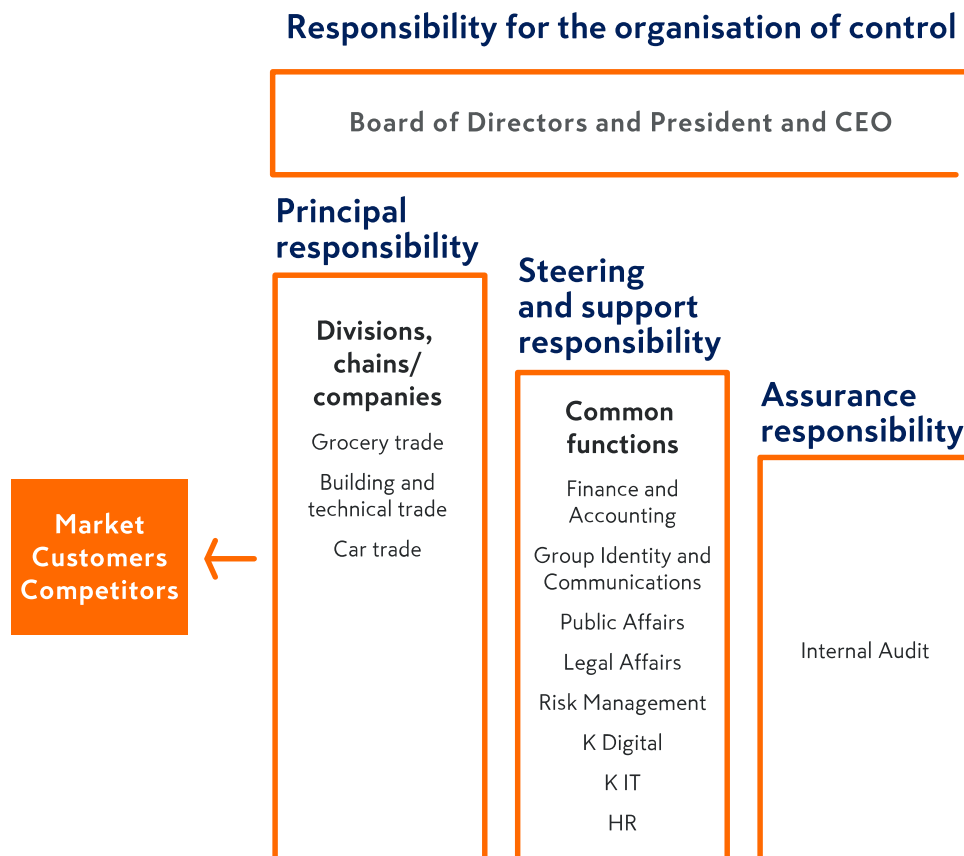
Internal control

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. Internal control tools include, for example, policies and principles, work instructions, approval authorisations, manual and automatic controls integrated in information systems, monitoring reports and

inspections or audits.

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 the definition of business objectives and the identification and assessment of 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 the law, 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 organising internal control. The management of each division, company and unit is responsible for ensuring that efficient and effective control procedures are in place. The next year's focus areas in risk management and control are discussed in annual risk management and control discussions with the Group and division managements. Every Kesko employee is obliged to comply with the K Code of Conduct and inform their supervisors of any grievances.

Risk management

Kesko's risk management is proactive and an integral part of day-to-day management. The objective of risk management is to support the implementation of Kesko's strategy.

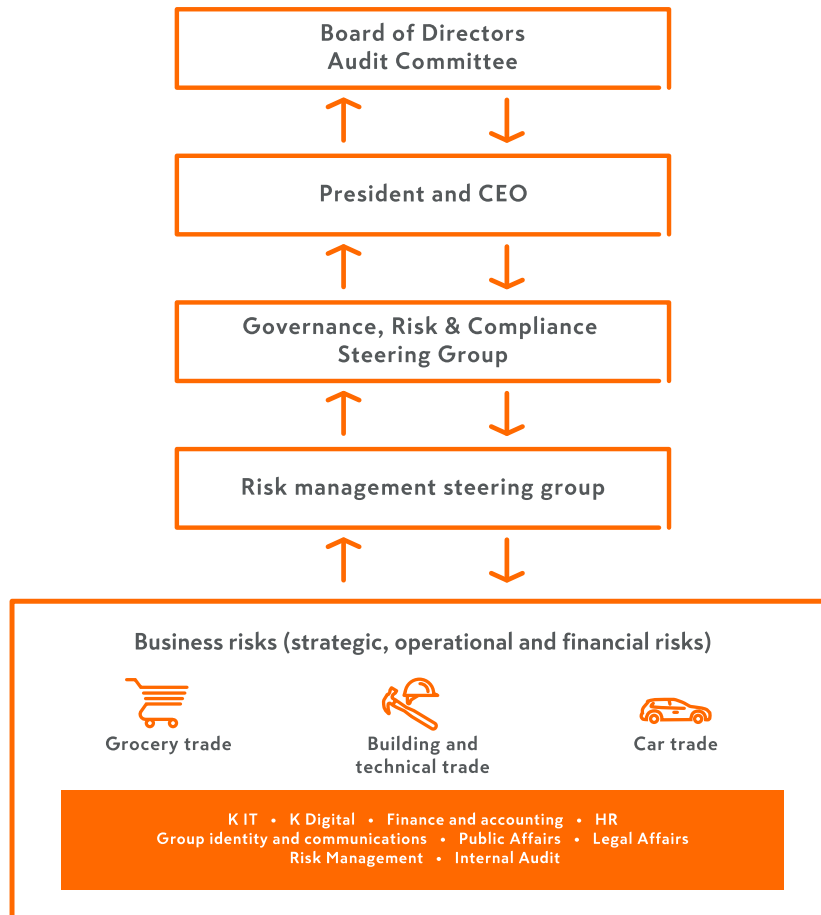
Risk management in Kesko Group is guided by the risk management policy confirmed by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. In the management of financial risks, the Group's treasury policy, confirmed by Kesko's Board of Directors, is observed.

The management of business operations and common

Kesko's common functions guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective areas of responsibility. 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 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).

functions are responsible for the execution of risk management. The finance director is responsible for the execution of risk management in each division. The risk management unit coordinates the risk management process and is responsible for risk reporting and executes risk identification, the determination of risk management responses and their implementation jointly with the businesses and common functions. Every member of Kesko personnel must know and manage the risks in their areas of responsibility. Kesko's internal audit function has evaluated the efficiency of Kesko's risk management system annually.

Risk management steering model



Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are identified, assessed, managed, monitored and reported as part of business operations at Group, division, company and function levels throughout the Group.

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.

Risk identification and assessment play a key role in

Kesko's strategy work and operations planning. In addition, risk assessments are made of significant projects related to capital expenditure, business arrangements or changes in operations. The risk assessments of divisions and common functions that include a risk map, risk management responses, responsible persons and schedules are reviewed regularly by the respective division's or common function's management.

Risks and risk management responses are reported in accordance with Kesko's reporting responsibilities. The divisions and the common functions report on risks and changes in risks to the Group's risk management function. Risks are discussed by the risk management steering group, which includes representatives of the divisions and the common functions. On that basis, the Group's risk management function prepares the Group's



risk report, which is reviewed by the Governance, Risk and Compliance (GRC) steering group, after which the CFO presents the risk report in the Group Management Board. On that basis, the Group's risk management function prepares a quarterly Group risk report, which is reviewed by the Governance, Risk and Compliance (GRC) steering group, after which the CFO presents the risk report to the Group Management Board.

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, the half year financial report and the financial statements. The Audit Committee also evaluates the efficiency of Kesko's risk management system. The Chairman of the Audit Committee reports on risk management to the Board of Directors 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 the half year financial report and the interim reports.

Risk management responses in 2017

In 2017, key focus areas for risk management were the

development of a cyber risk management model and the launch of related projects, and changes to insurance coverage based on Kesko's analysed risk tolerance. Kesko's management model and process for crises and exceptional situations was updated to correspond to changes in the organisation. The new management model and process were tested in a crisis exercise towards the end of the year. In corporate security, the cost-efficiency of security technology and services was improved through concentration of purchases. A positive trend continued in terms of damage and there were no major individual instances of damage.

Focus areas of risk management in 2018

Focus areas for risk management include the implementation of the cyber risk management development project, improving continuity management, and finalising the changes to insurance coverage initiated in 2017. The management of regulatory risks will be improved by developing Kesko's compliance function with Group Legal Affairs. The development and assurance of the effectiveness of actions related to risk reduction and determination will continue. Measures to improve the cost-efficiency of security technology and services will continue through concentration of purchases in all operating countries.



Other information to be provided in the CG statement

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 the operating instructions for Kesko's internal audit function.

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' management. Meetings with the Auditor are arranged on a regular basis in order to ensure sufficient audit coverage and to 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 2017

The key focus areas for internal audit operations in 2017 were the progress made in the implementation of Kesko's strategies, significant ongoing projects, and data security and data protection matters.

Focus areas of internal audit in 2018

Key focus areas for internal audit in 2018 are the progress made in the implementation of Kesko's strategies, and projects and changes related to business operations, financial management, cyber security and data protection.

Related party transactions

According to the Corporate Governance Code, the Company shall evaluate and monitor transactions concluded between the Company and its related parties and ensure that any conflicts of interest are taken into account appropriately in the Company's decision-making process. The Company shall keep a list of related parties.

The Company shall report the decision-making procedure applied in connection with related party

transactions that are material to the Company and that either deviate from the Company's normal business operations or are not made on market or market equivalent terms.

Kesko Group's related party transactions are reported in note 5.3 to the consolidated financial statements. The related party transactions do not deviate from the Company's normal business operations and they have been made on normal market terms.



Main procedures relating to insider administration

Kesko's insider guidelines

Kesko complies with Nasdaq Helsinki Ltd's guidelines for insiders in force at any given time. In addition, Kesko Corporation's Board of Directors has confirmed specific insider guidelines for the Company complementing Nasdaq Helsinki Ltd's guidelines for insiders.

Closed period

The closed period of 30 calendar days before the publication of interim reports, the half year financial report and the financial statements, as provided by the Market Abuse Regulation (MAR), is applied to specific members of management at Kesko. During the closed period, the management is prohibited from trading in Kesko's financial instruments. The Company has imposed a 30-day closed period preceding the quarterly financial performance disclosures also on persons involved in the preparation of Kesko's interim reports, the half year financial report and financial statements. Information on closed periods is provided annually in a stock exchange release.

Management transactions

As the public insider register was discontinued, the Company's obligation to disclose the transactions of the Company's management and persons closely associated with them changed as of 3 July 2016. At Kesko, Kesko Corporation's Board of Directors, the President and CEO, as well as the other Group Management Board

members have been defined to be subject to the requirement to notify their transactions. Transactions by Kesko's management and persons closely associated with them are disclosed in accordance with MAR.

Control and training

Kesko's Legal Affairs Services controls the compliance with insider guidelines and maintains the Company's insider lists and a list of managers and persons closely associated with them. The duties of Kesko's Legal Affairs Services in the area of insider management include the following:

- internal information on insider matters
- training in insider matters
- drawing up and maintaining insider lists and submitting them on request to the Financial Supervisory Authority
- ensuring that any person on the insider list acknowledges the duties entailed according to Article 18(2) of the Market Abuse Regulation
- maintaining a list of management and persons closely associated with them obligated to notify their transactions
- notifying management of their obligations under Article 19(5) of the Market Abuse Regulation
- controlling insider matters
- keeping abreast of any changes in the regulation of insider matters.



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 auditor's operations 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 2017 elected

PricewaterhouseCoopers Oy, the firm of auditors, as the Company's Auditor. The Auditor with principal responsibility for the Company is APA Mikko Nieminen.

He is currently the Managing Director of PricewaterhouseCoopers Oy and the auditor responsible for two Finnish listed companies:

- Kesko
- Finnair

APA Mikko Nieminen has been the Auditor with principal responsibility for the Company since 13 April 2015.

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

Auditors' fees in 2016-2017 (€1,000)

	2017			2016		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	309	671	980	215	705	920
Tax consultation	50	26	76	7	86	93
IFRS consultation	42	0	42	24	-	24
Other services	1,066	67	1,133	183	137	320
Total	1,476	764	2,231	429	928	1,357