



Corporate Governance Statement

EN 2016



Corporate Governance Statement 2016

Introduction	3
Descriptions concerning corporate governance	5
Kesko Group's Corporate Governance System	5
Board of Directors	6
Managing Director (President and CEO) and his duties	13
Group Management Board	14
Description of internal control procedures and the main features of risk management systems	15
Group's financial reporting	15
Internal control	18
Risk management	19
Other information to be provided in the CG statement	22
Internal audit	22
Related party transactions	22
Main procedures relating to insider administration	23
Auditing	24



Corporate Governance Statement 2016

Introduction

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 31 January 2017.

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 <http://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 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.

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 effective on 1 January 2016 ("Corporate Governance Code"). The Corporate Governance Code can be read in full at <http://cgfinland.fi/files/2015/10/hallinnointikoodi2015finweb1.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. The reasons for the departure are described below.

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

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.

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.



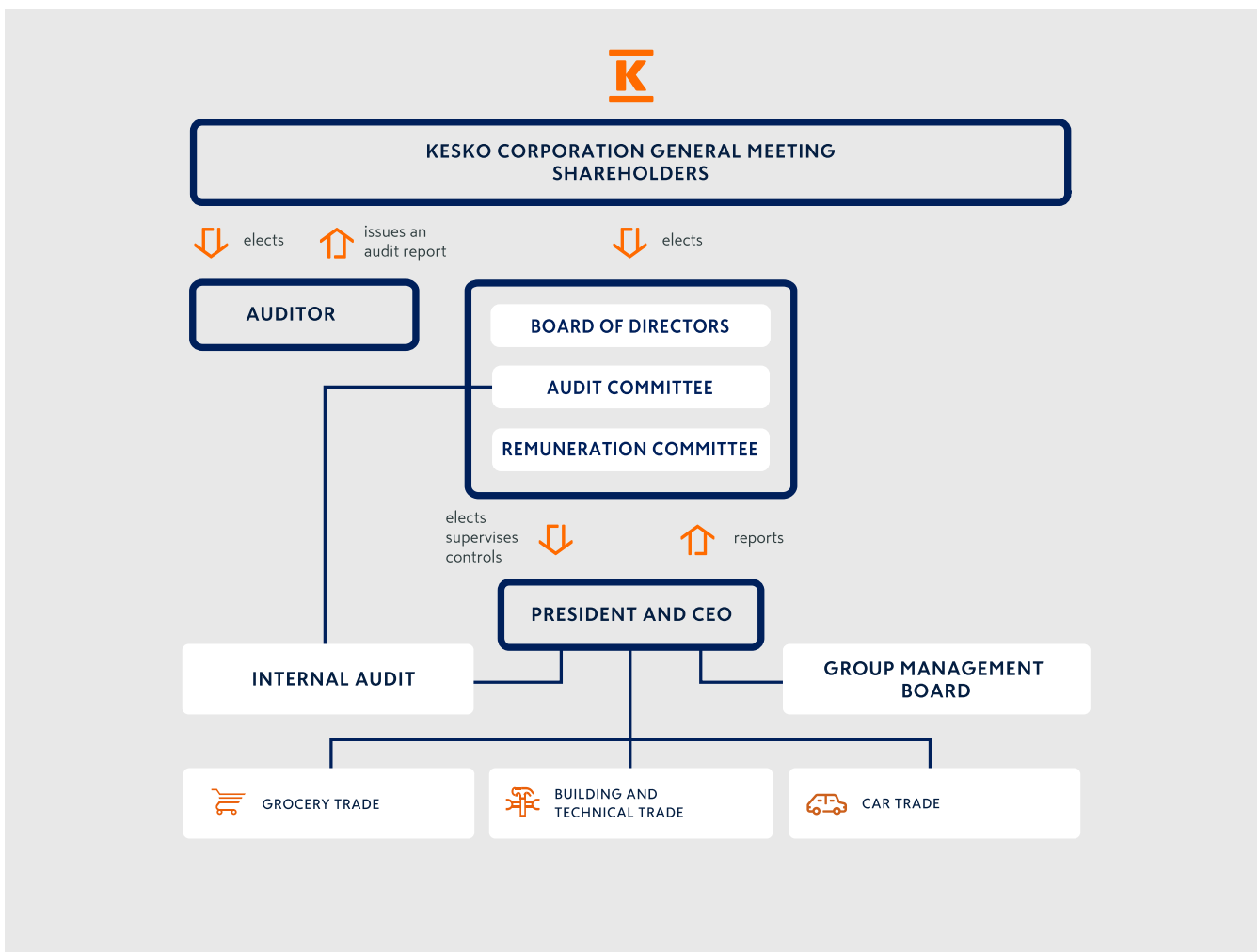
Descriptions Concerning Corporate Governance

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

The Board 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

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/>. 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 <http://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.

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

Board's composition and shareholdings

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

The General Meeting of 13 April 2015 elected Esa Kiiskinen, Mikael Aro, Matti Kyytsönen, Tomi Korpisaari, Anu Nissinen, Toni Pokela and Kaarina Ståhlberg as Board 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.



Tomi Korpisaari (b. 1968, retailer) and **Kaarina Ståhlberg** (b. 1966, Master of Laws) resigned from the Board as of 1 March 2016. The General Meeting of 4 April 2016 resolved to replace them by retailer, trade technician **Matti Naumanen** and Managing Director, Master of Science in Economics **Jannica Fagerholm** until the close of the Annual General Meeting to be held in 2018.

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.

The Board's composition and shareholdings as at 31 December 2016 are presented in the table below.

Board of Directors' composition and shareholdings as at 31 Dec. 2016

Name	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held as at 31 Dec. 2016
Esa Kiiskinen (Ch.)	1963	Business College Graduate	Food Retailer	2009	Remuneration Committee (Ch.)	1,350 A shares held by him and 106,000 A shares held by companies controlled by him
Mikael Aro (Dep. Ch.)	1965	eMBA	Senior Industry Advisor, Triton Partners	2015	Audit Committee (Dep. Ch.) Remuneration Committee (Dep. Ch.)	1,000 B shares held by him
Jannica Fagerholm*	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Ch.)	None
Matti Kyytsönen	1949	Master of Science (Economics)	Chair 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 (Economics)	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

* As of 4 April 2016

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 2016, the Board of Directors carried out an independence evaluation in its organisational meeting held after the General Meeting of 4 April 2016, as well as on 26 April 2016. Based on that independence



evaluation, the Board of Directors considered Toni Pokela not to be independent of the Company's significant shareholder, the K-Retailers' Association, of which Pokela is the Chair 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 presented in the table below.

Board members' independence in 2016

	Independent of the Company	Independent of a significant shareholder
Esa Kiiskinen (Ch.)	No***	Yes
Mikael Aro (Dep. Ch.)	Yes	Yes
Jannica Fagerholm*	Yes	Yes
Matti Kyytsönen	Yes	Yes
Matti Naumanen*	No***	Yes
Anu Nissinen	Yes	Yes
Toni Pokela	No***	No****
Tomi Korpisaari**	No	No****
Kaarina Ståhlberg**	Yes	Yes

* As of 4 April 2016

** Until 29 February 2016

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

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

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

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 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, 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 expenditures, 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 remuneration schemes and monitoring the implementation of the remuneration schemes
- 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 for Listed Companies.

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 Director's operations in 2016

In 2016, the Board held 13 meetings. The Board members' attendance rate at the Board meetings was 98.9%. In 2016, the Board has, among other things, monitored the implementation of the new strategy approved for Kesko Group in spring 2015, further clarified and concretised the chosen strategic policy definitions and made decisions on the mergers that realise the simplification of the Group's legal structure. In order to improve profitability and ensure competitiveness, the Board has made sure that the approved cost saving targets are achieved. The Board has also made decisions on significant business arrangement in accordance with the Group's confirmed strategy, such as the acquisitions of Onninen Oy and Ab AutoCarrera Oy and the disposal of the grocery trade in Russia and the boat business. The Board has also approved the Board's diversity policy and made a

decision on the approval of the K Code of Conduct guidelines observed by the Group. As in previous years, the Board has 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, the half year financial report and the financial statements before they are published.

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 2016

	Board member since	Committee membership	Attendance		
			Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Ch.)	2009	Remuneration Committee (Ch.)	13/13		4/4
Mikael Aro (Dep. Ch.)	2015	Audit Committee (Dep. Ch.) Remuneration Committee (Dep. Ch.)	13/13	6/6	
		Remuneration Committee (Dep. Ch.)			4/4
Jannica Fagerholm*	2016	Audit Committee	11/11	4/4	
Matti Kyytsönen	2015	Audit Committee	13/13	6/6	
Matti Naumanen*	2016		11/11		
Anu Nissinen	2015	Remuneration Committee	13/13		4/4
Toni Pokela	2012		13/13		
Tomi Korpisaari**	2012		1/2		
Kaarina Ståhlberg**	2015	Audit Committee (Ch.)	2/2	2/2	

* As of 4 April 2016

** Until 29 February 2016

Principles concerning diversity

The diversity policy approved by Kesko's Board of Directors is available at www.kesko.fi. 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 election of its members

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. 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 Board composition, as the areas of expertise and competence 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 Chair and the Deputy Chair from among its members for the whole term of office of the



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

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 competences and age and gender distribution support Kesko's business objectives and enable efficient Board work from Kesko's point of view. 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 statement."

Monitoring the implementation of diversity policy objectives in 2016

In 2016, 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 Hallituksen jäsenten henkilötietojen kuvaus in section "Board's 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'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 on matters 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

The Board's organisational meeting, held after the Annual General Meeting of 4 April 2016, elected the following Board members as Audit Committee members:

- Jannica Fagerholm (Ch.)
- Mikael Aro (Deputy Ch.)
- Matti Kyytsönen

During the period 1 January 2016 to 29 February 2016, the Chair of the Audit Committee Chair was Kaarina Ståhlberg.

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

- monitoring of Kesko Group's financial situation and funding situation and the process of financial statements reporting
- supervision of the Company's financial reporting process
- evaluation of the efficiency of the Company's internal control, internal audit and risk management systems
- revision of the Company's Corporate Governance Statement
- approval of the operating instructions, annual audit plan, budget and resources for the Company's Internal Audit and reviewing the reports submitted to the Committee
- monitoring of the statutory audit of the financial statements and the consolidated financial statements
- evaluation of the independence of the Company's audit firm
- evaluation of related (non-audit) services to Kesko by the audit firm and its network firms
- preparation of 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 2016, the Audit Committee held six (6) 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 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, the half year financial report and the interim reports, and made a recommendation to the Board on the review of the 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 reporting on non-financial information, the adoption of new IFRS standards and their impacts on the Group's reporting, the allocation of the prices of strategic business arrangements, their impacts and risks as well as treatment in the half year financial report and the interim reports. The Committee also discussed the external quality assurance of internal audit and its results, the situation of the Group's real estate associates, the cyber security development plan and the policy of purchasing ancillary services from audit firms. 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 2016 for the election of the Auditor based on the competitive bidding process for Auditors conducted towards the end of 2014.

Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 4 April 2016, elected the following Board members as Remuneration Committee members:

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

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

- preparation of 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
- preparation of 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 Chair of the Remuneration Committee
 - preparation of matters pertaining to the appointment of the President and CEO and the Group Management Board members responsible for lines of business, and the identification of their potential successors
 - development of remuneration schemes and preparing them to the Company's Board of Directors, including:
 - evaluation of the remuneration of the President and CEO and the other executives, and ensuring the appropriateness of the remunerations schemes
 - preparation of possible share or share-based commitment and incentive schemes
 - preparation of the distribution of shares or share options under the share or share-based commitment and incentive schemes, and the preparation of their terms and conditions
 - revision of 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 Chair
 - preparation of the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impacts on Kesko's long-term financial success.

In 2016, the Remuneration Committee held four (4) meetings. Its members' attendance rate at the meetings was 100%. The Committee prepared, among other things, the proposals to the Board for the vesting criteria and the target group of share awards, for the principles of management's performance bonuses for 2016, as well as for the Group's new performance bonus principles for 2017. The Committee made preparations for the appointments of the Executive Vice President for the car trade and the Company's Executive Vice Presidents, examined management's remuneration practices more generally as well as made preparations for a reform of management's total remuneration. In addition, the Committee discussed, among other things, Kesko's Remuneration Statement.

Managing Director (President and CEO) and his duties

Kesco 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 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 governance and he oversees that the financial

matters are 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.

As at 31 December 2016, Helander owned a total of 20,005 Kesko B shares. Helander's shareholdings as at 31 December 2016 is also presented in the table under "Group Management Board".



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, among other things, the Group's and the division parent companies' business plans, profit performances and matters dealt with by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 10–15 times a year.

Group Management Board members, areas of responsibility and shareholdings as at 31 Dec. 2016

	Group Management Board member since	Area of responsibility	Shares held as at 31 Dec. 2016
Mikko Helander, Chair	1 Oct 2014	Kesko's President and CEO	20,005 B shares held by him
Jorma Rauhala, Executive Vice President, grocery trade division	5 Feb 2013	Grocery trade	13,670 B shares held by him
Terho Kalliokoski, Executive Vice President, building and technical trade division	17 Nov 2005	Building and technical trade	24,009 B shares held by him
Pekka Lahti, Senior Vice President, car trade division*	1 Mar 2005	Car trade	15,401 B shares held by him
Jukka Erlund, Executive Vice President, Chief Financial Officer	1 Nov 2011	Finance and accounting	11,478 B shares held by him
Matti Mettälä, Executive Vice President	1 Oct 2012	Human resources	6,952 B shares held by him
Anne Leppälä-Nilsson, Executive Vice President, Group General Counsel	1 Jan 2015	Legal affairs	8,183 B shares held by her
Lauri Peltola, Executive Vice President	2 Mar 2015	Corporate responsibility, communications and stakeholder relations	2,670 B shares held by him
Anni Ronkainen, Executive Vice President	20 Apr 2015	Chief Digital Officer	2,670 B shares held by her

* Johan Friman (b. 1965, Master of Science in Economics) has been appointed Executive Vice President for the car trade division as of 1 Jan. 2017. Pekka Lahti will retire on a pension in accordance with his service contract on 1 April 2017.



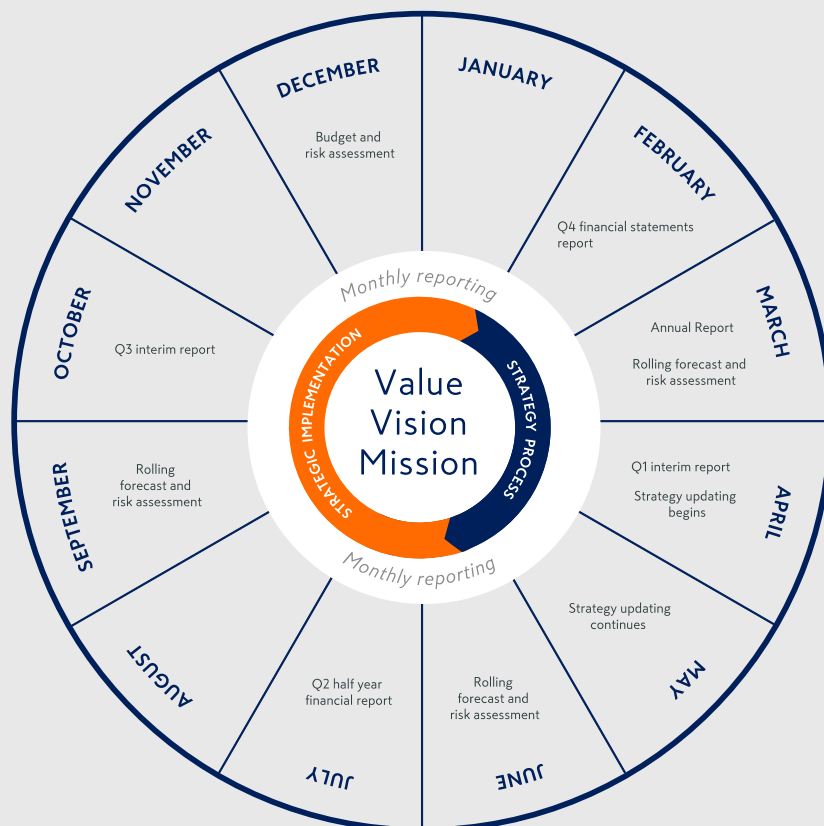
Description of internal control procedures and the main features of risk management systems

Group's financial reporting

Kesco's management model

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



Kesco's management model



Roles and responsibilities

Kesko Group's financial reporting and its supervision is organised in 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 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, business, division and Group level.

Planning and performance reporting

The Group's financial performance and the achievement of financial targets are monitored through Group-wide financial reporting. 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 indicator for growth is sales performance, while those for profitability are comparable operating profit and comparable return on capital employed, 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 each month.

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' profits and capital employed, as well as the Group's balance sheet information. Each business is primarily responsible for the 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 the 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 2016

In 2016, the simplification of the Group's legal structure continued and the focus was on the integration of the businesses of the acquired Onninen Oy, Suomen Lähikauppa and Ab AutoCarrera Oy. By the end of the year, 223 Siwa and Valintalo stores of Suomen Lähikauppa had been converted into K-Markets. In connection with the conversion, the stores adopted Kesko Group's information systems and were connected to the Group's centralised financial management.

During the year, Rautakesko Ltd and five other Finnish limited liability companies engaging in business operations were merged into Kesko Corporation and six real estate companies into their parent companies. The centralisation of the Group companies' financial management routines to the Shared Service Centre continued in Finland, as VV-Auto Group Oy's basic financial management processes were transferred to the Shared Service Centre.



Key actions in 2017

In 2017, the simplification of the Group's legal structure in Finland will continue, as the pending mergers are completed. In addition, improving the efficiency of the Group companies' financial management and conversion to electronic format will be continued in Finland.

Accounting policies and financial management IT systems

Kesko Group complies with the International Financial Reporting Standards (IFRSs) endorsed by the European Union. The accounting policies applied by the Group have been compiled in the 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.

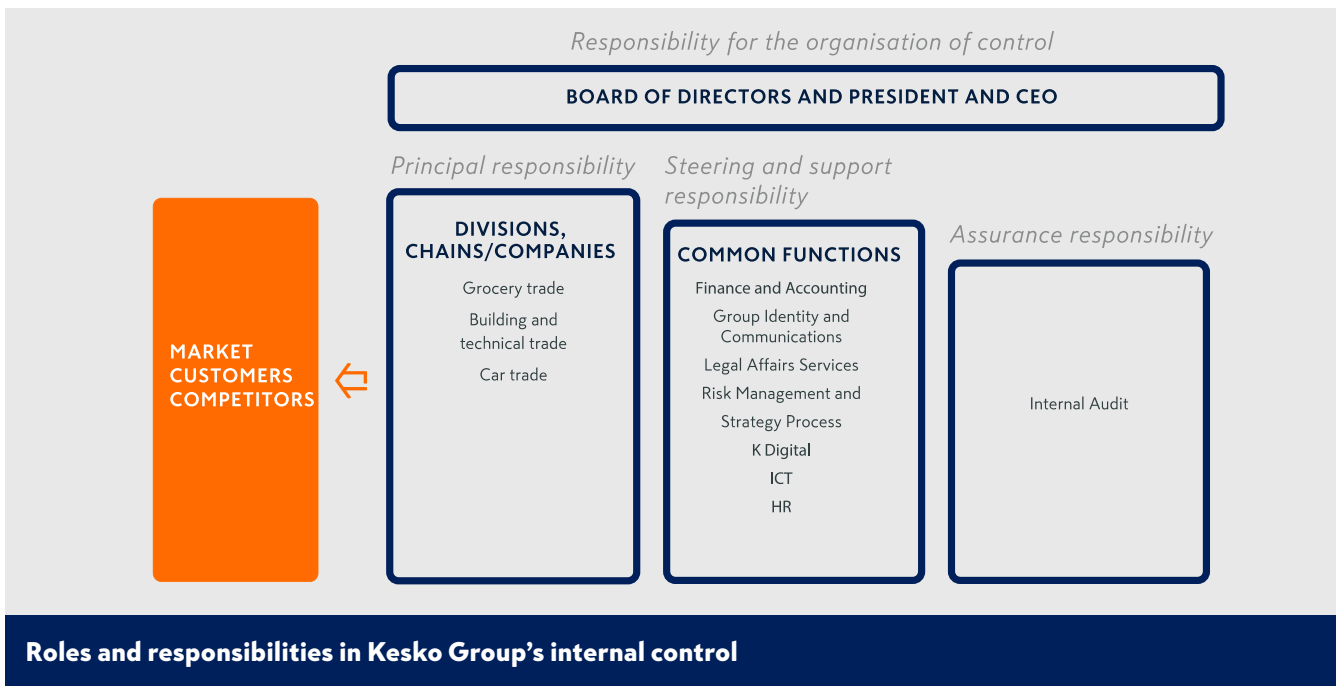
Kesko Group's financial management information is generated from division-specific enterprise resource planning systems via a centralised and controlled shared interface into the Group's centralised consolidation system to produce the Group's key financial reports. The key systems used in the production 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. 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.



The planning of control measures begins with the definition of business objectives and the identification and assessment of the 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 taking care 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.

Kesco'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 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).

Risk management

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

Risk management in Kesko Group is guided by the risk management policy approved 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 finance policy, confirmed by Kesko's Board of Directors, is observed.

The managements of the business operations and the common 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 the common functions. Kesko's Internal Audit annually evaluates the efficiency of Kesko's risk management system.



Risk management steering model

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 common function 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 on a quarterly basis. Risk assessment also

covers the risks concerning the divisions' subsidiaries and those related to significant projects.

The risk assessments of the divisions and the common functions, which 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 on a quarterly basis. 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.



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 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 the half year financial report and the interim reports.

Risk management responses in 2016

In spring 2016, Kesko's risk management was centralised and reorganised with the aim to better integrate it into the strategy process and to enhance the execution of risk management throughout the organisation. The most significant development targets in risk management in 2016 were the harmonisation of the divisions' and the common functions' risk management processes, especially the definition of actions related to risk reduction and determination, as well as the enhancement of monitoring. In addition, the preparatory work for a cyber risk management model was begun and preparations for a bidding process for insurance cover based on Kesko's risk tolerance were

started. Using centralised purchasing power in the acquisition of security services and technology was continued. The risk management function actively participated in the risk management process of the completed acquisitions, as well as in the takeover and integration of the acquired companies' risk management, corporate security and insurance solutions at the Group level. A positive trend continued in terms of damages and there were no major single damages.

Focus areas of risk management in 2017

The most important focus area in risk management is to support Kesko's strategy by implementing strategy based risk management. The development and assurance of the effectiveness of actions related to risk reduction and determination will be continued. Other focus areas in risk management include the implementation of the cyber risk management model, the renewal and deployment of insurance cover on the basis of risk tolerance and risk appetite, as well as the development of the management model for Kesko's crisis and exceptional situations and its updating to correspond to Kesko's new organisation. In addition, the development of the Group's common functions' risk management process will continue and the implementation of the risk management process in the new country organisations of the building and technical trade is ensured. The improvement of cost efficiency will continue in terms of centralised purchasing.



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 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 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 2016

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

Focus areas of internal audit in 2017

The key focus areas of internal audit operations in 2017 will be the implementation of Kesko's strategies, the significant projects in progress as well as data security and data protection matters.

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 decision-making process of the Company. The Company shall keep a list of parties that are related to the Company.

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 33 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

The Market Abuse Regulation ((EU) N:o 596/2014, "MAR") entered into force on 3 July 2016. In consequence of the MAR regulation, the main procedures relating to insider administration changed in 2016. The main procedures relating to insider administration followed since 3 July 2016 are described below. Prior procedures relating to insider administration are described in the 2015 CG Statement available at <http://kesko.fi/en/investor/corporate-governance/statements/>.

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.

Insiders at Kesko

As a result of the MAR regulation, the Company no longer has public insiders. The information on the Shareholdings of public insider register pages has not been updated since 3 July 2016. In the future, Kesko will not maintain a permanent company specific insider register either and will only maintain project specific and event specific insider lists.

Closed period

As the MAR regulation entered into force, the closed period of 30 calendar days before the publication of the interim reports, half year financial report and the financial statements, provided by the MAR regulation, will be applied to managers defined by Kesko. During the closed period, the managers are prohibited from dealing 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, half year financial report and financial statements. Information on the closed periods is provided annually in a stock exchange release.

Managers' transactions

As the public insider register was discontinued, the Company's obligation to disclose the transactions of the Company's managers 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.

Control and training

Kesko's Legal Affairs Services Department 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 Department in the area of insider management include the following among others

- internal information on inside matters;
- training in inside 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 the managers and persons closely associated with them obligated to notify their transactions;
- notifying managers of their obligations under Article 19(5) of the Market Abuse Regulation;
- controlling inside matters; and
- keeping abreast of any changes in the regulation of inside matters.



Auditing

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland's 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 2016 elected PricewaterhouseCoopers Oy, the firm of auditors, 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 three Finnish listed companies:

- Kesko
- Finnair
- CapMan

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 2015-2016 (€1,000)

	2016			2015		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	215	705	920	220	564	784
Tax consultation	7	86	93	84	14	98
IFRS consultation	24	-	24	9	-	9
Other services	183	137	320	450	135	585
Total	429	928	1,357	763	713	1,476