



**KESKO CORPORATION'S
CORPORATE GOVERNANCE STATEMENT
2011**

This corporate governance statement was discussed at the meeting of Audit Committee of the Kesko Corporation Board on 1 February 2012.

CONTENTS

1	THE RULES AND THE CORPORATE GOVERNANCE CODE OBSERVED BY KESKO	3
2	DEPARTURE FROM RECOMMENDATION NR 10 OF THE CORPORATE GOVERNANCE CODE (TERM OF BOARD MEMBERS) AND EXPLANATION FOR THE DEPARTURE.....	3
3	KESKO GROUP'S CORPORATE GOVERNANCE STRUCTURE	3
4	THE BOARD	4
4.1	TERM, COMPOSITION AND INDEPENDENCE	4
	Term.....	4
	Composition	5
	Independence	6
4.2	MAIN DUTIES.....	6
4.3	DECISION-MAKING, OPERATION AND MEETINGS	7
5	BOARD'S COMMITTEES	8
5.1	AUDIT COMMITTEE AND ITS OPERATION	9
5.2	REMUNERATION COMMITTEE AND ITS OPERATION	9
6	PRESIDENT AND CEO	10
7	DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS PERTAINING TO THE GROUP'S FINANCIAL REPORTING PROCESS	11
7.1	GROUP'S FINANCIAL REPORTING AND ITS INTERNAL CONTROL	11
	Kesko's management system	11
	Roles and responsibilities	12
	Planning and performance reporting	12
	Key actions in 2011.....	12
	Key actions in 2012.....	13
	Accounting policies and financial management IT systems	13
7.2	RISK MANAGEMENT	13
	Risk management responses in 2011	14
	Focus areas of risk management in 2012	14
7.3	INTERNAL CONTROL.....	14
8	INTERNAL AUDIT.....	15
	Internal audit operations in 2011	16
	Focus areas of internal audit in 2012.....	16
9	AUDIT	16

This is the separate corporate governance statement referred to in recommendation 54 of the Finnish Corporate Governance Code for listed companies issued by the Securities Market Association on 15 June 2010. This statement and the other information required by the Corporate Governance Code, the company's financial statements, the report by the Board of Directors and the auditor's report are available on Kesko's website at www.kesko.fi/investors.

KESKO CORPORATION'S CORPORATE GOVERNANCE STATEMENT

1 The rules and the Corporate Governance Code observed by Kesko

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

Kesko's decision-making and corporate governance are guided by Kesko's values and responsible operating practices. Decision making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board and its Committees and the rules and guidelines of NASDAQ OMX Helsinki Ltd. The company complies with the Finnish Corporate Governance Code 2010 for listed companies ("Corporate Governance Code"). The Corporate Governance Code can be read in full at www.cgfinland.fi. As provided by the Comply or Explain principle of the Corporate Governance Code, the company departs from the Corporate Governance Code's recommendation concerning the terms of office of the Board members as specified hereafter.

2 Departure from Recommendation nr 10 of the Corporate Governance Code (term of Board members) and explanation for the departure

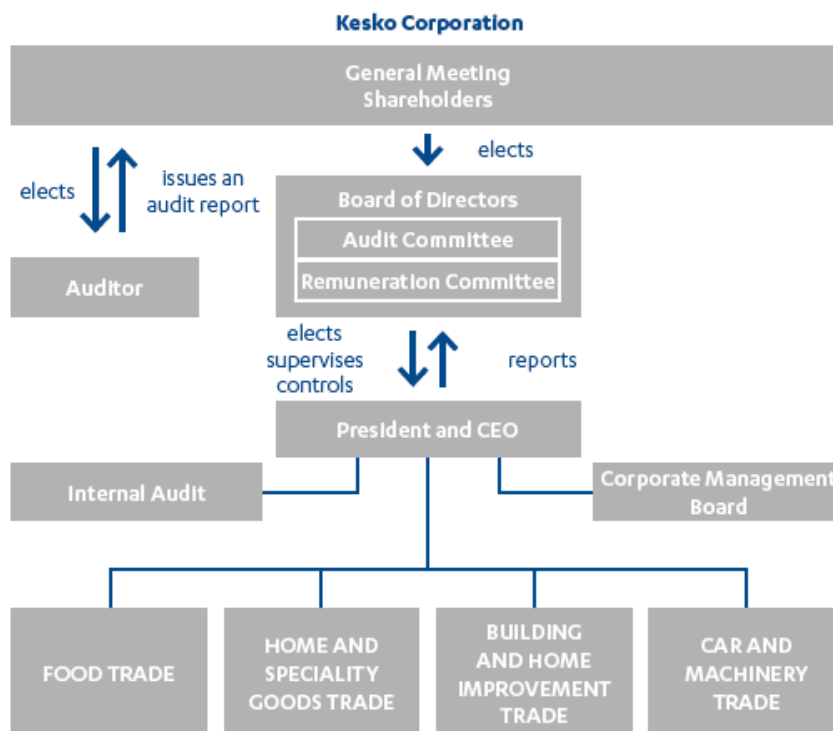
The term of office of the members of Kesko's Board of Directors depart from the term of one year given in Recommendation 10 of the Corporate Governance Code 2010. The term of the company's Board is defined in the company's Articles of Association. The General Meeting makes decisions on amendments to the Articles of Association. According to the company's Articles of Association, the term of office of each Board member is three (3) years with the term starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

A shareholder which, together with related entities, holds over 10% of all votes carried by the Kesko shares, has informed the company's Board of Directors that it considers the term of three (3) years good for the company's long-term development and sees no need to shorten the term of office stated in the Articles of Association.

3 Kesko Group's corporate governance structure

The highest decision-making power in Kesko is exercised by the company's shareholders at the company's General Meeting. The company's shareholders elect the company's Board of Directors (the "Board") and auditor at the General Meeting. The Kesko Group is managed by the Board and the Managing Director, who is the President and CEO. The President and CEO is appointed by the Board. The company uses a so-called one-tier governance model.

KESKO GROUP'S CORPORATE GOVERNANCE STRUCTURE



4 The Board

4.1 Term, composition and independence

Term

According to the Articles of Association, the term of office of each Board member of Kesko is three (3) years with the term 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 consists 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 Board members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects its Chair and the Deputy Chair from among its members for the whole term of the Board.

Composition

The Board elected by Kesko's Annual General meeting held on 30 March 2009 is composed of seven (7) members:



Heikki Takamäki, b. 1947
Chair of the Board, Chair of the Remuneration Committee
Retailer, K-rauta Rauta-Otra Nekala, Tampere, Finland
Board member since 1 January 2001.



Seppo Paatelainen, b. 1944, Master of Science (Agriculture and Forestry)
Deputy Chair of the Board, Deputy Chair of the Audit Committee and the
Remuneration Committee
Board member since 27 March 2006.



Esa Kiiskinen, b. 1963, Business College Graduate
Retailer, K-supermarket Kontumarket, Helsinki
Board member since 30 March 2009.



Ilpo Kokkila, b. 1947, Master of Science (Technology)
Member of the Remuneration Committee
SRV Yhtiöt Oyj: Chair of the Board of Directors.
Board member since 27 March 2006.



Mikko Kosonen, b. 1957, Doctor of Science (Economics and Business
Administration)
Member of the Audit Committee
President of Finnish Innovation Fund Sitra
Board member since 30 March 2009.



Maarit Näkyvä, b. 1953, Master of Science (Economics and Business
Administration)
Chair of the Audit Committee
Board member since 1 January 2001.



Rauno Törrönen, b. 1958
Retailer, K-citymarket Kauppakatu, Joensuu
Board member since 30 March 2009.

Kesko's Annual General Meeting 4 April 2011 resolved to leave the number of Board members unchanged. According to the Articles of Association, the term of each Board member will expire at the close of the Annual General Meeting to be held in 2012.

Independence

All of Kesko's Board members are non-executive directors. The Board evaluates the independence of its members annually on a regular basis in accordance with Recommendation 15 of the Corporate Governance Code. Based on the latest independence evaluation carried out on 4 April 2011, the Board considers that all of its members are independent of the company's significant shareholders, and that the majority of the members is also independent of the company. A Board member is obliged to provide the Board with sufficient information to enable the Board to evaluate his/her independence.

Board members' independence in 2011*

	Independent of the company	Independent of a significant shareholder
Heikki Takamäki (Ch.)	No**	Yes
Seppo Paatelainen (Dep. Ch.)	Yes	Yes
Esa Kiiskinen	No**	Yes
Ilpo Kokkila	Yes	Yes
Mikko Kosonen	Yes	Yes
Maarit Näkyvä	Yes	Yes
Rauno Törrönen	No**	Yes

*Based on the independence evaluation carried out on 4 April 2011.

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

4.2 Main duties

Kesko's Board ensures that the company's administration, operations and accounting, as well as financial management controls are in place. It is also responsible for the supervision and control of the whole Kesko Group. The Board has confirmed a written charter for its duties, matters to be discussed, meeting practice and the decision-making process. According to the charter, the Board considers and makes decisions on all matters that are financially, commercially or fundamentally significant for the Group.

- According to the charter, the Board's main duties include:
- making decisions on the Group's strategy and confirming strategies for the divisions
- confirming the Group's rolling plan, which includes the capital expenditure plan
- approving the Group's financial and investment policy
- confirming the Group's risk management policy and considering the Group's most significant risks and uncertainties
- reviewing and adopting the consolidated financial statements, interim reports and related stock exchange releases and the report by the Board
- making decisions on strategically or financially important individual capital expenditures, acquisitions, disposals or business arrangements, and commitments
- making decisions on management authorisation rules
- making decisions on the essential Group composition and organisation

- appointing and dismissing the company's President and CEO, approving his/her managing director's service contract and making decisions on his/her compensation and other financial benefits
- making decisions on the appointment of Corporate Management Board members responsible for lines of business, on their compensation and financial benefits
- making decisions on the principles of Kesko's remuneration plans and monitoring the implementation of the plans
- making possible proposals to the General Meeting for share or share-based remuneration plans, and making decisions on granting shares or share options under share and share-based remuneration 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 Corporate Responsibility Report
- being responsible for the other statutory duties prescribed to the Board by the Limited Liability Companies' Act or some other, and for duties prescribed by the Finnish Corporate Governance Code.

4.3 Decision-making, operation and meetings

The duty of Kesko's Board is to promote the best interests of Kesko and all of its shareholders. The Board members do not represent the interests of the parties who have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him/her and the company. When a vote is taken, the Board's decision will be the opinion of the majority. If a vote results in a tie, the decision will be the opinion supported by the Chair. If the votes cast at an election of a person end in a tie, the results will be decided by drawing lots.

In 2011, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 94.3%.

In its strategy work in 2011, the Board discussed the expansion of especially the food trade and other business operations into Russia, and continued to discuss electronic customer communications and e-commerce. The Board approved and reformed the Kesko Group management's incentive plans by introducing a new share-based compensation plan. It also approved the Group's updated risk management policy. As in previous years, the Board reviewed the financial reports and monitored the Group's funding situation, approved the most significant capital expenditures, monitored the progress of Group-level projects and approved interim reports and the financial statements prior to their disclosure.

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

The Board regularly assesses its operations and working practices and carries out a related self-assessment once a year. Most recently, the Board made a self-assessment of its operations and working practices in December 2011 based on a questionnaire and followed by the Board's discussion on the results and further actions. In the assessment, the Board noted that, for example, the two annual strategy meetings had enhanced the handling of the matters most significant for Kesko.

Attendance at meetings by members of the Board and its Committees in 2011

	Board member since	Committee	Attendance		
			Board	Audit Committee	Remuneration Committee
Heikki Takamäki (Ch.)	2001	Remuneration Committee (Ch.)	10/10	-	3/3
Seppo Paatelainen (Dep. Ch.)	2006	Audit Committee (Dep. Ch.) Remuneration Committee (Dep. Ch.)	10/10	5/5	3/3
Esa Kiiskinen	2009		10/10	-	-
Ilpo Kokkila	2006	Remuneration Committee	9/10	-	3/3
Mikko Kosonen	2009	Audit Committee	10/10	5/5	-
Maarit Näkyvä	2001	Audit Committee (Ch.)	7/10	4/5	-
Rauno Törrönen	2009		10/10	-	-

5 Board's Committees

Kesko has a Board's Audit Committee and a Remuneration Committee, both of which consist of three (3) Board members. At the close of the Annual General Meeting, the Board elects the Chairs, 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 its significant shareholders. In the election of the Audit Committee members, the relevant qualification requirements 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 relevant qualification requirements have been taken into account.

The Committees regularly evaluate their operations and working practices and carry out a related self-evaluation once a year. The Board has confirmed written charters for the Committees that lay down their key duties and operating principles.

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

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

5.1 Audit Committee and its operation

The members of the Audit Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2011, are:

- Maarit Näkyvä (Ch.)
- Seppo Paatelainen (Dep. Ch.)
- Mikko Kosonen.

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

- monitoring the Kesko Group's financial and funding situation and the process of the company's 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 Corporate Governance Statement submitted by the company
- approving the operating instructions, annual audit plan, budget and resources of the company's Internal Audit and handling the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the company's audit firm
- evaluating the non-audit services provided to Kesko by the company's audit firm and audit companies belonging to the same chain
- preparing the draft resolution concerning the election of the company's auditor for the General Meeting and
- keeping in contact with the company's auditor.

In 2011, the Audit Committee held five (5) meetings, and its members' attendance rate at the Committee meetings was 93.3%. At the Committee meetings, the Group's CFO, the Corporate Controller, the Chief Audit Executive and the General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on the Kesko Group's funding situation, 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 reports on the Group's financial situation, including the financial statements release and interim reports and made a recommendation to the Board on handling the interim reports and the financial statements release. In addition, the Committee reviewed the Group's external and internal audit and risk management reports, the external quality evaluation report on the Group's internal audit and approved internal audit's updated operating instructions and audit plan, budget and resources for 2012. The Committee also evaluated the auditor's independence and consultation services to the Group. The Audit Committee has prepared and submitted a proposal to Kesko's Annual General Meeting on the auditor to be elected for Kesko.

5.2 Remuneration Committee and its operation

The members of the Remuneration Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2011, are:

- Heikki Takamäki (Ch.)
- Seppo Paatelainen (Dep. Ch.)
- Ilpo Kokkila.

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

- preparing matters pertaining to the compensation and other financial benefits of the company's President and CEO, and preparing the managing director's service contract to the Board preparing matters pertaining to the compensation and other financial benefits of the Corporate Management Board members responsible for lines of business; the President and CEO makes decisions on the compensation and other financial benefits of the other Corporate Management Board members within the limits set by the Chair of the Board's Remuneration Committee
- preparing matters pertaining to the appointment of the President and CEO and the Corporate Management Board members responsible for lines of business, and identification of their possible successors
- developing and preparing remuneration schemes for the company's Board, including:
 - evaluating the remuneration of the President and CEO and other executives, and taking care of the appropriateness of the remunerations schemes
 - preparing possible share or share-based remuneration schemes
 - preparing the granting of shares or option rights under share or share-based remuneration schemes, and preparing their terms and conditions
 - reviewing the remuneration statement in connection with the financial statements
 - answering questions concerning the remuneration statement at the General Meeting. Questions are primarily answered by the Committee Chair
 - preparing the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success.

In 2011, the Remuneration Committee held three meetings. Its members' attendance rate at the Committee meetings was 100%. The Committee prepared proposals to the Board for a new long-term share-based compensation plan targeted to the Group's management and key personnel, and for the principles of the management's performance bonus scheme.

6 President and CEO

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Matti Halmesmäki, Master of Science in Economics and Master of Laws. He has been Kesko's President and CEO since 1 March 2005.



Matti Halmesmäki, b. 1952, Master of Science (Economics and Business Administration), Master of Laws
 President and CEO since 1 March 2005
 Member of the Corporate Management Board since 1 January 2001.

The President and CEO's duty is to manage the company in accordance with the instructions and orders issued by the company Board and to report to the Board on the developments in the company's business operations and financial situation. He is also responsible for the company's day-to-day management and ensuring that financial matters are handled in a reliable manner. The President and CEO also chairs the Corporate Management Board and the Boards of the Group's major subsidiaries, Kesko Food Ltd, Rautakesko Ltd, VV-Auto Group Oy, and the Board of the home and speciality goods division.

The President and CEO is elected by the Board, which also makes the decisions on the terms 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.

7 Description of the main features of the internal control and risk management systems pertaining to the Group's financial reporting process

7.1 Group's financial reporting and its internal control

Kesko's management system

Kesko's financial reporting and planning are based on the Kesko Group's management system. The Group units' financial results are reported and analysed inside the Group on a monthly basis, and disclosed in interim reports released quarterly. Financial plans are prepared for quarterly periods, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.



Roles and responsibilities

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

The accuracy of reporting is ensured by using different automated and manual controls at every reporting level. In addition, the income statement and balance sheet are analysed by controllers at subsidiary, division and Group level every month. The implementation of the analyses and controls is supervised on a monthly basis at company, division and Group level.

Planning and performance reporting

The Group's financial performance and the achievement of financial objectives are monitored via Group-wide financial reporting. Monthly performance reporting includes Group, division and subsidiary specific results, changes compared to the previous year, comparison with financial plans, and forecasts for the next 12 months. The Group's short-term financial planning is based on plans drawn up by the quarter, extending for the following 15 months. The financial indicator for growth is sales performance, while that for profitability is the accumulation of economic value added, monitored via monthly internal reporting. In the calculation of economic value added, the requirements concerning return on capital are determined annually on market terms, and the return requirements take account of risk-related division and country specific differences. Information on the Group's financial situation is communicated in interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Financial planning takes place at the subsidiary, division and the Group level as rolling plans, each for a 15-month period, are made. The plans are updated quarterly, and any significant changes are taken into account in the performance forecasts reported monthly. Any deviations between the plan and the actual result are analysed by the company, division and Corporate Accounting, and the reasons are reported to the division and Corporate Accounting every month.

The performance reports provided monthly for the Group's top management comprise the subsidiaries', divisions' and the consolidated income statements and balance sheets. Each subsidiary is primarily responsible for the financial reporting and the accuracy of its figures. The financial management and the controlling function of each division analyse the respective division's figures, while Corporate Accounting analyses the whole Group's figures. The income statement and the balance sheet are analysed monthly at the company, division and Group level, based on the documented division of duties and specified reports. This enables a real-time knowledge of the financial situation, as well as real-time response to possible defects. The performance reports provided for the top management also include Group level monitoring of sales on a weekly, monthly and quarterly basis.

Key actions in 2011

The Kesko Group continued the project for harmonising the financial management information systems, which will serve both the Group companies and the K-Group's retailers. The resulting financial management system will be part of the Group's financial reporting system. In addition, the K-Group's financial management processes and the control environment will become uniform.

The adoption of a shared planning system, which was begun earlier, was continued. The project will harmonise the Group companies' planning systems and integrate them in the Group's reporting system.

Key actions in 2012

In 2012, the financial management function will continue the information system project serving the K-Group and its adoption.

Accounting policies and financial management IT systems

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

The Kesko Group's financial management information is generated by division-specific enterprise resource planning systems, via a centralised and controlled common interface, into the Group's centralised consolidation system, to produce the Group's main 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.

7.2 Risk management

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

The risk management policy confirmed by the Board of Directors guides risk management in the Kesko Group. The policy defines the objectives, principles, practices, organisation and responsibilities of risk management. The management of financial risks is based on the Group's finance policy, confirmed by Kesko's Board. The business division and Group function managements are responsible for risk management implementation. Each division has appointed a management board member, usually the finance director, to be responsible for coordinating risk management and providing guidelines in each respective division and reporting on risk management responses.

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

Kesko has a uniform risk assessment and reporting system. 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 the impact and probability of their realisation and the level of risk management. When assessing the impact of realisation, the impacts on reputation, employees' wellbeing and the environment are considered in addition financial impacts.

In connection with the strategy process, the divisions assess the risks and opportunities of the strategy period. Near future risks are identified and assessed in accordance with the rolling planning schedule. Risk assessment also covers the risks of the divisions' subsidiaries and significant projects.

The divisions' risk assessments, which include risk management responses, responsible persons and schedules, are considered by the respective division boards quarterly before the interim reports are published. The Group functions assess the risks concerning their responsibility areas at least one a year.

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

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

Kesko's Board discusses the Kesko Group's most significant risks and the responses required to manage them, and assesses the efficiency of risk management. The most significant risks and uncertainties are reported to the markets by the Board in the financial statements, and any material changes in them in interim reports.

Risk management responses in 2011

Kesko's risk management policy was updated in late 2011. The new policy takes account of the impacts of the SFS-ISO 31000 'Risk management – Principles and guidelines' standard. Kesko has an established risk management process and no significant changes took place in it in 2011.

The risk management function was closely involved in the project for the introduction of the new chip&pin payment terminals. This included the assessment of the introduction project and the risks of use, and the definition of new operating systems. A risk assessment was carried out concerning the introduction of the financial management system in Russia.

Focus areas of risk management in 2012

As Kesko is strongly expanding its operating activities in Russia, local risk management resources will be increased and cooperation between the divisions as well as Group control will be added. The risk management function will continue working in close cooperation with other Group units, especially with the internal audit, legal affairs, human resources, accounting, treasury and IT functions in order to ensure the adoption of, for example, responsible operating practices, and to improve personnel safety and to develop risk management related to information security and data protection.

7.3 Internal control

The objective of internal control in the Kesko Group is

- to ensure profitable and effective operations
- to secure the continuity of operations
- reliability of financial and operational reporting
- compliance with laws and agreements and Kesko's values and operating principles
- security of assets and information.

Internal control is a part of management, Kesko's governance and day-to-day operations. The Board and the President and CEO are responsible for the organisation of internal control. The management of every division, company and unit is responsible that efficient control procedures are in place.

The Audit Committee of Kesko's Board has confirmed Kesko's internal control policies, which are based on good control principles, widely accepted internationally (COSO).

Internal control refers to all proactive operations, daily and subsequent control, aimed at ensuring the achievement of business objectives. Kesko's values, operating principles and the company's strategy and objectives form the basis of internal control as a whole. Kesko's operating principles have been communicated to the Kesko employees in the guide 'Our Responsible Working Principles' and the related Group-wide training programme.

Daily controls include working instructions and system and manual controls, as well as the definition and differentiation of responsibilities and powers, job specifications, approval authorisations and substitute procedures as well as financial and other reporting.

The Kesko Group's internal audit function evaluates and verifies the efficiency of internal control and assists management and the companies in the development of an internal control system.

8 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 has approved the 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 and risk management and control discussions with the Group's and divisions' managements. Meetings with the auditor are also arranged on a regular basis.

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The annual 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 competences. Audits can also make use of the competence and work contribution of the Kesko Group's other specialists.

The internal audit function cooperates with the Group's risk management function and participates in the work of the Risk Management Steering Group. The internal audit function assesses the efficiency of Kesko's risk management system annually.

Internal audit operations in 2011

In 2011, the areas of emphasis of the internal audit function included foreign operations and information system audits. The audits of foreign operations concentrated on the implementation of changes in business operations, selections management, and the other basic controls of purchasing. In information system audits, special attention was paid to systems projects in progress, continuity and information security. Compliance with Kesko's accounting policies and reporting guidelines was also verified and assessed in various audits.

The audits increasingly leveraged data extraction and analysing software more extensively than before. For the purpose of developing auditing, an external quality assurance evaluation on the internal audit was carried out. Close cooperation with the auditor was strengthened.

Focus areas of internal audit in 2012

The emphasis in the audit operations of the internal audit function in 2012 will be on the expansion of business operations in Russia and the related risks, as well as on significant business and IT projects. Other focus areas include purchasing and payment operations controls, risks of malpractice, HR governance, IT governance, data security, continuity of operations and electronification of processes.

9 Audit

According to the Articles of Association, Kesko has one (1) auditor, which shall be an audit firm authorised by the Central Chamber of Commerce. The Audit Committee prepares a proposal for the company's auditor to the Annual General Meeting. The Audit Committee also evaluates the auditors' operations and services annually. The term of an auditor is the company's financial period and an auditor's duties terminate at the close of the Annual General Meeting following the election. As a rule, a network firm of 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 presents the audit report required by law to Kesko's shareholders in connection with the company's financial statements and regularly reports its findings to the Audit Committee of Kesko's Board.

The 2011 Annual General Meeting elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility. The General Meeting resolved that the auditor's fee is paid and expenses are reimbursed according to invoice approved by the company.



Johan Kronberg

APA

PricewaterhouseCoopers Oy

The auditor with principal responsibility for Kesko since 31 March 2008.