



KESKO'S
ANNUAL REPORT 2018

CORPORATE GOVERNANCE STATEMENT 2018

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Introduction

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 5 February 2019.

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association effective from 1 January 2016. Kesko Corporation issues the statement separately from the Report by the Board of Directors. This statement and the other information to be disclosed in accordance with the Corporate Governance Code, and the Company's financial statements, the Report by the Board of Directors, and the Auditor's Report are available on Kesko's website at kesko.fi/en/investor/corporate-governance.

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

In Kesko, decision-making and corporate governance are in compliance with the Finnish Limited Liability Companies Act, regulations concerning publicly listed companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors and its Committees, and the rules and guidelines of Nasdaq Helsinki Ltd.

CORPORATE GOVERNANCE CODES KESKO COMPLIES WITH AND DEPARTS FROM

Corporate Governance Code Kesko commits to comply with	The Corporate Governance Code effective from 1 January 2016 ("Corporate Governance Code")
Website where the Corporate Governance Code is publicly available	cgfinland.fi/en/corporate-governance-code/
Corporate Governance Code recommendations from which the company departs	Recommendation 6 (Term of Office of the Board of Directors)
Explanation of and grounds for the departure <ul style="list-style-type: none">• grounds for the departure• decision-making concerning the departure• when the company plans to adopt the recommendation (in case of temporary departure)• when necessary, the company must describe the procedure implemented in place of the recommendation and explain how such a procedure establishes the objective of the recommendation or the code or how the procedure promotes the implementation of appropriate corporate governance in the company	<p>The term of office of Kesko's Board of Directors departs from the one-year term pursuant to Recommendation 6 (Term of Office of the Board of Directors) of the Corporate Governance Code. The term of office of the Company's Board of Directors is determined in accordance with the Company's Articles of Association. The General Meeting decides on amendments to the Articles of Association. According to the Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.</p> <p>A shareholder who, together with related entities, represents over 10% of votes attached to all Kesko shares, has informed the Company's Board of Directors that it considers the term of office of three (3) years good for the Company's long-term development and has not seen any need to shorten the term stated in the Articles of Association.</p>

Descriptions concerning corporate governance

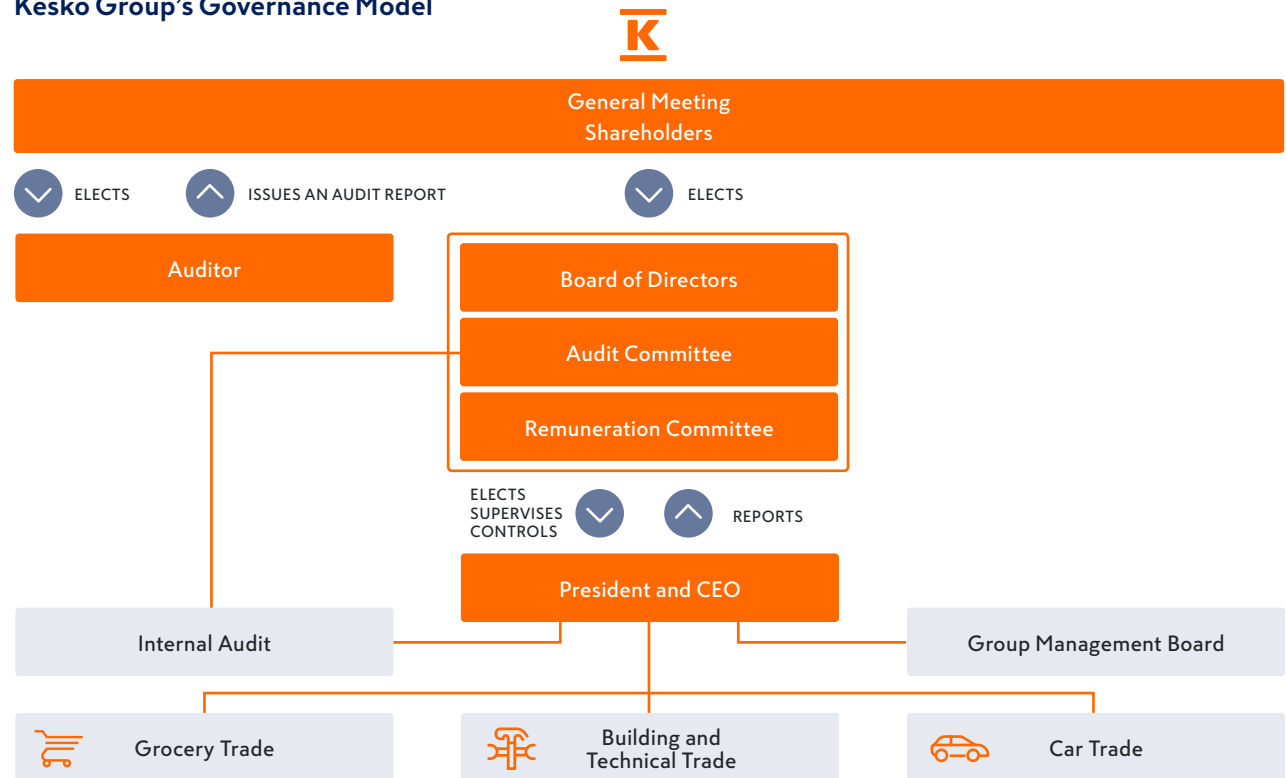
Kesko Group's corporate governance system

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

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

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

Kesko Group's Governance Model



the Act, certain decisions – such as decisions to amend the articles of association and decisions on directed share issues – require a qualified majority of two-thirds of the votes cast and represented at the meeting. The Limited Liability Companies Act provides that specific shareholders or all shareholders must consent to a decision limiting the rights arising from shares or increasing the obligations of shareholders.

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

The Company aims for all members of Kesko's Board of Directors, the President and CEO, and the Auditor to be present at the Annual General Meeting. The minutes of the General Meeting are made available to shareholders at Kesko's website at www.kesko.fi within two weeks of the

General Meeting. The resolutions of the General Meeting are also published in a stock exchange release without delay after the meeting.

Board of Directors

Formation and term of office of the Board of Directors

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 is no special committee or board engaged in the nomination of Board member candidates or their election at the General Meeting, as the number of Board members is resolved and the members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office of the Board.

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.

In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare for the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members. The proposal by significant shareholders is based on the Board's self-assessment, in which the performance and contribution of each Board member is also assessed, in addition to the competencies and experience needed in the Board composition. Conclusions based on the self-assessment are communicated to the significant

shareholders, and external advisors are used as necessary in surveying potential members who meet the set criteria. The Chairman of the Board interviews potential members and provides an opinion to the significant shareholders.

Board composition and shareholdings

The Annual General Meeting of 11 April 2018 resolved that the Board of Directors is composed of seven (7) members.

As of the Annual General Meeting of 11 April 2018, the Board members have been Esa Kiiskinen (Chair), Peter Fagernäs (Deputy Chair), Jannica Fagerholm, Piia Karhu,

Matti Kyytsönen, Matti Naumanen and Toni Pokela. Between 1 January and 11 April 2018, the Board members were Esa Kiiskinen (Chair), Mikael Aro (Deputy Chair), Jannica Fagerholm, Matti Kyytsönen, Matti Naumanen, Anu Nissinen and Toni Pokela.

In accordance with the Articles of Association, the term of office of the current members of the Board of Directors will expire at the close of the 2021 Annual General Meeting.

The Board's composition and shareholdings on 31 December 2018 are depicted in the table below.

Board composition and shareholdings on 31 Dec. 2018

Nimi	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held on 31 Dec. 2018
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	1,350 A shares held by him 106,000 A shares held by entities controlled by him 673 B shares held by him
Peter Fagernäs (Deputy Chair)	1952	Master of Laws	Chairman of the Board, Hermitage & Co Oy	2018	Remuneration Committee (Deputy Chair)	1,000 A shares held by him 417 B shares held by him
Jannica Fagerholm	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	1,417 B shares held by her
Piia Karhu	1976	Doctor of Science, Economics and Business Administration	Senior Vice President, Finnair Plc	2018	Audit Committee	313 B shares held by her
Matti Kyytsönen	1949	Master of Science (Economics)	Chairman of the Board, Silverback Consulting Oy	2015	Audit Committee (Deputy Chair) Remuneration Committee	1,308 B shares held by him
Matti Naumanen	1957	Trade Technician	Retailer	2016		2,400 A shares held by him 17,664 A shares held by entities controlled by him 313 B shares held by him
Toni Pokela	1973	eMBA	Food retailer	2012		179,400 A shares held by entities controlled by him 313 B shares held by him



Independence

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

The Board carried out an independence evaluation in its organisational meeting held after the Annual General Meeting of 11 April 2018. Based on that independence evaluation, the Board considered Toni Pokela not to be independent of the Company's significant shareholder, the K-Retailers' Association, of which Pokela is the Chairman of the Board. In its independence evaluation, the Board considered the majority of the Board members to be independent of the Company. A Board member is obliged to provide the Board with necessary information for the evaluation of independence.

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

Board members' independence in 2018

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

* Board member since 11 April 2018, ** Board member until 11 April 2018, *** Each of the companies controlled by Kiiskinen, Naumanen and Pokela has a chain agreement with Kesko Corporation., **** Pokela is the Chairman of the Board of Kesko's significant shareholder K-Retailers' Association.

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

Kesko's Board of Directors is responsible for the Company's corporate governance and for the proper organisation of its operations. The Board is responsible for the proper organisation of the Company's accounting and financial management controls. The Board of Directors has confirmed a written charter of the Board of Directors' duties, the matters it deals with, its meeting practice and its decision-making procedure.

In accordance with the charter, the Board deals with and makes decisions on matters that are financially, operationally or fundamentally significant to the Group. According to the charter, the Board of Directors' duties include:

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and rolling forecast, including a capital expenditure plan
- approving the Group's treasury and investment policy
- confirming the Group's risk management policy and reviewing the Group's most significant risks and uncertainties
- confirming the Group's insurance principles
- reviewing and adopting the consolidated financial statements, half year financial reports and interim reports and related stock exchange releases and the Report by the Board of Directors
- deciding on strategically or financially significant individual capital expenditure, acquisitions, divestments or other arrangements, and commitments

- deciding on management authorisation rules
- deciding on the essential structure and organisation of the Group
- appointing and dismissing the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her remuneration and other financial benefits
- deciding on the appointments of the Group Management Board members responsible for lines of business, on their remuneration and financial benefits
- deciding on the principles of Kesko's commitment and incentive schemes and monitoring their implementation
- 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 Kesko's Annual Report
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies Act or some other, and for duties prescribed by the Finnish Corporate Governance Code.

The duty of Kesko's Board of Directors is to promote the interests of Kesko and all of its shareholders. In the company, the Board members do not represent the parties that have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him/her (including entities

over which he/she exercises control) and the Company. When a vote is taken, the Board's decision will be the opinion of the majority and if a vote results in a tie, the decision will be the opinion supported by the Chair. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

Board of Directors' operations in 2018

In 2018, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 100%. Board meetings regularly discuss the review by the President and CEO on key topical issues, as well as the reports by the Chairmen of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meetings. The Auditor presents its findings to the Board once a year in connection with the review of the financial statements.

As in previous years, in 2018, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditure and divestments and new financing arrangements, monitored the progress of Group-level projects and approved the interim reports, the half year financial report and the financial statements before they were published.

In 2018 the Board, among other things, clarified and specified the Kesko Group strategy approved in spring 2015 and monitored its execution, and decided on acquisitions and divestments in line with the confirmed strategy, including the acquisitions of Kalatukku E. Eriksson Oy, Gipling AS, Skattum Handel AS, and the DIY retail business of Sørbrø Trelast AS and Tau & Jørpeland Bygg AS. The Board monitored the financial performance

of previously acquired companies and their integration into Kesko Group, the implementation of divestments decided, and progress in the Group's data protection project. The Board reviewed, for example, Kesko's Annual Report and goodwill impairment testing, and decided on mergers to simplify the Group structure, the establishment of a new share-based compensation plan, on using the authorisation granted by the General Meeting to acquire a maximum of 500,000 B shares in the Company, on new financing arrangements, and on the use of donation funds approved by the General Meeting.

The Board carried out a self-assessment. It was conducted via discussions between the Board's Chairman and each

Board member based on a predetermined discussion agenda. Topics covered in the assessment included Group strategy, reporting, risk management, efficiency of Board and Committee work, Group management and contingency planning for Group management, and individual Board member assessments. The Board reviewed a summary of the discussion results in its meeting. Focus areas included strategy-driven corporate leadership, the temporal aspect of strategy review, the scope of market and competitor information, the increased importance of cyber security in risk management, and an open and appreciative working atmosphere for the Board and its Committees. In addition to the summary, each Board member received personal feedback.

Attendance at meetings by members of the Board and its Committees in 2018

	Board member since	Committee membership	Attendance		
			Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Chair)	2009	Remuneration Committee (Chair)	10/10		3/3
Peter Fagerlös (Deputy Chair)*	2018	Remuneration Committee (Deputy Chair)	7/7		1/1
Jannica Fagerholm	2016	Audit Committee (Chair)	10/10	5/5	
Piia Karhu*	2018	Audit Committee	7/7	4/4	
Matti Kyytsönen	2015	Audit Committee (Deputy Chair) Remuneration Committee	10/10	5/5	1/1
Matti Naumanen	2016		10/10		
Toni Pokela	2012		10/10		
Mikael Aro (Deputy Chair)**	2015	Audit Committee (Deputy Chair) Remuneration Committee (Deputy Chair)	3/3	1/1	2/2
Anu Nissinen**	2015	Remuneration Committee	3/3		2/2

* Board member since 11 April 2018

** Board member until 11 April 2018

Principles concerning diversity

Kesko's Board of Directors approved on 25 October 2016 the diversity policy, which has been published on the website at kesko.fi/en/investor/corporate-governance/board-and-its-committees/diversity-policy, in the following form:

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

Board size and the election of its members

According to the Articles of Association, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. A sufficient number of Board members promotes the diversity of the Board composition, as the areas of expertise and competencies of the Board members are mutually complementary and the Board's independence requirements are satisfied.

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

General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Planning the Board composition

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

Kesko aims to achieve a balanced gender distribution in the composition of its Board of Directors. The composition of the Board shall reflect experience in both national and international business operations. The educational background of the Board members shall represent multiple disciplines and diversity. In addition, Kesko's Board shall include members with strong experience in the trading sector and in-depth knowledge of the retailer business. The achievement of objectives is monitored annually and reported in the corporate governance statement.”

Monitoring the implementation of diversity policy objectives in 2018

In 2018, two of the seven Board members were women, in other words, the proportion of the gender with the smaller representation on the Board was approximately 29%. The educational backgrounds and experience of the Board

members represent multiple disciplines and diversity, and several members also have experience in international business operations (for the personal details of the Board members, see the table "Board composition and shareholdings"). Several Board members have experience in the trading sector and the principal occupation of three of the seven Board members is acting as a K-retailer.

Board Committees

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

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

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

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

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

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

Audit Committee

The Board's organisational meeting, held after the Annual General Meeting of 11 April 2018, elected the following Board members as the Audit Committee members:

- Jannica Fagerholm (Chair)
- Matti Kyytsönen (Deputy Chair)
- Piia Karhu

During the period before the 2018 Annual General Meeting (1 January - 11 April 2018) the Audit Committee members were Jannica Fagerholm (Chair), Mikael Aro (Deputy Chair) and Matti Kyytsönen.

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

- monitoring Kesko Group's financial and funding situation
- monitoring and evaluating the Company's process for financial statements reporting

- monitoring and evaluating the Company's process for financial reporting
- monitoring and evaluating the efficiency of the Company's internal control, internal audit and risk management systems
- reviewing the Company's Corporate Governance Statement
- approving the operating instructions, annual audit plan, budget and resources for the Company's internal audit function and reviewing the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- monitoring and evaluating the independence of the Company's audit firm
- monitoring and evaluating related (non-audit) services to Kesko by the audit firm and its network audit companies
- preparing a proposal for a resolution on the election of the Company's Auditor and communicating with the Company's Auditor.

In 2018, the Audit Committee held five meetings. Its members' attendance rate at the Committee meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller and the director in charge of internal audit regularly reported 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 its audit plan and report to the Audit Committee.

During the year, the Committee reviewed the reports on the Group's financial situation, including the financial statements release, the half year financial report and the interim reports and updated forecasts, and made a recommendation to the Board on the review of the reports and the financial statements release. The Committee reviewed the reports of the Group's external and internal audits and risk management and the Corporate Governance Statement. The Audit Committee also reviewed goodwill impairment testing and the Group's risk reporting in the financial statements.

The Audit Committee monitored the implementation of the audit plan for internal audit, the Group's preparation for the implementation of new IFRS standards and their impact on the Group's reporting, the Group's preparations for the implementation of the new EU general data protection regulation, the development of associated companies, and additional services purchased from firms of auditors. The Committee also monitored and evaluated the Auditor's independence and the non-auditing consultation services provided by the Auditor to the Group. The Audit Committee prepared and submitted a proposal to Kesko's Annual General Meeting 2018 for the election of Auditor. The Committee also approved the 2019 audit plan, personnel resources and budget for the Group's internal audit.

The Audit Committee assessed its operations as part of the Board's self-assessment. Topics that emerged in the assessment included the Committee's significant role in monitoring the effectiveness of the Group's risk management, and successful reporting on low-profitability units.

Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 11 April 2018, elected the following Board members as the Remuneration Committee members:

- Esa Kiiskinen (Chair)
- Peter Fagernäs (Deputy Chair)
- Matti Kyytsönen

During the period before the 2018 Annual General Meeting (1 January - 11 April 2018) the Remuneration Committee members were Esa Kiiskinen (Chair), Mikael Aro (Deputy Chair) and Anu Nissinen.

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

- preparing for the Board matters pertaining to the remuneration and other financial benefits of the President and CEO and his/her managing director's service contract
- preparing matters pertaining to the remuneration and other financial benefits of the Group Management Board members responsible for lines of business; decisions on the remuneration and financial benefits of the Group Management Board members other than those responsible for lines of business are made by the President and CEO within the limits set by the Chairman of the Remuneration Committee
- preparing matters pertaining to the appointment of a President and CEO and the Group Management Board members responsible for lines of business, and identifying their potential successors,

- development of remuneration schemes and their preparation to the Board of Directors, including:
 - evaluating the remuneration of the President and CEO and other management, and ensuring the appropriateness of the remuneration schemes
 - preparing possible share or share-based commitment and incentive schemes
 - preparing the distribution of shares or share options under the share or share-based commitment and incentive schemes, and preparing their terms and conditions
- reviewing the Remuneration Statement in connection with the financial statements
- answering questions related to the Remuneration Statement at the General Meeting; questions are primarily answered by the Committee 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 2018, the Remuneration Committee held three meetings. Its members' attendance rate at the Committee meetings was 100%. The Committee prepared, among other things, proposals to the Board for Kesko's 2018-2021 share-based compensation plan, for the performance criteria and target values and the target group for share awards, for the principles of Group performance bonuses for 2018 and 2019, as well as for the performance bonuses to be paid for 2017 to the President and CEO and Group Management Board members responsible for lines of business.

The Committee monitored and evaluated the implementation of the reform of management's total remuneration. In addition, the Committee reviewed, among other things, Kesko's Remuneration Statement. The Remuneration Committee assessed its operations as part of the Board's self-assessment. The Committee did not hold any meetings under the new composition established after the 2018 Annual General Meeting before conducting the self-assessment. The new Committee members considered the induction they had been given successful, and based on that, assessed that the Group's remuneration scheme was good.

Managing director (President and CEO) and his duties

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Mikko Helander, Master of Science in Technology (b. 1960). He became Kesko's President and CEO on 1 January 2015. Helander was also a member of the Group Management Board and Kesko's Executive Vice President during the period between 1 October 2014 and 31 December 2014, and he has been the Chairman of the Group Management Board since 1 January 2015.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors and to report to the Board developments in the Company's business operations and financial situation. He is also responsible for organising the Company's day-to-day governance and for the company's accounting complying with legislation and financial matters being organised in a reliable manner. The President and CEO also chairs the Group Management Board.



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

As at 31 December 2018, Helander held a total of 44,964 Kesko B shares. Helander's shareholdings as at 31 December 2018 are also presented in the table under "Group Management Board".

Group Management Board

Kesko Group has a Group Management Board, the Chairman of which is Kesko's President and CEO. The Group Management Board does not have any powers under law or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level policies and procedures. In addition, the Group Management Board discusses, among other things, the Group's and the division parent companies' business plans, profit

performance and matters reviewed by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 14–18 times a year.

Group Management Board members, areas of responsibility and shareholdings on 31 Dec. 2018

	Group Management Board member since	Area of responsibility	Kesko shares held on 31 Dec. 2018
Mikko Helander, President and CEO	01/10/2014	Kesko's President and CEO	44,964 B shares held by him
Jorma Rauhala, President, building and technical trade division, Deputy CEO	05/02/2013	Building and technical trade	24,300 B shares held by him
Ari Akseli, President, grocery trade division	15/11/2017	Grocery trade	8,596 B shares and 81 A shares held by him
Johan Friman, President of K Auto Oy	01/01/2017	Car trade	3,363 B shares held by him
Jukka Erlund, EVP, Chief Financial Officer	01/11/2011	Finance and accounting, IT, Risk Management, M&A	20,203 B shares held by him
Mika Majoinen, EVP, Group General Counsel	01/01/2018	Legal affairs	11,070 B shares held by him
Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations	01/10/2012	Human resources, Corporate Responsibility and Regional Relations	12,884 B shares held by him
Anni Ronkainen, EVP, Chief Digital Officer	20/04/2015	Chief Digital Officer	8,602 B shares held by her

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

Group's financial reporting

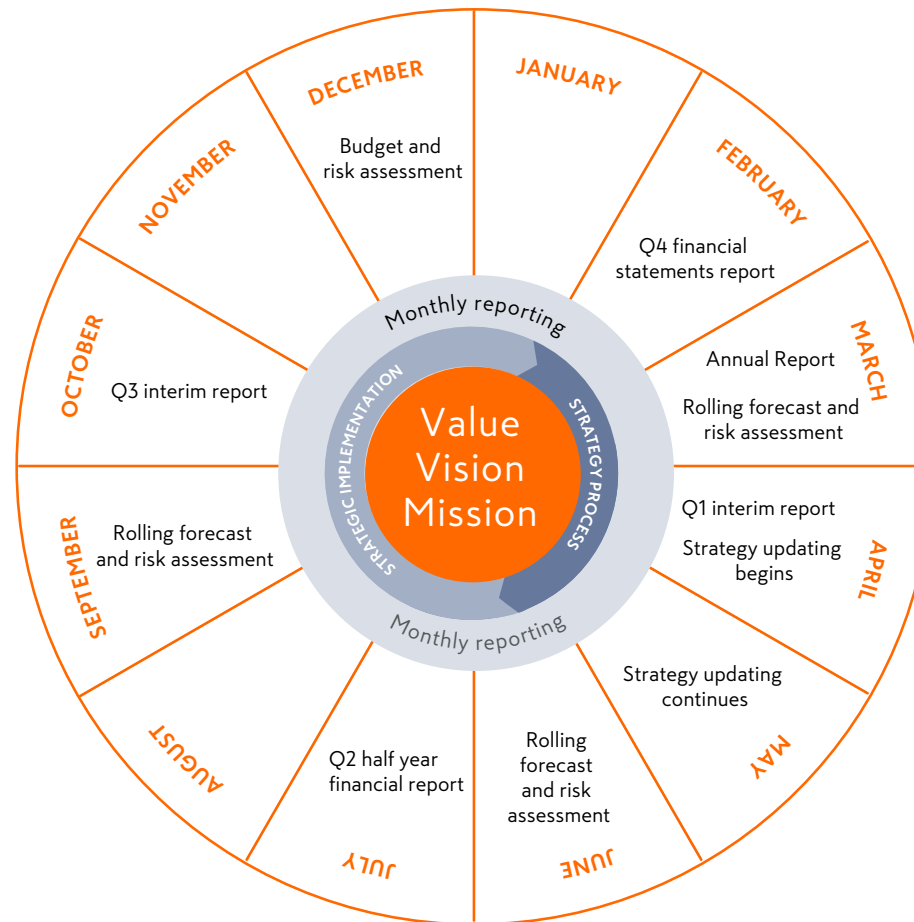
Kesko's management model

Kesko's financial reporting and planning are based on the Kesko Group management model. The Group units' financial results are reported and analysed internally within the Group on a monthly basis and disclosed quarterly in interim reports, the half year financial report and the financial statements release. Financial forecasts are updated quarterly, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.

Roles and responsibilities

Kesko Group's financial reporting and its supervision are organised on three levels. Businesses analyse and report their figures to the divisions, which then report the division-specific figures to Group Accounting. Analyses and controls for ensuring the accuracy of reporting are used on each of the three reporting levels. The accuracy of reporting is ensured with automated and manual controls at every reporting level. The implementation of the analyses and controls is supervised on a monthly basis at company, business, division and Group levels.

Kesko Group's management model



Planning and performance reporting

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

Performance reporting to the Group's top management

Performance reporting to the Group's top management comprises monthly reports on the Group's, divisions', businesses' and subsidiaries' sales, profits and capital employed, as well as the Group's financial items, cash flows and balance sheet position. The businesses are primarily responsible for financial reporting and the accuracy of figures. The controlling function of each division analyses the whole division's figures for which the division's financial management is responsible. The Group is responsible for the whole Group's figures. Key items in the income statement, capital employed and balance sheet are analysed monthly at business, division and Group level, based on a documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available and enables real-time responses to possible flaws. Performance reporting to

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

Public performance reporting

Public performance reporting comprises interim reports, a half year financial report, the financial statements release, the annual financial statements, and monthly sales reports. The same principles and control methods are applied to public performance reporting as to monthly performance reporting. The Audit Committee reviews the interim report, the half year financial report and the financial statements and gives a recommendation on their review 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 2018

The harmonisation of the financial management processes of Group companies in Finland continued in 2018. Car trade division companies K Auto Oy and K Caara Oy adopted the Group's shared financial management system. The five companies acquired during the year were integrated into Kesko Group's financial reporting. The remaining stores acquired with Suomen Lähikauppa with continuing operations were transferred from Kesko to retailers during the first half of 2018. As a result, Kesko discontinued its own retailing operations in the K-Market chain in its grocery trade division, and the stores are now operated under the retailer business model.

The Group prepared for the implementation of IFRS 16 (Leases), which will come into effect on 1 January 2019, by creating a common lease agreement management and lease accounting system for the Group's leases as part of the financial management systems. The Group's accounting manual was updated in accordance with

accounting policies in compliance with the new standard, and financial management personnel was trained in reporting in line with the new standard. On 19 December 2018, Kesko issued a stock exchange release with comparison figures for consolidated financial statements for 2018 in relation to the adoption of IFRS 16.

Key actions in 2019

IFRS 16 (Leases) will be implemented in the Group's financial reporting as of the beginning of 2019. The implementation of the new IFRS 16 constitutes the biggest individual change in Kesko's financial reporting since the transition to IFRS reporting. The harmonisation and automation of core financial management processes will continue via separate projects in 2019.

Accounting policies and financial management IT systems

Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union. The accounting policies applied by the Group have been compiled into an accounting manual, updated as the standards are amended. The manual contains guidelines for separate companies and the parent company, as well as guidelines for the preparation of the consolidated financial statements. Kesko Group's financial management information is generated from division-specific enterprise resource planning systems via a centralised and controlled shared interface into the Group's centralised consolidation system to produce the Group's key financial reports. The key systems used in the generation of financial information have been certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

Internal control

Internal control is an integral part of management and of ensuring the achievement of business objectives. Through efficient internal control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken. Internal control tools include, for example, policies and principles, work instructions, approval authorisations, manual and automatic controls integrated in information systems, monitoring reports and inspections and audits. The objective of internal control in Kesko Group is to ensure the profitability, efficiency, continuity and freedom from disruptions of operations, the reliability of financial and operational reporting both externally and internally, compliance with laws and agreements and Kesko's values and operating principles, as well as safeguarding assets, expertise and information.

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

The Board of Directors and the President and CEO are responsible for organising internal control. The management of each division, company and unit is responsible for ensuring that efficient and effective control procedures are in place. The next year's focus areas for 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.

Kesko's common functions guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective areas of responsibility. Kesko Group's internal audit function assesses and verifies

the effectiveness and efficiency of Kesko's internal control, reports on it to the President and CEO and the Audit Committee of Kesko Corporations' Board of Directors, and assists management and Kesko companies in the development of the internal control system. The Audit Committee of Kesko's Board of Directors has confirmed the principles of Kesko's internal control, which are based on good control principles widely accepted internationally (COSO 2013).

Roles and responsibilities in Kesko Group's internal control



Risk management

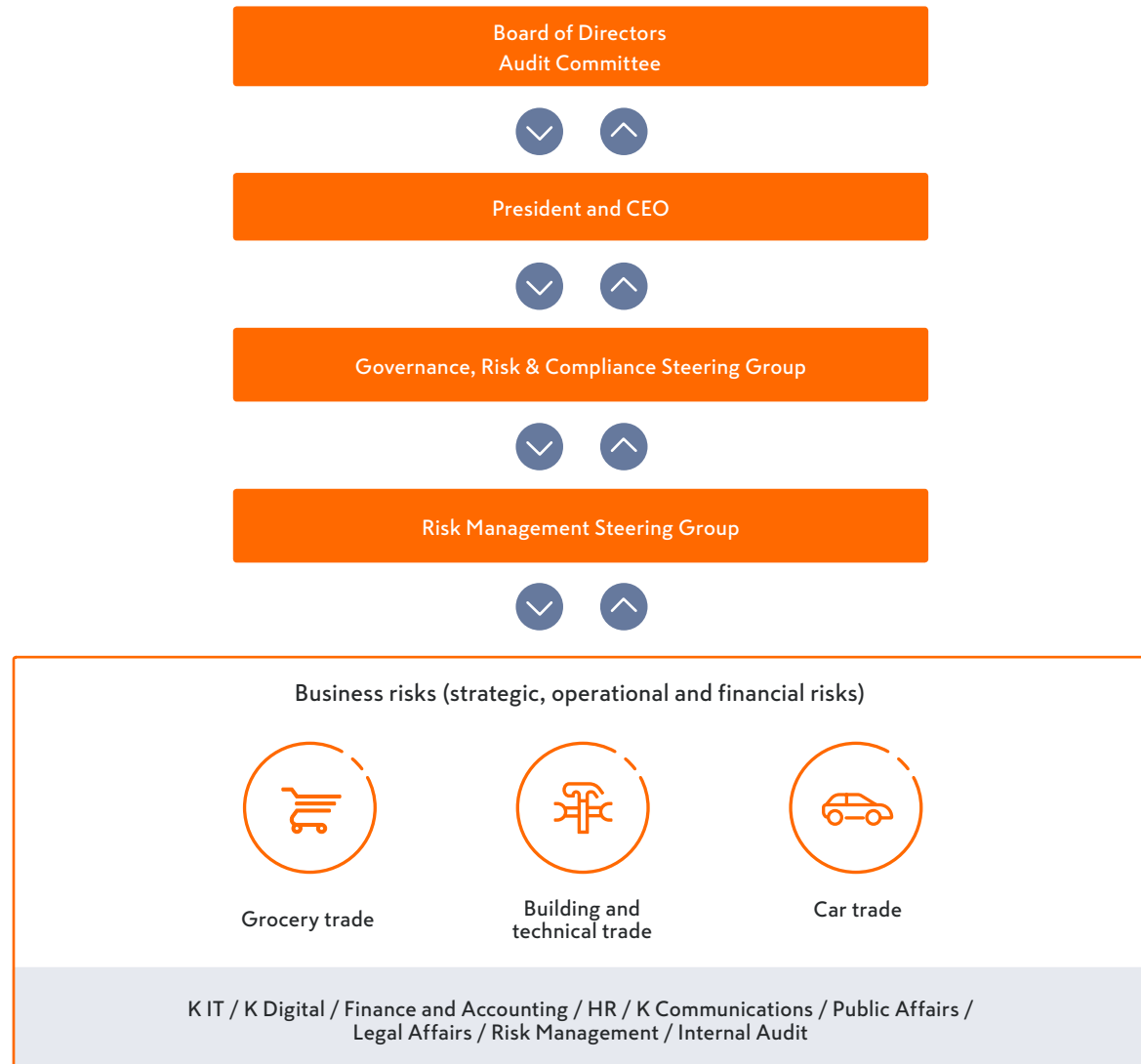
Kesko's risk management is proactive and an integral part of day-to-day management. The objective of risk management is to support the implementation of Kesko's strategy.

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

The management of business operations and common functions are responsible for the execution of risk management. In each division, the finance director is responsible for the execution of risk management. The risk management unit coordinates the risk management process and is responsible for risk reporting and executes risk identification, the determination of risk management responses and their implementation jointly with the businesses and common functions. Every member of Kesko personnel must know and manage the risks in his/her area of responsibility.

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

Risk management steering model



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

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

Risks and risk management responses are reported in accordance with Kesko's reporting responsibilities. The divisions and the common functions report on risks and changes in risks to the Group's risk management function. Risks are reviewed 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 Kesko's President and CEO approves the risk report.

The Group's risk map, the most significant risks and uncertainties, as well as material changes in and

responses to them are reported to the Kesko Board's Audit Committee in connection with reviewing the interim reports, the half year financial report and the financial statements. The Audit Committee also evaluates the efficiency of Kesko's risk management system. The Chairman of the Audit Committee reports on risk management to the Board of Directors as part of the Audit Committee Report.

Kesko's Board reviews Kesko Group's most significant risks and uncertainties. The Board reports on the most significant risks and uncertainties to the market in the Report by the Board of Directors and on material changes in them in the half year financial report and the interim reports.

Risk management responses in 2018

In 2018, key focus areas for risk management were the development of a cyber risk management and the implementation of related projects, as well as changes to insurance coverage based on Kesko's analysed risk tolerance. Kesko's business continuity planning was developed and updated continuity plans were tested in business continuity and crisis management exercises. In corporate security, improvement of the cost-efficiency of security technology and services continued through the concentration of purchases. Corporate security also strived to improve awareness of cyber security threats among personnel members through spam and malware attacks simulated by service partners. Information security training was organised for the whole personnel. A positive trend continued in terms of damage and there were no major individual instances of damage.

Focus areas for risk management in 2019

Focus areas for risk management include the systematisation of cyber risk management and its integration into the Group risk management steering model, enforcing risk management in operations outside Finland, and improving the efficiency of processes related to updates and changes to the Group's insurance coverage. The management of regulatory risks will be improved by developing Kesko's compliance operations with Group Legal Affairs. The development and assurance of the effectiveness of actions related to risk reduction and determination will continue. Measures to improve the cost-efficiency of security technology and services will continue through concentration of purchases. In addition, the corporate security unit actively takes part in the implementation of security arrangements on the new K-Kampus.

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, which systematically examines and verifies the efficiency of risk management and the managing, control and governance of risks, as required of a listed company. The Audit Committee of Kesko's Board of Directors has confirmed the operating instructions for Kesko's internal audit function.

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

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The audit plan is modified on a risk basis, if necessary. The internal audit function purchases external services

as necessary 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 2018

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

Focus areas for internal audit in 2019

In 2019, key focus areas for internal audit will be the progress made in the implementation of Kesko's strategies, acquisitions and divestments made, projects related to IT and digitalisation, and the execution of data protection and information security and projects and changes related to those.

Related party transactions

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

The Company shall report the decision-making procedure applied in connection with related party transactions that are material to the Company and that either deviate from the Company's normal business operations or are not made on market or market equivalent terms.

Kesko Group's related party transactions are reported in note 5.3 to the consolidated financial statements. The

related party transactions are not material to the Company and do not deviate from the Company's normal business operations and they have been made on market or market equivalent terms.

Main procedures relating to insider administration

Kesko's insider guidelines

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

Closed period

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

Management transactions

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

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

Control and training

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

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

Auditing

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland Chamber of Commerce. The Audit Committee submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also monitors and 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 network of audit companies as the audit firm elected by Kesko's General Meeting as Auditor, will be elected as the Auditor of each 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 of 2018 elected Authorised Public Accountants PricewaterhouseCoopers Oy as the Company's Auditor. The Auditor with principal responsibility for the Company is APA Mikko Nieminen.

During 2018, APA Mikko Nieminen acted as the Managing Director of PricewaterhouseCoopers Oy as well as the Auditor with principal responsibility for two listed Finnish companies, Kesko Corporation and Finnair Plc.

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

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

Auditors' fees in 2017–2018 (€1,000)

	2018			2017		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	273	619	892	309	671	980
Tax consultation	80	90	170	50	26	76
IFRS consultatiton	45	0	45	42	0	42
Other services	253	290	543	1,066	67	1,133
Total	651	999	1,650	1,476	764	2,231