



**KESKO CORPORATION'S  
CORPORATE GOVERNANCE STATEMENT  
2013**

This Corporate Governance Statement has been discussed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 3 February 2014.

## CONTENTS

1	RULES AND CORPORATE GOVERNANCE OBSERVED BY KESKO .....	3
2	DEPARTURE FROM RECOMMENDATION 10 OF THE CORPORATE GOVERNANCE CODE (BOARD MEMBERS' TERM) AND EXPLANATION FOR THE DEPARTURE .....	3
3	KESKO GROUP'S CORPORATE GOVERNANCE SYSTEM.....	3
4	BOARD OF DIRECTORS.....	4
	4.1 TERM, COMPOSITION AND INDEPENDENCE.....	4
	<i>Term</i> .....	4
	<i>Composition</i> .....	5
	<i>Independence</i> .....	6
	4.2 MAIN DUTIES .....	6
	4.3 DECISION-MAKING, OPERATIONS AND MEETINGS .....	7
5	BOARD COMMITTEES.....	8
	5.3 REMUNERATION COMMITTEE AND ITS OPERATIONS .....	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.....	11
	7.1 GROUP'S FINANCIAL REPORTING AND ITS INTERNAL CONTROL .....	11
	<i>Kesko's management system</i> .....	11
	<i>Roles and responsibilities</i> .....	12
	<i>Key actions in 2013</i> .....	13
	<i>Key actions in 2014</i> .....	13
	7.2 RISK MANAGEMENT .....	13
	<i>Focus areas of risk management in 2014</i> .....	15
	7.3 INTERNAL CONTROL.....	15
8	INTERNAL AUDIT .....	16
	<i>Internal audit operations in 2013</i> .....	16
	<i>Internal audit focus areas in 2014</i> .....	16
9	AUDIT .....	17

This is the separate Corporate Governance Statement referred to in Recommendation 54 of the Finnish Corporate Governance Code issued by the Securities Market Association and effective from 1 October 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](http://www.kesko.fi/investors).

## KESKO CORPORATION'S CORPORATE GOVERNANCE STATEMENT

### 1 Rules and corporate governance observed by Kesko

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

Kesko's decision-making and corporate governance are guided by Kesko's values and responsible operating practices. Decision-making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors and its Committees and the rules and guidelines of NASDAQ OMX Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for Listed Companies 2010. The Corporate Governance Code can be read in full at [www.cgfinland.fi](http://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 Board members' terms of office.

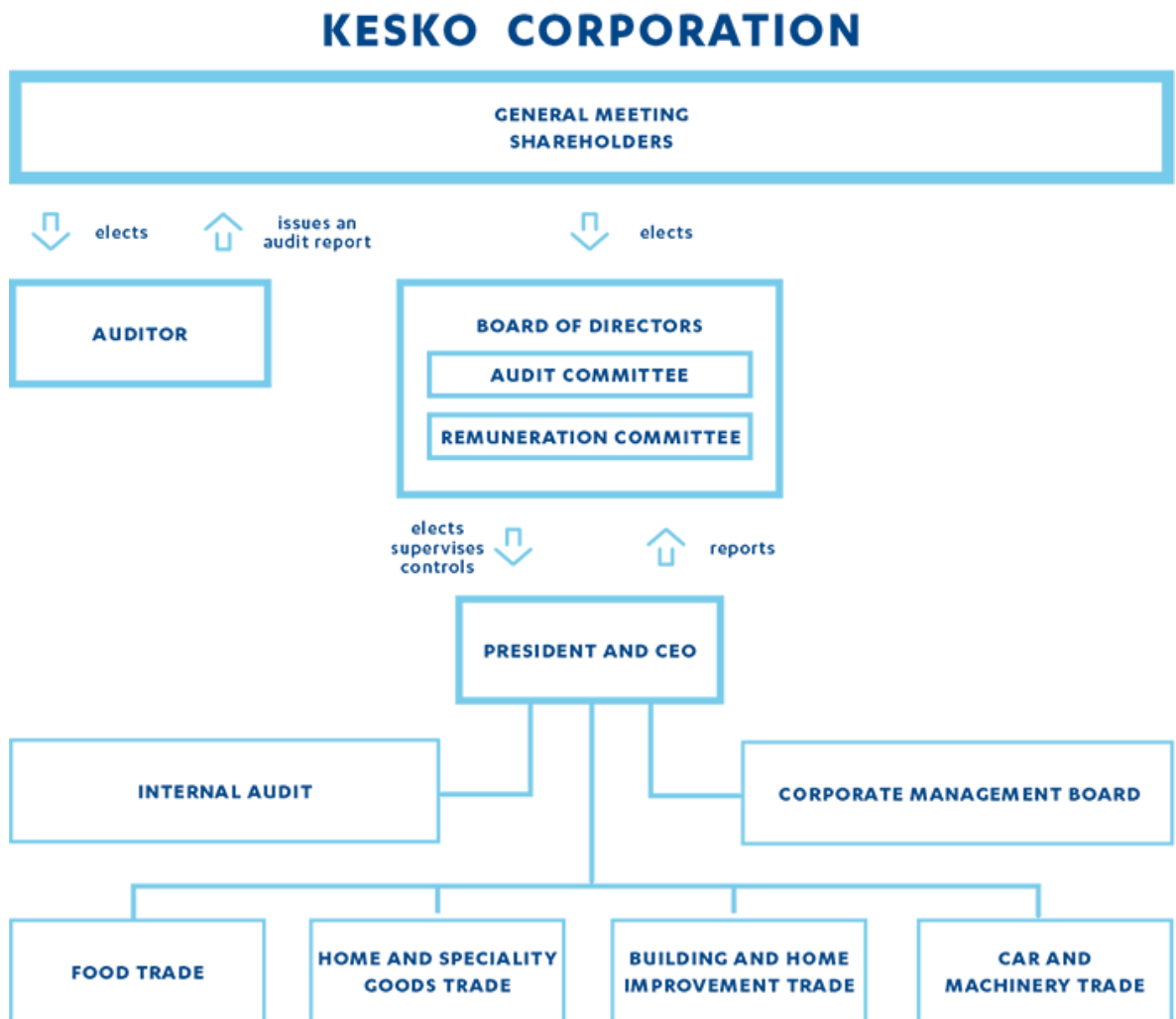
### 2 Departure from Recommendation 10 of the Corporate Governance Code (Board members' term) and explanation for the departure

The term of Kesko's Board members departs from the term of one year given in Recommendation 10 - *Term of the directors* - of the Corporate Governance Code. 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 the company's Board members 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 who, together with related entities, holds over 10% of all votes carried by the Kesko shares, has informed the company's Board that it considers the term of three years good for the company's long-term development and has not seen any need to shorten the term of office stated in the Articles of Association.

### 3 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. The company's shareholders elect the company's Board of Directors (Board) and auditor at the Annual General Meeting. 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.



## 4 Board of Directors

### 4.1 Term, composition and independence

#### Term

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

According to the Articles of Association, Kesko's Board of Directors 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 the Chair and the Deputy Chair from among its members for the whole term of the Board.

## Composition

The decision taken at the Annual General Meetings on 16 April 2012 and 8 April 2013, the Board consists of seven (7) members, and the General Meeting held on 16 April 2012 elected seven (7) members to the Board.

The Board elected by Kesko's Annual General Meeting held on 16 April 2012 is composed of seven (7) members:



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



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



**Ilpo Kokkila**, b. 1947, Master of Science (Technology)  
Member of the Remuneration Committee  
Board Chair of SRV Group Plc  
Board member since 27 March 2006.



**Tomi Korpisaari**, b. 1968, Master of Science (Economics)  
Retailer, building and home improvement trade and agricultural trade  
Board member since 16 April 2012.



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



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



**Virpi Tuunainen**, b. 1967, Doctor of Science in Economics  
Member of the Audit Committee  
Professor at the Department of Information and Service Economy at Aalto  
University and Director of Aalto Service Factory  
Board member since 16 April 2012.

According to the Articles of Association, the term of each Board member will expire at the close of the 2015 Annual General Meeting.

## 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 compliance with Recommendation 15 of the Corporate Governance Code. Based on the latest independence evaluation carried out on 8 April 2013, the Board has considered that 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 2013

	Independent of the company	Independent of significant shareholder
Esa Kiiskinen, Ch.	No*	Yes
Seppo Paatelainen, Dep. Ch.	Yes	Yes
Ilpo Kokkila	Yes	Yes
Tomi Korpisaari	No*	Yes
Maarit Näkyvä	Yes	Yes
Toni Pokela	No*	Yes
Virpi Tuunainen	Yes	Yes

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

## 4.2 Main duties

Kesko's Board of Directors ensures that the company's administration, operations, accounting and 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 the Board's duties, matters to be discussed, meeting practice and the decision-making procedure. In accordance with the charter, the Board considers and makes decisions on all matters that are financially, operationally or fundamentally significant to the Group.

As provided by the charter, the Board's main duties include:

- making decisions on the Group 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 of Directors
- making decisions on strategically or financially significant individual capital expenditures, business acquisitions, disposals or 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 the Group 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 compensation plans, and making decisions on granting shares or share options under share and share-based compensation plans, 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, operations and meetings

The Kesko Board's duty 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 (including an entity controlled by 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 taken at an election of a person end in a tie, the result will be decided by drawing lots.

In 2013, the Board held 10 meetings. The Board members' average attendance rate at Board meetings was 95.7%.

In its strategy work in 2013, the Board has concentrated especially on strategies for the food trade, the building and home improvement trade and the department store trade, on the real estate owned by the Group, on the strategic questions related to real estate management and on developing electronic services. The Board has monitored and supervised the implementation of the divisions' plans for expansion in Russia. The Board also approved changes in the composition of the Group Management Board and in the responsibility areas of the Management Board members. It has also monitored the implementation of the Group's profitability programme. As in previous years, the Board has 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 before they were published.

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

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 in December 2013. The self-assessment was based on the results of a survey, which the Board discussed before deciding upon follow-up measures. When assessing its operations, the Board noted that it had been more successful than before in allocating its time to addressing issues that are important to Kesko Group.

## ATTENDANCE AT MEETINGS BY MEMBERS OF THE BOARD AND ITS COMMITTEES IN 2013

	Board member since	Committee	Attendance		
			Board	Audit Committee	Remuneration Committee
Esa Kiiskinen, Ch.	2009	Remuneration Committee (Ch.)	10/10		4/4
Seppo Paatelainen, Dep. Ch.	2006	Audit Committee (Dep. Ch.)	10/10	5/5	
		Remuneration Committee (Dep. Ch.)			4/4
Ilpo Kokkila	2006	Remuneration Committee	8/10		4/4
Tomi Korpisaari	2012		10/10		
Maarit Näkyvä	2001	Audit Committee (Ch.)	9/10	5/5	
Toni Pokela	2012		10/10		
Virpi Tuunainen	2012	Audit Committee	10/10	5/5	

## 5 Board 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, the Deputy Chairs and the members of the Committees from among its members for one year at a time.

All members of the Audit Committee are independent of the company and the company's significant shareholders. In the election of the Audit Committee members, their relevant qualification requirements have been taken into account.

All members of the Remuneration Committee are independent of the company's significant shareholder and the majority is also independent of the company. In the election of the Remuneration Committee members, their relevant qualification requirements have been taken into account.

The Committees regularly assess their operations and working practices and carry out a related self-assessment 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 material prepared by the Committees. The Chair of the Committee reports on the work of the Committee at the Board meeting following a Committee meeting. The minutes of Committee meetings are submitted to the Board members for information.

The Kesko Board has not established other committees in addition to the Audit Committee and the Remuneration Committee. Nor has the General Meeting established any committees or boards.

### 5.2 Audit Committee and its operations

The members of the Audit Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2013, are:

- Maarit Näkyvä (Ch.)
- Seppo Paatelainen (Dep. Ch.)
- Virpi Tuunainen.



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

- monitoring Kesko Group's financial and funding situation and the process of financial statements reporting
- controlling the company's financial reporting process
- evaluating the efficiency of the company's internal control, internal audit and risk management systems
- reviewing the company's Corporate Governance Statement
- reviewing the operating instructions, annual audit plan, budget and resources of the company's internal audit function 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 audit firm and audit companies belonging to the same chain
- preparing the draft resolution concerning the election of the company's auditor to the General Meeting and contacts with the company's auditor.

In 2013, the Audit Committee held five (5) meetings, and its members' average attendance rate at the meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller, the Chief Audit Executive and the Group General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on Kesko Group's funding situation, risk management and insurance. 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, risk management and legal affairs reports. The Committee reviewed the change on dominant market position in the Competition Act and the expected tightening of data protection regulations within the EU and considered measures to provide for the changes, among other things. The Committee approved the updated internal control principles and internal audit plan, budget and resources for 2014. The Committee also evaluated the auditor's independence and the consultation services provided 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.

### 5.3 Remuneration Committee and its operations

The members of the Remuneration Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2013, are:

- Esa Kiiskinen (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 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 members of the Group Management Board responsible for lines of business; the

President and CEO makes decisions on the compensation and other financial benefits of the other Group Management Board members within the limits set by the Chair of the Remuneration Committee

- preparing matters pertaining to the appointment of the President and CEO and the Group Management Board members responsible for lines of business, and identification of their possible successors
- developing and preparing remuneration plans for the company's Board, including:
  - evaluating the remuneration of the President and CEO and other management, and taking care of the appropriateness of the remuneration plans
  - preparing possible share or share-based compensation plans
  - preparing the granting of shares or share options under share or share-based compensation plans, 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 plans, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success.

In 2013, the Remuneration Committee held four (4) meetings and its members' average attendance rate at the meetings was 100%. The Committee prepared proposals to the Board for the vesting criteria and target group of share awards and for the principles of the management's performance bonuses, among other things. In addition, the Committee discussed the results of surveys and analyses of the Group personnel's job satisfaction and wellbeing at work, sickness absences and management resources.

## 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, Master of Laws. He has been Kesko's President and CEO since 1 March 2005.



**Matti Halmesmäki**, b. 1952, Master of Science in Economics, 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 for ensuring that the company's financial matters are handled in a reliable manner. The President and CEO also chairs the Group Management Board and the key Boards with regard to business operations.

The President and CEO is elected by the Board, which also makes the decisions on the terms and conditions of the President and CEO's service contract. A written managing

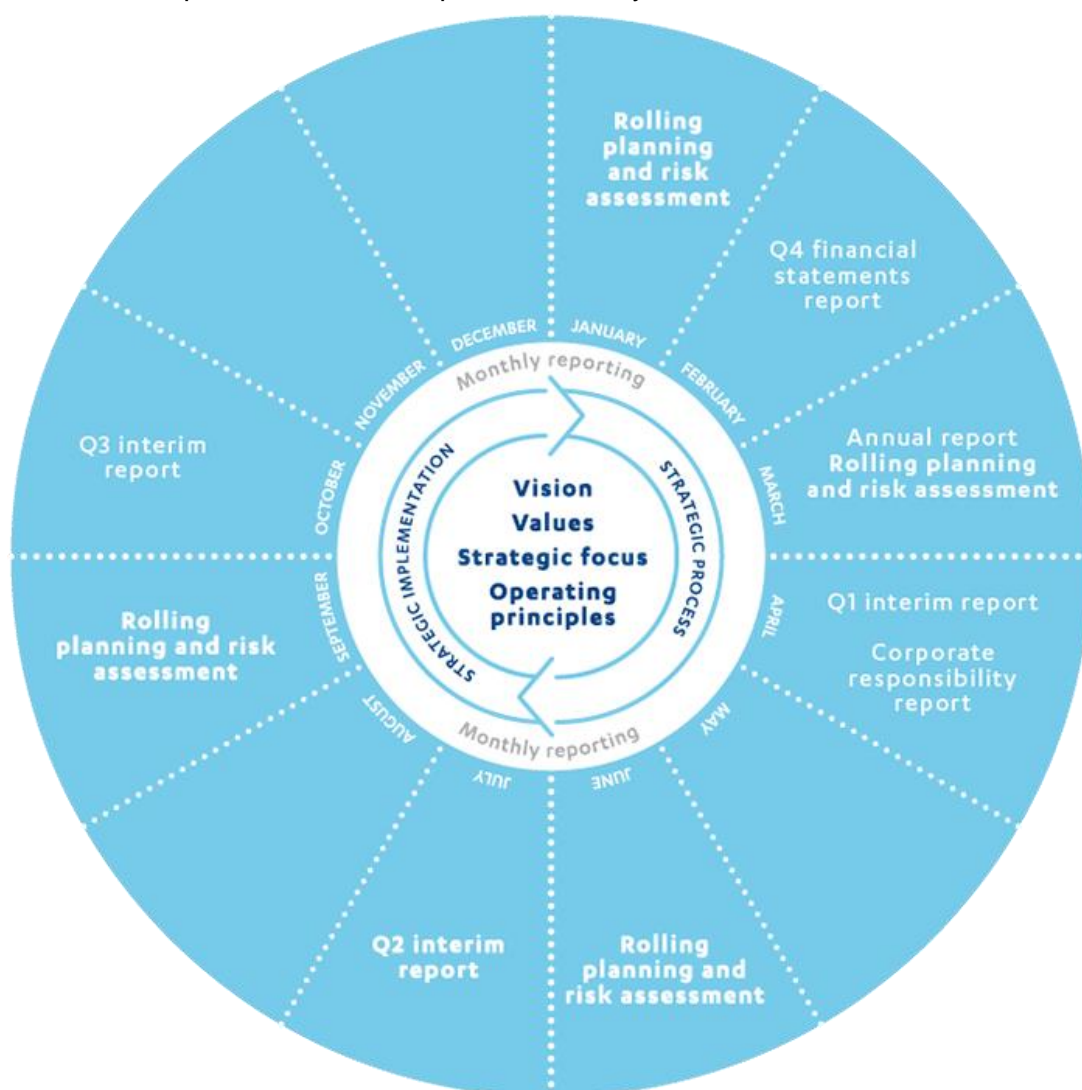
director's service contract, approved by the Board, has been made between the company and the President and CEO.

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

### 7.1 Group's financial reporting and its internal control

#### Kesko's management system

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



## Roles and responsibilities

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 the group accounting function. Analyses and controls for ensuring the accuracy of reporting are used at each level.

The accuracy of reporting is ensured by using automated and manual controls at every reporting level. 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 financial plans drawn up by the quarter, extending for the following 12-15 months. The key financial indicator for growth is sales performance, and for profitability, the key financial indicators are operating profit excluding non-recurring items and return on capital employed excluding non-recurring items, monitored via monthly internal reporting. 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** is carried out on a rolling basis at the subsidiary, division and Group level. 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 results are analysed by the company, division and the group accounting function, and the reasons are reported to the division and the group accounting function every month.

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

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

### **Key actions in 2013**

Kesko Group continued the project to harmonise its financial management information systems. The project serves both the Group companies and the K-Group's retailers. In Finland, the centralisation of the Group companies' financial management routines in the Shared Service Centre continued, and in Russia, the Shared Service Centre started operations in January 2013. In addition, cooperation with the Group companies was continued to increase the efficiency of financial management routines and convert them to electronic format.

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

### **Key actions in 2014**

In 2014, the financial management function will continue its information system project servicing the K-Group and the adoption of the system. In addition, the routines of the Group companies' financial management will continue to be centralised in Shared Service Centres, and operations will continue to be made more efficient and electronic in Finland and Russia.

### **Accounting policies and financial management IT systems**

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.

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 key financial reports. The key systems used in the production of financial information have been certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

## **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 fulfilment of customer promises, profit performance, dividend payment capacity, shareholder value, and the implementation of responsible operating practices and the continuity of operations in Kesko Group.

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

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 at the Group, division, company and unit level 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 materialisation and the level of risk management. When assessing the impact of materialisation, the impacts on reputation, people's wellbeing and the environment are considered in addition to financial impacts.

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

A division's risk assessment, which includes a risk map, risk management responses, responsible persons and schedules, is considered regularly by the division's management board or the division parent company's Board. The Group functions also assess the risks concerning their responsibility areas.

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

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

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

### **Risk management responses in 2013**

Kesko Group's risk management process is established and no significant changes took place in 2013. As in previous years, the risk management, legal affairs and internal audit functions organised value discussions on Kesko's responsible operating practices in Kesko's subsidiaries. During the year, an e-learning programme on occupational safety was started in Kesko's Finnish operations. The project for enhanced user rights management was continued in Kesko's various SAP environments. The trend in terms of damages was better than in previous years, and there was no major isolated damage.

The risk management function took part in an international self-assessment concerning the level of risk management. The results will be used to further improve Kesko's risk management.

### **Focus areas of risk management in 2014**

The risk management function will continue working in close cooperation with division parent companies and with Group functions in order to ensure the adoption of responsible operating practices, to prevent malpractice, and to develop risk management related to personnel safety, business continuity, information security and data protection, among other things. In 2014, Kesko will start a Group-wide e-learning programme on data security. The project to develop SAP user rights management is ongoing.

Cost-effectiveness of risk management responses through centralised purchasing of services and safety and security technology, among other things, coupled with enhanced cooperation between the divisions continue to be emphasized in the action programme for 2014. The risk management function organises crisis exercises and training sessions on safety and security in cooperation with the divisions.

### **7.3 Internal control**

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

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

The planning of control measures begins with defining business objectives and identifying and assessing risks that pose a threat to the objectives. The definition of objectives and assessment of risks should take into account not only operational objectives, but also requirements related to operations' conformity to law and to the correctness of the information used in decision-making and reporting. Control measures are targeted based on risks, and control measures are selected as appropriate so as to keep the risks under control.

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

Kesko's Group units provide guidance and support to divisions and subsidiaries through policies, principles and guidelines concerning their areas of responsibility. Kesko Group's internal audit function evaluates and verifies the performance and efficiency of Kesko's internal control, reports on it to the President and CEO and the Audit Committee of Kesko

Corporation's Board and assists the management and Kesko companies in the development of an internal control system. In December 2013, the Audit Committee of Kesko's Board confirmed the updated internal control policies, which are based on good control principles, widely accepted internationally (COSO 2013). COSO 2013 framework will be used in assuring the efficiency of Kesko's internal control in 2014.

## 8 Internal audit

Kesko Group's internal audit function is responsible for the independent evaluation and assurance function required of a listed company. It systematically examines and verifies the efficiency of risk management, control, management and governance. The Audit Committee of Kesko's Board has approved 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 operations 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 arranged regularly.

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The audit plan is modified on a risk basis, if necessary. As necessary, the internal audit function purchases external services for added resources or for the purpose of conducting audit operations that require special competencies. Audits can also make use of the competencies and contributions of 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 performance of Kesko's risk management system annually.

### Internal audit operations in 2013

In 2013, the most important targets for the internal audit function were Kesko's business operations in Russia and related risks, and various basic controls, such as payment controls, store controls and proactive IT controls. Other focus areas included the ongoing business and IT projects, the information security and controls of online stores and malpractice risks. In the information system audit, special attention was paid to the progress and management of ongoing projects. Compliance with Kesko's accounting policies and reporting guidelines was verified and assessed in various audits, with an emphasis on the accuracy of inventory values and trade receivables. Close cooperation with the auditor was maintained in order to ensure sufficient coverage of audit operations and to avoid overlapping operations.

### Internal audit focus areas in 2014

The key focus areas of internal audit operations in 2014 will be the business operations in Russia and related risks, as well as e-services and related information security and data protection. Other focus areas include the ongoing business and IT projects, as well as responsible purchasing.



## 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 year 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 Kesko Board's Audit Committee.

The 2013 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.