



2019

KESKO ANNUAL REPORT

**CORPORATE GOVERNANCE  
STATEMENT**

# CORPORATE GOVERNANCE STATEMENT

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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 3 February 2020.

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association and effective as of 1 January 2020. 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 [www.kesko.fi/en/investor/corporate-governance/](http://www.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.

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 Helsinki Ltd.

## CORPORATE GOVERNANCE CODES KESKO COMPLIES WITH AND DEPARTURES FROM THEM

Corporate Governance Code the Company complies with	The Corporate Governance Code effective as of 1 January 2020 ("Corporate Governance Code")
Website where the Corporate Governance Code is publicly available	<a href="http://cgfinland.fi/en/corporate-governance-code/">cgfinland.fi/en/corporate-governance-code/</a>
Corporate Governance Code recommendations from which the company departs	Recommendation 6 (Term of Office of the Board of Directors) Recommendation 10 (Independence of Directors)
Explanation of and grounds for the departure <ul style="list-style-type: none"> <li>• grounds for the departure</li> <li>• decision-making concerning the departure</li> <li>• when the company plans to adopt the recommendation (in case of temporary departure)</li> <li>• 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</li> </ul>	<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 that, 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> <p>The independence of Kesko's Board members departs from Recommendation 10 (Independence of Directors) of the Corporate Governance Code, as the majority of the members of the Board of Directors are not independent of the Company.</p> <p>All members of Kesko's Board of Directors are non-executive directors. The Board carried out an independence evaluation on 8 April 2019. Esa Kiiskinen, Matti Naumanen and Toni Pokela are not independent of the Company, as they each control a company which has a chain agreement with Kesko. Furthermore, Piia Karhu, Finnair Plc's Senior Vice President, Customer Experience and a member of the Executive Board, is not independent of the Company, as the election of Kesko Group's CFO Jukka Erlund to the Board of Directors of Finnair Plc on 20 March 2019 resulted in an interlocking control relationship. As a result of the interlocking control relationship, the majority of the members of Kesko's Board are considered not to be independent of the Company. Kesko Corporation and Finnair Plc have a normal business relationship and the companies are not financially dependent on each other. The interlocking control relationship was not considered as a whole to result in conflicts of interest or to jeopardise the ability of the Board members to act in the best interest of the Company and all its shareholders. The Company's Board of Directors has given consent to Erlund being a member of the Board of Directors of Finnair Plc.</p>



## Descriptions concerning Corporate Governance

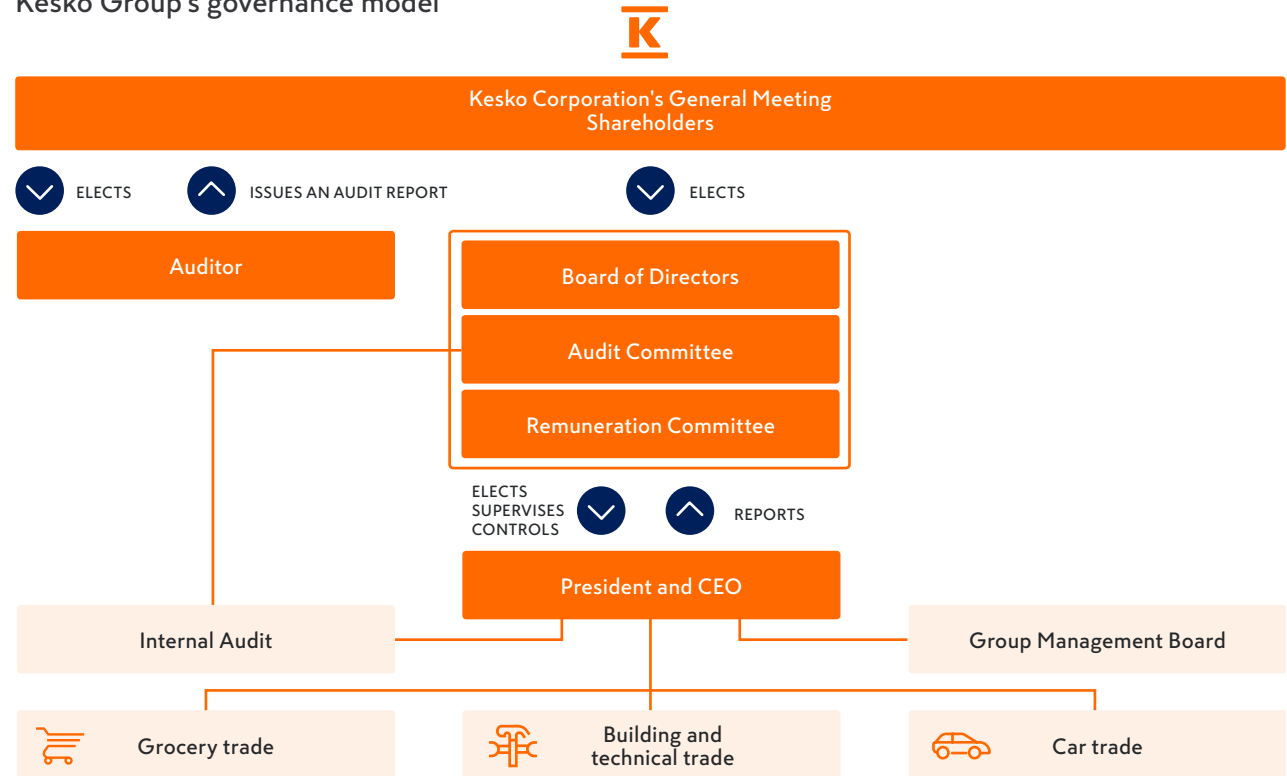
### Kesko Group's corporate governance system

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 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 Annual 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 a 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.

### Kesko Group's governance model



However, pursuant to 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 a General Meeting by a Notice of the General Meeting published on the Company's website. The notice of the meeting is also published in a stock exchange release. 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 the Company's website at [www.kesko.fi](http://www.kesko.fi).



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. General Meeting Minutes are made available to shareholders on Kesko's website at [www.kesko.fi](http://www.kesko.fi) within two weeks of the General Meeting. The resolutions of the General Meeting are published in a stock exchange release without delay after the meeting.

## Board of Directors

### The number, term of office and election process of Board members

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 used 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 composition of the Board of Directors, Kesko follows a procedure in which significant shareholders prepare to the Annual General Meeting the proposals concerning the Board of Directors, including the proposal for the remuneration of the Board members, and when necessary, the proposal for the number of Board members and 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 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 8 April 2019 resolved to keep the number of Board members at seven (7). 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. The term of office of the Board members will end, in accordance with the Company's Articles of Association, at the close of the 2021 Annual General Meeting.

The Board of Directors' composition and shareholdings as at 31 December 2019 are presented in the table below.



## BOARD COMPOSITION AND SHAREHOLDINGS ON 31 DEC. 2019

Name	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held on 31 Dec. 2019
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	1,350 A shares held by him and 106,000 A shares held by entities controlled by him 1,253 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 and 776 B shares held by him
Jannica Fagerholm	1961	Master of Science (Economics)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	1,776 B shares held by her
Piia Karhu	1976	Doctor of Science, Economics and Business Administration	Senior Vice President, Finnair Plc	2018	Audit Committee	583 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	1,578 B shares held by him
Matti Naumanen	1957	Trade Technician	Retailer	2016		2,400 A shares held by him and 17,664 A shares held by entities controlled by him 583 B shares held by him
Toni Pokela	1973	eMBA	Food retailer	2012		179,400 A shares held by entities controlled by him and 583 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 8 April 2019. Based on the independence evaluation, the Board deemed Esa Kiiskinen, Matti Naumanen and Toni Pokela not independent of the Company, as they each control a company that has a chain agreement with Kesko. Furthermore, Piia Karhu, Finnair Plc's Senior Vice President, Customer Experience and a member of the Executive Board, is not independent of the Company, as the election of Kesko Group's CFO Jukka Erlund on the Board of Directors of Finnair Plc on 20 March 2019 resulted in an interlocking control relationship. As a result of the interlocking control relationship, the majority of the members of Kesko's Board are considered not to be independent of the Company. Kesko Corporation and Finnair Plc have a normal business relationship and the companies are not financially dependent on each other. The interlocking control relationship was not considered as a whole to result in conflicts of interest or to jeopardise the ability of the Board members to act in the best interest of the Company and all its shareholders. The Company's Board of Directors has given consent to Erlund being a member of the Board of Directors of Finnair Plc. Based on the independence evaluation, the Board considered Toni Pokela not to be independent of the Company's significant shareholder, K-Retailers' Association, of which

Pokela is the Chairman of the Board. 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 2019

	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	No**	Yes
Matti Kyytsönen	Yes	Yes
Matti Naumanen	No*	Yes
Toni Pokela	No*	No***

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

\*\* An interlocking control relationship, as Piia Karhu is Finnair Plc's Senior Vice President, Customer Experience and a member of the Executive Board, while Kesko's CFO Jukka Erlund is a member of the Board of Directors of Finnair Plc.

\*\*\* 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 administration and for the proper organisation of its operations. The Board is responsible for the appropriate arrangement of the control of Kesko's accounts and finances. The Board of Directors has confirmed a written charter for the Board of Directors' duties, principles of operation, meeting practices and decision-making procedures.

In accordance with the charter, the Board reviews 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:

Strategic and financial matters

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and rolling forecast, including a capital expenditure plan
- reviewing the Group's most significant risks and uncertainties
- deciding on strategically or financially significant individual investments, acquisitions, divestments or arrangements, and commitments
- confirming Kesko's values
- approving key Group policies, such as the treasury and investment policy and risk management policy
- establishing a dividend policy and being responsible for shareholder value performance

Organisation and personnel matters

- appointing and discharging the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her remuneration and other financial benefits, and making corresponding decisions also for the Deputy to the President and CEO
- deciding on the appointments of the Group Management Board members responsible for lines of business, their remuneration and financial benefits
- deciding on the essential structure and organisation of the Group



- ensuring the proper operation and supervision of the management system
- deciding on management authorisation rules
- deciding on the principles of Kesko's commitment and incentive schemes, the terms and conditions and distribution of shares or options under the remuneration policy in force, and monitoring the results of the schemes

#### Reporting matters

- reviewing and adopting the Group's financial statements, half year financial reports and interim reports and related stock exchange releases and the Report by the Board of Directors
- reviewing Kesko's Annual Report

#### Other duties

- submitting Board proposals to the Annual General Meeting on matters such as dividend distribution, Auditor, and authorisations to issue and acquire shares
- approving the Board's principles concerning diversity
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies Act or other, and for duties prescribed by the Finnish Corporate Governance Code.

Kesko's Board of Directors has a duty to promote the best interest of Kesko and all its shareholders. The Board members do not represent the interests of 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 Chairman. 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 2019

In 2019, the Board held 10 meetings. 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 meeting. The Auditor presents their findings to the Board once a year in connection with the review of the financial statements.

As in previous years, in 2019, 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 2019, the Board, among other things, further detailed and clarified the strategy approved for Kesko Group in spring 2015, monitored the execution of the strategy, and made decisions on acquisitions and divestments in line with the Group's confirmed strategy, such as the acquisition of Heino Tukku Oy in the grocery trade division, the acquisition of Fresks Group by K-rauta AB in the building and technical trade division, and the acquisition of Laakkonen Group's Volkswagen, Audi and SEAT businesses

in the car trade division. The Board monitored the financial performance of previously acquired companies and their integration into Kesko Group, and the implementation of divestments decided. The Board approved new medium-term financial targets for the Group. The Board reviewed matters such as Kesko's Annual Report and goodwill impairment testing, and decided on the establishment of a new share-based compensation plan and the use of donation funds approved by the Annual General Meeting.

The Board carried out a self-assessment, 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 at 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. Focus areas included strategy-driven corporate leadership, the scope of market and competitor information, reviewing changes in risks, and an open, appreciative and conversational 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 2019

	Committee membership	Attendance		
		Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Chair)	Remuneration Committee (Chair)	10/10		4/4
Peter Fagernäs (Deputy Chair)	Remuneration Committee (Deputy Chair)	10/10		4/4
Jannica Fagerholm	Audit Committee (Chair)	10/10	7/7	
Piia Karhu	Audit Committee	10/10	7/7	
Matti Kyytsönen	Audit Committee (Deputy Chair)	10/10	7/7	4/4
	Remuneration Committee			
Matti Naumanen		10/10		
Toni Pokela		9/10		

### Principles concerning diversity

Kesko's Board of Directors approved a diversity policy on 25 October 2016. The policy has been published on the website at [kesko.fi/en/investor/corporate-governance/board-and-its-committees/diversity-policy](https://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 Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd)

Annual General Meeting after the election. According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. A sufficient number of Board members promotes the diversity of 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 2019

In 2019, two of the seven Board members were women, in other words, the proportion of the gender with 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. The Board elected the Chairmen, the Deputy Chairmen and the members of the Committees from among its members at the close of the Annual General meeting.

All members of both committees are independent of the Company's significant shareholders, and the majority of the members of both committees are also independent of the Company. In the election of committee members, the competence requirements for the committee in question 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 a Committee meeting. Minutes of the Committee meetings are submitted for information to the Board members.

Apart from the Audit and Remuneration Committees, Kesko's Board has not established any other committees, nor has the General Meeting appointed any committees or boards.

### Audit Committee

The Board's organisational meeting, held after the Annual General Meeting of 8 April 2019, elected the following Board members as members of the Audit Committee:

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

In accordance with its charter, the Audit Committee:

- monitors Kesko Group's (Kesko) financial position and funding
- monitors and assesses Kesko's financial reporting system, including the process for financial statements reporting
- monitors and assesses the effectiveness of Kesko's internal control, internal audit and risk management systems
- approves the operating instructions for the Company's internal audit and annually assesses the need for changes, approves the annual audit plan, budget and resources and related material changes, and reviews reports submitted to the Committee
- monitors the statutory auditing of the Company and the Group
- discusses matters that emerge in connection with auditing and in relation to the Committee's duties with the Company's Auditor when necessary and otherwise handles contacts with the Auditor

- reviews the Auditor's Report and possible audit minutes and reports presented by the Auditor to the Committee
- monitors and evaluates the independence of the Company's Auditor and, in particular, the non-audit services provided to Kesko by the Auditor and its network audit companies
- prepares the appointment of the Company's statutory Auditor and recommends an Auditor
- monitors and assesses how agreements and other legal acts between the Company and its related parties meet the requirements of ordinary course of business and arm's-length terms
- prepares a recommendation to the Board of Directors regarding the review of interim reports, the half year financial report, and the financial statements
- reviews the Company's Corporate Governance Statement and non-financial report
- prepares and reviews other tasks given by the Board to the Committee

In 2019, the Audit Committee held seven meetings. The 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 their audit plan and report to the Audit Committee. During the year, the Committee reviewed the

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

During the year, the Audit Committee arranged for the tendering of Kesko's statutory auditing, and gave the Board a recommendation for the proposal for the election of Auditor, based on which the Board submitted a proposal for the election of Auditor to the 2020 Annual General Meeting. The Audit Committee also prepared and submitted to the Board a recommendation for the proposal for the election of Auditor to Kesko's 2019 Annual General Meeting.

The Audit Committee monitored the implementation of the audit plan for internal audit, the impact of new IFRS standards on the Group's reporting, the development of associated companies and additional services purchased from firms of auditors, and reviewed the proposal for the Group's financial targets and cyber security reviews.

The Committee also monitored and evaluated the Auditor's independence and the non-auditing services provided by the Auditor to the Group. The Audit Committee also approved the audit plan, personnel resources and budget for the Group's internal audit in 2020.

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 Group's risk management and the commitment of Committee members to their duties.

### Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 8 April 2019, elected the following Board members as members of the Remuneration Committee:

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

In accordance with its charter, the Remuneration Committee:

- prepares the Company's Remuneration Policy and Remuneration Report for Governing Bodies
- presents the remuneration policy and report at the General Meeting and responds to questions related thereto
- monitors the implementation of the remuneration policy presented to the General Meeting and ensures that the remuneration of the Company's governing bodies is conducted under the remuneration policy presented to the General Meeting
- conducts preparatory work for the remuneration and other financial benefits for the Company's President and CEO and Deputy to the President and CEO and for their service contracts

- conducts preparatory work for the remuneration and other financial benefits for Group Management Board members responsible for lines of business; decisions on the remuneration and financial benefits for 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
- conducts preparatory work pertaining to the appointment of a President and CEO, Deputy to the President and CEO, and Group Management Board members responsible for lines of business, and to identifying their potential successors
- conducts preparatory and development work on matters pertaining to remuneration schemes, including
  - evaluating the remuneration for the President and CEO, Deputy to the President and CEO and other management, and ensuring the appropriateness of the Company's remuneration schemes
  - preparing potential share or share-based compensation schemes
  - preparing the distribution and terms and conditions of shares or options under any share or share-based compensation schemes the General Meeting may have decided on
  - 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.
- prepares and reviews other tasks given by the Board to the Committee

In 2019, the Remuneration Committee held four meetings. The members' attendance rate at the Committee meetings was 100%. The Committee prepared, among other things, proposals to the Board for Kesko's 2019-2022 share plan, for the performance criteria, target levels and target group for share awards, for the principles of Group performance bonuses for 2019 and 2020, as well as for the performance bonuses to be paid for 2018 to the President and CEO and Group Management Board members responsible for lines of business. The Committee monitored and assessed the implementation of the reform of the management's total remuneration. In addition, the Committee reviewed, among other things, Kesko's Remuneration Statement and prepared the Company's Remuneration Policy for Governing Bodies. The Remuneration Committee assessed its operations as part of the Board's self-assessment. Topics that emerged in the assessment included the Committee's familiarity with and focus on the compensation scheme and remuneration principles.

## 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 a member of the Group Management Board and Kesko's Executive Vice President from 1 October 2014 to 31 December 2014, and he has been the Chairman of the Group Management Board since 1 January 2015.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders

issued by the Company's Board of Directors and to report to the Board developments in the Company's business operations and financial situation. He is also responsible for organising the Company's day-to-day governance and for the Company's accounting complying with legislation and financial matters being arranged 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.

Jorma Rauhala, M.Sc. (Econ.), (b. 1965) acts as the Deputy CEO.

## 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 principles and procedures. In addition, the Group Management Board discusses, among other things, the Group's and the division companies' business plans, profit performance and matters reviewed by Kesko's Board of Directors, in whose preparation the Group Management Board also participates. The Group Management Board meets 14–18 times a year.

## Group Management Board members, areas of responsibility and shareholdings on 31 Dec. 2019

	Group Management Board member since	Area of responsibility	Kesko shares held on 31 Dec. 2019
Mikko Helander, Chairman	01/10/2014	Kesko's President and CEO	55,424 B shares held by him
Jorma Rauhala, President, building and technical trade division, Deputy CEO	05/02/2013	Building and technical trade	28,704 B shares held by him
Ari Akseli, President, grocery trade division	15/11/2017	Grocery trade	9,808 B shares and 81 A shares held by him
Johan Friman, President, car trade division	01/01/2017	Car trade	7,327 B shares held by him
Jukka Erlund, EVP, Chief Financial Officer	01/11/2011	Finance and accounting, IT, Risk Management, M&A	24,167 B shares held by him
Mika Majoinen, EVP, Group General Counsel*	01/01/2018	Legal affairs	12,722 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	15,362 B shares held by him
Anni Ronkainen, EVP, Chief Digital Officer	20/04/2015	Chief Digital Officer	11,080 B shares held by her

\* Mika Majoinen left the company on 31 December 2019.

## Descriptions of internal control procedures and the main features of risk management systems

### The Group's financial reporting

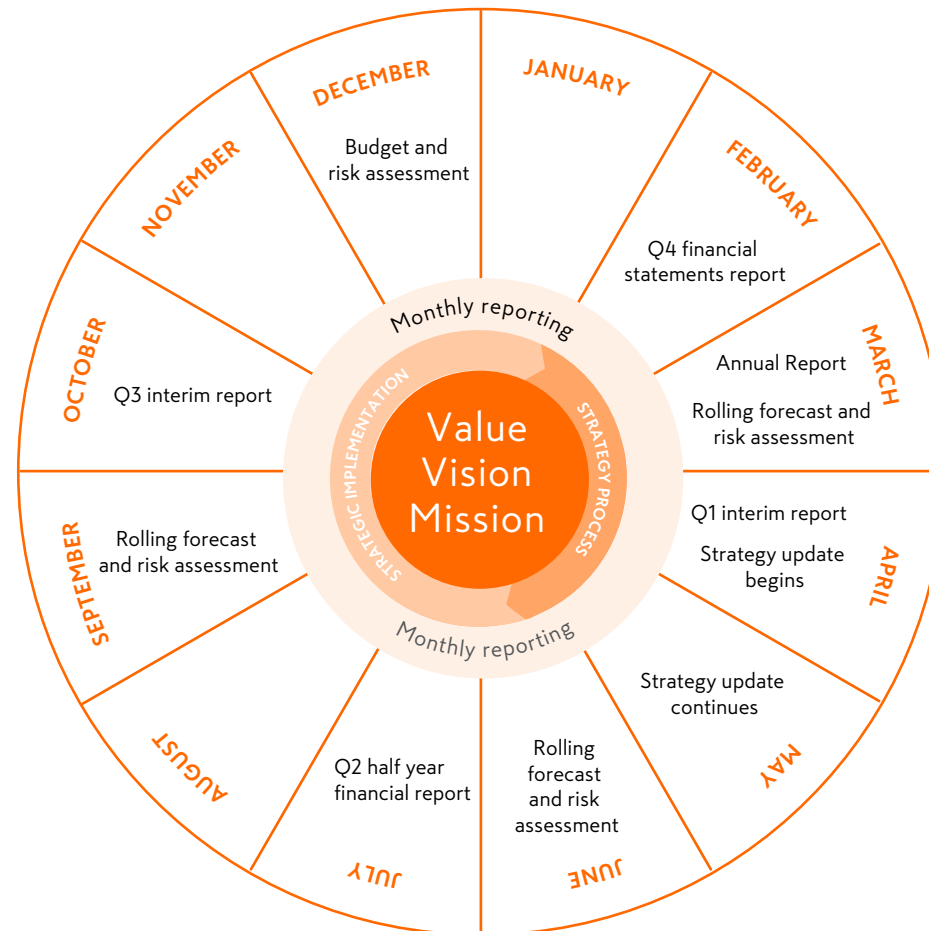
#### Kesco's management model

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

Kesco 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. Analysis and control points for ensuring the accuracy of reporting are used on each of the three reporting levels. The accuracy of reporting is also 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.

Kesco 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 the financial reporting and the accuracy of the figures. The controlling function of each division analyses the whole division's figures for which the division's financial management is responsible. The Group is responsible for the whole Group's figures. The key items in the income statement, capital employed and balance sheet are analysed monthly at business, division and

Group level, based on a documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available and enables real-time responses to possible flaws.

### 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 2019

In 2019, IFRS 16 Leases, which took effect on 1 January 2019, was implemented in the Group's financial reporting by adopting accounting policies in line with the new standard in the Group's internal monthly reporting and published interim reports, half year financial report and financial statements. The implementation of the new IFRS 16 Leases has been the single biggest change to Kesko's financial reporting since the switch to IFRS financial statements reporting, and the Group adopted the new standard using a retrospective method. During the year, the integration of acquired businesses in the car trade and the building and technical trade into Kesko Group's financial reporting systems began. The finance organisation also launched a

Digital Finance project, which aims for harmonising and automating financial administration processes and for improving efficiency through the utilisation of technology.

### Key actions in 2020

The harmonisation and automation of financial administration processes will continue in 2020 under individual Digital Finance projects both in Kesko's Business Service Center and the controlling organisation. The integration of the financial administration of acquired companies into the Group's financial administration systems will continue.

### Accounting policies and financial administration 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 in an accounting manual, which is updated as the standards are amended. The manual contains instructions for Group companies and for preparing the consolidated financial statements. Kesko Group's financial administration information is generated from division and company specific enterprise resource planning systems and basic finance systems into the Group's centralised consolidation system to produce the Group's key financial reports. The key systems used in the production of financial information have been certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

## Internal control

Internal control is an integral part of management and of ensuring the achievement of business objectives. Through efficient internal control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken. Internal control tools include policies and principles, working instructions, approval authorisations, authorisations for use, manual and automatic controls integrated into information systems, monitoring reports and inspections and audits. The objective of internal control in Kesko Group is to ensure the productivity, 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 the safeguarding of 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 and 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 management. Every Kesko employee is obliged to comply with the K Code of Conduct and inform their manager of any grievances.

Kesko's common operations 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

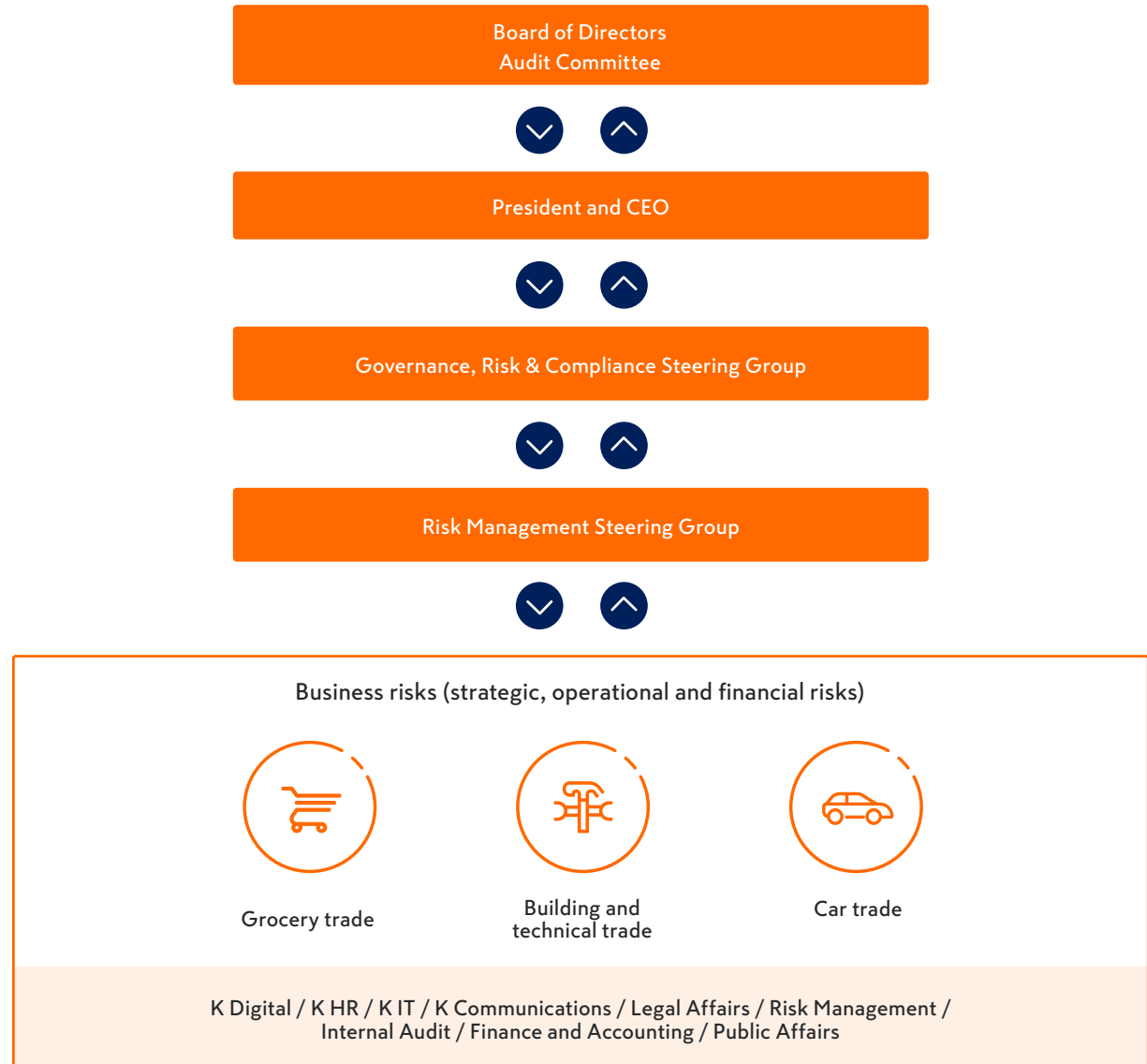
Kesko's risk management is proactive and an integral part of day-to-day management. The objective of risk management is to support the execution of Kesko's strategy.

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 and common operations are responsible for the implementation of risk management. The finance director of each division is responsible for the implementation of risk management in the division. The risk management unit coordinates the risk management process and is responsible for risk reporting and carries out risk identification, the determination of risk management responses and their implementation jointly with the businesses and common operations. Every member of Kesko personnel must know and manage the risks in their areas 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 e.g. 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 on significant projects related to capital expenditure, business arrangements or changes in operations. The risk assessments of divisions and common operations that include a risk map, risk management responses, responsible persons and schedules are reviewed regularly by the management of the respective division or common operation.

Risks and risk management responses are reported in accordance with Kesko's reporting responsibilities. The divisions and the common operations report on risks and changes in them to the Group's risk management function. Risks are discussed by the risk management steering group, which includes representatives from the divisions and the common operations. On that basis, the Group's risk management function quarterly prepares the Group's risk report, which is reviewed by the Governance, Risk and

Compliance (GRC) steering group. Kesko's President and CEO then 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 the review of the interim reports, the half year financial report and the financial statements. The Audit Committee also evaluates the efficiency of Kesko's risk management system. The Chairman of the Audit Committee reports on risk management to the Board of Directors as part of the Audit Committee Report.

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

### **Risk management responses in 2019**

Focus areas for risk management included the systematisation of cyber risk management and its integration into the Group's 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. Continuity management principles were updated and their implementation initiated. The improvement of the cost-efficiency of security technology and services

continued through concentration of purchases. In addition, the corporate security unit actively took part in the implementation of security arrangements on the new K-Kampus headquarters.

### **Risk management focus areas in 2020**

Focus areas for risk management will include improving risk management coverage, further developing the steering model and increasing related cooperation with e.g. the IT organisation and the corporate responsibility function. The implementation of continuity management principles will continue and continuity management reporting will be developed. To ensure the effectiveness of insurance coverage, insurance services outside Finland will be harmonised. The improvement of the efficiency of security technology and services will continue through concentration of purchases, the development of the life cycle management of security and real estate systems, and the prevention of related cyber threats.

## Other information to be provided in the CG statement

### Internal audit

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

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

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The audit plan is modified on a risk basis, if necessary. As necessary, the internal audit function purchases external services for added resources or for the purpose of conducting audit operations which require special expertise.

Audits can also make use of the expertise and work contribution of Kesko Group's other specialists.

### Internal audit operations in 2019

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

### Internal audit focus areas in 2020

In 2020, key focus areas for internal audit will be progress in strategy execution, information security and data protection, process automation, and significant business and IT projects.

### Related party transactions

Kesko complies with legislation concerning related party transactions. In accordance with the Corporate Governance Code, Kesko's Board has determined the principles for monitoring and evaluating related party transactions complied within the Group. The principles determine Kesko's related parties, and a list of related parties is maintained. Business operations that are part of ordinary course of business and implemented under arms-length terms have been identified. These include chain agreements

in the K-chain operations used to join retailers to Kesko's retail chains, such as the K-Citymarket, K-Supermarket, K-Market and K-Rauta chains, and the terms and conditions of sales for K-chain commerce and services operations. Kesko has made chain agreements also with companies controlled by Board members engaged in retailer operations. Like other chain agreements, these are part of Kesko's ordinary course of business. The agreements are made at the same organisational level following the same principles as other similar chain agreements. The Board makes decisions on agreements and other legal acts that are not part of Kesko's ordinary course of business or are not implemented under arms-length terms. The matter and related decision-making are prepared with care utilising, for example, external evaluations. Decision-making complies with the conflict of interest provisions of the Finnish Limited Liability Companies Act. Related party transactions and information concerning the monitoring of related party transactions are reported to Kesko's Audit Committee, and the supervision of related party transactions is part of Kesko Group's internal control. Kesko regularly reports related party transactions as part of its financial reporting, and publishes related party transactions in a manner determined by regulations. Kesko Group's related party transactions are reported in **note 5.3 to the consolidated financial statements**.

## 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 corresponding 30-day closed period also on persons involved in the preparation of Kesko's interim reports, the half year financial report, and the financial statements. Information on closed periods is provided annually on Kesko's website and in a stock exchange release.

### Management transactions

When 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, 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 Finnish Financial Supervisory Authority
- ensuring that any person on the insider list acknowledges the duties entailed according to MAR Article 18(2)
- maintaining a list of management and persons closely associated with them obligated to notify their transactions
- notifying management of their obligations under MAR Article 19(5)
- controlling insider matters
- keeping abreast of any changes to the regulation concerning insider matters.

### Auditing

In accordance with the Company's Articles of Association, Kesko's auditor shall be an Authorised Public Accountants Organisation which shall designate an Authorised Public Accountant as the auditor with principal responsibility. The Audit Committee conducts preparatory work for the election of the Company's Auditor, and recommends

an Auditor. The Board submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also monitors and assesses the Auditor's operations and services annually. The Auditor's term of office is the financial year during which the Auditor is elected, and the Auditor's duties terminate at the close of the next Annual General Meeting to follow. As a rule, an audit company belonging to the same network of audit companies as the audit firm elected by Kesko's Annual General Meeting as Auditor is 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 2019 Annual General Meeting elected PricewaterhouseCoopers Oy, the firm of auditors, as the Company's Auditor. The Auditor with principal responsibility for the Company is APA Mikko Nieminen.

During 2019, 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 UPM-Kymmene Corporation.

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 be paid and expenses reimbursed according to invoices approved by the Company.



## Auditors' fees in 2018–2019 (€1,000)

	2019			2018		
	Kesco Corporation	Other Group companies	Total	Kesco Corporation	Other Group companies	Total
Auditing	251	710*	961	273	619	892
Tax consultation	37	30	67	80	90	170
IFRS consultation	8	0	8	45	0	45
Other services	472	100	572	253	290	543
<b>Total</b>	<b>768</b>	<b>840</b>	<b>1,608</b>	<b>651</b>	<b>999</b>	<b>1,650</b>

\* Includes auditing fees to companies not belonging to the PwC chain for auditing related to Fresks Group.