

Corporate Governance Statement 2014

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Corporate Governance Statement 2014

This Corporate Governance Statement has been discussed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 9 February 2015.

This is the separate Corporate Governance Statement, referred to in Recommendation 54 of the Finnish Corporate Governance Code issued by the Securities Market Association effective on 1 October 2010, which refers to the Report by the Board of Directors. This statement and the other information to be disclosed in accordance with the Corporate Governance Code, and the Company's financial statements, the Report by the Board of Directors and the Auditor's Report are available on Kesko's website at <http://www.kesko.fi/en/investor/corporate-governance/financial-statements-and-reports/>.

Regulations and Corporate Governance Code observed by Kesko

Kesko Corporation ("Kesko" or "the Company") is a Finnish limited liability company in which the duties and responsibilities of management bodies are defined according to 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 are in compliance with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors ("the Board") and its Committees and the rules and guidelines of Nasdaq Helsinki Ltd. The Company complies with the Finnish Corporate Governance Code for Listed Companies 2010 ("Corporate Governance Code"). The Corporate Governance Code can be read in full at www.cgfinland.fi. As provided by the Comply or Explain principle of the Corporate Governance Code, the Company departs from the Corporate Governance Code's recommendation concerning a Board member's term.

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

The term of Kesko's Board members departs from the one-year term of Recommendation 10 (Term of the Board members) of the Corporate Governance Code. The term of the Company's Board is determined in accordance with the Company's Articles of Association. The General Meeting passes resolutions on amendments concerning the Articles of Association. According to the Company's Articles of Association, the term of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

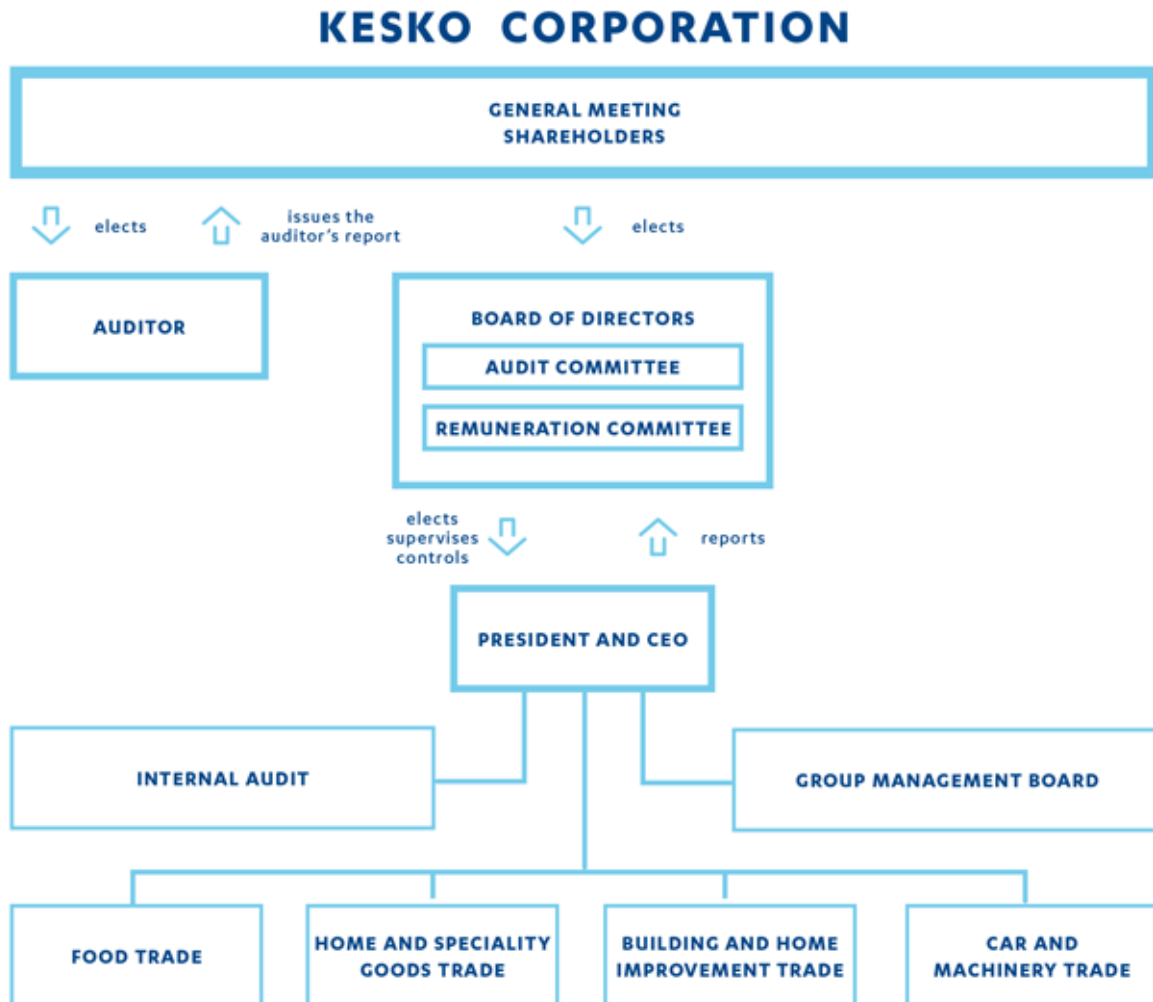
A shareholder who, together with related entities, represents over 10% of votes attached to all Kesko shares, has informed the Company's Board that it considers the term of three (3) years good for the Company's long-term development and has not seen any need to shorten the term stated in the Articles of Association.

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.

KESKO

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



The above chart describes Kesko's Corporate Governance System in 2014. As from the beginning of 2015, Kesko's divisions are the grocery trade, the home improvement and speciality goods trade and the car and machinery trade.

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 competence of the General Meeting include the election of the Board members and the Auditor, the adoption of the financial statements, the resolution on discharging the Board members and the Managing Director from liability, and the resolution on the distribution of the Company's assets, such as distributions of profit.

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

Shareholders are invited to attend the General Meeting by the Notice of the General Meeting published on the Company's website. The notice of the meeting and other General Meeting documents, including the Board's proposals to the General Meeting, are made available to shareholders no later than three weeks prior to the General Meeting at the Company's main office and on its website at www.kesko.fi. The notice of the meeting and the proposals of the Company's Board to the General Meeting are also published as stock exchange releases.

The Company aims for all of Kesko's Board members, the President and CEO, and the Auditor to be present at the Annual General Meeting. The minutes of the General Meeting are made available to shareholders at www.kesko.fi within two weeks of the General Meeting. The resolutions of the General Meeting are also published in a stock exchange release immediately after the meeting.

Board of Directors

Term, composition and independence

Term

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

According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. All Board members are elected by the General Meeting. There are no special procedures concerning the nomination of Board member candidates or their election at the General Meeting, as the number of Board members is resolved and the members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chair and the Deputy Chair from among its members for the whole term of the Board.

Composition

The Annual General Meetings held on 16 April 2012, 8 April 2013 and 7 April 2014 resolved that the Board is composed of seven (7) members, and the General Meeting of 16 April 2012 elected seven (7) members to the Board.

The Board of Directors elected by Kesko's Annual General meeting of 16 April 2012 has 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 & 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
Chair of the Board of SRV Group Plc
Board member since 27 March 2006.

Tommi Korpisaari, b. 1968, Master of Science (Economics)
Retailer, building and home improvement 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.

In accordance with 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 on a regular basis in accordance with Recommendation 15 of the Corporate Governance Code. Based on the latest independence evaluation carried out on 7 April 2014, the Board considers the members to be independent of the Company's significant shareholders, and the majority of the members also independent of the Company. A Board member is obliged to provide the Board with necessary information for the evaluation of his or her independence.

Board members' independence in 2014

| | 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 Kesko Group company.

Primary duties

Kesko's Board of Directors ensures that the Company's administration, operations, accounting and financial management controls are in place. The Board is also responsible for the supervision and control of the entire Kesko Group. The Board has confirmed a written charter for its duties, the matters it deals with, meeting practice and the decision-making procedure. In accordance with the charter, the Board deals with and makes decisions on all matters that are financially, operationally or fundamentally significant to the Group.

According to its charter, the Board's primary duties include:

- deciding on the Group's strategy and confirming strategies for the divisions
- confirming the Group's rolling plan, which includes the capital expenditure plan
- approving the Group's financial and investment policy
- confirming the Group's risk management policy and considering the Group's most significant risks and uncertainties

- reviewing and adopting the consolidated financial statements, interim reports and related stock exchange releases and the Report by the Board of Directors
- deciding on strategically or financially significant individual capital expenditures, business acquisitions, disposals or arrangements, and commitments
- deciding on management authorisation rules
- deciding on the essential structure and organisation of the Group
- appointing and dismissing the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her compensation and other financial benefits
- deciding on the appointments of the Group Management Board members responsible for lines of business, on their compensation and financial benefits
- deciding on the principles of Kesko's remuneration schemes and monitoring the implementation of the remuneration schemes
- making possible proposals to the General Meeting for share or share-based compensation schemes, and making decisions on granting shares or share options under share or share-based compensation schemes, and on the terms and conditions for granting them
- establishing a dividend policy and being responsible for shareholder value performance
- confirming the Company's values
- reviewing the Corporate Responsibility Report in 2014 (in 2015, the Board will review the integrated Kesko's Year 2014 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.

Decision-making, operations and meetings

The duty of Kesko's Board is to promote the best interests of Kesko and all of its shareholders. The Board members do not represent the parties in the Company that have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him/her (including entities over which he/she exercises control) and the Company. When a vote is taken, the Board's decision will be the opinion of the majority and if a vote results in a tie, the decision will be the opinion supported by the Chair. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

In 2014, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 98.57%.

In its strategy work in 2014, the Board focused especially on the strategies of the Group's food trade, the building and home improvement trade and the sports trade and their implementation in Russia, and monitored the development of the general situation in Russia. The Board continued to discuss strategic issues concerning the Group's property ownerships and property management. The Board selected a new President and CEO for the Company, decided on changing the Group structure, approved the new composition of the Group Management Board and changes in the areas of responsibility of the members of the Group Management Board and monitored the competitiveness of the department store trade and the food trade, among other things. As in previous years, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditures, monitored the progress of Group-level projects and approved interim reports and the financial statements prior to their disclosure during the year.

The Board meetings regularly discuss 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 Committee meetings preceding the Board meetings. The Auditor presents his findings to the Board once a year in connection with the review of the financial statements.

Attendance at meetings by members of the Board and its Committees in 2014

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

Board's Committees

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

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

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

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

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

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

Audit Committee and its operations

The members of the Audit Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2014, are:

- Maarit Näkyvä (Ch.)
- Seppo Paatelainen (Deputy 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
- supervising 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
- approving the operating instructions, annual audit plan, budget and resources of the Company's Internal Audit and handling the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the Company's audit firm
- evaluating the non-audit services provided to Kesko by the audit firm and audit companies belonging to the same chain
- preparing a proposal to the General Meeting for a resolution on the election of the Company's Auditor and keeping in contact with the Company's Auditor.

In 2014, the Audit Committee held five (5) meetings, and the members' average attendance rate at the meetings was 93.33%. At the Committee meetings, the Group's CFO, the Group Controller, the Chief Audit Executive and the General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on Kesko Group's funding situation, risk management and insurances. The Auditor is present at the Committee meetings and presents his audit plan and report to the Audit Committee.

During the year, the Committee reviewed the 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 monitored, among other things, investigations and the discussion between the authorities concerning the amendment to the Competition Act's definition of dominant position. The Committee approved the Group's data protection policy. The Committee also evaluated the Auditor's independence and provision of consultation services to the Group. The Audit Committee prepared and submitted a proposal to Kesko's Annual General Meeting 2014 for the election of the Auditor. Towards the end of 2014, the Audit Committee conducted a competitive bidding process for Auditors and based on its result, has prepared a proposal to Kesko's Annual General Meeting 2015 for the election of the Auditor.

Remuneration Committee and its operations

The members of the Remuneration Committee, elected by the Board's organisational meeting held after the Annual General Meeting 2014, are:

- Esa Kiiskinen (Ch.)
- Seppo Paatelainen (Deputy Ch.)
- Ilpo Kokkila

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

- preparing matters pertaining to the compensation and other financial benefits and the managing director's service contract of the President and CEO to the Board

- preparing matters pertaining to the compensation and other financial benefits of the Group Management Board members responsible for lines of business; decisions on the compensation and other financial benefits of the Group Management Board members other than those responsible for lines of business are made by the President and CEO within the limits set by the Chair of the Remuneration Committee
- 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 successors
- developing and preparing remuneration schemes to the Company's Board of Directors, including:
 - evaluating the remuneration of the President and CEO and the other executives, and ensuring the appropriateness of the remunerations schemes
 - preparing possible share or share-based remuneration schemes
 - preparing the granting of shares or share options under share or share-based remuneration schemes, and preparing their terms and conditions
 - reviewing the remuneration statement in connection with the financial statements
 - answering questions concerning the remuneration statement at the General Meeting. Questions are primarily answered by the Committee Chair
 - preparing the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success.

In 2014, the Remuneration Committee held five (5) actual meetings and the members' average attendance rate at the meetings was 100%. The Committee prepared a proposal to the Board for the election of a new President and CEO for the Company and for that purpose, the Committee met several times outside the actual meetings. The Committee also prepared proposals to the Board for the vesting criteria and the target group of share awards and for the principles of management's performance bonuses. In addition, the Committee discussed the results from studies and surveys on the Group employees' job satisfaction, wellbeing at work, sickness absences, management resources and compensation.

President and CEO

Kesko has a managing director who is the President and CEO. Matti Halmesmäki, b. 1952, Master of Science in Economics, Master of Laws, was Kesko's President and CEO as from 1 March 2005. His term ended on 31 December 2014. Halmesmäki was a member of the Group Management Board during the period 1 January 2001 to 31 December 2014 and the Chair of the Group Management Board during the period 1 March 2005 to 31 December 2014.

Mikko Helander, b. 1960, Master of Science in Technology, was appointed Halmesmäki's successor. Helander became a member of the Group Management Board and Kesko's Executive Vice President on 1 October 2014. As from 1 January 2015, Helander is Kesko's President and CEO and the Chair of the Group Management Board.

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 and to report to the Board about the developments in the Company's business operations and financial situation. He is also responsible for the Company's day-to-day management and that the financial affairs are handled in a reliable manner. The President and CEO also chairs the Group Management Board and the subsidiary Boards essential with regard to business operations.

The President and CEO is elected by the Board. The Board has made 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.

Group Management Board

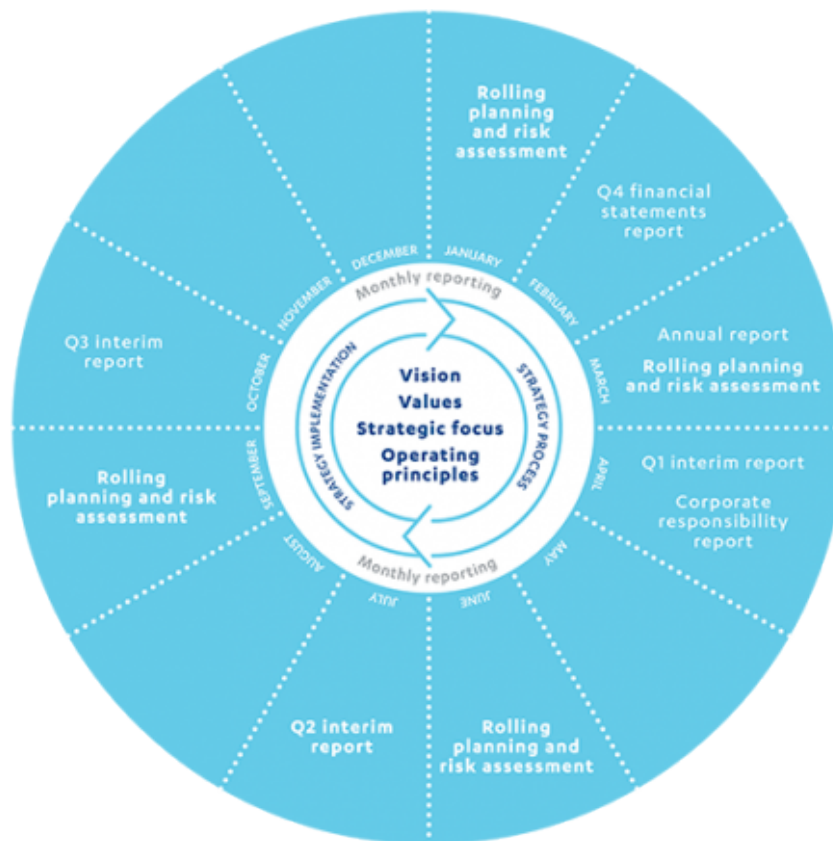
Kesko Group has a Group Management Board, the Chair of which is Kesko's President and CEO. The Group Management Board has no authority based on legislation or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level policies and procedures. In addition, the Group Management Board discusses the Group's and the division parent companies' business plans, profit performance and matters dealt with by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 12—14 times a year.

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

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 on a monthly basis, and disclosed in interim reports published quarterly. Financial plans are prepared for quarterly periods, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.



The management system described above includes the Annual Report published in March 2014 and the Corporate Responsibility Report published in April 2014. In 2015, Kesko will publish a single integrated report, Kesko’s Year 2014, in March.

Roles and responsibilities

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

The accuracy of reporting is ensured by using automated and manual controls at every reporting level. The implementation of the analyses and controls is supervised on a monthly basis at the Company, division and Group level.

Planning and performance reporting

The Group’s financial performance and the achievement of financial objectives are monitored in Group-wide financial reporting. Monthly performance reporting includes Group, division and subsidiary specific results, changes compared to the previous year, comparison with financial plans, and forecasts for the next 12 months. The Group’s short-term financial planning is based on plans drawn up by the quarter, extending for the following 12 to 15 months. The key financial indicator for growth is sales performance, while those for profitability are operating profit excluding non-recurring items and the return on capital employed excluding non-recurring items, monitored in 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

Financial planning takes place at the subsidiary, division and Group level as rolling plans. The plans are updated quarterly, and any significant changes are taken into account in the performance forecasts reported monthly.

Performance reporting to the Group's top management

The performance reporting to the Group's top management comprises monthly reports on the subsidiaries', divisions' and the Group's income statements and balance sheets. Each subsidiary is primarily responsible for the financial reporting and the accuracy of its 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 and the balance sheet are analysed monthly at the Company, division and Group level, based on the documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available, enables real-time responses to possible flaws. The performance reports provided to the top management also include Group level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting

Public performance reporting comprises interim reports, the financial statements release, financial statements, the Report by the Board of Directors 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 and the financial statements and gives a recommendation on their handling to the Board. The Board approves the interim report and the financial statements before they are published.

Key actions in 2014

Kesko Group continued the project for harmonising the financial management information systems, which 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 Services Centre continued, and in Russia, the Shared Services Centre's operations were established, with financial management services provided to all Russian Group companies. The Group's shared information system for financial management was introduced in the building and home improvement trade companies in Sweden, Estonia and Latvia. In addition, improving the efficiency of financial management routines and converting them to electronic format was continued in cooperation with the Group companies.

Key actions in 2015

In 2015, the information system project for the service of the K-Group will be continued and introduced in Norway, for example. In addition, improving the efficiency of the Group companies' financial management and conversion to electronic format in both Finland and Russia will continue.

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 applied 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 the 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.

Risk management

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

The risk management policy confirmed by Kesko's Board of Directors guides risk management in Kesko Group. The policy defines the goals, principles, organisation and responsibilities of risk management at Kesko Group, as well as its operating practices. In the management of financial risks, the Group's finance policy, confirmed by Kesko's Board, is observed. The business division and Group managements are responsible for the implementation of risk management. Each division has appointed a management board member, usually the finance director, to be responsible for coordinating risk management and providing guidelines within the division and for reporting on risk management responses.

Kesko Group applies a business-oriented and comprehensive approach to risk assessment and risk management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and 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 their impacts in euros and probability of their realisation. When assessing the impact of realisation, the impacts on reputation, the wellbeing of people and the environment are assessed in addition to the impacts in euros.

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

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

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

Kesko's Board discusses Kesko Group's most significant risks and their management responses, and assesses the efficiency and effectiveness 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 in interim reports.

Risk management responses in 2014

Kesko Group's risk management process is established and no significant changes took place in it in 2014. As in previous years, the risk management, legal affairs and internal audit functions organised value discussions on Kesko's responsible working principles in Kesko's subsidiaries. Because of the changed situation, special attention was paid to risk management in Russia. During the year, the adoption of e-learning tools for safety was continued in Kesko's Finnish operations and the purchasing of security services across division boundaries was enhanced. The project for enhanced user right management was continued in Kesko's various SAP environments. A positive trend continued in terms of damages and there were no major single damages.

Focus areas of risk management in 2015

The risk management function will continue working in close cooperation with division parent companies and the Group functions in order to ensure the adoption of, for example, responsible operating practices, to prevent malpractice, and to develop risk management related to personal safety, business continuity, information security and data protection. Security operations will focus on ensuring the security of online stores and expanding the use of e-learning programmes and electronic tools. The project to develop SAP user rights management will be continued and the SAP system level data security will be developed. Jointly with the divisions, the risk management function will organise crisis exercises and training sessions on safety and security.

The response programme for 2015 continues to emphasise the cost efficiency of risk management responses, for which purpose centralised purchasing of services and security technology is aimed. In addition, the efficiency of risk management in the new divisional structure will be ensured.

Internal control

Internal control is an integral part of management and ensuring the achievement of business objectives. Through efficient internal control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken. The tools of internal control include policies and principles, work instructions, manual controls and automatic controls built into 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, expertise and information.

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

The Board and the President and CEO are responsible for the organisation of internal control. The management of every division, company and unit is responsible for taking care that efficient and effective control procedures are in place. The divisions annually prepare control plans that contain, for example, the focus areas and development targets of control. Every Kesko employee is obliged to comply with the responsible working principles and report on any problems to their supervisor.

Kesko's Group units guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective responsibility areas. 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 and assists management and the Kesko companies in the development of the internal control system. The Audit Committee of Kesko's Board has confirmed the principles of Kesko's internal control, which are based on good control principles widely accepted internationally (COSO 2013).

Internal audit

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

The internal audit function is organised under Kesko's President and CEO and the Audit Committee, and it reports on its findings and recommendations to the Audit Committee, the President and CEO, the management of the audited operation, and the Auditor. The function covers all of Kesko's divisions, companies and functions. Auditing is based on risk analyses, as well as risk management and control discussions conducted with the Group's and divisions' managements. Meetings with the Auditor are arranged on a regular basis in order to ensure sufficient audit coverage and 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 competencies. Audits can also make use of the competence and work contribution 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 efficiency of Kesko's risk management system annually.

Internal audit operations in 2014

The key target of internal audit in 2014 were Kesko's business operations in Russia and related risks. Other focus areas included the ongoing extensive business and IT projects, responsibility of purchasing, store site operations, data security, compliance, as well as 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.

Focus areas of internal audit in 2015

The key focus areas of internal audit operations in 2015 will be the business operations in Russia and related risks, Kesko's online services, as well as the efficiency of data security, data protection and related risks. Other focus areas include the ongoing business and IT projects, as well as the efficiency of operations.

Auditor

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland Chamber of Commerce. The Audit Committee submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also evaluates the auditors' operation and services annually. The term of the Auditor is the Company's financial year and the Auditor's duties end at the close of the Annual General Meeting following the Auditor's election. As a rule, an audit company belonging to the same chain as the audit firm represented by the Auditor elected by Kesko's General Meeting acts as the Auditor of the Group's foreign subsidiaries.

The Auditor provides Kesko's shareholders with the statutory Auditor's Report in connection with the Company's financial statements and regularly reports on its findings to the Audit Committee of Kesko's Board of Directors.

The Annual General Meeting 2014 elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the Company's Auditor, with APA Johan Kronberg as the Auditor with principal responsibility. Kronberg has acted as the Auditor with principal responsibility for Kesko since 31 March 2008. Kronberg has been the Board Chair of PricewaterhouseCoopers Oy since 2013 and he is currently the Auditor with principal responsibility for two Finnish listed companies. In addition, Johan Kronberg was the Managing Director of PricewaterhouseCoopers Oy in 2003—2007 and previously, he has been the Auditor responsible for several Finnish listed companies. The General Meeting resolved that the Auditor's fee is paid and expenses are reimbursed according to invoice approved by the Company.

Auditors' fees in 2013—2014 (€1,000)

| | 2014 | | | | | 2013 | | | | |
|-------------------|------------|-------------|-------------------|-------------|-----------------------|------------|-------------|-------------------|-------------|-----------------------|
| | PwC | | Other audit firms | | Total | PwC | | Other audit firms | | Total |
| | Kesko | Other Group | Kesko | Other Group | | Kesko | Other Group | Kesko | Other Group | |
| | | | | | Corporation companies | | | | | Corporation companies |
| Auditing | 174 | 705 | - | 56 | 935 | 115 | 741 | 0 | 71 | 927 |
| Tax consultation | 77 | 25 | 1 | 10 | 113 | 8 | 40 | 4 | 3 | 55 |
| IFRS consultation | 4 | 6 | - | - | 10 | 3 | 3 | 3 | 0 | 9 |
| Other services | 121 | 164 | 28 | 249 | 562 | 58 | 92 | 102 | 16 | 268 |
| Total | 376 | 899 | 29 | 314 | 1,620 | 184 | 876 | 109 | 90 | 1,258 |