



KESKO CORPORATION'S REMUNERATION STATEMENT

2012

This remuneration statement has been discussed at the meeting of the Remuneration Committee of the Kesko Corporation Board on 4 February 2013.

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REMUNERATION STATEMENT FOR 2012

1 Remuneration plans

1.1 Remuneration of the Board and its Committees

The Annual General meeting adopts resolutions on the fees and other financial benefits of the members of Kesko's Board and the Board's Committees annually. The fees of the members of the Board and its Committees are paid in cash. The Board members have no share or share-based compensation plans. Nor do they participate in other remuneration or pension plans of the company.

1.2 Remuneration of the President and CEO and other management

Principles of remuneration and the decision-making process

The remuneration plan of the President and CEO and the other members of the Corporate Management Board consists of a non-variable monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria set annually (short-term remuneration plan), share-based compensation and share option plans (long-term remuneration plans) and management's retirement benefits.

Based on the Remuneration Committee's preparatory work, Kesko's Board makes decisions on the individual compensation, other financial benefits, the performance bonus system criteria and the performance bonuses paid to the President and CEO and the Corporate Management Board members responsible for lines of business. Kesko's Board makes decisions on the performance bonus principles of the other Corporate Management Board members. The Board also monitors the implementation of the remuneration plan.

The President and CEO makes decisions on the compensation and other financial benefits of Corporate Management Board members other than those responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

Performance bonus scheme (short-term remuneration plan)

Kesko operates a management's performance bonus scheme. In addition to the Corporate Management Board, the scheme covers about 90 people in the Kesko Group's management. The performance bonuses determined annually are paid after the completion of the annual financial statements by the end of April following the year of determination. Kesko's Board makes decisions on the management's performance bonus criteria annually. Generally speaking, the criteria are the Group's profit before non-recurring items and tax (weighting 20-40%), the economic value added of the director's personal responsibility area, operating profit excluding non-recurring items and net sales performance, customer and personnel indicators (weighting 20-40%), attainment of personal targets, and a component based on the superior's overall evaluation (30-40%). The performance bonus criteria and their weightings vary depending on duties.

The maximum performance bonus of Kesko's President and CEO corresponds to his eight months' monetary salary excluding fringe benefits, and that of the other Corporate Management Board members, the monetary salary of 4-5 months, depending on the profit impact of each position. The performance bonus of a Corporate Management Board member is determined

based on the monetary salary of the last month of the calendar year the performance of which is the basis of the bonus.

The fulfilment of performance and profit criteria and their impact on long-term financial success are monitored and evaluated by Kesko's Board and the Remuneration Committee.

According to the rules of the performance bonus scheme, the period of service or comparable activity in a Group company must have lasted continuously for at least six (6) calendar months during the calendar year for which the bonus is paid. A performance bonus is not paid to a person whose employment terminates before the date of payment.

Share-based compensation and share option plans (long-term remuneration plans)

In addition to the performance bonus scheme, Kesko operates the 2011-2013 share-based compensation plan and the 2007 option scheme designed for the Group's management and certain other key personnel.

The purpose of the share-based compensation plan is to promote Kesko's business and increase the company's value by combining the objectives of the shareholders and management personnel. The plan also aims to commit the grantees to the Kesko Group and give them the opportunity to receive company shares upon fulfilling the objectives set in the share-based compensation plan.

The share-based compensation plan includes three vesting periods: the calendar years 2011, 2012 and 2013. Kesko's Board determines the target group and vesting criteria separately for each vesting period based on the Remuneration Committee's proposal, and the compensation possibly paid after each vesting period is based on the fulfilment of the vesting criteria determined for the vesting period by the Board. The criteria for the 2012 vesting period were, as were the vesting criteria for the year 2011, the growth percentage of the Kesko Group's sales exclusive of tax, Kesko's basic earnings per share (EPS) excluding nonrecurring items, and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI index.

The compensation possibly paid for a vesting period is paid in Kesko B shares. In addition, a cash component is paid to cover the taxes and tax related charges payable on the compensation. A commitment period of three calendar years following each vesting period is attached to the shares issued in compensation, during which shares must not be transferred. If a person's employment or service relationship terminates prior to the end of the commitment period, he/she must return the shares subject to transfer restriction to Kesko or its designate without consideration. However, the Board may, in individual cases, decide that the grantee is entitled to keep the securities that are subject to a return obligation, or some of them. Under the share-based compensation plan, a total maximum of 600,000 own B shares held by the company may be granted within three years.

In addition to the share-based compensation plan, Kesko operates an option scheme resolved by the 2007 Annual General Meeting. A total maximum of 3,000,000 options could be granted under the scheme. The scheme includes an obligation placed by Kesko's Board on option recipients to use 25% of the proceeds from their share options to buy company shares for permanent ownership. Kesko's Board makes decisions on the granting of options on the basis of the Remuneration Committee's proposal and within the terms and conditions of the option scheme resolved by the company's General Meeting. No options have been granted since 2010.

The plans do not contain terms or conditions that would limit the recipients' income from the shares or the options.

Period of notice and termination benefit

If given notice by the company, the President and CEO and the other Corporate Management Board members are entitled to a monetary salary for the period of notice, fringe benefits and a separate lump sum termination benefit determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination benefit as well as granted share options or shares, or income from them are not part of the executive's salary and they are not included in the determination of the salary for the period of notice, termination benefit or, in case of retirement, pensionable salary. If an executive resigns, he/she is only entitled to a salary for the period of notice and fringe benefits. When a service relationship terminates due to retirement, the executive is paid a pension based on his/her service contract without other benefits.

Retirement benefits

The President and CEO and the other Corporate Management Board members, except for two (2), belong to the Kesko Pension Fund's department A which was closed in 1998, and their pensions are determined based on its rules and their personal service contracts. They have defined retirement benefit plans. Two of the members have joined Kesko after 1998, and their pensions are determined based on the Employees' Pensions Act (TyEL) applied in Finland.

Kesko has not paid pension contributions for an executive's membership in the Kesko Pension Fund's department A for several years or in 2012, as the returns on the department's investments have covered the additional retirement benefits payable and changes in the pension liability.

2 Salaries, fees and other financial benefits

2.1 Fees and other financial benefits of the members of the Board and its Committees

The Annual General Meeting adopts resolutions on the fees and other financial benefits of the members of Kesko's Board and its Committees annually. The fees of the members of the Board and its Committees are paid in cash. The Board members have no share or share-based compensation plans. Nor are they included in other remuneration or pension plans.

The Annual General Meeting of 16 April 2012 resolved to leave the Kesko Board members' fees unchanged and in 2012, they were as follows:

Annual fees:

- Board Chair €80,000
- Board Deputy Chair €50,000 and
- Board member €37,000.

In addition, a meeting fee of €500 per meeting is paid for a Board meeting and its Committee's meeting, with the exception that the Chair of a Committee who is not the Chair or the Deputy Chair of the Board is paid €1,000 per Committee meeting.

Daily allowances are paid and travel expenses are reimbursed to Board and Committee members in accordance with the general travel rules of Kesko.

Annual and meeting fees paid to board members for board and committee work in 2012 (€)

	Annual fees	Meeting fees			Total
		Board	Audit Committee	Remuneration Committee	
Esa Kiiskinen (Ch.*)	69,250	4,500			73,750
Seppo Paatelainen (Dep. Ch.)	50,000	4,500	1,500	1,000	57,000
Ilpo Kokkila	37,000	4,500		1,000	42,500
Tomi Korpisaari*	27,750	3,500			31,250
Maarit Näkyvä	37,000	4,500	3,000		44,500
Toni Pokela*	27,750	3,500			31,250
Virpi Tuunainen*	27,750	3,500	1,000		32,250
Heikki Takamäki (Ch.)**	20,000	1,000		1,000	22,000
Mikko Kosonen**	9,250	1,000	500		10,750
Rauno Törrönen**	9,250	1,000			10,750
Total	315,000	31,500	6,000	3,000	355,500

* From 16 Apr. 2012

** Until 16 Apr. 2012

The fees are reported on cash basis.

Annual and meeting fees resolved by the annual general meeting in 2009–2012 (€)

	Fee/year
Annual fee	2009–2012
Board Chair	80,000
Board Deputy Chair	50,000
Board member	37,000

	Fee/meeting
Meeting fees	2009–2012
Fee for a Board meeting	500
Fee for a Committee meeting	500
Committee Chair's fee for a Committee meeting, if he/she is not also the Board Chair or Deputy Chair	1,000

2.2 President and CEO's salary, fees and other financial benefits

President and CEO Matti Halmesmäki's personal compensation, other financial benefits, performance bonus system criteria and performance bonuses are decided by Kesko's Board, based on the Remuneration Committee's preparatory work. A written managing director's service contract, approved by the Board, has been made between the company and the President and CEO.

The salaries, fringe benefits and performance bonuses paid to the President and CEO and his other financial benefits in 2010-2012 are presented in the following tables.

President and CEO Matti Halmesmäki

Salaries, performance bonuses and fringe benefits in 2010–2012 (€)	2012	2011	2010
Non-variable monetary salary	865,300	642,900	605,100
Performance bonuses*	309,000	339,500	227,500
Fringe benefits	22,023	19,980	22,560
Total	1,196,323	1,002,380	855,160

* Paid based on previous year's performance

Share-based payments

Share award (pcs)	2013	2012	2011
Maximum	21,000	21,000	18,000
Granted*		5,607	7,794
Commitment period (until)		31.12.2015	31.12.2014

* The share award for the 2012 vesting period, decided by the Board in February 2013, will be paid by the end of April 2013 in accordance with the terms of the plan. The number of shares granted for the 2013 vesting period will be decided in 2014. The shares decided to be granted for the 2011 vesting period were granted in April 2012.

The share award is based on the fulfilment of the vesting criteria set by the Board for each vesting period. The Board annually decides on the vesting criteria and the maximum share amounts at the beginning of the vesting period. At the beginning of the year following the vesting period, the Board decides the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The vesting criteria with equal weightings for the 2011–2012 vesting periods are Kesko's basic earnings per share (EPS) excl. non-recurring items, the performance of the Kesko Group's sales exclusive of tax for the vesting period, and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI Index. In addition, a cash component is paid to cover the taxes and tax-like charges incurred by the award.

Commitment period

The share award in Kesko B shares involves a commitment period of three calendar years, following each vesting period, during which the shares may not be assigned.

Share options

At 31 December 2012, the President and CEO did not hold the 2007A, 2007B and 2007C share options granted to him in 2007–2009. In those years, he received 50,000 share options in each series, or a total of 150,000 share options.

The 2007A-2007C share options carry an obligation set by Kesko's Board to option recipients to use 25% of the proceeds from their share options to buy company shares for permanent ownership.

Period of notice and termination benefit

If the President and CEO's service contract is terminated by the company, he is paid a 12-months' salary for the period of notice and a separate lump sum termination benefit which corresponds to his 12-months' monetary salary and fringe benefits (a total of 24 x termination month's monetary salary + fringe benefits). If the President and CEO resigns, he is entitled to a 6-months' salary for the period of notice.

Retirement benefits

The President and CEO is a member of the Kesko Pension Fund's department A and his retirement benefits are determined based on the department's rules and his managing director's service contract. In 2011, his term of office, based on his managing director's service contract, was extended until his retirement on old age pension at the age of 63. His retirement benefit is based on a defined benefit plan. At retirement, his pension will be 66% of his pensionable salary, which is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last 10 years. In 2012, Kesko did not incur pension insurance premiums on the supplementary retirement benefit included in the President and CEO's pension.

2.3 Corporate Management Board members' salaries, fees and other financial benefits

Based on the Remuneration Committee's preparatory work, Kesko's Board makes decisions on the personal compensation, other financial benefits, the performance bonus system criteria and the performance bonuses paid to the President and CEO and the Corporate Management Board members responsible for lines of business. For the other Corporate Management Board members, Kesko's Board makes decisions on the performance bonus principles. The President and CEO makes decisions on the compensation and other financial benefits of the Corporate Management Board members not responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

Corporate management board members and responsibility areas in 2012

	Since	Responsibility area
Matti Halmesmäki, Ch.	1 Jan. 2001	Kesko's President and CEO
Terho Kalliokoski, President of Kesko Food Ltd	17 Mar. 2005	Food trade and Kesko's store site operations in Russia
Minna Kurunsaari, Senior Vice President, home and speciality goods trade	1 Dec. 2011	Home and speciality goods trade, customer information and e-commerce projects
Arja Talma, President of Rautakesko Ltd	17 Mar. 2005	Building and home improvement trade
Pekka Lahti, President of VV-Auto Group Oy	1 Mar. 2005	Car and machinery trade
Jukka Erlund, Senior Vice President, CFO of Kesko	1 Nov. 2011	Finance and accounting, IT management, financial services
Matti Mettälä, Senior Vice President	1 Oct. 2012	Human resources and stakeholder relations

In 2012, the Corporate Management Board members also included Riitta Laitasalo, Senior Vice President, Human Resources, and Merja Haverinen, Senior Vice President, Corporate Communications and Responsibility, until 30 Sep. 2012.

The salaries, fringe benefits and performance bonuses paid to the Corporate Management Board members and their other financial benefits in 2011-2012 are presented in the following tables.

Salaries, performance bonuses and fringe benefits of corporate management board members in 2011–2012 (€)

	Non-variable monetary salary		Performance bonuses		Fringe benefits		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Matti Halmesmäki (Ch.)	865,300	642,900	309,000	339,500	22,023	19,980	1,196,323	1,002,380
Corporate Management Board**	1,491,291	1,537,924	327,950	438,500	108,944	97,127	1,928,185	2,073,550
Total	2,356,591	2,180,824	636,950	778,000	130,968	117,107	3,124,508	3,075,930

Salaries, performance bonuses and fringe benefits are reported on cash basis. The 2011 accrual is calculated by adding the amount of performance bonus paid in 2012 to the salaries and fringe benefits in 2011. The performance bonus accrued for 2012 will be decided in spring 2013.

*** Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2012 and include each member's salaries, performance bonuses and fringe benefits for their terms of office.*

Share-based payments to corporate management board members

Share award (pcs)	Vesting period 2013	Vesting period 2012		Vesting period 2011	
	Maximum**	Maximum**	To be granted**	Maximum**	Granted
Matti Halmesmäki, Ch. Corporate Management Board*	21,000	21,000	5,607	18,000	7,794
Total	60,000	53,500	14,285	51,300	22,213

* Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2012 and are reported as at the end of 2012.

** The shares decided by the Board in February 2013 to be granted for the 2012 vesting period, will be granted by the end of April 2013 in accordance with the terms of the plan. The number of shares granted for the 2013 vesting period will be decided in 2014. The shares decided to be granted for the 2011 vesting period were granted in April 2012.

The share award is based on the fulfilment of the vesting criteria set by the Board for each vesting period. The Board annually decides on the vesting criteria and the maximum share amounts at the beginning of the vesting period. At the beginning of the year following the vesting period, the Board decides the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The vesting criteria with equal weightings for the 2011–2012 vesting periods are Kesko's basic earnings per share (EPS) excl. non-recurring items, the performance of the Kesko Group's sales exclusive of tax for the vesting period, and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI Index.

In addition, a cash component is paid to cover the taxes and tax-like charges incurred by the award.

The share award in Kesko B shares involves a commitment period of three calendar years, following each vesting period, during which the shares may not be assigned. The commitment period for shares granted for the 2011 vesting period will expire on 31 Dec. 2014 and the commitment period for shares granted for the 2012 vesting period will expire on 31 Dec. 2015.

Share options

At 31 Dec. 2012, Corporate Management Board members, excluding President and CEO Halmesmäki, held a total of 17,000 2007B and 65,500 2007C share options of the total of 138,000 2007A, 138,000 2007B and 145,500 2007C share options granted to them in 2007–2009. The 2007A share options based on the 2007 option scheme expired in spring 2012. At 31 December 2012, the President and CEO Halmesmäki did not hold Kesko share options. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2012.

The 2007A-2007C share options carry an obligation set by Kesko's Board to option recipients to use 25% of the proceeds from their share options to buy company shares for permanent ownership.

Retirement benefits, periods of notice and termination benefits of corporate management board members

	Old age pension age (yrs)	Pension as percentage of pensionable salary (%)	Period of notice	Termination benefit
Matti Halmesmäki, Ch.	63	66	6*/12 mo	12 mo salary
Terho Kalliokoski	62	66	6 mo	6 mo salary
Minna Kurunsaari	62	66	6 mo	6 mo salary
Arja Talma	based on TyEL**	based on TyEL**	6 mo	6 mo salary
Pekka Lahti	62	66	6 mo	12 mo salary
Jukka Erlund	based on TyEL**	based on TyEL**	6 mo	6 mo salary
Matti Mettälä	62	66	6 mo	12 mo salary

If the company terminates the executive's service contract, he/she is paid a 6–12-months' salary for the period of notice and a separate lump sum termination benefit which corresponds to his/her 6–12-months' non-variable monetary salary and fringe benefits (a total of 12–24 x termination month's salary + fringe benefits). If the executive resigns, he/she is entitled to a salary for the period of notice.

Except for Erlund and Talma, the executives are members of the Kesko Pension Fund's department A. Their retirement ages and retirement benefits are determined based on the department's rules and each of their service contracts. Their retirement benefits are based on defined benefit plans. In 2012, Kesko did not incur pension insurance premiums on the supplementary retirement benefit included in these pensions.

** If the President and CEO resigns, he is entitled to a 6-months' salary for the period of notice.*

*** TyEL = the Employees' Pensions Act*

3 Share-based remuneration plans

3.1 Share-based compensation plan 2011–2013

Kesko operates the 2011–2013 share-based compensation plan designed for the Group's management and other named key personnel, decided by the company's Board. The plan allows a total maximum of 600,000 own B shares held by the company to be issued over the three-year period.

The share-based compensation plan includes three vesting periods, namely the calendar years 2011, 2012 and 2013. Kesko's Board of Directors determines the target group and vesting criteria separately for each vesting period based on the Remuneration Committee's proposal, and the compensation possibly paid after each vesting period is based on the fulfilment of the vesting criteria determined for the vesting period by the Board. The criteria for the 2012 vesting period were, as were the criteria for the 2011 vesting period, the growth percentage of the Kesko Group's sales exclusive of tax, Kesko's basic earnings per share (EPS) excluding nonrecurring items and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI index.

The compensation possibly paid for a vesting period is paid in Kesko B shares. In addition, a cash component is paid to cover the taxes and tax related charges payable on the compensation.

A commitment period of three calendar years following each vesting period is attached to the shares issued in compensation during which shares must not be pledged or assigned, but the grantee is entitled to the other rights attached to the shares. If a person's

employment or service relationship terminates prior to the end of the commitment period, he/she must, as a rule, return the shares subject to transfer restriction to Kesko or its designate without consideration. In individual cases, the Board may decide that the grantee is entitled to keep the shares that are subject to a return obligation, or some of them.

3.2 Share option scheme 2007

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 options for no consideration to the management of the Kesko Group, other key personnel, and a subsidiary wholly owned by Kesko Corporation. The terms and conditions of the 2007 option scheme were published on 26 March 2007.

Each option entitles its holder to subscribe for one new Kesko Corporation B share. The options are marked with symbols

- 2007A (KESBVEW107, ISIN code: FI0009637201),
- 2007B (KESBVEW207, ISIN code: FI0009637219), and
- 2007C (KESBVEW307, ISIN code: FI0009637227)

in units of 1,000,000 options each.

The exercise periods of options are:

- 2007A: 1 April 2010–30 April 2012 (expired),
- 2007B: 1 April 2011–30 April 2013 and
- 2007C: 1 April 2012–30 April 2014.

The original share subscription price for option 2007A was the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), for option 2007B, between 1 April and 30 April 2008 (€26.57), and for option 2007C, between 1 April and 30 April 2009 (€16.84). The subscription prices of shares subscribed for with exercisable share options shall be reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription as at the record date for each dividend distribution or other distribution of funds.

After the 2011 dividend distribution, the subscription price of a B share subscribed for with option 2007B is €22.17 and with option 2007C €13.44. The exercise period of options 2007A expired on 30 April 2012 after which date they can no longer be used for share subscription

The company has not issued other share options or other special rights entitling to company shares.

Share options based on the share option scheme 2007 have not been granted after 2010.