KESKO PENSION FUND

ANNUAL REPORT
2012

ANNUAL REPORT OF **KESKO PENSION FUND**

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ANNUAL REPORT 2012

80TH FINANCIAL YEAR

Kesko Pension Fund is the pension institution for its shareholders, which offers additional pension coverage for the employees of Department A shareholders who are members of the Pension Fund's Department A. Department A was closed on 8 May 1998.

Department A shareholders	
Anttila Oy	Indoor Group Oy
Intersport Finland Oy	K-citymarket Oy
Kenkäkesko Oy	Kesko Oyj
Kesko Pension Fund	Kesko Employee Sickness Fund
Keslog Oy	Kespro Oy
K-Instituutti Oy	K-kauppiasliitto ry
K-Maatalouskaupat Oy	Konekesko Oy
K-Plus Oy	K-talouspalvelukeskus Oy
Musta Pörssi Oy	Rautakesko Oy
Ruokakesko Oy	VV-Auto Group Oy
VV-Autotalot Oy	Vähittäiskaupan Takaus Oy
Vähittäiskaupan Tilipalvelu Oy	

Kesko Pension Fund was established in 1932 as the pension fund of the clerical employees of the Savo-Karjala wholesale firm. The name was changed to Kesko Pension Fund in 1941, Departments A and B of the fund were established in 1962, and Department B was discontinued in 2012. The function of Kesko Pension Fund is to take care of the additional pension cover of the individuals belonging to it, and to manage the investments covering the future pensions so that it meets the requirements set for it.

FINANCIAL STATEMENTS 2012

In this publication, we present the 2012 income statement, balance sheet, annual report and notes to the financial statements of Kesko Pension Fund. The official financial statements can be seen in our office, Satamakatu 3, Helsinki, internal address B5-230, telephone 0105311.


SPORT TO THE PEOPLE

ANNUAL REPORT OF KESKO PENSION FUND

PORTFOLIO TRANSFER IN DEPARTMENT B OF THE PENSION FUND

In the December 2009 meeting, the Pension Fund's Board of Directors stated that the Pension Fund's shareholders belonging to the Kesko Group and other shareholders had decided to take out TyEL insurance for the personnel with an employee pension insurance company, and proposed to the Pension Fund that the insurance operations and share-specific liabilities of Department B be transferred to the employee pension insurance company in stages. The project is based on the shareholders' wish to transfer the associated insurance risk and the investment risk arising from the assets acting as cover for the pension liability to the employee pension insurance company and, thus, increase the forecasting capacity and evenness in pension costs, and reduce the impact of fluctuations in investment operations on their results. The Pension Fund's representatives approved the portfolio transfer of Department B in stages in its meeting on 31 December 2009.

The planned liability was transferred in two stages. The first stage was completed on 1 September 2010 and the second stage on 1 January 2012. The change in pension company did not have any impact on the pension level or coverage of the personnel or pensioners.

The completion of the first stage of the portfolio transfer reduced Department B's liabilities by a total of EUR 308 million. Of this, EUR 274.8 comprised transferred liabilities and EUR 33.2 million transferred solvency margin. The transferred solvency margin rate was 12.1 per cent. The number of pensions paid in Department B reduced by some 1,100 pensions and the number of members reduced by 3,400 people. At the second stage, a total of EUR 107.8 million of liabilities were transferred. Of this, EUR 96.2 comprised transferred liabilities and EUR 11.6 million transferred solvency margin. After the second stage, Department B did not contain any liabilities, pensions payable or members.

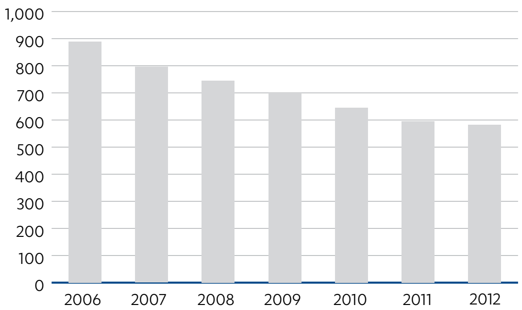
The final assets of Department B were paid to shareholders leaving on 1 January 2012 as an excess return in December 2012. The excess return was paid to shareholders leaving in 2010 was paid in 2010. After the returns paid in December 2012, the income statement and balance sheet of Department B as of 31 December 2012 were set at zero, and Department B was fully discontinued in the Kesko Pension Fund.

MEETING OF THE REPRESENTATIVES

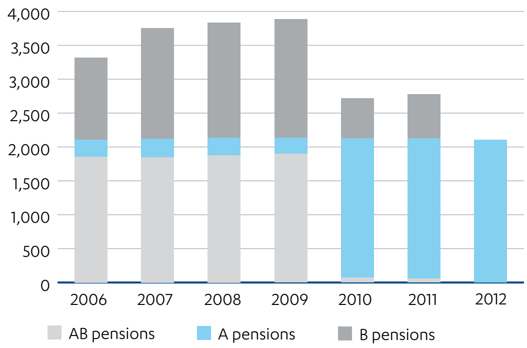
The ordinary meeting of the representatives was held on 27 February 2012. Mika Majoinen from Kesko Oyj acted as Chairman.

Elections for the Pension Fund's representatives were held in spring 2012, with the voting period lasting from 18 May to 1 June 2012. The result was released in June. The new representatives did not have any meetings in the year under review.

MEMBERS IN DEPARTMENT A 2006-2012



NUMBER OF INDIVIDUALS RECEIVING A PENSION THROUGH THE KESKO PENSION FUND 2006-2012



MEMBERS

At the end of the year under review, 582 people belonged to the Pension Fund, i.e. Department A.

PENSIONS

At the end of the reporting year, there were a total of 2,098 pensions in payment, which is 679 less than in the previous year. The main reason for this change was the portfolio transfer of Department B carried out on 1 January 2012. All pensions in payment in 2012 were within Department A. There were 34 pensions of Department A fewer than in 2011. Survivors' pensions were paid to 367 (385) people.

Part-time pensions are included in retirement pensions. At the end of 2012, the total number of part-time pensions was: 2 (17). Survivor's pensions are included in "other pensions".

No pensions were paid from Department B in 2012 because the final portfolio transfer was carried out on 1 January 2012. Department A's pension expenditure decreased by 2.5 per cent.

During the year under review, 6 persons transferred directly to retirement pension from their employment relationships, 10 transferred to A early retirement pension and 2 transferred to reduced disability pension. In 2012, a total of 18 persons transferred directly from employment to a pension. The corresponding figure was 85 in 2011.

The total number of pension recipents 31.12.2012

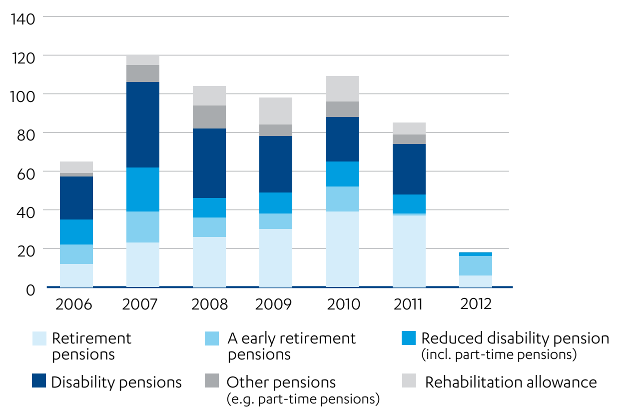
Pension type	2012	2011	Change
Retirement pensions	1,592	1,956	-364
Early retirement pensions	27	34	-7
Reduced disability pensions	19	86	-67
Disability pensions	93	300	-207
Other pensions	367	401	-34
Total	2,098	2,777	-679

Starting from 1 January 2012, pensions were increased by the employment pension index, being 3.61 per cent for each member.

Pensions paid in 2012 and changes from the previous year were:

Pension expenditure (EUR million)	2012	2011	Change (%)
Department A	14.7	15.1	-2.5
Department B	0.0	9.	-100.0
Clearing of PAYG pensions, Department B	0.0	18.7	-100.0
Total	14.7	42.8	-65.6

PENSION DECISIONS MADE FOR INDIVIDUALS TRANSFERRING TO A PENSION FOR THE FIRST TIME AND REHABILITATION DECISIONS 2006-2012



Number of paid-up policies in Department A

In 2012, Department A granted paid-up policies to a total of 10 individuals. Paid-up policies were returned to the Pension Fund by 8 people. Of individuals holding a paid-up policy, one died and one returned to the Group's employment. Fourteen people transferred to a paid-up pension. The number of paid-up policies in Department A was 195 (209) at the end of the year.

Membership fees

During the year under review, a total of EUR 64,033.07 in membership fees and EUR 24,580.84 in interest on the fees was paid to members who quit Department A and returned their paid-up policy.

TECHNICAL PROVISIONS

In Department A, the provision for unearned premiums increased by EUR 1.9 million and the provision for claims outstanding decreased by EUR 1.7 million. The technical provisions of Department A stood at a total of EUR 295.0 (294.8) million. The technical provisions of Department A include a provision for index increase of EUR 21 million.

Technical provisions must be covered by investment assets. The assets that cover pension liabilities must satisfy certain requirements set out in law. Department A's cover regulations contain various limitations. For example, a maximum of 50 per cent of technical provisions can be covered by quoted shares and fund units and a maximum of 40 per cent by properties. Department A of the Kesko Pension Fund meets the statutory requirements and its provisions have been covered in full.

INSURANCE PREMIUM

As in previous years, members of Department A under the age of 53 paid as a membership fee one per cent of their income subject to tax withheld in advance. The membership fee for members over the age of 53 has been waived. Income from membership fees was EUR 0.3 million. No insurance premiums were collected for Department A.

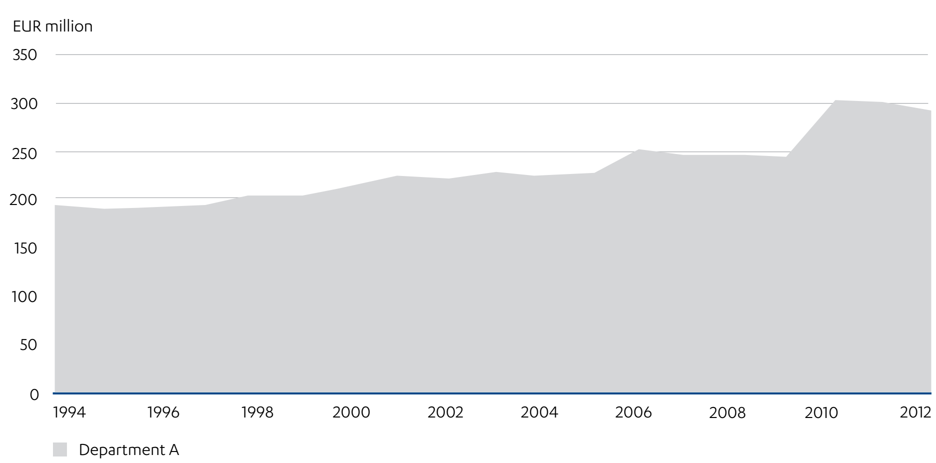
FINANCIAL RESULT AND SOLVENCY

The book result of the pension fund for 2012 was a total of EUR 5.1 (-16.4) million. The Pension Fund's Board of Directors proposed to the representatives of the Pension Fund that the Pension Fund's surplus be shown in the income statement, the result be acknowledged through confirmed losses over the previous years, and the surplus be transferred to equity on the balance sheet. The Board of Directors also decided to propose that, pursuant to Section 75 of the Insurance Funds Act, 20 per cent of surplus be transferred to the reserve fund and the remaining surplus be registered in retained earnings.

Following the transfer, Department A's equity is EUR 25.2 million.

Department B's income statement and balance sheet were set to zero through an excess return to shareholders in December 2012. The excess return totalled EUR 73.2 million.

TECHNICAL PROVISIONS 1994–2012, DEPARTMENT A, RELATIVE TO VALUE OF CURRENCY DEC. 2012 (COST-OF-LIVING INDEX)



Preparation of the financial statements

In preparing the financial statements, we have followed the regulations and instructions of the Financial Supervisory Authority for pension funds and the decree of the Ministry of Social Affairs and Health on employee benefit funds.

INVESTMENT ACTIVITIES

At the end of the year, the market value of the investments of the Pension Fund stood at EUR 407.9 (378.0) million. The entire investment property belonged to Department A on 31 December 2012 after the discontinuation of Department B and the excess return. Of the investments, calculated at market values, 48.8 per cent were in properties and loans with property as security, 37.4 per cent were in shares and equity funds, 4.5 per cent were in alternative investments (private equity funds), and 9.3 per cent in fixed-income instruments. The investment of the assets is highly diversified, which reduces risks in fluctuating economic circumstances.

Property investments

The distribution of property assets in the Pension Fund's Department A was changed in 2012. Department granted a loan with property as security which is monitored as part of property investments due to its risks. Direct property investments made up 43.7 per cent of assets and loans with property as security comprised 5.1 per cent. In total, property investments covered 48.8 per cent. At the end of the year, the amount of capital invested in property investments was EUR 199.1 (169.8) million.

No impairment or refunds of impairment were recognised in properties in the 2012 financial statements. All value changes in the Pension Fund's properties are based on the new fair values of properties obtained in October–December.

Fixed-income instruments

At the end of 2012, the total market value of fixed-income instruments (including fund-units investing in interest rate papers) was EUR 37.8 (83.3) million. Fixed-income instruments made up 9.3 (22.1) per cent of the total portfolio of the Pension Fund's Department A. It was divided so that 3.4 (13.4) per cent was in short-term, fixed-income instruments and 5.9 (8.7) per cent in long-term fixed-income instruments. The distribution of the Pension Fund's fixed-income instruments is shown in the following table.

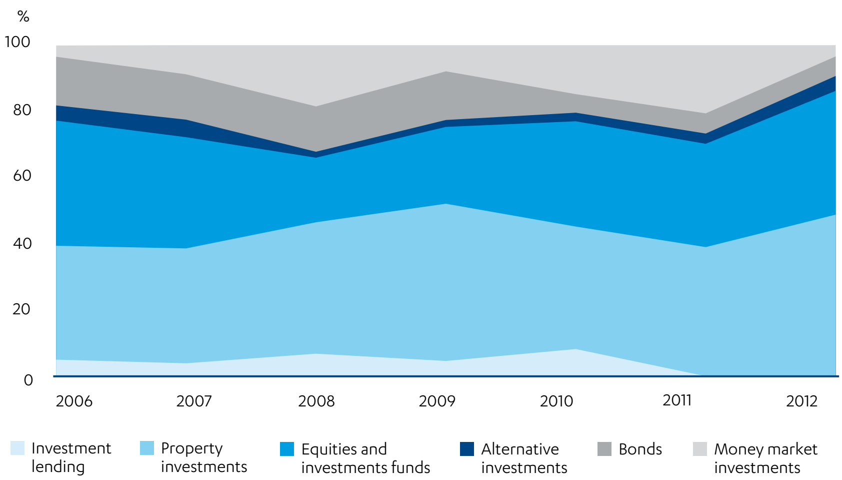
Fixed-income instruments 31 December 2012	Distribution	Moderate duration
Bonds	63.4%	4.0
Money market instruments	36.6%	0.8

Receivables from employer shareholders are allocated to money market instruments. At year-end, they stood at EUR 0.8 (1.4) million. Receivables from employers have sufficient security.

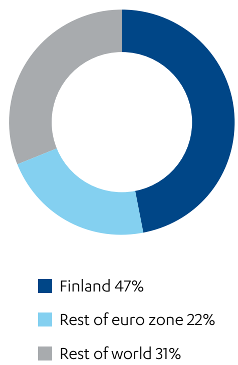
Equity investments

At the end of 2012, the market value of the Pension Fund's total quoted investments in shares and funds was EUR 114.7 (83.1) million. This was 28.1 (22.0) per cent of the entire portfolio. A total of 9.3 per cent of the portfolio was invested in unlisted shares. Of the stock portfolio, 47 per cent was invested in Finnish companies.

INVESTMENTS AT FAIR VALUE 2006-2012



DISTRIBUTION OF EQUITIES BY REGION



In 2012, shares produced well in all markets. The profit of Kesko Pension Fund's listed shares was 16.5 per cent in 2012. The 12-month trailing earnings of MSCI World and OMX Helsinki Cap, used as comparison indices, were 14.3 and 15.5 per cent, respectively. The volatility of the Pension Fund's portfolio of listed shares was 10.9 per cent.

Alternative investments

Alternative investments in the Pension Fund's portfolio consist of private equity fund investments. At the end of 2012, alternative investments made up 4.5 (4.4) per cent of the market value of the Pension Fund's portfolio.

Result of investment operations

The net book income of investment operations was EUR 20.9 (-3.4) million in Department A and 66.1 (2.0) million in Department B. The total net book income of investment operations was EUR 87 (-1.4) million. Department B's assets were realised in full in 2012, producing a high net book income. In 2012, a total of EUR 5.3 million was recognised in refunds of impairments of shares and holdings and a total of EUR 2.1 million was recognised in new impairments.

In 2012, the income from committed capital, at market values, of investment operations was 11.7 (0.5) per cent in Department A and 26.6 (-4.8) per cent in Department B. The income from committed capital of the whole Pension Fund was 13.9 (-1.0). The average annual income over the past five years in the entire Pension Fund is 4.5 per cent, and the annual income over 15 years calculated from 1998 is 7.9 per cent.

RISK MANAGEMENT

The objective of the Pension Fund's risk management is to limit risks to the level accepted by the Board of Directors, prevent the realisation of risks threatening the pension fund, minimise the financial and other harm from realised risk factors, and to ensure the continuity of operations. The most important risks for the Pension Fund are the risks of insurance operations, investment operation risks and operational risks.

Limits are set in writing for quantitative risks and they are recorded annually into the investment plan. The monitoring limits are followed constantly. Incidents when the limits are exceeded and deviations from risk management procedures are evaluated and reported once each month. The up-to-datedness of the indicators and risk limits is checked annually in connection with the preparation of the investment plan.

Insurance business risks

Kesko Pension Fund's insurance-technical risks are connected to the sufficiency of insurance premiums and technical provisions in relation to the pensions the Pension Fund is responsible for. The Pension Fund's benefits are based on defined benefit pension plans, i.e. the pensions must be paid in the amounts promised in all situations regardless of the success of investment operations.

This means that, in the final instance, employers that are shareholders must pay for the pensions to be paid through additional insurance premiums if the Pension Fund's investment activities fail. If the employers who are shareholders cannot pay the additional insurance premiums, their assets are used to pay for the premiums. The Pension Fund's employer clients, primarily companies belonging to Kesko Group, are solvent companies, so the payment of the insurance premiums is secure.

In calculating the technical provisions, the Pension Fund follows the calculation principles pursuant to Decree Record Number FIVA 2/01.00/2012 of the Financial Supervisory Authority and the appended formulas, with certain specifications and exceptions. Department A's fund interest rate is 2.0 per cent. With respect to insurance-technical risks, the objective of risk management is to ensure the fulfilment of the requirements of the calculation principles. The pension fund's actuary is responsible for assessing this.

Risks of the investment operations

The investment activities of Kesko Pension Fund aim at as high returns as possible, taking risk limitations into account. The objective is to see to the profit of investments and their convertibility into money in a secure manner, as well as their appropriate diversity and decentralisation. Profitable investment means subjecting the Pension Fund to investment risks which are restricted to ensure the protection requirement. With respect to the result and solvency, the most significant risk is investment risk.

The investment risks that the Pension Fund has identified are market risk, counterparty risk and liquidity risk. In addition, risk concentrations and their management are part of the management of investment risks.

The Pension Fund's investment policy defines the asset-type-specific investment restrictions and allowed investment objects. The investment plan approved annually by the Pension Fund's Board of Directors contains the investment allocation targets and income targets for the next year. In addition, the Pension Fund adheres to a risk management policy. The Pension Fund prepares for the risks of investment activities by following, monthly, the distribution, fluctuation range and returns of investments in comparison with selected comparison indices, as well as other restrictions. The Pension Fund reports regularly to its Board of Directors and investment committee.

Operational risks

Operational risks mean direct or indirect losses of income or costs that can result from processes that function imperfectly or deficiently, inadequate competence, information technology or data security, personnel, lack of internal monitoring or uncertainty about security or the continuity of operations caused by an external threat. For the most part, operational risks are managed as a part of the normal management of operations. The support provided by Kesko Group for ensuring the reliability and continuity of centralised operations and services is utilised to the extent this is possible.


SÄHKÖ

INCOME STATEMENT

EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Technical account		
Premiums written		
Statutory pension contributions	0	25,962
Membership fees of other pensions	251	268
	251	26,229
Earnings from investment operations	102,303	28,593
Claims incurred		
Claims paid on statutory pensions	454	-26,924
Change in the provision for claims on statutory pensions	52,331	-1,215
Claims paid on other pensions	-14,927	-15,249
Change in the provision for claims on other pensions	1,666	213
Transfers of liability	-107,583	-2,114
	-68,059	-45,290
Change in provision for unearned premiums		
Statutory pensions	61,958	2,623
Other pensions	-1 851	2,741
	60,107	5,365
Management expenses	-711	-948
Costs of investment operations	-15,341	-30,070
Balance on technical account	78,550	-16,121
Non-technical account		
Other income	14	0
Other expenses	0	-1
Surplus from ordinary activities	78,563	-16,121
Income taxes		
Taxes for the accounting period and earlier periods	-204	-240
Returns to the employer	-73,220	0
Surplus/deficit for the accounting period	5,139	-16,361

BALANCE SHEET

EUR 1,000	31.12.2012	31.12.2011
ASSETS		
Intangible assets	14	28
Investments		
Property investments		
Properties and shares in properties	137,949	166,572
	137,949	166,572
Investments in an employer company that is a shareholder		
Shares and holdings in an employer company that is a shareholder	12,223	17,141
Receivables from an employer company that is a shareholder	786	3,230
	13,009	20,371
Other investments		
Equity and holdings	128,672	127,238
Financial market instruments	18,943	113,224
Mortgage receivables	21,000	0
	168,614	240,462
	319,573	427,405
Receivables		
Other receivables	1,015	2,424
Other assets		
Tangible assets		
Machinery and equipment	8	10
Cash at hand and in bank	118	265
	126	275
Receivables carried forward	113	26
Total assets	**320,841**	**430,157**
LIABILITIES		
Equity		
Reserve fund	10,354	11,705
Surplus from previous accounting periods	9,701	26,062
Surplus/deficit for the accounting period	5,139	-16,361
	25,194	21,406
Technical provisions		
Statutory pensions		
Provision for unearned premiums	0	56,262
Provision for claims outstanding	0	52,331
Provision for bonuses	0	4,345
	0	112,939
Other pensions		
Provision for unearned premiums	123,156	121,305
Provision for claims outstanding	150,825	152,490
Provision for index increases	21,000	21,000
	294,981	294,795
	294,981	407,734
Debt		
Other debt	594	858
Accrued liabilities and deferred income	71	159
Total liabilities	**320,841**	**430,157**

INCOME STATEMENT BY DEPARTMENT

Department A, EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Technical account		
Premiums written		
Membership fees of other pensions	251	268
Earnings from investment operations	35,495	19,565
Claims incurred		
Claims paid on other pensions	-14,927	-15,249
Change in the provision for claims on other pensions	1,666	213
	-13,261	-15,037
Change in provision for unearned premiums		
Other pensions	-1,851	2,741
Management expenses	-634	-597
Costs of investment operations	-14,592	-23,049
Balance on technical account	5,407	-16,109
Non-technical account		
Other expenses	0	-1
Surplus from ordinary activities	5,407	-16,110
Income taxes		
Taxes for the accounting period and earlier periods	-268	-251
Surplus/deficit for the accounting period	5,139	-16,361

Department B, EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Technical account		
Premiums written		
Statutory pension contributions	0	25,962
Earnings from investment operations	66,808	9,029
Claims incurred		
Claims paid on statutory pensions	454	-26,924
Change in the provision for claims on statutory pensions	52,331	-1,215
Transfers of liability	-107,583	-2,114
	-54,798	-30,253
Change in provision for unearned premiums		
Statutory pensions	61,958	2,623
Management expenses	-77	-352
Costs of investment operations	-750	-7,020
Balance on technical account	73,143	-12
Non-technical account		
Other income	13	0
Surplus from ordinary activities	73,156	-12
Income taxes		
Taxes for the accounting period and earlier periods	64	12
Returns to the employer	-73,220	0
Surplus for the accounting period	0	0

BALANCE SHEET BY DEPARTMENT

Department A, EUR 1,000	31.12.2012	31.12.2011
ASSETS		
Intangible assets	14	28
Investments		
Property investments		
Properties and shares in properties	137,949	148,017
	137,949	148,017
Investments in an employer company that is a shareholder		
Shares and holdings in an employer company that is a shareholder	12,223	4,759
Receivables from an employer company that is a shareholder	786	1,380
	13,009	6,139
Other investments		
Equity and holdings	128,672	105,123
Financial market instruments	18,943	54,848
Mortgage receivables	21,000	0
	168,614	159,971
	319,573	314,127
Receivables		
Other receivables	1,015	1,331
Other assets		
Tangible assets		
Machinery and equipment	8	10
Cash at hand and in bank	118	65
	126	75
Receivables carried forward	113	24
Total assets	**320,841**	**315,586**
LIABILITIES		
Equity		
Reserve fund	10,354	10,354
Surplus from previous accounting periods	9,701	26,062
Surplus/deficit for the accounting period	5,139	-16,361
	25,194	20,055
Technical provisions		
Other pensions		
Provision for unearned premiums	123,156	121,305
Provision for claims outstanding	150,825	152,490
Provision for index increases	21,000	21,000
	294,981	294,795
Debt		
Other debt	594	683
Accrued liabilities and deferred income	71	53
Total liabilities	**320,841**	**315,586**

Department B, EUR 1,000	31.12.2012	31.12.2011
ASSETS		
Investments		
Property investments		
Properties and shares in properties	0	18,555
	0	18,555
Investments in an employer company that is a shareholder		
Shares and holdings in an employer company that is a shareholder	0	12,382
Receivables from an employer company that is a shareholder	0	1,850
	0	14,232
Other investments		
Equity and holdings	0	22,115
Financial market instruments	0	58,376
	0	80,491
	0	113,278
Receivables		
Other receivables	0	1,092
Other assets		
Cash at hand and in bank	0	200
Receivables carried forward	0	2
Total assets	**0**	**114,572**
LIABILITIES		
Equity		
Reserve fund	0	1,351
Surplus from previous accounting periods	0	0
Surplus for the accounting period	0	0
	0	1,351
Technical provisions		
Statutory pensions		
Provision for unearned premiums	0	56,262
Provision for claims outstanding	0	52,331
Provision for bonuses	0	4,345
	0	112,939
Debt		
Other debt	0	176
Accrued liabilities and deferred income	0	106
Total liabilities	**0**	**114,572**

NOTES TO THE INCOME STATEMENT

EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Premiums income from statutory pensions		
Pursuant to TyEL		
Employer's share	0	19,183
Employee's share	0	6,779
Total	**0**	**25,962**
Change in provision for unearned premiums		
Statutory pensions:		
TyEL	61,958	2,623
Claims incurred		
Statutory pensions:		
Pensions paid:		
TyEL	0	-8,962
Clearing of PAYG pensions:		
TyEL	493	-18,738
YEL	35	21
	528	-18,718
Share of the premium income of the unemployment insurance fund and of the share of expenses of pension parts accrued on the basis of unsalaried time periods	-75	775
State compensation pursuant to VEKL	1	0
State compensation pursuant to YEL	0	0
Other compensations	0	-20
	-74	755
Other pensions:		
Pensions paid	-14,712	-15,097
Other compensations	-126	-109
Surrenders	-89	-44
	-14,927	-15,249
Total	**-14,473**	**-42,174**
Transfers of liability:		
Transferred TyEL	-107,583	-2,114
Management expenses		
Salaries and fees	-234	-273
Pension expenses	-60	-38
Other indirect employee costs	-9	-9
Statutory payments	-2	-88
Other management expenses	-406	-540
Total	**-711**	**-948**
Statutory payments		
Portion of costs of the Finnish Centre for Pensions	5	-65
Judicial administration fee	0	-14
Supervision fee of the Insurance Supervisory Authority	-8	-9
Total	**-2**	**-88**

NET EARNINGS FROM INVESTMENT OPERATIONS

EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Earnings from investment operations:		
Earnings from an employer company that is a shareholder		
Dividend income	1,547	1,680
Interest income	56	58
	1,603	1,738
Income from property investments		
Dividend income	0	2
Interest income	91	544
Other income	13,924	16,169
	14,015	16,715
Income from other investments		
Dividend income	3,437	3,664
Interest income	1,433	1,809
Other income	43	101
	4,913	5,574
Total	**20,531**	**24,027**
Refunds of impairments	5,319	1,992
Capital gains	76,454	2,574
Total	**102,303**	**28,593**
Expenses of investment operations: [1]		
Expenses from property investments	-1,758	-2,016
Expenses from other investments	-541	-621
Interest expenses and other debt expenses	-608	-92
Total	-2,907	-2,729
Impairments and depreciation and amortisation expense		
Impairments	-2,096	-14,595
Depreciation expense for buildings	-10,132	-12,319
	-12,229	-26,913
Capital losses	-205	-428
Total	**-15,341**	**-30,070**
Net earnings from investment operations before appreciations and adjustments	86,962	-1,477
Appreciation of investments	0	0
Net earnings from investment operations in the income statement	**86,962**	**-1,477**

[1] *Expenses from investment operations contain a total of EUR 401,000 in management expenses of investment operations*

DESCRIPTION OF RISKS:

The objective of the risk management of Kesko Pension Fund (hereinafter ”the Pension Fund”) is to limit risks to the level accepted by the Board of Directors, prevent the realisation of risks threatening the Pension Fund, minimise the financial and other harm from realised risk factors, and to ensure the continuity of operations in Department A.

Limits are set in writing for quantitative risks and they are recorded annually into the investment plan. The monitoring limits are followed constantly. Incidents when the limits are exceeded and deviations from risk management procedures are evaluated and reported once each month. The up-to-datedness of the indicators and risk limits is checked annually in connection with the preparation of the investment plan.

The most significant risks of the Pension Fund are the risks of insurance operations, investment operation risks and operational risks.

In their meeting on 31 December 2009, the representatives of the Pension Fund decided on the transfer of the Pension Fund's statutory employment pension insurance to Ilmarinen Mutual Pension Insurance Company. The liability of Department B was transferred in two stages. The first stage was completed on 1 September 2010 and the second stage on 1 January 2012.

1. RISKS IN THE INSURANCE BUSINESS:

Kesko Pension Fund's insurance business risks are connected to the sufficiency of insurance premiums and technical provisions in relation to the pensions the Pension Fund is responsible for. The Pension Fund's benefits are based on defined benefit pension plans, i.e. the pensions must be paid in the amounts promised in all situations regardless of the success of investment operations. This means that, in the final instance, employers who are shareholders must pay for the pensions to be paid through additional insurance premiums if the Pension Fund's investment activities fail. If the employers who are shareholders cannot pay the additional insurance premiums, their assets are used to pay for the premiums. The Pension Fund's employer clients are solvent companies, so the payment of the insurance premiums is secure.

Supplementary pension insurance

The Pension Fund's supplementary pension insurance consists of an old age pension benefit, unemployment benefit, survivors' pension and burial grant. The total targeted pension is 66 per cent of the pensionable salary. The full targeted pension is reached after 30 years of work. The amount of supplementary pension is calculated as the difference between the targeted pension and the statutory pensions. The pensionable age is an individual age between 60–65 that is calculated to the nearest month and depends on the number of years worked. Retirement pension is paid in full as a supplementary pension until the age of 63, after which statutory pensions reduce the supplementary pension. Access to supplementary pension insurance has been closed since 8 May 1998. There are 582 actively insured, 195 paid-up policies and 2098 pensioners.

In calculating the technical provisions, the Pension Fund follows the calculation principles pursuant to Decree Record Number FIVA 2/01.00/2012 of the Financial Supervisory Authority and the appended standard formulas, with certain specifications and exceptions, of which the most material with respect to the insurance-technical risks are the following:

- When calculating the technical provisions, the benefits are considered to accrue smoothly until the retirement age is reached or the individual has completed 30 years of work, whichever comes first. The purpose of this provision is to ensure that retirement pensions have been sufficiently funded in advance without the need for an additional supplement when the pensions start.
- The Pension Fund provides the right to a paid-up policy, so that when calculating retirement pension liabilities, the future higher accruals of statutory pensions are taken into account when calculating supplementary pension, as they are earned.
- Any reduction in the supplementary pension caused by statutory national disability pension is not taken into account as a reduction in future retirement pension liabilities. The matter has been taken into account when calculating future survivors' pension liabilities.

The life expectancy factor reducing the statutory pension is compensated through the Pension Fund's supplementary pension. The effect of the life expectancy factor has been taken into account in full in technical provisions according to the estimate of the Finnish Centre for Pensions.

The Pension Fund follows a provision for index increase for the increase in liability caused by future increases in benefits. In the financial statements, the provision for index increase has not been cancelled, and its value remains at EUR 21 million. The provision for index increase can also be used to cover costs resulting from a change in the basis of calculation. The balancing liability, which in the Pension Fund is intended to balance out insurance premiums in case of fluctuations in a risk business, has been set at zero.

The Pension Fund has EUR 25.2 million in equity, which can be used to balance out fluctuations if necessary. In addition, the Pension Fund holds EUR 88.2 million of valuation differences as a buffer. Therefore, the total buffer amounts to EUR 134.4 million, including the provision for index increase, comprising 49 per cent of the total amount of the actual technical provisions of EUR 274.0 million.

The calculated interest is 2 per cent. This is lower than the maximum rate following the transition period as specified by the Ministry of Social Affairs and Health and, as a result, the Pension Fund's technical provisions have been calculated at a more secure rate.

The supplementary pensions to be paid by the Pension Fund are tied to the pension index pursuant to the Employees Pensions Act. The capital value of the index increase given for pensions and paid-up policies being paid at the turn of the year 2012–2013 was about EUR 5.2 million. Converted into insurance premiums for 2012, this comprised approximately 14 per cent of all wages of insured persons within the supplementary pension cover.

The distribution following the duration of the technical provisions has been taken into account in preparing the investment plan (excluding the index increase liability):

Under 1 year	1-5 years	5-10 years	Over 10 years	Total
5.7%	22.4%	21.0%	50.9%	100%

TyEL pension insurance (Department B):

The second stage of the transfer of the Kesko Pension Fund's statutory department (Department B) was completed on 1 January 2012. In 2012, Department B did not contain any pension liability. Any excess funds from the department transfer were returned to shareholders in December 2012.

2. RISKS IN INVESTMENT ACTIVITIES:

Objectives and risk management of investment activities:

The investment activities of Kesko Pension Fund aim for the highest returns possible, taking risk limitations into account. The objective is to see to the profit of investments and their convertibility into money in a secure manner, as well as their appropriate diversity and decentralisation. Profitable investment means subjecting the Pension Fund to investment risks which are restricted to ensure the protection requirement. With respect to the result and solvency, the most significant risk is investment risk.

The solvency regulations function as the frame of reference for the risk management of the investment activities. The Pension Fund prepares for risks by means of the solvency margin, which is the difference between the assets and liabilities of the Pension Fund. Solvency margin items include the Pension Fund's equity, and the valuation gains or losses of investments. The authorities have not set any requirements on the solvency margin of Department A, but the Pension Fund has calculated solvency margins for Department A using the statutory employment pension regulations. The Pension Fund's solvency borders and other supervision limits depend on the risk taking of investment activities so that a higher risk investment activity requires a larger solvency margin. The Pension Fund's investment policy specifies that the solvency margin must remain at a level that is over one-and-a-half times higher than the department's solvency border.

The Pension Fund's investment policy defines the asset-type-specific investment restrictions and allowed investment objects. The investment plan approved annually by the Pension Fund's Board of Directors contains the investment distribution targets and income targets for the next year. In addition, the Pension Fund adheres to a risk management policy. The Pension Fund prepares for the risks of investment activities by following, monthly, the distribution, fluctuation range and returns of investments in comparison with selected comparison indices, as well as other restrictions. In addition, the risk level (standard deviation of actual earnings, i.e. volatility) of the Pension Fund's portfolio at market prices, as well as other indicators (e.g. Beta) are followed once a month using Bloomberg's software.

Risks of the investment operations:

The investment risks that the Pension Fund has identified are market risk, counterparty risk and liquidity risk. In addition, risk concentrations and their management are part of the management of investment risks.

Market risk means fluctuations in the value of the investment objects. The largest market risk is the risk of a change in the value of shares. Other market risks include interest rate risk, exchange rate risk, volatility risk, credit risk and the risk of changes in the value of property. Market risk is managed both through regulations on solvency margin and by ensuring the sufficient distribution of the portfolio.

Distribution of investments 31 December 2012	EUR million	%
Short-term fixed-income instruments	13.8	3.4%
Bonds and long-terms funds	24.0	5.9%
Loan assets	0.0	0.0%
Listed shares	114.7	28.1%
Unlisted shares	37.9	9.3%
Alternative investments *	18.4	4.5%
Properties and loans with property as security	199.1	48.8%
Total investments	407.9	100.0%

** including capital funds*

A total of 43.7 per cent of the Pension Fund's portfolio is invested in properties and 5.1 in loans with property as security. The properties are all located in Finland and they have long-term contracts and companies and entrepreneurs of good financial standing as tenants.

Interest rate risk is followed with a modified duration which is compared to the duration of the comparison index. On 31 December 2012, the distribution and duration of the Pension Fund's interest rate investments was as follows:

Fixed-income instruments 31 December 2012	Distribution	Moderate duration
Bonds	63.4%	4.0
Money market instruments	36.6%	0.8

Credit risk is minimised by means of restrictions in the investment plan. On 31 December 2012, the Pension Fund's portfolio contained a very small amount of bond investments, EUR 24 million, and 82 per cent of the bond portfolio was invested in bonds with at least a BBB credit rating.

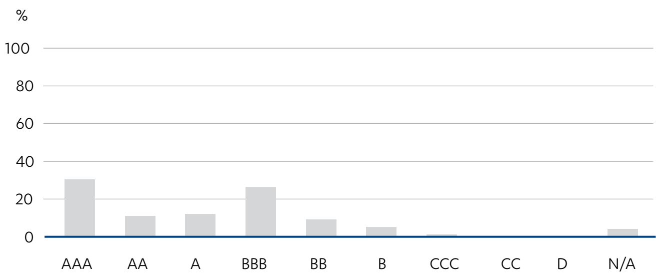
"Concentration of risk" refers to an excessive allocation of funds in a single investment object or investment group. Concentrations of risk are prevented in part by margin requirements which define the limits of margin-eligible assets. In addition, measures by the actors themselves at the national, industry and company levels seek to prevent the formation of concentrations of risk. The distribution of the portfolio is followed quarterly at this level as well.

Counterparty risk is managed by means of the permitted investment objects defined in the Investment Policy. A monthly counterparty risk report specifies interest rate investments in euros by counterparty, both for long-term and short-term interest rates. In addition, the report lists the best and worst investments in the interest rate portfolio and the equity portfolio measured by monthly market earnings and market earnings from the beginning of the year.

Liquidity risk means the realisation of cash flow in a different size than was expected. Risk is also created by investments that cannot be converted into cash or can only be converted into cash at a loss. Liquidity risk is highly manageable at the Pension Fund as pension expenditures and other expenditures can be forecast very precisely and enough funds are invested in liquid securities.

The net earnings on committed capital of Kesko Pension Fund's investments in 2012 and 2011 are presented in the table below.

CREDIT RATING DISTRIBUTION (%) FOR KESKO PENSION FUND'S DEPARTMENT A BOND PORTFOLIO



Net incomes from investments **Pension Fund total (figures EUR 1,000)**	**Net income of investments at fair values 31.12.2012**	**Committed capital 31.12.2012**	**Income from committed capital, % 31.12.2012**	**Income from committed capital, % 31.12.2011**
Loan assets	0	0	0.0%	8.5%
Bonds	3,360	30,654	11.0%	4.4%
of which bond funds	2,863	23,355	12.3%	1.9%
Other financial market instruments and deposits	9	54,920	0.0%	1.6%
of which bond funds	0	0	0.0%	0.0%
Equity and holdings	23,271	164,491	14.1%	-14.2%
Alternative investments	2,373	17,967	13.2%	7.4%
Property investments	34,917	187,928	18.6%	7.4%
of which investment funds and joint investment companies	0	0	0.0%	0.0%
Other investments	0	0	0.0%	0.0%
Total investments	63,930	455,961	14.0%	-0.9%
Earnings, costs and operating expenses not allocated to types of investment	-527	0	0.0	0.0%
Net earnings from investment operations at fair value	63,403	455,961	13.9%	-1.0%

In 2012, the Pension Fund ordered an ALM pilot analysis from Innova. The report stated that the financial status of the Kesko Pension Fund is good and the amount of contingent liabilities offer security as a result of the calculated interest used. Monthly monitoring has remained unchanged in 2012, with the share portfolio's volatility and Beta index, and the interest portfolio's duration, risk concentrations and decentralisation being monitored every month.

The share risk index, i.e. volatility, was 10.9 per cent at the end of the year. Calculated on the basis of this risk index, the probability of a loss in the Pension Fund's portfolio is 30.7 per cent, i.e. the loss will occur every three years. The probability of having a share profit of 30 per cent negative in a specific year, is 0.3 per cent using this risk index.

In the analysis, the risk level of properties is considered to be 10 per cent. Using this figure, the probability that there will be a loss during a specific year in properties is 27.4 per cent; in other words, it will occur on average once every three years. The probability of having a loss of at least 20 per cent is 0.5 per cent, i.e. the loss will occur every 200 years. The monetary interest rate risk in the Pension Fund is very low due to the small volume of variable rate bonds.

The objective is that after one calendar year, the amount of solvency margins calculated using the statutory employment pension insurance regulations will be above the solvency border with 95 per cent certainty. The objective can be reached because the amount of solvency margins above the 1.5 multiplier of the capital adequacy border within the Pension Fund was EUR 64 million on 31 December 2012. According to the portfolio analysis, the probability of losing this EUR 64 million amount during one year is 2.6 per cent. The amount of solvency margins above the capital adequacy border is EUR 87 million. According to the analysis, the probability of losses of this size occurring in one year is 0.7 per cent, i.e. every 149 years.

3. OPERATIONAL RISKS:

Operational risks mean direct or indirect losses of income or costs that can result from processes that function imperfectly or deficiently, inadequate competence, information technology or data security, personnel, lack of internal monitoring or uncertainty about security or the continuity of operations caused by an external threat. For the most part, operational risks are managed as a part of the normal management of operations. The support provided by Kesko Group for ensuring the reliability and continuity of centralised operations and services is utilised to the extent this is possible.

Tasks, decision-making authority and responsibility have been divided so that no single person can carry out measures throughout the processing chain. This ensures that there are no work combinations that are dangerous for operations. Staff also cannot participate in the preparation or decision-making of a matter concerning themselves or their immediate colleagues.

The most harmful operational risks are errors or disturbances that would prevent the correct payment of pensions and/or the payment of pensions at the right time. In addition, any kind of disturbance in monetary transactions constitutes an operational risk. In addition, disturbances in the operations of the network environment which endanger performance, security or management also constitute operational risks. The reliability of data systems is being continually improved. A continuity plan has been prepared for the Pension Fund, which includes a preparedness plan for unusual conditions. This plan describes the critical factors that are ensured in every situation.

The chance of operational risks occurring is reduced by ensuring the competence of personnel. Measures to ensure the sufficient competence of personnel include, e.g., training, proper induction and proper operating procedures. In addition to its staff, the Pension Fund uses partners in insurance mathematical calculations and property investments. Furthermore, by guaranteeing good and functional IT systems, data connections and backup systems, the risk of network failures can be reduced.

Other material risks:

No other material risks in Kesko Pension Fund were identified. We shall strive to identify any risks and report on them as needed.

Scandinavian design
VALLILA

SIGNATURES OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

Helsinki, 1 February 2013

Riitta Laitasalo
Chairman

Kirsi Tamminen

Matti Mettälä

Tom Fagerström

Veikko Savela
Chief Executive Officer

AUDITOR'S REPORT (TRANSLATION FROM THE FINNISH ORIGINAL)

To the Meeting of Kesko Pension Fund

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Kesko Pension Fund for the year ended on 31 December, 2012. The financial statements comprise the balance sheet, the income statement and notes to the financial statements.

Responsibility of the Board of Directors and the Director of the Pension Fund

The Board of Directors and the Director of the Pension Fund are responsible for the preparation and fair presentation of the financial statements and the report of the Board of Directors in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the Pension Fund's accounts and finances, and the Director of the Pension Fund shall see to it that the accounts of the Fund are in compliance with the law and that its financial affairs have been arranged in a reliable manner. The Board of Directors must ensure that the Pension Fund has sufficient internal control and adequate risk management systems considering the nature and scope of the Fund's operations.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors and the Director of the Pension Fund have complied with the Employee Benefit Funds Act and the rules of the Pension Fund.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions based on laws

The value adjustments performed in the Pension Fund's financial statements are justified in an appropriate manner.

Helsinki, 28 February 2013

Ylva Eriksson
Authorised Public Accountant

Sari Airola
Authorised Public Accountant

THE MANAGEMENT OF THE PENSION FUND

Board of Directors	Ordinary members	Deputy members
	Representatives of the shareholders:	
Chairman	Riitta Laitasalo	Mika Majoinen
	Matti Mettälä	Pasi Mäkinen
	Representatives of the members:	
Deputy Chairman	Matti Huusko until 27 February 2012	
Deputy Chairman	Tom Fagerström from 27 February 2012	Esa Lehtonen
	Kirsi Tamminen	Esko Huttunen

The Board of Directors met 5 times during the year under review

Clerical employees		
	Veikko Savela	Pension Fund Director
	Päivi Sariola	Financial Manager
	Eija Ikonen	Controller
	Kaija Hietanen	Assistant Controller
	Tuula Pellava	Pension Manager
	Janne Riste	Occupational Psychologist

Representatives	Ordinary members until 30 June 2012	Deputy members until 30 June 2012
	Kai-Ari Ervasti	Tom Fagerström
	Esko Huttunen	Vesa Jokela
	Matti Huusko	
	Petri Järvinen	
	Esa Lehtonen	
	Pasi Mäkinen	
	Erja Palviainen	
	Petri Piiparinen	
	Pekka Svanljung	
	Kirsi Tamminen	
	Leila Tilvis	

Representatives	Ordinary members from 1 July 2012	Deputy members from 1 July 2012
	Juha Andelin	Taina Hohtari
	Kai-Ari Ervasti	Tapio Näveri
	Tom Fagerström	Jari Komminaho
	Petri Järvinen	Mauri Pylkkö
	Aini Karppinen	
	Esa Lehtonen	
	Janne Ojanen	
	Keijo Ollikainen	
	Harri M Salovaara	
	Kirsi Tamminen	

Auditors	Ordinary	Deputy
Chosen by the shareholders	Ylva Eriksson Authorised Public Accountant	PricewaterhouseCoopers Oy
Chosen by the members	Sari Airola Authorised Public Accountant	PricewaterhouseCoopers Oy

Experts	
Senior Physician	Sakari Tola Professor, M.D., docent, occupational medicine specialist

Insurance-technical calculations	Department A	Innova Personnel Fund and Pension Services Ltd
Responsible insurance mathematician	Department A	Janne Sorainen SHV = Actuary approved by the Ministry of Social Affairs and Health

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